

Message from the Financial Officer

We are strengthening our financial position and advancing business reforms to fulfill the Group Vision 2030



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/ Financing and human resources for Group Vision 2030

Kawasaki Heavy Industries is addressing social issues by providing innovative products and services in the Three Focal Fields defined in the Group Vision 2030. We will need to quickly conduct upfront investment to advance to commercialization in those fields as early as possible, and we will also need to improve the profitability of our existing businesses to accumulate the funds for that investment. We will steadily implement the strategies in Group Vision 2030 and enhance our corporate value by being an “ambidextrous organization” that generates cash by deepening existing businesses and continuously invests in new businesses.

I oversee both our financial operations and our human resource operations. My role is to help guide us to fulfilling the Group vision by not just through our financial activities, but also through our human capital, such as by advancing the personnel system reform that is presently being quickly implement throughout the Group.

/ Reforming our business to reestablish profitability

We reestablished profitability in fiscal 2021 by substantially improving our earnings in the Motorcycle & Engine business and in the Aerospace Systems business, where the impact from the Covid-19 pandemic subsided. After the motorcycle and rolling stock businesses were

spun off in October 2021, the motorcycle business posted record profits by using agile decision-making and succinct strategies to overcome logistics disruptions and parts shortages while harnessing the strong demand for outdoor recreation in developed countries. Management of the rolling stock business also improved from being spun off, and the business posted its first positive earnings result in five years.

Although the external environment for fiscal 2022 carries uncertainties, we expect to increase sales and profits in all segments as the impacts from the pandemic and from the weaker yen wane.

/ Improving cash flow and stronger profitability

Free cash flow also improved significantly to the positive to ¥91.8 billion in fiscal 2021 as our earnings recovered and from advances received in the Aerospace Systems business. The cash conversion cycle (CCC) also improved, falling to 127 days from a high of 153 days in fiscal 2020. We are also making steady progress paying down loans, which grew during the pandemic. The net debt-to-equity ratio improved to a generally acceptable level of 80.7%, due to reduced inventories and the improved earnings.

We are presently focusing on cash flow with the aim of creating a healthy balance of financial stability and investment in growth areas. We take the view that profit that does not produce cash is not real profit. Throughout the Group, we are strongly communicating

the increased importance of cash flow. In discussions about major investment plans, we are emphasizing considering the time needed to recoup investments and the impact the investment will have on our current financial standing.

For large projects that will significantly affect our management activities, we are formulating more accurate profit and loss plans by strengthening our pre-contract risk assessment functions and ensuring comprehensive financial discipline based on the shareholder equity of each business.

We are continuing to apply a program of financial management improvement* and measures to lower barriers in our company system with the aim of maintaining the net debt-to-equity ratio in the 70-80% range and reducing CCC to below 100 days in the medium to long term. We are continuing our efforts to strengthen our ability to generate cash flow, lower interest-bearing debt, and maintain financial discipline while stepping up investment in growth areas.

* The program to improve financial management operations by liquidating receivables, using supply chain financing, encouraging collection from customers, controlling inventories, and setting appropriate payment terms for suppliers.

/ Leveraging sustainable financing

In fiscal 2021, we raised 75% of the funding we needed for our businesses using sustainable finance, including through our first issuance of sustainability bonds. We became the first company in Japan to issue a sustainability bond for hydrogen-related business.

We will continue increasing our businesses that contribute to social and environmental sustainability and will use sustainable finance also to foster new businesses. We plan to increase the percentage of sustainable finance in our long-term borrowings to close to 50% by 2030 and to 100% by 2050.

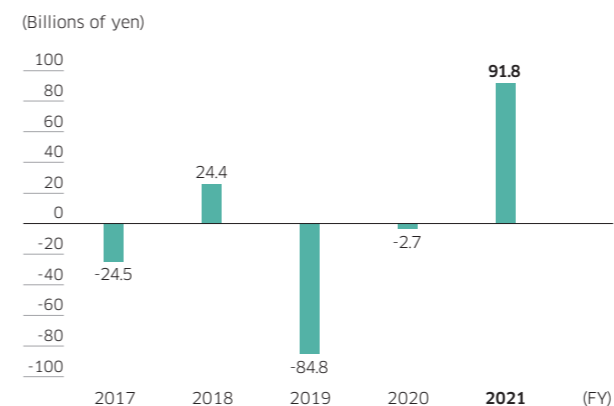
/ Increasing shareholder value through corporate growth

The Company intends to continue providing stable profit return to shareholders by distributing steady dividends based on a consolidated dividend payout ratio of 30%. In fiscal 2021, we distributed dividends of ¥40 per share, for a payout ratio of 30.7%. We are currently planning to raise the dividend to ¥50 per share in fiscal 2022.

We recognize that increasing shareholder value comes not just from improving our business performance, but also requires raising the share price through the medium and long term. Our current price-to-earnings ratio, which reflects the growth expectations for a company, is currently about 14 times, which is near the average for our industry. We intend to raise the stock market assessment of our company by clearly explaining to shareholders and investors our growth strategy centered on the hydrogen business so they will fully understand our plan, and then we will back it up with results. In addition, we will implement an effective financial strategy and sustainable management to product corporate growth with an objective to grow to a market capitalization of ¥1 trillion.

To ensure we continue to fulfill shareholder and investor expectations, we will continue advancing our digital transformation, actively allocating management resources to growth areas, and transforming our business. We will also communicate, provide appropriate disclosure, and engage in constructive dialogue about our initiatives and progress through the media, by creating opportunities for discussion, and through constructive dialogue.

Free cash flow



Net D/E ratio and interest-bearing debt

