

# Financial Strategy

## Message from Corporate Vice President, Finance & Controller's Division



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Member of the Board  
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# Strive to strengthen financial structure by improving capital efficiency while pursuing investment for future growth

## Basic Policies of the Financial Strategy

The basic policies of Toray's financial strategy are to both expand its businesses and strengthen its financial structure.

Under the Medium-Term Management Program, Project AP-G 2022 (AP-G 2022), Toray plans to allocate a total of **¥500** billion in capital expenditures and **¥220** billion in R&D expenditures over a three-year period in order to pursue global business expansion in growth business fields centered on the Green Innovation (GR) Business and Life Innovation (LI) Business. On the other hand, to strengthen its financial structure, the Company aims to generate more than **¥120** billion in free cash flow over a three-year period and has set an even stricter D/E ratio guideline of around **0.8** to enhance its financial discipline.

## Measures to Strengthen Financial Structure

### 1. Enhance Cash Flow Management

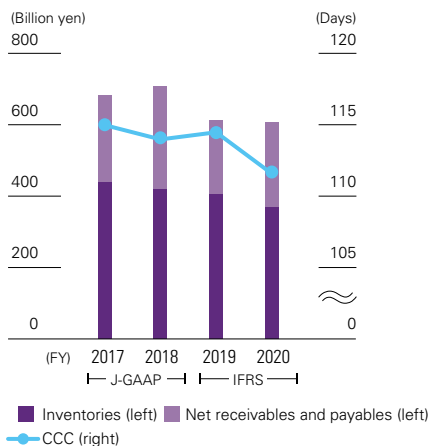
In order to improve cash flow company-wide, the Company introduced a system to manage free cash flow for each division in fiscal 2020, in which each division autonomously manages cash inflows from revenue and core operating income as well as cash outflows for capital expenditures and changes in working capital such as inventories. In addition, the Company continues to implement the "3C-i (Cash Conversion Cycle Improvement) Activity" in order to **reduce working capital**.

### 2. Increase Certainty of Return on Capital Investment

Toray engages in economic evaluation of capital investment plans by setting and checking investment profitability standards (hurdle rates) able to reach ROA and ROE targets. After the projects are implemented, the Company conducts regular follow-ups, and it discusses how to make up for underperforming projects and then implements countermeasures.

In addition, Toray has reviewed its capital investment management and operation methods since fiscal 2020 based on an analysis that the main reasons why past capital investments have not generated returns as planned were the occurrence of unexpected risks and not sufficiently responding to the risks that actually materialized. The Company identifies risks from every angle, starting from the

## Working Capital and CCC (Cash Conversion Cycle)



conceptual stage of a capital investment, and thoroughly manages risks from the execution of the proposed plan to the recovery of investment to ensure that the planned return on invested capital is secured.

### 3. Business Structure Reform of Low-Growth, Low-Profitability Businesses

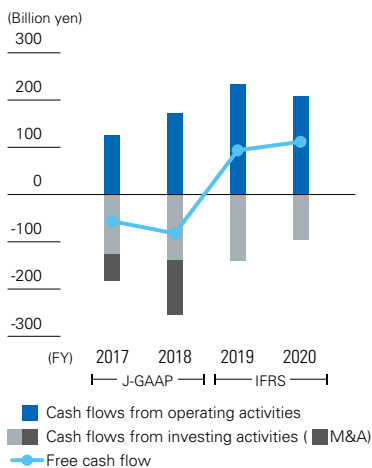
To improve company-wide profitability and capital efficiency, Toray has introduced return on invested capital (ROIC) as a profitability indicator for screening low-growth and low-profitability businesses. The Company calculates ROIC for each business and product, and for businesses and products where ROIC is below the cost of capital and growth potential is low, the Executive Committee discusses how to improve profitability and growth potential through restructuring and implements measures to restore the original profitability of the business.

### Cash Flows and Balance Sheets

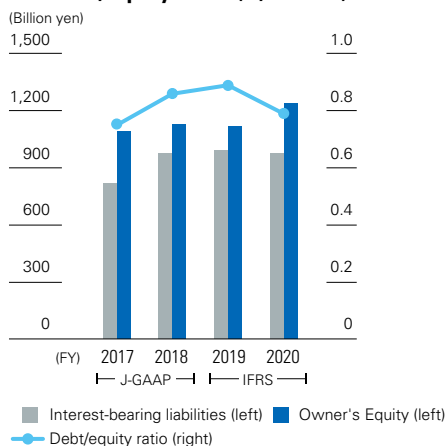
Free cash flow for fiscal 2020 was ¥113.7 billion (up ¥18.3 billion year-on-year), securing a high level of cash flow. Although core operating income decreased to ¥90.3 billion (down ¥35.3 billion year-on-year), cash flows provided by operating activities came to ¥211.6 billion (down ¥26.7 billion year-on-year) due to efforts to strengthen working capital management through 3C-i activities. In addition, net cash used in investing activities amounted to ¥97.9 billion (a decrease of ¥45.0 billion year-on-year), since while Toray made the necessary capital investments for growth based on strict project selection, it sold assets no longer worth holding. For fiscal 2021, Toray expects to maintain positive free cash flow by working to increase core operating income and thoroughly managing working capital and capital expenditures.

The **D/E ratio** for fiscal 2020 was 0.79, a decrease of 0.10 from the previous fiscal year due to an increase in owner's equity and a decrease in interest-bearing liabilities, which is in line with the guideline of around 0.8.

#### Cash Flows



#### Interest-bearing Liabilities, Owner's Equity and Debt/equity Ratio (D/E Ratio)



### Shareholder Returns

Toray considers the appropriate distribution of profits to shareholders to be an important management issue, and its basic policy is to pay appropriate dividends by comprehensively taking into account business earnings trends, financial structure, and the securing of retained earnings necessary for future growth. Under AP-G 2022, Toray aims to continuously hike dividends, targeting a dividend payout ratio of about 30%.