

# JVCKENWOOD



January 31, 2018

Company Representative	JVCKENWOOD Corporation Takao Tsuji, Representative Director of the Board, President and CEO (Code 6632: First Section of the Tokyo Stock Exchange)
Contact	Masaki Imai, Director and Senior Executive Manager, Chief Strategy Officer (TEL: +81-45-444-5232)

## Notice Regarding Progress and Revision of the Mid-to Long-Term Management Plan “Vision 2020”

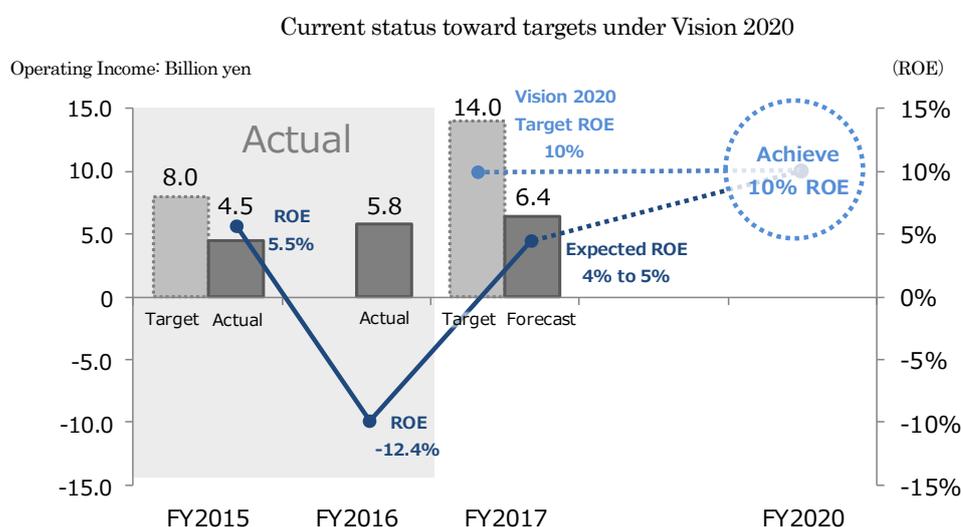
We, JVCKENWOOD Corporation, launched a mid to long-term management plan, Vision 2020, with fiscal year 2020 as the target year (hereinafter, “Vision 2020”) on May 18, 2015, and have since been carrying out our business activities by using return on equity (ROE) as a major management indicator and focusing on fields where we can capitalize our strengths.

Based on information, including “Accounting Report for the Third Quarter of Fiscal Year ending March 2018” and “Notice Regarding Revisions of Forecasts for Earnings and Dividend of Surplus” published today, we announce our evaluation of the progress of Vision 2020 to date as well as our future initiatives after about two years since its launch as detailed below.

### 1. Current Status Toward Targets for Fiscal Year Ending March 2018 (FY2017) under Vision 2020

#### (1) Consolidated operating income and ROE

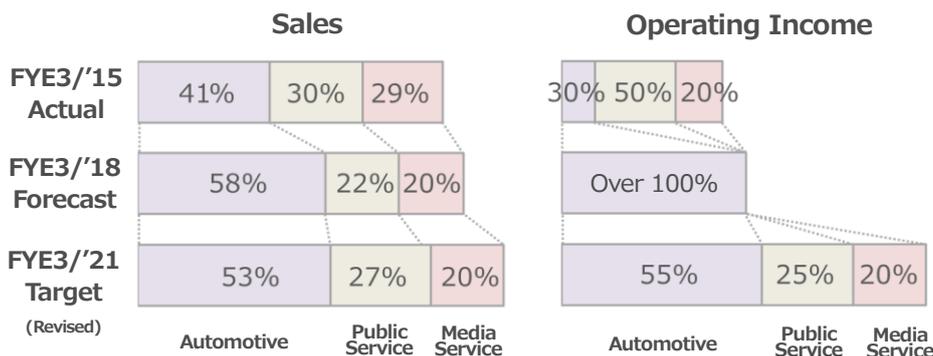
The full-year earnings forecast for fiscal year ending March 2018 (FY2017) fell below the targets for both consolidated operating income (“operating income”) and ROE set under Vision 2020. Meanwhile, our earnings are showing a constant upward trend since fiscal year ended March 2016 (FY2015). Accordingly, we will work toward achieving ROE of 10% in fiscal year ending March 2021 (FY2020), the final year of Vision 2020, by further accelerating our initiatives.



(2) Revenue composition by customers' industry sector

Looking at the revenue composition by customers' industry sector, revenue in the Automotive Sectors has grown dramatically, exceeding the target of generating approximately 50 percent of the total revenue, and net sales and operating income in the Automotive Sector are expected to achieve the composition targets for fiscal year ending March 2018 (FY2017) set under Vision 2020. The operating income composition ratio of the Automotive Sector has become larger than projected, but we plan to balance the profit composition in fiscal year ending March 2021 (FY2020), the final year of Vision 2020, by recovering the profitability in the Public Service Sector.

Revenue composition by customers' industry sector (Composition ratios of the three business sectors add up to 100%; Excluding the composition ratio of business that fall under "Others")



(3) Factors for variance from the target operating income

Variance factors from the target operating income set under Vision 2020 by sector are as follows.

(i) Automotive Sector

In the OEM Business, we incurred a higher development cost than initially expected for the development of next-generation digital cockpit systems, but were able to acquire plenty of know-how in the development process. In addition, the dealer-installed option business grew by winning orders at a pace faster than expected by leveraging our strengths in car navigation systems that were cultivated in the Aftermarket Business. In the Aftermarket Business, we maintained the leading market position, owing to the popularity of Saisoku-Navi series of car navigation systems in the Japanese market and the reinforcement of the product line of display audio systems in overseas markets. In addition, we gained the top market share soon after we entered the dashcam market. As a result of these business efforts, the Automotive Sector as a whole is expected to achieve operating income higher than the target.

(ii) Public Service Sector

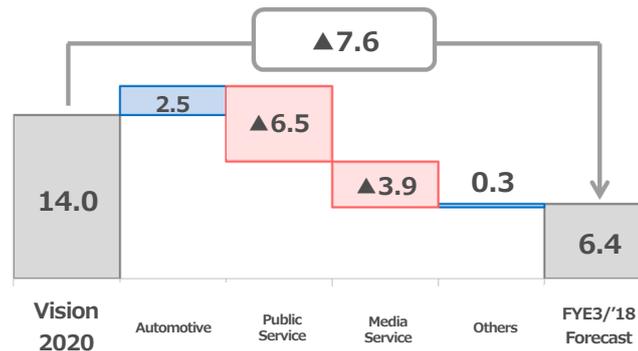
In the Communications Systems Business, we have not been keeping up with the shift toward rapidly growing Digital Mobile Radio (DMR), which is international digital radio standards, and IP\*-based network and solutions amid the transition from analog to digital in the professional radio systems market. In addition, start-up of business in the Healthcare Business fell behind our expectations. Mainly due to these factors, operating income in the Public Service Sector as a whole is expected to fall below the target.

\*An abbreviation of Internet Protocol

(iii) Media Service Sector

In the Media Business, we redefined the Victor brand through rebuilding of our brand strategy and launched products and services that create new markets. However, operating income in the Media Service Sector as a whole is expected to fall short of the target, due mainly to the delay in start-up of the solutions business.

Variance in operating income between the target under Vision 2020 and the full-year earnings forecast for fiscal year ending March 2018 (FY2017) (Unit: billion yen)



## 2. Policy Designed to Achieve “Evolution into a Customer Value Creator”

In Vision 2020, we set out our long-term vision toward FY2020 of “evolving into a customer value creator” that focuses on providing solutions to customers’ issues. In order to achieve this vision, we focus on the three initiatives: “shifting from product vendor to a solution provider,” “shifting from sales company to operating company,” and “shifting from closed innovation to open innovation.” In addition to continue pursuing these initiatives, we will introduce the following new initiatives toward the achievement of Vision 2020.

### (1) Evolution into a “Technology-Based Company” founded on intellectual property

We own a number of intellectual properties mainly in the fields of imaging, audio, and communications cultivated through our business activities over the years. We will aim to become a technology-based company that makes a variety of proposals to solve customers’ issues and social issues by making the maximum use of our intellectual properties.

### (2) Initiative designed to increase the brand value

We will focus afresh on the initiative to increase the brand value. To coincide with the release of “EXOFIELD”, our unique out-of-head localization sound processing technology, in March 2017, we redefined and revived the Victor as a brand that “explores a new era with pride.” We will continue to come up with innovative solutions that create customer value.

### (3) Initiative designed to solve social issues through business activities

We will incorporate CSR in our basic strategy, and will link our business with the issues to be addressed by the SDGs\* and work toward solving social issues through business activities, while continuously seeking to improve corporate value by implementing innovation that anticipates the needs of society.

\* An abbreviation for Sustainable Development Goals adopted by the United Nations General Assembly in September 2015

### 3. Investment Plans

The Automotive Sector has achieved higher growth than expected as a result of intensive investment in the dealer-installed/factory-installed option business implemented in accordance with Vision 2020. Going forward, we will make well-balanced investment in “business fields with promise for growth” to stabilize total revenue and achieve further growth, instead of classifying our business into the categories of growth-leading business and profit-base business.

Revised basic strategy by customers' industry sector

Customer Industry Sector			Vision 2020 (2015)				Revised Vision 2020 (2017)					
			Basic Strategy	Level of Opportunity	Investment	Size of Profit	New Business Category	Basic Strategy	Level of Opportunity	Investment	Size of Profit	
Growth-leading business	Automotive Sector	Aftermarket	Focus on No.1 sales channel and maintaining brand power.	○	→	→	Aftermarket	Continue to expect profitability due to a smaller-than-expected market shrinking.	○	→	→	Investment on growing field of each sector
		Dealer-installed	Increase orders by diverting the platform of aftermarket products.	○	→	→	OEM	Expand business domains mainly in ASK and Shinwa despite a downward-revised forecast of iADAS. Increase orders in OEM by utilizing assets acquired in factory-installed option business.	◎	→	→	
		Factory-installed	Make full-scale entry with next-generation products by leveraging optical technology.	◎	→	→			→	→		
Profit-base business	Public Service Sector	Safety	Commercialize total solutions in the public safety sector.	○	→	→	Safety	Enhancing IP solution-based business through M&A.	○	→	→	
		Healthcare	Focus on niche sectors where optical technology can be used.	△	→	→	Healthcare	Make an investment in various fields instead of limiting to the field of optics to enhance growing domains.	○	→	→	
	Media Service Sector	Media	Divert consumer product technology to professional, semi-professional and industrial use.	△	→	→	Media	Continue to pursue an aggressive growth path.	○	→	→	
		Entertainment	Supplement shrinking of existing market with expansion of revenue source and products for professional use.	△	→	→	Entertainment	Continue to enhance entertainment content and expand into new business domains.	△	→	→	

Note: Direction of arrows indicates change from FY2014 to FY2020

※ : i-ADAS: A JVCケンウッド trademark that stands for "Innovative Advanced Driver Assistance System."



### 4. Growth Strategy by Market and Business

#### (1) Automotive Sector

We have engaged in development efforts for next-generation digital cockpit systems, for which demand is expected to grow as the shift to digital in-vehicle equipment progresses, and our efforts culminated in the development of digital cockpit system through collaboration with McLaren Automotive in the U.K. and its adoption in McLaren’s luxury sports car. By utilizing our technologies in imaging, audio, and communications cultivated over the years, as well as technologies, know-how, and points of contact with customers acquired in the development process of the digital cockpit system, we will strengthen our efforts, especially, in in-vehicle optical device-related business, such as dashcams and car-mounted cameras, for which demand is expected to expand as the transition to electric vehicles, self-driving vehicles, and connected vehicle technologies occurs.

At the same time, we will expand business and reinforce customer base in the North American and Chinese markets through ASK Industries S.p.A., an in-vehicle equipment manufacturer in Italy, and Shinwa International Holdings Ltd., the largest manufacturer and seller of CD and DVD mechanisms for car AV equipment in Hong Kong, both of which are our subsidiaries and stably generating profit.

We will make aggressive investments to support these initiatives to pursue growth of the Automotive Sector as a whole.

#### (2) Public Service Sector

In the Communications Systems Business, we are strengthening investment in the public safety field to shift away from business operation centered on sales of radio terminals to the IP radio solutions business in anticipation of the progress of the shift to broadband in professional digital radio infrastructure. Specifically, we are currently reinforcing collaboration with Zetron, Inc. and EF

Johnson Technologies, Inc., its U.S. communication systems subsidiaries, and are promoting the development of human resources to tap into new markets. As a result, those initiatives have started to deliver results, such as acquisition of orders for system development projects in the public sector, a new market for us. In March 2017, we entered into a capital and business alliance agreement with U.S.-based Sonim Technologies Inc., which leads the industry with its robust professional LTE smartphone systems, acquiring technology components necessary for shifting to IP-based networks and solutions for digital radio systems. In January 2018, we converted Radio Activity S.r.l., an Italy-based developer and seller of digital radio relay systems that are compliant with Digital Mobile Radio (DMR) standards, into a consolidated subsidiary to strengthen the lineup of digital radio system solutions for the growing market for DMR. We will proactively take measures, such as executing M&As and establishing partnerships with other companies, to acquire technologies and customer bases necessary to expand our business.

In the Healthcare Business, we will seek to move into the OR\* imaging system solution market and roll out the OR imaging system solution business through a collaboration with Rein Medical GmbH in Germany, with the aim of expanding business from selling stand-alone medical displays into the medical imaging and information solution field. In addition, we are venturing to branch out into new business fields through research collaboration with external research institutions and partner companies, such as a blood diagnosis solution that enables early detection of cancer by applying the microfabrication technology cultivated through production of Blu-ray discs, as well as a solution useful for the early assessment of social developmental disabilities. Going forward, JVCKENWOOD will make continuous investment, including execution of M&As, to promote commercialization of such new solutions and work toward solving social issues through business activities.

JVCKENWOOD Public & Industrial Systems Corporation (JKPI) became an independent subsidiary in April 2016 to establish a business framework for providing one-stop solutions, ranging from sales of equipment to system proposal, design, installation, maintenance, and management. JKPI is currently striving to strengthen its solution-proposal capability, technological capability, and engineering capability that lead to customer value creation by optimizing organization structure and human resources. In addition, JVCKENWOOD will share the customer base and service systems of JKPI in the aforementioned effort by the Healthcare Division to move into the OR imaging system solution market, and make a Group-wide effort to tap into a new solution market.

\* An abbreviation of Operating Room

### (3) Media Service Sector

Amid a continuing challenging business environment in the BtoC domain, in fiscal year 2017, we launched EXOFIELD that gives headphones the same real sound-effect as if listening by a speaker in an audio room through the sound field processing technology based on individual characteristics measurement, as the first product marketed under the new Victor brand. In the BtoB domain, JVCKENWOOD will create unique imaging solutions in line with the latest technology trends, such as 8K/4K, HDR\*, and VR/AR. In the field of projectors, we will provide systems with unparalleled high definition and connectivity to customers' equipment to respond to customers' needs for simulators and other solutions. In the growing sports-related market, we will enhance our offerings of unique services and systems, mainly applying our imaging technology.

In the imaging device field, we developed high-performance LCOS\* device in-house for high-resolution projectors and incorporated the device in our projectors. In addition, we started sales of this technology to external customers for use in switches for optical communication systems from FY2017. We will boost sales of this technology in the communication device business.

In the Entertainment Business, JVCKENWOOD will further advance its transition to the total entertainment business, by strengthening the audio data source business and enhancing movies,

games, and other contents, as well as by expanding the peripheral business, such as live concert/event business and merchandising business.

\* An abbreviation of High Dynamic Range

\* An abbreviation of Liquid Crystal on Silicon

## **5. Management Strategies Conducive to the Development of Sustainable Business**

Under the corporate vision of “creating excitement and peace of mind for the people of the world,” the JVCKENWOOD Group is conducting business activities with the purpose of growing with various stakeholders and delivering lives with greater enjoyment, happiness, and comfort for the people of the world, in the basic domains of economy, environment, and society. We respect the UN Global Compact in all our business activities, and are implementing the eight priority goals applicable to its management strategies extracted from among the 17 goals of the SDGs. In addition, the Company has identified responding to ESG\* issues and achievement of SDGs through contribution to the building of “Society 5.0”\* as pressing issues, and will aim to build a relationship of trust with its stakeholders by disclosing all such initiatives, as well as achieving a sustainable growth.

\*An abbreviation of Environment, Social and Governance

\*One of the basic guidelines on the Science and Technology Basic Plan established by the Japanese government

## **6. Strengthening of Governance through Change of the Management Structure**

Of a total of nine Directors, we appoint three Independent External Directors and nominates an Independent External Director as Chairperson of the Board. By this, we have strengthened the independence and objectivity of the functions of the Board of Directors. In addition, we have established the Nomination and Remuneration Advisory Committee, for which all its External Directors serve as committee members. The committee proposes candidate representatives to the Board of Directors, examine the appropriateness of director candidates and directors’ compensation plans, and reports its opinions. The Board of Directors determines director candidates and directors’ compensation by taking into consideration the opinions stated by the Nomination and Remuneration Advisory Committee.

We will introduce a new framework such as management indicators of each business to further enhance the effectiveness of its plans toward the achievement of the targets set under Vision 2020.