

MESSAGE FROM THE CFO

To realize sustainable growth that exists alongside society



Senior Executive Vice President,
Representative Director and
Chief Financial Officer

Masayuki Hoshi

Aiming to be a corporate group supporting a safe and convenient infrastructure for customers and society as a whole through the key Japanese concepts of Mono-zukuri and Koto-zukuri, the OKI Group has started a new business plan with the key message of “Delivering OK! to your life.”

The OKI Group seeks to contribute to society in a sustainable manner by creating economic value as a company and universal value for society through its core business activities. In order to achieve that goal, it is necessary to provide products and services that respond to changes in the social structure and new needs accompanying those changes. We will aggressively invest in order to develop innovative technologies and new fields that will become

necessary moving forward.

Meanwhile, in the “new normal,” a time during which society is undergoing significant transformation, it has become even more important to appropriately judge risks. We will not alter our financial policy even if society or our business portfolio changes; I believe that it’s the responsibility of the CFO to balance offensive (growth investment) and defensive (financial discipline) in order not to deviate from the path of sustainable growth.

Going forward, we will further strive to meet the expectations of shareholders and investors. We look forward to your continued support and understanding for the future of the OKI Group.

OKI’s basic concept of capital policy is as follows:

Capital Policy

Basic Strategy

As a company deeply rooted in society, we strive to contribute to society by improving corporate value sustainably, and make returns to stakeholders.

Basic Policy

1. Make investments for growth
2. Secure the strong financial base
3. Sustain steady shareholder returns

Financial Soundness

- Maintain an adequate level of shareholders’ equity within a risk allowance, while making growth investments
- Pursue the right balance between capital efficiency and securing stable growth investment funds, namely, optimal capital structure
- Disclose shareholders’ equity and DE ratios as indicators of financial soundness

Financial Indices

We have established our targets for the end of fiscal year 2022 based on our basic policy.

Shareholders’ Equity Ratio 30%	DE Ratio 1.0 or lower	Dividend Payout Ratio 30% or higher	ROE 10%
--	---------------------------------	---	-------------------

Shareholder Returns

- Aim to raise shareholder value continuously by increasing EPS through reinvesting the profits generated by business activities into growth areas
- Return profits to shareholders in accordance with our business results
- Strive to maintain stable dividends
- Emphasize on rewarding long-term shareholders

Asset Efficiency

- Maximize shareholder value by striving to improve asset efficiency
- Improve total asset turnover: Strive to optimize capital allocation and working capital

Analysis of Financial Position and Business Achievement

FY2019 Business Results

In fiscal year 2019, net sales increased by ¥15.7 billion to ¥457.2 billion, mainly due to strong performance in the ICT business. Profits were satisfactory due in part to the effects of increased earnings, business structure reforms carried out in the previous fiscal year, and so forth. However, because of the global COVID-19 pandemic toward the end of the fiscal year, in addition to decreased operations at our Shenzhen factory and other causes, exchange rates had an effect; as a result, our operating income was ¥16.8 billion, a decrease of ¥0.7 billion year on year, and ordinary income was ¥13.8 billion, a decrease of ¥1.7 billion year on year.

In terms of extraordinary profit/loss, we tallied a ¥4.8 billion gain on sales of property, plant and equipment due to reviews of business sites and the like, and a ¥4.7 billion gain on sales of investment securities due to a reduction of cross shareholdings, while on the other hand, for example, we tallied ¥2.4 billion in business structure improvement expenses relating to business transfers and the like for our subsidiary in Brazil. As a result of these factors, our profit attributable to owners of parent was ¥14.1 billion, an improvement of ¥5.7 billion year on year.

It should be noted that from the current period, we have expanded our scope of applying a “percentage of completion” method mainly in our ICT business, the effect being that net sales increased by ¥10.5 billion, and operating income and ordinary income each decreased by ¥0.1 billion.

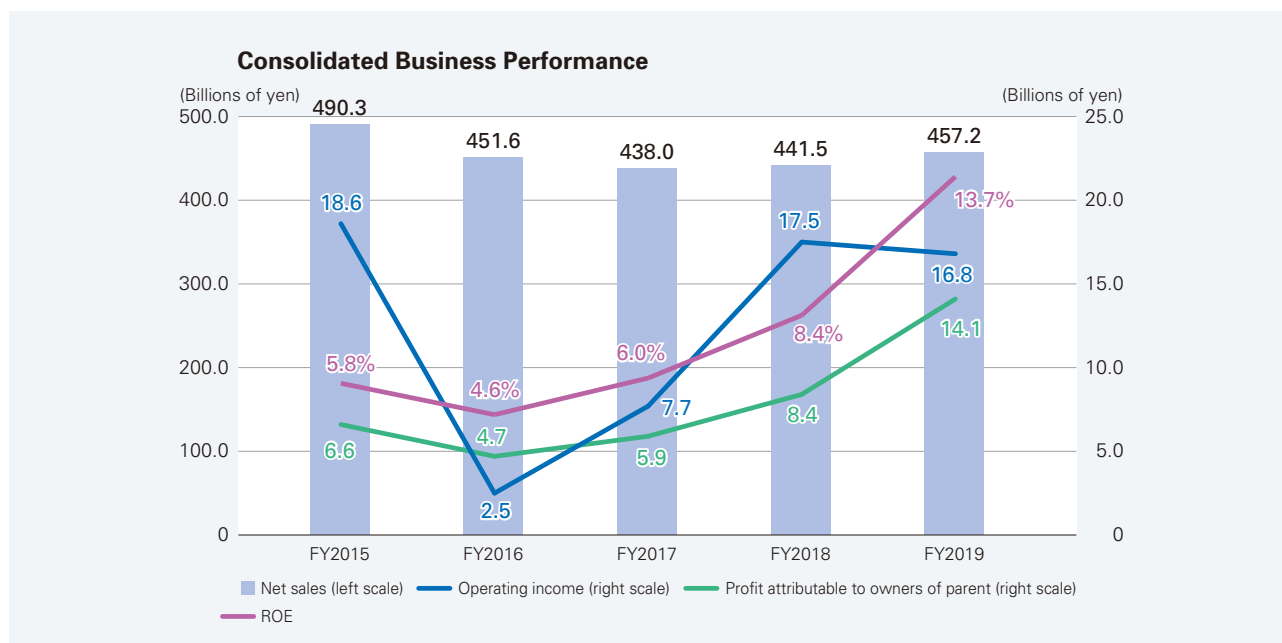
In terms of financial position, total assets increased by ¥7.0 billion from the end of the previous fiscal year, to ¥372.5 billion.

While we recorded profit attributable to owners of parent of ¥14.1 billion, accumulated other comprehensive income decreased by ¥2.8 billion and ordinary dividends were paid in an amount of ¥4.3 billion, resulting in shareholders’ equity increasing by ¥6.3 billion from the end of the previous fiscal year to ¥106.2 billion. As a result, the shareholders’ equity ratio stood at 28.5%. As for assets, in terms of main areas, cash and deposits increased by ¥19.5 billion, while inventories decreased by ¥12.4 billion. Liabilities were at a similar level to the end of the previous fiscal year, at ¥266.0 billion. Also note that borrowings saw a decrease of ¥0.9 billion from the end of the previous fiscal year, tallying ¥77.7 billion.

Outlook for FY2020

Due to the global COVID-19 pandemic, there are concerns for fiscal year 2020 with regard to the impact of customers’ investment plan reviews, a slump in demand for consumables, and the like. At the current time,

it is difficult to rationally estimate the impact of these factors, but we have published our predicted business results based on certain assumptions. While there is some influence due to taking some sales from different



MESSAGE FROM THE CFO

fiscal years into account, it is believed that with respect to the domestic market, the impact in fiscal year 2020 will be limited. In terms of the Asian market, there has been a downturn in demand accompanying the closures of cities in countries such as India, which has the largest market for automated machines, but it is anticipated that the situation will improve during and after the third

quarter. On the other hand, it is predicted that it will take time for the market for office equipment such as printers to improve in the European and American markets. Based on the aforementioned understanding, we predict net sales of ¥405.0 billion, operating income of ¥8.5 billion, ordinary income of ¥8.0 billion, and profit attributable to owners of parent of ¥1.0 billion.

Structural Analysis

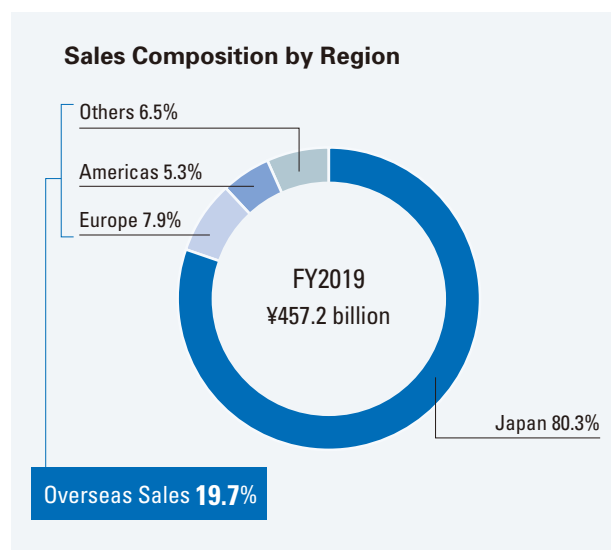
Sales Composition and Overview

The overseas sales ratio in fiscal year 2019 was approximately 20%. By region, Europe was 8%, the Americas were 5%, and others were 7%.

OKI has developed the Solution Systems business, which provides solutions, and the Components & Platforms business, which provides products and manufacturing services as to hardware. In terms of the fiscal year 2019 business results, the sales composition for net sales was essentially balanced. With regard to the Solution Systems business's major customers, they are mainly a customer group having high domestic trust, including public institutions such as government agencies and local governments; and highly public large private companies such as telecommunications carriers, megabanks, railway companies, and airlines, and net sales for the public sector accounted for approximately one-third of total net sales. The Components & Platforms business has top-class market share in the number of ATMs installed in Japan; in particular, in the retail market as represented by convenience stores, it has over 70% market share* in the number of ATMs installed. The EMS (Electronic Manufacturing Services) business provides original services supporting both high-mix low-volume manufacturing and variable-mix variable-volume manufacturing, and aims to distinguish itself from other companies in the same industry through its highly reliable Mono-zukuri. The number of customers

exceeds 1,000; they come mainly from the domestic manufacturing industry. It secures stable sales with repeat orders from existing customers. With regard to the printer business, approximately three-quarters of sales come from overseas. In fact, most of the OKI Group's overseas sales come from this business.

*Research by OKI



Effect of Exchange Rate Fluctuation on Earnings

Overseas sales account for approximately 20% of the OKI Group's total sales, mainly from the Printers business, and approximately 35% of the Printers business sales are denominated in Euro. For this reason, if the yen appreciates against the Euro, it will result in a decrease in sales and cause a negative impact on operating income.

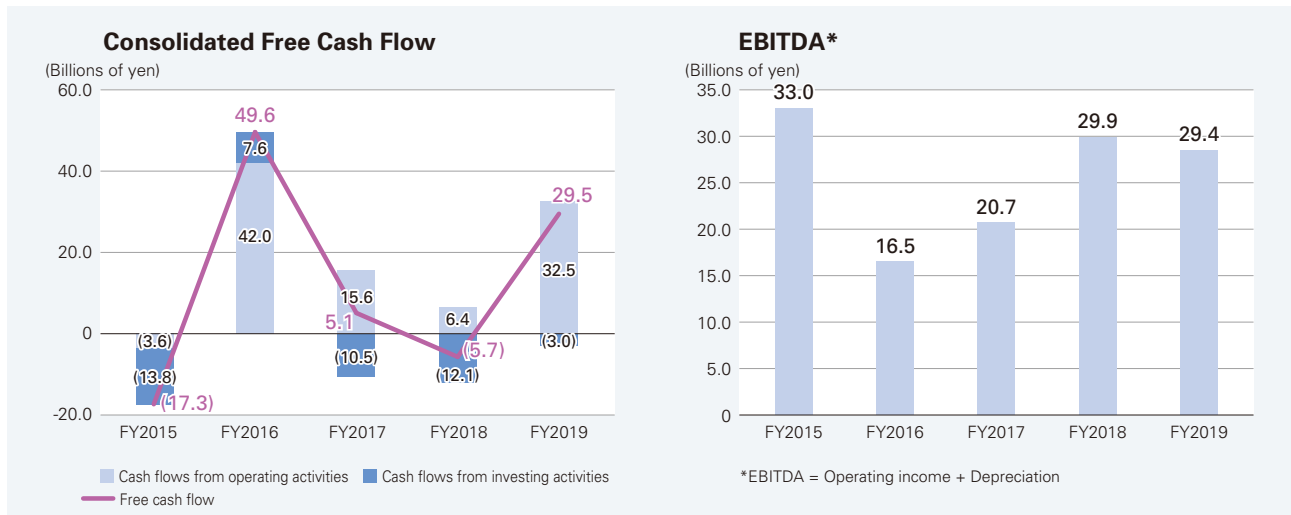
On the other hand, OKI's main factories are located in

Shenzhen, China and Ayutthaya, Thailand; at these factories, major materials procurements are conducted in U.S. dollars. For transactions denominated in U.S. dollars, purchases exceed sales. For this reason, regarding the amount after offset, the appreciation of the yen against the U.S. dollar causes a reduction in material costs while providing a positive impact on operating income.

Cash Flow

The Solution Systems business does not require large-scale capital investment, as system integration is its main business activity. Although the Components & Platforms business requires capital investment for hardware production, it does not require the installation of expensive equipment since it is basically involved in assembly. Like the other businesses, the EMS business does not require

large-scale capital investment since it provides a high-mix low-volume production service. For the reasons outlined above, cash flows from investing activities do not significantly exceed depreciation expenses in normal production activities. As EBITDA shows, fundamentally, it can be said that this business structure generates stable cash flows.



Balance Sheet

For non-business assets, we have established a periodic verification process to continuously review the significance of ownership. We are striving to downsize non-business assets by prioritizing and selling as appropriate. With regard to business assets, each business has a monthly reporting and verification system in place to monitor

changes in working capital, such as notes and accounts receivable and inventories, and we are working to improve the efficiency of them. Surplus funds are used to repay interest-bearing debt to improve overall asset efficiency. As a result of these efforts, our financial position remains stable and sound.

