

Financial Results for Q1 of the FY Ending March 31, 2021

July 30, 2020

Oki Electric Industry Co., Ltd.

Summary of Financial Results

- Sales declined due to completion of large-scale projects and the impact of COVID-19.
- Profits worsened as sales declined.

(Billion yen)	Q1 FY2021/3 (Results)	Q1 FY2020/3 (Results)	Variance
Net sales	81.4	107.6	(26.2)
Operating income (loss)	(1.1)	1.1	(2.2)
Ordinary income (loss)	(2.1)	0.1	(2.2)
Profit (loss) attributable to owners of parent	(3.3)	(0.4)	(2.9)
USD average exchange rate (Yen)	107.6	109.9	(2.3)
EUR average exchange rate (Yen)	118.5	123.5	(5.0)

- Net sales decreased ¥26.2 billion to ¥81.4 billion. Large-scale projects related to networks for telecom carriers and large-scale replacement demand for some government agencies, which were seen in the previous fiscal year, have run their course. We transferred the business of a subsidiary in Brazil. In addition, sales were sluggish in overseas markets affected by the spread of COVID-19.
- As a result of the significant decrease in sales, operating loss of ¥1.1 billion and ordinary loss of ¥2.1 billion were recorded.
- Loss attributable for owners of parent increased from the previous year due to the absence of an extraordinary gain from the sale of non-business assets in the previous year, resulting in a loss of ¥3.3 billion.
- The estimated impact of COVID-19 in Q1 is; net sales of approximately ¥11.0 billion and operating income of approximately ¥2.0 billion, both in negative. The domestic impact was ¥3.0 billion in net sales and ¥0.8 million in operating income, while the overseas impact was ¥8.0 billion in net sales and ¥1.2 billion in operating income.
- I think the social and economic activities in each country have been mainly focused on avoiding the risk of infection. From now on, however, we will see a shift toward a New Normal in which we try to balance economic activities while tolerating certain risks to society. We expect that the impact on our business performance will be reduced from the Q2 onward and a recovery trend will begin from the Q3 onward.

Segment Information (Net Sales)

- **Solution Systems**
Declined due to the completion of large-scale projects(for networks-related and some government agencies) of the previous fiscal year and the first-year impact of the expansion of the scope of application of the percentage-of-completion method in the previous fiscal year
- **Components & Platforms**
Declined in demand, particularly for printer consumables, and sluggish in equipment sales due to COVID-19. Minor impact on domestic market.

(Billion yen)	Q1 FY2021/3 (Results)	Q1 FY2020/3 (Results)	Variance
Solution Systems	40.0	52.8	(12.8)
Components & Platforms	40.0	51.6	(11.6)
Others	1.4	3.2	(1.8)
Total	81.4	107.6	(26.2)

*Results for Q1 FY2020/3 are restated.

- As a result of the change in the organizational structure on April 1, the business management units and disclosure segments were changed. The former ICT business segment has been integrated into the Solution Systems, while the former Mechatronics Systems, Printers, and EMS have been integrated into Components & Platforms. This will allow us to optimize resource allocation and accelerate the development of new businesses.
- Solution Systems sales fell ¥12.8 billion to ¥40 billion. This was mainly due to a decrease in network-related projects for career customers and some projects for government offices, as well as the disappearance of the first year impact of the change in sales standards in the previous fiscal year.
- Components & Platforms sales fell ¥11.6 billion to ¥40.0 billion. Overseas markets were strongly affected by the spread of COVID-19. The main reasons for the decrease were the suspension of bidding for automated machines in the Asian market and sluggish sales of printer consumables in the U.S. and Europe. In the Japanese market, sales of some automated equipment remained relatively stable, despite some delays beyond Q2.
- Others include the impact of the business transfer of a Brazilian subsidiary.

Segment Information (Operating Income/Loss)

- Solution Systems
Declined mainly due to the large-scale projects in the previous fiscal year
- Components & Platforms
Declined due to sluggish sales, deterioration of sales-mix upon a decrease in consumables.

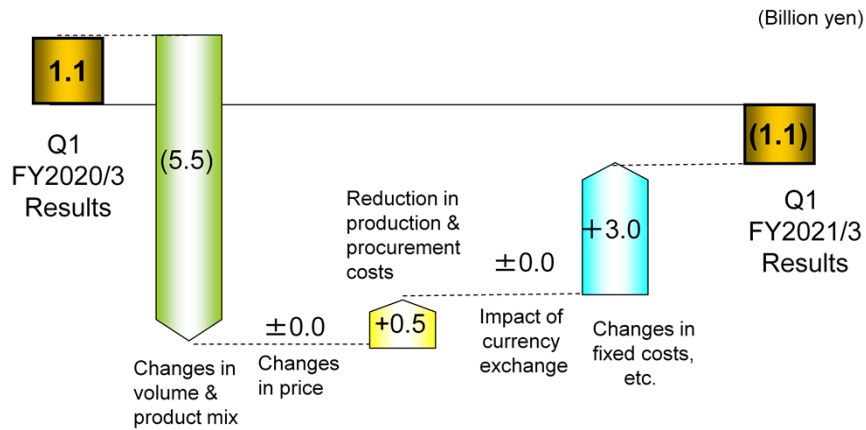
(Billion yen)	Q1 FY2021/3 (Results)	Q1 FY2020/3 (Results)	Variance
Solution Systems	1.7	2.5	(0.8)
Components & Platforms	(1.7)	0.3	(2.0)
Others	0.0	(0.1)	+0.1
Corporate & Eliminations	(1.2)	(1.7)	+0.5
Total	(1.1)	1.1	(2.2)

*Results for Q1 FY2020/3 are restated.

- Operating income for Solution Systems decreased ¥0.8 billion to ¥1.7 billion. The main reason for the decrease was a decrease in sales, and there was no significant increase in expenses or deterioration in sales composition.
- Operating loss for Components & Platforms deteriorated ¥2.0 billion to ¥1.7 billion. The impact of COVID-19 was particularly large in overseas businesses, and sales were sluggish due to declining demand.
- In the U.S. and European markets, sales of consumables for printers, which have a large margin of profit, declined, and the deterioration in the sales mix was a major factor in the decline in segment earnings.
- In Asia, capital investment in general has been restrained due to the ongoing urban blockade in India, the largest market for automation equipment. Although bidding opportunities for automated equipment such as ATMs are limited, we expect that the situation will stabilize in the third quarter and the market environment will recover.
- Sales in the Japanese market were affected in part by sales shifts. But I think we can expect to record the amount by the end of this fiscal year.

Reasons for Changes in Operating Income/Loss

- Although some improvements were made due to a review of overall costs, changes in volume had a significant impact.



- Overall, operating income decreased due to a significant decrease in sales volume.
- As for fixed costs, we reviewed all costs, including the reduction of printer sales investment, and tried to reduce them, but could not make up for them.

Balance Sheets

- There is no major change in the composition of each asset and liability. Total assets were reduced.
- Shareholders' equity ratio decreased by 0.5 points.

(Billion yen)	Jun. 2020	Mar. 2020	Variance
Current assets	217.5	236.7	(19.2)
Fixed assets	133.8	135.7	(1.9)
Assets	351.3	372.5	(21.2)
Current liabilities	149.7	159.9	(10.2)
Fixed liabilities	102.9	106.1	(3.2)
Liabilities	252.6	266.0	(13.4)
Shareholders' equity	98.5	106.2	(7.7)
Others	0.2	0.2	0.0
Net assets	98.7	106.4	(7.7)
Total liabilities and net assets	351.3	372.5	(21.2)
Shareholders' equity ratio (%)	28.0	28.5	(0.5)
D/E ratio (times)	0.8	0.7	+0.1

- There are no major changes in the composition of assets and liabilities.
- Total assets decreased by ¥21.2 billion from the end of the previous fiscal year to ¥351.3 billion.
Shareholders' equity decreased by ¥7.7 billion to ¥98.5 billion.
As a result, shareholders' equity ratio was 28.0% and the debt-to-equity ratio was 0.8 times.

Cash Flows

- Free cash flow was almost the same as the previous fiscal year.

(Billion yen)	Q1 FY2021/3 (Results)	Q1 FY2020/3 (Results)	Variance
I Cash flows from operating activities	16.0	11.2	+4.8
II Cash flows from investing activities	(3.5)	0.7	(4.2)
Free cash flows (I + II)	12.5	11.9	+0.6
III Cash flows from financing activities	(6.8)	(4.9)	(1.9)
Cash and cash equivalents	52.1	33.6	+18.5
Purchases of PP&E and intangible assets	2.5	3.9	(1.4)
Depreciation	3.0	3.0	-

- Free cash flow was a net inflow of ¥12.5 billion, almost unchanged from the previous year.
- Cash equivalents remained at an appropriate level of ¥52.1 billion.

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Financial Forecasts

- **Solution Systems**
Decrease due to large-scale projects for networks-related and some government agencies in the previous fiscal year and the decline of the impact of the change in sales standards in the previous fiscal year.
- **Components & Platforms**
Remain sluggish sales in overseas markets due to the impact of COVID -19. Annual negative impact from declined demand for printer consumables. Minor impact on domestic market.

		FY2021/3	FY2020/3	
(Billion yen)		Forecasts	Results	Variance
Solution Systems	Net sales	195.0	229.1	(34.1)
	Operating income	15.0	20.8	(5.8)
Components & Platforms	Net sales	205.0	216.3	(11.3)
	Operating income	1.0	5.5	(4.5)
Others	Net sales	5.0	11.9	(6.9)
	Operating income	0.0	(0.6)	+0.6
Corporate & Eliminations	Operating income	(7.5)	(9.0)	+1.5
Total	Net sales	405.0	(457.2)	(52.2)
	Operating income	8.5	(16.8)	(8.3)

*Results for Q1 FY2020/3 are restated. Exchange rate assumptions: ¥110/USD, ¥120/EUR

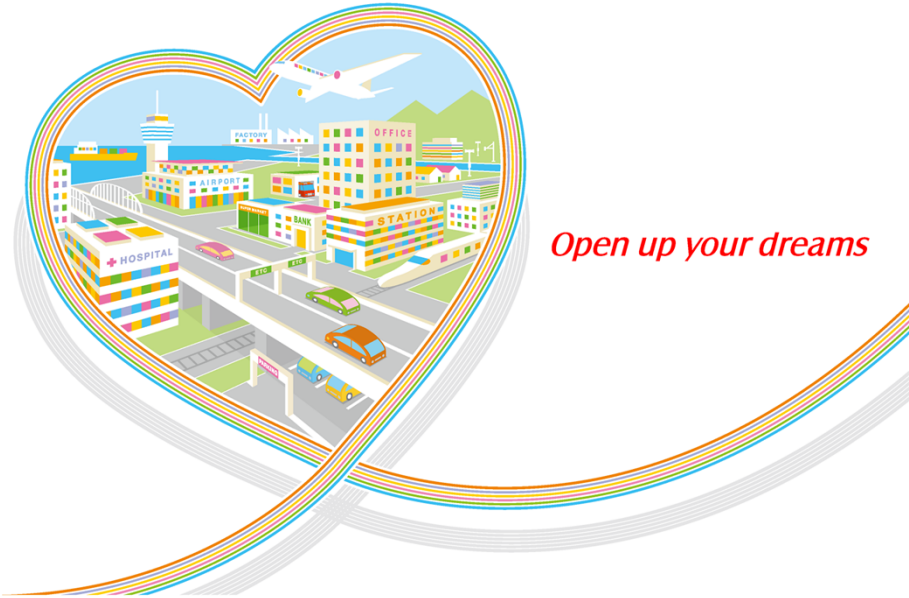
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- The results forecast for fiscal 2020 is as shown.
- Solution Systems are affected by the review of sales standards in the previous fiscal year and by a decrease in large-scale projects. In the social infrastructure area, strong demand continues in the aviation sector, and in the network area, for investment in infrastructure reinforcement, etc., but overall a year-on-year decrease in net sales is expected to be unavoidable, and as a result, operating income is expected to decrease due to the decrease in net sales.
- As for Components & Platforms. In the domestic market, there may be some sales shift, but we do not expect this to have a major impact in the current fiscal year. In the Asian market, we expect bidding for weak automated equipment to recover from the Q3 onward. On the other hand, we expect that it will be difficult to improve the sluggish sales of printers in the U.S. and European markets throughout the year. As a result, operating income will decrease, but we expect most of the decrease to be attributable to printer-related factors.
- The annual impact of COVID-19 is estimated to be about ¥20 billion on sales and about ¥6.0 billion on operating income. Of this, the impact on the domestic market was limited to net sales of ¥0.7 million and operating income of about ¥0.1 million, most of which was in overseas markets.

- We believe that infectious diseases have a major impact on the short-term performance of our overseas hardware business. On the other hand, however, when we think about adapting to a New Normal social structure, we recognize that it is essential to carry out further drastic structural reforms, and we believe that prompt implementation of various measures is necessary.
- Structural improvement measures are currently being worked out in a hurry. We expect some extraordinary losses, etc., but we will disclose them as soon as we know entire impact on our financial results for this fiscal year. Accordingly, the full-year forecast as of today is based on sales and operating income alone. We appreciate your understanding.

Notice

- The projections and plans in this material are based on information currently available to OKI as of the date of publication and certain assumptions judged as rational, therefore actual results are subject to change depending upon the changes of business environments and other conditions.
- Indication method of amounts in hundred millions (yen) are as follow:
Amounts in each item are rounded to the nearest hundred million yen. Variances are calculated in the hundred millions.



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