

Translation for Reference Only

# “Vision 2020”

## Mid- to Long-term Business Plan

- Evolution into a Customer Value Creator -

May 19, 2015

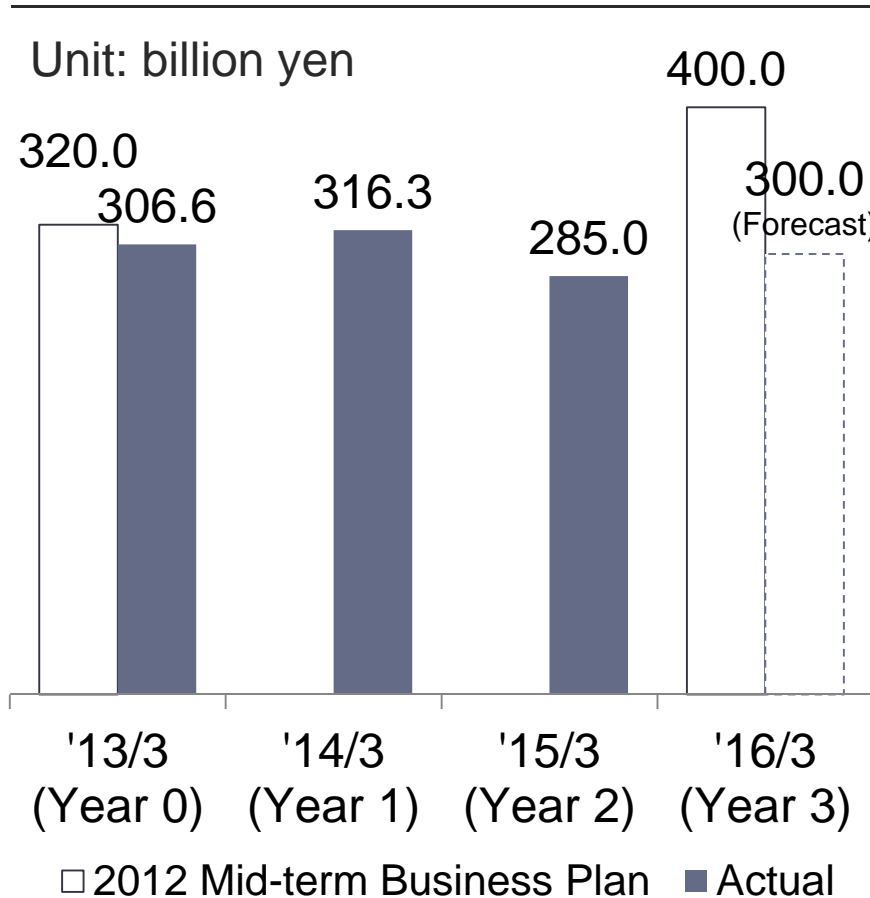
JVC KENWOOD Corporation

- 1. Background and Issue Recognition**
2. Long-term Vision toward FY2020
3. Management Policy toward FY2020
4. Numerical Targets toward FY2017
5. Mid-term Strategy toward FY2017

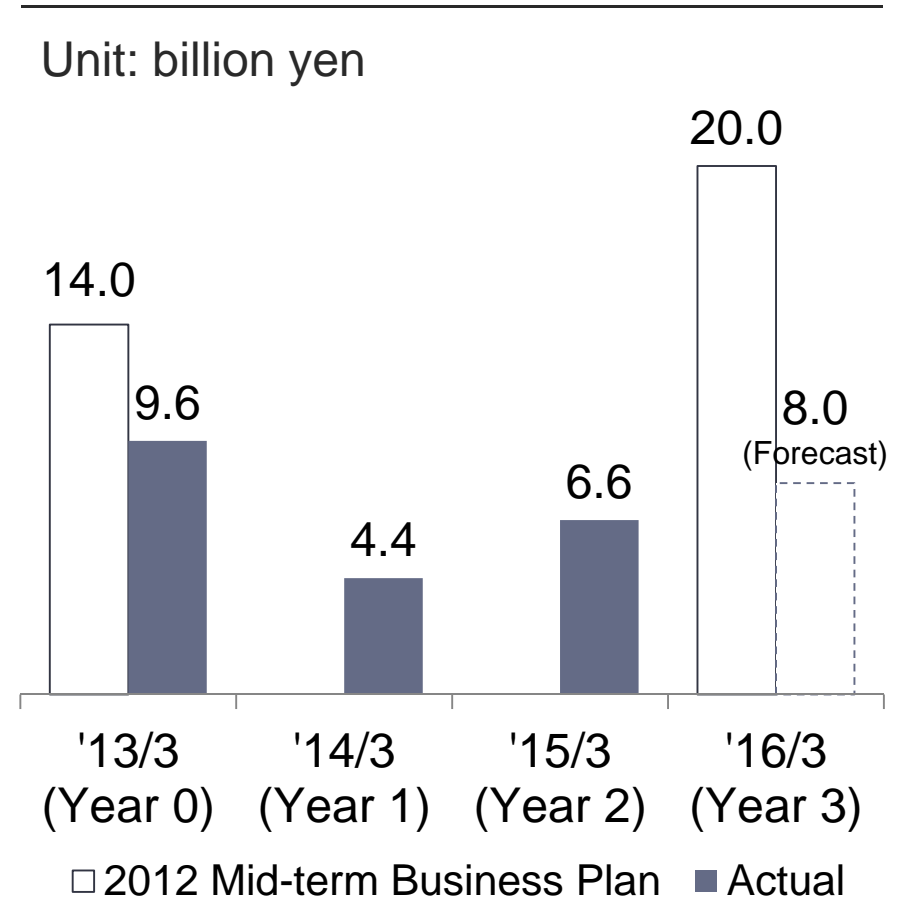
# Status of the current mid-term business plan

- ❖ The current mid-term business plan is underway in spite of a bad start

Sales (plan vs. actual)



Operating profit (plan vs. actual)



# Major reasons of underachievement of the plan and new growth opportunities

- ❖ The trend of technological innovation is an opportunity to generate new market value

## Changes in external environment

- Sharp contraction of the Home Electronics market (widespread use of smartphones)
- Rapid Yen depreciation

- Integration of industries and participation from other industries due to progress on technological innovation \*2

## JVCKENWOOD

- Delay in response to the sharp rise of product costs
- Slow start in developing next-generation business
- Poor foreign exchange measures\*1

- Creation of new value through integration of various technological assets \*3

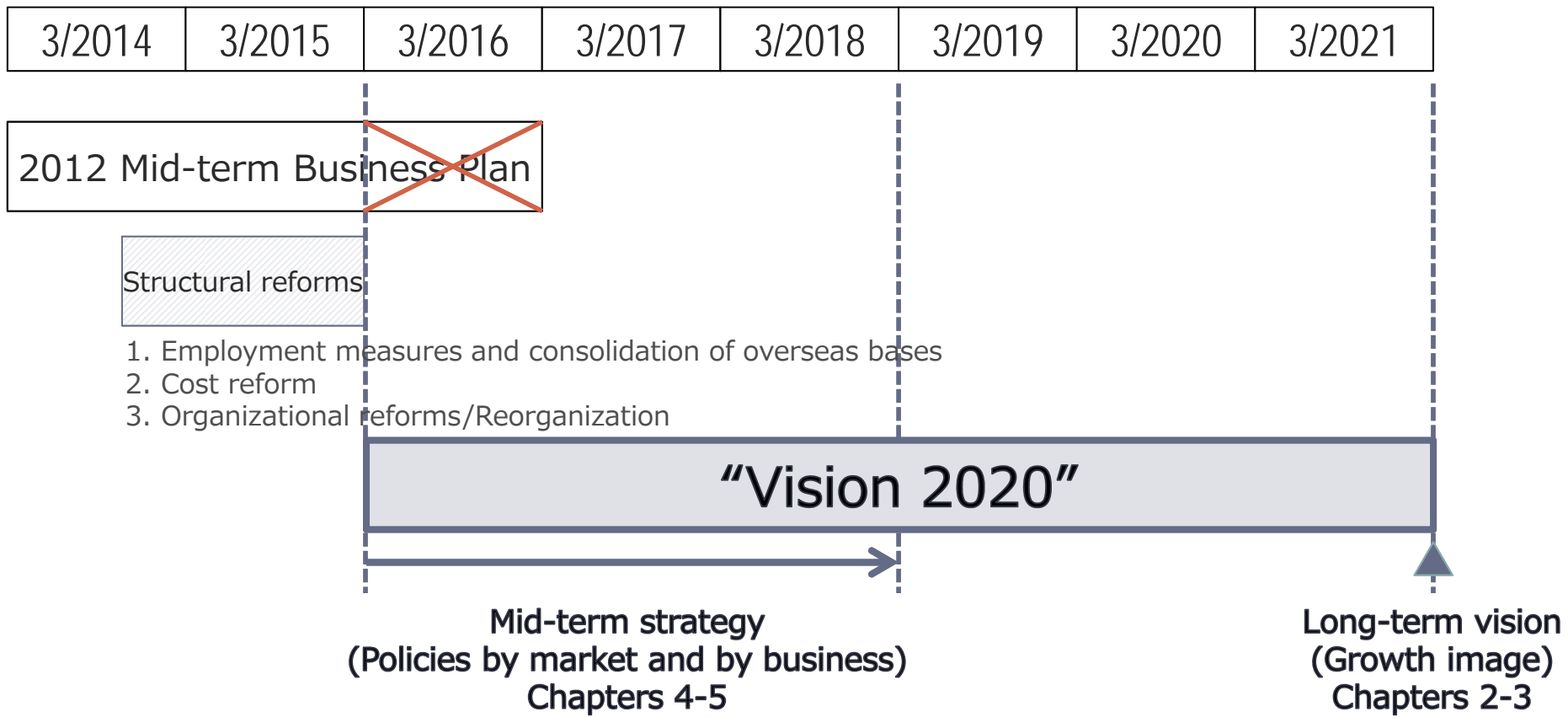
\*1: Expansion of scope of foreign exchange hedge, extension of hedge period, etc.

\*2: Digitalization, shift to broadband and cloud computing, etc.

\*3: Electronics, land mobile radio / infrastructure, optical / image, sound & acoustic / sound field design, image compression / transmission, software content, etc.

# Positioning of the “Vision 2020”

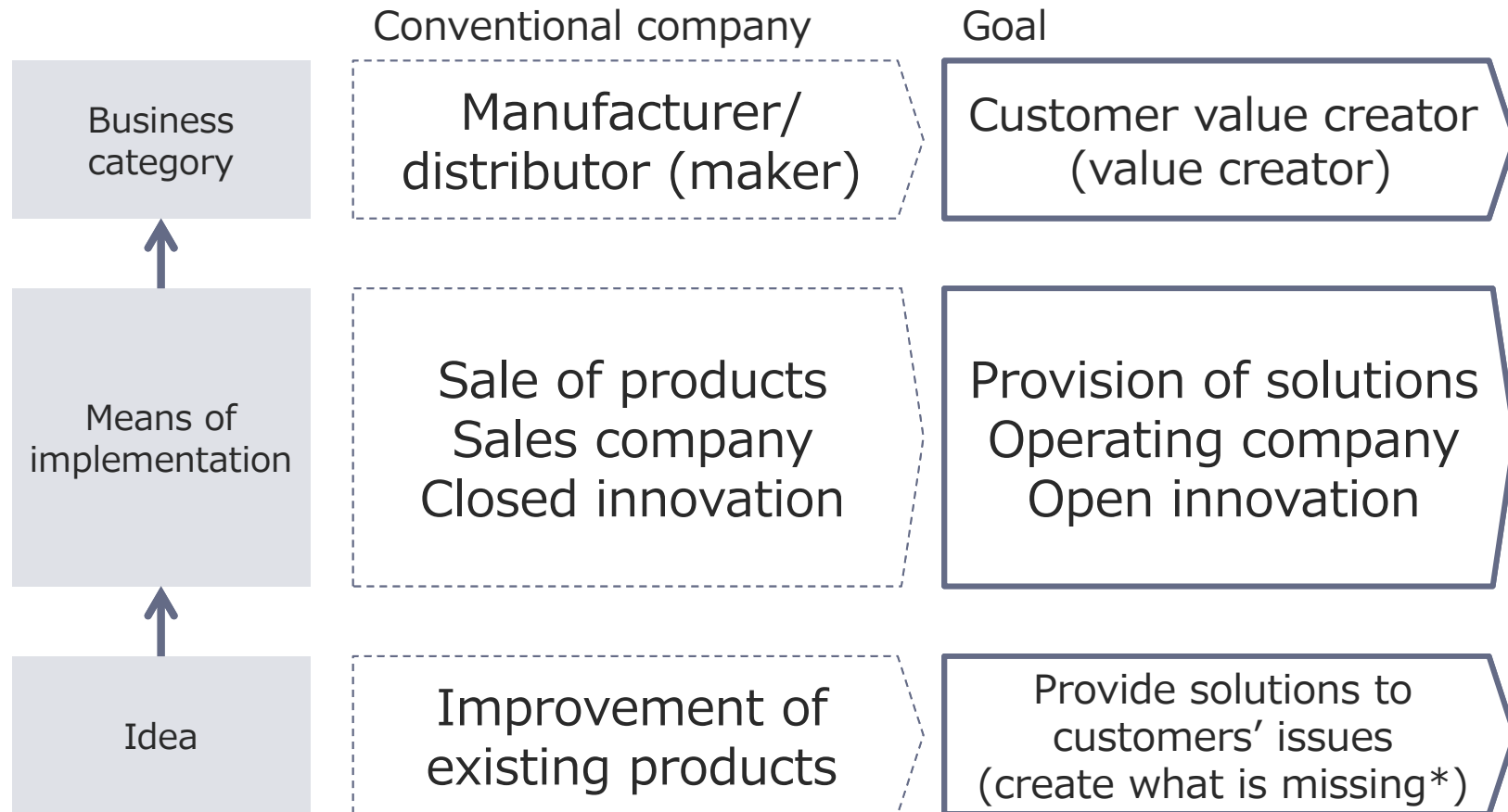
- ❖ The current mid-term business plan has been renovated and a long-term vision toward 2020 and a mid-term strategy targeted at FY2017 were newly set



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# Evolution into a company capable of creating customer value

- ❖ From a “manufacturer/distributor” to a “customer value creator”



\* Includes integration of existing technologies

# Means of implementation (1/3):

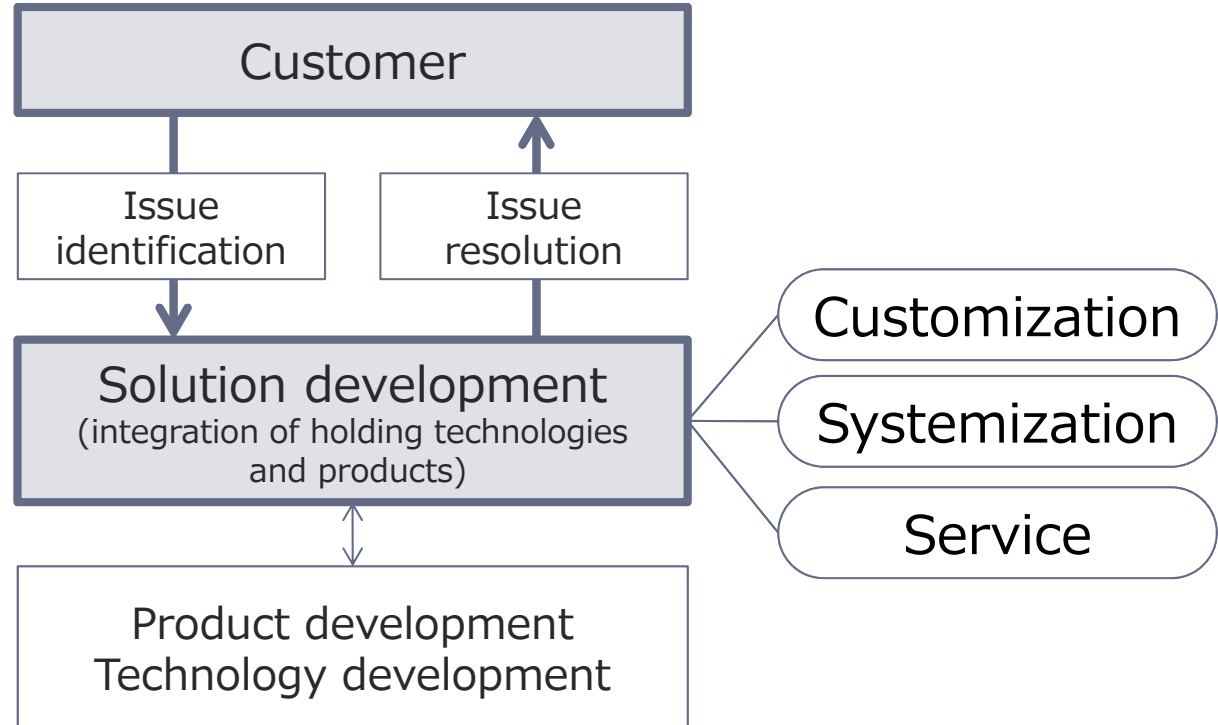
## Sale of products → Provision of solutions

- ❖ Become a partner who can offer a specific solution to customer's problem

### Sale of products



### Provision of solutions

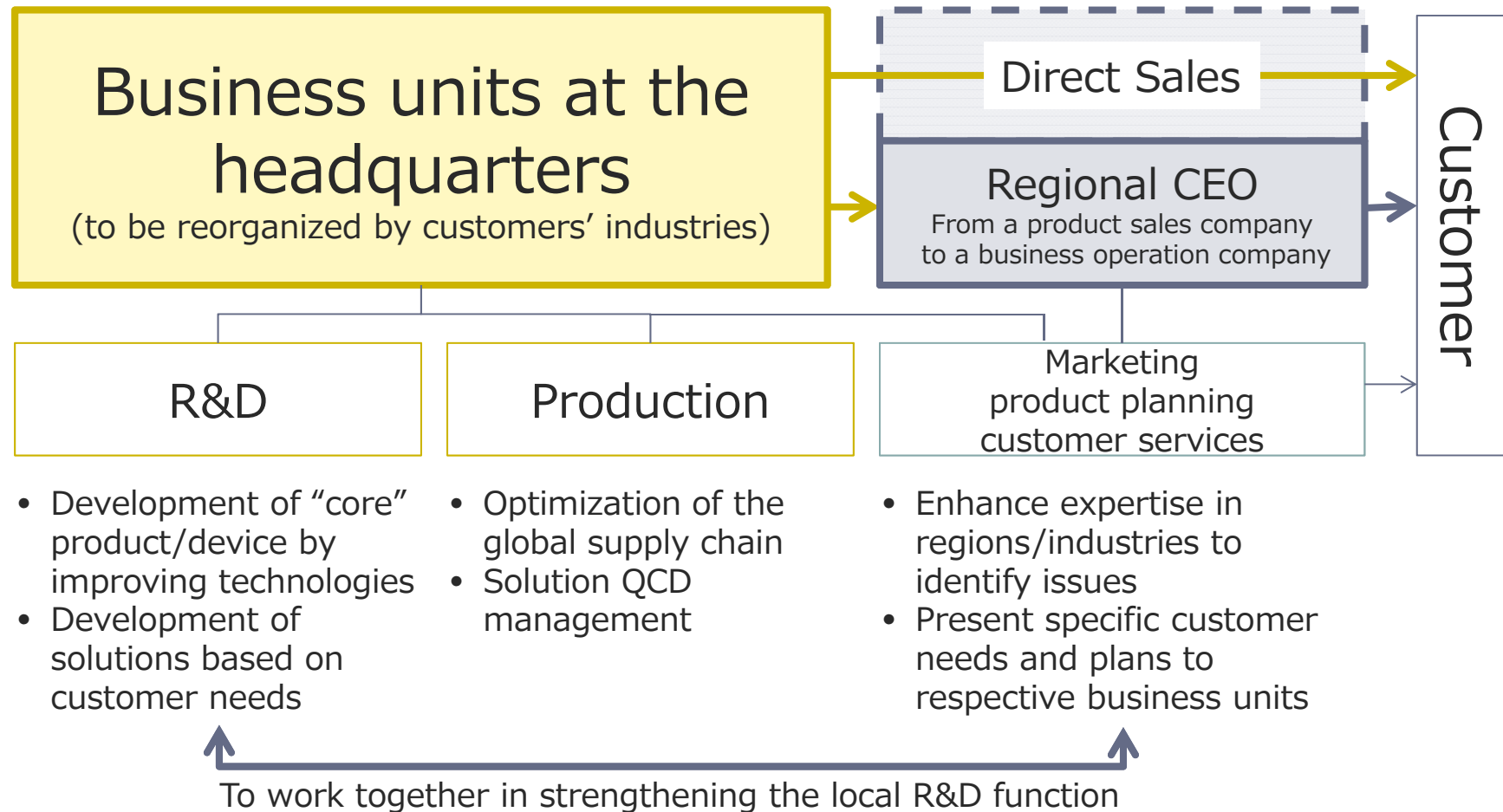


- ☞ At the same time, address reforms of “ways to make profit” (leveling and diversification of profit)



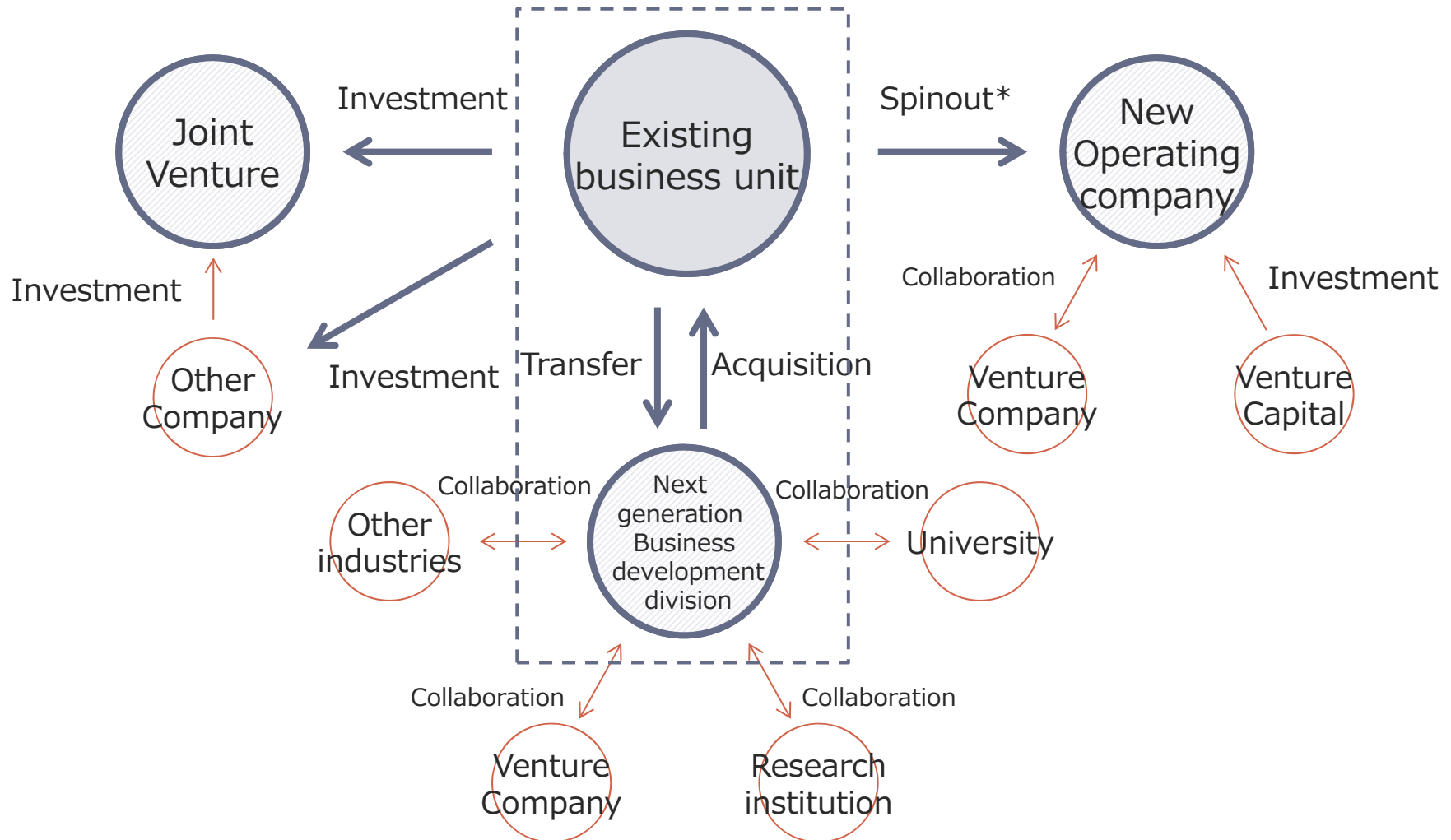
## Product sales company → Business operation company

- ❖ Expand the roles of regional CEOs and product sales companies and position them as regional business operation companies in response to the increase in direct sales businesses of business units at the headquarters based on face-to-face relationship with customers



# Means of implementation (3/3): Closed innovation → Open innovation

- ❖ Deepen cooperation/collaboration with outside partners to accelerate solution development

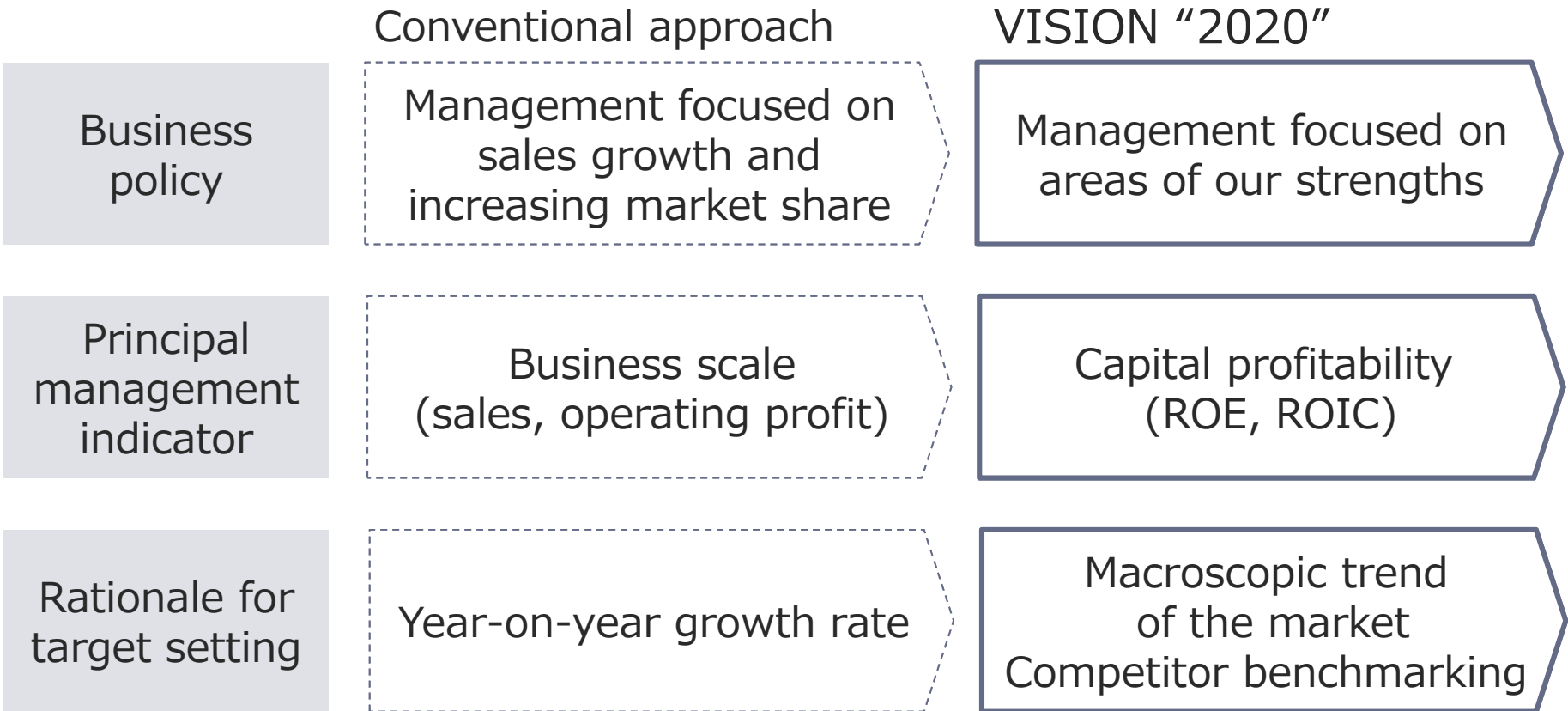


\* Consider possibilities of bringing it back once established as a new operating company depending on the compatibility with the core business

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# Business policy

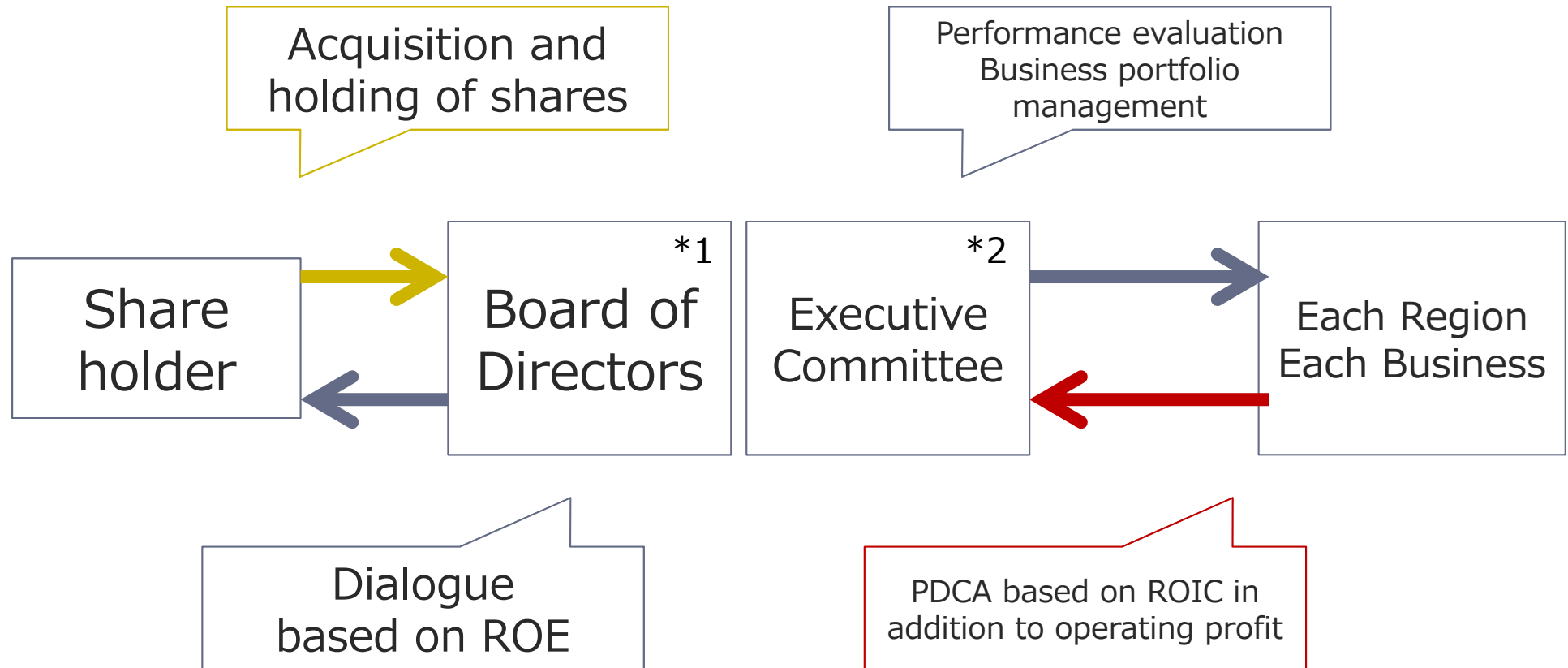
❖ Toward management that focuses on areas of our strengths



ROE: Return on Equity (rate of return on equity = net income (loss) ÷ shareholders' equity (average of beginning and end of the year))  
 ROIC: Return on Invested Capital (rate of return on invested capital = profit after-tax ÷ invested capital)

# Management indicator and corporate governance

- ❖ Implement performance evaluation and business portfolio management based on ROE as a publicized indicator as well as ROIC as an internal management indicator



\*1: Lead transformation and governance (particularly, basic/strategic decision-making, supervision of operational executions)

\*2: Divide the functions of operational executions to clarify the management accountability and responsibilities for executing operations

# Toward achieving higher ROE ~Business portfolio~

- ❖ Establish a structure in which cash generated by profit-base businesses with high ROIC supports investments in growth-leading businesses so as to achieve higher ROE

## Selection criteria for business domain

1. Consistency with the long-term vision
  - Adaptability to potential needs
  - Integration to holding technological assets
  - Contribution to profit leveling
2. Cost Capital Management
  - Achievement level of targeted ROIC



- ☞ “Businesses to be withdrawn or sold” that don’t meet the selection criteria have been mostly addressed by FY2014

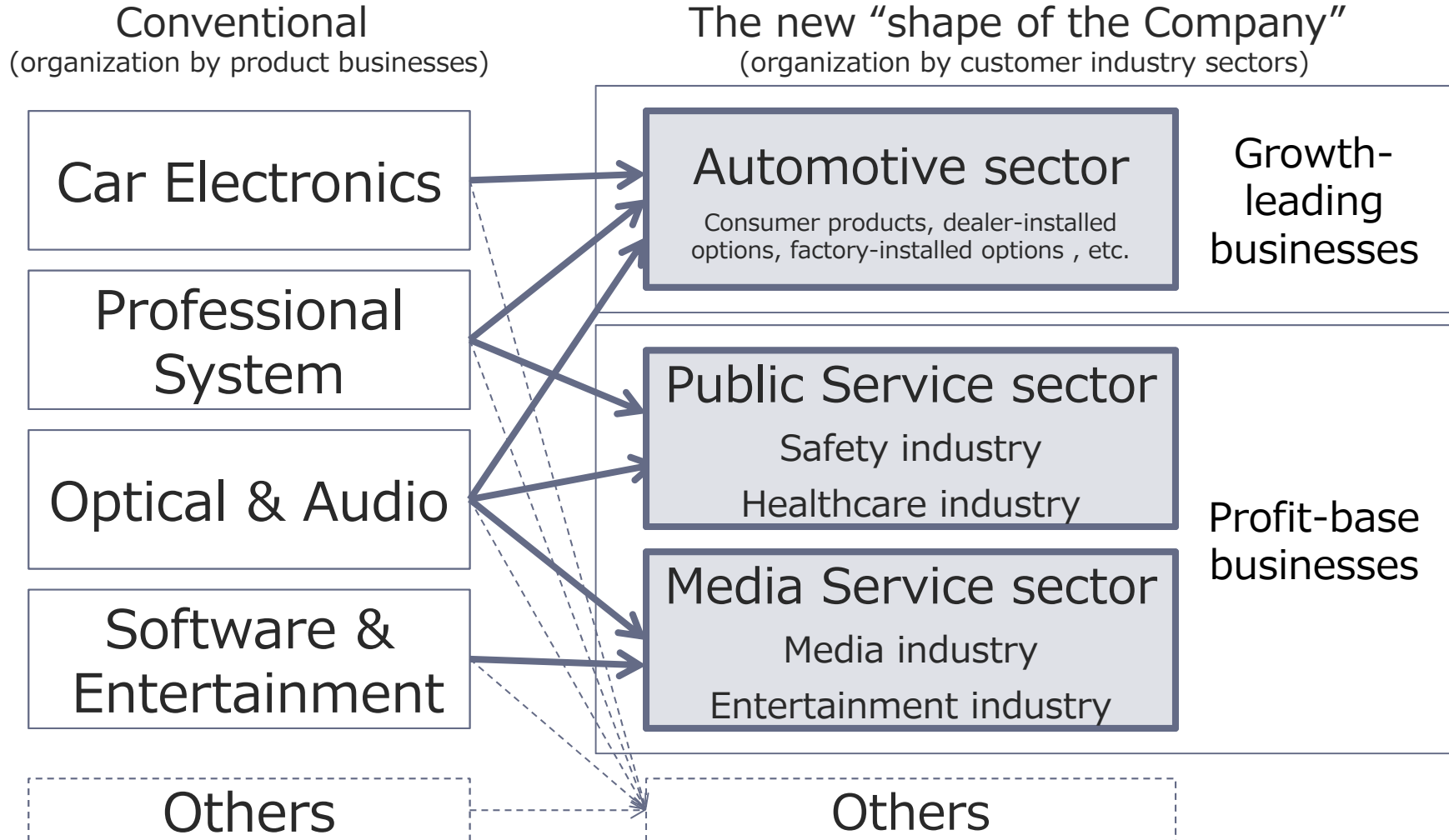
# Reference: Investment record (M&As, etc.)

❖ Impact on sales: Businesses acquired (approx. 60 billion yen), businesses sold (approx. 30 billion yen)

	Date	Purpose	Previous segment
Zetron became a subsidiary	5/07	Strengthen communications total system business	PS
AltaSens became a subsidiary	8/12	Bring in CMOS image sensor technology	O&A
Formed a strategic alliance with SYNDIANT	10/12	Promote development and production of LCOS element related products	CE O&A
Shinwa became a subsidiary	6/13	Expansion of and strengthen businesses related to mechanisms for vehicles and car-mounted equipment	CE
Succession of TOTOKU Electric's information equipment business	7/13	Full-scale entry to the healthcare business	PS
Established Car-tomo as a joint venture with ZMP INC	7/13	Promote car telematics business	CE
Capital contribution to ZMP INC	12/13		
Capital contribution to WiL Fund, a venture capital firm	1/14	Strengthen collaboration with a promising venture capital firms in Japan and overseas	HQ
EF Johnson became a subsidiary	3/14	Strengthen North American P25 professional communications equipment business	PS
Sold of Kenwood Geobit	3/14	Development of next-generation businesses and corporate transformation	PS
Sold of JVC America Inc.	6/14	Development of next-generation businesses and corporate transformation	SE
ASK (a European corporation) became a subsidiary	4/15	Acquisition of a base for expanding factory-installed option businesses	CE
Sold Teichiku Entertainment	4/15	New partnership with XING Inc.	SE

# New “shape of the Company” ~Reorganization~

- ❖ Promote integration of holding technologies by separating the organization by customer industry sectors





# Basic strategy by customer industry sectors

- ❖ Cash flows generated by profit-base businesses to support the growth investments in Automotive sector

Customer industry sector		Basic strategy	Level of opportunity	Input	Output			Revenue stability	
				Invest	Sales	Ratio of profit	Value of profit		
Growth-leading businesses	Automotive sector	Consumer	Focus on No.1 sales channel globally and maintaining brand power	○					△
		Dealer-installed	Increase orders by diverting the platform of consumer products	○					○
		Factory-installed	Make full-scale entry with next-generation products by leveraging optical technology	◎					○
Profit-base businesses	Public Service sector	Safety	Commercialization of total solutions in the public safety sector	○					○
		Healthcare	Focus on niche sectors in which optical technology may be utilized	△					○
	Media Service sector	Media	Divert consumer product technology to professional, semi-professional and industrial use	△					△
		Entertainment	Supplement shrinking of existing market with expansion of revenue stream and professional products	△					△
Others		Minimization of investment Consider withdrawal depending on ROIC	—					—	

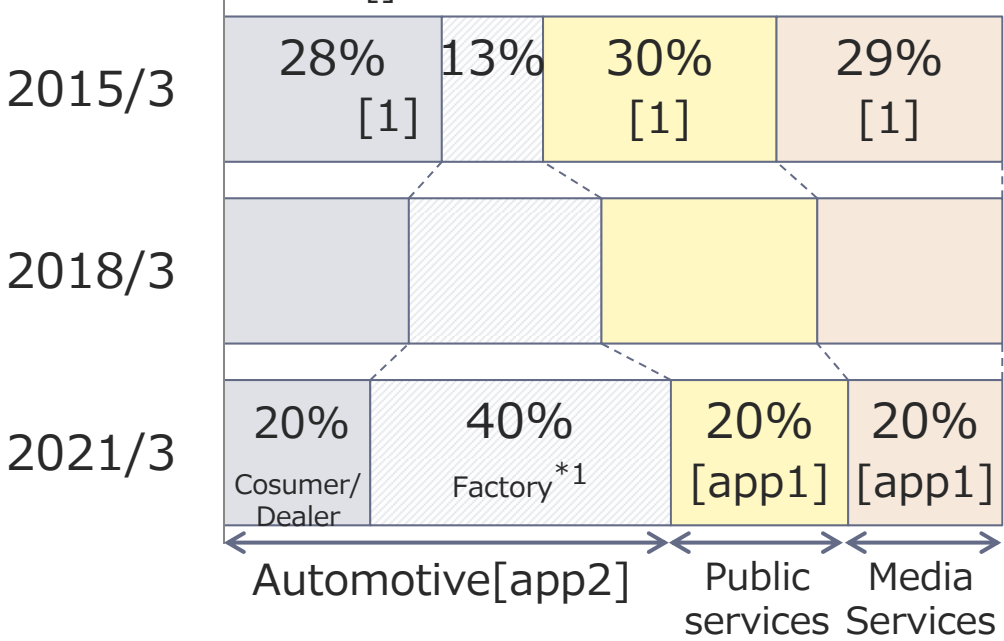
Note: Direction of arrows indicates changes from FY2014

# Composition of revenue by customer industry sectors

- ❖ The stable cash flows generated by Public Services and Media Services sectors will serve as support until the Automotive sector achieves about 1/2 of the total revenue

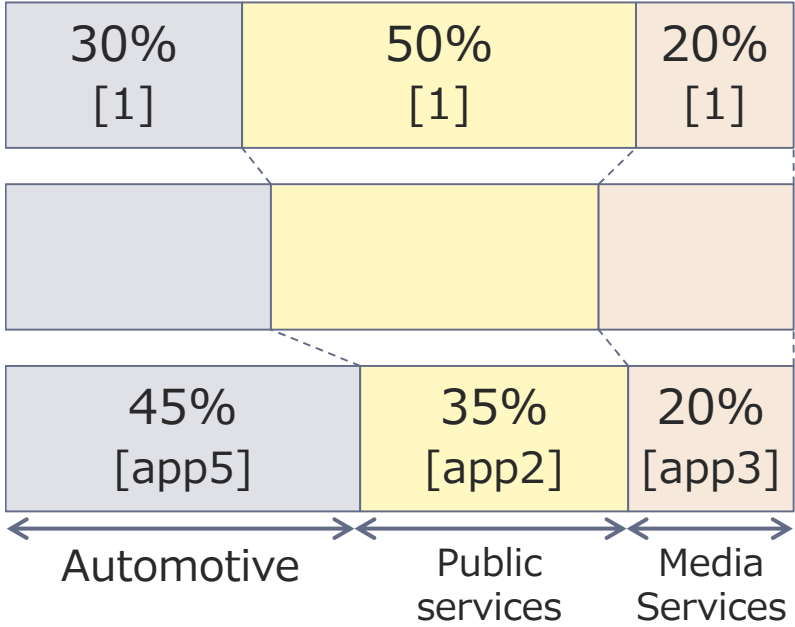
**Trend in sales composition**  
(by customer industry sector)

[ ] Index the FY2014 as "1"



**Trend in operating profit composition**  
(by customer industry sector)

[ ] Index the FY2014 as "1"



☞ Compositions of sales and operating profit of BtoB (or BtoG)\*2 businesses to make up 3/4 of the total amount

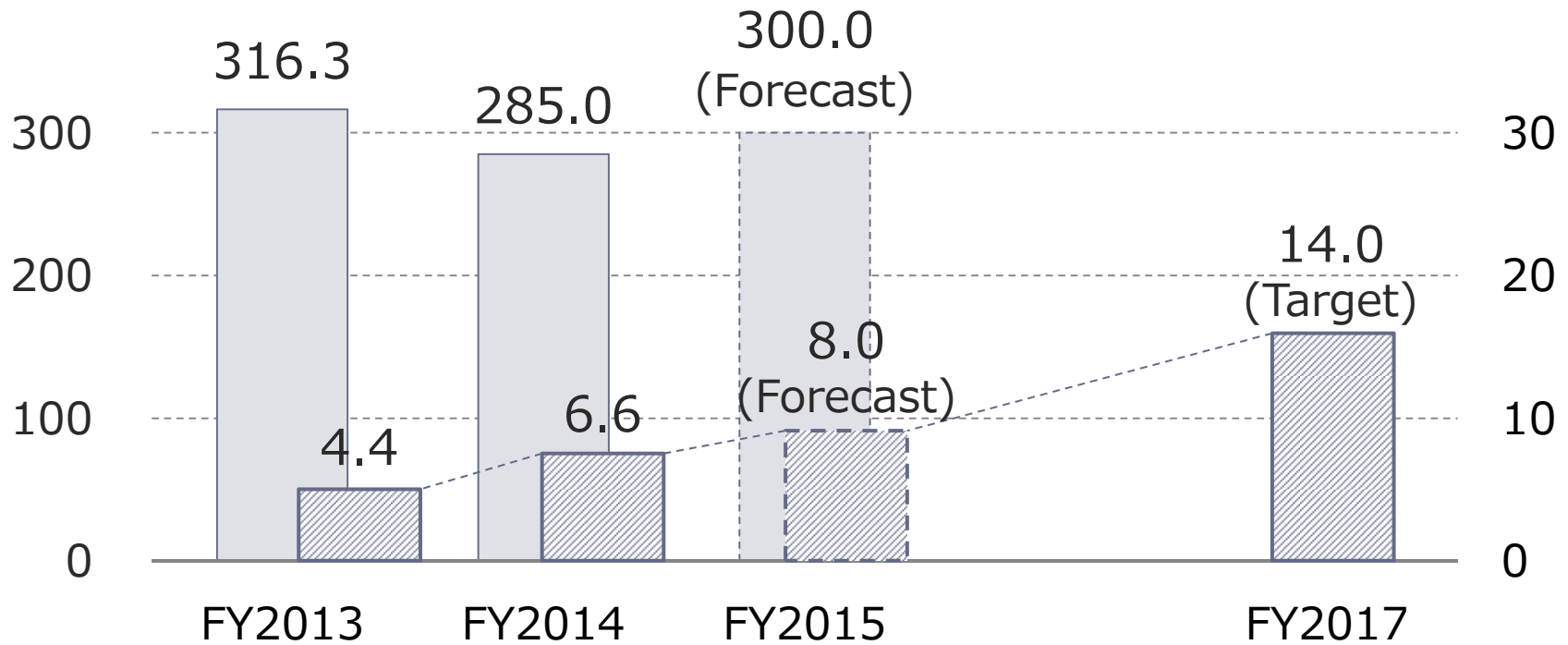
\*1 Business transactions with car manufacturers including the "CAROPTRONICS" system, the next-generation business in the automotives  
\*2 Business to Business/Business to Government

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# Mid-term management numerical targets

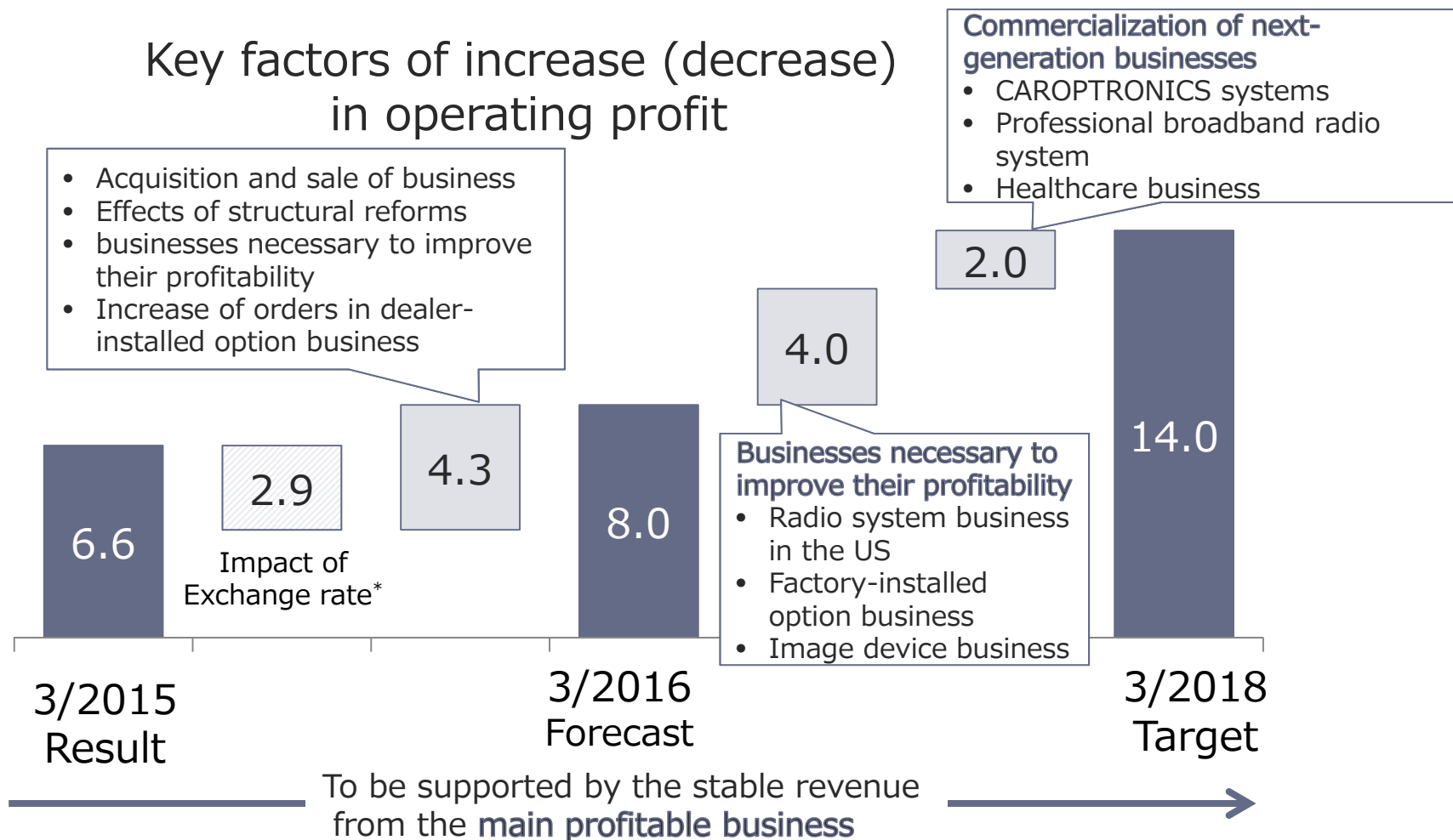
- ❖ To achieve operating profit of 14.0 billion yen and targeted ROE at 10% by FY2017

□ Sales (left axis, billion yen)    ▨ Operating profit (right axis, billion yen)



# Framework for achieving the mid-term management numerical targets

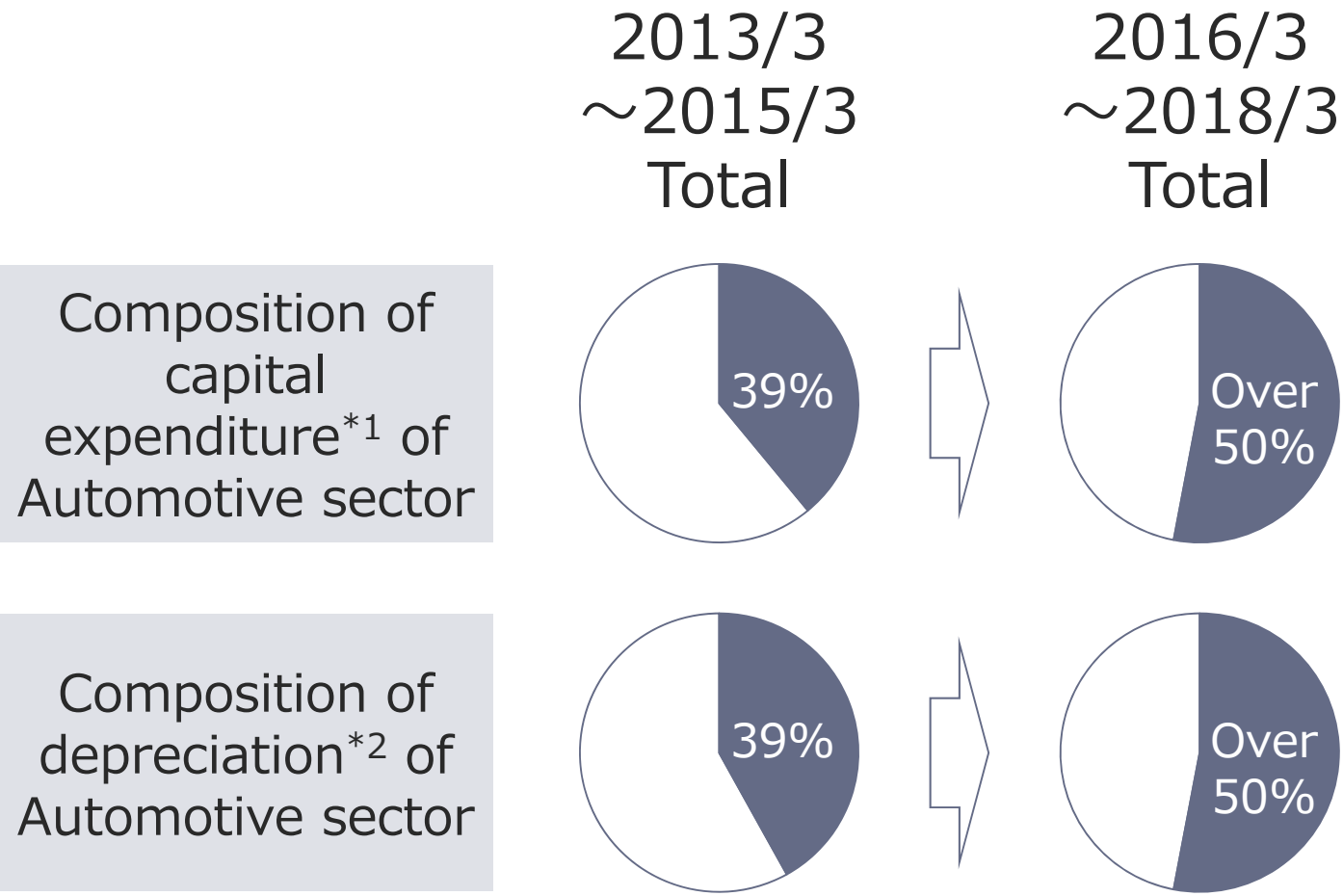
- ❖ Aim at operating profit of 14.0 billion by turning businesses necessary to improve their profitability into profitable and commercializing next-generation businesses, in addition to the stable profit generated by profit-base businesses



• Exchange rate assumptions: March 2015 (110 yen per USD and 139 yen per euro), March 2016 (120 yen per USD and 128 yen per euro)

# Mid-term investment plan

❖ Overweighted investment to growth-leading, Automotive sector



\*1 Includes investment in intangible assets

\*2 Excluding amortization of goodwill

## Cash planning framework

- Pursue optimal capital structure to improve capital profitability
- Balance between reduction of net interest-bearing debts and the investments in growth-leading businesses
- Optimization of consolidated working capital
  - Decrease in cash and time deposits on hand

## Approach toward dividend

- Target for consolidated dividend payout ratio of 30%
  - Stable shareholder return
- Balance between shareholder return and the need to ensure investment funds for “growth-leading businesses”

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# Market strategy: Basic policy ~Refocus on developed countries~

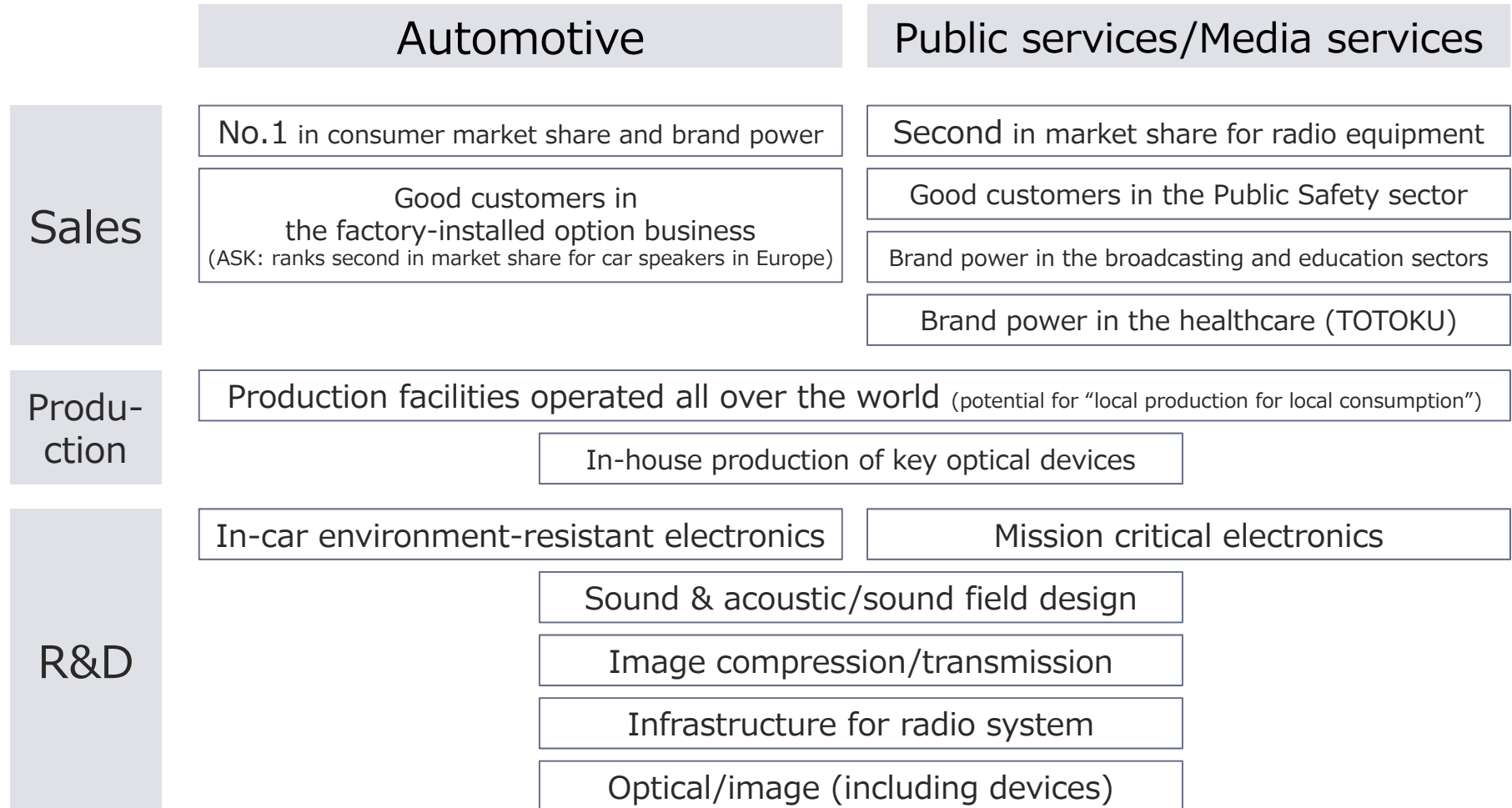
- ❖ Pursue an aggressive growth path as there is a big possibility for creating new customer value in both developed and emerging countries

	Approach toward developed markets	Approach toward emerging markets
Manufacturer/ distributor (maker)	<ul style="list-style-type: none"> <li>• Maturity~Decline</li> <li>• Competition from companies in emerging countries</li> </ul>	<ul style="list-style-type: none"> <li>• Growth accompanying population increase</li> <li>• Stern eyes on prices</li> <li>• Constant new entries</li> </ul>
Customer value creator (value creator)	<ul style="list-style-type: none"> <li>• Reconstruction* of industry structure of Automotive sector</li> <li>• Exploit potential demand in the Public service and Media service sector</li> </ul>	<ul style="list-style-type: none"> <li>• Shift away from low-price competition</li> <li>• Market development together with customers based on relationship of mutual trust established in developed countries</li> </ul>

\* Instructed in P.27

# Business strategy: Basic policy ~Integration of “strengths”~

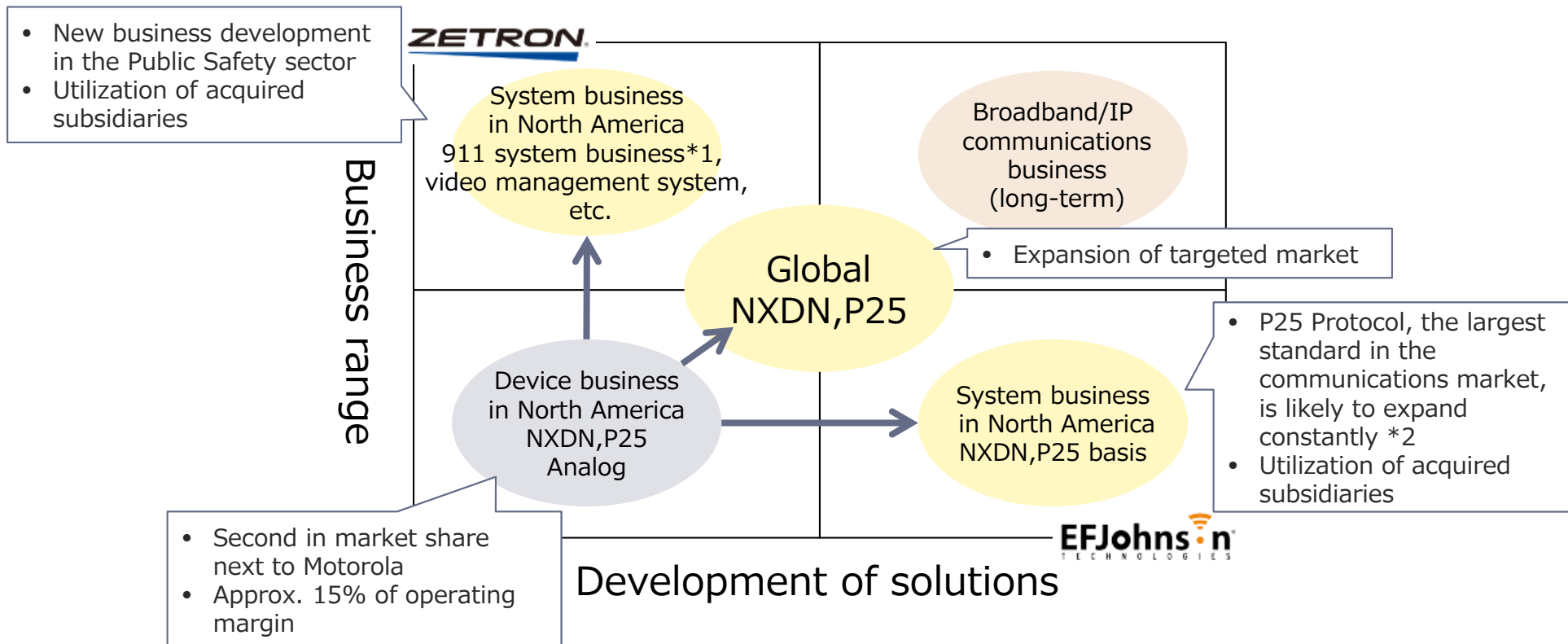
- ❖ Exert our presence in the next-generation business sectors by integrating our “strengths”



☞ Accelerate innovation by enhancing our “strengths” through M&As and strategic alliances

## Develop solutions for professional communications

- ❖ Constant increase in profit can be expected from the professional communications, which is the biggest source of our operating profit, without large-scale investment



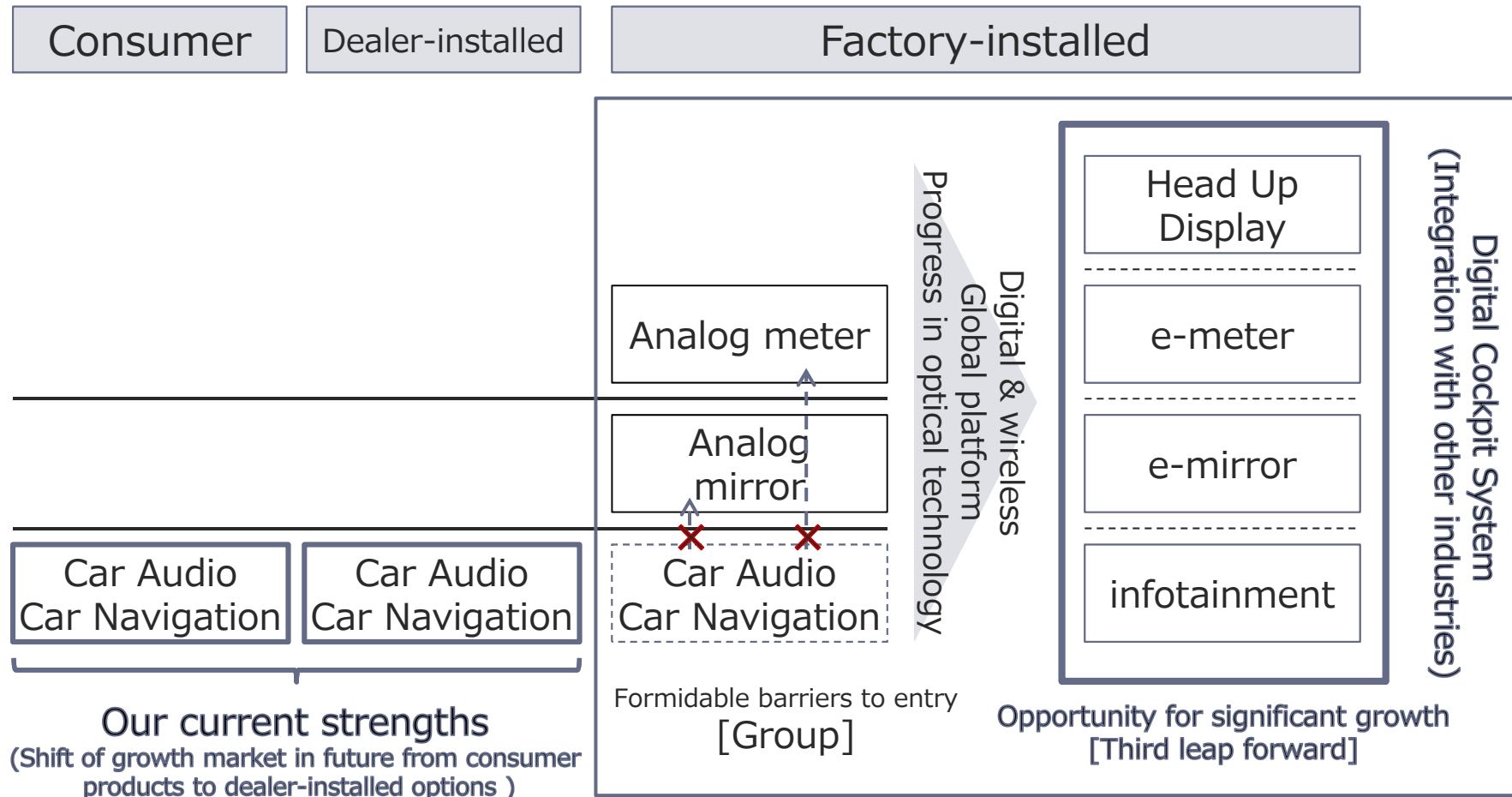
\*1 Annual growth rate: 6% (from 2014 to 2018)

\*2 Communications system for emergency communication with police, fire department and local government

# Growth-leading business: Develop solutions for automotives

- ❖ 1) From “analog & wired” to “digital & wireless”; 2) From locally available specifications to global platforms; and 3) An opportunity for the “third leap forward” with the progress in optical technology, following the car audio and car navigation

## “Optronics” in the Automotive sector



# Reference: Digital Cockpit



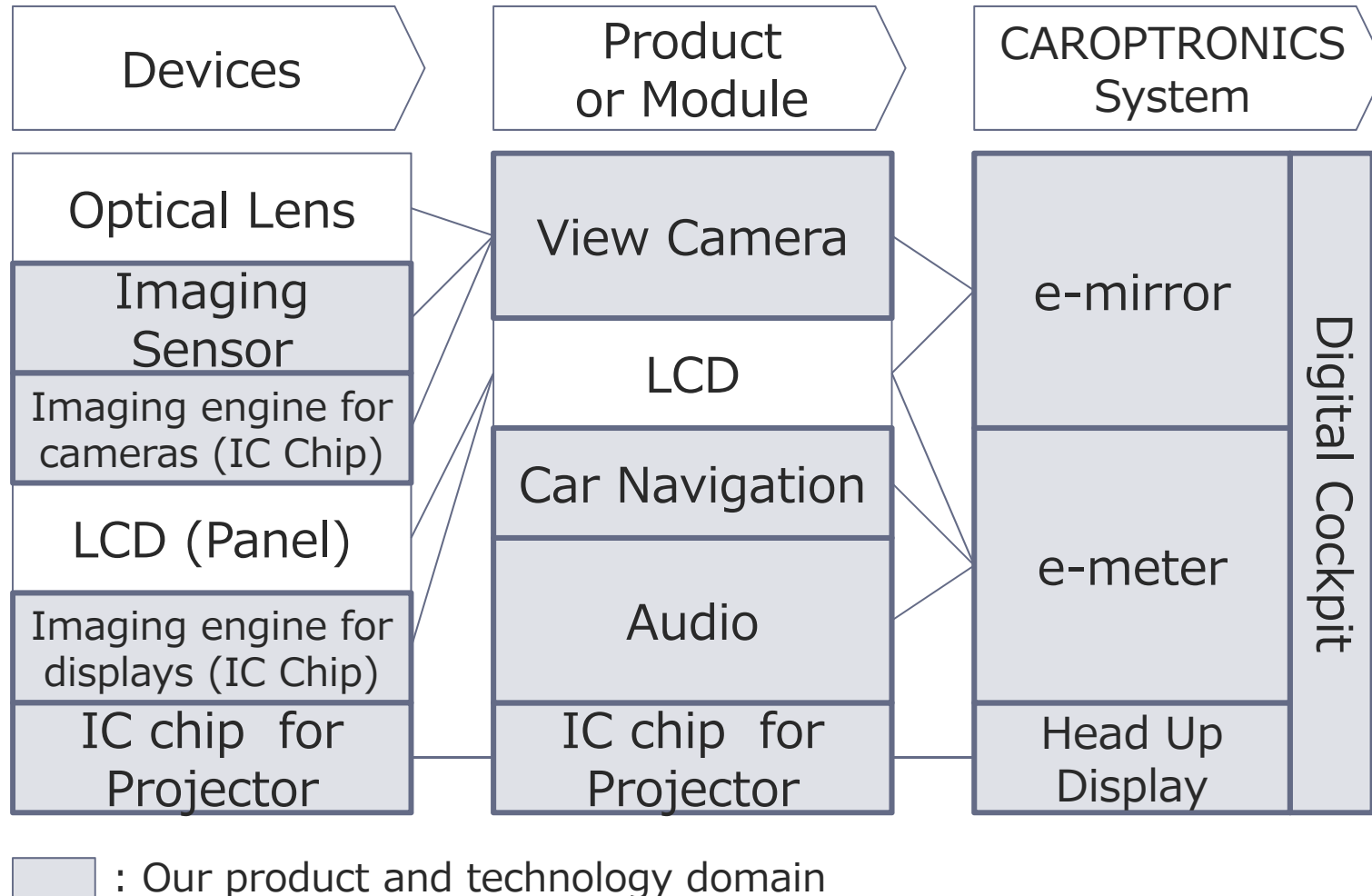
Introduced and displayed at  
"CES2015"  
"McLaren 650S Spider" featuring model

## Demo of Digital Cockpit



# Reference: Systemization of our strengths in the CAROPTRONICS

- ❖ The more the collaboration/integration among respective component domain is promoted, the greater added-value is generated from our strengths as a company that holds a wide range of both products and technologies



### Short- to mid-term

### Mid- to long-term

#### Automotive Sector

- Increase share in consumer business
- Accelerate cultivation of dealer-installed option business
  - Divert consumer model platform
- Establish a bridgehead for factory-installed option business
  - Acquire sales channel (ASK, etc.)

- Full-scale entry to the factory-installed option business
  - Integration system with ASK
  - Make the “third leap forward” with commercialization of CAROPTRONICS
- Develop car telematics business

#### Public Service Sector

- Develop total system for professional communications business
  - NXDN and P25
- Healthcare business to make full-scale entry to pathology market
  - Consistent system from cameras to monitors

- Develop next-generation businesses with communications broadband system/ IP communications

#### Media Service Sector

- Full-scale entry to next-generation creation (camera) and image device businesses
  - Develop technologies and products for professional, semi-professional and industrial use
- Develop professional products in the entertainment business, diversification of revenue model
  - High-resolution space design, 360 degrees coverage centering on artists

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for the people of the world**



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