

QA session at the online earnings results briefing for the Q1 of FYE3/'23

Q: Please tell us the idea based on which you kept the annual forecasts unchanged while the progress in the Q1 was good, and what risk factors are expected in the second and subsequent quarters?

A: The Q1 started pretty well in spite of the impact of the lockdown in Shanghai on the Mobility & Telematics Services Sector (M&T). At this point, the prospects for the Q2 are also pretty good. However, regarding the Shanghai lockdown, which was the reason for the deterioration in the M&T Sector in the Q1, China itself has not stopped its zero-COVID policy, and COVID-19 cases are increasing in Japan. It cannot be said that the same thing will not happen again in China, and the future is uncertain. For now, we are leaving the forecasts unchanged, and we will announce the prospects again when the Q2 results come out.

Q: The Public Service Sector (PS) went very well in this quarter. There has been no good news about private-sector orders so far, but you seem to be very confident as the orders have recovered. Please explain a little more about the background to the current improvement in the market environment compared with six months ago or three months ago.

A: North America is a region where professional radio systems are already popular. Especially for the private sector, the NX series including NX-1000, 3000 and 5000 support both NEXEDGE and DMR, which enables us to flexibly meet customer needs. While Companies A, B, and C have been in that market, the supply of devices has become extremely sluggish, particularly since Company B is suffering component supply problems and shifting its core business in another direction. In this context, we believe that orders for the NX series have risen strongly while we have been expanding our sales channels. This is proved by the fact that we have back orders of about 100 million dollars, but we can still plan to increase production for this period. The market itself is mature, but we believe we have room to acquire a market share.

In the North American public safety market, EFJT is growing this much because of strong orders for the P25 system. This has caused a favorable trend where we successfully acquired some projects with the standard called P25 Phase 2, which became a reference in the market, and other counties started leaning towards EFJT because of that, which led to an increase in device orders. Against this background, we believe that we have a foundation for acquiring and growing market share in the mature market.

Q: I remember you previously explained the competitive environment with Company A, saying "We are closely monitoring such changes in the market environment, but there have been no significant changes." Your explanation for this period that you have acquired market share seems a little different in tone. What is happening?

A: Company A's market size in North America was about 40 million dollars. There are still customers using Company A's radio equipment. In that market, however, as Company A has temporarily withdrawn, new customers are moving to us. It is certainly not large in scale, but orders are increasing and affecting the Company's business a little favorably.

Q: Regarding products for in-vehicle use. You have said that reinforcing domestic production and negotiating with various suppliers would have effects in or after the second half. On the other hand, I also understand that the exchange rate has been successfully reserved for the current fiscal year. Considering the current market rate, it might be difficult to handle rising costs due to the weaker yen. What are your overall cost projections for the second half to the next period?

A: As you pointed out, we have been able to manage exchange reservations for the current fiscal year. Some of them can support the portion for the next and subsequent periods. Only in terms of domestic transactions, we will be affected by exchange rates, but in the

OEM Business as a whole, domestic transactions currently account for less than half. So, we intend to manage the balance by increasing the proportion of overseas transactions, and to hedge risks against exchange rate fluctuations in the future for that purpose. In particular, the device business for China is growing significantly. As for the overseas OEM Business, all transactions in the business in Southeast Asia, particularly in Indonesia, are on a dollar basis, and we will minimize risks from the impact of foreign exchange by achieving a total balance through global business expansion.

Q: Does "price adjustment +1.5 billion yen," which is an increase/decrease factor shown on p.7 of the PowerPoint presentation, mean that the price was successfully adjusted at the expected pace? And please tell us if there is a possibility that this amount for the past three months will increase toward the Q2, Q3, and Q4, and if there is a possibility of a further price increase.

A: We believe that the actual price adjustment for the Q1 has reaped results, since shipments, especially in the Aftermarket Business in the B2C and M&T Sectors, increased more than originally expected. If possible, we want to at least exceed the expected level on an annual basis. As for OEMs, the Company is still negotiating prices and will reach an agreement soon, but shipments were unfortunately impossible due to the lockdown in Shanghai. So, reaping the effects will take place in or after the Q2. If this progresses as planned, the results will be a little more than originally planned. However, as it is not yet clear whether costs will increase in the future, we are not considering a further price increase for now. We will reconsider it in the event of exchange fluctuations or increases in the price of raw materials.

Q: Has it become easier to some extent but still been difficult to procure materials? Is the situation where some components may suddenly be missing still continuing?

A: The Company purchases a variety of components on a global basis, and we recognize that the worst time for the procurement of components was around May this year. We believe other companies share this recognition. The situation has improved considerably since then. For example, however, the Company is still having a hard time getting legacy components with a line width of 40 nanometers among semiconductors because semiconductor manufacturers have not made capital investments, but the Company has managed to get them for production.

Q: Was the good performance of the Entertainment Business in the Media Service Sector (MS) on p.8 of the PowerPoint presentation better than expected? What was the factor for the upward trend?

A: The Entertainment Business performed better than initially expected. We expected it to be slightly down from the previous year, but the figures turned out to be higher than the previous year, thanks in part to very strong sales of the programs released in the Q1.

Q: I understand that the Aftermarket and Telematics Service Businesses in the M&T Sector performed well. What is the trend in profit margins compared with the previous year? Please also tell me about the future outlook.

A: Both of them have retained the same profit margins as the previous year. For the current fiscal year, the Company's current expectation is that they will go as planned.

Q: I think that both the Aftermarket and Telematics Service Businesses have been affected by surging material prices. Do you mean to secure the same level of profitability as the previous year by covering such increase with prices?

A: In the Telematics Business, we have been negotiating a lot to procure some components, and it seems that we can manage to continue production. As for the Aftermarket Business, there are some components that are very difficult to procure, so we will proceed with the business as planned while switching to ones that are easy to procure.

Q: In the PS Sector in the Q1, the improvement in operating income from the previous year appears to be much more significant than the increase in sales. I guess it also includes the improvement of operations. Will sales and operating income increase respectively from the previous year in the second and subsequent quarters at the same pace as in the Q1?

A: In the Q1, sales and profits increased thanks to a partial recovery in component supply problems and an increase in production operations through replacement design. Especially when it comes to profits, sales to the North American public safety market enjoy a very high profit margin, sometimes exceeding 20% temporarily. This is a large factor driving up overall profits. For the second and subsequent quarters, the risk of component supply problems will be largely minimized, and we are now considering increasing production to eliminate back orders. If that is possible, sales will increase further. A new product will also be launched for the public safety market around December. With these factors in mind, we expect larger growth in the second and subsequent quarters than in the Q1, though we should not be too optimistic.