

QA session at the online earnings results briefing for the Q3 of FYE/'23

Q: Regarding the revised earnings forecast. Subtracting the Q3 cumulative results from this forecast, I had the impression that the profit margin for the Q4 is more cautiously forecasted compared to the seasonality and other factors of previous years. What is the background to this?

A: Our Mobile & Telematics Services (M&T) Sector's Aftermarket Business had been shipping steadily until the Q2 but struggled in the Christmas shopping season in the U.S. and in actual sales in Japan (sell-through from dealers to customers) in the Q3. Especially in the U.S., market inventories have increased considerably, not only for car products but also for TVs and other products. Therefore, the Q4 could be a period of inventory adjustment, so we are taking a cautious outlook. That is also why we did not change our full-year forecast for the M&T Sector.

Q: By segment, it appears that "Others" will also be negative. What is the reason for this?

A: We are looking at a buffer in "Others" and there is a slight inclusion.

Q: Why did the company announce the change in shareholder return policy before the new medium-term management plan? What kind of cash allocation do you have in mind as the background for the change? Do you anticipate some sort of asset sale in the future? Or was such a decision made in the process of reviewing the optimal composition of the B/S?

A: Until now, our shareholder return policy has been centered on dividends. Recently, however, we have had the opportunity to hear directly from shareholders that they expect us to buy back our own shares. In light of this, we have decided to change the index to a total return ratio that includes share buybacks rather than focusing on dividends to meet the expectations of all shareholders. We are considering cash allocation in the new medium-term management plan but since we must use cash not only to return profits to shareholders but also to invest in future growth, we plan to announce how we will balance the two in conjunction with the new medium-term management plan. The reason for this announcement ahead of the new medium-term management plan was that we thought it would be best to inform our shareholders as soon as possible that we will be taking steps from now on in terms of total return ratio in the revision of the dividend forecast. This can be taken as a statement of our determination to meet the expectations of our shareholders.

Q: In the Communications Systems Business in the Public Service (PS) Sector, there may have been a tailwind in terms of market share in the Q2 results due to competitors' component shortages, but has the competitive environment changed in the Q3? How do you see the environment in the Q4 and beyond?

A: The supply difficulties of our competitors continued through the Q3, and our orders in the private market were very active and strong. We expect that to continue in the Q4. According to the information from a local distributor, the supply to the private market by Company A will probably resume sometime in FY 2024, so we expect this situation to continue in FY 2023. We are currently expanding our share of the private market considerably and expect to be able to maintain some scale even if competitors recover. In the public safety market, we have already shipped more than 3,000 units of the new product VP8000, which began shipping in January. This product is expected to become a core product that will further expand the company's share in the North American public safety market, and there are a number of other positive factors. Based on the above, we expect that the Communications Systems Business to remain strong.

Q: In the graph on p.6 of the "Results & Forecast Briefing" material on financial results regarding the factors behind the increase and decrease in core operating profit, taking out only the Q3, it appears that fixed costs have increased more than expected. What are the factors?

A: This is partly due to the slight depreciation of the yen, but at the same time, production has returned to normal, and we are making capital investments and hiring more people to increase production, especially in the Communications Systems Business in the PS Sector. Expenses related to production have increased accordingly.

Q: In the graph on p. 9 of the "Results & Forecast Briefing" material, there seems to be some variation in price adjustment by segment/business. Has there been anything unexpected in the last three months? What is the progress on the price adjustments?

A: We believe we were able to make considerable price adjustments during the first half of the fiscal year, but these adjustments will not be effective without sales and sales volume. In the Communications Systems Business, products are selling well even with price adjustments, so we are responding better than we had expected. On the other hand, in the Aftermarket Business in the M&T Sector, price adjustments were made but inventories in

the market have been building up. For this reason, the Q4 forecast is conservative. By sector, the Communications Systems Business in the PS Sector is performing very well, including price adjustments, while the Aftermarket Business in the M&T Sector is expected to face a tougher Q4 outlook than expected.

Q: Regarding the graph on p.25 of the "Results & Forecast Briefing" material that shows changes in order backlog, is the decrease in order backlog for the North American private market from September due to steady progress in shipments? In terms of orders received, can we assume that both the public safety market and the private market performed well in the Q3?

A: Shipments have remained steady. The backlog of orders in the private market is basically backorders for radio terminals, which will convert to sales as supply advances. On the other hand, due to strong monthly orders, the order backlog has not decreased easily from around 100 million and has recently increased again to 115 million. Under these circumstances, the company's performance continues to be strong as more and more orders are converted into sales.