

Summary of Q&A at the FY2022 Financial Results Briefing

Q) What is the difference between the results for the fourth quarter of FY2022 and your internal plan?

A) What we did not expect was the impairment losses (-10.6 billion yen) on a part of goodwill in the Domino business. This was due to a change in the discount rate applicable to the future cash flow reflecting a rise in interest rates.

On the business side, the downturn in the Machinery business had a significant impact. Supply constraints caused by shortages of parts and materials were settled, but the market in China cooled down, so we were unable to achieve the plan. The other businesses were almost in line with our expectations.

Q) With regard to the forecast for FY2023, what are the factors for the year-on-year change in business segment profit?

A) In FY2023, we expect profit to increase across the Company as a result of a recovery in profitability in the P&S business and an increase in revenue in the Machinery business. Negative factors for profit are an increase in promotion, mainly in the P&S business, and an increase in SG&A such as personnel expenses globally. Meanwhile, positive factors include an improvement in the product mix and a significant improvement in sea freight.

Q) I would like to know about market conditions in the P&S business by product category and region.

A) Market conditions in the fourth quarter of FY2022 were particularly severe in the U.S. and China. Especially in the U.S., despite conducting promotions, sales of hardware were sluggish including competitors and there are ample inventories. By product category, monochrome lasers were struggling. On the other hand, inkjet for Japan and other Asian countries and lasers for Europe remained firm.

Q) With regard to the forecast for the P&S business in FY2023, what are the reasons for the increase in profit, even though sales are unchanged year on year?

A) We expect sales to remain unchanged, factoring in an increase in promotion due to a change in the competition environment, despite strengthening sales of hardware. Meanwhile, we expect business segment profit to increase due to a decrease in the logistics-related costs incurred in FY2022 and an improvement in the product mix.

Q) What is your view on the outlook for consumables in FY2023?

A) Excluding FX effects, we expect a slight year-on-year increase. Since sales channels saw wait-and-see buying attitudes in the second quarter of FY2022, they have been operating with lower-than-normal inventory levels, and we assume that this situation will continue in FY2023.

Q) With regard to the forecast for the P&S business in FY2023, why do you expect both hardware and consumables to grow while assuming a gradual decline in the size of the market?

A) Market conditions in the U.S. and China are cooling down at the moment, but we expect them to start recovering in the second half of FY2023. We expect the ink tank market in emerging countries to grow as well, and we will increase sales of hardware. In addition, the Commercial & Industrial Labeling business was affected by supply constraints due to shortages of parts and materials in FY2022, but we expect the supply constraints to settle in FY2023, and thus expect growth.

Q) Orders for machine tools were weak in the fourth quarter of FY2022, but what is your forecast for the future?

A) In the second half of FY2022, orders were considerably constrained due to difficulties in procuring parts and materials. In addition, in China, our largest market, orders decreased due to the impact of the activity restrictions under the policy to prevent COVID-19 infection and the spread of infection with the subsequent change in the policy.

As for FY2023, although there has been a slow start, the exhibition held in Beijing in April was well attended, and the industry expects a positive turnaround from July onward. We have high expectations for policies by the Chinese government to stimulate demand.

Despite the ups and downs in the market, we are taking various measures, such as launching new products and strengthening our sales and service facilities, to steadily capture demand when market conditions improve.

Q) Are the figures for the forecast for the Industrial Equipment business in FY2023 based on the assumption of tailwinds such as the Chinese government's policies?

A) The performance of the Industrial Equipment business is largely dependent on market

conditions, but we have factored in improvement in market conditions including those in China in FY2023. Market conditions go up and down in two to three year cycles, but the scale and length of these ups and downs are difficult to predict. We regard the Industrial Equipment business as a growing business and will steadily take the measures necessary for growth and leverage favorable conditions to improve performance when they arise.

Q) The investment in the factory in India for machine tools is not large in terms of amount. What is your vision of the future scale of production?

A) We see India as a market that will grow in the future and will start first on a small scale there. We started our factory in China (Xian) in the early 2000s on the same scale as the one in India. We will expand the factory in India using the one in China as a prior model, and will determine the speed and scale of the expansion in the future.

Q) You mentioned that there is an urgent need to transform the business portfolio. What is your view on the N&C business?

A) With regard to the N&C business, we have been working to improve profitability for some time. Given the special factors of COVID-19, we extended the deadline to achieve the target by the end of this medium-term business strategy, but we will continue to work on improving the profitability. However, from a company-wide perspective, we believe that it is more effective to transform our business portfolio by quickly expanding the industrial area and increasing its share. Therefore, we are focusing on that course.

Q) I would like to ask you about the 30 billion yen cap for the M&A investment stated in the medium-term business strategy. I believe that M&A is the way to fill in the missing piece in realizing an expansion in the industrial area. What is your approach to M&A targets and the hurdle rate?

A) Although we do not have specific targets in mind, we would like to capture and expand, through M&A, our lineups in areas that we do not currently have in the Industrial Equipment and Industrial Printing businesses.

With regard to the hurdle rate, it depends on the type of field in which the M&A is to be conducted, but we are aware that we need to secure a profit level exceeding the cost of shareholders' equity at an early stage.