

[English translation of the original Japanese]
Summary of the online meeting with institutional investors held on June 14, 2024

This is an English translation of the summary of the online meeting which was conducted in Japanese. Please note that there may be some differences between this summary and the simultaneous English interpretation provided for the online meeting.

[Date & time] June 14, 2024 / 17:45-18:45 (JST)
 [Venue] Zoom meeting
 [Moderator] Mr. Yasuo Nakane, Senior Analyst, Mizuho Securities Co., Ltd.
 [Panasonic Holdings Corporation] Yuki Kusumi, Group CEO
 Kazuyo Sumida, Group CSO
 Akira Waniko, Head of Corporate Finance, Accounting & IR Department



Q (Moderator) Mr. Nakane, Senior Analyst, Mizuho Securities Co., Ltd.

1	Q	Tech-related stock prices are currently rising considerably in the Japan and US markets, driven by expectations for AI. In contrast, the stock price of Panasonic Holdings is almost flat. If we take the starting point as October or November 2023, it has fallen considerably. As Group CEO, how do you perceive this situation? Also, PBR is at 0.7 times. Is this the correct evaluation? How is management thinking to improve from 0.7 times? Also, how are management discussing the stock price situation?
	A	<p>(Kusumi) Actually, the stock price is not even flat. This time last year, it was around 1,800 yen. Yesterday's closing price was around 1,300 yen. PBR is at a low 0.7 times, even considering the increase in capital. I feel a sense of crisis that investors are not satisfied with our results. Looking at the Group's businesses, we have yet to show results. One is in terms of profit level. Among the three businesses that we have identified as growth areas, we are unable to reach the expected profit levels with automotive batteries and A2W, while Blue Yonder is still in the investment stage for growth. Another is in terms of synergies among businesses. This is not about one common synergy across the Group, but we can aim for synergy from the customer perspective and from the technology perspective. Especially in terms of top line and profits, synergy from the customer perspective should be effective in the short term. However, we have not been able to demonstrate such synergy.</p> <p>We are discussing at the holdings level to respond to this situation as follows: In the past, a hurdle rate of 5% OPM was set for business with low profitability. However, rather functioning as a hurdle rate, the outcome was a sense of security if a certain business reached 5%, lacking a sense of crisis. There was not enough execution against the hurdle rates. Therefore, it is now necessary to take decisive measures. At the Group Strategy Briefing, I mentioned ROIC-based discipline, as our firm determination of execution.</p>

		Based on this, I discuss with operating companies, and as a director of each operating company, I convey the message: if a certain business is at low profitability, the reason should be analyzed at first. Is it due to structural inferiority compared to competitors or is it due to the business management's quality and competence? If it is a structural reason, we have no choice but to take inorganic measures. In other words, do we make up for the shortcomings by ourselves, find a best owner who can, or terminate that business? If the issue stems from management, we will make a swift change. This is the policy each operating company should follow: analyze the reason and quickly take measures.
2	Q	Since becoming Group CEO, what have you achieved or did not achieve, other than management figures. Please also provide the reason.
	A	<p>(Kusumi) In terms of achievements, we transitioned to the operating company system, and the management team at each operating company can address their own business and customers in earnest. They have shown higher motivation, as intended under the new system, since each operating company or business division knows best about their business environment and customers. In terms of external environment, there was considerable supply chain disruption after COVID-19. In this situation, I had many opportunities to work together with Toyota for 3 years, prior to becoming Group CEO. I learned from their capability at the frontlines. People at the frontline operations make daily improvements. I believe this type of culture also existed at Matsushita Electric Industrial and Matsushita Electric Works, probably 30 to 40 years ago. Today there is a big difference. Employees are making products according to rules or going with the flow. The holding company has been supporting the frontlines to set up systems and ways to improve their operations. This reform is making progress, and figures show that lead time is shortened, and we have achieved cost reduction. There is still room for improvement, but we are seeing progress at many operational sites. As an outcome, we expect to reach the medium-term target of operating cash flow, despite operating profit is to fall quite short.</p> <p>In terms of what not achieved, I intended to create a healthy sense of crisis, instead of feeling safe by reaching 5% OPM. In this sense, we are still half-way, and execution was not enough. In terms of operational reform, we are seeing results. However, when compared with our competitors, it is not yet sufficient. An example is modernizing the PSI process. Even today, there are cases where employees manually write demand forecasts on Excel spreadsheets. The effort to modernize these processes through DX is still half-way.</p> <p>The third is about the attitude of each employee. Our aim is to have all employees to take on the challenge to make improvements on a daily basis, instead of simply following instructions. However, in reality, there are still many who carry out their work according to detailed instructions by their superiors and set procedures. It is not progressing as expected. As we introduced the operating company system, while it was necessary to delegate responsibility to each operating company, we may have lacked rigorousness for businesses not making reform quickly enough.</p> <p>As I mentioned earlier, there is a deeply ingrained misconception that the 5% OPM is the only thing that matters. After I announced that we would focus on competitiveness enhancement for the first 2 years, in the second year, I realized that we do not have enough sense of crisis in falling behind our competitor. In other words, we need to exert more spirit of dedication to win the competition, while maintaining fairness and honesty. I have tried to be patient, prioritizing autonomous responsible management. Under our management philosophy, it is stated to "entrust work to your subordinates but continue to watch closely." Now, we must raise the level of the "watch closely" part.</p>
3	Q	A question for Mr. Waniko. Regarding the improvement of operating cash flow, since becoming the holding company structure, there have been various announcements, such as being able to save cash through procurement. Are there any effects of operational reform that we should be aware of?
	A	(Waniko) It would be inventory. Under Group CEO's instructions, we have been optimizing inventories, such as improvement of lead time and supply chain. We are starting to see it is contributing to overall cash, in terms of working capital as well.

4	Q	This may sound rude, but what do you think is missing in your management since you took office as CEO of Panasonic Holdings? How are you making up for it?
	A	(Kusumi) I come from an engineering background, and through my tenure as various business division directors, there were many businesses that involved structural reform. I was involved in the TV business and white goods withdrawal from Europe. When I was younger, I used to be involved in new things. However, in terms of managing each business as a holding company, and delegating authority, there are things that require support from my team. In this sense, there is criticism that there have not been many changes in the executive officers, but they have supplemented what is missing from me, and my former superiors do not hesitate to offer me advice. It has been about three years, and the learning phase is coming to an end. It is all about working as a team. For example, when it comes to inorganic measures, CSO Sumida has extensive experience. I worked with her for the first time through the JV with Toyota of prismatic automotive battery business. She offered considerable help to me. Anticipating that similar cases would be necessary, I appointed her as CSO. The best way to make up for the shortcomings is to receive support.
5	Q	What recently surprised me is Mr. Kinoshita being appointed as the new Group CHRO. He worked at GE, more recently at Mercari. Why is it Mr. Kinoshita? Also, what is his role in the group and his role in relation to the operating companies from the group's perspective? You mentioned the importance of principles. What do you expect from his implementation of principles?
	A	(Kusumi) The issue is to have each employee take on the challenge of daily improvement and reform, instead of simply following instructions. In terms of the management philosophy and basic business philosophy established by our founder Konosuke Matsushita, this is to implement "employee entrepreneurship." This idea is represented by the expression "autonomous responsible management," but it is not happening today. This was the situation from the time I took office as Group CEO, and before that when I was at Automotive, and I tried to change that. When I joined the company, the culture used to be closer to that of what was intended by the founder. However, things have changed. There were difficult times in management, and facing adversity through business, new rules and processes turned out to bind employees. With this situation continuing for 20 to 30 years, even the executives are brought up in such a situation. There are not many people even in the human resources function who understand the necessary communication to make people take on challenges, and what is hindering them. We needed to invite a CHRO capable of this. On the other hand, in terms of thoroughly implementing our basic business philosophy, we can learn from companies outside Japan. Mr. Tatsuo Kinoshita has experience at GE and has accomplished principle-based HR overseas in a conglomerate like GE. I found him very enthusiastic, and moreover, he has a strong sense of justice and is unbiased. I expect he can adapt well with us. His expected role is to change what needs to be changed. To return to a principle-based company, we must change, and he will lead the change. At the Panasonic Group, each operating company implements its own HR policies and the CHRO for each operating company is appointed by the Group CHRO. This is not to say that we are going to change the system directly, but we need to go beyond simply advising them that we should change the system because there is something wrong with it. We must actually see what has been changed. I have high expectations that he will exert his full potential.
6	Q	Is there a time frame?
	A	(Kusumi) It will probably take two to three years to make a complete change. However, if the holding company and PEX will take the initiative in making changes, it could happen earlier.
7	Q	I would like to ask about WACC and ROIC, which were discussed at the Group Strategy Briefing. From the market's perspective, to see the benchmarks is very positive. On the other hand, there are views that the timing may be late. How is it different by business? The target is WACC +3% points, but there are businesses reaching that target and some falling short. Could you explain in more detail?

	A	<p>(Kusumi) You might wonder why ROIC now. Actually, we have included "operating cash flow" and "ROIC" in the current Medium-term strategy. ROIC is one of the evaluation items of the heads of operating companies' short-term performance incentives. There are some business divisions with ROIC below WACC. For this year's strategy briefing, I have committed that we will reduce the number of businesses with ROIC below WACC to zero by the end of FY3/27, except those that are in the investment phase. There are already some businesses with ROIC of about 20%. On the other hand, such businesses could be in a situation of underinvestment. We will monitor the situation by business. There should be no business having ROIC below WACC. In order to reduce the number of such businesses to zero, around the end of FY3/26, we need to identify which businesses are expected to meet the criteria and set the direction.</p> <p>The reason why it takes time is that if a certain business is at low profitability due to the lack of operational capability caused by underinvestment, such as continuing to use low-productivity facilities, they should be normalized by making investments. Assuming this will take about 2 years, we have set the timeline of end FY3/27, to reach zero businesses with ROIC below WACC. For businesses that are above, we will decide by each case; should they be raised higher, or make investments for further growth, even if the figure would be low temporarily. The difference in WACC among each business is around 4.5% to 7%. We need to consider the rising interest rates. Based on our simulation at the end of FY3/24, by operating company, businesses with WACC +3% points were around 9% to 10% in terms of ROIC.</p>
8	Q	Which businesses have reached WACC +3% points, which have not, and which are below WACC?
	A	(Kusumi) Out of 30-some businesses, currently 8 are below WACC and showing negative growth, excluding those in the investment phase. In addition, 3 businesses are below the WACC +3% points target. If a business' ROIC for the past year does not reach WACC +3% points, the operating company should closely monitor the situation. If the situation continues for 1 year, the holding company will monitor it as well.
9	Q	I understand the timeframe to be the current fiscal year and next fiscal year. Does this mean that in the subsequent fiscal year, you will make decisions and be ready to take action?
	A	(Kusumi) We have to do so.
10	Q	Here are some questions related to Connect. "The strategy of your software business is incredibly confusing. Do you want to run these yourself as a strategic pillar, or do you want to IPO/sell these?" "You are paying a high multiple of sales for One Network Enterprises at around 10 times. What synergy effects do you calculate to justify this and are we now at a point when we can look forward to predominantly organic growth from this business?" "Will you spend more money on M&A in the software business?" For the third question, please answer from the perspective of Director of Panasonic Connect.
	A	<p>(Kusumi) When Mr. Higuchi proposed to acquire Blue Yonder, I understood that increasing the recurring ratio would be very significant in terms of our profit structure. The scale is not large yet. We are in the phase of gaining competitiveness by making necessary investments. As of today, creating synergies is not yet a big business for Connect, but one of our expected strengths is connecting sensing at the frontlines with Blue Yonder. Blue Yonder can provide feedback to planning systems. As an example of generating such synergies, we have delivered warehouse solutions. We are also working with Rapyuta Robotics to apply Blue Yonder's warehouse management to automated warehouses. These are the things we intended to expand.</p> <p>Another is to connect the supply chain planning system, multi-tier. It is very effective to plan by collecting data not only with one's own PSI, but also based on the situation of suppliers. This is the same story as Lifestyle, where they halved inventory by planning production in line with demand monitoring distribution inventory. In other words, multi-tier planning of the supply chain is very effective if properly carried out and if conducted at a deeper layer. I believe One Network is essential, and through this acquisition, our business can be differentiated and offer a unique solution.</p> <p>The idea of listing this business does not mean that we want to get rid of this business. There are 2 reasons. One is the necessity of M&A, which requires cash from the capital market. Another is</p>

		to reward employees in this type of industry with stock compensation as an incentive. These are the aims of potential listing. Rather than recouping our investment with Blue Yonder's profits, we can accelerate recovery through listing. The holding company is working together with Connect to raise its value.
11	Q	The next question: "In the past, you mentioned there were other restructuring projects besides Automotive. Are these still ongoing?" Even if they are, I assume you cannot comment on the details.
	A	(Kusumi) I can only answer that we are conducting various studies. We can communicate only after sufficient preparation, otherwise the impact on various stakeholders will be significant. In the case of Automotive, we made the announcement after carefully explaining to our customers in advance. I would like to ask for your understanding of these aspects.
12	Q	The next question is about reducing the number of business with issues to zero by the end of FY3/27. "The number may increase due to changes in the external environment. If we don't speed up at some point, as Tsuga-san said before, there is a risk of falling into a whack-a-mole situation. Can you speed up the process?"
	A	(Kusumi) Should there be a situation that a certain business, which was expected to meet the standards at the end of FY3/26, turns out to be below WACC for just one year due to sudden changes in the business environment, what would happen? Sumida-san will explain. (Sumida) The point is, will such a situation continue? Various things can happen to businesses, so we will not judge everything digitally. Setting a deadline, we will monitor such signs in advance, and then proceed with discussions with each business while having a second plan. (Kusumi) We are aiming for WACC +3% points. Thus, being below WACC is far from our target.
13	Q	The questioner's intention was, the time frame toward FY3/27 may be too late. It is understandable that it takes time, but are there ways to make it a little faster?
	A	(Kusumi) To turnaround businesses, since each business has its own issue, one solution cannot solve all. Including myself, we all want to achieve over 3% points. My position is to invest in operating companies, using the cash provided by the capital market, so my objective is to achieve the turnaround as soon as possible. Therefore, we need to come up with the best solution for each business. It could be a replacement of the head of the business. For example, we announced the appointment of a new President of HVAC, effective July. For the case of air quality and air-conditioning, it took too much time identifying the issues for room type and commercial air-conditioners and coming up with the right solution. As we cannot continue with this situation, we decided to replace the president. There are different cases: the issue with management, missing pieces, or the issue of underinvestment, etc. The holding company will monitor and identify the issue which the business division director or even the operating company president cannot come up with solutions and accelerate the necessary measures. In some cases, our advice could successfully make them take measures, if not, I need to assign someone else.
14	Q	Changing management is one of the most effective remedies.
	A	(Kusumi) I mentioned this case as an example.
15	Q	Next, let's talk about batteries. From your perspective, the slowdown in EV growth is not a surprise. The good thing is that you focus on the US, decided on the Kansas factory early, so there is little possibility of missing the IRA tax credit. Also, you are funding within your group, and since it is not a JV, you can make decisions quickly. In this regard, compared to other companies such as Korean companies, you made the right choice as a result. However, the market does agree with you entirely. They complain that Panasonic is not investing enough, and they also

		complain if Panasonic invests, then the demand falls. You should effectively explain this to the market. While there is no point in discussing "what if" the US administration changes, but since the profit target includes IRA, I would like to ask why and how Panasonic includes IRA tax credit as a base case.
	A	(Kusumi) Internally, we always monitor its performance excluding IRA. During the investment phase of Kansas, which continues until FY3/28, the double-digit ROIC includes IRA. In other words, we can expect to benefit from IRA until then. Beyond that, the situation is uncertain, such as running out of budget, or being affected by the outcome of the presidential election in the US. In any case, we will monitor excluding IRA. The current situation of low profitability of the In-vehicle battery business, is caused by the sudden decrease in demand for 1865 cells designated for certain car models, produced in Suminoe, Japan. I regret that we could not take measures earlier.
16	Q	I understand that ROIC includes IRA until the next medium-term plan and assume it could disappear after that. For the automotive battery business overall, already reaching double-digit ROIC for Nevada, you will steadily increase productivity and I assume you can reach ROIC of 20%. The Kansas factory aims to achieve ROIC of 10% in 3 years, earlier than the Nevada factory, which took 5 years. You will improve productivity for that purpose. I understand that the rest will depend on recipes. As for the Japan factory, the demand for certain car models has decreased considerably, and it is unlikely that the number will increase from now. Will the company proceed shifting to Japanese car manufacturers?
	A	(Kusumi) It will take some time, so we will firmly implement such measures, anticipating demand to recover after FY3/27 or beyond. Meanwhile, we will firmly control fixed costs.
17	Q	My image is that the Nevada factory will raise ROIC from over 15% to around 20%, and the Kansas factory will have a negative effect on profits in the next fiscal year and the following fiscal year, but it will become double-digit in the third year.
	A	(Kusumi) We aim for double digits for Panasonic Energy as a whole.
18	Q	When will the Kansas factory achieve double-digit ROIC?
	A	(Kusumi) It took 5 years for the Nevada factory to reach double-digit ROIC. For the Kansas factory, we aim for 3 years, 2 years earlier than Nevada. For the Suminoe factory, we will reduce fixed costs this fiscal year and also next fiscal year by shifting resources to the ramp up of the Kansas factory, and to the improvement of Nevada factory. Then, we will move on to the ramp up of Wakayama factory. In this way, we will control fixed costs. Instead of hiring new employees, we will manage by shifting our personnel. Thus we expect a recovery in FY3/27.
19	Q	We can see great potential in the businesses related to AI data centers: Capacitors, multi-layer circuit board materials (MEGTRON) for servers in Industry, also, energy storage systems.
	A	(Kusumi) Servers for generative AI consumes a large amount of electricity. The back up power supply also expected to require larger scale compared to conventional servers. However, in terms of volume, EVs are much larger in terms of overall volume.
20	Q	Next, we have a question about financial policy. "I have the impression that it will take several years for the business to recover. Omron introduced DOE into its dividend policy. Could Panasonic consider adopting a policy of not cutting its dividend for long-term investors?"
	A	(Waniko) We do not expect that right away. However, we understand the shareholders' concerns of dividend fluctuations. Our dividend policy states the target dividend payout ratio of approximately 30%, and stable dividends. We also discuss this matter internally and are conscious of it. We cannot fully commit that we will continue to increase dividends, but I would like to ask for your understanding that we are very conscious about this. We are quite serious not to reduce dividends.

21	Q	The A2W business is facing many challenges, but you are trying to strengthen the business making additional investments in terms of B2B sales channels and products. How does the holding company regard this business? The impression the investors have is that demand will hit bottom this year at the earliest and will finally turnaround the year after next. From Mr. Kusumi's point of view, could you tell us the reason why Panasonic misjudged the situation of this business, and how you evaluate the turnaround measures?
	A	(Kusumi) Although there are external factors, such as the suspended subsidies and the stabilization of gas prices, shifting production from Malaysia to the Czech Republic is a reasonable decision, and we should make necessary investments. However, when I visited our Czech factory, I realized there is still room for improvement in terms of manufacturing, and I addressed this matter in a firm manner. I also emphasized that there might be a sense of security that a product would sell successfully upon its launch. Today, the point is, why we are unable to gain market share in large markets such as France and Germany, rather than how demand will recover. I analyzed the situation was lacking measures to increase sales. We need to consider in what ways installers will select us, or what sales routes will lead to higher market share. We need to correct the situation before increasing scale, otherwise we will lose when the scale has increased.
22	Q	One of the major roles of Panasonic Holdings Corporation is to discuss and make judgments about geopolitical risks and to advise operating companies. For example, does the board discuss the business environment?
	A	(Kusumi) The biggest issue is the US-China decoupling. We have thriving businesses in the US such as Hussmann, Avionics, and battery business in Nevada. On the other hand, we operate different businesses in China. Mr. Homma, who represents the Panasonic Group in China has connections with the Chinese government. He has considerable knowledge of China, and his insights are discussed by the board of directors of Panasonic Holdings. For operating companies facing risks, I ask him to lead the discussion at the operating company's board of directors meeting.
23	Q	Apart from the situations in the US and China, are there any issues in Europe due to slightly different issues by country? For example, difference in financial resources for heat pump subsidies?
	A	(Kusumi) That may be true. In Europe, our issue is how to address the markets, rather than facing geopolitical risks. I regret to say we may be lacking in insight of the market situation.

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