

Konica Minolta Group Q&A from 4Q/ March 2014 Financial Results & Medium-Term Business Plan Briefing Session

Date: May 9th, 2014 16:00 – 17:30 JST

Place: JP Tower Hall & Conference (Tokyo, Japan)

Cautionary Statement

This material was prepared for those who were unable to attend the financial results briefing person and is intended only for reference purposes. Readers are asked to acknowledge in advance that the following text is not a verbatim account of everything that was said at the briefing but a basic summary whose content was determined by Konica Minolta.

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[Q&A regarding the Whole Company]

Q. With respect to the earnings forecast for fiscal 2014, please explain the breakdown of the cost reduction of ¥12.0 billion from fiscal 2013. Also, please explain quantitatively why, even if ¥8.0 billion in prior investment is subtracted from the increase of ¥43.7 billion in expenses, expenses have increased considerably over the past several years.

A. First of all, the Business Technologies Business will contribute more than two-thirds of the cost reduction of ¥12.0 billion. Apart from that, I will focus on the cost reduction in the Healthcare Business.

Most of the increase in expenses, not including the prior investment portion, includes items related to the Business Technologies Business, particularly new M&A aimed at sales growth overseas and human investment associated with consolidation of non-consolidated companies. Seventy to eighty percent of the increase in expenses is related to the Business Technologies Business. In addition, another factor is the increase in expenses to strengthen our global IT systems as a part of our efforts to increase high added value by verticalizing Business Technologies, Healthcare, and the Sensing Business.

Q. Please explain what will happen to the level of operating income in fiscal 2013 and fiscal 2014 if you apply IFRS (International Financial Reporting Standards).

A. In fiscal 2013, given that we recorded a large extraordinary loss, if we apply IFRS, operating income will decrease by approximately ¥15.0 billion. In fiscal 2014, we expect an extraordinary loss of approximately ¥10.0 billion, and operating income will be about the same as by Japanese accounting standards.

Q. The earnings forecast for fiscal 2014 shows a decline of ¥3.2 billion in operating income in the Industrial Business. Given the improvement factors from fiscal 2013, such as the withdrawal from the glass substrates for HDDs business and the streamlining of the mobile phone lens business, please explain the change in profit for each of the main products.

A. Since the improvement effect from factors including the withdrawal from the glass substrates for HDDs business is about ¥5.0 to ¥6.0 billion, the negative impact will be close to ¥8.0 to ¥9.0 billion. There are two main causes of that impact, but most of it is due to TAC films. In the plan, for both volume and price, we have applied strict assumptions. In executing the plan, we will aim for sales and profits above those in the plan. Another reason is the expenses for business promotion of new performance materials and for business promotion of the Industrial Optical Systems Business in the period from fiscal 2016 to fiscal 2018.

[Q&A regarding the Business Technologies Business]

Q. Regarding the strategy for the Business Technologies Business, I have the impression that your company has gotten off to a good start. If there is an approach that is the basis for the strategy, please tell us about it.

A. There are two main points. One is that our direct sales force has close relationships with medium-sized enterprises, which means, in terms of the number of employees, customers with 100 to 500 employees. While that is the trend globally, customers of that scale demand that we provide not only MFPs, but also support for operational efficiency improvements including cloud services as a one-stop service. By having the direct sales forces of the IT service companies that we acquired in Europe and North America and our own direct sales force jointly approach such customer segments, we are providing solutions that extend more deeply into our customers' business operations. We are confident that it will be possible to create new billing models other than those for existing document services.

At the same time, however, we will place importance on linking those efforts to having our medium-speed color MFPs be introduced as customers' center machines through Optimized Print Services. This is because that will be the source of profit in the business.

The second point concerns the production print business. The environment surrounding Commercial Printer (CP) is still challenging, and even though the penetration ratio of on-demand printing is only about 10 percent, if we introduce new products, they just do not penetrate the market. Therefore, we believe that it is important for us to increase orders for on-demand printed materials from major companies that are the customers of our Commercial Printer customers.

Kinko's and Charterhouse undertake variabilization services themselves for the orders they receive from their customers, and they already possess the know-how for streamlining the marketing budgets of major companies. Konica Minolta, Inc. will also gain that know-how to provide the same service to its Commercial Printer customers. Our strategy is to increase printing demand of major companies that will increase their orders to Commercial Printer companies. This will build win-win relationships, and, as a result, increase the print volume from our output equipment. We will not do this just by providing printing equipment to Commercial Printer customers but by contributing to major companies' marketing divisions, which are the customers of our Commercial Printer customers.

By promoting a qualitative shift in our direct sales capabilities and service capabilities, it will become possible to deeply penetrate the business processes of medium-sized enterprises and Commercial Printer companies. Possessing such capabilities worldwide is one of our company's strengths, and capitalizing on this strength in the medium to long terms is our basic approach.

Q. You explained the corporate reform as a part of your efforts to lower the SG&A ratio by two percentage points. However, since you are increasing investment to strengthen OPS and Production Print in the Business Technologies Business, isn't there a risk that the effect of the reform will be offset?

A. As for the corporate reform, we will change to linking the method of work of the Corporate R&D Headquarters, which is in charge of medium- and long-term elements technology R&D, to all of the Company's businesses, and we will take action, as a high-priority issue, to pare back the use of those expenses.

In all of the Company's businesses, in order to increase the top line and transform the business portfolio, we will have to build up the necessary human resources quantitatively and qualitatively. While giving that priority, we will focus on changing the work-flows in administrative and indirect departments and thereby reducing expenses.

With regard to the SG&A structure in the Business Technologies Business, since new hiring and M&A deals for the qualitative shift are necessary, we will reform the process management for our existing sales methods. By monitoring the profit in the product lifecycle of each customer and optimizing direct sales and dealer channel sales, we will increase the added value of all sales processes, and by simultaneously promoting a framework for reducing the expenses that had been required for conventional selling, we will reduce the SG&A in the business.

Q. In relation to the customer composition in Production Print, please tell us the respective ratios for Commercial Printer and Centralized Reprographic Department (CRD). Also, please explain the future potential outlook and the fields that you will focus on.

A. Since we do not disclose information on our customer composition, I will only be able to give you a general explanation, but the characteristics differ quite a lot by region. While the ratio for Centralized Reprographic Department is high in Europe, a lot of customers tend to be in Commercial Printer in the United States. In Japan, the number of customers is overwhelmingly large in Commercial Printer. In other regions including Asia, we are promoting a framework for increasing the ratio of customers in Commercial Printer. Overall, the customer composition ratio of Commercial Printer is a little high.

Q. I have the impression that your selling methods differ by region. Do you change the setting of your key performance indicators by region? In the United States, given that the digitalization of Commercial Printer is advanced, a market characteristic is that customers are less picky about image quality, so isn't it easier to sell there?

A. Broadly speaking, your analysis is correct. In Commercial Printer in the United States, with our company leading the way, the digitalization of Commercial Printer has been promoted. Recently, sales of color mid-production printing devices to medium-sized and larger Commercial Printer companies have been increasing, and color print volume has been expanding rapidly. While continuing to promote the digitalization of Commercial Printer, we want to develop the Centralized Reprographic Department market and fully exploit the growth potential. In Europe, by utilizing our strong direct sales capabilities to increase Centralized Reprographic Department sales, we have been able to drive the growth of our production print business in Europe. Over the past year or two, due to our having increased our sales of mid-production printing devices to medium-sized and larger Commercial Printer customers, the composition ratio of our Commercial Printer business has increased.

[Q&A regarding the Industrial Business]

Q. Regarding OLED lighting, I think the investment amount of ¥10.0 billion is large for an investment in a business that has not ramped up. Please explain the primary factors that led to the decision to invest.

A. There are three factors that supported the decision to invest in the mass-production plant for OLED panels. Looking out over the next 10 years, in lighting, we think the time is coming when the cost competitiveness of OLED panels will surpass that of LED panels, and if we break through that point, the OLED characteristics of being thin and bendable will come into play. So the first factor is that, from a medium- to long-term perspective, in order to make OLED a pillar of the business, we decided that it was necessary to make an investment to strengthen our cost competitiveness.

The second factor is that we will use the roll-to-roll method, a strength of our company, but that, in the case of roll-to-roll, making a small investment for small-scale production is not possible. An investment of ¥10.0 billion is large, but from a global viewpoint, there are only a few companies that can carry out mass production using the roll-to-roll method, and we focused on that point.

The third factor is barrier film. Since uses of barrier film other than those for lighting can be developed, we are aiming to accelerate technology development and business promotion of barrier film as a new high-performance material.

In short, by making an overall assessment based on these three factors, we decided to invest in the mass-production plant for OLED panels.

Q. As for sales channels, does your company intend to sell its OLED lighting products itself?

A. In the short term, investing large management resources to build sales channels to sell lighting products as finished products ourselves, or carrying out M&A deals for that purpose, is not a priority issue. For small and medium displays and for special lighting, which are expected to ramp up before OLED lighting, we think that pursuing a B2B sales method will be the linchpin of our sales efforts.

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