
Financial Results Briefing

Fiscal 2017

(Ended May 31, 2018)

July 13, 2018

Toyo Denki Seizo K.K.

Program

■ Briefing on Financial Results: 25 minutes

1. Overview of Financial Results for Fiscal Year ended in May 2018
2. Outlook for Financial Results for Fiscal Year ending in May 2019
3. About New Medium-term Management Plan “Revitalize 2020”

■ Q&A: 30 minutes

1. Overview of Financial Results for Fiscal Year ended in May 2018
(From June 2017 to May 2018)

1-1. Overview of Consolidated Financial Results

Net sales increased, but profits declined due to the impact of some projects in transportation and industrial systems.

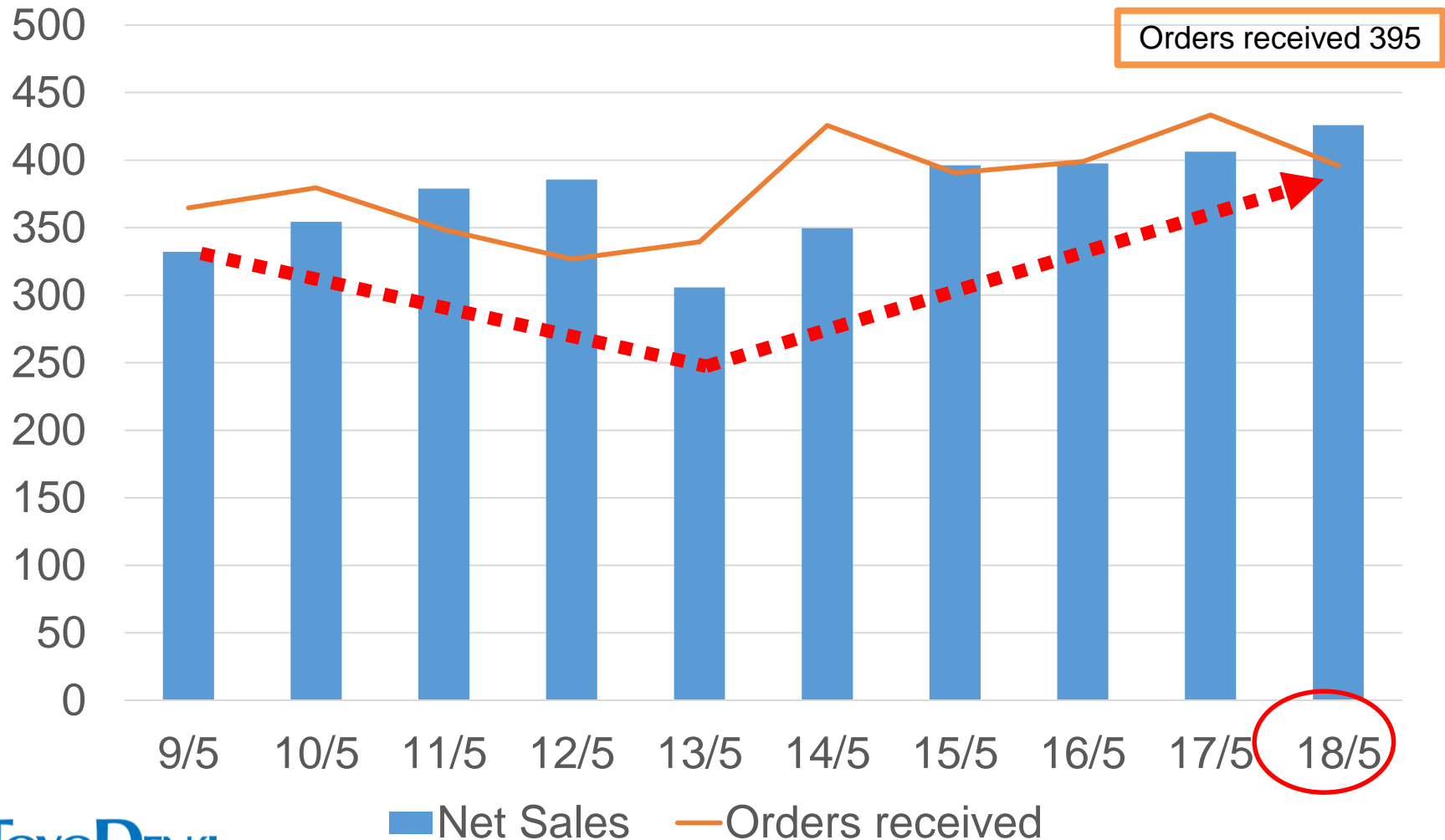
100 million yen

	2017.5	2018.5	YoY Change		Published value	Published value ratio	
				(%)			(%)
Net Sales	406.6	425.2	+ 18.6	+4.6%	410.0	+15.2	+3.7%
Operating Income (%)	15.7 (3.9%)	3.6 (0.9%)	-12.1 (-3.0%)	-76.7% -	13.0 (3.2%)	-9.4 (-2.3%)	-72.3% -
Ordinary Income	16.6	5.1	-11.5	-69.0%	14.5	-9.4	-64.8%
Net Income [Net income per share(yen)]	11.7 123.87	6.9 73.33	-4.8 -50.54	-41.0% -	15.0 158.24	-8.1 -84.91	-54.0% -
ROE	4.9%	2.7%	-2.2%	-	*Reference value (plan)		
Orders received	433.5	395.9	-37.6	-8.7%	460.0	-64.1	-13.9%
Ratio of overseas sales to net sales	31.1%	25.3%	-5.8%	-			

<Reference> Changes in consolidated orders received and net sales

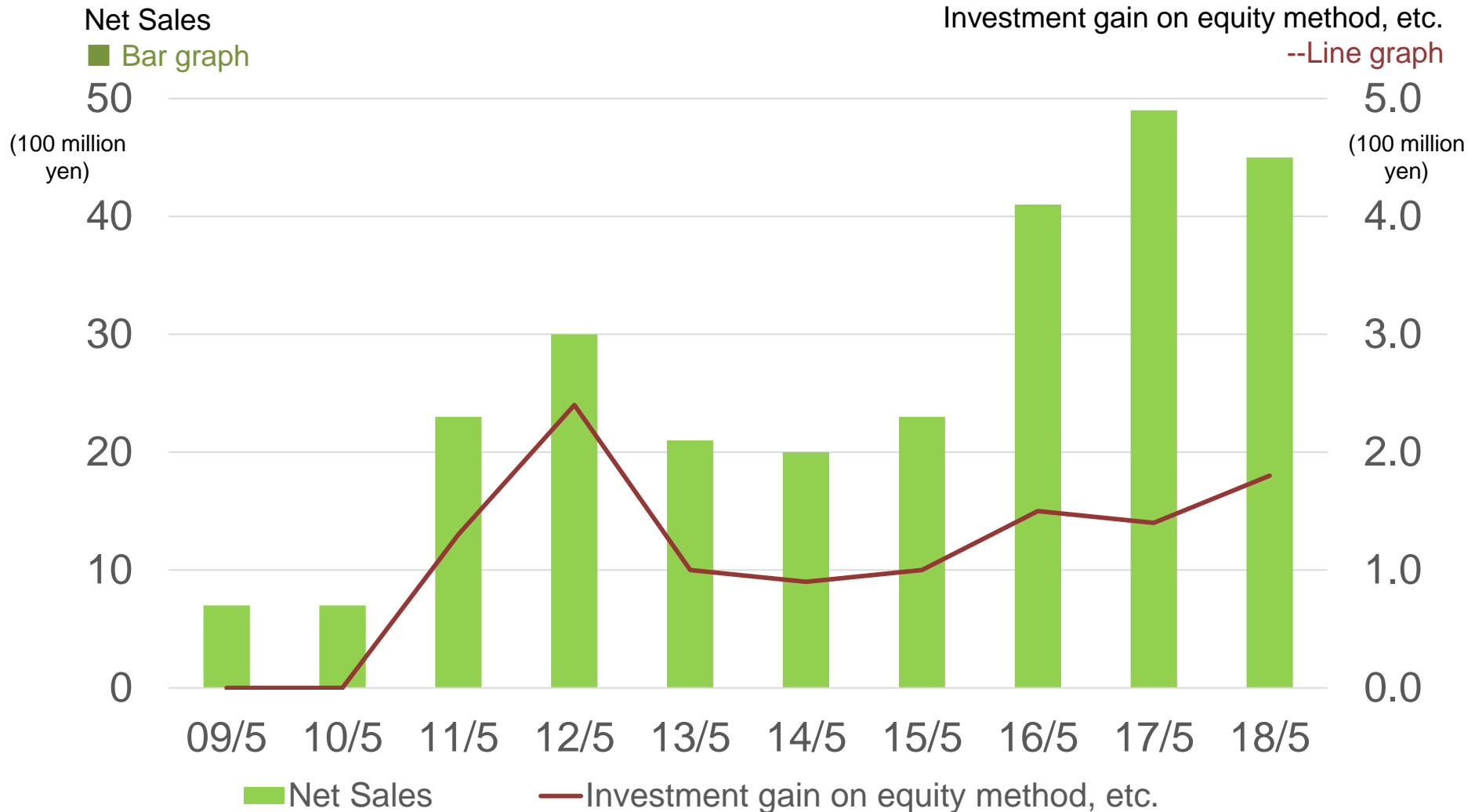
Net sales have been on an upward trend since 2013 when there was a decline in business in China.

(100 million yen)



<Reference> Changes in investment gain on equity method

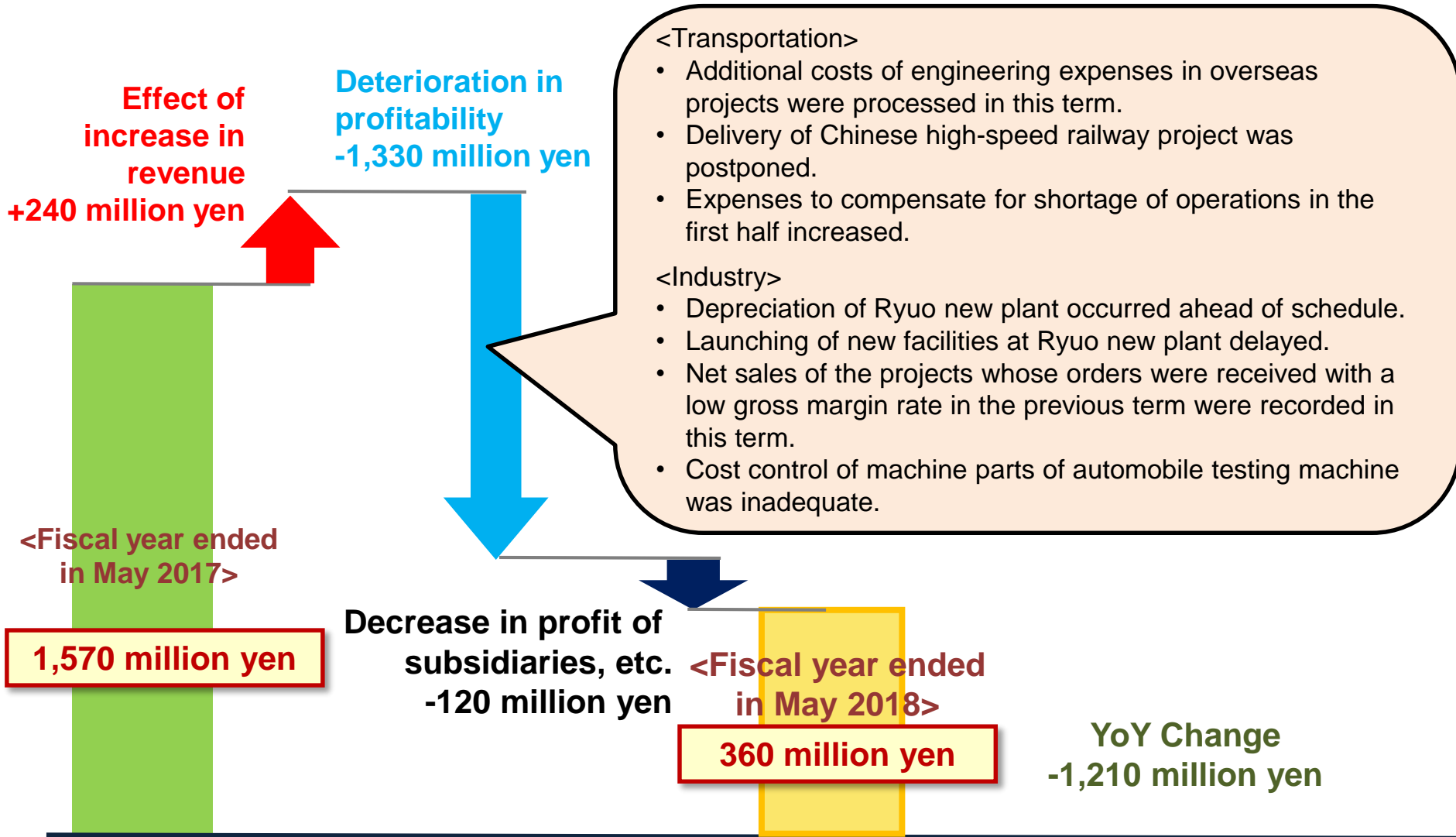
Changes in “Net sales” and “Investment gain on equity method, etc.” of three companies under equity method (in China).



(Including dividends, technology transfer fees, etc.)

1-2. Factors for increase and decrease in operating income (YoY change)

Various challenges occurred in the 157th term, and the operating income decreased drastically.

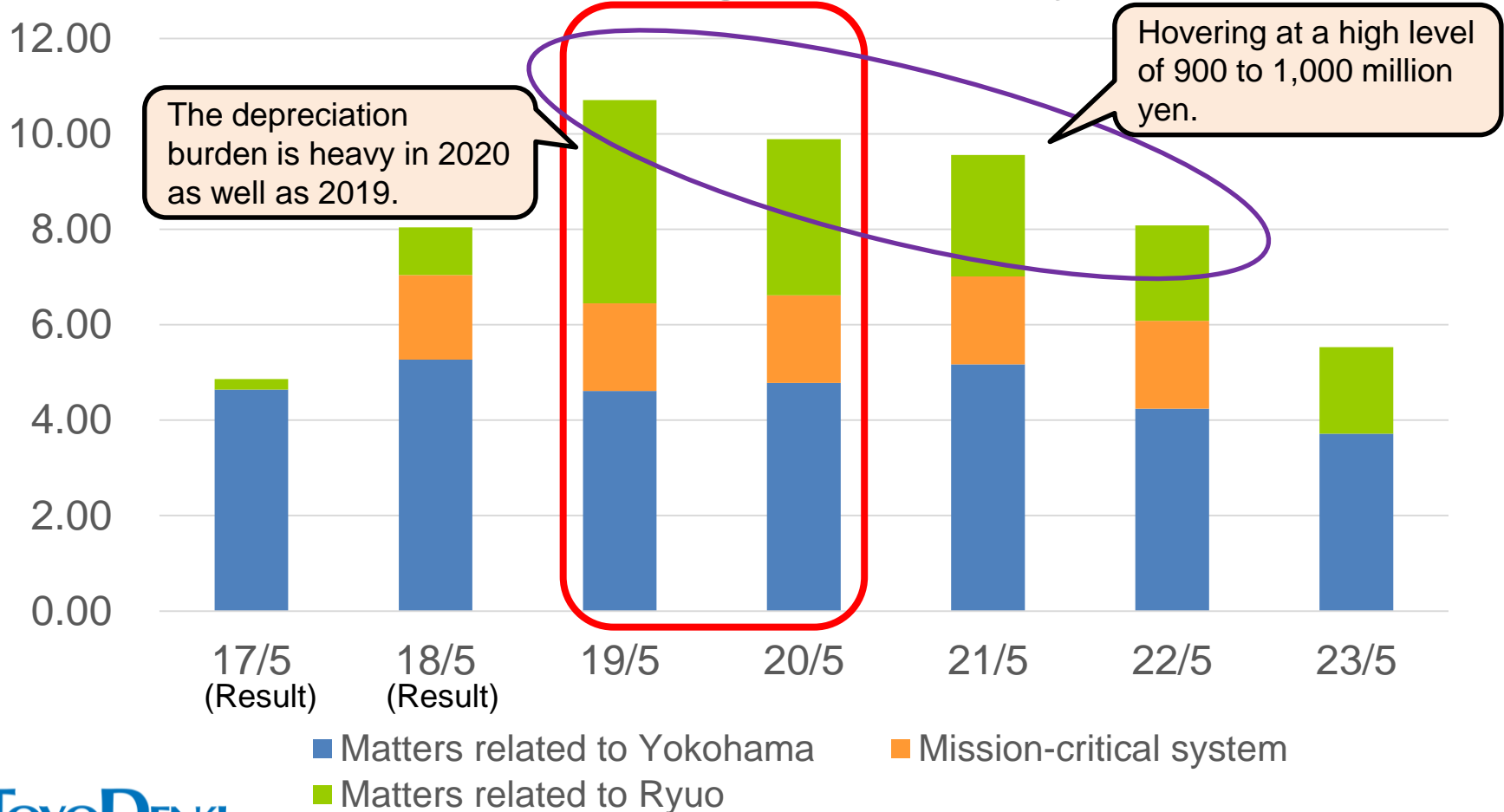


<Reference> Changes in depreciation and amortization expenses

New mission-critical system is to be in operation from this term.
Depreciation expenses of Ryuo partially occurred ahead of schedule in this term, and will become full-fledged from next term.

Forecast of changes in depreciation expenses (related to restructuring of production system).

(100 million yen)

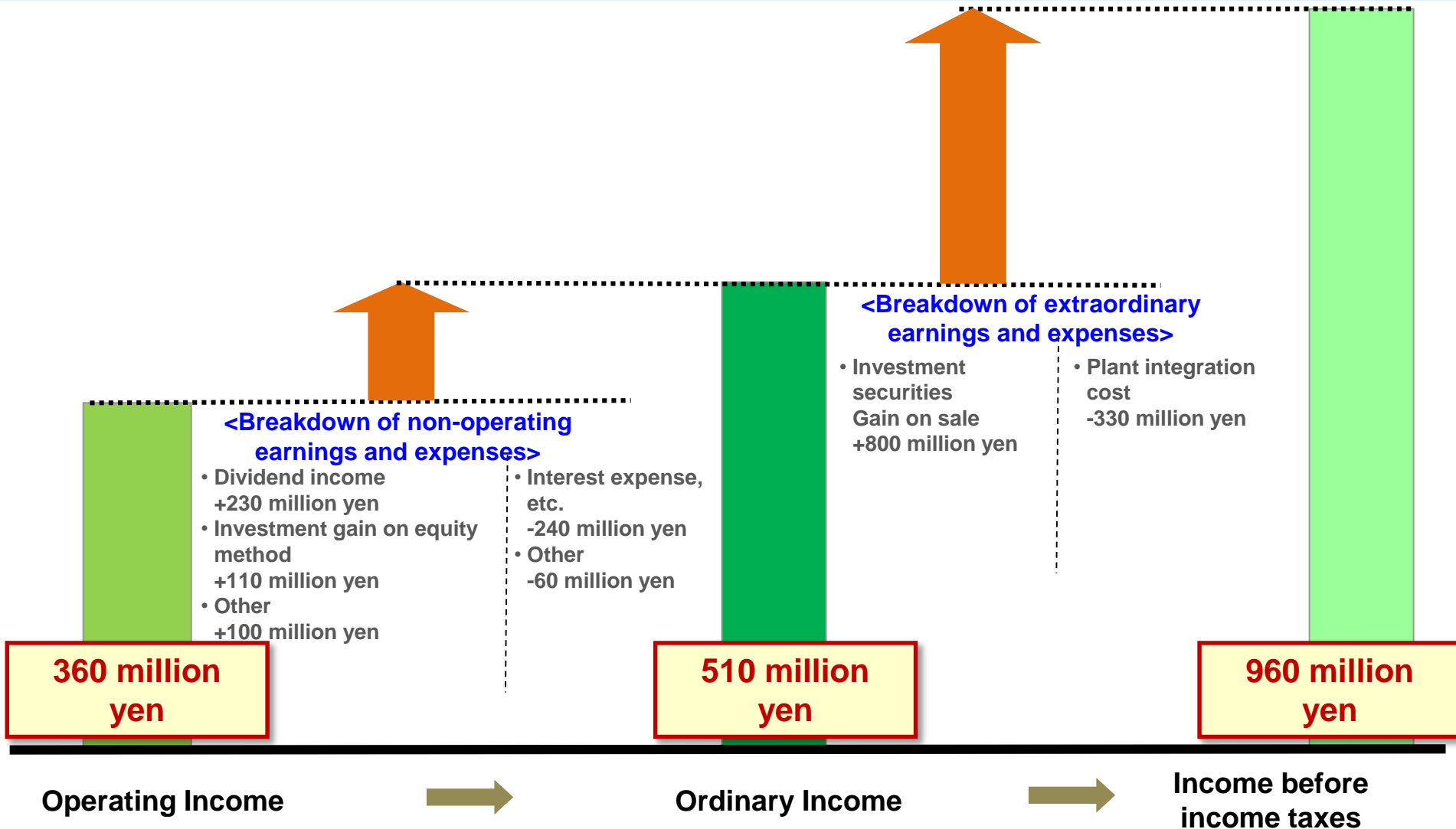


The depreciation burden is heavy in 2020 as well as 2019.

Hovering at a high level of 900 to 1,000 million yen.

1-3. Details in non-operating profit and loss, and extraordinary profit and loss.

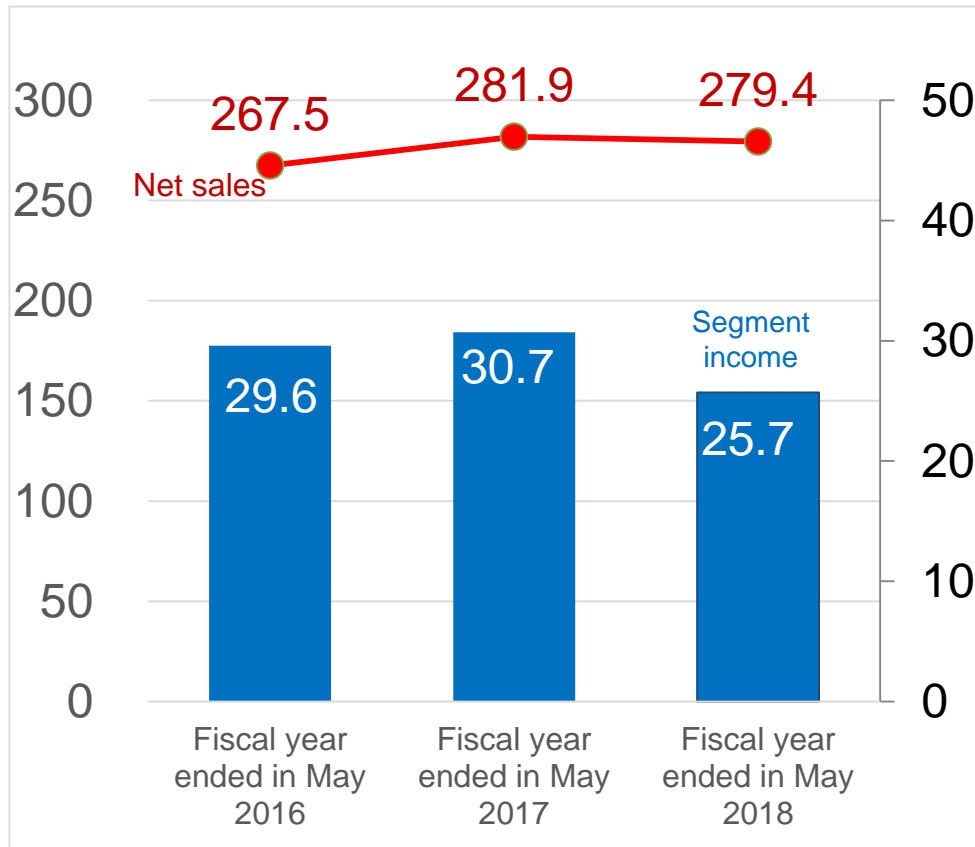
The sales of part of marketable securities will be advanced to make effective use of funds.



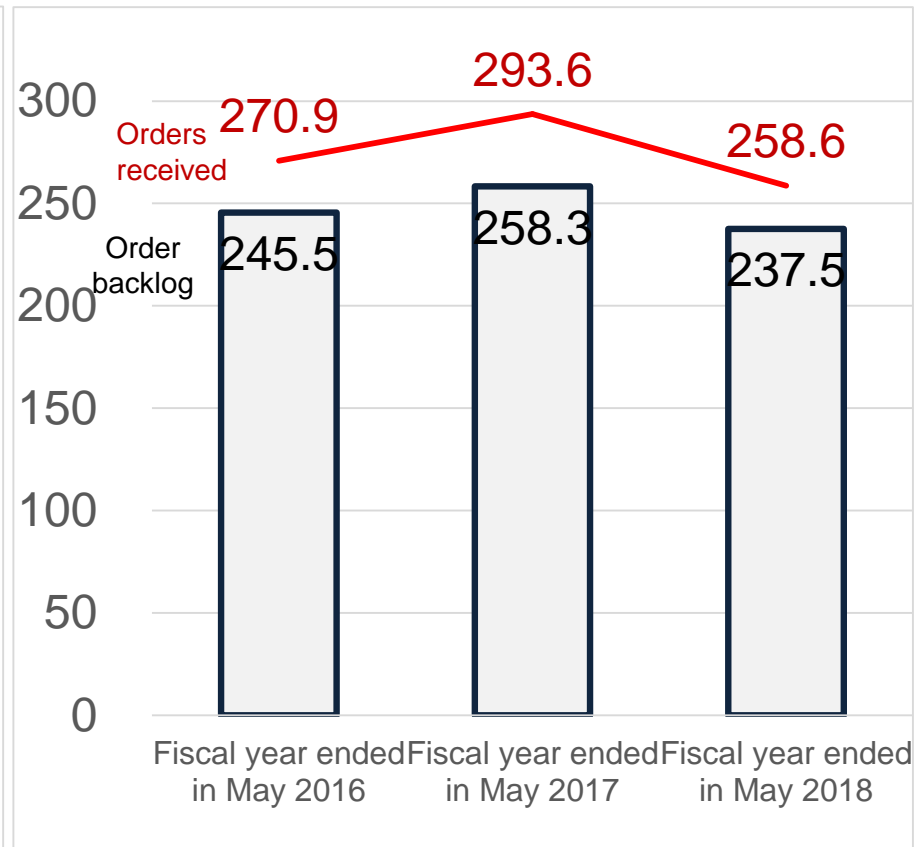
1-4. Segment Performance **Transportation Services**

Incorporating strong domestic demand, net sales were on a par with the previous year, but there was a decrease in profit due partially to the impact of overseas projects.

■ Net sales and Segment income



■ Orders received and Order backlog (100 million yen)

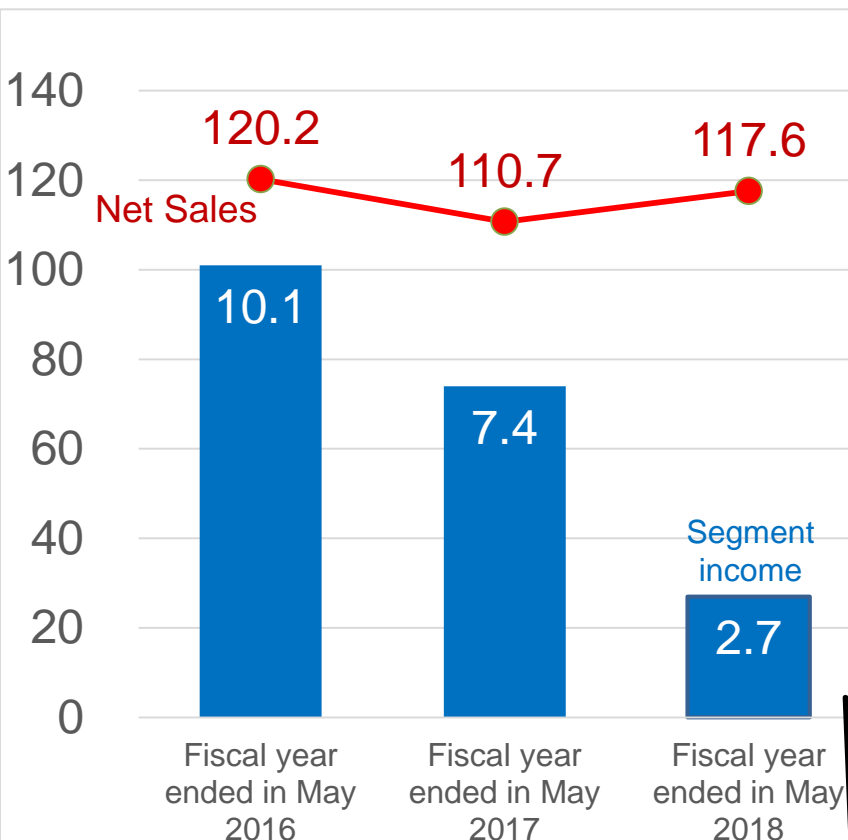


- Orders received for Chinese high-speed railway increased, but domestic orders received decreased.
- Net sales greatly declined as Chinese high-speed railway was switching its train model types.
- Segment income declined due to the increase in engineering expenses in some overseas projects.

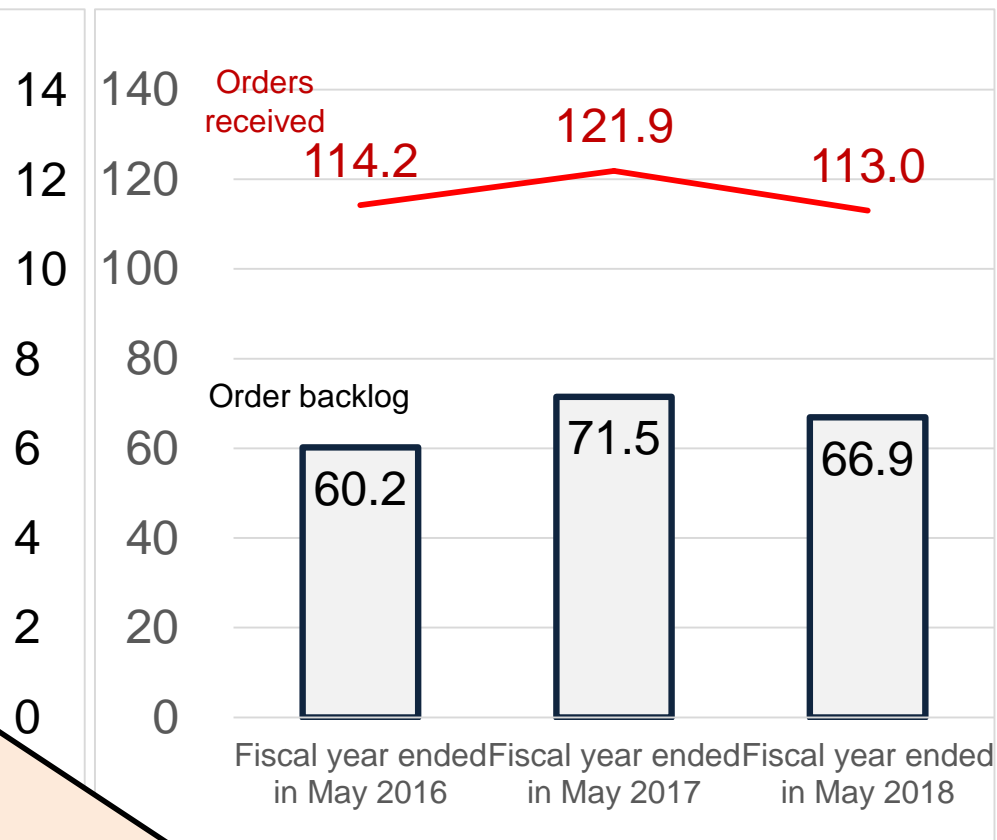
1-5. Segment Performance **Industrial Services**

Despite robust net sales, a substantial decrease in profit occurred due to the increase in costs of some projects and the decline in the operating rate caused by the new plant relocation.

■ Net sales and Segment income



■ Orders received and Order backlog (100 million yen)



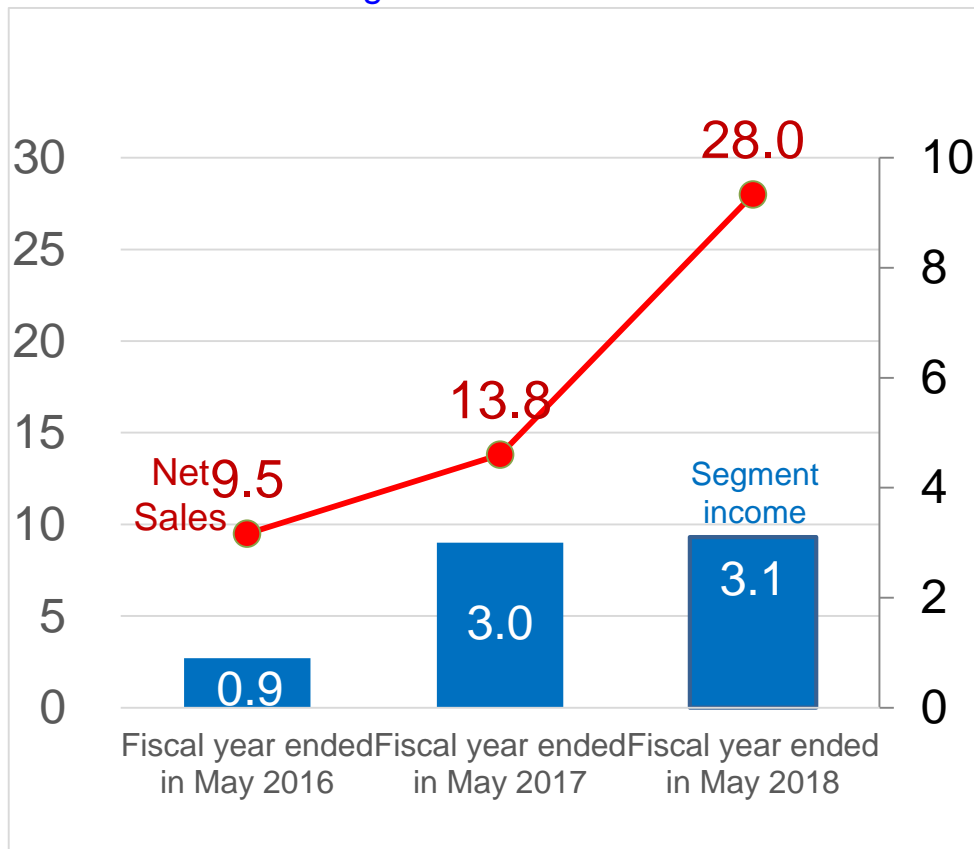
Outline of measures for improvement

- (1) Improvement of profitability (new project)
- (2) Strengthening of supply chain (testing machine, etc.)
- (3) Unified management of processes (from sales to shipment)

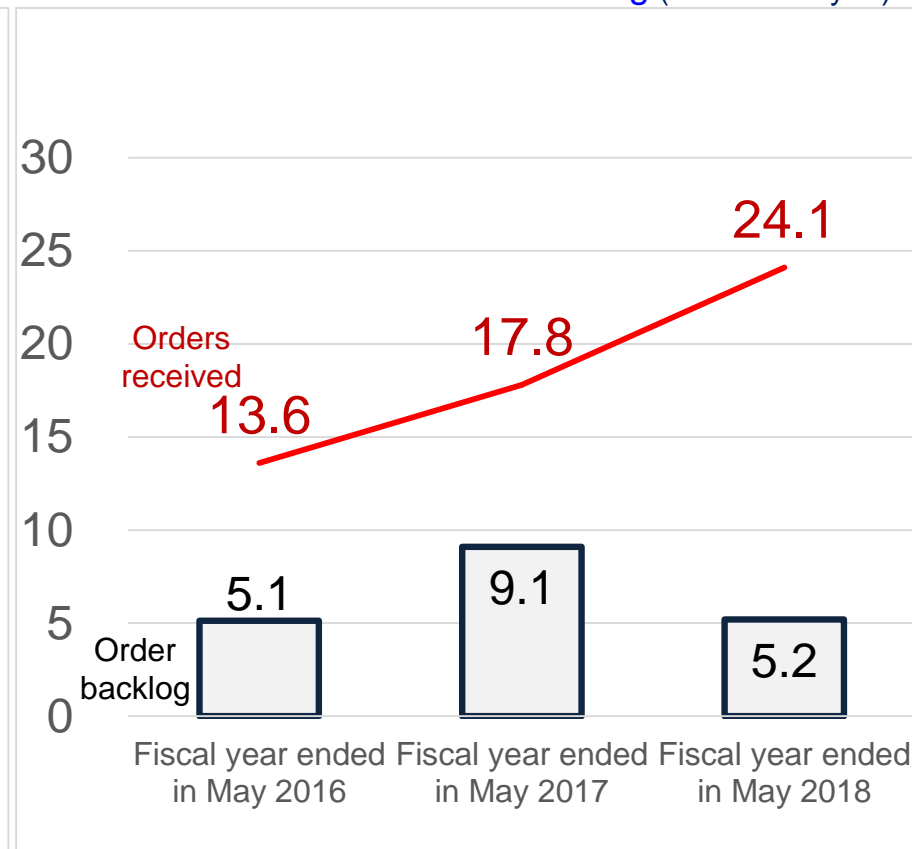
1-6. Segment Performance **Information Equipment Services**

Large-sized station equipment projects contributed to net sales.

■ Net sales and Segment income



■ Orders received and Order backlog (100 million yen)



- New-type composite ticketing machine greatly contributed to performance.

1-7. Consolidated Financial Position

Measures aiming to rebuild production system made progress.

100 million yen

	May 31, 2017	May31, 2018	YoY Change	Main increase and decrease factors
Total Assets	549	637	+88	
Current assets	257	291	+34	Accounts receivables+17 Raw materials, etc.+10
Fixed assets	291	345	+54	Tangible fixed assets+35(Shiga Ryuo new plant) Softw are+7 (new mission-critical system)
Total liabilities	303	374	+71	
Of which, interest-bearing debt	117	161	+44	Matters related to Shiga Ryuo new plant
Net Assets	246	263	+17	Retained earnings+4 Unrealized gain (loss) on available-for-sale securities+12
Shareholders' Equity Ratio (%)	44.8%	41.3%	-3.5%	

2. Outlook for Financial Results for Fiscal Year ending in May 2019

2-1. Forecast of financial results (whole company)

Expecting net sales of 42.5 billion yen and orders received of 40.9 billion yen.

100 million yen

	FY ended in May 2018 (Result)		FY ending in May 2019 (Forecast)		YoY Change
	2Q	Full year	2Q	Full year	Full year
Net Sales	186.6	425.2	190.0	425.0	-0.2
Operating Income (%)	-2.3	3.6 (0.9%)	-2.7	5.0 (1.2%)	+1.4
Ordinary Income	0.5	5.1	-1.5	7.0	+1.9
Net Income [Net income per share (yen)]	2.6 27.12	6.9 73.33	-1.5 -15.88	5.0 52.95	-1.9 -20.38
Dividend per share (yen)		50.0		30.0	
Orders received	197.5	395.9	211.0	409.0	+13.1
Order backlog at the end of fiscal year		309.7			

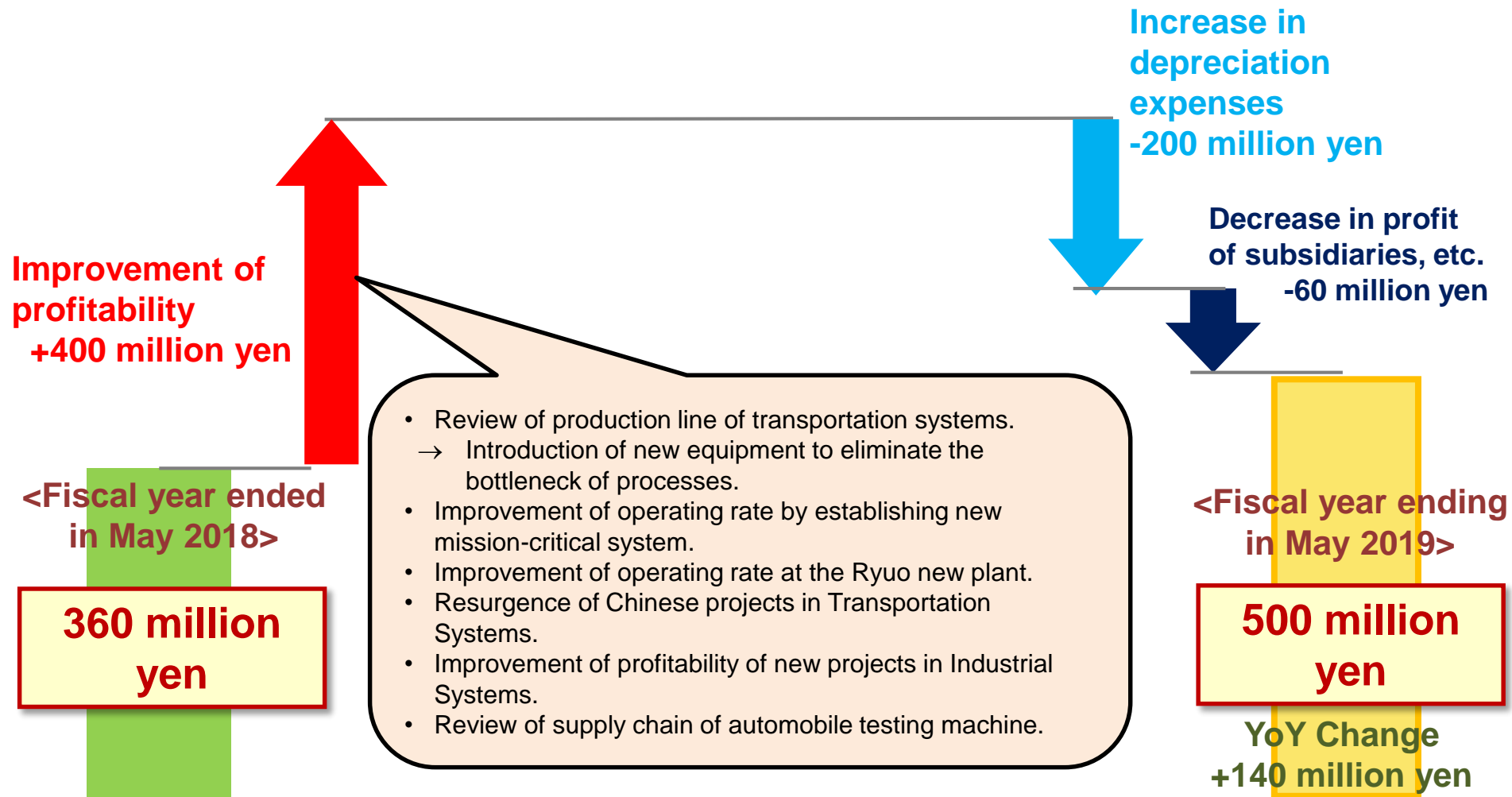
2-2. Forecast of financial results (by segment)

100 million yen

		Transportation	Industry	Information Equipment
2019.5 forecast (Full year)	Net Sales	280.0	130.0	15.0
	Segment income	25.0	6.8	2.3
	Orders received	270.0	130.0	9.0
YoY Change	Net Sales	+0.6	+12.3	-13.0
	Segment income	0.0	+4.1	0.0
	Orders received	+11.4	+17.0	-15.1

2-3. Conceptual image of improvement in operating income (consolidated)

The increase in depreciation expenses was expected, but gross margin and plant profitability were improved.



3. About New Medium-term Management Plan “Revitalize 2020”

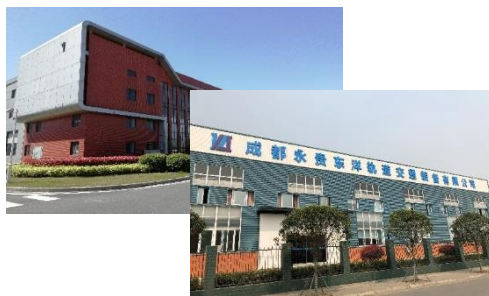
3-1. Review of Previous Medium-term Management Plan

Although strengthening of management foundation was actualized, there still remain challenges for speedy management regarding improvement of profitability and product development.

■ Main achievements



Launching of full-fledged operations at Shiga Ryuo manufacturing plant.



Made Yangdian Zhanyun a subsidiary and established Chengdu Yonggui Toyo Rolling Stock Equipment Co., Ltd.



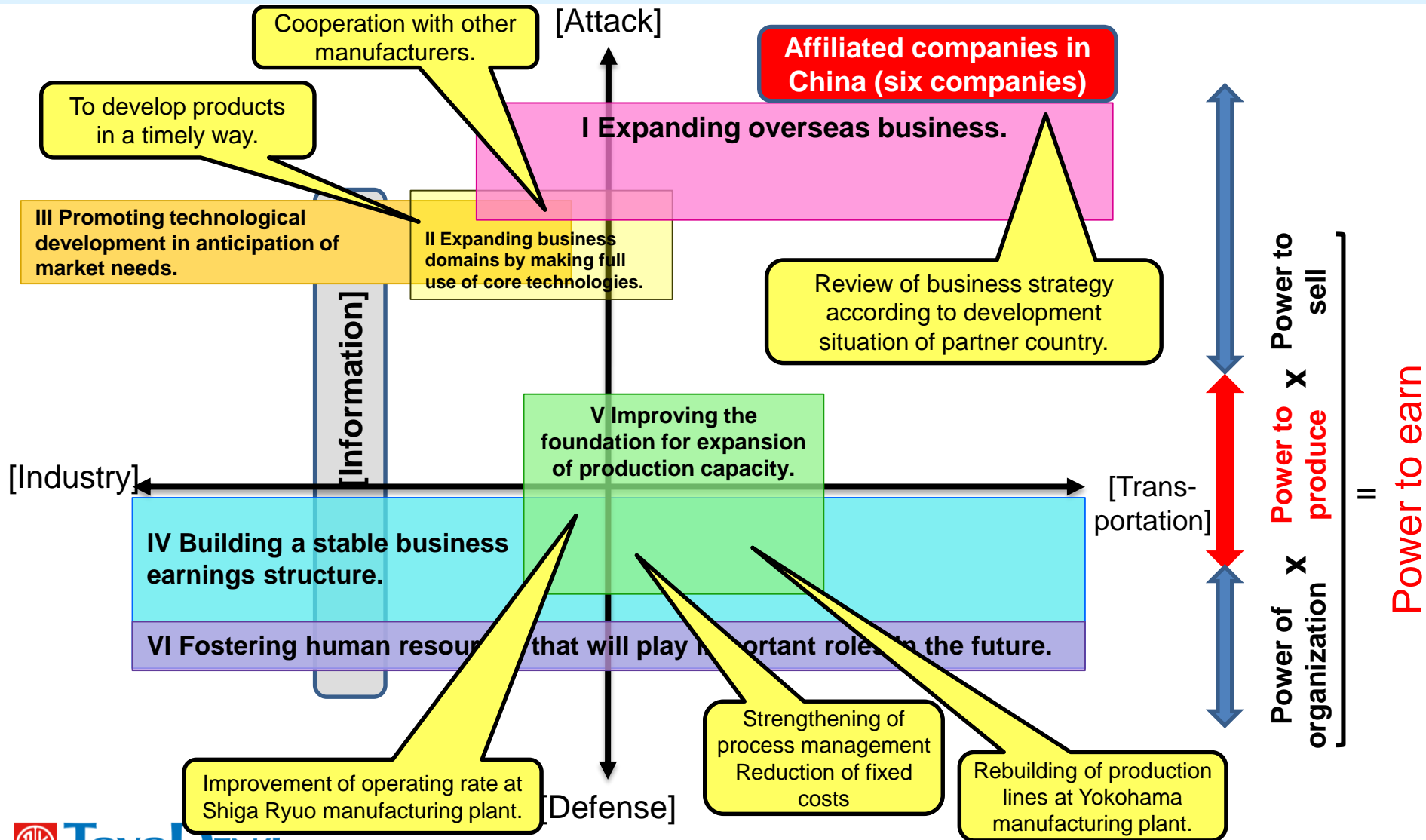
Development of dynamo with 20,000 rotations.

■ Challenges

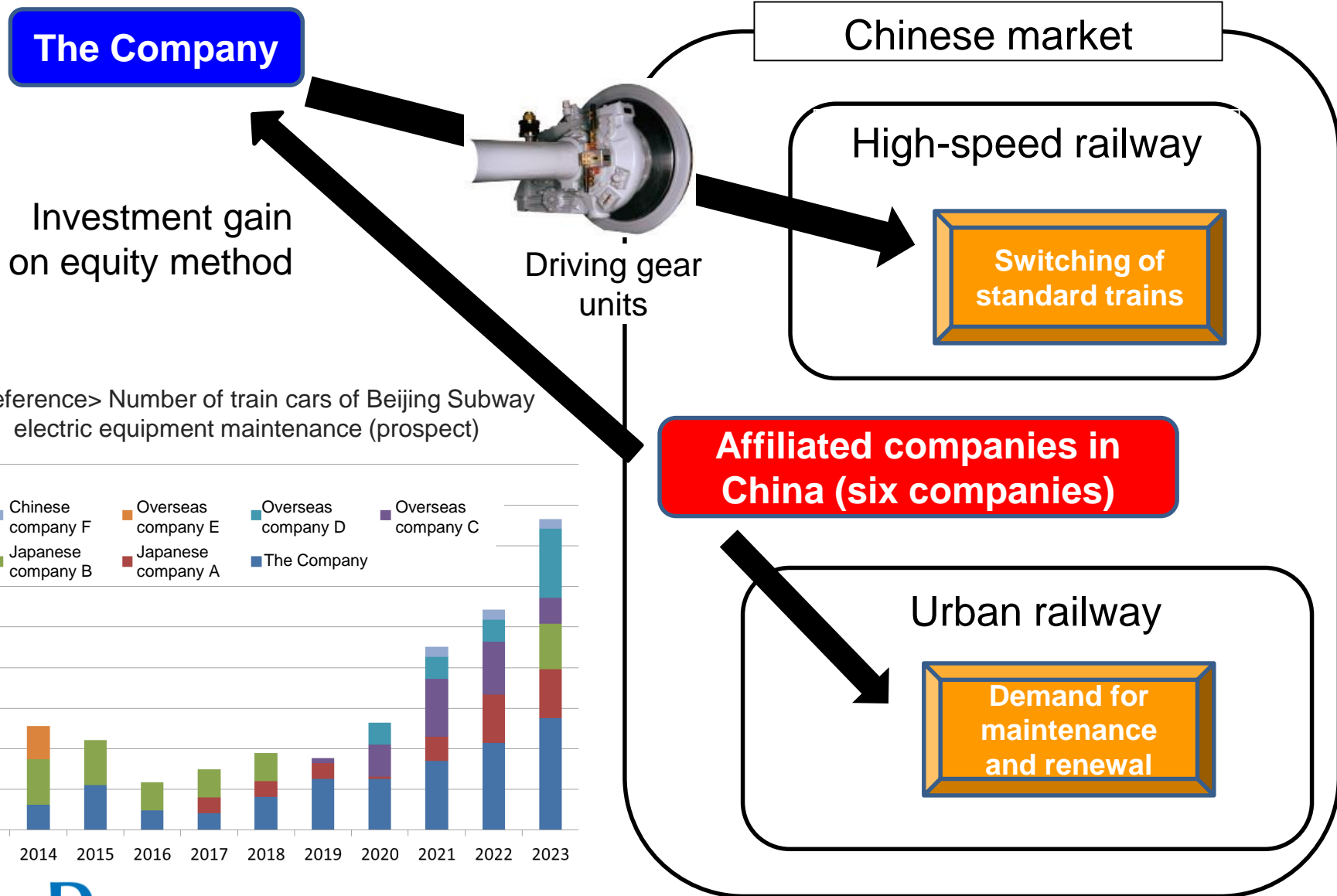
- (1) To secure suppliers with excellent quality and cost.
- (2) To secure sufficient gross margin at the time of receiving orders.
- (3) To develop products in a timely way.

3-2. Basic policy

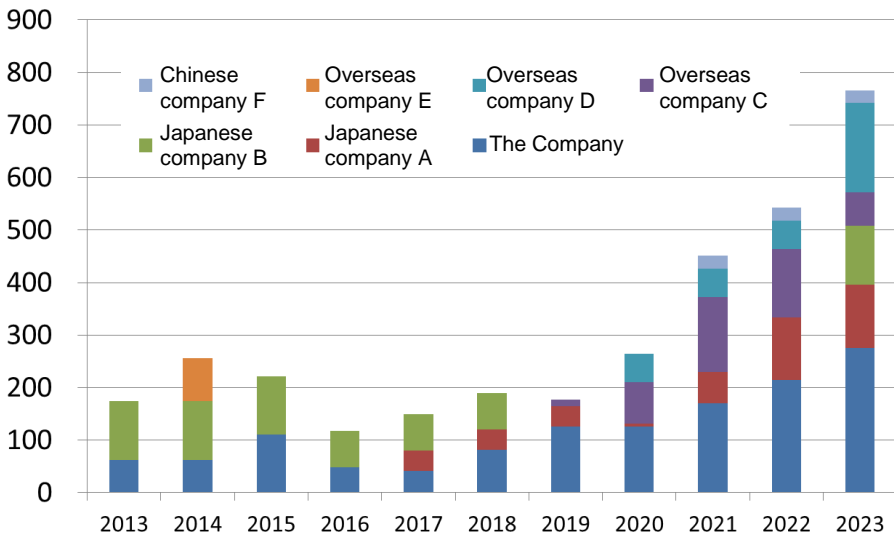
To enhance "Power to produce," "Power to sell," and "Power of organization" and to strengthen "Power to earn" through the relevant synergistic effect.



3-3. Business environment surrounding the Company (in China)



<Reference> Number of train cars of Beijing Subway electric equipment maintenance (prospect)



3-3. Business environment surrounding the Company (Industry)

■ Business opportunities in China and ASEAN (Guidelines on China Manufacturing 2025)

- (1) Energy saving
- (2) Progress of urbanization
 - Capacity increase of processing machinery equipment
- (3) Sophistication of economy and industry
 - Increase in demand for power generation and power supply



The Company



Development of products corresponding to the markets in China and ASEAN.

3-4. Major measures (1)

1. Expanding overseas business

- i. Review of business strategy according to development situation of economy and technology of partner country.
- ii. Expansion of new business of industrial systems in Southeast Asia.
- iii. Strategic participation in new urban transport project.



Product development to Southeast Asia.



Expansion of local production of pantograph.



Expansion of maintenance business with Beijing Jingche Shuangyang.

2. Expanding business domains by making full use of core technologies

- i. Promotion of commercialization focusing on business prospects and market trends.
- ii. Development of new business based on latest technological innovation results.
- iii. Expansion of business domains utilizing alliances and M&A.



Development of flat-type dynamo for automatic operation vehicle evaluation.

3-4. Major measures (2)

3. Promoting technological development in anticipation of market needs

- i. Timely product development by strengthening market analysis capabilities.
- ii. Establishment of new production technology for core parts (products).



Development of electrical equipment for railway vehicles.



Research and development on wireless power supply while driving.

4. Building a stable business earnings structure

- i. Cost reduction for improving business profitability.
- ii. Enhancement of collaboration of sales and factory system through companywide activities.
- iii. Promotion of group management focusing on "Power to earn."
 - a) Promotion of "selection and concentration" throughout the group.
 - b) Building a group-wide sales and production system.

3-4. Major measures (3)

5. Improving the foundation for expansion of production capacity

- i. Strengthening process management by maximizing the functions of the mission-critical system and building optimal production lines.
- ii. Expansion of production capacity by restructuring production lines (Yokohama manufacturing plant).
- iii. Improvement of operating rate of new production lines (Shiga Ryuo manufacturing plant).
- iv. Rebuilding the supply chain.
- v. Raising the level of BCP (Business continuity plan).



Utilizing TDS (Automatic warehouse system).

6. Fostering human resources that will play important roles in the future

- i. Establishment and implementation of personnel rotation system for activating organization.
- ii. Strengthening the fostering of next-generation executives and overseas workers.
- iii. Fostering young management-level employees who shall become key executives of the organization as early as possible.



Review of education by hierarchy.

3-4. Major measures (4)

7. Promotion of ESG

- i. Promoting efforts to reduce environmental burden associated with business activities.
- ii. Promotion of reforms in the way of working.
- iii. Enhancement of corporate governance.



- Adding indicators of management numerical targets for the fiscal year ending May 2022.
 - (1) Investment gain on equity method
 - To achieve “400 million yen” by expanding overseas business.
 - (2) ROE (Return on equity)
 - To achieve “5%” by building a stable business earnings structure.
 - (3) Payout ratio
 - To aim to achieve “30%” in order to realize stable shareholder returns.

3-5. Management numerical targets (consolidated)

To achieve consolidated operating income of 2 billion yen in the fiscal year ending May 2022.

(100 million yen, %)

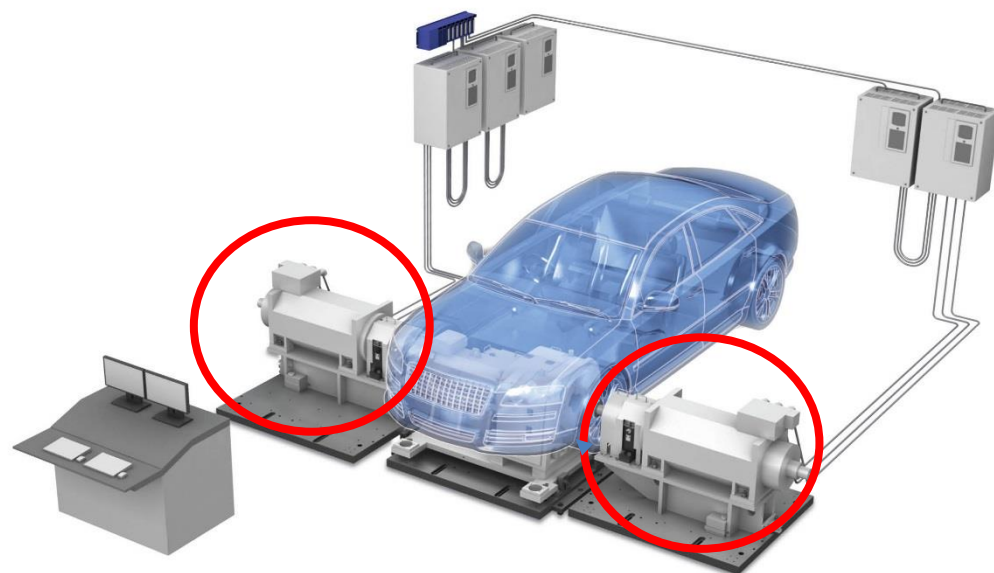
	FY ended in May 2018 (Result)	FY ending in May 2020 (Plan)	FY ending in May 2022 (Plan)
Net Sales	425.27	430	Over 470
Operating Income	3.66	9	20
(Operating margin ratio)	(0.9%)	(2.1%)	(4.3%)
Ordinary Income	5.15	11	24
Net Income	6.92	7	16
<u>Investment gain on equity method</u>	1.16	1.2	4.0
<u>ROE (Net Income to Shareholders' Equity Ratio)</u>	2.7%	3.3%	5.0%
<u>Payout ratio</u>	68.2%	30.0%	30.0%

<Net sales by segment>

Transportation Systems	279.63	290	310
Industrial Systems	117.71	130	150
Information Equipment Systems	28.01	10	10

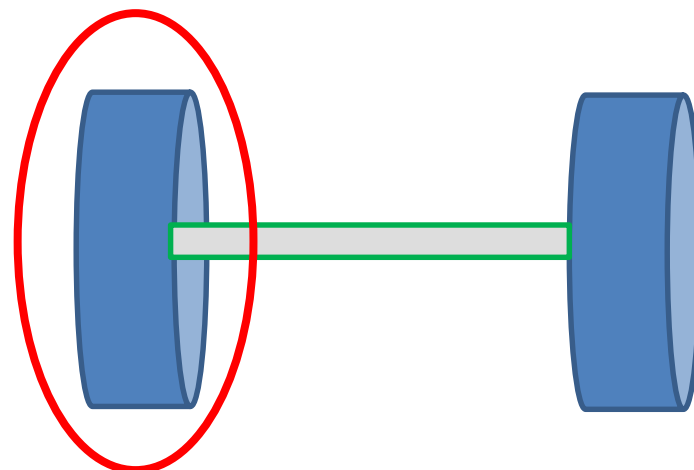
<Reference> Topics (1)

Development of flat-type dynamo for automatic operation vehicle evaluation.



Conceptual image of conventional testing machine.

Holding dynamo in the part of tire wheel.



Newly developed dynamo

<Reference> Topics (2)

Continuing research and development on wireless in-wheel motor, power supply while driving, and the like.



Research and development on wireless power supply while driving.

<Reference> Topics (3)

Development of dynamo with 20,000 rotations.



Developed the dynamo with 20,000 rotations aiming to have it installed in testing machines for automobile development compatible with EV and automatic driving.

Thank you for your interest.

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

<Inquiries>

PR, IR, and CSR Department, Management Planning Division

Toyo Denki Seizo K.K.

Phone: 03-5202-8122

Email: contact@toyodenki.co.jp



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