Financial Strategy

Message from the CFO

Reviewing the Business Portfolio and Improving Capital Efficiency to Enhance Corporate Value

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FY2023 Results

In FY2023, consolidated revenue saw a significant increase, supported by stable semiconductor supply and robust demand, particularly in Japan and the Americas. Operating profit also experienced substantial growth, benefiting from higher sales volumes, the elimination of production inefficiencies caused by sudden production fluctuations in prior years, and the favorable impact of yen depreciation on exchange rates. Both revenue and profit reached record highs for the year.

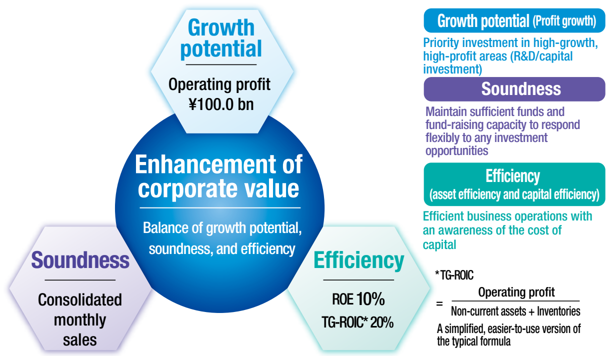
New Financial Policies to Support the 2030 Business Plan

2030 Business Plan

In August 2023, we prepared 2030 Business Plan, setting management targets of 1,200 billion yen in revenue, 100 billion yen in operating profit, an 8% operating profit ratio, and an ROE of 10% or more, surpassing the 7-8% cost of equity for shareholders.

Financial Policy

We have revamped our financial policy to include efficiency alongside the traditional perspectives of growth and stability, aiming to enhance corporate value through a balance of these three elements.
To achieve an ROE of 10%, we will enhance our balance sheet management.



Growth Potential

Investment resources, including R&D, will be focused on high-growth and high-profitability businesses and regions. Regionally, we will prioritize the Americas and India. In terms of business areas, we will focus on interior and exterior components as well as safety system products. For example, in the Americas, we are preparing for the diversification of vehicles, including BEVs, by establishing a system capable of supplying a wide variety of large painted components for the front and rear sections of vehicles. We will continue to expand sales of interior and exterior products in the Americas. In India, awareness of vehicle safety is increasing, leading to the expanded adoption of airbags to protect passengers. To support this trend, we have enhanced production capacity and established an R&D center to swiftly respond to automobile manufacturers' development needs. This also enhances our local technological development capabilities.
We are building a global R&D system that considers regional and customer-specific characteristics, while also making proactive investments in future growth areas. These include addressing CASE-related societal trends such as electrification, developing new materials and solutions that contribute to achieving CN/CE, and creating new business opportunities.

Soundness

In order not to miss out on growth opportunities, we will ensure that we have the sufficient funds and the fund-raising capacity to respond flexibly to any investment opportunities while also diversifying funding methods. In March 2024, we issued an Impact Bond through Sustainable Finance, a framework for funding ESG initiatives. This represents the first initiative in Japan to utilize the Sustainable & Positive Impact Finance Framework*1.
Furthermore, starting with the implementation of global Group financing led by our head office to optimize fund efficiency, we are introducing regional pooling systems to further enhance efficiency and balance across regions.

*1 This sustainable finance framework complies with the Green Bond Principles and Social Bond Principles established by the International Capital Market Association (ICMA). Furthermore, as the first domestic impact finance framework, it aligns with the Positive Impact Finance Principles (PIF Principles) defined by the United Nations Environment Programme Finance Initiative (UNEP FI).

Efficiency

To achieve the 2030 Business Plan management target of an ROE of 10%, we are enhancing balance sheet management to improve asset and capital efficiency.
From the perspective of improving asset efficiency, we have introduced our proprietary metric, TG-ROIC. TG-ROIC is calculated by dividing operating profit by the total of non-current assets and inventories, pursuing returns relative to the essential assets required for a manufacturing company.
For non-current assets, we have adopted the payback period method for individual investment decisions and have initiated its implementation in conjunction with TG-ROIC targets. The payback periods required for investment projects have been shortened and made more stringent compared to previous standards.
For inventories, to address the impacts of the COVID-19 pandemic and semiconductor supply shortages, we temporarily increased inventory levels. However, we are now reviewing these levels on a subsidiary-by-subsidiary basis to ensure they are returned to appropriate levels.
We have also closed our subsidiary in the United Kingdom and recorded impairments at a subsidiary in the Americas. These are examples of decisions made to exit unprofitable businesses from the perspective of asset returns.

Enhancing Shareholder Returns

To reward our shareholders for their continued support, we have adopted a basic policy of "stable and sustained dividend increases."
To achieve this, we revised our dividend policy from the previous "30% or higher payout ratio" to a new target with a "minimum DOE (Dividend on Equity) of 2.5%."
Also, we will pursue timely share buybacks to establish an optimal capital structure. We have significantly reduced cross-shareholdings and used the proceeds for share buybacks. Through these shareholder return initiatives, we aim to enhance capital efficiency more than ever before and improve Total Shareholder Return (TSR) in a stable and long-term manner while being mindful of stock price performance.
In addition, we are actively disclosing information, including non-financial information, and expanding opportunities for engagement to diversify our shareholder base, particularly among overseas and individual investors. We are also enhancing information disclosure through our website and other channels to help reduce the cost of shareholders' equity.

Cash Allocation

Assuming that we will achieve the 2030 management targets, we estimate that the operating cash flow generated from FY2023 until FY2030 will be approximately 650 billion yen.
At the same time, we will streamline the balance sheet by using TG-ROIC as a key performance indicator and by further reducing cross-shareholdings.
We will invest 350 billion yen in capital investments, mainly in our priority businesses and regions. For shareholder returns, as I explained earlier, we will secure at least 100 billion yen as a source of funds for stable and continuous dividend increases. With the remaining 250 billion yen, we will make additional investments in highly profitable projects, as well as in discontinuous growth areas such as M&A and alliances, depending on the business environment and growth opportunities. In the absence of such investments, we will strategically allocate the cash to be used for additional shareholder returns from the perspective of improving capital efficiency. The operating cash flow for FY2023 exceeded the initial plan due to the strong performance of our current operations. We also carried out balance sheet streamlining initiatives in line with the aforementioned financial policy as planned.

FY2030 management targets	Revenue	Operating profit	Operating profit ratio	ROE
	¥1,200.0 bn	¥100.0 bn	8%	10%

Cash allocation (Total from FY2023 to FY2030)