Financial Strategy Message from our CFO

Strengthening our financial base by expanding business profits and improving asset efficiency through practicing appropriate capital distribution

We will expand operating profits by investing in growth fields and strengthening the financial base that supports future strategies to achieve continuous improvement of corporate value.

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Director
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Chief Financial Officer

FY2020 resulted in a 3.3% YoY decline in net sales from the impact of COVID-19. Looking at profits, we were able to make significant YoY improvements in operating income and achieved a profit of 2.9 billion yen. This was due to a recovery trend in the operating environment as well as fixed cost reductions and productivity improvements achieved through structural reforms. We also improved our gross profit margin, which represents profit from operating activities, to 19.1%. This is an increase of 3.5 points from the previous fiscal year. In FY2021, we are aiming for a gross profit margin of 20% or higher. We will achieve this through profit through the steady implementation of structural reforms and enhancement of high value-added products.

FY2021 is our second year of structural reforms. We are planning to increase improvements to 3.8 billion yen, a higher amount by 1.4 billion yen YoY. Capacity utilization of facilities have increased steadily due to the adoption of smart factories, and we are planning to make a 14% improvement from FY2019. By expanding production capacity through the improvement of capacity utilization of existing facilities, we aim to reduce capital investments by 3.9 billion yen over a two-year period and improve asset efficiency.

We are also proceeding with reductions in cross-held shares and have already disposed of approximately 40% of stocks held at the beginning of FY2020. We will continue to strengthen our balance sheet by proceeding with the disposal of unnecessary assets. In September 2020, we conducted a capital increase with the issuance of new stock to strengthen our financial base and enable investments in growth fields. Procured capital is invested in growth fields such as improving our hybrid capacitors to strengthen our revenue base. Our equity ratio for FY2020 was 37%, improved by 8.7 points from the previous fiscal year. However, we realize that this equity ratio is still insufficient when compared to industry standards. We will continue pursuing the steady generation of periodic profits and, depending on the state of capital markets, evaluate more flexible capital strategies to form a debt-asset balance that enables us to withstand any type of change in our operating environment.

FY2021 is a critical year in terms of achieving the targets for FY2022, the final year of our 9th Medium-term Management Plan. Our ROE goal for the final fiscal year is 10%. In addition to increasing profitability, optimizing operating capital efficiency through SCM reforms (CCC improvement), and increasing total asset turnover ratio by improving capital investment efficiency, we will also work to achieve our goals by engaging in appropriate financial leverage.

Improving capital investment efficiency requires our continuous seek of a 5% or higher return on our weighted average cost of capital (WACC). We will reinforce investment standards that focus on capital costs by using both of the following for investment judgment; internal rate of return (IRR), which sets a hurdle rate (goal rate of return) for each business, and net present value (NPV). Furthermore, we continuously validate the profitability effect of investments we conduct.

We realize that the high level of interest-bearing debt due to the recording of extraordinary losses and other factors from past fiscal years is a financial issue. As such, in FY2020, we reduced interest-bearing debt to 53.0 billion yen, an 8.2 billion yen reduction YoY. We will continue aggressive efforts to increase free cash flow by generating periodic profits and improving asset efficiency.

For the continuous improvement of corporate value, we will expand operating profits by investing in growth fields and strengthening the financial base that supports future strategies. Growth that leads to solving social issues is essential to continuously improve corporate value. Through business growth that strengthens our corporate structure and proposal of products that contribute to society and the environment, we will work to increase shareholder value by engaging in long-term profit returns to our shareholders.