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## **Medium-Term Management Plan 2020**

### **“Powerful Step” for a Jump**

Meidensha Corporation (MEIDEN) has launched its Medium-term Management Plan 2020, which defines its business strategies for three years from fiscal 2018 to fiscal 2020.

#### Introduction

Under its Medium-term Management Plan V120 for fiscal 2015 to fiscal 2017, the MEIDEN Group upheld three basic policies: Enhancing its product competitiveness; strengthening the earnings base of the Group’s domestic business and expanding the growth of overseas business. The Group was able to make steady progress on key measures stipulated in the plan, including the development of new business partnerships and setting a direction for each business.

#### <Progress made in V120>

- Creation of world-acclaimed products by sharpening their edge.
- Increased orders for the company’s hydroelectric-related business as well as maintenance and servicing businesses
- Promotion of business partnerships (India’s Prime Meiden, Germany’s TRIDELTA, etc.)
- Growth of overseas business (attaining an overseas sales ratio of 30 percent)

The Group faces various market factors today. In the domestic market, there has been a steady demand for renewing or extending the lifespan of aging facilities and for installing energy-saving equipment at the existing facilities, while demand for new projects is on the decline owing to the nation’s shrinking population and other factors, exerting downward pressure on the prices of products. With regard to the public sector, municipal governments are diversifying how they

provide their infrastructure services, such as collaborating with neighboring municipal governments or the private sector to provide such services together.

The Group continues to see a steady demand in the overseas market. In the emerging economies, mainly in Asia, demand for building infrastructure, such as power plants, railways and water supply and sewer systems, continues to grow owing to population growth and urbanization.

Furthermore, global trends such as stricter environmental regulations, the advent of automobile digitalization and electric vehicles and the advancement of technologies related to the Internet of Things (IoT) and artificial intelligence (AI) present prime opportunities for the Group to expand its businesses. It is necessary for the Group to study how these trends will unfold and respond to them soundly and swiftly.

#### Outline of Medium-term Management Plan 2020

##### 1. Concept and basic policies

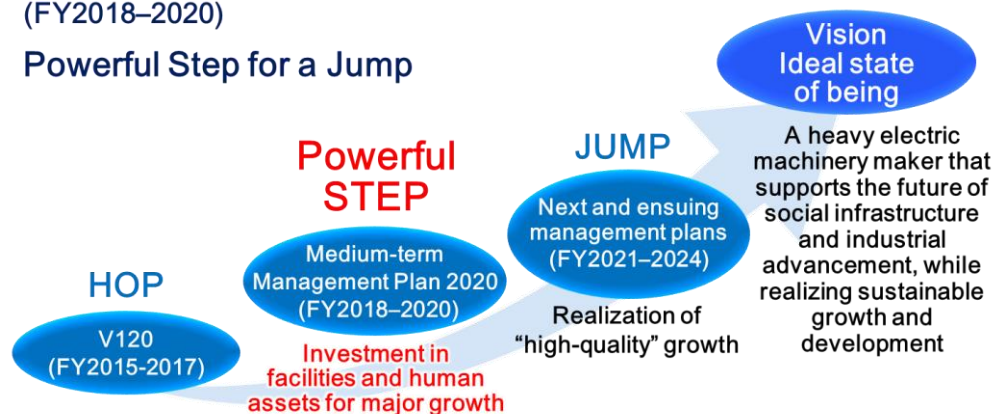
- Concept: “Powerful Step” for a Jump

Under the Medium-term Management Plan 2020, which is defined as the phase of “powerful step,” the Group will proactively invest and take measures to make its facilities, human assets, research and development and business partnerships with other parties more robust. In the “Jump” phase that follows the current management plan, the Group aims to attain “high-quality” growth by realizing a balanced composition of different businesses and enhancing the overall profit ratio.

### **Medium-term Management Plan 2020**

(FY2018–2020)

**Powerful Step for a Jump**



- Basic policies

The Group categorizes its business areas into the following three to attain optimal distribution of its resources and will implement necessary strategies for each of them.

<Growth businesses>

The Group defines businesses whose markets are expected to grow further, including overseas and automobile-related businesses, as “growth businesses” and will proactively divert resources to these domains to ensure their expansion.

<Earnings-base businesses>

The Group defines businesses that serve as a base to generate earnings in a stable manner as “earnings-base businesses,” which include the water treatment/public infrastructure, electric power/renewable energy and maintenance/servicing businesses. The Group aims to sharpen its earning power by revamping its business models and improving its productivity.

<New growth businesses>

The Group will make investments into businesses associated with semiconductor manufacturing equipment – new growth businesses which are expected to grow further – and try to generate new enterprises.

Under such basic policies, the Group will strive to enhance its corporate value, make active investments and strengthen its earning power.

2. Key measures under Medium-term Management Plan 2020

- 1) Production strategy
- 2) Dealing with human assets development and work style reform
- 3) Research and development strategy
- 4) Building a robust financial base
- 5) Improving the “quality” of the foundation for business operations

- 1) Production strategy

The Group will make capital investments to expand the scale of operations or to increase

production in the growth and new growth businesses. It will introduce automated production for high-volume products and automated inspection processes to enhance its productivity. In the earnings-base businesses, the Group will concentrate on boosting earning power for system products. It will sharpen the competitive edge of its products by building so-called smart plants with the use of IoT and AI, making investments in automated product design, etc. and optimizing the supply chains.

## 2) Dealing with human assets development and work style reform

The Group will further strengthen the development of human assets, as the basis for supporting business development. It will institute improved technological training, use overseas training centers and promote exchanges with national staff members in overseas operations to foster next-generation human assets for the Group.

In the “growth businesses”, the Group will concentrate on nurturing national staff members engaged in overseas railway projects or securing or nurturing human assets capable of developing motors and inverters for electric vehicles, whose market is expected to grow.

In the “earnings-base businesses”, the Group will build a cross-sectional business promotion regime, develop human assets for business promotion and enhance its capability for making business proposals.

The Group will tackle work style reform by stipulating a new action plan, called “Smart Work 2020.” It will reform the production processes and invest in the streamlining of facilities and increase productivity through the use of robotic process automation, while taking steps to realize diversity in the workplace, including expanded or improved support systems for child rearing and nursing care.

## 3) Research and development strategy

While reaping the fruits from the “V120”, the Group will further strengthen basic and product technologies with the aim of generating next-generation products and systems. The Group will concentrate on developing new products by diverting resources to the “growth businesses” related to the overseas power generation and automobile sectors, while boosting its digital technologies associated with IoT and AI, etc., to give new added values to the “earnings-base businesses.”

In addition, to speed up research and development, the Group will introduce new methods, such as front loading design and model based development. At the same time, the Group will use its Silicon Valley Office and strengthen tie-ups with outside research

institutes to promote open innovation.

4) Building a robust financial base

For a further leap forward, the Group will proactively make necessary investments. At the same time, it will realize a robust financial base by enhancing its net worth through improvement of its earning power and by boosting its cash generation capability through the streamlining of its assets to build a foundation for a sustainable growth. In addition, it will diversify fund procurement methods to ensure the Group has a stable financial base.

To realize the above, the Group will set financial targets and make all-out efforts to have a solid financial base to attain these targets.

5) Improving the “quality” of the foundation for business operations

The Group will make continued efforts to improve the quality of products, systems, and services as a corporation that supports social infrastructure. In addition, it will proactively improve the “quality” of activities that serve as the foundation for business operations, such as the eradication of industrial accidents and full implementation of corporate governance.

The Group has been promoting environmental conservation by offering eco-friendly products and services at a time when the world faces threats of natural resources depletion and global warming.

Going forward, the Group aims to slash the emissions of global warming gases associated with its business operations by 30 percent from the fiscal 2017 level by the end of 2030 through the eco-conscious operations mentioned above.

The Group will aim to materialize ideas infused into its corporate slogan, “Quality connecting the next,” through the aforementioned activities.

3. Strategies for each business segment

(1) Social infrastructure business

1) Growth businesses

– The Group’s strategies in the overseas electric power field are as follows. It will aim to enter the electric power markets in Southeast Asia by further advancing partnerships with local companies in the region – efforts which have been made since the previous medium-term management plan. It will concentrate on expanding the sales of its world-acclaimed products, such as vacuum circuit breakers and surge

arresters in European and North American markets. Furthermore, Prime Meiden Limited, an India transformer manufacturer that is now a consolidated subsidiary of the Group, will play a leading role in carrying out the strategies in India, by accelerating efforts to enter local electrical power utility markets and to win contracts for high-speed rail projects. It also aims to enter markets west of India.

– In the overseas railway field, the Group will steadily carry out large projects, including work to renew facilities that are part of Singapore’s MRT North–South and East–West lines. It will also try to strengthen its corporate preparedness to cope with vigorous future demands for urban transportation and high-speed railways.

## 2) Earnings-base businesses

– The Group will try to reduce the cost of products through discontinuous innovation or drastic changes in design, materials and manufacturing processes and revamp its business models for business operations in water treatment, public infrastructure and electric power/renewable energy. It will aim to attain automation and labor-saving in operational control by pairing its accumulated product data and know-how with IoT and AI technologies. It will also aim to beef up its capability to make proposals and build a corporate structure to better cater to the new needs of municipal governments. Many such entities are now providing infrastructure services together with neighboring municipal governments, engaging in cross-field endeavors in energy and water projects and tying up with the private sector.

– In its business operations catering to the private sector, the Group will try to ensure that it better meets demands by a drastic reduction in the cost of high-voltage, low-voltage switchgear and improved business promotion efficiency through cooperation with the maintenance and servicing business operations.

## (2) Industrial systems business

### 1) Growth businesses

– In the automobile-related field, the Group will aim to win new mass production contracts by making capital investments to cope with increased production of motors and inverters for electric vehicles and strengthened manpower for product development. In the automotive testing systems business, it will strengthen its engineering capabilities that can deal with the proliferation of electric vehicles, digitalization of vehicles and introduction of model-based development by promoting its partnership strategy, while pursuing the synergy effects with its motor

and inverter business for electric vehicles.

2) Earnings-base businesses

– In the industrial motors and drives business, the Group will boost the earning power of existing products while creating new products through partnerships or other means.

– In the automated guided vehicle systems business, the Group will collaborate with a system integrator to generate world-acclaimed products for improved earning power.

3) New growth businesses

– In the field related to semiconductor manufacturing equipment, the Group will continue capital investments to deal with increased production demand, as the market is projected to make steady growth. It will also try to secure growth by developing new products.

–The Group projects continued growth in the market for ceramic flat membranes, thanks to increased demand for reclaimed water and strengthened environmental regulations. It will aim to expand the business by strengthening its sales structure in collaboration with other companies.

– Furthermore, it will aim to create new growth businesses through operations by the Business Development Division, which was established in April 2017, as well as its Silicon Valley Office set up in August 2017.

(3) Maintenance and servicing business

– In the maintenance and servicing business, the Group will provide one-stop services based on life cycle engineering. It will also try to develop this business into facility management business at a time when Japan's population is declining and municipal governments are increasingly experiencing financial dire straits. It plans to provide preventive maintenance services through enhanced fault prediction and detection technologies that use IoT and AI, as well as the provision of low-cost, labor-saving, maintenance and servicing operations.

4. Financial targets

The Group will aim to achieve ¥280 billion in net sales, ¥14 billion in operating income, ¥13.5 billion in ordinary income and ¥9.4 billion in current net income attributable to owners of

parent in fiscal 2020, the last year in Medium-term Management Plan 2020. It has set the following targets: a return on equity (ROE) of 10%, a return on invested capital (ROIC) of 7% and an operating profit margin of 5%. Achieving these targets, the Group will realize highly efficient management, make investments for a leap forward and build robust financial base.

#### Financial targets (consolidated)

In billion yen

	Fiscal 2017 (results)	Fiscal 2018 (forecast)	Fiscal 2020 (targets)
Net sales	241.8	245.0	280.0
Operating income	11.3	11.5	14.0
Ordinary income	9.9	10.8	13.5
Current net income attributable to owners of parent	7.0	7.5	9.4

ROE	9.2%	9.2%	10.0%
ROIC	-	-	7.0%
Operating profit margin	4.7%	4.7%	5.0%
Capital investment	¥7.5 billion	A total of ¥30 billion during the three years	
Growth investment budget	¥0.5 billion	A total of ¥20 billion during the three years	
Research and development expenditure	¥9.4 billion	More than ¥30 billion during the three years.	

Net worth	¥80.2 billion	-	¥100.0 billion
Consolidated dividend payout ratio target	28.9%	Stably at 30.0%	



In billion yen

		Fiscal 2017 (results)	Fiscal 2018 (forecast)	Fiscal 2020 (targets)
Social infrastructure	Net sales	147.0	142.0	157.0
	Operating income	4.0	3.5	4.8
Industrial systems	Net sales	56.0	63.0	77.0
	Operating income	4.3	4.9	5.5
Maintenance and servicing	Net sales	33.9	35.0	39.0
	Operating income	3.5	3.8	4.4
Real estate	Net sales	3.4	3.5	3.5
	Operating income	1.3	1.3	1.3
Others	Net sales	1.3	1.5	3.5
	Operating income	minus 2.0	minus 2.0	minus 2.0
Total	Net sales	241.8	245.0	280.0
	Operating income	11.3	11.5	14.0