# Message from the CFO

**Steadily advancing Mid-term strategy initiatives with the aim of breaking away from a low-profitability structure and improving earnings by reducing costs according to the circumstances of each business and expanding operations in line with societal changes**

**Making investments necessary to enhance future competitiveness whilst maintaining financial discipline based on our capital allocation policy**

Hirokazu Umeda
Director, Senior Managing Executive Officer, CFO

## Basic approach to capital policy and Mid-term strategy

Our basic approach to capital policy in conducting business operations emphasizes return on invested capital and financial stability.

In terms of return on invested capital, we are aiming to stably achieve ROE of at least 10% in an effort to generate returns that exceed the cost of stockholders' equity over the medium to long term by promoting management that is conscious of capital costs.

As for financial stability, we are working to expand Panasonic Corporation stockholders' equity through the accumulation of net profit and endeavoring to build a robust financial base with which we can propel business structural reforms and investment for growth. We are undertaking initiatives with an awareness of financial discipline under our capital allocation policy of generating cash needed for investments, structural reforms, and dividend payments from cash flow generated by businesses, divestitures, and the sale of assets.

Guided by this basic approach to capital policy, with the overall objective of breaking away from a low-profitability structure during the three-year Mid-term strategy that started in fiscal year ended March 2020(fiscal 2020), we continue to reform our business portfolio, enhance our management structure, and improve profitability in automotive business.

For our business portfolio reform, we are concentrating our resources in focus areas that we consider to be growth fields and working to reinforce our competitiveness and improve profitability through partner collaborations and other means. To enhance our management structure, we are reducing personnel costs and indirect operations, lowering fixed costs by mainly consolidating facilities, and rolling out radical reforms of businesses having loss-making structures. To improve profitability of automotive business, we are working to thoroughly strengthen our profitability structure and enhance competitiveness in each business, by focusing on areas where we have advantages in terms of customers and products.

## Business operations during the COVID-19 crisis and future outlook

In fiscal 2021, the global spread of COVID-19 infections seriously affected the movement of people and goods and triggered a sharp contraction in the global economy, primarily in the first half of the fiscal year. Our businesses were also heavily impacted and headed into the new fiscal year with uncertainties in the operating environment. Sales declined due to a market downturn stemming mainly from outing restrictions, while sales opportunity losses arose because parts procurement difficulties forced our plants to suspend operations or lower their operating rates.

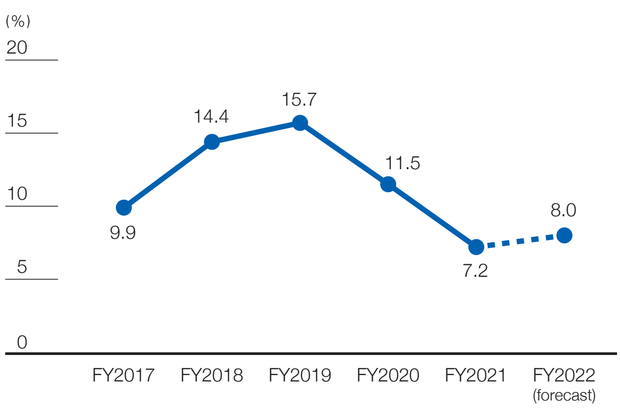
In the first quarter, sales and profits were negatively affected in all business areas, mainly in Automotive and Connected Solutions which were severely affected by deteriorating conditions in the automotive and aviation industries. Sales decreased significantly in real terms after excluding the impacts of exchange rates and deconsolidation, while adjusted operating profit (profit generated by businesses) recorded a loss due to the impact of lower sales and other factors. In this challenging operating environment, as a measure aimed at improving profitability, we stepped up the pace of the fixed cost reduction initiatives under our Mid-term strategy that we have continued to drive forward as an internal project since last fiscal year. The spread of COVID-19 infections has also largely transformed working styles, so much so that working remotely has now become the norm. We therefore drastically reviewed the conventional way of using fixed costs for activities such as business trips, meetings, and exhibitions, and succeeded in thoroughly reducing them. We will continue with such efforts to further enhance our cost structure. On the other hand, on the business front, business opportunities reflecting changes in society are arising, and we are capturing such opportunities.

Although sales in real terms continued to decrease from the same period in the previous year in the second quarter, there was a noticeable recovery in sales in each business, notably Automotive and Appliances segments. In addition to the Mid-term strategy initiatives we had continued to implement in order to enhance our management structure, such as reducing fixed costs and dealing with businesses having loss-making structures, the benefits of thoroughgoing cost reductions began to materialize, which helped adjusted operating profit turned to an increase from the same period in the previous year. In the second half too, as the economic environment continued to recover, we controlled the level of fixed costs by steadily pushing ahead with measures for enhancing our management structure. We recorded an increase in both sales and profit due to contributions to profit improvements from businesses responding to changes in society, including air-conditioning and indoor air quality, public health-related services, automotive batteries for EVs, and information and communication technology.

In full-year results, sales decreased largely due to the impact of COVID-19. Operating profit and net profit decreased due mainly to the impact of one-time gains in other income/loss recorded in the previous fiscal year. However, adjusted operating profit increased to 307.2 billion yen and the adjusted operating profit margin improved to 4.6% from 3.8% last year.

In terms of enhancing our management structure—one of the initiatives in the Mid-term strategy—we made profit contributions of 60 billion yen through fixed-cost reductions, with employees vigorously promoting the measures identified within the Company. And we achieved our mid-term target of 100 billion yen ahead of schedule, reflecting progress made towards improving profitability in the businesses that have loss-making structures, including a return to profit in the TV business. In particular, fixed costs overall decreased by approximately 180 billion yen from the previous year, partly reflecting the impact of lower sales and lower production caused by COVID-19. As for our business portfolio reform, we established a joint venture with Toyota Motor Corporation in the automotive prismatic battery business, set the direction for the semiconductor and solar businesses, made a strategic equity investment of acquiring a 20% stake in Blue Yonder as an investment for growth, and ramped up automotive battery business production capacity at our North America factory. Moreover, in terms of profitability improvement of the automotive business, adjusted operating profit turned profitable after recording a heavy loss in the previous fiscal year through productivity improvements and rationalization of materials. We have made steady progress on our Mid-term strategy initiatives.

**ROE**




From the viewpoint of return on invested capital, ROE has held steady at more than 10% over the medium term, averaging 11.7% for the last five years, but it dropped to 7.2% in fiscal 2021 owing to a decline in net profit attributable to Panasonic Corporation stockholders and the continued accumulation of stockholders' equity. For fiscal 2022 we forecast ROE of 8.0%, the same level as the cost of stockholder's equity, but we will aim to steadily achieve at least 10% by continuing to advance initiatives aimed at improving profitability.

While the impact of COVID-19 is likely to remain in some businesses in fiscal 2022, we will look to tap business growth opportunities mainly in the areas of 5G, IoT, and air-conditioning and indoor air quality. We will also aim to drive sales and profit growth by staying the course to enhance our management structure. In particular, we will implement tight cost controls according to the circumstances of each business to ensure that fixed costs do not return to previous levels as sales and production activity recovers. In this way we will work on perpetuating the cost reduction benefits realized the year prior. We forecast adjusted operating profit (profit generated by businesses) of 390 billion yen and an adjusted operating profit margin of over 5%, higher than in fiscal 2020, prior to the outbreak of COVID-19.

## Financial initiatives in an uncertain operating environment (financing, cash flow generation, shareholder returns)

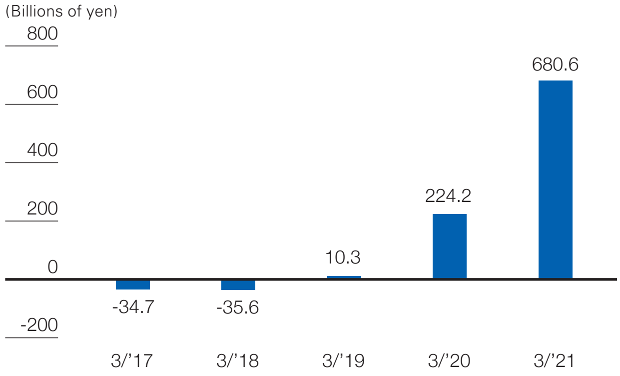
The spread of COVID-19 infections through the start of fiscal 2021 also significantly affected our finances. Given that there was no visibility on how much of an impact COVID-19 would have going forward, share prices plunged in the stock markets and there was major upheaval in direct financing markets, including instability in commercial paper and other short-term money markets. In light of this situation, we used global financial networks to summarize the state of our cash, both over and short, and based on that information we started considering the measures we would need to take. Our finances were also greatly affected during past financial crises, such as the global financial crisis in 2008. Based on our experiences at that time, we ran simulations of the impact on our finances and formulated risk scenarios envisaging a decline in cash. As a measure for preparing for this possibility, we made it our top priority to secure liquidity on hand.

Specifically, we secured cash on hand in excess of 1,000 billion yen. And we strengthened our finance structure by securing other means of financing, in addition to the commitment line contracts we already have with financial institutions. We also lengthened the duration of short-term funds by issuing domestic unsecured straight bonds worth 200 billion yen in December 2020.

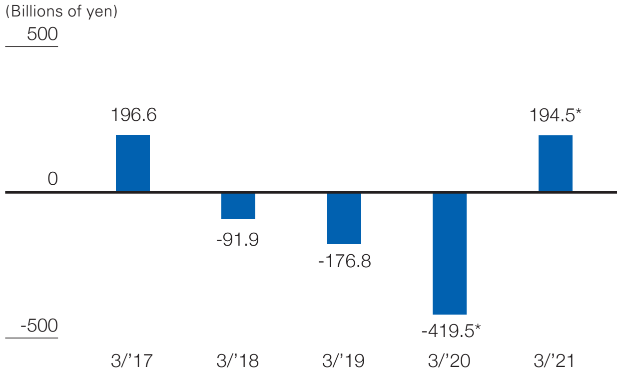
Free cash flow in fiscal 2021 was 680.6 billion yen, reflecting improvements in profit and working capital, business transfers as part of our business portfolio reform, and the sale of shares held. We have also exe-

# Message from the CFO

**Free Cash Flow**
(Years ended March 31)

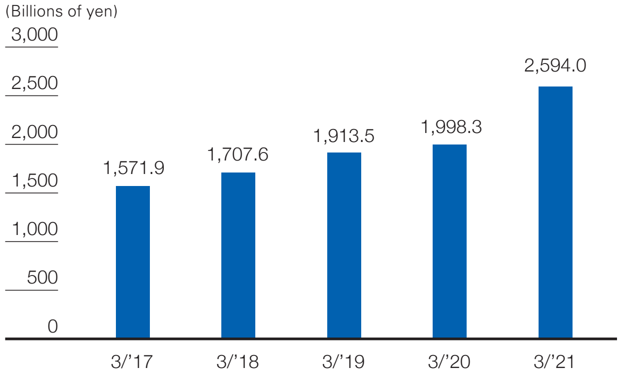



**Net Cash**
(Years ended March 31)




*Includes lease liabilities owing to the application of IFRS 16 to interest-bearing debt beginning in fiscal 2020

**Panasonic Corporation Stockholders' Equity**
(Years ended March 31)




**Credit Ratings (As of August 31, 2021)**

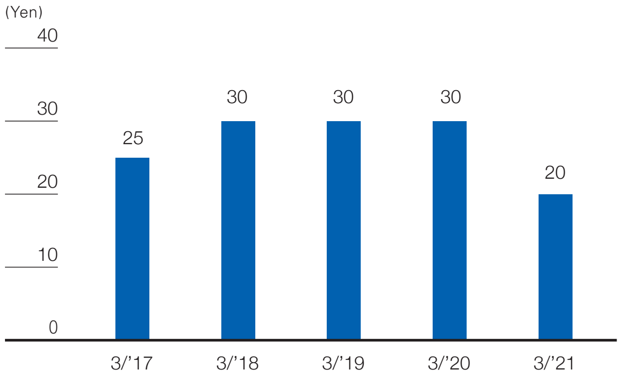
| Ratings agency | Long-term (Outlook) | Short-term |
|---|---|---|
| Rating and Investment Information (R&I) | A (Stable) | a-1 |
| Standard & Poor's | A- (Stable) | A-2 |
| Moody's | Baa1(Stable) | — |

cuted some investments for growth within the scope of cash flow generated. For example, we made a strategic equity investment of acquiring a 20% stake in Blue Yonder. As a result, our financial stability has steadily improved with net cash turning positive and stockholders' equity also increasing to 2,594 billion yen as of the end of fiscal 2021 through the accumulation of net profit.

I believe the aforementioned disciplined financial management and progress on improving profitability have been evaluated favorably by credit rating agencies.

As for returning profits to shareholders, because of the decline in net profit attributable to Panasonic Corporation stockholders in fiscal 2021, it is with much regret that we have had to lower the annual dividend by 10 yen year on year to 20 yen in line with our dividend policy of basically distributing profits according to consolidated results. In fiscal 2022 we will continue with efforts from the latter half of last year to improve earnings so that we can return profits to shareholders.

**Dividends (Dividends declared per share)**
(Years ended March 31)




## Making necessary investments to capture growth opportunities

As part of Mid-term strategy Panasonic has continued to roll out initiatives with the aim of breaking away from a low-profitability structure. Through these efforts, over the past two years we have pursued co-creation with external partners in order to reform our business portfolio, and we have implemented concrete measures one after the other with a focus on improving profitability, including measures for those businesses having loss-making structures. Meanwhile, so that we might enhance the competitiveness of the entire Panasonic Group and achieve medium- to long-term growth, it is crucial that we accurately identify and never miss growth opportunities and make investments in a well-focused manner in accordance with business conditions.

In the *Gemba* (operational frontlines) Process business—which we consider to be an area of focus—shifting to solutions business and driving growth in recurring business have been a pressing issue. Toward this aim, we have been deepening our strategic partnership with Blue Yonder through setting up a joint venture in 2019 and acquiring a 20% equity stake in the company in 2020.

To further accelerate this initiative, we made the decision to acquire Blue Yonder as a wholly-owned subsidiary for a total acquisition price of approximately 750 billion yen. This move will enable us to quicken the pace of *Gemba* process innovation and reinforce operational capabilities in our own supply chain.

At the same time, it is extremely vital that we are able to maintain a sound financial position even after the deal is closed, in spite of the temporary financial impact from the acquisition and the recording of sizeable intangible assets and goodwill. To that end, from the perspective of financial stability that we emphasize in our basic approach to capital policy, we especially made sure that the acquisition would align with our capital allocation policy, and we also examined the impact it would have on our credit rating. Our capital allocation policy defines our approach to the generation and allocation of cash for the purpose of shifting management resources towards sustainable growth under our Mid-term strategy. Guided by this approach, in addition to the generation of operating cash flow, through the optimization of our business portfolio and the sale of assets, we were able to generate cash flow of about 2,200 billion yen, including a reduction in lease liabilities through divestitures. As a result, after using the necessary capital mainly for investments, dividends, and structural reforms, we have around 1,000 billion yen of excess cash, which means that the amount required for this acquisition is within the range of cash generated. We also carefully examined the acquisition's impact on our credit rating. In order to stably maintain our credit rating after the acquisition and ensure that we still have the capacity to make investments in the future, we are considering the use of hybrid financing in which a certain level of equity value is recognized for credit rating purposes.

Up ahead, after Blue Yonder has been made a wholly-owned subsidiary, we will steadily carry out a PMI (post-merger integration) and set our sights on enhancing the company's business value and generating synergy effects. We will endeavor to strengthen the *Gemba* Process business—a focus area for Panasonic—and by extension, further boost the competitive edge of the entire Group and improve its financial position.

## Transition to a holding company system

The Panasonic Group has made a decision to transition to a new group structure from April 2022. The current Panasonic Corporation will serve as a holding company and seven operating companies will be placed under its umbrella. Each operating company will be empowered to make decisions concerning business matters. By taking autonomous management to the next level like this, we will speed up overall management and enhance the competitiveness of each business.

At the same time, it is also important that the operating companies are disciplined in their use of capital. Each operating company will carry out management that is conscious of capital costs and strive to generate a certain level of return on the capital they have been allocated. Operating companies can invest the cash generated in excess of capital costs to enhance their own competitiveness within their authority based on the Group's approach to autonomous management. Subsequently, this will further drive growth and improve the corporate value of the entire Group.

Moreover, it is even more important that each operating company, as an independent business entity, is directly accountable to the capital markets as "a public entity of society." They are expected to gain further understanding of their respective businesses by holding strategy and performance briefings in an effort to communicate more proactively.

## Putting our management philosophy into action and aiming to enhance corporate value

We have long undertaken business activities based on the management philosophy that "A company is a public entity of society." In other words, we believe our raison d'être is to continually push ahead with efforts to provide solutions to various social issues through our business activities and grow together with society and stakeholders. It is also really important that we deepen our dialogue with stakeholders regarding these kinds of activities.

Currently, the environment surrounding corporate management is changing significantly. Companies are expected to make high-level contributions to the attainment of the Sustainable Development Goals (SDGs), an agenda the international community has its sights set on achieving, mainly in the area of climate change. And calls from investors within and outside of Japan for companies to disclose and discuss ESG information are growing stronger as ESG investing is rapidly increasing worldwide.

Under these circumstances, contributing to the SDGs and undertaking ESG initiatives are precisely about implementing our management philosophy. The entire Panasonic Group, under the leadership of CEO Yuki Kusumi, is united in advancing initiatives toward solving global environmental issues through its business activities. These initiatives will not only improve the sustainability of society, but they will enhance our corporate value from the perspective of stakeholders as well as enterprise value from financial aspects, and lead to the long-term, sustained development of the Company.

As for dialogue with the capital markets, we intend to actively engage in dialogue with our shareholders and investors through the disclosure of information in an integrated manner incorporating our business and management activities as well as ESG. In addition, we plan to hold briefings focusing on ESG topics.

For Panasonic to become a valued company needed by society and in order to enhance our enterprise value, we must return to the basics of, and put into practice, our management philosophy. We must also endeavor to gain the capital markets' understanding of our initiatives and make best use of their valuable opinions to improve our management approach.

I look forward to your continued support of Panasonic going forward.