Q&A Session for the 2nd Quarter (Interim) Financial Results Briefing for the Fiscal Year Ending March 2025

Date : **November 7, 2024, 11:00 – 12:00 (JST)**
Format : **Live Video Streaming**
Speakers : **Representative Director, President and Chief Executive Officer Yukihiro NISHIMURA**
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(Note) A summary of the questions and answers is provided below.

Progress of the Medium-Term Management Plan

Q1: What is the current progress of your strategy to enter new business areas, including M&A, as disclosed in Medium-Term Management Plan? Also, as an operating income target of 50 billion yen for the fiscal year ending March 31, 2031, is set in the Plan, please tell us if you have decided on an investment strategy to achieve this target.

A: The distribution business of DIS is the core of our Group, but we recognize that it will be difficult to achieve our operating income target of 50 billion yen with the current business structure alone. We believe that becoming a company that "connects" not only equipment and software but also solutions and human resources services will lead to sustainable expansion of added value. We will continue to work, including M&A, to achieve this. We are unable to disclose details yet, but we will consider M&A companies related to IT solutions, etc., while keeping the distribution business as our core business, and will promptly disclose and announce any decisions we make.

Q2: Regarding the business portfolio, what is the status of consideration of the positioning of Industrial Machinery Business?

A: Industrial Machinery Business is smaller in scale than IT Infrastructure Distribution Business, but in the Medium-Term Management Plan starting from this fiscal year, we expect it to continue growing. We will continue to review our business portfolio.

Q3: When shares of Fiber Business transferred in March this year, you stated that you would retain 15% of the shares. Will you continue to hold them in the future?

A: 15% of shares that we currently hold is for the purpose of overseeing a smooth transition, taking into consideration the employment of Daiwabo Co., Ltd.'s employees and the continuation of stable transactions with business partners, etc. The specific holding period has not yet been decided, but we have heard that it is generally two to three years, and we will consider this as a reference.

Shareholder Returns

Q4: The total payout ratio has been set at a high level of 79.6%, but how will this high payout ratio be sustained? Will it be maintained throughout the period of this Medium-Term Management Plan?

A: In the Medium-Term Management Plan announced in May, we set a total payout ratio of 60% or more. This fiscal year, we plan to acquire 10 billion yen of treasury shares, which was not implemented in the previous fiscal year, and the total payout ratio for the full year is expected to be higher than the standard. We will continue to pay stable progressive dividends with a payout ratio of 30% or more according to business performance. Furthermore, we plan to maintain a total payout ratio of 60% or more by flexibly acquiring treasury shares with consideration of retirement.

Operation results in the 2nd quarter

Q5: Although net sales have increased significantly from July to September, profit margins do not appear to have increased. Could you please explain the reason for this?

A: While the operating profit margin in the 1st quarter was 1.9%, the operating profit margin in the 2nd quarter recovered to 2.6%. In the first half of the year, the demand for IT-related products was very strong, even as the unit price of products increased due to the weak yen. The supply of products to the market is relatively smooth, and price competition with rivals is also occurring. In this situation, the gross profit margin in the first half was 6.7%, which was lower than our expectations. It returned to a normal level in the 2nd quarter on a standalone basis, but the operating profit margin has not increased compared to the previous fiscal year. The amount of operating income increased in line with the increase in net sales.

Q6: The full-year sales forecast for IT Infrastructure Distribution Business has been raised to 111.1 billion yen, but the increase in operating income has only increased by 2 billion yen. Could you please explain the reason?

A: When estimating the performance forecast for the second half of this fiscal year, we expect that net sales to be approximately 600 billion yen, with a gross profit margin of 6.8% to 6.9%. Selling, general and administrative expenses, including variable costs such as logistics costs, are expected to be approximately 22 billion yen in the second half of the year, and operating income is projected to be approximately 19.4 billion yen. For the full year, operating income is expected to reach 33 billion yen, an increase of approximately 2 billion yen.

Q7: In what specific areas does the profit margin fall as each transaction size increases? Can we think of it as something like a volume discount?

A: For example, the price will generally be lower if you buy a set of 100 rather

than one unit. Although shipping in bulk reduces costs, the current situation of rising purchasing costs due to the weak yen, combined with increasing demands from sales partners and end users for lower sales prices, is leading to a decline in gross profit margins

Q8: I would like to know the details of Windows upgrade demand. If the total update demand is 100, how much of it will be replaced during this fiscal year? Also, can we assume that the remaining portion of this fiscal year will be replaced next fiscal year out of the 100?

A: Our initial estimate of demand for Windows updates was that about 40% would come in the second half of this fiscal year, starting in October, and about 60% in the first half of next fiscal year. That is based on past trends of large companies updating at an early stage and small and medium-sized companies updating relatively close to the end of support. However, looking at the situation in the first half of this year, we believe that update demand has become evident earlier than expected, and that demand is increasing this term. At this point, it is very difficult to say exactly how much we will be able to receive orders but taking into account the situation in the first half, we expect sales of 2.15 million units in the second half of this fiscal year. At this point, we are expecting a 31% increase in the second half of this year compared the same period previous year.

Q9: Given the recent fluctuations in currency exchange rates, I would like to know the trends in PC unit prices. Specifically, what is the current situation with foreign vendors?

A: Compared to the first half of the previous fiscal year, the average price of PCs has risen by approximately 4,000 to 5,000 yen. This means that prices increased by approximately 4-5% of sales in the first half of this fiscal year. Exchange rates have recently been fluctuating significantly, but this is not being taken into consideration at this point, and we are assuming that unit prices will remain at the same level as in the first half of the year in the second half. We have not yet received any information on the movements of foreign

vendors. If there are any major impacts in the future due to exchange rate movements or other factors, we will disclose them appropriately.

Q10: Even though Fiber Business has spin-off, is the increase in net sales so far largely due to temporary factors such as demand for Windows updates? Please tell us what the volume is. Also, even if the drop in the second half of next fiscal year occurs, can we still expect double-digit sales growth to continue with the accumulation of cloud services and the GIGA School updates demand? Should we consider iKAZUCHI's annualized figures to be separate from ARR?

A: There is no doubt that the demand for Windows updates has led to increased net sales in the first half of the year due to the special demand associated with the update cycle. We will continue to verify the volume of the demand, including the second half, but we expect PC shipments to be 3.87 million units per year for this fiscal year. Our goal is to grow steadily through organic growth, not just through temporary demand. Our share of PC shipments in the first half of the year has also increased, and we will continue to capture IT-related demand in other areas and build up our business. As we mentioned in the briefing, next fiscal year will depend on the situation of the GIGA School, so we cannot say at this point whether we will see a double-digit increase in sales. Windows update demand has increased significantly this fiscal year compared to what we initially expected, and we expect the outlook for shipments to become clear in the future, based on the demand for Windows updates up to October of next fiscal year and the GIGA School, which will begin to be announced in the 4th quarter in this fiscal year. We will disclose any information that becomes available. Finally, regarding the annualized figures and ARR of iKAZUCHI, the graph on the right side of page 21 (financial results materials) shows the cumulative figures for 12-month transaction volume on a quarterly basis. It is not profit but transaction volume. We would like to see the results which show steady growth over the 12-month period.

Q11: iKAZUCHI is likely highly profitable, but what is the operating profit margin? Also, despite an increase in iKAZUCHI transaction volume, the

profit margin for IT Infrastructure Distribution Business has declined compared to the previous fiscal year. Does this indicate an intensifying competitive environment?

A: The operating profit margin for iKAZUCHI is not disclosed, but it is slightly higher than other fields such as PCs, and we intend to increase overall profit margin by expanding this field. We are aiming for transaction volume of 40 billion yen this fiscal year, but the volume has not yet reached a level that would have a significant impact on the profit margin of IT Infrastructure Distribution Business. Although the competitive environment has intensified, the number of end users and the number of service contracts in iKAZUCHI have been steadily increasing. We are focusing on this field as it is one that it plans to continue expanding in the future. The reason for using the term "transaction volume" is that a large number of transactions fall under the accounting standards for revenue recognition.