

**Brother Group
New Medium-Term Business Strategy Update**



CS B2021
TOWARDS
THE NEXT LEVEL

November 22, 2019
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- FY2019 1H Results Summary
- Stance on Dividends
- CS B2021 Update

Results for FY2019 1H (Q1&Q2)

- ✓ **Despite a harsh business environment, P&S profit improved and consolidated profit was up**
 - The communications and printing equipment product mix improved and global sales of consumables were strong
 - Demand for machines tools was sluggish in the automotive, general, and IT fields
 - The N&C business reported strong sales of new online karaoke machine models
 - In the Domino business, global sales of consumables were firm

Forecast for FY2019

- ✓ **The P&S business is performing well but cannot make up for the decline in the Machinery business, and the forecast has been revised downward since the previous forecast**
 - Foreign exchange assumptions in the P&S business were revised to a higher yen, but the forecast was revised upward in light of results for the first half
 - The forecast for Machinery business was revised downward in response to continued sluggish demand in conjunction with the global economic slowdown centered on China

We review the results from the 1st Half of the fiscal year 2019.

Sales of Industrial Equipment fell sharply in response to the harsh business environment, but profit in the Printing & Solutions (P&S) business continues to improve, and it was able to drive the entire company to achieve higher profit.

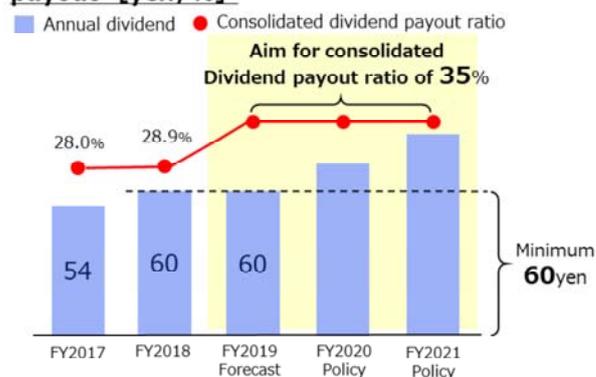
However, even though performance in the P&S business is firm, the currency exchange outlook has been revised to a stronger yen, and the P&S business will not be able to cover the decline in Machinery for the entire fiscal year. Consequently, the forecast has been revised downward from the prior forecast.

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Shareholder Return Policy in the Medium-Term Business Strategy

- Aim for consolidated dividend payout ratio of **35%**
- Provide stable returns to shareholders even under a harsh environment (annual minimum : **60 yen**)

Dividend per share/Consolidated dividend payout [yen/%]



Revision of FY2019 Dividend Forecast

- the forecast of FY2019 has been revised downward
- Dividend Forecast is revised based on shareholder return policy
- Dividends will be increased in cases where results turn upwards

Dividend per share/Consolidated dividend payout [yen/%]



This is the company's approach to the dividend policy for the three years of the Business Strategy.

Under the Medium-Term Business Strategy, the shareholder return policy is to raise the consolidated dividend payout ratio to 35%.

In cases where projections are modified in the future, the dividend calculation will be re-performed.

The minimum dividend for these three years is set at 60 yen annually.

In accordance with this policy, the forecast of dividends per share has been reduced from 66 yen to 60 yen, the same as the previous year, in response to the downward revision of results for FY2019 Q2,

In cases where results turn upwards, dividends will be increased.

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Update

CS B2021 "TOWARDS THE NEXT LEVEL"
~ Establish a firm foothold for the future~

① Printing - win to survive

- Maintain scale and raise profitability by acquiring high-PV users and improving hardware profitability
- Accelerate shift to new business models to secure stable profits and closer customer relations

② Machinery/FA - accelerate growth

- Achieve significant growth in Industrial Equipment with focus on auto/general machine market
- Increase FA business through capturing a surge in labor-saving/automation needs

③ Industrial Printing - develop a growth platform

- Re-accelerate Domino's growth with synergy realization/reinforcement
- Expand Industrial Printing area by inkjet-centered printing technologies

④ Form a solid foundation to gain speed/cost advantage

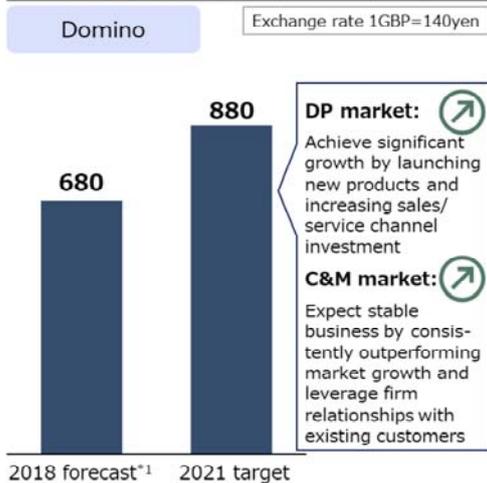
- Thorough operational transformation across the board by leveraging IT
- Maximize organizational performance by cultivating talent pool and optimizing talent deployment
- Revitalize unprofitable/low-profit businesses

PV = Print Volume

**Industrial Printing - develop a growth platform:
Re-accelerate Domino's growth with synergy realization/reinforcement^{at your side}**

Complete planned new products development by closely collaborating with Brother, and fully utilize Domino's competitive products/services to accelerate growth

Sales revenue [100M yen]



Key initiatives

- Re-accelerate new products development by enhancing synergy
 - Form a foundation for rapid development
 - Introduce and promote agile development processes and tools
 - Utilize Brother's development infrastructure
 - Enhance product development capabilities
 - Increase developers' touch points with customers to captures and better respond to customer needs
- Establish best-in-class "customer experience"
 - Build a stronger sales and service platform
 - Continue investment on channels
 - Improve customer experience by providing highly professional specialized solutions
 - Expand aftermarket products and services
 - Improve customers' productivity by promoting monitoring tool, remote service, etc.

Agile development: an approach to develop products that satisfy specifications and quality required by customers, through iteration of short-term development cycle (of development, implementation, testing and modification)

DP= Digital Printing
C&M=Coding and Marking

*1: Reference value for comparison purpose with 2021 target at the same exchange rates. Note this figure does not correspond to the full-year forecast as of the third quarter of FY2018

New Domino brand products is launched

Vx 3-A industrial thermal printer



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We are seeking to re-accelerate growth in the Domino business by generating synergies as we build the foundations for growth in the Industrial Printing area under the new medium-term plan.

We are working to recover from development delays with Brother taking a leading role in development, and results are starting to take form.

Products that Brother developed and launched under the Domino brand include industrial thermal printers for automated packaging machines.

New Domino brand products is launched



A FUJI MACHINERY high speed horizontal pillow packaging machine displayed at JAPAN PACK 2019 (the Vx 3-A is in the upper center)

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A Brother thermal printer is installed as standard equipment on the latest packaging machine from FUJI MACHINERY, one of the leading automated packaging machine manufacturers, and was displayed at the FUJI MACHINERY booth at JAPAN PACK 2019.

Future Outlook

- Multiple new Domino brand products will be launched
- Development is progressing, but due to increases in advance development expenses, profit levels are expected to be flat in this and the next fiscal years

Efforts will be made to recover from development delays through development promoted mainly by Brother

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As for the future outlook, in addition to the products introduced now, Brother plans to take the lead in development and launch multiple Domino brand products. Please understand that we are making progress in terms of catching up in development.

Development is advancing, but because of higher advance development expenses, profit levels are expected to be flat in this and next fiscal years. We are creating structures so that we can shift into the profit growth stage in the final fiscal year of the medium-term plan.

Through operational transformation across the Board by leveraging IT

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Seek to shift resources to operational process transformation and customer value creation activities.

Medium-term plan measures target: Raise operational productivity throughout Brother Industries by 10% (generate approx. 700,000 hours)



Operational Transformation Project

Through operational transformation across the Board by leveraging IT



Details

- Introduction of operational transformation examples
- Useful tools for disclosures
- List of transformed operations
- List of robot operations
- Implementation structures
- BizRobo education & operation etc.

Progress

◆ Operational stocktaking and review of operations:

- All departments are implementing projects (operational stocktaking, analysis, and action plan formulation)

◆ Automation through the use of IT (introduction of RPA):

- Actively introduce RPA to back-office operations as well as sales, development and other business departments
- Prioritize topics with high reduction effects and take priority action

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The fourth framework of this medium-term plan mentions operational process transformation and efficiency enhancement throughout the Group by using IT. The target for this measure is to raise operational productivity throughout Brother Industries by 10% and reallocate resources to customer value creation activities.

With regard to progress on this item, all departments in the company are currently performing operational stocktaking and reviewing operations. Through this process, operations that are duplicated in other departments are being reduced, operations are being eliminated and integrated, and initial reduction effects are being generated.

For the remaining necessary operations, RPA is being actively introduced for tasks that can be automated, not just in back-office departments, but also in business departments such as sales and development. Topics with high reduction effects are being prioritized and priority action is being taken.

A project has been launched to carry out this operational process transformation as a whole and know-how such as operational transformation and examples of RPA use are being shared throughout the company. By expanding the application of best practices, we are building structures that can raise operational efficiency even further.

Reforms are underway to raise operating profit margins to at least 6% or turn businesses profitable on a sub-business segment basis.

Progress

- Reinforce profit/loss management on a sub-business segment basis. Progress is reported to and deliberated by the Board of Directors.
 - Decisions have been made to withdraw some products for which there is no outlook of achieving profitability.
- ◇ Withdraw from two businesses with no outlook of achieving profitability

P&S business, OmniJoin (Web-conference system)



P&S business, AiRScouter (Head-mounted display)



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This concerns revitalization of unprofitable and low-profit businesses.

What we refer to as the sub-business segment means business units that are more specific than the publicly-disclosed segments. We are carrying out measures to re-establish business and raise operating profit margins to 6% or achieve profitability during the three years of the Business Strategy.

We have reinforced profit and loss management on a sub-business segment basis that in the past was hidden by businesses that generate profits and established a structure reliably to confirm progress.

We have also decided to withdraw from businesses that have no likelihood of improving performance or achieving profitability in the future.

In the P&S business, we launched business with OmniJoin (a Web-conference system) after acquiring U.S.-based Nefsis in 2011, but the business continues to lose money and there is no prospect of achieving profitability, so we have decided to withdraw from the business.

Also in the P&S business is AiRScouter, a head-mounted display. It was launched in 2011, and to date, a third-generation model was released, but we have been unable to scale up the business and there is no prospect of achieving profitability, so we have decided to withdraw from this business.

Going forward, we will continue to set periods for unprofitable and low-profit businesses and take action to revive them, but in cases where there is no prospect of achieving profitability, we will withdraw.

Planned Capital Investment in the Xian Factory (China), Kariya Factory, and Hoshizaki Factory (Aichi Prefecture)



Hoshizaki Factory
Reconstruction to reinforce BCP and production facility investment (Hoshizaki Factory: Ink jet head production factory)

Investment : Approx. 10 B yen

Scheduled Completion :
FY2022 2nd Half



Kariya Factory
Reconstruction of the industrial equipment showroom (Kariya Factory: Machine tool production factory)

Investment : Approx. 1 B yen

Scheduled Completion:
FY2020 Q2



Xian Factory
Expansion to increase production capacity (Xian Factory: Machine tool production factory)

Investment : Approx. 1 B yen

Scheduled Completion:
FY2020 2nd Half

* As of November 22, 2019

Outlook

- Over the three years of CS B2021, capital investment of approx. 110 B yen will be made (an average of 30 B–40 B yen per year).
- Investment in BCP-related building is expected to increase starting in FY2020.

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This is an explanation of capital investment.

Approximately 1 billion yen will be invested in expanding the Xian Factory in China to increase machine tool production capacity. As a result, production capacity in China will approximately double.

The Kariya Factory in Aichi Prefecture is a machine tool production factory in Japan, and we will invest approximately 1 billion yen to reconstruct the machine tool showroom. The display area will be doubled, making it possible to display more machines and enabling customers to see the actual products.

Until now, the Hoshizaki Factory in Aichi Prefecture has manufactured key parts such as ink jet heads, but we will reconstruct the factory to reinforce business continuity planning (BCP). Investment will be made to replace aging facilities with new facilities, reinforce production capacity, and respond to new products and technologies. Approximately 10 billion yen will be invested throughout the Hoshizaki Factory.

The outlook for the future is capital investment of about 110 billion yen over these three years. Depreciation expenses are expected to increase at a constant pace each year.

BCP-related capital investment is expected to increase starting in the fiscal year 2020.

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