



Medium- and Long-Term Management Strategy

March 26, 2021

電気興業株式会社
DKK Co., Ltd.

Introduction

◆ Regarding the formulation of our Medium- and Long-Term Management Strategy

Since its establishment in 1950, the DKK Group has played a role in creating a more convenient living environment through the development of telecommunications and broadcasting infrastructure in an advanced information society and the improvement of safety in the automobile industry.

As we celebrate the 70th anniversary of the company's establishment, in the current era of major changes, we have announced our Medium- and Long-Term Management Strategy, which sets forth the vision of DKK for our next stage of growth and presents our growth strategies, including the creation of new businesses, to achieve DKK's ideal of "Pioneering the Future."

We hope that this document will help deepen your understanding of DKK.

Contents

1. DKK's History and Present

2. What We Aim to Become through Growth

3. Growth Strategy

4. Targets

1. DKK'S HISTORY AND PRESENT

About DKK

DKK plays a role in the creation of “a more convenient and safe living environment”

Business segments (term ended March 2020)

Main business activities

Telecommunication Division

Consolidated sales

33.0 billion yen

Consolidated operating profit margin

10.7%

Mobile communications business

Non-consolidated sales

13.8 billion yen

Maintenance of communication base stations for mobile phones, etc.
(Antenna production, steel tower maintenance, construction work, etc.)

Fixed wireless business

8.4 billion yen

Infrastructure development for disaster prevention administrative radio network (surveys at time of construction, design, construction, maintenance, etc.)

Broadcasting business

4.2 billion yen

Production of antennas for television and radio broadcasting stations, construction of equipment, etc.

Other businesses

2.0 billion yen

LED aviation obstacle lights, LED lights, renewable energy related, etc.

High-Frequency Division

Consolidated sales

11.9 billion yen

Consolidated operating profit margin

14.3%

High frequency-related business

7.2 billion yen

- ◆ Production and delivery of induction heating equipment for strengthening metal parts
- ◆ Heat treatment of customer parts (hardening)

Management Philosophy

Appealing the DKK Group's value to society by developing technology and creating new products & services based on the **know-how** and **achievements** we have cultivated over many years.

Management Philosophy

- ◆ Contribute to society by providing excellent products.
- ◆ We aim to be a forward-looking company that anticipates the needs of the times and is filled with a spirit of challenge without fear of failure.
- ◆ Continuously work to improve productivity and always ensure appropriate profits.
- ◆ Develop and grow with the spirit of harmony of the company as one family, striving to improve the lives of our employees.

For our customers and business partner

- Provide excellent products and services to create a more convenient living environment

For our shareholders

- Emphasize efficiency of shareholders' equity and return of profits
- Stable dividend payments

For our employees

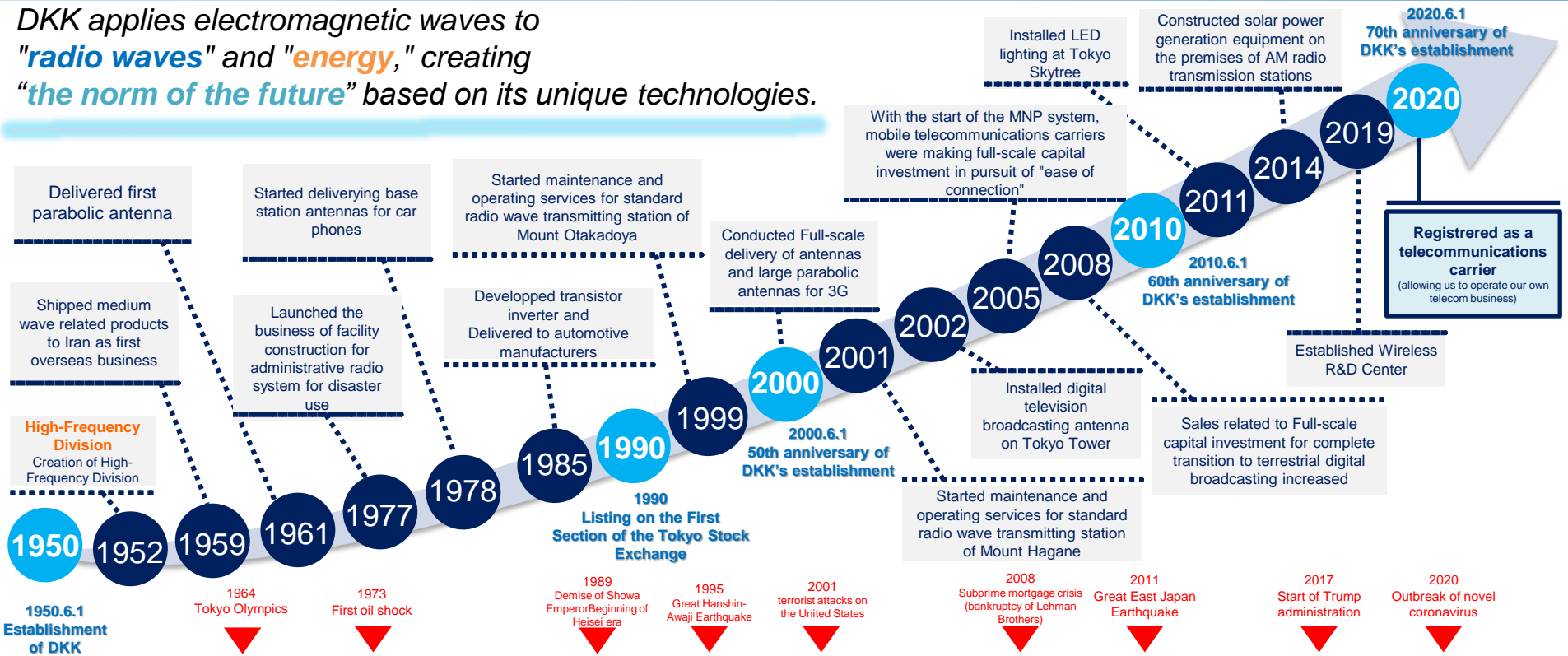
- Implement measures to create a healthy work environment and improve the lives of employees

For society

- Build a communications infrastructure as the cornerstone of the information society
- Improve safety in the automobile society

Company History

DKK applies electromagnetic waves to "radio waves" and "energy," creating "the norm of the future" based on its unique technologies.



1950	1960	1970	1980	1990	2000	2005	2010	2015	2020
<ul style="list-style-type: none"> ◆ 1953 Start of TV broadcasting in Tokyo area ◆ 1958 Completion of Tokyo Tower 	<ul style="list-style-type: none"> ◆ 1967 Over 20 million TV reception contracts ◆ 1967 10 million cars owned ◆ 1968 Over 10 million subscriber phones 	<ul style="list-style-type: none"> ◆ 1970 FM Tokyo broadcasting start ◆ 1979 Car radiotelephone service start 1st generation (1G) ◆ 1979 851,750 cars produced, highest record ever 	<ul style="list-style-type: none"> ◆ 1984 Start of NHK satellite broadcasting ◆ 1985 NTT launches its first portable phone, the "shoulder phone". 	<ul style="list-style-type: none"> ◆ 1993 2nd generation (2G) cellular phone service starts 	<ul style="list-style-type: none"> ◆ 2000 Over 50 million mobile phone subscribers ◆ 2000 Start of BS digital broadcasting ◆ 2001 onward Start of mobile phone 3rd generation (3G) service 	<ul style="list-style-type: none"> ◆ 2006 Start of MNP system (number portability) ◆ 2006 Start of digital broadcasting in all prefectures (prefectural office locations, etc.) ◆ 2008 iPhone 3G Launch in Japan 	<ul style="list-style-type: none"> ◆ 2011 Completion of transition to terrestrial digital broadcasting 	<ul style="list-style-type: none"> ◆ 2015 onward Start of mobile phone 4th generation (4G) service ◆ 2016 Deadline for digitization of fire prevention/emergency wireless communications 	<ul style="list-style-type: none"> ◆ 2020 Start of mobile phone 5th generation (5G) service

Business Results

Topics by decade

- ◆ Telecommunication Division
- ◆ High-Frequency Division
- ◆ Entire company

- Telecommunication Division
- High-Frequency Division
- Net income

Establishment period (1950s)

- ◆ Start of communications antenna business, accumulation of technology and achievement
- ◆ Establishment of High Frequency Division, business diversification

Growth period - Stable growth period (1960s - 1980s)

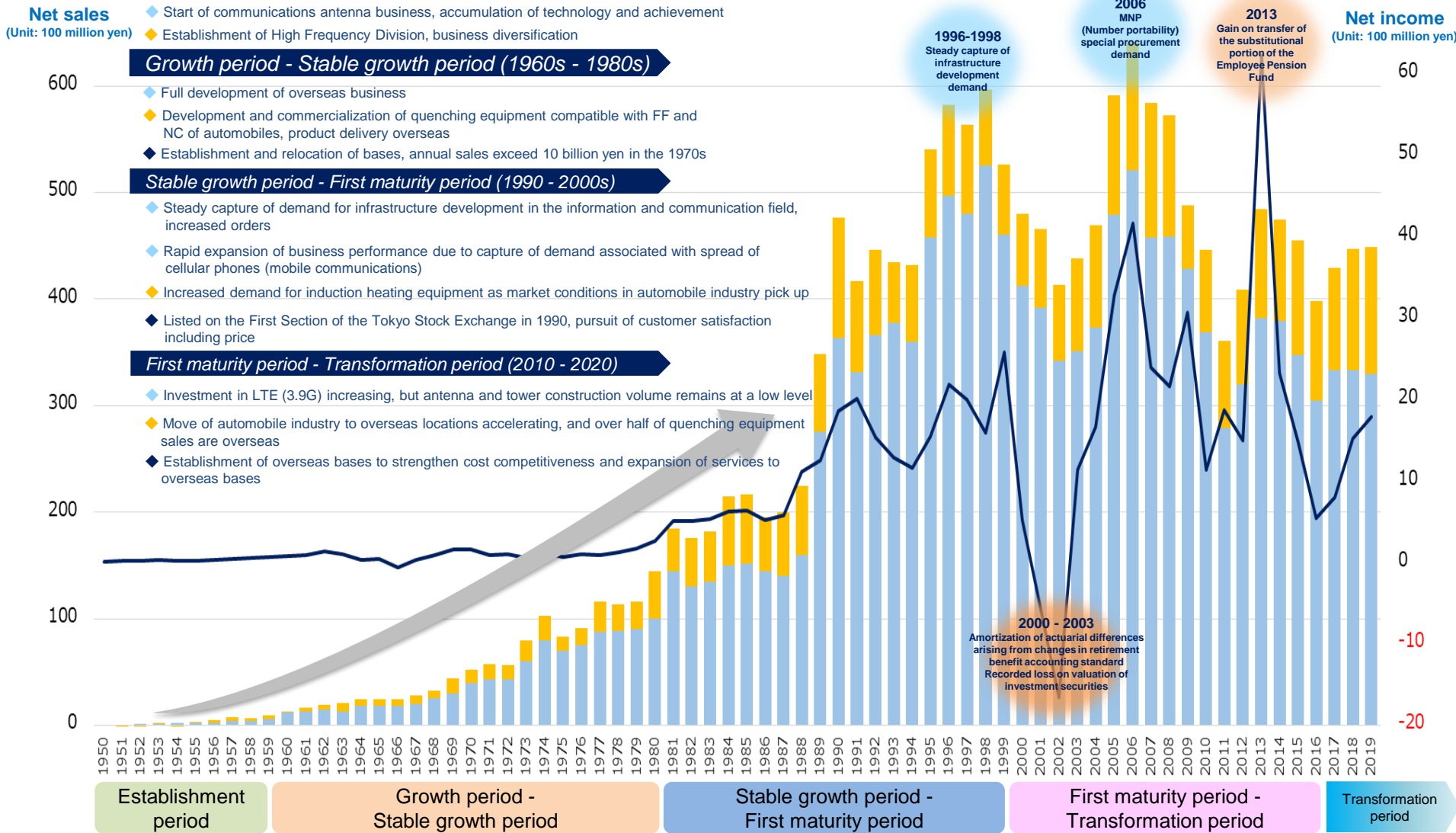
- ◆ Full development of overseas business
- ◆ Development and commercialization of quenching equipment compatible with FF and NC of automobiles, product delivery overseas
- ◆ Establishment and relocation of bases, annual sales exceed 10 billion yen in the 1970s

Stable growth period - First maturity period (1990 - 2000s)

- ◆ Steady capture of demand for infrastructure development in the information and communication field, increased orders
- ◆ Rapid expansion of business performance due to capture of demand associated with spread of cellular phones (mobile communications)
- ◆ Increased demand for induction heating equipment as market conditions in automobile industry pick up
- ◆ Listed on the First Section of the Tokyo Stock Exchange in 1990, pursuit of customer satisfaction including price

First maturity period - Transformation period (2010 - 2020)

- ◆ Investment in LTE (3.9G) increasing, but antenna and tower construction volume remains at a low level
- ◆ Move of automobile industry to overseas locations accelerating, and over half of quenching equipment sales are overseas
- ◆ Establishment of overseas bases to strengthen cost competitiveness and expansion of services to overseas bases



Strengths of DKK

Advanced technological expertise

We can meet difficult requests from customers and the needs of the world, and apply the technological expertise we have accumulated in both the telecommunications and high frequency fields to other fields and new businesses.

Integrated support system

Supporting customers from design to maintenance after delivery

<Telecommunications Division> Antenna design ⇒ Production ⇒ Delivery ⇒ Construction work ⇒ Maintenance
<High Frequency Division> Equipment development and design ⇒ Manufacture ⇒ Delivery ⇒ Maintenance and production of replacement coils

Compatible with all frequencies

We can manufacture a wide range of products in the telecommunications and broadcasting fields that support all available frequencies of radio waves.

(Development themes)

Very low frequency (VLF) 30 - 300 KHz	Low frequency (LF) 30 - 300 KHz	Medium frequency (MF) 300 - 3000 KHz	High frequency (HF) 3 - 30 MHz	Very high frequency (VHF) 30 - 300 MHz	Ultra high frequency (UHF) 300 - 3000 MHz	Super high frequency (SHF) 3 - 30GHz	Extremely high frequency (EHF) 30 - 300 GHz	Submillimeter-wave frequency (Terahertz waves) 300 GHz or higher
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By leveraging these strengths, we are contributing to the realization of a convenient living environment through the development of telecommunications and broadcasting infrastructure, which are the cornerstones of the information society, and the improvement of safety in the automobile society.

DKK's Challenges

Telecommunication Division

External environment / Business environment

Mobile

The environment is becoming more favorable for investments in base stations for 5G, including tax incentives for 5G deployment. On the other hand, the government's demand for lower cellular phone rates is expected to lead to price competition, with mobile carriers announcing new rate plans.

Fixed

Due to the increase in natural disasters, renewal demand for fixed wireless equipment for disaster prevention and mitigation is expected to remain strong.

Broad casting

Demand for new construction of broadcasting equipment is difficult to forecast, but upkeep and maintenance of existing equipment are expected to occur continuously. In commercial broadcasting, capital investment in new fields such as simultaneous online streaming will increase, so we assume the risk that the priority level of renewal demand for broadcasting equipment will decline.

Issues / problems at DKK

- ◆ Since ours is a built-to-order industry, the strength of customers' capital investment trends affects DKK's business performance.
- ◆ The limited number of major customers such as mobile telecommunications carriers, local governments, and broadcasters had the benefit of allowing us to strengthen relationships and improve technology as our customers' operations expanded, but it is difficult for DKK to develop new demand.
- ◆ There is the risk that DKK will not be able to capture the capital expenditure and maintenance demand it envisions, as mobile carriers may curb capital expenditure due to price competition.

DKK's Challenges

High-Frequency Division

External environment / Business environment

- ◆ Automatic driving and electrification (EV, PHV, etc.) are expected to increase, while total domestic vehicle sales are expected to remain flat or decline.
- ◆ With the shift to EVs, the number of automobile parts is expected to be reduced to about two-thirds of the current number, and the structure and assembly of cars will be simpler than before, which is expected to lead to an increase in the number of new companies entering the EV industry.

Issues / problems at DKK

- ◆ Most of DKK's customers are in the automotive industry, and our business performance is highly dependent on trends in the automotive industry, including capital investment.
- ◆ There is the risk that demand will be limited due to a decrease in the number of parts requiring heat treatment as a result of the shift to EVs.

DKK's Challenges

Management and Finance

External environment / Business environment

- ◆ The business environment is changing year by year, both domestically and overseas. This includes the promotion of management with awareness of the cost of capital under the Corporate Governance Code, as well as the progress of globalization, changes in industrial structure, demographic changes, changes in legal systems related to business, and changes in social value standards.

Issues / problems at DKK

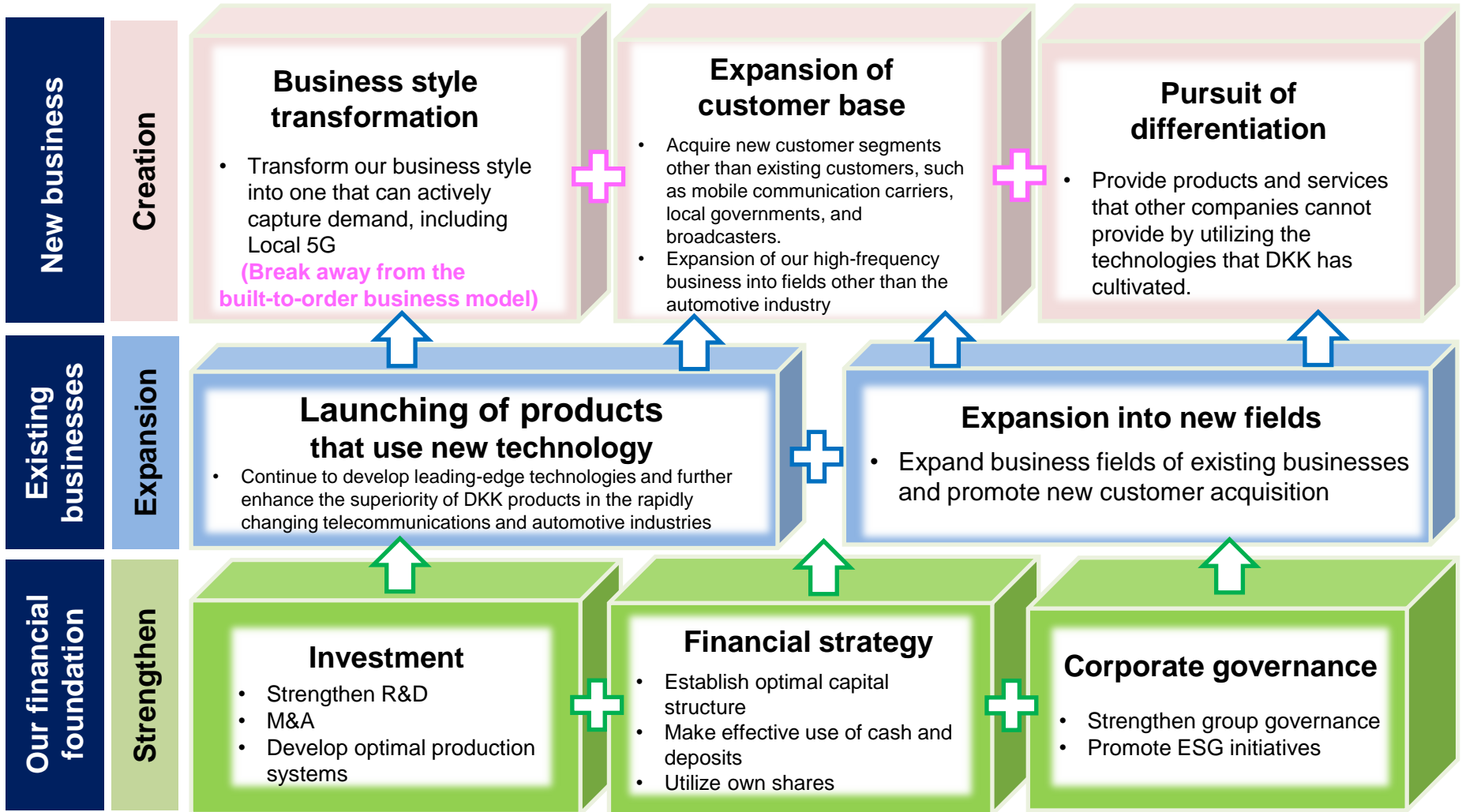
- ◆ To achieve sustainable growth and development of companies and the revitalization of local communities, it is necessary to respond flexibly to the rapidly changing business environment.
- ◆ DKK has not reached the industry average for indices listed on the First Section of the Tokyo Stock Exchange (Electrical Equipment), with ROE of 4.0% and DOE of 1.2% in the most recent period. We recognize that we need to improve capital efficiency and shareholder returns.

To Solve Our Issues

To solve DKK's current issues, we have set up three strategies and are working on medium- to long-term undertakings.

"Creation of new business" "Further expansion of existing business"

"Strengthening of our financial foundation"



2. WHAT WE AIM TO BECOME THROUGH GROWTH

What DKK Aims to Be

DKK has been engaged in businesses related to radio frequencies for **70 years since** its establishment.

We have been providing “**Essential things for daily life**” such as antennas, mobile phones and TV broadcasts, which are now commonplace.

DKK will be a leader in creating a dreamlike future for a more comfortable life and society

What the DKK Group aims to be

Pioneering the future

What DKK Aims to Be

What we aim to be

Pioneering the future

Two goals to accomplish

Actively contributing to society

(social infrastructure and life improvement, development of society)

Improving corporate value and achieving growth

DKK Group
2030
growth
strategy

Business areas

Strengthening of our financial foundation

Further development of social infrastructure

New businesses

Establish a new profitable businesses by entering high-value-added business services

- Local 5G
- Next-generation communications
- Utilization of high frequency technology

Expansion of existing businesses

Expansion of stable earnings base

- Mobile communications
- Fixed wireless (firefighting, disaster prevention)
- Broadcasting
- Other
- High frequency (automotive related)

Strengthening of our financial foundation

Investment

- Strengthen R&D
- M&A
- Develop optimal production systems

Financial strategy

- Establish optimal capital structure
- Make effective use of cash and deposits
- Utilize own shares

Corporate governance

- Strengthen group governance
- Promote ESG initiatives

Management Strategy to Become What We Aim To Be

DKK aims to realize our ideal of "**Pioneering the future**" by "**creating new businesses**," "**further expanding existing businesses**" and "**strengthening our financial foundation**" to meet the needs of society in that era.

Society's needs

2030 growth strategy

Further development of the social infrastructure

- Digital innovation
- Solving of social issues
- A society that creates value

Society 5.0

- A convenient society that supports our lives
 - Improve safety in the automobile society
- Communications / broadcasting / disaster prevention**
Automobile society

Corporate social responsibility

- Social contribution by corporations
- Contribution to the environment
- Promotion of corporate governance

Corporate governance

Creation of new businesses



Target

New business ratio of **20% or more**

- Development of new markets, including Local 5G
- Change to business style for actively acquiring orders
- Application of high frequency technology to fields other than the automobile industry

Break away from the built-to-order business model

Further expansion of existing businesses

- Pursuing differentiation by leveraging our strengths
- Social contribution through businesses that support society, such as communications, disaster prevention, and broadcasting
- Expansion of business areas in line with the transformation of the automobile society

Strengthening of our financial foundation

- Investment (R&D / M&A / optimal production systems)
- Financial strategy (optimal capital structure / effective use of cash and deposits / utilization of own shares)
- Corporate governance (Strengthening group governance / ESG)

3. GROWTH STRATEGY

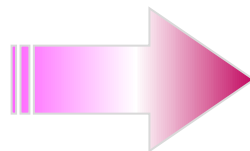
CREATION OF NEW BUSINESSES

Creation of New Businesses

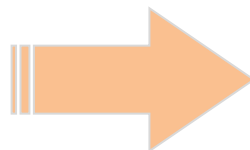
To create new businesses, DKK is focusing on developing **the Local 5G** market. We will also open up **new markets** in the **high frequency business**.

Themes for new business creation

- Transformation of business style
- Development of new markets
- Use of high-frequency technology



**Local 5G
business**



**New high
frequency
market**

What Is 5G?

A wireless communication system that can be flexibly used by various entities according to local needs and individual needs.

- Business entities such as municipalities and companies that want to utilize **Local 5G** can create a **high quality and secure communication area** with 5G by obtaining a license that is limited to the buildings and premises they own.
- Total investment in the Local 5G market is expected to range from about 570 billion yen to over 1 trillion yen by FY2030.

5G area image

— ... Local 5G area — ... Carrier 5G area



The Potential We See in Local 5G

Numerous potential needs

- Local 5G demand is diverse, with many potential customers that differ from DKK's previous customer base, such as factories, hospitals, farms, construction sites, and stadiums.

Active customer development

- The performance of existing businesses, not limited to mobile communications depends on the capital investment trends of existing customers, but with Local 5G, the market can be expanded by proactively developing new customers.

Shift to stock-type business

- DKK's business model has been based on selling off equipment, but with Local 5G, DKK will shift to a business model that can be expected to generate continuous income as the Company handles operations, maintenance and servicing from initial installation.

Five strengths in Local 5G

5 strengths

Use of local 5G radio frequencies requires the selection of antennas that match the area's environment.

Proposal of optimal antennas for area construction

Local 5G frequency band requires Sub-6 band and 28 GHz band selection

Compatibility with all devices using targeted frequency bands

To improve the Local 5G environment, it is essential to build an area that does not leak radio frequency energy outside the site.

Provision of consulting for area construction

Local 5G deployment requires a cumbersome license application process

Provision of license application agency service

Provision of a motivation to build a local 5G environment is required.

Provision of various applications

Achievements and know-how accumulated over 70 years since the company was established

Development of new technologies at Wireless R&D Center*

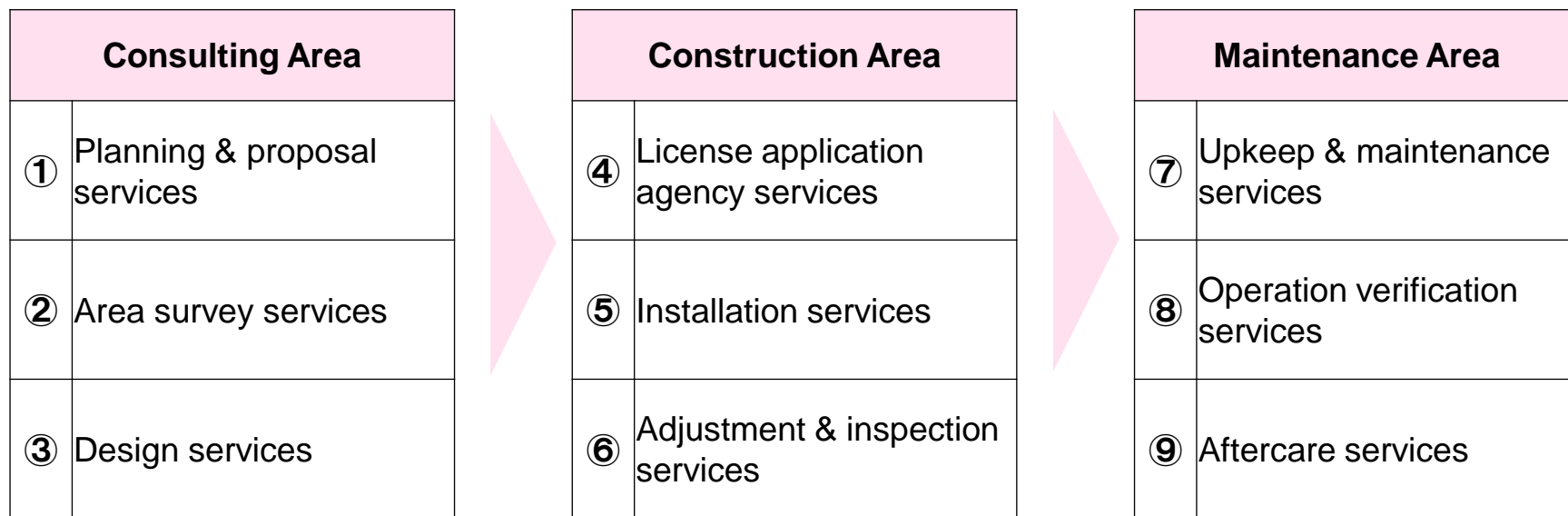
Aim to expand customer base by leveraging our strengths

* Wireless R&D Center ... Established in 2019. A specialized organization that brings together DKK's technological capabilities to promote research and development in new areas

Services to be Developed by DKK

Provision of total service for Local 5G, from planning to after-sales care

By developing nine services in the 3 areas of "consulting", "construction", and "maintenance", we will make it possible for customers to easily receive Local 5G services without the hassle of having to apply for a license.



- From built-to-order sales to **proposal-based sales** that find and solve issues that affect customers
- Improve profits by converting the **know-how accumulated** in DKK into **services**

Development of New Markets for High-Frequency Business

Issue

Given that the high-frequency business is highly dependent on the automobile-related industry, we recognize that business performance is affected by the capital investment trends of automobile-related industries.



Utilizing the characteristics of high-frequency induction heating technology, focus on developing demand other than automobile-related



Achievement

Superheated steam equipment

Induction heating devices have the characteristic of being "environmentally friendly" by not emitting CO₂ during operation, and we have a track record of demand for such devices for food processing equipment.

What is superheated steam?

By further raising the temperature of saturated steam produced by boiling water by induction heating or the like, it is possible to store a large amount of energy in the steam itself. This steam **can be used for cooking, sterilizing food, etc.**

- **Heat treatment in the absence of oxygen**

Heating by steam can be done even when the air is filled with water vapor and there is almost no oxygen.

- **Food sterilization / Inactivation of enzymes that promote spoilage**

Sterilizes/inactivates enzymes by strong steam heating, enabling long-term storage of foods



Superheated steam treatment equipment for food processing

Trends in the Food Industry

- Within the food industry, the health food market is slowly expanding due to the growing health consciousness of the public, and DKK is selling superheated steam equipment for antioxidant treatment of rice bran, which is attracting attention as a health food.
- Currently, DKK is promoting R&D to expand the market and further improve the product for application to a variety of foods besides rice bran.

Food industry

Grains



Rice



Soba
(buckwheat)

Tea leaves



Green tea



Black tea

Legumes



Almonds



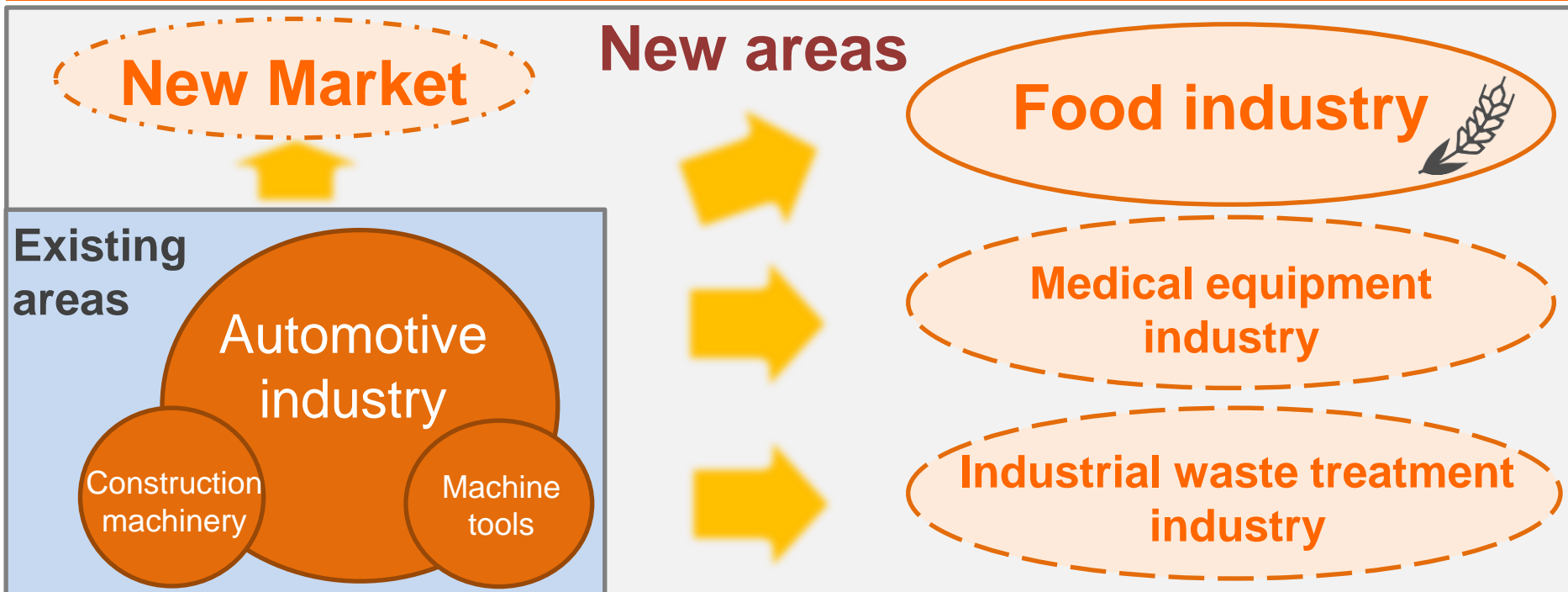
Coffee
beans

 We plan to downsize the equipment and also, in the future, sell it in the form of large-scale processing equipment and continuous processing equipment for general foods targeting overseas (North America and Southeast Asia), where the market size is large.

Growth Strategy for High-Frequency Business

- Promote the development of new markets, including the food industry, by taking advantage of the environmentally friendly features of our high-frequency technology.
- In markets other than the food industry, our high-frequency technology can be applied and utilized in the industrial waste (waste plastic) processing industry, medical equipment industry, etc.

High frequency-related business



 **Leverage technology to develop previously unrelated markets**

Specific Initiatives

Initiatives underway to create new businesses

Local 5G

- **Construction of use cases**

In collaboration with various potential customers, we are conducting demonstration experiments and joint research to build use cases unique to DKK. Full-scale service launch will start next fiscal year.

- **Collaboration with other companies**

We are actively developing new collaborations and procuring components other than antennas and radios necessary for system construction from partner companies. We also consider M&As depending on conditions.

- **Expansion of product lineups**

We are expanding our lineups including applications by making maximum use of the know-how we have accumulated through our work for carriers.

New high-frequency markets

- **Expansion of target products in new markets**

We started efforts to expand the use of superheated steam in the food industry to other foods besides rice bran. The aim is to expand the use of superheated steam mainly for export food products by extending their best-by date through antioxidation.

- **Product development in collaboration with other companies**

Product development for new markets requires technologies that are different from ours. We promote the development of equipment for new markets such as waste plastic processing and medical equipment through technical tie-ups and collaboration with other companies.

Aiming to break away from the make-to-order industry, we are shooting for a **sales ratio of 20% or more** for these businesses, including new markets, in 2030.

FURTHER EXPANSION OF EXISTING BUSINESSES

Mobile Communications Business

Mobile communications



Business content

Maintenance of communication base stations for mobile phones, etc.

(Antenna production, steel tower maintenance, construction work, etc.)

Main customers

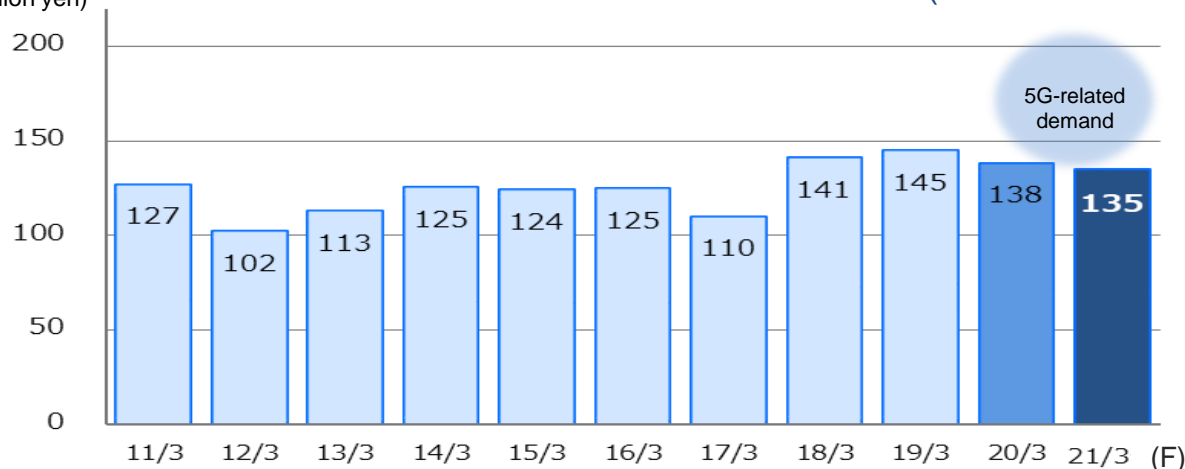
Mobile communications carriers such as

- NTT DoCoMo
- KDDI
- SoftBank

Features

Our strength lies in "multi-frequency shared antennas," which allow many frequencies to be shared by a single antenna, and we have the technological capability to create products that meet even challenging needs and demands of customers.

(100 million yen) Mobile Communications Business Sales Trend (Non-consolidated)



◆ Current situation

- 5G investment will be the main driver of demand from the fiscal year ending March 2021, but demand for multi-frequency shared antennas, DKK's strength, is expected to continue over the medium term.

◆ Demand trend

- Full-scale investment in 5G is expected from the fiscal year ending March 2022, and the introduction of the SA (stand-alone) method is expected in the fiscal year ending March 2023, so 28 GHz band-related demand is also expected to be in full swing.
- Since mobile communication uses wireless networks and the challenge of improving usability will continue for a long time, 5G investments are expected to continue over the long term.

◆ Growth strategy

- As 5G technology is expected to evolve throughout the 2020s, we will anticipate the timing of frequency allocations ahead of time and provide competitive products in a timely manner through targeted R&D.
- In addition to in-house R&D, we will actively promote R&D in cooperation with our customers, and develop technologies for the next generation, 6G.
- We joined the O-RAN Alliance to promote support of the O-RAN^{*} standard, with the aim to expand business fields and contribute to business performance by diversifying revenue sources, with a view to supplying also wireless devices other than antennas.
- We have developed a (patented) tower maintenance method that significantly reduces costs compared to conventional methods, raising the level of our performance in the mobile communications segment by cultivating demand

*See Appendix

Fixed Wireless Business

Fixed wireless



Business content

Infrastructure development for disaster prevention administrative radio network (surveys at time of construction, design, construction, maintenance, etc.)

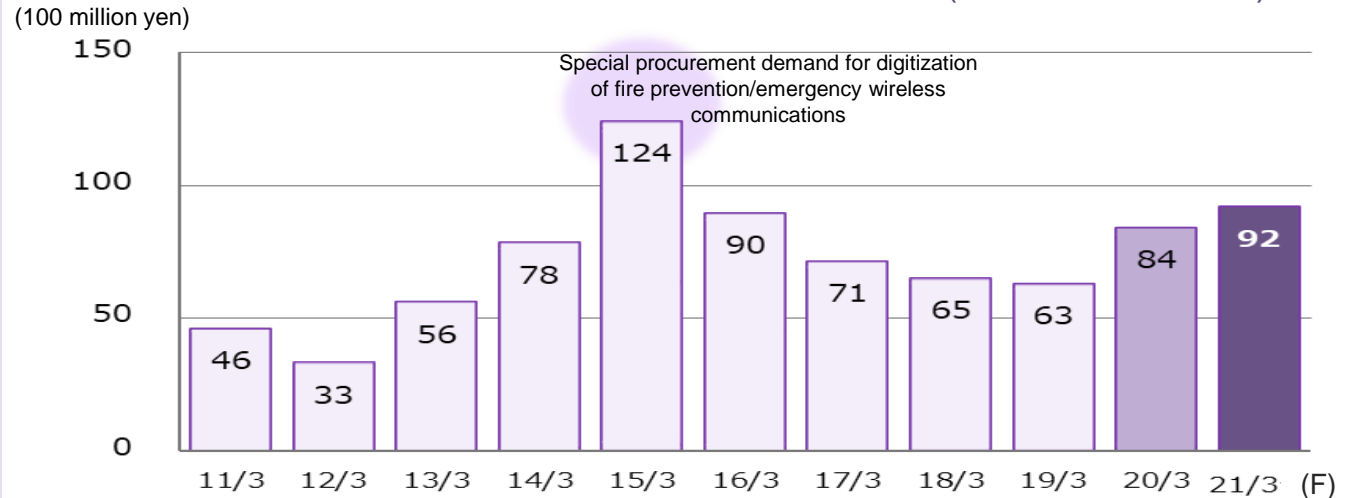
Main customers

Local governments (municipalities)

Features

- We provide design, delivery, and construction in an integrated manner and support a wide range of equipment construction needs.
- Our nationwide network of offices allows us to carry out sales and construction tailored to the needs of each community.

Fixed Wireless Business Sales Trend (Non-Consolidated)



◆ Current situation

- With natural disasters on the rise, various measures are being taken to create safe and secure communities that are resilient to disasters.
- Although DKK can handle all frequency bands, we focus on disaster prevention administrative radio systems that use the 280 MHz band, and have secured a high market share within the industry.

◆ Demand trend

- To combat the frequency and severity of natural disasters, a substantial amount of the public works budget has been allocated to disaster prevention, and this is expected to drive capital investment by local governments.
- We expect the above trend to continue until 2030, thus continuing over the period of this management strategy.

◆ Growth strategy

- We will aim to expand business performance through sales of products that enhance safety and add value by incorporating two-way communication systems into disaster prevention administrative radio systems and image transmission functions for surveillance camera systems.
- We are also aiming to grow by adding multifaceted added value to disaster prevention administrative radio systems and by leveraging our strength in responding to customers' detailed requests with a broad product lineup.

Broadcasting Business

Broadcasting



Business content

Production of antennas for television and radio broadcasting stations, construction of equipment, etc.

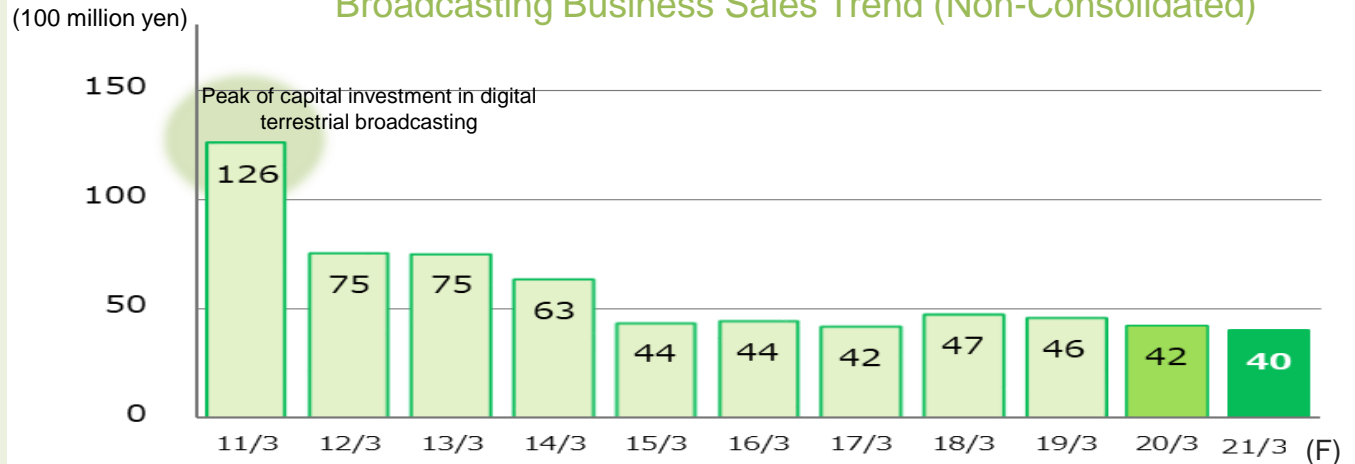
Main customers

- Commercial broadcasters
- NHK and other broadcasters

Features

We provide our customers with integrated support that ranges from the production of antennas, steel towers, and station buildings to construction work.

Broadcasting Business Sales Trend (Non-Consolidated)



◆ Current situation

- Following the end of capital investment for terrestrial digital broadcasting, demand has settled down and is expected to remain flat in the long run.
- Some manufacturers are withdrawing from the broadcasting segment due to the shrinking market, and manufacturers that can handle equipment are valuable for broadcasters.

◆ Demand trend

- Capital expenditures for digital terrestrial broadcasting were implemented from 2003 to 2011. As broadcasting facilities are usually renewed about 15 years after construction, renewal-related demand will occur in the fiscal year ending March 2021 as well.
- However, renewal of antennas is expected to happen after a somewhat longer interval.

◆ Growth strategy

- We recognize that DKK's business of maintaining broadcasting facilities carries a great social responsibility, and we will continue to fulfill this responsibility while also placing importance on profitability.
- As digital terrestrial broadcasting facilities are expected to be renewed by 2030, we will carry out R&D with the development of broadcasting antennas as one of the themes.

Other Businesses

Other



Business content

Businesses not included in mobile communications, fixed wireless, and broadcasting in the telecommunications sector

Main customers

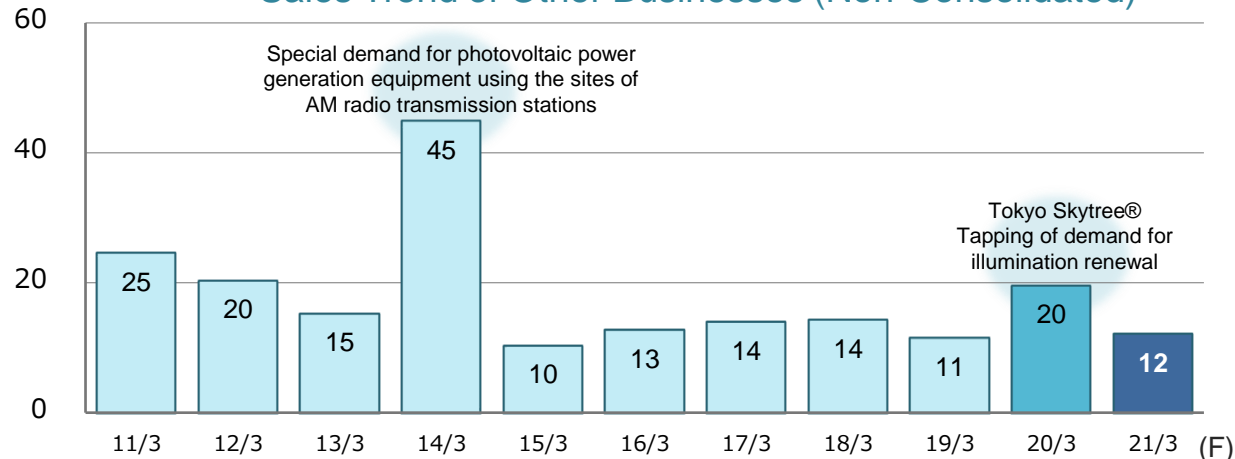
Local governments, fire departments, wind power generation facility operators, etc.

Features

In addition to various obstruction lights that are required to be installed by the Civil Aeronautics Act, we also handle high-sensitivity surveillance camera systems that use both visible light and infrared light.

(100 million yen)

Sales Trend of Other Businesses (Non-Consolidated)



◆ Current situation

- Leveraging DKK's strength in working at heights, we are developing sales and installation work for LED aviation obstruction lights and high-sensitivity surveillance camera systems, aiming to capture demand in areas other than mobile communications, fixed wireless, and broadcasting.

◆ Demand trend

- The Civil Aeronautics Act requires the installation of aviation obstruction lights in buildings above a certain height, and demand for LED aviation obstruction lights, which have advantages over existing aviation obstruction lights in terms of power consumption and service life, is increasing and now accounts for the greatest part of demand for aviation obstruction lights.
- The high-sensitivity surveillance camera system provided by DKK is capable of analyzing images in infrared light, and is expected to grow in response to demand for nighttime surveillance and advanced security measures.

◆ Growth strategy

- For LED aviation obstruction lights, we will focus on cultivating demand of these lights for offshore wind power generation facilities, which are expected to grow significantly in the future.
- For high-sensitivity surveillance camera systems, since these systems enable nighttime surveillance and detection of heat sources using infrared rays, we will develop demand for various disaster prevention applications.

High Frequency-Related Business

High frequency-related



Business content

Production and delivery of induction heating equipment that provides strengthening treatment to increase the strength of metal parts

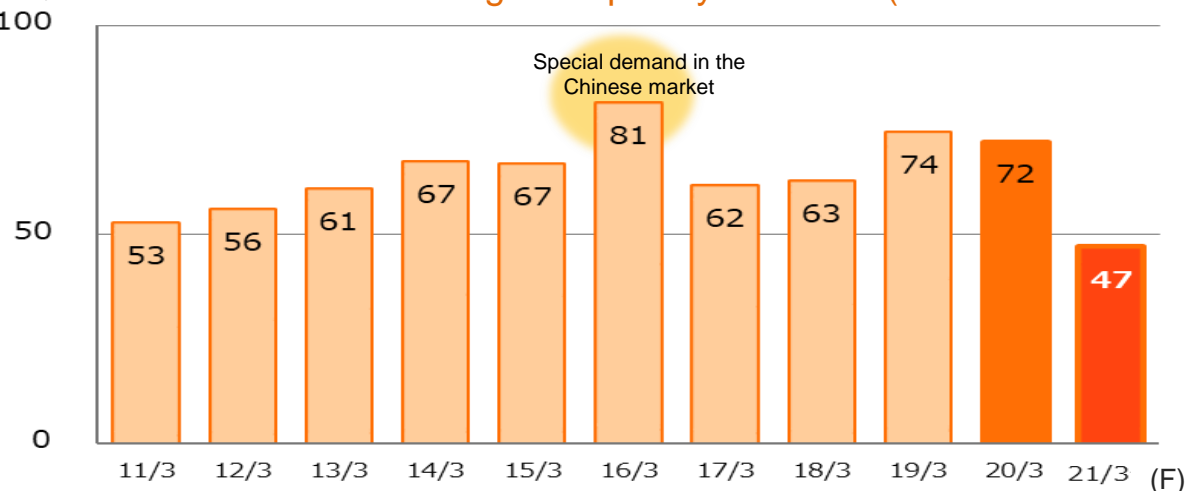
Main customers

Automakers including Toyota, Nissan, and Honda, auto parts makers, etc.

Features

Advanced technological capabilities that can be customized to meet customers' requirements and accommodate various part shapes, and a fully developed support system with offices in Japan and overseas.

(100 million yen) Sales Trend of High-Frequency Business (Non-Consolidated)



◆ Current situation

- The impact of the new coronavirus infection has caused a significant drop in capital investment demand in the automotive industry, and full-fledged recovery in demand for induction heating equipment is expected to take some time.
- We are using this momentary lull to implement productivity improvement activities at our plants to improve future profit margins.

◆ Demand trend

- Next-generation vehicles (EV/PHV vehicles) are expected to become widespread due to environmental considerations.
- The Ministry of Land, Infrastructure, Transport and Tourism aims to increase the proportion of next-generation vehicles to 50-70% by 2030.

◆ Growth strategy

- Since the suspension and steering systems are mechanisms (parts) that will not change even for EVs, we will maintain and improve our market share in this product category by promoting R&D.
- For EVs, new parts such as motor shafts will appear, so we will develop new demand by incorporating induction heating treatment.
- We will promote the use of non-contact heating, which is one of the advantages of the induction heating method, and cultivate demand that can take advantage of the environmentally friendly aspects of the method, in order to expand into fields other than the automotive industry.

STRENGTHENING OF OUR FINANCIAL FOUNDATION

Strengthen R&D

Creation of new business

New businesses that leverage DKK's strengths
Full-scale investment in R&D for local 5G, etc.

Development of antennas, wireless devices and related equipment that can handle high frequency bands eyeing **5G**, local **5G**, and **6G** beyond that, and development of business areas other than automobile-related (food, etc.) with high-frequency technology

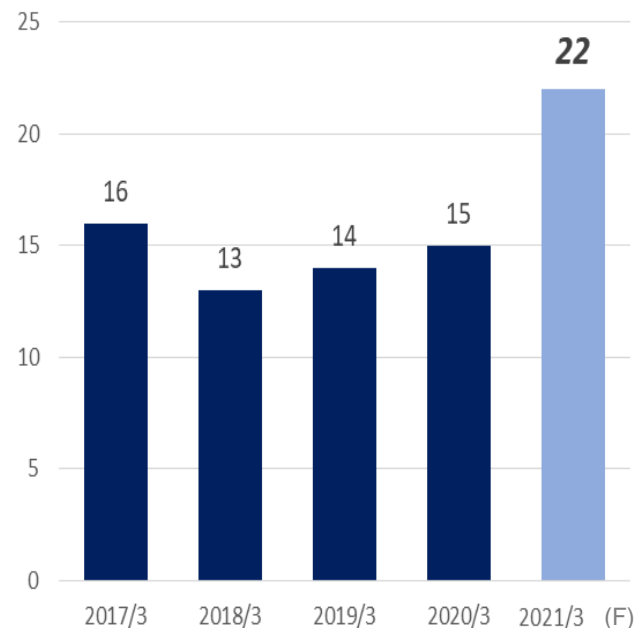
Expansion of existing businesses

Further strengthening existing technological capabilities, which are DKK's strength

Development of multi-frequency shared antennas, small cell antennas, beamforming antennas, and in the field of high-frequency technology, strengthening of support for EV-oriented automobile-related market

R&D expenses trend

(Unit: 100 million yen)



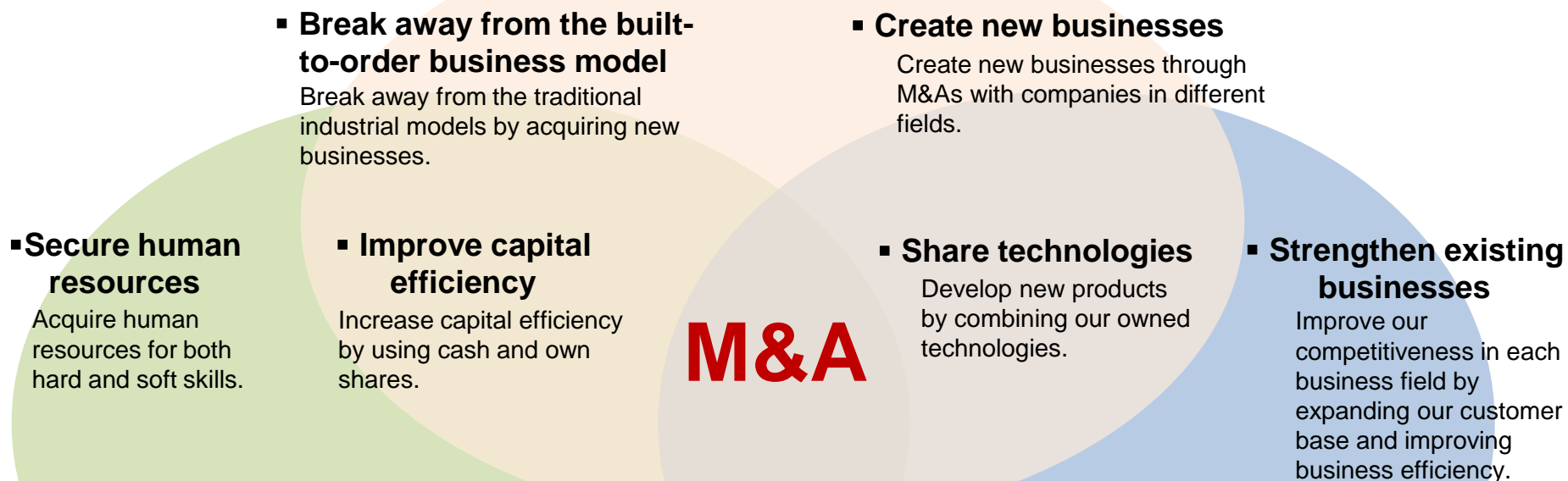
Towards 2030

- ① Promote R&D of equipment that can support the upcoming terahertz band, which is the next generation of communications.
- ② Develop technologies for changes in EV, autonomous driving, etc., in the automobile industry, and promote R&D for expansion in markets other than automobiles.
- ③ For both new and existing businesses, promote R&D with an eye to overseas expansion, taking into account the trends of overseas companies in the same industries, rather than focusing only on Japan.

Growth Strategy Using M&As

Expectations from the use of M&As

We have started considering M&As including local 5G related companies. The aim is to improve the overall strength of DKK.



Conduct M&As targeting businesses that are expected to produce synergies with DKK's business.



Telecommunications field



Local 5G business

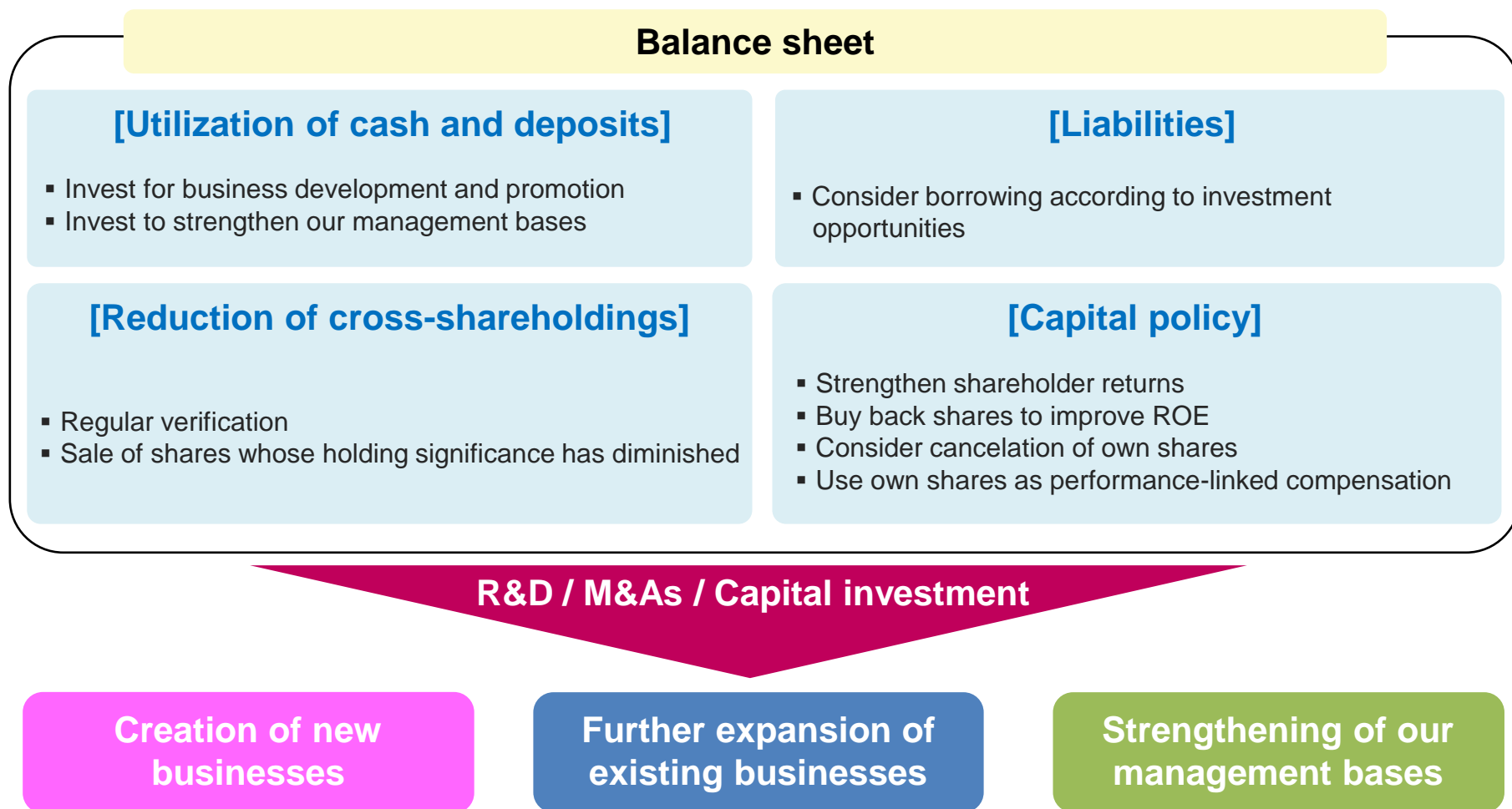


High-frequency field

Financial Strategy

Balance sheet policy

Aim to improve corporate value through R&D, M&As, capital investment, etc.



Establish Optimal Capital Structure

Balance sheet composition improvement

Aiming to improve capital efficiency and improve balance sheet composition

Cash and deposits

Consolidated

About 18.6 billion yen

Non-consolidated

About 10.8 billion yen

(Fiscal year ended March 2020)

Used for investments to improve corporate value

Own shares

Own shares

About 5.0 billion yen

(Fiscal year ended March 2020)

Considering buyback and cancellation of own stock to improve ROE, while contemplating also the use of M&As, etc.

Interest-bearing debt

Financial leverage

130%

(Fiscal year ended March 2020)

Preferentially use cash and deposits
Consider borrowing according to investment opportunities

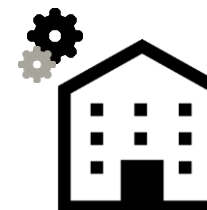
Main applications



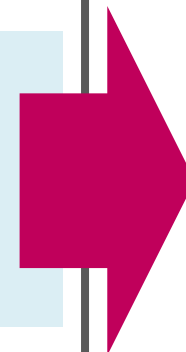
R&D



Growth through M&As



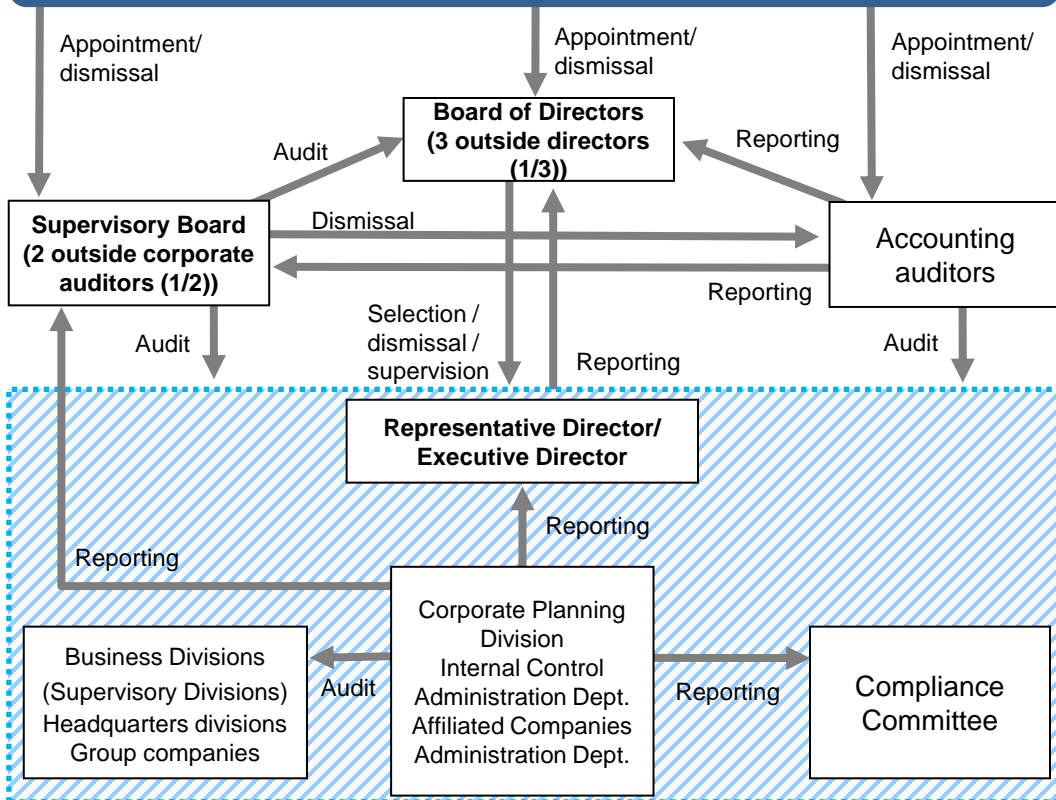
Capital investment



Corporate Governance System ①

Our basic approach to corporate governance is to enhance the credibility of the company in society and increase corporate value by ensuring the transparency and soundness of management.

General meeting of shareholders



※ As of March 2021

- ◆ Strengthen management supervision by increasing the ratio of outside directors to one-third of the Board of Directors.
- ◆ Fulfill the roles and responsibilities of the Board of Directors by having three outside directors with insights into corporate legal affairs and corporate accounting, as well as extensive knowledge and experience in corporate management, and six inside directors, including those from the engineering, sales, and administrative divisions, engage in discussions based on their ample knowledge and experience in their respective fields.
- ◆ Going forward, we will continue to work on thorough compliance and enhancement of our governance system in order to improve our corporate value.

Corporate Governance System ②

Board of Directors

- Consists of three highly independent outside directors and six directors who are familiar with the business.
- Evaluation of the effectiveness of the Board of Directors as a whole is conducted once a year, and the results are analyzed and evaluated by the Board of Directors to confirm policies for further improvement of effectiveness.
- We plan to increase the ratio of performance-linked compensation in order to clarify the performance of directors.

Reduction of cross-shareholdings

- To improve corporate value, comprehensively consider from a medium- to long-term perspective the importance of cross-shareholdings with respect to our management strategy and strengthening relationships with business partners, and regularly examine the significance of cross-shareholdings at meetings of the Board of Directors.
- As a result of these examinations, we aim to improve the shares whose holding significance has diminished within a certain period of time, or start selling them.



Continue to implement measures for sustainable growth in an era of rapid change

ESG Initiatives

The DKK Group aims to increase corporate value over the medium to long term by actively participating in social contribution (social infrastructure, improvement of life, and social development) in business activities even in the coming era of rapid changes.

EEnvironment

**Strive to provide environment-friendly products and services
Contribute to the realization of a sustainable society**

Social

**Contribute to solving various issues faced by local communities
and society by maintaining the infrastructure and providing
disaster prevention related products.**

Governance

**By ensuring management transparency and soundness, we will
enhance the social credibility of the company and improve its
corporate value.**

Examples of ESG Initiatives to Improve Corporate Value



Environment

Mobile communications

▪ With demand for emergency power sources for base stations increasing due to the increasing frequency of natural disasters, the company is selling fuel cells that reduce carbon dioxide emissions.



Methanol fuel cell

Other



LED aviation obstruction lights

▪ Development of environmentally friendly businesses, such as sales and installation of LED aviation obstacle lights, which reduce the burden on the environment through low power consumption and long life

Solar power generation equipment

▪ Development of environmentally friendly business, such as the use of vacant, unused land for solar power generation installations



Yosami Solar Photovoltaic Site

High frequency-related

▪ The induction heating equipment handled by the High-Frequency Division uses electric power as its energy source, and thus has a much lower environmental impact than other heat treatment methods, such as furnace systems (oil/gas burning furnaces, etc.).

▪ DKK takes in high-frequency oscillators that have been used by customers, disassembles them, and has recyclers take what that can be recycled, thereby reducing waste.



Social



Mobile communication

Broadcasting

▪ In the event of a major disaster, electrical facilities such as cellular phones and broadcasting systems may be affected, making it impossible to confirm the safety of people and gather information on the disaster. Therefore, the DKK Group is working to restore operations as quickly as possible in the event of a disaster so as to restore peace of mind as quickly as possible.



Transporting fuel to station building in the event of a disaster

Fixed wireless

▪ Disaster prevention administrative radio is an important means of communication for relaying disaster-related information to local residents in the event of an earthquake, tsunami, or other disaster.

▪ DKK is involved in all aspects of the system, from design to construction, to support the creation of disaster-resistant communities.

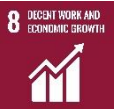


Transmitting station installed at Takiyama Park, Higashi-Matsushima City

Company-wide initiatives

▪ Promotion of workplace diversity
We are working to promote women's advancement as one of our important management themes. To this end, we are promoting the creation of an environment where female employees can fully demonstrate their abilities and raising awareness in this respect within the company.

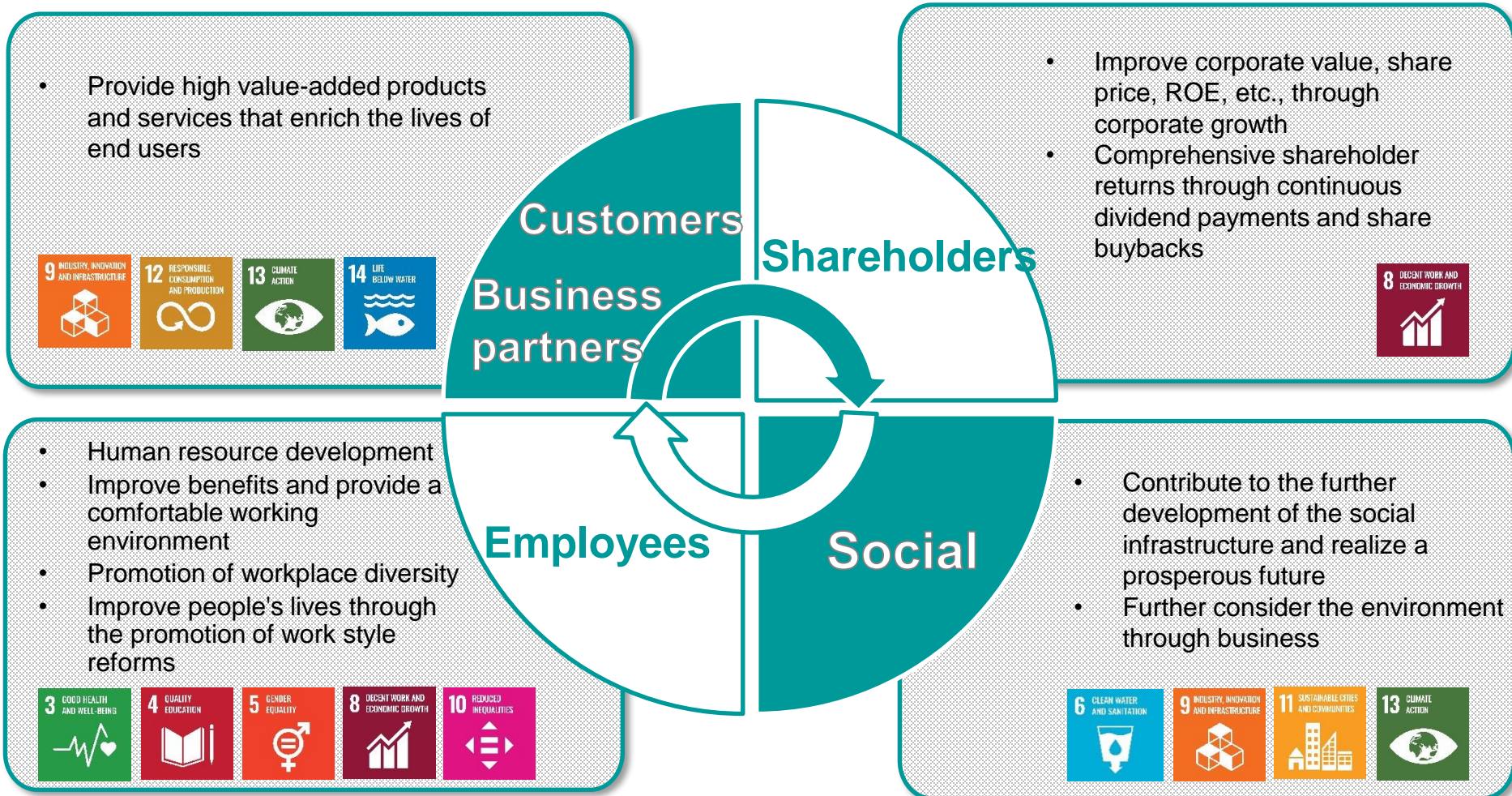
▪ In addition to the promotion of work style reform, collective bargaining is conducted on a regular basis every year for the revision of working conditions, salary increases, bonuses, etc.



4. TARGETS

Maximize Returns to All Stakeholders

Our goal is to maximize returns to all stakeholders through "social contribution", "improvement of corporate value and realization of growth".



※ The above are examples of how the DKK Group interacts with its stakeholders.

Business Targets (Goals and Milestones for FY2030)

We aim to achieve the following business targets by expanding our business areas and strengthening our financial position through the "creation of new businesses" and "further expansion of existing businesses" for the development of social infrastructure.

Net sales

In addition to existing businesses, we will enter new markets such as Local 5G and aim for a sales ratio of 20% or more for new businesses.

Target level

45.0 billion yen
(Fiscal year ended March 2020)

➤➤➤ **60.0 billion yen**
(Fiscal year ending March 2031)

(Of which, new businesses = **12.0 billion yen or more**)

ROE

ROE

=

Profitability

Net sales
Net profit
margin

×

Asset efficiency

Total asset
turnover

×

Financial
leverage

Fiscal year ended
March 2020

4.0%

4.0%

0.73

130%

Fiscal year
ending March
2026
Goal
Target level

5.0%
or
higher

=

5.0% or
higher

×

0.8 or higher

×

130%

Improve profitability by boosting the efficiency of existing businesses and entering new profitable businesses

- Make effective use of cash and deposits
- Increase in sales due to new market development

With ROE 5.0% as a passing point, further improvement in 2030

Shareholder Returns Policy

Regarding returns to shareholders, we will implement comprehensive returns through share price appreciation as the result of increases in corporate value, as well as dividends and share buybacks.

Dividend policy

- Our basic policy for returning profits to shareholders is to **pay dividends** on an ongoing basis.
- Over the medium to long term, we aim to pay dividends with a **DOE on the order of 2.0%**.

DOE : Shareholders' Equity Dividend Rate (dividends on equity) = Total annual dividend ÷ Shareholders' equity × 100(%)

Example

Shareholders' equity 45.0 billion yen* × 2.0% = 900 million yen ※Fiscal year ending March 2020

⇒ **Dividend per share 90 yen**

(doubled from the actual results for the fiscal year ended March 2020 (45 yen))

Own shares

- Flexible buyback of own shares as a means of returning profits to shareholders other than dividends
- The own shares acquired will be used for M&As, etc., to expand business areas and acquire technologies.
- The cancellation of own shares will be considered if there is no use for them.

APPENDIX.

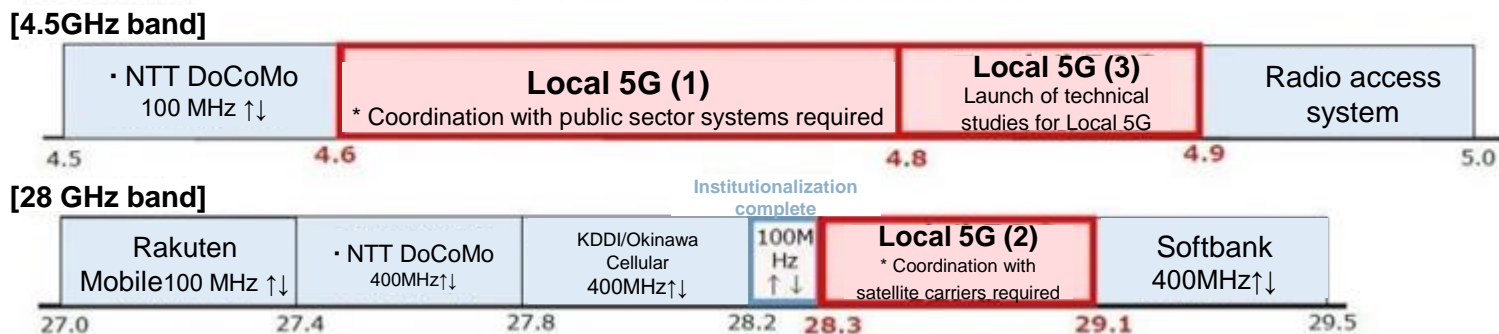
-SUPPLEMENTARY MATERIALS-

Bandwidth used by Local 5G

Local 5G is a communication system that is independent of the "5G" provided by telecom carriers, and has been assigned a dedicated frequency by the Ministry of Internal Affairs and Communications.

5G allocation of 4 carriers : 100 MHz width in 3.7 and 4.5 GHz bands, 400 MHz width in 28 GHz
Local 5G user allocation : 2 types of bandwidth, 300 MHz width of 4.6-4.9 GHz band and 900 MHz width of 28.2 GHz-29.1 GHz band

Frequency bands to be used for Local 5G



From materials released by the Ministry of Internal Affairs and Communications

High quality communication will be possible because the bandwidth allocated for Local 5G can be **occupied** and used on an exclusive basis.

Difference Between Local 5G and 5G Carriers

Features of Local 5G

5G Common Features		Licensing Targets	Communication Area
High speed, large capacity	Carrier 5G	Mobile communications carriers <ul style="list-style-type: none"> ▪ NTT DoCoMo ▪ KDDI ▪ SoftBank ▪ Rakuten Mobile 	Wide range, shared Because the service is used by an unspecified, large number of people, accesses concentration can cause congestion and connection dropouts.
Ultra low latency		Local 5G	Companies and local governments other than mobile carriers <ul style="list-style-type: none"> ▪ Factories ▪ Hospitals ▪ Farms ▪ Construction sites ▪ Stadiums ... etc Anyone can become a customer
Massive simultaneous connections			

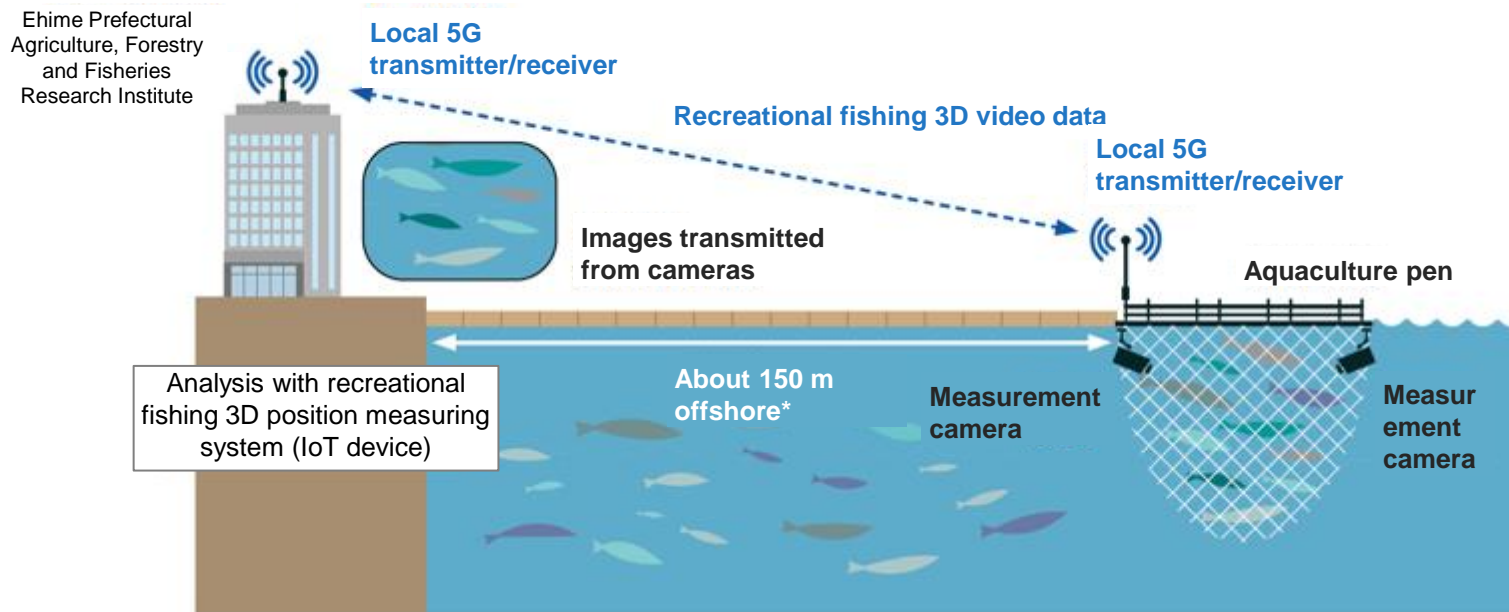
Achieves high-quality communication with a closed network configuration.

Outline of the Ministry of Internal Affairs and Communications' demonstration experiment

- ◆ DKK participated in a consortium that included Ehime University, Ehime Prefecture, and NTT DoCoMo, drafting a proposal for the "Construction of a Safe, Secure, and Appropriate Usage Environment for IoT Under the FY2020 Budget" in response to a call for submissions that was publicly announced by the Ministry of Internal Affairs and Communications in the spring of 2020, and the proposal submitted by the consortium was adopted.
- ◆ On October 27, 2020, we received Japan's first experimental station license to use Local 5G at sea, and we conducted a demonstration experiment that confirmed the feasibility of operating a 3D position measuring device for recreational fishing via Local 5G at sea.
- ◆ We aim to provide Local 5G networks that earn a higher level of customer satisfaction by utilizing our know-how on Local 5G offshore operation gained from this demonstration experiment in the local 5G-related businesses that we plan to start in the fiscal year ending March 2022.

<Purpose>

To acquire knowledge of land-sea radio wave propagation characteristics (sea reflection, fluctuation of transmission/reception power due to attenuation, effective throughput, etc.) of Local 5G in the 4.8 GHz band for practical use of Local 5G at sea.



Launch of O-RAN standard compliant products

- It has been resolved to unify the specifications for radio equipment for 5G to enable procurement of equipment from different vendors, thereby increasing the procurement flexibility and reducing procurement risks.

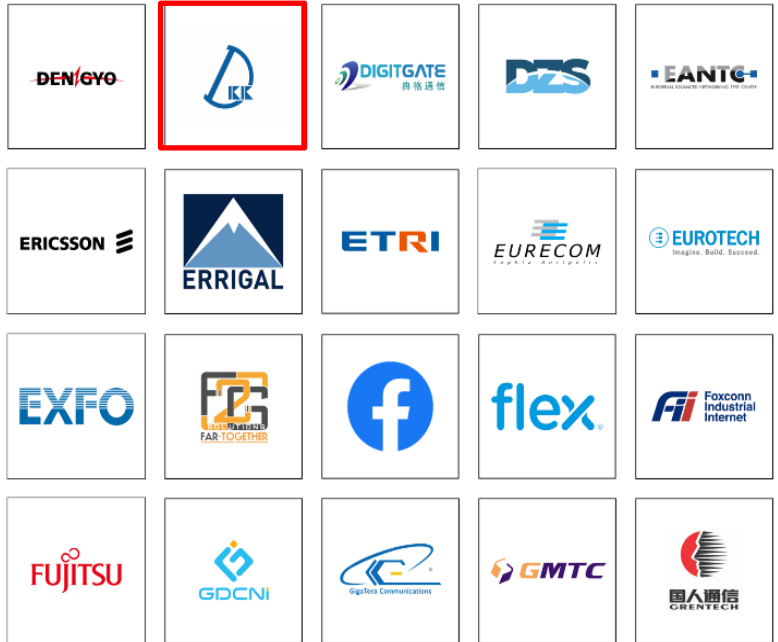


- DKK joined the O-RAN Alliance from an early stage and has deepened its knowledge of the specifications required for the O-RAN standard.
- DKK has established its position in the industry as a manufacturer of antennas, and is now aiming to expand its business to include the supply of wireless equipment.

Expand our business fields and contribute to business performance by diversifying our revenue sources.

* O-RAN stands for Open Radio Access Network.
The standardization of interfaces for RANs is sought to enable procurement of equipment from various vendors.

O-RAN Alliance members (excerpt)



Source: O-RAN Alliance website

Notes About this Document

- ◆ The forecast figures and forward-looking statements in this document are based on information currently available to the Company.
- ◆ Besides facts that have been determined and accurately recognized in the past, this document has been prepared based on certain assumptions (suppositions) required for making future projections and stating them. In light of the inherent uncertainties and other factors that may cause actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements, including, but not limited to, future business operations, changes in domestic and international economic conditions, securities markets and other factors, actual business figures, results, performance, and achievements may differ materially from those expressed or implied by these forward-looking statements.
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