

Message from Our CEO



Representative Director of the Board,
 President Chief Executive Officer (CEO)
Shoichiro Eguchi

Toward the Next Stage for Further Change for Growth

Highest profit after the management integration achieved in FY2022

Fifteen years are about to pass since the management integration for survival between Kenwood and JVC in 2008. The global financial crisis that began just before the management integration in 2008, as well as the subsequent sluggish consumer electronics market, rapid digitalization, intensifying price competition due to the rise of Chinese and Asian manufacturers into the market, and the advent of smartphones, severely damaged our company's consumer product business. In response to these changes in the business environment, we carried out consolidation of redundant production factories and sales offices, such as withdrawal from or downsizing of unprofitable businesses, including televisions and video cameras, which used to be our main businesses at the time of the integration. In this process, we have worked to improve the soundness of our balance sheet by disposing of negative legacies, while our business portfolio has shifted significantly from the consumer electronics business to the professional product business. These 15 years were like the blink of an eye in the eternal history of mankind, but for the new JVCKENWOOD, it can be said that our company experienced a series of hardships and truly dramatic changes.

Business reforms after integration	FY2008		FY2022
Professional product business (B to B) composition (%)	25%	→	72%
Number of Group bases	139	→	74
Number of employees - consolidated	23,089	→	16,277

In FY2022 (the fiscal year ended March 2023), we achieved the highest profit since the management integration and met our major management targets of the medium-term management plan "VISION 2023" one year ahead of schedule. I believe this is due, first of all, to the strengthening of the management base that has been built up by controlling cash outflows and fundamentally reviewing capital investment, fixed costs, and variable costs as a response to the critical situation that has arisen since COVID-19. In addition, although the business environment continued to be difficult, including the invasion of Ukraine, the Shanghai lockdowns, and high infrastructure costs and raw material prices, we successfully normalized the supply chains and recovered production and sales through rapid response to the component supply issue, and design change and utilization of alternative components, resulting in improved earnings. On the business side, the Communications Systems Business performed very well, especially in the North American market, which greatly boosted the Company's performance.

Achievement of major management targets of "VISION 2023" ahead of schedule

	FY2023 targets	FY2022 results
Revenue	320 billion yen or more	336.9 billion yen
Core operating income	12 billion yen or more	15.8 billion yen
ROE	10% or more	18.2%
Equity ratio	30% or more	33.0%
D/E ratio	1.0 or less	0.63

Although the future of the market remains uncertain due to further rises in energy costs caused by increased geopolitical risks, fluctuations in foreign exchange rates, and interest rate hikes, we are determined to appropriately manage the risks and opportunities we face and to start with renewed determination for the next stage of growth, without settling for the current level of performance. We will ask ourselves the following three questions as we strive for further Change for Growth.

- Are we a sustainable company for value creation?
- Do we have real earning power?
- Have we identified any business areas where we can win over the medium to long term?

"Creating excitement and peace of mind for the people of the world": Include the philosophy in the Articles of Incorporation

In conjunction with the formulation of the new medium-term management plan "VISION 2025," we decided to include the corporate philosophy in the Articles of Incorporation, which is the constitution of the Company, by a special resolution at the Ordinary General Meeting of Shareholders held on June 23, 2023. In order to vigorously survive in an uncertain and rapidly changing market environment, we must position our corporate philosophy firmly at the core of management and continue to evolve and grow tirelessly based on it. Today, companies are required, more than ever, to take a long-term perspective and pursue social value. I believe that this corporate philosophy will surely be effective for activities that capture global megatrends, think through how JVCKENWOOD can contribute to society, and lead to the creation of corporate value for the entire Group.

Of course, it is not enough to just include the corporate philosophy in the Articles of Incorporation. It is also important for management to continue to speak with enthusiasm to employees and other stakeholders, and to create a mechanism that generates empathy by disseminating information widely. In addition, I believe that it is most important for each employee to be aware of the relationship between the philosophy and themselves in their daily work, so that this philosophy can spread throughout the entire Group and lead to improvement of corporate value in some way. In other words, the most

important thing is "activities to internalize the philosophy." In this sense, we will make FY2023 the "First Year of our Purpose," in which we will give life to the corporate philosophy that is the source of growth of the Company.

Thoughts on the new medium-term management plan "VISION 2025"

The requirement of the new medium-term management plan "VISION 2025," which is the next step toward the long-term vision, is to move away from the inward perspective. A point of reflection in the conventional process of formulating mid-term management plans is that the main focus has tended to be on accumulating what came out from each business sector. With the idea of the Ptolemaic theory in which the business we are in charge of is the center of the world, we will not survive in a fast-flowing and severely competitive environment. I believe that it is essential to have an "objective point of view," or to strictly apply our business structure and portfolios to the perspective of the future and reconsider the business we are in charge of while denying ourselves, in a sense. So, in formulating the new vision, we adopted an external point of view (that of investors) for increasing the true corporate value, and to embody it in our strategy. In particular, "management with awareness of capital costs and share prices" is a major theme for companies listed on the Prime Market of the Tokyo Stock Exchange, and we formulated "VISION 2025" such that it takes such demands of the capital market seriously and expresses the concept and direction of our company's strategy clearly.

As drivers for improvement of corporate value, we have positioned the following three points as our major strategic pillars: the "optimization of business portfolio" taking into account "growth potential" and "capital efficiency" in the business strategy; the "optimization of capital allocation" including aggressive shareholder returns in the financial strategy; and "profitable growth" and "solving social issues on a global scale" in tandem in the sustainability strategy.

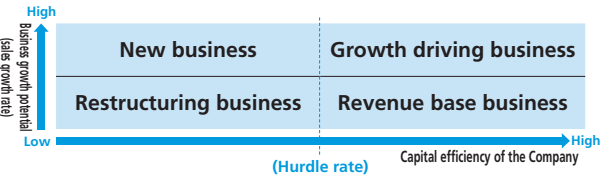
- **Business strategy** — Optimization of business portfolio
- **Financial strategy** — Optimization of capital allocation
- **Sustainability strategy** — Profitable growth and solving social issues on a global scale

In the business strategy, we aim to achieve a price book-value ratio (P/B ratio) above 1.0 as soon as possible by projecting the concept of maximizing corporate value onto our business portfolio and optimizing our business portfolio based on the indicators of "growth potential" and "capital efficiency." Based on accurate understanding of the Company's capital cost*, we allocated businesses to a four-quadrant business matrix along the axes of the growth potential of business and capital efficiency, according to ***Capital cost (WACC): 6.29% (based on figures as of March 31, 2023)**

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the minimum criterion that ROIC (return on invested capital) does not fall below capital costs as defined in the business portfolio. In addition, we have revised the direction of our strategy to take advantage of our company's strengths in response to changes in our business environment, and positioned the Communications Systems Business as a "profit-generating driver" that will lead the entire Company. This way, we are putting different importance on different businesses.



As for shareholder returns, we basically aim for stable dividends and continuous dividend increases. What is still very important, however, is the amount of resources to allocate to growth investments. We plan to increase the total payout ratio by flexibly acquiring treasury shares while keeping the balance between maintaining financial soundness and investing in growth businesses. The indicator of capital efficiency, which is an important factor for improving corporate value, measures how much return was generated on invested capital. We set ROIC as a target since, while ROE (return on equity) is of course important, we believe that showing the ratio of "operating profit from the core business," which is the profit obtained by utilizing the entire financing cost including interest-bearing debt, will allow us to more accurately align investors' eyes from the perspective of our company's business characteristics. In order to continuously improve P/B ratio in the future, it is important to continuously and thoroughly redefine our business portfolio from the perspective of profit growth, improvement of capital efficiency, and optimization of capital costs, which are the components of P/B ratio. The company's management issues and areas for improvement will become clearer, and it will be possible to take appropriate measures to address essential management issues through agile and strategic initiatives in response to market changes, rather than one-time efforts.

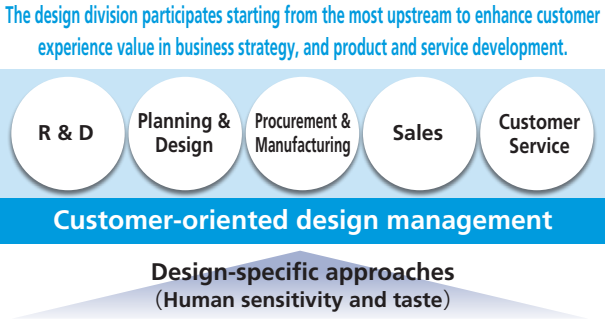
Creating new value with backcast thinking - starting with the future we want to achieve

In order for our company to grow sustainably toward 2030, we must constantly challenge ourselves to create value. Our company is promoting business activities

centered around audio, visual, and communications, which are our strengths, and incorporating the management of "design thinking." We were aware of "integrated thinking" in constructing this story of value creation. "Integrated thinking" and "design thinking" share a major point in common. That is, both adopting the idea of backcasting from the future and implementing forward-looking strategies to create a cycle of value creation. Based on this concept, we have taken into consideration the relationships with our various stakeholders from a long-term perspective and how we can provide value to the social issues surrounding our planet, in order to reexamine our own management capital and business activities from a holistic viewpoint. By forecasting changes in the world 3, 5, and 10 years from now, and taking the future as a starting point, we will always sort out what we should do, what we lack, and what we should discard, and clarify the future plan to aim for. In so doing, we will draw a cycle of value creation through our business activities.

"Design management" with customers as the starting point

"Design management" is characterized by management with customers as the starting point incorporating approaches unique to design. This means we are more sensitive than ever to the sensibilities and preferences of humans and use them in our business. Sensibilities and preferences include touch, sound, and usability. We incorporate them starting from the upstream process of product development. Generally, new products and services stem from seeds (technology as the starting point) or needs (customer demand). If you do not find out what your customers really desire, you cannot create a new technological way out. Japanese companies have a strong commitment to high quality, high definition, miniaturization, and high speed, and focus on product-out based on the concept of technology as the starting point. For example, we can visually tell the difference between 4K, 8K and other visual technologies in TVs and projectors. While the appeal of



technology is of course necessary, it is only customers who evaluate it, and it is also important to have the perspective of business profitability, i.e., whether the invested development funds can be recovered. No matter how much performance is improved, users will not accept products unless they keep a balance between affordability and improved functionality. We need to go back to the starting point that it is not engineers but customers who evaluate technology. What is the value only our company can create? What is the basis of our advantage in creating that value? And will that advantage continue? Is that advantage competitive enough to withstand change? We must always keep our antennae up and look for the best solutions, identifying the real needs and trends in the world.



Be the base of value creation — Establishment of the Value Creation Square

As part of our efforts to embody medium- to long-term value creation, we will establish a base for value creation, the Value Creation Square. This new base, which is scheduled to be completed in the summer of 2024, will strengthen technology development according to global megatrends by linking the technological divisions, which have been divided into sectors and bases, with the administrative division of the head office, the Future Creation Research Laboratory, and design divisions. We

will also promote further workstyle reform by developing an office environment that enables hybrid work. We intend to take this opportunity to create a place for "Co-Creation" that will foster ideas that anticipate the future, root innovation thinking, and differentiate ourselves from the competition.



Image of new building at Value Creation Square (Head Office & Yokohama Business Center Area) (scheduled for completion in late summer 2024)

Final remarks

There is a quote by Geroge Herbert: "Storms make oaks take deeper root." I am convinced that a company that has withstood the wind and snow and put down firm roots will have a strong management foundation. The entire Group has united together to face and overcome the many crises that followed the management integration and the unprecedented difficulties caused by COVID-19. We have also learned firsthand that the results of our efforts are commensurate with our sweat and toil. I feel that we are fostering a corporate culture that is truly tough and tenacious. Our goal for the time being in "VISION 2025" is to put the Company on a strong track, but this is only a passing point. We will always be conscious of drawing up what the Group should be and the creation of value from a long-term perspective. I believe that my greatest mission is to evolve the Group into a powerful corporate group in which each and every employee strives forward with great aspirations and dreams, based on the noble corporate philosophy, "Creating excitement and peace of mind for the people of the world." To create value over the medium to long term and realize our vision, we will continue to engage in dialogue with investors and other stakeholders as we transform ourselves into an even more attractive JVCKENWOOD.

Representative Director of the Board,
President Chief Executive Officer (CEO)

S. Enoki