

Financial Strategy

Message from the CFO

We endeavor to increase our value as an enterprise by supporting growth through a balance of growth potential, financial soundness, and efficiency.



Masayoshi Hachisuka
Director, Corporate Officer, CFO

Review of FY2024 and Forecast for FY2025

In FY2024, revenue and profit unfortunately declined due to lower customer production volumes. In China, which experienced a dramatic change in environment, Japanese automakers continued to struggle, and prospects for recovery in the near future look bleak. Although we recorded losses mainly due to the business transfer of one affiliate and impairment of non-current assets, we worked quickly to implement structural reforms.

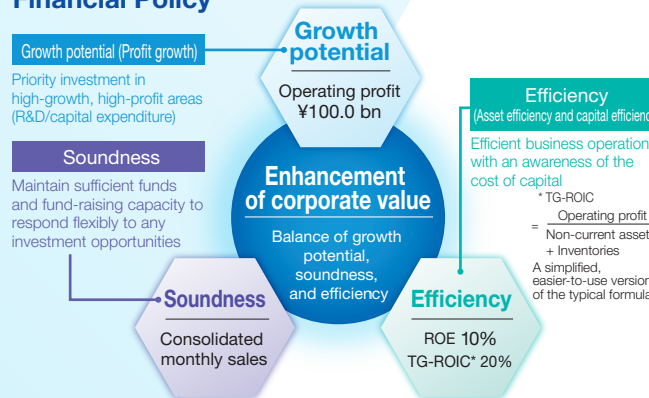
FY2025 saw increased production in Japan and the Americas and a temporary rebound and initially, we expected profits to increase. However, the automotive industry will inevitably be significantly impacted by the policies of the new US administration. We forecast a decrease in revenue and profits due to future US tariffs and other risks.

Financial Policy

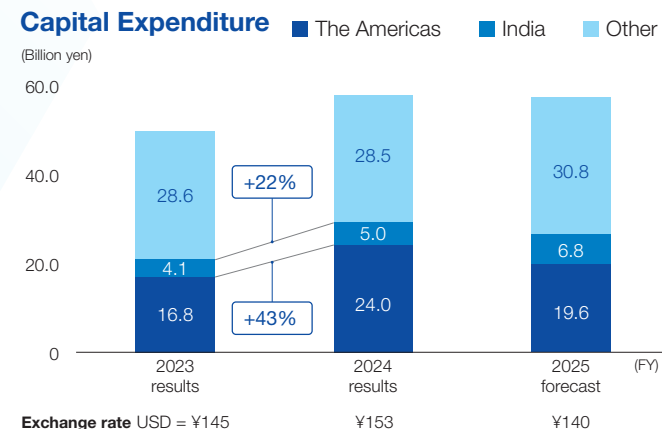
This section outlines our financial policy. This policy sets a new financial framework aligned with the 2030 Business Plan, based on the business environment and plan details. We aim to enhance corporate value by pursuing growth potential through priority investment in high-growth, high-profit areas, ensuring a financial base and soundness that enables us to respond flexibly to any investment opportunity, and efficient business operations with an awareness of the cost of capital.

The management targets of the 2030 Business Plan include 1,200 billion yen in revenue, 100 billion yen in operating profit, an 8% operating profit ratio, and an ROE of 10% or more, consistently surpassing the 7-8% cost of equity for shareholders. To achieve an ROE of 10%, we are enhancing balance sheet management to improve asset and capital efficiency. Changes in the external market, such as material market conditions, salary increases, and the current impact of tariffs, are having a greater impact on business performance than ever before. To prioritize and respond quickly and accurately to environmental changes, we will renew our ERP system while continuing to improve our management. The three pillars of our financial strategy are outlined in the following sections.

Financial Policy



Financial Policy: Growth Potential



First, let us take a look at capital expenditure. When allocating investment resources, priority will be given to areas where high growth and profitability can be expected, aiming to grow our business at a pace above organic market growth. Regionally, we will prioritize the Americas and India. In terms of business areas, we will focus on our Safety Systems and Interior and Exteriors segments. In India, which is a priority region, greater safety improvements are needed amid an increase in traffic accidents due to the rapid spread of vehicles, and the installation of airbags into vehicles is accelerating with the introduction of laws, regulations, and assessments.

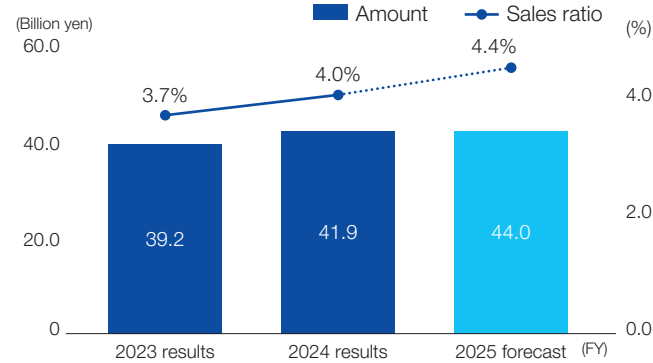
In response to this, we expanded our Neemrana Plant in northern India in September 2024. Meanwhile, the Harohalli Plant in a suburb of Bangalore in southern India is expected to begin operations in January 2026. These are just some of the ways, we continue to build a production system to serve the expanding Indian market.

In the Americas, we have established 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, another key region for us.

Financial Strategy

Financial Policy: Growth Potential

Research and Development



Next, let us look at R&D. To achieve the 2030 Business Plan, we are strengthening our advanced development field and investing resources in priority areas. As the above graph shows, in recent years we have increased investment by approximately 3.0 billion yen year on year. The auto industry is undergoing a major transformation as evidenced by the advances in electrification. We see this change in mobility as a great opportunity to adopt new products. For example, BEVs are equipped with large-capacity batteries, which increase the vehicle weight, making it necessary to further reduce the weight to extend driving range. Although most front structural components are currently made of steel, we are developing new products that use some plastic components.

We are also making proactive investments in future growth areas, such as initiatives to commercialize material recycling, which contributes to realizing carbon neutrality and a circular economy, as well as efforts to create new business.

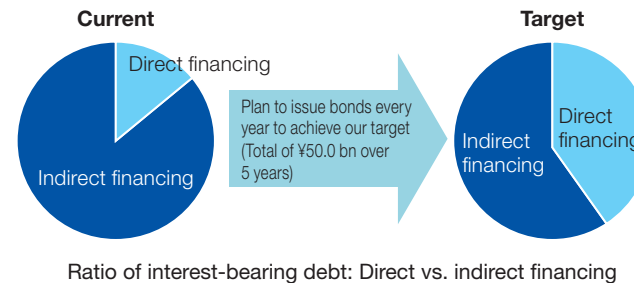
Financial Policy: Soundness

In order not to miss out on growth opportunities, we are aiming to ensure that we have sufficient funds and the fund-raising capacity to respond flexibly to any investment opportunities, while also diversifying our funding sources.

In January 2025, following on from the previous fiscal year, we issued impact bonds utilizing the Sustainable & Positive Impact Finance Framework*1 formulated in October 2023. These bonds represent Japan's first public offering structured under a scheme that emphasizes not only disclosure of the use of proceeds, but also the promotion of positive impacts and mitigation of negative impacts. Going forward, we will continue to utilize this scheme to enhance engagement with institutional investors and ensure stable funding through the continued issuance of bonds.

Specifically, we plan to issue 10 billion yen in five-year bonds annually, with the goal of raising the share of bonds within interest-bearing debt to approximately 40%. In addition, we will increase the proportion of short-term borrowings relative to long-term borrowing to enable more flexible repayment.

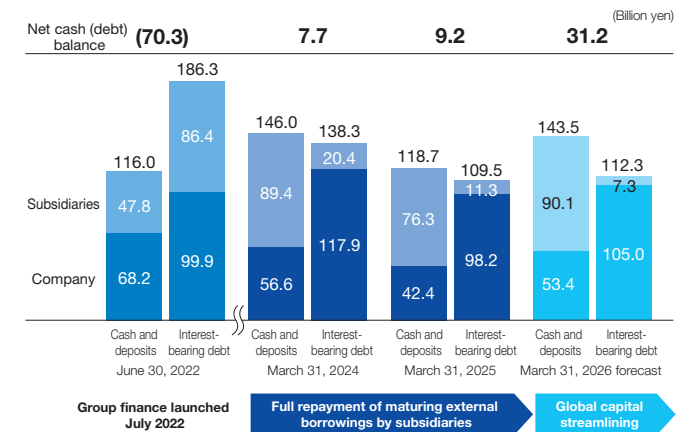
*1 This sustainable finance framework complies with the Green Bond Principles and Social Bond Principles established by the International Capital Market Association (ICMA). Furthermore, as the first domestic impact finance framework, it aligns with the Positive Impact Finance Principles (PIF Principles)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



Ratio of interest-bearing debt: Direct vs. indirect financing

Furthermore, with the implementation of global Group financing led by our head office to optimize fund efficiency, we worked to reduce external borrowings by subsidiaries and curbed the outflow of funds.

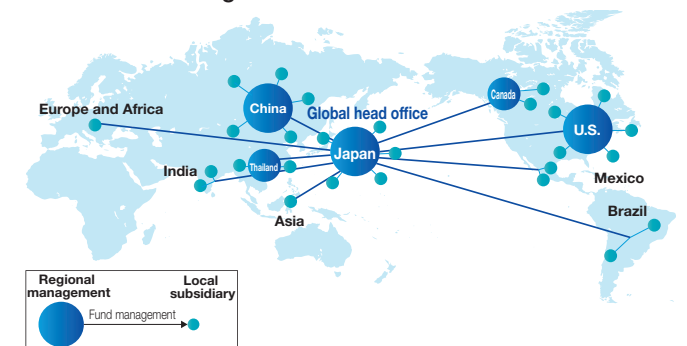
Cash and Deposits vs. Interest-Bearing Debt



In FY2022, we established a cash pooling framework to enhance fund transfers between domestic subsidiaries and the head office, and in July 2024, operations commenced in Japan. This has enabled us to centralize funds at the head office while establishing a system that allows for flexible lending.

Looking ahead, we will build a framework for global cash pooling to further enhance efficiency of funds within the Group.

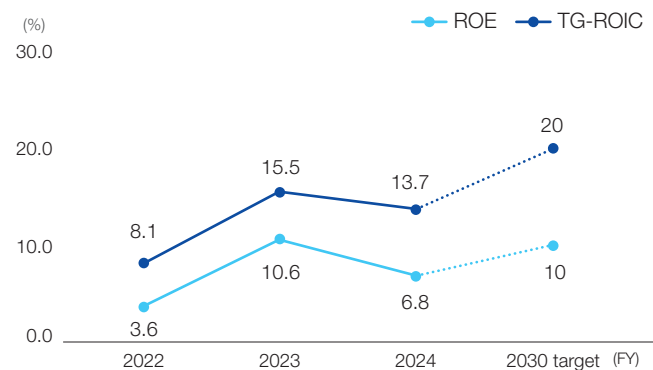
Global Fund Management Framework



Financial Strategy

Financial Policy: Efficiency

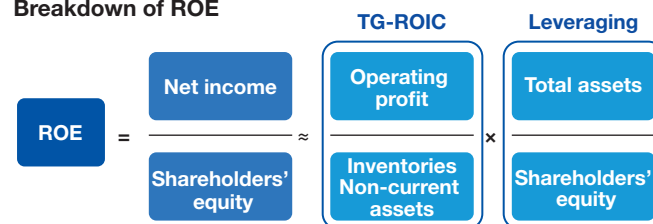
1. ROE



Under the 2030 Business Plan, one of our management targets is an ROE of 10% or more, consistently surpassing the 7-8% cost of equity for shareholders. To achieve an ROE of 10%, we are pursuing growth potential through focused investment in high-growth, high-profit areas, and enhancing balance sheet management to improve asset and capital efficiency.

As shown below, by breaking down ROE into TG-ROIC, a proprietary indicator, and leveraging, we have distinguished efforts that are rooted at the operational level (TG-ROIC) from efforts led by the head office functions (leveraging).

Breakdown of ROE



Rather than using the conventional ROIC, we revised it to a unit manageable at the operational level to improve asset efficiency while internally managing performance using TG-ROIC.

Our leveraging efforts have focused on reducing cross-shareholdings as a means of decreasing total assets. To improve capital efficiency, we have strengthened returns to shareholders and conducted share buybacks. Details of each are described later.

2. TG-ROIC

Efforts to improve TG-ROIC, our unique internal metric, are ongoing. Here, we outline some of our initiatives to reduce the TG-ROIC denominator—inventories and non-current assets. We aim to optimize inventories at each location by identifying asset stagnation points within plants using a goods and information flowchart as well as by setting goals. We are also promoting a global TPS member training project to ensure that initiatives led by the head office are implemented quickly and firmly at each region and site. (The number of overseas participants increased from 18 in FY2024 to 34 in FY2025.)

For non-current assets, although the payback period for new equipment investments has been shortened compared with conventional levels, we are working to further shorten and tighten it for efficiency-focused investments in particular, strengthening advance reviews of planned content and payback periods through internal review meetings. In addition, we have set investment guidelines linked to TG-ROIC targets and promote overall investment restraint by effectively utilizing existing assets while prioritizing allocation of new investment funds.

In addition to TG-ROIC, we are working to accelerate cost planning initiatives. In the automotive parts industry, the profitability of each product varies significantly depending on the timing of new models and model changes. To make the most of this opportunity, we must enhance added value at the development and design stages, thereby improving profitability.

Looking at initiatives to spread awareness within the Company, from March 17 to 19, 2025, we held the Financial Accounting (FA) Summit for the first time. A total of 90 people, including local heads and assignees from the accounting functions of 37 domestic and overseas affiliates, gathered together to share activities from various regions centered on financial policies, exchange best practices, and engage in active discussions. In addition, with the cooperation of the Production Research Division and the Automotive Business Management Division, we achieved a common understanding of the initiatives to reduce inventories and non-current assets, which form the TG-ROIC denominator, thereby promoting further deepening and embedding of TG-ROIC activities going forward.



Financial Accounting (FA) Summit

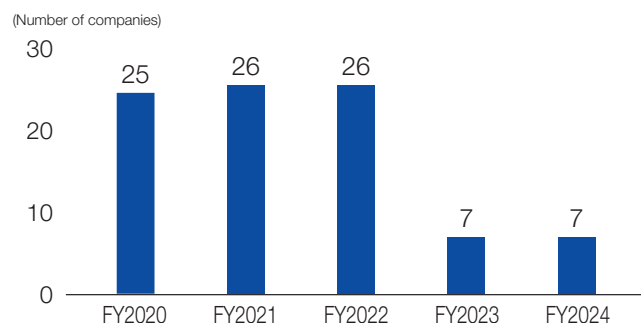
Financial Strategy

3. Leveraging

Cross-shareholdings

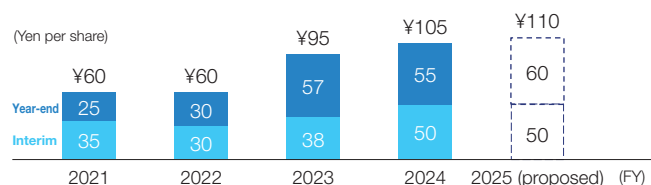
Reducing cross-shareholdings is one of the main ways we are working to improve our balance sheet management. Previously, we held shares in around 30 companies, but by the end of the previous fiscal year, we had reduced this to seven, including shares we hold in Toyota Group companies.

Number of Stocks Held



Enhancing Returns to Shareholders

For dividends, in line with our financial policy of ensuring consistent dividend growth, we have set a minimum target dividend on equity (DOE: Dividends/Shareholders' equity (consolidated)) of 2.5%. Also, we will conduct share buybacks when opportune to do so to optimize our 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) that exceeds our cost of equity in a stable and long-term manner.



Cash Allocation

Assuming that we achieve the management targets of the 2030 Business Plan, we estimate that the operating cash flow generated from FY2023 until FY2030 will be approximately 650 billion yen. At the same time, we will promote efficiency using TG-ROIC as a key performance indicator and further reduce cross-shareholdings.

We will invest 350 billion yen in capital expenditure mainly in our priority businesses and regions. For shareholder returns, as explained earlier, we have earmarked at least 100 billion yen as a source of funds to ensure consistent 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 investment opportunities, 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 the last two years exceeded the initial plan due to the strong performance of our current operations. Based on the aforementioned financial policy, we have also worked to reduce cross-shareholdings and use the proceeds for share buybacks.

Toward a PBR of 1.0

We aim to achieve an ROE of 10%, as set forth in the 2030 Business Plan, and by raising the PER level, achieve a PBR of at least 1.0 as soon as possible. We are actively investing resources in key businesses, including the Safety Systems and Interior and Exteriors segments, and in the priority regions of the Americas and India.

In addition, we are expanding sales to non-Toyota customers and bringing high-value-added products to market, thereby achieving both growth and profitability at a pace above organic market growth. At the same time, we are working to improve the management of our balance sheet and are conducting business operations with a greater awareness of asset and capital efficiency.

We will continue to provide timely and appropriate information to investors and analysts through our website and various IR events, as well as increasing opportunities for investors to engage directly with senior management. The opinions received through our interactions with investors and analysts will be shared not only with management but also with other relevant internal parties, and we will continue our efforts to increase awareness of corporate value among all employees.

Cash Allocation

