

Summary of Q&A sessions at the earnings results briefing for 2Q FYE3/'20

- Q: Second quarter profits in the Automotive Sector declined by almost 50% compared with those in the first quarter. Considering that there were no effects from the supply problem relating to suppliers in the second quarter, the second-quarter profits should have been better (compared with the first quarter). We would like to know what happened in the second quarter.
- A: We have recognized that the supply problem relating to suppliers reduced profits by approximately 0.3 billion (to 0.4 billion) yen in the first quarter. Profits in the second quarter were reduced only by tens of millions of yen due to this problem, which in theory should have improved profits. One reason for the decline in profits is the decrease in sales. Another reason is related to OEM. Although we have received new projects for the next fiscal year, final confirmation of orders received has been delayed, and as a result development costs increased.
- Q: It has been explained that market conditions in China have been tough. Do you feel that such conditions remain unchanged in the second half of the fiscal year?
- A: Although we initially assumed that market conditions in China would remain tough in the first quarter and then improve in the second quarter, effects from this were larger than expected in the second quarter. Therefore, at this stage, we expect the effects to continue until the end of this fiscal year. We should think that there will be substantial effects from this in the second half of the fiscal year.
- Q: Results of the Public Service Sector seem to have continued to be favorable from the first quarter. Are there any changes?
- A: Operating profit in the Communications Systems Business, other than Operating Companies (EFJT, Zetron), increased around 1.5-fold in the second quarter compared with the first quarter. EFJT in the U.S. had been facing very difficult conditions. However, it returned to profitability from the fourth quarter of the previous fiscal year and reported profits both in the first quarter and the second quarter. We believe it has become able to secure profits consistently. Looking at the current order backlog, profits are expected to continue to be on an expansionary track in the second half of the fiscal year. Regarding the Professional Systems Business, we see a significant recovery in JKPI. It posted a loss of 1 billion yen in the first half of the previous fiscal year. Although it has not yet become profitable this fiscal year, the loss has been reduced to around 0.2 billion yen. We believe that it will definitely return to profitability in the second half of this fiscal year. These favorable effects are combined, leading to good conditions in the first half.
- Q: I think that the business has a lot of projects. Didn't it post good results just because large-scale projects were concentrated in the first half?

A: In addition to higher reliability in orders received, we have reviewed the sales system by focusing on activities to receive orders for the past one and a half years—for example, as described in briefing materials, a solution private viewing was held for the first time in five years—and these efforts have begun to bear fruit. The same applies to the Communications Business.

Q: Development of elements for optical communications regarding Liquid Crystal On Silicon (LCOS) is very interesting as a new business for the first time in a long time. It was explained earlier that the business scale will be approximately more than 1 billion yen in the other sector. We would like to know the growth potential and competitive advantages of the business in and after the next fiscal year.

A: The number of companies supplying LCOS is low. If the trend continues, we believe the business scale will expand by a little less than twofold from the current level. We can expect orders received until the first half of the next fiscal year, probably securing profits.

Q: We have heard that earnings of JKHL (former Shinwa International Holdings Limited) have been deteriorating. What kind of measures are you taking in a bid to drastically improve revenues? Similarly, do you have any measures to improve the aftermarket business of the Automotive Sector in Europe where the difficult situation continues?

A: Sales of Shinwa International Holdings Limited came in at the 12 billion yen level in the first half of the previous fiscal year but have been falling below 10 billion yen this fiscal year. At present, it is carrying out a reform of manufacturing sites including those in China. It will be difficult for Shinwa to increase sales of CD/DVD drive mechanisms in the future, and thus the firm will develop businesses utilizing EMS, water-based painting panels manufactured in Hungary, and a wide range of its manufacturing sites.

The domestic aftermarket business of the Automotive Sector is active. Regarding the aftermarket business in the U.S., it has been finally determined that dashcams will be handled by major mass retailer(s). In Europe, it may be difficult to revive existing products (such as car audio) in the future. Therefore, we should examine how to increase sales of new products, including dashcams. Furthermore, irrespective of the area, we are shifting from car audio to dashcam in terms of development, thus changing the breakdown of costs.

Q: Sales of dashcam are favorable. Is there a risk that the unit price will fall as the diffusion rate increases? How is the competitive environment changing? How are you trying to maintain the company's position as an industry leader?

A: Results in the first half of the fiscal year show that the average unit price increased by between 20% and 25%. This is because the number of persons who install a rear camera or a car interior camera as an option has increased, enhancing value added. At mass-retail outlets, purchasing a rear camera together with other products has also become more common. Furthermore, a 360-degree camera, extra storage capacity for the camera,

parking mode surveillance, and such like are in demand. Considering these factors, we believe the average unit price will increase for the time being. Under such circumstances, it is important to differentiate our products from those of competitors, and we have our own optical and imaging technologies developed over many years. We believe this is the main reason why our products are also used in the field of auto accessories (dealer option). Dynamic range and the clarity of images are our strengths. Although requirements from automobile manufacturers are expected to become more demanding, we believe our technological capability will lead to significant differentiation from competitors.

Q: Regarding new orders received for auto accessories, it was explained that development costs have increased due to delayed business negotiations. Could you give us updated information on this?

A: We have mentioned that the OEM business has been in a transitional period this fiscal year. Although some inquiries are expected to be finalized as projects for the next fiscal year, we are required to capitalize development costs as an asset after confirming orders received in accordance with company standards. As the confirmation of orders received has been slightly delayed, asset capitalization has to be postponed, leading to an increase in expenses. The development itself has started, and there is no significant problem such as a delay in development for the next fiscal year.

Q: Please explain earnings for the first half of the fiscal year on a consolidated basis compared with the company's projection.

A: On a consolidated basis, earnings of the Automotive Sector declined by several hundreds of million yen, while those of the Public Service Sector were better than we had assumed. As a result, sales were more or less in line with the company's projection, and profits were slightly above the assumption.

Q: Please explain the level of the profit margin for dashcams. Is it higher or lower in the overall Automotive Sector? In order to achieve net sales (dashcams) of 50 billion yen in 2023, how is the profit margin changing?

A: Although it is difficult to estimate net sales of dashcams alone, we expect the profit margin to be 5–10% in the future. Our estimates are based on the facts that 1) development investment is lower than that for Car Navigation and 2) regarding competitors, unlike Car Navigation, there are only a few strong players in this area at present. As dashcams are widely used in the Automotive Sector, the DX Business and the Media Service Sector with a wide range of profit margins, it is difficult to explain it precisely.

Q: Please explain the actual results of dashcams in the first half. If it is difficult to explain them precisely, is it possible to compare them with JEITA statistics?

A: Sales of dashcams as a whole came in at 13 billion to 14 billion yen in the first half of the fiscal year. On a full-year basis, sales are expected to account for slightly less than 10% of overall sales. The growth rate of sales volume stands at around 160% year on year.

- Q: Could you explain why the Company sold its shares of ZMP?
- A: Because we judged that the relationship between ZMP and the Company's future business would be weak and the necessity of holding the shares declined, we transferred all ZMP stocks held by the Company.
- Q: Sales of the "Other (sector)" have been surging. I think that regarding insurance companies, the proportion of MS & AD is high. Did only one company contribute to an increase in sales? With respect to new services which will start at the beginning of the new year (Mitsui Sumitomo Insurance Company "F-Dora," Aioi Nissay Dowa Insurance (PHYD)), can we expect the business scale to be equivalent to this?
- A: At present, sales to non-life insurers account for approximately 90% of overall sales of the DX Business (new services starting at the beginning of the new year will be included in this). In addition, we have been cooperating with DeNA and Grab in Singapore. Looking at sales of the other sector for this fiscal year, sales to insurance companies other than mega insurers are not expected to account for a large portion of overall sales. The two companies which I have just mentioned (DeNA and Grab) are anticipated to become a substantial contributor to a certain extent from the next fiscal year. The DX Business intends to post 25 billion to 35 billion yen in sales over the medium term.
- Q: The Automotive Sector seems to have entered a downturn trend from the second half of the previous fiscal year. Although sales volume of dashcams have been growing, sales and profits have been declining. Is this because the pace of shrinkage in the Car Navigation and car audio markets has been accelerating and sales of dashcams cannot offset this?
- A: We believe further growth of the aftermarket business has been limited. The Company's aftermarket business tends to post sales of about slightly less than 60 billion yen, and this trend has not changed from last year or the year before that. Revenues also are tending to improve this fiscal year from the previous fiscal year. Improved revenues have been driven by brisk domestic sales and the favorable profit margin. At this stage, in the aftermarket business, sales of dashcams may have covered a decline in sales in overseas markets. However, we see a very difficult situation regarding sales of this business including car audio, Car Navigation in overseas markets, and multimedia. We recognize that a major problem is how new products will be introduced in this business under such circumstances. Meanwhile, looking at industry trends in Japan, the shipment volume of Car Navigation per se has not been declining at all. The shipment volume of Car Navigation (including genuine parts, auto accessories, and aftermarket products) still continues to be on an increasing trend. The Company intends to focus on the aftermarket business, auto accessories, and genuine parts, and we believe that is the right direction to take. Considering this, we should investigate how to earn profits as a challenge for the future.