Business Technologies

Q: Sales seem to have continued to grow strongly in the third quarter. What factors contributed to this trend?
A: The Office field achieved stable growth partly owing to the expansion of sales to GMAs (global major accounts) as a result of making concentrated efforts to strengthen IT service capabilities since last year. Other contributing factors included price strategies against the super strong yen and initiatives to propose greater solutions to medium-scale customers with whom we have built a strong sales foundation. In the Production Print field, the sales of new color equipment helped maintain the high-growth trend and boosted performance in the Business Technologies Business.

Q: In the office equipment market, the European debt crisis has strengthened concerns about a slowdown stemming from a decline in customers’ investment appetite, but what future market trends do you foresee?
A: While regional sales performance shows a slowdown in some regions in Europe, sales in Germany, U.K. and France, the major regions that account for the largest proportion of net sales, have grown steadily compared to last year, when excluding the negative impact of foreign exchange. Given concerns about a decline in corporate investment enthusiasm, we do not expect any substantial expansion of demand in the Office field. However, we will aim to increase sales volumes in the Production Print field, as it is a growth market, with the added strength of the new products we introduced to our lineup in the third quarter.
Q: The Production Print field is making an increasing contribution to net sales. Please give us a hint about its profitability.

A: Steady progress in the installation of production print systems in the market has expanded print volumes so that the Production Print field has achieved a greater gross margin compared to the Office field. In terms of operating income margin, however, it has not reached the level of the Office field due in part to the heavy burden of expenses for developing new products and strengthening the sales network toward greater business expansion.

Q: New products have been released by both the Office and Production Print fields. What principles underlie their product life cycles?

A: Customers generally purchase our equipment using lease finance. Equipment replacement cycles are usually around four years for office MFPs and a slightly longer five years or more for production print systems. The digital printing system “bizhub PRO C6000L” for production printing that has just been released targets customers with demanding in-house printing needs, and has been launched to correspond to the replacement timing of their existing equipment.

Optics Business

Q: What factors were behind the continuing increase in the sales volumes of TAC films for LCD polarizers, and what is your outlook for the fourth quarter?

A: TAC films for LCD polarizers enjoyed robust sales, mainly because our new VA-TAC films for increasing viewing angle, which were launched early last year, earned the confidence and strengthened our relationships of trust with our major customers. We expect this steady sales momentum to continue in the fourth quarter, and anticipate a slight increase in total sales volumes of TAC films from the third quarter, driven by sales of VA-TAC films.

Q: You project a continuous increase in sales volumes in the fourth quarter, but do existing facilities have sufficient production capacity to meet this increase?

A: We are constantly implementing initiatives to increase productivity in our TAC films. Increasing productivity by accelerating our production lines will enable us to meet sales volume increases without new capital investment.
The Overall Group

Q: In your outlook of business performance for the full year, R&D expenses, capital expenditure, depreciation costs, and free cash flow have been revised. What circumstances necessitated their review? Do the decrease in capital expenditure and increase in free cash flow mean there has been a change in policy in regard to the framework of G PLAN 2013?

A: The decreases in R&D expenses and capital expenditure reflect our intention to reduce our initial projections based on a review of product development and design processes, and do not indicate any change in our investment stance toward future growth as outlined in G PLAN 2013. In regard to free cash flow, we anticipate a slight difference in our initial projection of cash flows from investing activities due in part to the different state of progress of each investment contract.

Q: What impacts might the flooding in Thailand have on profits and losses in the fourth quarter?

A: For the Group as a whole, we expect a decrease of approximately ¥2.0 billion in net sales and ¥1.0 billion in operating income. In terms of business segments, we envision a negative impact of roughly ¥400 million in the Business Technologies Business and roughly ¥600 million in the Optics Business. The former includes the increase in cost from the use of alternative components, and the latter includes reduced profits as a result of a decrease in the sales of glass substrates for HDDs and lens units among customers and suppliers affected by the flooding in Thailand.