

Panasonic IR Day 2016 Q&A Summary (AVC Networks Company)

Date and Time: May 18, 2016 (Wed) 12:00-12:45 PM

Location: Panasonic Tokyo Shiodome Building.

Presenter: Yasuji Enokido, President, AVC Networks (AVC) Company

■ Questioner 1

Q: When did you identify signs of deterioration in the mobility and communication businesses in FY2016? When did you start implementing improvement measures? Are any additional measures currently being discussed?

A: In both businesses, we identified signs of deterioration in the first half. Because the mobility business's only weakness was in North America, we made complete organizational changes in the second half. We also initiated improvement measures from the second half and believe that most of the issues have been dealt with. As for the communication business, the market for land-line telephones, our core products, plummeted more than anticipated in the second half, and we were late in addressing such conditions. With regard to additional measures, we have not altered our policy for making investments in the solutions business including avionics. In the communication business, we will continuously examine the development of a fixed cost structure that corresponds to market conditions.

Q: How do you plan to create synergy with ITC Global, a satellite communication service company? Is it incorporated in the FY2019 business plan?

A: We do not expect a short-term spurt in its sales and profits, but we plan to pursue its growth from a long-term perspective as a new avionics business.

■ Questioner 2

Q: Revenue growth of approx. 20 billion yen is planned in the mobility and visual and imaging businesses respectively in FY2017. Please elaborate how and when sales are anticipated to increase including profit improvement. Also, did the mobility business experience any temporary valuation losses in the last fiscal year?

A: There were no valuation losses in the mobility business in the last fiscal year. Initiatives such as improvement measures being taken in North America along with organizational refurbishment and an increase in the number of projects due to efforts made by a special robust mobiles (PCs and tablets) squad contributed to revenue growth. Operating profits recorded a deficit balance in FY2016 while we aim to achieve a surplus in FY2017.

In the visual and imaging business, high-intensity projectors have been enjoying brisk sales and are anticipated to remain strong in FY2017. The markets for high value added digital cameras 'Lumix' and surveillance cameras are growing, which suggests continued growth for our business. Operating profits recorded less than a 5% surplus in FY2016. However, we will make efforts to improve such level in FY2017.

Q: What is the long-term growth plan for the avionics business?

A: In mid to long term, it has potential for growth in accordance with the market growth such as an increase in the number of aircraft. The in-flight communication service business shows a higher growth rate than in-flight entertainment systems. We would like to achieve growth in satellite communication service, having synergy with ITC Global even other areas than in-flight.

■ Questioner 3

Q: Please elaborate on the mobility business's competition environment in North America.

A: Since we cannot acquire profits in the commoditized market, we will return to the basics and promote customer-oriented business. In the tablet business, we will achieve profits. New handheld products are part of solutions products including software, for which we will make efforts to ensure profit margins.

Q: What were the sales results in the four respective business domains in FY2016?

A: We are not forecasting any growth in avionics toward FY2019, but an annual growth rate of 6% in the entertainment and public businesses. In the retail and logistics business, we anticipate that the business currently worth 100 billion yen or less will yield nearly double that figure in FY2019.

■ Questioner 4

Q: What are the factors for increasing profit margins of the entire AVC Company from 5% to 7% and then 10% in the future?

A: We will transform our current business structure where individual products only yield low profit margins into the one that can expect higher profit margins with the solutions business including services and maintenance. We would also like to ensure profit margins overseas in a similar fashion as in Japan even though it may take time.

Q: How many SEs do you plan to add to the current workforce in order to strengthen software development?

A: We do not have any figures tabulated only for SEs. However, the current number of employees involved in the solutions business is approx. 10,000, with roughly another 1,000 to be added due to M&A and other reasons.

■ Questioner 5

Q: Am I correct to assume that the AVC Company will still require periodic advance investments from FY2016 onward and should work on long-term profit improvement and that drastic structural reforms will also be implemented as necessary?

A: When looking at the AVC Networks Company's individual products, a mixture of products is observed with some in growing demand and others in declining. This is the fate of digital products where changes in the market are rapid and the portfolio must be reshuffled constantly. Against this backdrop, we plan to maintain our policy of improving profit margins by achieving growth in the solutions business. We are aiming at 10% profitability while sales have yet to grow. Currently, we have no plans for major structural reforms; however, we anticipate a good deal of reshuffling of individual products and will continuously revisit resource allocation to growing business segments.