

Q&A of the Financial Results Briefing for FY2020

Consolidated Results

Q: In the FY2021 plan, operating income and ordinary income are ¥12.0 billion, while net income is ¥3.5 billion. Are there any special factors, including extraordinary gains and losses?

A: We have been carrying out structural reforms centered on overseas operations. This takes two years. For FY2021, we expect structural reform costs to remain unchanged from the previous year.

Q: In the previous briefing session, I had the impression that, out of the reduction of about 500 overseas workers, about 350 decreased and progress was being made. What is the reason for the same level of restructuring costs as in the previous fiscal year, despite the reduction in the number of employees?

A: As of the end of FY2019, there were approximately 800 employees, and as of the end of FY2020, there were approximately 585 employees, achieving a 30% reduction. In FY2021, the number of employees will be reduced to about 400. As in the Medium-Term Business Plan, we plan to reduce employees in Europe by 70%, Americas by 80%, and Asia by 30% from FY2019. These costs are factored in.

Q: I would like to confirm the assumption of the FY2021 operating income plan of ¥12.0 billion. Over a 3-year period, an improvement of ¥18.0 billion or ¥19.0 billion is expected through reforms of common functions and structural reforms of printers. What is the contribution of this structural reform in FY2021? Operating income of ¥12.0 billion is planned for FY2021, while your goal for FY2022, the Medium-term Business Plan targets, is operating income of ¥20.0 billion. I would like to confirm the content of FY2021 plan, whether this is due to increased investment or a prudent plan that takes into account the COVID-19 situation.

A: In the short term, operating income for FY2021 is slightly weaker than initially expected. There are three main factors. The first is the COVID-19 impact. C&P's overseas business was greatly affected. We had assumed a gradual recovery from the latter half of FY2020, but it has been prolonged. The second is investment. The timing of the launch has been delayed due to the impact of the COVID-19 pandemic in Japan and abroad. As new frontiers are emerging, the investment will continue as planned. The third is the timing of the effects of structural reforms. The ¥4.0 billion reduction through reforms of common functions, mainly

head office expenses, will be most effective in the third year of the plan. In FY2020, it is approximately ¥500 million mainly on logistics costs, while it is around ¥1.5 billion in FY2021. The reduction of ¥14.0 billion through the reform of overseas staff and procurement costs has been showing steady results. As for the reduction of procurement costs by ¥10.0 billion for 3 years, the effect each year is approximately 1/3.

Q: What are your thoughts on the medium-term target of operating income of ¥20.0 billion for FY2022?

A: We had a very difficult start in FY2020 due to COVID-19, in particular, C&P's overseas ATM business. Projects through bidding in India, Indonesia, and other Southeast Asian countries, as well as Russia, are delayed. Due to COVID-19, customers' projects are delayed, but we don't recognize that we lost any projects. As a whole, we believe we are making good progress, including development. As for the plan for FY2022, we have already received some orders from customers, so we can roughly foresee what will happen in the future. Furthermore, in the Solution Systems, some large projects will begin in FY2023. The impact of these projects will be taken into account by applying the percentage of completion method. I believe that we can achieve this figure.

Q: You plan to increase the full-year dividend. I believe you have a policy of paying a stable dividend with a payout ratio of about 30%, but I think the payout ratio will increase further this fiscal year.

On the other hand, I think that your company needs to invest in growth from now on, and I would like to know the background of your decision to increase the dividend.

A: We place great importance on stable dividends. We hold up the dividend payout ratio as a benchmark. We considered what would be the level of 30% when considering temporary or non-cash items, as well. As a result, we decided to pay ¥20.00 for the FY2020 and ¥30.00 for FY2021 based on our overall judgment that we will be able to achieve both investment and growth without damaging our available dividend resource.

Q: I would like to confirm the COVID-19 impact on FY2021 performance.

A: As for the start of FY2021, I think the domestic manufacturing industry will get off to a good start. Orders for semiconductor inspection equipment have been increasing rapidly since February and March. The automobile-related sector has been recovering since the end of FY2020. In the SS business, we expect that the impact on sales to airlines and railroads will continue for a long time. However, I think that sales to carriers, telecommunication companies, and social infrastructures can make up for it.

Q: Do you have an image of WACC and ROIC for SS and C&P for 2022 and 2023? Will you set up

your portfolio in such a way that the ROIC exceeds the cost of capital? I would like to hear about the basic concept of the management.

A: At this stage, we have not yet reached a point where we can present a uniform set of indicators. As for the concept of the ROIC and the WACC, the targets are still different between SS and C&P. In this Medium-Term Business Plan, we have divided our business into these 2 segments, but in the future, I would like to gradually change our business structure so that, for example, C&P is not a stand-alone business, but a form of offering products to customers and a product structure within the overall business.

Solution Systems(SS) Growth Strategy

Q: What is the DX domain OKI is working on?

A: As described on page 5, the DX domain covers digitization, digitization, and digital transformation. Both enterprise and public sectors are becoming increasingly digitalized. Also, what customers consider to be an investment as DX is increasing.

Q: Looking at the achievement of the targets of the Medium-Term Business Plan in SS, I think you are projecting a considerable increase in sales for the FY2022. I would like you to comment on the plan, including whether large-scale projects planned for the next few years will contribute during the mid-term accounting period.

A: We expect several projects to be launched in FY2023 and FY2024. Since the percentage of completion standard was introduced from FY2019, sales to those projects are included in FY2022 plan. Many of them are public systems, such as firefighting commands and disaster prevention. In addition, the network investment supporting DX, including 5G in the carrier sector, continues to be strong.

Q: What is the platform that OKI is aiming for when there are various so-called platformers? Is it company-wide or segment-specific? In this context, I think the key point is the M&A. Are you considering M&As? Do you think that your business model is different from those of other companies?

A: There are platformers like GAFA&M. In Japan, there is Hitachi. In conjunction with these platforms, OKI offers a platform at the edge areas. The alliance with Intel uses a middleware called OpenVINO to make it a common platform on the edge across the company. The great thing about this is that you can use various models that you have learned, such as Google's models or Microsoft's models, by converting them and using them at the edge. I think these things are very important. As a result, we will be able to provide edge solutions to public and enterprise solutions.

In the area of M&A, there are some specific projects in progress that I cannot talk about here

yet. Our idea is to supplement the base area, and on top of that, to be able to create new areas.

Q: Perhaps, the idea is to work with the cloud to provide a common sensor network at the edge. I think that the level of layers for road traffic and disaster prevention may be different from banking, retail, transportation, and manufacturing. Similarly, AI, 5G, and 6G have slightly different specifications, mission criticality, and latency. Is it correct to say that you will build a common platform, or there are individual platforms with slightly different shapes?

A: One characteristic of the edge solution is that it is on-site and specialized in business. We have many years of experience in this area, and we have done a lot of work on roads and air traffic control, train control and firefighting control. Even if there are technical elements, it's not something that anyone can do. We will make the most of those things. On the other hand, in some cases, such as in front-line financial services, the speed of service may be more important. In that sense, the position is different.

However, the OKI model of DX, or AI, involves sensors, networks, data analysis, and cloud computing, and I believe that this model can be standardized. The criticality of this is something that we will have to work on, but I believe that there is a high degree of commonality in terms of architecture.

Q: Capital investment is projected to total ¥17.0 billion for FY2021 and FY2022. Although there is a plan to build a new plant at a cost of ¥6.0 billion, the level is still higher than in the past. What are the major factors of capital investment excluding new plant construction?

A: The plan includes facilities for development as well as production. SS business has a wide range of business fields. As a result, we will invest in a wide range of facilities. Specifically, transportation, disaster prevention and construction related AI Edge. They are conducting demonstration tests with customers. For these, we are using our own facilities. These are the elements. In addition, in the area of oceanography, I mentioned that we have evaluation facilities and a base, and we are going to make a rather large capital investment to deal with the aging of these facilities.

As for the cloud infrastructure, we will further strengthen the linkage with the public cloud, but there is a part that is a hybrid with the private cloud. The renewal of cloud infrastructure in our data center is also planned.

Q: The local 5G × AI edge is pretty unique and OKI-like. I wonder if it is actually winning or not. Please tell us how much of the current cases you are seeing.

A: Local 5G × AI edge. There may be such a topic, though, when it will be really viable as a business. OKI, meanwhile, has been involved in network communications for 140 years. So we have a general idea of how each of them will work. For example, even in this mid-term plan period, we expect sales of smart meters, which is one of the applications using the

sub-gigabit band 920MHz, to increase considerably in FY2022. This is not local 5G, but it is used in the sense of a local network. Also, this may not be local but public, the ATM network, to be more specific, the replacement of ISDN to LT Gateway is very much in progress.

In this sense, in the broad sense of the word, fixed networks are being replaced by wireless and mobile networks with the most important and reasonable technologies on the spot.

As for local 5G, our expectation is that it will be a network that can replace optical fiber. Some of the larger factories in Japan also have a lot of optical fiber in their premises. Rather than putting up more of those kinds of things, there are a lot of relatively large companies in the manufacturing industry that are interested in local 5G, which is wireless, but has high reliability and high bandwidth. What we want to do there is exactly AI edge, and we are talking about using various sensors and various kinds of data. It depends on the combination with business, but from our point of view, we believe that this trend will continue to progress.

Components & Platforms (C&P) Business

Q: What kind of specific products should we expect when you talk about the utilizing ATM technology to retail?

A: Even in the cashless era, there are still places that handle cash. On the other hand, due to the labor shortage, there is a demand for cash recycling in the retail sector. However, OKI does not do POS, nor do we have retail know-how. Therefore, we will provide the cash processing machines, which are the heart of the system, and our partners will build systems suitable for retail. We believe that such a combination is the easiest to understand and most likely partner that will emerge in the near future.

In addition, we would like to apply mechatronics technology and high reliability technology, not only to retail products, but also to medical products, such as drugs and medical testing equipment.

Q: Operating profit is expected to jump significantly, including FY2022 figures. You mentioned that the recovery of profitability has been a year later than expected. You have drawn a roadmap for the medium- to long-term, including 10 years after the medium-term plan. You will continue to make upfront investments from a medium- to long-term perspective, and there is also the current COVID-19 situation. Should we assume a little bit of uncertainty about operating income for FY2022? Could you tell us your view of the operating income figures?

A: Regarding FY2021, EMS-related products, especially semiconductor equipment, showed a fairly rapid recovery in March and April. The recovery of some of our key customers was delayed last year, but we are now seeing a definite recovery, and we expect the recovery of C&P as a whole to start from there.

On the other hand, as for the failure to achieve the mid-term plan, we are still making upfront investments. We will still see only a few positive results in the current mid-term plan. Therefore, we are slightly behind due to the ongoing investment, and it is important how much we will see the impact of COVID-19. We do not believe that the COVID-19 impact in FY2020 has disappeared, and we believe that it is delayed. It is important how much of that delay we factor in. This is a pretty big factor. We feel that there are quite a few areas that depend on COVID-19, and our current plan for FY2021 is to strike a happy medium.

Q: Please tell me your image of profitability on page 7. I think that the old EMS increase profitability if the number of maintenance and non-measurement areas increase.

On the other hand, this new field (such as medical and other) is probably an upfront investment, so it is unlikely to become profitable very quickly. How would profitability change if it was sold to retail and distribution via partners, compared with conventional financial products?

A: Profitability was good for the financial sector, but profitability was dependent on volume. In this retail shift, we will be providing the core heart of our business to our partners, so the top line will not be that much higher than if we were selling financial ATMs. However, the profit margin will be high because we will only provide the services that we are good at and the heart of our business. The marginal profit margin will be higher, and the BEP can be kept low. So, we can provide various types of products to various partners in small quantities, and they can deliver them to the market. This is the kind of model we'd like to create. I think it will take some time.

As for EMS, we believe that we can earn a certain profit margin if we provide not only production but also maintenance and operation services including design, development and evaluation.

And printers, from office printers to more distinctive industrial printers. We have a lot of retail products. We would like to break away from the consumables business model and make it possible to generate revenue from the main unit, as well.

Q: The challenge from EMS to DMS is very meaningful. On the other hand, you have recognition of the problem of marketing ability. In the area of development, I think it is necessary for people who have been working with easy-to-understand targets, such as printers and ATMs, to adopt a new approach. Can you give us some examples of how you are working on this cultural shift?

A: For EMS and DMS, the customer is asking us to do something that they have been doing as the core of their business, so we believe that a relationship of trust is absolutely essential for receiving an order. Furthermore, if we simply make what we are told to make, we are, simply put, a subcontractor. If we do that, we will end up in a price war. So, what we are thinking is

to incorporate our know-how that we have cultivated in the financial industry into the use of our products, or to make proposals. In order to do this, we need to know the market. We have to know what's going on in the world. We will focus on retail and medical services. We look at the retail side from the perspective of a financial professional. I believe that there is valuable information for customers in this aspect as well.

The entire C&P Group is working on cultural transformation. After the integration of the 3 businesses, there are now about 45 companies in the group, including affiliated companies. For example, if a young person makes a proposal, the entire group can work together on a project. We also created the Production Management Division, where we can create smart factories. In a sense, we aim for small successes and early successes, and actively engage in such activities that attract young people and let them produce results early. By showing this to everyone, we, working with corporate division, are trying to change the corporate culture.

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.