Steady progress with Mid-term strategy to break away from low-profitability structure

Take up the challenge to create new contributions as “a public entity of society,” with a view beyond COVID-19

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At present, the impact from the spread of novel coronavirus disease (COVID-19 impact) is expanding worldwide, in various ways including economic and geopolitical effects. While Panasonic is making its best efforts to prevent the further spread of COVID-19, as well as ensuring business continuity to fulfil its social responsibility as a corporation, an adverse effect on its operating results for the short term is unavoidable. For the fiscal year ending March 2021 (fiscal 2021), sales and profit are expected to decrease largely due to the significant impact of COVID-19, as well as deconsolidation effects from our business portfolio reform.

Under these circumstances, we are making steady progress with the Mid-term strategy announced last year, specifically through our initiatives to enhance management structure, such as reducing fixed costs and taking measures to businesses that have loss-making structures, and our execution of portfolio management, such as shifting resources and replacing businesses. Moving forward, we will continue to accelerate our progress toward breaking away from a low-profitability structure. In addition, we are trying to approach the current situation as an opportunity to transform ourselves. We will carefully monitor the continuously changing situation of the COVID-19 impact, clarify and execute countermeasures for the short term, and prepare future measures that respond to the trends of long-term changes.

Changes in the business environment are becoming more intense year by year, and we believe the current COVID-19 situation will make our business conditions even more intense. At Panasonic, we will respond to these changes appropriately, based on the philosophy we have inherited and practiced since our founding: “A company is a public entity of society.” Through this effort, we aim to be a company that can offer true contributions to people’s lives and to society. And we will continue to strive to make the “Panasonic” brand even better known as a valuable company, always needed by society, and to achieve sustainable growth and raise corporate value for the medium- to long-term future.

Current business performance

For fiscal 2020, overall sales decreased due to the impact of business portfolio reform and weak capital investment demand in China, both of which were already factored in the initial forecast, as well as the spread of COVID-19 infections. Adjusted operating profit decreased with decreased sales, while our efforts to reduce fixed costs showed steady progress. Operating profit and net profit attributable to Panasonic Corporation stockholders decreased due to factors including the recording of restructuring expenses. Our initial target of 300.0 billion yen of adjusted operating profit (profit generated from our businesses) was not reached. This is due mainly to the impact of COVID-19 affecting our production, including procurement of parts and components, as well as temporary suspensions of factory operations during the fourth quarter.

For fiscal 2021, sales and profit are expected to decrease from the previous year, due to the severe business environment caused by COVID-19 and the effect of business portfolio reform, despite progress in efforts to reduce costs, mainly fixed costs. Regarding the COVID-19 impact, signs of recovery were seen starting in June 2020, with lifted restrictions on movement and resumption of economic activity. Gradual improvements are expected from the second quarter and beyond. Most of the production-related issues have been solved. However, for the demand-related issues, the pandemic’s impact is expected to remain in the second half on businesses for aviation, housing-related, and automotive industries.

The uncertainties related to the COVID-19 impact suggest a variety of scenarios. At Panasonic, we will make efforts to generate new kinds of value propositions, not only supporting the short-term countermeasures but also responding to changes from a long-term perspective.

Progress with Mid-term strategy

Under the current Mid-term strategy, which started in fiscal 2020, we aim to break away from our low-profitability structure. As management KPIs for fiscal 2022, the final year of the Mid-term strategy, and onward, Panasonic aims toward Company-wide management that can stably achieve the following targets: for the Core growth business, which include Spatial Solutions, Gemba (operational frontlines) Process, and Industrial Solutions, an EBITDA growth rate of 5–10% and an EBITDA margin of 10% or more, and for Company-wide operations, a ROE target of 10% or more. Initiatives to enhance our management structure and to execute portfolio management are making steady progress.
Enhancing management structure
Toward fiscal 2022, the Company is aiming at 100 billion yen of Company-wide profit contribution through fixed-cost reduction, such as reducing personnel costs and indirect work, as well as site integration. In addition, efforts are being made to reduce the amount of loss through countermeasures taken for businesses with loss-making structures: semiconductor, LCD panel, solar, and TV businesses.

Fixed-cost reduction is making steady progress through setting up internal projects and listing specific measures and targets for each segment. Toward the target of 60 billion yen over three years (an average of 20 billion yen for each year), in fiscal 2020 we achieved a cost-reduction effect of 20 billion yen. In fiscal 2021, we expect to achieve 30 billion yen. Monitoring the COVID-19 impact, we will execute additional measures as necessary. We can now aim even higher than the initial 60 billion-yen target for profit contribution.

Regarding the need to take measures to businesses having loss-making structures, we are executing such measures in a top-down manner to eliminate businesses with loss-making structures and achieve 40 billion yen of profit contribution (i.e. reduction of losses) by fiscal 2022. For the semiconductor business, a decision was made in November 2019 to transfer the business, and this was completed in September 2020. For the LCD panel business, the decision was made to end production by 2021. We are currently communicating with customers and accelerating production in preparation for the termination of this business. For the solar business, production ceased at the Buffalo factory in the U.S. in June 2020, scheduled to exit the facility at the end of September 2020. Regarding the partnership agreed in May 2019 with GS-Solar, a Chinese photovoltaic module manufacturer, the Company resolved in July 2020 not to proceed with the agreement. The Company will aim to restore profitability in fiscal 2023 by looking into every possible measure, including new business collaboration. For the TV business, the Company is carrying out structural reform, including termination of production at the Mexico factory. The Company will proceed with further initiatives, aiming to restore profitability in fiscal 2022. Through such reform measures, in fiscal 2021, we expect a total loss-reduction effect of 15 billion yen from businesses with loss-making structures.

In terms of achieving 100 billion yen of profit contributions in fiscal 2022, we expect to surpass the goal through greater efforts in fixed-cost reduction, despite the impact of cancelling the partnership related to the solar business. For the other businesses that are loss-making or low-profitable, we will carry out continuous monitoring and take necessary measures at an early stage to avoid further deterioration of profitability. For such businesses, we will set the direction to take by fiscal 2022.

Execution of portfolio management
With the Mid-term strategy, we are executing portfolio management according to the portfolio classifications of “Core growth business,” “Co-creation business,” and “Revitalization business.” Our initiatives will be conducted by transcending the boundaries of the Company and organizations, including flexible capital policies without limiting our options to utilizing internal resources, and more flexible brand policies. In these ways, we aim to enhance the competitiveness of each business.

First, Spatial Solutions, Gemba Process, and Industrial Solutions are positioned as Core growth business. These businesses are highly profitable, where we can exert our accumulated strengths in technological and manufacturing
capabilities. By focusing our resources on this classification, such businesses are expected to become our future profit-growth drivers. The basic approach is to make a transition to solution-type business models from individual hardware sales, taking a medium- to long-term perspective.

For example, with Gemba Process, in July 2020, the Company extended the strategic partnership with a 20% strategic equity investment in Blue Yonder, a leading end-to-end supply chain software provider. The Gemba Process business aims to offer operational process innovations for the supply chain, since supply chain problems have become management issues for our corporate customers who face such challenges as labor shortages and diverse consumer needs. Blue Yonder possesses strengths in software and AI, and its customer base is on a global scale. Combining Panasonic’s strengths in hardware, robotics and sensing technologies, we believe we can generate new value in this market, where continuous growth can be expected. Triggered by this investment, we will further accelerate our business model transformation. I strongly believe this will be a vital step to becoming a Company that provides solutions directly linked to our customers’ management issues.

Next, with the Co-creation business, we strive to enhance competitiveness through collaboration across regions and other companies. In particular, for the consumer electronics business, China & Northeast Asia Company, a region-based Divisional Company, was established in April 2019 with the aim of addressing the China market, where significant growth is expected for the medium to long term. Through collaboration between this Divisional Company and organizations based in Japan, we are promoting co-creation among different regions. An example is the utilization of reasonably priced industry-standard parts and components of rapidly developed Chinese suppliers by leveraging Panasonic’s technological capability. This enables us to increase the cost-competitiveness of our consumer electronics business overall. The China market is showing recovery from COVID-19 at a relatively early stage, and our expectations of significant market growth for the medium- to long-term period remain the same. We will further strengthen our business in China, which is a starting point for taking up new challenges, and we will build new strengths by collaborating with existing organizations in Japan. Furthermore, we intend to expand this business model globally.

Regarding the housing business, Prime Life Technologies Corporation, a joint venture with Toyota Motor Corporation in the field of town development, was established on January 7, 2020, integrating the housing businesses of the two corporations. Combining the mobility services promoted by Toyota and “Lifestyle Updates” promoted by Panasonic, we aim to create new value for the entire town as a whole. With the declining birth rate and aging population, along with the changes in people’s lives and working styles resulting from COVID-19, the requirements for houses and town development will change even further. By giving thoughts to the demands of society and customers, we will take up the challenge of offering new value in not only hardware but also integrated services developed through co-creation with various corporations.

Finally, we must consider the automotive-related business, which is positioned as a Revitalization business, where profitability improvement is the top priority. On the back of drastic changes and evolution in the electrification and computerization of the automobile industry, we have been taking up the various challenges aggressively and globally in the two businesses of Automotive Solutions, where we apply image-processing, communication, and optical technologies, and Automotive Batteries, which includes our cylindrical battery business for Tesla. While we have achieved sales expansion, we have struggled to achieve a corresponding increase in profit. Recently, however, our efforts to improve profitability are showing steady progress.

Automotive Solutions faced heavy burdens due to development expenses, mainly with the challenging projects ordered from Europe during fiscal 2020. With our continuous efforts to improve efficiency, we expect development expenses to be reduced in fiscal 2021 onward. In addition to this, on the back of rising demands, including those for enhanced comfort in the mobility space, fewer accidents, and lower environmental burden, we will focus our management resources on the areas where we have strengths, namely IVI, HUD, and ADAS, to refine product competitiveness and improve profitability.

In Automotive Batteries, let us first consider the cylindrical battery business. We faced struggles with the unprecedentedly rapid ramp-up of the North America factory. By carrying out thorough productivity improvement initiatives, we managed to turn profitable in the second half of fiscal 2020. For the first quarter of fiscal 2021, we
faced the temporary impact of factory suspension due to COVID-19. However, under our strong partnership with Tesla, we will continue efforts to improve productivity, as well as lead the industry in technological development of batteries with high energy density, thus improving profitability. For the prismatic battery business, Prime Planet Energy & Solutions, Inc., a joint venture with Toyota Motor Corporation specializing in automotive prismatic batteries, was established on April 1, 2020. The aim is to accelerate the development of highly competitive batteries that lead the industry and to achieve a stable supply. As equal partners, the two corporations will integrate their management resources to accelerate technological development and further expand production, enabling us to meet society’s demands for expanded use of EVs.

Changes in society brought by COVID-19 and management approach for the medium to long term

The recent spread of COVID-19 has definitely had a significant impact on the entire world. However, the important thing is that we do not simply wait for the waves to pass but anticipate the changes awaiting in the post-COVID-19 world and take the needed preemptive moves.

We have experienced economic recessions on a worldwide scale in the past, such as the financial crisis in 2008. What makes the COVID-19 impact different is how people’s movements and activities have been restricted in each country over a long term. Such restrictions have been mitigated by advances in digital technology and developments in logistics networks. Rather than people moving to accomplish something, products or services have come to the people. This is what we were forced to experience. If this had happened 20 years ago, when the environment was not yet ready, there would have been a much greater impact. We can say that the COVID-19 impact has made clear that the evolution of digital technology brings changes to real society.

So how will Panasonic address such changes? Panasonic has been engaged in bringing affluence to real society and people’s lives through real products, mainly consumer electronics. However, as real society becomes deeply impacted by the evolution of digital technology, we need to transform our business models and value offerings by making full use of this ongoing evolution.

Since its founding, Panasonic has generated contributions by always staying close to people’s lives and addressing a number of social issues. In these two ways, we want to generate new, unprecedented types of contributions utilizing digital technologies such as software, AI, and IoT, among others. A specific example is our “Lifestyle Updates” initiatives centered on B2C business. We will be taking up a new challenge, based on the idea of helping people to attain a healthy mind and body, by thoroughly staying close to people’s lives and offering the most suitable values to each of our customers. Another example is our contribution to solving various social issues, centered on our B2B business. These value offerings will be given an even higher priority in the current Mid-term strategy.

Toward achieving “Lifestyle Updates”

“Lifestyle Updates” aims to offer the “most suitable” to individual customers, utilizing various data and the latest technologies of AI and IoT to design products and services that continue to evolve, even after they are sold. Panasonic has placed importance on bringing affluence to people’s lives through offering better consumer electronics products. However, there is a limit to what we can do if we only pursue evolution of the product itself. Leveraging what we have accumulated in our conventional consumer electronics business, we will take not only the stance of improving product functions but also the customer’s perspective on the kind of problems they are facing, always remaining connected with the customers through digital technology. In this way, we aim to provide contributions that bring better health to the mind and body.

To accelerate this initiative, in October 2019 we brought aboard Yoky Matsuoka, who possesses world-leading technical expertise in AI and robotics. In July 2020, the Lifestyle Business Strategy Division was established to create new value and business models.

Toward contributions to solving social issues

As for solving social issues, we are promoting various initiatives that leverage digital technologies. For example, the Gemba Process, as mentioned earlier, symbolizes such initiatives. Surging logistic traffic resulting from phenomena such as e-commerce expansion has become a heavy burden on the total supply chain, causing seri-
ous issues of labor shortages and workstyles. With the COVID-19 impact, this trend can be expected to accelerate at a faster pace. Here, we are trying to propose new solutions utilizing our digital, sensing, and robotics technologies. Going forward, through changes in society, the digital network itself will become even more important as the basis of everyday living. When that time arrives, stable high-speed and high-volume communication, as well as technology to protect important data, will become even more important. We can also expand our contributions in these areas with our advanced technologies and devices.

Being a public entity of society

Since its foundation, Panasonic has been engaged in management based on the philosophy that “A company is a public entity of society.” Utilizing the various management resources entrusted by society, we must respond to social needs through business activities, contribute to the solution of social issues and the development of society, and achieve sustainable growth. When the Company was founded, the overall society of Japan was facing poverty and a shortage of goods. Panasonic has developed by responding to the needs of society, which was viewed as the desire to make life more affluent, through offering good-quality products, mainly home appliances, at affordable prices.

More than a 100 years after its founding, people’s daily lives have changed drastically. Today, how should Panasonic respond to social needs through business activities, contribute to the solution of social issues and the development of society, and achieve sustainable growth? When the Company was founded, the overall society of Japan was facing poverty and a shortage of goods. Panasonic has developed by responding to the needs of society, which was viewed as the desire to make life more affluent, through offering good-quality products, mainly home appliances, at affordable prices.

Through the expansion of COVID-19 infections, we have gone through the real-life experience of “advances in digital technology changing real society.” Now, Panasonic should make further contributions to solving persistent social imbalances by making full use of the latest technologies, including digital technology, applying our strength from being close to our customers over the past 100 years, and leveraging the strengths of our outside partners. Taking this direction is also how we can contribute to achieving Sustainable Development Goals (SDGs), thus building a sustainable society that the international community is aiming for. In order to fully respond to these requirements of society, we will continue to focus on ESG initiatives, including contribution to the global environment, human resources development, respect for human rights, fair business promotion, and enhanced corporate governance.

These are our initiatives toward achieving “A Better Life, A Better World,” and they embody our efforts to achieve our basic management philosophy: “A company is a public entity of society.” Through these activities, we will continue to strive to make the “Panasonic” brand even better known as a valuable company, achieve sustainable growth, and raise corporate value from a medium- to long-term perspective. I ask for your continued support of our endeavors.

Link to Initiatives for SDGs