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JVC KENWOOD

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# Notice on New Mid-term Business Plan

JVC KENWOOD Corporation (JVC KENWOOD) reviewed the Mid-term Business Plan through the fiscal year ending March 2013 (the “current Mid-term Business Plan”), which was formulated in May 2010. It then mapped out a new mid-term Business plan that also covers the fiscal year ending March 2014 (the “new Mid-term Business Plan”).

## 1. Purpose of new Mid-term Business Plan

JVC KENWOOD will merge its subsidiaries, Victor Company of Japan, Limited (JVC), Kenwood Corporation (Kenwood) and J&K Car Electronics (J&K Car Electronics), which are operating companies of the JVC KENWOOD Group, effective October 1, 2011 (the merger). This merger was announced in the “Notice on Merger of JVC KENWOOD and Its Three Subsidiaries” released on August 1, 2011.

After the merger, JVC KENWOOD will focus on implementing a growth strategy with the JVC KENWOOD Group’s strengths of video, audio and radio technologies and music and video software at its core. At the same time, it will maximize synergy effects as an integrated company through the merger, based on a corporate foundation reorganized through the management integration, as well as the new corporate vision, the management policies and the business conduct guideline.

The current Mid-term Business Plan formulated in May 2010 is progressing smoothly. JVC KENWOOD achieved the target in the plan: “posting a surplus in terms of ordinary income” for the fiscal year ended March 2011. In addition, as a result of our efforts to attain the goal of “posting a net income” for the current fiscal year ending March 2012, we posted a net income for the first quarter of the said fiscal year.

Taking into account the above, JVC KENWOOD reviewed the current Mid-term Business Plan and drew up a new mid-term business plan that covers the fiscal year ending 2014 as well, aiming to accelerate profitable growth, the basic policy of the current Mid-term Business Plan.

## 2. Outline of new Mid-term Business Plan

### (1) Corporate vision, management policies and conduct guide

As announced in the “Notice on Merger of JVC KENWOOD and Its Three Subsidiaries” released on August 1, 2011, the JVC KENWOOD Group will evolve the initial integration vision. This was put up at the time of management integration, and is “Realize the Unconventional.” The Group will develop it into the new corporate vision as an integral company through the merger: “Creating excitement and peace of mind for the people of the world." Also, the Group will aim to realize profitable growth by concentrating on strong business areas, and become a company widely trusted by society.

***Corporate vision**
Creating excitement and peace of mind for the people of the world.

***Management policies**
1) Create excitement and peace of mind as a global manufacturer specializing in electronic and entertainment products.
2) Realize profitable growth by concentrating on strong business.
3) Being a company widely trusted by society.

***Conduct guide**
Every individual to take charge and strive for never ending reform.

### (2) Business domains

The JVC KENWOOD Group aims to become a corporate group that provides customers in the world with products and device drivers that enable communication between people through audio, video and radio communications. To this end, we will make strategic investments for growth in the business areas of car electronics, land mobile radio equipment, cameras, video equipment, audio equipment, and video and music software. In addition, we will expand business domains from simple products to complex products, solutions and devices by maximizing synergy effects as an integral company through the merger.

We will also expand our business domains into the field of "peace of mind," which will be needed in the future, by leveraging our strength in the field of "excitement," which we have cultivated under the brands of Victor, JVC and KENWOOD. We will shift our focus from business-to-consumer to business-to-business and professionals, and from mass markets to niche and custom markets.

As before, there are the following four business segments: (1) the Car Electronics business that manufactures and sells car audio and car navigation systems, and devices for car-mounted equipment; (2) the Professional Systems business that is engaged in manufacture and sale of land mobile radio equipment, cameras, video and audio equipments; (3) the Home & Mobile Electronics business that handles consumer cameras, video and audio equipments using visual and audio technologies that are also used in the Professional Systems business; and (4) the Entertainment business that specializes in video and music software.

### (3) Growth strategy

The JVC KENWOOD Group, as announced in the "Notice on Revision of Mid-term Business Plan and Implementation of Strategic Investments" released on April 27, 2011, will accelerate its growth strategy in each business segment using funds procured in January 2011. Furthermore, in order to pursue continued growth after the Mid-term Business Plan, we will make strategic investments as well as general investments. The strategic investments will be made to develop new-category products and systems, new products and systems for emerging markets, and new businesses.

In June 2011, the Group established a growth strategy promotion committee chaired by the CEO to discuss the specific details of strategic investments. It has recently decided to make strategic investments worth about 7.0 billion yen that cover a total of 18 themes over the three-year period through the fiscal year ending March 2014.

The above strategic investments will be included in key measures of each business segment, which will be described later. By implementing their key measures, each of the four business segments will expand the above-mentioned business fields and the scale of their business. Through this, the Group will accelerate its growth strategy with an aim to fulfill the Mid-term Business Plan and then achieve continued, profitable growth.

### (3) Brand strategy

The JVC KENWOOD Group will make more efforts than before to increase and maintain the attractiveness of the JVC and KENWOOD brands as the global brands, while disseminating the JVC brand in Japan, where the Victor brand has been used instead.

By business field, we will basically use the KENWOOD and JVC brands for car electronics and audio equipment, the brands of KENWOOD and Zetron (the name of a U.S. subsidiary) for land mobile radio equipment, the JVC brand for cameras and video equipments, and the brands of Victor Entertainment, Inc. and Teichiku Entertainment, Inc., both JVC KENWOOD's domestic subsidiaries, and their labels for music and video software.

Furthermore, we will consider creating new brands for new-category products, if the currently used brands are inappropriate for them.

### (4) Management targets

The JVC KENWOOD Group on May 28, 2010 formulated the current three-year Mid-term Business Plan that runs from the fiscal year ended March 2011 through the fiscal year ending March 2013. It then mapped out specific measures for the plan on October 28, 2010.

In the fiscal year ended in March 2011, the initial year of the current Mid-term Business Plan, profits expanded well above projections due to the benefits of structural reform and strong performance of the core businesses. Given this, and also factoring in the effects of strategic investments that were newly decided, the Group revised the numerical goals of the plan on April 28, 2011.

Despite the yen's further appreciation and other negative factors that are weighing on sales, the performance of the four business segments continues to be steady, with all of them posting an operating profit in the first quarter of the current fiscal year. Also, favorable results are expected from strategic investments. Against this backdrop, we set management targets of the new Mid-term Business Plan for the fiscal year ending March 2014, as shown below.

**Mid-term targets (consolidated)**

- Net sales: 430.0 billion yen; operating profit: 20.0 billion yen; ordinary income: 14.0 billion yen; net income: 11.0 billion yen
- Shareholders' equity ratio: 26%; net D/E ratio: 0.5 or less
- Net income per share: 79 yen; net assets per share: 490 yen

**(Reference) Earnings trends (consolidated)** (Billions of yen)

| | FYE3/'11 (For reference) | FYE3/'12 Forecast | FYE3/'13 | | FYE3/'14 Target |
|---|---|---|---|---|---|
| | | | Initial target | Revised target | |
| Net sales | 352.7 | 360.0 | 410.0 | 390.0 | 430.0 |
| Operating profit | 13.0 | 13.5 | 17.0 | 18.0 | 20.0 |
| Ordinary income | 7.6 | 8.0 | 12.0 | 13.0 | 14.0 |
| Net income (loss) | (4.0) | 4.0 | 9.0 | 10.0 | 11.0 |

* Forecast figures for the fiscal year ending March 2012 are those announced on April 27, 2011, and will be revised as necessary through close examination by the time of announcing the accounting report for the second quarter of the said fiscal year.

**(Note 1) Making Shinwa International Holdings Limited into a subsidiary**

The conversion of Shinwa International Holdings Limited (Shinwa) into a subsidiary was announced in the "Notice on Acquisition of In-car Device Manufacturing Company (Conversion to Subsidiary)" released on June 10, 2011. The above management targets do not reflect the effects of this conversion on the earnings of JVC KENWOOD.

With regard to the above acquisition, JVC KENWOOD and Shinwa are having discussions about finalizing a contract. When finalized, we will announce the details including the effect of the acquisition on JVC KENWOOD's earnings.

**(Note 2) Stock acquisition rights**

The above management targets were set on the assumption that stock acquisition rights issued by JVC KENWOOD on August 25, 2011 will not be exercised.

Even if the stock acquisition rights are exercised, we will do our utmost to achieve the above management targets by realizing profitable growth and repurchasing our own shares by using the amount to be paid by holders of stock acquisition rights.

**(Note 3) Loans payable**

The above management targets reflect the contents of the current loan agreements.

In the merger, JVC KENWOOD will take over the current loans of JVC and Kenwood. JVC KENWOOD is now having discussions with its main bank about signing a new loan agreement as an integral company when the said current loan agreements expire.

### (5) Dividend policy

JVC KENWOOD considers it one of the most important managerial issues to provide shareholders with stable returns, and decides the distribution and other appropriation of retained earnings by comprehensively taking into account profitability and financial conditions.

Under the new Mid-term Business Plan, we aim to begin distributing dividends as soon as possible.

We will determine dividends for the fiscal year ending March 2012 through close examination by the time of announcing accounting report for the second quarter of the said fiscal year, together with earnings forecast for the full fiscal year that is expected to be revised as necessary.

## 3. Key measures by business segment

### (1) Car Electronics business

In the Car Electronics business, the JVC KENWOOD Group will focus on expanding its businesses in the OEM segment, the domestic after market segment and emerging markets, where there is ample growth room for the Group's business. It will also enter new business domains.

a. Expansion of the OEM segment
- To win new orders received for genuine goods and increase orders received for dealer option goods, by forming alliances with other companies
- To expand the device business

b. Expansion of the domestic after market segment
- To enhance the lineup of "Saisoku-Navi" and increase its market share

c. Increase in products for emerging markets
- To boost the lineup of strategic models for emerging markets that are differentiated from models for

European and U.S. markets

d. Embarkation on new business domains
  * To develop new-category products through strategic investments

**(2) Professional Systems business**

In the Professional Systems business, we will focus on expanding businesses in the fields and emerging markets, where there is ample growth room for the Group's business, each in the communications segment and the business solutions segment. We will also enter new business domains.

a. Expansion of the communications segment
  * To capture replacement demand for professional radio systems from analog to digital models and new demand for digital land mobile radio equipment
  * To expand operations into the system integrator business that provides system solutions

b. Expansion of business solutions segment
  * To expand the solution business of infrastructure systems such as security and professional audio systems
  * To provide media system solutions using professional video cameras and monitors

c. Increase in products for emerging markets
  * To introduce strategic models for radio equipment

d. Embarkation on new business domains
  * To develop new-category products/systems through strategic investments

**(3) Home & Mobile Electronics business**

In the Home & Mobile Electronics business, the JVC KENWOOD Group will promote the reform of product mixes aiming for business and professional use, and niche and custom markets. It will do so while gauging the market trends, and develop new communication products and solutions. In addition, it will enter new business domains. Through these efforts, we will accelerate the change in business domains.

a. Reform of product mix
  * To boost sales of hybrid cameras, 3D camcorders and 4K2K camcorders
  * To strengthen the lineup of high-definition projectors

b. Development of new communication products
  * To commercialize camcorders and home security systems that are compatible with networks

c. Embarkation on new business domains
  * To develop new-category products and solutions through strategic investments

**(4) Entertainment business**

The JVC KENWOOD Group will expand the Entertainment business, the only software business of the Group, into a total entertainment business, and promote the expansion of businesses on consignment.

a. Enhancement of the content business
  * To strengthen the music segment through active investments in new talented artists and a partnership strategy
  * To promote the realization of total entertainment by enhancing B to B, artist-related and anime and visual-related businesses.

b. Expansion of businesses on consignment

* To expand the non-package and fulfillment businesses by using the Group's technologies, know-how and assets