

November 7, 2019

Oki Electric Industry Co., Ltd.

Q&A of the Financial Results Briefing for FY2020/3 1H

Q: Please tell us about the impact of exchange rates on the first half and the full fiscal year.

A: In first-half, its impact on net sales was negative by 2.1 billion yen and on operating income was negative by 1.4 billion yen. As the assumed rate has not changed, the Company expects the full-year impact to be the same.

Q: In the Printers business, the operating income in the second quarter was approximately 1.6 billion yen. On the other hand, the Company downwardly revised its full-year forecasts for both net sales and operating income, and calculated operating income would be approximately 1.9 billion yen in the second half. It looks conservative. What is the background?

A: The second quarter saw higher-than-expected sales of consumables, leading to higher profits. The Company also expects this to be due to the effects of the consumption tax hike in Japan. In addition to its reactionary decline and a delay in the expected contribution of new products to earnings, revised figures are based on a comprehensive consideration of factors such as MIF and peers' conditions.

Q: The forecasts for the second half of the EMS business are for net sales of 38.0 billion yen and operating income of 3.2 billion yen, which is considerably higher than the first-half level. Is the recovery expected in the second half? Please tell us which areas are expected to increase.

A: The Company has left its annual plan unchanged, although the plan is somewhat tough in the second half, partly reflecting the gradual recovery in FA and semiconductor-related businesses.

Q: Even after subtracting the impact of the percentage of completion method, I think operating income in the second quarter is high. Are there any special factors, such as the acceleration of the second half compared to the internal plan?

A: Overall, the numbers were strong relative to the plan. The ICT was somewhat stronger, and the Mechatronics Systems also improved more than expected. Due in part to the impact of the expansion of the scope of application of the percentage-of-completion method, the trend toward end-of-fiscal year convergence has been smoothed out throughout the year.

Q: Did the social infrastructure and telecom careers of the ICT business exceed the Company's internal plan?

A: As such.

Q: You are in the final year of the mid-term business plan. How is the progress of structural reforms in the Mechatronics Systems business? Is it going better than you had initially assumed? Is there any room for improvement yet? I would like to hear about your future image.

A: The top priority issue since last year has been to halt the Brazilian deficit. In the year before last, the Company posted a quarterly loss of 1.5 billion yen, which had to be halted at any rate. In the current fiscal year, the losses in the Brazilian business have stopped and the structural reforms are proceeding as planned. However, I do not think that the annual operating profit forecast for the Mechatronics Systems business is satisfactory at 1.0 billion yen. We think it is necessary to take a firm stance in the future, including a growth strategy.

Q: The Printers business in OKI is affected by trends in Europe. What was the situation in Europe in the first quarter and the second quarter?

A: Sales in the first quarter were really sluggish. Sales in the second quarter grew toward the latter half of the period, but the reasons for this growth are being examined. Of the new products, label printers were generally in line with expectations. Meanwhile, ticket printers struggled. In the office printer business, we obtained orders by responding to customization. The second quarter's revenues rose from the first quarter, but MIF circumstances have not grown. It is regarded as a factor of seasonality.

Q: In the ICT business, the Company has upwardly revised its sales and operating profit forecasts by 18.0 billion yen and 2.5 billion yen, respectively. What are the growth areas? Is it growing due to a special demand factor? Can we expect further growth in the next fiscal year from the current level? Or is there a possibility of a reactionary decline due to large-scale projects?

A: Social infrastructure and network-related sales were robust. Maintenance and construction also performed strongly. Partly due to the peak of large-scale projects being undertaken in the network-related business, this fiscal year is a strong period. The ICT business is currently growing, and although it is focusing on it, it is not a business that continues to grow steadily.

Q: What are the results for the first half and the full-year forecasts for the number of ATM units?

A: For domestic banks, the actual was 700 units, with 1,300 units in the last first half, and annual plan is 3,000 units. For retail and convenience stores, the actual was 500 units, with 3,400 units in the last first half, and the annual plan is 8,000 units. For overseas markets, the actual was 5,400 units, with 2,600 units in the last first half, and the annual plan is 7,800 units. No change from the initial forecast for the annual number of units.

In Japan, investment by financial institutions has been restrained partly due to the effects of negative interest rates. We believe that the timing of renewals has been delayed, rather than that ATM demand has disappeared. Conversely, the Company plans to launch products for convenience stores in the second half of the fiscal year, and does not think the annual plan is a challenging number. For overseas, the figures have remained unchanged, as the results are very favorable, but also depend on the large amount of bits.

Q: Is the impact of expanding the scope of application of the percentage-of-completion method an acceleration from the second half?

A: Rather than moving forward, the allocation of periods was carried out appropriately. The figures for the second half are based on the fact that the figures that had been recorded as sales in the fourth quarter up to the present time have been smoothed out on a quarterly basis. The decline in profitability in the second half was due to the project mix.

Q: In this fiscal year, the final year of the mid-term business plan, the ICT segment has been revised upward to exceed the targets of the mid-term business plan. Is this growth in the ICT business viewed as stable growth? I would like to hear about the image from the next fiscal year onward.

A: The ICT business is a stable source of earnings. We are currently considering ways to achieve stable growth by addressing various needs, such as IoT and social issues.

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.