

## Summary of Q&A at the Third Quarter of FY2021 Financial Results Briefing

**Q) What has prompted Brother to decide to repurchase its own shares amid the current uncertain environment, including the spread of the Omicron variant and spikes in logistics costs and parts and materials costs? Please also explain the reason why the repurchase amount has been set at 10 billion yen.**

A) As we now have good prospects of recording profits for this fiscal year, we have decided to carry out this shareholder return measure in the uncertain environment for the balance with stable dividends.

We have decided on the amount, taking into consideration various factors such as the current financial status.

**Q) Please explain the details of supply restrictions by business.**

A) The P&S business has been affected by semiconductor shortages, factory lockdowns, and longer transportation times. The production volume for the third quarter trended below the previously forecast level. We forecast that a similar trend will be seen in the fourth quarter as well.

In the Machinery business, the production of machine tools decreased slightly in the third quarter as supplies of parts and materials were discontinued, affected by lockdowns at suppliers in Vietnam. Moreover, in China, the operation of our factory in Xian City was completely suspended for one month starting from the end of December 2021 due to a lockdown implemented for the entire city. This will significantly affect our supply to customers in China, impacting results for this fiscal year. With regard to industrial sewing machines, we project only a small impact on results for this fiscal year despite the suspension of operation of Xian Factory, as seen for machine tools.

The P&H business has been somewhat affected by the loss of sales opportunities resulting from the lockdown implemented from the end of July at a factory in Vietnam, although the business finally started to recover in November.

**Q) Logistics costs and parts and materials costs increased significantly. What is your outlook for the fourth quarter and FY2022?**

A) Regarding logistics costs for the fourth quarter, air freight rates are likely to decrease with progress in supplementing inventories of consumables. However, with regard to ocean freight rates, as costs have remained high, there will be a significant impact from the

increase in logistics costs in the second half. We expect that effects from the spike in logistics costs and parts and materials costs, including a shortage of containers, will continue until around the first half of FY2022.

**Q) Based on trends in the SOHO and SMB segments, please explain what has supported the firm performance of laser printer consumables.**

A) Laser printer consumables remained firm in both the SMB and SOHO segments in the third quarter. In the SMB segment, there was a large downturn in the first quarter of the previous fiscal year, but the performance has recently recovered, although not reaching the level prior to the COVID-19 pandemic. The recovery is due in part to moves by sales channels to increase their stock. However, looking at sales to end users, the performance has also been firm in both the SMB and SOHO segments. As orders anticipated for the fourth quarter were moved forward to the third quarter, the momentum in the fourth quarter may not be as large as in the third quarter. However, we still expect that the performance of laser printer consumables will remain somewhat firm in the fourth quarter and even in FY2022.

**Q) With regard to orders for machine tools, Brother presented previously (at the time of the Second Quarter Financial Results Briefing) its view that orders would decline after peaking in the first quarter. Why did orders increase in the third quarter?**

A) In the third quarter, orders increased from the second quarter as a result of an upturn in China, which is our main market. Moreover, we received IT-related spot orders in the third quarter. The decrease in sales for the third quarter is due to the effects of limited supplies from suppliers, and not due to weak demand. Worldwide, the market itself is not weak in the fourth quarter as well. Orders will decrease in the fourth quarter, affected by the lockdown at Xian Factory. However, we project that orders will recover going forward.

**Q) Please explain the structural reform of the N&C business in detail.**

A) In the fourth quarter of the previous fiscal year, we recorded closure costs and impairment loss on karaoke clubs totaling approximately 2.7 billion yen. Due to the effects of this structural reform, gross profit has improved this fiscal year. In our forecast for the fourth quarter of this fiscal year, we have incorporated closure costs resulting from reducing the number of karaoke clubs by 12 from 89 to 77, as well as an impairment loss on club equipment.

**Q) The Domino business was affected by increase in SG&A expenses and higher**

**logistics costs and parts and materials costs in the third quarter. What are the factors causing the increase and higher costs? Also, what is your outlook in the fourth quarter and beyond?**

- A) There was a change in the hardware and consumable ratios in sales. In addition, we have been recording the cost of preparing new products gradually, starting in the third quarter. In the fourth quarter, the business has been affected, in particular, by increase in logistics costs and parts and materials costs, as well as SG&A expenses for the launch of new products as incurred in the third quarter. Last year, we were unable to carry out most of our sales activities in the U.K. and other places, so we also project that we will continue to incur increase in expenses for making up for last year's activities in the fourth quarter.