Panasonic IR Day 2016 Q&A Summary (Eco Solutions Company)

Date and Time: May 18, 2016 (Wed) 10:35 - 11:20 AM
Location: Panasonic Tokyo Shiodome Building
Presenter: Tamio Yoshioka, President, Eco Solutions (ES) Company

■ Questioner 1

Q: How is the system of overseas regional distributors? How are they going to contribute to sales increase and earnings recovery?

A: Europe, US and China conduct sales within the framework of the whole Panasonic. In ES, we get on with sales being based in ANCHOR Electricals and Viko Elektrik we had acquired. As both companies have the largest market share of wiring devices, we will utilize their sales channel and sell different products. Also, we will set up a new distributor in the Middle East and Africa and expand the market there focusing on electric construction material products. Profitability of them is high. Already becoming No.1 wiring device provider in Asia, acquiring companies in India and Turkey, next we will aim for business expansion targeting countries such as in the Middle East and Africa.

Q: I have heard solar business has seen production increase. Towards FY2019, how much are you planning to increase production capacity and production quantity (MW), in order to expect sales increase? How do you see the sales by overseas region?

A: We made 9.5 billion yen investment for production increase/cost reduction in FY2016. We do not consider any new large-scale investment. The production capacity in FY2016 including investment was approximately 1,000 MW, and current sales forecast is about its 60-70%. We do not expect significant growth in the domestic market. We want to expand overseas sales to 10-20% of total.

■ Qestioner 2

Q: For FY2017, fixed cost increase by strategic investment is affecting the profit. What about FY2018 and beyond?

A: We will make a prior investment primarily in age-free (elderly care) business and renovation business. As age-free business will continue to expand its bases until FY2019, we expect its fixed cost increase of about 6 billion yen with a focus on increase in personnel for FY2017, and more than 20 billion yen in the three-year total. Renovation business also requires strengthening of sales/design personnel for customer care, we expect its fixed cost increase of about 10 billion yen for FY2017 and more than 20 billion yen in the three-year total.

Q: Tell us about the FY2016 summary of renovation business and the background of why you expect a higher growth than the market growth for FY2017.

A: Excluding sales decrease in solar, there was growth more than 100% in FY2016 (including PanaHome). For FY2017, as we changed B2C renovation business (including PanaHome) into an expert system called “Panasonic Renovation” in April to concentrate resources on the system, we expect a significant growth mainly in B2C renovation business (including PanaHome.)

■ Questioner 3

Q: Regarding the amount of sales increase (from FY2016 to FY2019) in the strategy outline, do you expect a significant growth in renovation business for FY2018-19? How do you see the growth feasibility of overseas housing-related business?

A: For renovation business, we expect 109% year-on-year (including PanaHome) in FY2017. We have switched from renovation product sales for housing constructors led by ES and the form of renovation for PanaHome clients led by PanaHome Corporation, to a policy of growing it significantly as B2C for customers by brand unification to “Panasonic Renovation” as well as centralizing company-wide resources. Because strengthening of human resources and structure is required in FY2017, there will be less than 10% growth than the previous year, however we are expecting a significant growth in

FY2018-19.In the overseas housing-related business, as a company-wide business, there are two - product sales business of electric construction material products (wiring devices and lighting equipment, etc.) centering around ASEAN, India and Turkey, and business in which PanaHome builds actual houses primarily in Malaysia and Indonesia. Product sales business is making double-digit growth and further growth is expected. PanaHome's housing business has been started since FY2017 in cooperation with local developers, in which PanaHome is partly engaged in the development, in Malaysia and Indonesia. As specific housing projects/pipelines have emerged steadily, a significant growth is expected by combining actual houses, ES' products and some consumer electronics products.

Q: Is the driving force of increase in profit towards FY2019 the profit increase by renovation business and overseas housing-related business? Are there other factors?

A: we think the profits will grow by renovation business expansion, because the higher profits could be secured. We regard the whole ES (excluding solar business) as a collection of business entities that can achieve a profit growth. Evolving around lighting and housing, structural reform has nearly been completed, and the earnings are improving by increasing sales. There is no particular single business that drives the profits.

■ Questioner 4

Q: You have said that solar business was affected by the market in FY2016, how do you see FY2017? How long are you implementing the production adjustment?

A: Eco Solutions Company is rolling out around housing-related solar business. In the domestic housing market, there are two markets - under 10KW (surplus purchase target) and over 10KW. Over 10KW market had been strong until FY2015, however it slowed down to around 1/3. Under 10KW market slowed down in FY2016, and it currently remains unchanged from the previous year. We think there is no factor of significant improvement in the solar market after FY2016. About sales amount, we expect slight increase overseas and decrease by 10% at domestic for FY2017, incorporating risks. While there will not be big changes in the tough circumstances in FY2018-19, we want to steadily maintain the current level as a business that crosses solar, storage battery and HEM to accelerate self-consumption. Nishikinohama factory is nearly in the operation stopped state at this point, and is scheduled to resume operations from around October. The overall rate of operation is around 60-70%.

Q: How do you incorporate consumption tax increase into the FY2017 business objective?

A: Our current plan has not incorporated direct influence of consumption tax increase. If the tax increase happens, we suppose there will be 20-30 billion yen as front-loaded sales demand (will be negative impact in the next period), in reference to the last tax increase.

■ Questioner 5

Q: Among overseas business sales, what is the percentage of overseas residential business (product sales) ? Are you going to accelerate the strategic investment following ANCHOR Electricals and Viko Elektrik? Also, how is the competition with Le Grand Co., Ltd in France?

A: A large part of overseas business is residential business (product sales), such as wiring devices and ventilation system. We have been continuously reviewing the strategic investment following ANCHOR Electricals and Viko Elektrik. We have mainly been looking for companies with strong sales channels, and we are not able to comment any specific project at this point. Our target areas are from the Middle East to Africa, however there are not many companies that meet our criteria. Le Grand Co., Ltd has the largest global market share of wiring devices, and Panasonic is the second. As Panasonic has the largest share in nine Asian countries, we do not feel threatened by Le Grand, even though we compete with them in Asia.

Q: Tell us about the FY2019 target value of age-free business, such as operating margins and rate of return on invested capital.

A: Age-free business is in overall deficit at the moment because of a prior investment. We are managing whether existing service sites are making a profit in line with a plan, distinguishing from new sites. Existing sites have a system that securely generates profits. As we will precede investment until FY2019, we expect to become break-even as a whole in FY2020. We anticipate operating margins of around 6-7% at the existing sites. Eventually, it is anticipated that existing/new sites combined operating margins will settle around 6-7%.