Konica Minolta, Inc.
Q&A from 2Q/ March 2016 Financial Results Briefing Session

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【Q&A】

Q: Is the Business Technologies Business the whole reason why the planned operating profit was not achieved in the first half?

A: When we revised the projected full-year operating profit, the non-achievement of the first-half plan was part of the picture. The cause of that downturn can generally be attributed to the Business Technologies Business. Our other businesses were progressing according to plan. The major factor in the Business Technologies Business downturn was the loss of large contracts when price competition became increasingly aggressive in the office services field.

On the revenue side, production print in China and the emerging countries took somewhat of a downturn with respect to plan, but this had only a slight effect on profits. On the other hand, the increasingly aggressive competition over large contracts in the office services field in the United States did have a great effect on profits. In Germany and some other parts of Europe, there was a tendency toward something similar to what happened in the United States in bidding on large contracts, and this also had some impact.

Q: Every company is taking steps to strengthen its solutions and services business. Please tell us what your aims are. Also, please tell us about the advantages of the next-generation engine in the office services field.

A: Regarding solutions and services, first of all, we are looking at medium-sized enterprises with 300 to 500 employees, for example, and concentrating on reforming the operational processes of the customer enterprise through the use of content management. This involves not just documents, but also IT device management and cloud services. We call this hybrid-type sales, and we are moving ahead with this change as an approach that does not start by negotiating on sales of the MFP (the machine itself).

About the advantages of the new product (the next-generation engine), three years ago the Company decided that it would be necessary to move forward efficiently with product strategy in the Business Technologies Business. Based on that conceptual approach, we worked on a common engine that could cover every segment from the high end to the volume zone. We also switched to a common engine for both monochrome and color, reasoning that it was the best approach to overall profitability, including R&D costs. After that, price competition became more intense in the volume zone, and Konica Minolta made it a basic principle not to follow along with that kind of competition, but instead to shift our product composition over toward the medium- to high-speed segment. However, we judged that it was important to strengthen profitability in the volume zone. We decided, therefore, to make engines for new platforms that are price-competitive across the range, in relatively medium segments and in lower segments below that.

Q: In the second quarter, an entry for “other income and expenses ¥5.7 billion” is given as a cause of the fluctuating earnings in the Business Technologies Business. Please tell us what this is about and what it means.

A: We recognized impairment losses on European subsidiaries during the same period of the previous year. That is no longer present this year, and that is one cause. Another is that some property, plant and equipment was sold out of Group assets in line with the policy of converting some fixed expenses into variable expenses. The latter accounts for 50 to 60% of the ¥5.7 billion.

Q: The non-hard growth rate in the production print field has slowed down. Isn't it possible that price is a factor affecting this? Could it be that the unit-printing price is reflecting the macro environment and making things more difficult?

A: The movement toward lower per-page printing price can also be seen in the production print field. However, Konica Minolta's policy is not to follow along with movements of that kind, but rather to work on expanding absolute printing volume. Our profits-first measures along these lines are making good progress.

Q: Regarding your Industrial Business, the balance between the first and second half in terms of profit gives the impression that the second-half profit plan is a little conservative. Please tell us about your outlook, business by business.

A: We are not taking an optimistic view of market conditions in the performance materials field, but we are including the switchover to new products. As far as the measuring instruments field is concerned, our acquisition of a corporation in the United States began contributing to consolidated revenue in August. We expect this to show more growth in the second half than in the first. In the field of optics, we are making progress with promotion of applications for projector lenses other than digital cinema. Also, as far as interchangeable lenses are concerned, the number of models we are supplying to customers is increasing. On the other hand, one item that is slightly weaker than in the initial plan is the market conditions for pickup lenses for Blu-ray Discs™. We are also expecting to see numbers go down for compact DSC lenses and related items.

Note: Blu-ray Disc™ is a trademark of Blu-ray Disc Association.

Q: The Medium Term Business Plan sets a target of ¥90.0 billion for fiscal year 2016 operating profit. This is not an easy target by any means. Is it correct that you do not have any notion of reducing investment for growth in the short term in order to achieve that target?

A: It's just as you say. Although we firmly intend to stick to the target for the last year of the Medium Term Business Plan for fiscal year 2016, it is necessary to provide for the Company's sustained growth over the medium to long term. I am not thinking only about the fiscal year 2016 target. At the same time I am also thinking about how to map out growth beyond that in fiscal years 2018 and 2019. Naturally, I am envisioning that operating profits in those years will surpass ¥90.0 billion. What is important is having a convincing strategic scenario for achieving this, and having the actual ability to put it into practice. We also have this in mind for fiscal year 2016, and will take the necessary steps accordingly. In the current fiscal year, the measures we have taken include acquiring enterprises in the United States in healthcare and in measuring instruments. However, these measures are not so much for the ¥90.0 billion in fiscal year 2016 as they are looking ahead, beyond that. A single bout of major acquisitions is not the answer in itself, but we are going to continue with acquisitions in fiscal year 2016, as well, in order to build areas of strength, and to create strong businesses. I see fiscal year 2016 as one checkpoint along the way.

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