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

Q&A: 30 minutes
1. Overview of Financial Results for Fiscal Year ended in May 2018
(From June 2017 to May 2018)
Net sales increased, but profits declined due to the impact of some projects in transportation and industrial systems.

### 1-1. Overview of Consolidated Financial Results

100 million yen

<table>
<thead>
<tr>
<th></th>
<th>2017.5</th>
<th>2018.5</th>
<th>YoY Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>406.6</td>
<td>425.2</td>
<td>+18.6 (+4.6%)</td>
</tr>
<tr>
<td><strong>Operating Income (%)</strong></td>
<td>15.7</td>
<td>3.6</td>
<td>-12.1 (-76.7%)</td>
</tr>
<tr>
<td>(3.9%)</td>
<td>(0.9%)</td>
<td>(-3.0%)</td>
<td></td>
</tr>
<tr>
<td><strong>Ordinary Income</strong></td>
<td>16.6</td>
<td>5.1</td>
<td>-11.5 (-69.0%)</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>11.7</td>
<td>6.9</td>
<td>-4.8 (-41.0%)</td>
</tr>
<tr>
<td>[Net income per share(yen)]</td>
<td>123.87</td>
<td>73.33</td>
<td>-50.54 (-)</td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>4.9%</td>
<td>2.7%</td>
<td>-2.2% (-)</td>
</tr>
<tr>
<td><strong>Orders received</strong></td>
<td>433.5</td>
<td>395.9</td>
<td>-37.6 (-8.7%)</td>
</tr>
<tr>
<td><strong>Ratio of overseas sales to net sales</strong></td>
<td>31.1%</td>
<td>25.3%</td>
<td>-5.8% (-)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Published value</th>
<th>Published value ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>410.0</td>
<td>+15.2 (+3.7%)</td>
</tr>
<tr>
<td><strong>Operating Income</strong> (%)</td>
<td>13.0</td>
<td>-9.4 (-72.3%)</td>
</tr>
<tr>
<td>(3.2%)</td>
<td>(-2.3%)</td>
<td></td>
</tr>
<tr>
<td><strong>Ordinary Income</strong></td>
<td>14.5</td>
<td>-9.4 (-64.8%)</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>15.0</td>
<td>-8.1 (-54.0%)</td>
</tr>
<tr>
<td>[Net income per share(yen)]</td>
<td>158.24</td>
<td>-84.91 (-)</td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Orders received</strong></td>
<td>460.0</td>
<td>-64.1 (-13.9%)</td>
</tr>
</tbody>
</table>

*Reference value (plan)
Net sales have been on an upward trend since 2013 when there was a decline in business in China.
Changes in “Net sales” and “Investment gain on equity method, etc.” of three companies under equity method (in China).

Net Sales
- Bar graph

Investment gain on equity method, etc.
- Line graph

(100 million yen)

(09/5, 10/5, 11/5, 12/5, 13/5, 14/5, 15/5, 16/5, 17/5, 18/5)

Net Sales
- Including dividends, technology transfer fees, etc.

0
10
20
30
40
50

(0.0, 1.0, 2.0, 3.0, 4.0, 5.0)

0
10
20
30
40
50

0.0
1.0
2.0
3.0
4.0
5.0
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.

**<Transportation>**
- Additional costs of engineering expenses in overseas projects were processed in this term.
- Delivery of Chinese high-speed railway project was postponed.
- Expenses to compensate for shortage of operations in the first half increased.

**<Industry>**
- Depreciation of Ryuo new plant occurred ahead of schedule.
- Launching of new facilities at Ryuo new plant delayed.
- Net sales of the projects whose orders were received with a low gross margin rate in the previous term were recorded in this term.
- Cost control of machine parts of automobile testing machine was inadequate.

<table>
<thead>
<tr>
<th>Fiscal year ended in May 2017</th>
<th>Fiscal year ended in May 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,570 million yen</td>
<td>360 million yen</td>
</tr>
</tbody>
</table>

**Effect of increase in revenue**
+240 million yen

**Deterioration in profitability**
-1,330 million yen

**Decrease in profit of subsidiaries, etc.**
-120 million yen

**YoY Change**
-1,210 million yen
<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.

<table>
<thead>
<tr>
<th>(100 million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.00</td>
</tr>
<tr>
<td>10.00</td>
</tr>
<tr>
<td>8.00</td>
</tr>
<tr>
<td>6.00</td>
</tr>
<tr>
<td>4.00</td>
</tr>
<tr>
<td>2.00</td>
</tr>
<tr>
<td>0.00</td>
</tr>
</tbody>
</table>

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

- The depreciation burden is heavy in 2020 as well as 2019.
- Hovering at a high level of 900 to 1,000 million yen.

Matters related to Yokohama
Matters related to Ryuo
Mission-critical system
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.

- Operating Income
  - Ordinary Income
  - Income before income taxes

### Breakdown of non-operating earnings and expenses
- Dividend income: +230 million yen
- Investment gain on equity method: +110 million yen
- Other: +100 million yen
- Interest expense, etc.: -240 million yen
- Other: -60 million yen

### Breakdown of extraordinary earnings and expenses
- Investment securities Gain on sale: +800 million yen
- Plant integration cost: -330 million yen
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**

  - Fiscal year ended in May 2016: 267.5
  - Fiscal year ended in May 2017: 281.9
  - Fiscal year ended in May 2018: 279.4

- **Orders received and Order backlog** (100 million yen)

  - Fiscal year ended in May 2016: Orders received 245.5, Order backlog 258.3
  - Fiscal year ended in May 2017: Orders received 293.6, Order backlog 258.3
  - Fiscal year ended in May 2018: Orders received 258.6, Order backlog 237.5

- 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.
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.

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
  - Fiscal year ended in May 2016: 0.9
  - Fiscal year ended in May 2017: 3.0
  - Fiscal year ended in May 2018: 28.0

- Segment income
  - Fiscal year ended in May 2016: 9.5
  - Fiscal year ended in May 2017: 13.8
  - Fiscal year ended in May 2018: 28.0

- Orders received and Order backlog (100 million yen)
  - Fiscal year ended in May 2016: 5.1
  - Fiscal year ended in May 2017: 9.1
  - Fiscal year ended in May 2018: 24.1

- New-type composite ticketing machine greatly contributed to performance.
### 1-7. Consolidated Financial Position

Measures aiming to rebuild production system made progress.

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

<table>
<thead>
<tr>
<th></th>
<th>FY ended in May 2018 (Result)</th>
<th>FY ending in May 2019 (Forecast)</th>
<th>YoY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2Q Full year</td>
<td>2Q Full year</td>
<td>Full year</td>
</tr>
<tr>
<td>Net Sales</td>
<td>186.6 425.2</td>
<td>190.0 425.0</td>
<td>-0.2</td>
</tr>
<tr>
<td>Operating Income (%)</td>
<td>-2.3 3.6 (0.9%)</td>
<td>-2.7 5.0 (1.2%)</td>
<td>+1.4</td>
</tr>
<tr>
<td>Ordinary Income</td>
<td>0.5 5.1</td>
<td>-1.5 7.0</td>
<td>+1.9</td>
</tr>
<tr>
<td>Net Income [NI]</td>
<td>2.6 6.9</td>
<td>-1.5 5.0</td>
<td>-1.9</td>
</tr>
<tr>
<td>Dividend per share (yen)</td>
<td></td>
<td>50.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Orders received</td>
<td>197.5 395.9</td>
<td>211.0 409.0</td>
<td>+13.1</td>
</tr>
<tr>
<td>Order backlog at the end of fiscal year</td>
<td>309.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## 2-2. Forecast of financial results (by segment)

### 2019.5 forecast (Full year)

<table>
<thead>
<tr>
<th></th>
<th>Transportation</th>
<th>Industry</th>
<th>Information Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>280.0</td>
<td>130.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Segment income</td>
<td>25.0</td>
<td>6.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Orders received</td>
<td>270.0</td>
<td>130.0</td>
<td>9.0</td>
</tr>
</tbody>
</table>

### YoY Change

<table>
<thead>
<tr>
<th></th>
<th>Transportation</th>
<th>Industry</th>
<th>Information Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>+0.6</td>
<td>+12.3</td>
<td>-13.0</td>
</tr>
<tr>
<td>Segment income</td>
<td>0.0</td>
<td>+4.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Orders received</td>
<td>+11.4</td>
<td>+17.0</td>
<td>-15.1</td>
</tr>
</tbody>
</table>
The increase in depreciation expenses was expected, but gross margin and plant profitability were improved.

- **Increase in depreciation expenses**
  - -200 million yen

- **Decrease in profit of subsidiaries, etc.**
  - -60 million yen

**Improvement of profitability**
- +400 million yen

- Review of production line of transportation systems.
  - Introduction of new equipment to eliminate the bottleneck of processes.
- Improvement of operating rate by establishing new mission-critical system.
- Improvement of operating rate at the Ryuo new plant.
- Resurgence of Chinese projects in Transportation Systems.
- Improvement of profitability of new projects in Industrial Systems.
- Review of supply chain of automobile testing machine.

**<Fiscal year ended in May 2018>**
- 360 million yen

**<Fiscal year ending in May 2019>**
- 500 million yen

**YoY Change**
- +140 million yen
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.
To enhance "Power to produce," "Power to sell," and "Power of organization" and to strengthen "Power to earn" through the relevant synergistic effect.

I Expanding overseas business.

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

III Promoting technological development in anticipation of market needs.

IV Building a stable business earnings structure.

V Improving the foundation for expansion of production capacity.

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

To develop products in a timely way.

Cooperation with other manufacturers.

Affiliated companies in China (six companies)

Review of business strategy according to development situation of partner country.

Improvement of operating rate at Shiga Ryuo manufacturing plant.

Strengthening of process management

Reduction of fixed costs

Rebuilding of production lines at Yokohama manufacturing plant.

Cooperation with other manufacturers.

Improvement of operating rate at Shiga Ryuo manufacturing plant.

Strengthening of process management

Reduction of fixed costs

Rebuilding of production lines at Yokohama manufacturing plant.
3-3. Business environment surrounding the Company (in China)

- **Chinese market**
  - Affiliated companies in China (six companies)
  - High-speed railway
    - Switching of standard trains
  - Urban railway
    - Demand for maintenance and renewal

- **The Company**
  - Investment gain on equity method

- Driving gear units

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

- Chinese market

- High-speed railway

- Urban railway

- Affiliated companies in China (six companies)

- The Company
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

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.
   iii. Strategic participation in new urban transport project.

   Product development to Southeast Asia.

   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.
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).

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.
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.

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

<Net sales by segment>

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY ended in May 2018</th>
<th>FY ending in May 2020</th>
<th>FY ending in May 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation Systems</td>
<td>279.63</td>
<td>290</td>
<td>310</td>
</tr>
<tr>
<td>Industrial Systems</td>
<td>117.71</td>
<td>130</td>
<td>150</td>
</tr>
<tr>
<td>Information Equipment Systems</td>
<td>28.01</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>
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
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.
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>
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Email: contact@toyodenki.co.jp
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• Forward-looking statements contained in this material are the judgments of the Toyo Denki Group based on data available at the time of publication of this material. Such statements and descriptions are by no means comprehensive.