

[English translation of the original Japanese]
Summary of the online meeting with institutional investors held on November 18, 2024

This is an English translation of the summary of the Q&A which was conducted in Japanese. Please note that there may be some differences between this summary and the simultaneous English interpretation provided for the online meeting.

[Date & time] November 18, 2024/ 17:45-18:45 (JST)
 [Venue] Zoom meeting
 [Moderator] Mr. Ryosuke Katsura, Senior Analyst, SMBC Nikko Securities Inc.
 [Panasonic Holdings Corporation] Yuki Kusumi, Group CEO
 Kazuyo Sumida, Group CSO
 Akira Waniko, Head of Corporate Finance, Accounting & IR Department



Moderator: Mr. Ryosuke Katsura, Senior Analyst, SMBC Nikko Securities

1	Q	To begin with, I would like to ask a few questions from myself. It has been about two years since you said that you are going to lift the “on-hold status for the portfolio management.” Could you please share your thoughts in your own words, on what you have accomplished and on what you could not achieve?
	A	<p>We spent a two-year period enhancing our competitiveness before saying we would “lift the on-hold status for our portfolio management.” But the sense of crisis was not adequately communicated across the entire group. Therefore, I could not be patient any more, and said we were going to lift the on-hold status. In the current medium-term, we set targets including cumulative operating cash flows of 2 trillion yen, cumulative operating profit of 1.5 trillion yen, and ROE of 10%. It is likely that only cumulative operating cash flow is to be achieved, and I am not satisfied with this situation.</p> <p>Even if we insist that we are going to “lift the on-hold status for portfolio management,” it is not straight forward because we need to negotiate with our counterparties and also execute it at the right time. In the automotive business, the trend toward software-defined vehicles is becoming stronger. However, we realized that we do not have enough capital to keep up with this trend going forward. Therefore, we made the decision to transfer this business, and we are fortunate to find a suitable owner. Additionally, we announced the transfer of the projector business of Connect. However, once again, we have not yet achieved what we set out to accomplish in the medium-term.</p> <p>From this perspective, I am disappointed that we are unable to meet investor expectations, and that is why I say we are in a crisis. As for cumulative operating profit, we are likely to reach only 1 trillion yen, while we are on track to achieve the target for cumulative operating cash flows. This indicates that we have managed to reduce inventories and improve our operations. But we have not yet been able to deliver the expected profitability improvement. In HAVC and Living Appliances and</p>

		<p>Solutions of Lifestyle segment, the progress of transformation was very slow. Therefore, we decided to replace the heads of both divisional companies. I should have changed the management at an earlier stage if I had known they would be slow to make reforms. These are regrets that I have regarding the current medium-term.</p>
2	Q	<p>In the headquarters function, you appointed a new CHRO, Tatsuo Kinoshita-san. What kind of impact should we expect from this appointment? Will hiring a talented person change the course of your transformation? Please share your insight on the current situation and any uncertainty you may have? Also, do you think what should be accelerated going forward, and how should the headquarters functions should be shaped?</p>
	A	<p>For a company that has not changed over the years, it is essential to understand not only the system and structure, but also the strategies that other successful companies have employed to evolve. Therefore, we need to invite individuals with experience in driving changes in response to the evolving business environment and ask them to share their insight that we have not yet incorporated. Kinoshita-san is a well-respected figure in the human resources field, admired by mid-level and younger employees, and creating the atmosphere where his proposals are highly valued.</p>
3	Q	<p>Are you getting closer to the ideal management team that you wish to create, or are you still far from it? I would also like to know what kind of business portfolio you want to see.</p>
	A	<p>Over the past 25 years in our group's history, everyone has taken seriously and followed what the president instructed. This has led to a culture where we tend to simply follow the president's directives without giving our own opinion. I think this is one of the reasons why our company has not been able to grow sustainably. We have a few senior vice presidents who are older than I am, which may appear unusual to the capital market. But the fact is quite the opposite. We intentionally asked them to remain in our management because they can provide honest feedback to me without hesitation. This also helps to create an atmosphere where younger directors feel empowered to express their opinions, proactively. I view this tendency as a positive development. If we do not foster this environment, the president will become isolated over time, making it difficult to engage in sound management.</p> <p>Furthermore, I often receive the question, "What does Panasonic define its portfolio or core business?" When discussing the core business, which is expected to grow and contribute to the group's overall profitability, I would say that we are in the process of establishing a path toward improving profitability. If I were to treat as a hypothesis, I would refer these areas as core businesses. However, based on the reflection of the current medium-term situation, I would prefer to revisit this topic in the near future when we have better visibility. Looking ahead to the next medium-term strategy, I think we have one business that is expected to generate both profitability and growth, which is the energy storage system business for data centers. We have been developing this system and been supplying it to data center customers for many years. On the other hand, in AI data centers, GPUs in AI servers require a large amount of power, and there are peak consumption moments depending on the time of day, which can exceed the steady state consumption level. Therefore, power supply solutions are very critical for managing these peaks. Given the rapid growth of this business, I expect this area to flourish over the next three years or so. Additionally, reducing large power consumption also contributes to CO2 reduction. Within this business, we are becoming increasingly confident that profits will rise steadily.</p>
4	Q	<p>The topic of Energy came up, so I would like to ask you about it in that context. The challenging situation for automotive batteries in Japan continues. Will the business</p>

		with Mazda and Subaru improve the situation? Regarding the return of investment in Energy as a whole, I would like to ask Kusumi-san if there is a specific level or time horizon that you are considering.
	A	Regarding the automotive battery business, we are in discussions with Mazda and Subaru, keeping in mind to secure an appropriate level of profit. In addition, the 1865 cell will not be the type of battery that will be used in this area in the future, so we will continue to make improvements to our manufacturing facilities. As we have stated for a long time, we will invest in the automotive battery business only after we share a firm understanding with car manufactures. Also, the upfront capital investment is substantial, and if operations become sluggish, the business may face challenges similar to the current situation at Suminoe factory. Automotive batteries are key components that affect the performance and quality of EVs. We share this understanding with car manufactures and are discussing how to collaboratively manage these risks. Furthermore, the projects of Subaru and Mazda are applicable for subsidies from the Japanese government. But there will be some risks if the operation becomes sluggish. Therefore, we want to ensure that this business will not result in losses, even in such scenarios. In addition, there are costs incurred in Japan related to our US operations. To offset these costs, we need to strengthen our operation at Nevada factory to achieve higher productivity. Efficiency is already better than our initial plan, but we still need to improve performance further.
5	Q	Regarding Nevada factory, my understanding is that its ROIC is already more than 15% excluding IRA. Is that correct?
	A	That is correct.
6	Q	Regarding the IRA tax credit, if IRA Section 45X continues, I believe that, in the best-case scenario, Panasonic will receive additional IRA tax credit once production at Kansas factory begins. On the other hand, the automotive battery business requires a large amount of capital investment. A year ago, there was a discussion about building factories to reach 200 GWh by 2030. The capital markets were concerned that the cash outflow for investment would continue with limited return. However, this situation has changed considerably, and the monetization of the IRA tax credit has accelerated since then. Also, discussions are ongoing with customers to secure delivery volumes and to share risks. In Energy segment as a whole, you also have generative AI-related business. From cash flow perspective, I think you will enter a phase in which capital investment decreases and can be controlled in the next fiscal year.
	A	Regarding overall cash flow in the next medium-term, I think capital investment will be slightly reduced. The investment amount at Kansas factory is increasing due to the rising labor and materials costs in the US. It has increased considerably compared to the time when we initially discussed with customers. The building at Kansas factory has been built. I think it may take a little longer to recoup its investment than initially anticipated. But overall cash flow is expected to improve, going forward.
7	Q	Regarding the use of cash, which relates to our discussion on the portfolio management at the beginning of this session, since your company's track record in past M&A was not always favorable, what are your thoughts going forward? Recently, there was an additional investment by Blue Yonder, but I would like to know your perspective on future investments.
	A	I understand there are many concerns regarding Blue Yonder. The CEO of Blue Yonder at the time of the acquisition stepped down, and the position was taken over by Duncan-san. His assessment on Blue Yonder is that its development and sales

		<p>structure were inadequate and needed reform. Now, we see the steady progress of reforms under Duncan's leadership. Blue Yonder is taking various steps toward a potential while adhering to the Rule of 40 toward its listing. Particularly, he has strengthened their sales team and invested in the development of solutions that were outdated and only suitable for on-premises environments. The acquisition of One Network was a missing piece for Blue Yonder. While it seems like an expensive acquisition, we are beginning to see a sign of additional growth from 2Q after the integration of One Network into Blue Yonder. SaaS ARR is also growing at 116%. If we continue to witness further growth, we will gain more confidence in the Rule of 40. As for whether we continue to pursue M&A in the Blue Yonder business field, we are entering a brief pause phase, although some smaller acquisitions are still possible.</p>
8	Q	Regarding the listing of Blue Yonder, has there been any significant progress?
	A	The results for 3Q and 4Q could be good indicators for whether we can proceed with listing the business. I would like to monitor its development closely.
9	Q	Next, I have a question about capital allocation. Capital investment in the automotive batteries is significant, and Blue Yonder has made additional investments, including the acquisition of One Network. You have made substantial investments during the current medium-term. What are your thoughts on the next medium-term plan?
	A	In the future, the large scale of M&A similar to Blue Yonder acquisition, and the investment in the automotive battery business are likely to slow down. In principle, we do not plan to make drastic changes to our capital allocation policy. We will continue to make investments based on cash generation from our business. Taking the current circumstances into consideration, we are likely to reduce the size of investments slightly. We will focus on generating solid profit from our investments rather than solely on capital allocation. Also, we recognize the need to continuously change our operations. For example, with the advent of generative AI, we are utilizing AI in our various operations as a part of labor-saving initiatives, and we are utilizing what we created with AI internally, as well as we are applying to our solutions. Blue Yonder is ahead of our group in incorporating generative AI into their solutions. In terms of making changes across the group as a whole, I think it is necessary to invest in these areas to a certain extent.
10	Q	Panasonic maintains the financial discipline with target Net debt/EBITDA ratio of approximately 1. Assuming that the scale of the investment decreases and a solid return is generated, is there a possibility of share buybacks if the cash position improves? Additionally, given that the shareholders' equity ratio has increased to nearly 50%, what is your view on maintaining a payout ratio of 30%, going forward?
	A	<p>It takes time for a business to generate a return after making an investment. If our capital allocation position allows us to do so, we may consider share buybacks as an option.</p> <p>(Additional comments from Akira Waniko) From a financial discipline perspective, we have no intention to change our policy in the next term, which is to invest in businesses based on the funds we generate. In other words, we are not proactively considering raising the debt level any further. I understand that many investors are interested in whether we should pursue share buybacks. While we are not ruling out that option, we may consider it if conditions allow. Furthermore, we initially anticipated a significant amount of cash outflow in Energy. But the trend of the EV market has slowed slightly. Although medium to long-term growth is still expected, the pace of investment may slightly slow down. Consequently, investments, including those for Kansas factory, are expected to peak, and there is a possibility that we may have some spare cash by evaluating the</p>

		balance between cash generation and use of cash. In that case, dividends to shareholders and share buybacks could be among the options for our capital allocation. We will consider these based on what is most beneficial to shareholders from a return on investment point of view.
11	Q	I think there was a discussion of building the third factory for automotive batteries, but the general view is that the possibility of such a project is much lower at this point today. On the other hand, what would be the conditions to make such a decision?
	A	When discussing the topic with Energy, I asked them to increase area productivity in Kansas, rather than building the third factory. They should thoroughly increase productivity and control investment even if the sales level is to be the same. At the moment, my impression is that the path for the third plant is not in sight.
12	Q	I would like to ask Sumida-san. With the progress of portfolio reform, Sumida-san has been involved in the execution of prismatic batteries and Automotive businesses. What are the things that have proceeded as intended? On the other hand, there are things that you have not been able to accomplish during the past three years, and you have set the ROIC target to achieve WACC+3%. Please tell us about your thoughts on what is being discussed in the process to achieve WACC+3%.
	A	(Answered by Kazuyo Sumida) We have clarified our financial discipline to both inside and outside of the company, and we have actually executed, such as the case of Automotive. At the operating company level, businesses are making progress in finding their best owner on their own and in improving profits on their issues, without having to specify the area. We have also learned from the viewpoint of divestiture while proceeding with the case of Automotive. If we find the best owner for other cases, we will be able to speed up the execution toward it. I feel that this type of culture and internal structure have improved.
13	Q	Regarding the eight businesses with ROIC below WACC, you intend to solve these by the end of FY3/27. I think you have an image of the direction of each business. Please share this point as much as possible.
	A	(Answered by Kazuyo Sumida) Since the TV business is important for our consumer electronics business in Japan, we have set another standard besides WACC, in consideration of the overall impact. However, we are in the process of improving profitability, since we cannot allow the business to be loss-making. Other low-profitability businesses include FA-related businesses. However, not all of them are facing a severe situation. There are stronger and weaker areas. We need to make fundamental changes to the weaker areas. Carve-out is not the only option. We will select necessary measures for specific businesses and products.
14	Q	As for the business with issues in Industry segment, do you mean the assembly-related businesses which Sakamoto-san (CEO, Panasonic Industry) mentioned?
	A	(Answered by Kazuyo Sumida) That is correct. Although it is not possible to divide by business divisions, for assembly-related businesses that have become less profitable, we are moving ahead with measures including finding appropriate owners and reviewing those businesses.
15	Q	If you compare your balance sheet with that of about 6 years ago, before the pandemic, your total assets have increased to over 9 trillion yen. Can we have an image that this will be a turnaround year toward becoming leaner?
	A	(Answered by Kazuyo Sumida) As Kusumi-san mentioned earlier, in terms of increasing profitability, I think there is a time to streamline to a certain extent.

16	Q	A question for Kusumi-san from investors. What do you want to at least accomplish with the portfolio management?
	A	<p>Regarding the portfolio, it is difficult to make a new statement on this occasion about which businesses, but in this medium-term strategy, the first targets were to achieve ROE of 10% and operating profit ratio of 7~8%. It is very regrettable that we are not to achieve these targets. In addition to being affected by external factors, we were unable to meet the targets we wanted each business to achieve. Going forward, we will need to complete becoming leaner in FY3/26, while clearing those issues. Since ROIC was a KPI, I assumed that adequate operating profit would be achieved, even without setting an operating profit target for each operating company. Therefore, I did not strongly make requests to the operating company presidents. However, as a result, we did not achieve it. Since the outcome of ROIC was not as intended, I have decided to thoroughly implement ROIC discipline. First, it is important to show how much we can achieve in one year, in order to have the capital market believe in us, and we want to make this such a year.</p> <p>To that end, we need to solidify the profit base that is currently underperforming. In fact, in view of the situation, I have requested each operating company to achieve a certain level of adjusted operating profit for FY3/26, a little while ago. And there are various means to do so.</p>
17	Q	Questions related to Blue Yonder from investors. Is Blue Yonder still loss-making if strategic investments are excluded? What are your thoughts on additional investments after FY3/26? If Blue Yonder stops investing, will growth stop? Please also tell us about the company's involvement with Blue Yonder.
	A	Keeping Blue Yonder in the group means a number of things. It is a solutions business and has a lead as a software-based company. Blue Yonder will expand its supply chain business by considering the necessary investments. Currently there are no plans to make investments as large as that of One Network in the next medium term.
18	Q	About Lifestyle, EBITDA and ROIC-related targets for the next medium term have been announced. Could you tell us your impression?
	A	<p>Regarding the challenges in our consumer electronics business, it has been five years since we established China and Northeast Asia Company (CNA), and implemented measures to grow in China with the organization designated to China. At first, Homma-san took its lead, and then Dohnno-san took over. There are certain things that we accomplished. As the Chinese market is deteriorating, CNA is struggling, but it is essential to keep evolving. Another intention was to swiftly expand what we accomplished in China, into other regions. However, the speed was too slow, so I asked Dohnno-san to come back to Japan to accelerate this. How fast we can speed up this reform, and how fast we can turn around Japan and Asia businesses, will be the key to whether consumer electronics can return as a core business.</p> <p>As for beauty-care products, we recently launched an 80,000-yen hair dryer in Japan, which has been well received. We can sell such products if the consumers appreciate the value. We also have such an example in China, a washing machine which is 700,000 yen. The total amount of sales may not be so large, but it is very important for us to be able to create value. For example, if you look at the major home appliance manufacturers in Europe and the United States, you can see that they own multi-brands, and the higher brands often share parts with the more affordable brands. And still, they can create value. It may be difficult in the Japanese market, but our ability in China is a huge achievement. It is important to quickly develop such cost capability that worked in China, also in Japan. This is because other Japanese brands are now owned by Chinese companies or Taiwanese</p>

		companies, so we are aware that they already have the cost capability.
19	Q	Toyama-san, an outside director of your company, has often stated that Panasonic needs to change its corporate culture, which is currently characterized by a reliance on hierarchical communication. What progress has been made in this regard and, what further steps are necessary to facilitate this cultural change? I have heard that there is an enthusiastic movement underway to address this issue.
	A	Change cannot be achieved simply by providing directives from the top management. Over the past three years, it has been clear that this transformation will take time. To end this, we appointed a new CHRO, Kinoshita-san and he has already started to work on change and design our corporate culture. This is very important and not only we need to talk to Business Division Directors, head of business units, and other responsible layers, but also middle management needs to change. To change middle management, it is necessary for them to design corporate culture by themselves and how to reduce internal adjustment. Kinoshita-san has started working on the former. As for the latter, it is necessary to review the system of evaluation and planning to prevent further internal adjustment. Each division is under pressure to follow its own budget. If the pressure is too strong, then, interdepartmental adjustments occur. For example, when I was the TV Business Division Director, there was an argument with the sales department over which department should bear marketing expenses. But it was the same regardless of which department pays these expenses from a wider perspective. There is no system yet in place that combines evaluation indicators between production and sales so that both departments can see the same indicators. This was created over the years of “divisional management system” and the concept of “dam management” approach, and it may be difficult to change, but it has become misaligned with the times. We must fundamentally change these aspects as well.
20	Q	How much progress has been made in changing the corporate culture? About 10% or 20%?
	A	Of one hundred employees, about 30 may have changed, while the remaining 70 have not. It is important for CHRO Kinoshita-san to be committed to designing our corporate culture.
21	Q	Next question from investors. Kusumi-san, what do you want the investors to expect and believe in, when investing in Panasonic? Given the current conglomerate structure of batteries, Lifestyle, and software business, it is difficult to make such investment decisions.
	A	Looking back, one of the models that I wanted to pursue over the past three years was to make each business highly profitable and earn the trust of the capital markets, similar to the Sony Group. However, we were unable to achieve results. Therefore, I believe that governance and strict measures are necessary as a holding company. For the past three years, we have prioritized allowing each operating company to manage itself, but now we need to question the results strictly. Regarding incentives, we need to set strong incentives for achieving results. In addition, if the current structure and approach will not lead to growth, we must assess and fairly judge whether we are the best owner for these businesses. If a good opportunity arises, we should actively consider entrusting it to another party outside the Panasonic Group.
22	Q	While the capital markets have expectations that the “on-hold” status of portfolio management is now lifted and that actions will be accelerated toward realization, many investors have commented that it is still difficult to know how to truly believe in Panasonic and whether the company will change.

	A	First, I would like to focus on achieving results.
23	Q	Finally, I would like to discuss a positive topic. Generative AI-related businesses are performing well right now. Could you share your perspective on how your company's generative AI-related business is doing and how long you expect this trend to continue?
	A	Currently, our generative AI related products/solutions are being adopted by our customers who use GPUs, and we have high expectations for this trend. However, there may be changes in the mechanism for enabling generative AI, which could also alter the way GPUs are utilized. Therefore, we need to closely monitor the technological trends. In this context, we will identify the most suitable multi-layer circuit board materials, capacitors, and backup energy supply methods.
24	Q	Regarding generative AI-related business, can we understand that you do not require much upfront investment, unlike the automotive battery and HVAC businesses?
	A	The amount of batteries needed in an energy storage system is not as large as that for EVs, and the scale is different. Therefore, investments will not be as significant.
(Mr. Ryosuke Katsura) This concludes today's session. Thank you very much.		

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