

Financial Results for Q1 FY2023

August 10, 2023

Oki Electric Industry Co., Ltd.

Summary of Financial Results

- Net sales increased YOY. Operating income increased YOY on the reversal of allowance for doubtful accounts.
- The increase in net sales owed to recovery from the impact of a production decline caused by component shortage.
- Operating income increased due to the abovementioned one-time factor, although there was an increase in costs for components procured in the previous fiscal year and an increase in labor costs.

(Billion yen)	Q1 FY2023 (Actual)	Q1 FY2022 (Actual)	Variance
Net sales	81.5	78.1	+3.4
Operating income (loss)	0.0	(3.0)	+3.0
Ordinary income (loss)	(0.3)	(3.1)	+2.8
Profit (loss) attributable to owners of parent	(0.2)	(3.2)	+3.0
USD average exchange rate (Yen)	137.4	129.6	+7.8
EUR average exchange rate (Yen)	149.5	138.1	+11.4

- In Q1, net sales were JPY81.5 billion, operating income was zero, and net loss was JPY0.2 billion.
- Net sales increased by JPY3.4 billion YoY as the impact of the production decline last year improved. Operating income also increased by JPY3 billion YoY, but this was largely due to a one-time factor of a JPY4.3 billion reversal of the allowance for doubtful accounts. Excluding provisions, income decreased from the previous year due to the high-cost components procured in the previous fiscal year and the increased costs from human resource investments which started in the current fiscal year.
- The details of the reversal of the allowance for doubtful accounts will be explained later.
- The exchange rates are JPY137.4 to the US dollar and JPY149.5 to the Euro.

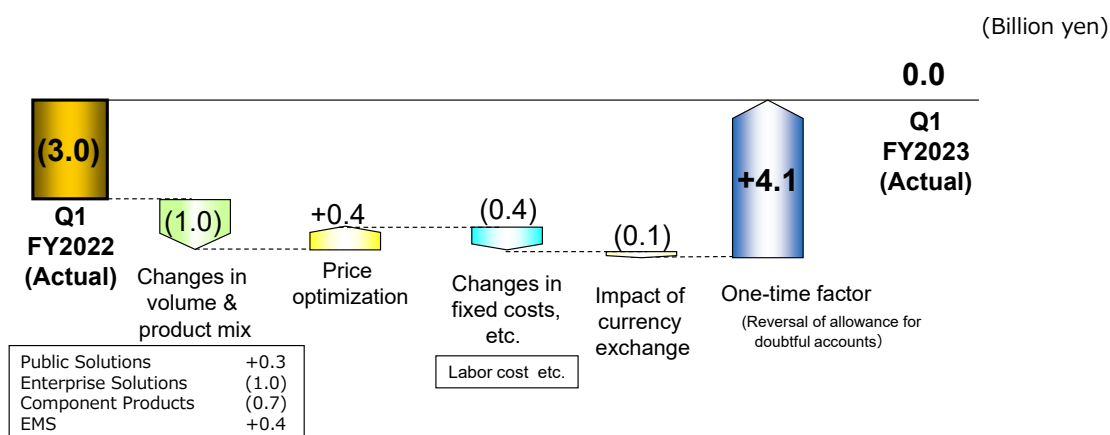
Segment Information (Net Sales / Operating Income)

(Billion yen)		Q1 FY2023 (Actual)	Q1 FY2022 (Actual)	Variance
Public Solutions	Net sales	19.3	19.3	±0.0
	Operating income	(0.1)	(0.3)	+0.2
Enterprise Solutions	Net sales	27.4	23.3	+4.1
	Operating income	1.9	(1.6)	+3.5
Component Products	Net sales	17.0	19.2	(2.2)
	Operating income	(0.8)	(0.1)	(0.7)
EMS	Net sales	17.7	16.2	+1.5
	Operating income	0.6	0.1	+0.5
Others	Net sales	0.1	0.1	±0.0
	Operating income	(0.1)	0.1	(0.2)
Corporate & Eliminations	Operating income	(1.4)	(1.2)	(0.2)
Total	Net sales	81.5	78.1	+3.4
	Operating income	0.0	(3.0)	+3.0

- Page 3 shows net sales and operating income by segment.
- As you can see, the increase in income and profit is in EMS and Enterprise Solutions, but in real terms, excluding one-time factors, Enterprise Solutions is up in revenue but down in profit.
- Public Solutions remained flat YoY, while Component Products posted lower sales and profits.
- Details will be explained later in the segment results.

Reasons for Changes in Operating Income/Loss

- Although Enterprise Solutions saw positive factors such as recovery from the impact of the production decline due to component shortages and an increase in volume in construction and maintenance services, it was in the minus overall owing to factors such as the impact of higher component costs for hardware products.
- EMS was positive due to an increase in the volume of products, including recovery from the impact of reduced production due to a shortage of component.
- There was a reversal of allowance for doubtful accounts for Chinese ATM receivables.

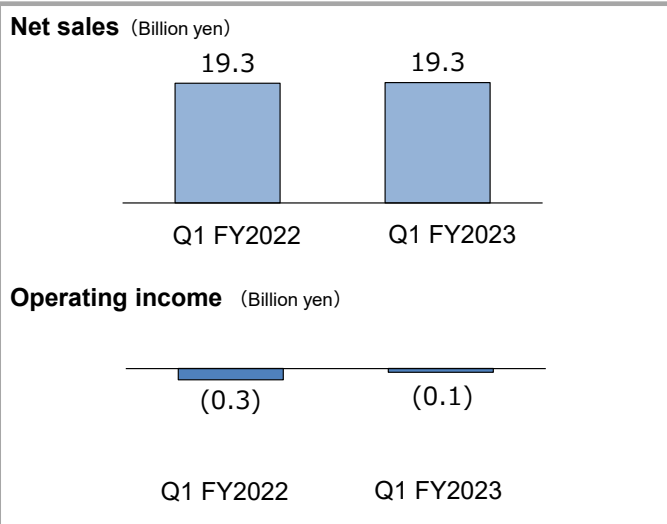


- Page 4, we have the elevator chart of operating income in Q1.
- With respect to change in volume and product mix differences, positive contributions came from EMS and Public Solutions. In Enterprise Solutions, the volume of products increased as explained. However, as I mentioned earlier in the overview, the impact of highly priced components procured in the previous fiscal year resulted in a YoY decrease.
- Regarding changes in fixed costs etc., we have been investing in human resources. The net increase was JPY0.4 billion due to cost reductions and other factors, although personnel and other expenses increased by approximately JPY1 billion.
- I would like to explain the one-time factor on the far right, reversal of reserves. OKI filed a lawsuit against its former partner in China in 2015 regarding the collection of payment for trade receivables. On June 13 of this year, a final judgment was issued by the People's Court in Guangdong, and the Company's claims are almost fully acknowledged. For details, please refer to the material disclosed to the TSE on June 20.
- We have closely examined the impact of this ruling on the current fiscal year's financial results. This ruling is the final judgment, and we are also holding physical collateral and real estate that is valuable for preservation. In consideration of the fact that, in principle, recovery will now be made through enforcement procedures in China, among other things, we gathered opinions from local consultants and experts, carefully considered collection scenarios and their feasibility and appropriateness, and made estimates of collections. As a result, the JPY4.3 billion was reversed finally.
- OKI has already applied for foreclosure proceedings, and we will do our utmost to collect the full amount of the trade receivables as before.

Overview by Segment (Public Solutions / Enterprise Solutions)

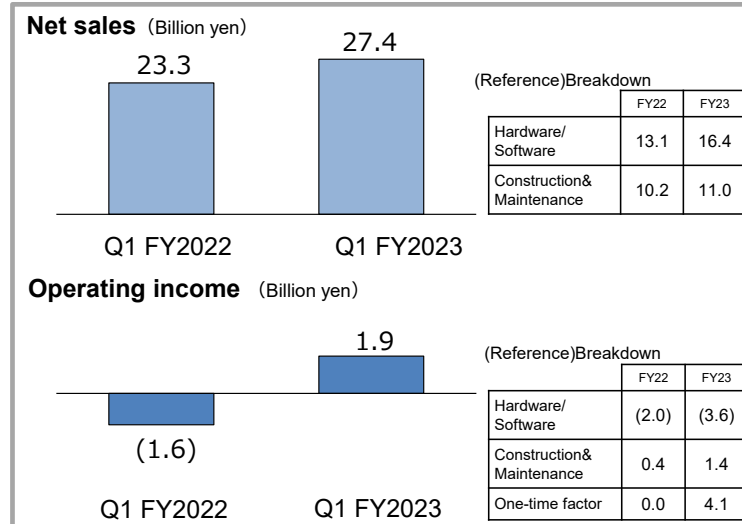
Public Solutions

- While the number of defense projects increased, the number of communication carrier projects declined, and overall net sales and operating income were at the same levels as in the previous year.



Enterprise Solutions

- Net sales increased on reduction of the impact of the production decline caused by the component shortage.
- Operating income was impacted by an increase in component costs for hardware products but this was partially offset by construction and maintenance services. Another factor behind the increase in operating income was the reversal of allowance for doubtful accounts.

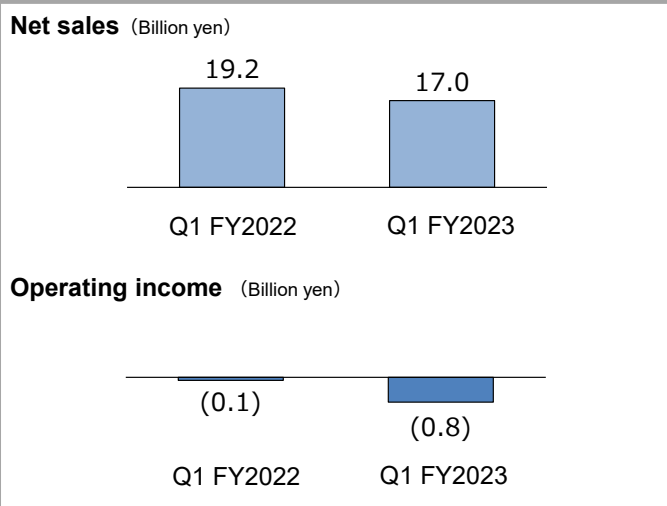


- On page 5 is overview by segment.
- First is Public Solutions.
- Looking at this quarter alone, there was an increase in defense projects but a decrease in projects for communications carriers. However, overall segment sales were at the previous year's level of JPY19.3 billion, and operating income improved slightly from the previous year.
- Next is Enterprise Solutions.
- As explained above, net sales recovered from the impact of the production decline and increased from the previous year. In terms of the fiscal year, we plan to increase the revenue of Enterprise Solutions by JPY65 billion YoY. Therefore, some may think that the increase in revenue of about JPY4 billion this time is a little small, but compared to the internal Q1 wrap, it is almost in line with the plan.
- Operating income decreased YoY in the hardware and software business, but was partially offset by an increase in profits in the construction and maintenance service businesses following the organizational and value chain revisions implemented in April. In addition to this, there were positive factors such as the reversion of allowance for doubtful accounts, which I explained earlier, resulting in an increase in operating income YoY.
- Going forward, we plan to increase the amount of sales compared to last year with each passing quarter. We intend to achieve the plan by ensuring that we reap the benefits of these large projects for which we have already received orders.

Overview by Segment (Component Products / EMS)

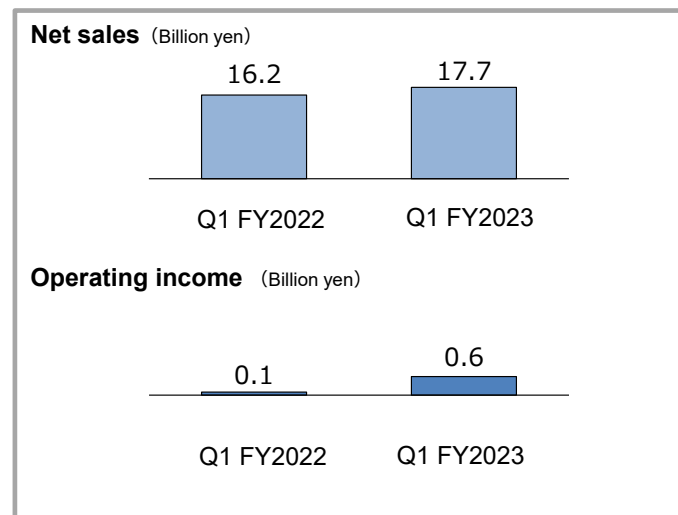
Component Products

- IoT saw positive growth due to reduced supply chain impacts. Overall, however, both segment net sales and operating income decreased in reaction to a last-minute surge in demand for printers before the previous year's price hikes.



EMS

- Net sales and operating income increased partly due to reduction of supply chain impacts. Demand is generally strong, mainly in the domestic market.

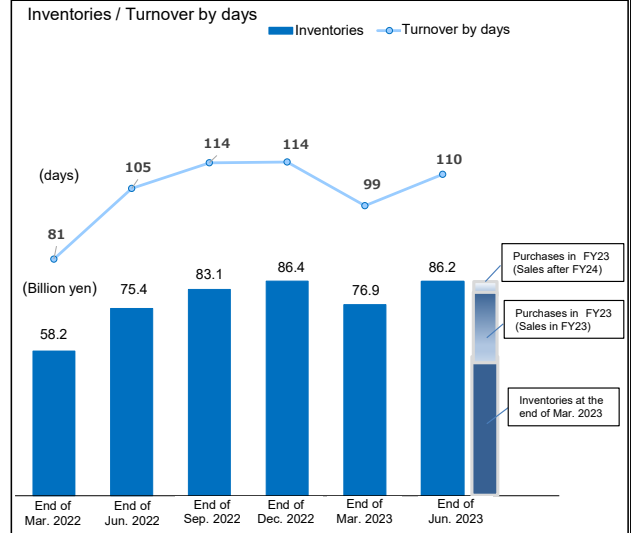


- On page 6, first is Component Products.
- Both net sales and profits declined in this quarter for the business segment as a whole.
- Although not mentioned in the material, to briefly supplement the situation of this sub-segment, the printer business posted declines in both sales and profits, partly in reaction to the rush of demand before the price hike in the previous year.
- In the IoT business, there was an improvement from the previous year's supply chain impact, and a slight increase in revenues was achieved over the previous year, but the improvement in profits is still in progress.
- Finally, we will discuss EMS.
- Looking at the market as a whole, particularly for semiconductor memory, there is a trend of declining demand in some areas, but the market in which OKI's EMS specializes continues to be strong. In addition, we were able to finish the quarter with a steady increase in net sales and operating income, thanks to a reduction in the impact of the supply chain, which was also a challenge last year.

Balance Sheets

- Inventories increased from the end of March, partly due to an increase in sales from the second quarter. However, the amount of YOY increase has declined toward normalization.
- Shareholders' equity ratio increased by 0.6 percentage points.

(Billion yen)	Jun. 2023	Mar. 2023	Variance
Current assets	220.5	230.2	(9.7)
Fixed assets	166.0	160.2	+5.8
Assets	386.5	390.4	(3.9)
Current liabilities	201.5	205.3	(3.8)
Fixed liabilities	84.4	85.9	(1.5)
Liabilities	285.9	291.1	(5.2)
Shareholders' equity	100.4	99.1	+1.3
Others	0.2	0.2	±0.0
Net assets	100.5	99.3	+1.2
Total liabilities and net assets	386.5	390.4	(3.9)
Shareholders' equity ratio (%)	26.0	25.4	+0.6
D/E ratio (times)	1.2	1.2	±0.0



- On page 7 is the balance sheet.
- We see the need to optimize its balance sheet, which ballooned last year, and especially to reduce inventories as a major challenge. Therefore, I would like to carefully explain the current situation to you today.
- First, current assets decreased by JPY9.7 billion compared to the previous year. Although it is not stated in the document, our company's current assets would normally decrease by JPY20 billion from JPY15 billion in Q1 due to the strong increase in 4Q. On the other hand, what happened last year is that in Q1 last year, on the contrary, inventories increased significantly, resulting in a decrease in current assets to almost zero. The figure of a JPY9.7 billion decrease for the current fiscal year is still not entirely sufficient. Although this is not enough, compared to zero last year, I believe that we have taken a reasonable first or second step toward normalization.
- The table on the right shows the trend in inventories. The balance at the end of this quarter is almost the same as the balance in Q3, which we talked about as a peak last year. Also, this level of JPY86.2 billion represents a slight increase compared to the initial plan.
- The main reason for the higher-than-planned inventories is that more components with long delivery dates began to be delivered more than expected. We have always been proactive in placing orders for parts and materials that take a long time to be delivered ahead of schedule, taking into account production plans for the next two to three years. In this fiscal year, materials that were not delivered at all until last year are now being delivered faster than initially expected. Therefore, we are currently adjusting the delivery

date.

- For reference, the bar chart at the far right of the table shows an image of the current inventory status. The dark colored area at the bottom, last year's inventory decreased almost as planned. The items that have increased are the light colored area in the middle section, the inventory required for this year's production and the thin area at the top, and the long delivery materials I just mentioned. This upper section is the reason for the increase compared to the plan.
- OKI will continue to reduce inventory by adjusting delivery dates while maintaining good relationships with suppliers who are business partners, and by making shipments as planned.
- Back to the balance sheet. Fixed assets increased by JPY5.8 billion, partly due to the reversal of long-term allowance for doubtful accounts.
- Another item of note related to fixed assets is the disposal of JPY1 billion of fixed assets in Q1 related to the service business. This will contribute to the strengthening of the service business by disposing of the old relay system as the service business to be newly delivered with customers has been solidified.
- As a result, total assets decreased JPY3.9 billion from the end of the previous fiscal year to JPY386.5 billion, and shareholders' equity increased JPY1.3 billion to JPY100.4 billion.
- As a result, shareholders' equity ratio was 26.0%, and the D/E ratio was 1.2.

Cash Flows

- Operating cash flows improved YOY due to a decrease in working capital including debt collection.
- Investment cash flows include investments to strengthen the services business in Enterprise Solutions.

(Billion yen)	Q1 FY2023 (Actual)	Q1 FY2022 (Actual)	Variance
I Cash flows from operating activities	2.2	0.0	+2.2
II Cash flows from investing activities	(5.9)	(4.9)	(1.0)
Free cash flows (I + II)	(3.7)	(4.9)	+1.2
III Cash flows from financing activities	(3.8)	4.3	(8.1)
Cash and cash equivalents	30.8	34.2	(3.4)
Purchases of PP&E and intangible assets	5.7	3.9	+1.8
Depreciation	3.2	2.9	+0.3

- On page 8 is cash flows.
- Free cash flows was negative JPY3.7 billion. As I explained earlier, there was an increase in inventories, but the decrease in working capital due to the collection of trade receivables resulted in an improvement of about JPY1.2 billion over the previous year.
- The company has JPY30.8 billion in cash equivalents, ensuring that it has the necessary cash on hand.

Revision of Financial Forecasts

- The impact of the Chinese subsidiary's lawsuit announced on June 20, 2023, was carefully reviewed and reflected in the Q1 financial results.

Accordingly, the full-year earnings forecast announced on May 10, 2023, was revised upward.

(Billion yen)		FY2023 Revised	FY2023 Previous	Variance	FY2022 Actual	Variance
Public Solutions	Net sales	98.0	98.0	±0.0	95.7	+2.3
	Operating income	4.0	4.0	±0.0	3.4	+0.6
Enterprise Solutions	Net sales	178.0	178.0	±0.0	112.9	+65.1
	Operating income	15.5	11.5	+4.0	1.5	+14.0
Component Products	Net sales	81.0	81.0	±0.0	84.6	(3.6)
	Operating income	2.0	2.0	±0.0	1.6	+0.4
EMS	Net sales	83.0	83.0	±0.0	75.3	+7.7
	Operating income	2.5	2.5	±0.0	2.3	+0.2
Others	Net sales	0.0	0.0	±0.0	0.5	(0.5)
	Operating income	(1.5)	(1.5)	±0.0	0.4	(1.9)
Corporate & Eliminations	Operating income	(7.5)	(7.5)	±0.0	(6.8)	(0.7)
Total	Net sales	440.0	440.0	±0.0	369.1	+70.9
	Operating income	15.0	11.0	+4.0	2.4	+12.6
	Ordinary income	12.5	8.5	+4.0	(0.3)	+12.8
	Profit attributable to owners of parent	8.0	4.0	+4.0	(2.8)	+10.8

Q2–Q4
Exchange rate
assumptions
USD : ¥141
EUR : ¥153

- On page 9 is the forecast for the full year.
- Based on the reflection of the allowance for doubtful accounts in the Q1 results as explained earlier, we revised the earnings forecast announced on May 10, 2023.
- The figures in the initial business plan, in essence, remain unchanged. The forecast has been revised upward from the beginning of the fiscal year to JPY4 billion by adding the amount of reversal of allowance for doubtful accounts to operating income and each of the other income categories below it.
- Other items remain unchanged from the forecast at the beginning of the fiscal year.
- To sum up, although there were some variations among businesses in Q1, overall, we recovered from the impact of the production difficulties and achieved a YoY increase in sales. However, we are still in the process of improving profits and inventories.
- In particular, with regard to inventory, which has continued to be a challenge, we will minimize the gap with the planned figures by Q2.
- In terms of profit, we would like to make sure that we are able to ship more and more products, and show a stronger step toward higher revenue in Q2.
- This concludes the presentation on our financial results for Q1. Thank you very much for your attention.

(Reference) Quarterly Results

(Billion yen)		FY2022					FY2023
		Q1	Q2	Q3	Q4	FY	Q1
Public Solutions	Net sales	19.3	19.8	22.8	33.7	95.7	19.3
	Operating income	(0.3)	(0.3)	0.0	4.0	3.4	(0.1)
Enterprise Solutions	Net sales	23.3	24.5	29.7	35.4	112.9	27.4
	Operating income	(1.6)	(1.1)	0.1	4.1	1.5	1.9
Component Products	Net sales	19.2	21.8	21.4	22.3	84.6	17.0
	Operating income	(0.1)	1.6	(0.1)	0.2	1.6	(0.8)
EMS	Net sales	16.2	18.5	19.8	20.9	75.3	17.7
	Operating income	0.1	0.4	0.9	0.9	2.3	0.6
Others	Net sales	0.1	0.1	0.2	0.1	0.5	0.1
	Operating income	0.1	0.1	0.1	0.1	0.4	(0.1)
Corporate & Eliminations	Operating income	(1.2)	(1.7)	(1.8)	(2.2)	(6.8)	(1.4)
Total	Net sales	78.1	84.6	93.8	112.5	369.1	81.5
	Operating income	(3.0)	(1.0)	(0.8)	7.2	2.4	0.0

(Reference) Major Products and Services

Public Solutions	<ul style="list-style-type: none">• 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• Carrier networks, video distribution, 5G/local 5G
Enterprise Solutions	<ul style="list-style-type: none">• ATMs, cash handling equipment• Bank branch terminals, ticket reservations issuing terminals, check-in terminals• ATM monitoring/operation services• Bank branch systems, system to centralized back office operations• Railway ticket issuance systems, airport check-in systems• Manufacturing systems (ERP, IoT)• Construction and Maintenance Services
Component Products	<ul style="list-style-type: none">• AI edge computers, sensors, IoT networks• PBXs, business phones, contact centers• Cloud services• LED printers
EMS	<ul style="list-style-type: none">• Consigned designing and manufacturing services• Printed circuit boards

- 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.