Questions & Answers at the Financial Results Briefing for the First Quarter of the FY Ending March 31, 2024

Questioner A

Q: The GP margin in the Network Solutions (NWS) Business declined. Is this due to a greater than expected downturn stemming from telecommunications carriers being stricter on capital investment? Additionally, do you expect this trend to continue into 2Q and beyond?

A: With regard to capital investment by telecommunications carriers, a certain carrier further curbed expenditures in May and are taking even stricter approaches, but we expect to see a relative increase in investment from KDDI and NCCs (telecommunications carriers and ISPs other than the big four) from 2Q and beyond. In addition, as there is a strong business environment in social infrastructure areas such as marine, space and broadcasting, in terms of the NWS segment we believe we can cover that weakness among telecommunications carriers.

Q: Regarding profitability of the NWS segment in 1Q, you mentioned that there were many projects with low profitability in social infrastructure fields and that segment profitability declined as a result. Is it your perception that those issues will be resolved and improved upon in 2Q?

A: We believe that we can make improvements to NWS profitability heading into the second half of the year, but the effects of resource optimization in the telecommunications carrier business have only partially materialized in 2Q, and we expect that a higher number of profitable projects in social infrastructure fields will be recorded as sales toward 2Q. Therefore, as of 2Q difficulties may still remain, but we believe that improvements can be made in the second half of the year.

Q: In the Environmental & Social Solutions (ESS) segment, you mentioned securing large projects overseas, but what do you think about the profitability and how do you see the risk of unprofitable projects as occurred in the past?

A: The large overseas projects we received orders for are plant network construction projects in Saudi Arabia. These are belong to an area we have previously purchased based on a good relationship with the customer, and we believe there are no issues in terms of profitability or risk.

Questioner B

Q: How are the market environments and demand conditions in each segment?

A: In the DX Solutions (DXS) segment, orders received are up 1%, but this includes the reactionary easing of COVID-related demand at a subsidiary, and in real terms strong conditions have continued. Strategic areas in the medium-term, such as workstyle DX and next-generation network security, have increased by around 40%, and we think they will continue to perform strongly going forward.

In the NWS segment, the telecommunications carrier-related business is tough, but although there are some telecommunications carriers taking a strict approach to investment, there are also promising carriers including KDDI and NCCs, and we believe they can cover the downturn in investment from other carriers to some extent. Social infrastructure areas also performed well in 1Q with orders received increasing by 40%, and we believe this can accelerate further, including the effects of resource strengthening in the future.

In the ESS segment, orders for road-related ICT and other projects have increased even when large projects are excluded, and our perception is that the solid overall business environment is persisting.

Q: How should we look at the GP margin from 2Q and beyond in the DXS and ESS segments?

A: For the DXS segment, GP margin also improved in 1Q due to growth in strategic areas, and we would like to keep this trend going.

For the ESS segment, we are very confident that the growing order backlog will greatly contribute to sales from 2Q, and considering marginal profit, we expect that improvements can be made on the profitability front in addition to profit amounts.

Q: You have increased SG&A expenses, but is it safe to assume that you will be able to achieve a turnaround and increase profit in 2Q, even when looking at operating income?

A: We expect that sales will accelerate and that we can improve GP margin in part as a result of that. We have increased SG&A expenses in relation to ERP system and the DXS segment, and our plan is to absorb those higher expenses and bring about an increase in profits.

Questioner C

Q: It appears that assumed profitability when receiving orders has improved compared to the conventional number, but what is the background to this in terms of which segments made these improvements?

A: Profitability has improved overall, mainly in the DXS and ESS segments. In the DXS segment, we have achieved growth in highly profitable areas identified as a strategic area in our medium-term management plan, such as workstyle DX. In ESS, some of our order backlog includes projects that are not that high in terms of GP margin, but for the orders we have received recently, the number of highly profitable contracts is on the rise.

Q: Regarding the increase in SG&A expenses in 1Q, have these expenses increased more than planned, or is this progress in line with expectations?

A: SG&A expenses are proceeding in line with our plans. During this fiscal year, we made improvements from the expenses incurred for the relocation of the head office in the previous fiscal year, but we expect expenses related to the introduction of new ERP system will increase more than 1Q in the future, and we plan to increase SG&A expenses more than the previous year.

Questioner D

Q: My impression from the past is that progress of your financial results for 1Q is poor, and that this has a not-insignificant impact on your share price. I think the characteristics of the industry play some part in this, but how should we see operating income progressing in 2Q and beyond?

A: 1Q is a quarter in which sales volume is lower, where fixed costs and higher SG&A expenses can have excessive impact. However, regarding the situation in 2Q and later, we plan to increase SG&A expenses compared with the previous year, but due to an extensive order backlog sales will get into full swing, resulting in other profit. We also expect GP margin to improve in response to the higher sales. We there believe that profit will increase sufficiently. Our forecast operating income for this year is up 1.2 billion yen from the previous year, and since profit declined by 400 million yen in 1Q, we will need an increase of 1.6 billion yen over the remaining nine months. That is a mark we hope to achieve as soon as possible. Semiconductor, parts and material shortages are moving toward resolution overall, but there are still some parts and materials in short supply, such as power supplies. We believe this will be resolved by 4Q, but it is also possible that sales will be skewed toward 4Q due to these shortages.

Q: You mentioned securing large projects in the ESS segment. What kind of projects are they?

A: The domestic project is for the procurement of equipment. The overseas projects are related to the building of plant network syatems in Saudi Arabia, and is a business we haver previously been engaged in.

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