Summary of Q&A at the Second Quarter of FY2022 Financial Results Briefing

Q) Please share the status of business segment profit for the second quarter relative to the internal plan.

A) Business segment profit was far lower than internally planned. This was mostly due to the P&S business. The major factor is a significant increase in parts and materials costs that has continued for longer than expected, in addition to decreased sales of consumables.

Q) Why have costs worsened despite the fact that ocean transportation costs and the prices of some materials declined over the period from the first to second quarter?

A) For logistics costs, annual contracts have been concluded, so the recent decline in logistics prices has had little impact.

Some of our parts and materials costs have declined, but the amount of the decline was far less than the increase of prices of other parts and materials, resulting in the worsening of costs.

Q) Regarding the P&S business, you mentioned that the reasons for the significant decrease in sales of consumables in the second quarter include logistics disruptions in the United States. Please explain that in detail.

A) As the prolonged lead time for ocean transportation gradually improved, freight started to arrive faster than expected. This led to shortages in warehouse space for storing products that arrived at ports, as well as shortages in shipping chassis, trucks and other transportation means, and personnel for such operations, and these factors affected shipment.

Q) Will sales return to normal if the logistics disruptions are resolved?

A) Sell-out for the second quarter was not bad, with stock levels in sales channels falling. Therefore, we expect that sales for the second half will proceed as projected at the beginning of this fiscal year.

Q) You mentioned that there was a downturn after a last-minute surge in demand ahead of consumables price hikes in Europe. How long did the downturn continue?

A) In Europe, as we raised the prices of consumables in May, a last-minute surge in demand occurred in the first quarter. We had previously expected that this downturn would happen to some degree especially in July, but demand did not return to normal even in August and September, resulting in a drop in sell-in for consumables in the second quarter. As demand has come back since October, we expect that sales for the second half will be at the level projected at the beginning of this fiscal year.

Q) Sales of hardware grew significantly following the easing of supply constraints, but what about the sufficiency of distribution stocks in sales channels and the status of sell-out?

A) Sell-out is increasing, but when it comes to hardware stocks in channels, there is a difference between laser printers (LBP) and inkjet printers (IJP). For LBP, in particular, Brother's supply has not been enough to fully satisfy requests from customers, and the level of stocks at channels is not yet sufficient enough.

Q) There is a concern that orders for machine tools will enter a down cycle in conjunction with the worsening of business sentiment. Please explain your outlook for the second half and beyond.

A) Orders for the second quarter appear to be down from the first quarter, but this was caused by a special factor, that is, customers moving up their orders to have sufficient stocks on hand while they were facing supply constraints resulting from shortages of parts and materials in the first quarter.

At this point, there are no signs of decline in demand for capital investment due to economic downturn, and we do not anticipate a significant drop in demand in the second half.