

# **FY2003 Business Outlook**

**Tadashi Okamura**

**President and Chief Executive Officer**

**Toshiba Corporation**

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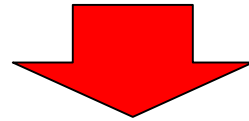
## Forward-looking Statements

- This presentation contains forward-looking statements concerning Toshiba's future plans, strategies and performance.
- These forward-looking statements are not historical facts, rather they represent assumptions and beliefs based on economic, financial and competitive data currently available.
- Furthermore, they are subject to a number of risks and uncertainties that, without limitation, relate to economic conditions, worldwide mega-competition in the electronics business, customer demand, foreign currency exchange rates, tax rules, regulations and other factors. Toshiba therefore wishes to caution readers that actual results may differ materially from our expectations.

## **Factor Analysis of Q1 Results**

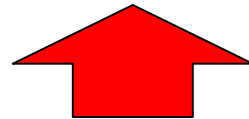
Overemphasis on a wide product line-up led to:

- \* Development delays due to dispersion and shortage of resources
- \* Inefficient procurement due to the increased number of components



**Slowed response to market changes**

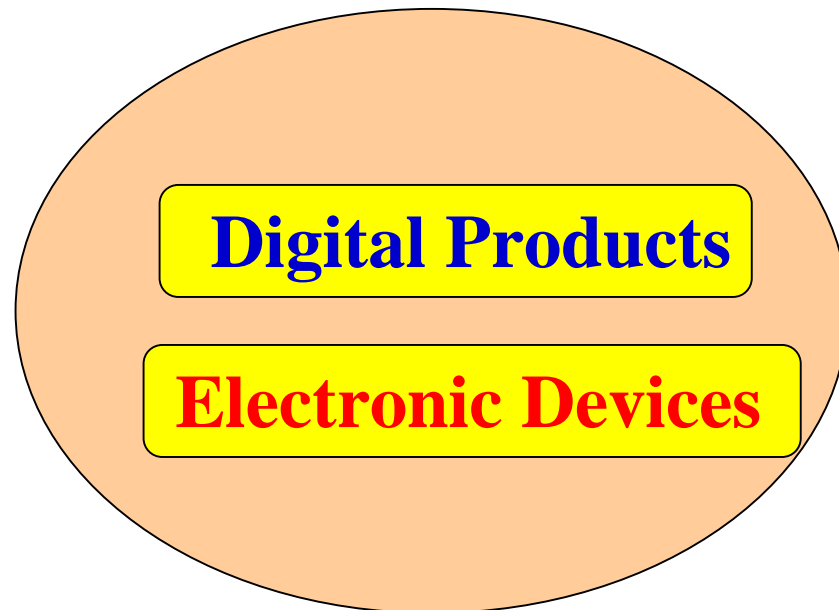
(Delay of product supply. Less elasticity to price erosion.)



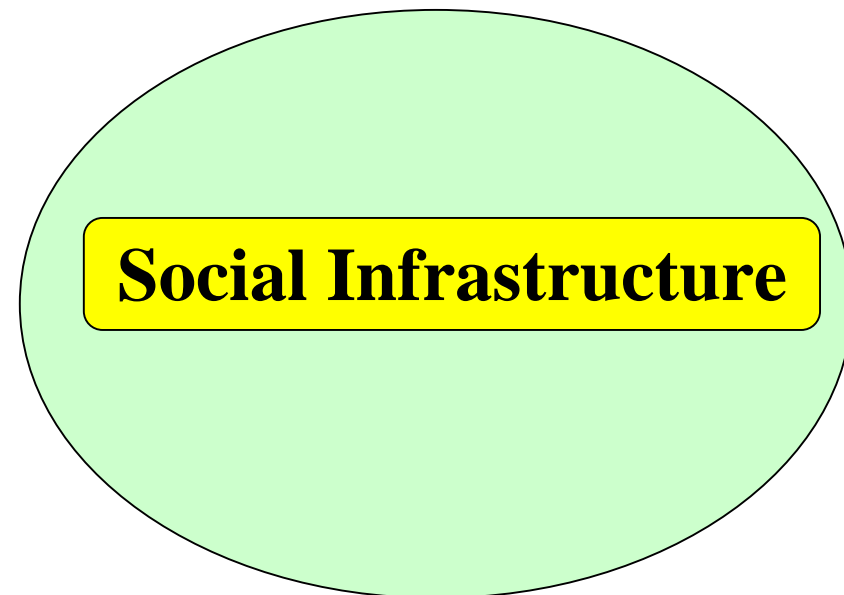
**Price erosion far greater than anticipated**

## **Toshiba Group's Major Business Domains**

### **Growth Business Area**



### **Stable Business Area**



## **PC Business**

While trying to restore profitability in the short term,  
Toshiba is making necessary strategic revisions,  
based on delivering competitive products  
backed by cutting-edge technologies.

# **Business Outlook by Segment**

## **Electronic Devices**

Operating income to exceed original forecasts for 1st half and full year.

• Semiconductors: Sales of memories, especially NAND flash, remain above original projections. Discrete and system LSIs are meeting expectations. This trend to continue in 2nd half.

Our recent operating income forecast for full year exceeds our original plan of ¥ 80b by more than ¥ 10b.

\* LCDs: Profitability recovered faster than originally expected.

## **Social Infrastructure**

Expect to secure projected operating incomes in both 1st half and full year.

- \* Harsh business conditions continue, including sluggish capital investment.
- \* Cost reductions and other efforts are contributing to profitability.



## Digital Products

Difficult to achieve original 1st-half target, recovery expected in 2nd half. Full-year operating income now projected at a little below break even.

Operating income from PCs and peripherals is expected to recover to - ¥ 8b. With improved profitability of audio & visual and other businesses, we aim to break even in the whole segment

	1st half	Full year
PC sales	348	747
Operating income of PC and peripherals	-17	-8

(¥b)

## Home appliances

With an October reorganization, Toshiba is trying to recover 1st-half profit deterioration.

- \* A cold summer and price erosion in Japan saw YoY profitability worsen in 1st half.
- \* Seeking to recover and contribute to profitability as soon as possible.

## **Dividends**

- \* With regret, we will suspend the interim dividend.
- \* Full-term dividend is not yet decided.

## FY2003 Forecast

	Forecast as of Apr. 25	Updated forecast as of Sept. 16	Difference
Net income	5,700	5,650	-50
Operating income	170	140	-30
Income before income taxes, minority interest and equity in earnings of affiliates	90	90	-

(¥b)

**<http://www.toshiba.co.jp/about/ir>**

*Renovation of the  
Personal Computer Business*

September 16th 2003

# *Basic Strategy of PC Business*

## **Toshiba's Advantages**

### **1. Cutting-edge technologies**

- Video Processing
- Wireless
- Storage
- Electronic Devices

### **2. Marketing superior products worldwide**

### **3. Strong brand recognition**

## **Progress of IT Revolution**

- The market is shifting from the Internet Era to the Broadband Era and further moving to an

### **Era of Ubiquitous Networking**

- **Portable PC** remains a key product for the coming era.

**Committed to basic strategy: “Introduce advanced products based on innovative technologies that create new markets”**

## ***Market Trend in Portable Computers***

- 20% growth worldwide in 2003 (units/YoY)
- Change of market demography and intense price competition
  - Home and small & medium-sized businesses (SMB) markets are growing rapidly (24% YoY) -- faster than the large-sized corporate market
  - Market composition (units)
    - Home: 35%; Small-to Medium Biz: 26%; Corporate: 17%

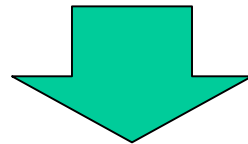


**A rapid response to market change and elasticity in the face of price erosion are vital for success.**

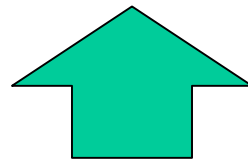


## *Factor Analysis for 1Q results*

- Overemphasis on a wide product line-up led to:
  - \* Development delays due to dispersion and shortage of resources
  - \* Inefficient procurement due to the increased number of components



**Slowed response to market changes**  
(Delay of product supply. Less elasticity to price erosion.)



Price erosion far greater than anticipated

# Countermeasures

- Reorganization of sales structures
  - Set up target segments (by region, by customer) to reinforce marketing activities, and change organizations accordingly:
    - ① USA and Europe: Home, Small-to-Medium sized business market
    - ② Japan: Home, Small-to-Medium sized biz and SOHO market
    - ③ Emphasis on China, the fastest growing market.
- Intensive cost reduction efforts
  - in all aspects of sales, R&D, procurement and manufacturing
- Efficient development and stable product supply
  - Reduce the number of platforms and bring greater focus to allocation of development resources.
  - Enhance supply capabilities through stable procurement.
- Review production strategy
  - Enhance production capabilities and review functions of each production base.

## *Reorganization of sales structure*

- US
  - Reinforce sales capabilities for the home and small-to-medium-sized business markets
  - Reorganize Toshiba America Information Systems
- Europe
  - Restructure sales and marketing organizations
    - \* Country-by-country formation ⇒ Pan-European formation
    - \* Streamline common staff organization
- China
  - Cultivate increased sales in the fastest growing market.
  - Enhance sales and marketing capabilities.
    - \* Set up marketing head office in Shanghai and increase sales offices.
- Japan
  - Integration of direct sales group with Toshiba Information Equipment Co., Ltd., to reinforce sales to corporate customers.
  - Continue to enhance sales to retail channels for home and consumer markets.

# *Intensive cost reduction efforts*

*-- In all aspects of R&D, production, marketing and sales --*

- Reduce Sales, General & Administrative (SG&A) expenses
  - 17% -> 15% (03B) -> 12% (FY04)
  - Reduce indirect human resources (some 500 employees in Japan and abroad)
- Maximize R&D efficiency
  - Reduce number of products to be developed.
  - Effective utilization of external resources (outsourcing)
- Reduce procurement costs
  - Increase purchase of common parts.
  - Reduce number of suppliers.
  - Increase use of common parts across multiple products
- Reduce manufacturing costs
  - Review functions of each production base.

## *Enhance Development Efficiency*

- Reduce number of products developed.
  - 30% reduction of platforms (chassis, motherboards)
    - \* Focus resources on high value-added products.
  - 20% reduction of component count
- Reinforce overseas R&D capabilities
  - Increase number of engineers in China
    - \* 100 (03A) -> 150 (03B)
  - Reinforce development of products tuned to different regions
- Outsourcing
  - Utilize ODM (original development manufacturer) resources for low-end models

# *Review production strategy*

## *- Enhance supply capabilities in growth markets -*

- Reinforce global manufacturing structure
  - Increase supply capability at the low-cost manufacturing bases.
    - \* Philippines: 180k/m -> 200k/m (03B)
    - \* China (Hangzhou): 70k/m -> 120k/m (03B)
    - \* Ome Complex (Japan): 80k/m -> 50k/m (03B)
- Review customization function
  - Review scale of customization in the US and Germany.
  - Increase assembly at and direct shipment from Asian production bases.
- Increase ODM ratio
  - Reinforce the supply capability for growing low-end models.
    - \* 20% (FY02) -> 30% (03B)