

## **Summary of Q&A at Conference Call on Operating Results for the 3rd Quarter of the Fiscal Year Ending March 31, 2023**

**Date/Time: February 1, 2023 (Wed) 14:00-15:00**

**Presenters: Ichiro Tsuge, President & CEO**

**Mamoru Seki, Managing Executive Officer, CFO, Director**

**Yasuhiko Terada, Senior Managing Executive Officer, COO, Telecommunication Group**

**Q: What is the breakdown of the factors behind the downward revision of operating income from the initial plan?**

A: Negative factors were the impacts of product delivery delays arisen from semiconductor shortages and strategic low-margin projects in the Telecommunication Group, and measures potentially including posting of impairment loss for one of our overseas consolidated subsidiaries. Positive factors were the strong performances in the Business Groups other than the Telecommunication Group and the adjustment of performance-linked bonuses.

**Q: Will the product delivery delays, one of the main reasons for the weak performance in this fiscal year, be resolved next fiscal year and will the problem resolution contribute to your company-wide performance improvement?**

A: We are currently examining our company-wide outlook related to this issue.

**Q: CTC has been more impacted by the semiconductor shortage compared to other companies. Is this because CTC has been restraining semiconductor orders in anticipation of the risk of delivery delays?**

A: We have never been restraining the orders. Rather, we took the risk and placed orders with vendors in advance.

A: There have been cases where deliveries could not be made due to stockouts of power supply equipment or delays in recipient's base station maintenance caused by semiconductor shortages. We have been having a hard time dealing with some of such unexpected cases.

**Q: If semiconductor delivery lead times are reduced, I would expect to see an increase in revenue as the order backlogs are cleared, as is the case with other companies. Has such a situation occurred at CTC yet?**

A: It has not happened yet, but we anticipate our revenue could increase at some point next fiscal year once the delivery lead time is normalized.

**Q: Will product delivery delays continue in Q4?**

A : It will continue in Q4.

Even if the semiconductor shortage improves, it cannot be called normalization until the backlog is cleared, and it is expected to take some time before we see the backlog clearance.

**Q : What are your outlook on Q4 revenue and special factors to impact Q4 SG&A expenses?**

A: Revenue growth is expected in all Business Groups other than the Telecommunication Group, as their performances will remain favorable. As for SG&A expenses, we are considering the reduction of performance linked bonuses and the possibility of impairment loss for one of our overseas consolidated subsidiaries.

**Q: The gross profit margin in Q4 is expected to improve from the level of Q1-Q3. Is this because the utilization rate will increase as revenue from services and developments is to be recognized toward the end of this fiscal year?**

A: Correct on the whole.

**Q: Are you considering curbing hiring in order to reduce personnel costs?**

A: We will not curtail hiring for the sake of our future growth.

We suffer from engineer shortage and will continue to focus on hiring and training engineers.

**Q: What is your outlook on improvement in product delivery delays in the Telecommunication Group?**

A : The lead time for NW products for telecommunications carriers improved slightly from 18 months at the beginning of this fiscal year to 14 months last fall. In January of this year, the lead time was reduced to 8 months for some products, and thus the situation has been gradually improving. If the lead time is normalized going forward, revenue growth can be expected.

**Q: Is it in line with your assumption that decline in orders received by the Telecommunication Group bottomed out in Q3?**

A : Currently, we are in the off-peak period after the end of 5G investment cycle, but investment demand from the Group's customers is steadily increasing.

We have high expectations for the future orders, as there are abundant investment themes such as vRAN and further investment in 5G facilities.

On the supply side, however, we cannot accept orders unless we can commit to a delivery date with our customers, and we are working on this issue with our vendors.

**Q: Specifically, what areas are you exploring with the low-margin projects for the new business area expansion in the Telecommunication Group?**

A: Right now, we are strategically accepting such projects to expand our business in vRAN and MEC fields, which we believe to be areas where growth can be expected going forward. We are also venturing on developing applications for service businesses that telecommunications carriers are focusing on, as well as projects to automate operations for trouble shooting. We will continue these efforts in the next fiscal year.

**Q: When will the strategic business area expansion projects start contributing to profits? Until when do you plan to continue posting revenue from the low-margin projects?**

A: It is difficult to make its clarification. While expanding our business areas, we will grow once acquired new business areas so that we can ensure our company-wide profitability.

**Q: What is the status of personnel utilization of CTC TECHNOLOGY Corporation (CTCT)?**

A: We will continue reassignment and utilization of our human resources not only of CTCT but also of the entire CTC Group.

**Q: Could you give us a brief explanation of the impairment loss for the overseas consolidated subsidiary? What is your outlook on your overseas business?**

A: We are currently unable to provide details on the potential impairment loss.  
Performances of our overseas consolidated subsidiaries are mixed, but we intend to grow our business where we can.

**Q: Although you have revised your earnings forecast downward, you have not made any change to your policy of maintaining a dividend payout ratio of 45%. Is this correct?**

A: Correct. We are committed to maintaining the dividend payout ratio policy.

**Q: Are there any additional measures to achieve the goals of the Medium-term Management Plan?**

A : We are seeing the current strong performances of Business Groups other than the Telecommunication Group as the result of various initiatives we have undertaken so far, and we will continue such efforts. We are not considering M&As for the purpose of achieving the goals of our Medium-term Management Plan.