Summary of Q&A at Conference Call on Operating Results for The Third Quarter of Fiscal Year ending March 31, 2022

Date/Time: February 1, 2022 (Tuesday) 2:00 p.m. - 2: 45 p.m.
Attendee: Mamoru Seki, Managing Executive Officer, CFO, Director

How did Q3 operating results compare to the internal forecast?

A: It was good performance as expected.

Q: Despite good operating results and gain on sales of Data Center assets, there's no change to the full-year plan. Are there any variables in Q4?

A: Risk factors mainly include the impact of semiconductor shortages and the impact of COVID-19 at overseas operating companies. Regarding the impact of semiconductor shortages, there is the risk that both orders received and sales will slide by about JPY 10 billion in the next fiscal year due to delays in delivery and construction. The impact of COVID-19 varies from country to country, and the situation is still severe in some countries. We will continue to closely monitor the impact and strive to achieve the full-year plan.

Q: Does the transfer of the Data Center assets have any impact on sales?

A: There's no impact on sales.

Q: Do you plan to use the gain from the sale of the Data Center assets as a source of dividends?

A: We will consider it looking at the big picture.

Q: Who did you transfer the Data Center assets to? What made you transfer them?

A: We transferred them to Digital Edge Japan G.K. (hereinafter "DE"), a specialized data center operator. With the shift to cloud computing, owning a data center is no longer necessarily advantageous to our business model. The asset transfer has allowed us to focus our resources on enhancing our cloud services and receive the resources of the DE data center on favorable terms.

Q: How do you plan for the data center business going forward?

A: The Company's Data Center business will continue as before. Going forward, the Company will aim to further expand this service as its own open hybrid cloud service, the OneCUVIC.

Q: Is the semiconductor shortage making it difficult to source products for either networks or servers? Also, if sales were to slide by JPY 10 billion, what would the impact on profits be?

A: Mainly, network finished goods Mainly, it will be the Telecommunication Business Group that would be impacted. Since the gross profit margin of finished goods averages about 15% to 20% company-wide, the estimated impact will be about JPY 1.5 billion to JPY 2.0 billion.

Q: Does the risk of JPY 10 billion of delayed orders and sales due to semiconductor shortages that you mentioned in your explanation include lost orders?

A: It does not include lost orders. I was talking about items that may be carried over to the next fiscal year.

Q: In the Telecommunication Business Group, was there anything that was carried over from Q3 to Q4? How big is it?

A: There was, but it was slight.

Q: When will the semiconductor shortage be resolved?

A: We are afraid that we don' know. We are also watching the situation closely.

Q: Gross profit margin continued its upward trend over the past year. What's the outlook for Q4 or next fiscal year?

A: There was a highly profitable project in Q4 of the previous year, so the bar has been raised. However, for the full year, we aim to achieve at the same level or higher than last year. As for the future, we will leverage the strengths of the infrastructure network and focus on DX to increase high-value-added businesses and improve profitability. In addition to business in the LOB area through co-creation with customers, opportunities for business with the Corporate IT System Division will also increase. We will aim to extensively increase gross profit margin over the medium- to long-term in all directions.

Q: What will SG&A expenses look like in Q4? Is there factor causing an increase?

A: There are currently no factors that would cause a large increase in SG&A expenses due to one-time factors. We will proactively invest for future growth, for example, in the improvement of the technical capabilities of our engineers.

Q: What is the status and annual forecast for 5G-related orders this fiscal year?

A: 5G-related orders for the first nine months are some JPY 26 billion. As for the annual forecast, it is difficult to forecast at this time due to the risk of delays in the fiscal year due to the shortage of semiconductors.

Q: Regarding the Telecommunication Business Group's Q4 orders, the bar is high when comparing with the same period last year. But will it be covered by other business groups as in Q3?

A: The Telecommunication Business Group's orders in Q4 of last year were at a high level. We will aim for growth across the board, including the growth of other business groups.

Q: Regarding orders in the Telecommunication Business Group, I think that in Q4 there will be a reactionary decline from the previous year. When do you expect orders to increase in the next fiscal year?

A: We don't know yet when the numbers will come out or what the volume of projects will be, but some specific projects for next year and beyond are beginning to come along, so we are expecting them. We have already received requests for proposals.

Q: What is the future outlook for the telecommunications business amid moves by telecommunications carriers to reduce capital investment?

A: Our investment in 5G is yet to come. We don't expect capital investment to shrink sharply. There are many other investments besides 5G. About half of our telecommunications business is non-telecommunications business.* We support our customers in a variety of ways based on the technologies and customer relationships we have cultivated in the telecommunications business. In the short term, there will be bumps in the road due to the reaction following large-scale 5G projects, among other factors, but in the medium to long term, we will steadily grow our business in both the telecommunications and non-telecommunications areas.

*Corporate projects for carriers, service infrastructure construction, internal systems operations, etc.

Q: What are the reasons for the increase in revenue and decrease in profit (on a per-tax profit basis) in the Regional & Social Infrastructure Business Group and the Financial Services Business Group in Q3 (Oct.-Dec.)? In the Others segment, the margin of improvement in profit is small. What is the plan for the future?

A: The reason for the decrease in profit before taxes in the Regional & Social Infrastructure Business Group and the Financial Services Business Group was that there were highly profitable projects in the same period of the previous fiscal year. Other than that, we're good. Overseas, which is included in the Other segment, orders are increasing in Singapore and Malaysia, and projects in the financial, government, and health care sectors are emerging, but CTC's recognition and profit margins are still not high. There are some issues to be resolved, but we are working to expand our business with both Japanese companies and local companies, and we would like to expand our business to overseas carriers as well. That being said, some countries are still struggling with COVID-19.