

Summary of Q&A sessions at the earnings results briefing (Telephone conference) for the First Half of the fiscal year ending March 2021

Q: The company's strong free cash flow stands out amid challenging business performance. Is it related to efforts to control inventories and investments?

A: We have been able to effectively control our cash flows despite challenging business results. As for cash flows from operating activities, the effect of controlling inventories from an early stage from 4Q of FYE3/'20 to 1Q of FYE3/'21 and efforts to determine things that are necessary and things that are not, such as making an early decision to cancel development of some models, have started to materialize in 2Q. Meanwhile, we may have reduced inventories in the Aftermarket Business in the Automotive Sector a little too excessively, as inventories are becoming tight in some regions. Going forward, we will respond to changes in society in a flexible and timely manner while paying attention to prevent inventory from running out.

Q: While current inventory is low, will gains from production increases be generated when demand picks up toward the second half?

A: Since we have larger sales in 4Q and production volume becomes large in 3Q in preparation for shipments in 4Q, we tend to carry larger inventories compared to 2Q, and record profits for increased production when shipments are made in 4Q.

Q: We were told that orders received in the Communications Systems Business were recovering steadily. Please provide an update on the current situation.

A: There has been a move to eliminate Chinese companies in some areas in the North American market. While we are working to receive orders, no noticeable results have been achieved as of 2Q. We will continue focusing on activities to receive orders.

Q: As you develop new Mid to Long-Term Management plan that start from the next fiscal year, the external environment seems to have changed dramatically from three months ago and half a year ago. Are there any changes in how you think about growth strategies in business sectors?

A: Internal consideration is underway to announce our new Mid- to Long-Term Management Plan at an appropriate time after the end of the current fiscal year. As for changes in our thinking, including the impact of COVID-19, first in the Automotive Sector, we regard the recent needs caused by COVID-19 to own a personal car rather than car sharing as a positive change for our company. As for the Communications Systems Business in the Public Service Sector, while the current situation is challenging due to the deterioration of corporate performance, we believe that demand will pick up in the medium-term, and thus there will be no major

change. In the Professional Systems Business, while the current business performance is weak, we are certain that investments in infrastructure will be generated in line with demand with/after COVID-19. We need to closely examine areas that we should focus on. In the Media Business in the Media Service Sector, while the BtoC business has been robust, future developments in the BtoB business, such as professional video cameras and professional projectors used for flight simulators, are difficult to forecast. We will continue to monitor the situation. The Entertainment Business continues to face difficult situations in the current fiscal year and we are considering new strategies based on the impact of COVID-19.

Q: What was the level of capital investment and R&D costs in 2Q of FYE3/'21? Is there any change in full-year plans?

A: Capital investment amounted to approximately 7.0 billion yen and R&D costs amounted to approximately 8.0 billion yen in the first half. As for full-year plans, while we intend to make major reductions from the plans made at the beginning of the fiscal year (before the impact of COVID-19), there will be no change from the plans assumed in our full-year earnings forecast (disclosed at the announcement of 1Q results).

Q: We were told that the effects of the COVID-19 Emergency Measures (CEM) amounted to approximately 5.3 billion yen in the first half. Please provide breakdown by segment. Is there any change in the annual effects of approximately 7.6 billion yen disclosed at the announcement of 1Q results?

A: As for the breakdown of approximately 5.3 billion yen, the effects of 2.5 billion yen in the Automotive Sector, 1.0 billion yen in the Public Service Sector and the Media Service Sector, respectively, and several hundred million yen in the Others Sector are believed to have been generated. In addition, there is no change in the annual effects of approximately 7.6 billion yen.

Q: Revenue in the DX Business increased significantly in 2Q. Is this because of temporary increases in projects for non-life insurers and will it lose momentum in or after 3Q? In addition, according to P.30 of the PowerPoint presentation material, core operating income in the DX Business is expected to triple in FYE3/'24. Is the potential growth primarily driven by projects for non-life insurers as it is now or will the percentage of new business increase?

A: While both revenue and operating profit in the DX Business remained solid in 2Q, the results in 2Q seem to have been a little too good. Rather than remaining solid, we are likely to experience some ups and downs in each quarter as with the previous fiscal year. With regards to the future, we are not only pursuing business with non-life insurers but also willing to proactively approach customers in areas where we can leverage our strengths, including collaboration with new companies and creating businesses in new areas.

Q: Sales of dashcams seem to be on the rise. What is the unit price trend in 2Q? How is the competitive environment?

A: While we faced difficulties mainly in the Aftermarket Business in 1Q, sales were on a recovery trend in 2Q due partly to the effects of the implementation of the revised Road Traffic Act. Since demand for dashcam models with front and rear cameras has been high as a measure against tailgating, we are expanding product lines for 360° view models and two camera models. In proportion to the composition ratio, unit prices are increasing. As for the competitive environment, it is not that new companies are entering the market, rather we have been competing against several competitors.

Q: What is the progress of earnings recovery through structural reform of base in China implemented in the previous fiscal year? In addition, do you plan to implement other cost reduction initiatives, structural reforms, or other measures in the Automotive Sector?

A: Structural reform of base in China, especially those related to fixed costs, are slightly behind the initial plan due partly to the impact of COVID-19. However, they are likely to be completed in the first half and the effects are expected to gradually materialize in the second half. As other measures, since demand for in-car CD/DVD mechanisms is decreasing more than expected, we will make preparations to wind it down.