
Financial Results Briefing Fiscal 2019 (Ended May 31, 2020)

July 13, 2020

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■ Briefing on Financial Results:

1. Overview of Financial Results for Fiscal 2019
2. Outlook for Financial Results for Fiscal Year Ending May 2021 and Medium-Term Management Plan
3. Topics

1. Overview of Financial Results for Fiscal 2019 (From June 2019 to May 2020)

1-1. Overview of Consolidated Financial Results

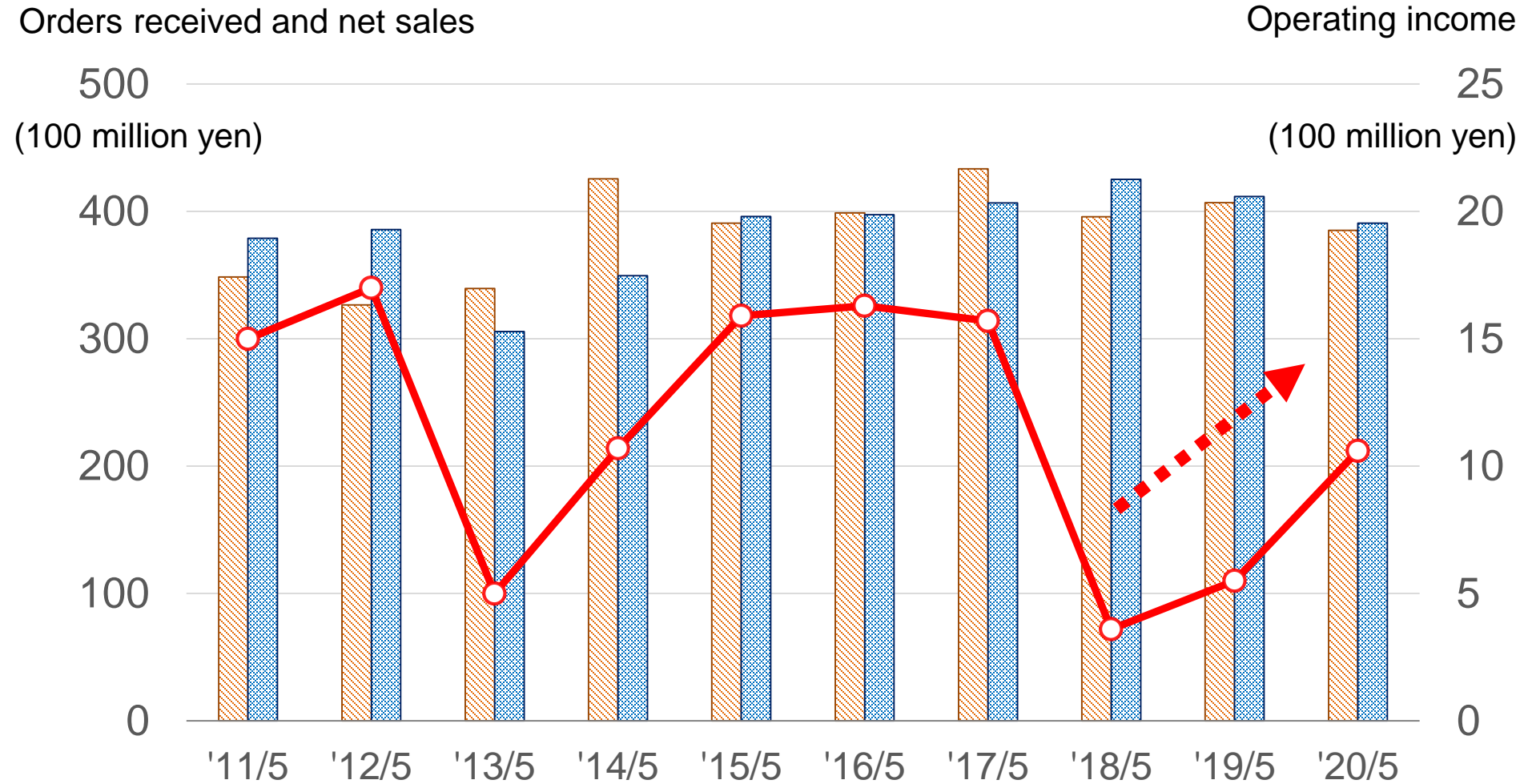
Although net sales declined, operating income increased significantly due to improved profitability.

100 million yen, %

	FY2018	FY2019	YoY Change		Published value (May 2020)	Published value ratio	
				%			%
Net Sales	411.7	390.7	-21.0	-5.1%	420.0	-29.2	93.0%
Operating Income (%)	5.5 (1.4%)	10.6 (2.7%)	+5.1 (+1.3pt)	+91.5% —	9.0 (2.1%)	+1.6 (+0.6pt)	118.6% —
Ordinary Income	4.9	12.0	+7.1	+143.5%	11.0	+1.0	109.7%
Net Income [Net income per share (yen)]	6.9 75.27	10.8 120.98	+3.9 +45.71	+56.7% —	9.0 100.65	+1.8 +20.33	120.1% —
ROE	2.7%	4.4%	+1.7pt	—	3.3%	+1.1pt	—
Orders received	406.8	385.2	-21.5	-5.3%	430.0	-44.7	89.5%
Ratio of overseas sales to net sales	22.9%	20.7%	-2.2pt	—			

<Reference> Trends in Consolidated Orders Received, Net Sales and Operating Income

Measures have been implemented steadily based on the basic policy of the Medium-Term Management Plan “focusing on improving profitability in the first two years.”



1-2. Factors for Increase and Decrease in Operating Income (YoY change)

Thanks to improved profitability, operating income exceeded 1,000 million yen for the first time in three fiscal years despite the depreciation burden (approx. 450 million yen) associated with the installation of the Shiga Ryuo Plant.

Improved by
510 million
yen year on
year

Decrease in sales
(non-consolidated)
-60 million yen

Increase in subsidiary
profits
+50 million yen

Decrease in selling,
general & administrative
expenses (non-
consolidated)
+80 million yen

Plant profit/loss (non-
consolidated)
+150 million yen

Improvement in gross
margin (non-consolidated)
+230 million yen

550 million yen

1,060 million yen

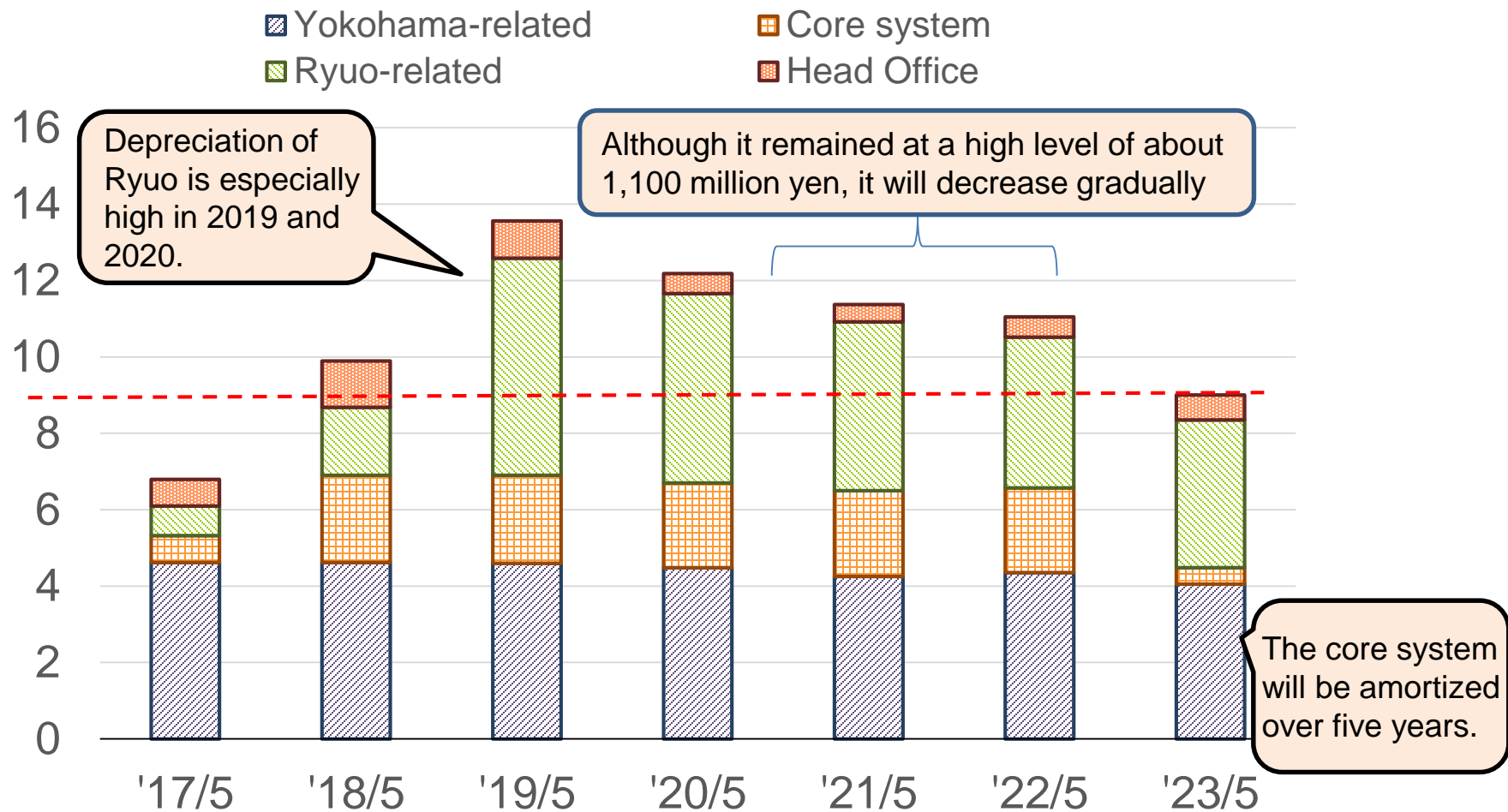
<FY2018>

<FY2019>

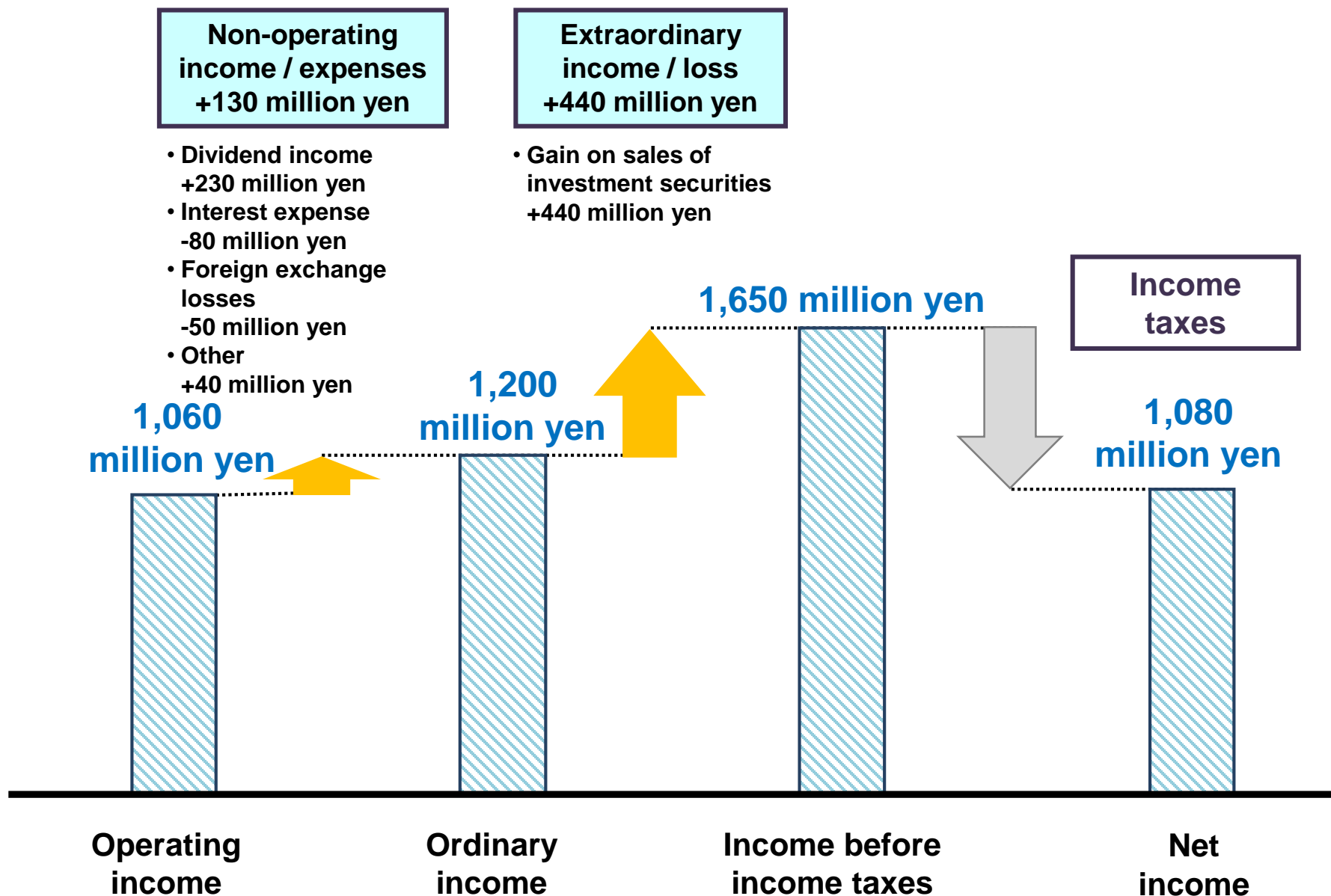
<Reference> Trends in Depreciation on Non-Consolidated Basis

Depreciation at Ryuo reached its peak and will start decreasing gradually.

The core system will be amortized through 2022.



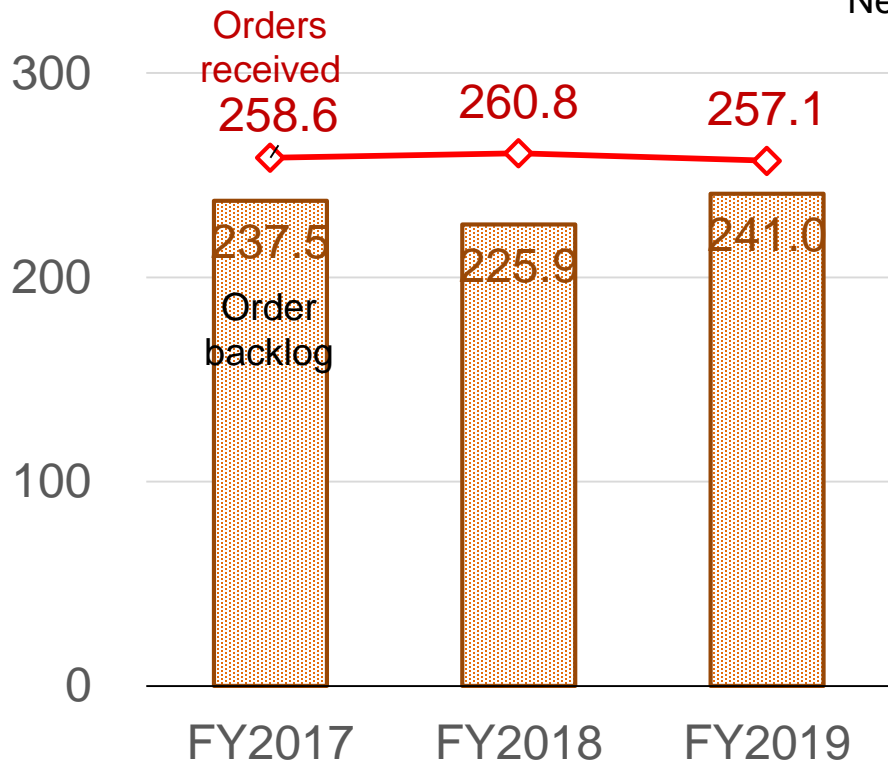
1-3. Breakdown of Non-Operating Income/Expenses and Extraordinary Income/Loss



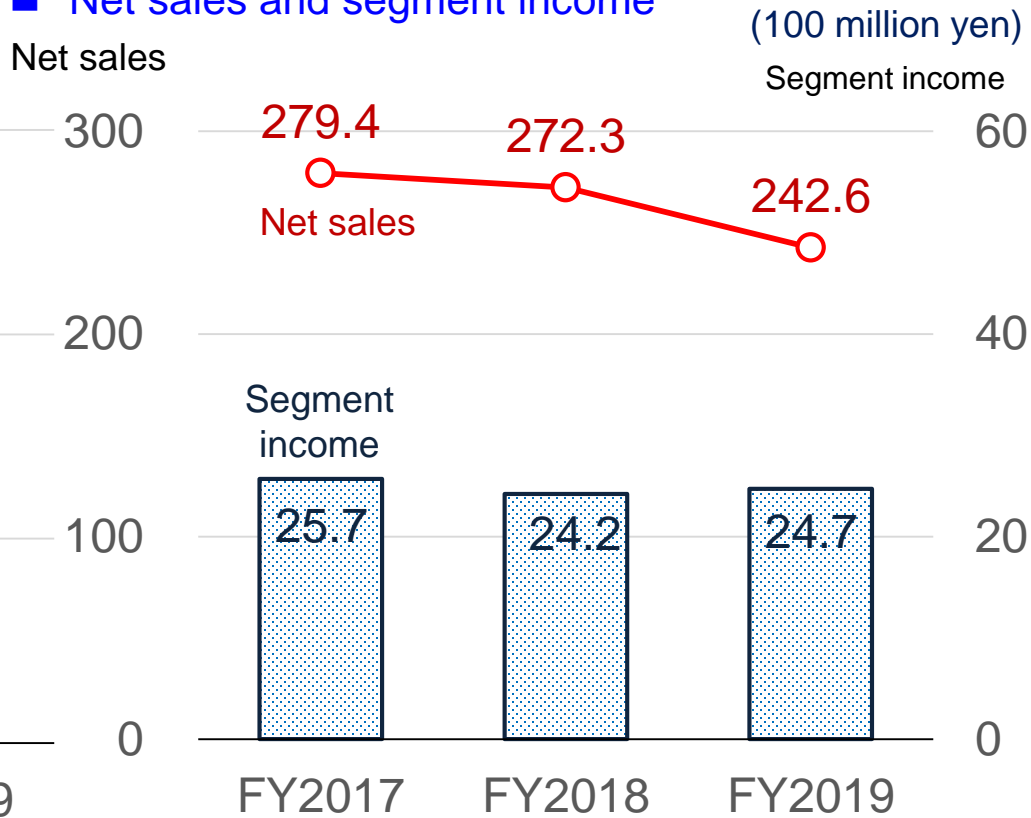
1-4. Segment Performance **Transportation Systems**

Segment income was comparable to the level of a year earlier despite lower sales.

■ Orders received and order backlog



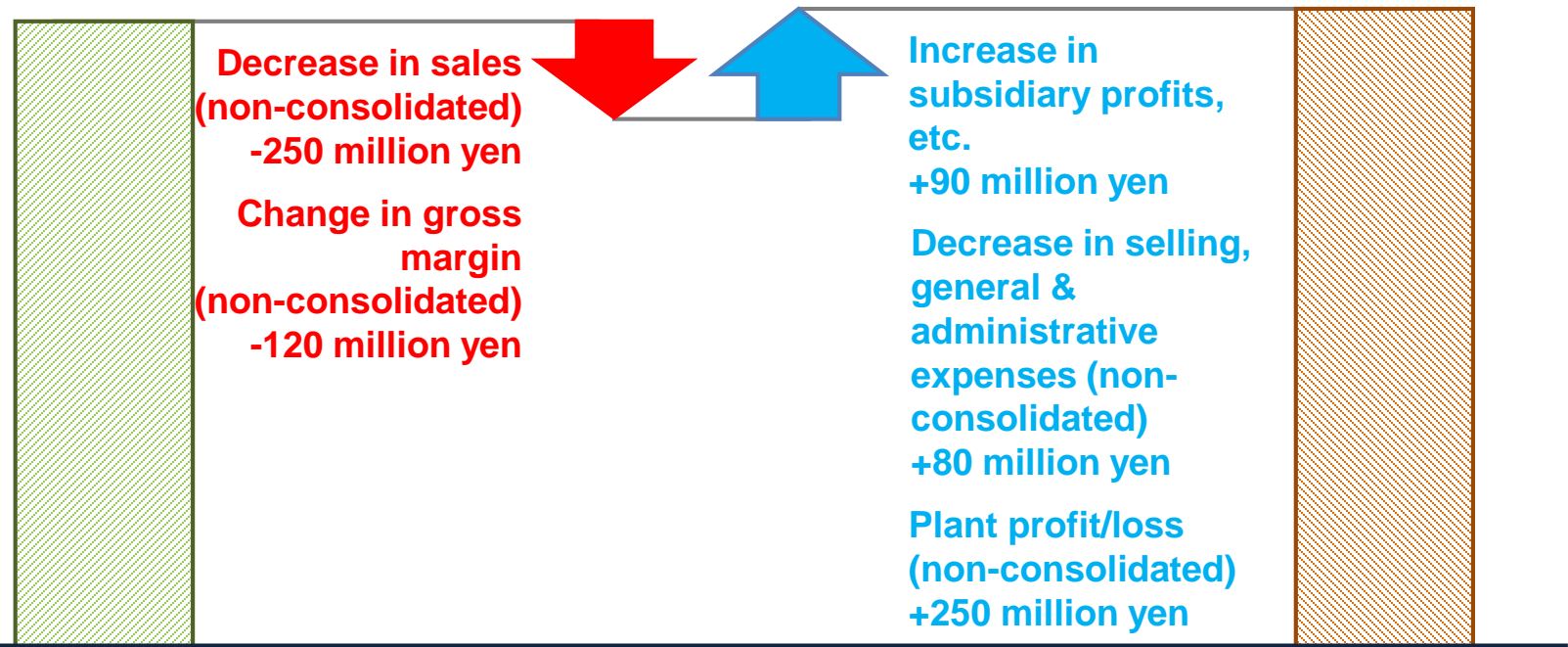
■ Net sales and segment income



- Although orders received increased for JR and China, orders received as a whole decreased slightly year on year due to a decline in other countries.
- Net sales decreased due to a decline in orders received for JR in the previous fiscal year. However, sales for China increased.
- Segment income was comparable to the level of a year earlier due to improvement in plant profitability despite the impact of lower sales.

1-5. Segment Performance **Transportation Systems** Factors for Increase and Decrease in Income

Segment income was comparable to the level of a year earlier due to a substantial improvement in plant profitability and a decline in expenses, although net sales decreased.



2,420 million yen

<FY2018>

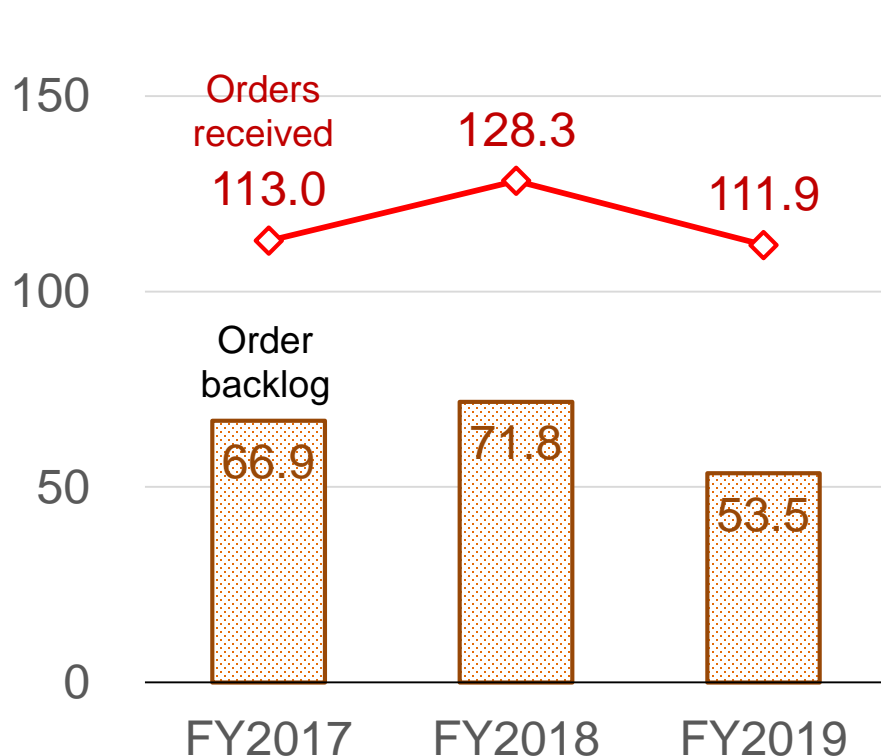
2,470 million yen

<FY2019>

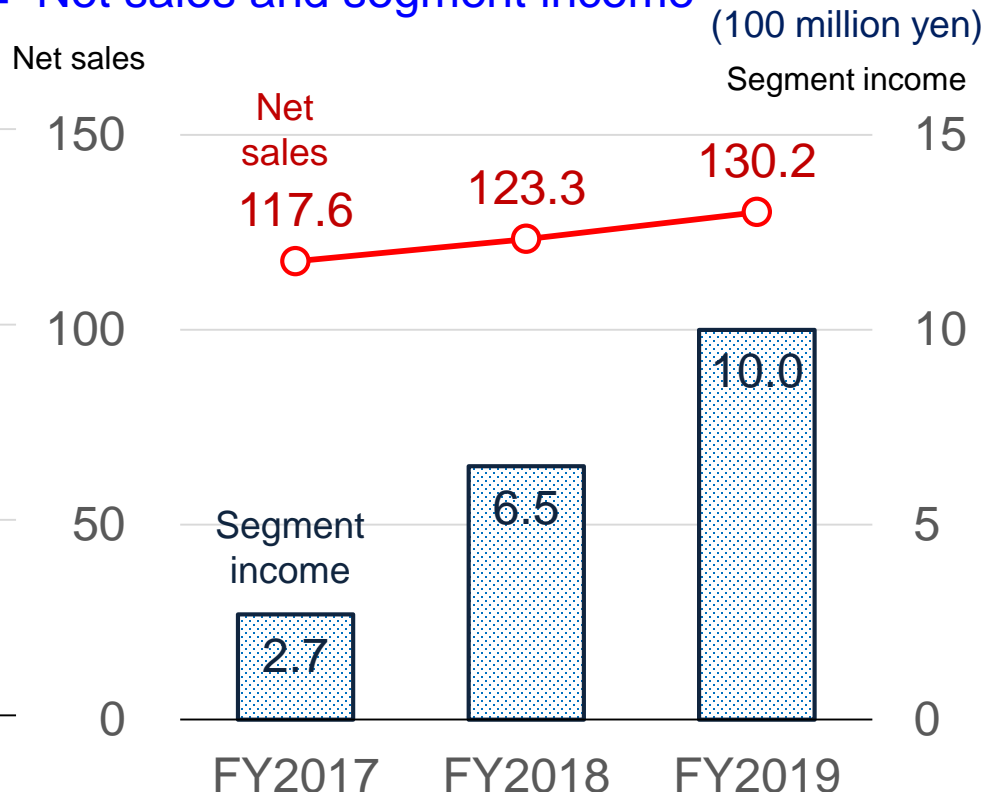
1-6. Segment Performance Industrial Systems

Net sales and segment income increased considerably despite lower orders received.

Orders received and order backlog



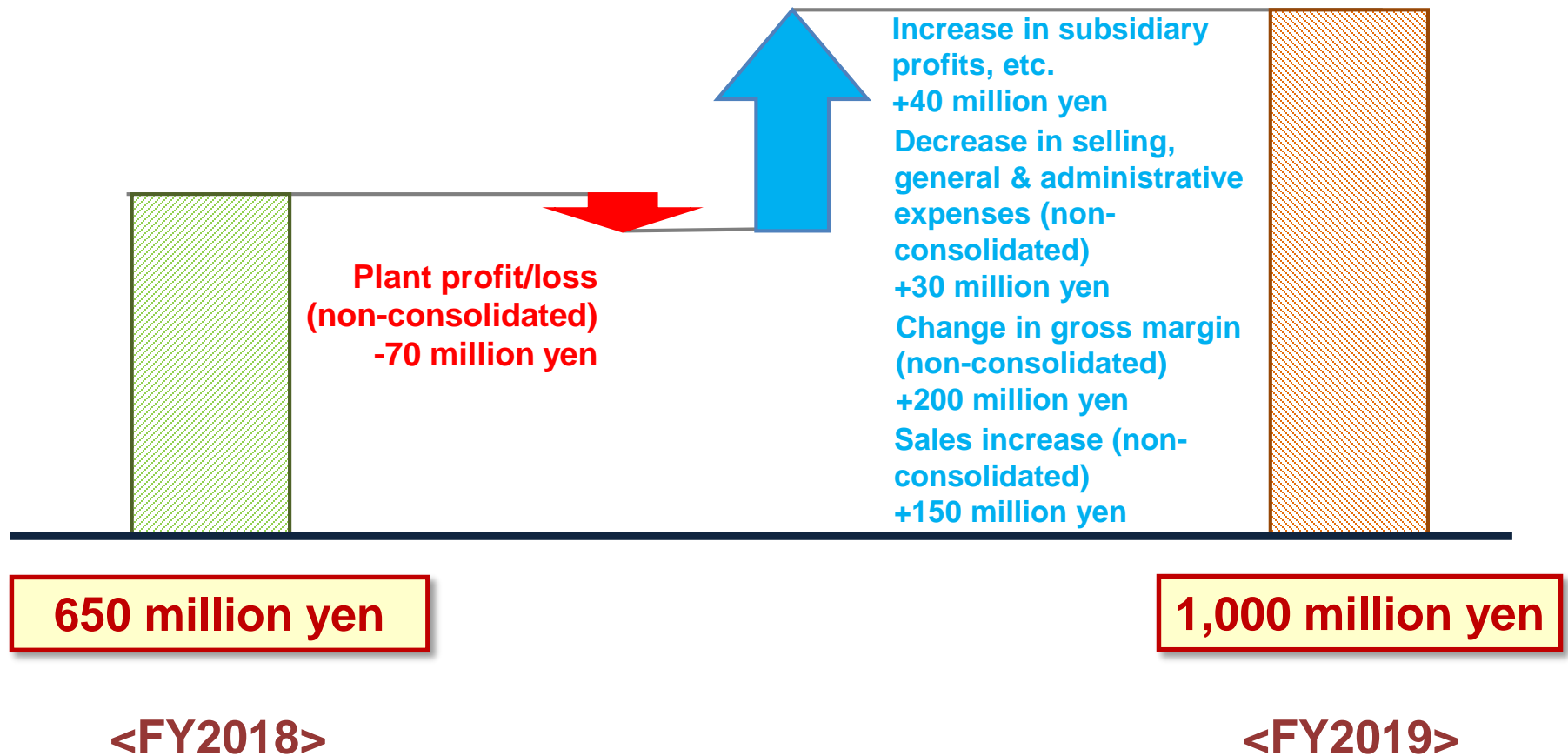
Net sales and segment income



- Orders received declined mainly due to stagnation in activities for capturing orders caused by the spread of the novel coronavirus in addition to a reactionary decrease in new large-scale projects (related to power supply) following large orders received in the previous fiscal year.
- Net sales rose primarily due to an increase in sales for testing devices and progress in the construction of new large-scale projects (related to power supply).
- Segment income continued growing significantly from the previous fiscal year owing to the effect of increased sales and improved profitability.

1-7. Segment Performance Industrial Systems Factors for Increase and Decrease in Income

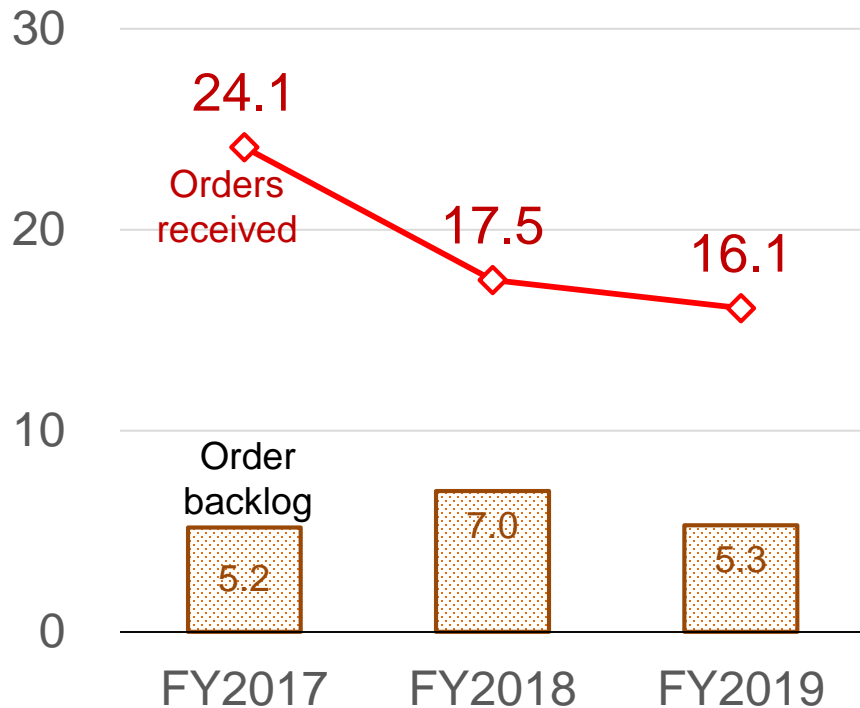
Segment income reached 1,000 million yen due to the effect of an increase in net sales, which exceeded 13,000 million yen for the first time in 12 fiscal years, and profitability improvement.



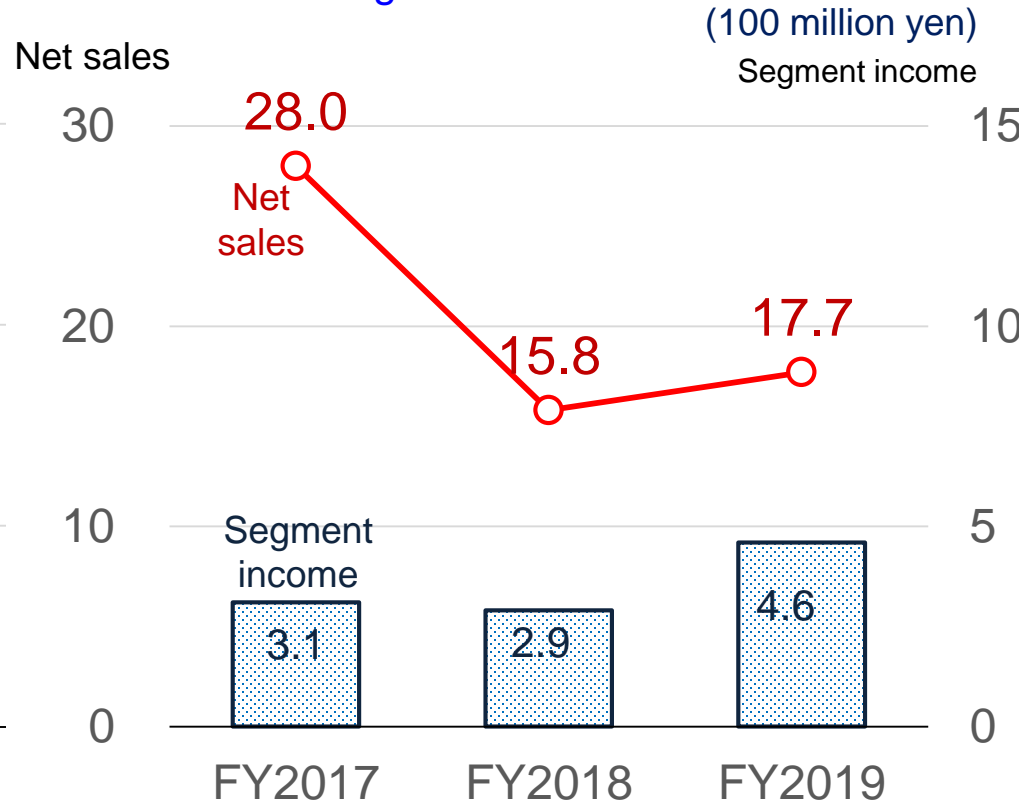
1-8. Segment Performance Information Equipment Systems

Net sales and segment income increased despite lower orders received.

■ Orders received and order backlog



■ Net sales and segment income



- Orders received decreased due to reaction after orders for large-scale projects, such as compound issuing devices, etc., received in the previous fiscal year, although there were software upgrade cases accompanying the change in the consumption tax rate and the springtime revision of railway timetables.
- Net sales and segment income rose due to increases in sales from software upgrade cases and compound issuing devices following the change in the consumption tax rate.

1-9. Consolidated Financial Position

100 million yen, %

	May 31, 2019	May 31, 2020	Change	Remarks
Total Assets	580.0	551.6	-28.3	
Current assets	260.1	262.8	+2.6	
Fixed assets	319.8	288.8	-31.0	Investment securities: -2,400 million yen
Total Liabilities	331.9	309.8	-22.1	
Of which, net interest-bearing debt	131.8	112.5	-19.2	
Net Assets	248.0	241.8	-6.2	Unrealized holding gain/loss on available-for-sale securities: -1,400 million yen
Shareholders' equity ratio	42.8%	43.8%	+1.0pt	

1-10. Trends in Consolidated Cash Flows

- CF from operating activities is 2,100 million yen → Including depreciation of 1,400 million yen
- CF from investing activities is 40 million yen → Including sales of strategic stockholdings (+1,100 million yen) and capital investment (-600 million yen)
- Net interest-bearing debt was reduced steadily to 11,200 million yen (down 1,900 million yen from the previous year).

100 million yen

	FY2015	FY2016	FY2017	FY2018	FY2019
Cash flows from operating activities	11.3	15.0	-15.7	37.2	21.4
Depreciation and amortization	8.5	8.0	12.3	17.7	14.8
Cash flows from investing activities	-9.3	-46.9	-30.8	-10.1	0.4
Purchases of property, plant and equipment	-4.5	-39.0	-34.4	-22.7	-6.4
Purchases of intangible assets	-3.3	-6.1	-1.3	-0.4	-0.3
Proceeds from sales of investment securities	0.1	0.9	11.0	14.4	11.3
Investments in affiliates	-1.9	-	-4.9	-	-3.3
Cash flows from financing activities	-13.4	28.6	41.4	-20.1	-11.2
Purchase of treasury stock	-0.0	-3.0	-0.0	-8.0	0.0
Cash dividends paid	-2.9	-2.8	-2.8	-4.7	-2.6
Free cash flow	1.9	-31.8	-46.5	27.0	21.8

Cash at the end of the period	24.0	20.9	15.5	22.4	32.9
Interest bearing debt	83.0	117.5	161.7	154.2	145.5
Net interest bearing debt	59.0	96.6	146.1	131.8	112.5

2. Outlook for Financial Results for Fiscal Year Ending May 2021 and Medium-Term Management Plan

2-1. Outlook for Financial Results for Fiscal Year Ending May 2021 (Consolidated)

Amid the novel coronavirus spreading globally, it is difficult to quantify its impact on the Company's performance reasonably. Therefore, the forecast is undecided at this moment. As soon as it becomes possible to reasonably make a performance forecast, the Company will announce such immediately.

100 million yen, %

	FY ended May 2020 (Result)		FY ending May 2021 (Forecast)		YoY Change
	2Q	Full year	2Q	Full year	Full year
Net Sales	193.9	390.7			
Operating Income (%)	3.0 (1.5%)	10.6 (2.7%)			
Ordinary Income	3.8	12.0			
Net Income [Net income per share (yen)]	4.7 52.63	10.8 120.98			
Dividend per share (yen)		30.0			
Orders received	203.4	385.2			

To be decided

2-2. Medium-Term Management Plan Numerical Targets

During the first two years of the “Revitalize2020” Medium-Term Management Plan, the Company focused on improving profitability and made progress largely as planned. Plans for the second two years will be reviewed and announced going forward.

100 million yen, %

	FY ended May 2019	FY ended May 2020		FY ending May 2022
	Result	Plan	Result	Plan
Net Sales	411.7	430.0	390.7	To be reviewed in the future
Operating Income	5.5	9.0	10.6	
(Operating margin ratio)	(1.4%)	(2.1%)	(2.7%)	
Ordinary Income	4.9	11.0	12.0	
Net Income	6.9	7.0	10.8	
Investment gain on equity method	0.1	1.2	-0.3	
ROE	2.7%	3.3%	4.4%	
Payout ratio	39.9%	30.0%	24.8%	

<Net sales by segment>

Transportation Systems	272.3	290.0	242.6
Industrial Systems	123.3	130.0	130.2
Information Equipment Systems	15.8	10.0	17.7

2-3. Medium-Term Management Plan Summary of First Two Years

In the first two years (FY ended May 2019 to FY ended May 2020), the Company focused on improving profitability and simultaneously made the following achievements.

◆ Expanding the overseas business

- Transportation Systems (municipal transportation in China)
 - Made progress in developing a system to meet an expansion of demand for maintenance (Beijing Jingche Shuangyang Traction System).
 - Commenced pantograph production in China (Chengdu Yonggui Toyo Rolling Stock Equipment).
- Industrial Systems
 - Established a permanent magnet motor manufacturing company in China (Chinalco Toyo)
 - Established a subsidiary in Thailand to serve as the sales base in ASEAN (SIAM TOYO).



<Beijing Jingche Shuangyang Traction System>



<Chengdu Yonggui Toyo Rolling Stock Equipment>

◆ Establishing a stable business earnings structure

- Increased the production efficiency of industrial products by opening the Shiga Ryuo Plant.

◆ Developing foundations for expanding production capacity

- Upgraded core systems with the aim of enhancing production efficiency.
- Enhanced production efficiency by introducing an automatic conveyance system at the Shiga Ryuo Plant.

◆ Promoting ESG

- Contributing to the reduction of environmental impact and the improvement and development of social infrastructure, and strengthening the Company's corporate governance.

3. Topics

3-1. Responses to New Coronavirus Infections

Responses at Head Office, Branch Offices, and Plants

Until now, the spread of the novel coronavirus has had a limited impact on the Company's operations.

The Company will continue its business activities after implementing infection prevention measures, such as utilization of teleworking.

Status of offices	The head office and branches continue teleworking and staggered commuting hours.
Status of sales activities	Communication with customers is promoted through a web conference system, etc.
Status of production	Production lines in plants are operating as in normal times.
Supplier status	There are no noticeable delays. Promote decentralization of suppliers to reinforce business continuity ability.

3-2. Overseas Operations

Chinalco Toyo: Progress status of launching a plant

Operation start, which was initially scheduled for June 2020, is expected to be delayed by two months or so due to the spread of the novel coronavirus.

	Initial Schedule	Current Status
Operation	Start in June 2020	Start in August 2020
Production equipment	Delivery, adjustment and trial run between February and April	Delivery by July and adjustment and trial run in August.
Plant personnel	Orientation and training from January to March On-site training from April to May	Orientation and training from April to June (Online at home) On-site training from July to August
Sales activity	Start sales activity in March	Start sales activity in May * In parallel, the Chinalco Group recommends that the Group prioritize the use of motors made by Chinalco Toyo.

3-3. Product Development (Transportation Systems)

Promoting development of new products

- ◆ VVVF inverter using SiC element
- ◆ High-efficiency totally-enclosed motor
Developed and delivered high-efficiency core circuit systems.
Realized energy-saving by reducing energy consumption by 18% from conventional products.
- ◆ Low-noise type driving gear units
Developed a low-noise type driving gear units by revising the processing method of small gears.
Significantly reduced noise levels during acceleration and deceleration.
- ◆ High-frequency insulated auxiliary power supply (SIV)
Achieved significant reductions in size and weight by adopting a high-frequency insulation method.
Succeeded in reducing the volume and mass by about 60% from conventional products (in the same output range).



<VVVF inverter>



<Totally-enclosed motor>



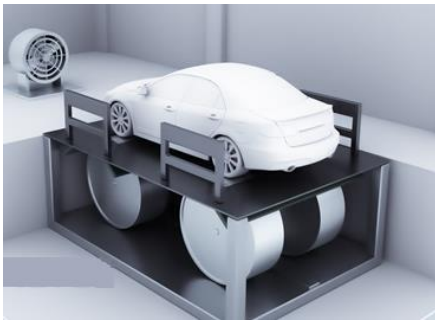
<High-frequency insulated auxiliary power supply>

3-4. Product Development (Industrial Systems)

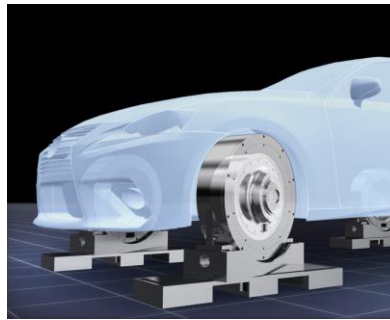
Developed products with unprecedented concepts

◆ Flat-type dynamo (in-wheel-well dynamo)

Striving to expand sales as a space-saving alternative to the chassis dynamo and, at the same time, seeking the possibility of applying this product to testing equipment for self-driving vehicles in the future.



<To replace chassis dynamos (lower roller)>



<Main body of dynamo>



<Also applicable to testing of self-driving vehicles>

◆ Low-inertia high-speed rotation (20,000 rpm) dynamo

At present, sales efforts are ongoing for EV/HEV motor generator tests (1-axis configuration).

Aiming to commercialize a 20,000 rpm dynamo of “Slender Type” that can be used for FF and FR (3-axis configuration) and 4WD (5-axis configuration) tests.

3-5. ESG Initiatives (1)

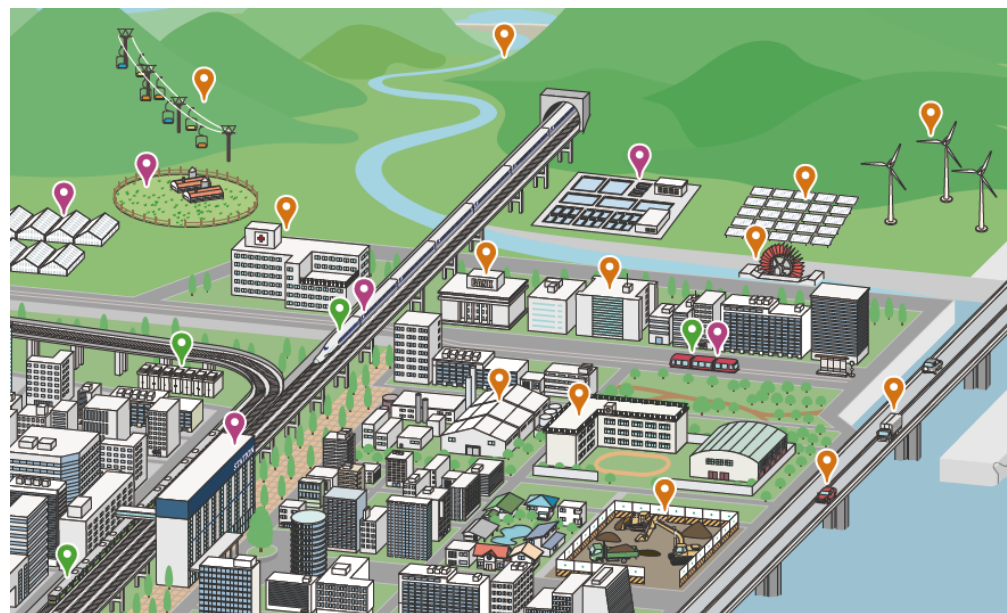
Contributing to the establishment of safe and secure social infrastructure and its sustainable development


The Company's products (motors and inverters) are widely adopted by railway operators, automotive manufacturers, and for plant facilities, and contribute to reducing environmental burden and establishing and developing social infrastructure.

Efforts are made particularly on penetration of energy-saving products toward achieving sustainable development goals 7 and 13.

“SDG 7: Affordable and clean energy”

“SDG 13: Climate action”



<  The Company's products are widely used in society.>

3-6. ESG Initiatives (2)

Specific initiatives:

Environment

- Production and sales of high-efficiency, energy-saving products
 - Electric equipment for railroad rolling stock
 - Industrial motors and inverters
 - Contribution to energy conservation in China and ASEAN countries
- Contributing to renewable energy
 - Biomass power generation and small hydropower generation

Society

- Contribution to the development of social infrastructure, including urban transportation in Japan and abroad
- Contribution to enhancing productivity in supply chains in Japan and abroad
- Provision of lectures to local governments and education institutions
 - ⇒ Conducted an endowed course on railway ecology at Yokohama City University
- Promoting comfortable workplaces for employees (support for diverse work styles)
 - ⇒ Improving the environment for teleworking

Governance

- Having outside directors account for one-third of board members
- Introduction of an operating officer system that clearly separates supervision and execution

Thank you for your interest.

<https://www.toyodenki.co.jp>

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