

Questions & Answers at the Financial Results Briefing for the First Quarter
of the Fiscal Year Ending March 31, 2025

July 30, 2024

Questioner A

Q: What is the background to the strong orders received in the first quarter? And what should we expect from the second quarter and beyond?

A: In DX Solutions (DXS), we have steadily expanded in strategic areas including workstyle DX and government DX. In addition to solid developments in the first quarter, we also received some large orders leading to a particularly significant expansion. From the second quarter and beyond, we will focus on expanding these strategic areas.

In Network Solutions (NWS), there was a year-on-year decline because some demand still remained in our business for telecom carriers in the previous first quarter, but conditions have already bottomed out as we head into the future. However, although the marine sector is in a transitional phase, the field of social infrastructure is increasing due to aerospace and national security, and we are trying to accelerate this going into the second half of the year.

Looking at Environmental & Social Solutions (ESS), there was a reactionary decline from the absence of large projects that we acquired in the first quarter of the previous year, but we saw a strong performance with firefighting networks and other areas, leading to a 20% increase when the reactionary decline from the past large projects is excluded. We expect orders from the firefighting sector to be concentrated in the first half of the year, and we will link those orders with sales in the latter part of the second half of the year.

Q: What is the situation regarding profit margins? In the first quarter gross profit margin in DXS declined, but in most years there is a seasonal impact biased towards the second half of the year. Am I right in thinking this will improve going forward?

A: We believe the decline in first quarter profitability in DXS is temporary. While costs have increased due to the reallocation of some resources and we have been recording a lot of sales for low-profit projects including a strategic one, as these were at a small scale in the first quarter, the impact is felt more significantly in terms of profit margins. As gross profit margin at the time of order receipt and gross profit margin in the order backlog are improving, we think this will enable us to show year-on-year gains in the second quarter and beyond.

In NWS, we have started to see the effects of restructuring including the resource shift implemented in the previous fiscal year, and profitability in the telecom carrier business has improved. We also saw an impact at our manufacturing subsidiary, where sales of

ticket vender machines with high gross profit margins have increased against the backdrop of demand due to the release of newly designed banknotes.

In ESS, the efficiency of fixed costs improved thanks to higher sales, and business efficiency improvements including demand-driven resource optimization and enhanced project management have contributed to profitability improvements. We will continue with these efforts in the future.

Q: In the current fiscal year, has your performance been stronger than internal expectations towards your forecast operating income of ¥29 billion?

A: We saw steady results in the first quarter, but since it was a quarter in which sales volume itself was small, our progress toward our full-year target falls within expectations. We will make a strong push from the second quarter onwards including the acceleration of our strategies.

Questioner B

Q: Regarding improved gross profit margin in NWS, which had the larger impact, the structural reform of the telecom carrier business or the increased sales of ticket vender machines at your subsidiary? And do you expect sales of ticket vender machines to continue at this pace from the second quarter and beyond?

A: If we made a point of separating the two, the ticket vender machines would be the largest contributor, but we have made convincing improvements to profitability in the telecom carrier business. As for the ticket vender machine business, we expect results to be flat year on year in the second quarter and decline in the second half of the year.

Q: You seem to have achieved strong performance in the service business with orders expanding. What kind of orders have been on the rise?

A: In DXS, there has been an increase in service projects such as workstyle DX for government, and we have also seen strong performance with orders from the manufacturing sector. On the other hand in NWS, service orders for telecom carriers have declined.

Questioner C

Q: You noted that one of the factors behind deteriorating gross profit margins in DXS was the reallocation of resources from SG&A to the cost side. How much of an impact has this had? And do you see that impact continuing in the second quarter and beyond?

A: The monetary impact in the first quarter was a little over ¥100 million. This is in part because sales volume is low in the first quarter. This leads to an outsized impact on

gross profit margin, and this factor reduced it by around 0.5 percentage points. While there will continue to be some impact in the second quarter and beyond, with sales volume picking up in the future, the extent of the impact will lessen. In addition, we expect to recover some of the ground lost by expanding our business in the area of high added value as an effect of these reallocations.

Q: Sales in the Others segment have reached more than half of the full-year forecasts for the segment. Will the pace of sales slow going forward as you approach those full-year forecasts?

A: In the Others segment, sales are mostly focused on small added-value equipment. When we deem it necessary in terms of sales strategy, such as building relationships with customers or laying the groundwork for recurring business in the future, we deal in those areas. As a result, there is a possibility that performance will accumulate beyond our full-year forecasts for the segment.

Q: Is there any change to your relationship with NEC?

A: We are not in a position to comment about NEC's thinking, but at this point there is no change to our relationship.

Questioner D

Q: What is the reasoning and background behind the reallocations in DXS?

A: Within our DXS policy of expanding performance in high profitability strategic areas such as workstyle and government DX or network security, we implemented the reallocation to accelerate the expansion of these strategic areas by bringing resources closer to the provision of solutions to customers.

Questioner E

Q: You mentioned that orders for firefighting and disaster prevention systems have been on the rise. Specifically what kind of projects have seen increases? Also please elaborate on the background to the increase.

A: Around ten years ago there was demand for the digitalization of firefighting wireless networks, and now those systems are due for upgrades. This is mainly focused on the building of firefighting command and control systems. This fiscal year we expect orders to increase mainly in the first half.

Q: The other day there were news reports about the development of automated logistics spaces on expressways. Does NESIC expect to receive any similar orders related to the advancement of road infrastructure?

A: To date most of our road ICT-related work has been in electronic road signs and the construction of networks connecting them, and going forward we will work from that as a base to pursue DX and more advanced solutions. For example, we want to expand our activities utilizing our strengths in advanced network technologies such as local 5G, as well as in the DX field including traffic congestion predications and accident prevention through the AI analysis of camera footage. One of our growth strategies in ESS is the pursuit of DX for social infrastructure areas such as this.

Q: Since the first quarter has a smaller weighting on the full year, it may be difficult to judge your progress as good or bad based on the first quarter financial results, but do you recognize your progress as on track to meeting your full-year targets?

A: While our business results are biased towards the second half of each fiscal year, we believe we got off to a steady start toward our full-year targets this first quarter.

Questioner F

Q: Since factors such as increases in base pay have a large impact on the first quarter in terms of factors increasing costs this year, I think there was an expectation that the first quarter results would show a more subdued start. But it appears your first quarter results show you have gotten off to a steady start. In what areas did you perform better than initial forecasts?

A: Since the first quarter is one with a lower volume of sales, slight upward or downward variations can have a significant impact on the quarterly results. In light of those risks, in the first quarter there are parts we looked at conservatively, but our view is that our progress fell largely within expectations.

Q: Regarding DXS, you mentioned that profitability has improved for recent orders, but have you passed on cost increases such as higher personnel expenses to your sales prices?

A: We negotiate with customers about increased personnel expenses and have steadily passed on those increases in sales prices, so we recognize that the higher costs are reflected in prices.

Q: Regarding the improved profitability when receiving DXS orders, have you made improvements to a level where you can be as happy as expected? Or, is there room for further improvement going forward?

A: Regarding the first quarter results, gross profit margin excluding one-off effects has improved, and in terms of our annual targets, we have set slightly higher targets, so we

recognize the need to accelerate improvements to profitability going forward by enhancing added value such as the expansion of growth areas.

Q: Products such as VMware have experienced sharp price hikes. Have you passed on those increases in your sales prices?

A: There has been a slight impact, but basically we have reflected the increases in our sales prices. We don't think there is an impact that will significantly influence our business results.

Questioner G

Q: In relation to your national security business, there are national initiatives underway to improve profit margins of companies involved with defense projects. Do you expect profit margins to improve going forward for any of your defense projects?

A: Regarding the national security business, going forward we will be pursuing dual aims, expanding sales volume and improving profitability, by expanding our activities in the field of system integration.

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