



The Toshiba Next Plan Progress Report

# Change and Growth

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**Representative Executive Officer**

**Chairman & CEO**

**Toshiba Corporation**

November 13, 2019

# 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. They include items which have not been finalized at this point and future plans which have yet to be confirmed or require further consideration.
- 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 which include, but are not limited to, those related to economic conditions, worldwide mega-competition in the electronics business, customer demand, foreign currency exchange rates, tax and other regulations, geopolitical risk, and natural disasters. Toshiba therefore wishes to caution readers that actual results may differ from our expectations. Please refer to the annual securities report (*Yuukashoken houkokusho*) for fiscal year (FY) 2018 and the quarterly securities report (*shihanki houkokusho*) for the second quarter of FY2019 (both issued in Japanese only) for detailed information on Toshiba Group's business risk.
- Toshiba's fiscal year runs from April 1 to March 31. All figures are consolidated totals for 12 months, unless stated otherwise.
- Results in segments have been reclassified to reflect the current organizational structure, unless stated otherwise.
- Since Toshiba is not involved in the management of Kioxia Holdings (hereinafter "Kioxia") and is not provided any forecasted business results, Toshiba Group's forward-looking statements concerning financial conditions, results of operations, and cash flows do not include the impact of Kioxia.
- "Orders Received" in this presentation are based on numbers used for internal management purposes.



Toshiba Next Plan Progress Report

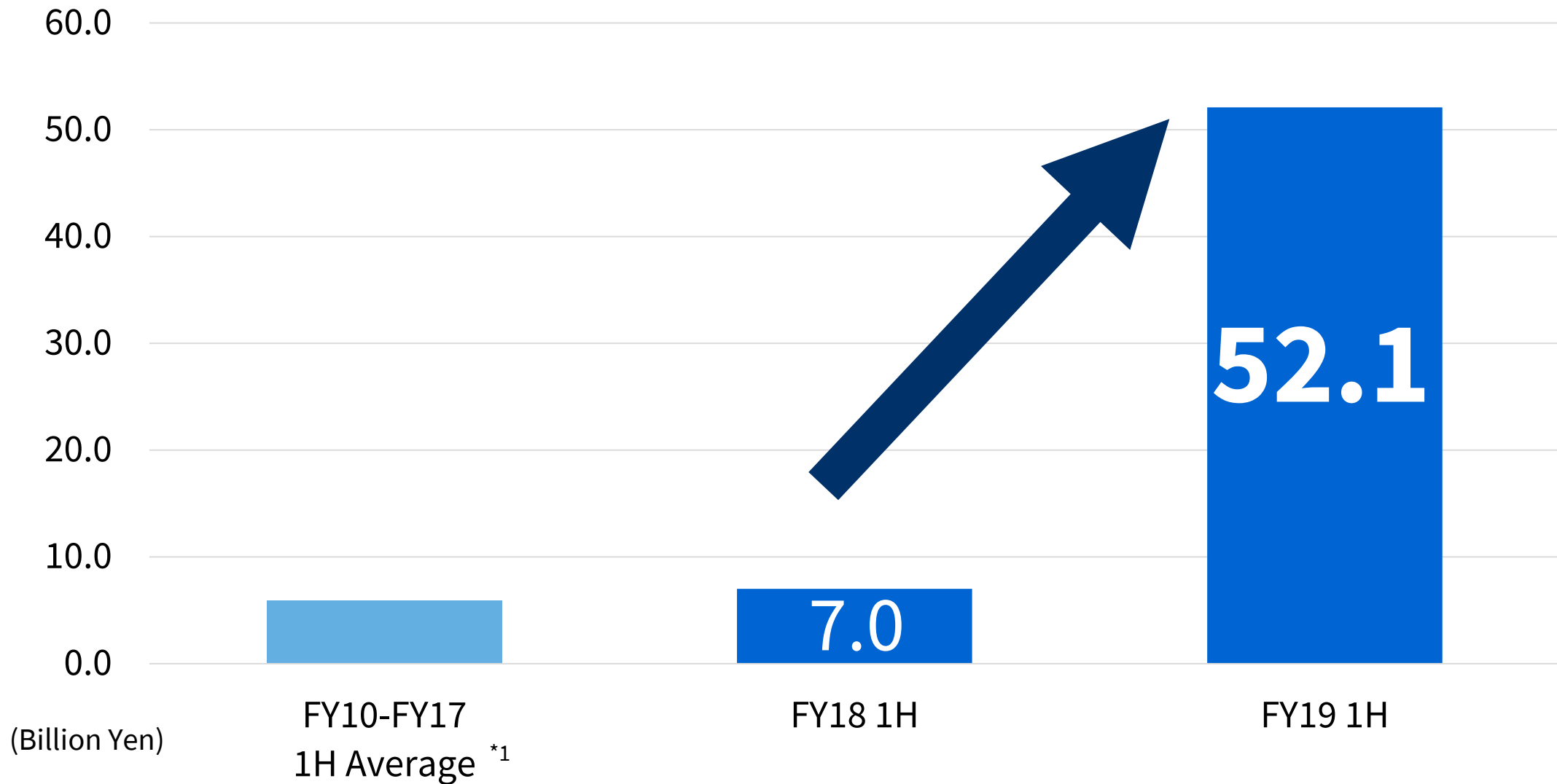
# Change & Growth

# “Change” Achieved to Date

- 1. Establishment of a Stronger Earnings Structure**
- 2. Disciplined Portfolio Management**
- 3. Launch of a Cutting Edge Governance Structure**
- 4. Capital Policy and Shareholder Returns**

# **Establishment of a Stronger Earnings Structure**

# FY19 First Half (1H) Results: Operating Income



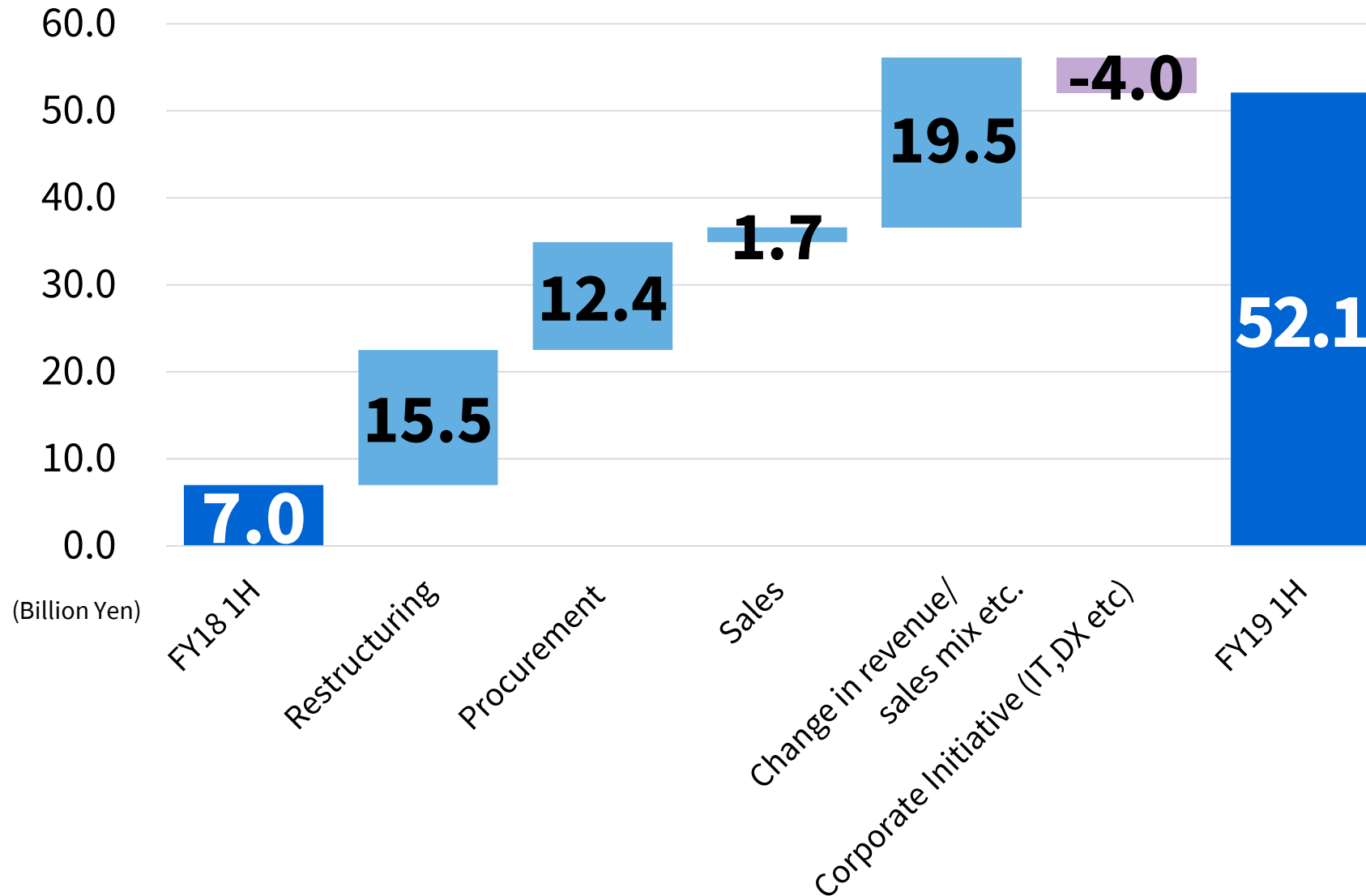
<sup>\*1</sup> Only includes ongoing businesses

# Completion of Restructuring

- ☑ **Completed sales of the LNG business**
  - ☑ **Completed NuGen liquidation procedures<sup>\*1</sup>**
  - ☑ **Early retirement: 1,237 employees**
  - ☑ **Eliminated 53 subsidiaries (15% reduction)**
- Steadily executing  
our commitments  
set forth in the  
Toshiba Next Plan**

<sup>\*1</sup> Completed liquidation procedures on Toshiba side; UK side procedures are ongoing.

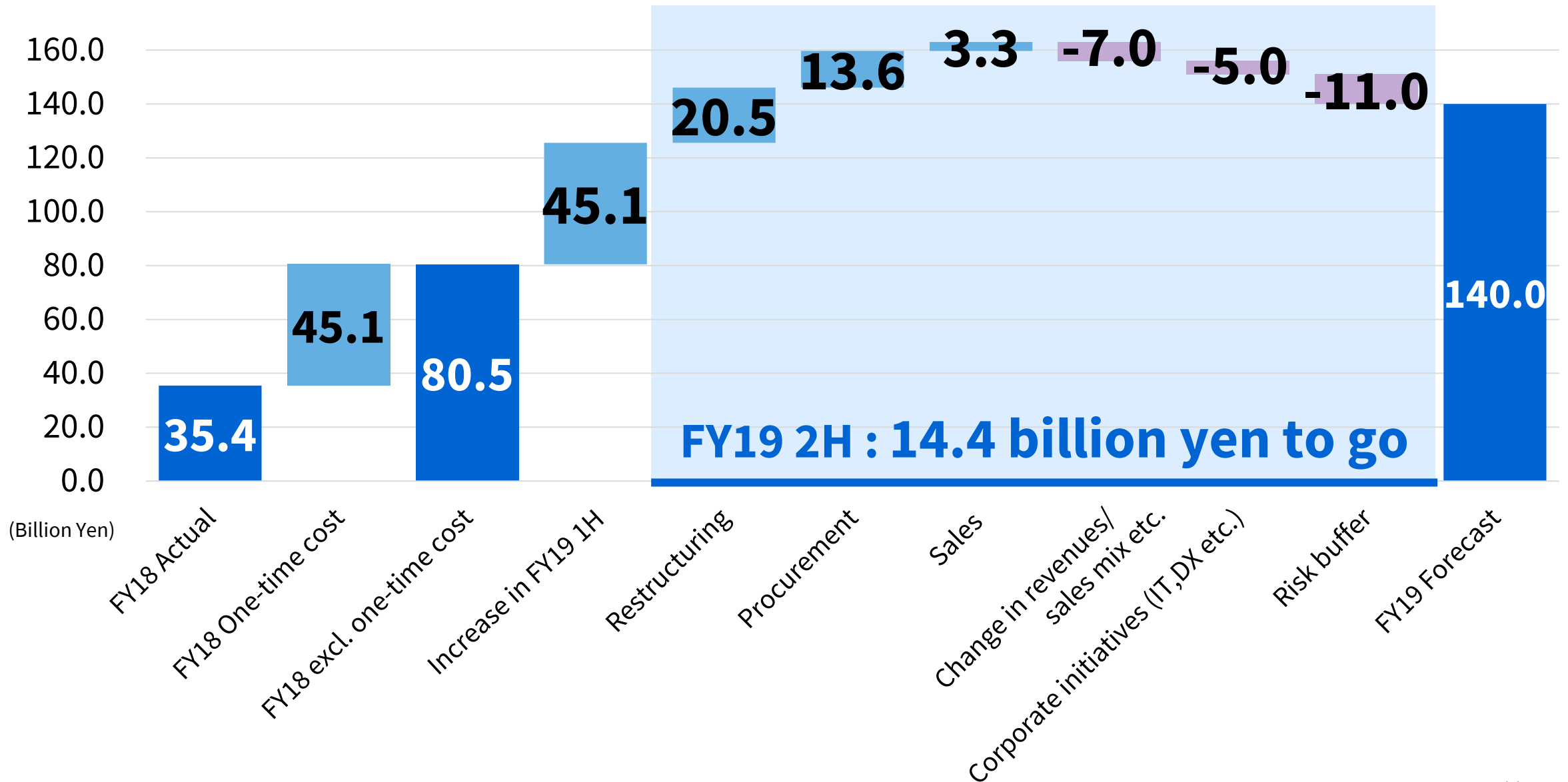
# FY19 1H Results: Operating Income



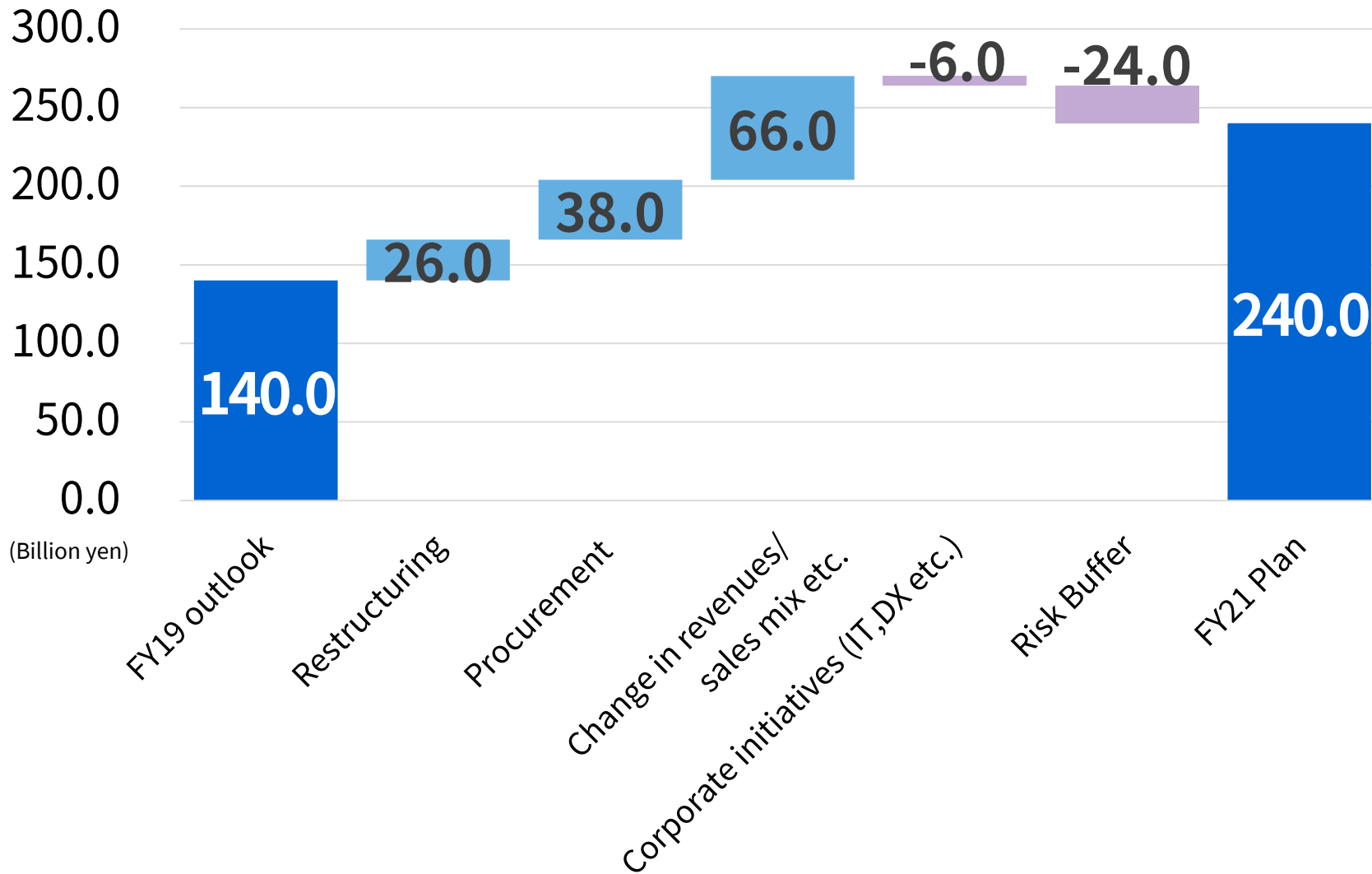
**15,200 initiatives currently in progress to revamp our procurement and sales efforts**



# Outlook for Full Year Operating Income

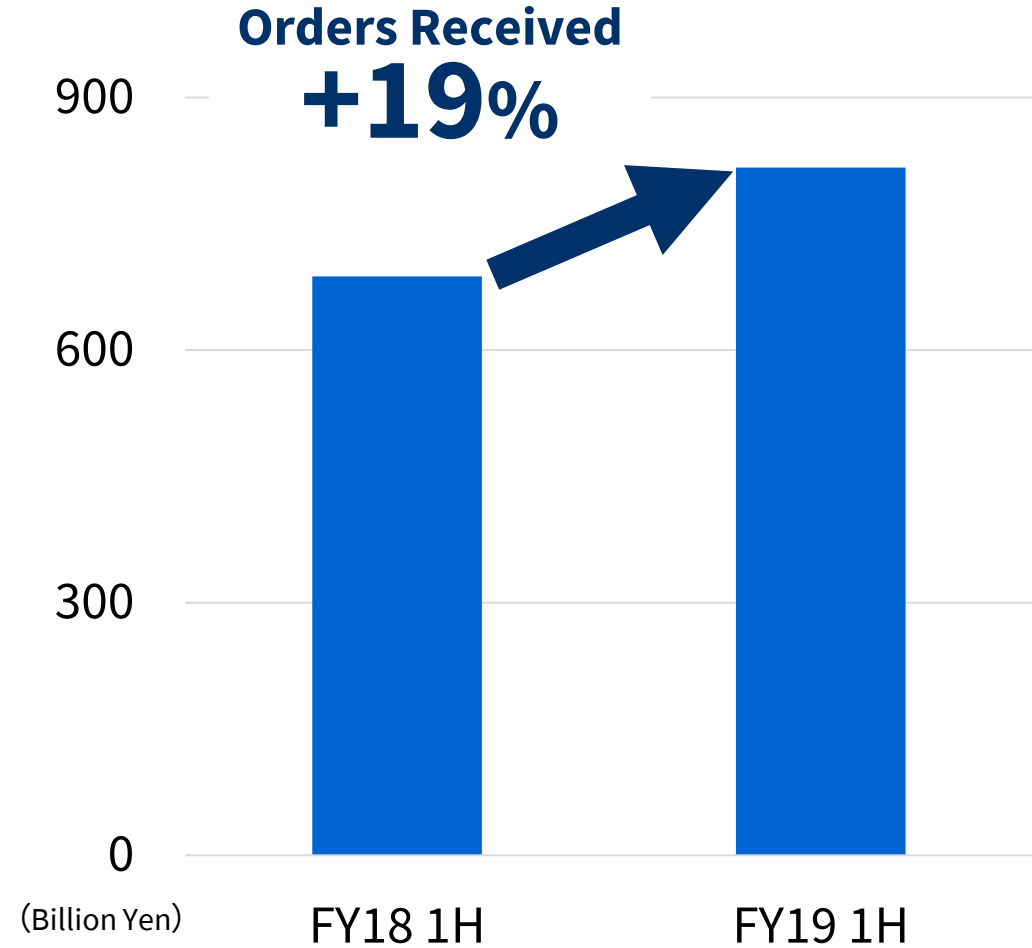
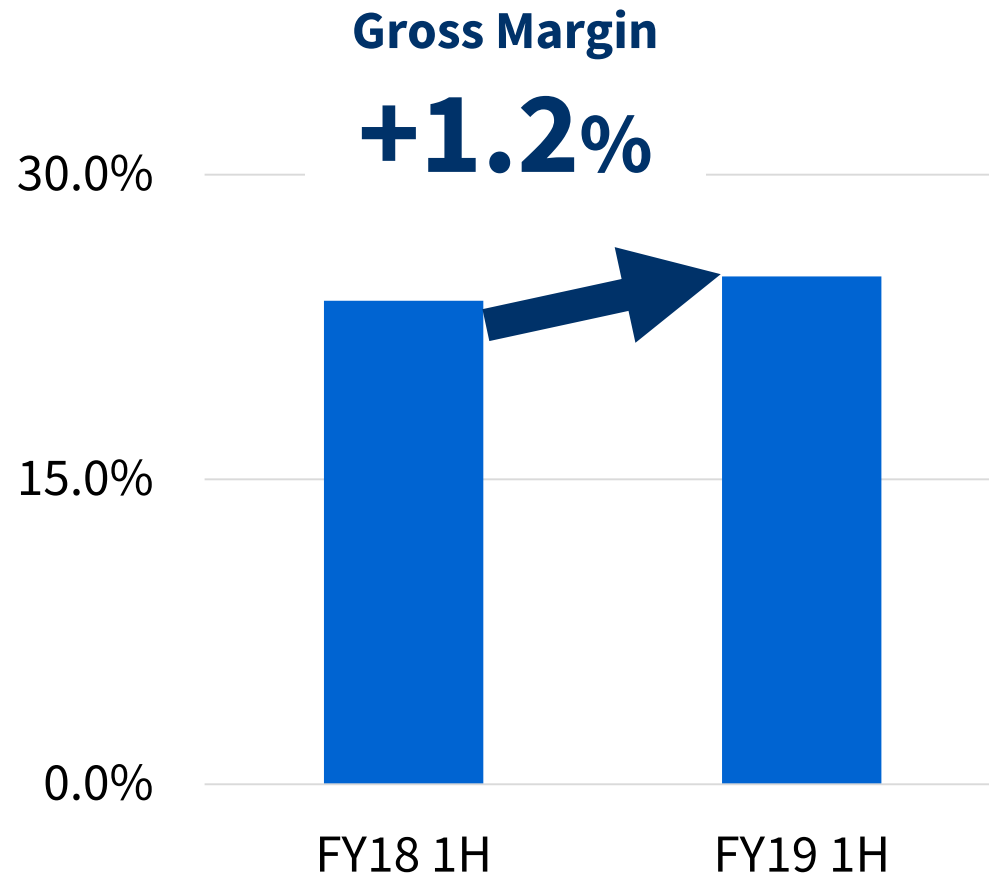


# Outlook for FY21 Operating Income



**Stepping up  
initiatives to  
achieve  
ROS of 6%**

# FY19 1H Results: Orders Received



\* Includes Toshiba Energy Systems, Toshiba Infrastructure Systems, Toshiba Digital Solutions, and Toshiba Elevator.

# Disciplined Portfolio Management

# Business Divestitures to Date

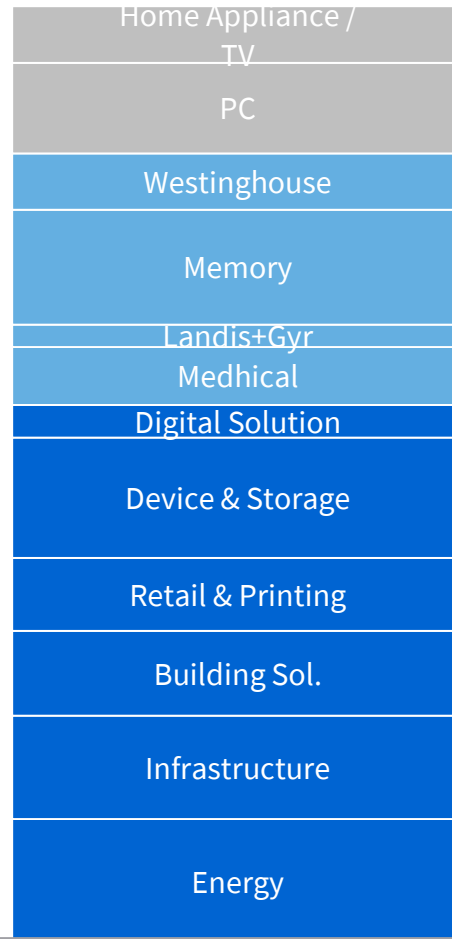
## Net Sales

**B-to-C business**  
approx. **1.1T yen**

**Risk Business**  
**Crisis Management**  
approx. **1.9T yen**

**B-to-B business**

**6.7T yen (FY14)**



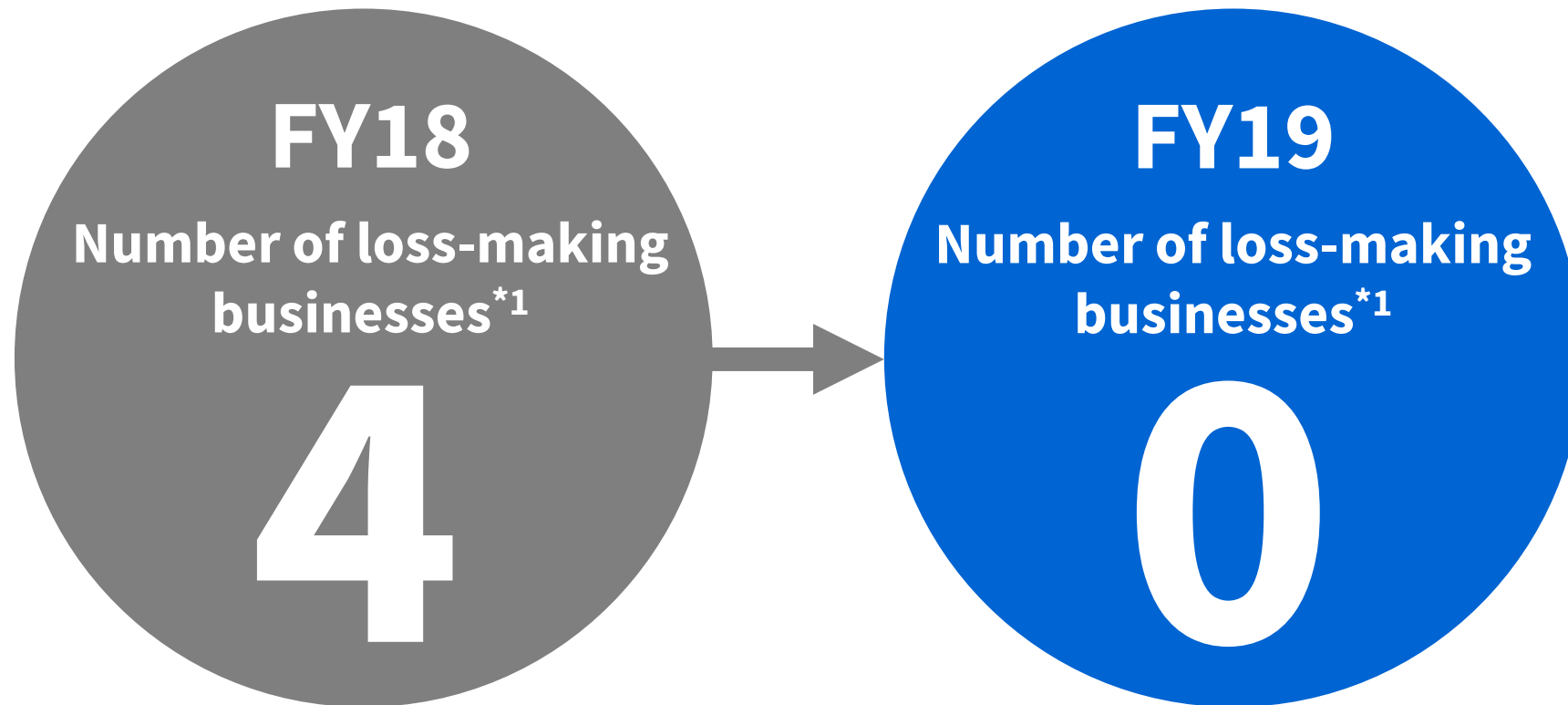
**3.4T yen (FY19)**



**Divested 7<sup>\*1</sup>**  
**businesses with**  
**total revenues of**  
**3T yen over the**  
**last 4 years.**

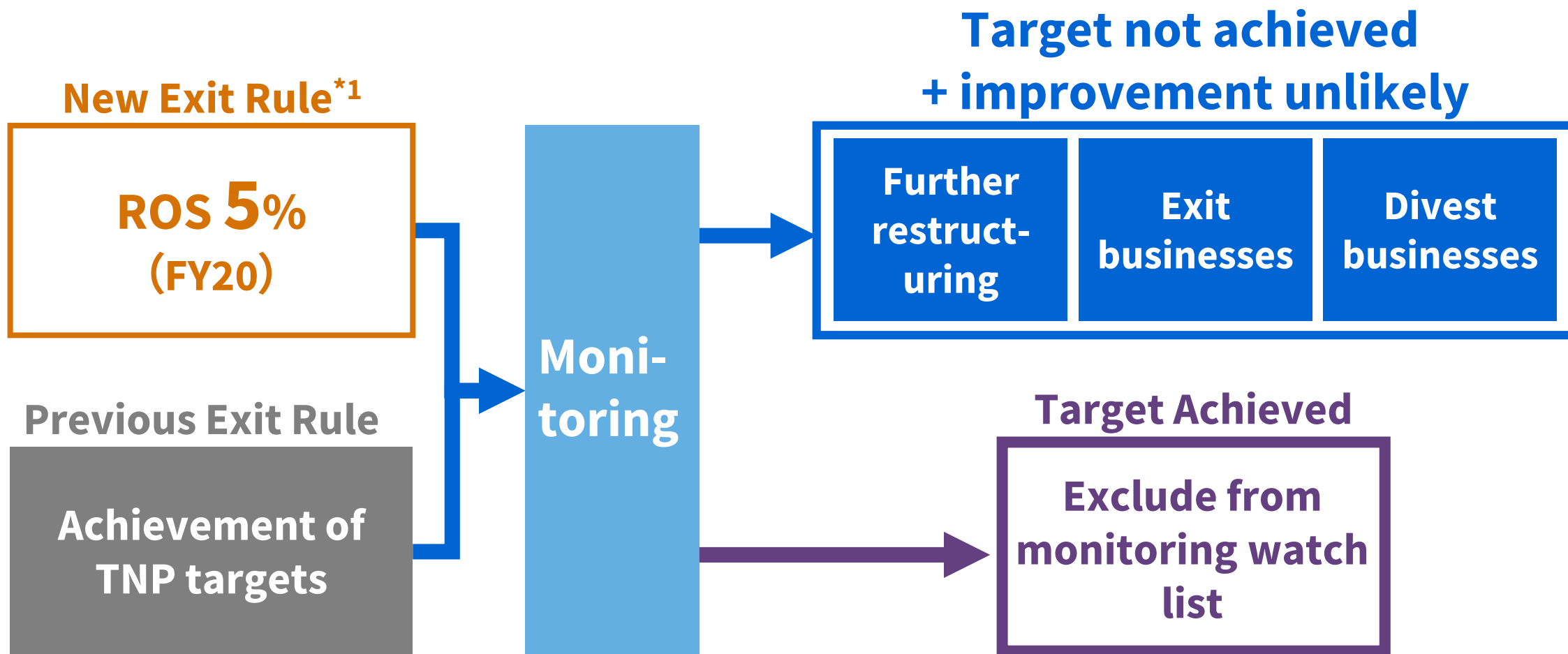
\*1: Counting only major businesses with net sales exceeding 100B yen.

# Eliminated All Loss-making Business



<sup>\*1</sup>: Excludes business in incubation stage

# Implementation of the ROS 5% Rule



## Exit Logic LSI (Advanced ASIC) business\*2

\*1 Excludes business in incubation stage.

\*2 Excludes in-vehicle digital operations and customer support for existing customers

# Monitored Businesses

## Thermal Power

### 5% ROS Improvement<sup>\*1</sup>

- ✓ Increased service ratio from 35% to 40%
- ✓ Layout change completed in 20% of total Keihin Product Works floor space

## Industrial Motors

### 2% ROS Improvement

- ✓ Shifted to higher efficiency models, +10% year-on-year in Japan
- ✓ Production for low-pressure motors shifted from North America to Vietnam

## HDD

### 2% ROS Improvement

- ✓ Integrate Mobile HDD production lines in Philippines
- ✓ Threefold increase in the shipments to DC<sup>\*2</sup> since 2017

# Steady progress towards achieving ROS of 5%

\*1 FY19 ROS forecast compared with FY18 ROS \*2 DC: Data Centers



# **Launch of a Cutting-Edge Governance Structure**

# Governance Structure – Board Composition

## Previous 12

**Executive Officer  
doubling as Directors**

**5**

**Outside Directors**

**7**

## New 12

**CEO + COO only** **2**

**Outside Directors** **10**

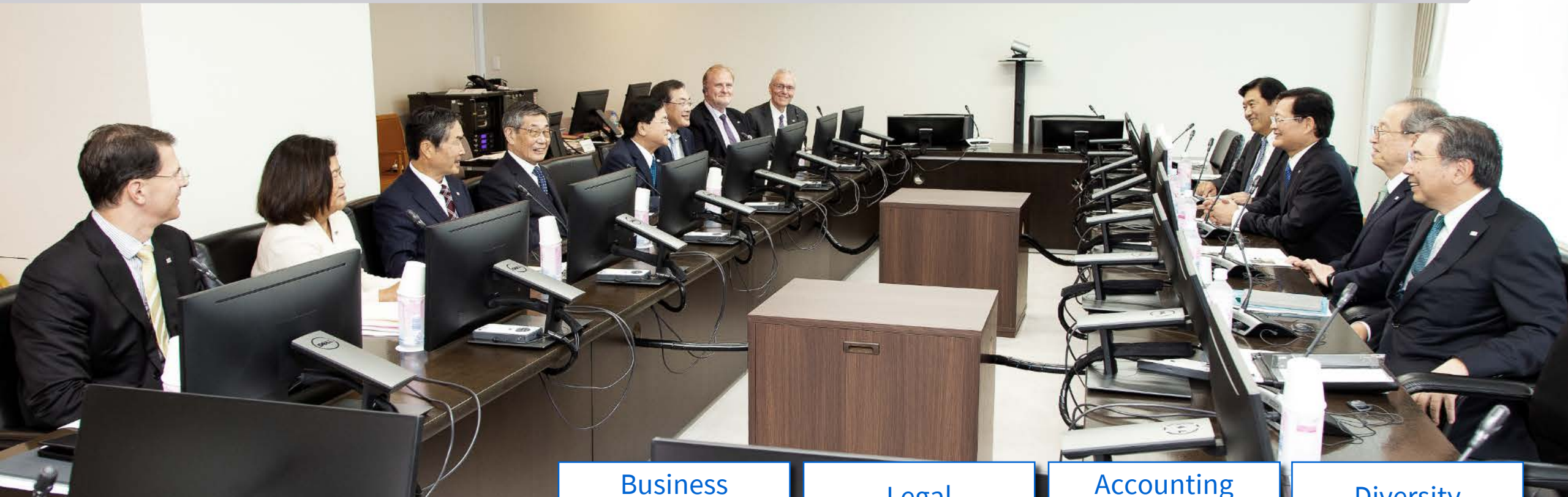
Directors with  
International Backgrounds

**5**

**A cutting-edge board structure<sup>\*1</sup> in Japan**

<sup>\*1</sup> Outside directors and foreign directors account for approximately 30% and 3% of boards of Nikkei 225 companies, respectively.

# The New Board



**Skill sets required to execute  
Toshiba Next Plan**

Business  
management

Legal

Accounting  
audit

Diversity

M&A

Corporate  
restructuring

Capital  
markets

Global  
experience

**Accelerating strategic discussions with diversity**

# Dialogue with Investors

January 2019

First  
**Outside Directors and  
Shareholders Group  
Meeting**

June 2019

**Annual  
Shareholders'  
Meeting**

October 2019

Second  
**Outside Directors and  
Shareholders Group  
Meeting**

**Incorporating shareholders' and investors'  
perspectives in our strategic discussions**

# Additional Initiatives relating to Executive Compensation

- ☐ **Introduce long-term incentives based on the 3-year relative TSR<sup>\*1</sup> in executive officers' compensation scheme**
- ☐ **Introduce equity-based compensation in the form of restricted shares to outside directors**
- ☐ **Expand performance-linked stock incentives to non-executives including business heads and staff managers**

## **Alignment with medium-to-long term shareholder value**

<sup>\*1</sup> Total Shareholders Return: The overall yield for shareholders, including capital gains and dividends

# Capital Policy and Shareholder Returns

# Completion of Share Repurchase

 **Completed 700.0 B yen<sup>\*1</sup>**  
**Share Repurchase**

## **Successfully executed the largest repurchase in Japan<sup>\*2</sup>**

<sup>\*1</sup> Actual amount of shares repurchased is 699,999,651,362 yen.

<sup>\*2</sup> Largest share repurchase in terms of total amount, % of market cap, and relative to trading volume among the 59 share repurchase transactions on the open market exceeding ¥100 billion executed by Japanese companies over the last 10 years.



# Continued Divestiture of Strategic Shareholdings and Assets

## Strategic shareholdings

KONE  
TOPCON  
Shibaura Mechatronics  
IHI  
Japan Material  
etc.

## Real Estate

Toshiba General Hospital  
Osaka Factory Site  
Ome Factory Site  
US Irvine Campus  
Toshiba Guesthouses  
etc.

## Divestiture/Reorganization of Staff Function Service Subsidiaries

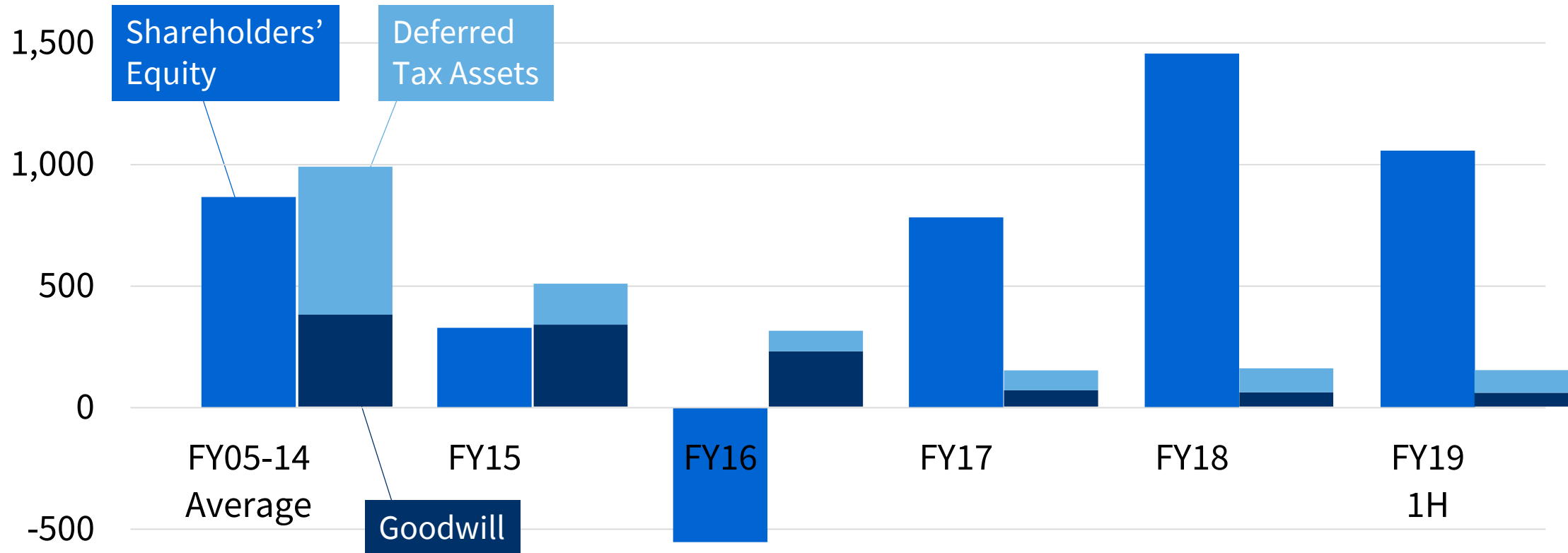
Temporary Staffing Subsidiary  
Payroll Service Subsidiary  
Expert Corporate Staffing Subsidiary  
Digital Marketing Subsidiary  
Security Service Subsidiary  
etc.

**Divested approx. 260B yen in listed shares  
and approx. 90B yen in real estate<sup>\*1</sup>**

<sup>\*1</sup> Cumulative total from 2015 to present



# Recovery from an Equity Shortfall



(Billion yen)

## Consolidated average shareholders' equity ratio

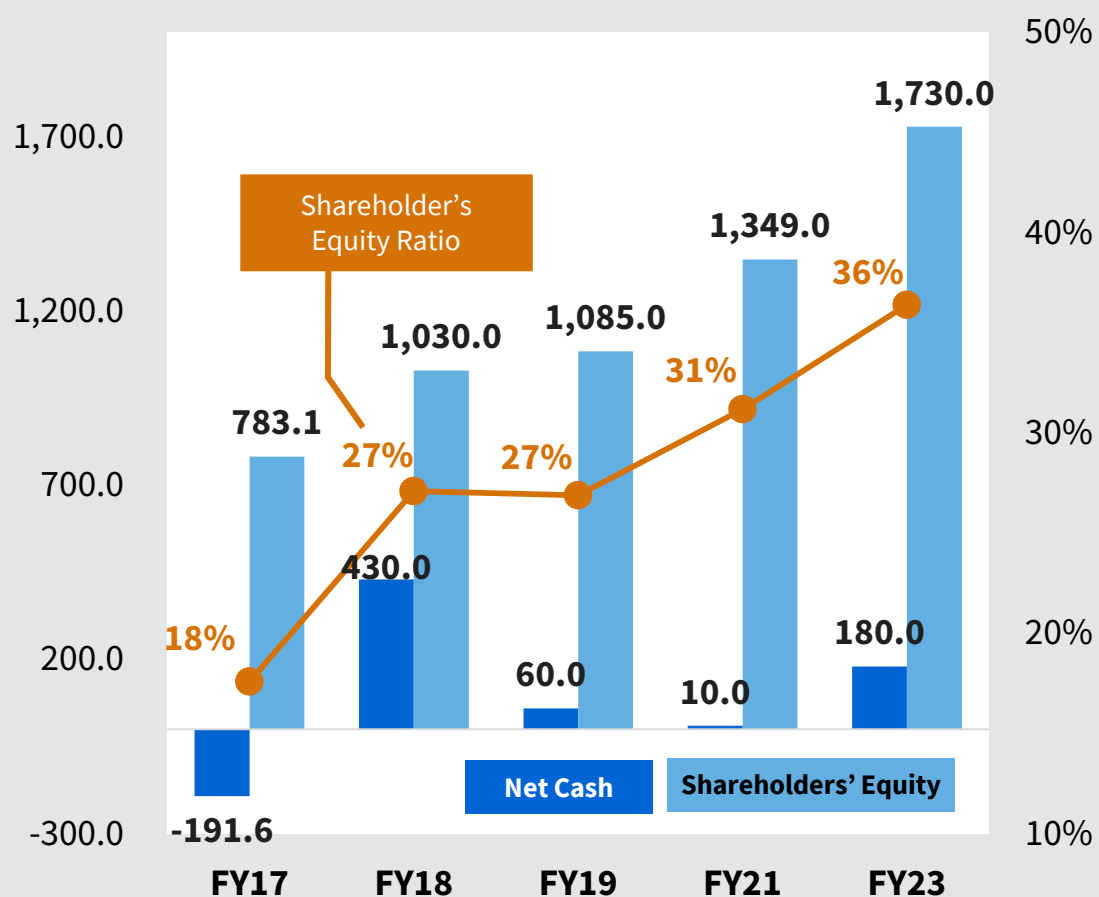
FY05-14 ave.	FY15	FY16	FY17	FY18	FY19-1H
15%	6%	-13%	18%	34%	29%

# Appropriate Level of Capital

## Plan announced on Nov 8, 2018

## Policy based on discussions with the board

### Plan of financial Structure (B yen)



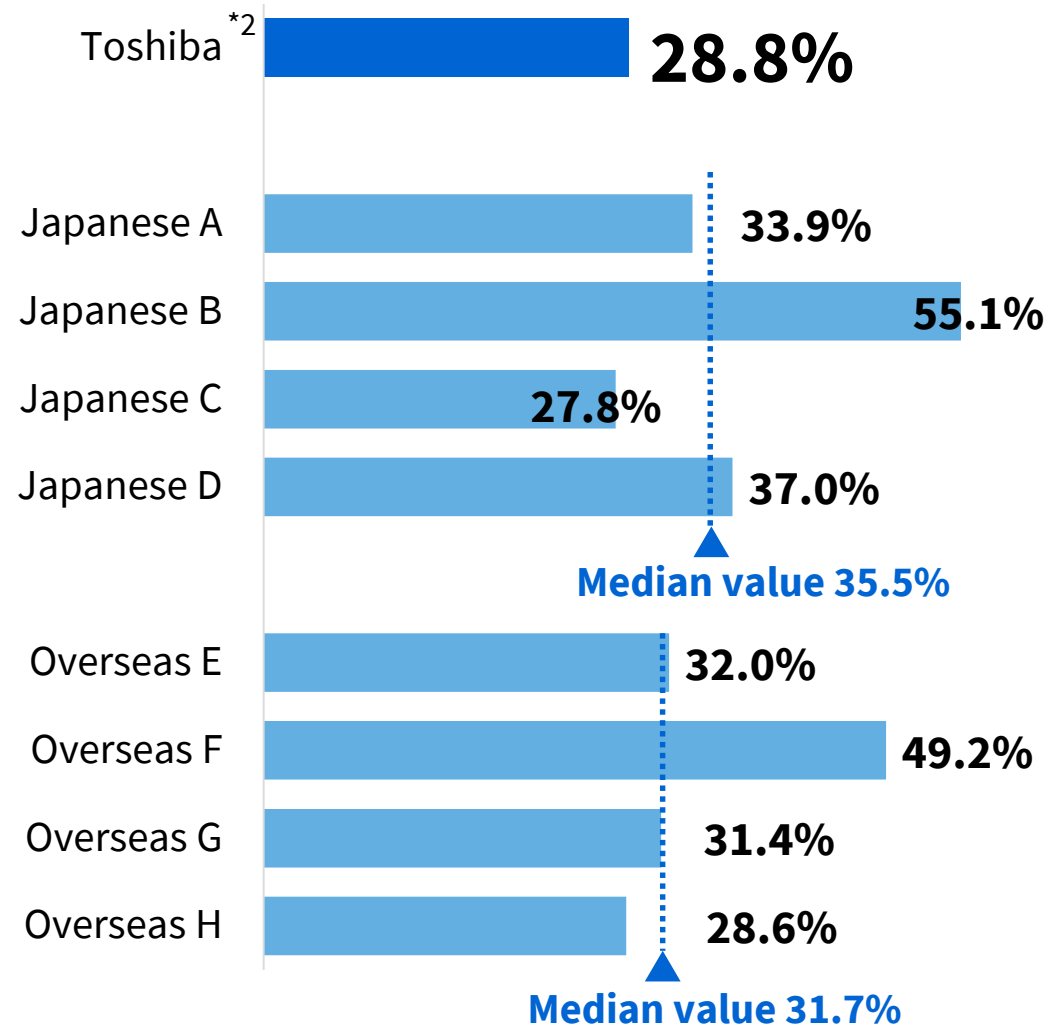
### Periodically Evaluate the Appropriate Level of Capital

□ Appropriate level of capital will be determined in consideration of risk assets, contingent liabilities, portfolio and business plans.

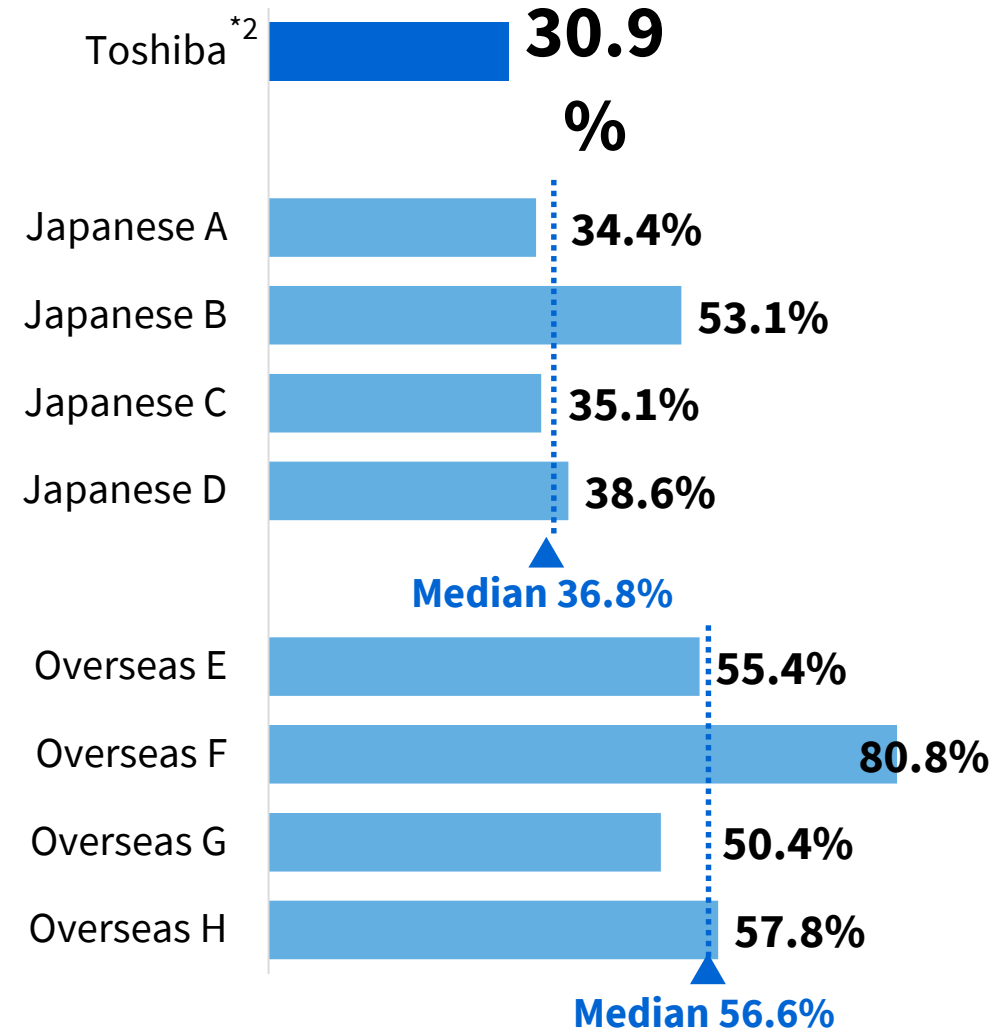
□ Periodic review by the board

# Benchmark for Shareholders' Equity

## Shareholders' Equity Ratio (%)<sup>\*1</sup>



## Shareholders' Equity/ Net Sales (%)



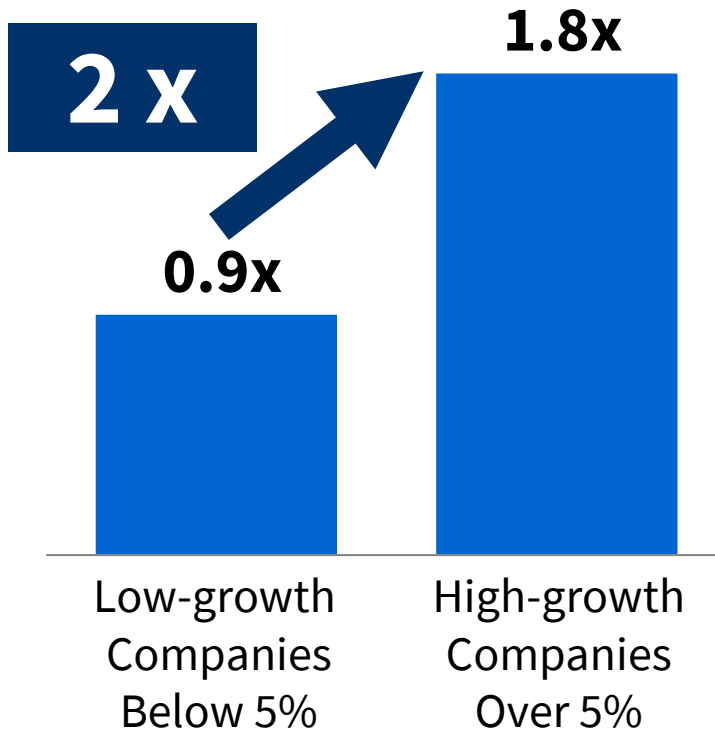
<sup>\*1</sup> Competitors' figures as of end of the most recent fiscal year <sup>\*2</sup> FY19-1H actual amount

# Enhancing TSR through Growth

Cumulative total of TOPIX500 companies <sup>\*1</sup>

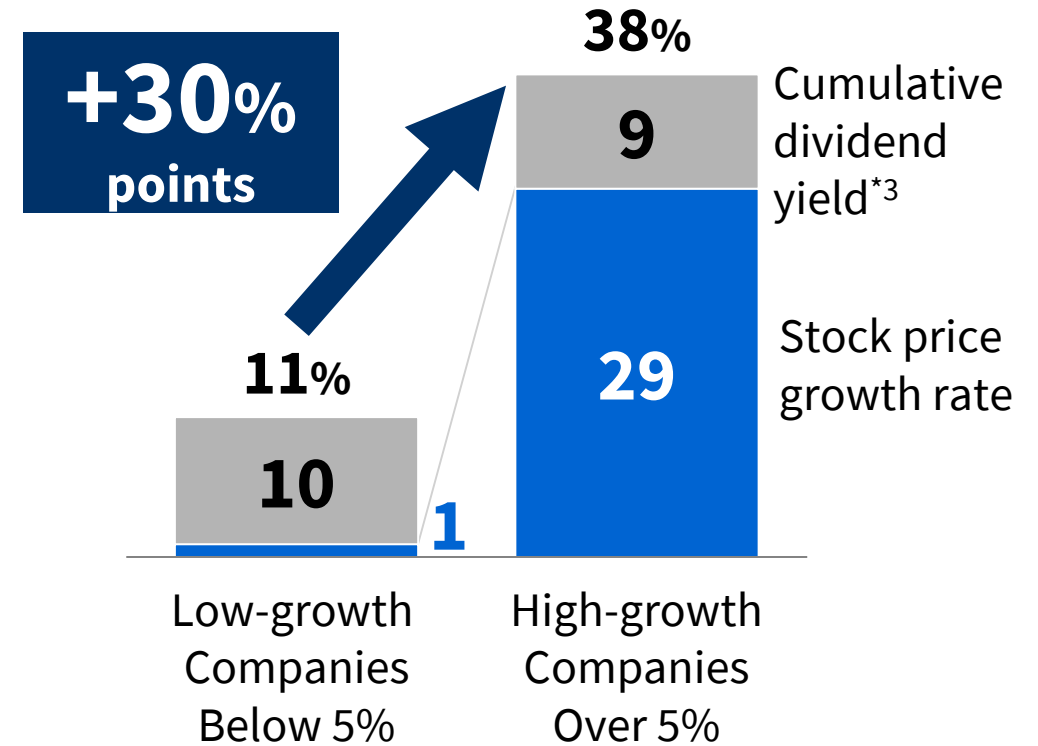
## Pricing Multiples

PBR Median<sup>\*2</sup>



## TSR

2014-2018



<sup>\*1</sup> Excluding the financial industry

<sup>\*2</sup> FY2018 average used for PBR; annualized growth rate from FY2014-2018 used for the growth rate

<sup>\*3</sup> Yield calculated as the sum of the weighted average of market cap growth rates from 2014-2018 and cumulative dividend payments from 2014-2018, divided by 2014 market cap

# Use of Leverage

- ☐ **Decrease cost of capital by using leverage to finance growth**
- ☐ **Limit debt so that net D/E does not exceed 30% and net D/EBITDA does not exceed 100%**
- ☐ **Enhance TSR by pursuing growth**

# Shareholder Returns Policy

- ☐ **Our basic policy is to maintain an average consolidated dividend payout ratio of at least 30%<sup>\*1</sup>**
- ☐ **Capital in excess of the appropriate level of capital will be used to provide shareholder returns, including share repurchases**

<sup>\*1</sup> For the time being, equity-method investment income/losses from Kioxia Corporation are excluded from this policy

# Privatization of Listed Subsidiaries

**Toshiba Plant  
Systems & Services**

**NuFlare Technology**

**Nishishiba Electric**

- ☐ **Increase enterprise value through privatization**
- ☐ **EPS improvement<sup>\*1</sup>: +21% (FY20), +12%(FY21)**
- ☐ **ROE improvement<sup>\*1</sup>: +2% (FY20), +2% (FY21)**

<sup>\*1</sup> Compared to basis excluding equity method investment income/losses from Kioxia Corporation from TNP

# Objectives of the Privatization of Listed Subsidiaries

## Toshiba Plant Systems & Services

**Enhance cooperation on sales, technology, quality, and production**

- Improve profitability by group-wide operation of power generation system business
- Expand service business etc.

## NuFlare Technology

**Enhance cooperative development**

- Accelerate R&D for multi-beam mask writers
- Development of epitaxial reactors etc.

## Nishishiba Electric

**Utilize Toshiba Group resources**

- Enhance distribution channel by utilizing customer base
- Reduce costs through joint purchasing etc.



# **Toshiba Next Plan: Growth Phase 2**

# Objectives of the Toshiba Next Plan

Customers, business partners, employees and the regional society

## Invest in Growth

- Manage business portfolio
- Develop new businesses
- Make investments to achieve organic growth and engage in M&A

## Manage Risk

- Maintain effective internal controls
- Avoid excessive risk
- Sustain long-term corporate activities

## Enhance core earnings

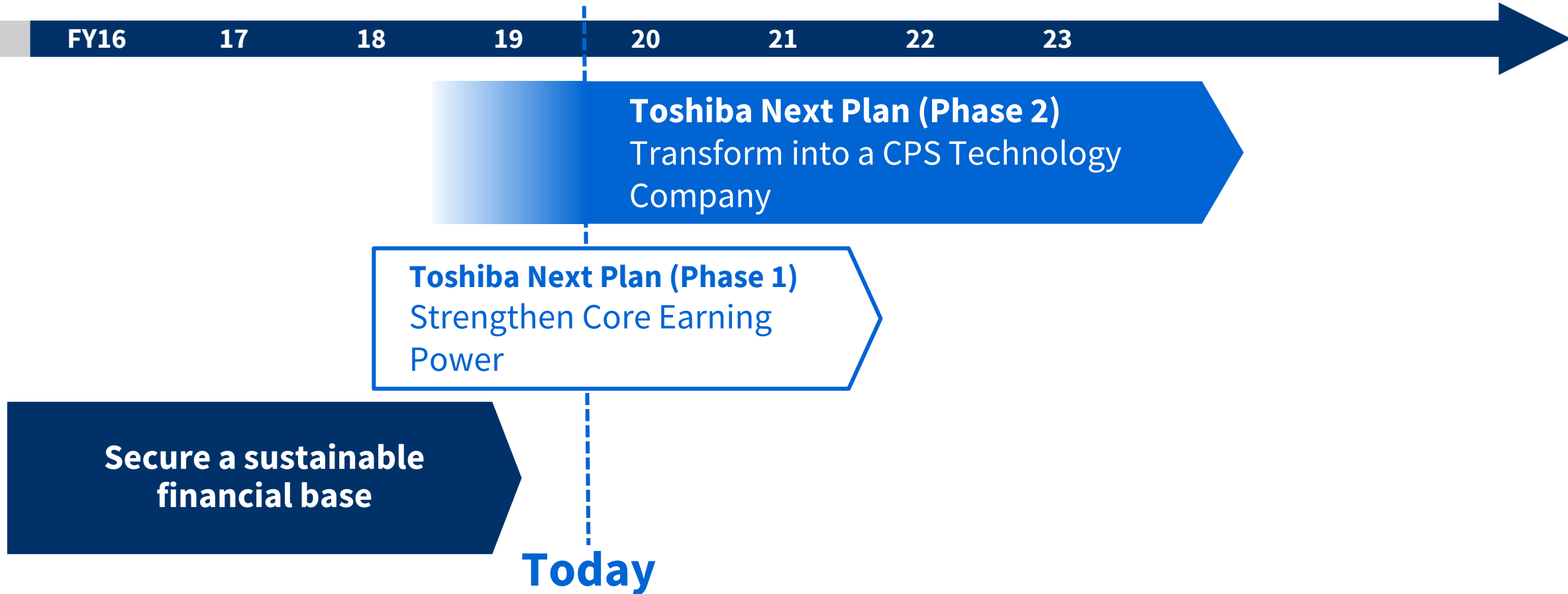
- Strengthen core earning power
- Change earnings structure by evolving into a CPS technology company

Maximize enterprise value

**Enhance Total Shareholder Return (TSR<sup>\*1</sup>)**

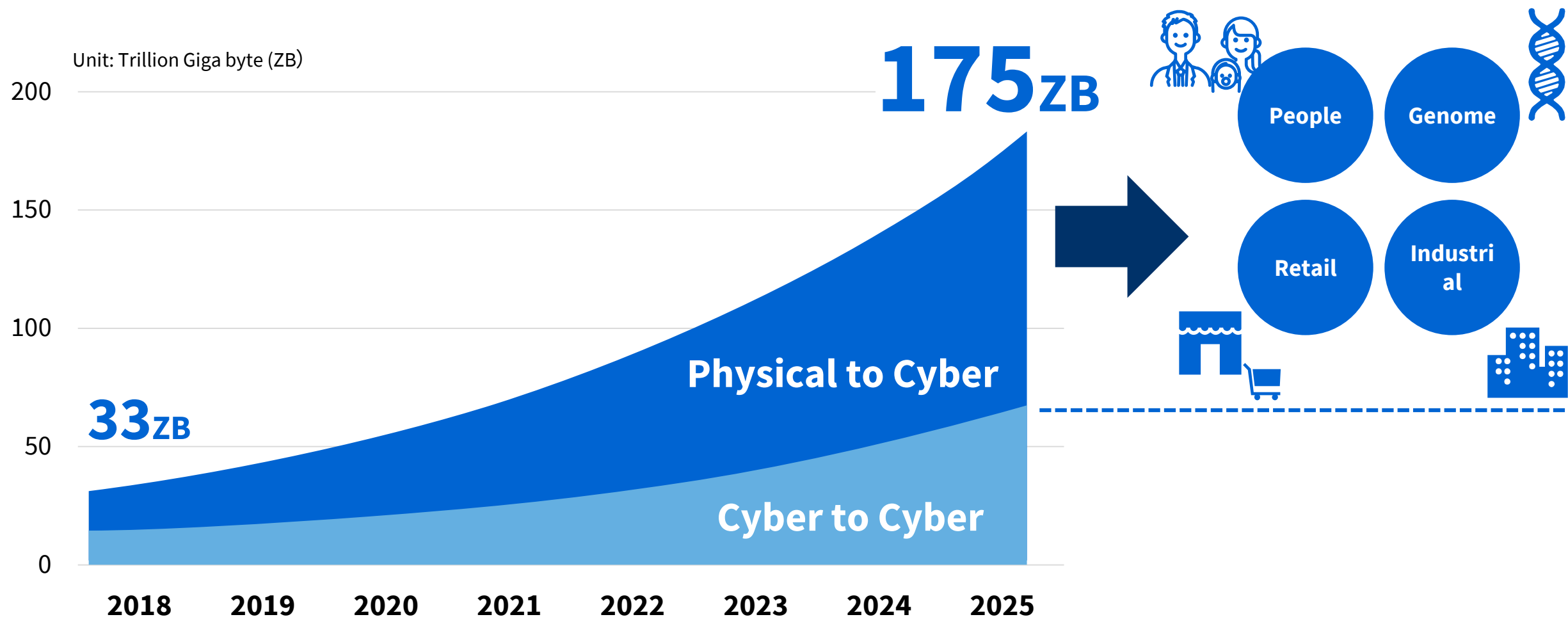
<sup>\*1</sup> Total Shareholders Return: The overall yield for shareholders, including capital gains and dividends

# Process towards Growth



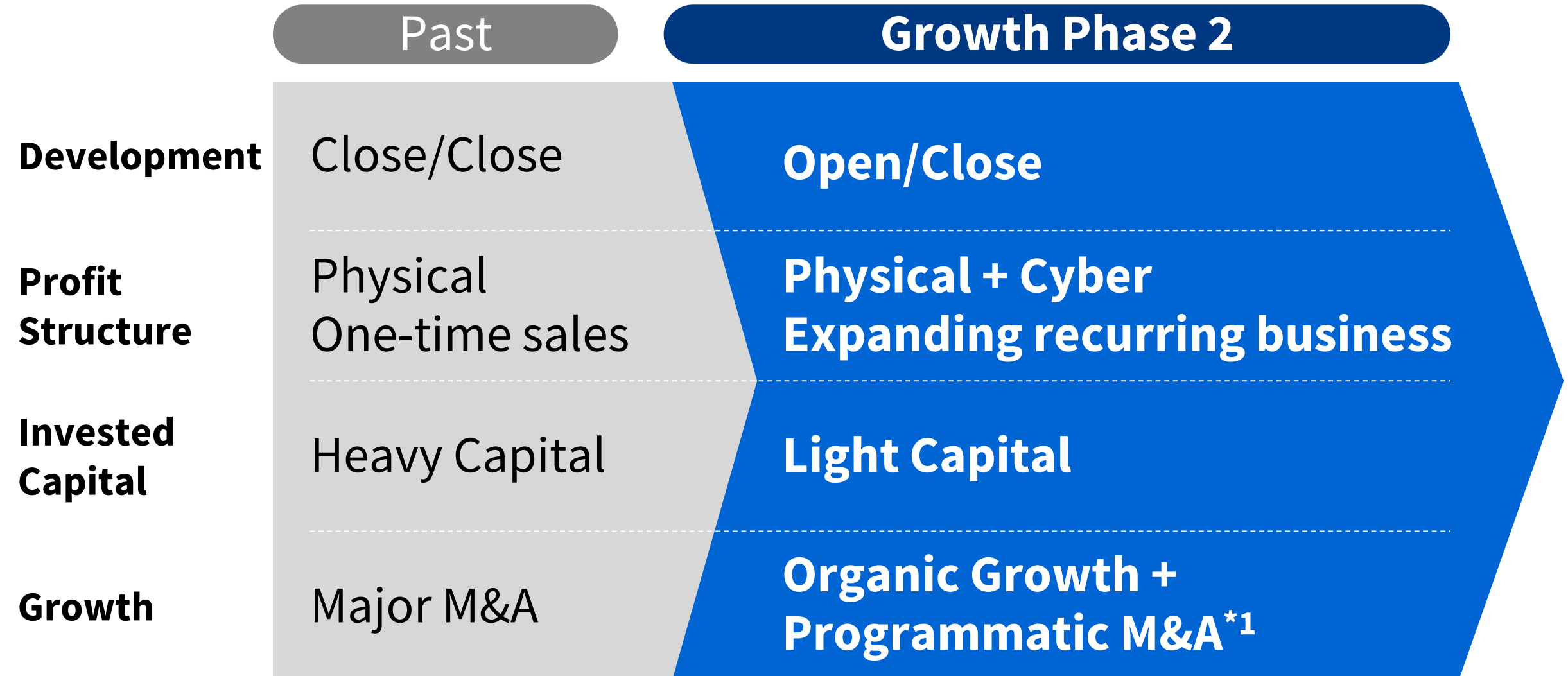
**Completed recovery of financial base;  
shifting towards growth phase 2**

# Expansion of the Digital Economy



## CPS-related data is increasing explosively

# Transformation Towards a CPS Technology Company



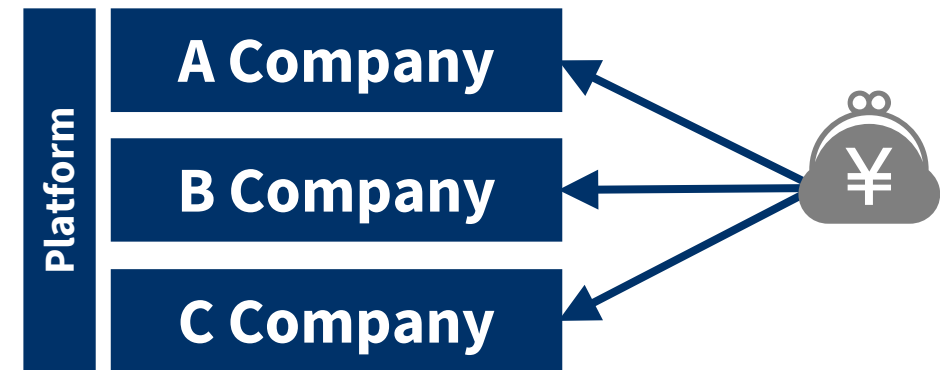
<sup>\*1</sup> Not major M&A encountered opportunistically, but focused on areas that are adjacent and complementary. Carry out planned, small scale M&A as part of annual business strategy.  
60 % of companies with top 100 market cap in past decade (2007-2017) employ this method. (Source: McKinsey & Company)

# Transformation Towards a CPS Technology Company

## CPS Technology Company

Value Chain = DE

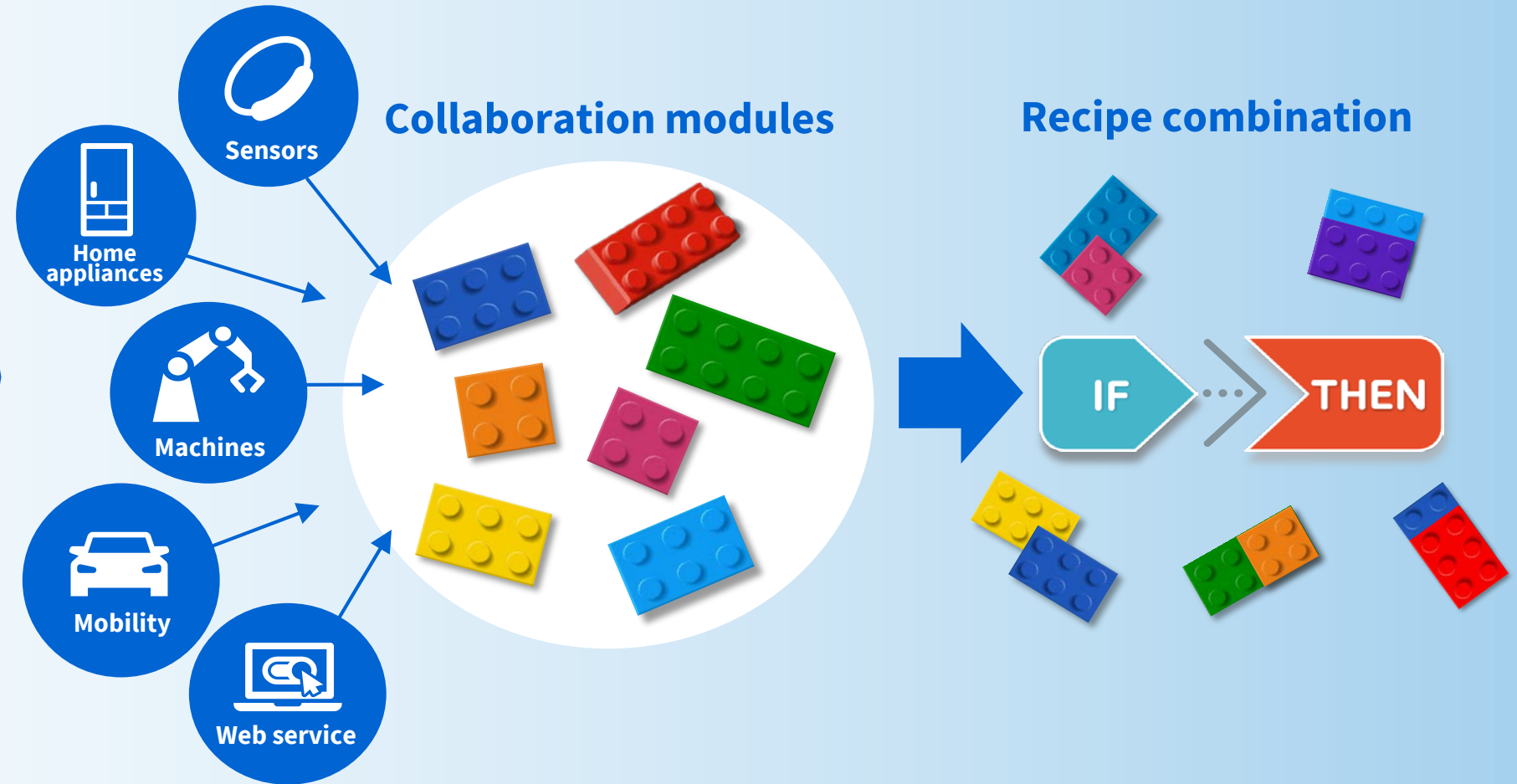
Platform = DX



# Next Growth Business – CPS

**TOSHIBA**  
*ifLink*<sup>®</sup>

Open



## Established ifLink<sup>®</sup> Open Community



# Next Growth Business – CPS

**New services utilizing CPS technology arise one after another**



**greateranglia**

Train operations



Photo by Gestamp



**Gestamp**

Welding in vehicle chassis parts



**FALCON GROUP**

Thermal power plant



# Next Growth Business – Battery & Power Electronics

## SCiB™

### Construction of new factories in India and in Yokohama



Gujarat, India  
Building completed in October 2019



Yokohama  
(artist impression)

### Strategic partnership with suppliers

- Titan Kogyo
- CBMM etc.

## Power Electronics

### Production capacity increase

- Silicon: Increase 8-inch production capacity at Kaga
- SiC: Start up 6-inch line at Himeji

### Received order for electric equipment from Railway company

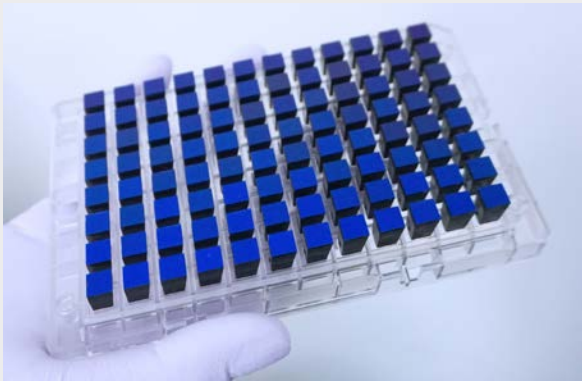


Taiwan High Speed Rail 700T Type

# Next Growth Business – Precision Medicine

## Japonica Array™

**Collaborate with  
Toshiba's society managed  
health insurance**



Japanese population genotype tool  
“Japonica Array™”

## Micro RNA

**Collaborative research  
with Tokyo Medical  
University and National  
Cancer Center Japan**

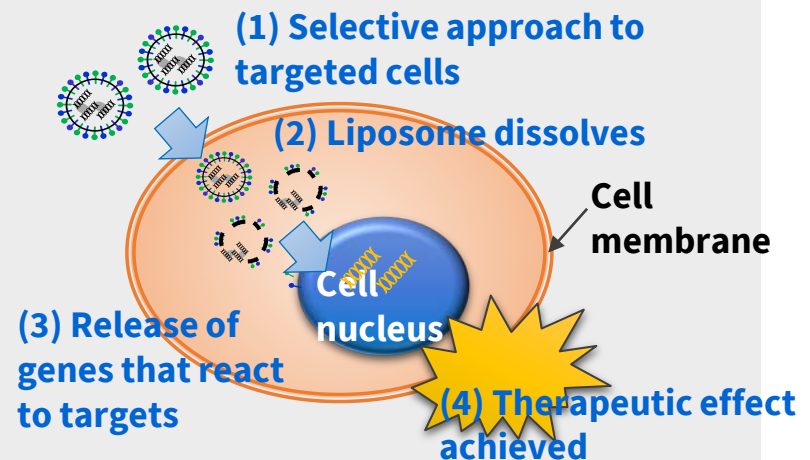


**Micro RNA  
Chip**

**Small test  
equipment**

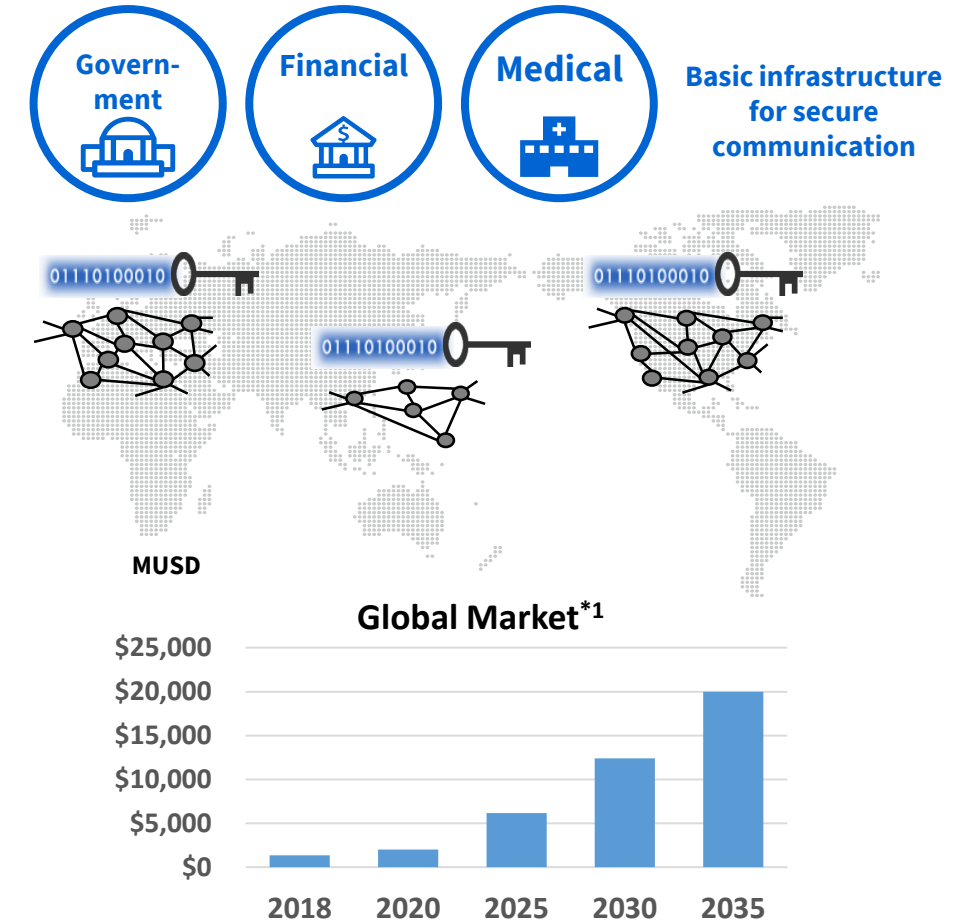
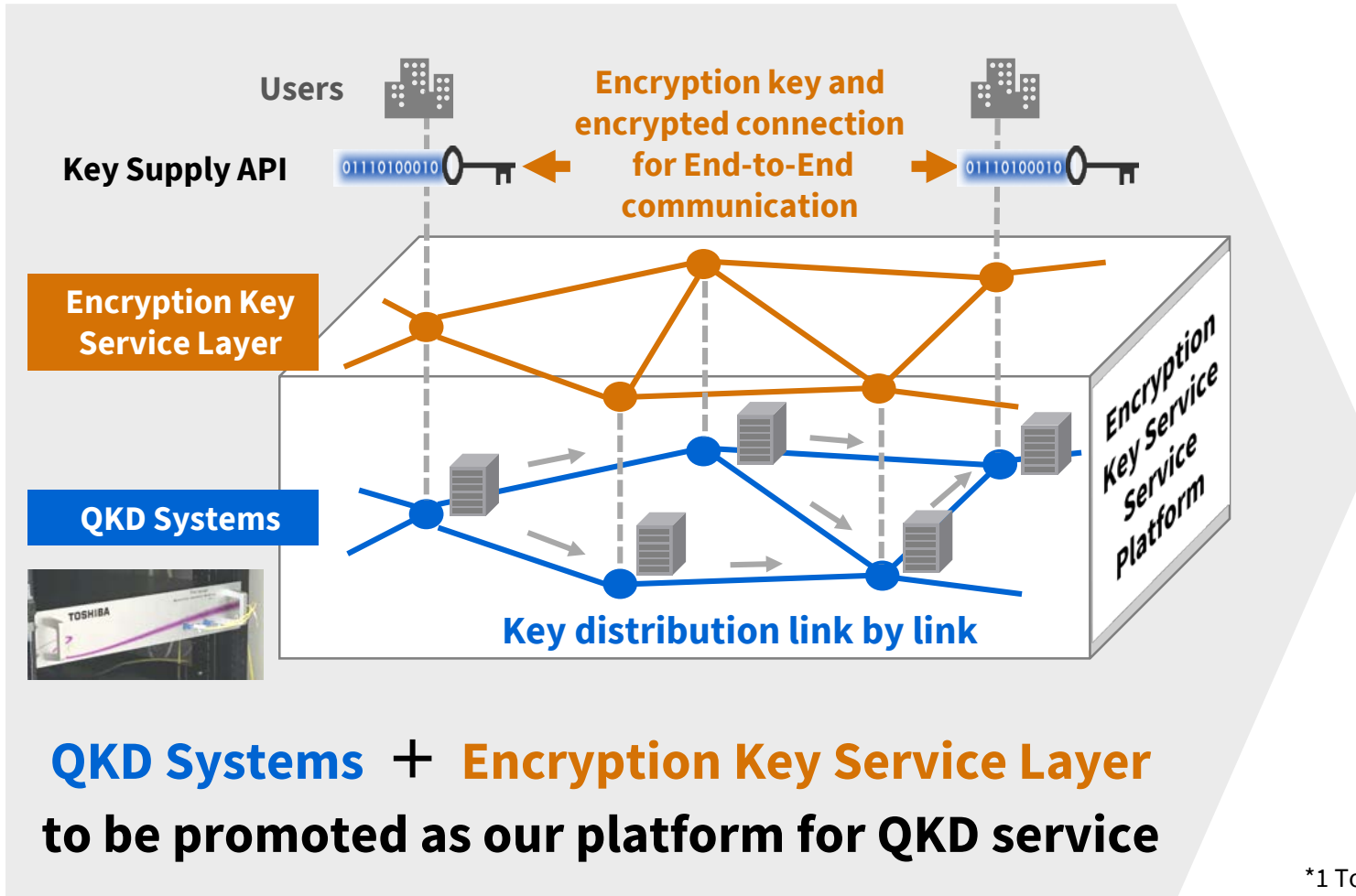
## Liposome

**Collaborative research  
with School of Medicine,  
Shinshu University**



\* Japonica Array is a trademark of Tohoku University.

# Next Growth Business – QKD: Quantum Key Distribution



\*1 Toshiba's long term forecast based on Quantum Xchange's mid-term forecast.

**Use our world's #1 technologies to establish de facto standard in global market for encryption key supply service**

# The Toshiba Next Plan Targets – Repost

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

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

\*1 TSR = Total Shareholder Return

\*2 EBITDA = Operating income+ depreciation and amortization expenses

\*3 ROE excludes effects from non-continuing business and the sale of the memory business in FY18. No figures provided for FY19 onward as Kioxia forecasts have not been provided to Toshiba and forecasts therefore cannot be calculated.

Assumed exchange rates: USD1=JPY105; EUR1=JPY125

# Contribute to Achieving SDGs\*<sup>1</sup> through All Business Activities

## Actions/initiatives to enhance positive impact on SDGs

### Toshiba Group Business Activities



### Initiatives Supporting Business Activities



Materials/ Suppliers

Procurement/ Logistics

Manufacturing

Sales

Product Use

Product Disposal



Consider rights, labor, and environment throughout the supply chain



Manage energy use appropriately  
Reduce emission of GHG and harmful chemical substances  
Protect rights of laborers, including immigrants



Eliminate/reuse wastes  
Quality assurance, product safety/security  
Preserve biological diversity



Enhance governance/risk management, committed compliance

## Actions to minimize negative impact on SDGs

\*1 SDGs: Sustainable Development Goals

# “Change” Achieved

- ✓ **Achieved 7-fold year-on-year increase in operating income in the first half**
- ✓ **Renewed the board structure**
- ✓ **Completed 700.0 B yen share repurchase**
- ✓ **Privatized listed companies, divested strategic shareholdings**
- ✓ **Exited from risk businesses, resolved capital shortfall**
- ✓ **Utilized leverage and determined the appropriate level of capital**
- ✓ **Introduced the ROS 5% exit rule**
- ✓ **Set shareholder returns policy including share repurchase**
- ✓ **Created a compensation system which enhances shareholder value**



A group of Toshiba Brave Lupers rugby players are huddled together on a field. They are wearing red jerseys with "TOSHIBA" and their numbers (3, 10, 8) visible. One player in the center wears a blue and red training bib with "BRAVE LUPERS" and "WATER" printed on it. The background shows a blurred stadium crowd.

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# Change & Growth

The background is an abstract composition of geometric shapes. A large, solid blue rectangle occupies the lower-left and central portions of the frame. To the right of this blue area, there are several overlapping shapes: a red triangle pointing downwards, a white triangle pointing upwards, and a grey triangle pointing downwards. These shapes are arranged in a way that creates a sense of depth and movement. The text is positioned on the blue background, which provides a high-contrast, clean backdrop for the white lettering.

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



**TOSHIBA**