QA session at the earnings results briefing for the Q2 of FYE3/'24

Q: The revised earnings forecast estimates minus 2 billion yen due to foreign exchange hedges, but I think it was minus 3.4 billion yen at the beginning of this fiscal year. The recent depreciation of the yen would increase costs for the Company. Has your view of the impact on foreign exchange changed from the previous forecast? Also, how do you see the impact of the yen's recent depreciation?

A: At the beginning of this fiscal year, we estimated that the negative impact due to foreign exchange hedges would be minus 3.4 billion yen from the previous year. The company hedges the risk of future currency fluctuations by making forward contracts one year ahead. When the Company released its full-year earnings forecast at the end of April, it had already acquired forward exchange contracts for almost the entire fiscal year, so the weaker yen after that has no significant impact on the earnings for this fiscal year. There are two other reasons for the smaller impact. For one thing, the Communications Systems Business sales to the United States grew more than we had expected, but since we had not acquired forward exchange contracts for the increase portion, the yen's depreciation turned out to be in our favor. The other is a decline in sales in the Mobility & Telematics Services (M&T) Sector. In the M&T Sector, imports are so large that a weaker yen increases costs. This negative effect was smaller because a decline in sales resulted in a decline in imports. The combination of these two factors resulted in an improvement of around 1.4 billion yen.

Q: So, will the negative effects of the weaker yen be a concern in the next fiscal year?

A: Given the current exchange balance, I think that the same level of negative effects may appear in the next fiscal year. We realize it is necessary to reduce the negative impacts of currency fluctuations as much as possible in the next fiscal year. We will be implementing such measures as raising prices, reducing purchases in foreign currencies and returning to domestic production.

A: Let me add to that. As shown on page 15 of the material, sales in the Americas have been increasing every quarter. Sales in the Communications Systems Business, especially in North America, have increased compared with previous years. The greater this increase, the greater the benefits of a weaker yen. Therefore, it is not the case that a weaker yen is a disadvantage for the Company. In particular, increasing the Communications Systems Business sales to the United States will offset the positive and negative effects of a weaker yen.

Q: The Safety & Security (S&S) Sector is doing well again this quarter and has revised its full-year earnings forecast, but a comparison of the first and second halves suggests a slowdown. I think the trend is usually to make profits in the Q4, but how should we view the change from the first half to the second half?

A: In the first half of this fiscal year, orders were strong continuing from the previous fiscal year, so that the Company was able to secure a higher core operating income than in the previous fiscal year. This was due to the dissolving of backlog of orders as a result of increased production, and a significant increase in orders as a result of rising demand brought about by higher awareness for crisis management. In the United States, we saw strong school demand up to September due to the series of school shooting incidents. Under such circumstances, orders in the second half of this fiscal year are expected to be about the same as in the first half. However, the plan is set at the same level as for the first half of this fiscal year because we are still waiting to see what moves Company A, our biggest competitor, will make. On the whole, we expect a full-year revenue of 90 billion yen, an increase in revenue and an increase in profit associated with it.

A: Our forecast is slightly conservative. As the global situation has recently been becoming more tense, we hope to reach a level similar to that of the first half of the year. However, we took into account possible risk factors at the time of releasing the revised figures of the full-year earnings forecast. The overall impression is that if the current momentum continues, there will not be a big drop from the first half of the year.

Q: Is there any possibility that momentum will not be as strong as the Q1 and Q2 since orders have decreased due to the dissolution of the backlog?
A: While dissolving backorders, monthly orders have been considerably higher than in the previous fiscal year. I think the situation in the first half of this fiscal year will continue in the next fiscal year.

Q: Even if back orders are dissolved, is there any possibility that the utilization rate of factories will drop suddenly?
A: There is no such possibility.

Q: Does the expression "see what moves Company A will make" mean that their products have begun to appear in the market since October, while the Company was able to supply products very profitably in the first half of this fiscal year when Company A still had supply constraints?
A: At the beginning of this fiscal year, we thought that the recovery of Company A's product supply would have a slight impact, but it seems that their product supply has already recovered sufficiently. Company A, however, seems to be prioritizing large metropolitan areas such as state governments and Tier 1 cities as their primary target markets. Their market is different from the market that the Company is trying to capture. This became clear in the first half of this fiscal year. We increased our market share while Company A was unable to supply their products, and with very few players in the market, we think we can expand earnings by securing and keeping a certain market share.

Q: The professional camera business is positioned as one to be restructured under the medium-term management plan. Why has it suddenly deteriorated this time? Also, what are your current thoughts on the business portfolio strategy?
A: In the new medium-term management plan "VISION 2025," we positioned the professional camera business as one to be restructured and have begun considering shifting resources, including qualitative transformation, downsizing or withdrawal. Our professional cameras are mainly delivered to broadcasting stations. In terms of global trends, the functionality and portability of smartphones that can send visual contents instantly are valued. Not only for the Company but also for competitors, the overall trend is that demand for professional cameras has plateaued. This is a significant shift in the market. Demand for professional cameras will not go away, but the market will not grow much in the future either. As to the professional camera business, we would like to decide on the future direction, preferably within this fiscal year or in the early stages of the medium-term management plan.

Q: Partly because of an increase in sales in the Communications Systems Business and the impact of returning to domestic production, it seems that the dollar trade gap on a company-wide basis has narrowed. Again, I would like to get an idea of the dollar trade gap for this fiscal year and the next. Regarding forward exchange contracts, the contracted rate for this fiscal year is reportedly about 133 yen to the dollar. For products for the next fiscal year, at what rate and to what extent have you made contracts?
A: There was a time, before the Communications Systems Business grew, when there was an excess of imports of 300 to 350 million dollars. After that, there was a return to domestic production and also an increase in sales in the Americas, so we estimated it to be slightly below 300 million dollars in this fiscal year. Currently, the Communications Systems Business is showing a higher growth than this estimation. Now, we think the excess of imports has shrunk to about 250 million dollars. As for the next fiscal year, we have not made detailed calculations yet, but we do not expect a sudden drop in revenue.

Accordingly, we assume the excess of imports will remain around 250 million dollars. The foreign exchange impact is expected to be smaller in the next fiscal year than in the current fiscal year. This fiscal year, we secured foreign exchange contracts at an average rate of 134 to 135 yen to the dollar. As for the next fiscal year, as of November 1, 2023, we were about to secure contracts to cover close to half of the projected sales for the first half of the year. Our approach is to make forward contracts little by little every month and we think the average rate is around 140 yen. As for measures to reduce negative effects of the weaker yen from now on, we will review factors such as manufacturing and purchasers so that the negative effects will be smaller.

Q: About the sustainability of strong performance of the Communications Systems Business and the outlook for the next fiscal year. Your estimate for the second half of this fiscal year would be conservative. Regarding the direction for the next fiscal year, do you expect further growth with a backlog of orders? Or, do you expect performance to level off?

A: With both the North American public safety and private markets growing, our share is certainly growing. This is driven by facts such as that there is an extremely limited number of players, there are very few newcomers, and that there is a tendency to exclude Chinese brands. With a large amount of government budget spent, we believe that the crisis management momentum will continue to rise for the time being.

A: More specifically, business performance was very strong in FY2022, and shipments has increased by about 20% in FY2023 from the previous year. In the next fiscal year, we expect a growth of at least 10% from this fiscal year's shipments when considering products for both the public safety and private markets. There will be no impact from Company A, so if we can get a good grasp of the growing demand for crisis management, sales will do well. Looking ahead a year or two, we are enhancing our product lineup as a whole, and there is still room to expand our market share. The Company's share in the North American public safety sector market is around 4%, up just one percentage point from 3%, our past share. Nevertheless, this is a significant increase in business performance, so we believe there is still much room for further growth. From now on, we want to enhance our product lineup, secure orders and expand sales.

A: The number of bids in we can participate has increased remarkably thanks to enhancement of our product lineup. The VP8000 is very expensive, but we have received an order for more than 3,000 in the Delaware County transaction. We expect a further increase in the number of orders in the next fiscal year and beyond thanks to the enhancement of our product lineup.

A: The groundbreaking ceremony in Delaware County was in the local news. This is a very good example since it will be a good reference case for neighboring counties, and they will see us as a candidate for the next replacement.

A: Previously, Delaware County's public safety communications systems had been Company A's for a long time. Switching to the Company's systems is a huge milestone. For the public safety sector, transactions tend to be long and continuous, including maintenance, so we consider it to be a good trend.

Q: You presented your views that the Company can achieve a double-digit increase in shipments in the next fiscal year. If the competitive environment does not change much, and there is not much price pressure, is it possible to achieve growth in terms of not only shipments but also value? And, will there be little concern that profitability will deteriorate considerably?

A: Because there are few players in the Communications Systems Business, profitability will continue to increase. The current profitability is above 20%, and we hope to continue to expand our business while securing profitability of at least 20%.

A: We plan to increase upfront investments in business in line with sales growth and expect fixed costs in the next fiscal year to increase. This will be taken into account in the plan for the next fiscal year. In the next fiscal year and beyond, we will be making upfront investments while maintaining a high operating profit margin in order to bring about continued growth.