

Q&A Summary for Panasonic IR Day 2014 (AVC Networks Company)

Date / Time: May 21, 2014 / 13:05-14:05

Location: Shiodome Tokyo Panasonic Building, Tokyo

Presenter: Yoshiyuki Miyabe, AVC Networks (AVC) Company President

Questioner 1:

Q: How is your Avionics business?

A: We have expanded our business from Japan, the US and Europe to Singapore and the Middle East for jumbojet customers. Entertainment service business such as audio and video was popular in the past, and we will shift our focus on more growing areas in terms of regions and aircrafts, entering inflight communication business in FY14.

Q: On page 25 of your presentation, Avionics sales is the majority of 130 billion yen increase in the developed market?

A: Not only Avionics but US solution business will also expand. We have unique eco-solution business in the US with visual system in stadiums and solar panels.

Questioner 2:

Q: 70% of LCD panel sales go to IT and commercial application in FY15 on page 12 and 13 of your presentation. What is your assumption on utilization rate? Is the utilization rate will change when the business returns to black?

A: To return to black in LCD panel business, we have to focus on the utilization rate and how we are going to utilize the unused space in the huge LCD factory. Mr. Ito of AIS is in charge of device business will work on how to utilize the factory space more efficiently to improve LCD business profitability.

Q: When do you think you are going to have a positive FCF?

A: We have completed major restructuring and still have some more in FY15 which will make it negative. Since we do not have any major restructuring cost in FY16, we expect it positive.

Questioner 3:

Q: On page 17 of your presentation, out of 1.6 trillion yen sales in FY19 is 1.5 trillion yen comes from BtoB business? How much comes from BtoB in FY15 out of 1.23 trillion yen?

A: 1.5 trillion yen comes from solution business for commercial customers, besides device business which is also accounted to BtoB business. The rest of the business will be flat from FY15.

Q: What is the profitability with 1.6 trillion yen sales in FY19?

A: Our target is OPM5% in FY16 and we will target more than 5% towards FY19.

Questioner 4:

Q: What is your strategy for R&D, shifting BtoB business?

A: The total scale on R&D will not change for some time. Transferring some of AV business including TV,

video, audio etc. to Appliances Company, all the R&D engineers were transferred as well and the rest of the engineers stay in AVC Company. We will receive resources from AVC Company as needed.

Questioner 5:

Q: I am trying to analyze Capex from FCF. How much comes from maintenance and new investment out of all Capex?

A: The restructuring expense will be 50% of FCF in FY15 and the rest is for the investment for growth such as M&A.

Questioner 6:

Q: What is your advantage and disadvantage in your sales channel? Do you have any key products for the future growth?

A: We have integrated our domestic sales channel and worked with subsidiaries all over the country to maintain stable position in the industry. We utilize sales channel for PCs in the US, Europe, Singapore and other Asian countries. We will expand business through sales channel for PCs and security cameras overseas.

Q: Anything new in your POS system business regarding to electronic settlement service?

A: We have specific customers in this business and have the top market share of the reader/writer business for electronic settlement in the domestic market. We have started business for global electronic settlement and would like to expand this business towards the Olympic Games in Tokyo when we will have many visitors from overseas.

Questioner 7:

Q: What makes you arrive at a final decision on LCD panel business? What is your vision on this business in future?

A: AVC Company was the major customer of our LCD panel business until FY12, but TV business has been transferred to Appliances Company and we now procure the LCD panels from other customers more than from AVC Company. The partner in Panasonic ship which helps AVC to develop unique products is essential for AVC Company to expand new LCD panel business differentiating from competitors. This is our advantage to have internal LCD panel business. We have started to work together with Mr. Ito of AIS Company since April 2014, expanding our business to other customers in the AIS business area. For example, we can extend our business to their customers in device business, offering a new device business combining with LCD panels. That is, our LCD panel business improving its profitability is essential as a company-wide asset, maximizing synergy effect with other businesses. In any case when its profitability gets worsen again, we will revisit our plan.

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