Message from the Officer in Charge of Finance

Aiming to improve corporate value by implementing financial strategies and completing the job to achieve the 2025 Business Plan

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2025 Business Plan Initiatives

Review of FY2021 Financial Results

The financial results for FY2021 were significantly affected by changes in the external business environment. In addition to soaring material and logistics costs and rising wages, there were also sharp fluctuations in production volume due to the semiconductor supply shortage, resulting in some losses to the production system. The Americas in particular was greatly affected by changes in the business environment with the profit margin of the entire consolidated region dropping unavoidably by about 1 percentage point.

Initiatives for FY2022

Although external factors will be the same or greater in FY2022, we not only regard improving the profitability of our Americas business as our top management priority, but will also work to improve profitability by focusing on three key themes.

The first is to reduce the influence of the materials market. As well as working to reduce material losses by improving yield, we will negotiate on prices, mainly for those materials that have no rules when it comes to passing on costs. The second is dealing flexibly to fluctuations in production volume. In the previous fiscal year, we were unable to adapt to the sudden decline in production, leaving us with the burden of direct labor costs. However, we are working to minimize the effects of labor costs by reviewing the number of personnel allocated and better assigning employees based on advanced forecasts. When production stabilizes in the future, we will establish a production system so that we can firmly enjoy the effects of increased sales. The third is promoting cost improvements. We will aim to cut costs to a higher level than before by making improvements to our processes, reducing losses, and benefiting from investments made to automate the manufacturing process, which we have been undertaking. Although the external business environment is likely to continue to deteriorate due to soaring material and energy costs, we will focus on these three themes centered on the Americas, aiming for previous profit levels at an operating profit ratio of 5%.

Progress of the 2025 Business Plan

Next, I would like to discuss how the 2025 Business Plan has been coming along. The plan itself is in its final stages with only three years remaining. Despite revenue in FY2021 of ¥830 billion, which is about ¥170 billion lower than our target, we are largely on track toward our sales target of ¥1 trillion with sales growth centered on the Safety Systems (SS) and the Interiors and Exteriors (IE) businesses. Conversely, operating profit ratio remains in the 4–5% range owing to a significant drop in net sales in FY2020 because of COVID-19 pandemic and, as mentioned above, a deterioration in the external business environment in FY2021. There is a gap to our target operating profit ratio of 8%, so it is imperative that we improve profitability. In the short term, we are looking to improve the profitability of our Americas business, and in the medium to long term, we aim to improve our portfolio mix by introducing high-value-added products geared toward the growth areas of our SS business and battery electric vehicles (BEVs). In the SS business, we will not only generate more added value through new technology that meets changes in the business environment, but will also work to reduce costs by automating as well as standardizing components. With more BEVs on the road, the part of the vehicle where the battery is mounted will invariably need to be strengthened owing to the nature of the vehicle chassis. Because of this, it is predicted the impact on the occupants in the event of a collision will be more severe, and as such, the airbags' shock absorption will need to be improved. It is also expected that compact BEVs will become more popular, but since compact cars require even greater shock absorption, it will be necessary to improve added value. In other businesses as well, while there is demand for futuristic designs and advanced interiors that characterize BEVs, it is also necessary to improve power consumption by reducing weight and improving aerodynamic performance. Major changes are expected in the business environment, but we see these changes as business opportunities. As such, we will work to improve profitability by leveraging Toyoda Gosei's strengths in balancing design and functionality, as well as our ability to make proposals.

Status of Financial Policies

—Responding to issues based on environmental changes

Toward an ROE of 10%

To stably achieve capital efficiency in excess of our cost of equity, we are targeting a 10% return on equity (ROE) under our 2025 Business Plan. To achieve this goal, we have quickly been reducing unprofitable businesses. For instance, we downsized the optoelectronics business, divested a German subsidiary, and closed our base in the U.K. As a next step, improving profitability is imperative for us. We aim to achieve an ROE of 10% by improving the operating profit ratio through the proposal of products that add value using changes in the business environment as an opportunity.

Approach to Capital Investment

Over the past few years, we have contributed to achieving our sales targets by aggressively making capital investments mainly in the SS and IE businesses. The new plants we build will be smart factories that double productivity and halve CO_2 emissions. These smart factories will improve our competitiveness as well as help us adapt to the predicted shortage of workers and enable us to realize carbon neutrality. We will also work to expand globally, strengthening the foundation we are built on.

However, due to the recent impact from COVID-19 pandemic and the sudden drop in production, sales did not meet expectations. This brought about discussions on fixed costs, especially in terms of footing the bill for depreciation costs. While investment is expected to increase in growth areas such as BEVs and the move to carbon neutrality, we will make decisions that place more emphasis on investment efficiency through more stringent assessments on the recovery of fuel system parts, etc., a market which is expected to contract. In addition to the conventional approaches of sales growth and profitability, we will aim to achieve ROE targets while improving profitability. We will do this by substantiating our investment efficiency in terms of the region, business, and product, using the new metric of return on invested capital (ROIC) as a benchmark.

Approach to Cash Reserves

Next, I would like to talk about funding. From a global perspective, while we see regions with robust capital requirements, there are regions with a financing surplus, resulting in an imbalance between regions. On a consolidated basis, both cash and borrowings are used, which makes for a rather inefficient financial position. We will strive to improve capital efficiency by building a framework for flexibly diverting funds on a global basis led by headquarters.

Globally, there is no change to our policy on securing more than ¥30 billion in monthly turnover, including funds for risk management after learning the lessons from the Great East Japan Earthquake.

Lastly, regarding dividends, there is no change in our goal, stated in our financial policy, of a consolidated dividend payout ratio of 30% or more. We will continue to work to meet the expectations of our shareholders from many different perspectives.

In Closing

At this time, we are in the final stages of our 2025 Business Plan. We aim to achieve our goals by proposing high-value-added products centered on the SS business, where sales growth is expected, to improve profitability.

Currently, the automobile industry is in a period of transformation and the external business environment is changing, but we see this as a great business opportunity for the Company. Looking ahead to 2025 and beyond, I would like to break away from the same initiatives we have seen before and make every effort to enhance our corporate value while improving our portfolio mix.

We will continue to step up our investor relations as a transparent company, striving to gain widespread favor to become the company of choice.