

Panasonic IR Day 2016 Q&A Summary (Appliances Company)

Date and Time: May 18, 2016 (Wed) 9:35 - 10:20 AM

Location: Panasonic Tokyo Shiodome Building

Presenter: Tetsuro Homma, President, Appliances (AP) Company

■ Questioner 1

Q: I believe that your company has made strategic efforts by establishing AP Asia and AP China. While the business in Asia is going well, there were struggles with the air conditioner business in China last year. I'd like to ask you about the company's overseas strategies once again.

A: We succeeded in building quick decision-making systems by appointing former Business Division Directors to local management. We bolstered our products in Asia, and now we are seeing some results. In China, air-conditioners struggled. Our products were improved to a certain extent but lacked fundamental differentiation from those of Chinese manufacturers. We've been developing products with improvements in this aspect over the course of this fiscal year. On the other hand, we achieved double-digit growth in the "small appliances field" last fiscal year, with achievements such as "Beauty Toilette" becoming the No. 1 in the industry.

Furthermore, we've been working on integrating marketing methods in China, which previously varied among sales companies, and we are expecting some results.

Q: Your company's cold chain business is not as profitable as that of competitors. How do you expect the synergy with Hussmann to change that? And what is the prospect of profitability towards 400 billion yen in FY2019?

A: The commercial refrigeration & food equipment business in Japan has at last achieved profitability over 5%. China is getting closer to this level. In Asia, our growth investment has been affecting the profit. However, since this is a growth field, we intend to continue stable investments. For the poorly-performing beverage business, we need to respond to market changes.

As to our collaboration with Hussmann, I'm hoping that they will pursue the synergy generated by joining a large company like Panasonic, such as the reduction of fixed and variable costs. Cross-sell synergy and the infusion of our technology will take place from FY2018 onward. We're estimating approximately 20-billion-yen's worth of synergy for FY2019, which makes up part of the commercial refrigeration & food equipment business sales target of 400 billion yen.

■ Questioner 2

Q: I'd like you to make an overall evaluation with respect to the FY2016 achievement targets, which were announced on the IR Day last year. I'd like to know the causes for and measures to be taken to prevent any failures in achieving the targets.

A: As a company, we achieved the targets. The main reasons for failing to achieve the targets on the manufacturing-sales consolidated basis include the influence of foreign exchange rates on overseas sales departments, the upward shift of the TV business withdrawal costs in the US, and additional sales promotion costs in emerging countries due to intensified business competition. To address these issues, we're preparing to commit ourselves more strongly to overseas appliances sales departments.

Q: I'd also like your comments on the figure, i.e. the FCF of 13 billion yen, which was another target announced last fiscal year.

A: We had a rather conservative plan on FCF. However, it is showing significant improvements. Receivable accounts, etc., were collected ahead of schedule in China and Japan, some of the nonlinear investments have been postponed to FY2017 onward, and although some impairment accounting was carried out, cash was not involved and as much value as possible remained as part of FCF. Mainly for these reasons, FCF is improving more than the profit.

Q: How has the profitability of commercial air-conditioners improved compared to two years ago? I'd like to know your view on China this fiscal year and how the achievements of the air conditioner business in China are incorporated in the current management targets.

A: Our strength is based on room air-conditioners, and our basic strategy is to add commercial air-conditioners to room air-conditioners, which are the core. Rather than covering every field around the world, we intend to specialize in our strong fields and improve gradually by using our previous investments to increase sales. In any case, we intend to invest in this field.

Q: I heard the news that the company will collaborate with Daikin. What is your company's view on next-generation refrigerant development?

A: The government has set forth energy-saving targets, and we are at an important turning point from the viewpoint of large energy-saving demand in the air conditioner field and how we contribute to the reduction of environmental load to achieve these targets. We've been communicating with Daikin for many years and have discussed pursuing collaboration that meets the needs of the times. However, this doesn't necessarily have an immediate impact on the business.

With regard to refrigerant, we've been adopting R32, as proposed by Daikin, around the world for our major room air-conditioners. For store freezers and EcoCute products, we use CO2 refrigerant due to differences in characteristics. We aim to establish a global de facto standard using CO2 in this field.

■ **Questioner 3**

Q: Slide P.18 shows a sales estimate for air-conditioners. The estimate shows an approximately 8% growth for FY2017 and 15% for FY2018 to 2019. Can you please comment on the background?

A: The main focus of the air conditioner business is on the balanced growth between room and commercial air-conditioners. For room air-conditioners, we expect stable growth while maintaining the No.1 market share, as we see a significant increase in the number of households that buy air-conditioners, particularly in Asia such as Vietnam, Indonesia, and the Philippines. Asia is the fastest-growing region for commercial air-conditioners as well.

We have gas air-conditioners in Japan. We intend to take actions related to both gas and electric products against the backdrop of the deregulation of electricity, manufacture unique products that we control together with gas firms through cloud technologies, and promptly establish a profitable commercial air conditioner business.

Q: Although TV sales have been falling due to profit-oriented operations, a sales turnaround is expected from FY2018 onward according to the plan. Why is that?

A: We've had no flagship TV products since the significant change of direction in FY2012, but such products are at last available again. There are no changes in our strategy of determining regions where we compete and each region focuses on profitability. The reason for expecting a sales growth is that people in Japan have started buying new TVs for the Olympic Games.

■ **Questioner 4**

Q: The commercial refrigeration & food equipment business aims to achieve 400 billion yen sales for FY2019 including the synergy. Will the combined profit of Hussmann and the existing commercial refrigeration & food equipment business achieve more than $1 + 1 = 2$?

A: In order to achieve more than $1 + 1 = 2$, we share with Hussmann which technologies to prepare and in which order to implement them. Specifically, we plan to make proposals to customers at shows in the US in June, etc.

Q: By switching to IFRS, non-operating losses will be included in the operating profit. How would it be beneficial for each company to control non-operating losses?

A: I believe that our management will be linked to net income as the Business Division Directors will be committed to achieving net income that also reflects non-operating losses. The adoption of IFRS will contribute to achievements that also take non-operating losses into consideration.

■ Questioner 5

Q: How do you view the demands and stock of the air conditioner market in China for this fiscal year?

A: The air conditioner business struggled significantly in China and is currently going through restructuring processes. The stock of old products is decreasing, and we intend to increase the actual demand for differentiated products this year.

Q: How do you view the performance of the Refrigeration and Air-Conditioning Devices business this fiscal year?

A: During the last fiscal year, the profitability of the Refrigeration and Air-Conditioning Devices business dropped due to the air conditioner stock problems in China. It was caused by a drop in Chinese customers' production, and we are not very optimistic about the situation. We expect that the stock adjustment will take a little more time.

Q: With such a high market share in Japan, does the company intend to aim at a 10% profit rate?

A: That is what we should aim to become. Some special factors such as inbound tourists boosted the achievements last fiscal year, but we can't expect the same for this fiscal year. We need to work further on improving profitability through various measures.