Financial Review

Financial Position and Operating Results

The global situation showed signs of recovery from the previous fiscal year, when the economy plunged into recession due to COVID-19 pandemic. However, the pace of recovery slowed in the second half of FY2021, mainly due to the resurgence of COVID-19, notably Omicron variant, and the surge in crude oil prices.

For most of the first half of the fiscal year the Japanese economy was sluggish against the backdrop of the state of emergency and measures to prevent spread of COVID-19. A recovery was expected in the second half of the fiscal year with the incoming Kishida administration, which sought for a virtuous cycle of growth and distribution, as well as a higher rate of vaccination for the population. This recovery, however, stalled with the spike in COVID-19 cases, especially with the Omicron variant, and with sluggish growth in consumer spending owing to higher prices.

The automobile industry was expected to recover at the beginning of the year, but global production was slow due to the shortage of semiconductors and a stagnant supply of parts due to the comeback in COVID-19 cases. The continued shortage of resin materials and disruption in the distribution network also had a significant impact on costs. Meanwhile, automakers in Japan and overseas announced their plans, notably for the launch of more EVs, thus marking the year when the automobile market begun a full-scale shift toward EVs, especially when Toyota Motor Corporation announced its plan to step up global production of BEVs to 3.5 million units by 2030.

Under these circumstances, although the Toyoda Gosei Group's revenue increased year on year, profits fell owing to a slowdown in the number of vehicles rolling off the assembly line, as well as due to the state of the materials market and soaring logistics costs. Changes in the external business environment have also had a significant impact, amplifying our cost burden owing to our inability to respond flexibly to fluctuations in automobile production volume.

Despite this difficult situation, we will not only continue to streamline operations and curb expenses, but will also carry out our growth strategy revolving around three key areas toward the realization of our medium- to long-term 2025 Business Plan.

The first pillar of our business activities is “Venture into innovation, new mobility.” In other words, we are pursuing expeditious commercialization of innovative technologies in new business domains, and the development of new technologies and products adapted to transformations in automobiles.

In new business domains, we have expanded our product lineup with the launch of the UV-C Personal Space Disinfector and Deodorizer. This product purifies and deodorizes the air using deep ultraviolet (UV-C) LEDs that are effective in removing viruses and bacteria. We also released the UV-C High-Speed Surface Disinfector that is capable of killing bacteria and viruses in a very short space of time.

In terms of our next-generation dielectric rubber, e-Rubber, which moves using electricity, we developed FeelSole, a smart insole with sensors that can be fitted into a person’s shoe to give pressure data on the sole of the foot during exercise. We started shipping samples of this product to golf schools run by Mizuno Corporation. We are also developing next-generation power semiconductors using gallium nitride (GaN), a technology that contributes to the realization of an energy-saving society. We have succeeded in fabricating a larger, high-quality GaN substrate (GaN seed crystal) of over 6 inches in diameter, the largest of its kind in the world. As society moves toward carbon neutrality, the practical application and widespread use of next-generation power semiconductors is promising as a means of reducing power loss when controlling large volumes of power for renewable energy and EVs. We believe the larger diameter GaN substrates will greatly contribute to the issue of improving productivity (cost reductions).

In the automotive sector, we have brought new devices to market with the aim of realizing a safe and secure mobility society. In response to the more rigorous vehicle collision safety assessments that are expected in North America and other countries, we have developed a driver-side airbag with a new structure that better protects the driver's head and chest in the event of an angled collision. This state-of-the-art airbag has been fitted in the new Honda Civic. A pedestrian protection airbag we developed that protects pedestrians when hit by a car has also been fitted to SUBARU’s latest Legacy Outback models. What is more, our LED illuminated emblems meet the ever-changing design needs of our customers. This product, used in Nissan’s ARIYA crossover EV, lights up the car’s logo, adding a new design dimension for BEVs.

The second pillar of our Group activities is “Strategies for growing markets/fields”. Here, we have been taking steps to strengthen safety system operations, as one of our mainstay fields. To this end, we entered into a capital and business alliance with Ashimori Industry Co., Ltd. to further improve vehicle safety performance. Our respective companies will work together, leveraging each other's business assets and expertise going forward to strengthen our development capabilities and product competitiveness. In this way, we will work on the development of airbag and seatbelt systems, as well as next-generation safety systems for electric and self-driving vehicles.

Our third pillar of activity will focus on “Innovative manufacturing at production sites.” Here, we aim to create smart factories to support sustainable growth for the Group. The Toyoda Gosei Group concept of an advanced factory aims to be a clean production site that emits no CO_2 or waste, where anyone can work actively with no accidents and no claims of damage or injury. As more kinds of vehicles come off the production line, we are working not only to increase productivity through the introduction of collaborative robots and IoT systems that centrally manage production processes, but also on environmentally friendly manufacturing to enable employees to work securely and safely. This initiative will be rolled out in new plants and then gradually incorporated into existing factories.

Despite a drop in production due to a shortage of semiconductors and other factors, revenue for FY2021 increased year on year to ¥830.2 billion (up 15.1%) thanks to greater sales in LED-related business and a recovery from lower production caused by COVID-19 pandemic in the previous fiscal year.

Notwithstanding the effects of increased sales, operating profit was ¥34.1 billion (down 6.3% year on year) and profit attributable to owners of parent was ¥23.3 billion (down 33.7%) due to factors such as soaring raw material prices and the cost of not being able to deal flexibly to fluctuations in automobile production volume.

(Millions of yen)

Consolidated results	FY2021	FY2020
Revenue	830,243	721,498
Operating profit	34,172	36,479
Profit attributable to owners of parent	23,352	35,205

Revenue by Segment

Japan

Despite a drop in production due to a shortage of semiconductors for automobiles, revenue was ¥399.5 billion (up 11.6% year on year) thanks to greater sales in LED-related business.

Segment profit was ¥15.8 billion (up 31.2% year on year) due to a temporary decrease in retirement benefit costs following changes to the retirement system.

Americas

Revenue was ¥240.7 billion (up 18.3% year on year) thanks to a favorable exchange rate and recovery from production cuts caused by COVID-19 pandemic in the previous fiscal year.

Notwithstanding the effects of increased sales, segment profit was ¥4.1 billion (down 69.7% year on year) due to factors such as soaring raw material prices and the cost arising from our inability to deal flexibly to fluctuations in automobile production volume, as well as a rebound from government subsidies in the previous fiscal year.

Asia

Revenue was ¥226.0 billion (up 18.7% year on year) buoyed by a pick up in production in Thailand, India, Indonesia, and other countries.

Despite the impact from a drop in sales in China and soaring raw material prices throughout Asia, segment profit was ¥15.2 billion (up 5.6% year on year), boosted by increased sales in other regions.

Europe & Africa

Revenue was ¥26.9 billion (up 2.8% year on year).

Segment loss was ¥0.9 billion (compared with a loss of ¥3.9 billion in the previous fiscal year) due in part to a reaction to a restructuring provision for the U.K. subsidiary recorded in FY2020.

(Millions of yen)

Revenue by segment	FY2021	FY2020
Japan	399,575	358,082
Americas	240,730	203,421
Asia	226,037	190,479
Europe & Africa	26,992	26,261

* Revenue by segment includes amounts for internal transactions within the Toyoda Gosei Group, and so does not match the total value for consolidated sales.

Financial Condition

Analysis of Financial Position

1. Assets, liabilities, and equity

Total assets at fiscal year-end increased by ¥84.1 billion year on year to ¥859.3 billion, driven mainly by an increase in trade and other receivables. Liabilities totaled ¥396.5 billion, a ¥41.8 billion year-on-year increase due mainly to growth in trade and other payables.

Equity totaled ¥462.7 billion, a ¥42.3 billion year-on-year increase mainly attributable to growth in other components of equity.

2. Cash flows

Cash and cash equivalents at the end of the fiscal year under review fell by ¥24.8 billion, from ¥134.0 billion at the end of the previous fiscal year to ¥109.1 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 was ¥27.6 billion, a decrease of ¥39.5 billion from the previous fiscal year. This was mainly due to an increase in expenditures of ¥22.5 billion in trade and other receivables and ¥6.1 billion in provisions.

Cash flows from investing activities

Net cash flows used in investing activities was ¥59.4 billion, an increase of ¥9.4 billion from outflows recorded in the previous fiscal year. This was mainly due to a ¥2.3 billion decrease in proceeds from withdrawal of time deposits, in addition to an increase in expenditures, ¥4.0 billion for payments into time deposits, and ¥2.1 billion for the purchase of property, plant and equipment, and intangible assets.

Cash flows from financing activities

Net cash flows provided by financing activities was ¥2.2 billion, an increase of ¥15.2 billion from the previous fiscal year. This was mainly due, in addition to an increase of ¥16.4 billion in repayments of long-term borrowings, to a net inflow of ¥38.7 billion in proceeds from and expenditures for short-term borrowings, despite a decrease of ¥8 billion in proceeds from long-term borrowings.

(Millions of yen)

Cash flows	FY2021	FY2020
Cash flows from operating activities	27,658	67,247
Cash flows from investing activities	(59,427)	(49,949)
Cash flows from financing activities	2,206	(13,065)