

# Risk Factors

Listed below are the principal business risks of Sharp that may have a significant influence on investors' decisions and countermeasures.

Note that in addition to these, there exist certain other risks that are difficult to foresee.

Each of these risks has the potential to impact the operations, business results, and financial position of Sharp.

All references to possible future developments in the following text were made by Sharp as of March 31, 2024 (or June 28, 2024 as appropriate).

## **(1) Global market trends and overseas businesses (Risk)**

Sharp conducts our business not only in Japan but also in different regions around the world. Business results and financial position are thus subject to economic trends (especially private consumption and corporate capital investment trends), competition with other companies, product demand, raw material supply, and price fluctuations in each region around the world, including Japan.

In addition, various factors may have negative impacts on Sharp performance and financial position. Such factors include persistent global inflation, prolonged monetary tightening in Europe and the U.S. putting potential downward pressure on demand for durable consumer goods, and sluggish consumer spending in China due to the stagnant real estate market.

### **(Countermeasure)**

Business units that control Sharp's overseas

subsidiaries collect risk and other information that may impact Sharp's operations, including global market trends, in cooperation with their local offices and make necessary operational decisions. Business results of the overseas subsidiaries and business units are reported to management regularly, determining the necessary risk responses on a case-by-case basis by analyzing the latest circumstances.

## **(2) Exchange rate fluctuations (Risk)**

The proportion of consolidated net sales accounted for by overseas sales was 68.6% in fiscal 2022 and 66.7% in fiscal 2023. Sharp sells products made overseas in the Japanese market, and also sells products in countries where it does not manufacture the products. Therefore, Sharp's business results may be impacted by exchange rate fluctuations.

### **(Countermeasure)**

Sharp hedges the risk of exchange rate fluctuations by employing forward exchange contracts and expanding and strengthening optimally located production.

## **(3) Dependence on certain businesses, products, and clients (Risk)**

Sharp's device businesses account for nearly half of Sharp's sales. Accordingly, Sharp's earnings may be impacted negatively by factors including slowing customer demand for related products, falling product prices, or increasing competition due to

the emergence of substitute or competitive products, or the emergence of new competitors.

Sharp's device businesses have high dependence on a small number of specific clients for the sales of some of their products. Sharp's business results and financial position could be affected if sales to such important clients languish due to not only factors related to Sharp's products but reasons outside of Sharp's control. These include declining demand for the clients' products, changes in product specifications, and changes in the clients' sales strategies.

### **(Countermeasure)**

Sharp aims to gain superior competitive advantages by accelerating a business model shift achieved by launching new high value-added service solutions; accelerating the global business expansion and developing the business to the B2C and B2B markets, in addition to maintaining and expanding the existing business segments by expanding the traditional hardware business.

## **(4) Strategic alliances and collaborations (Risk)**

Sharp has forged strategic alliances and collaborations with other companies in order to enhance corporate competitiveness, improve profitability, and bolster the development of new technologies and products in various business fields. If, however, any strategic issues with such strategic partners or other business issues arise, or goals change, it may become difficult to maintain such alliances and collaborative ties with these

companies, or to generate adequate results. In such cases, Sharp's business results and financial position may be impacted.

### **(Countermeasure)**

Sharp believes that importance of strategic alliances and collaborations will grow in the future. To lead them to success, Sharp thoroughly verifies the strategic necessity of the business, profitability, and financial appropriateness at the stage of feasibility study of strategic alliances and collaborations, and makes decisions after deliberation at the Executive Management Meeting and the Board of Directors.

After executing them, Sharp monitors the progress of the alliances and collaborations under close cooperation with the relevant business units, and reports to management early if it is determined that the expected results cannot be achieved, to ensure that measures can be taken to minimize the impact they may have on Sharp's business results and financial position.

## **(5) Relations with parent company group (Risk)**

The equity investments from our parent company group (including Hon Hai Precision Industry, subsidiaries, and affiliates) allowed Sharp to invest in growth, and to pursue operational synergies using the technological, productivity, and cost capabilities of our parent company group. However, we cannot guarantee that operational synergies between Sharp and the parent company group will occur as envisioned.

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A change in the parent company group's business strategies or competitive relationship with the parent company group arising in the future may adversely affect Sharp's operations, business results, and financial position.

Decision making of important matters, such as management policy and business development may be biased by the parent company group and maintaining our independence and autonomy may not be possible.

## **(Countermeasure)**

Sharp conducts business operations by maximizing operational synergies with the parent company group while fully respecting independence and autonomy between both entities and in close cooperation with the parent company group. Sharp identifies areas where Sharp can create synergy effects with the parent company group, such as its operational efficiency improvement and expansion of its sales and profits, and Sharp appropriately verifies the expected synergies in those areas in cooperation with the parent company group in an effort to implement them.

The parent company group engages mainly in outsourced production of electronic equipment. The Sharp Group handles the manufacturing and sales of telecommunications equipment, electrical appliances, and general electronics application equipment and components under the Sharp and other brands. Therefore, Sharp believes that there is no competition in the parent company group that may impact Sharp's operations.

Sharp strives to grow, develop, and improve its performance in close cooperation with the parent

company group, while fully respecting independence and autonomy between both entities. Sharp recognizes that working together with the parent company group to increase Sharp's operational efficiency and expand its sales and profits will benefit the interests of non-controlling shareholders.

## **(6) Dealings with suppliers**

### **(Risk)**

Sharp procures materials and receives services from a large number of business partners. However, there is a risk that business partners may suffer deterioration in performance due to slumping demand or severe price erosion, unexpected M&A, or natural disasters or accidents. They may also be affected by the U.S.-China trade friction, the situation in Ukraine, labor costs, rising raw materials prices and energy costs, legal regulations concerning human rights, environmental issues such as the problem of conflict minerals in the supply chain, or limited suppliers with the capability of providing certain material provisions. Due to these and other factors, Sharp may be unable to access sufficient supplies of materials/parts from procurement sources.

In such an event, Sharp may be forced to do business with alternative suppliers subject to conditions less favorable than with its current suppliers, or Sharp may be unable to find an alternative supplier in a timely manner. Any of these factors could lead to increases in costs and/or delays in deliveries to customers, which may adversely affect Sharp's business results and financial position.

## **(Countermeasure)**

Sharp conducts business with suppliers after carrying out thorough credit checks. Additionally, Sharp has introduced a supply chain CSR management system to address risks in the supply chain, and regularly evaluates suppliers at domestic and overseas production sites, providing thorough education and guidance. Furthermore, in order to ensure a stable supply of parts and materials and to optimize costs of procurement, Sharp is strengthening partnerships with suppliers such as for long-term quotas, and is also promoting purchasing from multiple companies.

## **(7) Other factors affecting financial position**

### **(Risk)**

Sharp raises funds through borrowings from financial institutions such as banks. The debt to total assets ratio is 36.1% as of fiscal year ending March 31, 2024. Sharp might become subject to restrictions on how it uses its cash flows in order to repay debt, and also face the possibility of an increase in expenses due to rising interest rates. Sharp has the possibility of increases in fund raising costs as well as limitations on fund raising. This may be because necessary funds cannot be raised at the required time with adequate conditions, including for the refinancing of existing debt. These factors may affect Sharp's business results and financial position.

Sharp has borrowing agreements with multiple financial institutions, and some of the agreements entail financial covenants. Sharp may forfeit the benefit of time with respect to such borrowings at

the request of the lender's financial institution due to any of the following reasons: (1) If consolidated net assets fall below the levels specified under such financial covenants, (2) if Sharp fails to undertake faithful consultations in the event that its consolidated operating profit and profit attributable to owners of parent fall below specified levels, (3) if its consolidated ordinary profit cannot be kept at certain levels, or (4) if Sharp or any of our consolidated subsidiaries becomes excess liabilities.

Sharp's dependence on borrowings, credit ratings reduction caused by it, or deterioration of Sharp's financial position may work to its disadvantage with respect to competition with other companies with robust financial positions, and contract-related issues could also arise between Sharp and its lenders or business partners.

## **(Countermeasure)**

Sharp's major lending institutions are Mizuho Bank, Ltd. and MUFG Bank, Ltd. As necessary, Sharp consults with both banks about ways to improve its financial position and other matters. Sharp also shares information about its financial position with other financial institutions with which Sharp has borrowing agreements. Sharp has a system in place to discuss matters when necessary, keeps good relations with its correspondent financial institutions, and maintains and continues borrowings.

To procure stable funding, the Company syndicated loan agreement, which is the main borrowing agreement for the Group, is a long-term loan agreement through April 2026. We also entered into commitment line agreements with two main banks totaling 200 billion yen in loans.

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### **(Material events related to the going concern assumption)**

The Company recorded an impairment loss of 122,332 million yen in the fiscal year under review, due to a sluggish performance in the Display Device, including a delayed recovery in demand for small- and medium-size LCDs for PCs and tablets. As a result, net loss attributable to owners of the parent amounted to 149,980 million yen and consolidated net assets decreased to 157,424 million yen, down 29.2% year on year. Sharp consolidated net assets and consolidated ordinary income fell below a certain level, resulting in the Company and certain consolidated subsidiaries having excess liabilities at the end of fiscal 2023. This situation violated the financial covenants outlined in the loan agreement. However, the lending institutions have agreed not to make this claim for forfeiture, and we expect to continue our good business relationship with the lender as in the past.

Sharp has implemented structural reforms, including production halt at Sakai Display Products Corporation, in the large-size display business and production capacity reduction and personnel optimization, in the small- and medium-size display business, both of which contributed to the losses. At the same time, we will continue our efforts to enhance profitability by creating distinctive products and new product categories and strengthening overseas businesses in the brand businesses.

We determined that there are no significant concerns about cash flow in working capital and investment funds for the time being, as the impairment loss is not one that involves an outflow of

funds and we achieved a total of 135,371 million yen in free cash flow, the sum of cash flows from operating and investing activities. Although events and circumstances exist that may raise significant doubts about our premise of a going concern, no significant uncertainties have been identified. As such, Notes Related to the Going Concern Assumption is not applicable.

### **(8) Technological innovation (Risk)**

Rapid technological advancement and proper response to changes in the business areas where Sharp operates improves the competitiveness of Sharp's products and services, whereas insufficient response to the following items may adversely affect the growth and business results.

- Prediction and response to the technological advancement and rise and fall, and their social significance
- Selection and concentration in R&D, and proper resource allocation
- Technological enhancement for new areas
- Acceleration of R&D in collaboration with external partners

In addition, there are moves to strengthen export control of advanced technologies from the perspective of international security. Export restrictions on products containing more than a certain amount of added value from the targeted technologies could have an indirect impact on our business.

#### **(Countermeasure)**

Group research and development is not limited to

mere improvement of technological standards, but also focuses on creating technologies that solve issues arising with rapid changes in society. We focus particularly on the application and development of Edge AI technology in growth areas such as carbon neutrality, industry digital transformation, and digital healthcare. We advance the creation of new services and solutions by effectively utilizing our business foundation built to date to promptly implement necessary technologies in society. We also work to strengthen our technological capabilities and accelerate development through active collaboration outside the Company. Through these initiatives, Sharp reduces risks associated with social changes and technological innovations, and aims to become a brand company that continues to grow sustainably through technological advancement.

In addition to complying with export and import control laws and regulations in the operational activities, Sharp executes control for export and import in conformance with laws and regulations as well as regulatory situation in each country and region in R&D to deal with the tightening of control of emerging technologies involving social platforms for global infrastructure, defense, security, and so on.

### **(9) Intellectual property rights (Risk)**

Sharp strives to protect its unique technologies by acquiring intellectual property rights in Japan and in other countries, and by concluding contracts

with other companies. There may also be instances in which no rights are granted to the group's patent applications, or where a third party launches litigation against Sharp, claiming infringement of intellectual property rights.

Resolution of cases may place a significant financial burden on Sharp. Furthermore, if a third party claim against Sharp is recognized, Sharp may be subject to damages, including by having to pay a large amount of compensation, or by having to cease using the technology in question.

In addition, intellectual property that Sharp holds may not result in a superior competitive advantage, or Sharp may not be able to make effective use of such intellectual property, such as when a third party infringes on the intellectual property rights of Sharp.

If any of the above problems related to intellectual property rights were to occur, it could impact Sharp's business results and financial position.

#### **(Countermeasure)**

Under recognition that the intellectual property rights are important assets for a company, Sharp strives to actively create intellectual properties, and tries to acquire strong rights by mainly using Sharp's subsidiary Sharp IP Infinity Co., Ltd., its intellectual property rights application and acquisition division.

Before releasing its products, Sharp checks the clearance of intellectual property rights by thoroughly checking the intellectual property rights of third parties, and at the same time, Sharp improves clearance accuracy by standardizing the clearance process. Thus, Sharp implements measures against

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the risk of infringing on the intellectual property rights of third parties.

Further, Sharp maximizes the use of intellectual property rights in conjunction with the business and R&D strategies, and at the same time, protects its intellectual property rights and fully respects the intellectual property rights of third parties. In principle, Sharp resolves a dispute concerning an infringement of rights through dialogue, but if its intellectual property rights are not respected by third parties, Sharp does not hesitate to seek a judgment by third parties, such as a court.

## **(10) Product liability**

### **(Risk)**

Many of Sharp's products are for consumer use, and also incorporate innovative technologies. If defects arise in any of these products, Sharp may incur responsibility as a manufacturer and other obligations.

There is a risk of a large-scale product recall or litigation caused by unforeseen events, which may adversely affect Sharp's brand image or influence its business results and financial position.

### **(Countermeasure)**

Sharp not only complies with public safety standards in each country to ensure the safety of its products but also improves safety by combining the risk assessment policy with its unique safety criteria. To ensure safety even if an unexpected problem arises, in particular criteria for inflammable structure, malfunction test, etc. were established, and they are revised when necessary to pursue a higher level of safety, and training is performed

for internal stakeholders to ensure that the safety criteria are understood and shared by the design and quality departments. Sharp has established a system to ensure safety to make sure that an emergency action can be taken quickly and appropriately when a problem arises. In order to fulfill its responsibility as a manufacturer in case product defects do arise, Sharp has taken out insurance to cover compensations based on product liability.

## **(11) Competition to secure skilled personnel**

### **(Risk)**

Failure to secure skilled personnel in the technology and management fields could affect Sharp's business results and financial position.

### **(Countermeasure)**

Sharp implements the following measures to secure skilled personnel in the technology and management fields.

Sharp actively hires new graduates in order to acquire new talents according to its business policies. Sharp also actively hires experienced personnel in order to secure core personnel responsible for new businesses.

Sharp created education and training programs that allow all employees to acquire basic and professional knowledge by self-driven learning to develop professional personnel who can fulfill their professional duties.

As a platform where diverse human resources can work with peace of mind, Sharp actively implements initiatives in consideration of the work-life balance of employees, such as creating various

programs to strike a balance between work and child upbringing/care/treatment.

## **(12) The impact of climate change**

### **(Risk)**

Group business results and financial position could be affected by stricter regulations on greenhouse gas emissions, increased energy costs associated with the introduction of a carbon tax, and tighter measures to reduce greenhouse gas emissions. In addition, disasters caused by increasingly larger typhoons and greater precipitation due to climate change may cause production sites to suspend operations or interrupt parts supply.

### **(Countermeasure)**

Sharp ensures compliance with existing regulations and standards. In addition, we strive to remain abreast of legal and regulatory trends and participate in policy-making opportunities. We also endeavor to reduce or minimize our cost burden by improving production efficiency and energy conservation. Further, Sharp has formulated a business continuity plan in the event that production sites or employees suffer damage from natural disasters. We maintain and improve our organization's business continuity capabilities through regular reviews and drills.

In addition to the risks above, there are various potential risks, including a risk of dealing with a large number of clients, capital investment risk, regulatory risk, or large-scale natural disaster risk.

There are other potential risks that are not mentioned in this section which may adversely affect Sharp's business results and financial position.

### **(Risk management system)**

Sharp sees the risk management as "one of the important activities to fulfill our social responsibilities by growing the business sustainably and meeting the expectations of our stakeholders." Specifically, Sharp has established the Business Risk Management Guidelines as basic rules for the risk management, created a company-wide risk management system in line with the guidelines, and selected risks that have significant impact on the business as "specific risks" and manages them.

To respond to changes in the business and market environments, Sharp considers adding or changing specific risks every fiscal year for all specific risks, evaluating and reviewing the added or changed specific risks. The functional department that manages company-wide risks works together with business units in charge of managing their business segments to minimize and mitigate risks and take the necessary measures to prevent them. In addition, in case a specific risk arises, the department where the incident arises reports it to the internal control department that serves as risk management secretariat as well as management, works together with the relevant departments to respond to the relevant incident, and, when necessary, considers company-wide improvement measures to prevent recurrence.