

Konica Minolta, Inc. Q&A from 3Q/ March 2017 Financial Results Briefing Session

Date: January 31, 2017 18:00 – 19:00 JST

Place: Nomura conference plaza Nihonbashi (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.

Moreover, readers are asked to further acknowledge in advance that the business performance outlook and other content concerning future results in this document is based upon information that the company has at present and upon a rational evaluation based on certain assumptions and, additionally, that actual business performance can greatly vary due to a number of factors.

【Q&A regarding earnings】

Q. Please give us a sense of how 3Q results, excluding patent-related income, were ahead or behind in relation to internal plans.

A. We had included about half of the actual patent-related income in our internal plans, so the Industrial Business was ahead of internal plans. As for the other businesses, the Business Technologies Business was in line, while performance materials and measuring instruments were slightly weaker than planned. We will be taking some robust measures going into 4Q.

Q. Looking at sales volumes in the Business Technologies Business, the quarter-on-quarter momentum seems to be slowing, so could we also have a comment on that, please.

A. With regard to Business Technologies Business sales volumes, A3 color MFPs for office use increased 11% YoY, in line with plans.

In production print, color models were affected by the increasingly competitive environment and were somewhat weak, but B&W models grew significantly and we expect the area of industrial printing, which we have been strengthening, to make a full-scale contribution to earnings going forward.

Q. If we subtract the results for the first nine months of the fiscal year from the full-term forecast, Business Technologies Business profit is expected to increase considerably in 4Q. Could you please explain this forecast in more detail?

A. With regard to the Business Technologies Business in 4Q, we are forecasting that commercial and industrial printing will grow. Our reasoning is that in addition to the contribution to the business from high-end inkjet presses, we expect industrial printing to expand and new models in the light production area of production print to contribute.

Q. In 3Q, patent-related income was posted to the Industrial Business. Do you have any plans to create income in the same way in other areas of the business, and what is your thinking on maximizing the value of intellectual property rights?

A. The key issue with regard to our thinking on intellectual property is whether the Company decides to take it all the way to starting an actual business.

If we do not, then our aim is to monetize our intellectual property by offering it to companies who are developing such businesses. However, if we simply sell patents, then it ends there, so we prefer to retain the patents within the Company and leverage them in new businesses.

Q. With regard to profitability, at the 2Q results meeting you explained that you pay attention to the gross profit ratio as a KPI. The Business Technologies Business was in line with forecasts, so from that perspective, how do you rate the gross profit ratio in 3Q?

A. The gross profit ratio in 3Q slightly undershot the 50% level that had been maintained in 2Q, but our analysis suggests that this is a one-off phenomenon. We expect it to recover to a level close to 50% in 4Q.

Q. During your explanation regarding the growth rate of non-hardware sales in the Business Technologies Business on a local currency basis, you made a comment to the effect that MFPs for office use in particular have bottomed out. Looking at the way that MIF have accumulated, the content of PV for each MIF and trends in pricing, should we take it that this level is sustainable?

A. We believe that growth in non-hardware sales is sustainable.

Q. Inventory turnover has risen slightly from 3.2 months to 3.5 months. What is your perception of this?

A. To begin with the conclusion, we are not concerned about the level of inventory. The level of inventory in December 2015 was ¥143.4 billion, which is almost the same as the figure for this fiscal year. Please consider this a deliberate build-up to cover Chinese New Year and to also provide ammunition for 4Q sales.

【Q&A regarding strategies】

Q. In order to strengthen the organic light-emitting diode (OLED) lighting business, you have concluded an alliance with Pioneer Corporation. Going forward, if you were to compete in earnest, it seems likely that a significant amount of investment would be needed in vapor deposition production facilities. Do you have sufficient stamina in comparison to others, such as South Korean companies?

A. In OLED lighting for automotive use, the European manufacturers are running ahead, but currently what has been adopted by them is glass-substrate OLED. In terms of production capacity for the flexible OLED lighting that customers are demanding, Konica Minolta, with its cutting-edge plant at the Kofu site, is in the lead, and we are not in an inferior position to our competitors. By combining our strengths in production capacity and flexible OLED with Pioneer's abundant experience in the automotive market, we believe our alliance will have more than enough power to create a new OLED lighting market.

-END-