

Summary of Q&A sessions at the earnings results briefing (Telephone Conference) for 1Q FYE3/'20

- Q: I understand that the DX Business in the "Others" segment will undergo a business model transformation. Am I right to think a high profit margin like in the first quarter will continue in the future? Or, was profit was fairly high in the first quarter due to special early-stage circumstances?
- A: The results of the DX Business for the first quarter were mainly those for MS & AD, and consisted chiefly of drive recorder sales and the resultant profits. No special factors existed, and profits were strong due to a steady accumulation of sales. We heard that the number of contracts had been rising steadily since last year with inventories being accumulated significantly during the first quarter. In this regard, we must watch developments from the second quarter onwards. That said, new orders are on the rise, so things should go on steadily for the time being, in our view.
- Q: If your business for Grab takes off and grows to 10.0 billion yen or more in size, would the business likely be a promising one in profitability compared to your entity-level average operating income ratio?
- A: The business with Grab is one in which we receive monthly service fees from contracted drivers, instead of being a hardware sale-only business. The business with Grab has only just begun, so we don't know how large the membership will become and whether the service will continue to be used. However, depending on developments from now on, we hope it will deliver good profitability as a new solution business for us. The potential size would depend on these developments from now on, in our view.
- Q: You commented on China, South Korea and consumption tax concerning macroeconomic environment risks. I suspect there are effects from the U.S.-China issue for the Communication Systems Business, and, in particular, competitor Hytera of China is probably involved in a procurement issue for government-related projects. Could you newly outline potential effects on your company's financial results?
- A: Our Communication Systems business now in progress in the U.S. consists mainly of tender projects. Chinese manufacturers have not been very strong in this domain in the first place. We are heavily weighted toward government- and public security-related projects. To our knowledge, the threat of a new Chinese player entering these domains has declined.
- Q: The trend of the AM Sector's quarterly results is shown on page 9 of the results briefing PowerPoint material. Could you, if possible, describe the year-on-year deterioration factors for the first quarter individually, just as you did for the fourth quarter of the previous fiscal year?

I would like to know how they will change from the second quarter onward.

A: Core operating income declined from 2.0 billion yen a year ago to 1.1 billion yen, down 0.9 billion. Amid this, the issue of supplier supply remained for the first quarter, and we understand this had an effect of approx. 0.4 billion yen. Given the figure was 1.2 billion yen for the fourth quarter of the previous fiscal year, a marked improvement was made from that. We understand there was an approx. 0.3 billion yen effect from China. For other things, the revenue decline led to a commensurate income decline. Although higher sales were posted in the Aftermarket Business and product mix changed, the remainder came from effects from lower sales, in our view.

Q: As for the supplier supply issue, am I right to understand that there will be almost no effect from the second quarter onward?

A: We are not sure whether we will be totally free of effects, but there will be no effect in the amount of hundreds of million of yen, in our view.

Q: Regarding the AM Segment, I remember you said initially at the start of the fiscal year that expenses would increase ahead of receiving new orders in the OEM Business. Could you tell us how expenses will go from the second quarter onward?

A: Development expenses rose while production cost declined due to lower sales, so overall cost did not increase compared with the first quarter of the previous fiscal year. Our future development will likely involve changes of several hundred million yen or so, but no increase will occur substantially from the second quarter onward. For IFRS accounting purposes, we record assets for new development projects, making us think the increased portion will not directly hit the current fiscal year's P&L.

Q: How are new orders accumulated overseas for the Communication Systems Business in the public service sector?

A: In the U.S., the main sales area, new orders for EFJT, previously a challenge, began to expand from around the second half of the previous fiscal year. For the first quarter, orders received grew steadily with profitability continuing to be strong. On the other hand, Zetron is still struggling somewhat.

Q: Regarding the profitability improvement effect of the T Project, what was the extent of the effect for the first quarter? To what business lines will you apply this project, going forward?

A: As the T Project was launched only last fiscal year, we actually do not have much expectations now for the degree of the effect for the current fiscal year. The Communication Systems Business has been faced with great hardship in the last two to three years, as shown in the results briefing PowerPoint material. So activities have been underway prior to the launch of

the T Project. We think an effect of about several hundreds of million yen a year has begun to materialize, including for maintenance cost. An effect of 100 million to 200 million yen probably materialized for the first quarter. Going forward, we will implement this kind of initiative in different domains. However, not much effect is projected for the current fiscal year. We are working with the aim of making effects materialize on a full-scale basis from the next fiscal year onward.

Q: The OEM Business in the AM Segment is thought to be in a low season for the current fiscal year. Given the current orders received, about when do you think will an expansion phase arrive again?

A: Although we are unable to mention any specific project, sales are expected to increase for the next fiscal year given that new business deals will get underway from the second half of the current fiscal year and into the next fiscal year. The OEM Business does not have fixed orders, and so it will be affected by the level of sales. However, for the next fiscal year, we wish to grow the business to the level of the fiscal year before the last. At least, the current fiscal year is at the bottom and sales will likely grow from the next fiscal year onward, in our view.