

As we continue to steadily advance the “revitalization and transformation of Toyo Denki,” we will push ahead with efforts to expand our core values and drastically strengthen our management foundations, aiming to restore sales to pre-COVID-19 pandemic levels in the fiscal year ending May 2026.

Akira Watanabe

President, Representative Director



The Transportation Business segment saw increased demand for train equipment renewal as the improving business environment prompted domestic railway operating companies to resume the plans for building new rolling stock that they had put on hold due to the COVID-19 pandemic. Also, there was a rise in orders received in China for service parts and new projects. In the Industry Business segment, inquiries on our Group's products and services rose with growing capital investment in many industries. Trends in the ICT Solution Business segment included software upgrades for railway station operating equipment to accommodate fare revisions, software development for improving operational efficiency, and efforts to enhance passenger convenience and serve the needs of inbound visitors. Although our manufacturing processes were impacted by the persistent difficulty in procuring parts and materials—particularly in the case of the Industry Business segment, which has comparatively short lead times—all three segments achieved growth in their income and profits.

Medium-Term Management Plan 2026 lays out three basic policies: “Expansion of new businesses and products,” which aims to restore sales to the pre-COVID-19 pandemic level of 40.0 billion yen in the fiscal year ending May 2026; “Thorough improvement of the earnings structures of existing businesses,” which seeks to boost operating income ratio to 5% and ROE to 8%; and “Improvement of asset efficiency with an awareness of capital costs,” which involves reviewing capital efficiency (mainly focusing on reducing cross-shareholdings) and considering reallocation of

corporate resources. These three policies began producing results in the fiscal year ended May 2023.

Regarding “expansion of new businesses and products,” our Group as a whole pursued cross-segment development of new businesses and products, mainly at the new development center we opened in June 2022. We delivered a system that can monitor railway operational conditions in real time over the public cloud by retrofitting our IORemoter to railway vehicle's VVVF device, and a cashless payment terminal app for use on the work smartphones carried by train crews. The app is a business process application that eliminates the need for crews to carry around the dedicated terminal traditionally used. It thus helps to improve safety, quality of service, and the working environment for crew members. In addition, we began developing and mass-producing evaluation equipment compatible with advanced driver-assistance systems (ADAS) and on-demand motors.

Our efforts for “thorough improvement of the earnings structures of existing businesses” included not only improvement of plant profitability, but also asking customers to agree to revision of our selling prices to appropriate levels reflecting the increases in raw material prices and other costs so that we could implement cost pass-through for renewed contracts and new relationships.

For “improvement of asset efficiency with an awareness of capital costs” we continued to further reduce our cross-shareholdings, and also sold off idle real estate such as the former sites of aging company housing.

Pursuing our vision for Toyo Denki

A commitment to propel us into our next 100 years from the starting point

For more than 100 years, the Toyo Denki Group has built up a history of manufacturing diverse products that have supported the environment and society. In April 2021 we announced our Sustainability Policy as an embodiment of one of our business principles: “prioritize ethics and contribute to the prosperity of customers and society as a whole.” This policy outlines a vision for Toyo Denki based on the business principles that we have cultivated since our founding and on our environmental philosophy, and it declares our commitment to take a new path that will propel us forward into our next 100 years through three approaches:

“initiative in products and services,” “initiative in production activities,” and “initiative in valuing people and communities.” In addition, we have formulated Medium-Term Management Plan 2026 to achieve, in a true sense, our sustainable growth and the improvement of our corporate value, based on a renewed understanding of our purpose. The starting point for this plan is to address a challenge brought to the forefront by the COVID-19 pandemic, namely, the need to improve our profitability. We have started making steady progress in executing the plan.

Results for the fiscal year ended May 2023

A year of working toward “revitalization and transformation of Toyo Denki” and achieving steady results

We positioned the fiscal year ended May 2023, the first year of Medium-Term Management Plan 2026, as a year to thoroughly implement structural reforms to improve profitability, and took action toward the “revitalization and transformation of Toyo Denki.”

Fortunately, in Japan, the lifting of the COVID-19 pandemic-related restrictions on public activity helped to bring social and economic activity back toward normal levels, as seen in the

rebound of capital investment by businesses. Many other countries also experienced a gradual recovery of their economies, along with improvements in the business environment. At the same time, however, new sources of concern emerged, including heightened geopolitical risks, increases in raw material and energy prices, persistent shortages of parts, and uncertainties in financial and foreign exchange trends.

Outlook for the fiscal year ending May 2024

Taking advantage of the business environment's upturn to drastically strengthen our management foundations

Our forecast for the fiscal year ending May 2024 anticipates that economic activity in Japan will further improve on the whole, buoyed by the business environment's upturn in the fiscal year ended May 2023. However, we also foresee a slowdown in economic recovery overseas, and the continuation of concerns such as limited part supplies and uncertainties in financial and foreign exchange trends.

As for our Group's core segment, the Transportation Business, domestic railway operating companies, which are likely to see further recovery from the COVID-19 pandemic's impact, including a return of inbound visitor-related demand, are planning to invest in sustainability initiatives. They can be expected to deploy newly built rolling stock and switch to energy-saving devices, among other actions. There are concerns that the Chinese market will enter a recession, but nevertheless it is likely that there will be demand for railway vehicle maintenance that had been delayed because of the COVID-19 pandemic, and that production of new rolling stock will grow. In regions such as Southeast Asia, there are signs of vigorous activity amid robust infrastructure demand.

In the Industry Business segment, we expect to see an influx of orders for production and processing equipment systems for increasing productivity or improving energy efficiency. Looking at automobile testing systems, it appears that companies are re-examining their investments in light of the rapid shift toward electric vehicles. In the medium to long run, demand will likely increase for testing equipment that supports the switch to electric vehicles, and for power supply equipment and distributed power supply generators that use renewable energy, in preparation toward a sustainable society. We are pursuing technological development to meet the expected growth in orders received.

We are expanding the ICT Solution Business segment to encompass not only railway station operating equipment systems that support cashless payment but also general ICT solutions such as cloud-based remote monitoring systems that enable monitoring and control of mobile entities, equipment, and facilities.

In May 2023, we acquired funding totaling 464 million yen through a third-party allotment of a portion of our treasury stock to East Japan Railway Company. We are using some of these funds

Message from the President

to install new equipment to strengthen and accelerate the development of new business areas at our Yokohama Plant, which is a production base for electrical equipment for rail vehicles, as well as capital investments aimed at improving the productivity of the plant's existing businesses. We are also using the funds to invest in projects for reinforcing our IT platform, advancing DX

Roadmap to greater growth potential and profitability

New steps toward achieving Medium-Term Management Plan 2026

We announced our Group's management indices under Medium-Term Management Plan 2026 in July 2023. Our goal for the fiscal year ending May 2026 is to achieve consolidated net sales of 40.0 billion yen, operating income ratio of 5%, and ROE of 8%, as well as segment net sales of 25.0 billion yen in the Transportation Business, 13.0 billion yen in the Industry Business, and 2.0 billion yen in the ICT Solution Business.

In the Transportation Business segment, demand has been rising for railway power storage systems that store the regenerative power generated by train braking, as railway operators seek to address a key concern for them, reduction of environmental burden (through reduction of power consumption). Our Group has a strong track record in delivering power storage systems, particularly the E3 Solution System, but we will continue pursuing development. We will strengthen our production system by adding more testing equipment for development projects, and will develop environmentally friendly products that save energy, reduce maintenance requirements, control noise, and realize other improvements.

Promoting sustainability management

Accelerating development of our foundations through engagement

The Group established a Sustainability Committee and carries out company-wide initiatives to promote sustainability management. I preside over the committee, and its members, comprising mostly Operating Officers, generally meet once every quarter.

We consider climate change to be a particularly important topic and have set numerical targets for reducing greenhouse gas emissions. Specifically, the targets for reducing Scope 1 and 2 CO₂ emissions versus fiscal 2018 levels are 10% by fiscal 2026, 30% by fiscal 2030, and 100% by fiscal 2050. The Sustainability Committee is tracking progress toward those targets. The content of committee discussions is reported to the Board of Directors and reflected in the Group's management strategy. In July 2023 we also announced our support for the TCFD recommendations and began analyzing climate change-related risks and opportunities.

(including leveraging drawing data), and implementing information security measures.

We anticipate that these actions will lead to growth in net sales and profit of at least 10% for orders received and net sales, and at least 15% for operating income.

In the Industry Business segment, we will work to further improve the in-wheel-well dynamo that we developed as testing equipment for the automotive industry, seeking to apply it to vehicle testing that also supports the shift to EVs, and ADAS support testing. In addition, we will respond to the recovery of demand for capital investment in energy-saving solutions by broadening our lineup of energy-saving devices and pursuing development of small hydroelectric power generation and wave power generation—both of which are expected to see increased demand going forward—with the aim of expanding the utilization of natural energy.

In the ICT Solution Business segment, we will provide railway operators and other customers with IoT solutions that enable them to streamline their operations and optimize maintenance. To this end we will develop railway station operating equipment apps for use on work smartphones and other general-purpose terminals, and supply systems for monitoring and controlling mobile entities and remote equipment through cloud services and mobile networks.

We view human capital as our most important corporate resource, as it supports the continuous improvement of our corporate value and the achievement of our social mission. Accordingly, we have begun to reform our personnel systems to reinvigorate our organization and talent.

As part of our actions to ensure diversity in our workforce, we are stepping up recruitment activities aimed at increasing the percentage of female permanent employees and are carrying out other initiatives such as career advancement seminars for female employees. Through these efforts we will raise female representation across our organization, with the aim of increasing female representation at the assistant manager level and manager level in administration divisions to at least 25% and 8%, respectively, by the fiscal year ending May 2026. Moreover, we will further ensure diversity through mid-career hiring, a program that

enables fixed-term contract employees to switch to permanent employment, a program for recruiting people with disabilities, and other actions.

Our human resources development initiatives include level-specific training, OJT, support for acquisition of various degrees and certifications (such as engineering doctorates, MBA, MOT, professional engineer qualifications), and language training. Our Engineer Development Committee meets regularly to advance the training of technical personnel, the Technical My Star Committee certifies skill transfer processes and evaluates the results of those processes. As a result of these activities, to date three of our employees have been recognized with the Contemporary Master Craftsman award from the Minister of Health, Labour and Welfare. We will also implement a program for training female manager candidates to further support diversity, and will enhance our training program for upper management candidates.

We have established and enhanced various programs for supporting work-life balance, including the re-hiring of former employees, limiting the working location of employees caring for children or other family members to a defined region, diversifying the options for reduced working hours, and providing annual paid leave on an hourly basis. We are also communicating information for encouraging more male employees to take childcare leave, including by creating and distributing a guidebook on childbirth and childcare, and a collection of male employees' personal

Message to our stakeholders

We will push ahead with efforts to expand our core values and drastically strengthen our management foundations

The Group's basic policy is to conduct ongoing and stable dividends. To respond to the trust placed in us by shareholders, we are working to strengthen the earning capacity needed to ensure the source funds for dividends and have made it our basic policy to maintain the payout ratio at 30% or higher. In the fiscal year ended May 2023, under our basic policy for dividend returns to shareholders, we paid a year-end dividend of 30 yen per share. We expect to pay a year-end dividend of 30 yen per share for the fiscal year ending May 2024 as well. Retained earnings will be effectively injected into growth investments, including capital and R&D investments.

The Group has sent out into the world numerous electrical equipment for railway vehicles and general industry, with the motor drive technologies that we have cultivated since our establishment at its core. I consider this success to be the product of our constant pursuit of a value creation process that is driven by our core values encompassing a broad spectrum of shareholders: "achievements and reliability in 100 years of business," "tireless challenge to improve technologies," "full commitment to facing our customers squarely," "close networks with suppliers," and

stories about their experiences in taking childcare leave. Going forward, we will further develop our programs for flextime, remote work, and other workstyle options.

In our efforts to further improve the working environment, we are striving to support the mental health of our employees by setting minimum rest periods between shifts and establishing in-house and external mental health consultation services. In addition, the management solicits and listens to the opinions of employees through opportunities such as a regular roundtable meeting that brings the President and employees together to share their values. Initiatives such as these earned us recognition as a Certified Health & Productivity Management Outstanding Organization by the Ministry of Economy, Trade and Industry in 2022 and 2023.

To further enhance our corporate governance, we have appointed Ms. Yukiko Machida as an Outside Director. Ms. Machida is a lawyer who brings deep insights into labor law gained through extensive experience, including her role as a Vice-Chairperson of the Daini Tokyo Bar Association's Labor Issue Committee. I would like to accelerate the enhancement of our Group's corporate value by referring to her advice and suggestions on how to ensure the legality and appropriateness of the Board of Directors' decision-making and on the HR and labor challenges faced by the Group.

"development of manufacturing professionals." I believe that it is imperative for us to continue pursuing business management that values people and technology, in line with the Toyo Denki Group's company slogan of "Our Heart and Technology for the Future." I especially consider people to be a vital part of our commitment to sustainability and human capital management. We hope that our stakeholders will look forward to the development and expansion of the Group's business and would like to ask for their continued support, including with regard to sustainability.

