

November 11, 2021

Questions and Answers at Fiscal 2021 H1 Financial Results Briefings

Oki Electric Industry Co., Ltd.

Q: What do you think the impact of supply chain will be in the H2? What is your view on the possibility of achieving the full-year operating income target?

A: As for the impact of material shortages, we expect the impact to be approximately ¥8.0 billion in sales and ¥1.8 billion in profit for the H2. Even with this impact, we expect to achieve full-year operating income. Profits in the Peripheral Products business have been higher than planned due to structural reforms, cost improvements and the impact of foreign exchange rates. Consumables were also stronger than expected. In the Solution Systems business (hereinafter, SS), the firm Construction and Maintenance service is expected to exceed the plan in the whole year. Supply chain conditions still remain unpredictable. We will take appropriate measures.

Q: What is the breakdown of the increase in extraordinary losses in the H2?

A: Mainly due to the transfer of production at the printer plant in China, the Company booked about ¥1.5 billion. Of the structural reforms that we have been carrying out since last year, we believe that we have reached the end for reorganization of our production bases.

Q: Regarding the acquisition of the aviation equipment business, given the level of margin, it is inferred that the margin of SS will be reduced. In the first quarter, OKI is pursuing ATM projects that are not profitable in the short term from a long-term perspective. Looking at these two events alone, I understand that an increase in the top line would increase profits, but doesn't the ratio of margin decrease?

A: Looking at the aviation industry as a whole, it is still affected by the COVID-19, we believe that there is a high possibility for improvement. As OKI strives "Delivering OK! to your life." over the medium to long term, we hope to strengthen its existing strength in the field of defense and use its technology for private sector. We decided to acquire this business because we believe there will be considerable synergy effects, including profit margins and top lines, for the growth of the entire SS business and the TOKKI business.

It is true that at the Board of Directors meeting, some outside directors pointed out that we should be more particular about the margin ratio. We don't just look at securing the top line and then

increasing margin ratio, we wish to improve the margin ratio through PMI as well as to diversify our portfolio.

Q: Sensitivity to exchange rates.

A: The assumption rate is JPY105/USD and JPY120/EUR. In US dollars, if the yen appreciates by JPY1, net sales decrease by ¥0.9 billion and operating income increase by ¥0.1 billion. As for the euro, net sales decrease by ¥1.1 billion and operating income decrease by ¥0.1 billion.

Q: As for the Components & Platforms business, Peripheral Products is doing well. What about Automation Systems and EMS?

A: Regarding Automation Systems, domestic sales are steady. Overseas markets are showing signs of recovery from the effects of the coronavirus disaster. In Indonesia and other countries, delivery of equipment has actually begun. Although the situation varies from region to region, the process has progressed from the situation in which even bidding had stopped to the stage of receiving orders and delivery.

EMS continued to be strong mainly in the FA and semiconductor sectors. In particular, OKI Electric Cable is doing very well.

Q: It is said that the profit decreased by ¥3.0 billion due to the impact of the supply chain. Does this include the impact of the material price increase? What are the measures for the H2?

A: The ¥3.0 billion decrease in profit was due only to the opportunity loss due to the impact of materials. Other than this, the impact of the steep rise in materials prices was about ¥0.8 billion. In light of the current situation, the impact of the material price hike in the H2 could be double that of the H1. As a measure for the H2, first of all, securing materials. Next, we would like to ask for the understanding and cooperation of our customers and try to pass on the cost, but the situation is difficult. In addition, we will reduce the impact through cost reduction and flexible production adjustments.

With the understanding of our customers, most of the projects that have had an impact on production due to material shortages have been postponed. Our countermeasures are to respond flexibly for the production system and deliveries so that we can meet the demands of our customers as soon as possible.

Q: Do you think customers will understand about price shifting? Is there a difference in response from field to field?

A: There are various classifications. It is very difficult to negotiate when the contract, including the price, has already been signed but delivery has not yet made. In Japan, traditional customers are generally quite strict. For overseas, if it is legitimate negotiation in accordance with the agreement,

I think this can be done.

Also, there is a difference between the case where our product is the final product and the other case where our product is a key component. In particular, when our product is a key component and the customer judges that the impact of their profit margins can be relatively absorbed, they relatively listen to us. However, if the product is close to the final product and has a large impact, the negotiation can be really difficult depending on the agreements.

Q: Is it correct to understand that the impact of ¥10.0 billion in sales in H1 due to material shortages means that this portion cannot be delivered in the current fiscal year?

A: Yes.

Q: When you talk about the rising cost of parts or the difficulty in obtaining them, could you tell us what exactly are these parts?

A: Mainly, the semiconductors. Some connectors, router-related parts, AC adapters, and microcontrollers are the actual parts, or components, that are applicable.

Q: What are the actual and expected number of ATMs?

A: Domestic banks: H1 1,700 (1,600 for the same period previous year), FY 4,000 (5,000 for the previous year)

Retail and convenience stores: H1 3,400 (2,800 for the same period previous year), FY 7,400 (6,600 for the previous year)

Overseas: H1 2,100 (2,200 for the same period previous year), FY 6,000 (4,500 for the previous year)

Q: The Construction and Maintenance Services is becoming more profitable. Is this only for H1?

A: I believe that there is room for growth in H2.

Regarding maintenance, the merger of OKI Wintech and OKI Customer Adtech has contributed.

As for construction, PBX work etc have been affected by shipping delays. On the other hand, we expect electrical work, carrier, and transportation to remain relatively strong.

(Note)Forecasts, forecasts, plans, etc. in this document are based on currently available information and certain assumptions deemed reasonable. Actual results may differ from these forecasts due to various factors. The content of this report is based on actual communication, but has been partially edited to make it easier to understand.