Brother Group
New Medium-Term Business Strategy



CS B2021
TOWARDS THE NEXT LEVEL

February 28, 2019
Brother Industries, Ltd.
Representative Director & President
Ichiro Sasaki

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Brother's business areas

Business areas	Business segments		Main products & service portfolio
Consumer area	Printing	P&S: Communications & Printing Equipment	 Printer;  All-in-One;  Labeling system;  Mobile printer
		P&S: Electronic Stationery	
	Home & Culture	Personal & Home	 Home sewing machine;  Home cutting machine;  Online Karaoke system/ Karaoke store; TEICHIKU ENTERTAINMENT Music contents
		Network & Contents	
Industrial area	Machinery/FA	Machinery: Industrial Equipment	 Machine tool;  Programmable electronic pattern sewing machine;  Reducer;  Gear
		Machinery: Industrial Parts	
		Machinery: Industrial Sewing Machines	
		Machinery: Industrial Sewing Machines	
		Machinery: Garment Printing	
	Industrial Printing	Domino	 Coding and marking equipment;  Digital printing equipment;  Garment printer;  Laser marker
		Industrial Printing	

P&S＝Printing & Solutions
FA＝Factory Automation: Automation of various factory work and processes by using machines and information systems

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Review of CS 2018

Outline of CS B2021

Management targets of CS B2021

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Vision of CS B2018

CS B2018
Transform for the Future

Our aspiration for Brother

A multi-business enterprise with resilient DNA and a track record of success that continually evolves to deliver profitable growth by meeting the challenges of changing times and environments

Business transformation

Transition from a printing-focused business to a portfolio-based multi-business enterprise

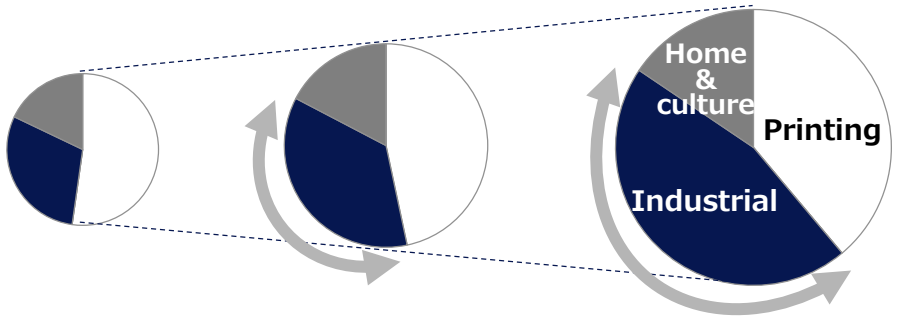
Operational transformation

Reinforce customer value creation capability for the future by optimizing use of limited resources and focusing on efficiency

Talent transformation

Cultivate the next generation of leadership talent in the context of Brother's unique DNA and optimize talent deployment across the group

[Image of transition in business areas; Expanding business in the industrial area]



Financial targets*1/plan

Sales revenue		750B yen
Operating profit		60B yen
Operating margin		8.0%
ROE	(plan)	9%+α

*1:Original targets announced on March 2, 2016

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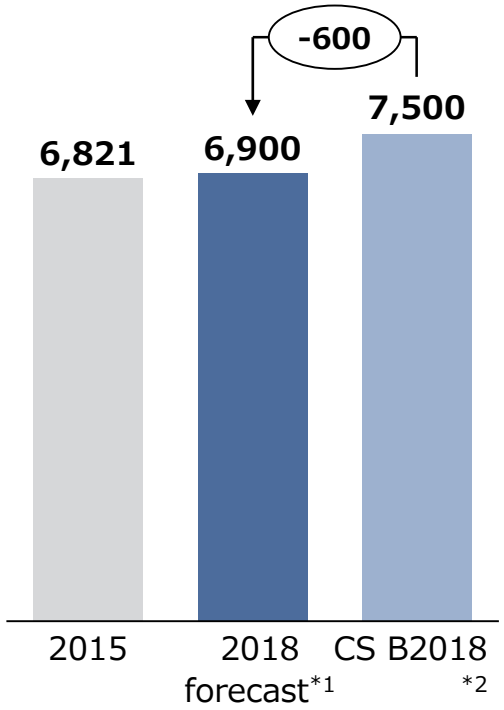
FY2018 sales revenue/operating profit/ROE (forecast)

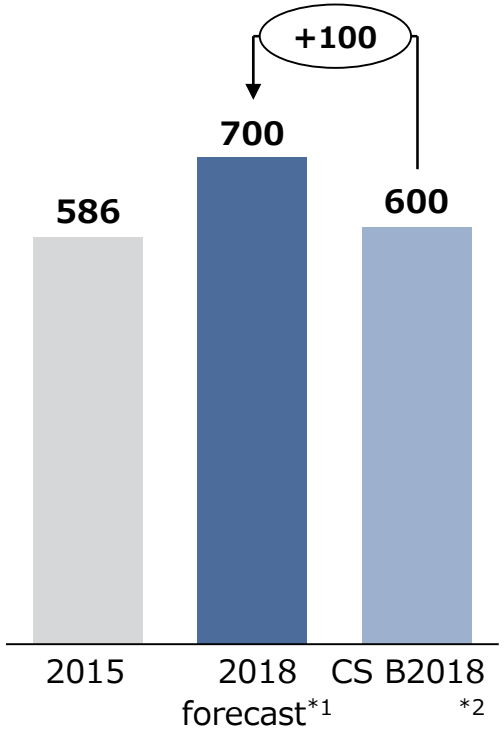
brother at your side

Outperformed operating profit/ROE target, whilst sales revenue resulted in a shortfall

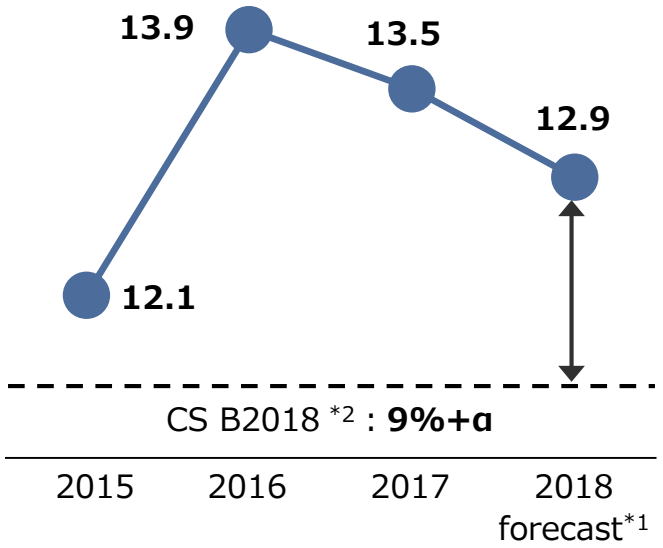
Sales revenue [100M yen]



Operating profit [100M yen]



ROE [%]



[Exchange rate]

USD	120yen	109yen	115yen
EUR	132yen	129yen	130yen

Operating margin

8.6%	10.1%	8.0%

*1: Full-year financial forecast as of the end of the third quarter of FY2018 *2: Original target/plan announced on March 2, 2016

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Review of three transformations

Made certain progress in business, operational, and talent transformation, but further transformation and optimization are critical

	Achievements of CS B2018	Challenges for CS B2021
Business transformation	• Significantly improved profitability of Communications & Printing Equipment • Achieved sales growth in the next core business areas, Industrial Equipment and Domino	• Accelerate growth in the industrial area • Incubate and develop new businesses • Enforce further discipline on selection and concentration
Operational transformation	• Established functional center of excellence and began providing effective support to business units • Initiated operational transformation by utilizing IT such as RPA, AI, etc.	• Establish speed and cost advantage by thorough operational transformation • Drive a shift from back-office operations to value generating activities for customers
Talent transformation	• Reallocated approx. 400 employees from Communications & Printing Equipment/HQ • Introduced deputy-manager system, succession plans, and next generation leader development programs	• Further cultivate Brother group's talent pool by offering training and growth opportunities • Accomplish optimal talent deployment across the board to expand the industrial area while promoting lean organization

RPA=Robotic Process Automation: Automation of business operations by leveraging digital labor

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Management targets of CS B2021

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Business environment for strategy formulation

Recognize business environment becoming increasingly severe

Printing area




- **Genuine consumables ratio** continues its **downward trend**, in addition to **the printing volume decrease** under digitalization
- **Service needs diversification** will keep **accelerating** amid **drastic customers' behavior changes** from ownership to usage

Industrial area






- **Stable growth** is to continue
  - Machinery market to expand with a surge in demand for labor-saving and automation as well as for automobile parts processing
  - Industrial printing market to grow with increased needs for traceability and customization
- Meanwhile, **macroeconomic environment** will **change** due to country policy revisions etc.
  - Recession risk owing to US-China trade friction, Brexit, and so forth
  - Tightening regulations in response to stricter security policies

Home & Culture area





- While the market is maturing, **customer needs are shifting** due to growing customization demand in embroidery and craft etc., and to diversified entertainments

Further drastic transformation is essential in CS B2021

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Brother's unique strengths

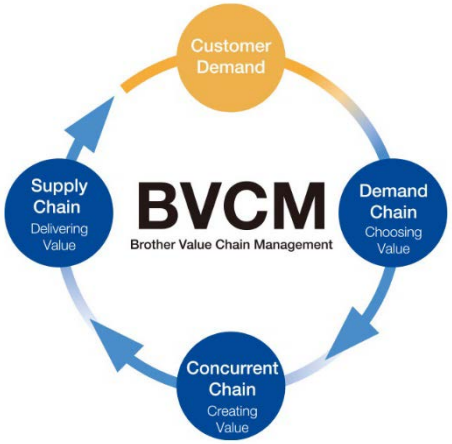
Define Brother's unique strengths as
flexibility, agility, and cost competitiveness based on "At your side." spirit

Flexibility



- Spirit that has continued to address challenges courageously and flexibly respond to changing times and technological innovation

Agility



- Ability to promptly deliver products and services that are fine-tuned to customer needs with their opinions positioned as the starting point of a series of actions
  - Quick iteration of Brother Value Chain Management (BVCM)* system

Cost competitiveness



- Brother-style development of cost competitive products through unique value proposition and optimized integral architecture
- Efficient global network in development, manufacturing, sales, and service

*Brother's unique management system that regards customer demands and expectations as our guide for all business operations including product planning, development, design, manufacturing, sales, and service to respond best to the needs

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CS B2021 positioning

Establish a firm ground “TOWARDS THE NEXT LEVEL” to realize Global Vision 21, and carry out transformation by focusing on the critical few and utilizing unique strengths

Brother Group
New Mid-Term Business Strategy
CS B2018
Transform for the Future

CS B2021 TOWARDS THE NEXT LEVEL

Post-CS B2021
Enjoy
“the Next Level”



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CS B2021 outline

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

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1 Printing - win to survive: Keep scale and raise profitability by acquiring high-PV users and improving hardware profitability

brother at your side

Win a leading place even under the challenging market, by maintaining scale with high-PV users acquisition etc. and enhancing profitability via further cost reduction

Sales revenue [100M yen]

Printing

Exchange rate
1USD=105yen, 1EUR=125yen



Communications & Printing Equipment :

Maintain sales revenue and enhance profitability amid a shrinking market

Electronic Stationery:

Expand products for high-PV business applications

Key initiatives

Acquire high-PV users・Improve hardware profitability

- Accelerate transition to new Brother-style business models (detailed in the next page)
- Promote further shift to high-end hardware
- Increase OEM supply including high-end models
  - Fully leverage Brother's unique position as an A4 printer manufacturer
- Expand specific business applications
  - Reinforce label printing business for electrical/communication wiring marking, manufacturing setting, etc.
  - Make a full-scale entry into Auto-ID market (barcode printers, etc.)



Further reduce cost

- Reduce production cost
  - Promote automation at manufacturing plants, etc.
- Optimize manufacturing sites
- Streamline back-office operations

*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

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1 Printing - win to survive: Accelerate shift to new business models to secure stable profits and closer customer relations

brother at your side

Accelerate transition from box-moving business to new Brother-style business models that nurture customer relationships to provide unique values

For SOHO

- Improve hardware profitability by proposing superior TCO products
  - High-capacity ink/toner models and consumables-bundled models



- Expand services that allow customers to easily purchase consumables
  - Auto-fulfillment service, monthly subscription model

refresh BY BROTHER

- Develop applications to enhance customer relations
  - Improved printing/labeling user experience, new use cases suggestions

For SMB

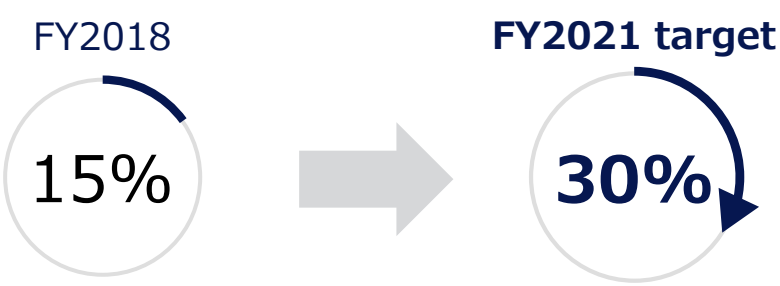
- Reinforce subscription business (MPS) that includes printers, service, and consumables by closely collaborating with channels

MPS

- Enhance direct customer relationships by providing light solutions sought by SMB customers

Security solution | Document management solution | Printer LCD customization, etc.

New business models ratio (unit sales basis)



SOHO=Small Office Home Office: Workstations at home or small offices
TCO=Total Cost of Ownership: Total cost necessary for installation, use, and maintenance of a product

SMB=Small and Medium Business: Small and medium-size offices and companies
MPS=Managed Printing Service: A service that offers cost reduction and productivity improvement through central management of office printing equipment

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② Machinery/FA - accelerate growth: Achieve significant growth in Industrial Equipment with focus on auto/general machine market

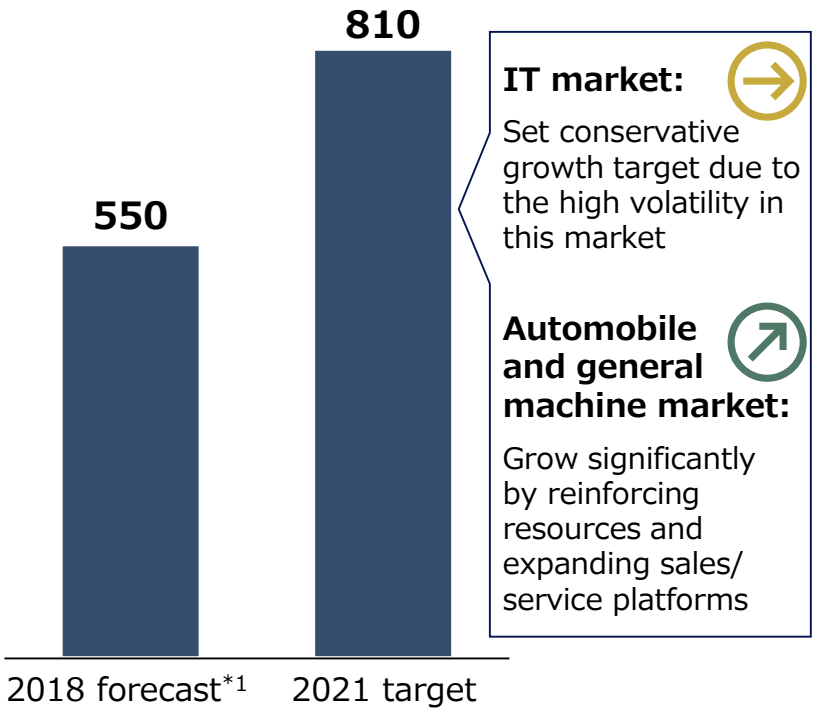
brother at your side

Expect significant growth in the automobile and general machine market, while setting conservative growth target in the highly volatile IT market

Sales revenue [100M yen]

Industrial Equipment

Exchange rate
1USD=105yen, 1EUR=125yen



IT market:
Set conservative growth target due to the high volatility in this market

Automobile and general machine market:
Grow significantly by reinforcing resources and expanding sales/ service platforms

Key initiatives

Launch competitive products and peripheral devices

- Enhance product lineups
  - Increase the lineup of SPEEDIO series, such as models with multiple processing functions or additional tools, for process integration needs
  - Enhance peripheral devices around machining centers to respond to automation needs (loading robots, etc.)

Further reinforce sales/ service platforms

- Reinforce sales/service personnel and expand facilities in and outside Japan
  - Set up new platforms in Japan
  - Expand and set up overseas service platforms, mainly in Asia
- Allocate more resources to solution sales

*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

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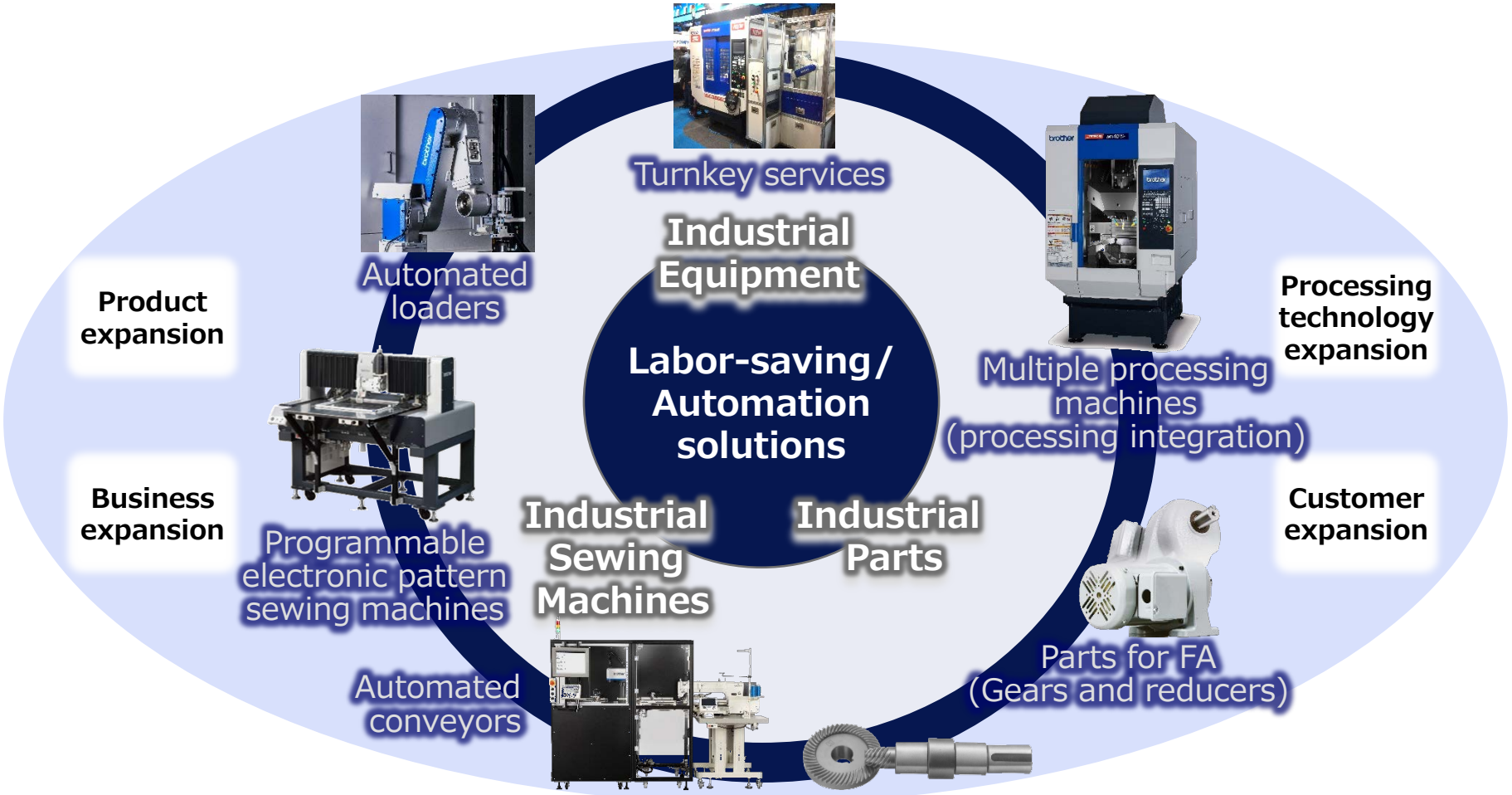
② Machinery/FA - accelerate growth: Increase FA business through capturing a surge in labor-saving/automation needs

Develop FA business across the Machinery organization by offering labor-saving and automation solutions centered on process integration



Turnkey: A type of contract to deliver plug-and-play products by integrating Brother products with peripheral equipment and facilities/devices for preceding/following work processes

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③ Industrial Printing - develop a growth platform: Re-accelerate Domino's growth with synergy realization/reinforcement

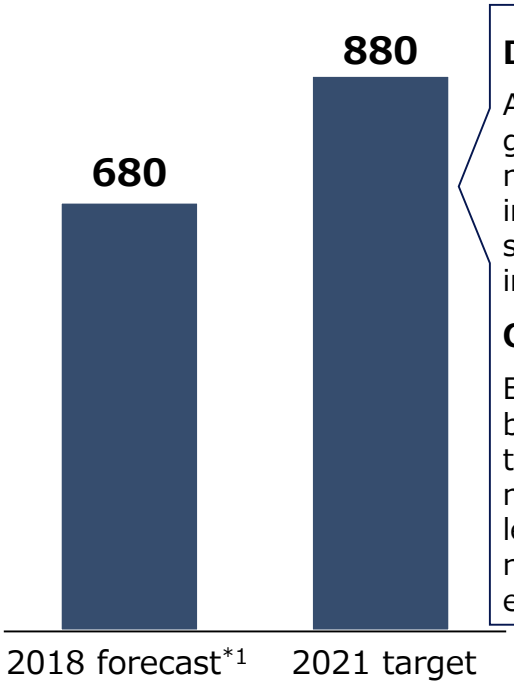
brother at your side

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]

Domino

Exchange rate 1GBP=140yen



DP market: Achieve significant growth by launching new products and increasing sales/ service channel investment

C&M market: Expect stable business by consis-tently outperforming market growth and leverage firm relationships with existing customers

DP=Digital Printing
C&M=Coding and Marking

Key initiatives

Re-accelerate new products develop-ment 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)

*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

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③ Industrial Printing - develop a growth platform: Expand Industrial Printing area by inkjet-centered printing technologies

brother at your side

Expand business in Industrial Printing, where digitalization has been prevailing, by leveraging Brother's printing technologies

Industrial printing market

Source: Research vendor, Brother

Market size: **Approx. 50T yen**

Adjacent area

Mass customization market

Packaging area



Corrugate
Cartons
Flexible packaging

Logistics / manufacturing industry

Secondary coding area





Label printing + auto attachment

Direct print on corrugate

Existing area



Garment

Package label



Barcode label





Inkjet

Thermal

Brother's printing technologies

Laser



Coding & Marking

Mass customization: Mass production of products/services that have been customized to respond to customers requests

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④ Form a solid foundation to gain speed/cost advantage: Operational transformation by IT × talent cultivation/deployment

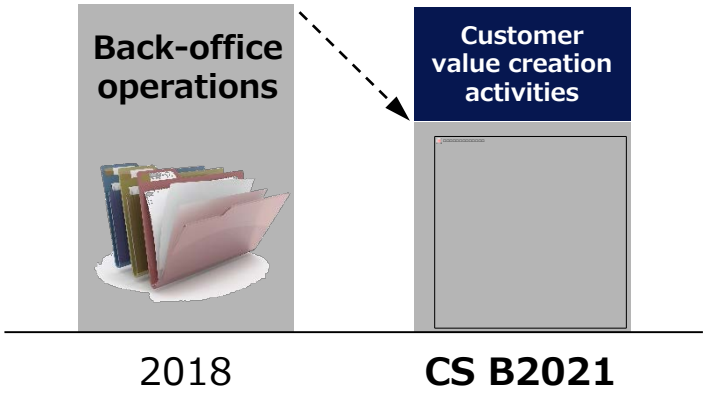
brother at your side

Reallocate resources to customer value creation activities and maximize organizational performance by operational process review and talent cultivation/optimal deployment

Shift resources to customer value creation activities via operational transformation

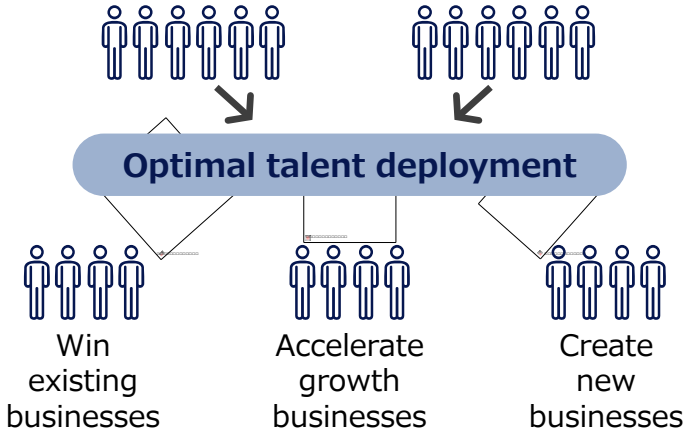
- Streamline business operation through fundamental review across Brother group
- Allow “individual” to focus on customer value creation activities by automating routine work with IT tools such as RPA, AI, etc.

Workload image



Maximize organizational performance with talent cultivation and optimal deployment

- Cultivate talents across the organization
  - Prompt individuals’ growth and maximize the performance by providing challenging environments (accelerated promotion opportunities, etc.)
- Realize a lean and optimal talent deployment
  - Assign personnel based on individuals’ competency
  - Accelerate resource shift to growth and new business areas



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④ Form a solid foundation to gain speed/cost advantage: "Strong and lean" global HQ

Reinforce global HQ's (Brother Industries, Ltd.) function
while accelerating the resource shift to customer value creation activities

Vision	**Realize "strong and lean" global HQ that generates larger outputs with smaller inputs by reinforcing capabilities to promote global strategies as well as driving resource shift from back-office operations to customer value creation activities**
Key initiatives	• Streamline operational processes by thorough review, and promote automation with digital tools • Realize optimal talent deployment across the board
Target	• Improve operational productivity of Brother Industries, Ltd. by 10% – Generate approx. 700 thousand hours, equivalent to 10% of total operation hours

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④ Form a solid foundation to gain speed/cost advantage: Revitalize unprofitable/low-profit businesses

brother at your side

Exercise tighter profit and loss management on a sub-business segment basis and revitalize unprofitable/low-profit businesses

Vision	**Reinvigorate unprofitable/low-profit businesses by enforcing tighter management of profitability on a sub-business segment basis while promptly implementing drastic turnaround measures**
Key initiatives	• Enforce stricter profitability management by sub-business segment • Implement drastic transformation to improve profit margin – Consider withdrawal from the business if the chance of profitability improvement is remote from long-term time perspective
Target	• Increase operating profit by more than 8B yen (vs. FY2018)

Sub-business segment = More granular business segment than that of publicly disclosed. Internal management is conducted on sub-business segment basis; e.g. Home Sewing Machines and Craft are the sub-business segments of Personal & Home

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Review of CS 2018

Outline of CS B2021

Management targets of CS B2021

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Financial targets

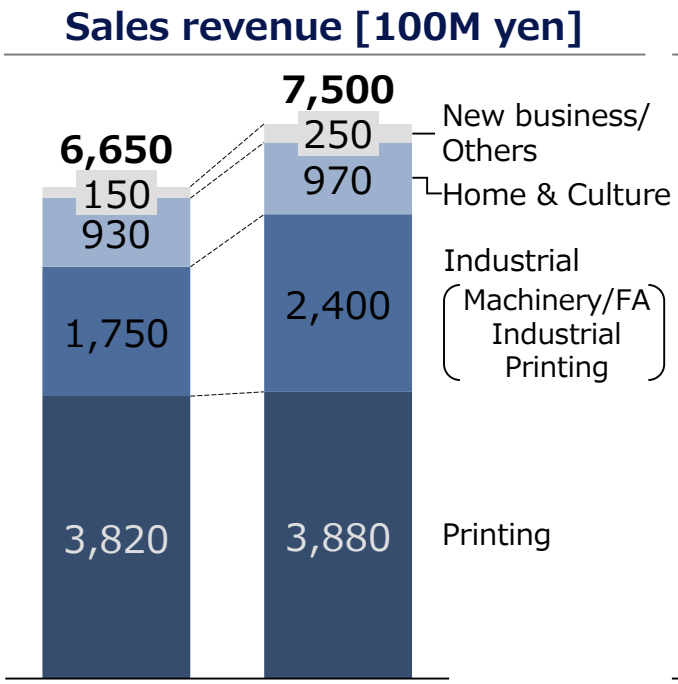
Target 750B yen sales revenue and 75B yen operating profit by expanding the industrial area and fostering speed/cost competitiveness

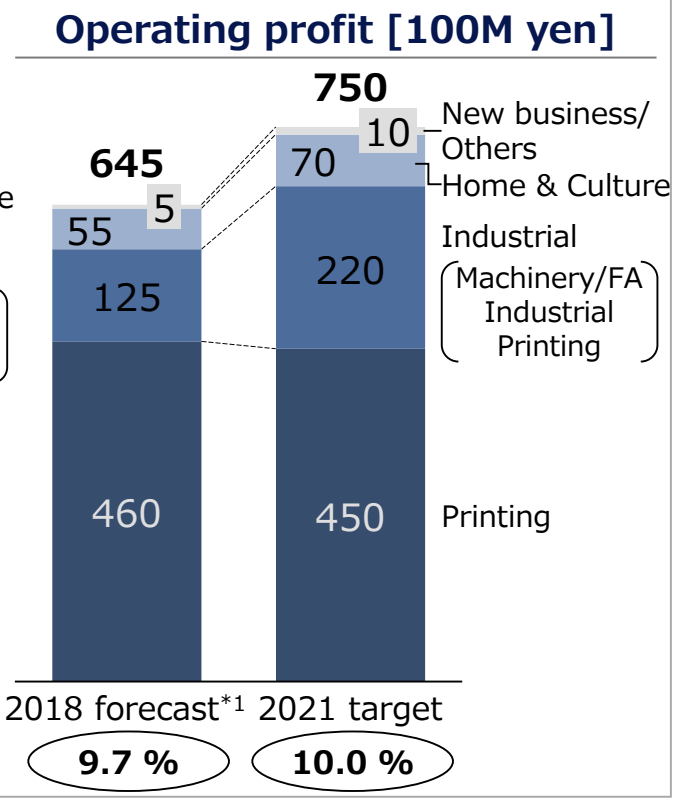
CS B2021 financial targets

Sales revenue	750B yen
Operating profit	75B yen
Operating margin	10.0 %

Breakdown by business segment

Exchange rate 1USD=105 yen, 1EUR=125 yen, 1GBP=140 yen, 1RMB=16.0 yen





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Financial policy | Investment

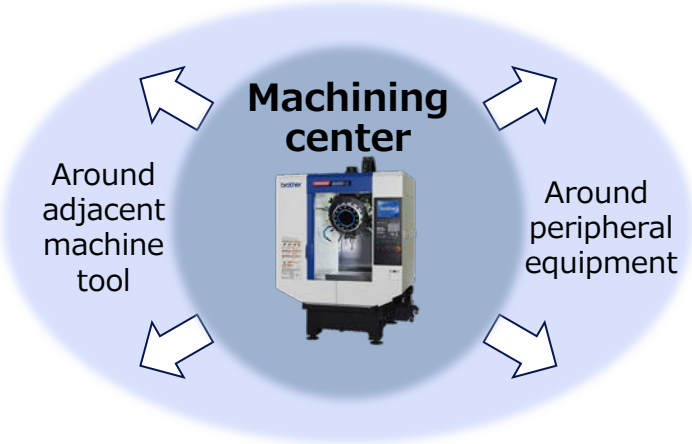
Set up 50B yen growth investment fund
to expand the industrial area, create/develop new businesses, etc.

Investment policy	**Accelerate growth investment including M&A to further expand the industrial area, create/develop new businesses, and reinforce inkjet-related facilities**

Industrial area

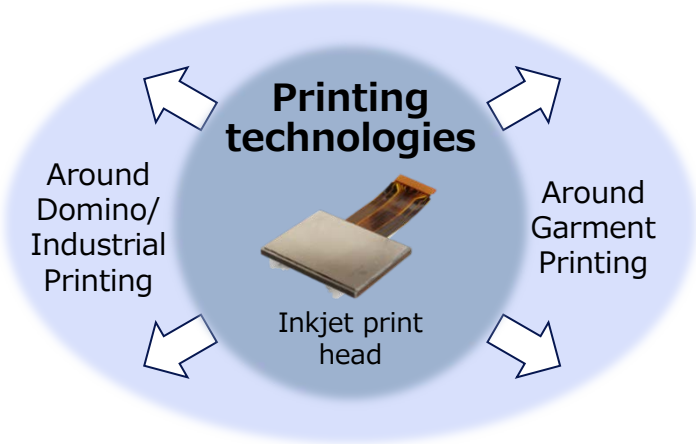
Machinery/FA

- Enter the market adjacent to machining center such as machine tools for preceding/ following processes or peripheral equipment



Industrial Printing

- Expand the adjoining area from the existing business by leveraging Brother's printing technologies featured by inkjet



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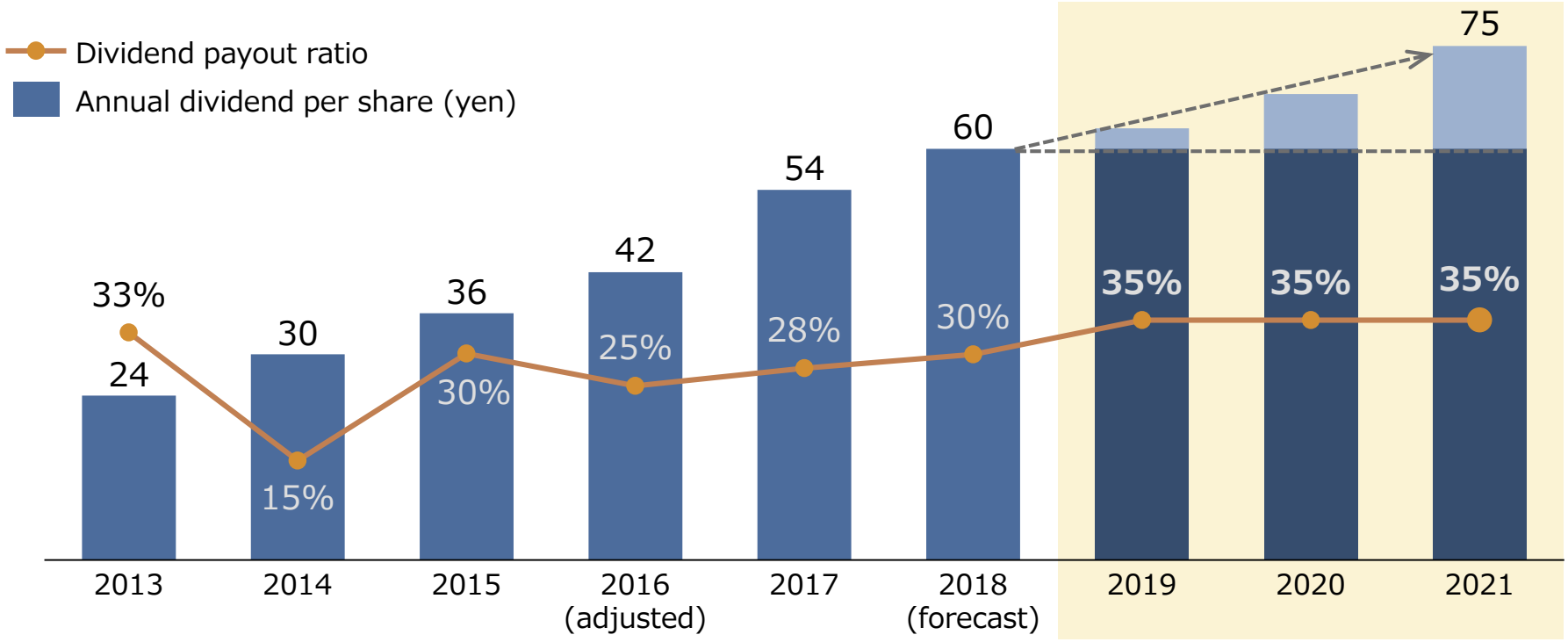
Financial policy | Shareholder return/ROE

Maintain stable returns to shareholders aiming for a consolidated dividend payout ratio of 35% while making essential strategic investments

Shareholder return	• **Raise the target of consolidated dividend payout ratio to 35%** • **In principle, prioritize maintaining a constant dividend amount even under severe circumstances**
ROE	• **Maintain around 12%**



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CSR management policy | Contribution to SDGs

Achieve social value creation through business activities, envisioning CS B2021 and beyond

Foster innovations that make customers happy, fueled by employees' creativity



Make continuous environmental conservation efforts



Continuously promote social contribution activities



Enhance business partners collaboration to promptly address social demands



Fuel cell



Total health care support device/ contents



Examples of social value creation linked to business activities in light of SDGs

Brother Earth
Working with you for a better environment

"Environmental Vision 2050" initiatives



Enhanced CSR at supply chain

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Brother Group
New Medium-Term Business Strategy



CS B2021

TOWARDS THE NEXT LEVEL

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brother
at your side

Glossary of terms (1/2)

Acronym	Official term	Explanation
BVCM	Brother Value Chain Management	Brother's unique management system that regards customer demands and expectations as our guide for all business operations including product planning, development, design, manufacturing, sales, and service to respond best to the needs
C&M	Coding and Marking	Printing and marking of expiration dates, lot numbers and so forth on plastic bottles, cans, and food packaging materials, etc.
DP	Digital Printing	A printing method to print directly from digital-based typesetting data generated on a PC onto a substrate
FA	Factory Automation	Automation of various factory works and processes using machines and information systems
MPS	Managed Printing Services	A service that offers cost reduction and productivity improvement through central management of office printing equipment
PV	Print Volume	Printing volume
RPA	Robotic Process Automation	Automation of business operations by leveraging digital labor
SDGs	Sustainable Development Goals	Seventeen global environmental and development goals for the world to achieve between 2016 and 2030, which were unanimously adopted by 193 countries in the UN General Assembly in Sep 2015
SMB	Small and Medium Business	Companies or entities with 10 to 500 employees (Small and medium-sized offices and companies)
SOHO	Small Office Home Office	Companies or entities with 1 to 10 employees (Home or small offices)
TCO	Total Cost of Ownership	Total cost necessary for installation, use, and maintenance of a product

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Glossary of terms (2/2)

Term	Explanation
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)
Global Vision 21	Medium to long-term vision of Brother Group's further growth
Sub-business	More granular business segment than the disclosed segment. Internal management is conducted on sub-business segment basis; e.g. Home Sewing Machines and Craft are the sub-business segments of Personal & Home
Turnkey	A type of contract to deliver plug-and-play products by integrating Brother products with peripheral equipment and facilities/devices for preceding/following work processes
Mass customization	Mass production of products/services that have been customized to respond to customers requests

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