

QA session at the online earnings results briefing for the fiscal year ended March2022

Q: Regarding the "Year-on-Year Increase or Decrease in Operating Profit" on p. 22 of the PowerPoint presentation, the price adjustment is stated as 6.2 billion yen. What is your view on the progress of the price increase by business, by product, and by market?

A: The M&T Sector, which has the largest sales, is expected to generate about 4.5 billion yen, the PS Sector about 1 billion yen, and the MS Sector about 800 million yen. These are incorporated into our current forecast. In terms of the consumer and professional use, the Aftermarket Business in the M&T Sector has adjusted prices relatively early, so we believe that the Aftermarket in the M&T Sector has been priced close to where it should be. The Aftermarket Business has adjusted prices to nearly 100% as of April. Negotiations on the price of OEM products have been underway since the second half of last fiscal year. As of April 1, only about 50% of the target price increase has been achieved. We are aiming for 100% in the second half of the fiscal year, with the Aftermarket Business accounting for about 2.5 billion yen of the 4.5 billion yen.

Q: Although it has not appeared separately in the increase/decrease factors, the yen has been weakening considerably in exchange rates, and the impact is likely to vary between the dollar and the euro. In a situation where other currencies are also moving, is the currency impact positive or negative for the current fiscal year? If you have figures, please show us the foreign exchange sensitivity figures for the major currencies.

A: As for the fiscal year 2022, products made overseas are denominated in US dollars. There is also a large amount of production for the domestic market denominated in US dollars, so there is an import excess of about 300 million US dollars, and a change of 1 yen would have an impact of about 300 million yen. For the euro, a depreciation of the yen would give a positive impact of about 100 million yen per yen. For the current fiscal year, more than 80% of approximately 300 million dollars in excess imports have been already reserved. For this reason, although the yen has been weakening rapidly since the beginning of 2022, there has been almost no impact to date. We have not yet made any reservations for the next fiscal year and beyond, so there is a possibility that this will have an impact. We are considering a separate response.

Q: Looking at the quarterly performance trend only for the fourth quarter of the previous fiscal year, both sales and profits were at very high levels. Considering the momentum, I have the impression that the numbers are not strong enough, even though there are various uncertain factors this quarter. Please explain your view of the performance peaking in the fourth quarter and deteriorating toward the first and second quarters.

A: Fourth quarter sales and profits were larger than in the past two years. This was due to the fact that the market was in a depleted state with no inventory after production failed in the second and third quarters, and then production was quickly restored in the fourth quarter, allowing us to introduce products that had been left over from the order backlog. It would be best if we could maintain the momentum of the fourth quarter, but since we are now in a state to supply the market to some extent, we do not expect this momentum to continue as it is. Our concern is the impact of the Shanghai lockdown. In addition to the impact on our production, China is a very large market for the M&T Sector, and it is somewhat difficult for us to predict how the situation will change, or what will happen to the European economy, including the situation in Ukraine. We are not saying that we are conservative, but we have included the impact of these factors in our current forecast. From our current position, we believe that we have sufficient ability to achieve this in terms of the scale of revenue based on the order situation. The major management challenge is how to produce and supply products. For your reference, as for the impact of the lockdown in Shanghai, the Shanghai factory was permitted to reopen today (April 28), and operations have finally started with a limited number of workers.

Q: Regarding the new DOP projects in the M&T Sector. How much contribution will be made this fiscal year and how will it lead to the next fiscal year? What is the scale?

A: We have received orders for dealer option products from major Japanese manufacturers and shipments will continue for at least two years starting this October. Production is at the Nagano factory. We believe this will be a major contribution. The scale of production will be about several tens of thousands of units per month.

Q: There is a 1.5-billion-yen difference between core operating income and operating income this time, and there were various impairments in the Q4 of the fiscal year ended March 2022. Is the plan for this fiscal year also based on such one-time costs? Or is it a buffer?

A: We do not have any specific cost items in mind right now. We have included this amount of difference for the possibility that it may occur in the future.

Q: Since the company is on track to achieve the mid-term management plan, I believe it will raise its profit level starting this fiscal year. Which business will drive profits? I believe the company originally aimed to increase profits in the PS Sector, but what is the timing for that to accelerate?

A: Based on the previous year's results, revenues have stabilized except the M&T Sector. The PS Sector's Communications Systems Business has been receiving very solid orders, especially in the US. So, we believe that the company will be able to achieve solid performance in the medium term. As for the MS Sector, the Media Business is expected to

be solid, as it has undergone various structural reforms in the past and has ended the business in red. On the other hand, as explained earlier, the M&T Sector will see a significant contribution from the second half of the year from projects on order. For this reason, considering the contribution of OEMs in the Chinese market, we believe that we are well within the range.

Q: Regarding the "Full-year Earnings Forecast for FYE3/'23 by Segment" on page 23 of the PowerPoint presentation, the M&T Sector's revenue increases by around 10% compared to the previous year. Is this a high figure compared to the market growth or is it on par with the market? There must be a breakdown for OEMs, but what should be seen as the driving force behind the growth? Will subsidiaries such as ASK drive growth? Please show us the breakdown.

A: We are trying to increase our market share more than the growth of the market. The market is largely divided into OEM and Aftermarket Business. The aftermarket industry size is valued at approximately 50 billion yen. The aftermarket is a relatively solid market, especially in Japan, so there is not a large market growth. However, since we have not been able to supply our products due to component availability problems since the last quarter, we need to eliminate the backlog of orders anyway. As for the forecast for the current fiscal year, there is a possibility that car manufacturers may not be able to produce cars due to economic circumstances. We have estimated this forecast based on the number of planned units agreed upon with automakers.

Q: What were the levels of R&D costs, capital investments, and depreciation for the fiscal year ended March 31, 2022? In addition, please tell us what your plans are for the fiscal year ending March 31, 2023, numbers if possible, or qualitative data if it is difficult. Also, a newspaper article recently reported that the number of new graduates to be employed next spring will increase. What is the intention behind this, and in what areas do you plan to strengthen your workforce?

A: The actual capital investment for the fiscal year ended March 31, 2022, was approximately 22 billion yen. In the previous fiscal year, it was reduced to less than 20 billion yen. However, last fiscal year, the capital investment was increased by approximately 3 billion yen from the previous year due to new development and the return of production to Japan. The depreciation cost amounted to approximately 17 billion yen. Regarding the employment of new graduates, we expect the number of new graduates to increase next year compared to this fiscal year. We are planning to employ personnel in areas such as ITC, software, and security support. We believe there will be more such portions than in the past, but there is no clear breakdown at this time.

Q: Regarding the procurement of semiconductors and other components. Please tell us your current view on whether the April-June and July-September periods of this year will remain tougher than the January-March period of this year, or whether the procurement will become easier. I also have the impression that your company is working harder than other companies in terms of procurement of components such as semiconductors, etc. Looking back on January-March, do you feel more confident that you were able to procure better than other companies in your industry? How do you look back on the improvement of your procurement capabilities?

A: The situation in the semiconductor market has not yet improved. Although we have heard that some memory and DRAM are recovering well, the procurement situation for automotive semiconductors is still very difficult. Under such circumstances, we actively implemented early design changes, which contributed to the growth in the fourth quarter of the previous fiscal year. Regarding the semiconductor procurement situation, we are small in scale compared to the very large manufacturers. However, we conduct daily negotiations with a focus on procurement, with the participation of top management. We believe that our daily negotiations with semiconductor manufacturers on priorities and allocations, and our checking and responding to the progress, have led to the results.

Q: What were the shortfalls in electronic components and semiconductors in the previous fiscal year, and will these be resolved in the current fiscal year? Which specific components are being affected? As companies have started to announce financial results, many companies have been pointed out on distribution costs and other distribution aspects as a problem. Is it correct to say that your company's performance was dragged down by the impact of component shortages in the previous fiscal year, and that this will be resolved in the current fiscal year, which means that the performance will improve? In particular, please tell us about the M&T Sector. Currently, I hear that the turnover is not quite good, as all semiconductor and component makers are not able to supply their products, combined with the lockdown in Shanghai, but please tell us the factors that make you expect a V-shaped recovery for your company.

A: In terms of supply and logistics, the logistics to the U.S., which took about three times longer than usual due to container stoppages caused by COVID-19 in the past, has improved, which contributed to sales in the Q4 of the previous fiscal year, and we expect cargo to move smoothly in the Q1 of this fiscal year. In terms of logistics, the lockdown in Shanghai is holding up both shipments and air shipments. We are concerned about this and will consider and implement all possible measures, including shipments that do not go through Shanghai. Semiconductors for in-vehicle use are usually a generation old. There is a shortage in this area because semiconductor manufacturers have not invested in equipment. What exactly is lacking now is really basic components such as microcomputers and amplifiers for in-

vehicle use.

Q: I heard that in China, no one will be able to go out at all for next month and that no one will be doing logistics at all. I have heard that the local situation is critical, as logistics costs have more than doubled. Are you concerned about this as well? Also, I have heard that legacy components such as microcomputers in automotive semiconductors are not in a situation to increase production until the Q3, even on an operating basis this fiscal year. Are there any special routes that would allow you to procure these components on a priority basis? Generally speaking, you would have to pay about three times the price for microcomputers now to be able to buy them from distribution. Please let us know what measures you are taking in this regard.

A: Your point about China is correct, but that is mainly in the Shanghai area. We have factories in the south and outside of Shanghai, and we are checking the situation on a daily basis. Currently, other areas are not in a lockdown situation. We expect the confusion in the Shanghai area to continue for about another month. Our main factory in Shanghai is partially operational from today (4/28). Regarding the question of how to procure from a foreign semiconductor manufacturer. For example, if we had purchased 100 units of a certain component up to now, we would change the design so that we can produce the product with other components. By doing so, even if the supply of that component is reduced to 50 units, we would cover it by securing 50 other components. This is just one example, but that is how we will handle semiconductors in this fiscal year.