"Konica Minolta, Inc." Q&A from the 120th Ordinary General Meeting of Shareholders

Date and time: June 18, 2024, 10:00 JST
Venue: Tokyo International Forum/Online

[Company Performance]

Q. Could you elaborate on the relation between executive officers' compensation and the decision for a non-dividend payment in FY24?

A. FY23 marked a return to profitability in terms of operating profit and profit attributable to the owner of the Company. However, FY24 is projected to be a critical period for finalizing our strategic focus and implementing structural reforms. Consequently, while an increase in business contribution profit is anticipated, operating profit is likely to decline due to one-time expenses, and the profit attributable to the owner of the Company is expected to be nil. This necessitates a non-dividend policy for FY24. Ideally, we aim to generate profits and distribute them to our shareholders; however, this interim process is essential. The compensation for executive officers is aligned with business performance, with a particular emphasis on reducing the portion tied to short-term business outcomes. Looking the future, it is crucial to eliminate the negative legacy of the past, and we are resolute in our commitment to this objective. We request your continued support for us.

Q. Considering the economic headwinds such as foreign exchange rates and interest rates, how confident are you in achieving the management targets and performance in FY25 through the ongoing reforms?

A. We believe that achieving our FY24 performance objectives is essential based on FY23's business contribution profit. We anticipate that from FY24 to FY25, we will be able to enhance business contribution profit, including the benefits derived from optimizing human capital. We have set a minimum target of 5% for Return on Equity (ROE), fully recognize that this figure falls short of our shareholders' expectations. Our past inability to meet commitments has compromised trust, which we are intent on restoring. Our immediate goal is to establish a clear threshold, which we then aspire to exceed. As we pursue an ROE of 8% or higher, our immediate focus is to ensure that we achieve at least a 5% ROE in FY25, thereby improving our profitability.

Q. President & CEO, Taiko previously stated that enhancing the stock price was a key objective. However, the stock price has declined since the last shareholders' meeting. Could you provide the target stock price for FY25?

A. We express our sincere apologies to our shareholders for the stock price decrease over the past year. Despite this, we turned profit in FY23 and achieved our profit objectives. Additionally, we have reduced our liabilities by over 50 billion and generated 83 billion in operating cash flow, which has significantly improved our financial position. Our immediate goal is to improve the ROE to 5% or more as the target for FY25 and to achieve 8% ROE, with the aim of reaching a Price to Book Ratio (PBR) of 1.0x.

[Company Measures]

Q. In the context of business selection and concentration, what initiatives will be undertaken in FY24?

A. Our non-focused businesses encompass both businesses we have initiated and entities we have acquired to diversify our portfolio. The focus of our decision-making is whether these businesses are continued or not, given the shifts in market conditions and other variables from our initial projections. Notably, we made two large acquisitions in the precision medicine business in FY17. However, the landscape has since evolved considerably, presenting challenges such as a reduction in patient numbers due to COVID-19 and a decrease in healthcare professionals. However, there may have been a lack of understanding of our business model in the first place. Invicro, one of the acquisitions, was divested this April, leading to its exclusion from our consolidation upon completion of the sale. This transaction has resulted in recovery of profit levels and cash inflows. The proceeds are earmarked for debt repayment to fortify our financial standing and for reinvestment to drive growth. In FY24, we plan to divest another entity in the precision medicine, guided by the principle of identifying the best owner. Additionally, we are exploring partial third-party equity involvement for our marketing services business. These actions will be communicated quarterly, aligning with our progress, to ensure comprehension among our shareholders.

Q. Considering future growth prospects, you mentioned the seeds of growth. Could you specify the concrete measures that will be implemented?

A. Firstly, we are contemplating the expansion of our operations in the field of recycled plastics, as detailed on page 39 of the notice of convocation. Another initiative under consideration is bio-manufacturing, which is currently a subject of active global research. Historically, our manufacturing processes have predominantly relied on fossil-based materials, leading to CO_2 emissions and environmental degradation. Looking ahead, we anticipate a shift towards bio-manufacturing, utilizing bio-derived materials and leveraging microorganisms. The U.S. government projects that this sector will burgeon into a substantial market, potentially replacing a third of total manufacturing within a decade. Last year, we commenced practical research in biotechnology manufacturing, harnessing our sensing technology in collaboration with the National Institute of Advanced Industrial Science and Technology. Our past approach to technological acquisitions often resulted in relatively isolated operations through company acquisitions. We now intend to reinvest our technologies to bolster existing businesses and foster growth, marking a strategic pivot in our technology approach. Reflecting on past instances where we painted overly optimistic scenarios, we recognize the importance of grounding our commercialization efforts in customer value recognition and willingness to pay. Furthermore, we are committed to ensuring that our long-term profit plans and commercialization strategies are not solely predicated on assumptions. Our future endeavors will involve a divided dual focus on technological challenges and customer value recognition as we navigate the commercialization landscape.

Q. The Company has issued corporate bonds despite having a substantial amount of liabilities. Could you explain how these bonds will be utilized?

A. The total issuance of bonds currently stands at ¥70 billion. This includes ¥30 billion of bonds previously issued and an additional ¥40 billion issued in March of this year. Rather than augmenting our liabilities, this move represents a refinancing of our existing liabilities, maintaining the overall debt level while contributing to a reduction in interest expenses.

Q. Could you provide details on the joint venture with a Vietnamese company and the business related to automobile visual surface inspection?

A. The joint venture with a Vietnamese IT firm is tasked with the development of software and firmware for our office business, leveraging the company's robust development capabilities. The visual surface inspection business belongs to our sensing business domain. The automotive visual inspection equipment, equipped with multiple cameras within a tunnel-type structure, allows vehicles to pass through for exterior inspection. Defect analysis is performed using AI integration. As reported in newspaper, Suzuki Motor Corporation is progressively implementing this technology in their finished vehicle process. The system's ability to reduce personnel requirements for inspections has garnered positive reception. Furthermore, 15 companies, including the Volkswagen Group and Ford, have adopted this technology. Additionally, regarding the optical components business, we divested 80% of our share in the lens plant in China to Lux Vision last fiscal year. This strategic move allows us to access market insights from Lux Vision while concentrating on the development of upstream technologies domestically. We aim to expand our Industry business by collaborating with suitable partners in strategic locations.

Q. Could you clarify the rationale behind Mr. Fujii's continued executive role at the North American company REALM IDx, Inc., given his departure as Senior Executive Vice President and Executive Officer in March?

A. As previously explained, we are utilizing third-party capital for businesses that are not our primary focus. We believe that seeking an exit strategy after maximizing the business value will be beneficial for both the company and its shareholders. It is essential to thoroughly explain the business details to potential buyers and to take measures that enhance its value as much as possible. Therefore, Mr. Fujii is currently positioned to fulfill this role.

[Human Capital]

Q. What measures are being implemented to enhance employee motivation in the context of optimizing human capital?

A. Employees are recognized as our most valuable capital and a key stakeholder group, as well as our shareholders. We believe that fostering a highly motivated workforce with a strong sense of teamwork will ultimately benefit all stakeholders, including shareholders. The announcement of our global structural reform may have initially caused some uncertainty among our employees. However, this reform is not solely focused on reducing headcount; it also encompasses the improvement and simplification of various business processes. The intent is to create an environment where employees can confidently engage with new technologies, such as AI, thereby boosting individual productivity. Upon the completion of this process, our profitability growing, and we aim to reward our employees through compensation, while also ensuring returns for our shareholders. In the past, bonuses may have been modest in alignment with business performance. However, in the last two years, as business contribution profit has rebounded, employee bonuses have been partially restored in accordance. We acknowledge that the current level may still lag industry peers. Through this structural reform, our goal is to elevate our earnings to a level that allows for solid returns to our employees. We are committed to maintaining employee motivation and morale by providing appropriate rewards, considering pricing trends and benchmarks against other companies. For FY24, we have allocated a one-time expense of ¥20 billion towards the optimization of human capital. The proposed reductions are not in relation to the current scale of operations but are a moderation of the human capital plan formulated for FY25. We are committed to transforming a portion of our human capital to support growth, including re-skilling initiatives. Our focus is on maximizing the utilization of our existing human capital to its fullest potential.

Q. What is the current status of wage increase implementation?

A. Despite the challenging business environment, the management has decided on a base pay increase of ¥10,000, which is independent of the employees' length of service or age. Additionally, we conduct regular salary reviews in line with changes in the scope of responsibilities and the growth of individual capabilities.

The overall wage increase rate is marginally below 5%. It is not appropriate to discuss an average increase as the increments vary; however, we have implemented wage increases exceeding 5% for employees projected to have higher future performance, and a base increase of ¥10,000 plus an additional amount for others. Overseas, we adjust wages annually through merit increases in response to inflation. When comparing current wages to those in the year 2000, the wage level in the United States has more than doubled, whereas in Japan, it has remained stagnant or slightly decreased. The situation is similar when compared to Europe. It is important to note that the productivity of employees in Europe and the United States has not increased proportionally to wage levels, and there is no significant difference in productivity between employees overseas and those in Japan. In labor union meetings, we prefer to offer base pay increases that are distinct from regular salary adjustments, rather than adhering to government recommendations. We have increased our base pay in the last two years. We value this approach and aim to continue raising base pay as much as possible to ensure fair compensation for our employees.

[Corporate Governance]

Q. From the standpoint of reinforcing corporate governance, is the adoption of a company with three committees an appropriate structure?

A. As a company operating under a three-committee system, we have seen significant changes in our governance structure. Previously, the former president held the role of chairperson, with a majority of the board positions filled internally. Since the shareholders' meeting in June 2022, the majority of the board has been composed of outside directors, with the chairperson also being an outside director for the past two years. In the past, when the president and chairperson decided, it was not easy for Board of Directors to change it while the former and current presidents had possessed deep understandings of the company. The board's decision-making process has evolved to incorporate a stronger external perspective. Since the merger of Konica and Minolta, our governance functions, including the board of directors and the three committees, have been operating at their most effective. The dialogue within the board has transitioned from a dynamic of the chairperson versus outside directors to one where diverse viewpoint are expressed and thoroughly deliberated by all outside directors. The company is now more functional than ever as a three-committee entity, and we are committed to delivering solid results. We aim to demonstrate that this structure is well-suited to our organization.

Q. What are your thoughts on the current situation where the majority of Outside Directors do not own shares of the Company? Additionally, could you share your perspective on the possibility of Outside Directors holding shares in the future?

A. There are two prevailing thoughts regarding Outside Directors owning shares. One advocates for the 'same boat' policy, where Outside Directors hold shares to align their interests with those of the shareholders. The other is that linking compensation to performance and stock price may not be appropriate. Our approach aligns with the latter, limiting Outside Directors' compensation to a fixed amount. As the Chairperson of the Board, I do not own shares of the Company. Nevertheless, it is my responsibility to oversee the Company from a shareholder's perspective, and I monitor the stock price daily. My previous tenure at a consulting firm instilled in me the practice of not holding shares in client companies to maintain objectivity in my judgments. However, the effectiveness of the Board of Directors is not diminished by the absence of share ownership. We maintain a constructive tension in our interactions with President & CEO, Taiko, providing appropriate advice when necessary. While we have not entirely overcome the negative legacy of the past, we are at a significant turning point. Some shareholders may express dissatisfaction with the time it takes to see results. However, the majority of our Directors are Outside Directors who have experienced both the successes and challenges of management. They are actively contributing their wisdom to the Board of Directors, aiming to set the Company on an upward trajectory in FY25.

[Shareholders' meeting Operations]

Q. In the past, the Company held exhibitions of major business activities for shareholders at the venue, which have not been held since the pandemic. Is there a plan to resume these exhibitions to facilitate a better understanding of the Company's businesses?

A. We will deliberate internally on the possibilities of engaging with shareholders for the next shareholder’s meeting onwards, exploring avenues beyond the shareholders' meetings to enhance understanding of our business operations. Your feedback is valuable, and we will consider incorporating it into our corporate communications, including our website.

Q. Why are decisions regarding dividends not made during the shareholders' meeting in the form of surplus appropriation?

A. Our Articles of Incorporation mandate that dividend resolutions are made by the Board of Directors. The shareholders' meeting is held after the dividend record date, whereas the Board of Directors can make timely and flexible decisions at the record date. Following the election of Directors by shareholders, the Company determines dividends in alignment with performance (forecast) during the Board of Directors' meetings.

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