

QA session at the earnings results briefing for the Q1 of FYE3/'24

- Q: Can you tell us more about the strong performance of the Communications Systems Business in the Safety & Security Sector (S&S)? It's at an all-time high for the Q1, but what caused this? In addition, there has recently been talk of corporate investment restraint, but is it necessary to consider the risk of future deterioration? Could you also give an update on the point of "some areas of business doing well as a result of competitors facing component supply shortages" that has continued from the previous term?
- A: The strong performance of the Communications Systems Business lies in backorders for the private sector market. In the wake of mass shootings across North America, demand for the relatively low-cost NX-1000 series of digital radio systems has surged more than expected as schools in the United States look to meet their budget at the end of September. With the expansion of production facilities to eliminate back orders, we were able to supply approximately 1.5 times more NX-1000 series than the previous fiscal year, resulting in sales growth that exceeded expectations. As for Competitor A, they seem to have recovered to the point where they can supply products. New products were also announced and we anticipated their impact, but they are not being supplied to the private sector markets which we target. We believe that the Company A gives priority to projects requiring urgency and advanced systems construction in the public safety sector, so there was little impact on our sales situation. We cannot say anything definitive about the second half of the current fiscal year, but we believe there may be some impact because Company A is introducing new products. We are concerned about the recovery of this competitor as a risk. We would therefore like to leave the earning forecast unchanged for the time being, and give an explanation once more after we review the situation for the first half of the fiscal year.
- Q: Regarding foreign exchange. The explanation given so far is that the depreciation of the yen increases costs and has a negative impact on core operating income. For the current term, the negative amount due to currency hedging has been reflected in the earnings forecast, but what was the impact in terms of the Q1 results? Can you talk about the total results and the impact should the yen continue to depreciate? The importance of the Communications Systems Business for North America has increased for the company compared to the past, so the way foreign exchange is thought about may have changed in some respects. Please talk about this, breaking it down into several factors.
- A: Although we are promoting a return to domestic production, the ratio of purchases in U.S. dollars is still large in terms of costs, so as the yen weakens, costs will rise and result in a negative impact. With that in mind, our full-year earnings forecast, released at the end of April, includes a forecasted negative impact of approximately 3.4 billion yen year-on-year due to exchange rate fluctuation. As we already have forward exchange contracts in place through the year, we do not expect any major changes in the level of this impact going forward. For the Q1, it was estimated that the negative impact of exchange rate fluctuation would be approximately 200 million yen, but it was only about 100 million yen. From the Q2 onward, we expect an adverse effect of approximately 1 billion yen each quarter due to exchange rate fluctuation. The negative impact of exchange rate fluctuation in the Q1 was small because the yen did not weaken much in the Q1 of the previous fiscal year. Forward exchange contracts are made for the assumed sales and production amounts, meaning that there isn't a forward exchange contract in place for when sales change more than expected, and so we are affected by the prevailing rates. For example, if sales for the Communications Systems Business are stronger than expected, as with the previous fiscal year, the amount exported to the United States increases, and if the yen's prevailing exchange rate is weaker than the contracted rate, that increase will positively affect profits.

Q: What is the status of foreign exchange contracts for the next fiscal year onward?

A: Well, as an example, if we win a major OEM project in the Mobility & Telematics Services Sector (M&T), we will make a forward exchange contract at that time. Outside of that, for regular products in the Communications Systems Business and M&T Aftermarket Business, we anticipate sales and production for the next year and then gradually enter into forward exchange contracts for around 9 to 12 months for the amounts planned. As of today, we have made reservations for the planned sales and production amounts for April to June 2024. If the yen continues to weaken to around 143 yen or 144 yen to the dollar, we will have to devise a strategy that matches the exchange rate situation, such as reducing purchases in dollars and increasing United States-centric Communications Systems Business sales.

Q: Looking at the graph on page 9 of the PPT material, it looks like the Telematics Service Business is losing revenue. The business seems to be an important factor in considering the growth of the M&T sector, so could you explain the situation behind the sluggish sales growth?

A: While we are trying to develop telematics service as a new business, at the moment we are still focused on selling connected-type dashcams to the auto insurance companies. We saw good results the previous fiscal year, but inventory became excessive from around the latter half of the year, so inventory adjustments are currently being made. We assumed this situation would continue for the rest of this fiscal year from the initial planning stage, and unfortunately it has turned out as expected.

Q: Regarding the seasonality of the Communications Systems Business, in the past, sales and profits were disproportionately concentrated in the Q4, and the Q1 was the lowest of the year. However, in the Q1 of this fiscal year, sales and profits were almost equal to the Q4 of the previous fiscal year. Should we be worried about a reactionary decline from the Q2, as this differs from the traditional seasonality? Or can we expect this level to continue into the Q4? Or can we expect seasonality as usual, rising further from this Q1 level towards the end of the fiscal year?

A: Originally, there has been a seasonality in which sales increase toward the end of the fiscal year and a large profit is recorded in the Q4. Results in the Q1 were affected by the September budget execution related to U.S. schools and the December budget execution related to state governments, but we feel as though the seasonality of the business has diminished considerably due to the significant increase in demand for crisis management worldwide. It's a huge achievement to have such strong results in the Q1, but whether this will continue into the Q4 is not so much about seasonality as it is about how our orders will fare in a competitive environment. For the current fiscal year, sales and profits in the Communications Systems Business are expected to be fairly flat, with a slight decline in the second half compared to the same period of the previous year. Therefore, if we look only at the Communications Systems Business, we do not think that seasonality is very relevant this fiscal year.

Q: In the United States, the business environment for the Communications Systems Business appears to be steady, despite talk of the side effects of rising interest rates and worsening business confidence. Is it correct to assume that while competition from competitors is a risk, the business environment is fine?

A: Yes, we believe that is the case. There is a significant amount of government funding for crisis management across the United States, which is one of the reasons for the strong performance. We also believe there is demand that is not greatly affected by economic conditions, such as the 10-year cycle for switching from analog to digital.

Q: With regard to the possibility of additional measures for shareholder returns, if the earning forecast rises, is it fair to assume that a total payout ratio of 30 to 40%, of which

approximately 60% will be from repurchase of treasury shares and approximately 40% will be from dividends, will be used as a guideline? In addition, the company does not pay interim dividends and generally announces dividends and share repurchases once a year at the time of the full-year financial results. For this fiscal year, if it becomes clear that business results will outperform in the Q1, is there a possibility that the company will carry out additional share repurchases in addition to the 4 billion yen in repurchases already carried out?

A: At the beginning of the fiscal year, the company said it planned to pay 8 yen per share in dividends. However, that 8 yen dividend represents only approximately 40% of our target total payout ratio of 30 to 40%, and we are considering when and how to pay the remaining 60%. Since the results of the Q1 were better than expected, we will flexibly consider the timing, content, and amount of additional shareholder return measures.

Q: Regarding the graph for order status in the M&T sector on page 20 of the PPT material, the OEM business is not stable regarding profitability. Could you talk a bit more about the current forecast for profitability and the "acquisition of large-scale orders scheduled for shipment in 2025"?

A: The OEM business is mainly centered around the dealer-installed option business in Japan. The products that we currently receive orders for are car navigation systems and dashcams, but the adopted products change after a year or two, so after about two years of delivery, new orders are received. At the moment, in addition to continuing orders, we have been able to secure contracts for new additional models as well. Thanks to this, our share of the domestic dealer-installed option business market will probably increase from fiscal 2025 onward. In terms of profitability, we expect to maintain the same level of profitability in fiscal 2025 and beyond, as we have kept costs down considerably through joint development with aftermarket products.

Q: How big is the alcohol detector business advertised in TV commercials?

A: In Japan, a law requiring alcohol checks for drivers of vehicles used by companies and other businesses will come into effect in December 2023. We are initially selling a single device to enter the market. There is a demand to install management software when conducting alcohol checks for large numbers of people, but the sensor of the device needs maintenance because it deteriorates over a period of one or two years depending on the frequency of use. In light of this, we are considering a system that will allow sales to continue over a long period of time. Although the M&T sector accounts for only a few percent of overall sales, we hope to continue to generate steady revenue rather than be a one-off business.