

Financial Strategy

Message from the Lead Officer



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Executive Vice President and
Executive Officer

Since 2014, we have been working to transform our portfolio through major investments in anticipation of a future decline in office printing, but we have not achieved the anticipated results and our financial base has been damaged. A balanced financial base is essential for the sustainable growth of our business, and we must avoid further financial leverage.

In order to improve our financial base, it is important to raise ROE to 8% or more as soon as possible and to implement capital allocation, which was introduced in the current Medium-term Business Plan. By improving net profit ratio and asset turnover, which are components of ROE, our damaged financial base will naturally begin to improve. In addition, we will strengthen our ability to generate operating cash flow by significantly improving business contribution profit* and cash conversion cycle, and reduce interest-bearing liabilities in line with our capital allocation policy.

In fiscal 2021 to 2022, we were unable to embark on drastic reforms due to the breach of the financial covenants, but with the return to profitability in fiscal 2023, we can finally move to the stage of implementing reforms. In fiscal 2024, we will grow our businesses while also implementing structural reforms and reviewing loss-making businesses to increase the probability of achieving the profit level we aim for in fiscal 2025 and beyond.

In the life cycle of a company, there are times when a business needs to undergo a renewal. Although painful, this is a necessary path to ensure business continuity and maximize business value. With the understanding of our stakeholders, we will continue working to achieve our goals.

Fiscal 2023 Review

It was a great achievement for us to reach our most important goal for fiscal 2023, which was to return to profitability in operating profit and profit attributable to owners of the Company. In addition, the generation of ¥83.3 billion in operating cash flow is evidence that the streamlining of the balance sheet, centered on working capital more efficient asset management, and cash flow-oriented management as well as P/L have begun to penetrate within the Company, and we evaluate that we have taken the first step toward improving ROE. In light of the huge impairment losses incurred in fiscal 2022, we began strengthening our monitoring of impairment risks, and although impairment losses were incurred in some of our businesses, they did not become a variable factor that would affect our full-year profit/loss forecast, and we believe we achieved certain results in the first year of the Medium-term Business Plan.

Meanwhile, further improvement of profitability and financial balance is an ongoing challenge. Although we were able to return to profitability, the profit level is still not satisfactory. In particular, we urgently need to build a business structure that will allow us to continue expanding earnings without being affected by market conditions, especially in the Professional Print Business and the sensing and performance materials units of our Industry Business, which strengthening businesses. We also need to improve our financial balance and tax expenses, and resolving these issues is the key to lifting ROE to 8% or more as soon as possible.

Financial Strategies in the Medium-Term Business Plan

Toward ROE Improvement

Konica Minolta's PBR was at a low level of 0.4x at the end of fiscal 2023, and in order to raise it to 1x or more, ROE must be raised to 8% or more as soon as possible. Therefore, it is important to improve the net profit ratio and the total asset turnover rate. To achieve this, we are managing progress by breaking down the elements in the ROE logic tree (see page 20).

Improvement of net profit ratio

The business contribution profit ratio, which represents the profitability of our core business, was still not at a sufficient level at 2.2% in fiscal 2023. We plan to raise it to 3.4% in fiscal 2024 and to 5% or more in fiscal 2025 through business growth in strengthening businesses, improvement in profitability of loss-making businesses through selection and concentration of businesses, and productivity improvement and profit improvement effects (about ¥20 billion) from global structural reforms to be implemented in fiscal 2024. Although operating profit will decrease due to the expected costs of global structural reforms and business selection and concentration, we consider this an unavoidable path to achieve our management targets for fiscal 2025 and sustainable profit growth in fiscal 2026 and beyond.

In addition, we are reducing interest-bearing liabilities in order to improve our financial balance of income and cost. As a capital allocation, we plan to use ¥120 to ¥150 billion of the cash obtained in the three years leading up to fiscal 2025 to reduce interest-bearing liabilities and distribute dividends to shareholders, and we are proceeding at cruising speed, repaying ¥45.7 billion of interest-bearing liabilities in fiscal 2023.

With respect to tax expense reduction, it is essential to improve the effective tax rate, which stands at 69% in fiscal 2023. The main reason for the deterioration in the tax rate is the inapplicability of tax benefits and the reversal of deferred tax assets at loss-making foreign subsidiaries. We are working to significantly improve the effective tax rate from fiscal 2025 onward by reviewing the profit structure of the subsidiaries that are facing challenges.

Improvement of total asset turnover rate

We are reducing working capital by optimizing inventories and trade receivables, and are in the process of improving the total asset turnover rate to 0.84x in fiscal 2023. In addition to the existing efforts, we will continue to reduce interest-bearing liabilities by reducing business assets through a review of our business portfolio and other measures, and through cash inflows from the sale of assets. Through these efforts, we aim to improve the total asset turnover rate to 1.0x in fiscal 2025.

* Business contribution profit: Konica Minolta's unique profit index derived by subtracting cost of sales and SG&A expenses from net sales.

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Optimize financial leverage

The main reasons why financial leverage remains high at Konica Minolta are large investments totaling approximately ¥290 billion from fiscal 2014 to 2022, with the necessary funds mainly financed by borrowings; a change in international accounting standards in fiscal 2019 that resulted in over ¥100 billion of on-balance sheet lease assets and liabilities; and four consecutive fiscal years of net losses starting in fiscal 2019. Improving the financial balance is an urgent task, and we will improve financial leverage from 2.7x in fiscal 2023 to 2.0x (equity ratio of 50%) in fiscal 2025 by reducing total assets through the repayment of interest-bearing liabilities and other measures. The net D/E ratio has improved from 0.80 at the end of fiscal 2022 to 0.73 at the end of fiscal 2023, and will be 0.5 to 0.55 at the end of fiscal 2025, returning the financial balance to an appropriate level.

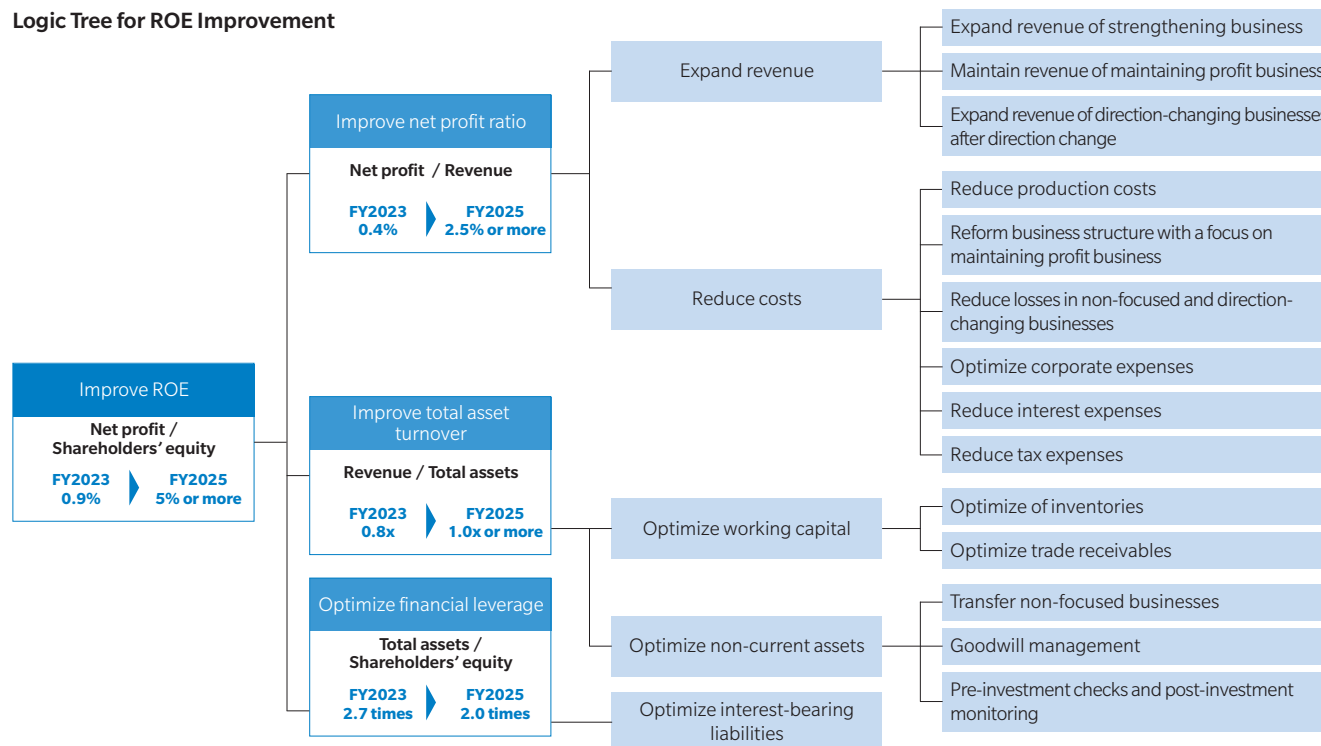
Return of Profits to Shareholders

Konica Minolta's basic policy for returning profits to shareholders is to strive to enhance returns to shareholders based on dividends, taking into consideration such factors as consolidated business performance, investment in growth areas, and cash flow.

As for the dividend for fiscal 2023, we have implemented a year-end dividend of ¥5 per share, as planned at the beginning of the fiscal year, due to the achievement of the announced figures for profit and cash flow.

We are planning to pay no interim and year-end dividends for fiscal 2024, as we are forecasting zero profit attributable to owners of the Company. We have determined that paying a dividend with a forecast of zero profit could be detrimental not only to Konica Minolta but also to the interests of our shareholders from a medium- to long-term perspective. We are very sorry to our shareholders for this situation. In order to achieve a resumption of dividend payments as soon as possible and increase them, we will carry out every possible measure in fiscal 2024 to achieve a significant recovery of business performance in fiscal 2025.

Logic Tree for ROE Improvement



Improved Balance Sheet

