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Notice concerning NDK's Mid-Term Management Plan

Nihon Dempa Kogyo Co., Ltd. ("NDK" or "we") today announced its Mid-Term Management Plan that covers the period from the fiscal year ending March 31, 2021 to the fiscal year ending March 31, 2023. Brief details are presented as follows.

1. Background to the Mid-Term Management Plan

The NDK group companies (the "Group") specialize in the manufacturing of quartz crystal devices, and has been supporting the development of the electronics industry from within since its establishment. The Group has made customer satisfaction its fundamental management policy, and has been leading the industry through the development, manufacturing, and sale of highly reliable products.

However, the intensifying price competition in recent years has resulted in a significant decline in sales prices, and, as a result of the production capacity expansion in the past in line with the management plan in place, the Group experienced the difficult management environment, such as increasing costs and significant deterioration in profitability. Consequently, we were obliged to recognize a net loss of more than 10 billion yen for the fiscal year ended March 31, 2018.

In order to continue its business steadily and maintain a stable management even under these circumstances, it is indispensable to conduct cost reduction centering on

fixed costs, therefore, NDK started restructuring the production system from the fiscal year ended March 31, 2019, and steadily implemented structural reforms to improve the high-cost structure of the Group in the fiscal year ended March 31, 2020, taking measures such as reducing fixed costs by offering voluntary early retirement to 129 employees of NDK.

More recently, a difficult business environment has continued to surround NDK resulting from the global economic stagnation caused by the continuing China-US trade friction and the worldwide outbreak of the COVID-19. Consequently, also in the fiscal year ended March 31, 2020, regrettably, we recorded a significant net loss, even after excluding the one-time costs associated with the implementation of the voluntary early retirement program mentioned above. On the other hand, with the full-scale increase in demand for the next-generation high-speed communication standard “5G”, and growing demands in the automotive market, where NDK holds an overwhelming share, for crystal devices relating to ADAS (Advanced Driver Assistance Systems) equipped in vehicles, in addition to compact-size devices, demand for highly accurate and highly reliable crystal device products, which are a strength of NDK, is expected to increase even more in the future. In light of these circumstances, in order to establish a stable management structure that ensures stable profit, NDK formulated the Mid-Term Management Plan for the three (3) years commencing in the fiscal year ending March 31, 2021, with the aim to continuing to reduce costs through structural reforms and simultaneously reaping benefits from future business opportunities.

2. Outline of the Mid-Term Management Plan

1) Period

From the fiscal year ending March 31, 2021 to the fiscal year ending March 31, 2023

2) Top priorities and measures

i) Selective injection of resources in the upstream process

- In order to meet the needs for crystal devices that are more compact and have higher frequency and accuracy, NDK clarified its policy to invest its resources more heavily in the upstream process ranging from cultivating high quality synthetic quartz crystals to processing wafer using microfabrication technology, where NDK has competitive advantages.

ii) Improving productivity in the down-stream process

- In the down-stream process (assembly), NDK will focus on improving productivity and strengthening cost-competitiveness by accelerating the introduction of high speed/high accuracy equipment.
- iii) Continuation of structural reform and drastic reduction of fixed costs
- In light of the uncertain economic and competitive environment, we will continue to implement structural reforms and drastically reduce fixed costs in order to establish a business structure that ensures stable profit even at the current sales level.
- iv) Review sales mix of existing products and business portfolio
- We will improve the “quality of sales” by expanding sales through increasing the sales ratio of products that leverage the technological superiority of NDK, such as 5G-related products and compact, high frequency/high accuracy crystal units using photolithographic technology while strategically discontinuing commodity products that had previously been sold for the purpose of recovering fixed costs.
 - We will review our business portfolios based on the current business environment and future growth potential, such as the establishment of a joint venture related to the SAW filter business
- v) Improve NDK’s financial position
- Every effort will be made to restore NDK’s shareholders’ equity by steadily securing profits.
 - NDK will issue the Class A Shares to quickly stabilize NDK’s financial position, thereby that NDK secures the growth investment source above which does not rely on the interest-bearing liabilities.

3) Targets to be achieved by the final fiscal year (the fiscal year ending March 31, 2023) of the Mid-Term Management Plan

Net sales	:	42 billion yen
Operating income rate	:	7%
Basic earnings per share (EPS)	:	50 yen (In consideration of dilution due to issuance of the Class A Shares)
Capital ratio	:	20% or more
[Assumption]		
Exchange rate	:	107 yen/US\$
Dilution rate	:	98.4 %

* Dilution rate estimated in the case where all of the Class A Shares to be issued to Japan Industrial Solutions Fund II, as announced in “Re: Issuance of Class Shares through Third-Party Allotment, Reduction of Amounts of Capital Stock and Legal Capital Surplus, Appropriation of Surplus, Partial Amendment to the Articles of Incorporation, and Reduction of Amounts of Capital Stock and Legal Capital Surplus on Issuance of Class Shares” as of today, are converted into common shares.

End

This translation is provided only to assist our English-speaking stakeholders in better understanding of our original press release. Since this might include slight variation in meaning due to translation, please refer to the original linked to: https://www.ndk.com/jp/news/2020/1191105_j.pdf