

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

Q) Please explain the market conditions and the status of stocks at channels for the P&S business by product category.

A) With regard to hardware, the market conditions are worsening, especially in the U.S. and Europe for inkjet, and in the U.S. and China for laser. We expect that the tough conditions will continue in the fourth quarter and beyond, but recovery is anticipated from the second half of the next fiscal year. Regarding stocks at channels, the stock for laser has returned to an appropriate level as the supply constraints caused by shortages of parts and materials have eased. For inkjet, stocks are sufficient or slightly surplus, but they have not yet reached an excessive level.

Q) Has the worsening of the market conditions been caused by the downturn after a surge in demand related to COVID-19, or has it resulted from the impact of the cooling of the economy? Also, does the situation differ between segments, such as SOHO and SMB?

A) We believe this is due to the cooling of the economy, rather than the downturn after a surge in demand related to COVID-19. There is not significant difference between SOHO and SMB.

Q) Sales of consumables decreased significantly in the second quarter, but did they recover in the third quarter? What is the outlook for the fourth quarter and beyond?

A) Although sales in the third quarter recovered from the second quarter, they were lower than the internal plan. We expect this trend will continue in the fourth quarter and beyond, so we revised our forecasts for this fiscal year downward. We expect that the gradual downward trend will continue going forward, and do not anticipate significant recovery within the next fiscal year. In the next fiscal year, we will first focus on the sale of hardware to underpin the future consumables business.

Q) The logistics stagnation in the U.S. are cited as a cause for the decreased sales of consumables. Does this mean the same has happened again after the previous ones? When is the recovery expected to come?

A) The logistics lead-time has been reduced since the second quarter, resulting in much quicker arrival of products. This caused shortages of warehouse space, leading to delays of receiving and shipping goods. Although the situation is currently improving,

we expect the impact will continue until the end of this fiscal year.

Q) What has caused orders for machine tools to decrease quarter by quarter and what is your future outlook?

A) The biggest cause for the decreased orders is that we were unable to produce enough products due to shortages of parts and materials. Although there was demand, the procurement of parts and materials did not proceed as smoothly as we had expected, resulting in longer lead-time. We were forced to ask customers to temporarily refrain from placing orders. In addition, due to economic confusion in China caused by the zero-COVID policy as well as the subsequent policy changes, orders themselves have decreased. However, these causes are only temporary, and we expect that orders will recover going forward and the business will be back on track for growth.

Q) In the Nissei business, reducers performed well, but weren't they affected by the worsening of the market conditions in China? What is your future outlook?

A) Although there are some effects from China, the need for automation and labor saving is growing globally, and demand has been firm for reducers used in autonomous mobile robots and food packaging machines. We forecast the need for automation will continue in the next fiscal year and beyond, and we will aim to expand sales.

Q) You have been able to pass costs on to the prices of products so far, but if demand weakens in the next fiscal year and beyond, are you going to wait for the recovery instead of increasing prices? What is your stance on price adjustments?

A) In addition to the significant increase in parts and materials costs and logistics costs, energy costs and personnel expenses are also rising. To secure appropriate and sound profits under such circumstances, we think we need to consider passing these costs on to the prices while also paying attention to the market environment as well as moves of competitors.

Q) What is your outlook for capital investment in the next fiscal year?

A) In our medium-term business strategy, we committed to aggressively investing for future growth and we would like to make more capital investment in the next fiscal year than this fiscal year, while continuing to comprehensively take into account our financial results and cash flow status.