QA session at the online earnings results briefing for Q2 of FYE3/’22

Q: While the issue of rising parts costs in the M&T Sector is inevitable, what is the status of passing on these costs to product prices?

A: The problem of soaring component prices and logistics costs has become apparent and has already been factored into the second half plan. Specific measures have already been initiated in each market. For example, we ask for price increases and shouldering part of logistics costs, and we also work to curb price discounting. We will also consider product pricing on a semi-annual and annual basis to ensure profits.

Q: Is it correct that if you are able to produce a certain amount of products in the second half of the fiscal year, profits and losses will improve accordingly?

A: That is correct. Our first priority will be to solve the supply problem, but we will keep our gross profit margins appropriate by passing on to the market price.

Q: On page 28 of the Results and Forecast Briefing, there is a graph that shows that orders for the communications systems are strong. Will this be reflected in the second half of the current fiscal year? If so, will it lead to an improvement in profits for the current fiscal year?

A: Orders from the County of Santa Barbara will start to take effect around the end of Q4 and will mainly contribute to the next fiscal year and beyond. More than 70% of the order backlog in September will be system-related, so we can expect demand for maintenance in the future. In this sense, we assume that the Communications Systems will remain strong over the medium term.

Q: The transfer of production to the Nagano factory is mentioned on page 24 of the Results and Forecast Briefing. Why is the transfer being carried out at this time?

A: We had been considering transfer in our new mid-term management plan VISION2023 announced in May. Geopolitical risks, such as the impact of the recent spread of COVID-19, and logistical risks are the reasons behind this production transfer. Labor costs have risen more than expected for bases in Indonesia and APAC. Since Japan has a stable labor force and the number of personnel will not increase significantly due to automation, the total cost of labor is comparable to the total cost of labor at the Indonesian factory. We decided to implement this project because we could expect sufficient benefits such as avoiding the risks mentioned above and reducing the lead time to about a quarter.

Q: What is the background behind the PS Sector's Q2 results, which showed a year-on-year decrease in both revenue and profits?

A: Revenue declined by about 1.5 billion yen from the previous year, but this was mainly due to a decrease in sales of the Communications Systems. This was largely due to the sale of the communications subsidiary in May, which had an impact of about 1.8 billion yen. On the other hand, in terms of profit, the sale had a positive effect as the subsidiary had posted a loss in the first half of the previous year. We are also implementing cost reductions, structural reforms, and other measures to improve fixed costs, which is having the effect of strengthening our business structure.

Q: Regarding the liquidation of the Thai factory mentioned on page 23 of the Results and Forecast Briefing, what is the impact on sales and profits? How many employees does the Thai factory have?

A: There are 244 employees at the factory in Thailand. Sales in the previous fiscal year were about 1.5 billion yen, and fixed costs were about less than 1 billion yen. The liquidation is scheduled to be completed by the end of March next year, but we will have to pay for the relocation of the production of professional cameras to another factory in Thailand and the production of projectors to Japan. Therefore, we expect only a few tens of millions of yen improvement in the next fiscal year. From the next fiscal year onward, we expect to see a positive effect of about 200-300 million yen in profit per year.

Q: Was there any change in the market share of the Aftermarket Business in the M&T Sector due to the recent supply chain issues? If so, what is the outlook for the future?

A: If we look at the temporary period from July to September, we see that our market share has declined due to the lack of product supply. We believe that this is just a change in the market share due to a lack of product supply, and not that the price or the product itself has become less competitive.

Q: You said that you have been able to secure parts regarding the recovery in the second half of the fiscal year. Will you be able to make sales in the second half of the fiscal year using what you have secured at this point?

A: For Q3, we have received delivery date responses from suppliers to some extent, and we are making sales plans based on those responses. For Q4, we have not yet received an answer on the delivery date for all parts. However, the sales plan is based on the supply situation in Q1 of the current fiscal year, not the situation in the last fiscal year or Q2 of the current fiscal year, which was the most difficult. For this reason, we believe that the plan is highly accurate. Although the situation is still unpredictable, at least October and November are recovering from the most difficult Q2. As for the order backlog, Q4 is the peak of the year for us. In view of the logistics issues and the size of the order backlog, it is possible that some of the orders may be carried over to the Q1 of the next fiscal year. We will do our best to provide products as soon as possible during this fiscal year.

Q: What is the largest backlog of orders in the M&T Sector among aftermarket, dealer-installed products, and other products.? Also, if the supplies cannot be shipped as requested, is there a possibility that it will affect next order receipts?

A: The backlog of orders in the overseas Aftermarket Business is about 20 billion yen in Japanese yen. Regarding the supply shortage of dealer-installed products, automobile manufacturers are affected by the supply shortage not only for us but also for various other components. Therefore, we do not expect this to have any impact on the next round of orders and selections.

Q: With the transfer of production of car navigation systems to Nagano factory, how many units will be produced, up from the current number?

A: We plan to increase the current monthly production of 10,000 units, which is about 120,000 units per year, to about 20,000 units per month starting next January. From the next fiscal year, we hope to increase the annual production to 250,000-300,000 units.

Q: How much will the cost change?

A: The cost is comparable to the current cost in Indonesia. Considering the total cost of processing, materials, and logistics, there is no problem at all in producing at the Nagano factory.