

Q&A Summary for Panasonic IR Day 2015 (Appliances Company)

Date / Time: May 20, 2015 /10:05~11:05

Location: Panasonic Tokyo Shiodome Building

Presenter: Tetsuro Homma, Appliances (AP) Company President

Questioner 1:

Q: Planning RAC business expansion in FY16, do you focus on RAC or CAC towards FY19?

A: We expect 10% growth in FY16 mainly by enhancing the product competitiveness of RAC. Sales of CAC accounts for 20% of the total sales of AC business, where we expect growth at the same speed as RAC. In the medium term, we will maintain RAC business at the moderate growth, but do not expect drastic growth due to the price competition against Chinese or other manufacturing companies. Meantime, we aim to double CAC business towards FY19, focusing on GHP, VRF and other products where we see our advantage. We established our specialized sales company for AC and we also give consideration to possibilities of business alliances. Profit improvement will come along with business expansion.

Q: How do you hold down profit decrease against sales decline in the U.S. and Europe? How long will it take to improve profitability by countries in strategic regions along with investment?

A: Since we will exit TV business in the U.S, we will be able to avoid profit decline at minimum. Meantime, we have developed our business in China with the wide range of products line up and keep more than 5% OP margin while we keep on investment. We have established R&D sites in Asia. We also assign the function of the product design and the marketing to the front operation line to beat competitors. We have relocated management in AP China and AP Asia to control business by region.

Questioner 2:

Q: Your 5% margin in AC business is lower than competitors.

A: We see a couple of competitors who have double digit margin with more than 1tri yen sales. Not being competitive we will work on improving basic function of products and maximize our advantage.

Q: How do you improve profitability in cold chain with technology and marketing?

A: We will expand cold chain business to 300bil yen, packaging various products together controlled by ICT and adding eco-friendly products to make the business highly profitable. We will extend the business to other areas from Japan, China and Taiwan where we maintain the highest market share.

Q: How do you work on AC and cold chain business in the U.S? How do you work against competitors who also have the successful complex business strategy?

A: We do not prioritize the U.S. in AC especially in CAC. We are focusing on cold chain packaging business controlled by ICT for convenience stores and supermarkets.

Questioner 3:

Q: Are you bringing back your manufacturing sites to Japan in the period of yen depreciation? How do overseas customers respond to your 'made in Japan' products?

A: We have shifted our production and R&D sites overseas for the past 20 years and do not plan to invest for bringing everything back to Japan. We have started to produce new product models in Japan and shift component procurement from overseas to Japan in a timely manner. We have to expand Japanese production to offset negative impact from yen depreciation. For example if we export 10% of refrigerators produced in Japan, we are able to offset the negative impact. We also raise the product price or reduce the number of the unprofitable models. FX sensitivity in FY15 was -1.8bil yen on OP level and we will continue to work on this issue, focusing on Japanese component procurement.

Q: How do you see business environment of connected consumer electronics or cloud?

A: We have transferred engineers who used to work for digital AV products to AP to develop services both in B2B and B2C. We especially focus on B2B to propose more efficient service to customers. We discuss how we connect consumer products and living space.

Questioner 4:

Q: Are you competitive in premium products in China and Asia?

A: Competitive environment varies by countries. In China, we aim for the highest market share holder among the foreign manufacturers in three-door refrigerators. In Asia, we will introduce competitive products by countries against Korean brands.

Q: How do you utilize ODM for mid-range priced products?

A: We utilize ODM products to capture target customers and sales channels. For example, having requests from retailers for side-by-side refrigerators, we responded to them with ODM products introduced into Asia.

Questioner 5:

Q: How do you improve not only operating profit but also pre-tax income towards IFRS introduction in FY17?

A: We expect that the heads of Business Divisions will pay more attention on pre-tax income with IFRS adoption.

Q: Can you explain details of FCF?

A: We will increase investment on B2B solutions in FY16 which suppresses FCF. We have not made a decision yet, but expect some strategic investment in FY16 as well.

Questioner 6:

Q: How do you see appliance market and price competition?

A: We always consider some price decline but are able to offset this negative impact with other factors under our current business structure.

Q: Which is the most profitable among Japan, Asia and China? Does profitability improve in Asia and China?

Or does it improve with investments on brand management?

A: China is the best with more than 5% in profitability. We work on Asia where they have not reached that level yet. We will invest on brand management but it will not be huge.

Questioner 7:

Q: How much are you going to utilize ODM products? How do you manage your brand with ODM products?

A: We have our brands suitable for each business. The ratio of ODM products in TV increased from 18% in FY15 to more than 20% in FY16 and will maintain this level in future. We develop AC with integration of global and local concept.

Q: How do you keep your profit in TV business where others also return to the Japanese market?

A: We withdrew our business from the market where we did not make profit in FY15 to reduce entire fixed cost, and we estimate our fixed cost is rather small comparing with others. We have to adjust ourselves to the business environment in TV, as price of panels are moving along with balance between demand and supply and product price are very volatile. We now are stable in profitability in some countries such as Brazil, Mexico, Taiwan and India and aim to return to the black in a whole business under the new management.

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