

Q&A of the Financial Results Briefing for FY2021 Q3

Q: Regarding Components & Platforms(C&P), even if we exclude the one-time factor, the momentum seems to have improved considerably. Did the Automation Systems that were red in 1Q and Q2 return to profitability in Q3? How much of an effect structural reforms are having on results?

A: The improvement was mainly due to the effects of structural reform of Peripheral Products. The Automation Systems is still in the middle of recovery. The impact on procurement and overseas operations continues.

Q: Regarding Solutions Systems (SS). I would like to know your thoughts on Q4. Up to Q3, I have the impression that the impact of materials is coming out more than expected. By calculation from your forecast, for Q4, I think that sales will be at the same level as the previous year, while operating income will increase. Is there a factor of changes in a mix? The Q4 operating income figure may seem difficult to achieve.

A: In the Q4 of FY2021, we were expecting that there would be a number of large projects in the social infrastructure sector. The impact of the large-scale projects that started in the first half of last fiscal year was expected to be recovered in the fourth quarter of this fiscal year, but unfortunately, the aforementioned large-scale public projects were postponed. The current outlook takes into account this situation and the current procurement environment to a considerable extent. I think it's quite conservative. However, there is still some downside and some upside depending on the status of the materials.

Q: When considering the next fiscal year of Public Solutions at SS, what is the demand? Should I expect that there will be time lag in orders or that demand in the next fiscal year itself will be small? I think your assumption is that Public Solutions will grow in the next fiscal year. Are there any changes to that in these three months?

A: In the Public Solutions, there is of course the impact of procurement, but there are also other factors such as postponement in relation to the investment budgets of customers. Those will be postponed until the next fiscal year, so I'm looking forward to it.

Q: There was news about the change of president and the promotion of personnel. what is behind the decision of the change at this timing? What kind of timing should we expect for the management strategy to be reflected in the stock market as a result of the replacement of the president?

A: As for the change of president. Next year is the final year of the current medium-term business plan. Structural reforms are progressing as planned, and we have reached a certain point. However, the issue that needs to be addressed once again will be the strengthening of the top line. So we're going to increase the speed of our management. In addition, I think this is the right time to discuss the medium-term plan in parallel.

Current medium-term business plan was formulated by back-casting from our vision in 2031, which is the 150th anniversary of OKI. Therefore, it is important to first complete the foundation for future growth. The next step is to steer toward growth. Our direction are largely set. There is no specific time frame for this yet.

Q: As for the revision of business forecasts, what are the negative factors for the downward revision compared to the previous forecast in terms of net sales and profit.

A: The impact of procurement was ¥10 billion in net sales and ¥3 billion in profit for 1H, plus the impact of the price hike, for a total of ¥3.6 billion. We estimated that this would have an annual impact of about JPY18 billion in sales and less than JPY6 billion in profits at the time of the announcement of the Q2. However, things happened that exceeded our expectations. The first is the range expansion of affected materials. The impact has spread not only to semiconductors but also to power supplies and other components. The second is that so-called equipment or finished intermediate products are no longer coming in. The annual impact is expected to grow to about ¥27 billion in sales and ¥10 billion in profit. Based on these circumstances, a downward revision was made.

Q: With regard to the passing on prices, what kind of products and fields are you raising prices? How widespread or severe is it?

A: If we divide the market into the domestic market and the overseas market, the overseas market is more likely to come to the table for discussion. The domestic market is a bit tough to be honest. For the case of materials, there are some cases where customers understand the price increase. Since the impact of procurement is becoming more and more widespread in the world, large and relatively medium-sized customers who have been doing business with us for a long time hear about the situation and are willing to come to the table.

We supply various semiconductors and FA-related products as components, and those customers show understanding as they need components now.

Q: With regard to the today's announcement of the ruling on the lawsuit filed by the subsidiary. Could you please explain where you are now, including the progress of the lawsuit and when it

will be settled, as well as your position and future progress?

A: In 2015, we filed an arbitration claim seeking the collection of about 20 billion yen. OKI's claim was accepted and the trial was concluded in December 2020. The payment order was issued in a way that OKI's claim was accepted, but on the other hand, there were moves to transfer assets to the parent company, and we were also fighting that in court. The first trial ruling was issued in December 2021.

We have also preserved various local assets to a certain extent, so if they do not respond to our continued efforts to negotiate for collection, it would be very regrettable but we will wait for the second trial's decision and then start the procedure of compulsory execution.

Q: Is it correct to assume that approximately ¥3 billion of the reversal of the allowance for doubtful accounts due to the progress of the lawsuit will actually be cashed?

A: We determine the allowance based on probability of winning the case and the period until collection etc. Due to the progress of the lawsuit, the probability of winning the case has increased, and as a result of reviewing the allowance, about ¥3 billion was reversed. It does not mean that we will receive the cash of ¥3 billion.

Q: About C&P's annual operating income. The figure was revised upward from ¥2.5 billion to ¥3.5 billion, but taking into account the one-time factor, it's actually revised downward to ¥400 million. What is the background of this deterioration?

A: A major factor was an increase in costs due to soaring material prices. Considering the delivery date and production, we managed to procure parts and materials, but the prices of the materials we procured differed by one or two digits. We are trying to counteract this by raising prices, but it is quite difficult.

Q: I would like to ask about annual outlook for the impact of materials procurement.

A: We expect the impact of material procurement of ¥27 billion in net sales and ¥7.6 billion in profit. Adding ¥2.6 billion of the impact of price hikes, the total impact will be around ¥10 billion. By segment, in SS, the impact on sales is ¥12 billion and profit is ¥4 billion. In C&P, the impact on sales is ¥15 billion and profit is ¥5.7 billion.

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.