

# The 6th Medium-Term Management Plan



November 12, 2019  
Komori Corporation

1 .Review of the 5<sup>th</sup> medium-term management plan

2 .Corporate goals

3 .The 6<sup>th</sup> medium-term management plan

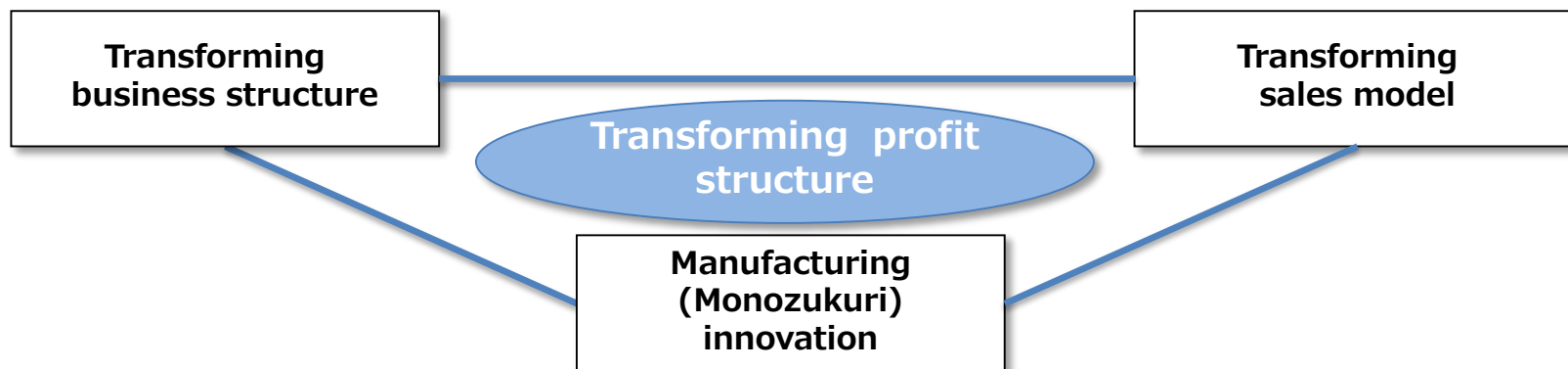
# 1. Review of the 5th medium-term management plan

# The 5<sup>th</sup> Medium-term Management Plan – Overview

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Komori will build a diversified business portfolio by transforming business structure, increase sales base through new business models, and strengthen the ability to develop new products and reduce costs through manufacturing (“Monozukuri”) innovation. These efforts will improve profitability of the company.

## Completion of “Planned Change” (2016/04~2019/03)



### Prioritized strategy

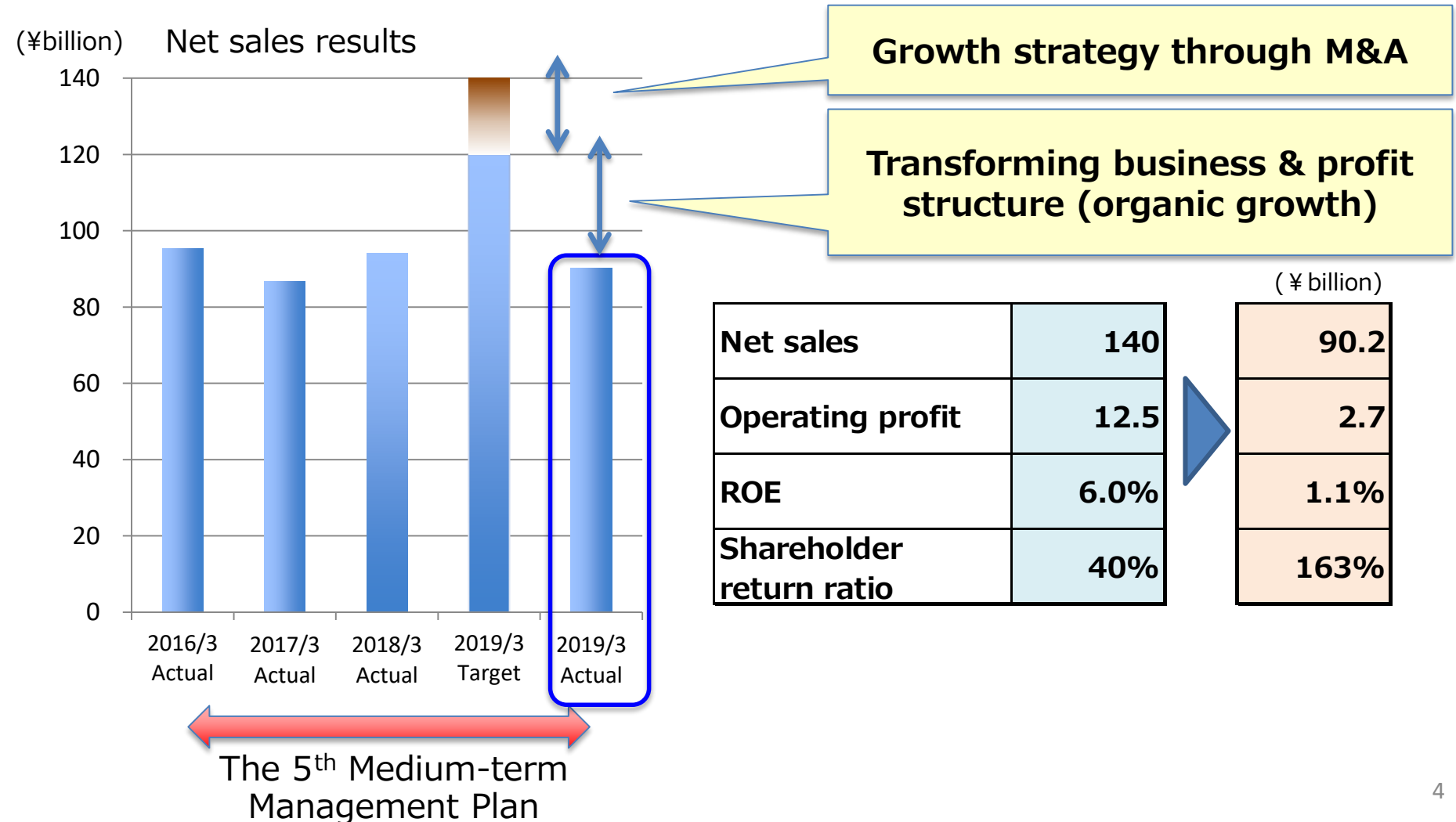
- Expand PESP business through solution sales  
(Implementation of ICT system, expanding the sales of printing supplies, peripheral equipment and maintenance contract, etc.)
- Establish DPS business model and integrate with the existing offset press business
- Renovate manufacturing (“MONOZUKURI”) by reformation of production system)
- Further differentiating products from competitors through synergies among different lines of business
- Bolster human resources and personnel system, and utilize staff overseas
- Improve the efficiency of indirect work
- Materialize financial strategies and M&A

Further improvement of corporate value and sustained growth

# Review of the 5th medium-term management plan

## ◆ Overview on the result

- Shortfall in offset and DPS sales
- Growth strategy through M&A not attained



# Review of the 5th medium-term Management plan

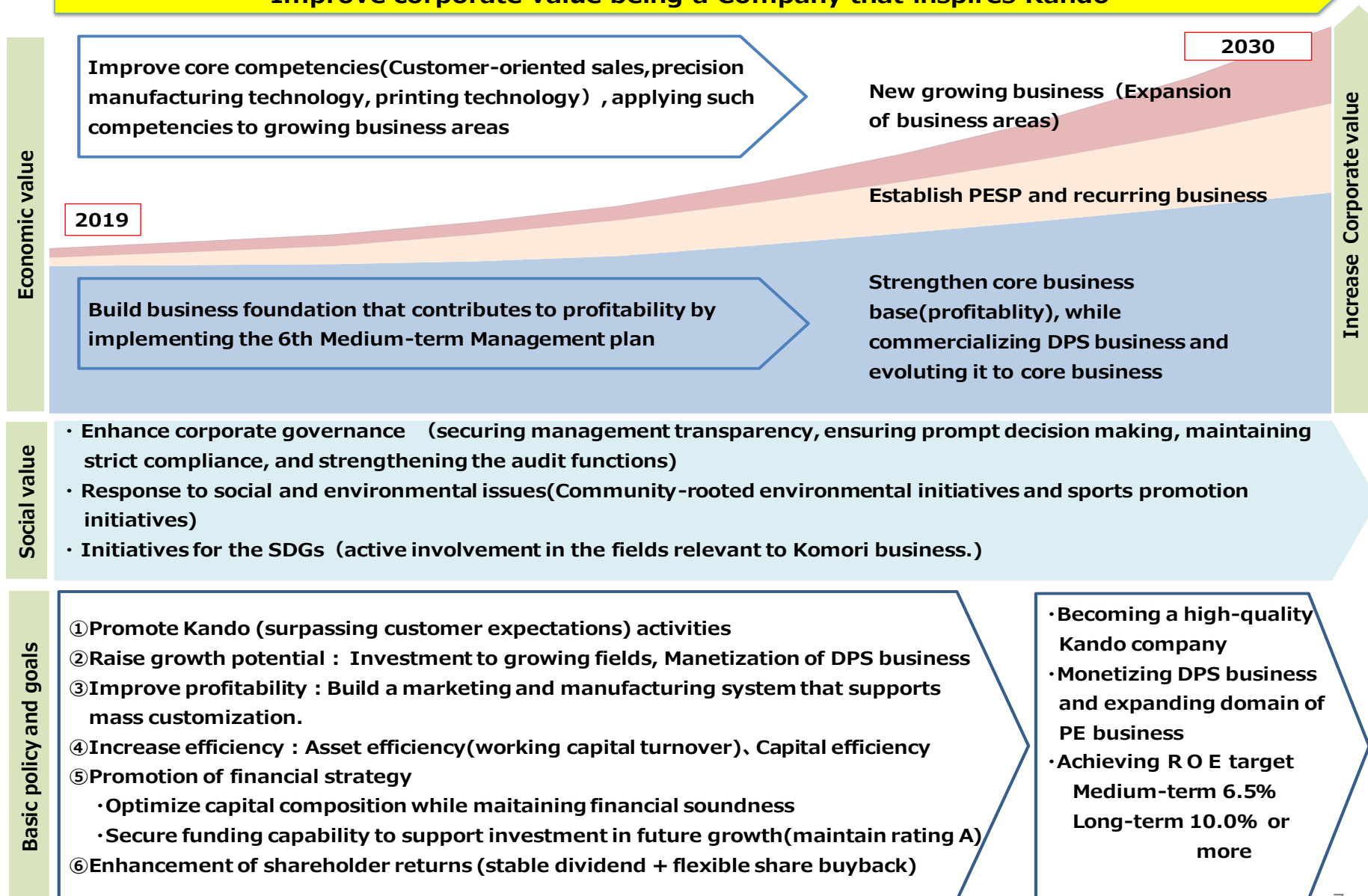
## ◆ Performance overview

| Target / result  | Review   | Achievement   |
|--|--|---|
| 1. Offset printing press business<br>¥100.0billion/¥76.2billion                        | Target missed due to economic stagnation in US/Europe/Asia.  | Sales operation was enhanced by establishing subsidiaries in India and China.   |
| 2. DPS business<br>¥20.0billion/¥3.7billion  | Delayed in development of new generation models and business model.  | Started mass-production of Impremia IS29. Impremia NS40 is ready for beta test.   |
| 3. Security printing press business<br>¥10.0billion (3 year average)                   | Although the company secured a certain amount of sales, the sales also fluctuated in each fiscal year due to changes in bidding opportunities. | Developed key customers and strategic models successfully.  |
| 4. PE business<br>¥10.0billion/¥6.2billion   | Sales was hindered by change in the market.<br>Expansion of overseas markets delayed.  | Expanded sales in domestic electronic component and PCB industries.<br>Developed differentiated products and began mass-production. |
| 5. PESP business<br>¥35.0billion/¥23.1billion<br>※The amount included in each business | Target missed mainly due to shortfall in recurring revenue from DPS business.  | Expanded lineup of peripheral equipment and consumables.<br>Launched IoT platform KP-Connect.                                       |
| 6. Others  | Profitability deteriorated by prior investments mainly in the DPS business.<br>Unable to find the profitable investments.                      | Expanded strategic alliance in new businesses.  |

## 2 . Corporate goals

## 2. Corporate goal (Long Term Vision)

### Improve corporate value being a Company that inspires Kando





### 3 .The 6th Medium-Term Management Plan

- 1 ) Business environment
- 2 ) Basic policy of medium-term plan
- 3 ) Business plan
  - ① Core business : Offset press business
  - ② Core business : Security printing press business
  - ③ New business(priority) : DPS business
  - ④ New business(nurturing) : PE business
  - ⑤ PESP and recurring revenue business
- 4) Management structure to implement the plan
- 5) Optimization of capital composition
- 6) Numerical targets
- 7) ESG initiatives

# 1) Business environment and direction

## ◆ Business environment summary

Unstable economic environment, such as concerns over the slowdown of the global economy due to US-China trade friction and the BREXIT problem. In the printing industry the major market has shifted to the Asian region where the markets are steadily expanding.

## ◆ Market situation and direction for each business

| Business                             | Market trend   | Direction  |
|--------------------------------------|--|--|
| <b>Offset Printing press</b>         | <ul style="list-style-type: none"><li>◆ Opportunities<ul style="list-style-type: none"><li>• Expansion of Asian market centered on China</li><li>• Expansion of packaging printing due to environmental problems</li><li>• Labor shortage in the industry</li></ul></li><li>◆ Risk<ul style="list-style-type: none"><li>• Declining trend in publishing and commercial printing in developed countries</li></ul></li></ul> | <ul style="list-style-type: none"><li>• Strengthen measures for packaging market</li><li>• Reinforce marketing capabilities in major Asian markets</li><li>• Improve solution proposals for automation and labor savings</li><li>• Promote strategic sales of KP-Connect</li></ul> |
| <b>Digital Printing system (DPS)</b> | <ul style="list-style-type: none"><li>◆ Opportunities<ul style="list-style-type: none"><li>• Rapid market expansion of B1 size machine in small lot, variable and packaging printing</li></ul></li><li>◆ Risk<ul style="list-style-type: none"><li>• Deceleration of growth in digital printing market</li></ul></li></ul>   | <ul style="list-style-type: none"><li>• Lineup of digital printing systems with Impremia series (IS29/ NS40).</li><li>• Promote differentiated products (offset printing press and digital printing system)</li></ul>  |

# 1 ) Business environment and direction

## ◆ Market situation and direction for each business

| Business                        | Market trend   | Direction   |
|---------------------------------|--|---|
| <b>Security printing press</b>  | <ul style="list-style-type: none"><li>◆ Opportunities<ul style="list-style-type: none"><li>• Issuance of new banknotes to prevent counterfeiting.</li><li>• Increasing demand for reprints of banknotes in Asia</li></ul></li><li>◆ Risk<ul style="list-style-type: none"><li>• Declining banknote demand due to global cashless trend</li></ul></li></ul>       | <ul style="list-style-type: none"><li>• Promote sales to key customers.</li><li>• Development of module products.</li><li>• Strengthen brand power.</li></ul>       |
| <b>Printed electronics (PE)</b> | <ul style="list-style-type: none"><li>◆ Opportunities<ul style="list-style-type: none"><li>• Increasing demand for electronic components as IOT progresses with various business opportunities</li></ul></li><li>◆ Risk<ul style="list-style-type: none"><li>• Rapid demand fluctuation in the market</li><li>• Delay in product development</li></ul></li></ul> | <ul style="list-style-type: none"><li>• Strengthen overseas business</li><li>• Develop new business fields utilizing high-definition printing technology.</li></ul> |

### ◆Theme :

“Improve profitability and build foundation for growing business”

### ◆Plan outline

#### **1. Clarifying business goals and taking specific measures**

- Core business that secures stable earnings  
→ Offset and security printing.
- Priority to invest heavily with the aim of monetization  
→ DPS (Digital Printing System)
- New business to invest as the foundation of growing business  
→ PE (Printed Electronics)

#### **2. Management structure to promote medium-term management plan**

- Clarification of management and operational structure

#### **3. Establish optimal capital structure**

- Promote a financial strategy that balances capital efficiency and shareholder returns, while securing sound financial status.

# Clarifying the role and goals of each business (Support materials)

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◆ Redefine the position of each business in order to clarify roles and ensure that measures are taken to achieve each goal.

## The 5th Medium-term Management Plan

**Growth strategy to increase the scale of business**

|                   |  |
|-------------------|--|
| Existing business | Offset printing press<br>(Existing market & technology) <ul style="list-style-type: none"><li>• Develop new market</li><li>• Increase market share</li></ul> |
|-------------------|--|

|              |   |
|--------------|---|
| New business | Security printing press<br>(New market, Conventional technology) <ul style="list-style-type: none"><li>• Market share expansion in Asia</li></ul>                       |
|              | DPS : Digital Printing System<br>(Existing markets, new technology) <ul style="list-style-type: none"><li>• Commercialize and increase sales of Impremia IS29</li></ul> |
|              | PE : Printed Electronics<br>(New market, New technology) <ul style="list-style-type: none"><li>• Promote overseas expansion</li><li>• Develop new market</li></ul>      |

## The 6th Medium-term Management Plan

**Focus on profitability and building a foundation for growing business**

|               |  |
|---------------|--|
| Core business | Offset printing press<br>(Existing market & technology)<br>Security printing press <ul style="list-style-type: none"><li>• Improve profitability and cash flow</li></ul> |
|---------------|--|

|                            |  |
|----------------------------|--|
| New business<br>(Priority) | DPS : Digital Printing System<br>(Existing market, existing & new technology) <ul style="list-style-type: none"><li>• Monetize business</li><li>• Expand recurring revenue</li></ul> |
|----------------------------|--|

|                             |   |
|-----------------------------|---|
| New business<br>(nurturing) | PE : Printed Electronics<br>(New market, new technology) <ul style="list-style-type: none"><li>• Aggressive investment in growing markets</li></ul> |
|-----------------------------|---|

### 3) Business plan

#### ◆ Business plan summary

| Category                |   | Business                         | Basic policy   |
|-------------------------|---|----------------------------------|--|
| 1. Business strategy    | Core business   | Offset printing press            | • Improve profitability and cash flow  |
|                         |   | Security printing press          |  |
|                         | New business (Priority)                               | DPS<br>(Digital Printing system) | • Monetize business<br>• Expand recurring revenue  |
|                         | New business (nurturing)                              | PE<br>(Printed Electronics)      | • Invest actively in growing markets.  |
|                         | Structural reform                                     | PESP & recurring revenue         | • Provide solutions that improve productivity  |
| 2. Management structure | Clarification of management and operational structure |                                  | • Establish a management structure to implement the plan successfully  |
| 3. Financial strategy   | Optimal capital structure                             |                                  | • Promote a financial strategy that balances capital efficiency and shareholder returns, while securing financial soundness. |

### 3 ) ① Core business : Offset printing press

## Strengthen profitability→Improve cash flow creation

### Business strategy

#### <Focus area>

##### ( 1 ) Packaging market

- Expand sales of differentiated products (at drupa 2020 exhibition etc)
- Increase market share through successful cases in each market
- Provide higher value-added products

##### ( 2 ) Asian market

- Launch new products (e.g. GL37) that meet market demands
- Improve cost competitiveness
- Sales expansion of machines manufactured at KNT(factory in China)
- Reinforce sales structure of local subsidiaries in Asia(China, India, ASEAN nations)

##### ( 3 ) "Connected Automation"

- Increase sales of labor-saving and skill free products and leverage KP-connect.
- Expand business opportunities for solution proposal to optimize customer's production process

#### <Product strategy>

Establish sustainable competitiveness by improving quality, delivery time and cost effectiveness

##### ( 1 ) Improve competitiveness by reviewing product positioning based on ROI

##### ( 2 ) Build mass customization and associated production system

(Standardization and structurization of specifications, modular design and unit production system with assured quality)

##### ( 3 ) Pursue productivity, added value, quality and reliability, leading to overall cost competitiveness.

### 3) ② Core business : Security printing press

## Reinforce profitability through expansion in overseas business

### Business strategy

#### <Differentiation strategy>

- (1) Enhance differentiation in pursuit of increased productivity through high printing speed and automation, employing modular design & production system that enables to meet specific customer needs.
- (2) Strengthen brand power
  - Promote CURRENCY ON Demand for high productivity and anti-counterfeiting technology
  - Build a brand in the banknote printing industry with BANKNOTELOGY (future design concept)

#### <Improvement of customer satisfaction>

- Strengthen service business
- Extend the product lineup (peripheral equipment and consumables)



**CURRENCY LC 32**  
Multicolour Offset Printing Press



**CURRENCY IC 532 ///**  
MULTICOLOR INTAGLIO PRESS



**CURRENCY NV 32**  
Combination Multiprocess Numbering  
and Varnishing Press



# 3) ③ New business (priority) : DPS (Digital Printing System) KOMORI

## Monetize the business and expand recurring revenue

### Business Strategy

#### <Business strategy>

- (1) Strengthen sales capabilities of digital printing system through Komori's unique business model that supplies both offset printing press and digital printing system
  - Develop digital printing system business utilizing Komori's unique technology and sales & service network built through offset business
- (2) Evolve "Connected Automation" centered on KP-Connect, which will lead to higher utilization of digital printing system
- (3) Expand alliance (pre-press and post-press etc.) to improve ability to offer more comprehensive solutions
- (4) Expand the recurring revenue business and stabilize profitability

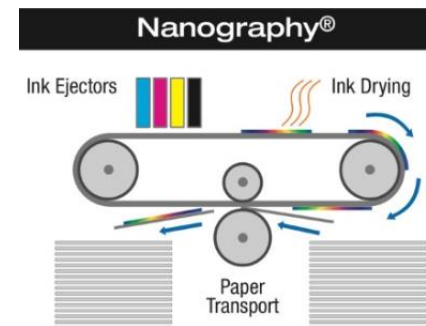
#### <Product strategy>

- (1) Launch Impremia NS40 and expand business opportunities from B2 size (IS29) to B1 size (NS40) printing market
- (2) Enhance proposals for high value-added solutions such as packaging, special substrate printing, etc.

Impremia NS40 (B1 paper size)  
Water-based inkjet (offset) printing system  
(6500 sheets per hour)



◆ Digital printing system capable of full production of packaging printing



- Ink is ejected onto a blanket
- Dry image transferred to substrate
- Can be applied to any substrate

### 3) ④New business (nurturing) : PE (Printed Electronics)

## Foothold for future growth

### Business strategy

#### <Market strategy>

##### (1) Develop Asian market

- Reinforce manufacturing at KNT and sales organization in China
- Differentiate by proposing a value-added offer of building an integrated production line (for major overseas companies)

##### (2) Expand business opportunities

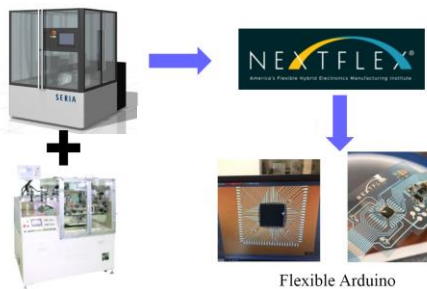
- Propose solutions for electronic component manufactures
- Improve competitiveness in price and delivery time by modular design

#### <Product strategy>

##### (1) Develop differentiated products in the printed circuit board and electronic parts market

##### (2) Commercialize high-definition mounting technology to meet the demands in IoT applications such as FHE(Flexible Hybrid Electronics)

◆FHE solution



◆Vacuum Coater with CCD Camera



◆Semiautomatic Double sided vertical screen printer



### 3) ⑤PESP Business and recurring revenue

Providing comprehensive solutions that improve productivity

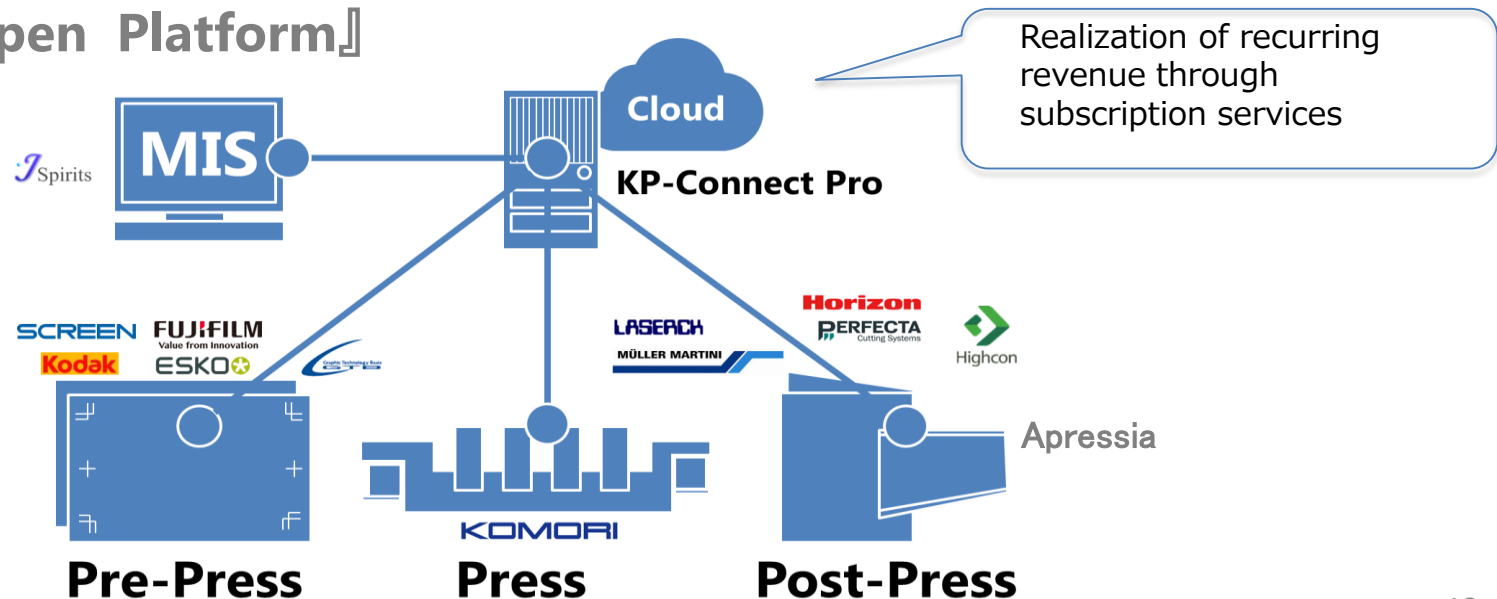
#### Business strategy

- 1) Realization of “Connected Automation using KP-Connect (“Smart Factory”)”  
↓
- 2) Expand stable revenue streams (reinforcing proposal-making capabilities)
  - peripheral equipment and consumables for offset printing press
  - ink and maintenance service for digital printing system

#### ◆KP-Connect Pro to realize “Connected Automation”

Open platform gives freedom of choice and allows connection to various equipment from other manufactures

『Open Platform』



## 4 ) Management structure to implement the plan

### ◆ Establish management structure to implement the 6<sup>th</sup> medium-term management plan successfully

- 1 ) Introduce performance-based compensation plans for directors in accordance with the degree of achievement of the medium-term management plan
- 2) Run the organization effectively with clear responsibility for profitability of each business unit, applying “Amoeba Management,” a profitability-oriented management method

"Amoeba Management" established by Kyocera is a management system designed to target plans into action, and the goal is to identify and maximize profitability per hour.

- 3) Practice Discovery-Driven Planning (DDP) to improve feasibility of the numerical targets for medium-term management plan by introducing hypothetical thinking

“DDP” is a method in which hypothesis (goals) are clearly defined in a numerical term and deviation are closely monitored. In an uncertain business environment, the method aims to achieve higher performance by taking practical measures to adapt internal and external changes quickly.

## 5 ) Optimization of capital structure

### ◆Promote a well-balanced financial strategy to ensure financial status, capital efficiency, and shareholder returns

#### 1 ) Maintaining a sound financial status

- Secure funding capacity (Maintain long-term credit rating of A)
- Keep adequate cash balance taking into account business characteristics and risks

#### 2 ) Managing capital efficiency

- Reduce total assets while maintaining a sound and appropriate balance sheet
- Increase the efficiency of accounts receivable turnover and inventory turnover
- ROE target : 6.5%

#### 3 ) Return to for shareholders

- Maintain stable and continuous dividends
- Total return ratio: More than 80%

## 5) Optimization of capital structure

### ◆ Maintain financial soundness while reducing balance sheet

- 1) Aim to improve capital efficiency (ROE) by increasing profitability and asset efficiency.
- 2) Strive to enhance shareholder returns by maintaining stable and continuous dividend payments and flexible share buybacks.

### ◆ Financial Strategy

|                        | year ended<br>March 2019 | year ending<br>March 2024 |
|------------------------|--------------------------|---------------------------|
| Operating income       | ¥2.7 billion             | ¥10.0 billion             |
| Operating income ratio | 3.0%                     | 8.6%                      |
| ROE                    | 1.1%                     | 6.5%                      |
| Capital adequacy ratio | 78%                      | more than 70%             |
| Total return ratio     | more than 40%            | more than 80%             |

### ◆ Balance sheet

March 2019 actual  
Total assets ¥167.4 billion

|                                  |  |
|----------------------------------|--|
| Current assets<br>¥109.5 billion | Liability<br>¥37.2 billion   |
| Fixed assets<br>¥57.9 billion    | Equity capital<br>¥130.2 billion<br>(Capital adequacy ratio : 78%) |



March 2024 forecast  
Reduction of total assets

|                |                |
|----------------|----------------|
| Current assets | Liability      |
| Fixed assets   | Equity capital |

## 6) Numerical targets for the Sixth Medium-Term Management Plan

### ◆ Target for the year ending March 2024

Net sales ¥116 billion, Operating income ratio 8.6%, and ROE 6.5%

Achieve ROE target by increasing profitability of each business and minimizing earnings volatility from stable profit

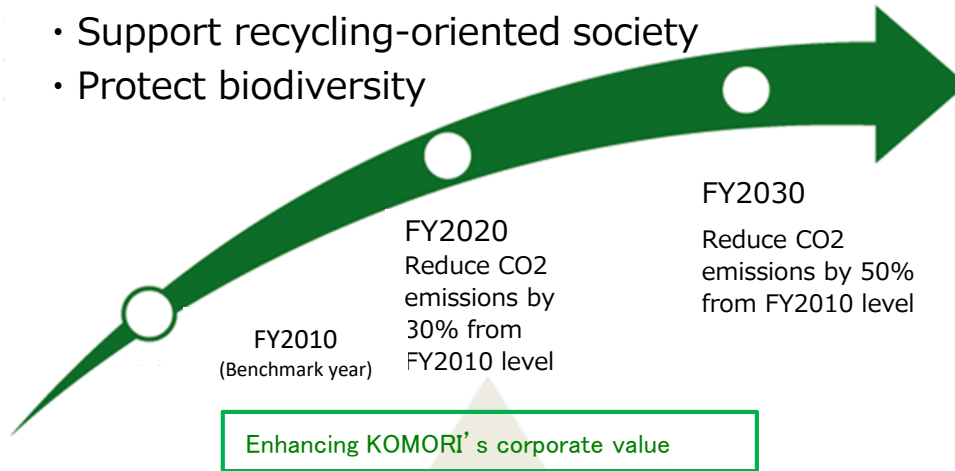
(¥ billion)

|                                   |      | Result for the<br>year ended<br>March 2019 | The Sixth Medium-Term Management Plan     |   |   |
|-----------------------------------|------|--|---|---|---|
|                                   |      |  | Plan for the<br>year ending<br>March 2020 | Plan for the<br>year ending<br>March 2022 | Plan for the<br>year ending<br>March 2024 |
| Net Sales                         |      | 90.2                                       | 92.2                                      | 100.0                                     | <b>116.0</b>                              |
| Operating income                  |      | 2.7  | 1.0                                       | 4.0                                       | <b>10.0</b>                               |
| Operating income ratio            |      | 3.0%                                       | 1.1%                                      | 4.0%                                      | <b>8.6%</b>                               |
| ROE                               |      | 1.1%                                       | 0.1%                                      | 2.6%                                      | <b>6.5%</b>                               |
| Assumed<br>Ex rate                | US\$ | 110.69                                     | 105.00                                    | 105.00                                    | <b>105.00</b>                             |
|                                   | EUR  | 128.43                                     | 115.00                                    | 115.00                                    | <b>115.00</b>                             |
| PESP & recurring<br>sales         |      | 24.3                                       | 24.7                                      | 28.9                                      | <b>37.5</b>                               |
| PESP and recurring<br>sales ratio |      | 26.9%                                      | 26.8%                                     | 28.9%                                     | <b>32.3%</b>                              |

# 7) Initiatives to Address ESG Issues (in relation to UN SDGs)

KOMORI

- Curb global warming
- Support recycling-oriented society
- Protect biodiversity



## Promotion of ESG and CSR

**Eco Factories**  
Environment friendly facilities

**Green-PJ**

**Eco Communication**  
Environment friendly corporate activities

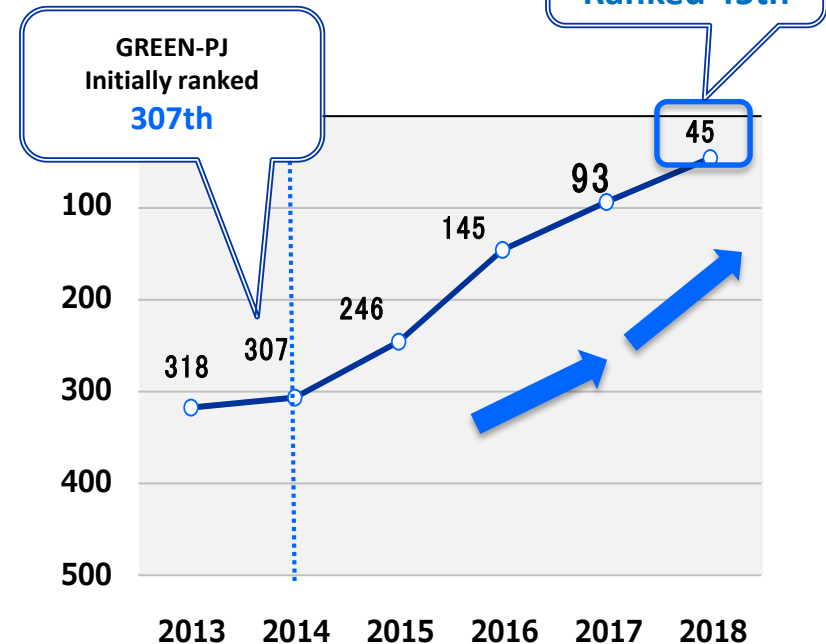
**Eco Products**  
Environment friendly facilities product

• Introducing Scope3  
(Global warming measures)  
• Green purchasing, etc.

• Solar power generation  
• Energy saving activates  
• Waste material control

• Development of energy saving products.

## Nikkei Environmental Management Ranking



## ◆ Examples of our environmental initiatives

➤ Energy-saving electrodeless lighting

➤ Solar power generation





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Caution Regarding Forward-Looking Statements

The forecasts in this material are based on management's assumptions and beliefs held in light of information currently available to it and accordingly involve risks and uncertainties that may cause actual results to differ materially from forecasts. These uncertainties include, but are not limited to, changes in economic conditions, market trends, changes in foreign currency exchange rates and other factors.