Financial Review

Overview

In FY2020, the global economy experienced a major recession in the fiscal first half in the wake of the COVID-19 pandemic that erupted in late FY2019. Although the global economy embarked on recovery from mid-2020, the end of the pandemic is still not in sight. The Japanese economy was likewise hard-hit by the pandemic, but Japanese companies seized the opportunity to accelerate digital transformation (DX) and radically reform workstyles, most notably by widely adopting teleworking. Additionally, the Suga Cabinet, formed in September 2020, launched a society-wide push to reduce CO_2 emissions with its 2050 Carbon Neutral Declaration. The automobile industry was beset by a market downturn from FY2019 through mid-FY2020. The downturn was compounded by anti-pandemic lockdowns in Europe, the US and much of the rest of the world. The lockdowns forced automakers to idle production plants, resulting in a steep drop in auto production. Production recovered rapidly from the second half of FY2020, but unit production remained below its year-earlier level in both Japan and overseas.

Amid such an environment, the entire TG Group shifted into emergency mode in the fiscal first half. We focused on emergency measures to shore up earnings in response to declining sales. From the fiscal second half, we have been placing priority on allocating resources in pursuing a growth strategy revolving around three key areas toward realization of our mid-term 2025 Business Plan against a backdrop of drastic change in the external environment.

The first pillar of activity is “Venture into innovation, new mobility.” In other words, we are pursuing expeditious commercialization of innovative technologies in new business domains. First, to accelerate commercialization, we reorganized our development operations, partly to strengthen leading-edge development capabilities, in January 2020. Additionally, to realize sustained growth while navigating major changes in our operating environment, we invested heavily in startup companies again in FY2020 through a corporate venture capital fund established in FY2018. We are committed to creating new businesses by cross-pollinating core technologies cultivated over decades with external expertise and to developing new automotive products for CASE vehicles and MaaS. We have been developing UV-C (deep UV) LEDs, a new technology, as a high-value-added LED since 2017. UV-C LED irradiation has been found to inactivate coronaviruses. We have started to roll out UV-C LED products for consumers to help make life more safe and secure amid the pandemic. Since November 2020, we have been selling UV-C LED water purification units that are installed in Wota Corp.’s WOSH portable hand-washing stand that recycles used water. In December 2020, we launched a UV-C space disinfector that disinfects airborne germs. Other examples of recent progress in new businesses include commencement of production of high pressure hydrogen tanks for the Toyota Mirai FCEV (Fuel Cell Electric Vehicle) in November 2020 at our Inabe Plant in Mie Prefecture.

The second pillar of activity is “Strategy for growing market/fields.” We have designated the Americas and non-Japan Asia as high-priority geographies and high-value-added products such as airbags, plastic fuel filler pipes and radiator grilles as high-priority products. We are aggressively expanding sales to not only Toyota Motor Corporation but also other Japanese automakers, most notably Honda Motor Co., Ltd., and foreign automakers, including the Detroit Big Three. Within Asia, one of our high-priority geographies, we plan to merge local subsidiaries in India and subsequently operate them as a unified business. We will grow our Asian earnings by expanding sales and improving operational efficiency in the growing Indian market.

The third pillar of activity is “Innovative manufacturing at production sites.” We are upgrading production efficiency through such means as remote production setup and loss reduction through utilization of IoT technologies. We are also digitally transforming and automating manufacturing processes. Additionally, we have improved operating efficiency through videoconferencing, teleworking and other such technologies, mainly in staff organizations.

FY2020 revenue decreased 11.2% year on year to ¥721.4 billion despite Chinese sales growth driven by growth in major customers’ auto production in China. The revenue decline was largely due to pandemic-induced sales declines across all other geographies in the fiscal first half, deconsolidation of former German production subsidiary Toyoda Gosei Meteor GmbH (TGM) in FY2019 and the forex impact of yen appreciation.

Operating profit grew 103.9% year on year to ¥36.4 billion. Its growth was attributable to overhead and labor cost-cutting, rationalization, including utilization of government subsidies, and nonrecurrence of a year-earlier loss on liquidation of a business in conjunction with divestment of our entire TGM equity stake. These growth drivers vastly outweighed the impact of pandemic-induced sales declines and accrual of a provision for restructuring of a UK subsidiary. Profit attributable to owners of the parent increased 213.6% year on year to ¥35.2 billion, boosted by recognition of deferred tax assets upon commencement of labor-management negotiations predicated on discontinuation of a UK subsidiary’s production.

(Millions of yen)

Consolidated results	FY2020	FY2019
Revenue	721,498	812,937
Operating profit	36,479	17,888
Profit attributable to owners of parent	35,205	11,226

Revenue by segment

Japan

Revenue was down 11.6% year on year to ¥358.0 billion, largely as a result of sales declines due to the pandemic. Despite the sales declines, Japanese operations earned segment income of ¥12.0 billion against a year-earlier loss of ¥5.0 billion. The turnaround was largely attributable to nonrecurrence of a year-earlier loss on liquidation of a business in conjunction with divestment of our entire TGM equity stake, in addition to deep cuts in labor and overhead expenses.

Americas

Revenue decreased 16.5% year on year to ¥203.4 billion under the weight of sales declines due to the pandemic, semiconductor shortages and unseasonably cold winter weather in the US. Segment income was down 16.7% at ¥13.8 billion as labor cost savings (partly attributable to government subsidies) failed to offset the sales declines' impact.

Asia

Revenue grew 1.2% year on year to ¥190.4 billion, largely as a result of growth in sales to major customers in China. The Chinese sales growth outweighed sales declines in Thailand, Indonesia and elsewhere. Despite these sales declines' impact, segment income increased 36.4% to ¥14.4 billion, boosted by Chinese sales growth and gross margin expansion driven by cost-cutting.

Europe & Africa

Revenue was down 28.2% year on year to ¥26.2 billion, largely as a result of pandemic-induced sales declines and TGM's deconsolidation in the third quarter of FY2019. Despite accrual of a provision for restructuring a UK subsidiary, segment loss shrank to ¥3.9 billion from a year-earlier ¥4.2 billion, largely by virtue of TGM's deconsolidation and reduction in labor costs (partly attributable to government subsidies).

(Millions of yen)

Revenue by segment	FY2020	FY2019
Japan	358,082	405,116
Americas	203,421	243,590
Asia	190,479	188,292
Europe & Africa	26,261	36,567

Financial condition

Analysis of financial position

1. Assets, liabilities, and equity

Assets at fiscal year-end totaled ¥775.1 billion, a ¥65.9 billion year-on-year increase driven mainly by an increase in property, plant and equipment. Liabilities totaled ¥354.7 billion, a ¥15.7 billion year-on-year increase due mainly to growth in trade and other payables. Equity totaled ¥420.4 billion, a ¥50.1 billion year-on-year increase mainly attributable to growth in retained earnings.

2. Cash flows

Cash and cash equivalents at the end of the fiscal year under review increased by ¥6.0 billion, from ¥127.9 billion at the end of the previous fiscal year, to ¥134.0 billion. Cash flows and related factors during the fiscal year under review were as follows.

Cash flows from operating activities

Net cash flows provided by operating activities came to ¥67.2 billion in inflows, an increase of ¥2.0 billion from inflows recorded in the previous fiscal year. This was mainly due to a decrease in outflows of ¥25.1 billion for changes in trade and other payables, ¥4.6 billion for changes in provisions, and ¥3.7 billion for income taxes paid, despite a decrease in inflows of ¥31.6 billion for changes in trade and other receivables.

Cash flows from investing activities

Net cash flows used in investing activities came to ¥49.9 billion in outflows, a decrease of ¥4.2 billion from outflows recorded in the previous fiscal year. This was mainly due to the absence of ¥11.4 billion in outflows that occurred in the previous fiscal year for the sale of shares in subsidiaries, which resulted in a decrease in the fiscal year under review, despite increases of ¥3.2 billion in outflows for the purchase of property, plant and equipment, and intangible assets, and ¥2.4 billion in outflows for payments into time deposits.

Cash flows from financing activities

Net cash flows used in financing activities came to ¥13.0 billion in outflows, an increase of ¥25.5 billion from outflows recorded in the previous fiscal year. This was mainly due to a decrease of ¥31.6 billion in proceeds from short-term borrowings and a decrease of ¥7.3 billion in repayments of short-term borrowings, resulting in a net outflow of ¥24.3 billion in proceeds from and expenditures for short-term borrowings.

(Millions of yen)

Cash flows	FY2020	FY2019
Cash flows from operating activities	67,247	65,247
Cash flows from investing activities	(49,949)	(54,174)
Cash flows from financing activities	(13,065)	12,525