

## Analyst Discussion

# Making Sharp a Company with Sustainable Growth that Contributes to Society



Nomura was appointed President and COO on June 29, 2020, and a new CEO-COO system was launched to steer management alongside Chairman and CEO Tai. With these changes, we have invited Mr. Yasuo Nakane of Mizuho Securities Co., Ltd. to discuss the future management of Sharp.

## 1. Nomura's Appointment as President

■ **Mr. Nakane** I've often heard you speak at financial results briefings, but I haven't had much opportunity to actually speak to you about yourself until now. Why don't you start by telling us about your work history at Sharp?

■ **Nomura** I joined Sharp Corporation in 1981. Initially, I was in charge of production management, computers, and accounting at the Electronic Components Group, and in 1984 I was transferred to the Accounting Department at the IC Group. After that, in 2003, I participated in the Kameyama Plant launch project and

became involved in the LCD business.

As of 2006, I also worked in the Audio-Visual Systems Group, which handled TVs. I think that the executives at that time were mindful that it would be better I gain experience not only in device-related departments, but also product-related departments.

Furthermore, since I became the General Manager of the AVC LCD Group in 2007, I have been entrusted with duties on the business side as well.

I became Director and Executive Officer at headquarters in 2010, and in June 2012 I took the role of Chairman at what is now Sakai Display Products Corporation (SDP). After that, I returned to Sharp in April 2016 and served in management as Vice President.

■ **Mr. Nakane** Your company closed with significant losses in fiscal 2011 and was unable to fully reverse that underperformance during the period from fiscal 2012 to 2015. Could you analyze the situation at that time and tell us what lessons you took from it?

■ **Nomura** I was Chairman of affiliate company SDP beginning in fiscal 2012, so while I didn't have visibility on all aspects, I think there were problems with the organization and structure.

For example, device businesses require a different kind of PSI management than what is required in the product businesses, and not everyone is going to have knowledge or experience in that area. If there was a system in place where auditors, management, operating departments, and financial departments work together, management players share information sufficiently amongst each other, and we were able to mutually cover each other, there wouldn't be an issue. However, I feel that there was a situation where the organization was unable to cope well because of a lack of sufficient communication, despite having highly-capable talent in these various areas.

■ **Mr. Nakane** How has the system as it is today changed based on the lessons from the past? Have you been able to overcome those challenges?

■ **Nomura** Because we have promoted various organizational and institutional reforms, we have a system with clear roles for supervision, decision-making, and business execution, allowing appropriate, prompt decision-making.

For example, in order to promptly make decisions, we have changed our Executive Management Meeting, which at the time was a monthly meeting, so that the necessary players can meet at necessary times, whenever those times may be.

In June 2020, we also revised our system where the President and Vice Presidents were responsible for the business groups.

## Analyst Discussion



Now, the CEO and COO take care of building company-wide strategy, and five Senior Executive Managing Officers specialize in building business and regional strategies. This clear delineation of roles and responsibilities led to clarity as to where we must cover each other.

As we advanced these initiatives, we also saw that daily communication was naturally becoming more vitalized.

## 2. The Important Things in Management

■ **Mr. Nakane** What is important for you as a Sharp manager? Please tell us what you are paying particular attention to at the moment.

■ **Nomura** Since I joined the company, I have always cherished its Business Philosophy and Business Creed. Currently, I am paying particular attention to factors like the balance between business and finances, as well as minority shareholders.

■ **Mr. Nakane** Could you tell us a little more concretely about the Business Philosophy and Business Creed, including what you consider especially important?

■ **Nomura** There is of course the idea of co-existing and prospering alongside society and our stakeholders, which is expressed

in our Business Philosophy, which says, among other things, that we will “contribute to the culture, benefits and welfare of people throughout the world.” However, I have considered the words of “Sincerity and Creativity “ from the Business Creed to be of special importance.

Sincerity is important for the sales departments that serve as contact points to our customers, as well as broadly for all employees. Creativity is essential for our engineers, including those in planning and development departments, as well as our employees as a whole, when they create something new.

I want us to be able to share these ideas and build an environment where people can work with a self-starting, aspirational attitude.

■ **Mr. Nakane** I hope that your company’s next medium-term management plan will incorporate a strategy emphasizing profit growth. However, your financials are still recovering. I feel the balance between growing profit and improving your financial structure is extremely important.

■ **Nomura** Our financial aspects are not yet robust, and we must continue to improve. On the other hand, we must make appropriate investments, such as M&A, to jump ahead. We would like to re-attain investment-grade ratings as we continue to make necessary investments. Returning to an investment-grade rating would expand our financing options and open up greater possibilities on the business side. This will likely take some time. I’m not sure if this can be done while I am President, but I would like to see this through as quickly as possible.

■ **Mr. Nakane** Please tell us what should be taken into consideration when attempting to strike a balance between the two, and what your basic approach is to M&A.

■ **Nomura** We will conduct M&A in instances where it will assuredly contribute to business performance, including making up for shortfalls. For example, we have entered into a contract with NEC Corporation to make its subsidiary, NEC Display Solutions, Ltd., a subsidiary of our own. This was done to complement deployment regions and other business aspects for our Business Solutions business.

We will also strive to improve working capital. Since we are managing this in line with our business plan, this is still not excessive; however, I think spinning off our device businesses will enable more detailed management.

In addition, we must think about how we handle Class C shares. These are not preferred shares and are built into EPS, meaning that though there will be no impact on business performance or financials, I think there are concerns over potentially deteriorated supply and demand from any conversion to common stock, which is dampening stock prices.

■ **Mr. Nakane** Four companies, including Hon Hai Precision Industry Co., Ltd., are major shareholders who own about 60% of common stock. Therefore, all external investors, whether they be corporations or individuals, are minority shareholders. What are your thoughts on those minority shareholders?

### Mr. Yasuo Nakane Mizuho Securities Co., Ltd. Global Head of Technology Research

Graduated from Sophia University in 1991. Joined Mizuho Securities in 2015 after working at Daiwa Institute of Research (Tokyo/Taipei) and Deutsche Securities. Responsible for the consumer electronics sector, display-related industries in general, and the electronics sector in Asia. Has ranked at the top of Nikkei Veritas’s analyst rankings in the Consumer Electronics and AV Equipment sector for five consecutive years.



## Analyst Discussion

■ **Nomura** We have established and manage our Regulations on Related Party Transactions so that transactions with our parent company, Hon Hai Precision Industry Co., Ltd., and its group companies will not adversely affect Sharp's financial position and operating results. We conduct the same internal procedures as we would for ordinary transactions, with transactions verified for their necessity, rationale, and validity of conditions. All of this is confirmed by the Board of Directors.

The opinions that we gain from our diversely-oriented minority shareholders are also extremely valuable. I am constantly thinking about how we can increase the opportunity to exchange opinions with them. We hold management briefings after Ordinary General Meetings of Shareholders, and proactively participate in conferences for institutional investors. I would also like to engage in discussions with securities analysts as much as possible.

■ **Mr. Nakane** I was worried that there would be a deterioration in disclosure when Sharp received investment from Hon Hai. However, I feel that information disclosure in the last few years has improved. This also gives an impression of Sharp's independence within the Hon Hai Group, which I think is a desirable state.



## 3. The Desired Corporate State

■ **Mr. Nakane** Recently you have often said that Sharp is a *brand company*. Sharp's businesses can be divided into two categories: brand businesses centered on finished products, and device businesses such as the display business. Let's reconfirm the basic approach toward each of these two.

■ **Nomura** Sharp has brand businesses, which cover products, services, solutions, and so on, as well as device businesses. In the future, we will allocate more resources to strengthen our brand businesses. Advanced devices are of course essential for this. Since device businesses require significant investment on an ongoing basis tracking the evolution of technology, we will spin these off and seek to acquire external funding.

■ **Mr. Nakane** How will you increase brand value?

■ **Nomura** We would like to increase brand value as a company contributing to society.

With COVID-19, our lives have changed significantly. For instance, wearing masks in the city has become a foregone conclusion and working from home has become commonplace. We likely can't completely go back to the way things were before, and a number of new social issues will no doubt emerge in the era of the new normal.

Sharp will utilize its resources to solve social issues. One of these resources is our Plasmacluster technology. Amid increasing awareness toward the environment and cleanliness, we will proactively promote its effects and provide safety and peace of mind. We will also strengthen our Smart Life services, such as our Heal-sio Deli meal kit delivery service, COCORO OFFICE, educational solutions, and membership businesses.

In addition to Plasmacluster technology, I think we have



strengths in sensor technology, communication technology, robot technology, as well as 8K + 5G-related equipment and AIoT-compatible equipment that have already been widely deployed.

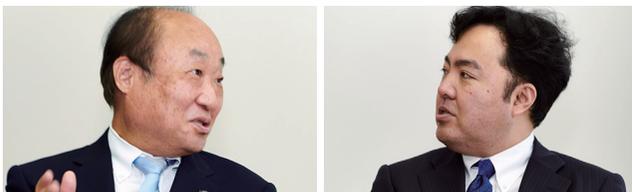
■ **Mr. Nakane** While Sharp has been putting out a lot of extremely original products, there are many instances where Sharp products fall short, in a market they created, overtaken by late-comers with greater corporate scale than Sharp.

■ **Nomura** Unfortunately, there have been such cases in the past. At present, we can maximally leverage our cooperative relationship with the Hon Hai Group and supply the unique products we've created to the market without missing opportunities.

The basic structure is that Sharp conducts research, development, design, and sales, while the Hon Hai Group is used for production and procurement. However, we are flexible in how we operate this structure depending on region and value. In China, the Hon Hai Group is also used for design and other processes, while in nations in ASEAN and elsewhere, Sharp manufactures white goods, televisions, and others.

■ **Mr. Nakane** Let's talk about geopolitical risk. The trend of trade frictions between the United States and China is one that

## Analyst Discussion



demands constant attention, and impact may become severe for companies who do business in both countries. How will Sharp deal with this situation?

■ **Nomura** At this point, there has been no major impact on business performance, but we are closely watching trends in the United States and China. Sharp manufactures at its own plants in Thailand and Indonesia as well as at the Hon Hai Group's bases in China. The company also has a new plant in Vietnam that was launched this year. We believe that we can respond flexibly by reviewing the items produced at each base.

■ **Mr. Nakane** In the product businesses, you are also working to expand your B2B (corporate) business. As a slight contrast to B2C (consumer), your B2B business is limited to a small scope still, with the exclusion of copiers, multi-function printers, and some other areas. This B2B side does not seem to have strengths on the sales side.

■ **Nomura** We have a B2B sales department under Business Solutions, which handles multi-function printers and signage. With the expansion of our personal computer business and the development of COCORO OFFICE, the sales department will need more power than ever before. Therefore, we are shifting personnel and taking other actions to strengthen it.

■ **Mr. Nakane** The device (e.g. display, semiconductor, electronic components) businesses have already been spun off as wholly-owned subsidiaries. I believe you are also considering the acquisition of external funding as needed. I believe this is a rational strategy from the perspective of distributing management resources. On the other hand, I think that if these are working on the devices necessary for improving brand value and differentiating finished products, they should maintain their positions as consolidated subsidiaries.

■ **Nomura** Moving forward, I don't know what will come out of the discussions we'll have with a variety of companies. However, I don't think it is a strange idea to think that the devices necessary to increase brand value should be created by Sharp itself and/or and its consolidated subsidiaries.

■ **Mr. Nakane** Please tell us your approach to recruiting and cultivating human resources.

■ **Nomura** We look ahead to the future, hiring about 300 new graduates each year. In addition, our organization has a biased age demographic with few in their 30s and 40s; therefore, we also re-hire former employees and recruit mid-career employees after determining what kind of talent we need. Talent with experience working in other companies tend to enliven the workplace. We also welcome those who have experienced both Sharp and other companies who can come back to us and evaluate how we work at Sharp.

## 4. Concluding Remarks

■ **Mr. Nakane** We've been able to hear about profit growth and financial improvement, your approach to device businesses and minority shareholders, and other points of interest for me. I

would like Sharp to be an activist subsidiary. As an analyst, I cover both Sharp and Hon Hai Precision. From my standpoint, I strongly feel that Sharp and the Hon Hai Group, each with strengths not found in its counterpart, could have a very good complementary relationship with expectations for great synergistic effects if they are successful in building a collaborative mechanism. It would be beneficial for both sides if young people gained the experience of collaborating with the Hon Hai Group, an experience only available at Sharp, and exerted a positive impact on the management of the Hon Hai Group.

■ **Nomura** Thank you for your valuable opinions. We remain keenly aware that we are tasked with engaging all of our shareholders in discussions, and absorbing their opinions from a myriad of perspectives. We would be grateful to receive the frank opinions and suggestions of as many shareholders, investors, and securities analysts as possible.

