Business Transformation

October 31, 2013
Panasonic Corporation

Notes: 1. This is an English translation from the original presentation in Japanese.
2. In this presentation, “fiscal 2014” or “FY2014” refers to the year ending March 31, 2014.

This presentation contains Panasonic business transformation.
We introduced business division system in April 2013, in which each business division obtains responsibility not only for R&D, production and sales but also financial metrics. I believe everything goes well since then, although we still need to work.

First, we now make a decision more quickly and generate higher motivation by each of us taking responsibility. And also, we compete more among business divisions and respond more quickly to challenges, once we have a transparent business structure.

The head office enables to make a final decision as needed; some of business divisions will be integrated and restructured, or invested by our partners in FY14 2H.

We will continue to expand competitive business and integrate and restructure difficult business in our business division system.
Here are action items in our mid-term plan ‘CV2015’ announced in March 2013. I will talk about what we are going to concentrate in FY14 2H.  
1) Restructure unprofitable businesses
We target 130 billion yen operating loss improvement in these five unprofitable businesses.

As we have announced, we will discontinue the B2C smartphone development and also complete the domestic integration in the optical business. I have to admit that the improvement progress is very varied, although we have worked on each of these five businesses listed above.

We will therefore accelerate restructuring effort in FY14 2H.
We announced today that we will discontinue our PDP business. We have made an effort to reduce fixed costs and expand large size product and electronic blackboard businesses to improve the profitability.

We, however, expect more than 20 billion yen operating loss in FY14, since LCD screens are getting larger and 4K displays are introduced in the market, leading the PDP market drastically shrinking.

We therefore decided to discontinue our panel production at the end of December 2013 and exit our PDP business by March 2014.

In the US and China, we will drastically reduce operation cost in such a severe competition causing a huge operating loss. We will narrow down sales channels, and introduce ‘factory direct’ business model in the US. This will lead large operation cost reduction in production and sales combined with streamlining.

We expect more than 30 billion yen operating loss in FY14 in our TV/panel business overall including its distribution, and we expect to return to the black by FY16 by making these efforts.
We have two other businesses failing in FY14 1H and have started to restructure them.

First, we expect our air conditioner business falling into the red in FY14, since the Chinese business has worsened, and the operation costs have increased when we import product to Japan due to yen depreciation.

We adjust channel inventory in China, revisit R&D from customers’ perspective, strengthen large size products, integrating operation of R&D, manufacture and sales, and finalize restructuring plan in FY14.

We also expect continuing operating loss in our digital camera business, since the compact camera market is drastically shrinking against the expanding smartphone demand.

We will focus on high value added products such as our smallest SLRs in the world scheduled to launch in November 2013, reduce fixed costs, create new business area enhancing communication and 4K technology and expand external sales in optical device business to return to the black in FY15.
I will talk about what we are going to focus in FY14 2H.

2) Develop strategy for future growth
This chart indicates our future in the mid-term plan.

We will expand business for your house, your society, your industry, your journey, your car and any other spaces and places, from our consumer electronics business, to offer ‘better life’ to customers.

Each industry is playing an important role in each space and place. We will establish a partnership with key players in the industry and together offer ‘better life’ and together create new consumer electronics.
We vigorously work on our automotive business to expand. In the industry, computerization and electrification have been seen as a trend and I believe we enable to drastically expand our business, by grasping this opportunity.

For example, we can offer not only battery systems but also cockpit systems, various sensors and cameras.

We expect to expand our business more than 10 times per hybrid car or electronic vehicle, which is currently amounted to several tens of thousands yen business per gasoline car.

Our Automotive & Industrial Systems Company leads strategic planning towards 2 trillion yen sales in FY19.

We expect 1.7 trillion yen sales by expanding our current business. In addition, we will take an ‘unconventional measure’ to expand business areas with M&A and alliance especially in safety and security business areas where auto manufacturers focus.
Automotive battery business has started to go into high gear in automotive business.

I am glad to tell you that we have received lithium-ion automotive battery orders from five major auto manufacturers for more than 10 models, and we will increase our production to meet their demand.

As we announced October 30, 2013, we will supply 2 billion cells to Tesla Motors in 4 years from 2014 to 2017. We will have supplied 0.2 billion cells to them in 2012 and 2013 in total: the sales will drastically increase tenfold in the following 4 years. Likewise, we have been asked about our products from other auto manufacturers thanks to acclaimed efficiency and quality of our products.

We therefore decided to increase investment in 18 billion yen in addition to 13 billion yen in our business plan, utilizing existing or unused facilities to maximize return.

Different from consumer business such as TV, we enable to accurately forecast orders from customers in automotive battery business. We will expand this business, not only vigorously taking business opportunities but also paying attention to risk factors.
In housing industry, ‘energy revolution’ has been seen as a trend in its technology. This will contribute to our drastic business expansion with our uniqueness combining creating, storing and saving energy equipment and energy management systems.

We expect to double sales per house which is currently amounted to at most 2-3 million yen sales per house, when we work with our partners in the industry to expand ‘smarthouse’ business.

Our Eco Solutions Company leads strategic planning towards 2 trillion yen sales in FY19. We expect 1.7 trillion yen sales by expanding our current business such as HEMS, home remodeling and sales expansion in Asia, China and India.

In addition, we will take an ‘unconventional measure’ to enter new business areas and expand overseas sales channels with M&A and alliance.
HEMS business has been in steady expansion.

The sales in FY14 1H were 29 billion yen, +11% vs FY13, with power conditioners, AiSEG, ‘smartmeters’ etc. We plan to introduce new core equipment in 2014 and accelerate its business expansion.

Meantime, we have developed ‘smarthouse’ business with HEMS. We introduced ‘CASART ECO CORDIS’ by PanaHome in April 2013 and received 500 house orders in FY14 1H and expect to achieve more than 1,000 house orders in FY14.

Panasonic group will together develop the newest ideas combining with HEMS, incorporated by PanaHome and introduced to customers to expand ‘Smarthouse’ and HEMS business.
We announced today that we agreed to buy ViKO at 46 billion yen, one of the top market share Turkish wiring instrument companies, acquiring 90% of its shares in FY14.

We will target global No.1 market share in wiring instruments combining Panasonic’s strength with No. 1 market share in Asia and ViKO’s advantage based in Turkey, the Middle East and CIS.

We will accelerate global business expansion through ViKO’s sales channels and its strong brand name in not only wiring instruments but also other housing-related products such as lighting instruments and ventilating fans.
This chart shows our sales target in FY19.

We target 2 trillion yen sales in each of auto and housing business doubling from FY13. In addition, we will maintain 2 trillion yen sales in consumer electronics business, which is currently amounted to 1.9 trillion yen sales. Our Appliances Company and AVC Networks Company have started to discuss their strategy towards this target.

Having a presence of Panasonic and targeting 2 trillion yen sales in each auto, housing and consumer electronics business, we will add up other B2B business as a company-wide high profitable business.

Focusing on improving profitability in the mid-term plan ‘CV2015,’ we will accelerate growth strategy and its details in FY14 2H towards ‘after FY16.’

Thank you for your cooperation.
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