

Summary of Q&A at Conference Call on Operating Results for Q1 of FY2020

Date/Time: August 4, 2020 (Tuesday) 2:00 p.m. – 2:45 p.m.

Presenter: Mamoru Seki, Managing Executive Officer, Officer in charge of Corporate Administration Group and CFO

Q : Orders received decreased 5.7% year on year in Q1. Is this within or outside the scope of internal expectations? In particular, could you tell me whether or not the decreases that occurred to the Enterprise Group and Regional and Social Infrastructure Group were in line with expectations?

A : They were almost in line with expectations. We had assumed that the COVID-19 would affect a range of industries, in particular, the manufacturing industry in conjunction with the Enterprise Group and that the Regional and Social Infrastructure Group would experience a reactionary decline from the year-ago level.

Q : Was any revenue moved up from Q2 to Q1?

A : With respect to certain projects, for example, although we had estimated that it would take a long time to complete construction, we moved up revenue because they were completed earlier than expected. None of these projects were large, though.

Q : The most recent order backlogs show a slight decrease, although operating income is higher than the year-ago level. What should we estimate with respect to forecasts for Q2?

A : The COVID-19 will continue to affect our operations in Q2. Even so, we will do our best to maintain the record level that we achieved in the first half of the previous year.

Q : Since you deal with several thousand companies, I understand the difficulty of making projections. That said, do you see any recovery in customers' interest in capital spending in Q2? Or do you think that no change is taking place between Q1 and Q2? What are your insights for the second half? Please share your view on the direction in which things are moving in general?

A : The Q1 results reflects efforts that we made to ensure the posting of order backlogs at the end of the previous year. With respect to capital spending, although companies took a wait-and-see attitude in Q1, we have the impression that some of them have started to take action in Q2. I am unable to provide you with any insights for the second half as yet.

Q : Please let me ask a question regarding the negative impact of the COVID-19 in Q2 discussed on page 6 of the financial results reference data attached to the presented materials. You said that the effects may spread further (in the second half as well) if it remains uncontained for an extended period

of time. Is this a widespread opinion? Or does this refer to the impact on CTC?

A : It is both a widespread opinion and a reference to the impact on the Company. Our understanding is that Japan has been more successful than other countries in terms of curbing the impact of the COVID-19. In addition, we have a strong impression that companies have actually been continuing to make necessary IT investments overall. It appears that companies need IT at any rate, whether it is for responding to the COVID-19 or developing businesses after the disease is contained. Having said that, if the COVID-19 infections were to worsen and the impact were to continue for an extended period of time, we expect that IT investments may be reduced accordingly.

Q : Am I correct in understanding that you referred to this in conjunction with Q2 alone because Q2 has put you in a situation that you did not anticipate in Q1?

A : No. We just referred to a possibility. Moving into Q2, we do not feel things are going in a direction that may cause further deterioration at this point in time.

Q : Could you tell me about industry trends with respect to the effect of the COVID-19, including cases in which projects were suspended?

A : The impact of the COVID-19 is seen mainly in Enterprise. There were cases in which some customers in the manufacturing industry were forced to suspend their factory operations. Trends in this industry should continue to be monitored going forward. In addition, there were cases in which some of our engineers who are stationed at customers' facilities permanently had to stand by due to the COVID-19.

Q : In conjunction with page 6 in the financial results reference data attached to the presented materials, what are the actual amount of teleworking-related orders received in Q1?

A : Teleworking-related orders received, which are not that large, amounted to 700 to 800 million yen in Q1. For the full year of FY2020, we are forecasting orders in the mid-2.0 billion yen range, including those received in Q1. We expect that the amount of orders, which covers those in the forecast as of now, will increase going forward.

Q : In the presentation of the results for FY2019, the presenter explained that sales would decrease in Q2 of the current fiscal year if the Telecommunication Group failed to receive orders as expected. Am I correct in assuming that it is actually the Enterprise Group that poses a challenge?

A : As you are aware, the Enterprise Group is in a slightly difficult situation. We do have a concern that some customers, particularly those in the manufacturing industry, have decided to postpone IT investments with respect to some projects. That said, we have the impression that customers are gradually starting to take action.

Q : Orders received by the Telecommunication Group decreased year on year, the degree of which

however was marginal overall. Please provide more detailed comparisons with the year-ago level including changes in 5G-related projects. Could you also share your outlook for 5G-related projects in Q2 and beyond?

A : Orders received for 5G-related projects totaled approximately 7.5 billion yen in Q1, which was an increase of approximately 4.5 billion yen year on year. The increase was offset, though unrelated, by a reactionary decline due to the absence of the previous year's large projects, resulting in a slight decline in orders received by the Telecommunication Group as a whole. We are expecting to receive orders for 5G-related projects consistently, which we assume will surpass the year-ago results on a full-year basis.

Q : Please tell me trends by carrier regarding orders received by the Telecommunication Group. Were there any cases in which orders received in Q1 were moved up or delayed due to the impact of the COVID-19?

A : Orders received from the carrier group with which we do the largest business showed a slight decrease, reflecting 5G-related positive factors and a reactionary decline in infrastructure projects. Orders received from the carrier with which we do the second largest business declined slightly and those from the carrier with which we do the third largest business increased slightly. There were no cases in which projects were moved up or delayed significantly.

Q : Please comment on your expectation for orders over the coming months.

A : As projected at the beginning of the current fiscal year, we aim to achieve year-on-year growth on a the Telecommunication Group-wide basis.

Q : You said that the sales ratio of products rose and the gross margin on such products was improving. Does that mean that the profitability of 5G-related products was good? Do you expect that this trend will continue, going forward?

A : The Regional and Social Infrastructure Group mainly contributed to an improvement in the gross margin. The Group has been working with the goal of ensuring proper profits and profitability improvement, which we think is bearing fruit. We will strive to continue to make improvements, although we are not able to provide any clear insights on how things will develop from Q2.

Q : Has the COVID-19 impacted the Telecommunication Group? What do you expect to happen, going forward?

A : It has not had any significant effects. We are not anticipating any significant effects, going forward, at this point in time.

Q : Please tell me what 5G-related requirements and inquiries you received specifically due to the spread of the COVID-19.

A : We think products become popular mainly due to social trends or through government support, rather

than as a result of the impact of the COVID-19.

Q : What were the amounts of orders received by the two Indonesian companies that you had acquired in the previous year and what was the impact on revenue?

A : Orders received by the two Indonesian companies totaled 1.7 billion yen in the current Q1 and revenue was 0.9 billion yen. These figures, which are reflected in consolidated financial results starting from September 2019, are all positive factors in terms of year-on-year comparisons.

Q : Please tell me the impact of the COVID-19 on overseas operating companies.

A : CTC's overseas operating companies are located in four Asian countries and North America. In Indonesia where the impact of the COVID-19 was more significant than in other Asian countries, we have just started activities to obtain orders for government projects. Most such activities had been suspended. Malaysia and Singapore were not as seriously affected as other countries. With companies gradually starting to move, we are expecting that things will improve in the coming months.

Q : Please tell me the approximate amount transferred to the cost of goods from SG&A expenses which I assume decreased due to the suspension of projects.

A : It is difficult to provide an exact response. We would say it is approximately 500 million yen.

Q : Please let me ask a question regarding performance by business group discussed on page 2 of the financial results reference data attached to the presented materials. Why are the figures for FY2019 different from those in the previous year's material with respect to the Enterprise Group and Distribution Group?

A : That is because a customer (a large beverage producer) was transferred from the Enterprise Group to the Distribution Group.

Q : Operating income increased on a nonconsolidated basis but operating companies recorded a decline in income. Were there any business transfers from operating companies for inclusion in non-consolidated results? Or is it attributable to a difference in the accounting standards.

A : It was not due to any special factor. Domestic and overseas operating companies recorded a year-on-year decrease in the Q1 period. For example, some companies were affected, partly reflecting the delay in education-related projects and system construction due to the impact of COVID-19.