

Q&A Summary for Panasonic IR Day 2015 (AVC Networks Company)

Date / Time: May 20, 2015 /13:05–14:05

Location: Panasonic Tokyo Shiodome Building

Presenter: Yasuji Enokido, AVC Networks (AVC) Company President

Questioner 1:

Q: How do you see inflight communication business and synergy with ITC Global?

A: We have been doing inflight communication business for more than 5 years and have invested a lot on basic business structure. We are unique in the industry who can provide internet, cellphone and live TV all together and will increase the number of installation. We will expand satcom business for ships and mines where ITC Global has their advantage.

Q: You are now based in the US. How do you see North American market?

A: We should have closer relationship with service companies who have global business. We will meet their executives many more and have started to build up our sales force. We have not discussed detail on our strategic investment yet.

Questioner 2:

Q: What is the detail on +15bil yen of rationalization and price decline on page 10?

A: Rationalization is +30bil yen and price decline –15bil yen. Numbers are real, since our consumer business is now almost none which used to be significant in the past.

Q: Can you explain more on +20bil yen increase with solution business on page 10? It seems you have +80bil yen increase with solution business on page 8.

A: +20bil yen on page 8 includes hardware and solution business and +80bil yen on page 10 exclude hardware business.

Questioner 3:

Q: Can you explain more on FCFs in FY15 to FY16 on page 9? How is your outlook for FY17?

A: In FY15, we had +25bil yen of real FCF and +50bil yen of one-time factors including asset sales. In FY16, we have +30bil yen of real FCF but some other factors offsetting total amount to zero. We will generate more FCF along with our sales expansion.

Q: Canon bought Axis back in February. How do you compete with them while you are one of the top market shareholders in security camera?

A: We have started to introduce approximately 50 product models specific for China and emerging countries since April. We used to have product models shared across the world but we now develop products for each of developed and emerging markets. Our advantage and competitiveness are image analysis and its application development.

Questioner 4:

Q: When you are expanding solution and vertical business in strategic regions and the U.S., do you need to build up personnel resources and sales channels or increase investment?

A: We will spend money on system integration, software and services where we need more resources, and of course invest on personnel resources.

Q: How does increase sales ratio of solution business contribute to AVC company wide profitability?

A: Profitability in solution business excluding hardware will improve. It will take some time to contribute to an entire AVC company profitability due to investment.

Questioner 5:

Q: How do you see your regional strategy and domestic investment to increase your business with CAGR +7% towards FY19?

A: Mobility business is expanding mainly in North America and Europe where we maintain high market share. Our advantage in these areas is that we are able to configure settings in a timely manner for each project in our configuration centers and provide services and maintenance to clients. We established our configuration center in Malaysia and repair center for southeast asia to accelerate business in these areas. Meantime, we will expand mobile, POS and small tablet business in western countries.

Q: How do you see infrastructure business such as road traffic other than Avionics business?

A: We have been in this industry for a long time and have developed wireless communication business focusing on independent communication. We work on dozens of projects a year with local governments across Japan related to integrated disaster prevention business using community wireless system. We believe the business will expand since Japan is a disaster-prone country.

Questioner 6:

Q: How do you improve profitability with sales growth from 1.2tr yen in FY16 to 1.5tr yen in FY19? Do you expect huge expenses for investment and fixed cost?

A: Since we will spend more money to expand business CAGR 7% towards FY19, we will not improve profitability as we did from FY15 to FY16.

Q: AVC company used to be a big burden with the lowest profitability in Panasonic but it may be able to become the highest profit company. Are you confident that you will have double digit profitability in FY19?

A: Not sure yet but we will definitely have more than 5% margin.

Questioner 7:

Q: Do you expand SI business overseas by yourself or collaborating with others? What is your domestic and overseas strategies in this business, with data centers using public or private cloud?

A: We usually do business by yourself except for China where we see special factors, but we will be flexible whether we spend huge amount of money such as on back-end servers