

QA session at the online earnings results briefing for the Q2 of FYE3/'23

Q: As for the negative impact of the yen's depreciation, I think the explanation was that it would have a large negative impact on the consolidated basis as a whole. What will be the impact if the weak yen continues in the second half of the fiscal year and in the next fiscal year and beyond? You mentioned that the Communications Systems Business for the U.S. market is performing well, so is there any possibility that the balance of exchange rates has changed as a result of this?

A: Since many of our products are manufactured overseas, the U.S. dollar is in excess of imports, and the strong yen helps in terms of cost. However, since more than 80% of the company's business this fiscal year is in foreign exchange, it has not been affected by the yen's depreciation to a significant extent. The Communications Systems Business, which is centered on the U.S. market, is doing very well, and the weak yen is having a slightly positive effect on profit growth. For the next fiscal year and beyond, the Communications Systems Business, which is mainly for the U.S. market, is expected to continue to do well, but the Aftermarket Business in the Mobility & Telematics Services (M&T) Sector, which is expanding globally, will need to change its exchange rate balance to accommodate a weaker yen, including increasing sales to overseas customers. In addition, M&T is returning to domestic production, but materials are still mostly procured in dollars, and the company is moving to change to yen-denominated procuring. Although the yen's depreciation to this extent is quite severe, we will consider measures to reduce cost-increasing factors and, conversely, to expand the Communications Systems Business, which benefits from the yen's depreciation, to extent possible in the next fiscal year and beyond as we formulate our new medium-term management plan.

The Communications Systems Business is growing overseas, especially in the U.S. Sales were 36 billion in the previous period and are expected to be about 50 billion this period. And as shown in the graph on page 23 of the presentation materials, the order status is very good. Since the percentage of sales in the U.S. is expected to further increase, we are not able to offset the impact of the yen's depreciation on the entire company at present, but such strong overseas sales are favorable for us. In addition, the OEM business on page 22 of the presentation materials, sales of devices, speakers, amplifiers, antennas, etc., account for more than 60% of the total sales, and since these are for overseas markets, they are not greatly affected by the depreciation of the yen. Therefore, although there are still problems in the recent period, we are taking various measures for the next fiscal year while dealing with prices.

Q: I believe that such a large profit in Q2 in the Communications Systems Business was different from the past seasonality, but was there something special about the July to September period? Or is the market so strong that past seasonality doesn't apply? How do you interpret this quarter's earnings?

A: Q1 and Q2 of each year are usually difficult, and we did not anticipate this level at the beginning of the current fiscal year. In the midst of semiconductor supply problems, replacement design proceeded smoothly, and components supply itself recovered faster than expected. Because there were a lot of back orders that had piled up since the previous fiscal year, especially in Q2, everything could be sold as soon as they were produced. Company A has an oligopoly in this market, but while other companies have been unable to supply products due to components supply problems, we have been able to supply products quickly, and all orders continue to come into our company. That still leaves more than \$100 million in backorders, but in Q2, this has led to a quick sell-off in Q2. Also, at the same time, due to the price adjustment during this quarter, the Communications Systems Business is doing very well with a 20% margin. In addition, the public safety market is supported by the government budget, and with the introduction of new products from Q3, this situation is expected to continue. Seasonal factors are present every year, but in this fiscal year alone, Q2 was a period in which such factors

were not applicable.

Q: Does it mean that the seasonal factors are expressing stronger in Q2 of current fiscal year than usual due to the elimination of back orders?

A: Fairly strong and the demand itself is also increasing. Orders for professional radios as a means of communication for crisis management response have been very strong, and we see the overall market improving.

Q: On page 23 of the presentation materials, it is stated that the company is "selected as a manufacturer of secure radio equipment." Is it correct to understand that the change in the competitive environment of Chinese manufacturers in the U.S., which has been controversial for many years, has become apparent?

A: In North America, where we are focusing on the public safety market in particular, there are barriers to entry into that market for Chinese manufacturers, and our company's radio equipment ensures security and reliability. We have been doing this business for the past 40 years and have gained a very high level of trust.

Although there are various movements in the world, I think the sense of security of being a Japanese manufacturer is still appreciated globally. In addition, the KENWOOD brand, known for reliable, highly functional digital radio equipment that is difficult to intercept under certain conditions, is highly regarded and selected.

Q: What will the transition from analog to digital change? What are the policies and backgrounds of the government's large budget?

A: Frequency is a resource, and there has been a movement since around 2009 to switch from analog to digital in order to increase the number of channels. This time the trend has come around again and is leading to great demand. Demand for switching from analog to digital channels is growing because of the increased number of channels and the enhanced privacy that makes it more difficult to be eavesdrop. A large government budget is basically for the entire public safety market, but even with the huge growth in LTE, people on the frontlines of police, fire fighting and emergency services still tend to opt for professional radios, which are narrowband (communication lines with relatively low communication speeds) that can be used for immediate calls. There are approximately 3,000 counties in the U.S., yet less than half of them have switched to digital. The large government budget mentioned earlier is a budget that encourages this switch to digital.

Q: Did the switching trend start in 2009, continue for about 10 years, end once, and then start again? Or has it been on going?

A: In the private market, there was a move toward narrowing (of radio frequency bands) around 2009 as an effective use of frequencies, and that is when the digitalization of professional radios began. From there, we see a cycle of about 10 years of use, followed by a period of upgrade. On the other hand, in the public safety market (police, fire fighting, and EMS), there has been a demand trend since the terrorist attacks in the U.S. until about 2009, and then another 10 years of upgrade demand. The industry view is that there is a demand trend of about 7 or 8 to 10 years, and Company A has the same view based on market information.

Q: I can imagine that the public safety market on page 24 of the presentation materials is specifically for police, fire fighting and emergency medical services (EMS). What is the security market? How is it used?

A: It is mainly used by security guards in private markets such as factories, hotels, warehouses, supermarkets and restaurants, as well as schools and hospitals. The Digital Mobile Radio (DMR) standard, which is a civilian business radio standard defined by the European Telecommunications Standards Institute (ETSI), is used there, and the new

VP8000 is also compatible with DMR.

Q: What is the percentage of your company's sales to the security and public safety markets, respectively?

A: Currently, the public safety market is about 6 to 7 against 10 for the general security market, but we expect the public safety market to grow in the future.

In the graph on page 23 of the presentation materials, the lower part (blue) is for the public safety market and the upper part (red) is for the private sector. In the public safety market, there are many large projects in terms of system scale and the added value is significant. This shows that the company is focusing on the public safety market.

Q: There were reports in the newspapers and elsewhere of a \$34 million order in Delaware County, but are there many projects as large as this?

A: They have been increasing recently. Most recently, the introduction of VP8000 has led to three \$30 million deals in Delaware, Santa Barbara, and Frederick County. There are still many more projects like these in the future, so I think it will continue.

Q: At the beginning of the period, there was an import surplus of about 300 million dollars against the dollar, and a 1-yen depreciation would have a negative impact of 300 million yen. Is it correct to assume that a 150 million dollar increase in sales of the Communications Systems Business in the U.S. means that the import surplus against the dollar will be halved to about 150 million dollars and the negative impact of the yen's depreciation against the dollar will be halved to about 150 million yen? Also, how much progress has been made in forward exchange contracts for the next fiscal year?

A: As we are assuming that the Communications Systems Business sales will increase by \$100 million out of the \$150 million increase in the Communications Systems Business sales, exports will increase by about \$50 million from the initial estimate. Therefore, we see the actual value of the current year as not having decreased from \$300 million to \$150 million, and that the import surplus has decreased by about \$50 million to the point where it has shrunk to less than \$250 million. In the next fiscal year, we will consider measures to further reduce that. As for forward foreign exchange contracts, we are gradually covering the amount for the first half of the next fiscal year, while planning to fully cover by about one year from now, so at present, we would like to assume that we have covered about 1/4 of the amount for the next fiscal year. In addition, these foreign exchange contracts are for regular sales, and when we acquire B to B projects such as M&T's factory/dealer-installed products, about 80% of the order period is taken at once.

Q: What is the market share and outlook for professional radios? What is their share of the U.S. market? Also, if you have any market data, please share how you see the average growth rate over the next five years or so.

A: Market data is not publicly available, and market size and growth rates are based on our company's estimates. Our company's overall market for professional radios is estimated about \$8 billion. The North American public safety market accounts for about \$4 billion of this, and even though our company is doing very well, the share is still only 2 to 2.5%. We hope to get about 10% here in the future. We want to target \$400 million in the public safety market, 10% of \$4 billion. This market has high profit margins, so getting 20% is huge. Company A has about 60% of this market, and our company is about third. On the other hand, in the global mobile radio terminal market alone, we have about 10% of the market and hope to increase it further.

Q: What is the nature of the demand for professional radios has it changed compared to three months ago? Three months ago, the explanation was that the market was mature but the company was able to win orders due to competitor supply problems and the withdrawal of D Company. Has the keyword of crisis management response suddenly

gained momentum in the past three months? And what about its sustainability? There was demand for crisis management after the terrorist attacks in the U.S., but was it temporary then or lasting?

A: There seems to be a shift in worldwide demand for crisis management response. The professional radios market temporarily boomed after the terrorist attacks in the U.S., especially P25, a market for public safety, grew quickly. This time we are well on the right track. We expect continued growth due to increased demand for crisis management response and the introduction of new products into the market for public safety. In our internal monthly reports, we've been paying close attention to professional radios market in the U.S., but Europe and Asia Pacific are also seeing strong year on year growth. The market has been quite active since about the middle of Q1, and we feel that crisis management demand is occurring in a different way than before. And we expect that demand to continue for the foreseeable future.

Q: What is your policy on shareholder returns? And what are your thoughts on investing in growth?

A: We will consider shareholder returns, including dividends, but we are aiming for a dividend payout ratio of 30% and intend to use the rest for investment in growth and other activities. In relation to changes in the environment, which is one of the factors for reviewing "VISION 2023", i.e., exchange rate fluctuations, geopolitical risks, and review of supply chains, we will consider investments that were not included in "VISION 2023", such as reorganization of production systems. Details will be explained in the new medium-term management plan to be announced after the end of this fiscal year. We are aware that new investments in a changing environment will be necessary.

Q: Will investment in environmental change be as large as 10 billion yen per year?

A: It is not possible to do everything at once, so I think it will be several billion yen over the next three years.