



Date: November 6, 2019

To Whom It May Concern

Company Name: Sanken Electric Co., Ltd.
Representative: Takashi Wada
Representative Director, President
Code No.: 6707 (the TSE, 1st Section)
Inquiries: Akihiro Goto
Finance and Investor Relations Division
TEL: (048) 487-6121

Notice on Production System Optimization in Mainstay Businesses and Strategic Review of Non-mainstay Businesses

Sanken Electric Co., Ltd. (the “Company”) announces that at the Board of Directors’ meeting held today, it decided to concentrate management resources on the mainstay businesses of semiconductor devices and power modules, promoting the selection and concentration of business structures to accelerate the growth strategy. Accordingly, policies were set out to optimize the production system of the semiconductor devices segment as well as to perform a strategic review of the power systems segment and the LED Lighting Equipment Business.

This decision is the second round of measures to improve earnings following the Group Restructuring implemented in FY2017. It is intended to take the fundamental reorganization of the earnings structure one step further. From the perspective of effectively redistributing management resources, the Company has decided to examine and implement strategic options for the power systems segment, which is positioned as a non-mainstay business, and to withdraw from the LED Lighting Equipment Business, which has continued to be unprofitable. Meanwhile, in the semiconductor devices segment, the Company will promote cost reductions and the development of an optimal production system in order to ensure greater competitiveness. Various measures will be implemented to optimize the production system including consolidating domestic plants and transferring production processes in Japan and overseas.

In line with these measures, the Company will reestablish sales targets, etc. under the 2018 Mid-term Business Plan currently in progress, and will make an announcement as soon as details are available.

1. Background of this Decision

In order to achieve restructuring within the Group in FY2017, the Company withdrew from the PM business, which had been unprofitable, reviewed businesses from the perspective of profitability such as discontinuing unprofitable semiconductor device products, as well as implemented measures to curb fixed costs such as reducing headquarter personnel. Meanwhile, the Company has also been implementing various measures to improve earnings, such as increasing investment in technological development in order to strengthen product development capabilities for the ever-growing white goods market and the car-mounted market.

In the current fiscal year, in addition to having an outlook on the discontinuation of the unprofitable products of the Semiconductor Device business, prerequisites for proceeding to the next step have been put in place, such as foreseeable future demand for some existing products and the advancement of the acquisition of new orders for the Module Products, which will be the core of our future growth strategy.

Therefore, the Company established the “Structural Reform Committee”, which is composed of the President and 3 External Directors, and as a result of repeated discussions, the Company has decided to promote the selection and concentration of the business structure in which semiconductor devices are the main business, to transfer production processes in Japan and overseas, to promote outsourcing based on a review of the production system, and to optimize logistics. At the same time, the Company has decided to implement a series of business restructuring measures that are to be strategically reviewed for non-core businesses.

Through these measures, the Company will strive to transform into a company that can contribute to the preservation of the global environment through energy-saving solutions based on state-of-the-art power conversion and motor control technologies, while maintaining a firm competitive edge in the global market with a focus on power semiconductors and power modules.

2. Outline of Restructuring Measures

These measures aim to achieve a series of objectives such as enhancing the efficiency of the domestic plants, curbing fixed costs in Japan, improving the cost structure by transferring production overseas, and further optimizing logistics. Combining the restructuring of production systems for semiconductor devices, reforms in R&D operations, increased investment in technological development, and advance investment in production facilities, the Company will accomplish profit structure improvements which look forward to the future.

(1) Semiconductor Devices Segment

- (i) Domestic consolidation: In order to establish competitive and optimal production by developing and strengthening the network of production bases, domestic plants in the semiconductor devices segment shall optimize their production system by the ongoing withdrawal from unprofitable products, consolidating the plants, transferring production overseas, and promoting outsourcing. Plant employees of plants to be closed will be relocated to other plants without forced job cuts.
- (ii) Overseas reinforcement: Rebuild and expand aging facilities at semiconductor device plants in China to enhance competitiveness. After reconstruction, install new module lines for car-mounted and white goods and transfer production from domestic plants.
- (iii) Logistics improvement: Expand outsourcing of logistics operations, reorganize logistics bases, and sell real estate rendered idle. To be implemented within the current fiscal year.
- (iv) Schedule: As the above includes many production processes for products for the car-mounted market, some of which require a certain period of time from start to finish, the final completion of all measures is targeted at March 2022.

(2) Power Systems Segment

- (i) Review: Examine and implement strategic options in the future including sales to third parties.
- (ii) Schedule: Targeting completion by the end of March 2021. Details will promptly be announced upon resolution by the Board of Directors.

(3) LED Lighting Equipment Business

- (i) Withdrawal: Withdraw from the LED Lighting Equipment business and discontinue production by the end of March 2020.
- (ii) Schedule: In addition to production and sales, maintenance services required for some products previously sold will be transferred to external companies.

3. Funding

Regarding the funds required for implementing these measures, the Company will consider procurement from financial institutions as necessary, in addition to fundraising through sales of business units and idle real estate.

4. Impact on Business Results for the Current Fiscal Year

As a result of the above, the Company expects to record valuation loss anticipated from the disposal of inventories and impairment loss on non-current assets of approximately ¥400 million yen under extraordinary losses upon withdrawal from the LED Lighting Equipment Business, and gain on sales of real estate resulting from outsourcing of logistics operations of approximately ¥3,900 million yen under extraordinary income in the second half. The forecast on business results for the current fiscal year including the above is detailed in the “Notice on Transfer of Non-current Assets, Recording of Extraordinary Income, Difference between First-half Forecast and Actual Results, and Revision of Full-year Forecast” separately disclosed today.