We will take firm steps to implement the measures in our medium-term management plan SHIFT 2023 and demonstrate the results of our efforts through our performance.

Looking Back and Looking Ahead

How do you summarize FY2020, and how did you formulate SHIFT 2023?

In FY2020, we recorded a deficit of ¥153.1 billion due to one-off losses of approximately ¥350 billion caused by the impact of the COVID-19 pandemic and actions such as restructuring low-profitability businesses. In the early stage, we switched to emergency mode for the entire Company and concentrated on implementing short-term structural reforms in advance of SHIFT 2023. We recorded losses associated with divestments and business revaluations in accordance with accounting standards.

We seriously acknowledged the result, which was the largest deficit in our history, went through considerable soul-searching, and held candid discussions internally. We then developed SHIFT 2023 in which we will implement Business Portfolio SHIFT aiming to achieve two important factors: reinforcing our earning power and controlling our profit volatility. To achieve Business Portfolio SHIFT, SHIFT 2023 incorporates both Framework SHIFT and Management Base SHIFT which is the foundation of our entire plan. With the two SHIFTs, we will strive to proceed with rigorous screening of investments, consistent value creation, maintenance and improvement of financial soundness.
(▶ Refer to p. 35)

We will firmly take responsibility in realizing quick recovery of our growth path, and as a consequence, we will aim to achieve record-high profit of over ¥320.5 billion in FY2023, the final year of SHIFT 2023.

Profit (loss) for the year (attributable to owners of the parent) in medium-term management plans

(Billions of yen)

	Medium-Term Management Plan 2020			SHIFT 2023		
	FY2018	FY2019	FY2020	FY2021 (Annual Forecast*)	FY2022 (Plan)	FY2023 (Plan)
Excl. one-off profits/losses	Approx. 329.0	Approx. 248.0	Approx. 198.0	230.0	260.0	300.0 or more Aim to achieve record-high profit
One-off profits/losses	Approx. -8.0	Approx. -77.0	Approx. -351.0			
Total	320.5	171.4	-153.1			

* Full-year forecast revised upward to ¥290 billion in announcement of first quarter results (August 4, 2021).

One-off Losses

Q1 Have you completed the liquidation of low-profitability businesses through the structural reforms that have taken place since FY2020? Do you expect to incur any additional one-off losses in the future?

A1 We will continue accelerating efforts to liquidate low-profitability businesses including divestments. In FY2020, we recognized the required allowances in accordance with accounting standards, and from FY2021 we may incur losses related to some businesses including those we have yet to divest. However, we do not expect this to have a significant impact on our performance.

For proceeding structural reforms, we analyzed the profitability of around 400 group companies, and we selected 101 as targets for exit. We divested 32 of those companies in FY2020. We are continuing to work toward exit in the remaining 69 companies. It is possible that we incur losses owing to pricing and valuation on the transactions. But even though including costs for structural reforms already factored into the plan, we do not expect the losses to be significant.

By identifying low-profitability businesses through these structural reforms and accelerating measures to create value, we expect to improve our earnings by approximately ¥70 billion (compared with FY2020) during SHIFT 2023.

Investment

Q2 What issues have you confronted thus far, and what is your future investment policy?

A2 We will reinforce our risk management system from the entry phase of investments through to the exit phase, and we will rally the entire Group to improve the value of our businesses.

First, we will take firm steps to enforce investment discipline when selecting new investments. We dove into root cause analysis behind our past lessons, not only the one-off losses in FY2020 but also the previous losses in the U.S. shale gas and tight oil fields. We fundamentally revised our decision-making process to enhance the way we handle risk management. We will reinforce implementation of this investment discipline within the Company, and encourage employees to thoroughly adopt it in their business while every employee still remembers the impact of this serious damage, thus "Strike while the iron is hot."

Each business unit has a long list of target companies throughout potential business fields, then they subsequently whittle that down to a short list. However we have regrettably invested opportunistically, such as projects that arose out of the market. There have been also some instances when we were ultimately unable to determine the best timing for our investments. In natural resources projects, for example, we occasionally invested in a company that we thought would become profitable when the economy was robust. It was not until the market collapsed to the extent where we incurred a loss, we could have recognized the cyclical environment change, such as plummet demand owing to industry structural transformation. We distilled our traits in addition to lessons learned into "investment discipline" that ensures whether it is truly desirable to proceed with an investment so that we can avoid the types of investments mentioned above.

Even when the Investment Committee has decided that a project should not go ahead, business units may be very keen to invest through deep attachment for their own business. This investment discipline also serves as a kind of rule book that has the Investment Committee work as an advisory organization more rigorously. We make level-headed decisions with regards to every investment opportunity without making excuses or being remiss.

In the subsequent post-investment phase, group companies uniformly used to have discussions regarding important decision-making matters in advance with the division in charge at parent-company level. But that approach also had a drawback of obscuring the group company managers' ownership for the results. With SHIFT 2023, we have transitioned toward a sophisticated system of governance where we respect group companies' final decision-making bodies such as the Management Council and Board of Directors, as it enables them to manage their businesses independently and autonomously, and we require them to sufficiently distribute dividends. This governance structure leverages the functions and knowledge of the division in charge in the process of decision-making, which would clarify who should be responsible.

Additionally, we will continue implementing the Full Potential Plan (FPP), which we have been working on since the Medium-Term Management Plan 2020. For group companies that are not progressing according to their original business plans, we will draw clear road maps and provide the corporate group's capability to support their turnaround initiatives. We will not hesitate to take action, including divestment, with projects that are difficult for us to improve the profitability.

Moreover, we are considering a new incentive plan that reflects achievement with business plans as well as divestments road map to tie to our performance evaluations of organizations and individuals.

Financial Soundness

Q3 How do you plan to maintain and enhance financial soundness, which is the foundation for growth?

A3 We will enhance our financial soundness by keeping our risk taking at an appropriate level and maintaining a capital structure that is not overly dependent on interest-bearing liabilities.

Maintenance and improvement of financial soundness in an effort to enhance our management base, which provides the foundation for sound growth, is one objective of SHIFT 2023.

We will continue to keep the amount of risk in our business portfolio at an appropriate level by ensuring that Risk-weighted Assets (total amount of risk) stay within our Core Risk Buffer (shareholders' equity). The quantitative targets for SHIFT 2023 involve achieving positive free cash flow after dividends in three-year total. We will continue to manage our business without excessively relying on interest-bearing liabilities. As a result of expanding shareholders' equity by achieving the SHIFT 2023 profit plan, we will improve the net debt-equity ratio (DER) from 0.9 (in FY2020) to 0.8 in the final fiscal year of SHIFT 2023. (▶ Refer to p. 36)

Q4 What is your approach to credit ratings?

A4 We will strive to raise our credit rating by realizing a quick recover in profitability and maintenance and improvement of financial soundness.

We aim to improve our credit rating by steadily implementing SHIFT 2023. The plan includes strict observation of the investment discipline, and turnaround or divestment of unprofitable businesses. It is necessary to demonstrate the results of our stable business performance, cash flow management, and balance sheet management.

Shareholder Return

Q5 What is your shareholder return policy in SHIFT 2023?

A5 Based on our basic policy of providing stable long-term dividends, we will pay dividends of at least ¥70 per share.

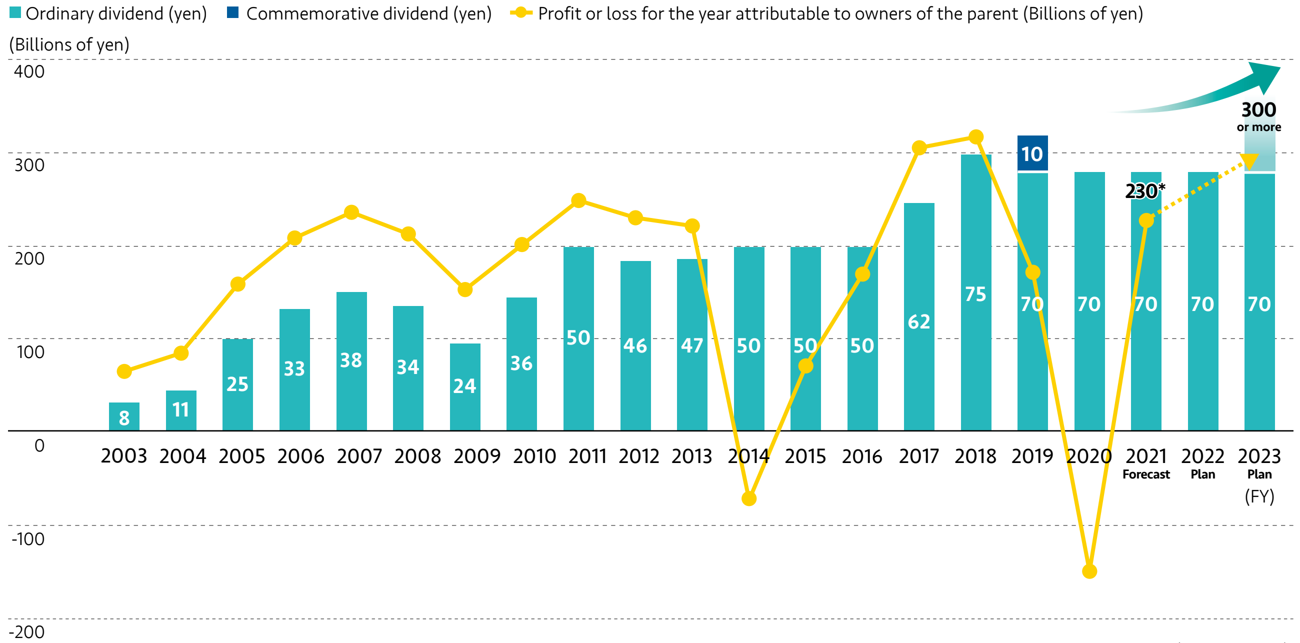
Our basic policy for shareholder returns is to provide stable long-term dividends while aiming to increase dividends through medium- to long-term profit growth. That policy remains unchanged.

In line with that basic policy, SHIFT 2023 will maintain dividends of at least ¥70 per share, with a target consolidated payout ratio of around 30% as a guideline. We will determine dividend amounts by factoring in basic earning power and cash flow status.

In FY2023, we aim to achieve record-high profit, so there will be a possibility to increase dividends if the profit plan is successfully achieved. Meanwhile, in FY2021 and FY2022, we will be implementing various SHIFT 2023 measures. And though we will still be in the process of recovering earnings, we expect to maintain and improve our financial soundness. On that basis, we will maintain dividends of ¥70 or more—the same amount as in FY2020—by firmly controlling our cash flow, just as we did in the previous fiscal year. This demonstrates management's commitment to recovering earnings and getting back onto a growth trajectory.

Regarding share buybacks, we believe that would be premature at present. First and foremost, we need to enhance shareholders' equity by recovering earnings. Once we achieve the goals established with SHIFT 2023, we will reexamine appropriate measures for shareholder returns, including share buybacks.

Dividends



* Full-year forecast revised upward to ¥290 billion in announcement of first quarter results (August 4, 2021).

In the End

Q6 SHIFT 2023 establishes three "shifts"—in business portfolio, framework, and management base. What do you as CFO consider important?

A6 I believe it should be the most important thing to robustly achieve that plan and build up a track record.

Unfortunately, our price book-value ratio is currently below one. We are aware that this is due to market concerns that some businesses in the Group's portfolio still seem to be at risk of losing value, or that future investments might not succeed. To dispel such concerns and regain trust, we believe it is important to take firm action toward achieving SHIFT 2023 and presenting a track record (results).

The three-year period in SHIFT 2023 will be critical to improving our corporate value. The first step is to accomplish turning around or divesting unprofitable businesses and to execute Business Portfolio SHIFT by investing intensively in steadily growing businesses. We then need to demonstrate the process and results and promote dialogue with stakeholders.