

Q&A Summary for IR Meeting for Appliances Company

Date&Time: December 1, 2014 15:00~16:00
Location: Panasonic Tokyo Shiodome Building, Tokyo
Presenter: Kazuhiro Takami, Appliances(AP) Company President

■Q1

Q: Could you tell us about production structure? When production of 'Made in Japan' for Asia will increase in the future, what kind of production structure is going to be established in each region by taking into account current currency level?

A: In the future, the products which are produced in China are for the Chinese market and the import from Chinese factories to Japan will decrease – value-added products to be manufactured in Japan. For Asia, we are reviewing optimum product locations.

Q: Are you planning additional productions or investments for Japanese factories?

A: Washing machines - we have been preparing for increasing the production in Japan since last year and Shizuoka factory will be ready for the shipment next year.

IH cookers - we have already started the production in Japan.

Microwave ovens - production for industrial-use has already taken place in Japan. For some part of products for Japanese market, production will be gradually shifting to Japan (from China). We have no problems as we have capacity in Japan.

■Q2

Q: What would have been merits and demerits if you had acquired the appliances business of GE? Can we expect sales growth organically (not from sales growth due to M&A)?

A: In order to expand appliances business in North America, we examined if we should enter into a license agreement with GE at around 2000. It never happened in the end and I believe it was the right decision. It is an attractive market but we were not sure if we would be able to generate a 5% OP margin consistently. We have to invest large amounts and it takes time to recover the costs to achieve it. Therefore I believe it was a right decision.

It is not impossible to achieve overall sales of 2 trillion yen by 2018 organically. However, it is necessary to expand the product range such as securities- and air purifying-related products which are currently not under Appliance Company. We are examining which product sales will grow or decrease. However, in order to ensure 2 trillion sales, it is better to form a capital alliance with other company.

■Q3

Q: Has there been any change in strategy since IR Day in May? It seems that your focus was on premium products this time while it was local development in each region last time.

A: No big change since May. We re-examined Asian markets in order to set up AP Asia. New finding was 'premium' customers - they account for 3% of households (4.6 million households) and demand in consumer electronics from them is more than 500 billion yen. We need to strengthen product competitiveness and marketing for these customers in order to improve profitability. We will strengthen product ranges and business performance with local ODM partners.

Q: How are you going to improve large-scale air-conditioner business in China?

A: The most important issue is sales expansion and how to handle construction business in Asia. We want to establish the structure as soon as possible.

■Q4

Q: On P18, who are your competitors in premium built-in kitchens in Europe (accounts for 40% demand)? What is your strategy to increase market shares? Are you going to collaborate with Gorenje?

A: Bosch is the dominant in this field and it would be difficult to compete with them directly. We will strengthen our business, including product line-ups and focusing regions. Gorenje has extremely strong sales channels in Eastern Europe. We will expand our business through collaboration with developers in order to meet customer demand.

Q: Bosch displayed all products which relate to the house at IFA Exhibition. Are you thinking of similar kind of solution business? Do you need M&A for that? What market share are you aiming for?

A: We have not set our market share target yet but we do have strong and unique technologies. We exhibited a total solution of system kitchen, equipped all our products and technologies, which offer a new life style to customers at IFA. We also exhibited non-appliance products and we have many products in this area. As the volume of sales is still small, we want to establish sales channels in the future.

Q: On P21, question about Technics. President Tsuga mentioned that he would use brand names other than Panasonic in order to make positive effect on other products such as auto-related business. Although AV products such as TVs and audio equipment have become a part of Appliance Company, profitability in these areas is around 1–2%. How are you going to increase profitability?

A: It is not so easy. The profitability in AV products in Appliance Company has not yet reached breakeven level this year. However, from next fiscal year, we are planning to expand software technology development etc. in AV products to appliance products. Especially, we plan to utilize AV technologies for networking white goods. In the development of TV business, we will focus on premium product range in order to make this business profitable. Specifically, we will stop development under 32-inch TVs in the future and only focus on value-added products such as large-inch or 4K TVs. We also plan to develop 8K TVs for Tokyo Olympics.

■Q5

Q: In the past, there was not much increase in sales on a local currency basis. Can we expect sales increase even on a local currency basis from next year as you are shifting your target to premium zone and increase average price?

A: Sales in Japan are expected to be unchanged. Sales in China and Asia are expected to grow significantly. To some extent, we can secure growth organically. We will examine carefully who we should collaborate with and the timing.

Q: What would be the impact of exchange rate for next year, taking into consideration of production structure?

A: We are taking various measures in response to currency fluctuations. Exchange rate against dollar for fiscal 2015 is expected to be 110 yen. The negative currency impact (currently decrease of 1.8 billion yen on OP level) will offset around half the impact even if USD/JPY is 120 yen in fiscal 2016.

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