Steadily advancing Mid-term strategy initiatives with emphasis on return on invested capital and an awareness of financial discipline under our capital allocation policy

Capture business opportunities arising from social changes brought on by COVID-19

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Managing Executive Officer / CFO

Basic approach to capital policy and Mid-term strategy

Our basic approach to capital policy emphasizes return on invested capital and financial stability, and we endeavor to consistently generate returns in excess of the expected rate of return in the capital market. In addition, we are working hard to build a robust financial base so that we can push ahead with our business structural reform and investment in growth necessary for improving profitability.

In terms of return on invested capital, we are aiming to stably achieve ROE of at least 10% on a Company-wide basis in an effort to generate returns that exceed the cost of stockholders’ equity over the medium to long term. As for financial stability, alongside the expansion of Panasonic Corporation stockholders’ equity driven by the accumulation of net profit, we are undertaking initiatives with a focus on financial discipline in line with our capital allocation policy. To be more specific, the funds needed for mainly investments, structural reforms, and dividend payments will, in principle, come from cash flow (operating cash flow, divestitures) generated by businesses. That said, so that we can aptly respond to growth opportunities, we will respond flexibly to one-off demand for capital for an M&A deal, for example, whilst taking into account the balance of funds over the medium term.

Guided by this basic approach to capital policy, as part of our business portfolio reform—one key pillar in the Mid-term strategy—in addition to enhancing competitiveness of individual businesses, we are focusing on the efficiency of our balance sheet and the improvement of cash flow from a financial point of view. To this end, we apply rate of return on invested capital (ROIC) as a marker of return on overall invested capital in each Divisional Company and Business Division when undertaking comparison with competitors, portfolio management, and investment decision-making.

Another key pillar in the Mid-term strategy is the enhancement of our management structure, thus, with the objective of realizing a profit contribution of 100 billion yen in fiscal 2022, we are working to reduce fixed costs by mainly reducing personnel costs and indirect operations, as well as integrating sites. We are also rolling out radical measures to deal with businesses that have loss-making structures. Even if these initiatives are impacted by changes in the operating environment, as CFO, I will seek to manage their overall progress and steadily work towards reaping the benefits of improved profitability.

Fiscal 2020 review

Earnings and financial situation

In fiscal 2020, both sales and profit decreased due to weak capital investment demand in China resulting from US-China trade friction, as well as lower sales caused by the spread of novel coronavirus disease (COVID-19).
impact). Nevertheless, we were able to make progress on initiatives towards breaking away from a low-profitability structure, including business portfolio reform and management structure enhancement.

In particular, for our business portfolio reform, we ramped up our co-creation initiatives to enhance our business competitiveness. We established two joint ventures with an external partner—one in the automotive prismatic battery business and the other in the town development business, and formed a strategic capital alliance in the security systems business. And to enhance our management structure, we achieved profitability improvements of approximately 20 billion yen by reducing fixed costs, and we have firmly set the direction for those businesses having loss-making structures by mainly deciding to transfer the semiconductor business and end production in the LCD panel business.

ROE, a Company-wide target of return on invested capital, decreased to 11.5% compared to the previous fiscal year, but it remains stably above the 10% level by achieving the average of 12.5% over the past five years.

In terms of financial stability, Panasonic Corporation stockholders’ equity was 1,998.3 billion yen as of end-fiscal 2020 through the accumulation of net profit; the ratio of Panasonic Corporation stockholders’ equity rose from 31.8% last fiscal year to 32.1%. Moreover, free cash flow improved considerably this year, increasing to +224.2 billion yen year on year compared to +10.3 billion yen last fiscal year. This owed to profit decrease being offset by mainly a reduction in working capital due to inventory reductions, strict control of investments, business portfolio reform, and sale of assets. The improvement in our financial position is also evident in net cash, which improved by 393.6 billion yen year on year to –419.5 billion
Strategies of Functions to Support Our Business

Message from the CFO

yen (~152.6 billion yen excluding lease liabilities*). This is partly attributable to the decrease in lease liabilities that resulted from the deconsolidation of Panasonic Homes.

As for returning profits to shareholders, even though net profit attributable to Panasonic Corporation shareholders decreased year on year, the Company distributed a dividend of 30 yen per share (unchanged from last fiscal year) in accordance with its dividend policy.

*Lease liabilities
Following the application of IFRS 16 beginning in fiscal 2020, leases (as lessee) previously recorded as expenses are booked on the balance sheet as either right-of-use assets that represent a right to use an underlying asset over the lease term or lease liabilities that represent a lease payment obligation (lease liabilities are recognized as interest-bearing debt).

Measures to strengthen financial base
In fiscal 2020, we made efforts to diversify our funding sources and strengthen our funding base through domestic and foreign capital markets; we issued senior notes denominated in U.S. dollars for the first time in 27 years with the aim of accessing overseas markets which encompass a broad range of investors, and we also issued domestic bonds mainly for the partial refinancing of bond redemptions.

Also, with the aim of facilitating smooth financing, we have taken steps to better communicate Panasonic’s credit story. Our initiatives include; organizing IR activities for bond investors not only at the time of bond issuance, but also on a regular basis, and deepening our discussions with credit rating agencies primarily about how we are improving profitability, our approach to financial discipline, and our medium- to long-term strategies.

In terms of cash, through to the end of fiscal 2020, the Company had secured over 1 trillion yen in cash and cash equivalents in preparation for the risk of potential deterioration in the financial and economic environment brought on by the gradual spread of COVID-19. On top of this, Panasonic entered into commitment line agreements in June 2018. The upper limit for unsecured borrowing based on the agreements is a total of 700.0 billion yen, but there have been no borrowing under these agreements, and we have secured sufficient liquidity.

Credit Ratings (as of August 31, 2020)

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Initiatives in fiscal 2021

Priority initiatives
Sales and profit are expected to decrease in fiscal 2021 due to the impact of COVID-19, as well as deconsolidation effects from our business portfolio reform. Considering that sales and profit started to improve in June, we anticipate a moderate improvement from the second quarter onwards. At the same time, we expect the COVID-19 impact will likely remain in the second half and affect our businesses for the aviation, housing-related, and automotive industries.

Despite this highly uncertain business environment, we aim to steadily execute the key initiatives in our Mid-term strategy; namely, business portfolio reform, improvement of profitability for automotive-related business—which is positioned as a Revitalization business—and enhancement of management structure. We will also push ahead with measures to improve profitability and get profit back on a growth trajectory by stepping up efforts to capture business opportunities brought on by changes in society as a result of the COVID-19 pandemic.

To drive forward our business portfolio reform, we will continue to collaborate with partners on co-creation initiatives and enter into strategic capital alliances. Meanwhile, in order to propel the strategic shift of managerial resources, we will also aim to execute investment in growth whilst taking into account our capital allocation policy. As a concrete example, in the Gemba (operational frontlines) Process business—which we consider to be a Core growth business—we have made a strategic equity investment in Blue Yonder, a leading end-to-end supply chain software provider. To complement the hardware we already possess in the Gemba Process business, this investment will enable us to bolster the functions, such as software and consulting capabilities, needed by our solutions businesses and drive growth in recurring business as a platform for stable earnings. We will also accelerate the transformation of our business model, and deliver results.

From my standpoint as CFO, I will continue to thoroughly manage the progress of initiatives geared towards improving profitability in automotive-related business and enhancing our management structure.

Large-scale investments in automotive-related business have driven sales growth thus far, but we have struggled to convert this into profit growth, which is why a turnaround in profitability is such a pressing issue. In Automotive Solutions, we took steps to enhance the management structure ahead of schedule and development expenses in particular have started to decline after peaking in fiscal 2020. We will also ramp up our efforts
to reduce fixed costs in an effort to return to profitabil-
ity in this business as soon as possible. In Automotive
Batteries, we aim to achieve sustained profitability by
improving productivity at our North America factory for
cylindrical batteries and aim to further boost profitability
with the introduction of new technology. We have also
decided to invest in the expansion of production capacity
through to fiscal 2022. Up ahead, decisions on investment
will be made after thorough assessment of profitability.

Regarding the enhancement of our management
structure, we will endeavor to further reduce costs with
a focus on fixed costs, and look to reap the benefits of
approximately 30 billion yen, which is more than what we
initially targeted. We will also step up efforts to eliminate
those businesses having loss-making structures and aim
to generate profit improvements of 15 billion yen mainly
in the semiconductor business, notwithstanding the neg-
ative impact of COVID-19. Based on these measures, we
intend to steadily achieve profit contributions by more
than 100 billion yen by the end of fiscal 2022, the final
year of our Mid-term strategy.

In terms of the business opportunities brought on by
changes in society as a result of the COVID-19 pandemic,
we expect to see greater investment in information- and
communication-infrastructure (base stations, servers,
etc.) driven by sharp growth in network demand as peo-
ple refrain from going out and choose to work remotely,
as well as stronger demand for air purifying and air con-
ditioning systems because of heightened interest in pub-
lic health and as more people choose to stay home. Panasonic
will develop products and services and invest in
expanded production capacity. For example, storage
battery systems and conductive polymer capacitors in the
area of information and communication infrastructure, as
well as air purification/sterilization equipment (Ziaino) that
utilizes sodium hypochlorite as an effective way to reduce
airborne bacteria and virus particles and air conditioners in
the air-conditioning and air quality field.

**Initiatives for generating cash flow**

In fiscal 2021, in addition to securing profits, we aim to
keep improving inventory and working capital and be
more discerning with the investments we make. We
will also aim to generate free cash flow in excess of net
profit levels by executing strategic investments within the
scope of revenue generated by business portfolio reform
and the sale of assets.

Going forward, in aiming to steadily advance our Mid-
term strategy, we will engage in financial management in
a well-focused manner whilst securing capital necessary
for growth by generating cash flow.

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

Since its foundation, Panasonic has undertaken business
activities based on the philosophy: “A company is a pub-
lic entity of society.” At present, the impact of COVID-
19 remains unpredictable and the future outlook for the
financial and economic environment is still unclear. We
believe, however, that over the medium to long term, it
is our duty to help find solutions to various social issues
through our business activities, including those trig-
gered by societal changes in response to the pandemic,
and that doing so is necessary if we are to enhance sus-
tainable growth and corporate value. We also recognize
that our actions can contribute to the attainment of the
Sustainable Development Goals (SDGs)—an agenda the
international community has its sights set on achieving.

Also, we have long positioned ESG as one platform that
underpins our business activities in the context of aiming
to enhance corporate value in a sustained manner. Until
recently, Europe had been a pioneer of ESG investment,
but now the rest of the world, including Japan, is stress-
ing the importance of ESG as a source of non-financial
information on which investment decisions can be based.
As a result, opportunities for ESG-themed dialogue with
shareholders and investors are on the rise. Up until now,
Panasonic had communicated its views on ESG and mes-
sages from managers of ESG-related departments, but
going forward, so that investors can gain a better under-
standing of how we incorporate ESG into the value cre-
ation process, we intend to disseminate information about
ESG in an integrated manner with updates about our busi-
ness and management activities and actively engage in
dialogue with investors regarding ESG.

The situation of COVID-19 prevents us from communicat-
ing face to face with shareholders and investors at this
time, but for financial announcements and one-on-one
meetings, we are currently switching to virtual methods
(conference calls, online meetings, etc.) in light of effi-
ciency and convenience. We will continue to make every
effort to deepen the understanding of investors about our
initiatives on management reforms and utilize their feed-
back in management operations. I look forward to your
continued support of Panasonic’s endeavors in the future.

**Link to Initiatives for SDGs**