



The Third Medium-Term Business Plan

2021—2023

ZOOM CORPORATION

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Introduction

This third medium-term business plan was created as a message for our staff and officers and as a goal that they should aim to achieve. Please keep in mind that the purpose of this document is different from general disclosure materials for investors.

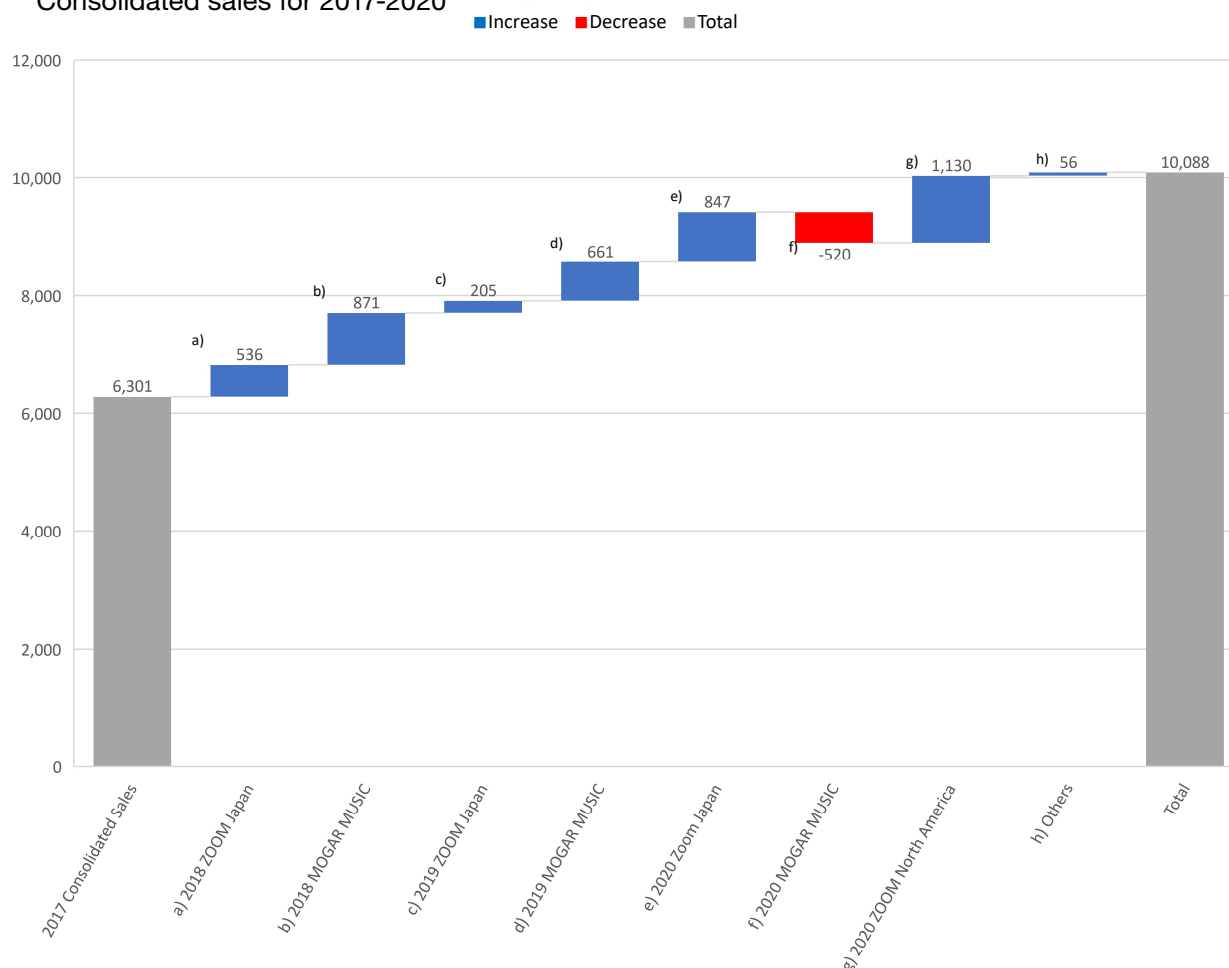
1. Summary of the Second Medium-Term Business Plan (2018-2020)

We successfully achieved the performance goals, that is, consolidated sales of JPY10 billion and consolidated operating profit of JPY700 million. Below are the results of the achievement analysis of the following: sales and operating profit increase/decrease factors, management philosophy, the establishment of lasting brand, and corporate governance reformation.

(Note) Figures are based on forecasting and analyses as of the end of 2020 and differ from the final financial results.

(1) Analysis of sales increase/decrease factors

Consolidated sales for 2017-2020



a) In 2018, the sales of Zoom Japan increased by JPY536 million.

b) In 2018, the sales of Zoom Japan increased by JPY871 million by making Mogar Music its consolidated subsidiary at the end of June.

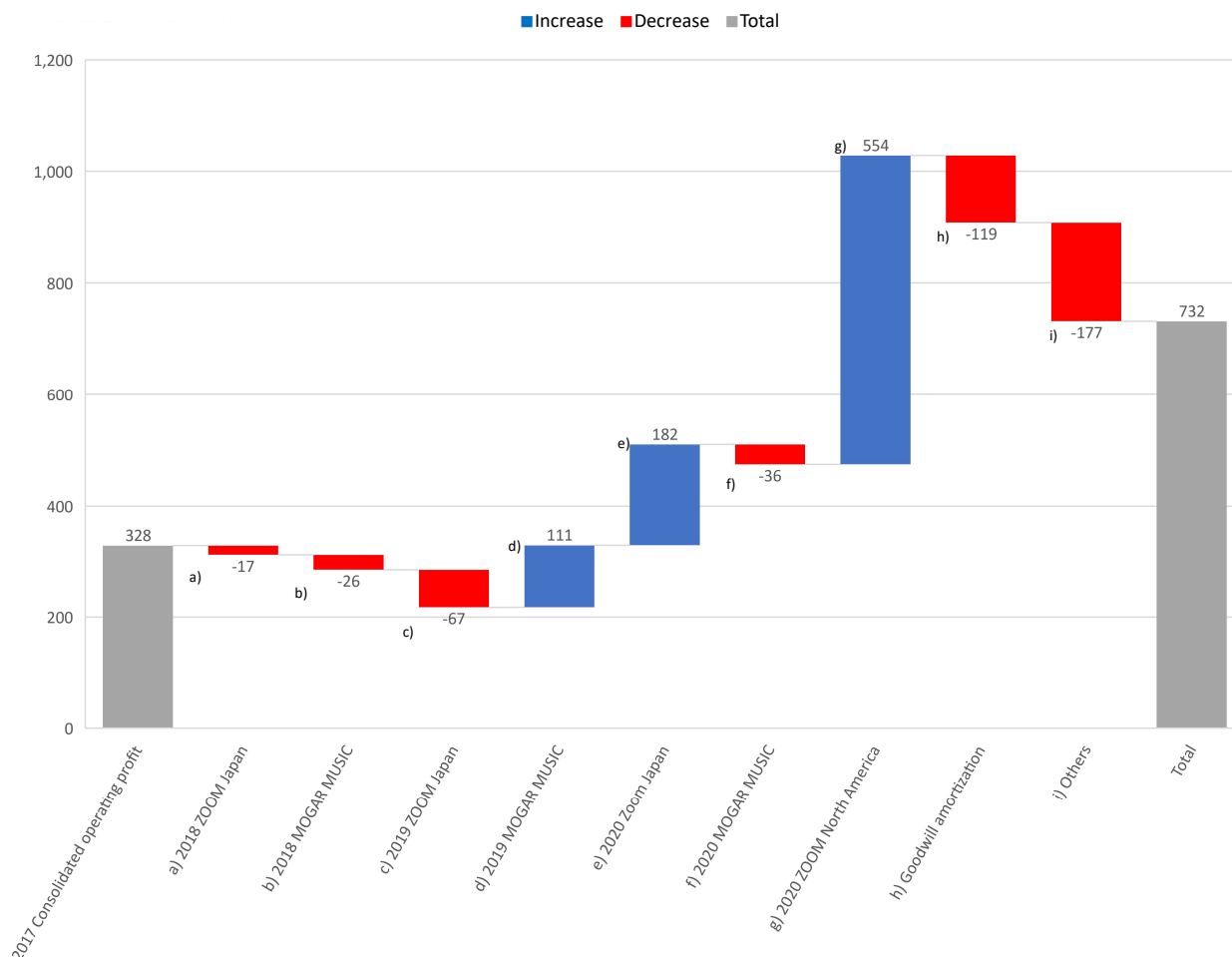
c) In 2019, the sales of Zoom Japan increased by JPY205 million.

d) In 2019, the sales of Mogar Music increased by JPY661 million. The period of consolidation for 2018 was 6 months and that for 2019 was 12 months.

- e) In 2020, the sales of Zoom Japan increased by JPY847 million.
- f) In 2020, the sales of Mogar Music decreased by JPY520 million because of the termination of handling the brand of Hoshino Gakki Co., Ltd.
- g) In 2020, the sales of Zoom Japan increased by JPY1,130 million by making Zoom North America its consolidated subsidiary on April 1.
- h) The sales of Zoom Japan increased by JPY56 million because of the realization of unrealized gain for the Zoom products sold to companies that accounted for using the equity method.

(2) Analysis of operating profit increase/decrease factors (by company and by fiscal year)

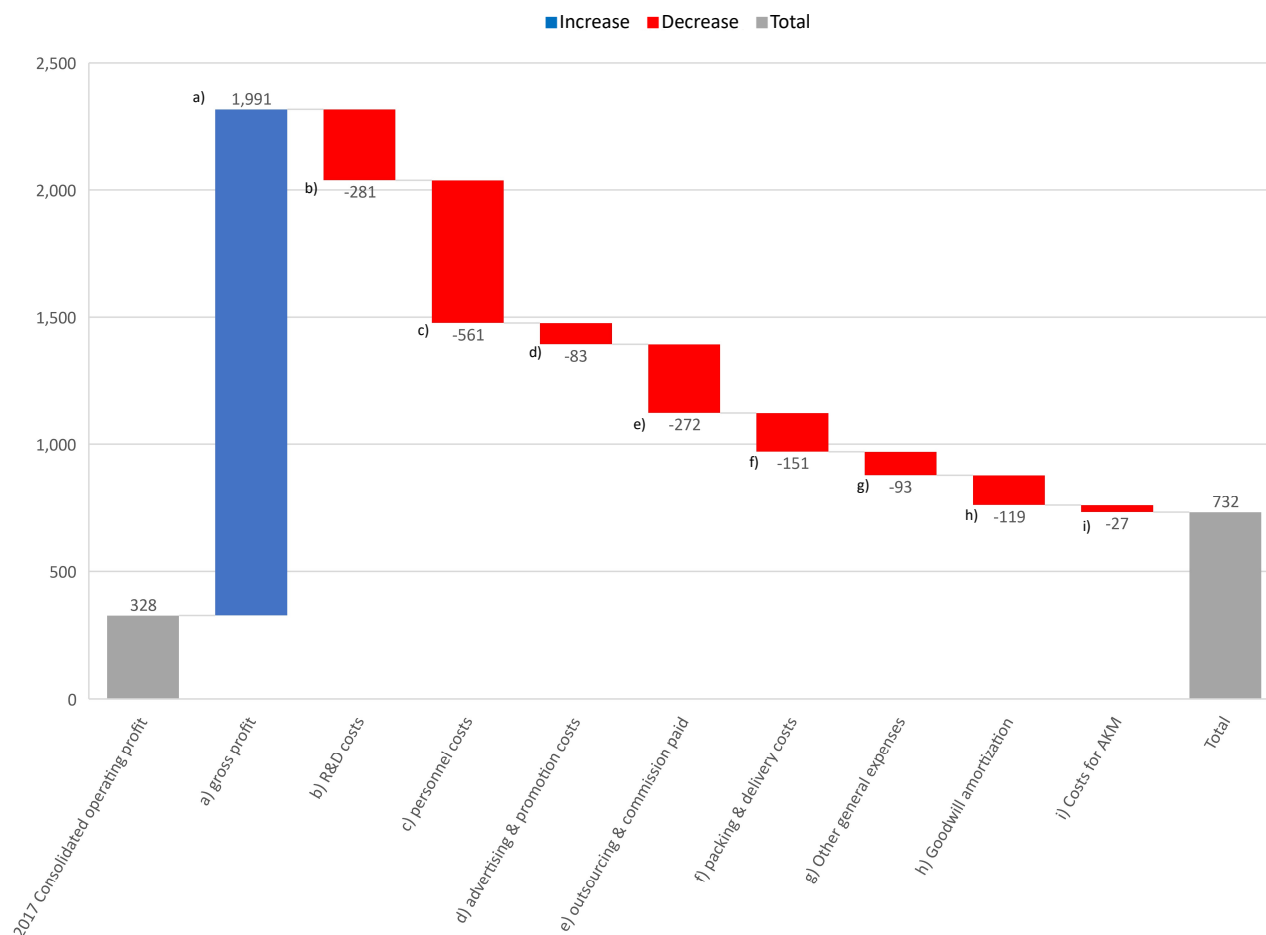
Consolidated operating profit for 2017-2020 by company



- a) In 2018, the operating profit of Zoom Japan decreased by JPY17 million.
- b) In 2018, the operating profit of Zoom Japan decreased by JPY26 million by making Mogar Music its consolidated subsidiary at the end of June.
- c) In 2019, the operating profit of Zoom Japan decreased by JPY67 million.
- d) In 2019, the operating profit of Mogar Music increased by JPY111 million. The period of consolidation for 2018 was 6 months and that for 2019 was 12 months.
- e) In 2020, the operating profit of Zoom Japan increased by JPY182 million.
- f) In 2020, the operating profit of Mogar Music decreased by JPY36 million.
- g) In 2020, the operating profit of Zoom Japan increased by JPY554 million by making Zoom North America our consolidated subsidiary on April 1.
- h) The operating profit of Zoom Japan decreased by JPY119 million because of the goodwill amortization at the time of acquiring Mogar Music and Zoom North America.
- i) The operating profit of Zoom Japan decreased by JPY177 million because of the elimination of unrealized gain included in the inventory of consolidated subsidiaries.

(3) Analysis of operating profit increase/decrease factors (by account title)

Consolidated operating profit for 2017-2020 by account title



- a) The gross profit of Zoom Japan increased by JPY1,991 million.
- b) The operating profit of Zoom Japan decreased by JPY281 million because of increased R&D spending.
- c) The operating profit of Zoom Japan decreased by JPY561 million because of increased personnel costs.
- d) The operating profit of Zoom Japan decreased by JPY83 million because of increased advertising and promotion costs.
- e) The operating profit of Zoom Japan decreased by JPY272 million because of increased outsourcing costs and commission paid.
- f) The operating profit of Zoom Japan decreased by JPY151 million because of increased packing and delivery costs.
- g) The operating profit of Zoom Japan decreased by JPY93 million because of increased other general and administrative expenses.
- h) The operating profit of Zoom Japan decreased by JPY119 million because of goodwill amortization at the time of the acquisition of Mogar Music and Zoom North America.
- i) The operating profit of Zoom Japan decreased by JPY27 million because of the increased cost of countermeasures for the fire of Asahi Kasei Microdevices Corporation.

(4) Corporate Philosophy

We upheld “to integrity, beyond quality” as our Corporate Philosophy in the second medium-term business plan. The background behind it is a change in the market environment, that is, the age where not only our products, but also overall Japanese products can rely on high quality as a competitive edge has ended because of the movement of all electronic equipment production bases into China. In response to such a change, we thought that we might be able to gain a competitive edge by enhancing the integrity of our brand, and to do so, staff and officers should first acquire integrity themselves and apply it to the products that they sell.

We have, therefore, promoted the enhancement not only of quality, but also of integrity and implemented activities according to this idea. However, we could not find statistical data that show a significant improvement in market defective ratio over the past three years. We introduced a 3-year extended warranty system into the Japanese market based on expected improvement of defective ratio, but only to increase the number of free repairs and replacements as expenses.

For the enhancement of integrity, a number of issues still remain: Is the product design innovative? Is the user interface friendly enough so that an operation manual is not required? Do members’ opinions tend to change by their positions? Do we compromise easily when solving problems?

Thus, for the realization of our Corporate Philosophy, we are only halfway through. Since a Corporate Philosophy is not a medium-term goal that can be achieved in three years to begin with, we reset it as a long-term goal that we should address on an ongoing basis.

(5) Establishment of lasting brand

For “Build the organization and develop human resources for the fifth generation” that we uphold to establish lasting brand, we think that we have realized it in terms of the structure. We were able to double the number of models that can be developed simultaneously by dividing the product development framework, that used to rely totally on the experience, knowledge, and management skills of only one CTO, into three divisions of PDV (Product Development), R&D (Research and Development), and MED (Mechanical Engineering), subdividing groups and teams that belong to each division, and clearly defining the division of roles among them. For other divisions, we discontinued the position of managers who play a double role and built a system that avoids incongruity. Moreover, we revised the division of duties, a list of duties and authority, and workflow as necessary and promoted delegation of authority.

However, although we have put a formal organization and rules in place, we have not yet achieved much about the development of human resources. The agenda of CMM (Company Management

Meeting) tend to center on just reporting and CMM is not functioning as a place to discuss management policies and decisions, which has been pointed out by outside directors (audit and supervisory committee members). For management dependent on skills of two founders, we were able to take over the role of CTO by adjusting divisions, but the role of CEO still continues practical operations.

(6) Corporate governance reform

For the separation of managerial supervision and execution, which was upheld as one of the targets for the corporate governance reform, we have created a structure whereby six executive officers of CEO, CFO, CSMO, CPDO, CRDO, and CPO are responsible for the execution of operations while the five directors including three outside directors supervise the reasonableness of operations. In the course of building this structure, we also promoted delegation of authority actively, leading to 34 revisions made to the division of duties and authority list at the end of 2020. In view of the current company scale and the Companies Act of Japan, the current structure where the majority of board members are outside directors fully meets the demand of the stock market, that is, the reinforcement of corporate governance.

2. Basic policy of the Third Medium-Term Business Plan (2021-2023)

(1) The performance goals shall be consolidated sales of JPY15 billion and consolidated operating profit of JPY1.2 billion.

We set “going public” as a goal for the first medium-term business plan and “consolidated sales of JPY10 billion” for the second medium-term business plan. While both goals were on a border line between doubts about our success or belief that we can make it, we were eventually able to achieve them. This result served to prove our cherished theory that a goal should be set at about 120% of real ability. In the third medium-term business plan, we decided to aim to achieve sales of JPY15 billion, which is also on a border line between success and failure and which represents 20% greater than our real ability, to prove the universal law that what happens twice will happen three times. Specific increase/decrease factors will be described later.

(2) The Corporate Philosophy is “to integrity, beyond quality, and further to sensing contentment.”

As mentioned in the summary of the second medium-term business plan, we are not sure whether we successfully added integrity to our brand. The reasons seem the difficulty to understand what integrity is and the specific ways to acquire integrity not being shown.

Therefore, in the third medium-term business plan, while carrying on the idea of “to integrity, beyond quality” that has been only half done, we aim at “sensing contentment”, a notion sublimated from integrity. The definition of sensing contentment, relationship between integrity and sensing contentment, and specific ways to practice them will be described later.

(3) To become a company that shares profits with all stakeholders in an appropriate manner.

After World War II, most Japanese people had a longing for the US culture and have since adored the US music, electric guitars, fashion, and lifestyles. In short, we have been imprinted that what the US people say is right. However, those entrepreneurs, who realized the American Dream, sold out their companies to investment fund, built luxurious houses in Florida or South Europe, and became investors.

The investment fund in which they invested buy and sell the companies like goods. We should not emulate such alchemy where money is made by reselling companies just like land speculation practiced during the economic bubble years in Japan. An expedient to affirm such immoral behavior afterwards is the logic that shareholder owns company. Investment fund, mass media, and government all criticized the lifetime employment system and long-accumulated internal reserve, which Japanese companies have long held, as outdated. However, such criticism only gave birth to the Trump administration that arose from significant disparities. In short, it implies that finance-based capitalism cannot solve social problems.

As a solution to complement the shortcomings of capitalistic economy while acknowledging its advantages, the economic theory called public interest capitalism is gaining support. According to this theory, based on the principle that companies are public institutions, companies and their board of directors undertake obligations to share profits to stakeholders in an appropriate manner. The background to the acceptance of such a theory, who stakeholders really are, and the definition of fair profit sharing will be described later.

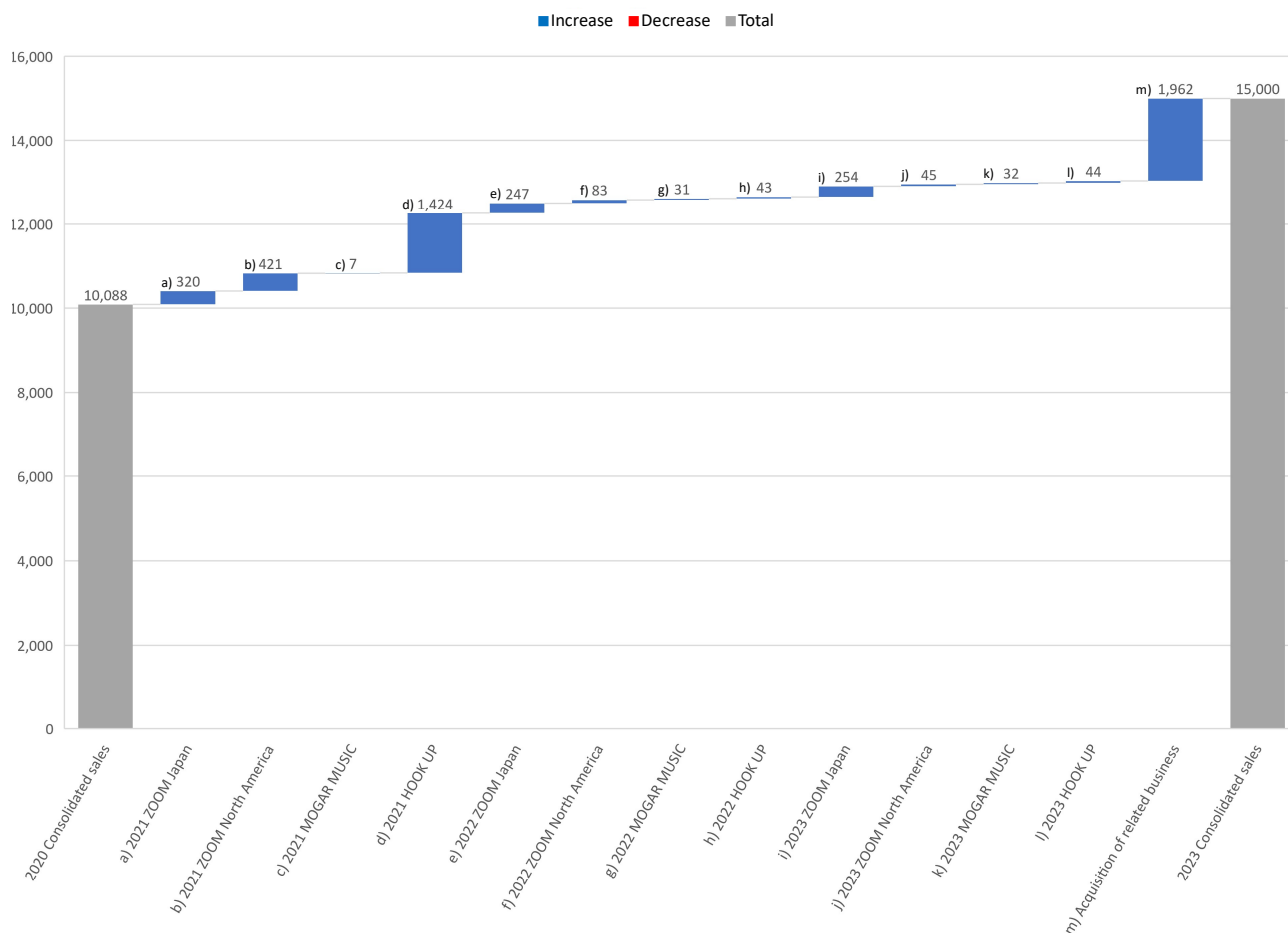
3. Performance Goals

We aim to achieve the consolidated sales of JPY15 billion and consolidated operating profit of JPY1.2 billion (operating profit margin of 8%) by 2023, the last fiscal year for this medium-term business plan.

Below are the increase/decrease factors for each goal:

(1) Sales increase/decrease factors

Consolidated sales for 2020-2023



a) 2021 Zoom Japan: Based on the fiscal 2021 budget, sales forecasted to be 104% compared to the previous year, an increase of JPY320 million

b) 2021 Zoom North America: Based on the fiscal 2021 budget, sales forecasted to be 135% compared to the previous year, an increase of JPY421 million

119% compared to the previous year if the factor of a change in the consolidated period from 9 months to 12 months is excluded

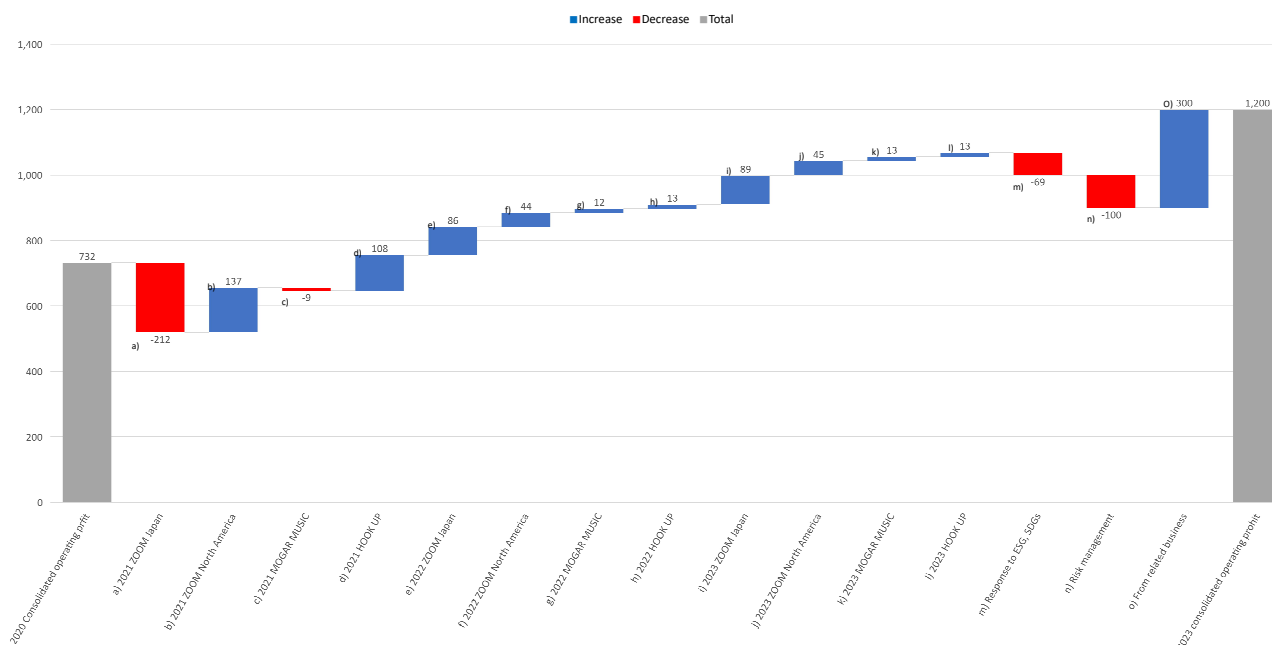
- c) 2021 Mogar Music: Based on the fiscal 2021 budget, sales forecasted to be 98% compared to the previous year, an increase of JPY7 million

103% compared to the previous year if the factor of the Hoshino Gakki brand with which the agency contract ended in 2020 is excluded

- d) 2021 Hook Up: An increase of JPY1,424 million due to making Hook Up a consolidated subsidiary in January 2021
- e) 2022 Zoom Japan: 3% compared to the previous year, an increase of JPY247 million
- f) 2022 Zoom North America: 3% compared to the previous year, an increase of JPY83 million
- g) 2022 Mogar Music: 3% compared to the previous year, an increase of JPY31 million
- h) 2022 Hook Up: 3% compared to the previous year, an increase of JPY43 million
- i) 2023 Zoom Japan: 3% compared to the previous year, an increase of JPY254 million
- j) 2023 Zoom North America: 3% compared to the previous year, an increase of JPY45 million
- k) 2023 Mogar Music: 3% compared to the previous year, an increase of JPY32 million
- l) 2023 Hook Up: 3% compared to the previous year, an increase of JPY44 million
- m) Acquisition of related businesses: An increase of JPY1,962 million due to the acquisition of related businesses

(2) Operating profit increase/decrease factors

Consolidated operating profit for 2020-2023



- a) 2021 Zoom Japan: While based on the fiscal 2021 budget, operating profit is expected to increase by JPY154 million along with an increase in sales, it will net out at a decrease of JPY212 million due to the increased cost of JPY311 million for countermeasures for the fire of Asahi Kasei Microdevices Corporation, an increase of JPY36 million in advertising and promotion costs to enhance branding, and an increase of JPY19 million in other general and administrative costs.
- b) 2021 Zoom North America: Based on the fiscal 2021 budget, operating profit to increase by JPY137 million .
- c) 2021 Mogar Music: Based on the fiscal 2021 budget, operating profit to decrease by JPY9 million.
- d) 2021 Hook Up: Based on the fiscal 2021 budget and after deduction of goodwill amortization by JPY32 million, operating profit to increase by JPY108 million.
- e) 2022 Zoom Japan: The break-even sales of JPY7,652 million in the fiscal 2021 budget will almost continue. Sales for fiscal 2022 will increase by JPY254 million. Given that the gross profit margin is 34.9%, operating profit will increase by JPY86 million.
- f) 2022 Zoom North America: The break-even sales of JPY3,179 million in the fiscal 2021 budget will almost continue. Sales for fiscal 2022 will increase by JPY142 million. Given that the gross profit margin is 30.6%, operating profit will increase by JPY44 million.
- g) 2022 Mogar Music: The break-even sales of JPY1,473 million in the fiscal 2021 budget will almost continue. Sales for fiscal 2022 will increase by JPY49 million. Given that the gross profit margin is 25.2%, operating profit will increase by JPY12 million.
- h) 2022 Hook Up: The break-even sales of JPY951 million in the fiscal 2021 budget will almost continue. Sales for fiscal 2022 will increase by JPY43 million. Given that the gross profit margin is 29.8%, operating profit will increase by JPY13 million.
- i) 2023 Zoom Japan: The break-even sales of JPY7,652 million in the fiscal 2021 budget will almost continue. Sales for

fiscal 2023 will increase by JPY254 million. Given that the gross profit margin is 34.9%, operating profit will increase by JPY89 million.

- j) 2023 Zoom North America: The break-even sales of JPY3,179 million in the fiscal 2021 budget will almost continue. Sales for fiscal 2023 will increase by JPY146 million. Given that the gross profit margin is 30.6%, operating profit will increase by JPY45 million.
- k) 2023 Mogar Music: The break-even sales of JPY1,473 million in the fiscal 2021 budget will almost continue. Sales for fiscal 2023 will increase by JPY50 million. Given that the gross profit margin is 25.2%, operating profit will increase by JPY13 million.
- l) 2023 Hook Up: The break-even sales of JPY951 million in the fiscal 2021 budget will almost continue. Sales for fiscal 2022 will increase by JPY44 million. Given that the gross profit margin is 29.8%, operating profit will increase by JPY13 million.
- m) Response to ESG and SDGs: A decrease of JPY69 million due to a contribution to ESG (Environment, Social and Governance) and SDGs (Sustainable Development Goals). However, if operating profit increases, we will aim to contribute JPY100 million.
- n) Response to risk management: A decrease of JPY100 million to prepare for potential risks
- o) Acquisition of related businesses: An increase of JPY300 million due to the acquisition of related businesses

4. Corporate Philosophy

Upon changing our Corporate Philosophy to “to integrity, beyond quality, and further to sensing contentment,” we will explain the derivation of the unfamiliar phrase, “sensing contentment.”

According to the teachings of Zen mind to which even Steve Jobs made a serious commitment, what hinder us from acquiring integrity are greed, complaints, and a feeling of anger. The most difficult thing to control among these three is insatiable greed. Sensing contentment is the frame of mind that helps you break away from being at the mercy of greed.

In the sutra called Yuikyogyo (sutra of Buddha’s last instruction), it is said that if you want to be free from suffering, you should sense contentment. Those who do not sense contentment are spiritually poor even if they are financially rich, whereas those who sense contentment are rich even if they are poor. Moreover, a Chinese classic called Caigentan says that those who sense contentment are in the enchanted land whereas those who do not sense contentment are in the state of confusion. Since these are Zen riddles and hard to understand, easy-to-understand examples are shown below.

Senno Rikyu, a Japanese tea master, added the wabi/sabi aesthetic to the tea ceremony that was a luxurious hobby among aristocrats and samurai, and said the essence of wabi-cha lies in sensing contentment. Rikyu also said that you should be content with a house if it has no leaky roof and with food if you are not starving. Matsudaira Fumai who inherited Rikyu’s teachings said in his essay that the true purpose of tea ceremony is to sense contentment...if you don’t sense contentment, you outrage humanity. Tea ceremony is an action to communicate sensing contentment.

Those who have been unsure of how to acquire integrity may now think that they can do so by sensing contentment.

We will explain how to practice sensing contentment in your daily life and work with examples below:

(1) Acquire self-affirmation.

The real intention of Rikyu when he said that you should be content with a house if it has no leaky roof does not mean that you should be content with the hut of a homeless person. It means that to sense contentment, you need a house where you and your family can live in peace, and may reflect Rikyu’s criticism against a golden tea room built by his master Toyotomi Hideyoshi. In other words, it

means if you live within your means, you can free yourself from feeling jealous, holding a grudge, and disrespecting others. You can acquire self-affirmation of being contented with what you are/have by not seeking a life above your means or not comparing yourself with others, which leads to sensing contentment.

(2) Altruistic behavior

Every person might have once thought about what he/she has been working for. The primary reason may be for family or company, and eventually to better society. It is rare that the person says that the primary reason to work is to satisfy a personal desire. Different from selfish attitude, such as working only for oneself, altruistic attitude, such as producing great ideas for users and having meetings until late at night to improve the performance of the company, cannot be taken without sensing contentment. If you become greedy, such as you think you deserve higher pay, complain if your evaluation is lower than the evaluations of colleagues, and feel angry if things do not go as you planned, you would never be able to behave in an altruistic manner. You can act in an altruistic manner only when you sense contentment.

(3) Sensing contentment and feeling resignation are not synonymous.

Sensing contentment where one knows he/she has enough of everything and the feeling resignation where one becomes satisfied with the second best are two similar, but different things. Rather, they are totally opposite. As long as one's motive is altruistic, improving one's job skills, presenting own ideas in meetings, and proposing better ideas than others will eventually lead to a better evaluation and a pay raise. The true purpose of sensing contentment is to generate a virtuous cycle where altruistic behavior eventually leads to one's own benefit. Resignation where one becomes satisfied with the second best cannot make one or others fully contented.

(4) Sensing contentment and a feeling of accomplishment are synonymous.

Feeling of accomplishment for something is the strongest motive that drives the person forward. When do we feel accomplished? A feeling of accomplishment ranges from small accomplishments of individuals or teams, such as the achievement of the sales volume budget, the completion of work on time, and the realization of target performance to mega accomplishments of companies, such as going public on the Tokyo Stock Exchange. Feeling this accomplishment and sensing contentment where one

feels contented with what he/she has are synonymous. In other words, we can know contentment by achieving something on a daily basis, whereas if failures continue, we fall into the state of confusion. Do not adopt halfway measures or give up halfway through. Every time you do so, your feeling of accomplishment and sensing contentment will recede from your view.

(5) Five Code of Management

As you can see from the explanation made above, sensing contentment is similar to the Buddhahood. Anyone can attain Buddhahood anywhere in everyday life, without attaining life through fasting or continue climbing mountains in Yoshino for 1,000 days.

However, the idea of sensing contentment seems so ideological for a company to aim. But, as is the case with the fact that a person is endowed with a personality by law as a natural person, a company is also given a personality with rights and duties, which is called the legal personality. Therefore, there should be norms for corporate behavior and as is the case with a natural person, it is not good enough for a company to observe laws and regulations. Just as a person has a family, friends, and acquaintances, a legal person has customers, suppliers, and buyers. If a person can practice sensing contentment and reach the Buddhahood, a legal person should also be able to practice sensing contentment and become an immortal brand.

Therefore, we decided to set the Five Code of Management to practice sensing contentment and enhance integrity as a company. Along with this, we revised the Five Code of Product Development and Five Code of Conduct and make them easier to understand.

Five Code of Management

1. Distribute profits to all stakeholders in an appropriate manner.
2. Bear a fair share of costs for ESG and SDGs.
3. Contribute to improve people's QOL via sound, music, and musical instruments.
4. Observe universal principles and aim to establish a brand that continues to exist for 100 years.
5. We shall not become involved in the arms industry or nuclear industry.

Five Code of Product Development

1. Provide motivation for a challenge to professionals and for continuing efforts to amateurs.
2. Add something that is the world's first to function, performance, price, appearance, and/or operability.
3. Develop products that make you want to use them from a user's perspective.
4. Design should be linked to functions.
5. Create a new market by developing problem-solving and opportunity-providing products.

Five Code of Conduct

1. Do not change principles or opinions depending on where you stand, but tell right from wrong as a person.
2. Be optimistic when setting goals (Things will work out) and be pessimistic when the realization of the goal is approaching (If it should ...).
3. When solving a problem, ask yourself "why" three times to find the true cause and implement countermeasures to ensure that the problem won't be repeated.
4. Do not make a compromise with the completeness of your work, but do your best within given constraints.
5. When instructed to do something, accept it only after you understand what you are expected to do. Do not say yes in a passive manner.

5. Profit Sharing

In order to become a company that distributes profits in an appropriate manner to all stakeholders as a public institution of society, we need to understand the background to profit sharing. Moreover, while it is natural for values to change with the times, if laws and established theories that are the preconditions for corporate activities were changed, the continuity of a company is endangered. Therefore, we need to verify that the long-established theories are right and determine what theories we should accept for the future.

(1) Established theories that have turned out to be illusions

Our company was established in 1983. The following theories, that have been believed since or after the establishment of our company, have turned out to be illusions:

a) Globalization

A prediction that globalization where capital, goods, technology, and services cross national boundaries will give birth to a global common market was irrelevant as shown by the current situation where a high tariff was put even on our products just because they were produced in factories in China and where our employees cannot use Google, Facebook, or Twitter at business trip destinations due to the Great Firewall of China. After all, globalization was a means to make it easier for the US companies to work overseas.

b) Two-party System

In England, the birthplace of parliamentary democracy, the policies of the Conservative Party and those of the Labor Party have become so similar that they cannot be distinguished easily. On the other hand, for the selection of withdrawal from the European Union, a dividing line that is completely different from the two parties emerged, leading to an unexpected situation. In the US, another two-party nation, an abnormal situation occurred where a violent struggle over the presidential election divided the country into two. Different from the direction that democracy should take, these two cases showed that a two-party system makes a country unstable. Despite the introduction of a single-seat constituency system in Japan toward the realization of the two-party system, it seems that a regime change will never happen again. However, this is why we can say that Japanese society is relatively stable.

c) Pressure-free Education

While a pressure-free education policy was introduced in reaction to a cramming education in Japan,

it brought the serious issue of drops in scholastic skills. Such education that teaches $\pi = 3$ cannot persist to begin with, and the pressure-free education policy was quickly abandoned.

d) Trickle-down Effect

The seemingly valid assumption that drastic monetary easing measures, one of Abenomics policies, will make the wealthy wealthier, which will in turn activate economic activities and the profits will be redistributed to low-income earners has turned out to be just classic economic theory, although the phrase, trickle-down effect, was nominated for the Buzzword Award. The profits were not redistributed and wealth produced wealth only for the wealthy.

e) The Cold War will end and a peaceful world will be resumed.

When the Berlin Wall collapsed, everyone thought that capitalism defeated communism and the US-Soviet conflict ended and expected that the times without wars or conflicts would come. However, religious conflicts, the US-China trade war, and battles in cyberspace have emerged and deepened.

f) Price is determined by demand and supply.

For products that are often in short supply, such as fresh food, prices fluctuate depending on the balance between demand and supply as economic theory says. If everyone makes a rational choice as the preconditions of classical economics state, this is right. However, for industrial products that are always oversupplied, prices fluctuate as some people make irrational choices due to the expanded online sales channels where prices can be compared easily and excessive consumer protection policies under the Anti-Monopoly Act.

g) Emergence of European Common Market

The European Union was meant to be an integrated market through free movement of people, goods, and money. However, it also led to free movement of illegal immigrants and failed to integrate social welfare systems that varied by member state. Moreover, member states had no control over interest rates, the core of economic policies of each state, resulting in the withdrawal of the United Kingdom from the European Union.

h) Rise of prices due to an easy-money policy

After the collapse of the bubble economy in Japan, interest rates dropped just as economic theory claims. In 2013, the government of Japan and the Bank of Japan, which could not tolerate a slow business recovery, decided to aim at a price hike of 2% through a bold easy-money policy. However, it has not been achieved even in 2021. Upon facing banks' forcible withdrawal of money, the general public and businesspersons reflected on their past hyper behavior, became traumatized, and concentrated on

building wealth instead of spending and investing their money. Consequently, prices did not rise despite an excess money supply. We cannot help but wait for the emergence of a generation that has not experienced banks' forcible withdrawal of money.

i) Nuclear power generation is inexpensive and safe.

Needless to say, politicians and enterprises that cannot discard this public stance must be agonizing about their real intentions and the public stance.

(2) Established theory that could be illusions

When the aforementioned theories, which turned out to be illusions later, were put forward, everyone must have thought, despite somehow feeling uncomfortable, that they must be valid since scholars, politicians, and the US advocate them. Now that we found that they were mere illusions, we may suspect that the current theories may also be illusions.

a) Work Style Reforms

Is a hardworking style outdated? One wealthy person I met through my acquaintance at the time of the establishment of Zoom North America and whom I asked to become a partner asked me, "Are you a hard worker? If yes, I will invest in your company." A Japanese scientist, one of the candidates for the Nobel Prize, said that he thinks about his project all the time, for 24 hours even during off-duty hours, and then suddenly an inspiration comes to him. Death from overwork and power harassment play no role in work style reforms: they are out of the question. The prevention of overwork death and power harassment is not an issue of work style reform, but a moral issue. Unless you respect motivation, such as building skills through work, finishing work on time, and being curious about why things don't go as planned, you may end up depriving people of the motivation for work, which is far from work style reforms.

b) Job-specified Employment

Japanese companies have long adopted the membership (general) employment approach. This is a reflection of Japanese culture that respects the intention of a group. Since many decades ago, a cynical joke that most Japanese people answer the question "What are you working for?" with the name of a company, such as I work for XX company, whereas foreigners answer with a job type has widely circulated. Even today, such a practice still prevails. It is not a matter of right or wrong, but it just fits the mindset of Japanese people; therefore, this will continue into the future. Foreign companies and companies that employ many foreigners can take advantage of job-specified employment, but it leads to dismissal when the job is terminated. If a company uses the job-specified employment approach as a

means to dismiss employees, it will expand the disparity in working conditions between regular and non-regular employees rather than correct it.

c) Remote work

Remote work is viable if it is combined with job-specified employment. Since the culture of respecting harmony and the intention of a group is deeply rooted in membership-type Japanese organizations, working in such organizations requires workers to understand what to do without exchanging words, to read between the lines, and to guess what superiors think or want in a good sense. Remote work does not fit well in such a culture. Moreover, the greatest shortcoming of remote work is that it lacks the enthusiasm associated with questions and answers or discussions. Participants cannot ask a question or express views at any time during a meeting, but rather they have to take turns when making or answering a question, leading to a bureaucratic meeting. Ideas for new products will not be generated in such meetings. Good jokes and humor can serve to ease the atmosphere of a presentation or meeting and activate discussions, but how do you feel when there is no reaction to your joke? Even if participants burst into laughter, if it occurs one second later due to the time lag, you may feel that they are laughing from a sense of obligation. If everything is online, the entire society will lose their senses of humor, and a strained atmosphere will prevail. It is indispensable for a company to have conversations without time lags while looking into the eyes of the other party and using nonverbal skills.

d) Equal pay for equal work

This idea is also viable only if it is combined with job-specified employment. In the case of membership employment, the weight of responsibility of a company varies by employment type. In fact, in October 2020, the Supreme Court of Japan ruled that not paying bonuses to part-time workers is not necessarily irrational in light of job details and the extent of personnel transfers and realignment. According to the management theory of Peter Drucker, the management of white-collar workers involves bringing together experts whose skill levels can be higher than those of managers, aligning their vectors, and producing results more than just addition. In such a work environment, those engaged in equal work cannot be clearly differentiated from others to begin with. If you dare to introduce an appropriate system, it should be equal pay for equal responsibility.

e) Singularity

The singularity, also called the technological singularity, is the point in time when artificial intelligence, instead of mankind, plays the leading role in the progress of civilization and it is said to come around 2045. This is not in the distant future for our company that aims to continue for 100 years. For our company, the singularity means that AI engages in product planning. However, it is doubtful whether AI that excels in deep learning can produce our products for which there are no models in the past or in other companies and which feature a subtle balance between function and design. Paradoxically, we

can overcome the singularity if we continue planning and developing products that AI cannot produce.

(3) Established theory that should be reliable

Established theories that turned out to be or may be illusions have something in common: Those who benefit from them and those who suffer a loss by accepting them exist at the same time: and there are hidden intentions behind the official line. It means that managing our company according to universal theory, that is not affected by hidden intentions and/or zero-sum rules where everything comes out even, will secure the continuity of our company.

a) Shortcomings of capitalism

As long as corporate activities are built on a capitalistic economy, it is important to know the various shortcomings of capitalism when considering how a company should be:

- It inevitably produces and expands income inequality.
- It is unable to resolve the issue of poverty that is brought by income inequality.
- It produces a business cycle and unstable economy.
- It is unable to produce enough employment to redress the gap between the rich and the poor.
- It does not impose obligations caused by corporate activities
- It exploits environment and natural resources.
- It pursues individualism and self-interest.
- It drives economic growth through financial means.
- It prefers plans that pursue short-term profits.
- It does not take social value or a feeling of happiness into account.

If we regard these shortcomings as paradoxical established theory, they show us the future direction of our company. That is, we aim to become a company that embraces the mission that does not allow income inequality or poverty, that secures employment by a management approach without impact by business cycle, that bears a fair cost for the protection of the environment and natural resources, that does not allow to get involved in finance-driven alchemy that pursues only self-interest, and whose raison d'être is recognized by society as it focuses on long-term profits.

b) Sense of values based on “as a person”

Compliance is a rule that should be observed as a person, not a rule where one can do anything as long as it is not illegal. However, there are also rules that change with the times, such as harassment and gender criteria. While our company has a compliance manual in place, it is impossible to incorporate changes into it in advance. Therefore, it is inevitable for us to update the manual ex post facto. The standard of how to act in such cases is the sense of values based on “as a person.” If you think whether it is good thing to do or to say, or it is good to sell or buy the item, as a person, then you will know the answer.

Moreover, the sense of values as a person also relates to the natural law of the survival of the fittest. It also serves as the standards to continue evolving, adapt to the environment, and live together with peers. In other words, when faced with problems and risks, you should behave in a humble manner, that is, in harmony with natural laws.

c) Manufacturing is the starting point of capitalism.

For example, English skill is a communication tool and not business in itself (except some industry sectors). Similarly, each of finance, investment, and IT should not be an independent business, but should be business for manufacturing. Finance provides capital to companies that produce new products whereas investment supports entrepreneurs who have ideas but no money, or IT is used to improve product development efficiency and performance. These activities all spread to surrounding service businesses and activate the economy. This synergy seems the true trickle-down effect.

d) Internationalism

Globalism turned out to be an illusion and in reaction to it, nationalism emerged. The flow of the Trump administration that advocated America First has spread around the world, and the Chinese president now has strong power that past emperors used to have. If the emergence of nationalism is left uncontrolled, it will bring devastating consequences. If globalism is an illusion and nationalism leads to ruin, then we can only choose internationalism. Maintaining moderate mutual interactions while maintaining national borders and the sovereignty of each nation is the way to achieve political and economic stability.

e) Do not get involved in the arms industry.

If asked whether there is an arms industry in Japan that has the war-renouncing Constitution, the answer is yes. The estimated amount of defense-related budget requested by the Ministry of Defense for 2021 is JPY5.4897 trillion, including the space-related expenditures that include missile defense of JPY72.4 billion, cyber-related expenditures of JPY35.7 billion, and other costs for submarines,

helicopters, ammunition, electronic devices, and escort ships that look almost like aircraft carriers of the Self-Defense Forces. Since the companies and industries manufacturing them do not broadcast TV commercials or deliver marketing messages via social media, the arms industry is not well known among people in Japan. However, most leading companies of Japan are involved in it. The companies that claim that they actively address human rights and environmental issues are producing arms to kill people. We have to say that they speak with a forked tongue.

On the other hand, the size of the US musical instrument industry is said to be about JPY700 billion, based on which we can estimate the size of the industry in the world to be JPY1.5 trillion. It is only 1/4 of the military budget of Japan. It goes without saying that the defense-related industry is important for the protection of Japan and Japanese people from threats. However, despite the fact that defense is a large market, our group should contribute to the realization of a world without war through the indirect method of easing people's disconcerted feelings.

f) Do not get involved in the nuclear industry.

Our company's way to handle problems is to take thorough countermeasures so that the same problem will not occur again. To that end, it is stipulated in the Code of Conduct that we should ask "why" three times. Why did the core meltdown accident occur at the Fukushima Daiichi Nuclear Power Station? The answer to the first why is that the power supply to cool a reactor was disabled. The answer to the second why is the occurrence of tsunami at an unexpected scale. The answer to the third why, the true cause, is that top priority was given to economic rationality rather than scientific knowledge that predicted the potential of tsunami of unexpected scale. However, since we in capitalist society always conduct business while placing top priority on economic rationality, controlling nuclear power generation safely is incompatible with the priority of developing business. Therefore, the ultimate measure not to repeat a nuclear accident again is to stop nuclear power generation, and if it is impossible for one company to do so, it must at least avoid getting involved in the nuclear industry.

g) Conscious Capitalism

Public Interest Capitalism was born in Japan in order to compensate for the shortcomings of finance-based capitalism. However, even in the United States, where the idea of finance-based capitalism was born, but which serves as an example of what not to do, there is a movement of Conscious Capitalism among some entrepreneurs. The idea of Conscious Capitalism comprises four principles: 1) High level purpose that motivates all parties involved; 2) integration of all stakeholders, such as customers, employees, distributors, suppliers, communities, and environment; 3) conscious leadership that serves all stakeholders; and 4) conscious corporate culture and management that aim to improve corporate value for all stakeholders. These principles are surprisingly similar to the idea of public interest capitalism, and it is noteworthy that they are advocated in Japan and in the United States simultaneously.

h) A company is a public institution of society.

Public Interest Capitalism and Conscious Capitalism are based on the idea that companies, particularly listed companies, are public institutions that share a common ground in that actions to serve all stakeholders should be incorporated into corporate purposes and the corporate culture and should be required of leaders and management, although the words used, that is, public interest and conscious, are different. While words like public interest and conscious seem to imply disregarding profit, the maximization of profit is a major premise and what takes top priority in business management since profit cannot be shared unless it is produced in the first place. Stakeholders (those who share interests) include people directly involved, such as staff, officers, customers, shareholders, factories, distributors, and retailers, and also include societies and environments from which companies indirectly receive benefits, such as communities, nations, and the earth. Companies and their boards of directors should share interests with these people, organizations, and environments and distribute profits to them in an appropriate manner.

Definition of profit sharing

Keeping in mind the aforementioned established theory that turned out to be illusions, those that could be illusions, and those that are reliable, we define appropriate profit sharing with stakeholders in the third medium-term business plan as follows:

- Staff: We introduce a system that directly links growth of our company with the income of staff.
- Officers: We add incentives that correspond to the contribution of each member to the compensation.
- Customers: We commit overwhelming cost performance compare to competing products.
- Shareholders: We introduce a system that gives preferential treatment to shareholders holding our shares for a medium to long period of time for non-speculative purposes.
- Factories: We build win-win relationships through financially sound cost reduction.
- Distributors: We minimize lost profits by implementing measures that strictly manage the market territory.
- Retailers: We eliminate unreasonable or excessive competition via channel management.
- Communities: We establish NPOs that serve the public interest and contribute to the communities where our company, staff, and officers belong.
- Global environment: We reduce the environmental burden by promoting energy-saving and waste reduction through improving product performance.

6. Core Strategies

(1) Branding reinforcement via “We’re For Creators”

Brand value is our core asset. We will further reinforce branding along the company tagline of We’re For Creators.

- a) Continue creator-oriented R&D and product development.
- b) Watch for the emergence of creators in new areas and quickly roll out optimized products.
- c) Support the emergence of new creators through problem-solving and opportunity-proposing type of products.
- d) In order to discover new creators, hold events where creators can present their works.
- e) Increase an advertising and promotion budget and include the enhancement of brand value in it.
- f) Encourage distributors to shift their advertising and promotion to social media and focus on providing contents.
- g) In order to boost our brand awareness, actively distribute, provide, and sell novelty items.
- h) Implement the annual Creator Award program targeting well-known artists and appoint the award winners for advertising as endorsers.

(2) Promotion of the diversification of core and related businesses

To diversify business via M&A and entry into a new category is an indispensable strategy for the sustainable growth of a company. However, our company will aim to expand our business through the diversification of business related to sound, music, and musical instruments and will not engage in the non-related business as it is failure-prone.

- a) Build an integrated business foundation that encompasses everything from R&D, product development, manufacture, wholesale, and retail of products.
- b) Position the accumulation of technology related to sound, music, and musical instruments as our core competence and protect and enhance it.
- c) For peripheral technology that is not related to sound, music, or musical instruments, we continue the open innovation approach where we use excellent technology of outsources.
- d) Include services related to sound, music, and musical instrument (areas other than manufacturing) also as the targets of diversification.
- e) Expand the products manufactured with existing technology by using OEM, as well as leading

products manufactured with advanced technology.

- f) Enter a new category by adding new technology while utilizing proven technology.
- g) Feed information obtained from diversified business back to product development.
- h) Utilize connections obtained through the distribution business for M&A strategies.

(3) Expand and enrich products targeted at the middle class.

Joe Biden, President of the United States, said in his election address that he will rebuild a rich middle class that supports the US. Chinese President Xi Jinping said in the fifth plenum that he will expand the middle class by doubling their income. The income-doubling plan by the Ikeda Cabinet also gave momentum to the development of the Japanese economy in 1960. Since it is presumed that a similar trend will occur in developing countries, we expect that demand for sound, music, and musical instruments, which enrich the quality of life of middle-class people who have escaped poverty, will increase drastically. Therefore, we will concentrate our resources on the development of products targeted at the middle class.

- a) The core price range of leading products in the market shall be set at around JPY10,000 up to JPY200,000.
- b) Aim at the defect ratio of less than 0.1% not to discourage the middle class in countries and regions where the after-sale service network and logistics infrastructure are inadequate.
- c) For performance, function, and appearance, avoid excessive quality, but seek a convincing quality level for the price.
- d) In order to respond to diverse languages that customers use, we provide an easy-to-use and understandable user interface that requires no operation manual while promoting localization of the products.
- e) Analyze the background of the fact that hot-selling products differ by country and region, and target the markets where preferences overlap each other.
- f) In order to meet the different needs of the diverse middle class, develop not only multifunctional and multipurpose products that are as versatile as a Swiss army knife but also products dedicated to a specific purpose.

(4) Introduction and thorough practice of risk management

Many unexpected events occurred during the periods of the first and second medium-term business

plans, such as natural disasters, the COVID-19 pandemic, parts shortages, and bankruptcies of related companies. Oddly enough, as our company becomes larger, the severity of risks that we face becomes greater. Therefore, for risks that may occur during the period of the third medium-term business plan, we establish risk management strategies in advance to avoid panicking, mitigate the impact on business, and predict every risk while considering the balance between cost and effect.

a) Risk: Rising cost at EMS factories in China and geopolitical risks

Strategy: Disperse EMS factories (including in the country where existing factories are located) and reduce the dependence on specific factories to 1/3 or less.

b) Risk: Potential disasters and accidents or a change of management policy due to M&A that parts suppliers may experience

Strategy: For all key parts, reduce dependence on specific manufactures to 1/3 or less.

c) Risk: Insufficient supply of parts containing rare metal due to energy saving and the popularization of EVs

Strategy: Keep an eye out for demand fluctuations in other industries and make adjustments to order quantity accordingly. At the same time, create a list of replacement parts in advance.

d) Risk: Attacks on our intranet from outside and consequent information leaks

Strategy: Centered on the IT Group, collect data on these cases and introduce the latest countermeasures on an ongoing basis. At the same time, for all information, anticipate potential problems and countermeasures to take in case of information leakage.

e) Risk: Because of the slow generation change via human resources development, a growth strategy based on increased new products cannot be developed.

Strategy: Increase the frequency of job rotation via personnel reshuffle and provide mid-level engineers opportunities and an education program on project management.

f) Risk: Serious loss and damage incurred by unexpected incidents or misconduct by subsidiaries

Strategy: Establish a new group that takes charge of the management of subsidiaries and consolidated accounting, create a system that enables to obtain risk information early, and reinforce the supervisory function.

g) Risk: A decrease in profit margin of overseas subsidiaries, which arose from rising airfreight due to COVID-19

Strategy: In order to avoid situations that require the air shipment, prevent delays in new product development schedules and eliminate shipping suspension cases due to quality issues.

h) Risk: Because of the lack of knowledge concerning overseas tax laws, or due to our company's or subsidiary's tax return is rejected, and a penalty tax is imposed.

Strategy: For high risk areas, such as intercompany trading with related companies and particularly a tax haven system and transfer price taxation, hire and obtain advice from a professional consulting firm, and at the same time, consult with tax authorities in advance.

- i) **Risk:** In cases where M&A or an unexpected capital requirement happens, the required capital cannot be raised or the cost of capital procurement has increased.

Strategy: Expand financing means including those of overseas subsidiaries and practice good group fund management.

- j) **Risk:** The emergence of a new infectious disease pandemic or occurrence of a natural disaster

Strategy: Continue the basic infection control measures even after the end of COVID-19. Maintain a system that enables a prompt shift to remote work by reducing the frequency and number of people on business trips through a videoconference system.

(5) Treatment and prevention of work habits diseases

It has been 37 years since our company was established. In 1983 when our company started business, an article entitled “The average life span of a company is 30 years,” a title that challenges the venture spirit, was published in the Nikkei Business magazine, and we have since made efforts to go beyond this life span. In 2018, 35 years after that, according to a survey by Tokyo Shoko Research, Ltd., the average life span of companies that had gone bankrupt was 24 years (the average of all industry sectors) and the longest was 34 years in the manufacturing industry. This proved that the hypothesis of the Nikkei Business magazine was right. However, as is the case with human life spans, this is only an average life span, and there are no statistics for the remaining years of a company that has existed for 37 years. We need to recognize, however, that our company can stop existing anytime.

In recent years, similar symptoms as the lifestyle diseases of people can be found among companies. It is the so-called big company disease. Since our company is not a big company, we named it work habits disease. If a company treats this disease and continues changing and adapting, it can exist for 100 years. This is what makes a company different from a person. We will implement not symptomatic therapy, but radical treatment and preventive measures while understanding the various symptoms of work habits disease.

- a) **Symptom:** You repeat wasteful, inefficient operational routines since they are the same as the previous task.

Treatment and prevention: Since organizations, markets, and products are changing all the time, think that it is natural for routines to change and work while thinking how to improve, streamline, or omit the routine work.

- b) **Symptom:** You cannot find what to do next on your own and just wait for instructions from your superiors.

Treatment and prevention: Understand how your work is positioned within the entire project or monthly work. Managers should clearly show the positioning of each task and then assign it to each member.

c) Symptom: You work simply because you were instructed to do so.

Treatment and prevention: Become aware that you cannot achieve expected results unless you think the intention behind the instructions. If you do not understand it, ask your superior why the work is necessary, understand the reason, and then get to work.

d) Symptom: Since you do not know the reason why a workflow was created as it is, you cannot handle exceptions and similar problems occur.

Treatment and prevention: Since a workflow is not necessary for work where problems are not likely to occur, first understand the background of how procedures and the approval process were determined and then handle any exceptions. When establishing or revising a workflow, record the key problems and errors that have led up to the establishment/revision of the workflow.

e) Symptom: Since operational instructions cascade down from top management to mid-level management and then from sub-management to persons in charge and finally to outsources, the original purpose of instructions cannot be communicated properly.

Treatment and prevention: Issue instructions directly to the person who does the work. Share the content of the instructions with the superior of the person who should also be present at the meetings (including online meetings). Strictly refrain issuing instructions by passing a message or leaving the job to the person without any explanation. When answering the instructions saying that it will be reviewed or investigated, be sure to specify the subject, that is, who will do it.

f) Symptom: You spend too much time in formatting a report.

Treatment and prevention: Reliable reports require not a predetermined format, rather reality such as a handwritten note. Use Excel or Word not to format a document, but for complicated calculations and the refinement of sentences.

g) Symptom: Coordination cannot be made beyond the barriers that exist between vertically divided groups.

Treatment and prevention: Organizational units are not established to divide work, but rather show how to reintegrate the work that we have no choice but to divide. Share the recognition that there is no work that can be completed only by one unit, determine appropriate units to collaborate with, and coordinate activities with them.

h) Symptom: Select a policy that is disadvantageous for users to save yourself some work.

Treatment and prevention: Apply the Code of Product Development, “to develop products that make you want to use them from the user’s perspective,” to all other work. When pointing out something to superiors, colleagues, or inferiors, do so from the user’s perspective.

i) Symptom: When problems occur, select a symptomatic measure based only on past cases and experience.

Treatment and prevention: Precedents are not what you should follow, but refer to. In compliance with our Code of Conduct that stipulates that you should repeat “why” three times, find the true cause and select radical measures that comply with principles.

