

August 12, 2021

Questions and Answers at Fiscal 2021 Q1 Financial Results Briefings

Oki Electric Industry Co., Ltd.

Q: Regarding the supply chain impact, please tell us the impact on sales and the status of each segment.

A: The impact was expected to be slightly less than ¥3 billion in net sales and approximately ¥700 million in operating income. The impact was approximately equal for the Solution Systems business (hereinafter, SS) and the Components & Platforms business (hereinafter, C&P).

Sales have been delayed due to production difficulties caused by a shortage of materials, mainly semiconductors. In Q1, network terminals such as PBX and home gateway in SS were affected as well as C&P. We expect supply chain conditions to peak in July-September and then gradually improve, and we are taking appropriate measures such as production adjustments and alternative procurement.

Q: I would like to know the current status and future prospects of C&P's upfront investment in automatic machines.

A: The upfront investment in Q1 was about ¥1 billion, including mold investment and provisions. The reason for those provisions is because, considering the possibility of future service businesses, we actively worked on unprofitable projects that we had not previously dealt with.

Q: While C&P is recovering this year from the previous year's impact of the COVID-19, what is the reason for the same operating profit and loss as the previous year? Is it fair to say that the fixed cost structure has changed through structural reforms?

A: The effects of the structural reform are certainly coming out. Thanks to improved market conditions, sales of Peripheral Products and Mono-zukuri Platforms were firm. The reason for the same level of profit as the previous year was mainly due to the burden of upfront investment of automatic machines.

Q: What are the specific costs of ¥600 million for restructuring the business structure of European and American sales companies?

A: Based on the Medium-term Management Plan, we are reforming our overseas, mainly Peripheral Products sales companies. In the previous fiscal year, we focused on streamlining sales personnel, but in the current fiscal year, we continued to implement reforms in the back office.

Q: On the 5-page operating profit income, the increase in fixed cost reduction should have been ¥1 billion a year, but it was ¥500 million in Q1. Does that mean there is a possibility of an upward shift in the year? Also, the effect of the procurement cost reform was ¥300 million in Q1. Is it possible to achieve the annual plan of ¥1.5 billion?

A: We are responding with a sense of speed to fixed cost reductions. The reduction of labor costs overseas is certainly showing its effect.

We plan to cut our procurement costs by ¥3 billion a year, but the impact of price hikes due to supply chain issues have made it difficult to see the effects of the reforms. We are continuing to minimize the impact through design changes, procurement of substitutes, production adjustments, etc.

Q: I would like you to update the order status of the Mono-zukuri Platforms (former EMS). Regarding the decrease in Q1 sales of SS, is it correct to understand that recovery will be achieved after Q2?

A: In the EMS and DMS areas, inquiries are indeed quite strong. We have received high marks for various projects. It is not a case of lost order, but a situation where customers are waiting. Thus, the project was either extended or moved to following quarters. At present, the Mono-zukuri Platform has not yet become a driving force for the company as a whole, but we would like to make company-wide efforts to achieve that goal.

In the SS business, the decrease in Public Solutions seems to stand out in the Q1 alone, but it is because that the Q4 bias is slightly stronger than usual in the current fiscal year. The base environment has not changed and has been able to maintain annual sales growth of 3% and operating income of 8.5% on average over the past few years.

Q: OKI's network related customer has recently announced overseas expansion. Is there any chance for OKI?

A: I will refrain from commenting on individual issues.

(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.