

QA session at the online earnings results briefing for Q3 of FYE3/'22

Q: The company announced that the Mobility & Telematics Services Sector (M&T) is on track to improve its parts shortages, but the world as a whole is still pessimistic about the Jan-Mar period. What is the background to the fact that your company is on track for improvement in the Jan-Mar period?

A: The M&T was only able to get 10-20% of the required number of a certain part until Q2. After that, thanks to the cooperation of parts manufacturers, we were able to get 50-60% of the required supply in Q3. However, it does not mean that the supply situation in Q4 is getting better than Q3. The reason for this was that the design changes were made on the assumption that the supply situation would not return to the previous level, and the production of the redesigned products became possible from December. It is not that the parts supply situation has improved. We had been taking measures based on the assumption that it would not improve, and the results finally came out in Q4. We are planning to increase production volume in Q4 through these efforts.

Q: The Public Service Sector (PS)'s Communications Systems Business reported an increase in the order backlog in the last earnings results. Compared to that, the current results seem a little weak. What changes have occurred in the last three months? Apart from sales and profits, how are orders and order backlogs as of the end of December?

A: The results were harsher than expected. Parts suppliers' production recovery from the Asian region lockdown was slower than expected. In addition to this, parts supply problems, such as the lack of semiconductors for new products, had a major impact. Logistics disruptions also continued in the mainstay products for the U.S. market, and profits and losses worsened due to a large increase in inventory in transit compared to last year. As for the future outlook, the order backlog has grown significantly, and although it will not contribute to the current fiscal year, shipments of large projects to Frederick County and County of Santa Barbara in the U.S. will begin after Apr. The business is expected to return to normal from the next fiscal year. We hope that the logistics in the U.S. will be back to normal by that time.

Q: What was the reason behind the strong profit in the Oct-Dec period at Media Service Sector (MS)?

A: Although the end of the year has always been a sales season for the MS Sector, it was the new projector products that greatly boosted sales revenue and profit this time. The new projector was very strong and drove sales significantly. The Entertainment Business was also strong and steadily generated profits.

Q: In the medium-term management plan, the company has set a target of 12 billion yen or more for core operating income in FYE3/'24. Is there any change in this target based on the results of this fiscal year? What is the likely trend from FY22 to FY23 toward the 12 billion yen target?

A: Core operating profit initially started out with the goal of achieving around 8.5 billion yen in the current fiscal year, and the plan was to achieve over 12 billion yen in FY23. This fiscal year is expected to be 6.5-7.0 billion yen, partly due to the impact of semiconductors. It is difficult to foresee how far the impact of semiconductors will continue in the next fiscal year. Depending on the situation, there is a possibility that we may fall slightly short of our initial plan, but we have not changed our plan for the final fiscal year of 2023, which is currently over 12 billion yen.

Q: Sales and growth rate of ASK Industries S.p.A., a subsidiary in the M&T Sector, were at a high level this fiscal year. Is there any change in this situation? What direction should we expect the company to take in the next fiscal year?

A: In the financial results, we reported that our business performance in Europe, Asia and China was growing. The biggest reason for this was the shipment of ASK's factory-installed products to automobile manufacturers which remained strong in Q3. Since speakers, cables, and antennas will continue to be used even after gasoline-powered cars are replaced by EVs, we are getting steady orders for the future.

Q: Regarding the graph of production volume on page 8 of the financial results presentation, which is contributing more to the increase in production, the Aftermarket or the OEM?

A: The growth rate of the aftermarket should be greater. The reason for this is that the OEMs were given priority in producing products in the face of a shortage of parts supply.

Q: Core operating profit for the current fiscal year is expected to fall below 7 billion yen to the 6 billion yen level. If that is the case, other income and expenses are expected to be negative in Q4. Do you expect expenses for structural reforms and others in Q4?

A: As for other expenses for Q4, we do not currently anticipate any special expenses. We are assuming a slightly larger amount as a buffer.

Q: Is it correct to understand that the graph on page 8 of the financial results presentation is a trend that directly relates to the overall sales of the M&T Sector? How much of the products produced in Q4 can be sold during the current fiscal year? What is the outlook for filling the backlog of orders at the end of March?

A: We want to make sure that we sell out what we have made since it will affect our profit and loss for this fiscal year. For example, the March production will be produced at the Nagano

factory mainly for the domestic market and shipped the next day to sell out. As for products manufactured in Indonesia, those to be produced in March will be shipped to regions where sales can be recorded within the month. We will respond flexibly to production to sell out as much as possible of what we make. As for the aftermarket business for the domestic market, the production volume will finally start to rise in January but the inventory at our company and dealers will not return to the normal level since there remains a number of order backlogs. There is still a large order backlog in the U.S. market as well. It is expected to take until the first half of the next fiscal year to be resolved.

Q: What is the background to the growth in Q3 and Q4 in the graph of the Telematics Service Business on page 24 of the financial results presentation? What is the contribution of this business in terms of units and prices? What is the outlook for sales for the next fiscal year and the current status of business negotiations?

A: The main reason for the growth is the dashcam with communication capabilities for MS&AD. However, in the first half of the year, it was difficult to produce and ship products due to parts shortages. We were finally able to produce the products from the third quarter onward, and since we added products for the new services started by MS&AD at the beginning of the year, the increase in unit price caused by these products was a push factor. The expansion of the insurance with dashcams is expected to continue in the next fiscal year. As we will be shipping two models, we expect sales to remain strong.

Q: Will the order backlog in the Telematics Service Business be filled to a certain extent in Q3 and Q4?

A: We believe that the situation will return to normal by the end of March.