

Financial Results for 1H of the FY Ending March 31, 2023

November 9, 2022

Oki Electric Industry Co., Ltd.

Summary of Financial Results

- Net sales increased YOY, despite the impact of lower production due to difficulties in procuring semiconductors and other components.
- Operating profit improved YOY due to higher sales and lower fixed costs, despite the impact of lower production and higher component prices.
- Net income improved YOY, due to a decrease in extraordinary losses resulting from structural reforms.

(Billion yen)	1H FY2023/3 (Results)	1H FY2022/3 (Results)	Variance
Net sales	162.8	159.8	+3.0
Operating income (loss)	(4.0)	(4.2)	+0.2
Ordinary income (loss)	(4.9)	(4.1)	(0.8)
Profit (loss) attributable to owners of parent	(5.7)	(6.6)	+0.9
USD average exchange rate (Yen)	134.0	109.8	+24.2
EUR average exchange rate (Yen)	138.7	130.9	+7.8

- In 1H, net sales were JPY162.8 billion, operating loss was JPY4 billion, and net loss was JPY5.7 billion.
- Net sales increased slightly from the previous year, although production was affected by difficulty in procuring components. Similarly, operating income was affected by factors such as higher production and higher component prices, but was offset by higher volumes and lower fixed costs.
- In Q2, the supply chain environment in general has not changed significantly compared to Q1, and the reliability of procurement has continued to vary by component in OKI. Under such circumstances, we are continuing to take measures to strengthen our procurement capabilities, such as expanding our suppliers, and switching to alternative components by changing designs.
- In addition, a provision of JPY0.6 billion for allowance for doubtful accounts has been made in the current financial statements for the receivables of the ATM business in China. Details will be explained later in this report.
- As for the impact of foreign exchange, sales added about JPY3.1 billion. There were both positive and negative effects on operating income, but the net effect on consolidated operating income was negative JPY0.2 billion.
- Finally, net income and loss for the quarter improved by JPY0.9 billion YoY due to a decrease in extraordinary losses resulting from structural reforms.
- As noted on the page, the average exchange rate during the period was exactly JPY134 to the US dollar, a depreciation of JPY24.2 versus the previous year. The euro was at JPY138.7, a depreciation of JPY7.8.

Segment Information (Net Sales/ Operating Income)

(Billion yen)

Net Sales	1H	1H	Variance
	FY2023/3 (Results)	FY2022/3 (Results)	
Solution Systems	74.5	68.9	+5.6
Components & Platforms	88.0	90.7	(2.7)
Others	0.2	0.2	±0.0
Total	162.8	159.8	+3.0

Operating Income	1H	1H	Variance
	FY2023/3 (Results)	FY2022/3 (Results)	
Solution Systems	(0.9)	(0.2)	(0.7)
Components & Platforms	(0.7)	(1.1)	+0.4
Others	0.2	0.1	+0.1
Corporate & Eliminations	(2.6)	(3.1)	+0.5
Total	(4.0)	(4.2)	+0.2

- Net sales and operating income by segment.
- First, in terms of sales, the Solution Systems business steadily captured projects from the previous year, and sales increased by JPY5.6 billion YoY to JPY74.5 billion.
- Components & Platforms business sales decreased by JPY2.7 billion from the previous year to JPY88 billion. While some areas, such as the FA/semiconductor manufacturing equipment business, continued to perform well, and some areas enjoyed a boost in sales due to foreign exchange rates, overall sales decreased due to the impact of procurement.
- Next is operating income. Solution Systems realized an increase in revenue, but posted an operating loss of JPY0.9 billion, a YoY decrease of JPY0.7 billion. The increase in component prices and the depreciation of the yen have had an impact on the cost increase.
- On the other hand, operating income of the Components & Platforms improved from the previous year due to the effect of increased revenue in the Mono-zukuri Platforms business and reduced fixed costs from structural reforms in the Peripheral Products business. However, the supply chain impact was still significant, resulting in an operating loss of JPY0.7 billion. We will discuss changes in operating income on the next page and in more detail by business segment later in this report.

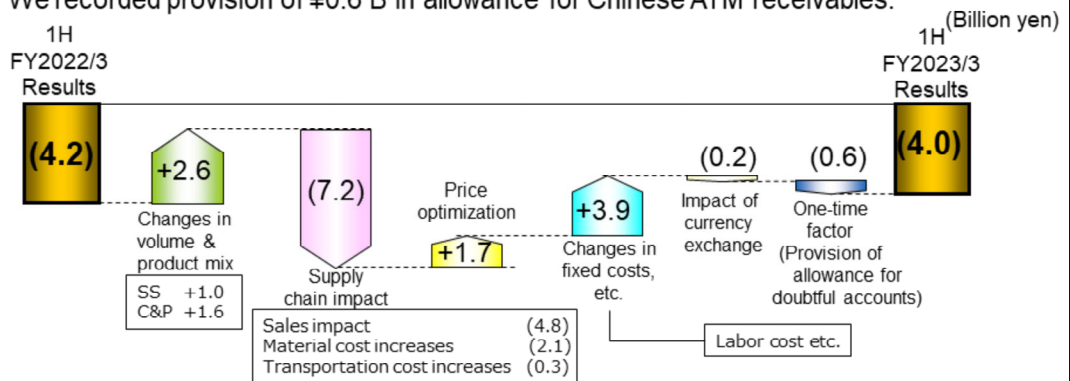
Reasons for Changes in Operating Income/Loss

- The supply chain impact continued in Q2.

We took steps to ensure that projects shifted from the previous year due to difficulties in procuring materials and prices were optimized.

We are currently working to strengthen our response to supply chain impacts, such as by enhancing procurement capabilities and adapting replacement parts through design changes.

- Changes in volume were positive due to an increase in the volume of Mono-zukuri Platforms and projects shifted from the previous year.
- Fixed costs decreased, due to structural reforms.
- We recorded provision of ¥0.6 B in allowance for Chinese ATM receivables.

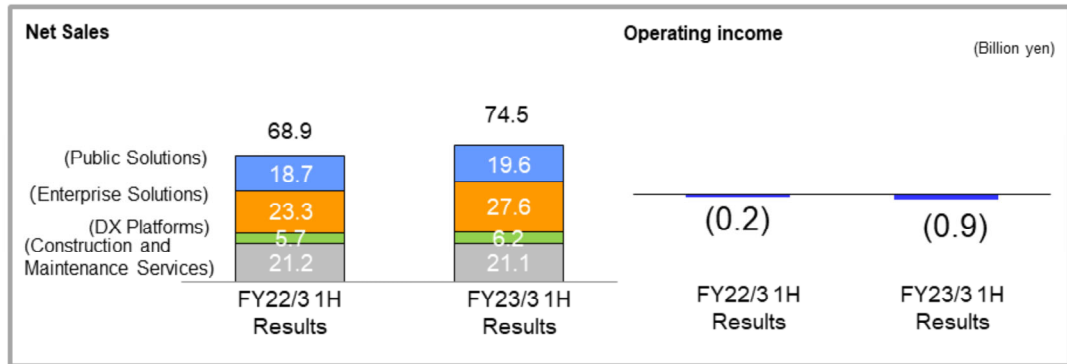


- First, the impact of supply chain issues on profits was a negative JPY7.2 billion in 1H. The breakdown is shown in the boxes. Breaking it down by segment, the impact was JPY1.4 billion in Solution Systems and JPY5.8 billion in Components & Platforms.
- The JPY2.6 billion changes in volume and product mix is mainly due to the inclusion of projects from the previous year, which added approximately JPY2.3 billion to the total.
- In addition, steady progress has been made in price optimization, with an increase of JPY1.7 billion.
- The main reasons for the change in fixed and other costs were a decrease in fixed costs of JPY3.3 billion due to the convergence of the China base in Components & Platforms and headcount reductions at sales companies in Europe and the United States.
- Finally, I would like to discuss aThe negative impact of exchange rates on Solution Systems was offset by the positive impact of exchange rates on Components & Platforms, resulting in an overall negative consolidated exchange rate of only JPY0.2 billion for the 1H.
- one-time factor, the provision for local litigation in the China ATM business. We won the case at the first trial last December and are now proceeding with enforcement procedures to collect the debt. At the same time, a lawsuit seeking retroactive application to the parent company was also filed, but a court opinion was issued to temporarily suspend the parent company's action until the completion of enforcement proceedings against the current debtor.

Although the Company's policy to complete the enforcement procedures as soon as possible and strongly promote appeals to the parent company remains unchanged, we determined that it is conservative and appropriate to push back the provision by about one year.

Overview: Solution Systems Business

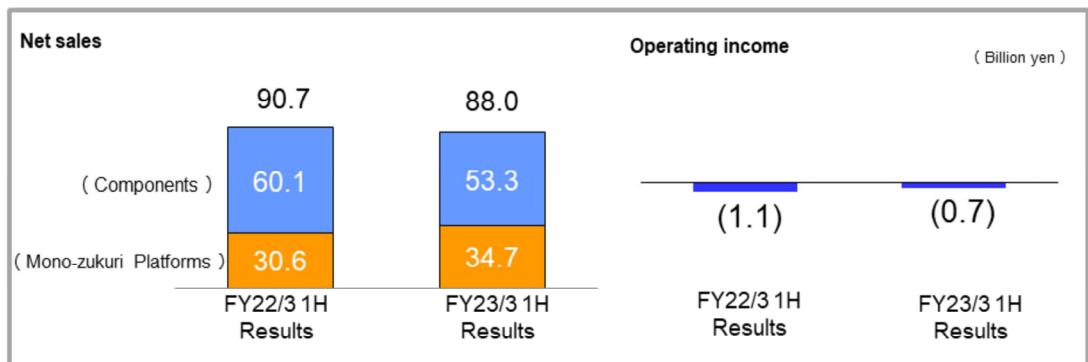
- Sales of Public Solutions and Enterprise Solutions increased, as projects shifted from the previous year due to difficulties in procuring materials.
Operating income decreased due to the negative impact of foreign exchange in addition to the sharp rise in component prices.
- DX domain sales 1H: ¥15.8 B (YOY: ¥13.9 B)



- Business overview of Solution Systems Business.
- In the Public Solutions and Enterprise Solutions areas, the Company steadily captured projects for airline bureaus and telecommunications carriers from the previous year. The Aircraft instrumentation business acquired from Yokogawa Group also contributed to an increase in overall sales in Solution Systems.
- Unfortunately, however, profits were down from the previous year due to soaring component prices and the negative impact of approximately JPY0.5 billion from the exchange rate, as I just mentioned.
- However, if we look only at Q2, operating income in the Solution Systems business has turned positive, and we will continue to focus on achieving the other aspects of our annual plan.
- Sales in the DX area totaled JPY15.8 billion, an increase of JPY1.9 billion from the previous year.

Overview: Components & Platforms Business

- Sales of Mono-zukuri Platforms for FA/semiconductor manufacturing equipment continued to be strong.
Sales of Components decreased due to the impact of semiconductor shortages on production in the Automation Systems business.
Sales in the Peripheral Products business increased due to the impact of foreign exchange rates.
- Operating income increased YOY due to higher sales of the Mono-zukuri Platforms and lower fixed costs resulting from structural reforms mainly at overseas subsidiaries in the Peripheral Products business.



- Business overview of Components & Platforms Business.
- Sales in the Mono-zukuri Platforms business increased significantly YoY for this business as a whole. This was due to the continued strong performance of the business for FA/semiconductor manufacturing equipment. However, because there are some areas within this segment that have been affected by procurement, results here are slightly behind in comparison with our initial projections.
- On the other hand, overall sales in the Components business declined, although the impact of lower production in the Automation System business due to a shortage of components was partially offset by higher sales of consumables in the Peripheral Products business and the favorable movement of the exchange rate.
- Operating income increased from the previous year due to the effect of increased revenue in the Mono-zukuri Platforms and improved fixed costs from structural reforms at overseas subsidiaries, mainly in the Peripheral Products business. I would like to reiterate here that the structural reforms set forth in the current medium-term business plan have been completed as planned and are proving effective.

Balance Sheets

- Short-term borrowings increased due to an increase in working capital caused by the supply chain impact.
- Shareholders' equity ratio decreased by 2.7 points.

(Billion yen)	Sep. 2022	Mar. 2022	Variance
Current assets	217.4	211.8	+5.6
Fixed assets	159.8	157.3	+2.5
Assets	377.2	369.2	+8.0
Current liabilities	185.4	158.0	+27.4
Fixed liabilities	92.1	103.6	(11.5)
Liabilities	277.6	261.5	+16.1
Shareholders' equity	99.4	107.4	(8.0)
Others	0.2	0.2	±0.0
Net assets	99.6	107.6	(8.0)
Total liabilities and net assets	377.2	369.2	+8.0
Shareholders' equity ratio (%)	26.4	29.1	(2.7)
D/E ratio (times)	1.1	0.8	+0.3

- In the current fiscal year, we are implementing various measures, such as early securing of necessary components and the stockpiling of semi-finished products through the implementation of production standardization. This is in line with our policy of concentrating on responding to the risk of supply chain impacts. As a result, inventories increased by approximately JPY24 billion from the beginning of the period. Outstanding loans increased by approximately JPY25 billion.
- In addition, we are currently implementing measures to use alternative components by changing designs. This is a supply chain impact countermeasure.
- Although inventory levels will remain high for the time being, we will work vigorously to deliver products to customers as quickly as possible, in other words, to achieve inventory reduction and optimization.
- Total assets increased JPY8 billion from the end of the previous period to JPY377.2 billion.
- Shareholders' equity decreased JPY8 billion to JPY99.4 billion. As a result, the equity ratio is 26.4%, and the D/E ratio is 1.1.

Cash Flows

- Operating cash flow worsened YOY due to an increase in working capital caused by the supply chain impact.

(Billion yen)	1H FY2023/3 (Results)	1H FY2022/3 (Results)	Variance
I Cash flows from operating activities	(12.3)	9.9	(22.2)
II Cash flows from investing activities	(10.4)	(7.5)	(2.9)
Free cash flows (I + II)	(22.7)	2.4	(25.1)
III Cash flows from financing activities	19.0	(6.3)	+25.3
Cash and cash equivalents	31.7	38.0	(6.3)
Purchases of PP&E and intangible assets	9.1	7.2	+1.9
Depreciation	5.9	6.2	(0.3)

- Free cash flow was negative JPY22.7 billion. This is due to an increase in working capital, as explained in the balance sheet section.
- Cash equivalents totaled JPY31.7 billion. We are ensuring that the Company has the necessary cash on hand.

(Reference)Quarterly Results

(Billion yen)

Net Sales	FY2022/3					FY2023/3	
	1Q	2Q	3Q	4Q	FY	1Q	2Q
Solution Systems	33.9	35.0	38.7	55.0	162.6	36.1	38.4
Components & Platforms	45.9	44.8	47.8	50.5	189.0	41.9	46.1
Others	0.1	0.1	0.1	0.1	0.4	0.1	0.1
Total	79.9	79.9	86.6	105.7	352.1	78.1	84.6

Operating Income	FY2022/3					FY2023/3	
	1Q	2Q	3Q	4Q	FY	1Q	2Q
Solution Systems	(0.1)	(0.1)	1.7	8.0	9.5	(1.2)	0.3
Components & Platforms	(1.5)	0.4	4.5	0.1	3.5	(0.8)	0.1
Others	0.1	0.0	0.1	0.1	0.3	0.1	0.1
Corporate & Eliminations	(1.4)	(1.7)	(2.1)	(2.3)	(7.5)	(1.1)	(1.5)
Total	(2.9)	(1.3)	4.1	5.9	5.9	(3.0)	(1.0)

(Reference) Major Products and Services

Solution Systems

■ Public Solutions

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

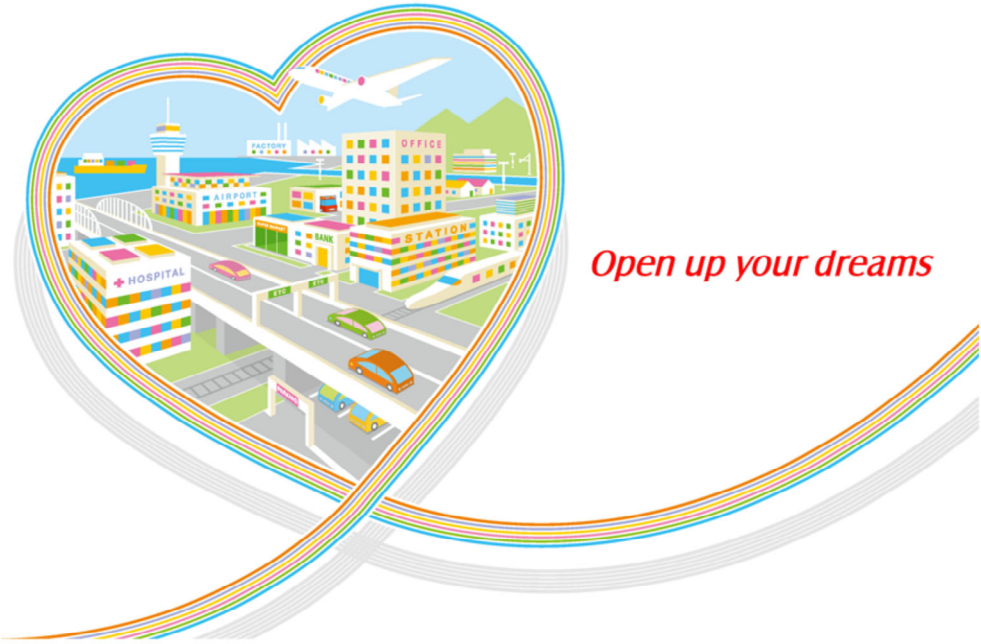
- ATMs, cash handling equipment
- Bank branch terminals, ticket reservations issuing terminals, check-in terminals
- ATM monitoring/operation services
- LED printers
- Wide format inkjet printers
- Dot-impact printers

■ 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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