ITOCHU Techno-Solutions Corporation

Summary of Q&A at Conference Call on Operating Results for the 1st Quarter of Fiscal Year Ending March 31, 2023

Date/Time: August 3, 2022 (Wed) 2:00 p.m. - 2:45 p.m.

Presenter: Mamoru Seki, Director, Managing Executive Officer and CFO

Q：Was Q1 result in line with your internal estimate?

A：Revenue and orders beat our estimate. In particular, the Regional & Social Infrastructure, Financial Services and Enterprise Groups contributed to order growth. "Other income and expenses" resulted in cost increase mainly due to unplanned expense, but otherwise the operating results were generally in line with our plan.

Q：The main factors for the 1.5-point YoY decline in GPM were the high base effect from Q1 FY2021 with high-margin telecom projects and the strategic low-margin telecom projects. However, CTC standalone pushed down GPM only by 0.3 point. What were the other factors dragging down GPM excluding CTC standalone?

A：CTC standalone Q1 GPM remained almost at the same level from the previous year despite the decline in the Telecommunication Group, thanks to improvements in the other business groups. Besides above, we had the cost increase from strengthening maintenance services structure posted at one of our consolidated subsidiaries.

Q：Were there any procurement cost rise caused from weaker Japanese Yen and Semiconductor shortage? If yes, were there any impact on GPM?

A：There has been an increase in procurement costs. The impact, however, has been limited. Our basic policy is to pass on the cost impact to customers. The semiconductor shortage impact was almost within our expectations, as it has already been factored into our plan.

Q：Do you expect the negative factor for the YoY GPM decline to linger in Q2 and beyond?

A：As for the high base effect from Q1 FY2021 with high margin telecom projects and the strategic low-margin telecom projects, we expect them to give only transient impacts on our performance. The decreased rebate from vendors is expected to be resolved following revenue increase going forward. The cost increase for better maintenance services structure could be absorbed with sales growth as well, and we would appreciate your understanding by viewing the cost as a worthwhile upfront investment to be ready for our future business expansion.

Q：Q2 FY2021 GPM was high at 25.3%. Is it possible to achieve the same high GPM level in Q2 FY2022?

A：We aim to finish Q2 at a level higher than the previous year.

Q：Was the one-time 50th anniversary payment in SG&A expenses included in your original plan for FY2022? How much was the impact?

A：The payment was not included in our plan. The impact of the payment on operating income was 600 million yen, of which 200 million yen was included in cost of sales and 400 million yen was in SG&A expenses.

Q：SG&A expenses increased by more than 2 billion yen YoY. Was this in line with your plan?

A：We will keep our annual SG&A expenses within our plan.

Q：Is the company guidance achievable despite starting FY2022 with the YoY drop in operating income?

A：We aim to achieve the guidance by steadily increasing sales from strong backlog. The impact of delivery delay due to semiconductor shortage has already been factored into our plan. This issue might pose some unforeseen risk to us but even if it materializes, its negative impact can be offset by positives in other areas.

Q：Will revenue growth in Q2 to offset the Q1 operating income decline of 1.6 billion yen? Do you also expect to see SG&A ratio decrease?

A：We understand so, and aim to make them happen.

Q：How much revenue recognition was shifted from Q4 FY2021 into Q1 FY2022 due to the semiconductor shortage impact? What was the impact of semiconductor shortage on 1Q FY2022?

A：The total revenue whose recognition was delayed from FY2021 was 14 billion yen, of which more than 1 billion yen was recorded in 1QFY2022. We expect 70-80% of the said total revenue will be recognized by the end of Q2. The impact on Q1 was negligible as it has already been factored into our plan.

Q：What is your outlook for the Telecommunication Group? Orders have been declining for four consecutive quarters YoY. Do you expect to see a YoY increase in orders from Q2 FY2022 or from the second half of FY2022?

A：Although demand from investments of the Telecommunication Group customers fluctuates, the Q1 orders from them were almost in line with our plan. As for 5G-related investments, we consider that necessary following investments in the various areas will be made in due course with accord to the government's policy toward 95% 5G coverage of the population: the areas which CTC take part in will also progress as base station investment progresses, medium-to-long term continuous investment in SA, continuous upgrading of network facilities. We focus on projects for industries powered by 5G technology, which for further growth in this field, and we are already conducting PoC projects. Renewal of fixed-line network facilities is also our business opportunity. We will carry on with our efforts to ensure business expansion in both network and non-network areas just like we have done up to now.

Q：What were the amounts of orders, revenue and backlog of 5G projects in Q1 FY2022?

A：Orders: 2.5 billion, revenue: 6 billion, backlog: 20 billion.