3rd Quarter of FY2017 Results Briefing - Summary of Questions and Answers

Date and time: February 1, 2018　4:00 p.m. to 4:30 p.m.
Attendee: Mr. Matsushima, Executive Vice President

Q: The amount of orders received during the three months of the third quarter decreased 10% year on year. What are your opinions about this, and what do you expect the direction of the orders received in the fourth quarter to be?

A: During the three months of the third quarter, we suffered a reactionary fall from the large orders we received from public bodies and communication carriers in the third quarter of the last fiscal year. We had expected this fall from the beginning, however. We thought the decrease could be larger, but the amount appears to have rebounded slightly.

As for orders in fourth quarters, we received very large volumes in FY2015 and FY2016. In FY2016, for instance, we received special orders related to distribution. We are focusing on how we can cover the gap from previous years in FY2017. It is only just after the end of January and still early for making predictions, but we hope to see an increase such as last-minute orders during the rest of FY2017. Our foremost goal is to achieve the targets in our initial plan, and how much more we can add depends on how hard we work from now on.

Q: The descriptions of “Other” among the business groups mention the impact of integrating CTC Life Science into CTC. When did you implement the integration, and what is the quantitative impact? Please also explain the condition of your global business.

A: We integrated CTC Life Science into CTC’s Distribution & Enterprise Group in April of last year. The quantitative impact is approximately 2 to 3 billion yen each in the volume of orders received and the sales in the first nine months of the fiscal year, which was transferred from “Other” to “Distribution & Enterprise.”

As for our global business, sales in both Malaysia and Singapore are down slightly in FY2017 due to a reactionary fall from large projects for financial services that we carried out in the same period of FY2016. The progress has been within the range of our initial assumption, however.

Q: The gross profit margin excluding the impact of unprofitable projects improved 0.2 points year on year during the three months of the third quarter. What were the changes in each model?

A: By model, the margin for SI Development increased by 1 point. The margin for Products also rose by approximately 1 point. The margin for Services did not change notably.

Q: Is there any unprofitable project whose impact could drag on for a long time? Until when will the projects themselves continue?

A: The value of projects that have become unprofitable has so far been within the assumption. They are challenging and may pave the way for the future. The impact is not something that will drag on, and the projects are scheduled to be completed before the end of FY2017.

Q: You have explained that there was a reactionary fall in the orders from a specific customer by the Telecommunication Group during the nine months of FY2017. It appears that you had a similar reactionary fall until the first half of FY2017 but offset it with orders from other customers. Does this mean that the trend has changed when we see it without the reactionary fall? Is the completion of the round of network investments likely to affect the amount of orders received from now on?

A: As I explained earlier, orders from two corporate groups other than one company that caused the reactionary fall have been increasing in the first nine months of FY2017. Accordingly, we are not particularly concerned about the decline. We do not sense a major change in the trend of the demand for network systems.

Q: You have explained that you compensated for the reactionary fall caused by one company with orders from two companies during the nine months of FY2017. Is this also the case during the third quarter (October through December)?

A: The amount of orders from the other two companies during the third quarter (October through December) was about the same as in FY2016.

Q: Will the upward trend of the gross margin that excludes the unprofitable projects continue going forward? Other income and expenses have increased year on year. Is this included in your assumption?

A: We have reported that the gross margin of development thus far has been slightly above 20%. This has been gradually increasing during FY2017, and we will endeavor to maintain this trend. Other income and expenses increased by approximately 4 billion yen in the first nine months of FY2017. Half of this, however, is an increase in employee expenses due to pay raises and bonuses. Other than this, approximately a quarter of the increase was derived from growth in outsourcing expenses related to a new backbone system. For this, depreciation expenses have also risen by several hundred million yen. Among such expenses, we expect that the outsourcing expenses for the new backbone system will decrease in the next fiscal year. While the cost of this system is slightly higher than our initial assumption, it will not be an obstacle to our achievement of the targets in the full-year profit plan.

Q: What was the size of the network project for the specific customer that the Telecommunication Group carried out in the third quarter of FY2016, which caused the reactionary fall in the orders received in the third quarter (October through December) of FY2017?

A: I do not wish to comment on the actual value, but the impact was substantial. The value of the orders received from this customer until the third quarter of FY2016 was more than 10 billion yen higher than the amount in FY2015, and this caused the impact of the reactionary fall during FY2017. The values in FY2015 and FY2017 are not significantly different from each other, and the high level in FY2016 was a result of special demand. Please understand that we are back to the normal level in FY2017.

Q: Concerning the orders received in the third quarter (October through December), the Finance & Social Infrastructure Group also received special demand in the same period of FY2016, but it appears that the group is more successful in offsetting the decrease. You noted earlier that the volume of orders received during the third quarter was higher than expected. Does that mean that the volume was higher in the entire company, including the Finance & Social Infrastructure and Distribution & Enterprise Groups? Is it correct that the expected reactionary fall was suffered by the Telecommunication Group alone, in which there was no noteworthy positive factor?

A: That is correct.