

Summary of Q&A at the FY2020 Financial Results Briefing

Q) Please explain the preconditions for price competition and sales promotion expenses set for the P&S business in your FY2021 plan.

A) With regard to the FY2021 outlook, we do not forecast that prices themselves will fall much. We project that demand associated with working and learning from home will continue to be firm in the first half, but it is likely to run its course in the second half. As the industry and market are expected to return to normal in the second half, we think there is a risk that price competition will intensify in the second half, taking into account moves by competitors and other factors.

Q) Regarding the FY2021 plan for the P&S business, how much impact do you estimate disruptions in the supply chain will have on sales and profit?

A) Laser products will be affected by lockdowns in Vietnam while both laser and ink products will be impacted by material procurement issues, and these will lead to a decline in sales. We forecast a decrease of 21.7 billion yen in business segment profit from FY2020, and about half of the amount reflects the impact of disruptions in the supply chain.

Q) Do you project print volume (PV) for FY2021 will be the same level as in FY2020 for both the SOHO and SMB segments?

A) Yes, we do. Sales of consumables in FY2020 were 95% of the FY2019 level. We aim to maintain the current level of consumables sales in FY2021 as well. PV for FY2020 in the SOHO and SMB segments was 90% and 85%, respectively, of the FY2019 level, and PV for FY2021 is also expected to remain flat.

Q) The sales growth of laser consumables in FY2020 was minus 4% from the FY2019 level. What do you think the growth rate will be like in FY2021?

A) Lockdowns in Vietnam will affect not only hardware but also consumables. To avoid causing trouble to customers by consumables being out of stock, we plan to use air transportation. Although air transportation expenses will be a factor pushing down profit, we do not project that lockdowns in Vietnam will impact sales of consumables.

Q) With regard to the impairment loss on goodwill recorded in the Domino business, what specifically led to the deteriorated outlook? Will the positioning of the Domino business be changed in Brother's strategy going forward?

A) Even amid the spread of COVID-19, customers' use of equipment has been firm.

However, their capital investment demand has declined, and there have been delays in expanding hardware sales due to factors such as restrictions on face-to-face sales activities. Accordingly, we carefully examined our future business plans and decided to record an impairment loss this time.

However, the industrial printing field remains a key area where Brother can achieve growth in the future, and we will continue to focus on and develop this field. We would like to ask for your continued understanding and support.

Q) As for the goodwill in the Domino business on which an impairment loss was recorded, is there any risk of an additional impairment loss?

A) We recorded an impairment loss this time after carefully examining our business plans due to the effects of COVID-19. Since impairment is assessed using indicators such as discount rates and market growth rates, we cannot say there is no possibility of the occurrence of a major impairment loss, but we do not anticipate that we will incur a very large impairment loss soon. However, if the impact of COVID-19 is prolonged or an event with impact beyond that of COVID-19 occurs, we will need to review our business plans and the possibility of recording an impairment loss is not zero.

Q) What level of profit ratio and sales scale should the Domino business have?

A) Since we will operate the business while making investment, we consider a drastic increase in profit ratio is difficult to achieve. The profit ratio of the Domino business that we currently disclose (consolidated ratio for the Brother Group) includes amortization and other expenses that occurred at the time of the Domino acquisition, and the consolidated profit ratio for the Domino Group that excludes such expenses reaches almost 10%. Further increase in the profit ratio can be expected if new products are launched stably and sales, including those of consumables, grow.

Q) How likely is the FY2021 plan for the N&C business to be achieved?

A) As we recorded an impairment loss of 2.9 billion yen on assets in FY2020, we wanted to avoid being in the red for two years in a row, so we have set these figures as targets for the business. However, after developing the plan, the COVID-19 situation has worsened, and we think there is a risk that something we have not incorporated in our preconditions, such as the recent state of emergency declaration, may happen. It is difficult to make accurate projections because the situation is changing daily, by the minute.

Q) Orders for machine tools in the Machinery business are recovering. When are they likely to peak?

A) It is extremely difficult to predict the future direction at this point. Orders recovered day by day in FY2020, especially from China, but we do not expect this recovery trend will continue in the future as the increase in orders from China is attributable in part to one-off orders. The FY2021 plan assumes that the current level will continue. However, the outlook for this industry is difficult to predict, and we do not have a clear future outlook.