

Roland Corporation

Financial results briefing for the second quarter of the fiscal year ending December 2021

Date and time: August 10, 2021 11:00-12:00

Speakers: Jun-ichi Miki, CEO and Representative Director; Shunsuke Sugiura, Senior Executive Officer and CFO; Naoyuki Tamura, Senior Executive Officer in charge of Corporate Planning

Q1. Was the sales increase in the first half mainly due to the demand from professional users?

No. It was due to an increased demand for electronic musical instruments during the COVID-19 pandemic from those who just started or resumed playing musical instruments. We believe that the purchases by such amateur users contributed to the significant growth in our sales performance.

Q2. We have been told that you front-loaded the production into the first half by using raw materials procured for the second half in order to maximize the “full-year” sales and profits. Would you please tell us about the impact of this decision on your operating results for the third and fourth quarters?

As there is still uncertainty at this moment over how we should procure raw materials, secure containers, and operate the factory in the second half, it was a good decision in hindsight to maximize the first-half sales by front-loading the production. Therefore, if we look at the second half alone, the situation will be more difficult than initially expected. Still, we can expect an upside depending on the operations of our Malaysian factory and the procurement of raw materials. That said, there is also a downside risk, so we cannot be optimistic.

Q3. You have little room to ramp up production in the second half due to a shortage of raw materials even if the Malaysian factory becomes operational at the rate of operations of 100% or higher from September onward. Is my understanding correct?

Not exactly. Although it is difficult to make a general statement as the situation of raw materials varies item by item, we think there is still some room to catch up on the production plan that we could not fulfill in the first half.

Q4. Could you share your thoughts on a possible reactionary drop in demand following a surge in the stay-at-home demand?

When COVID-19 is contained in the future, people who have not been able to go out will go on trips or change the way they spend their money. As a result, the current extremely heightened demand will eventually settle down. However, it is true that, during the stay-at-home period, many people have realized the benefit of playing musical instruments as a hobby, which allow them to spend creative time at home. We believe that communicating thoroughly with these people will no doubt lead to having more population of musical instrument players than in the pre-COVID-19 periods.

Q5. When revising the final year targets for the Medium-term Management Plan, how have you factored in the factory operations and the soaring of raw material and transportation costs?

In our view, transportation costs will remain high, but the supply-demand situation will begin to normalize. As raw material costs will continue to rise for the time being, we plan to deal with the situation through price increase. Furthermore, considering the situation of raw material procurement and the order backlog of current models, we have revised the timing of the launch of some new models from this fiscal year to the next fiscal year. We believe that we can achieve the upwardly revised Medium-term Management Plan in light of such circumstances.

Q6. Given the situation where the order backlog is increasing, what do you think should be the appropriate inventory level?

For top-selling models, we consider it ideal to have about three months of inventory at our local sales subsidiaries. This is because, under the current demand situation, the appropriate amount of inventory should be higher than before.

Q7. What products are included in the order backlog, and what measures are you going to take to reduce it?

Most of the order backlog consists of portable type electronic pianos. As a measure to reduce it, we plan to newly start producing electronic pianos at our Chinese factory in October.

Q8. Assuming that you had no constraints posed by external factors such as difficulty in raw material procurement or the tight supply-demand balance of containers, what level of sales would you expect for the second half?

It is difficult to answer, but considering our current order backlog of just under nine billion yen, we will probably be able to generate sales enough to clear this order backlog.

Q9. As for the price adjustment planned for the fall, please tell us about the target products and a sense of its scale.

Our basic policy is to adjust selling prices slightly but broadly across the range of product. So the adjustment should be around two percent.

Q10. Regarding the acts against the German competition law in the previous fiscal years that you disclosed on August 6, will that have any impact on your operating results going forward?

We took an immediate action on this matter and have already taken measures to prevent recurrence by providing all of our subsidiaries with an education program. Also, the penalty was already recorded and paid in the previous fiscal year. Therefore, there will be no impact on the operating results for the current fiscal year onwards.

The August 6 disclosure was made solely in response to the announcement by the German competition law authority.

(*) This material summarizes key questions asked by the participants in the meeting. Some of communications have been revised to further clarify the meaning of our responses.

Disclaimer

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