ALPS ALPINE CO., LTD.

Q2 FY2023 Earnings Call

October 30, 2023

Event Summary

[Company Name]	ALPS ALPINE CO., LTD.
[Company ID]	6770-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Q2 FY2023 Earnings Call
[Fiscal Period]	FY2024 Q2
[Date]	October 30, 2023
[Number of Pages]	31
[Time]	16:30 – 17:21 (Total: 51 minutes, Presentation: 24 minutes, Q&A: 27 minutes)
[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	2

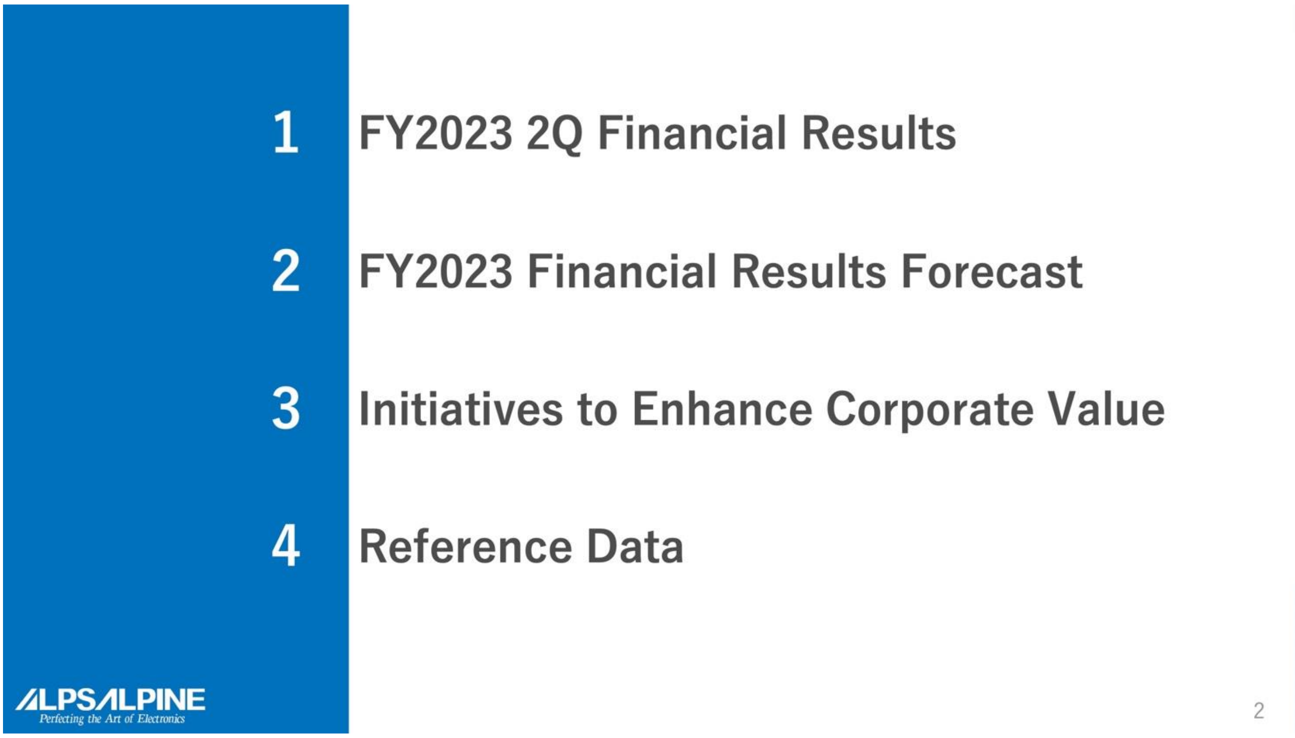
[Number of Speakers]	2	
	Hideo Izumi	Representative Director, President & CEO
	Satoshi Kodaira	EVP CFO
[Analyst Names]*	Daiki Takayama	Goldman Sachs
	Shoji Sato	Morgan Stanley MUFG Securities
	Manabu Akizuki	Nomura Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Suzuki: Hello, everyone. Thank you very much for taking time out of your busy schedule to join us today. ALPS ALPINE Co., LTD., will now hold a financial results meeting for Q2 of the fiscal year ending March 31, 2024.

Here are today's speakers. Izumi, Representative Director, President & CEO; Kodaira, EVP CFO; Kobayashi, General Manager of the Accounting Department; and I, Suzuki of the Corporate Communications Department, will serve as the moderator. Thank you for your cooperation.



The contents we will explain today are as you see them. Now, CFO Kodaira will explain the Q2 results. Mr. Kodaira, please go ahead.

Financial year ending March 31, 2024
2Q Consolidated cumulative period result

[Unit: ¥ billion]

[Sales] Sales increased primarily due to the depreciation of the yen, a recovery in automobile production and the positive impact of new products despite continued weakness in the consumer market.

[Operating Income] Despite progress in price optimization, operating income decreased primarily due to the negative impact of changes in the product mix in the mobile market and the failure to achieve the targeted yield rate for the launch of new module products in Europe.

	FY2022 2Q Results (Cumulative)	FY2023 2Q Results (Cumulative)	YoY	act of exchange
Net Sales	454.2	475.0	+20.7	+18.3
	100.0%	100.0%	+4.6%	
Operating Income	19.9	10.6	-9.2	+3.7
	4.4%	2.2%	-46.6%	
Ordinary Income	26.8	16.9	-9.9	Includes foreign exchange gains of 4.3 billion yen in the current period
	5.9%	3.6%	-37.0%	
Profit Attributable to Owners of Parent	17.4	6.7	-10.7	
	3.8%	1.4%	-61.5%	
USD / JPY	133.97	141.00	+7.03	
EUR / JPY	138.73	153.39	+14.66	
CNY / JPY	19.88	19.75	-0.13	

Logistics segment to be accounted for using equity method from 2Q FY2023

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Kodaira: Hello, everyone. I am Kodaira, CFO in charge of administration. Thank you for your cooperation.

Both sales and profits increased in H1 of the current fiscal year. Net sales increased 4.6% YoY to JPY18.3 billion due to the impact of yen depreciation.

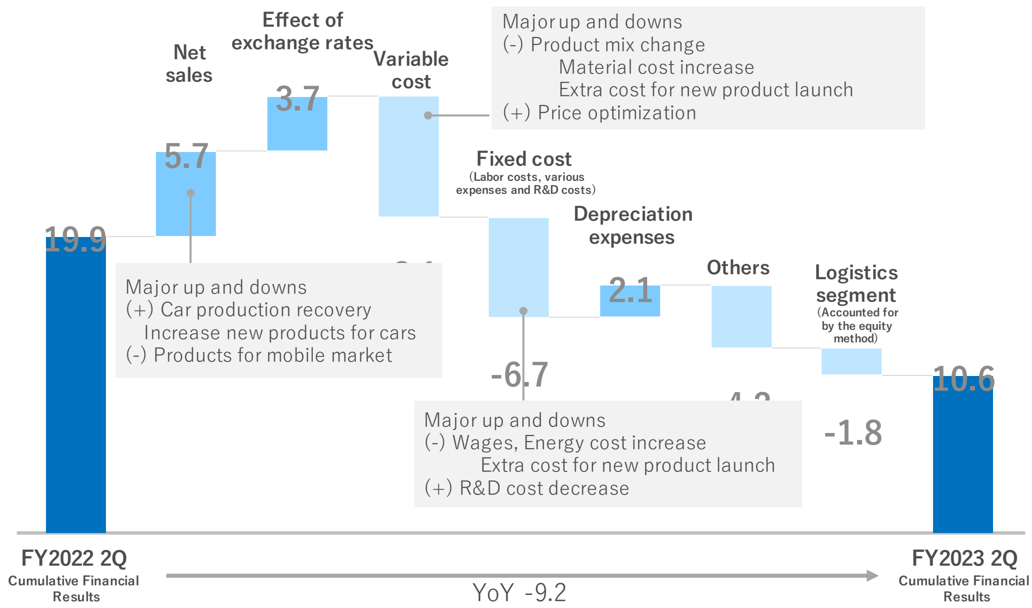
Operating income declined 46% to JPY10.6 billion due to the impact of lower sales of camera actuators for smartphones in the component business, changes in product mix, and failure to achieve production start-up yields for new module products, despite higher sales and a JPY3.7 billion positive impact from foreign exchange.

Since Alps Logistics was transferred from a consolidated subsidiary to an equity-method affiliate in June last year, operating income for H1 of the previous year included a profit contribution of JPY1.8 billion from Alps Logistics, and if this effect is excluded, operating income would have decreased 41%.

Ordinary income was JPY16.9 billion, including foreign exchange gains of JPY4.3 billion. As a result, net income attributable to owners of the parent was JPY6.7 billion.

Factors behind Increase/Decrease in Operating Income

[Unit:￥ billion]



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Next, I will explain the factors behind the increase or decrease in operating income. See next page.

The leftmost figure is for H1 of FY2022, and the rightmost figure is for H1 of FY2023. The intervening space indicates the factors that caused the change from the same period of the previous year.

Explanations are given from left to right. The increase in profit from sales was JPY5.7 billion, mainly due to the recovery of automobile production and new products for automotive applications. Foreign exchange rates decreased by JPY3.7 billion as a result of the weaker yen, and variable costs decreased by JPY8.1 billion. By breakdown, progress in price optimization proceeded as planned, but changes in the product mix of camera actuators for smartphones and deteriorating start-up yields of new module products for European automakers contributed to lower profits.

Fixed costs decreased due to the control and recovery of development costs and the postponement of some development costs to H2 but increased due to wage hikes and soaring energy costs. Depreciation and amortization expenses decreased by JPY2.1 billion as investment in actuators has settled down.

The other negative JPY4.2 billion was due to fixed cost fluctuations related to inventory changes resulting from the Shanghai lockdown that occurred in H1 of last fiscal year. The JPY1.8 billion decrease in the logistics business is due to the fact that the logistics business has been accounted for by the equity method from June 2022.

Net Sales and Operating Income by Segment

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[Unit: ¥ billion]

Net Sales	FY2022 2Q Results (Cumulative)	FY2023 2Q Results (Cumulative)	YoY	
Component	160.0	150.4	-9.5	-6%
Sensor & Communication	44.4	40.7	-3.7	-8%
Module & System	221.5	274.3	+52.8	24%
Others	28.2	9.4	-18.8	
Total	454.2	475.0	+20.7	5%

Logistics segment to be accounted for using equity method from 2Q FY2023

Operating Income	FY2022 2Q Results (Cumulative)	FY2023 2Q Results (Cumulative)	YoY	
Component	21.7 13.6%	10.7 7.1%	-11.0	-51%
Sensor & Communication	0.7 1.6%	-1.4 -3.7%	-2.2	-
Module & System	-5.2 -2.4%	0.5 0.2%	+5.8	-
Others / Eliminations	2.6	0.8	-1.8	
Total	19.9 4.4%	10.6 2.2%	-9.2	-47%

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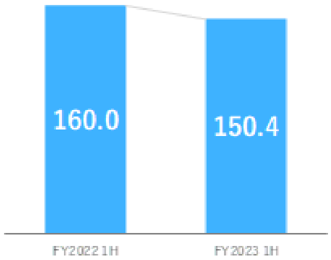
Next, I will explain each segments. Here is a comparison of sales and operating income by segment for the previous year.

As you can see, sales and profits increased YoY for the module and system business. On the other hand, the component business and the sensor and communication business reported lower sales and profits. The analysis for each business segment is explained on the next and subsequent pages.

Component Segments

[Unit: ¥ billion]

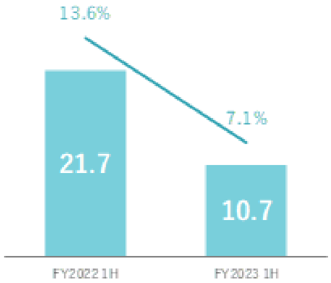
Net sales



150.4 billion yen (YoY -9.5 billion yen)

(−)	Decreased in products for mobile market	-13.0
(−)	Decreased in products for consumer market	-3.0
(+)	Weaker yen	+7.0

Operating income



10.7 billion yen (YoY -11 billion yen)

Operating margin: 7.1%

(−)	Change in the product mix	-9.0
(−)	Decreased in net sales	-6.0
(+)	Weaker yen	+3.5
(+)	Decreased in depreciation expenses	+2.0

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First is the component business. Net sales decreased JPY9.5 billion to JPY150.4 billion compared to JPY160 billion in H1 of the previous fiscal year.

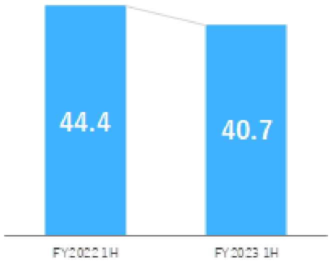
Despite the yen's depreciation as a positive factor, the consumer market declined due to a decrease in sales of products for the mobile market, as well as a decrease in orders in the tact switch business due to the impact of deteriorating market conditions that could not be recovered from the decrease in scale caused by the Shanghai lockdown that occurred in Q1 of last year.

Operating income decreased JPY11 billion to JPY10.7 billion compared to JPY21.7 billion in H1 of the previous fiscal year. Another positive factor here was the depreciation of the yen, but in addition to the decline in sales, the change in product mix also contributed to the decrease in earnings.

Sensor & Communication Segments

[Unit: ¥ billion]

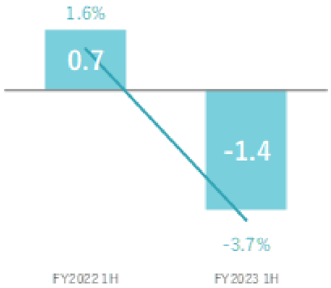
Net sales



40.7 billion yen (YoY -3.7 billion yen)

(−)	Product replacement for mobile market	-5.0
(−)	Products for consumer and other markets	-1.5
(+)	Products for in-vehicle use	+1.5
(+)	Weaker yen	+1.5

Operating income



1.4 billion yen (YoY -2.2 billion yen)

Operating margin: -3.7%

(−)	Decreased in sales of products for mobile market	-1.5
(−)	Increased in R&D expenses as advanced investment	-0.7

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Next, please see the next page on the sensors and communications business.

Sales in the sensors and communications business decreased JPY3.7 billion to JPY40.7 billion, compared to JPY44.4 billion in H1 of the previous fiscal year.

As a positive factor, sales of products for the automotive market grew, but sales of products for the mobile market declined due to the model changeover.

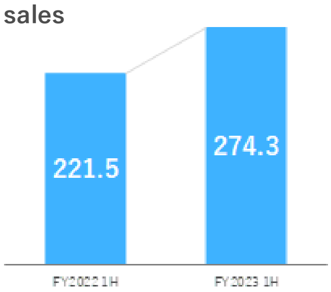
Operating income decreased JPY2.2 billion to a negative JPY1.4 billion compared to JPY0.7 billion in H1 of the previous fiscal year.

The decrease in sales, mainly in the mobile market, and the increase in development costs this fiscal year for new products to be launched in the next fiscal year and beyond, have resulted in a decrease in profits.

Module & System Segments

[Unit: ¥ billion]

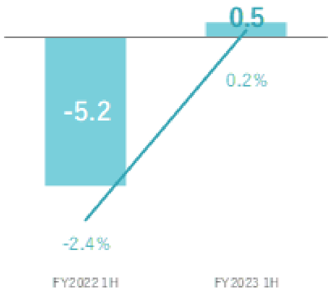
Net sales



274.3 billion yen (YoY +52.8 billion yen)

(+)	Recovery of car production and sales increased by new product	+42.8
(+)	Weaker yen	+10.0

Operating income



500 million yen (YoY +5.8 billion yen)

Operating margin: 0.2%

(+)	Sales increase, Product mix change (unprofitable products decreased) Delayed execution of some R&D costs to the second half of the fiscal year or later	+12.5
(+)	Progress of price optimization in response to material cost increase	+6.0
(−)	Increase of new module product launch cost for EU	-4.0
(−)	Additional royalties for past years on system products	-2.0

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Next, please see the next page regarding the modules and systems business.

In the module and system business, net sales increased JPY52.8 billion to JPY274.3 billion, compared to JPY221.5 billion in H1 of the previous fiscal year.

Positive factors included a higher sales volume due to the weaker yen and recovery in automobile production, as well as contributions from new products in the systems business.

Operating income increased JPY5.8 billion to JPY0.5 billion, compared to a negative JPY5.2 billion in H1 of the previous fiscal year. Both the module business and the system business improved from the previous year due to increased sales, postponement of some development costs, and progress in price optimization as planned.

In addition, on the systems business side, earnings improved mainly due to a better product mix of display products. On the other hand, the module business has been suffering from a decline in profitability due to the failure to achieve the planned yield rate for the start-up of new product production. This issue continues to be a priority for improvement in Q2 and H2 of the fiscal year and beyond.

In the systems business, there was a royalty payment of about JPY2 billion for the past fiscal year, but this has all been completed by the end of Q2.

As a result of this, the operating profit margin deteriorated in the module business and improved in the systems business, despite a one-time royalty payment.

Net Sales and Operating Income by Segment [QonQ]

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[Unit: ¥ billion]

Net Sales	FY2023 1Q Results	FY2023 2Q Results	QonQ	
Component	61.4	88.9	+27.4	45%
Sensor & Communication	19.8	20.8	+0.9	5%
Module & System	132.6	141.7	+9.1	7%
Others	4.4	4.9	+0.4	
Total	218.5	256.5	+37.9	17%

Operating Income	FY2023 1Q Results	FY2023 2Q Results	QonQ	
Component	1.5 2.5%	9.1 10.3%	+7.6	489%
Sensor & Communication	-1.4 -7.2%	-0.0 -0.3%	+1.3	-
Module & System	-2.9 -2.2%	3.5 2.5%	+6.4	-
Others / Eliminations	0.3	0.5	+0.2	
Total	-2.5 -1.2%	13.1 5.1%	+15.7	-

Factors impacting operating income

Component Segments

(+) Sales increase for mobile market due to seasonal factors

(+) Sales increase for in-vehicle market

Sensor & Communication Segments

(+) Sales increase for in-vehicle market

(+) Products for mobile market/ inventory revaluation

Module & System Segments

(+) Price optimization, shifted in execution of some R&D costs to 2Q

(-) Increase of new module product launch cost for EU

(-) Additional royalties for past years

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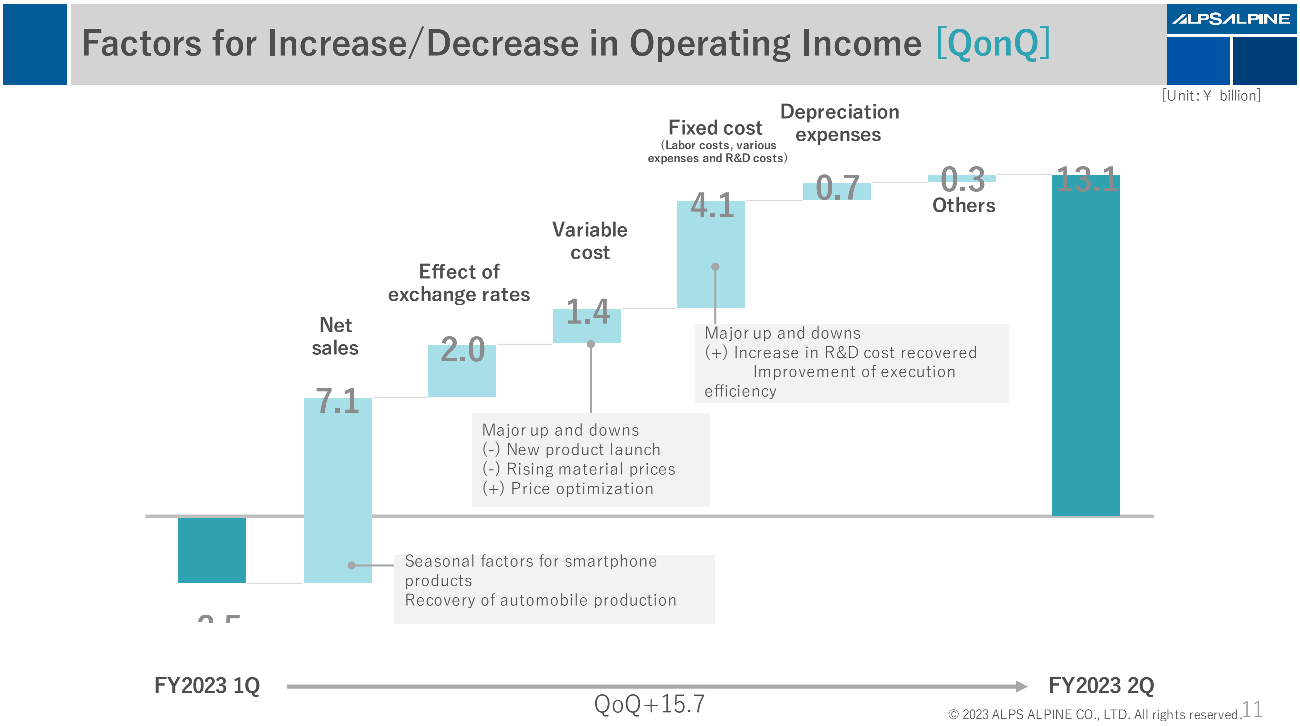
This is a comparison between Q1 and the current Q2. Comments on the right-hand side indicate factors affecting operating income.

The component business reported an increase due to seasonal factors for products for the mobile market and an increase in sales of products for the automotive market compared to Q1.

The sensors and communications segment reported an increase in profit due to an increase in products for the mobile market and progress in improving profitability.

In the module and system business, the production start-up yield rate of new module products did not reach the plan and additional royalty expenses were recorded, but the recovery of expenses through price optimization and the postponement of some development expenses to H2 resulted in an increase in profit compared with the previous quarter.



Next, we will explain the factors behind the increase or decrease in operating income compared to the previous fiscal year.

First, the increase in profit from sales was JPY7.1 billion. This was mainly due to the recovery of automobile production and new products for automotive applications. The foreign exchange impact of the yen's depreciation was JPY2 billion. Variable costs improved by JPY1.4 billion due to progress in price optimization recovery as planned.

Fixed costs had a positive effect of JPY4.1 billion due to more efficient execution of development costs and the partial acceleration of the recovery schedule for H2, but naturally, the opposite negative effect is expected in H2 with respect to development costs.

As a result, operating income for Q2 was JPY13.1 billion.

Consolidated Balance Sheet

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[Unit: ¥ billion]

	Mar.2023	Sep.2023	Change
Cash and deposits	84.1	88.9	4.7
Notes and accounts receivable - trade	176.9	190.7	13.8
Inventories	165.4	175.9	10.5
Total Current Assets	466.5	499.4	32.8
Property, plant and equipment	158.5	168.2	9.7
Intangible assets	26.4	27.5	1.0
Investment and other assets	85.4	91.4	5.9
Total Non-current Assets	270.4	287.2	16.7
Total Assets	736.9	786.6	49.6

	Mar.2023	Sep.2023	Change
Equity ratio	54.0%	53.7%	-0.3pt

	Mar.2023	Sep.2023	Change
Notes and accounts payable	98.5	108.9	10.3
Short-term loans payable	77.2	79.2	2.0
Total Current Liabilities	264.5	286.0	21.5
Long-term loans payable	44.7	45.0	0.3
Total Non-current Liabilities	72.6	76.4	3.7
Total Liabilities	337.2	362.5	25.2
Shareholders' equity	356.7	359.4	2.7
Total accumulated other comprehensive income	41.3	63.0	21.7
(Net worth)	398.1	422.5	24.4
Subscription rights to shares	0.1	0.0	-0.0
Non-controlling interests	1.5	1.4	-0.0
Total Net Assets	399.7	424.1	24.3
Total Liabilities and Net Assets	736.9	786.6	49.6

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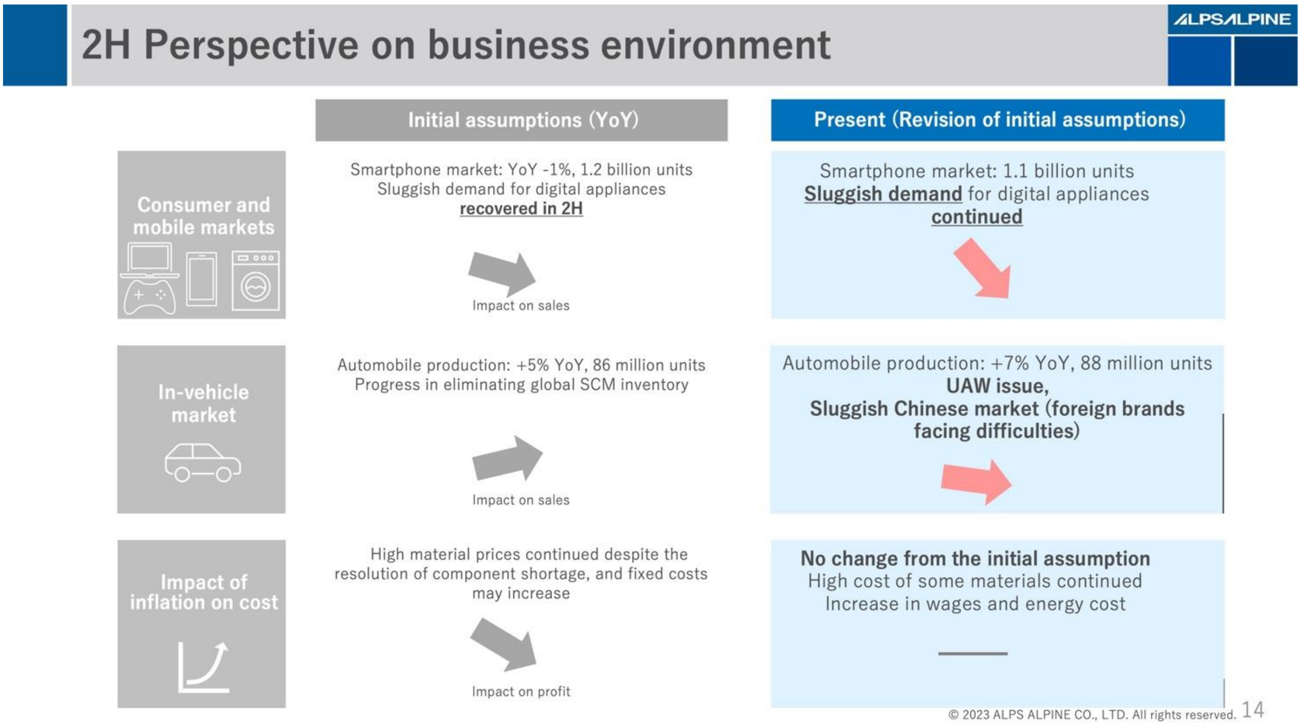
This is the balance sheet. The equity ratio decreased 0.3 percentage points from the fiscal year ended March 31, 2023, to 53.7%.



I would like to continue by explaining our full-year forecasts.

First, I will explain our view of the business environment in H2 of the fiscal year, focusing on changes from the situation we saw at the beginning of the fiscal year.

In the consumer/mobile market, we had assumed at the beginning of the period that the market would be sluggish in H1 but would pick up in H2, but at present we do not expect it to pick up, and we expect demand to remain sluggish for game consoles, mobile devices, and other digital consumer electronics in general. Therefore, recovery is expected to take time throughout the current fiscal year.

In the automotive market, we had assumed a gradual recovery at the beginning of the period, but now we expect the market as a whole to trend downward because negative factors such as the prolonged UAW problem in the US and the sluggish Chinese market will have a stronger impact than positive factors such as the trend of increased automobile production.

There has been no significant change in the impact of inflation from the assumption made at the beginning of the period, but the cost of some parts and materials has remained high. Based on this situation, we explain our full-year forecast on the next page.

Financial Results Forecast for Fiscal year ending March 31, 2024

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Exchange rate assumption for 2H changed from USD=125 yen to 140 yen
Full-year net sales and operating income remained unchanged from July 28 forecast, but there is a downside risk due to sluggish market conditions

[Unit: ¥ billion]

		FY2022 Full Year	FY2023 1H/Results	FY2023 2H/Forecast	FY2023 Full Year/Forecast	YonY
Net Sales	Component	329.0	150.4	153.5	304.0	-25.0
	Sensor & Communication	85.5	40.7	40.2	81.0	-4.5
	Module & System	481.3	274.3	280.6	555.0	73.6
	Others	37.1	9.4	10.5	20.0	-17.1
	Total	933.1	475.0	484.9	960.0	26.8
Operating Income	Component	38.3 11.6%	10.7 7.1%	16.2 10.6%	27.0 8.9%	-11.3
	Sensor & Communication	-1.5 -1.9%	-1.4 -3.7%	1.4 3.7%	0.0 0.0%	1.5
	Module & System	-6.6 -1.4%	0.5 0.2%	3.4 1.2%	4.0 0.7%	10.6
	Others / Eliminations	3.4	0.8	0.6	1.5	-1.9
	Total	33.5 3.6%	10.6 2.2%	21.8 4.5%	32.5 3.4%	-1.0
Ordinary Income		34.9 3.7%	16.9 3.6%	16.5 3.4%	33.5 3.5%	-1.4
Profit Attributable to Owners of Parent		11.4 1.2%	6.7 1.4%	13.2 2.7%	20.0 2.1%	8.5
Exchange rate	USD / JPY	135.47	141.00	140.00	140.50	

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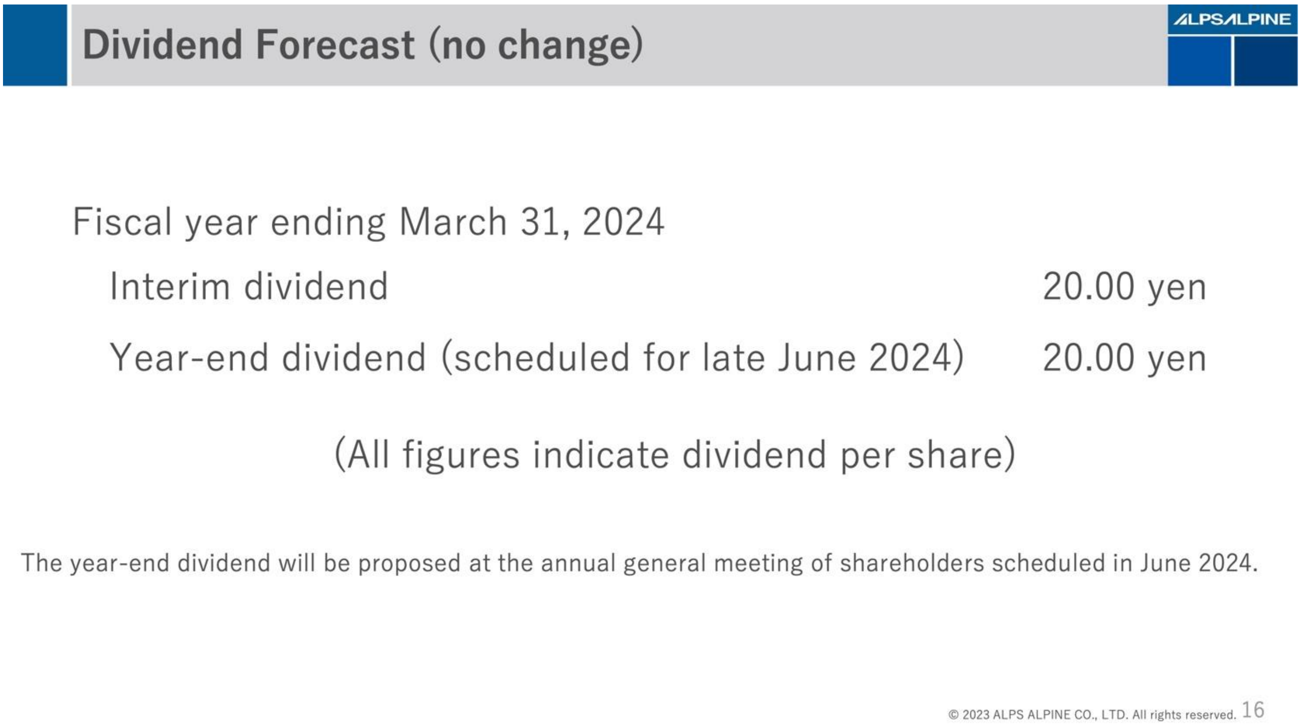
Regarding the full-year forecast, the assumed exchange rate for H2 of the fiscal year has been changed from JPY125 to the US dollar, which was set at the beginning of the fiscal year, to JPY140 to the US dollar. On the other hand, both net sales and operating income remain unchanged from the full-year forecasts announced on July 28.

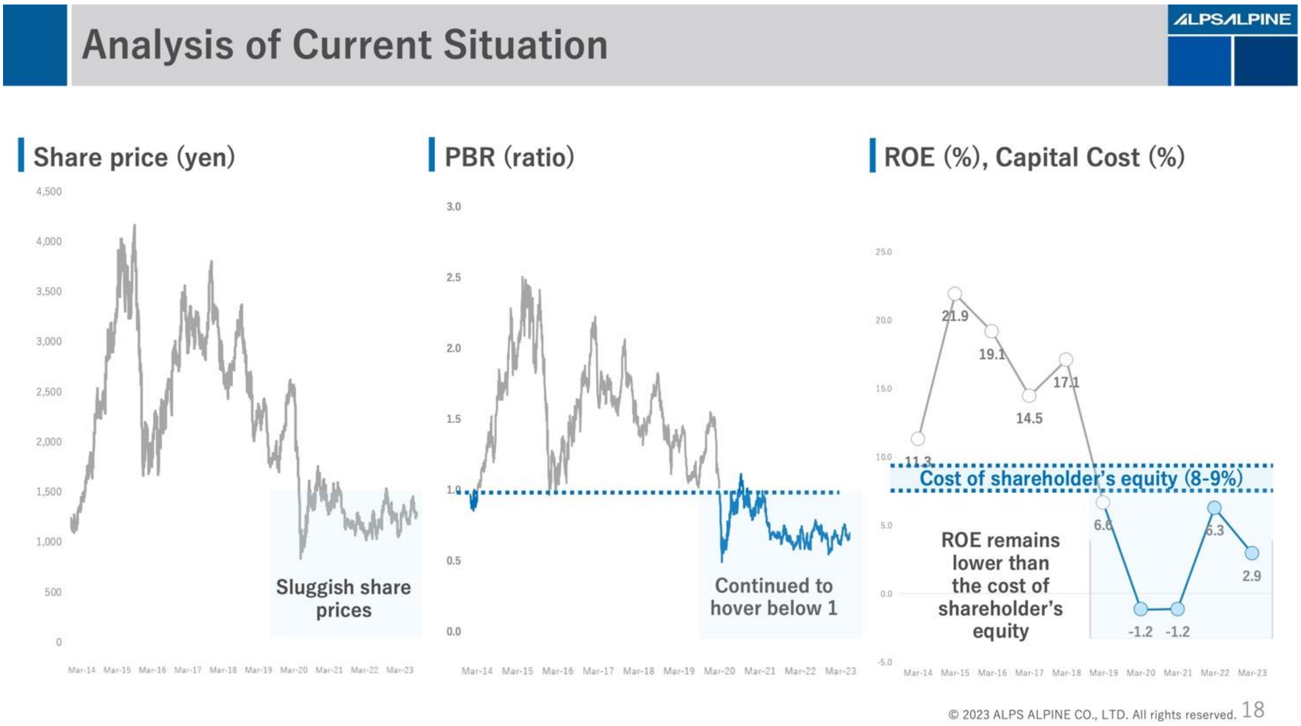
On this basis, we have included a second half forecast based on the H1 results. However, the downside risks are very high, as uncertainty still persists due to further weakness in the mobile and consumer markets, and the impact of the UAW problem in the automotive market.

In light of these circumstances, we have determined that there is a considerable impact on our forecast and have left our previous forecast for the full year unchanged, but we will continue to monitor the situation closely.



There is no change in the dividend forecast, and the Company plans to pay a dividend of JPY20 per share.

Analysis of Current Situation



I will continue with an explanation of our efforts to enhance corporate value.

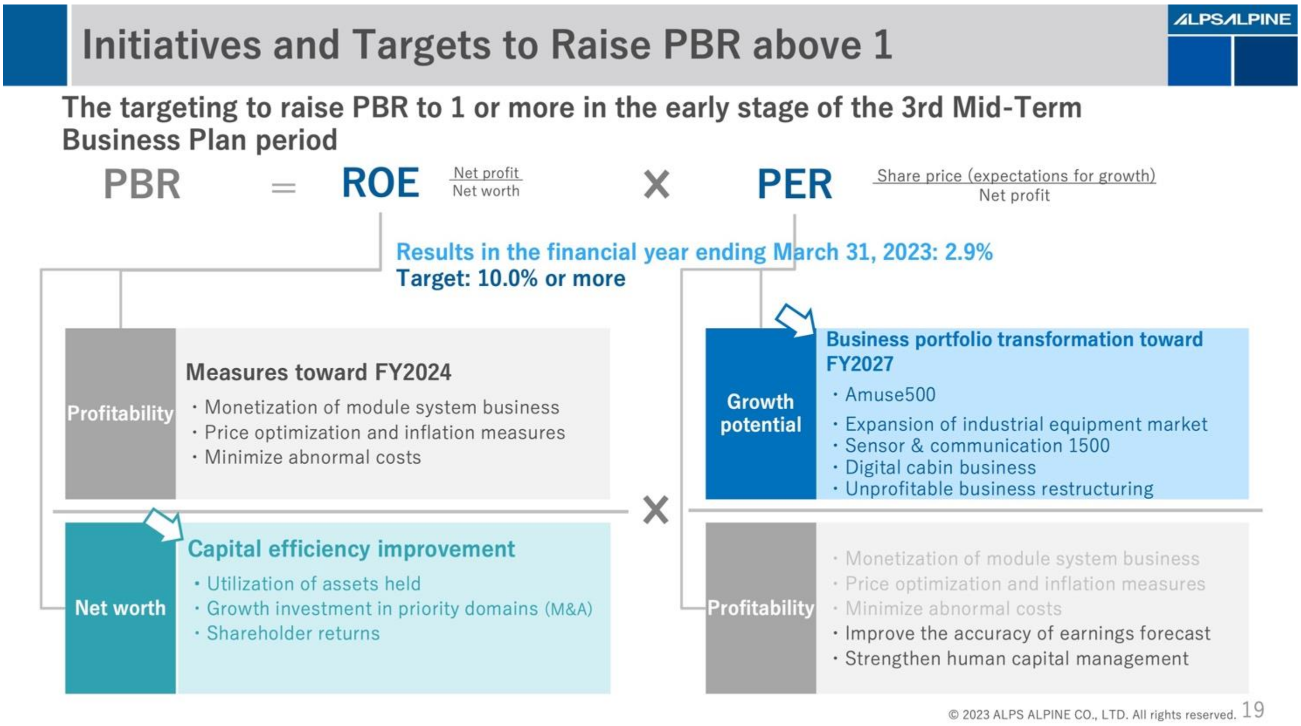
As you are all aware, this matter was brought to our attention on March 31, when the Tokyo Stock Exchange issued guidelines for listed companies with P/B ratios below 1 times to achieve cost of capital and stock price conscious management.

Shareholders and institutional investors in Japan and overseas are demanding that we proactively address balance sheet management, including capital efficiency improvement, in addition to a path to earnings recovery.

We explained some of our financial and capital policies at the IR Day in May of this year, and we are continuing to study ways to improve our corporate value. In the future, we will further strive to manage our business with an awareness of the cost of capital and stock price, and to gain the understanding of our shareholders and investors.

As you can see, both stock price and ROE have remained sluggish. As for P/B ratio, it is below 1 times, and our cost of equity is expected to be between 8% and 9%. However, ROE is still below the cost of shareholders' equity, which is not meeting the expectations of shareholders and investors.

We are working toward the target of 10% ROE in 2027, which was set at the time of the business integration as the ideal corporate image. However, during the first medium-term management plan period, we were greatly affected by the pandemic, and in FY2022, the first year of the second medium-term plan, we fell short of the plan. We believe that the current share price is the result of the stock market's evaluation of the Company's performance, including expectations for the future.



In light of this situation, I would like to explain our efforts to achieve a P/B ratio of 1 times. For P/B ratio of 1 times, we will continue to improve both ROE and PER.

We will improve ROE both in terms of profitability, which is the numerator, and shareholders' equity, which is the denominator.

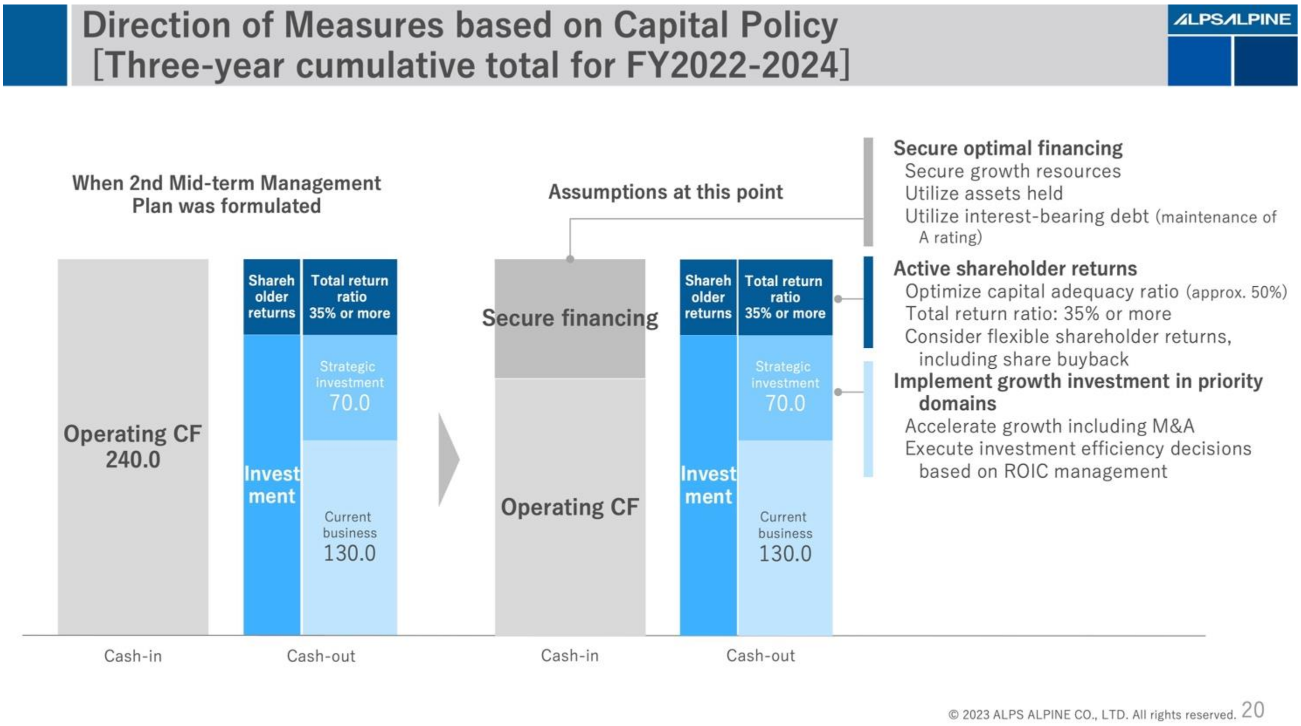
As explained earlier in the financial results, we will work to improve profitability in the short term through FY2024 by making the module and system business profitable, taking measures against inflation and optimizing prices, and minimizing abnormal costs in the introduction of new products, which we will explain in the quarterly financial results.

Regarding medium- to long-term growth through FY2027, we will work on business portfolio transformation as described in the Growth Potential section.

With regard to capital adequacy, we believe it is important to strike a balance between investment in growth, including M&A in focused areas for future growth, and shareholder returns, as well as to achieve an optimal capital structure through the utilization of assets held and other means to enhance capital efficiency. In addition, as explained at the IR Day in May, we will introduce ROIC and implement investment decisions to enhance corporate value.

Regarding PER, we believe it is important for investors to understand what we do to increase shareholder value, what we invest in to achieve growth, and how much we earn as a result. CEO Izumi will explain the growth scenario, which will identify specific areas in which we should invest, later.

We will continue to work toward achieving a P/B ratio of 1 times in the early stages of the third mid-term management plan period, while explaining these initiatives more strongly than ever before.



Next, I will explain the direction of our efforts based on our capital policy. Our capital policy is based on a three-pronged balance between investment in growth, sound finances, and shareholder returns.

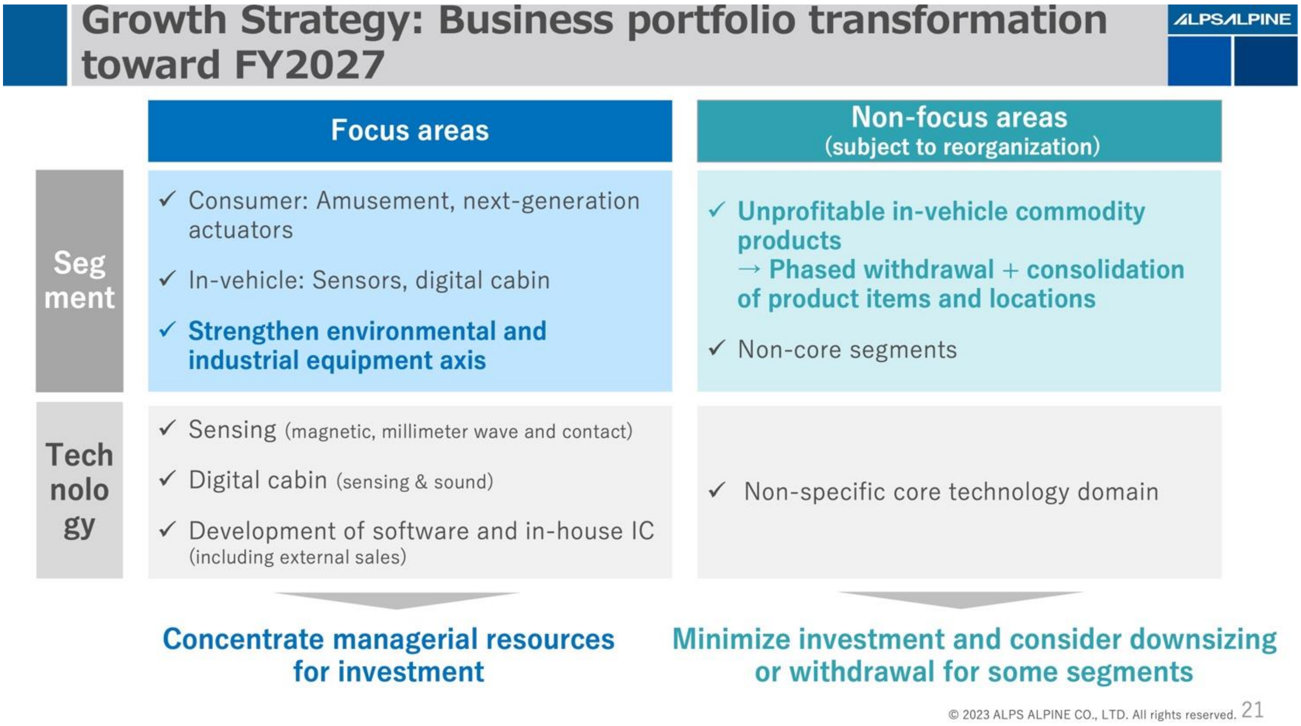
The left-hand side of the chart shows the cash allocation as it was in the second medium-term management plan at the beginning of FY2022. Initially, we plan to generate cash inflow from operating cash flow of JPY240 billion and strategic investments of approximately JPY200 billion to strengthen our business foundation and for the future, and we have set the total return ratio to shareholders at 35% based on our profit plan.

However, due to the failure to achieve the earnings plan for the previous fiscal year and the lowering of the target in the second medium-term management plan announced in May, a decrease in cash inflows from operating cash flow is expected, even based on the earnings plan at the end of this fiscal year.

On the other hand, we recognize that we have been slow in executing strategic investments for future growth and for increasing our rate of return. To further accelerate growth in the future, we will consider not only organic growth on our own, but also discontinuous growth through M&A. In order to secure these resources, in addition to securing earnings through business operations, we will secure funds through the utilization of assets held and interest-bearing debt.

We will ensure sound finances by maintaining an A rating, net cash positive, and an equity ratio of approximately 50%, and at the same time, we will actively promote shareholder returns while optimizing the equity ratio.

Based on the above policy, we aim to return to a growth trajectory and increase corporate value, including a P/B ratio of more than 1 times, while achieving an optimal capital structure.



CEO Izumi will then explain the direction of our company's growth, centered on portfolio transformation.

Izumi: From now on, Izumi will explain. My primary role as CEO is to optimize the allocation and utilization of management resources to maximize corporate value. To this end, we have had internal discussions about areas of focus and areas of non-focus.

As a new area of focus, we will create businesses in the industrial equipment market by leveraging our strengths. As a non-focus area, we will proceed with the phased withdrawal of unprofitable in-vehicle commodity products and at the same time consolidate our production items and bases.

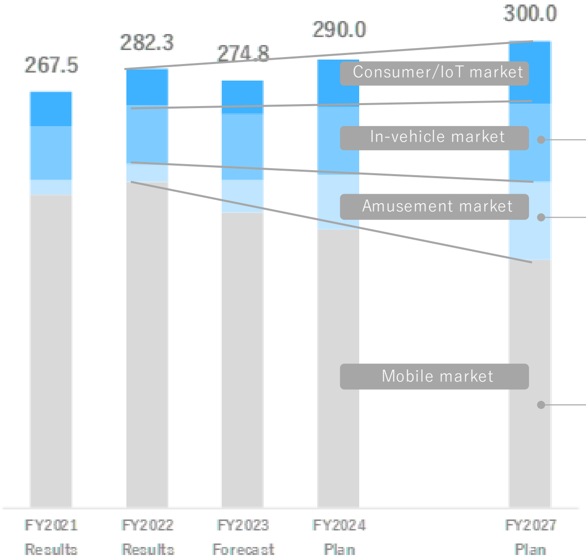
By making decisions and executing not only this creation but also withdrawal and consolidation, we will achieve business portfolio transformation.

Component Segments

[Unit:￥ billion]

Net sales

Calculated at USD/JPY = 115 yen



Growth strategy: Refinement of basic core technologies

Contact technology

- High withstand voltage/flow, quiet operation ➡ Response to new demand for EV

Contact detection

- Long life (3 times longer than conventional models), high precision/recovery performance

Improvement in profitability

- Optimize foot print in global production
- Expand the introduction of new SMA/PIEZO actuator

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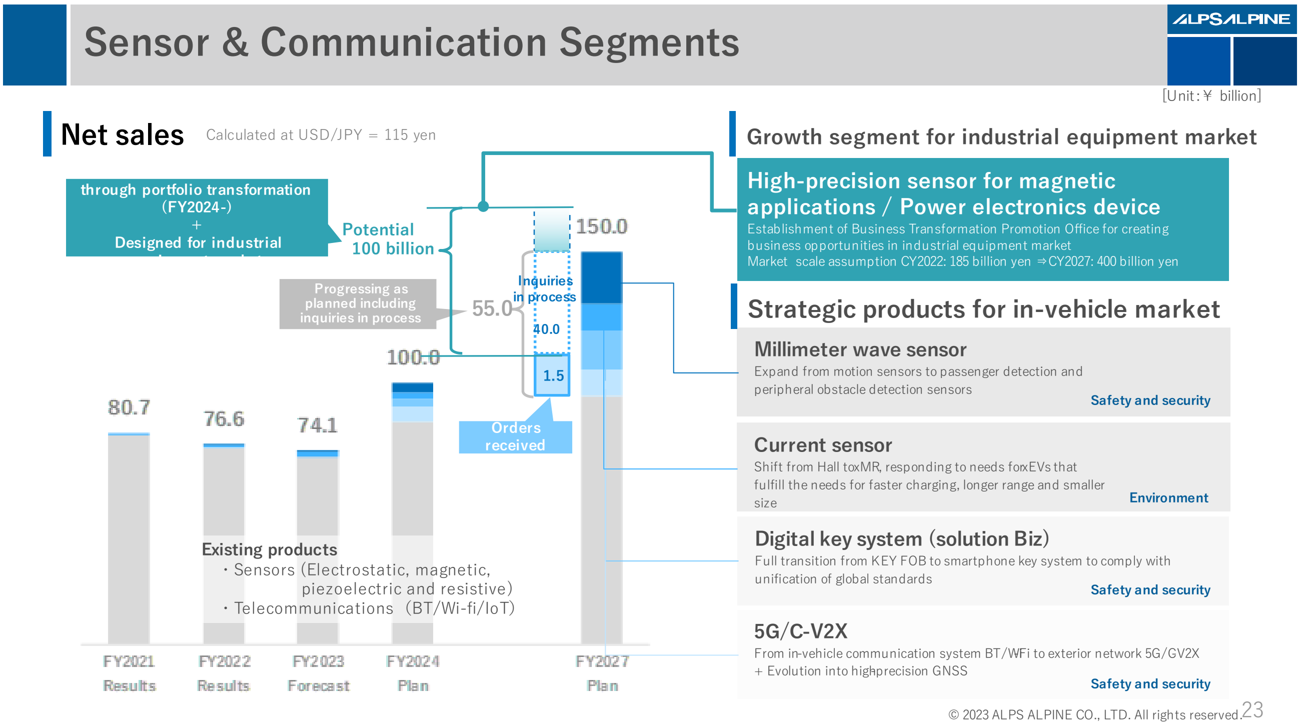
I would like to explain the situation of our three segments.

In the component business segment, we will increase our market share in the amusement, automotive, and consumer/IoT markets with products that offer higher functionality and added value by applying our core contact and contact detection technologies.

In the mobile market, where commoditization is progressing, we will focus on improving profitability by reducing fixed costs through optimization of production sites and expanding the adoption of new high value-added actuators. This will promote the transformation of the component business as a whole from its traditional dependence on the mobile market to a new business portfolio.



Next, I will explain the sensors and communications business segment.

In addition to the four strategic products for the automotive market listed here, we aim to expand our business in the industrial equipment market. We believe that our power supply control devices and magnetic application devices, based on the core technologies we have developed in the consumer and automotive markets, will be competitive in these markets as well.

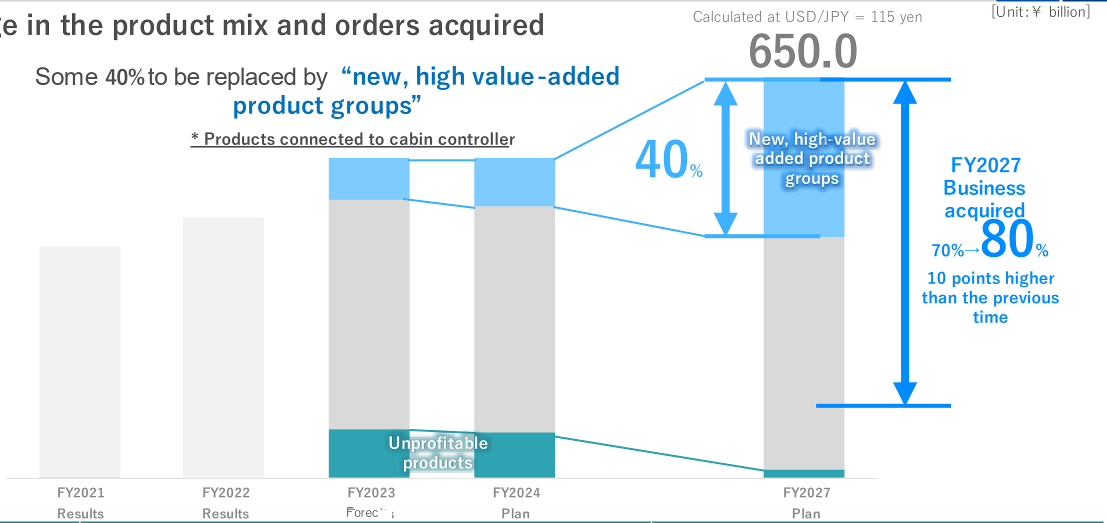
The market size of our target product groups in the industrial equipment market is promising and is expected to double by 2027. With this new portfolio together with strategic products for the automotive market, we expect order potential of more than JPY100 billion in 2027.

The Company has also been developing, designing, and partially manufacturing semiconductors for in-house production. Currently, we are receiving inquiries from customers for stand-alone ICs, and have begun external sales business. These are areas that have begun to sprout as synergies between hardware and software technologies, and we expect them to contribute not only to the stand-alone business, but also to the evolution of technology and the enhancement of our product competitiveness.

For further growth in this business, we aim to achieve our business goal of 1,500 sensor communications with an eye toward measures and investments that go beyond organic growth.

Module & System Segments

Change in the product mix and orders acquired



Improvement measures	FY2023	FY2024
Unprofitable products	(1) Reorganized and increased the sales price of unprofitable commoditi (2) Negotiations to settle unprofitable operations (3) Formulated plans to integrate production locations	(1)(2) Consolidate production items Transfer production site (3) Phased implementation of production location consolidation
Abnormal man-hours	(4) Centralized measures to improve abnormal man-hours (yield rate)	(4) Completion of improvement activities (1H)

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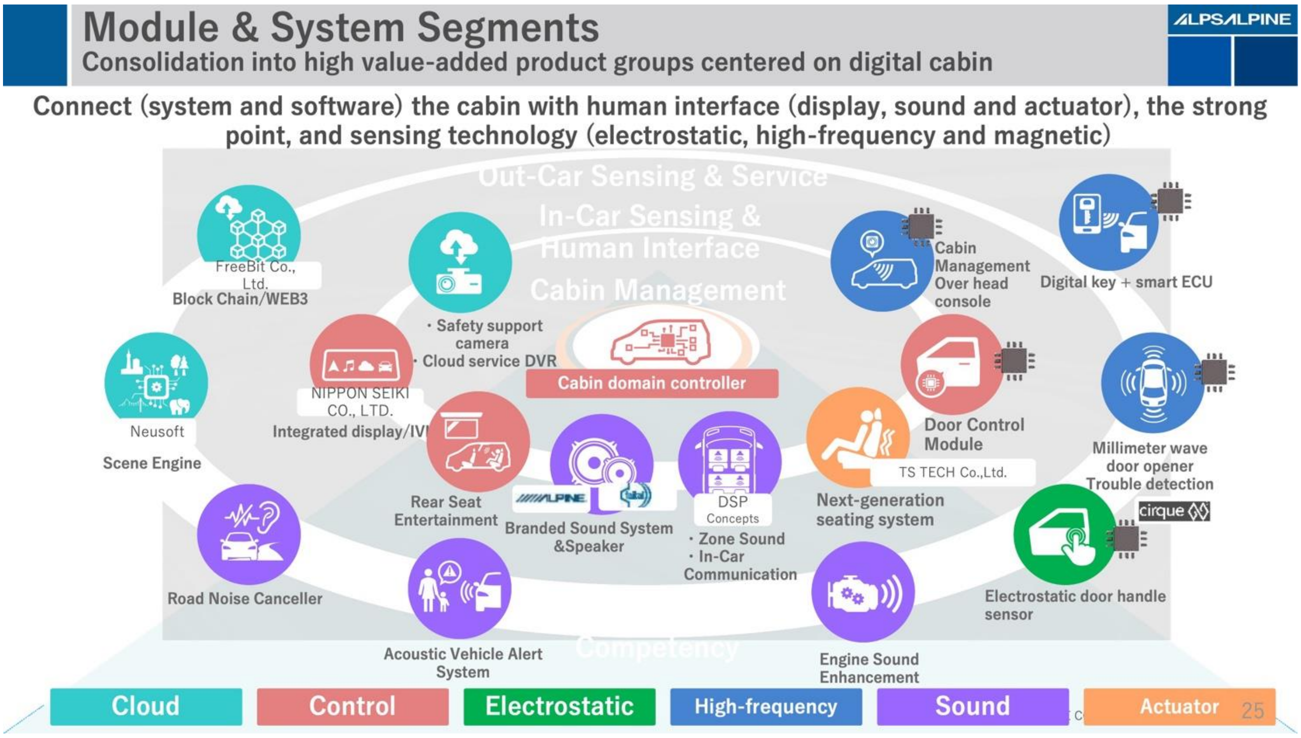
Next, in the module and system business segment, we will improve profitability through portfolio transformation by shifting to high value-added product groups, particularly digital cabin-related products. As a result of these activities, the high-value-added product line is estimated to account for 40% of the total in 2027. In addition, in business for 2027, about 80% of the planned orders have already been confirmed, an increase of 10 percentage points over the past six months.

On the other hand, unprofitable products are a major challenge to profitability in this business. We will strongly promote the consolidation/downsizing of these unprofitable products. Negotiations with customers have already started, and we will proceed with the consolidation of some production items and transfer of production sites in FY2024, followed by the consolidation of production bases.

Another issue is the abnormal man-hours due to deteriorating yields at the launch of new products, which has also affected the Company's performance in the current fiscal year. We will focus on promoting improvement of these measures and aim to normalize them in H1 of FY2024.



Next comes the offensive strategy as opposed to the defensive strategy of improving profitability.

Cars, like smartphones in the future, are expected to achieve functional evolution through software updates. While automotive OEMs are currently focusing on ADAS and EV powertrains, we believe that resources will be invested in the evolution of the cabin, and we believe that technological innovation in cabin controllers and peripheral devices connected to them, as I mentioned earlier, will be key.

Therefore, by using our strengths in human interface and sensing technology to seamlessly connect the cabin, we will be able to provide new experience value to users, and we assume that this experience value will be a future differentiating factor for our customer, the automotive OEM.

By concentrating management resources in this area as quickly as possible, we aim to acquire a leading position and realize a competitive advantage and high internal added value by utilizing our in-house ICs and core technologies cultivated in the sensor and communication business.

As I mentioned earlier, we are placing the highest priority on improving the profitability of our automotive business, but at the same time, we will accelerate our growth strategies in our three business segments in order to achieve business growth that will lead to increased corporate value.

That is all for today's content.

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