

Summary of Q&A sessions at the earnings results briefing (Telephone conference) for the fiscal year ended March 2020

Q: You said, when giving an account of briefing materials, that orders for communications products are steady as they are a basic necessity. Setting aside the temporary problem affecting your manufacturing plants, do you have any prospects for activities to receive orders in business-to-business (B2B) areas such as communications, JKPI, healthcare, and digital transformation? And also any prospect for business expansion after the novel coronavirus pandemic ends?

A: We are continuing to ship communications products in the Public Service Sector as they are a basic necessity even while the U.S. is in lockdown. As for products of EF Johnson Technologies, Inc., a subsidiary in the U.S., we consider that they are not greatly affected by the novel coronavirus and are steadily receiving orders. As for other terminals, the impact of the novel coronavirus started to appear in April as it takes more time to confirm orders compared to usual years for railway-related and other terminals. And we are unable to manufacture some models of terminals because some components are out of stock. The situation is the same for JKPI that focuses on the domestic market. Requests for postponing orders for projects already received have been coming since the beginning of April. The novel coronavirus pandemic has not had much impact on the dashcam business for MS&AD in the DX business. Business for Grab in Indonesia is in a difficult situation as people are staying home and avoiding roads, though Grab does not have a great impact on our entire business because of the size of its sales. Although temporarily affected, demand for B2B products to replace existing facilities and new demand will recover after the impact of the novel coronavirus ends. Therefore, we consider that we will be able to make up for the temporary sales drop in the long term. We are planning to take urgent countermeasures, and carry out investment and development as scheduled for these B2B business areas.

Q: Do you have any business areas that remain strong in the current situation?

A: We expected the entertainment streaming business to grow while people are asked to stay home, but the business is not growing as expected. In relation to 5G, we at the Imaging Device Business Unit have elements for optical communications. But we acknowledge that demand will not sharply increase immediately after the impact of the novel coronavirus wanes partly because the outlook for the world economy remains uncertain at the moment.

Q: You said that the Automotive Sector saw a loss of operating profit of 1.5 billion yen in the previous fiscal year because of the novel coronavirus. Your recognition is that the impact is greater on the aftermarket business. Was there any impact on OEM?

A: The impact on the aftermarket business was the most substantial chiefly because we were

completely unable to ship new products scheduled to be released in March to the U.S. because of the lockdown. As for OEM, the novel coronavirus affected a subsidiary manufacturing speaker for European automotive makers, which had to stop their plant operations. The pandemic also affected the field of domestic option business (dealer-installed products). Our shipment volume dropped because of the stagnant overall consumption and a fall in automotive sales.

Q: The briefing materials for the financial results explain that you will transform your revenue structure aimed at expanding sales with an eye to With/After COVID-19. Are there any businesses which you recognize as currently facing challenges? Please let us know about countermeasure projects if you have any currently in mind.

A: It is difficult to give any specific example at the moment. Among our three business fields—Automotive, Public Service, and Media Service sectors—we consider that demand for the Public Service Sector will surely recover in the long term. We will see how consumer demand changes after the impact of the novel coronavirus eases in the coming two to three months before making decisions on the aftermarket business of the Automotive Sector and the B2C-oriented Media Service Sector.

Q: You announced structural reforms at the earnings results briefing for 3Q, and said that effects amounting to 900 million yen would emerge in this term. Are the effects emerging as planned? You also announced impairment charges together with the financial results. How much impact do they have on the earnings results this term? Should we be aware that you will recognize some costs associated with the business structural reforms?

A: The structural reforms announced at the time of the earnings results briefing for 3Q were completed by the end of March as scheduled. And we consider that effects amounting to 900 million yen will also emerge as scheduled from April onwards. We also expect that the impairment announced will improve the earnings results of this term by 400–500 million yen on a depreciation basis. This means that we have no expenses from structurally reforming the business in the current term, but new expenses may arise depending on how long the impacts of the novel coronavirus continue and how the business structure will be post-COVID-19.

Q: You held the view that operating profit would continue to grow due to new orders for dealer-installed options in the Automotive Sector and increased orders in the Public Service Sector. How have the impacts of the coronavirus changed your view?

A: Regarding the Automotive Sector, we have explained that the performance would reach a low point in FYE3/'20 and pick up in FYE3/'21 as the sector has been receiving new orders for dealer-installed options. We hear that our products will be released as scheduled, so

shipments will start in 2Q of the current term. Earnings of the Company, however, depend on how much automotive sales recover. On the other hand, the Public Service Sector is seeing a steady increase in the order backlog for communications in the U.S., so earnings are expected to grow as scheduled in the fiscal year. However, at the beginning of the term some problems may arise in relation to product supply and acceptance of products by business partners.

Q: Do you have any idea about depreciation, research and development costs, and capital expenditures for FYE3/'21? Let us know any large amount of capital expenditure, if any.

A: Before the impacts of the novel coronavirus arose, we considered that depreciation would slightly increase in FYE3/'21 because of new projects for dealer-installed options in the Automotive Sector. And we thought that development investment would be on a par with the previous term. Currently, however, we are planning to invest as previously planned in B2B-oriented dealer-installed options in the Automotive Sector and the Public Service Sector. But we may invest less in B2C-oriented areas. We may give up launching new products in the product launch cycle if consumption does not pick up. We will pick and choose business areas by investing, as scheduled, in areas that recover quickly or are less affected by the novel coronavirus outbreak, and reducing investment largely in areas that are substantially affected, rather than uniformly cutting investment.

Q: What about the impacts of and sensitivity to exchange rates in the current term?

A: The Company hedges its position in most major currencies such as the U.S. dollar and euro with forward exchange contracts for FYE3/'21. Exchange rate fluctuations (during the term) may affect sales, but will have no substantial impact on losses or gains. As for the sensitivity to exchange rate fluctuations, the yen appreciating by 1 yen against the U.S. dollar and against the euro would have a net effect of increasing operating profit by 200 million yen and reducing it by 100 million yen respectively. The Company has set its planned exchange rates at 109 yen to the U.S. dollar and 120 yen to the euro.

Q: Dealers are seeing a considerable drop in sales of dashcams. Is the Company similarly seeing a fall in sales?

A: Sales of aftermarket products for the Automotive Sector decreased considerably year-on-year in April. We believe that our share slightly increased at dealers but our sales dropped by nearly 20% on a shipment volume basis.

Q: When are you planning to release an earnings forecast for the current term? Say, at the end of 1Q?

A: At the moment, we are planning to release it together with the earnings results for 1Q.