Using our strong cash generating capacity to strengthen our financial base and secure funds for growth with M&A and business investment

Boosting top-line growth to create a virtuous cycle of rising market share and profit margins

The FY2023 financial targets in the New Medium-Term Plan are based on ongoing expansion of our business portfolio to generate organic growth. The targets are challenging, but we believe our Group’s insatiable desire for growth will enable us to achieve them. The core strategies in the plan aim for both organic and inorganic growth through M&A (see “M&A Strategy” on page 79). Establishing sustainable growth will require aggressive M&A along with capital expenditure and R&D investment for future growth. We will leverage our strong ability to generate cash flow to create the funds for these investments in growth.

Investments to increase marginal profit from revenue growth will be a specific focus. We will also seek to boost operating profit by increasing market share, which will allow us to increase prices at strategic points in time and reduce costs through bulk procurement of raw materials. Over half of revenue goes to raw material costs; as such, reducing the raw materials contribution cost (RMCC) ratio significantly contributes to improving the operating profit margin. We will seek to thoroughly control costs by using our global raw materials procurement capability and our considerable revenue flow, which is roughly one trillion yen annually, to leverage the economies of scale.

Achieving high organic growth

For existing businesses, we will aim to maintain steady growth mainly in China and Asia with the aim of attaining CAGR of around 10% (See Figure 1).

For the recently acquired Indonesian business, we will seek to accelerate business growth by capturing the rising demand in the region and increasing market share with a target CAGR of 15%.

We project the combined revenue from the existing businesses and the newly consolidated Indonesian business to grow from ¥890 billion in FY2021 to ¥1,100 billion in FY2023 with a CAGR above 10%. For the overview and details of the Regional and Business Strategy, please see pages 51-76.

Increasing profit through business growth and fixed cost reduction

In FY2021, as shown in Figure 2, we plan to increase spending on supply chain reforms, DX implementation, and infrastructure system development, for an overall increase of around ¥9.5 billion from FY2020. This spending will gradually decrease and we expect the streamlined operations to lower FY2023 costs to the FY2020 level (see Figure 2 (A)). We have also recorded one-time expenses, including a stamp tax, of roughly ¥5.0 billion related to the acquisition of 100% ownership of the Asian JVs (see Figure 2 (B)).

We aim to achieve operating profit of ¥140 billion in FY2023, which we will accomplish by increasing profit by ¥40 billion through increased revenue from both existing businesses and newly consolidated businesses and by reducing costs by ¥1 billion (See Figure 2 (C)).

Boosting cash flow generation ability and allocating capital for growth

The paint and coatings business, in contrast to an industry like semiconductors, has relatively low capital investment requirements without largescale initial investments or equipment replacement costs. As a result, the paint industry is characterized by very stable cash flows. In addition, the acquisition of 100% ownership of the Asian JVs has eliminated profit outflows, which has significantly boosted our ability to generate cash flow. Our financial strategy is designed to leverage these advantages.

Our financial strategy is to generate around ¥230 billion in operating cash flows over the three-year period from FY2021 to FY2023. We plan to allocate ¥85 billion for debt repayment, around ¥125 billion for capital expenditure and M&A, and increase marginally to ¥120 billion through increased revenue from both existing businesses and newly consolidated businesses and by reducing costs by ¥1 billion (See Figure 2 (C)).

For our financial targets and revenue growth projections by business and region, please see “Overview of the New Medium-Term Plan (FY2021-2023)” on pages 49-52.