CFO Message

Striving for optimal allocation of capital from a medium- to long-term perspective while aiming to increase corporate value

The CFO's Mission

Emphasizing compassion along with a calm perspective

I assumed the role of Chief Financial Officer (CFO) in June 2022. I joined Yuasa Corporation prior to the corporate merger, and was first assigned to the Information Systems Division, where I developed a view of the Company as a whole through its systems. For about the next 20 years, I was involved in practical work, primarily in accounting, finance, taxes, and other areas. When I was seconded to one of our Group companies, I was also involved in our cutting-edge storage battery business, including a joint project with a major trading company. I hope to make use of those varied experiences in my work as CFO going forward.

The basic mission of the CFO is to support the sustainable growth of the company from a finance viewpoint. Maintaining a long-term perspective, I hope to steadily enact capital policies and financial strategies that help enhance our corporate value and lead to our contributing to society through "Innovation and Growth."

As the chief financial officer working to optimize the allocation of management resources, one must maintain a dispassionate view in identifying risks and opportunities, and be able to clearly indicate when no means no. That said, I also emphasize compassion. At our kickoff meetings at the start of each term, I always tell my employees that I want them to have compassion. This means more than simply being kind–it means using one's imagination to put oneself in the other person's shoes. The Financial Division is not involved in directly generating profits, or in making products. This is why it is even more important that we understand the growth strategies of each business unit, and that we listen to feedback from those working on the front lines of development, production, and sales. We need to implement the most appropriate financial policies only once we have imagined what they are struggling with and how they feel. I myself hope to be a CFO who maintains his composure but nevertheless always remembers to have compassion.

Hiroaki Matsushima
Director and
Chief Financial Officer,
GS Yuasa Corporation

Financial results and financial condition

Ensuring completion of a solid foundation and addressing the final fiscal year of the Mid-Term Management Plan

Although the business environment in fiscal 2021 was made difficult by the ongoing global COVID-19 pandemic, the Group's consolidated net sales reached a record high of 432.1 billion yen, thanks in part to significant sales growth in the automotive lithium-ion batteries business as well as increased sales of lead-acid batteries in overseas markets. Operating profit was 22.7 billion yen, a decrease due to the significant impact of soaring raw material prices and rising logistics and labor costs, mostly overseas. Given this context, we consider it very significant that our automotive lithium-ion batteries business, which is positioned as a strategic field, has turned profitable and has entered a growth phase.

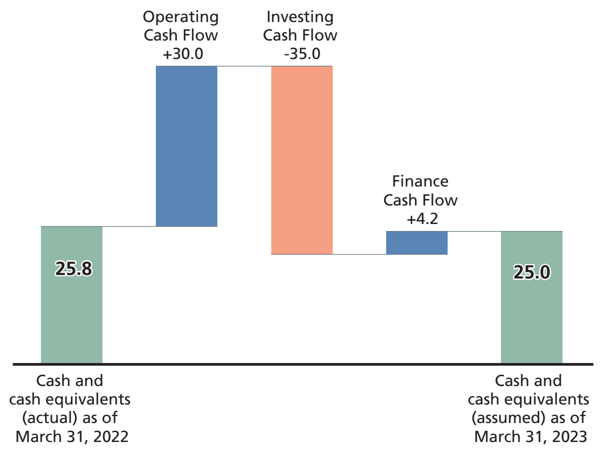
In terms of cash flow, operating cash flow decreased from 35.8 billion yen in the previous fiscal year to 12.9 billion yen due to an increase in inventories and trade receivables. Meanwhile, investing cash flow increased by more than 10 billion yen from the previous fiscal year to a negative 30.2 billion yen, mainly due to capital investment to increase production of automotive lithium-ion batteries. As a result, free cash flow in fiscal 2021 was a negative 17.3 billion yen, a significant drop from the previous fiscal year, and the Company used cash and cash equivalents as well as borrowing to pay dividends and other expenses.

That said, this deterioration in cash flow is temporary, and is due to the significant impact of supply chain disruptions during the COVID-19 pandemic. We hope to return conditions to normal as quickly as possible by increasing profits in each business and by working to monitor and optimize inventories.

In addition, the Cost Management Department has been working to make costs in Japan and overseas more visible. To promote cost reductions going forward, we have launched a Value Engineering (VE) initiative, and will work to raise awareness in development and on the manufacturing front lines.

Although the business environment is expected to remain challenging in fiscal 2022, we foresee achieving our sales and profit targets by steadily implementing our growth strategies for each business. We plan for capital investment and R&D expenses of 32.0 billion yen and 13.0 billion yen, respectively, even higher than in fiscal 2021. Interest-bearing debt is expected to increase to around 90.0 billion yen, but we expect to be able to maintain an equity ratio of 42% or higher, an indicator of financial soundness.

Statement of assumed cash flows (Fiscal 2022)
(Billions of yen)



Capital efficiency

Further spreading ROIC management

Bringing a medium- to long-term perspective to improving capital efficiency is one of the CFO's key missions. To generate returns that exceed the cost of capital, we have introduced return on invested capital (ROIC) as a key performance indicator (KPI), and are working to boost earning power by enhancing asset efficiency in each business unit throughout the Group.

Partly as a result of repeated executive training programs held to spread the concept of ROIC management, there has been considerable progress in raising awareness of capital efficiency at the senior management level. Meanwhile, we are gradually working to inculcate understanding among mid-level and frontline employees through in-house education and training programs, but it can be difficult for them to constantly be aware of capital costs in the course of their day-to-day work.

We have thus begun efforts to establish ROIC throughout the organization through collaboration with Total Quality Management (TQM) activities, which have been routinely conducted in each department of the Company for some time now. We will link these TQM improvement efforts with ROIC, allowing employees to see how achieving specific items is tied to an equivalent improvement in ROIC values, and creating a virtuous cycle in which efforts by employees in each department to put these issues into practice lead to improved ROIC.

Investment and Risk Management

Managing risk while maintaining proactive growth investments

Two committees ensure the validity of investment decisions

Further increasing our ability to earn as a Company will require continued growth investments under the Sixth Mid-Term Management Plan, scheduled to start in fiscal 2023. To ensure the validity of investment decisions, in addition to the existing Capital Investment Committee, in fiscal 2021 we established the Business Assessment Committee, a new internal review body.

The Capital Investment Committee, comprising primarily executives from the development and manufacturing divisions, meets once a month, as a rule, to examine the appropriateness of capital investment proposals of 100 million yen or more submitted by the business divisions. The committee deliberates and considers each proposed deal in terms of the validity of its objectives, the recoverability of the amount to be invested, and the operational status and investment impact of past capital investments. Recently, investment decisions are also incorporating assessments of environmental factors such as reductions in CO_2 emissions.

The Business Assessment Committee is led by the Corporate Strategic Planning Office and comprises members with diverse expertise and skills from the Legal Affairs and Technology Development divisions and others, in addition to the Financial Division. The Committee also meets monthly to discuss investment deals other than capital investments, including mergers and acquisitions, and also examines the rationality, suitability, and recoverability of other large deals. We also perform solid risk checks from a variety of perspectives, validating issues and problems involved in the compliance and technical aspects of aggressive growth investing.

Introducing an Internal Carbon Pricing Scheme to drive more active low-carbon investments

In addition to finance, I am also in charge of the CSR Division. Customers and investors also consider non-financial initiatives important from the perspective of increasing corporate value, and I consider it my mission to inform stakeholders about the Company's activities in this area.

In particular, we recognize that carbon neutrality, which has become a major global trend, is a tremendous growth opportunity for our business. At the same time, we also recognize that we need to be aware of the risks involved, including the increased costs required in reducing CO_2 emissions in our business activities. Since announcing its endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in fiscal 2019, the Group has conducted studies on climate change risks for its domestic and overseas sites, with input from experts. In May 2022, the Group made a number of new disclosures, including "Risks and Opportunities in Climate Change."

Additionally, under the "GY 2030 Long-Term Greenhouse Gas Target", announced in May 2021, we have set out a target of reducing greenhouse gas emissions from our Group's business activities by 30% or more by fiscal 2030 from fiscal 2018 levels. Since achieving this target will require low-carbon investments, including the deployment of energy-saving equipment and renewable energy, an Internal Carbon Pricing Scheme (ICP scheme) was introduced in fiscal 2022. Going forward, we will advance a variety of CO_2 reduction methods in each of our businesses with the goal of achieving this target.

Simultaneously promoting investments in human capital and in DX

We are also emphasizing human capital as the Company's greatest management resource. It goes without saying that making solid investments in human resources–including hiring and training outstanding personnel and creating a comfortable working environment–and linking those investments to high returns is fundamental to corporate management.

Looking into the future, however, the declining birthrate and aging population are expected to make it increasingly difficult to secure all types of human resources. We thus recognize the extreme importance of simultaneously securing and training a diverse workforce and streamlining operations using advanced IoT and digital technologies, or what is known as a digital transformation (DX). This is not simply a matter of replacing analog tasks with digital ones. Digital technology needs to be solidly incorporated in each individual's work in order to achieve efficiency and reforms in an innovative yet grounded manner.

Shareholder returns

Continuing stable shareholder returns by further expanding earnings

We have positioned the return of profits to shareholders as an important management issue. As a general policy, we determine the level of returns based on comprehensive consideration of consolidated earnings results, internal reserves used for future growth, our financial standing, and other factors, and aim for a total payout ratio of 30% or more. Note that in the interests of our shareholders, the total payout ratio is calculated based on profit before amortization of goodwill.

Although profit declined in fiscal 2021, from the perspective of providing stable dividends, we instituted a dividend of 50 yen per share, the same amount as in the previous fiscal year. Note that for fiscal 2022, we plan to pay an interim dividend of 15 yen per share and a fiscal year-end dividend of 35 yen per share, for a full-year dividend of 50 yen, assuming we achieve our profit forecast.

More than 15 years after the corporate merger, our financial situation has improved dramatically and our business has become more profitable. That said, we also recognize the need to further improve our earning ability. Going forward, we will continue striving to expand earnings and maximize corporate value from a medium- to long-term perspective while improving capital efficiency. We ask for the continued understanding and support of all of our stakeholders in this effort.

August 2022

Director and
Chief Financial Officer,
GS Yuasa Corporation

Indicators per share