We promote capital cost (WACC)-conscious management, and in the current Medium-term Business Plan, we aim to achieve consolidated operating profit of ¥40.3 billion, ROE of 7% and ROIC of 5% in fiscal 2023, which is the final year of the plan. The cost of capital refers to the level of return expected on the company by the funders that invest in it, including financial institutions, investors and shareholders. From the perspective of the company that receives the funds, it should be recognized as the cost of financing. In the perspective of fund management, it is investment return, while from the perspective of shareholders, it is the profitability of the shareholders they have invested in the company by the funders that invest in it, including financial institutions, investors and shareholders. From the perspective of fund management, it is investment return, while from the perspective of shareholders, it is the profitability of the shareholders they have invested. We recognize that the level of the cost of shareholders’ equity (shareholders expected return) is around 6% to 7% in the medium to long term. We set the target of ROE above 6% to 7% as our medium to long-term financial management goal. We believe that this level of cost of capital is internationally competitive, and from the perspective of shareholders, it is appropriately high.

Purpose of introducing ROIC

Funds invested in businesses include funds procured from financial institutions and others as well as shareholders’ equity. It is important to manage our businesses from the perspective of how efficiently we will use these funds. The theme of our business portfolio transformation is to shift the focus of our business strategy from being shareholder-centric to becoming independent of shareholders’ equity and interest-bearing liabilities. Therefore, we introduced ROIC by business segment to implement management with a focus on the profitability of “invested capital,” which is the total of shareholders’ equity and interest-bearing liabilities, as well as the growth and market capitalization. We recognize the level of our capital cost is around 3.5% to 4% in the medium term. Therefore, we also set the target level of ROIC, which we adopted as a management indicator of capital profitability beginning from the current Medium-term Business Plan, for fiscal 2023 to be 5%, which is above the cost of capital.

Management of capital profitability using ROIC

We will also tackle the “management structure reform” as the most important measures for full recovery from the COVID-19 pandemic. Specifically, we will reduce fixed costs and narrow the business base through business model reform. We plan to reduce fixed costs by ¥10.0 billion or more in fiscal 2023 compared to fiscal 2019 through the reforms of human resource structure and cost structure. We are considering narrowing the business base from the perspective of whether the Company is the best owner of each operating company, regardless of the size of the current profits and looking ahead to the future business portfolio.

Investment Project Review Committee and Revitalization Plan Review Committee

The Investment Project Review Committee and the Revitalization Plan Review Committee are in place to support management decision-making on the implementation of investment projects and business revitalization and withdrawal from a financial perspective. The Investment Project Review Committee quantitatively assesses the adequacy of a profit and loss plan and whether it meets our investment criteria and judges whether it is suitable for investment from a financial perspective. To offer more objective opinions, we have also put in place a system in which outside organizations can participate.

The Revitalization Plan Review Committee verifies business operations and examines the adequacy of countermeasures based on business performance and forecasts by managing in three phases: I) Normal, II) Caution needed, and III) Revitalization plan. We consider the current business lifecycle, business performance, and conduct a stress test considering the risk of delays in business recovery due to the COVID-19 pandemic. Each committee provides information to facilitate rapid decision-making at the Group Management Meetings and the Board of Directors meetings.