

Financial Results for First Nine Months of the FY Ending March 31, 2022

February 7, 2022

Oki Electric Industry Co., Ltd.

Summary of Financial Results

- Material procurement impact such as semiconductors increased more than expected.
- Net sales decreased YOY due to material procurement and decrease in large-scale projects.
- Operating income improved YOY upon a decrease in fixed expenses due to structural reforms and a reversal of allowance for doubtful accounts, despite a decrease in sales.
- Extraordinary loss from restructuring reforms are largely on schedule.

(Billion yen)	9 months FY2022/3 Results	9 months FY2021/3 Results	Variance
Net sales	246.4	266.9	(20.5)
Operating income (loss)	(0.4)	(2.6)	+2.2
Ordinary income (loss)	(0.2)	(3.4)	+3.2
Profit (loss) attributable to owners of parent	(6.5)	(8.5)	+2.0
USD average exchange rate (Yen)	111.1	106.1	+5.0
EUR average exchange rate (Yen)	130.6	122.4	+8.2

- The third quarter of FY2021 was originally expected to be the peak of the impact of the material procurement including semiconductors, but unfortunately, the impact exceeded our expectations and is still continuing.
- Net sales decreased by ¥20.5 billion to ¥246.4 billion, and operating loss was ¥400 million. Both net sales and operating income were significantly impacted by the decline in sales of Solution Systems business, which will be explained in more detail on the next page.
- Operating income improved by ¥2.2 billion YoY due to the improvement in fixed costs as a result of structural reforms, as well as the reversal of approximately ¥3.1 billion in the allowance for doubtful accounts for the ATM business in China as a result of the appropriation of the allowance for doubtful accounts following the victory of the first trial in a local lawsuit.
- Ordinary loss was ¥200 million, an improvement of ¥3.2 billion YoY.
- Loss attributable to owners of parent was ¥6.5 billion, mainly due to the recording of ¥2.8 billion in business restructuring expenses.
- The average exchange rate during the period was ¥111.1 to the US dollar, a depreciation of ¥5 against the previous year. The euro was at ¥130.6, also a depreciation of ¥8.2.

Segment Information (Net Sales/ Operating Income)

(Billion yen)			
Net Sales	9 months FY2022/3 Results	9 months FY2021/3 Results	Variance
Solution Systems	107.6	127.3	(19.7)
Components & Platforms	138.5	139.1	(0.6)
Others	0.3	0.5	(0.2)
Total	246.4	266.9	(20.5)
Operating Income	9 months FY2022/3 Results	9 months FY2021/3 Results	Variance
Solution Systems	1.5	6.5	(5.0)
Components & Platforms	3.1	(4.3)	+7.4
Others	0.2	(0.2)	+0.4
Corporate & Eliminations	(5.2)	(4.6)	(0.6)
Total	(0.4)	(2.6)	+2.2

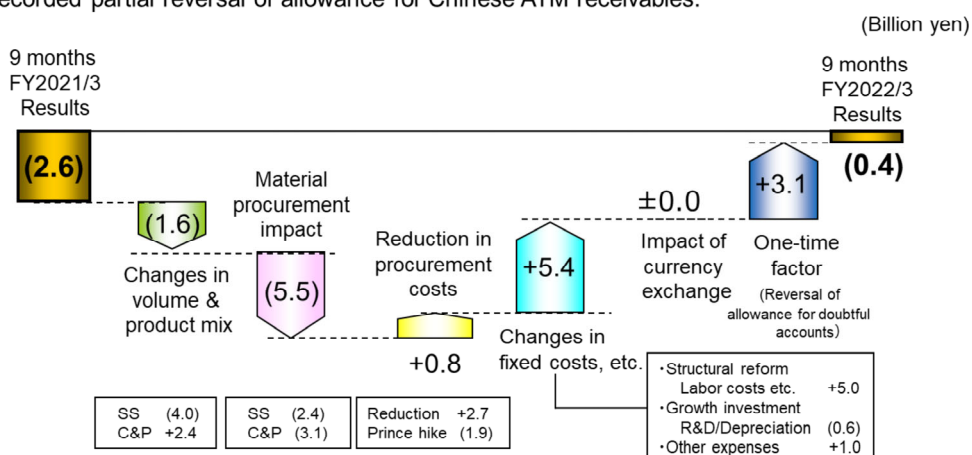
- This shows sales and operating income by segment.
- Sales of the Solution Systems declined by ¥19.7 billion YoY to ¥107.6 billion. As we have already reported, the decrease in sales was due to a reactionary decline from large-scale projects in the previous fiscal year, such as network construction projects for telecommunications carriers and system projects for public offices, as well as the impact of material procurement.
- The breakdown of the approximately ¥20 billion decline YoY is as follows. Approximately ¥11 billion due to the impact of large-scale projects, ¥5.5 billion due to the impact of material procurement, and ¥3.5 billion due to the impact of delay in timing of orders caused by customers. In the plan for this fiscal year, we had planned to offset about half of the large-scale projects with new projects, but due to the impact of material procurement, the result was a significant decrease in sales.
- Sales of the Components & Platforms decreased by ¥600 million YoY to ¥138.5 billion. As will be explained later in the overview of each business segment, Components & Platforms were also affected by the material procurement. On the other hand, the Platforms business, which serves the FA and semiconductor manufacturing equipment markets, saw an increase in sales. Overall, sales were almost the same as the previous year.
- As for operating income, Solution Systems decreased ¥5 billion YoY to ¥1.5 billion. Components & Platforms recorded an operating income of ¥3.1 billion, a significant improvement of ¥7.4 billion YoY, due to the positive effect of fixed cost improvements in the Peripheral Products business and the previously

mentioned reversal of allowance for doubtful accounts.

- Changes in operating income compared to the previous year will be explained in detail on the next page.

Reasons for Changes in Operating Income/Loss

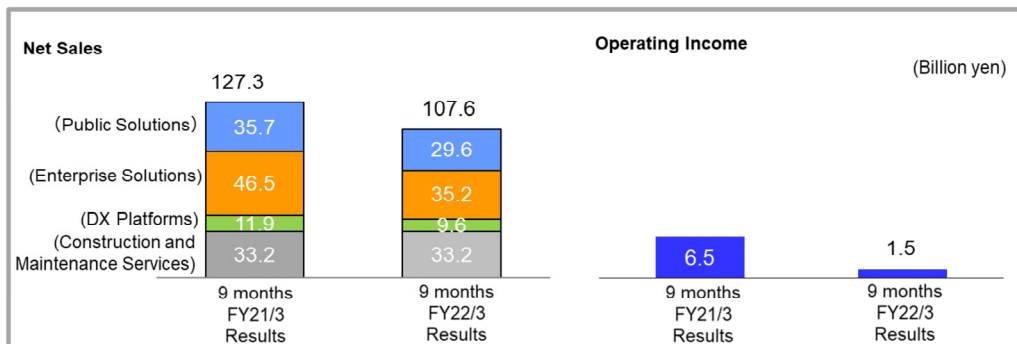
- Although demand for FA/semiconductor manufacturing equipment remained firm, changes in volume was negative due to a decrease in Solution Systems.
- Impact of materials procurement was greater than expected.
- Price hike diluted procurement cost reductions.
- Fixed costs improved significantly through structural reforms, cost reductions in shared group functions, and expense control.
- Recorded partial reversal of allowance for Chinese ATM receivables.



- As explained earlier, the changes in the volume and product mix reflect the increase and decrease in the volume of products in each business segment almost as it is.
- As for the impact of material procurement, there was an impact of approximately ¥5.5 billion in the cumulative third quarter. The impact on net sales is approximately ¥18 billion.
- As for reduction in procurement costs, we were able to reduce procurement costs by approximately ¥2.7 billion, but on the other hand, there was an impact of approximately ¥1.9 billion in material price hikes due to procurement difficulties, resulting in a net reduction of only ¥800 million.
- As for the change in fixed costs, the effect of structural reforms, such as the reduction of personnel mainly overseas in the Components & Platforms business and the reduction of group-wide common expenses, which is one of the measures in the medium-term business plan, resulted in an increase of approximately ¥5 billion. Although expenses continued to increase due to investments for growth, overall fixed costs decreased by approximately ¥6 billion as a result of cost control measures to counter the impact of material procurement.
- On the far right is a ¥3.1 billion reversal of the allowance for doubtful accounts. The case is still pending, and we will make an announcement as soon as there are any matters that need to be disclosed as the case progresses.

Overview: Solution Systems Business

- Sales and profit decreased due to large-scale projects in Public Solutions and Enterprise Solutions in the previous fiscal year, the impact of material procurement mainly in Enterprise Solutions and DX Platforms, and a delay in timing of orders.
- 9 months DX domain sales of ¥20.1 B (Public 5.1, Enterprise 11.4, DX-PF 3.6)
Sluggish progress due to the impact of material procurement and a delay in timing of orders.

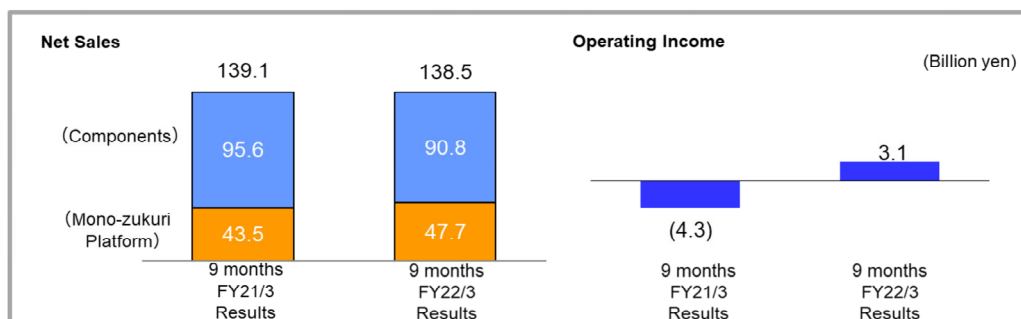


- Page five onward provides an overview of each business segment.
- I have not yet explained the detail of procurement impact so far. Since the level and scope of impact differs slightly for each business, I would like to explain the characteristics of each business as much as possible here.
- First, Solution Systems business. In these third quarter results, the impact on sales of the Solution Systems business was worse than expected. The factors for the worse-than-expected impact were the range of materials affected by procurement, the expansion of the scope of the impact, and the customer's response.
- The scope of the impact of material procurement has expanded to include a wide range of fields other than semiconductors, such as bare board, power supplies and connectors. In addition, the impact is spreading not only to the materials themselves, but also to the procurement of so-called equipment, such as network equipment and servers.
- In light of this situation, we have obtained the agreement or even received requests from our customers to extend the delivery date to the next fiscal year or later when the situation is more stable, rather than forcing it to the fourth quarter.
- These factors had an impact on the Enterprise or DX Platforms and other areas, resulting in lower sales and profits.
- On the other hand, as for the impact of the rising cost of materials, the impact on the Solution Systems business in the third quarter was within the expected range.
- The DX domain, which is a growth strategy, currently has sales of ¥20.1 billion. Due to the impact of the various delays in timing of orders I mentioned earlier, the current rate of securing ¥40 billion against the current fiscal year's plan is about

80%, which is a very difficult situation.

Overview: Components & Platforms Business

- Components: sales decreased due to increased impact of materials procurement.
- Mono-zukuri Platforms: sales increased due to strong demand for FA/semiconductor manufacturing equipment.
- Profits improved due to the reduction of fixed costs resulting from structural reforms in Peripheral Products business and the reversal of allowance for Chinese ATM receivables (¥3.1 B) due to successful suit.



- An overview of the Components & Platforms business.
- The Components business has also been affected by the shortage of materials. However, since we had originally anticipated that the third quarter would be the peak of the impact, the impact we have had so far was within the range of our expectation, although the impact of production delays and price hikes has been greater than in the first half.
- In addition, business for the FA and semiconductor manufacturing equipment markets, which are relatively less affected by the impact of material procurement, continued to be strong. As a result, the Mono-zukuri Platforms as a whole were able to offset the impact of the decline in sales, resulting in an overall increase in sales, as shown in the table below.
- Unfortunately, the impact on Components & Platforms is also expected to be greater than our assumption on an annual basis, mainly due to the impact of price hikes.
- On the other hand, in terms of profit, the improvement in fixed costs due to the structural reform of the Peripheral Products business is progressing, and the profit has improved significantly compared to the previous year.

Balance Sheets

- There is no major change in the composition of each asset and liability. Total assets were reduced.
- Shareholders' equity ratio decreased by 2.0 points.

(Billion yen)	Dec. 2021	Mar. 2021	Variance
Current assets	205.0	222.2	(17.2)
Fixed assets	157.2	151.0	+6.2
Assets	362.2	373.2	(11.0)
Current liabilities	167.5	154.2	+13.3
Fixed liabilities	92.1	105.8	(13.7)
Liabilities	259.6	259.9	(0.3)
Shareholders' equity	102.4	113.0	(10.6)
Others	0.2	0.3	(0.1)
Net assets	102.6	113.3	(10.7)
Total liabilities and net assets	362.2	373.2	(11.0)
Shareholders' equity ratio (%)	28.3	30.3	(2.0)
D/E ratio (times)	0.9	0.7	(0.2)

- There has been no significant change in the composition of each asset and liability. Total assets decreased by ¥11 billion from the end of the previous fiscal year to ¥362.2 billion. Shareholder's equity decreased by ¥10.6 billion to ¥102.4 billion.
- As a result, the shareholders' equity ratio is 28.3% and the D/E ratio is 0.9 times.

Cash Flows

- Operating cash flow worsened YOY due to an increase in working capital caused by the supply chain impact. Growth investments and upfront investments for the next fiscal year and beyond continue.

(Billion yen)	9 months FY2022/3 Results	9 months FY2021/3 Results	Variance
I Cash flows from operating activities	(0.3)	11.0	(11.3)
II Cash flows from investing activities	(15.2)	(11.1)	(4.1)
Free cash flows (I + II)	(15.5)	(0.2)	(15.3)
III Cash flows from financing activities	3.5	(7.1)	+10.6
Cash and cash equivalents	30.3	39.2	(8.9)
Purchases of PP&E and intangible assets	14.9	22.8	(7.9)
Depreciation	9.7	9.3	+0.4

- Free cash flows were negative ¥15.5 billion. The deterioration compared to the previous year is mainly due to an increase in working capital, but also due to an increase in inventories caused by securing materials as a countermeasure to the impact on the supply chain, or delays in shipments caused by a shortage of materials.
- Excluding the impact of technical fluctuations associated with the acquisition and sale of real estate in the Shibaura and Warabi areas in the previous year, cash flows from investing activities were mainly due to investment in growth, an increase of approximately ¥3 billion.
- Cash and cash equivalents totaled ¥30.3 billion, and we have the necessary cash reserves.

Revision of Financial Forecasts

- In light of recent business trends, revise down forecasts announced on May 10, 2021.

Exchange rate assumptions		
	4Q	Previous
USD	¥114	¥105
EUR	¥129	¥120

		FY2022/3	FY2022/3	Variance	FY2021/3	Variance
(Billion yen)		Revised	Previous		Results	
Solution	Net sales	173.0	198.5	(25.5)	190.8	(17.8)
Systems	Operating income	12.5	16.5	(4.0)	16.3	(3.8)
Components & Platforms	Net sales	191.5	201.0	(9.5)	201.5	(10.0)
	Operating income	3.5	2.5	+1.0	(0.4)	+3.9
Others	Net sales	0.5	0.5	0.0	0.6	0.0
	Operating income	0.0	0.0	0.0	(0.1)	0.0
Corporate & Eliminations	Operating income	(7.0)	(7.0)	0.0	(6.4)	(0.6)
	Net sales	365.0	400.0	(35.0)	392.9	(27.9)
	Operating income	9.0	12.0	(3.0)	9.5	(0.5)
Total	Ordinary income	9.0	12.0	(3.0)	9.4	(0.4)
	Profit attributable to owners of parent	3.5	3.5	0.0	(0.2)	+3.7

- In light of the recent trends in our business performance, we have revised downward our business forecast announced on May 10, 2021.
- As we have explained, unfortunately, when we look at it throughout the year, one thing we see is an increase in the scope of impact on materials and equipment. And the change in customers that comes with it. Third, the impact of rising prices. Unfortunately, all of these three factors are expected to occur to a greater extent than expected, and we have decided to revise our earnings forecast downward based on a close examination of sales, operating income, and ordinary income.
- The profit attributable to owners of parent remains unchanged from the previous forecast, as various streamlining and cost rationalization measures against the impact of material procurement, improvement of non-operating foreign exchange gains and losses, and other special measures are still under consideration and progress.
- Since there is a considerable accumulation of projects at this point in time that will be extended to the next fiscal year and, OKI will continue to make the necessary investments and preparations to ensure that deliveries in the next fiscal year and beyond are realized and reaped. In the current fiscal year, we will continue to work on measures such as expansion of suppliers, production measures, optimization of selling prices to cope with increased costs, and cost reduction measures to further reduce the impact.
- This is a brief explanation of our financial results for the third quarter.
- Thank you for listening.

(Reference) Quarterly Results

(Billion yen)

Net Sales	FY2021/3					FY2022/3		
	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q
Solution Systems	39.6	43.1	44.6	63.5	190.8	33.9	35.0	38.7
Components & Platforms	41.6	48.9	48.6	62.4	201.5	45.9	44.8	47.8
Others	0.2	0.1	0.2	0.1	0.6	0.1	0.1	0.1
Total	81.4	92.1	93.4	126.0	392.9	79.9	79.9	86.6

Operating Income	FY2021/3					FY2022/3		
	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q
Solution Systems	1.8	2.2	2.5	9.8	16.3	(0.1)	(0.1)	1.7
Components & Platforms	(1.6)	(2.1)	(0.6)	3.9	(0.4)	(1.6)	0.4	4.4
Others	0.0	(0.1)	(0.1)	0.1	(0.1)	0.0	0.1	0.1
Corporate & Eliminations	(1.2)	(1.6)	(1.8)	(1.8)	(6.4)	(1.3)	(1.8)	(2.1)
Total	(1.1)	(1.5)	0.0	12.1	9.5	(3.0)	(1.4)	4.0

(Reference) Major Products and Services

Solution Systems

■ Public Solutions

- Roadways (ETC, VICS), air traffic control, disaster preparedness, fire prevention
- Business systems for central government offices, government statistics systems
- Defense systems (underwater acoustics, information)
- Infrastructure monitoring

■ Enterprise Solutions

- Carrier networks, video distribution, 5G/local 5G
- Bank branch systems, system to centralized back office operations
- Railway ticket issuance systems, airport check-in systems
- Manufacturing systems (ERP, IoT)

■ DX Platforms (products and services)

- AI edge computers, sensors, IoT networks
- PBXs, business phones, contact centers
- Cloud services

■ Construction and Maintenance Services

Components & Platforms

■ Components

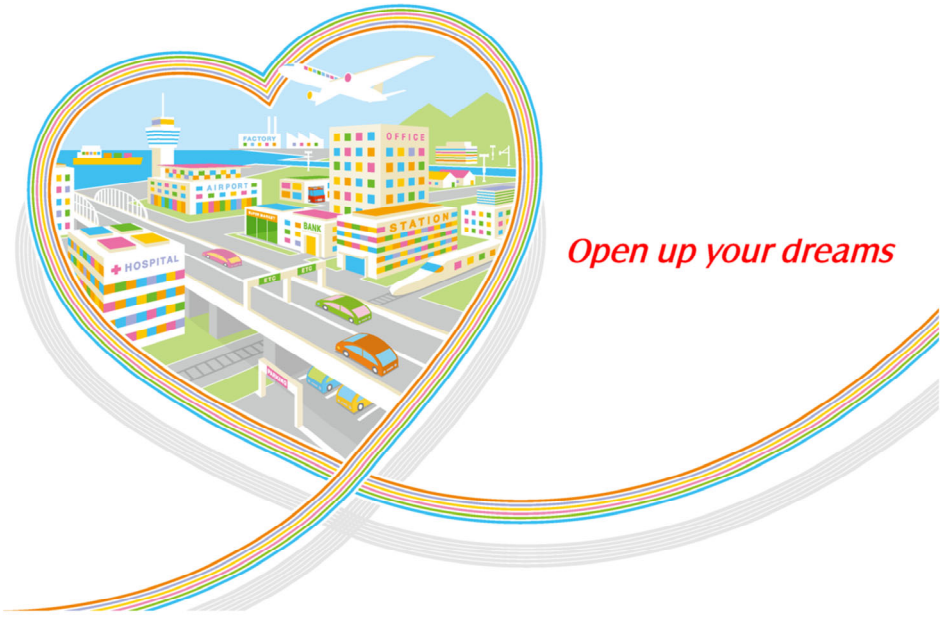
- ATMs, cash handling equipment
- Bank branch terminals, ticket reservations issuing terminals, check-in terminals
- ATM monitoring/operation services
- LED printers
- Wide format inkjet printers
- Dot-impact printers

■ Mono-zukuri Platforms

- Consigned designing and manufacturing services
- Printed circuit boards

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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