

# Message from the President



The four-year medium-term management plan “Revitalize 2020” made a good start and is progressing as planned.

President **Kenzo Terashima**

**The efforts made in the initial year for fully fledged operation of the Shiga Ryuo Plant and for strengthening the operational structure improved the profit structure of the Industrial Systems segment, providing a solid footing for the second year.**

Net sales were 41.1 billion yen on a consolidated basis due to a negative rebound in the Information Equipment Systems segment from the previous fiscal year and a decrease in the Transportation Systems segment. Orders received were 40.6 billion yen, boosted by the growth of the Industrial Systems segment. Operating income was 550 million yen, positive growth almost as expected in the revised plan, due to dramatically improved efficiency and productivity through “Ryuo Integration,” the integration of production sites to the Shiga Ryuo Plant. The first year of fully fledged operation at the Ryuo site was a great success. Ordinary income was 490 million yen, negatively affected by foreign exchange losses and a decrease in equity in profit of unconsolidated subsidiaries and affiliates, while net income attributable to owners of the parent was 690 million yen, unchanged from the previous fiscal year, as a result of efforts to reduce certain cross holdings. Overseas sales accounted for 22.9% of net sales amid the process of switching vehicle models for the high-speed railroads in China.

By segment, the Transportation Systems segment saw a YoY increase in orders received, boosted by those from both Japan and overseas excluding China. Net sales decreased due to a fall in sales in China and other overseas markets. Segment profit fell because the de-

crease in profit in China exceeded the increase in domestic profit.

The Industrial Systems segment saw a YoY increase in orders received, helped by an increase in orders for testing equipment for automobile development and for processing machinery. On a non-consolidated basis, orders received exceeded 10 billion yen for the first time in four years. Net sales increased YoY accordingly. Segment profit rose significantly despite an increase in depreciation and amortization expenses due to greater-than-expected improvements in efficiency and productivity resulting from the Ryuo Integration.

In the Information Equipment Systems segment, both orders received and net sales decreased YoY due to a rebound from a large-scale project in the previous fiscal year, but segment profit was unchanged, boosted by software improvement projects and others.

**We will go further as planned with the aim of increasing our “earning power” and establish a “leaner” business operation structure that generates a stable profit.**

We are implementing “Revitalize 2020,” the medium-term management plan that runs for four years from June 2018, when the Company marked its 100th anniversary, until the end of the fiscal year ending May 2022.

During the first two years, we focus on enhancing profitability, and successfully increased operating income due mainly to a significant

improvement in the Industrial Systems segment in the fiscal year ended May 2019, the first year of the plan. The earnings forecast for the year ending May 2020 is net sales of 42 billion yen, operating income of 900 million yen, and net income attributable to owners of the parent of 900 million yen. With this in mind, we will strive to gain a foothold for the latter half of the medium-term management plan.

Ryuo Integration effect by the Shiga Ryuo Plant which began operation in June 2018 and a shift to a business promotion system by product have brought about changes in the attitudes of employees. In fact, this was reflected in the improved profitability of the Industrial Systems segment. Amid sound orders received, we will take advantage of the integration effect so that we can meet greater production needs in the future. In addition, for the Yokohama Plant, a production site of the Transportation Systems and Information Equipment Systems segments, we have started modifying the layout for greater productivity.

Among overseas development, the Industrial Systems segment has started fully fledged operation of SIAM TOYO DENKI Co., Ltd., a local subsidiary that has been upgraded from a local representative office in Bangkok, Thailand, in response to increased demand for power generators and processing machinery in China and the ASEAN regions. Moreover, in China, we have established Chalco-Toyo Permanent Magnet Motor Co., Ltd., a three-way joint venture with Chinalco Rare Earth & Metals Co., Ltd., an affiliate of a primary state-owned enterprise Aluminum Corporation of China (CHINALCO), and Beijing Ling Yang Trading Co., Ltd., a local trading company. The aim is to begin manufacturing motors on a fully fledged basis in China starting from 2020. As for the Transportation Systems segment, we delivered electrical equipment for railway vehicles to Jakarta Mass Rapid Transit (MRTJ), the first subway construction project in Indonesia, where a group of Japanese companies was responsible for handling from facilities to vehicles. In China, we plan to further expand the maintenance business of electrical equipment for railway vehicles on Beijing Subway, so as to contribute to development of the railway infrastructure in Asia for years to come.

**I believe we have made a good start toward creating a robust Toyo Denki Seizo Group.**

The year-end dividends for the fiscal year under review are 30 yen per share in line with the Company’s distribution policy based on a payout of stable dividends. We will continue to pay dividends on the basis of a payout ratio of 30% that is a management index given in the medium-term management plan. With the medium-term management plan progressing well in the first year, we will contribute to internal and external stakeholders for further growth.

From an ESG point of view, we revised the Operating Officer system to strengthen governance by having a Director responsible for governance, while transferring executive authority to Operating Officers for higher management flexibility. Moreover, we will reconsider the significance of our cross holdings in compliance with the Corporate Governance Code so that we make effective use of our assets. As for environmental contributions, we received the Yokohama Global Warming Countermeasures Award from Yokohama City for our global warming prevention activity.

We were particularly recognized for installing 500 kW PV solar power panels on the roof of the Yokohama Plant in 2012 with an output of approximately 600,000 kWh per year, achieving a plant-wide CO<sub>2</sub> emission reduction of approximately 330 tons (about 8%).

As for the succession of technologies and skills, one of the employees at the Yokohama Plant was honored to receive a Medal with Yellow Ribbon for the spring of 2019 for being a model employee endeavoring to manufacture electric motor coils for railway vehicles. Currently, he is engaged in coaching the younger members of the workforce so that they can succeed our manufacturer spirit and expert techniques.

I would highly appreciate our shareholders’ understanding and continued support for further development of our business.

## ► Numerical Management Targets of Medium-term Management Plan

(Unit: Billions of yen)

	Fiscal year ended May 31, 2019 (Results)	Fiscal year ending May 31, 2020 (Plan)	Fiscal year ending May 31, 2022 (Plan)
Net sales	41.17	43.0	Over 47.0
Operating income (Operating margin)	0.55 1.4%	0.9 2.1%	2 4.3%
Ordinary income	0.49	1.1	2.4
Net income	0.69	0.7	1.6
Equity in profit of unconsolidated subsidiaries and affiliates	0.01	0.12	0.4
ROE (Return on Equity)	2.7%	3.3%	5.0%
Dividend payout ratio	39.9%	30.0%	30.0%

### Segment net sales

Transportation Systems	27.23	29.0	31.0
Industrial Systems	12.33	13.0	15.0
Information Equipment Systems	1.58	1.0	1.0