Message from the Officer in Charge of Finance

Evolving toward IR broadly focused on non-financial information also

Masaki Oka
Deputy Chief of Corporate Strategy Headquarters,
Chief of Purchasing Headquarters,
Director, Corporate Officer

IR amid the pandemic

In FY2020, the TG Group was heavily affected by the global COVID-19 pandemic. Faced with a fraught outlook impenetrable to everyone, including investors, we decided our IR staff needed to disclose information more proactively than ever before. Although unable to issue earnings forecasts, we published information on the pandemic's effects on our operations, including capacity utilization by region and estimated earnings impact, in the IR section of our website. At subsequent financial results briefings, we followed up with updates on capacity utilization by region and explained our growth strategy during the pandemic.

At our first-quarter financial results briefing, President Toru Koyama assumed my previous role as the main presenter in light of the importance of being able to disclose a full-year earnings forecast. We have since continued to transparently disclose the pandemic's earnings impact in a timely manner.

While the pandemic has precluded in-person IR events, we have been holding various virtual events using remote connectivity tools.

To provide progress updates on our new businesses, namely e-Rubber and UV-C (deep UV) LEDs, senior executives have spoken at online seminars hosted by securities companies and explained the businesses' future potential.

IR evolution

In recent years, companies have been facing growing demands to address societal problems and undertake ESG initiatives to realize sustainable operations. In response to such demands, we managed our operations in FY2020 with a core focus on ESG. As one part of our ESG program, we held our second annual ESG briefing, at which we explained our ESG initiatives, mainly as they pertain to carbon neutrality. Organizationally, we established a Sustainability Promotion and IR Department to integrate sustainability with IR, the function of which is to externally disseminate information, based on a commitment to broaden our IR focus to encompass not only financial information but a wide range of non-financial information also.

The TG Group has won accolades for such activities. Most notably, we were the first auto parts maker to win the Securities Analyst Association of Japan's Award for Excellence in Corporate Disclosure in the automotive/automotive parts/tire division in FY2020.

Management of operating performance

FY2020 revenue was down sharply as a result of the pandemic.

We initially responded to the pandemic with emergency-mode measures to shore up earnings. We subsequently decided that the pandemic presented an opportunity to regain control of fixed expenses that had become bloated during our preceding growth phase. We ended up cutting fixed expenses across the board. By virtue of such fixed-cost containment coupled with a sharp recovery in major customers' production, we earned all-time-record third-quarter profits.

Despite drastic changes in the external environment during the pandemic, we will continue to reduce variable expenses by reducing defects and increasing production yields through use of IoT technologies, minimize production setup costs through online remote support and endeavor to boost new work processes' added value by increasing staff productivity. We will also boldly forge ahead with digital transformation in pursuit of business model reforms.

Meanwhile, on the capex front, we will heavily invest resources in priorities like digital transformation (IT) and the environment (carbon neutrality) and enhance the corporate structure in response to the demands of the times, thereby increasing corporate value.

Return on equity

To stably achieve capital efficiency in excess of our cost of equity, we are targeting a 10% ROE under our 2025 Business Plan.

As a first step toward this target, we plan to downsize unprofitable businesses. In previous rounds of restructuring, we divested a German subsidiary in FY2019 and have downsized the optoelectronics business. In FY2020, we commenced talks with employees regarding discontinuation of a beleaguered UK subsidiary's operations. Through such moves, we believe our plans to exit or downsize unprofitable businesses are largely on track.

In the core automotive parts business, we strategically allocate limited resources using a 4x4 matrix consisting of four geographies (Japan, Americas, Asia, Europe) and four product domains (weatherstrips, functional components, interiors & exteriors, safety systems). To fulfill the imperative of rebuilding our business portfolio, we will expedite the horizontal rollout of improvement measures across geographies and intensively allocate management resources based on cross-functional prioritization by geography and product domain. Counting the e-Rubber and other new businesses in addition to the 16 business units encompassed by the aforementioned 4x4 matrix, we have a total of 17 business units for resource allocation purposes. We aim to boost ROE through well-delineated resource allocation and efficient management.

We aim to achieve our 10% ROE target by deploying highly effective ROE controls, including new management control metrics (e.g., ROIC) and better investment control rules.

Financial policy

We remained in sound financial condition in FY2020 despite the pandemic. Our financial policy first disclosed in November 2018 remains unchanged. Although our FY2020 earnings were severely impacted by the pandemic, we are basically adhering to our existing financial policy with respect to shareholder returns. In terms of capex, we still plan to allocate ¥50 billion annually to fund growth investments in pursuit of the 2025 Business Plan's targets. We still plan to hold cash reserves equivalent to consolidated monthly turn over plus ¥30 billion. We have also set aside emergency reserves for dealing with the pandemic.

Financial policy

Shareholder returns	Regarding shareholder returns for the time being, we will work wholly to reward shareholders based on a consolidated payout ratio of 30% or greater, from a variety of perspectives.
Capital investment	We will secure ¥50 billion by FY2025 as funding for capital investment for growth.
Cash reserves	In view of the prevailing circumstances, we will secure cash reserves* of consolidated monthly turnover + ¥30 billion including funds to cover risk. * Short-term borrowings (less than one year) are excluded.

Conclusion

Lastly, we intend to continue to offer opportunities for investors to better understand our businesses through proactive disclosure. As we improve our disclosures, we benefit from higher-quality feedback from the investment community, leading to further improvement in our management and IR. We will continue to unremittingly endeavor to strengthen our IR as a transparent company and gain widespread favor.