

July 26, 2019

Oki Electric Industry Co., Ltd.

Translation of Q&A for the First Quarter of the Fiscal Year Ending March 31, 2020

Q: Operating income in the first quarter was in line with expectations. Please explain changes in figures for the overall business and each segment.

A: Overall, sales exceeded our plan by about 3.0 billion yen. Along with this, operating income exceeded our plan by between about 1.0 and almost 2.0 billion yen. As ordinary income is partly affected by foreign currency fluctuations, it exceeded our forecast by about 1.0 billion yen.

The ICT business performed better than our anticipation. The Mechatronics Systems business was somewhat weak due to the seasonality. However, looking at the full year, it was in line.

Q: Operating income exceeded forecasts by 1.0 billion yen. Do you mean that the ICT business performed better than your forecast, the Mechatronics Systems business was a little weaker, and the others were in line?

A: In comparison to the plan, the ICT business was considerably strong. The Mechatronics Systems business was not negative. The Printers business was the toughest.

Q: In the ICT business, the impact of the expansion of the scope of percentage-of-completion method was 15.6 billion yen in sales and more than 1.1 billion yen in operating income. Even excluding this, sales and operating income increased by 8.6 billion yen and 1.8 billion yen, respectively, from the last first quarter. What were the factors boosting up the performance from the original plan, other than the impact of percentage-of-completion method? Moreover, I want to know the impact amount for the second quarter onward.

A: In the ICT business, some projects came earlier than expected. The demand itself was strong. Overall, it was extremely favorable performance. In particular, projects related to networks, government agencies, and the public sector, including defense did well. Sales for enterprises have also raised the bar. Large-scale projects which we have been working on since last year have gradually started to bear fruit.

The impact of expansion of the scope of percentage-of-completion method will not

grow in the second quarter onward. The annual impact will be about 8.5 billion yen in sales and about 0.8 billion yen in operating income.

Q: With regard to the Mechatronics Systems business, when will the big projects, such as for JAPAN POST BANK and convenience stores, start to contribute to the performance?

Regarding the sales of Brazilian business announced in the first quarter, was its impact included in your original plan?

A: The contribution of the big projects to the performance is expected to be from the third quarter onward.

In this first quarter, we have recorded the extra ordinary loss regarding the transfer of Brazilian business. In our initial plan, this loss was included in the annual plan, but not in this first quarter. We had envisaged that it would be the same as the transfer date. However, since the contract we had signed covered detailed conditions, we judged that it would be more appropriate to record this in the first quarter.

Up to the transfer date, sales are expected to proceed break-even. We expect conventional sales for maintenance and etc.

Q: Reading to the ICT business, is the annual impact of the percentage-of-completion method of 8.5 billion yen in sales and 0.8 billion yen in operating income included in the initial plan? Why have you changed your accounting policies now?

A: It was already included in the annual earnings forecast.

I believe that it is a matter of course to refine the accounting system on regular basis. From the standpoint of the CFO, in fact, I feel that the timing was somewhat late. Towards the implementation of new revenue standard and etc. in the future, we have been making preparations and devoting considerable effort to consolidating a cost management system. Moreover, we are focusing on strengthening our wide-ranging governance, including strengthening internal controls that we are promoting as a company as a whole. As a result of comprehensively promoting these efforts, this fiscal year was the time to change.

Q: Excluding the expansion of the scope of the percentage-of-completion method, the annual operating income in the ICT business would have been 13.7 billion yen, instead of 14.5 billion yen. This is about 1.0 billion yen decline year-on-year. On the other hand, the result for this first quarter was about 1.0 billion yen increase year-on-year, even excluding such impact. If this is the case, do you think that the ICT business has been on a fairly strong trend for the full fiscal year though some projects came in ahead of

schedule?

A: The ICT business is the segment we are intensively strengthening. We have been increasing investment aggressively over the past few years. Of course, there were some projects came earlier than expected. Taking such situation into consideration, we have set and disclosed such plan as a segment target as well as forecast.

Q: As for the Mechatronics Systems business, in the previous fiscal year, how did the big project of cash handling equipment attribute to the profits throughout the year?

A: It was flattened throughout the year. Accordingly, in year-on-year comparison, the negative impact of cash handling equipment will continue from the second quarter onwards.

Q: Please explain the profitability of the Mechatronics Systems business by region.

A: For overseas, performance in China continues to be slightly positive, and in Brazil it continues to be flat. As for the strategic region of APAC, there are some upfront investments, and is currently running a slight deficit.

In Japan, the overall figure for the first quarter is a slight deficit. This is due to seasonality, and the revenue contribution from the number of projects already received will be seen from the third quarter onward.

Q: Please tell the number of ATMs in the first quarter.

A: The number of ATMs shipped to domestic banks was 200, with 700 in the last first quarter. The number of ATMs sold to retail convenience stores was 1,600, compared with 1,900 in the last first quarter. As for overseas ATMs, 2,500 units were sold, compared with 1,000 units in the last first quarter.

Q: In which region did the overseas ATM increase?

A: The orders from the ASEAN region are quite increasing.

Q: As for the Printers business, what caused weak performance compared to the plan?

A: In year-on-year comparison, there was a slightly higher number of orders for consumables in the previous fiscal year, since we have consolidated distributors. In addition, because of rumors about the impact of US-China friction and the customs duties, there were some early buying moves.

Another factor was that, the yen has appreciated against the Euro by about 6 yen compared to the previous fiscal year.

Furthermore, the new product launched in May has not yet borne fruit.

In the comparison to the plan, in the main region, especially in Europe, sales were poor. This was all the causes. Looking at the market in Europe, it seems in a weak trend overall. It's not just OKI. We are currently proceeding with further analysis.

Q: Regarding the Printers business, will the fall back of the consumables sales continue from the second quarter onward? The other point is that the introduction of label printers may lead to OEM suppliers to purchase both printers and consumables in order to prepare for sales. This may be very large. But did this make little contribution to the first quarter and will it contribute to the second quarter or later?

A: The consumables sales for the previous fiscal year was smoothed toward the year-end and settled at the cruising speed even with the sales increase in the first quarter.

As for the new product, of course we have high expectations for professional use, as the product enables printing on a narrow and white printing. But we are not optimistic that the orders would come soon, especially for the consumables..

Q: Behind your expectation for the EMS business to recover in the second half, is there any relatively large project? Or do you anticipate a macro recovery?

As for the Others segment, the actual results in the first quarter were 180 million yen, while the annual plan was zero. Please explain the outlook for the second quarter onward and its reasons.

A: Regarding the EMS business, there are two reasons. First of all, we anticipate the recovery of the overall market. Secondly, it's the feeling obtained from the daily conversation with each company. If we accumulate opportunities caught in such communication, our performance will likely rise around the third quarter.

In the Others segment, the material sales were showing extremely favorable results. We expect no big back fall. It will move forward at the cruising speed with the savings in the first quarter.

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.