

Konica Minolta, Inc. Q&A from 2Q/March 2021 Financial Results Briefing Session

Date and time: 29thOctober, 2020, 18:00 to 19:00 JST

Method: Telephone conference

Cautionary Statement

This material was prepared for those who were unable to attend the financial results briefing in 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 number of factors.

[Q&A regarding Results for Konica Minolta as a whole]

Q. In the previous 1Q Financial Results Briefing Session, Konica Minolta explained that it would stick double digits billion yen operating profit level for FY 2020, but this time forecasting is an operating loss of ¥13 billion for the full fiscal year. Please tell us what has changed except for the newly planned one-time Office Business structural reform cost of ¥6.5 billion.

A. At the end of 1Q, we assumed that the negative impact of the COVID-19 significantly would recover from the second half. Although there would be a slight impact in 3Q, sales were expected to recover from the latter half of 3Q to 4Q. However, this time, we have revised the assumption to a considerably strict one in which the wave of COVID-19 repeatedly affect from the 3Q onward. As a result, the biggest factor in the difference is that we downwardly revised our sales forecast by approximately ¥57 billion for the full fiscal year.

Meanwhile, we estimate that the impact on profit of the COVID-19 in 2Q was approximately ¥17.5 billion. Since the impact in 1Q was approximately ¥30 billion, ¥47.5 billion in the first half and thereafter, we expect it will decrease by ¥5 billion each quarter in 3Q and 4Q. Though we estimate the impact of COVID-19 will decrease, please understand that apart from this, we cautiously assume the decline in revenue. A significant change was the impact of the COVID-19, which has been increasing since the end of 1Q, and the accumulation of structural reform expenses.

Q. Regarding Basic policies and Targeted Profit Levels for FY2022 on the slide of page 15, it appears that Office Business is expected to improve profit by ¥40 billion in FY2020 to FY2021, and to reduce the deficit in New Business by ¥10 billion. For each, how much is the net reduction in cost relative to FY2020 cost, rather than increasing the gross margin by recovering sales?

A. For Office Business, we assume that operating profit for FY2021 will be raised to ¥40 billion, which includes ¥25 billion raised by measures included structural reform implemented during FY2020.

The major reduction in New Business's deficit in FY2021 is derived by the reduction of ¥2 billion R&D expenses by integrating Workplace Hub's operating system into Windows solely. We will also reduce costs for genetic diagnostics at Ambry by introducing new equipment to increase the speed of analysis. While solidifying the likelihood of halving this loss, we will raise our top line by approaching customers whom we feel a good response.

[Q&A regarding Business segments]

Q. The revenue of IT Service Solution in the Digital Workspace Business was ¥17.7 billion in 2Q, the same as last year, and there are descriptions that the acquisition of solution projects by major customers in both Europe and the U.S. contributed. What was the specific case? Also, I think that demand for IT solutions is emerging in Japan. Please let us know about your efforts to address this issue.

A. In both Europe and the U.S, the acquisition of ECM (Enterprise Content Management) projects, which lead to improvements in workflow at major hospital groups, made a major contribution.

Although the domestic projects have not yet been able to contribute to the revenue in 2Q, we are working to visualize the document operation processes by having our employees stationed in local governments, mainly in ordinance-designated cities. We expect to make results in this initiative from the second half of this fiscal year to the next fiscal year. Domestically, we have also been working on how to automate routine work in the form of "Design Your Time!" as a development of in-house practices. While pursuing these efficiencies, we propose that customers use the time to create for their creative work and stop working overtime to enhance their life itself. We are working to promote DX for small-and medium-sized companies by expanding this program, including the know-how that we have practiced in-house.

Q. How would you expect the hardware and non-hard to improve in Office Business in the second half?

A. Regarding Office Business in the second half, we expect non-hard sales YoY to return to 90% in

4Q. Up to 2Q, it returned to approximately 80%. Although there were regional differences, it was already more than 80% in Europe. Especially as a single month in September, Europe exceeded 90%. Because the average of 2Q was 80%, we can expect a return to 90% for 4Q.

Hardware sales in worldwide exceeded YoY 80% in 2Q. Although there are also regional differences, since Japan and Europe are driving forces, we assume that it will surpass 90% in the second half..

Q. What are your perspectives and assumptions on Office Business over a long period?

A. As I explain in the slides on page 9, hardware is expected to gradually recover to the level I explained before. On the other hand, we do not expect print volume to return to levels prior to the COVID-19 due to the customers' work style reform.

In this context, we have the premise that the print volume will return to YoY by 90% in 4Q, and the same level will continue in FY2021, and it will disappear by about 10% compared to FY2019.

After that, we expect an annual decline of 3% to 4% from FY2022 onward.

Q. Regarding page 43, I am concerned that non-hard sales recovery in the U.S. for Offices Business is still weak. Please let us know if there are any measures that can contribute autonomously to the improvement in the U.S.

A. We admit that the return of print volume in Office Business in the U.S. through 2Q was weaker than in other regions. However, we monitor the return of print volume by customer size and by industry on a weekly basis, and their return is quick or slow depending on the industry, partly due to the impact of customer activity restrictions and other factors. In the U.S., industries with relatively quick return in print volume are healthcare/hospitals and manufacturing. We are actively accessing these industries, including the acquisition of new customers.

Q. On page 16, the benefit of structural reform in Office Business amounts to ¥25 billion. Is it correct to understand that the cost will be eliminated from Konica Minolta group?

A. We expect ¥15 billion as labor costs in this ¥25 billion, which will be reduced in particular by accumulating temporary costs, and this will be reduced from the group. However, the reduction of 10% personnel shown on the same page includes the reassignment to IT-services, Workplace Hub, and the relocation of human resources to growing areas other than Offices Business. Please understand that 10% of the personnel do not directly translate into ¥15 billion effect.

Q. Are there any overlapping in the reduced research and development expense in Office Business and labor cost savings?

A. This R&D will be reduced by variable costs rather than fixed costs by narrowing down the subjects.

We will also allocate solution engineers to customer contact points, who will remain within the group. As a whole group, we are planning to enhance and increase human resources capable of contributing to the development of DX solutions in variety of business domains other than Office Business domain. This initiative also have the aspect of shifting human resources to such growing domains.

Q. In the commentary on Bio-healthcare and other New Business on page17, there is a description on financing or the use of other companies' equity. What kind of method are you considering specifically?

For other New Business, you mentioned that you conduct selection and concentration on businesses that are not expected to improve profitability. Please let us know whether this initiative is only for New Business or it is also for other businesses that are slightly out of the core business of the portfolio.

A. Regarding the first question, we are considering financing flexibility to grow Bio-healthcare business. We will talk about the specific details again at the proper time, but I would like to mention that we are starting to consider this matter at this point. We are getting the good response on the value of Bio-healthcare business in the U.S. on the front lines, and this area can be expected to grow as a competitive advantage, we believe that it can become a considerable business in 2,3 and 4 year terms by continuing the investment. We are currently considering how to invest in this area in terms of equity policies and how to realize when emerging business value. For your second question, please understand that this initiative will be carried out beyond New Business.

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