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Oki Electric Industry Co., Ltd.

### **Summary Translation of Q&A Session at Business Strategy Meeting**

Q1: I'd like to confirm something regarding the Printers business. Distribution and medical case studies were presented in the material as examples of secured deals in the industry-vertical market. Would it be correct to consider these to be fields in which such cases have appeared at present and ones that would play major roles in securing a ratio of 17% of sales in FY2020, with growth in the industry market in some other fields as an additional result for expanding the sales ratio? Another point: your targets for FY2020 are 60% of sales from the office domain, 17% from industry, and 23% from special-purpose/wide-format printers. What are the percentages for the Japanese market?

A1: With regard to your first question, we target different business fields in different regions. We refer to the medical and distribution fields as general frameworks, but distribution includes a wide range of businesses, like the automotive sales businesses in Europe and electronics retail stores in Japan. For this reason, distribution includes various subsegments. The material mainly covers typical general merchandise store (GMS) chains. Since other target markets exist as well, we want to delve deeper into these. Globally, on the other hand, to find specific auto dealers as an example, we're looking for targets like systems integrators that offer strengths with auto dealers. Traditionally, we've moved boxes through distributors and resellers. Now, business activities are at a major turning point. It's not necessarily the case that everything will go smoothly and on schedule, but, on a global basis, we're considering a strategy of identifying strong local systems integrators in this business field and encouraging them to adopt our LED printers in their systems integration.

Also, right now, the industry-vertical ratio is highest in the domestic market. We offer special strengths in the drugstores business. Businesses in the retail industry see floor space efficiency as important. They don't have much space available in the backyard or behind the cash register counters. For this reason, they have chosen OKI printers, as laser printers are often too large to fit into such spaces

Q2: I have a question concerning the Mechatronics Systems business. As an example of efforts in overseas businesses, you mentioned restructuring production locations by shifting the

emphasis from main units to modules. Can you describe this in a little more detail? Am I correct in understanding that this doesn't mean you plan to cease the production of main units? Also, please describe your thoughts on optimizing human resources in Brazil.

A2: With regard to modules in overseas businesses, we specifically plan to branch out into sales of modules focusing on bill recycle modules (BRMs) and recognition units. As we mentioned, although we did release the RG8 strategic product last year, we were late bringing it to market due to some quality issues in the initial stage. We've addressed these completely, and starting this fiscal year, we want to compete in regions with potentially high demand for the improved RG8.

With regard to plants, we're planning to gradually branch out into sales of modules. We plan to consider how to make optimal use of our plants in Tomioka, Shenzhen, and Brazil from a comprehensive perspective.

Lastly, on the topic of Brazil, as we mentioned earlier, the Brazilian business is made up of the three segments of banking, retail, and service. Since business conditions differ in each segment, our current plans call for optimal resource allocation. Specifically, this means reducing human resources. We're targeting improvements of about 3.0 billion yen in the cost structure.

Q3: I have a question concerning module sales as a medium-term measure in the Mechatronics Systems business. Are you planning to do the same in China and Brazil?

Next, on the subject of short-term measures, you mentioned that as of the end of March 2017, you had shifted 120 of the 180 domestic positions planned. If possible, could you tell me to where the shifted staff from Mechatronics Systems was transferred at that time and when and to where you plan to shift the remaining 60 staff members?

Lastly, can you say if, as of today, you've decided that the four short-term measures can actually be implemented? If so, when you will do so? To what extent can you expect to improve the profit in this period in the Mechatronics Systems business as a result?

A3: First, we're confident the Brazilian market has future potential. At first, we expected to ramp up this market as rapidly as we experienced at other markets. However, we understand that it is in fact ramping up at a leisurely pace. Until now, we keep certain level of fixed cost to meet rapid market growth. Now, we're implementing structural reforms by optimizing and minimizing the fixed-cost structure in light of the actual slow pace of the market ramp-up. We've already received customer orders for main units in this market, so we'll proceed structural reforms in a manner not to cause any inconvenience on our customers with respect

to supply and service. But for future business growth, we want to align our approach to the market and explore options like supplying units through various alliance partners.

In China, we don't expect to see a repeat of the large scale annual shipments like tens of thousands of units in 2013–2014. The shift to a cashless society is advancing in China. For the most part, shipment volumes won't exceed replacement level. With regard to our supply of ATM main units, we're going to proceed with a review and minimization of the fixed-cost structure to reflect profitability. We also want to move forward to supply modules and units while establishing alliances with various partners to achieve a sales structure suitable for the supply volume.

You asked about actual timing. We expect to launch the structural reforms in Brazil in the second quarter. We expect to see the numerical results sometime after that.

On the subject of shifting 180 staff members, we are not saying that 120 persons were shifted last year, rather we simply decided on the destinations to which they would be shifted. The majority were transferred beginning in April. We plan to transfer the remaining several dozen intermittently. We will address the additional 60 persons at some point in the future. We have candidate segments to which they might be shifted in mind, mainly growth segments like ICT and EMS.

Q4: I'd like to confirm two points regarding the ICT business. The first concerns the co-creation business. Can you describe in greater detail whether this business is something like what is known as a proof of concept (PoC)—something that won't necessarily lead to revenues immediately—or, even if it did generate revenues, would not contribute significantly to profits?

My second point concerns the shift of the staff from Mechatronics Systems mentioned earlier. How is this shift impacting profits and losses in the ICT segment? Does the reduction in outsourcing costs mean fixed costs won't increase? Or do they seem to increase only partially and not on a total basis? Can you discuss this point in more specific terms?

A4: First, on the subject of co-creation, as a basic understanding, we're carrying out PoCs across a wide range of fields. Also, as we explained today, IoT elements constitute a significant part of our traditional base businesses. These have a very large customer base, and we would like to propose new solutions for these existing customers. By building on our customer base at a deep level in this way, we should be able to achieve a positive impact on our base businesses as well. This is one element for which we have very high expectations for future sales.

With regard to your other question about the shift of personnel, these human resources are hardware technicians and production staff in Mechatronics Systems and will be able to contribute fully to ICT. Ultimately, we don't expect costs to increase, because we plan to be able to reduce outflows of costs as a result of this shift.

Q5: As for the Printers business, the material shows how the product mix will change in numerical terms. This shift in the product mix is intended to increase the marginal profit ratio. For confirmation purposes, can you give me your thoughts on the impact this might have on profitability and the proportion of the supplies business? Given your considerable installed base in the office market, I believe your supplies business must be quite large at present. I'm concerned what impact this change could have on this business.

A5: As you noted, we do have a considerable number of machines in the field (MIF) in the office printer market. But selling hardware itself in this field naturally leads to lower overall profitability. Ultimately, sales of hardware occur as we sustain losses. If we stopped selling hardware, profitability would increase temporarily as the proportion accounted for by supplies grew. But doing so would lead ultimately to a steady decline in MIF. Actually, we are making a big bet under the current mid-term business plan that involves capitalizing on the speed of growth in the label printers and industry-vertical businesses and the speed of decline in MIF. Not selling office hardware for a brief period or restraining volumes by controlling price should increase earning power. If we don't increase sales of industry-vertical products at the same time, which have high levels of print volume (PV), ultimately we'd reach a contracted equilibrium. That's the most important point here.

Marginal profit has a huge impact on our earnings. Increasing marginal profit would in fact have a much larger impact than reducing fixed costs. Roughly speaking, a change of 5% up or down in marginal profit ratio would have an impact several times greater than an increase or decrease in fixed costs.

Q6: I have a question about printer sales. Office printer sales have risen with COREFIDO. I believe there are currently a considerable number of MIF, too. These sales have been conducted chiefly through traditional sales routes through distributors, but I think perhaps the proportion of dealers has grown significantly. If the weight of office printers were to fall in the future, wouldn't that reduce dealer motivation? Please give me your thoughts on whether you could advance industry sales through dealers in this situation.

A6: For industry-vertical products in particular, we don't expect sales through dealers to fall

that much because we will sell nonimpact printers (NIPs) to specific industries to meet their needs. Also, COREFIDO is a domestic-only business. Domestically, the office business is actually growing. Since the domestic office segment is a source of earnings right now, overall, we are making the utmost effort to defend the domestic office market. But that requires a good balance. Ultimately, we have to face the issue of what to do about office products.

A3 printers are suitable for both office and vertical use. We hope ultimately to offer a range of such products. Based on a look at the current three-year period, we don't expect much business for label printers and ticket printers. We're thinking more of selling to the global OEM market—that is, the sales route to OEM vendors active in global markets—and the sales route through systems integrators, particularly overseas. Conditions are different for the domestic and overseas markets.

Q7: For the Mechatronics Systems business, please confirm whether you plan to target conventional financial institutions products for module sales or other products that can be used in fields other than financial institutions.

A7: We have explained about module sales as an effort for overseas markets. Of course we're considering the financial institutions market, but we also want to sell BRM products in the retail market, if possible. I can't say any more on this at this time since the sales structure of modules will be subject to further discussion.

Q8: You noted that you are currently considering what domains to target in the future in changing the sales structure of the Mechatronics Systems business. Can you comment on the timeline of your decision-making, whether business performance will move in a positive direction and how you view the competitive environments in the financial module and retail markets?

A8: We believe we need to decide during this fiscal year what kind of sales structure of the module sales will take. As noted earlier, we will see BRM as main module products for overseas markets.

Aside from that, since settlement method have been diversifying, modular terminals, as applications of ATMs, which provide customers with required functions at required places, make an appearance in domestic market, and we would like to deploy these modular terminals overseas as well, with OEMs and others.

Right now, cash deposit and withdrawal functions are main features of ATM for financial

institutions in the global market. But as the shift toward a cashless society advances, we expect ATM will evolve into diversified settlement methods and information multi-function terminals. For this reason, cash-handling modules are just one function and will be deployed as more lightweight devices with combining various functions. The market is likely to shift in this direction and away from traditional, heavy ATMs. Amid this evolution, we intend to supply these terminals in the form of modules as one of our strong points.

At the same time, as the financial and retail markets intermingle, the fixed concept of financial institutions handling all settlement operations will fade and a wide range of vendors will begin supplying services amid this trend. So, we intend to seek out a broad range of partnering opportunities without limiting ourselves too much.

Q9: With regard to the Printers business, what trends have you seen over the last few years in volumes of supplies used per MIF in the office printer businesses? I believe a look at volumes of paper sold in the market shows declines in Japan and a downward trend worldwide. Can you tell us about the current conditions of supplies per MIF and how you view these in numerical terms, within the assumptions of the mid-term business plan?

A9: We define the rate of sales of supplies for hardware using the return rate. As you note, it's decreasing. But domestically, we're still seeing a recovery compared to overseas markets. We believe this is because the domestic market has a structure in which more original manufacturers' products are sold compared to third-party products, and the same probably applies to other manufacturers as well. Still, we expect this to decline over the long term, too. The main concern is overseas. Since third-party products are imported across national borders, particularly in Europe, it's hard to ascertain accurate data.

Q10: My question concerns the Mechatronics Systems business. I believe your explanation of growing revenues in recurring businesses referred to OKI taking over businesses from other players or coordinating things overall in the mature domestic market. Can you describe what benefits customers can expect from full outsourcing to OKI?

A10: We have a major customer for full outsourcing. There's no doubt we will be able to acquire more of such customers in the future. Since we've been engaged in businesses related to operations for a while, we consider this area to be one of our strengths.

Also, one advantage to customers having a manufacturer like OKI for full outsource services is the reduction of the required effort. Since we supply hardware, we can provide various

services, including more direct remote operation by remotely ascertaining causes and other matters in more hands-on fields, so to speak. The greatest benefit we can offer customers is the ability to reduce costs through faster remote services.

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.