

Opinion **Lex**

Takata: reputation deflation

More pain to come for the Japanese airbag maker

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Reputation, we are told, takes years to build and moments to destroy. In the case of Takata, the Japanese airbag and auto safety equipment manufacturer, reputational decay has been drawn out for more than [a year](#), and it is not over.

This week, the National Highway Traffic Safety Administration of the US fined the company \$70m for knowingly selling defective products. The fine could rise to \$200m, should additional violations come to light. The same day, [Honda](#) said it would [no longer](#) use some Takata [airbag parts](#). On Friday Toyota echoed the sentiment. Over three days, the stock was halved.

It may be tempting to step in here — indeed, the stock rallied by one-tenth from its midday lows on Friday. Financially, the company seems to be doing well, with June quarter revenues up one-fifth year-on-year. With so few airbag suppliers (the top three, of which Takata is one, account for three-quarters of the market) Takata has been supplying replacements for its own faulty parts. This looks likely to change. Still, it has other businesses besides airbags. Products such as steering wheels, seat belts and child seats account for two-thirds of sales.

But with the company's reputation at risk, and allegations of cheating on test results (the company denied doing so, then retracted its denial), it is hard to predict how many more sales could be lost. Then there is the balance sheet. For now it, too, looks healthy. Net debt is low, and net assets per share are well above the share price, at Y1,880. Yet this overstates the position: nearly half of total net assets are set aside in a \$700m warranty provision.

This provision may be too small. The company has at least \$1.8bn in damages claims against it — in Canada alone. In the most [recent quarter](#), [General Motors](#) paid out as much as \$1.5bn for deaths related to faulty ignition switches. Total fines and settlements are estimated to have been closer to \$2bn. Takata's problems can still get worse.