As part of our aim to become "a high-performance materials company that supports a sustainable society," we will build a business structure capable of generating investment funds for future growth.

In October 2020, we announced a business plan in which we will, by fiscal 2022, implement another round of cost structure reforms to improve our business performance at an early stage, while transforming our earnings foundation with the aim of securing resources for future growth investments.

Based on this business plan, in fiscal 2021 we implemented a number of measures aimed at ensuring future growth, under the slogan "Set to Grow." In particular, we focused on reforming our cost structure and lowering our break-even point for profitability, while establishing a new earning structure that will be more robust in the face of fluctuating demand. As a result of this, our operations regained profitability in our business performance for fiscal 2021, thanks to this bolstering of our earning structure in addition to the recovery of demand in relation to the automotive and semiconductor sectors.

In fiscal 2022, we plan to focus on the following areas, under the slogan of "Accelerating Transformation and Growth."

- Establishing a culture of safety
- Putting integrity (sincerity and honesty) into practice
- Strengthening our operational foundation for growth
  - Improving profitability and securing our cash flow
  - Strengthening monozukuri and improving capital efficiency
- Promoting environmental management

Through the above initiatives, the Group will build a business structure capable of generating investment funds for future growth, and make progress towards becoming "a high-performance materials company that supports a sustainable society," our medium- to long-term commitment.

In addition, a tender offer, etc., for the common stock of the Company by K.K. BCJ-52 (hereinafter referred to as the "Tender Offer") is scheduled in the future. K.K. BCJ-52 intends to make the Company its wholly owned subsidiary through the Tender Offer and a series of transactions to be conducted thereafter. As a result, the Company will be separated from the Hitachi Group and its common stock will be delisted. We believe this separation will enable the Group to set out its own independent growth strategy without being constrained by the portfolio strategy of Hitachi, Ltd. Moreover, by becoming a non-listed company, we can plan strategies from a long-term perspective, carry out major investments and implement bold reforms promptly. We believe we can respond more quickly and more professionally to rapid market changes by utilizing the global knowledge and networks of our New Partners to explore investment opportunities, obtain funding, and develop and implement growth strategies, enabling us to restore our competitiveness and profitability and thus achieve sustainable growth and increase corporate value.

Improving capital efficiency

The Group's cost of capital is calculated at 7.5%, but ROIC is currently below that figure. We will therefore move swiftly to improve our ROIC by lowering our break-even point through reducing costs, and by expanding profits while reducing investments, in order to build an earnings structure that is resilient to demand.

To increase profits, we will raise sales prices in response to soaring material costs, while continuing to expand sales of high-value-added products, expand growth businesses, and deliver monozukuri innovations utilizing IoT technologies to improve quality and reduce costs. In addition, we will use information technology to streamline administrative operations and thereby decrease fixed costs. We will also continuously review our business portfolio by downsizing, withdrawing from or spinning off low-profit, non-core businesses.

To reduce the amount of capital invested, we are working to shorten the cash conversion cycle (CCC) by formulating optimal production plans using IoT and sharing best practices within the Group. Under the Group's inventory management system, responsibilities are divided into different areas, with manufacturing sites and procurement departments being responsible for material inventories, manufacturing sites and business divisions being responsible for production inventories of work in process and products, and domestic and overseas sales companies and business divisions being responsible for distribution inventories. Going forward, we will strengthen our cross-lateral corporate functions to build a system for swift and accurate inventory management based on sales forecasts, and will make every effort to squeeze inventories further with the aim of further shortening the CCC. The actual CCC value as of the end of fiscal 2021 was 82.9 days (down 6.2 days from the actual CCC value of fiscal 2020).

In addition, with a tender offer by K.K. BCJ-52 for the Company's common stock being scheduled, there will be changes to the structure of the Company's capital and borrowings as a result; however, considering its efforts to instill ROIC-based management in all our business divisions a matter of high importance, the Company will continue as before in its efforts to improve the capital efficiency of the working capital, fixed assets and other invested capital used in various businesses. Currently, with targets for ROIC being set based on profits and invested capital in each business segment, ROIC is improving rapidly across the whole group.

Improving cash flows

We are working to boost free cash flow by expanding profits, improving working capital efficiency, and making highly selective investments in priority areas.

In fiscal 2021, net cash provided by operating activities amounted to ¥29.9 billion. This was due primarily to the fact that while net income stood at ¥11.9 billion and depreciation and amortization at ¥46.5 billion, ¥19.1 billion was paid out due to the increase in working capital and ¥6.1 billion on costs related to business structural reforms. Meanwhile, the cash flow provided by investing activities fell to ¥6.4 billion. This was due primarily to the fact that while we earned ¥16.6 billion from sales of tangible fixed assets, we also paid out ¥27.3 billion to acquire tangible fixed assets as well. Our free cash flow stood at ¥23.5 billion as a result.

Clarifying the investment decision-making process

For capital investments made by business divisions, corporate divisions participate from the preliminary review stage, when the screening process before decision-making and responsibilities of the screening division manager are clearly laid out, and will review and strengthen management of the decision-making process for small investments, whose decisions have traditionally been delegated to business units.

In addition to upgrading equipment and streamlining, increasing production capacity, establishing new centers, and investing in safety, investment also includes investment in mergers and acquisitions and the like. Ordinary investments and strategic investments are separately defined and classified in terms of investment decision-making, recovery of investment, and other aspects. As a measure to prevent recurrence of inappropriate quality practices, moreover, we will invest around ¥10 billion to build a system that can automatically generate and manage inspection data appropriately with minimal human involvement. We will introduce the system sequentially at each manufacturing site by around 2024.

Proposals for strategic investments emphasize cash flow, and investment decisions are based on a current valuation using discounted cash flow (net present value or NPV), ROIC, and the investment recovery period.

Balance sheet management

We are streamlining our balance sheet to improve our financial position and raise capital efficiency During the year, we promoted structural reform (including liquidation of receivables, increasing factoring and improving manufacturing lead times) by shortening the CCC to reduce working capital, using the Hitachi Group's cash pooling system (CPS) to consolidate surplus funds and borrowings across the Group, and adopting a selection and concentration policy; however, due to the low yen and an increase in working capital brought about by rising raw material prices, total assets at the end of fiscal 2021 stood at ¥1,069.7 billion, up 10% year on year.

Our basic policy is to source funds needed for growth-oriented investments from cash generated by businesses and cash on hand. To avoid missing growth opportunities, however, we will engage in flexible fund procurement with a view toward maintaining or reducing our debt-equity ratio (currently in the 0.4–0.5 times range) and retaining our A+ credit rating from Rating and Investment Information, Inc. (R&I).

Cash allocation

The Group's basic policy for determining the distribution of profits to shareholders is to comprehensively take into account the operating environment, business results and expansion of the business in the future, together with the need to retain internal reserves for medium- and long-term growth.

For enhancing shareholder value, we aim to distribute profits with a balance between shareholder returns and share price increases through business growth, with a view toward increasing total shareholder return (TSR). Under the new Medium-Term Management Plan, we will strive to boost shareholder value through business growth, by carrying out measures aimed at concentrating resources in high-profit, high-growth areas, implementing structural reforms, and strengthening our operational foundation.

In addition, at its meeting on April 28, 2021, the Board of Directors resolved not to pay a year-end dividend for fiscal 2020 and interim and year-end dividends for fiscal 2021, in light of the planned Tender Offer for the Company's common stock by K.K. BCJ-52.