July 27, 2018

Oki Electric Industry Co., Ltd.

Summary Translation of Q&A for the First Quarter
of Fiscal Year Ending March 31, 2019

Q: Can you describe the trends in each of the Japan, China, and emerging markets for the ATM business? Are conditions tougher than you expected at the start of the fiscal year or mostly in line with expectations, since you started with a cautious approach?

A: As you point out, we had anticipated severe conditions to begin with. We have not needed to make any major downward revisions relative to plans. With respect to individual regions, the domestic market was profitable already, and trends there are stable. The trend toward a cashless society and other adverse developments are conversely generating various suggestions for new forms of business. In China, while we had not planned for very high sales, we're continuing to further streamline operations to achieve improvements on an operating income basis. As noted in the previous business strategy meeting, operating income in China is more or less breaking even. We want to build on this as much as we can. The Asia-Pacific market differs somewhat from China in that we're receiving a wide range of inquiries and have some leads in the market. But our competitors also see this as a strategic market, and securing revenue is proving difficult. We're moving forward with structural reforms in Brazil. We're also addressing other businesses through these reforms, rather than solely expanding sales of recycling ATMs.

Q: A look at Q1 performance in the ATM business shows losses are about the same as last fiscal year. They remain considerable, even after accounting for the effects of the change in subsidiary fiscal periods. Reaching the goal of breaking even on an annual basis will require marked improvements in figures in Q2 and beyond. What are your views on this?

A: Since July of this year, we've placed an additional focus on overseas structural reforms. As noted in the meeting in May, we're confident this will begin to generate results starting in July. Keep in mind that the losses in the Mechatronics Systems business segment will decrease, starting with the figures announced for the Q2 settlement of accounts.

Q: Profits in the Printers business grew with the purchase of supplies by dealers. What results were achieved in terms of actual figures?

A: Exchange gains accounted for 700 million yen. The sales mix, including supplies, improved by about 900 million yen after subtracting 800 million yen for reduced fixed costs, of which we see around 700 million yen as temporary gains. This improvement was due in particular to the consolidation of dealers in the United States. We also see this as a result, in part, of the transfer to Q1 of this fiscal year of sales of supplies anticipated but not achieved in Q4 of last fiscal year.

Q: At 4% vs. the planned annual figure of 6%, operating margins in the EMS business appear to have gotten off to a weak start in Q1. Are you planning any improvements to address this in the future?

A: We're deploying integrated marketing activities to deliver added value on a one-stop basis, including Oki Electric Cable, the wholly owned subsidiary. By doing so, we're seeking to generate synergies. Since some companies strategically included in the EMS segment do generate high margins, even if their operations are small scale, we'd like to boost operating margins. However, the fact remains that procurement costs in this sector are rising gradually, due in part to brisk business conditions. We want to improve the situation while doing what we can to overcome these challenges.

Q: Am I correct in understanding that the effects of the temporary increase in purchase of supplies in the Printers business resulted in additional revenue and exceeding the planned figures?

A: We plan to proceed as planned in Q2 and beyond so that the uptick in Q1 will continue unchanged to full-year results.

Q: How have exchange rates affected sales and profits?

A: Companywide, an increase of 1 yen in the value of the yen against the dollar leads to a decline of 300 million yen in sales and an increase of 200 million yen in operating income. An increase of 1 yen against the euro means a decline of 300 million yen in sales and a decline of 200 million yen in operating income. With respect to non-operating exchange rate sensitivity, an increase of 1 yen in the value of the yen against the dollar cuts revenue by 150 million yen. An increase of 1 yen against the euro would mean breaking even.

Q: What are the figures for the effects of exchange rates on operating income in each business compared to last fiscal year?

A: As a general breakdown, up 100 million yen for Mechatronics Systems and up 700 million yen for Printers.

Note: The forward-looking statements in this document are made based on information currently available to OKI and certain assumptions considered reasonable as of the date of this material. Therefore, actual results may differ from its projections upon the changes of business environments and other conditions.

In addition, for convenience only, some additions and revisions were made.