

# Financial Results for Q3 FY2023

February 7, 2024

**Oki Electric Industry Co., Ltd.**

## Summary of Financial Results

- Net sales and operating income were up significantly from the previous year.
- Net sales and operating income increased as a result of the recovery from production impacts due to the supply chain and the full-scale shipment of large-scale projects in Enterprise Solutions.
- Net income increased due to lower foreign exchange losses and improvements in taxes, etc.

(Billion yen)	9 months FY2023 (Actual)	9 months FY2022 (Actual)	Variance
Net sales	286.6	256.6	+30.0
Operating income (loss)	5.8	(4.8)	+10.6
Ordinary income (loss)	4.8	(7.9)	+12.7
Profit (loss) attributable to owners of parent	2.0	(11.6)	+13.6
USD average exchange rate (Yen)	143.3	136.5	+6.8
EUR average exchange rate (Yen)	155.3	140.6	+14.7

- For the cumulative nine months of FY2023, net sales were JPY286.6 billion, operating income was JPY5.8 billion, and profit attributable to owners of the parent was JPY2 billion.
- Net sales increased by JPY30 billion YoY and progressed slightly less than 70% against the annual plan, thanks to the normalization of production and the full-scale shipment of large-scale projects.
- Operating income also increased by JPY10.6 billion YoY due to an increase in volume. Compared to the same period last year, profit attributable to owners of the parent increased by JPY13.6 billion due to a decrease in foreign exchange losses and an improved tax adjustment.
- The exchange rate was JPY143.3 to the US dollar and JPY155.3 to the euro.

## Segment Information (Net Sales / Operating Income)

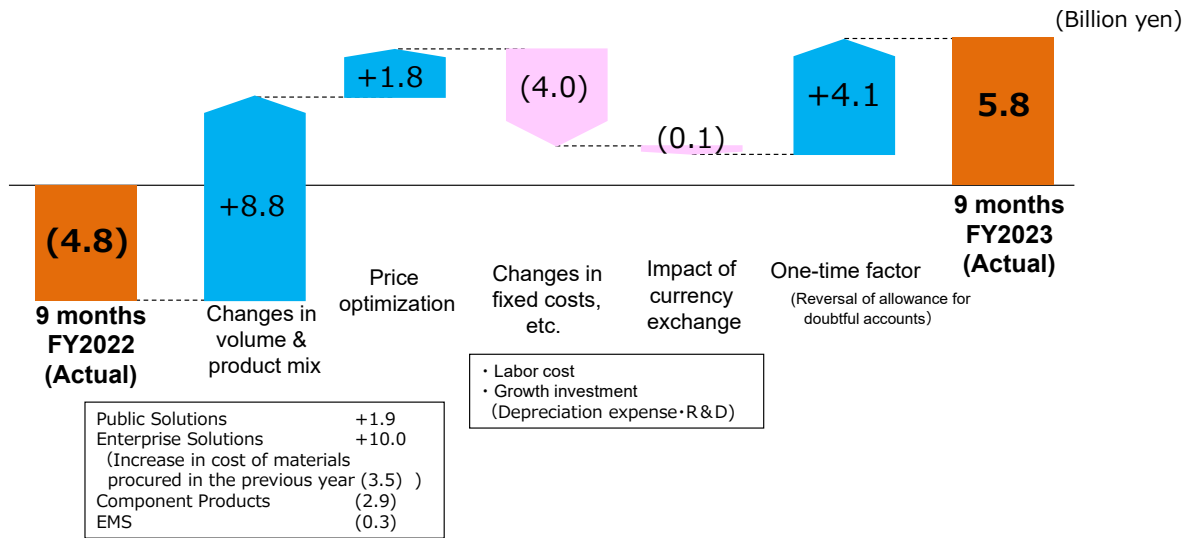
- Net sales and operating income increased in Public Solutions and Enterprise Solutions.

(Billion yen)		9 months FY2023 (Actual)	9 months FY2022 (Actual)	Variance
Public Solutions	Net sales	63.8	62.0	+1.8
	Operating income	0.6	(0.6)	+1.2
Enterprise Solutions	Net sales	115.5	77.5	+38.0
	Operating income	10.5	(2.6)	+13.1
Component Products	Net sales	53.4	62.3	(8.9)
	Operating income	(0.3)	1.4	(1.7)
EMS	Net sales	53.6	54.4	(0.8)
	Operating income	0.8	1.3	(0.5)
Others	Net sales	0.3	0.4	(0.1)
	Operating income	(0.7)	0.4	(1.1)
Corporate & Eliminations	Operating income	(5.1)	(4.6)	(0.5)
<b>Total</b>	<b>Net sales</b>	<b>286.6</b>	<b>256.6</b>	<b>+30.0</b>
	<b>Operating income</b>	<b>5.8</b>	<b>(4.8)</b>	<b>+10.6</b>

- Page 3 shows net sales and operating income by segment.
- Public Solutions marked a YoY increase in net sales and income in Q3, while Enterprise Solutions also saw an increase in net sales and income following Q2.
- On the other hand, Component Products and EMS posted lower net sales and income. EMS, in particular, recorded negative figures YoY in this quarter as a result of the growing impact of the decline in demand due to the stagnant Chinese economy.
- Details will be explained later in the segment results.

## Reasons for Changes in Operating Income/Loss

- The increase was due to a recovery from the impact of a production decline last year and an increase in the volume of large-scale projects.
- Investment in human resources and growth was steadily implemented.



- Page 4, we have the elevator chart of operating income in Q3.
- Changes in volume and product mix contributed to an increase of JPY8.8 billion. By segment, Enterprise Solutions grew significantly with sales growth. Public Solutions also grew, while component products and EMS, which had been significantly affected by sales decline, recorded negative figures YoY.
- The effect of ongoing price optimization contributed to an increase of JPY1.8 billion.
- Fixed costs increased by JPY4 billion. As a supplement to this breakdown, the gross investment in human capital and growth investment increased by JPY5.7 billion, while cost control and other measures offset this increase by JPY1.7 billion, resulting in a net increase of JPY4 billion.

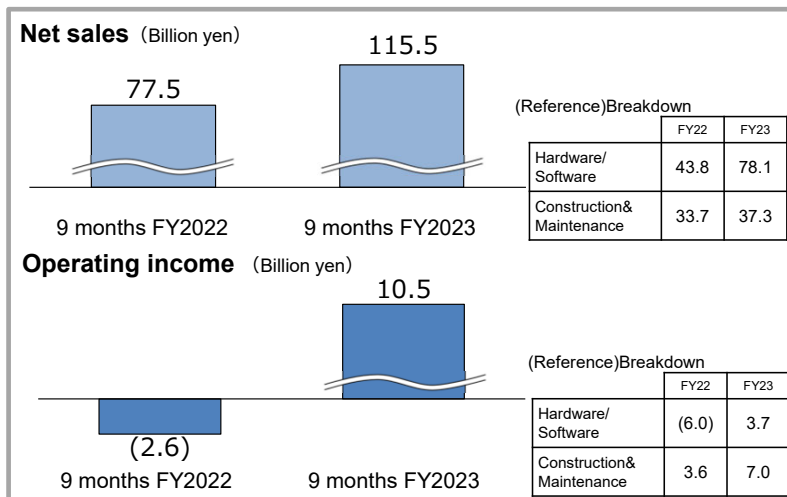
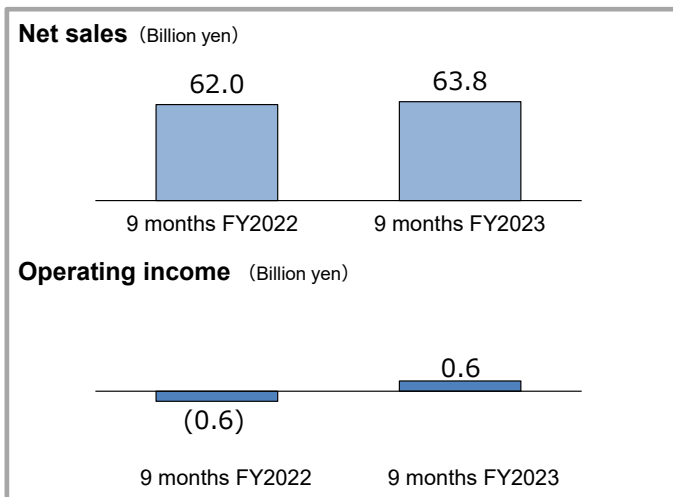
## Overview by Segment (Public Solutions / Enterprise Solutions)

### Public Solutions

- The business fields of roads, firefighting, disaster prevention, and TOKKI steadily increased. Although there was a decrease in the number of projects for communication carriers, net sales and operating income increased in the entire segment.

### Enterprise Solutions

- Net sales increased significantly due to improvement of the supply chain impact and large-scale projects. Operating income increased due to higher hardware and software sales, as well as improved earnings from construction and maintenance.



- On page 5 is overview by segment.
- First is Public Solutions.
- Business conditions remained largely unchanged from the trend up to H1, with sales of roads, firefighting, disaster prevention, and TOKKI rising YoY, while network sales declined YoY due to a decrease in projects for communications carriers.
- However, overall segment sales and operating income were up YoY, driven by the TOKKI business.
- Next is Enterprise Solutions.
- Overall net sales increased by JPY38 billion YoY. In addition to recovery from the supply chain impact, sales of hardware equipment to major customers increased significantly, and the construction and maintenance division also performed well due to strong inquiries.
- Operating income increased by JPY13.1 billion YoY to JPY10.5 billion, due to the impact of increased hardware sales as well as increased earnings from construction and maintenance.
- These are the Q3 results for Public Solutions and Enterprise Solutions, and I will talk about the annual forecast later, as with the previous briefing.

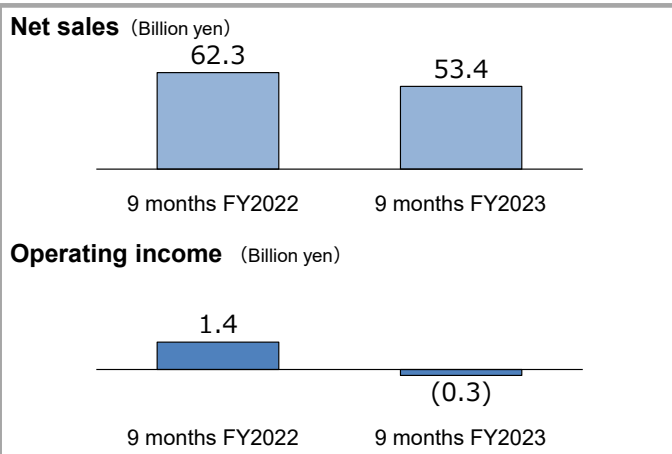
## Overview by Segment (Component Products / EMS)

### Component Products

- Business conditions have not significantly changed from the first half.

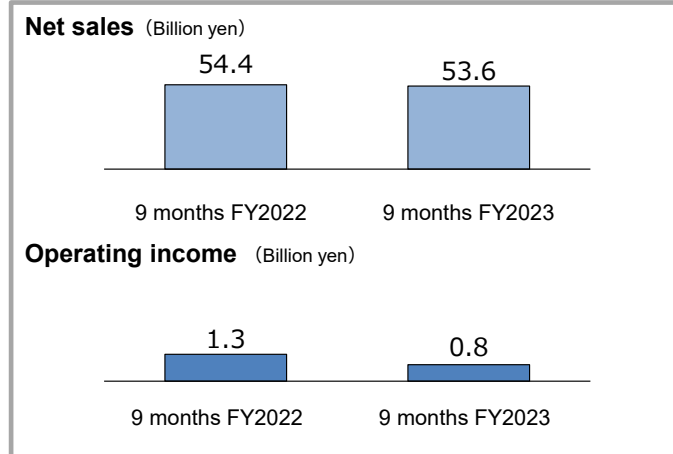
IoT is positive due to improvement from procurement difficulties due to supply chain impact.

Printer operating income declined due to the impact of a significant decrease in net sales on stagnant overseas demand.



### EMS

- The impact of the decline in demand in the FA and robot markets due to the slowdown in the semiconductor market and the Chinese economy expanded in Q3, resulting in lower net sales and profits.

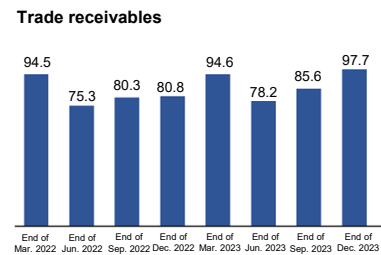
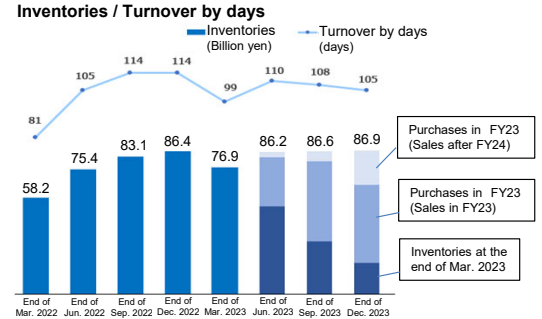


- On page 6, first is Component Products.
- The trend was still largely unchanged from H1, with overall segment sales and income down.
- As a brief supplement to the sub-segment situation, although not stated in the materials, the printer business decreased profits significantly, due to stagnant demand in Europe and the impact of lower sales in reaction to the surge in demand in the previous fiscal year. A large majority of the decline in the overall Component Products sales was due to this decline in the printer business.
- IoT remained almost unchanged YoY. Although operating income significantly improved YoY, partly due to improved procurement costs, it was not enough to drive the segment as a whole to earn profits.
- Finally, EMS.
- Unfortunately, we turned into a YoY decline in net sales and operating income in this quarter. In addition to the slow recovery of the semiconductor market, sales of products for factory automation and robotics were also significantly affected by the decline in demand due to the stagnant Chinese economy.

## Balance Sheets

- Trade receivables increased compared to the end of September due to higher sales.
- Inventories have remained at the same level since the end of June in response to the increase in Q4 sales, but progress is being made toward normalization.
- Fixed assets increased due to higher valuation of investment securities due to stock appreciation.

(Billion yen)	Dec. 2023	Mar. 2023	Variance
Current assets	233.8	230.2	+3.6
Fixed assets	170.8	160.2	+10.6
Assets	404.7	390.4	+14.3
Current liabilities	202.1	205.3	(3.2)
Fixed liabilities	96.2	85.9	+10.3
Liabilities	298.3	291.1	+7.2
Shareholders' equity	106.2	99.1	+7.1
Others	0.1	0.2	(0.1)
Net assets	106.3	99.3	+7.0
Total liabilities and net assets	404.7	390.4	+14.3
Shareholders' equity ratio (%)	26.2	25.4	+0.8
D/E ratio (times)	1.2	1.2	±0.0



- On page 7 is the balance sheet.
- Total assets increased by JPY14.3 billion from the end of the previous period to JPY404.7 billion.
- There are two main factors contributing to this increase in total assets. The first is an increase in trade receivables due to higher sales, and the second is an increase in the value of investment securities due to higher stock prices.
- As with the Q2 results, the same graph is shown on the right side for further clarification. As shown in the lower right corner of the page, trade receivables increased significantly due to higher sales.
- As for inventories, as shown in the upper right graph, last fiscal year's inventories have been decreasing as planned, but purchases for future sales growth has been increasing, resulting in an overall high level of inventories. We will continue to reduce inventories, especially to eliminate last fiscal year's inventories at a faster pace.
- Shareholders' equity increased by JPY6.5 billion to JPY106.2 billion. As a result, the shareholders' equity ratio was 26.2% and the D/E ratio was 1.2 times.

## Cash Flows

- Operating cash flow turned positive due to improved profit.
- We aim to further generate operating cash flow by improving working capital.

(Billion yen)	9 months FY2023 (Actual)	9 months FY2022 (Actual)	Variance
I Cash flows from operating activities	1.3	(14.4)	+15.7
II Cash flows from investing activities	(13.1)	(13.6)	+0.5
Free cash flows ( I + II )	(11.8)	(28.0)	+16.2
III Cash flows from financing activities	2.7	26.2	(23.5)
Cash and cash equivalents	29.6	32.8	(3.2)
Purchases of PP&E and intangible assets	13.2	12.2	+1.0
Depreciation	10.2	9.0	+1.2

- On page 8 is cash flows.
- Free cash flow was negative JPY11.8 billion.
- Free cash flow remains negative as the Company continues to invest for growth. However, operating cash flow turned positive due to improved profit, and improved by JPY15.7 billion YoY. In addition, investment cash flow has improved slightly YoY due to selective investment in accordance with the medium-term business plan.
- Although cash flow is improving, overall cash flow is still not at a satisfactory level. Since our business usually peaks in Q4, we intend to work diligently to generate cash flow by reducing inventories and promoting the collection of receivables, in addition to reaping profits.
- In the meantime, cash and cash equivalents totaled JPY29.6 billion, ensuring that the Company has the necessary cash reserves.



## Financial Forecasts

- Incorporating the current business environment and business performance trends of each business, as well as gains on sales of investment securities due to asset normalization, we revised its earnings forecast.

(Billion yen)		FY2023 Forecasts	Variance from previous forecast(Aug. 10)	FY2022 Actual	Variance
Public Solutions	Net sales	95.0	(3.0)	95.7	(0.7)
	Operating income	3.5	(0.5)	3.4	+0.1
Enterprise Solutions	Net sales	180.0	+2.0	112.9	+67.1
	Operating income	20.5	+5.0	1.5	+19.0
Component Products	Net sales	75.0	(6.0)	84.6	(9.6)
	Operating income	0.5	(1.5)	1.6	(1.1)
EMS	Net sales	75.0	(8.0)	75.3	(0.3)
	Operating income	1.5	(1.0)	2.3	(0.8)
Others	Net sales	0.0	±0.0	0.5	(0.5)
	Operating income	(1.5)	±0.0	0.4	(1.9)
Corporate & Eliminations	Operating income	(7.5)	±0.0	(6.8)	(0.7)
<b>Total</b>	<b>Net sales</b>	<b>425.0</b>	<b>(15.0)</b>	<b>369.1</b>	<b>+55.9</b>
	<b>Operating income</b>	<b>17.0</b>	<b>+2.0</b>	<b>2.4</b>	<b>+14.6</b>
	<b>Ordinary income</b>	<b>15.5</b>	<b>+3.0</b>	<b>(0.3)</b>	<b>+15.8</b>
	<b>Profit attributable to owners of parent</b>	<b>12.0</b>	<b>+4.0</b>	<b>(2.8)</b>	<b>+14.8</b>

Q4  
Exchange rate  
assumptions  
USD : ¥144  
EUR : ¥157

- On page 9 is the full-year forecasts for the current fiscal year. As we carefully examined the current performance of each of the businesses I just mentioned and the current business environment, we have reflected them in our figures.
- As a result, overall net sales have been revised downward by JPY15 billion.
- On the other hand, the profit items were each revised upward due to the positive effect of increased income from Enterprise Solutions, which offset the overall negative impact, as well as gains on sales of investment securities.
- The following describes the status of each segment. (See also supplemental material on page 10 for Public Solutions and Enterprise Solutions)
- In Public Solutions, although net sales were revised downward by about 3%, the business environment is generally in line with expectations, with a reasonable accumulation of orders already received for the quarter, and progress in the TOKKI and network businesses are largely in line with plans.
- On the other hand, firefighting and disaster prevention projects are subject to the results of bidding, and there are mission-critical large-lot aviation projects in particular, so we conservatively estimated the progress of individual projects and made this revision.
- We have been assuming from the beginning that there will be a high surge of orders in the three years of the medium-term business plan toward 2024 and 2025, and we feel that the backlog of orders is steadily increasing in the growth areas of roads, firefighting, disaster prevention, and TOKKI.

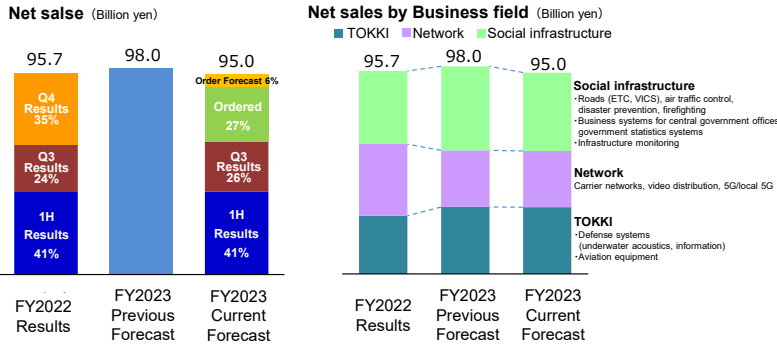
- Enterprise Solutions has been progressing as planned so far. Construction and maintenance demand has been very strong during the period, resulting in a significant improvement in the cost ratio and profit growth.
- In the hardware sector, the shipment volume has increased, and the revision of prices, which we have been working on to mitigate the impact of last year's high-cost materials, has been partially successful. In addition to these factors, driven by volume growth, product mix, and cost reductions through streamlining of our operations, profits have increased significantly.
- In Component Products, as explained earlier in the Q3 results, among the sub-segments, printers, especially in Europe, were significantly affected by the decline in sales due to deteriorating market conditions. Based on this actual result, we have revised downward our sales forecast by JPY6 billion for the full year.
- EMS posted increases in both sales and profits up to H1. However, as mentioned earlier, the impact of the decline in demand for FA and robotics parts became larger in Q3 as with other companies, and the market is not expected to recover until the next fiscal year or later. We have therefore decided to make a conservative estimate of the figures and revised sales downward to the same level as the previous fiscal year.
- In the meantime, the provision of allowance for doubtful accounts, which was previously viewed as an operating income item, is now included in non-operating income due to a change of some applicable accounting rules, following the favorable outcome of a lawsuit in China. This contributes to an increase of about JPY600 million in ordinary income as a profit item, other than positive factors at the operating income level. Including them will result in an increase of JPY1 billion in total.
- As for the forecast for profit attributable to owners of the parent, an increase of approximately JPY1 billion has been recorded as a result of incorporating into extraordinary income the gain on the sale of investment securities for the purpose of asset optimization and other factors.
- Let me summarize my explanation. At the last financial results presentation, I said that sales would be expected to ramp up in Q3 and peak in Q4. Although there was some downside risk in EMS in Q3 that was slightly larger than expected, I believe that, overall, the results show a reasonable performance toward achieving the annual plan.
- Originally, OKI's sales and profits tended to be concentrated in Q4, and as shown in the supplementary materials attached at the end of these presentation materials, we actually posted an operating income of JPY7.2 billion in Q4 last fiscal year.
- In the current fiscal year, we have not detected any negative factors, such as software failure costs, as we did in the last fiscal year, and taking into account the improvement in the cost ratio to date and these results, I believe that it is quite possible to achieve the performance forecast figures announced this time.
- Of course, we will not let up until the very end and will continue to take all possible measures to achieve the plan for the current fiscal year. This concludes the explanation of the Q3 financial results, although it is brief. Thank you for your attention.

# (Reference) Financial Forecasts

- Public Solutions
- Enterprise Solutions

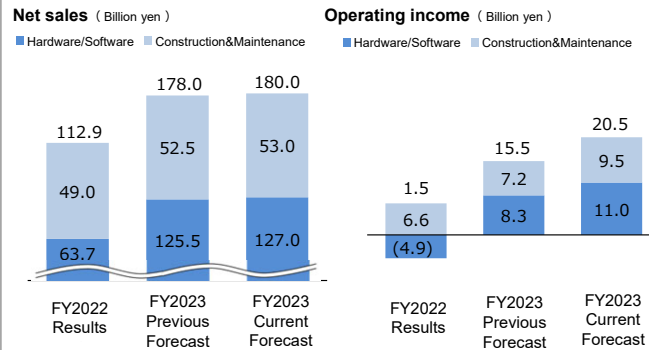
## Public Solutions

- ✓ Although there are strong and weak results in each area, the business environment has not changed significantly from the initial forecast.
- ✓ Both sales and profit were revised down based on the progress of bidding projects such as firefighting and disaster prevention and projects in the aviation field.
  - The business fields of roads, firefighting and disaster prevention increased from the previous year, partly due to the market recovery from the impact of COVID-19, etc.
  - The TOKKI business and network business are in line with the plan.
  - The backlog of orders for roads, firefighting, disaster prevention, and TOKKI also increased steadily for the next fiscal year's sales.



## Enterprise Solutions

- ✓ Both net sales and operating income were revised upward.
- ✓ Operating income increased due to product mix, etc., in addition to an increase in volume.



## (Reference) Quarterly Results

(Billion yen)		FY2022					FY2023		
		Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
Public Solutions	Net sales	19.3	19.8	22.8	33.7	95.7	19.3	20.0	24.5
	Operating income	(0.3)	(0.3)	0.0	4.0	3.4	(0.1)	(0.7)	1.4
Enterprise Solutions	Net sales	23.3	24.5	29.7	35.4	112.9	27.4	36.5	51.5
	Operating income	(1.6)	(1.1)	0.1	4.1	1.5	1.9	2.0	6.6
Component Products	Net sales	19.2	21.8	21.4	22.3	84.6	17.0	17.9	18.5
	Operating income	(0.1)	1.6	(0.1)	0.2	1.6	(0.8)	1.3	(0.8)
EMS	Net sales	16.2	18.5	19.8	20.9	75.3	17.7	18.8	17.1
	Operating income	0.1	0.4	0.9	0.9	2.3	0.6	0.3	(0.1)
Others	Net sales	0.1	0.1	0.2	0.1	0.5	0.1	0.1	0.1
	Operating income	0.1	0.1	0.1	0.1	0.4	(0.1)	(0.3)	(0.3)
Corporate & Eliminations	Operating income	(1.2)	(1.7)	(1.8)	(2.2)	(6.8)	(1.4)	(1.5)	(2.2)
Total	<b>Net sales</b>	<b>78.1</b>	<b>84.6</b>	<b>93.8</b>	<b>112.5</b>	<b>369.1</b>	<b>81.5</b>	<b>93.3</b>	<b>111.8</b>
	<b>Operating income</b>	<b>(3.0)</b>	<b>(1.0)</b>	<b>(0.8)</b>	<b>7.2</b>	<b>2.4</b>	<b>0.0</b>	<b>1.0</b>	<b>4.8</b>

## (Reference) Major Products and Services

<b>Public Solutions</b>	<ul style="list-style-type: none"><li>• Roads (ETC, VICS), air traffic control, disaster prevention, firefighting</li><li>• Business systems for central government offices, government statistics systems</li><li>• Defense systems (underwater acoustics, information)</li><li>• Aviation equipment</li><li>• Infrastructure monitoring</li><li>• Carrier networks, video distribution, 5G/local 5G</li></ul>
<b>Enterprise Solutions</b>	<ul style="list-style-type: none"><li>• ATMs, cash handling equipment</li><li>• Bank branch terminals, ticket reservations issuing terminals, check-in terminals</li><li>• ATM monitoring/operation services</li><li>• Bank branch systems, system to centralized back office operations</li><li>• Railway ticket issuance systems, airport check-in systems</li><li>• Manufacturing systems (ERP, IoT)</li><li>• Construction and Maintenance Services</li></ul>
<b>Component Products</b>	<ul style="list-style-type: none"><li>• AI edge computers, sensors, IoT networks</li><li>• PBXs, business phones, contact centers</li><li>• Cloud services</li><li>• LED printers</li></ul>
<b>EMS</b>	<ul style="list-style-type: none"><li>• Consigned designing and manufacturing services</li><li>• Printed circuit boards</li></ul>

- The projections and plans in this material are based on information currently available to OKI as of the date of publication and certain assumptions judged as rational, therefore actual results are subject to change depending upon the changes of business environments and other conditions.
- Indication method of amounts in hundred millions (yen) are as follow:  
Amounts in each item are rounded to the nearest hundred million yen.  
Variances are calculated in the hundred millions.