

# Financial Results for 1H FY2023

November 8, 2023

**Oki Electric Industry Co., Ltd.**

## Summary of Financial Results

- Net sales and operating income increased YOY.  
Operating income increased even excluding the one-time gain from the reversal of allowance for doubtful accounts recorded in Q1.
- Net sales increased due to production recovery thanks to supply chain normalization and the start of large-scale projects.
- Operating income increased due to an increase in production volume.

(Billion yen)	1H FY2023 (Actual)	1H FY2022 (Actual)	Variance
Net sales	174.9	162.8	+12.1
Operating income (loss)	1.0	(4.0)	+5.0
Ordinary income (loss)	0.5	(4.9)	+5.4
Profit (loss) attributable to owners of parent	0.3	(5.7)	+6.0
USD average exchange rate (Yen)	141.0	134.0	+7.0
EUR average exchange rate (Yen)	153.4	138.7	+14.7

- In 1H, net sales were JPY174.9 billion, operating income was JPY1.0 billion, and net profit was JPY0.3 billion. Operating income increased even excluding the one-time gain from the reversal of allowance for doubtful accounts recorded in Q1.
- Net sales increased JPY12.1 billion YoY mainly owing to the normalization of production and the start of large-scale projects in Enterprise solutions.
- Operating income increased by JPY5.0 billion YoY owing to an increase in physical volume, despite an increase in fixed costs including investment in human resources.
- Although it is not shown in the data, Q2 alone showed a surplus from operating income to quarterly net income, and business performance was on a recovery trend.
- The exchange rates are JPY141.0 to the US dollar and JPY153.4 to the Euro.

## Segment Information (Net Sales / Operating Income)

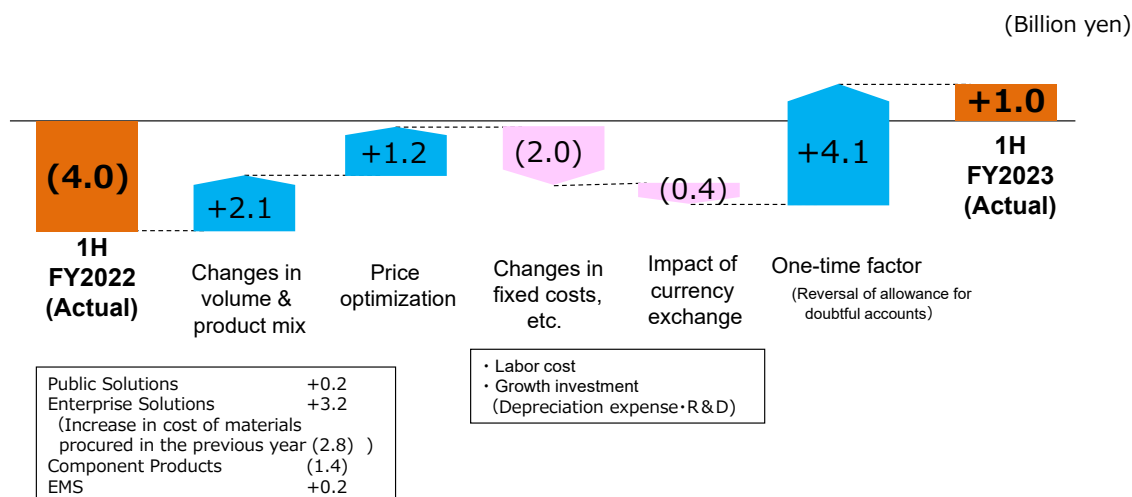
- Net sales increased in three segments excluding Component Products.
- Operating income increased at Enterprise Solutions and EMS.

(Billion yen)		1H FY2023 (Actual)	1H FY2022 (Actual)	Variance
Public Solutions	Net sales	39.3	39.2	+0.1
	Operating income	(0.8)	(0.6)	(0.2)
Enterprise Solutions	Net sales	63.9	47.8	+16.1
	Operating income	3.9	(2.7)	+6.6
Component Products	Net sales	34.9	40.9	(6.0)
	Operating income	0.5	1.5	(1.0)
EMS	Net sales	36.5	34.7	+1.8
	Operating income	0.9	0.5	+0.4
Others	Net sales	0.2	0.2	±0.0
	Operating income	(0.4)	0.2	(0.6)
Corporate & Eliminations	Operating income	(2.9)	(2.8)	(0.1)
<b>Total</b>	<b>Net sales</b>	<b>174.9</b>	<b>162.8</b>	<b>+12.1</b>
	<b>Operating income</b>	<b>1.0</b>	<b>(4.0)</b>	<b>+5.0</b>

- Page 3 shows net sales and operating income by segment.
- As you can see, compared to the previous year, both Enterprise Solutions and EMS increased revenue and 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

- The increase was due to recovery from the impact of a production decline caused by a component shortage and an increase in the volume of large-scale projects started.
- Labor costs and growth investment were implemented as planned.



- Page 4, we have the elevator chart of operating income in 1H.
- The change in volume and product mix was positive at JPY2.1 billion. By segment, there was a significant increase in Enterprise solutions, a slight increase in Public solutions and EMS, and a decrease in Component products due to a decrease in printer revenue.
- In Enterprise Solutions, there was an impact of approximately JPY2.8 billion due to the high price of components, which was questioned at the time of Q1 results. However, this was offset by an increase in the volume, resulting in an increase of JPY3.2 billion.
- Price optimization, which is an ongoing process, resulted in a positive JPY1.2 billion.
- Fixed costs, etc. increased by approximately JPY3.5 billion due to investment in human resources and growth as planned, but net costs increased by JPY2.0 billion due to cost reduction, etc.

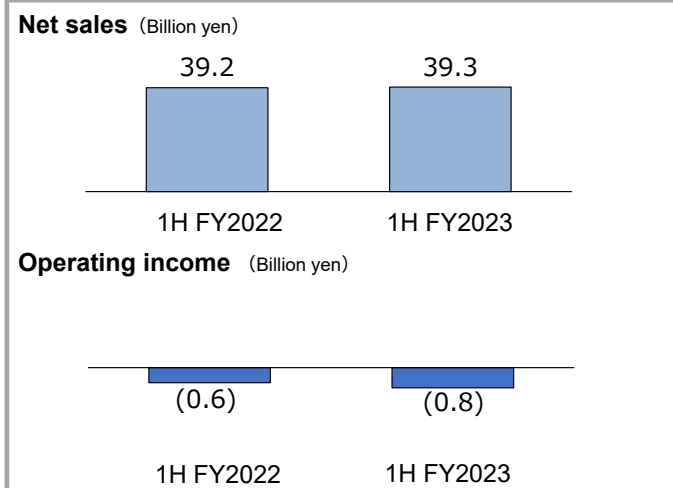
## Overview by Segment (Public Solutions / Enterprise Solutions)

### Public Solutions

- The business fields of road, firefighting and disaster prevention steadily increased.

The defense business increased following Q1.

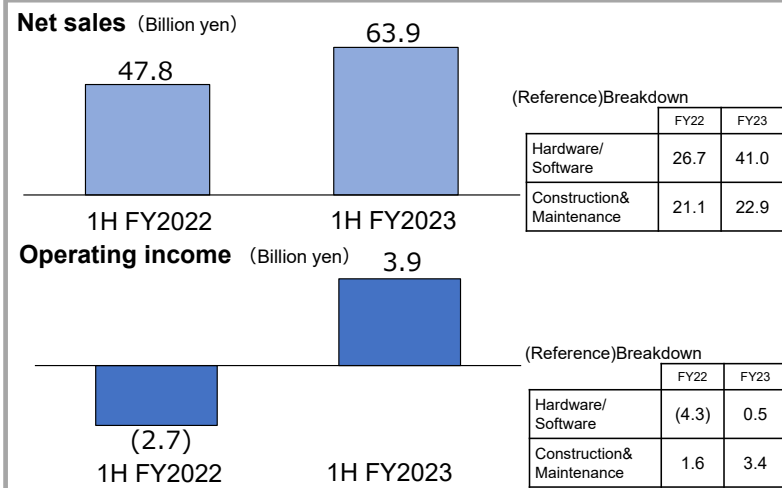
On the other hand, net sales and operating income as a whole for the segment remained unchanged from the previous year due to a decrease in the number of projects for communication carriers.



### Enterprise Solutions

- Net sales increased due to improvement from the supply chain impact and large-scale projects.

Although the impact of the increase in the cost of materials procured in the previous fiscal year remained, profit increased due to an increase in sales of hardware and software and profits from construction and maintenance.



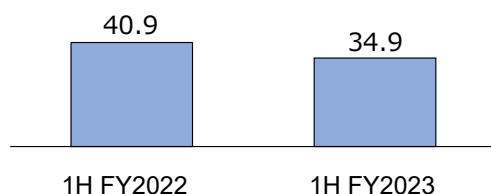
- On page 5 is overview by segment.
- First is Public Solutions.
- Roads, firefighting, and disaster prevention, on which we are focusing our efforts, increased steadily in Q2. In the defense business, sales continued to increase YoY in Q1. On the other hand, sales and operating income for the entire segment remained almost the same as in the previous year, partly due to a decrease in projects for communication carriers.
- Next is Enterprise Solutions.
- Overall sales increased by JPY16.1 billion from the previous year. The recovery from the impact of the supply chain, which I explained at the beginning of this report, and the construction and maintenance service businesses were strong.
- As for operating income, as explained earlier, we realized profitability by absorbing the impact of the increase in costs of procurement components in the previous fiscal year. In addition, operating income was JPY3.9 billion due to an increase in profits from construction and maintenance.

## Overview by Segment (Component Products / EMS)

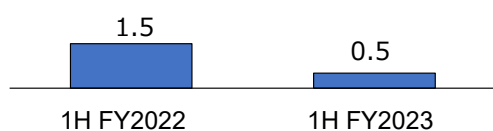
### Component Products

- IoT is positive due to improvement from procurement difficulties due to supply chain impact.  
Printer operating income declined due to the large impact of a net sales decrease caused by stagnant overseas demand and excessive inventory in distribution channels.

#### Net sales (Billion yen)



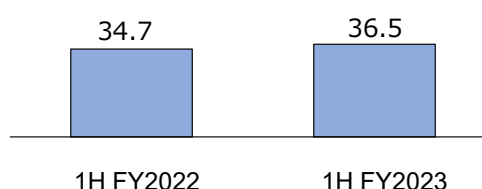
#### Operating income (Billion yen)



### EMS

- Net sales and operating income increased due to improvement from the supply chain impact.  
Although there was a sense of stagnation in some markets due to the semiconductor market and the economic slowdown in China, this was offset by other strong markets.

#### Net sales (Billion yen)



#### Operating income (Billion yen)



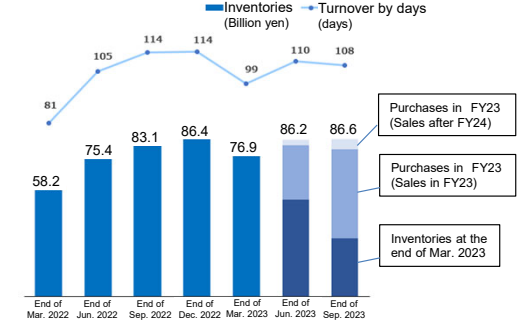
- On page 6, first is Component Products.
- In 1H, sales and profits declined across the entire segment.
- Although it is not mentioned in the document, I would like to briefly supplement the status of the sub-segment. In the printer business, sales and profits declined significantly due to the impact of production and shipment declines due to stagnant demand overseas and a reaction to last-minute demand before the price hike last year.
- IoT revenue was about the same as last year. However, operating income was positive YoY due to improved procurement costs.
- Finally, EMS.
- Overall sales and profits increased YoY, partly due to the effect of improved supply chain.
- As described in the upper part of this page, although there is a sense of stagnation in the FA robot market, which has been the driving force of our business performance to date, other solid markets have covered for this and our business performance has remained steady.

## Balance Sheets

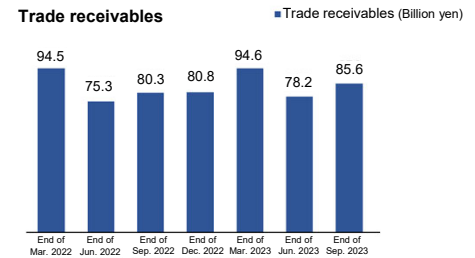
- Inventories increased compared to the end of March, but remained at the same level as the end of June due to increased shipments on production normalization and inventory management.
- Trade receivables increased compared to the end of June due to higher sales, but the increase was suppressed due to the liquidation of receivables.
- Shareholders' equity ratio increased by 1.0 percentage points.

(Billion yen)	Sep. 2023	Mar. 2023	Variance
Current assets	221.1	230.2	(9.1)
Fixed assets	169.5	160.2	+9.3
Assets	390.5	390.4	+0.1
Current liabilities	192.9	205.3	(12.4)
Fixed liabilities	94.5	85.9	+8.6
Liabilities	287.4	291.1	(3.7)
Shareholders' equity	103.0	99.1	+3.9
Others	0.1	0.2	(0.1)
Net assets	103.1	99.3	+3.8
Total liabilities and net assets	390.5	390.4	+0.1
Shareholders' equity ratio (%)	26.4	25.4	+1.0
D/E ratio (times)	1.2	1.2	±0.0

Inventories / Turnover by days



Trade receivables



- On page 7 is the balance sheet.
- Total assets were JPY390.5 billion, almost unchanged from the end of the previous fiscal year.
- Equity increased JPY3.8 billion to JPY103.1 billion.
- As a result, shareholders' equity ratio was 26.4% and the DE ratio was 1.2.
- As I explained in the announcement of our financial results for Q1, balance sheet optimization is an important issue, and I would like to add to that, including progress from Q1.
- As a follow-up, the same graph as the previous one is shown on the right. The upper inventory balance is almost the same level as the first quarter, but last year's inventory, indicated by the darker color in the bar graph, is decreasing as planned. On the other hand, inventories for future sales growth this fiscal year are higher than in the full year.
- Similarly, trade receivables are shown on the lower right-hand side. This balance of trade receivables is the balance after the liquidation of receivables as a balance sheet measure, and is on an increasing trend compared to previous years.
- As a result, total current assets decreased JPY9.1 billion from the end of the previous fiscal year to JPY221.1 billion.
- Fixed assets increased by JPY9.3 billion, mainly due to a reversal of the long-term allowance for loan losses.

## Cash Flows

- Operating cash flows improved YOY due to improved working capital, mainly in inventories.

(Billion yen)	1H FY2023 (Actual)	1H FY2022 (Actual)	Variance
I Cash flows from operating activities	(1.0)	(12.3)	+11.3
II Cash flows from investing activities	(10.2)	(10.4)	+0.2
Free cash flows ( I + II )	(11.2)	(22.7)	+11.5
III Cash flows from financing activities	1.1	19.0	(17.9)
Cash and cash equivalents	28.8	31.7	(2.9)
Purchases of PP&E and intangible assets	9.7	9.1	+0.6
Depreciation	6.6	5.9	+0.7

- On page 8 is cash flows.
- Free cash flow was negative JPY11.2 billion. Free cash flow remains negative as the Company continues to invest in growth, subject to profit and amortization, in accordance with the policies of the medium-term management plan and financial investment strategy.
- On the other hand, the improvement in working capital changes, backed by higher sales, resulted in an improvement of JPY11.5 billion over the previous year.
- The Company has JPY28.8 billion in cash equivalents, ensuring that it has the necessary cash on hand.



## Financial Forecasts

■ Full-year earnings forecast unchanged from previous forecast of Aug. 10

(Billion yen)		FY2023 Forecasts	Variance from previous forecast(Aug. 10)	FY2022 Actual	Variance
Public Solutions	Net sales	98.0	±0.0	95.7	+2.3
	Operating income	4.0	±0.0	3.4	+0.6
Enterprise Solutions	Net sales	178.0	±0.0	112.9	+65.1
	Operating income	15.5	±0.0	1.5	+14.0
Component Products	Net sales	81.0	±0.0	84.6	(3.6)
	Operating income	2.0	±0.0	1.6	+0.4
EMS	Net sales	83.0	±0.0	75.3	+7.7
	Operating income	2.5	±0.0	2.3	+0.2
Others	Net sales	0.0	±0.0	0.5	(0.5)
	Operating income	(1.5)	±0.0	0.4	(1.9)
Corporate & Eliminations	Operating income	(7.5)	±0.0	(6.8)	(0.7)
<b>Total</b>	<b>Net sales</b>	<b>440.0</b>	<b>±0.0</b>	<b>369.1</b>	<b>+70.9</b>
	<b>Operating income</b>	<b>15.0</b>	<b>±0.0</b>	<b>2.4</b>	<b>+12.6</b>
	<b>Ordinary income</b>	<b>12.5</b>	<b>±0.0</b>	<b>(0.3)</b>	<b>+12.8</b>
	<b>Profit attributable to owners of parent</b>	<b>8.0</b>	<b>±0.0</b>	<b>(2.8)</b>	<b>+10.8</b>

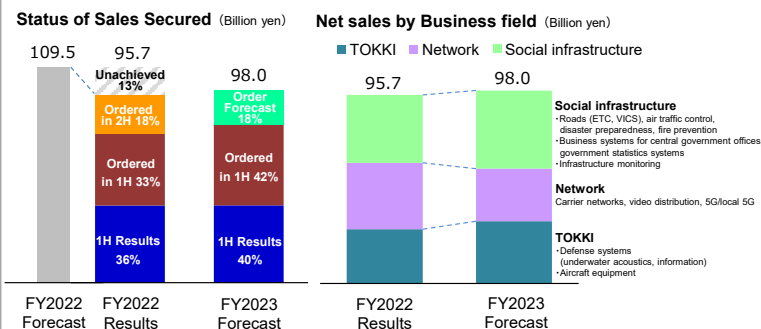
2H  
Exchange rate  
assumptions  
USD : ¥148  
EUR : ¥158

- Page 9, the full-year forecast, remains unchanged from the forecast announced on August 10.
- This is the end of the first half earnings report, but I am sure that many of you who attended today's meeting are wondering, "I understand that OKI's performance tends to be biased toward the second half, but is a large increase in sales and profit in the second half really within range compared to the first half results and the lap results?" I believe that many of you may be wondering, "I understand that OKI's performance tends to be biased toward the second half of the year, but is a significant increase in sales and profit in the second half of the year really within range compared to the first half results and the wrap-up?"
- We have also received requests from our clients to improve the disclosure of order trends and sharpen our explanations of forecasts, and we promised to make improvements at the last first quarter results meeting.
- Based on the above, I will provide a supplementary explanation focusing on the two segments of Public Solutions and Enterprise Solutions, which are the key to achieving profit growth in the second half of this fiscal year.

- Public Solutions
- Enterprise Solutions

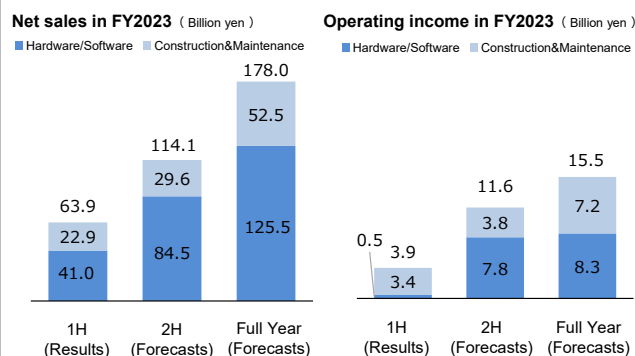
■ **Public Solutions**

- ✓ At the end of 1H, the ratio of secured deals to expected sales was 82%, up from the previous year.
- ✓ While there are strengths and weaknesses in each business fields, the overall plan is as planned.
  - The business fields of road, firefighting and disaster prevention increased steadily from the previous year, partly due to the market recovery from the impact of COVID-19.
  - The network business has already factored in investment restraint by large users.
  - The defense business is progressing as planned.



■ **Enterprise Solutions**

- ✓ Profits are expected to increase significantly in 2H due to sales growth caused by large-scale projects and a decrease in the impact of an increase in material costs.
  - In 2H, the increase in volume (including large-scale projects) will be in full swing.
  - The impact of high-cost components has been reduced.
  - Construction and Maintenance are doing well.



- First is Public Solutions.
- In FY2022, the Solution System, the predecessor to Public Solutions, stalled in the second half, which was a major factor in the downward revision. In light of this situation, I will explain the current order trends. First of all, orders received in the first half of the fiscal year, including orders already received as of the end of September, are 82% of the plan and 13% higher than in the same period of the previous year.
- Last fiscal year, we were somewhat bullish on the market recovery from COVID-19, and challenged JPY109.5 billion. However, in the end, this stretch of about JPY14 billion was not filled, resulting in a significant underachievement.
- In the current fiscal year, we are making plans based on a more precise weighing of demand for road and firefighting projects under a new structure that integrates sales and operations. Of course, the competitive situation is not easy, and in particular, the hurdles to capture existing projects from other companies are higher than expected, but we do not consider the situation to be overly stretchy in light of our past performance.
- As shown on the right side of the table below, the number of social infrastructure projects that we are focusing on, such as roads, firefighting, and disaster prevention, is increasing steadily, albeit slowly, as expected. In the firefighting field, in particular, we are preparing for full-scale market expansion in the next fiscal year and beyond.
- TOKKI Systems is progressing steadily and according to plan.
- Unfortunately, in the network business, investment restraint by large users is proceeding as expected, and the segment as a whole is performing in line with last year's results.

- Of course, there is a possibility of slight ups and downs depending on the results of future bidding projects, but the possibility of large fluctuations like those of the previous year is considered small.
  
- Next, I will explain the current status of Enterprise Solutions. For the current fiscal year, the initial plan was set at JPY178.0 billion in net sales and JPY11.5 billion in operating income, mainly due to sales of projects that were delayed from the previous fiscal year due to supply chain disruptions and sales of large-scale projects. (The forecast was revised upward by JPY4.0 billion to JPY15.5 billion due to a reversal of the allowance for doubtful accounts.)
  
- On the left side of the table, sales of JPY114.1 billion in 2H are divided into hardware/software and Construction&Maintenance. If we break down the Hardware/Software further, the software and services businesses such as full outsourcing accounted for more than JPY20 billion. When we break down pure hardware, large projects accounted for about JPY40 billion and the rest were base projects.
  
- Since last year, we have been making preparations for production leveling, and our factories are currently operating at full capacity. Although we achieved an increase of approximately 10 billion yen in sales in the first half of the year, sales are expected to ramp up in Q3 and peak in Q4.
  
- The following four factors are key to the JPY11.6 billion profit in 2H.
  - The impact of the previous year's material cost increase recorded in 1H will be significantly reduced in 2H.
  - Stable profit generation from services and software, especially Construction and Maintenance services, which are exceeding the plan and expected to grow further.
  - The increase in volume, including large-lot projects, is expected to take off in 2H of the fiscal year, boosting profits.
  - Synergistic effects of the value chain from hardware to software/services to Construction and Maintenance

As a result, we believe it is quite possible to achieve profits in the second half.
  
- Of course, we have experienced changes in the procurement and other business environments to the extent that we have grown weary of them over the past few years, and we are determined to take all possible measures to achieve our plans for this fiscal year.
  
- This concludes the presentation on our financial results for 1H. Thank you very much for your attention.

## (Reference) Quarterly Results

(Billion yen)		FY2022					FY2023	
		Q1	Q2	Q3	Q4	FY	Q1	Q2
Public Solutions	Net sales	19.3	19.8	22.8	33.7	95.7	19.3	20.0
	Operating income	(0.3)	(0.3)	0.0	4.0	3.4	(0.1)	(0.7)
Enterprise Solutions	Net sales	23.3	24.5	29.7	35.4	112.9	27.4	36.5
	Operating income	(1.6)	(1.1)	0.1	4.1	1.5	1.9	2.0
Component Products	Net sales	19.2	21.8	21.4	22.3	84.6	17.0	17.9
	Operating income	(0.1)	1.6	(0.1)	0.2	1.6	(0.8)	1.3
EMS	Net sales	16.2	18.5	19.8	20.9	75.3	17.7	18.8
	Operating income	0.1	0.4	0.9	0.9	2.3	0.6	0.3
Others	Net sales	0.1	0.1	0.2	0.1	0.5	0.1	0.1
	Operating income	0.1	0.1	0.1	0.1	0.4	(0.1)	(0.3)
Corporate & Eliminations	Operating income	(1.2)	(1.7)	(1.8)	(2.2)	(6.8)	(1.4)	(1.5)
<b>Total</b>	<b>Net sales</b>	<b>78.1</b>	<b>84.6</b>	<b>93.8</b>	<b>112.5</b>	<b>369.1</b>	<b>81.5</b>	<b>93.3</b>
	<b>Operating income</b>	<b>(3.0)</b>	<b>(1.0)</b>	<b>(0.8)</b>	<b>7.2</b>	<b>2.4</b>	<b>0.0</b>	<b>1.0</b>

## (Reference) Major Products and Services

<b>Public Solutions</b>	<ul style="list-style-type: none"><li>• Roads (ETC, VICS), air traffic control, disaster preparedness, fire prevention</li><li>• Business systems for central government offices, government statistics systems</li><li>• Defense systems (underwater acoustics, information)</li><li>• Aircraft equipment</li><li>• Infrastructure monitoring</li><li>• Carrier networks, video distribution, 5G/local 5G</li></ul>
<b>Enterprise Solutions</b>	<ul style="list-style-type: none"><li>• ATMs, cash handling equipment</li><li>• Bank branch terminals, ticket reservations issuing terminals, check-in terminals</li><li>• ATM monitoring/operation services</li><li>• Bank branch systems, system to centralized back office operations</li><li>• Railway ticket issuance systems, airport check-in systems</li><li>• Manufacturing systems (ERP, IoT)</li><li>• Construction and Maintenance Services</li></ul>
<b>Component Products</b>	<ul style="list-style-type: none"><li>• AI edge computers, sensors, IoT networks</li><li>• PBXs, business phones, contact centers</li><li>• Cloud services</li><li>• LED printers</li></ul>
<b>EMS</b>	<ul style="list-style-type: none"><li>• Consigned designing and manufacturing services</li><li>• Printed circuit boards</li></ul>

- 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.