



**TOSHIBA**

The Toshiba Next Plan Progress Report

# **The First Six Months**

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# Forward-looking Statements

- This presentation contains forward-looking statements concerning future plans, strategies, and the performance of Toshiba Group.
- These statements are not historical facts; rather, they are based on assumptions and judgments formed by the management of Toshiba Group in light of currently available information.
- Since Toshiba Group promotes business in various market environments in many countries and regions, its activities are subject to a number of risks and uncertainties that are, without limitation, related to economic conditions, worldwide mega-competition in the electronics business, customer demand, foreign currency exchange rates, tax rules, regulations, geopolitical risk, natural disasters and other factors. Toshiba therefore wishes to caution readers that actual results might differ from expectations.
- Toshiba's fiscal year (FY) runs from April 1 to March 31. All figures are consolidated totals for 12 months, unless otherwise stated.
- Results in segments have been reclassified to reflect the current organizational structure, unless otherwise stated.
- Since Toshiba is not involved in the management of Toshiba Memory Holdings (hereinafter "Toshiba Memory") and is not provided with any business results forecasts, Toshiba Group's forward-looking statements concerning future performance do not include the impact of Toshiba Memory.

# Contents

01 Strengthening Core Earning Power

02 Development of New Growth Fields

# 01

The Toshiba Next Plan Progress Report

## **Strengthening Core Earning Power**



# The Toshiba Next Plan Targets

Aim to maximize enterprise value and TSR\*<sup>1</sup> through profitable growth

	FY18 Result	FY19 Forecast	FY21 Plan	FY23 Target
Revenue	3.7 T	3.4 T	3.7 T	Over 4.0 T
Operating Income (ROS %)	35.4 B (1.0%)	140 B (Over 4%)	240 B (Over 6%)	Over 8% Target 10%
EBITDA* <sup>2</sup>	113.9 B	220 B	340 B	--
ROE* <sup>3</sup>	-3%	--	--	approx. 15%

\*1 TSR = Total Shareholder's Return

\*2 EBITDA = Operating income+ Depreciation

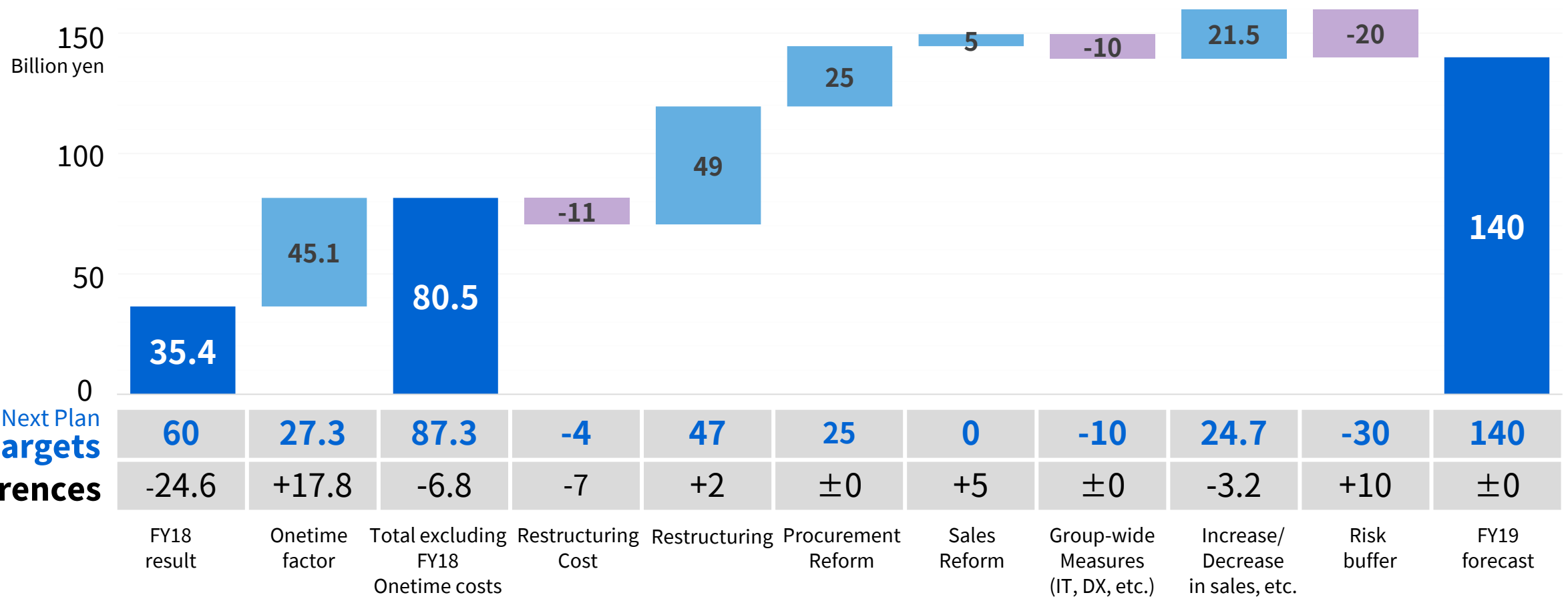
\*3 ROE excludes effects from non-continuing business and the sale of the memory business in FY18, and as Toshiba is not provided with Toshiba Memory's performance forecasts and cannot calculate the impact from the Memory business, ROE forecasts of FY19 and after are not stated.

Estimated exchange rates: USD1=JPY105; EUR1=JPY125

# Operating Income Breakdown Analysis (FY18→FY19): Latest Forecast vs. Next Plan's Original

**No change in operating income target of 140 billion yen in FY19**

## Latest Forecast



# Toshiba Next Plan Progress : Strengthening Core Earning Power

## Conducted strict risk management, established basis for reform



### **Secure basis for reforms** (operational reform)

- 1 Set up group-wide support teams for each reform PJ
- 2 Status management and visualization of actions and results for each measure



### **Progress of four reforms**

- 1 Restructuring
- 2 Procurement Transformation
- 3 Sales Transformation
- 4 Process Transformation



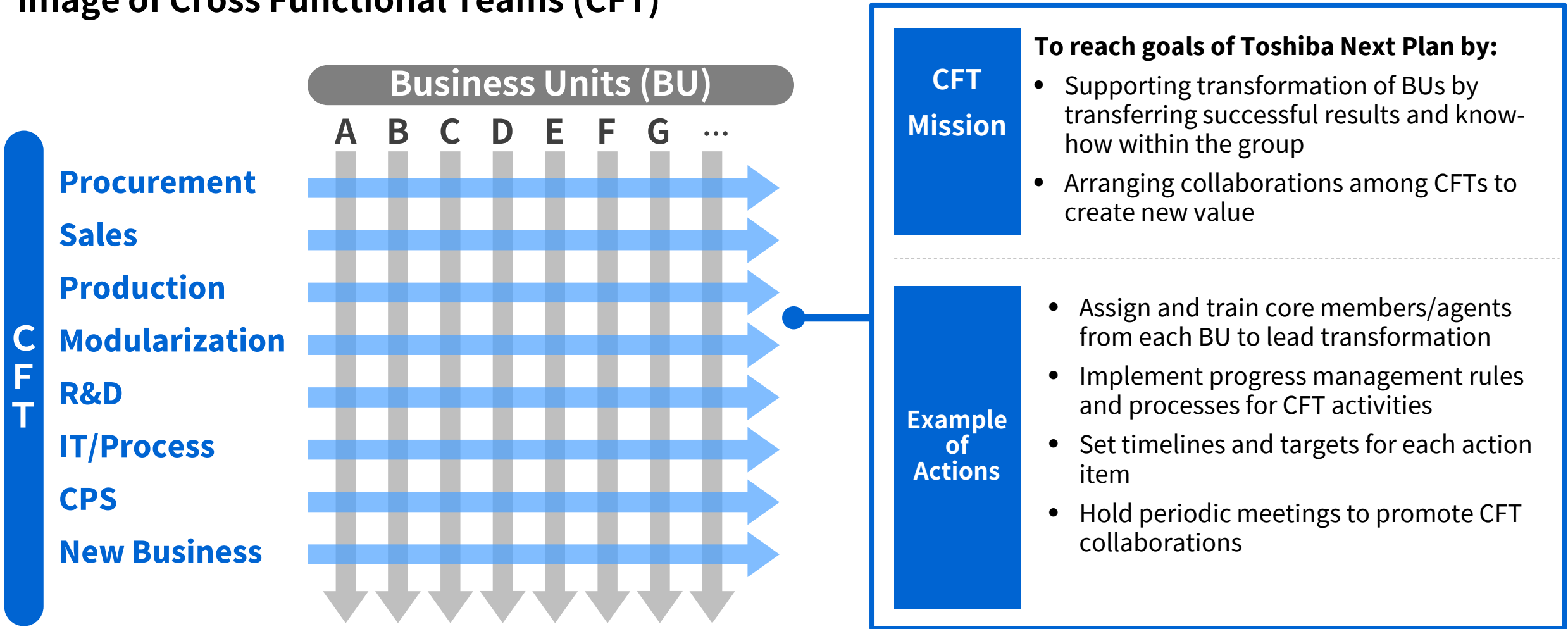
### **Risk Management**

- 1 Status of four monitored businesses
- 2 Approach to avoid recurrence of huge loss PJs

# A1 Secure Basis for Advancing Reforms

## Organized Cross Functional Teams to back up group-wide reforms

### Image of Cross Functional Teams (CFT)

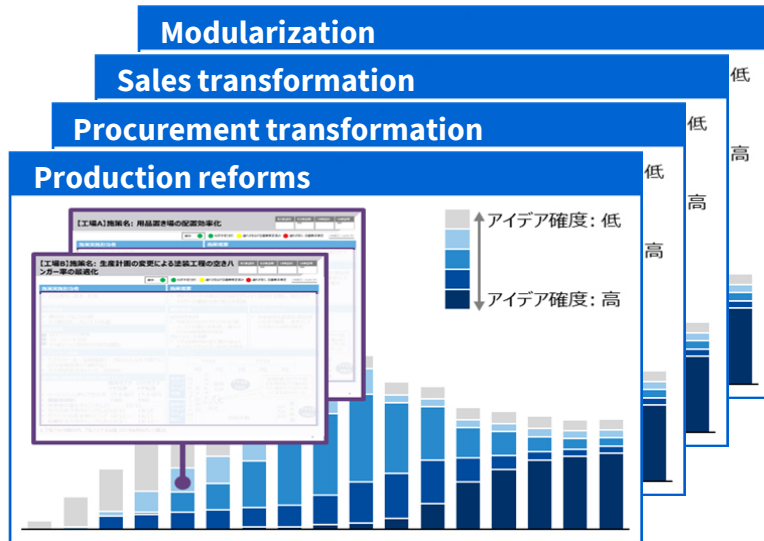




# A2 Secure Basis for Advancing Reforms

Visualize progress management for each measure,  
take quick action on risk with high-speed PDCA cycle

## Visualization



- Visualize progress and goal realization by tracking all processes, from input of ideas to securing results

Act promptly and identify risk at an early stage with high-speed PDCA cycle



- Clarify gaps between planned and actual progress results, discuss in periodic meetings
- Follow high-speed PDCA cycle to identify new issues or delays at an early stage, and consider new measures

## Most restructuring measures are proceeding as planned

### Exit non-focus businesses

#### → UK nuclear power plant business

- Substantially completed liquidation of the company; deconsolidated from Toshiba group (liquidation process will be completed by the UK authorities shortly)

#### → Liquid natural gas business

- Policy to withdraw from the business remains the same, in process of selecting buyer

### Optimize workforce\*

#### → Executed early retirement program

- 823 retirements by end of March 2019  
Original plan was 1,060 retirements; expect to reach that target by adding reallocation of personnel to outside of Toshiba Group
- Due to changes in the businesses environment, Toshiba Electronic Devices & Storage Corporation plans a headcount reduction of approx. 350 in FY19

### Reorganize production bases\*

#### → Improve productivity by site optimization

- Numazu closed and consolidated into Kanuma Operations, Toshiba Lightning & Technology Corp.,
- Introduced new production structure at Keihin Operations, Toshiba Energy Systems and Solutions Company
- Constructing new factory for lithium-ion rechargeable batteries at Yokohama Complex

### Reduce number of subsidiaries\*

#### → Securing governance of subsidiaries

- Reduced domestic subsidiaries by 24 (as of Apr.E, 2019)
  - Consolidation of engineering companies etc.
- Reduced overseas subsidiaries by 16
  - Liquidation of nuclear projects etc.

\*Toshiba Next Plan targets are unchanged: headcount optimization of 7,000 over five years; reorganization of production bases at 15% of total locations; a 25% reduction in the number of subsidiaries.

# B2 Progress in Procurement Transformation

## Activity now group-wide following establishment of operation structure and approaches: moving forward to secure more results

### Structure

#### Consolidated Procurement

- Established a single Toshiba Group consolidated procurement function; agents for transformation assigned to each BU to lead procurement PJs

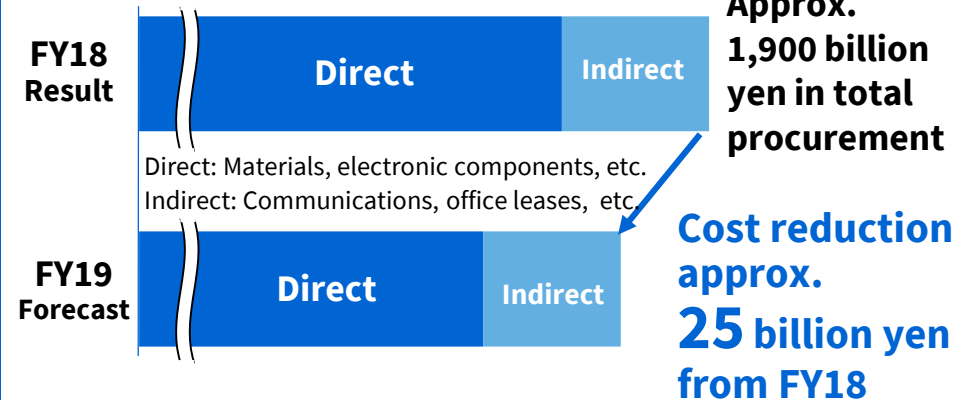
#### Meetings and committees

- Initiated meetings focused on procurement, with participation of top management and BUs
- Established committee for spend management

#### System to manage progress of measures

- Introduced tool for managing deployed measures and visualizing progress

### Results



### Approach

#### Systemize

- Systemized methods including tear down analysis, linear performance pricing, to grasp appropriate price, implemented into assessment process

#### Visualize

- Implemented system to visualize measure management for sharing progress
- Implemented weekly review by business and product categories for early risk identification

### Cultural settings

#### Mind set

#### Cascade down workshops

- Continuous communication on the needs for transformation

#### Total budget control, COO approval, zero-based budget planning

- Anchoring a consciousness of not overspending

#### Motivation

#### Internal news letters

- To enhance and continue momentum for transformation

#### Awards

- To underpin and advance front-line motivation

# B3 Progress in Sales Transformation

## Accumulating actual improvements to pursue the possibility of further profitability

### Accumulating Improvements

- Revising of product portfolio based on profitability
- Redefining product specifications and market positioning
- Revising of cost estimation process
- Revising of cost of logistics services

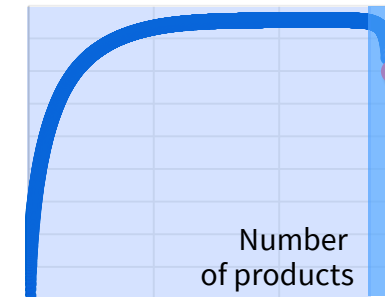
### Improving Sales & Marketing Structure

- Reviewing cross-BU sales and marketing structure to enhance customer support
- Implementing CRM to visualize sales and marketing activities, faster decision-making and work style reform in front-line sales

### Examples of analysis of implemented measures

#### Product Portfolio Analysis (ex. AC business)

Total gross margin

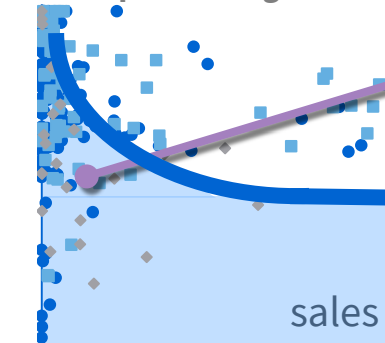


#### Products in negative profit

A small percentage of the unprofitable product line exits. Replace with other products that has customers value.

#### Analysis on gross margin variation (ex. semiconductors)

Gross profit margin



#### Businesses with large deviation from average

Identify businesses that show large deviation from average trend in respect of volume and gross profit margin. Now revising cost estimation process.

» **Approx. 5 billion yen included in FY19 plan as result of improvements**

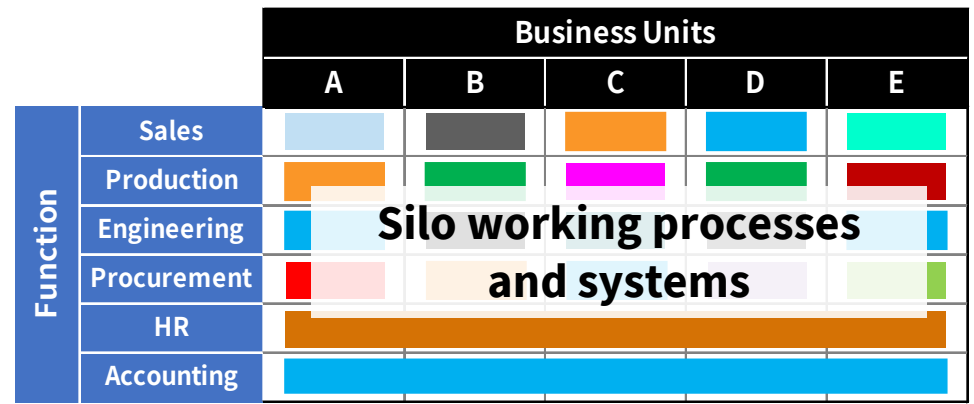
(not included in Toshiba Next Plan)

# B4 Progress of Process Transformation

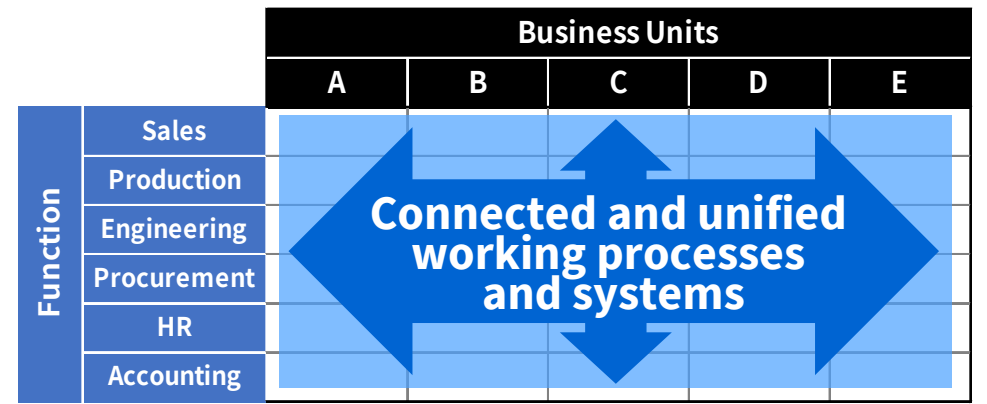
## Project making scheduled progress

- Welcomed Mr. Keiichi Yumita as new CIO in Jan; established Business Process Reengineering Division in Feb
- Now analyzing working processes and IT systems of all BUs and setting goals
- Renewing design and production IT systems in alignment with product modularization

### Image of current system



### Image of future system



### Improvement from implementation of new enterprise system



# C1 Status of Monitored Businesses — 1 System LSI

## Realize robust business constitution by limiting focus areas and restructuring

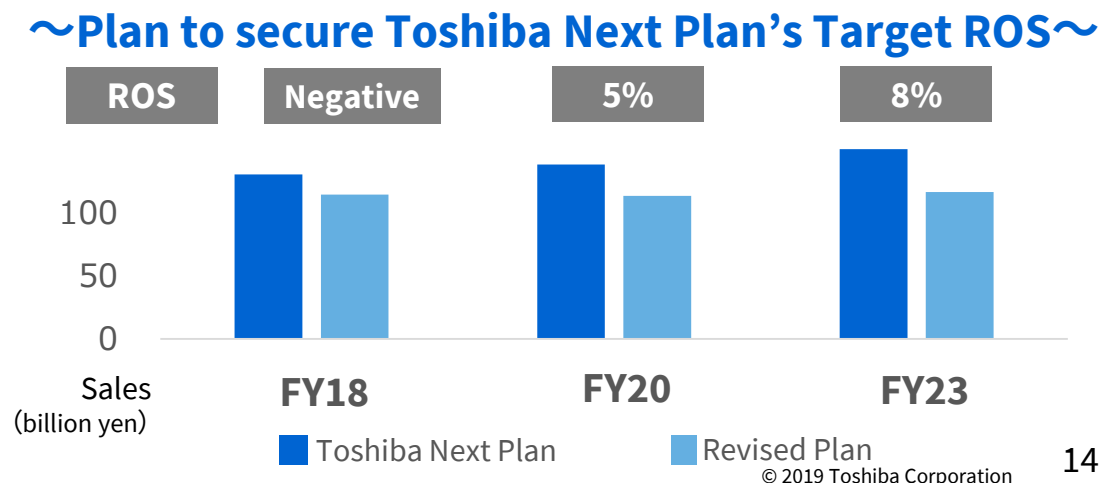
**System LSI** Operating Income

FY17 Negative → FY18 Negative → FY20 5%

- **Current Situation:**
  - An expanding market, but high R&D costs
- **Countermeasures:**
  - Expand in automotive, industrial (FA/OA) and data center areas. Optimize R&D with withdrawals from certain areas

- **Progress:**
  - Lowered development costs by selecting areas
  - Lower income and operating income vs. plan in FY18, on lower volumes from Chinese market deterioration, etc.
- Strengthen organizational resilience by further selection in focus areas
- After FY19, further reduce fixed costs by revising sales and overcoming fluctuating market situation.

- **Narrow down focus areas:**
  - Limit Logic LSI business to profitable areas
  - Focus on analog and microcontroller areas that leverage control technology, such as automotive digital and motor control technology
- **Measures to reduce fixed costs:**
  - Early retirement program
  - Continue special cost reduction measures
  - Optimize R&D costs and fixed costs in manufacturing and sales



## Stabilize profitability through steady restructuring

**ThermalPower**  
(New construction)

Operating Income	FY17	FY18	FY20
	Negative	Negative	5%

### ■ Current Situation:

→ Fewer new projects due to global trend to decarbonization

### ■ Countermeasures:

→ Shift from construction to services  
Optimize personnel allocations and production capacity

### ■ Progress:

- Promoting new layout at production site and optimizing personnel, as part of strategy to shift toward services and solutions business
- Expect to achieve FY19 service business sales fulfillment target

**Industrial motors**

Operating Income	FY17	FY18	FY20
	1%	1%	4%

### ■ Current Situation:

→ Production costs increasing on rising cost of materials  
Expanding demand for green products

### ■ Countermeasures:

→ Shift to high-end products, increase prices of unprofitable products  
Optimize personnel & production capacity

### ■ Progress:

- Reevaluated model line-up and increased prices on unprofitable products
- Promoting optimization of personnel and production systems

**Mobile HDD**

Operating Income	FY17	FY18	FY20
	5%	3%	5%

### ■ Current Situation:

→ Shrinking mobile market  
Expanding data-center (DC) market

### ■ Countermeasures:

→ Optimize capacity of mobile devices, Accelerate shift to large capacity HDD for DC

### ■ Progress:

- Stabilized profitability by optimizing production capabilities through appropriate demand prediction for mobile devices
- Volume decreased vs. FY18 on lower demand for DC, but development of large capacity HDD and customer approval are progressing well

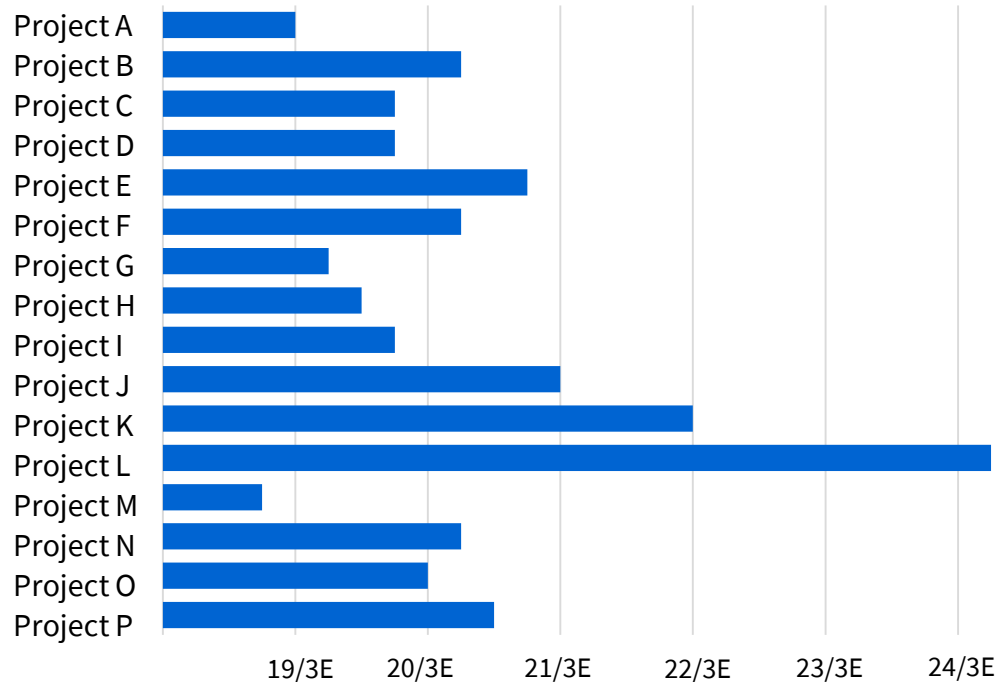


## C2 Approach to Prevent Future Major Project Loss

# Decreased current risk factors, further strengthen project management to minimize future losses

### Decreased potential risk

Major loss-making contracts are gradually being completed



### Strengthen project management

- Corporate level audits of all major projects when bidding.  
→ Audited 12 items (Oct/. 18 – Apr/. 19)
- Strengthen sales back-office function at BU-level





# 02

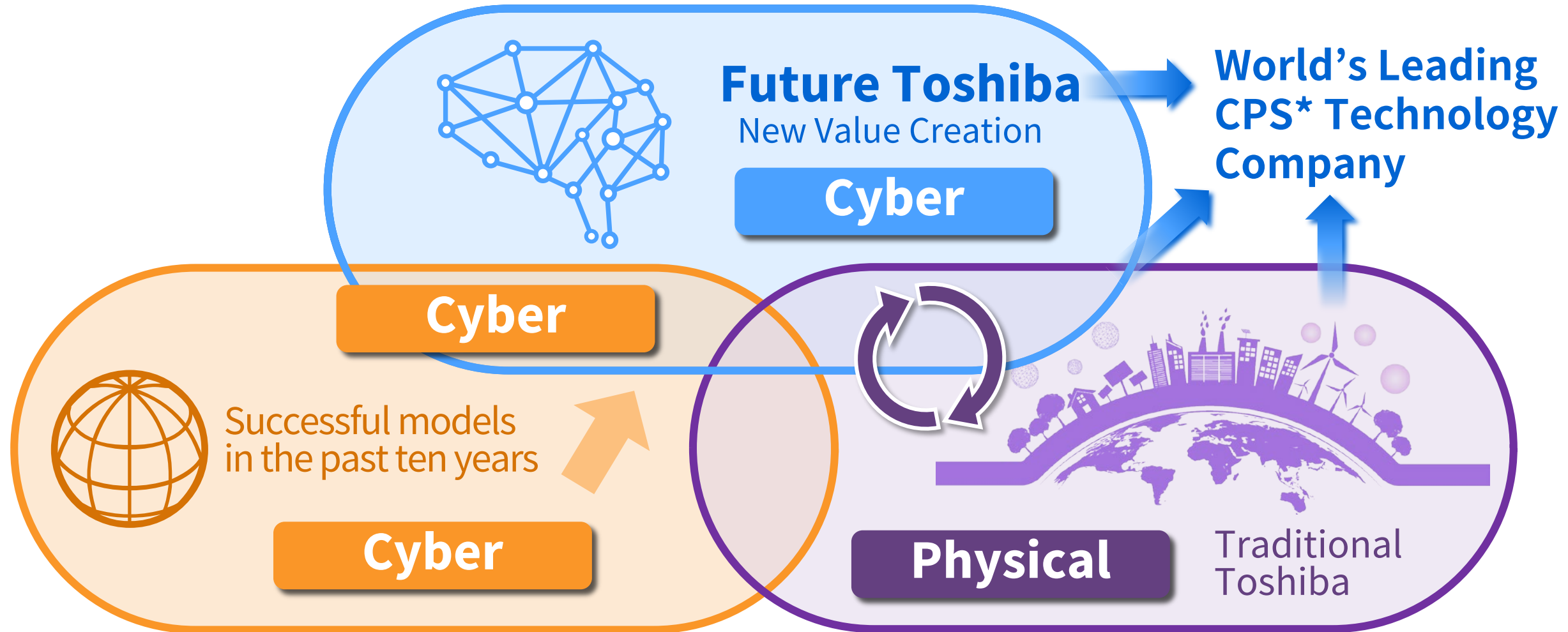
The Toshiba Next Plan Progress Report

## **Development of New Growth Fields**



# The Traditional Toshiba and the New Toshiba

Realize New Toshiba by the fusion of cyber and physical businesses

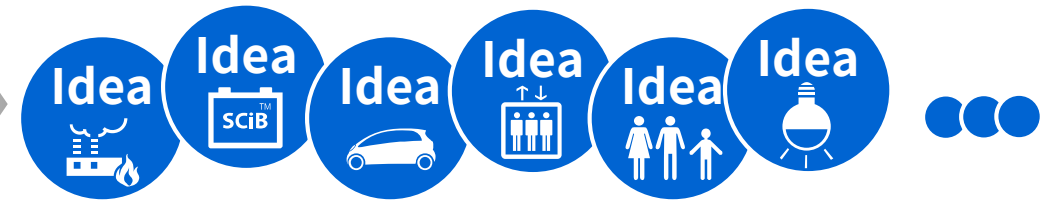


\*CPS(Cyber Physical Systems):CPS collect data from physical world to be analyzed and processed using digital technology.  
CPS create value through constant feedback loop between cyber and physical worlds.

# The Road to CPS : Creation of New Businesses

Promote periodic in-house pitches to create digital businesses and to deploy a digital culture

Various areas  
Various talents  
Differentiating technologies  
...

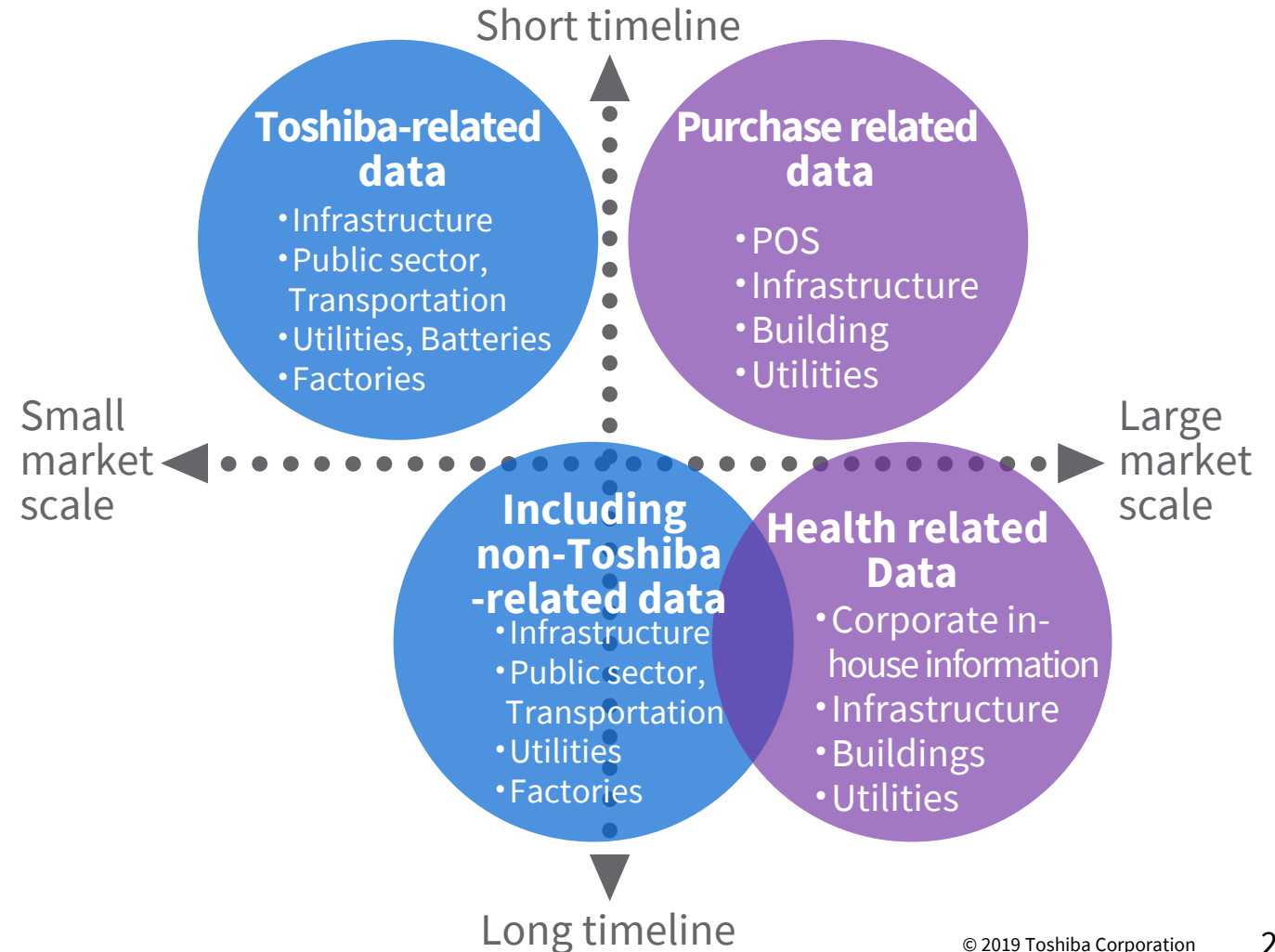
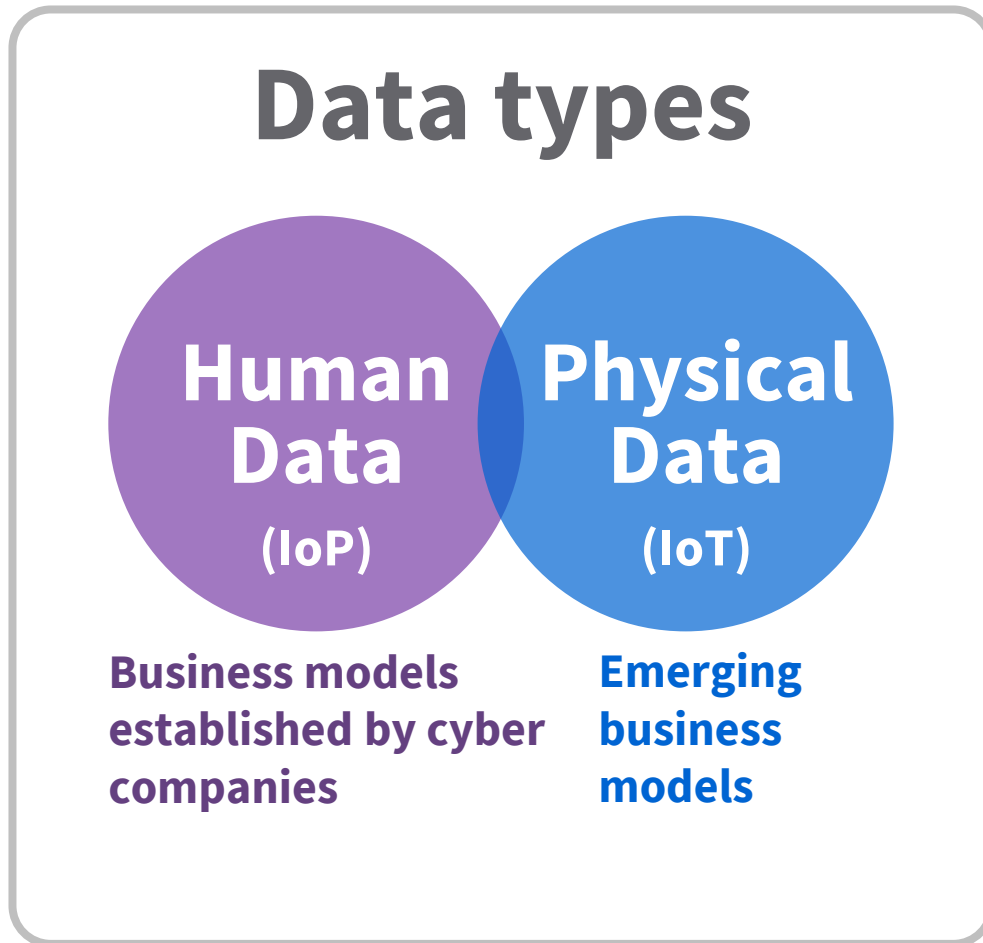


Over 80 business ideas



# The Road to CPS : Business Size and Time-Scale

Use data and analysis to secure new value creation in both the short and long term



# The Road to CPS : Services by Industries

Plan to provide Toshiba SPINEX as services with architecture that meets industry standards

## Industry Standards

**NIST**

National Institute of  
Standard and Technology

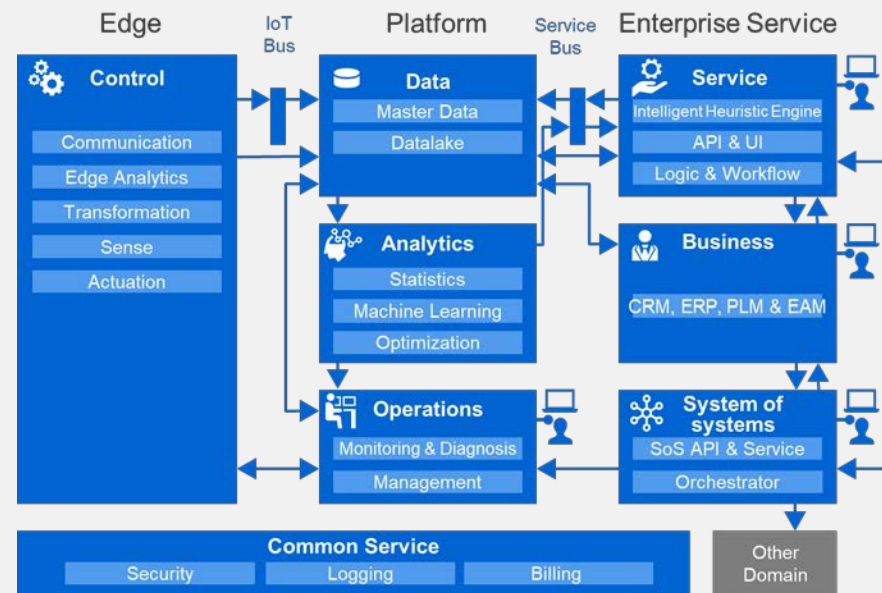
**IIC**

Industrial Internet  
Consortium

**acatech**

## Logical Architecture

### Toshiba IoT Reference Architecture



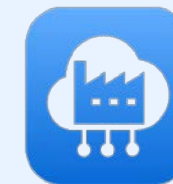
## TOSHIBA SPINEX Services



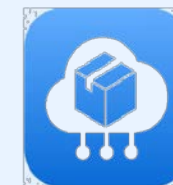
Services for  
Social infrastructure



Services for  
Energy



Services for  
Manufacturing



Services for  
Logistics



# New Growth Business : the SCiB™ Lithium-Ion Battery

## Growing the scale of the business through new contract awards and a new factory

### 1. New Contracts

- **Adopted in Nissan Corporation's "DAYZ/ DAYZ Highway STAR"\***

SCiB™ selected for idling stop and battery recharge control system to reduce fuel consumption (DAYZ), and mild hybrid design for motor assist when starting and driving (DAYZ Highway STAR)



Nissan DAYZ Highway STAR

- **Adopted in Mitsubishi Motors' "eK Wagon/ eK X" \***

SCiB™ selected for idling stop and battery recharge control system to reduce fuel consumption (eK Wagon), and mild hybrid design for motor assist when starting and driving (eK X)



Mitsubishi-motors eK X

\* Started sales on Mar 28, 2019. Toshiba provides SCiB™ for regenerative battery system to Calsonic Kansei Corporation

### 2. New JV factory in India under construction

Established joint venture for automotive lithium-ion battery production in India with Suzuki Corporation and Denso Corporation. Factory now under construction at Gujarat, India, is double the size of Toshiba's Kashiwazaki Operations. Mass production start planned for 2020.



Artist's impression of lithium-ion battery factory under construction in India

# New Growth Business : Power Electronics

The evolution of power devices delivers differentiated products for entire systems

## 1. New Installations

**Delivered electric systems for Series 227-1000 electric multiple units operated by West-Japan Railway Company, including combined traction and auxiliary inverter systems, traction motors, train control and monitoring systems and air-conditioning systems**

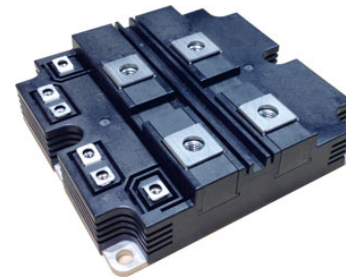
Technologies deployed in the new cars include VVVF\* inverters integrating next generation SiC power devices that operate at high temperatures with low power loss, and a main traction motor that incorporates a totally enclosed squirrel-cage three phase induction motor that operates at high efficiency, requires less maintenance, and runs quietly.



**227-1000 series**



**Combined transaction and auxiliary inverter system**



**3.3kV All-SiC devices**

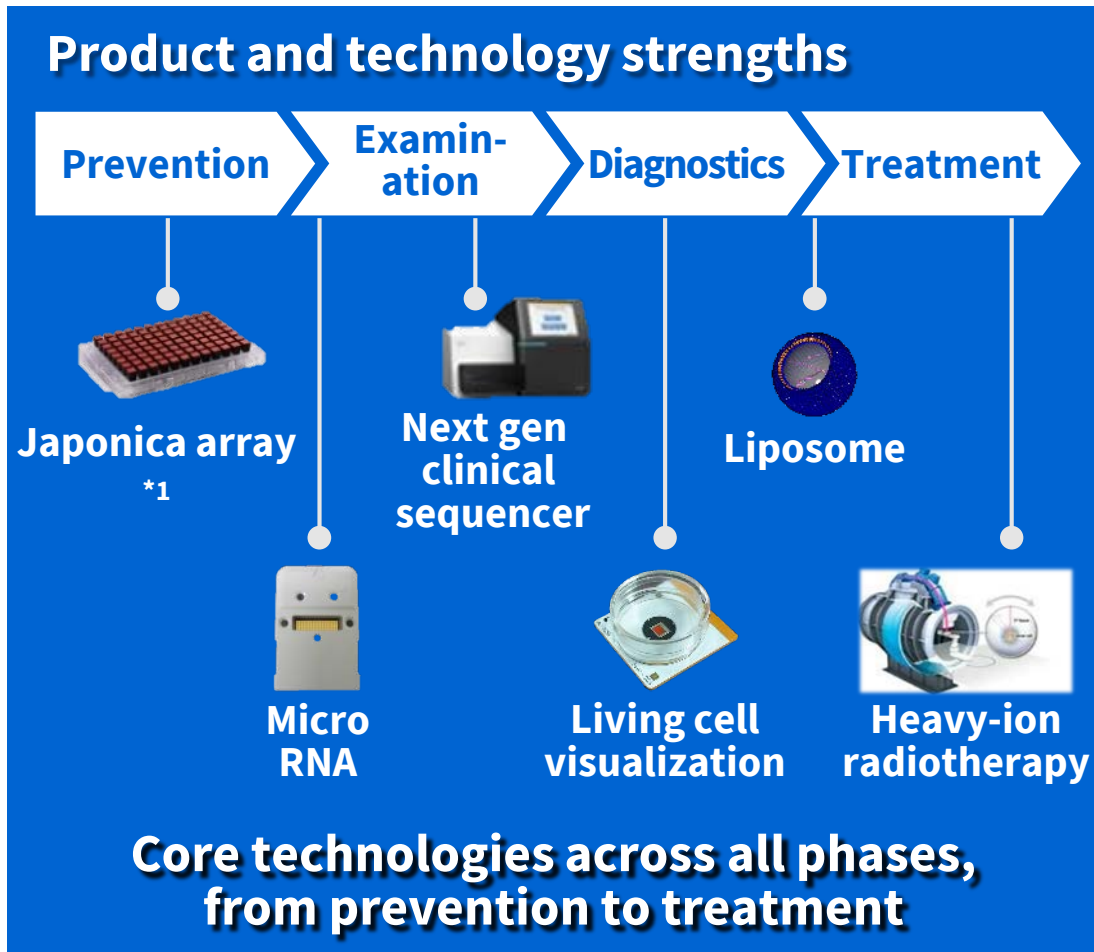


**Totally enclosed squirrel-cage three phase induction motor**

\* VVVF: Variable Voltage Variable Frequency

# New Growth Business : Precision Medicine

Started joint research and business feasibility studies with candidate partners



## 1. Develop and utilize a large scale database including genome data

- Start to collect genome data from employees, utilizing Japonica Array
- Advance research with partners to use health check data, to prevent risk of disease and limit severity

## 2. Accelerate business with a venture network

- Business partnership in precision medicine with Beyond Next Ventures Inc.



A person is walking on a beach at sunset. The sun is low on the horizon, creating a bright reflection on the water. The sky is filled with soft, golden light. On the right side of the image, there is a large, stylized blue brushstroke graphic that extends from the top right corner down towards the middle of the page. The overall mood is serene and hopeful.

**Committed to People,  
Committed to the Future.**

**TOSHIBA**