Financial Strategy

We will work to improve profitability and financial structure, achieve 5% ROE at an early stage, and aim to achieve 8% or more.

Yoshihiro Hirai
Director, Executive Vice President and Executive Officer

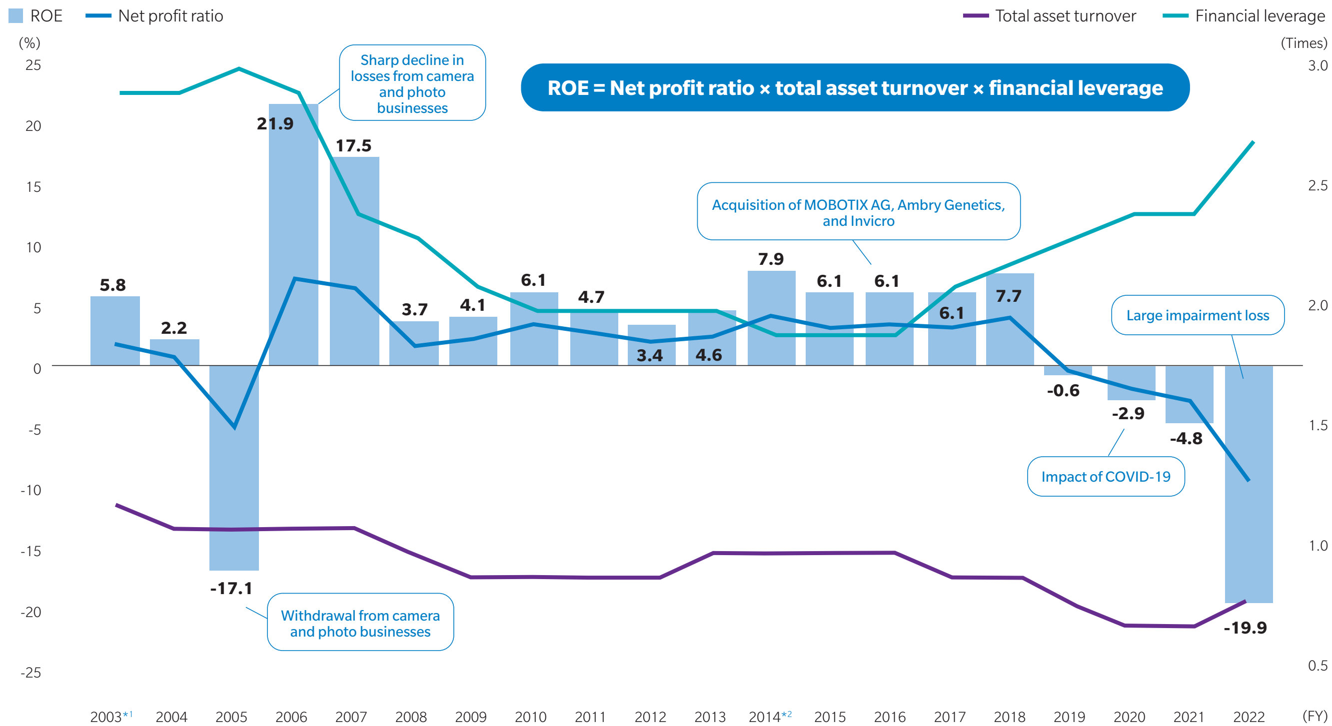
Fiscal 2022 Review

We need to Improve the financial balance through strengthening profitability and improving cash generation capacity

In the previous Medium-term Business Plan "DX2022" (fiscal 2020-2022), in addition to the impact on production due to the lockdown caused by the spread of COVID-19, the reduction in non-hardware sales of toner, etc. due to the decline in printing accompanying the acceleration of remote work, and the soaring prices of components and energy costs, the business environment continued to be harsh, for example the business was severely affected by a shortage of toner supply due to an accident at the Konica Minolta Supplies Manufacturing Tatsuno Factory in fiscal 2021.

Even in such an environment, our consolidated sales in fiscal 2022 were ¥1,130.3 billion (+24% YoY), the highest since the business merger in 2003. By region, North America sales grew by about 44% compared to the previous year, Europe by about 27%, China by about 13%, and Japan by about 1%, demonstrating growth in all regions. In addition, considering the results by business, backorders were eliminated in the Digital Workplace and Professional Print Business due to the recovery in product supply, and sales volume increased, with both hardware and non-hardware revenue increasing year-on-year. In the Healthcare

ROE Fluctuations



*1: Due to the integration between Konica and Minolta, shareholders equity and net profits in FY2013 were pro forma basis.
*2: Adoption of IFRS in FY2014

Business, sales in Japan and the United States remained strong in medical imaging (healthcare), and sales in the precision medicine increased by 83% year-on-year due to an increase in the number of genetic tests. In contrast, in the Industry Business, while the sensing unit recorded a record high in sales, the performance materials unit experienced a decline in sales due to market inventory adjustments, and the entire business was slightly negative.

On the other hand, in considering the selection and concentration of the business, we conducted a detailed review of investments, focusing on past acquisitions, and conducted impairment tests based on international accounting standards. As a result, we recorded an impairment loss of a total of ¥116.6 billion, mainly for goodwill related to the precision medicine and goodwill related to imaging-IoT solutions. As a result, the operating loss in fiscal 2022 was ¥95.1 billion, and the net loss was ¥103.1 billion. Operating profit excluding impairment losses was ¥21.5 billion, exceeding the initial earnings forecast of ¥15 billion, and it can be said that the earning power of the business is recovering. However, ultimately, due to large impairment losses, the equity ratio at the end of fiscal 2022 fell to 34.5% (37.9% for rating purposes). In addition, interest-bearing liabilities increased due to the increase in inventory assets, the net D/E ratio has increased to 0.8, and the total asset turnover decreased to 0.8. Improving the financial balance by strengthening profitability and cash generation is an urgent issue.

In addition, in the financial results for fiscal 2022, we once again conflicted with the financial restriction clauses attached to some syndicated loan agreements concluded with multiple financial institutions in which we "pledged not to record operating losses for two consecutive periods." However, the Group has received acknowledgement from all of the relevant institutions that they will not request the acceleration of payment due to that infringement.

Basic Policy for Financial Strategy in the Medium-term Business Plan

Improve the financial balance through improved profitability and asset efficiency, leading to enhancing corporate value

In the new Medium-term Business Plan (fiscal 2023-2025), we have established the following basic policies with the aims of "Challenging and achievable management" and "Return to a highly profitable company."

① **Strengthening business profitability:** Selecting and concentrating the businesses, redistributing resources to strengthen the business, and maintaining the profitability of the office business
② **Strengthening the profit foundation:** Cost structure reform, financial base strengthening (asset efficiency improvement), cash-focused
③ **Strengthening the business management system:** Clarification of business performance, acceleration of selection and concentration

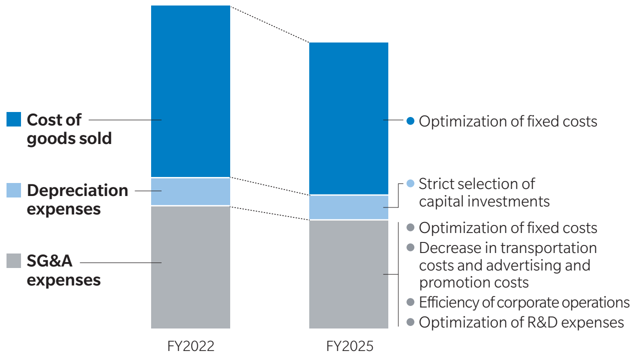
Strengthening business profitability

With regard to the strengthening of business profitability, each business will be newly positioned as a "Strengthening business," "Maintaining profit business," "Non-focused business," and "Direction-changing business," and we will endeavor to achieve results through measures in line with this approach.

Strengthening the profit foundation

In order to strengthen our profit foundation, we will strengthen our financial foundation and improve our cash generation capacity through cost structure reform and asset efficiency improvement, and aim to improve the company-wide business contribution profit margin that indicates the profitability of our main businesses from 2.6% in fiscal 2022 to 5% or more in fiscal 2025. In order to achieve this, as a cost structure reform, we will strive to reduce fixed costs by reviewing research and development themes, how we use human resources, more efficient corporate operations, and the functions of bases.

Cost Structure Reforms

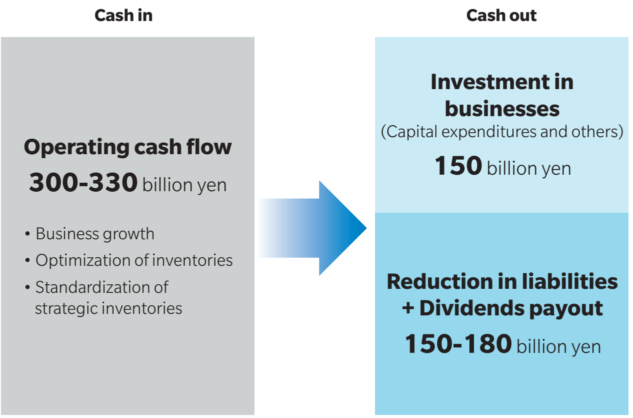


To strengthen the financial foundation and generate cash, going forward in addition to sales and profit, we will focus on instilling an awareness of the importance of cash and asset efficiency. Specifically, in addition to reviewing the business portfolio, we will work to improve asset efficiency by compressing working capital such as sales receivables and inventory assets, carefully selecting capital investment, organizing bases and real estate, and compressing interest-bearing liabilities, and increase the total asset turnover rate, which was 0.8 at the end of fiscal 2022, to 1.0 at the end of fiscal 2025. In particular, inventory assets that increased to ¥242.1 billion at the end of fiscal 2022 were intentionally held as strategic inventory to eliminate order backlogs during the COVID-19 pandemic, but we will review and level these inventory assets in the future.

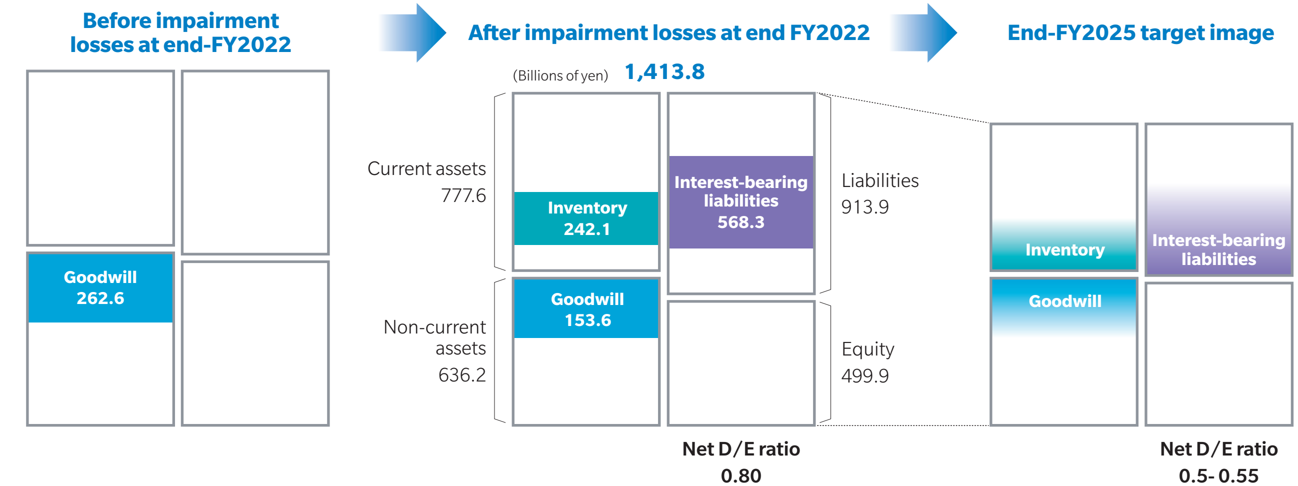
In addition, as a capital allocation, we plan to create a cumulative operating cash inflow of ¥300 to ¥330 billion in the three years from fiscal 2023 to fiscal 2025, use ¥150 billion, which is about half of the obtained cash, for strategic business investment, and use ¥150 to ¥180 billion to reduce interest-bearing liabilities and distribute dividends to shareholders. With the reduction of interest-bearing liabilities, the net D/E ratio will be improved from 0.8 at the end of fiscal 2022 to 0.5 to 0.55 at the end of fiscal 2025, and the financial balance will be restored to an appropriate level.

Financial Strategy

Capital Allocation (Cumulative in FY2023-2025)



Improved Balance Sheet



Strengthening the business management system

Regarding the business management system, we have historically had a process for evaluating investments when executing large investments, a mechanism for post-investment reviews, and a system to monitor the performance of each business*. However, given the large amount of impairment losses recorded in fiscal 2022, we recognize that the existing mechanisms were insufficient in terms of effectiveness. Therefore, we are working to review investment evaluations and business reviews, strengthen monitoring the risk of impairment losses, and change them to a system that allows us to quickly take action.

As a business investment policy, we will mainly invest in the strengthening businesses based on the capital obtained through asset compression mentioned above. Regarding investment evaluation, improvements will be made in the following areas: risk consideration at the time of investment decisions, formulation of PMI plans including backup plans, clarification of withdrawal criteria, and working to change periodic post-investment monitoring to enhance previous processes and achieve rapid case response, including withdrawals.

In addition, the review of businesses will establish more precise evaluation criteria based on the positioning of businesses, leading to specific actions that will contribute to the selection and concentration of business. Also, for the CGU (Cash Generating Units) businesses, which have large goodwill and intangible assets and are important to management, we will more rigorously examine the appropriateness of the business plans and KPIs we formulate, and monitor progress on a monthly basis. If we foresee that the initial plan will not be reached, we will take prompt measures to increase the likelihood of achieving the plan. If we determine that recovery is still difficult, we will reevaluate assets at the appropriate time.

With the above measures, we will improve profis, improve asset efficiency, and achieve ROE of 5% at an early stage. To achieve this, we aim to achieve a net profit ratio of 2.5% or more, a total asset turnover ratio of 1.0 times, and a financial leverage of 2.0 times. However, we will continue to promote capital efficiency and corporate value improvement, and aim to achieve a ROE of 8% or more in the future.

* A system that monitors investment capital income and financial conditions, etc. compared to business-specific ROICs and business-specific hurdle rates to determine business continuation or withdrawal, etc.

Return of Profits to Shareholders

Aiming to both enhance corporate value and return profits to shareholders

In regards to dividends for fiscal 2022, in view of the deterioration of free cash flow due to the decline in shareholder's equity due to large impairment losses and the increase in working capital, the year-end dividend was not paid, and the annual dividend per share was ¥10.

Even in fiscal 2023, we must prioritize financial improvement, and the dividend outlook is no payment for the interim period and ¥5 for the year-end dividend per share. Based on the basic policy of the Medium-term Business Plan, we aim to further enhance corporate value and return profits to shareholders.