
Financial Results Briefing for the Fiscal Year Ended May 2022

July 15, 2022

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■ Briefing on Financial Results: 40 minutes

1. Overview of Financial Results for Fiscal Year Ended May 2022
2. Outlook for Financial Results for Fiscal Year Ending May 2023
3. Medium-Term Management Plan

■ Q&A: 20 minutes

1. Overview of Financial Results for Fiscal Year Ended May 2022
(From June 2021 to May 2022)

1-1. Overview of Consolidated Financial Results

Sales and profits decreased from the previous fiscal year due to the resurgence of COVID-19 and difficulties in procuring members. Net income fell into the red due to impairment losses in Industrial Systems. Orders have bottomed out with a slight increase year-on-year.

100 million yen

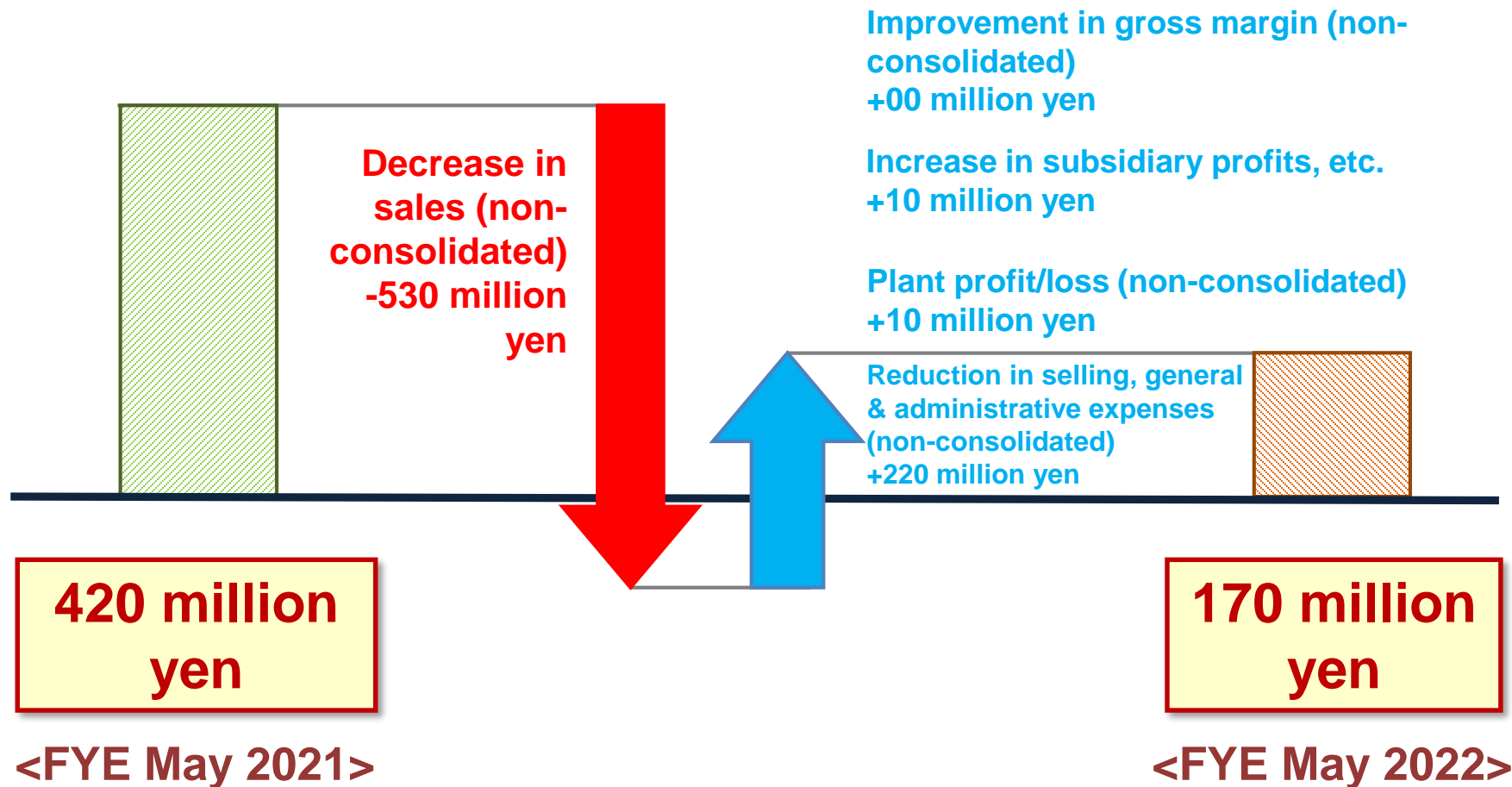
	FYE May 2021	FYE May 2022	YoY Change		FYE May 2022 Published value	Published value ratio	
				%			%
Net Sales	331.4	301.5	-29.8	-9.0%	330.0	-28.5	91.3%
Operating Income (%)	4.2 (1.3%)	1.7 (0.6%)	-2.5 (-0.8 pt)	-59.4% -	2.5 (0.7%)	-0.8 (-0.2 pt)	68.4% -
Ordinary Income	7.5	7.6	+0.0	+1.2%	6.0	+1.6	127.6%
Net Income	9.7	- 9.3	-19.0	-	7.0	-16.3	-
[Net income per share (yen)]	109.38	-104.02	-213.40	-	78.28	-182.30	-
ROE	4.1%	-4.0%	-8.1 pt	-			
Orders received	300.5	304.4	+3.9	+1.3%	310.0	-5.6	98.2%
Ratio of overseas sales to net sales	15.9%	14.5%	-1.4 pt	-			

<Reference> Review of the Business Environment for the Fiscal Year Ended May 2022

Business Environment	
Transportation Systems	<p><Domestic> Affected by factors such as a decrease in the number of passengers, railway operators are reviewing plans to build new rolling stock. As orders for new rolling stock are decreasing, we are seeing an increase in equipment upgrades aimed at long-term use of existing trains, mainly by private railway companies.</p>
	<p><Overseas> In China, the pace of economic growth slowed as the zero-COVID policy imposed urban lockdowns, tightened restrictions on activities, and depressed consumer spending.</p>
Industrial Systems	<p><Domestic> Although capital investment by customers is on a recovery trend, it was affected by requests to refrain from face-to-face business. Due to the rapid shift to electrification, some equipment plans for testing machines for automobile development were reconsidered.</p>
	<p><Overseas> Due to continued restrictions on sales activities, such as restrictions on overseas travel, some orders for equipment requiring detailed arrangements continued to be affected.</p>

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

Although profit decreased due to the drop in net sales, the declining profit margin was suppressed by cutting expenses.



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

Non-operating income/expenses
+590 million yen

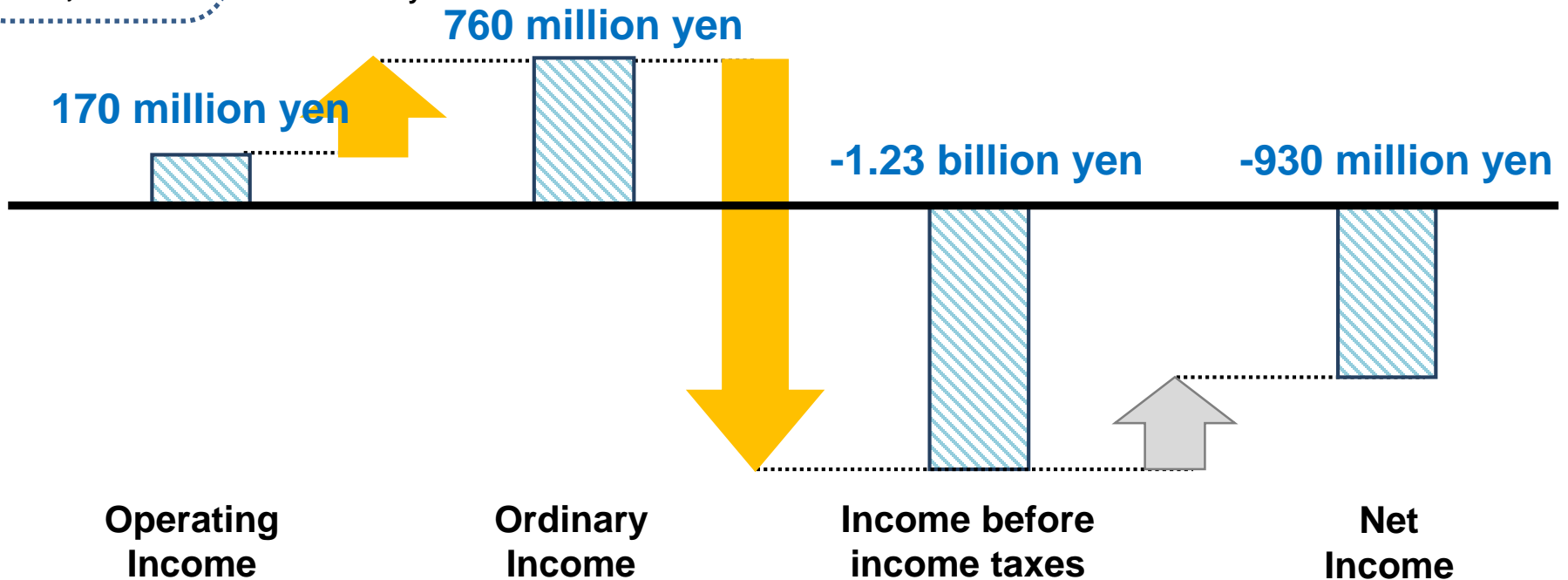
- Equity in profit of unconsolidated subsidiaries and affiliates +240 million yen
- Foreign exchange gain +220 million yen
- Dividend income +150 million yen
- Other -20 million yen

Extraordinary income/loss
-1.99 billion yen

- Gain on sales of investment securities +360 million yen
- Impairment loss on fixed assets -2.25 billion yen
- Other -100 million yen

Income taxes

Operating income + equity in profit of unconsolidated subsidiaries and affiliates" was unchanged from the previous year at 410 million yen due to the expansion of the business of the Chinese subsidiary.

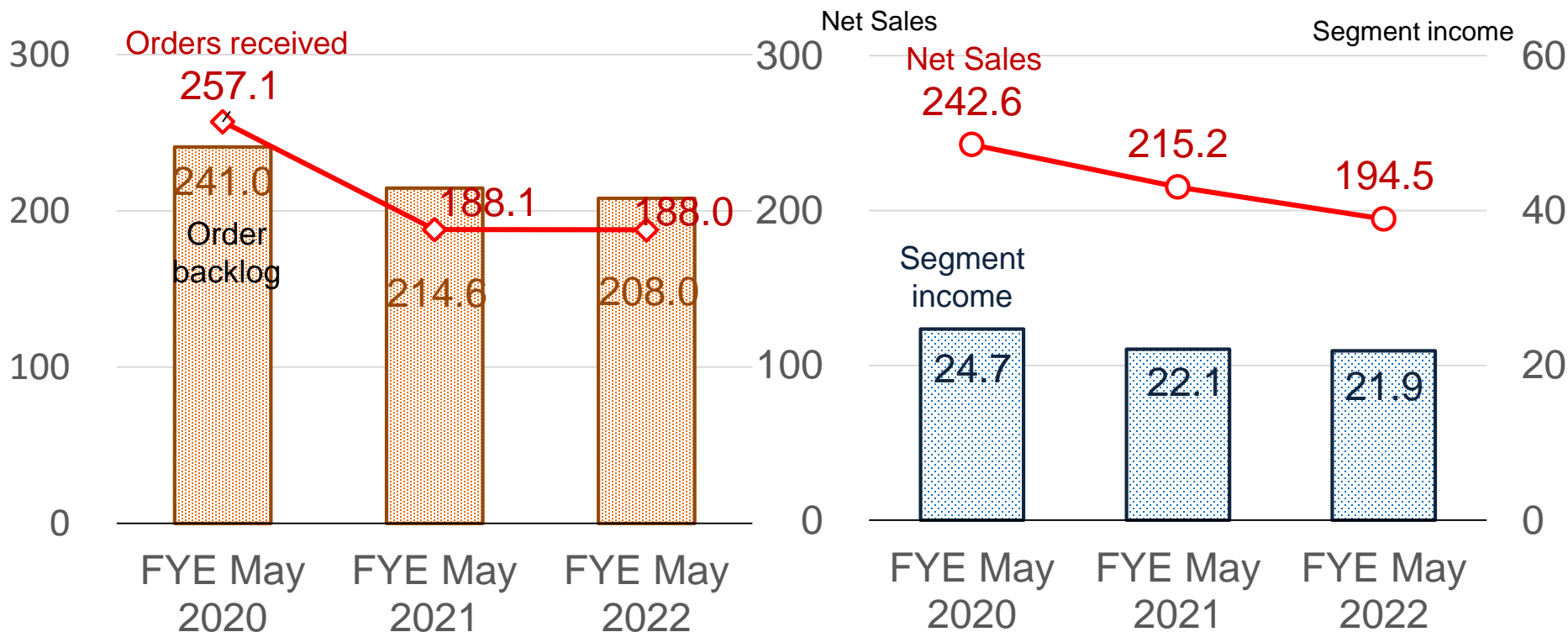


1-4. Segment Performance **Transportation Systems**

Orders remained at the same level as the previous year. Although sales decreased, segment profit was close to the previous year's level.

■ Orders received and order backlog

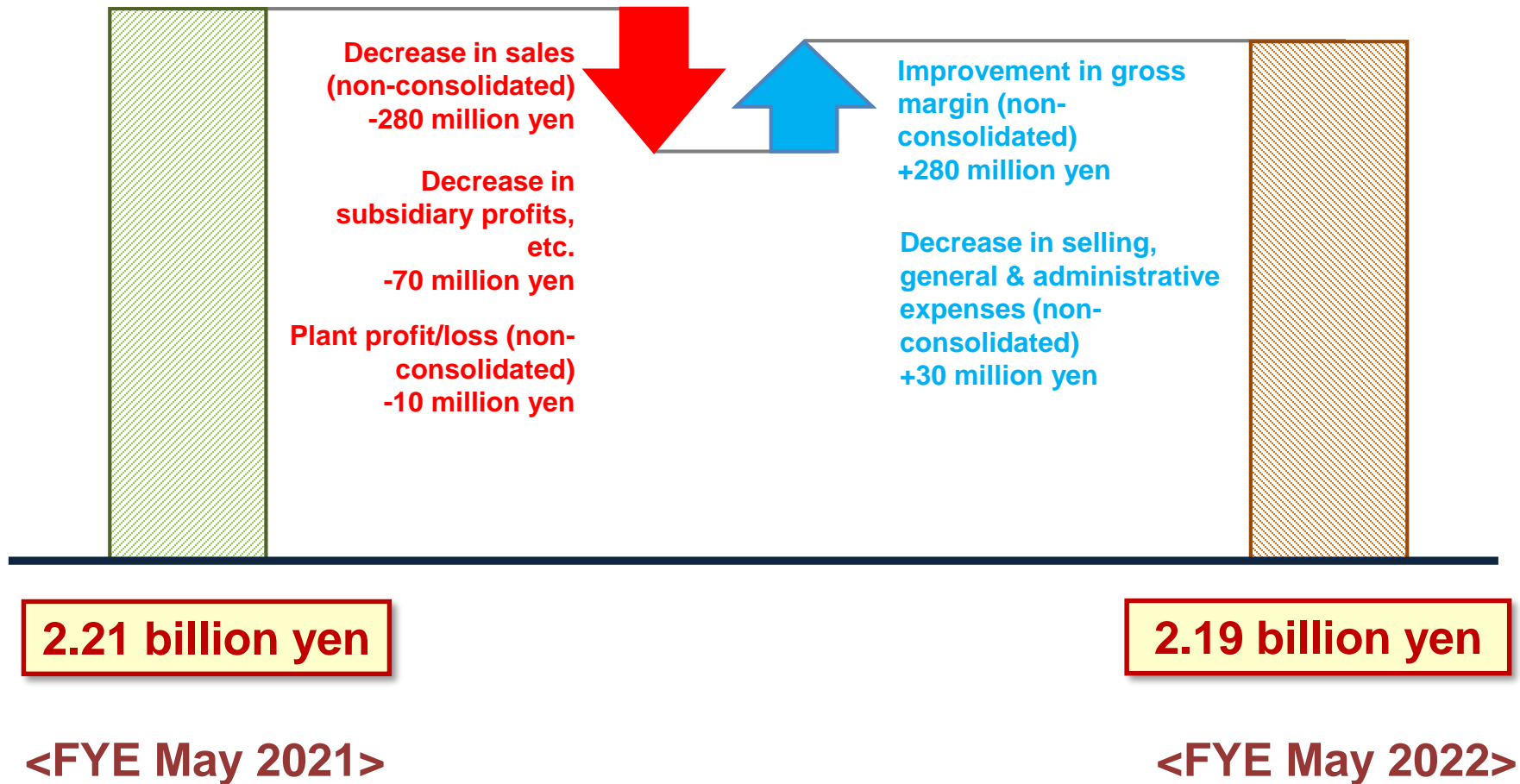
■ Net sales and segment income (100 million yen)



- Orders from private railway companies, China and overseas companies (excluding China) increased, but those from JR companies decreased.
- Sales to JR were more or less unchanged from the previous year, but sales to private railways, China, and overseas (other than China) decreased.
- Segment profit was around the previous year's level due to improved profitability despite a decrease in revenue.

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

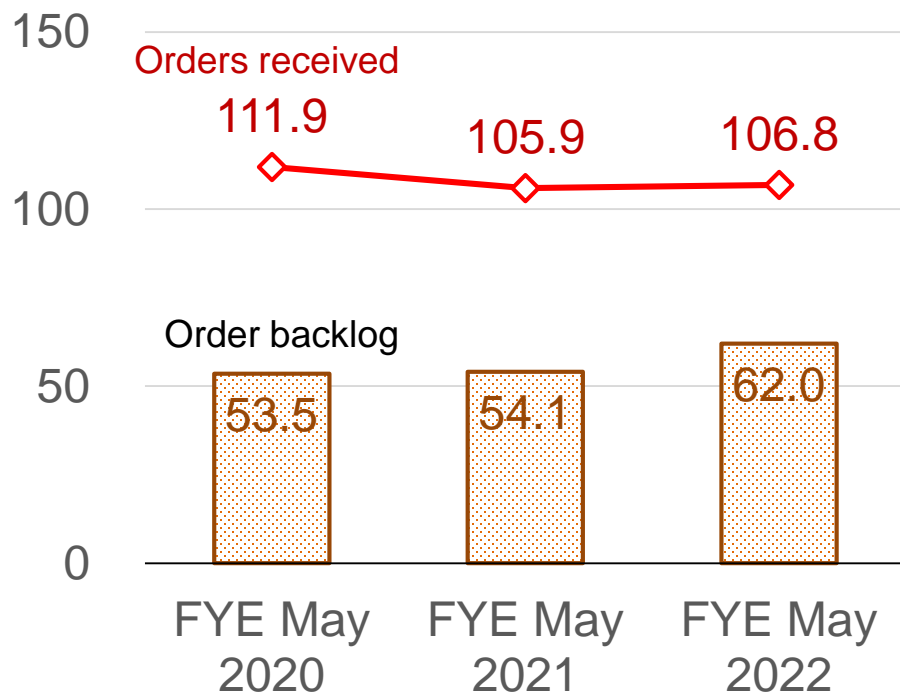
Although sales and subsidiaries' profits (from bus door closing equipment and others) decreased, profit continued to be at the previous year's level due to improvement of gross profit margin and cutting expenses.



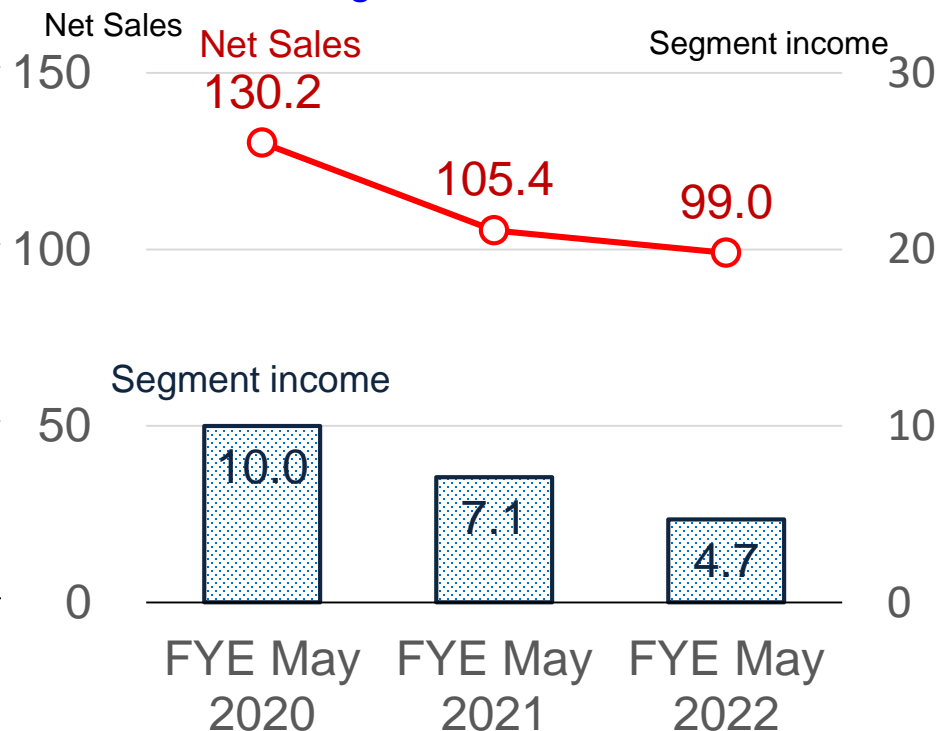
1-6. Segment Performance **Industrial Systems**

Despite lower sales and profits, orders have bottomed out with a slight increase.

■ Orders received and order backlog



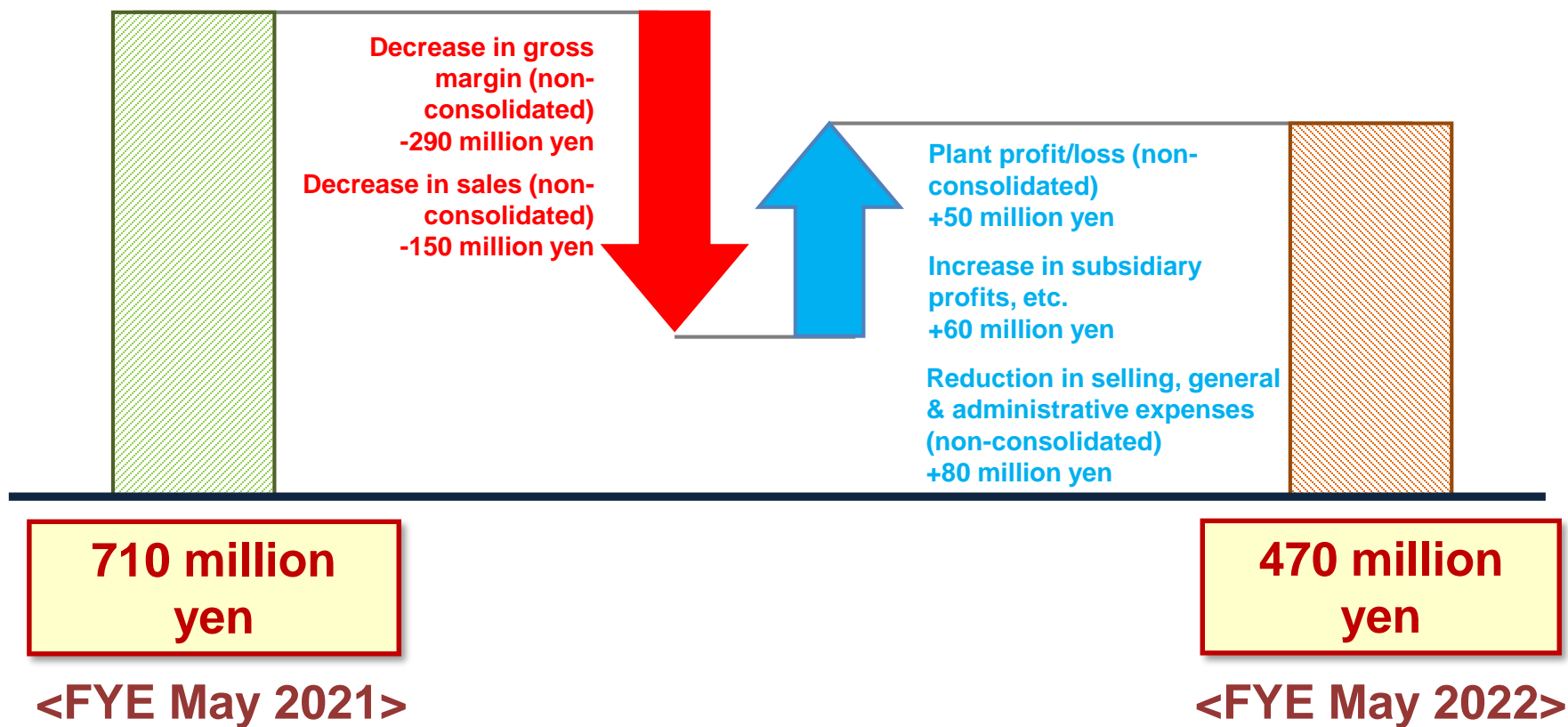
■ Net sales and segment income (100 million yen)



- Orders received for processing equipment and power supplies increased, but those for testing equipment decreased.
- Net sales decreased due to a drop in sales for testing equipment, processing equipment, and power supplies.
- Segment income slipped due to lower net sales.

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

Despite the efforts to cut expenses, segment income decreased due to lower net sales and a decline in gross profit margin.

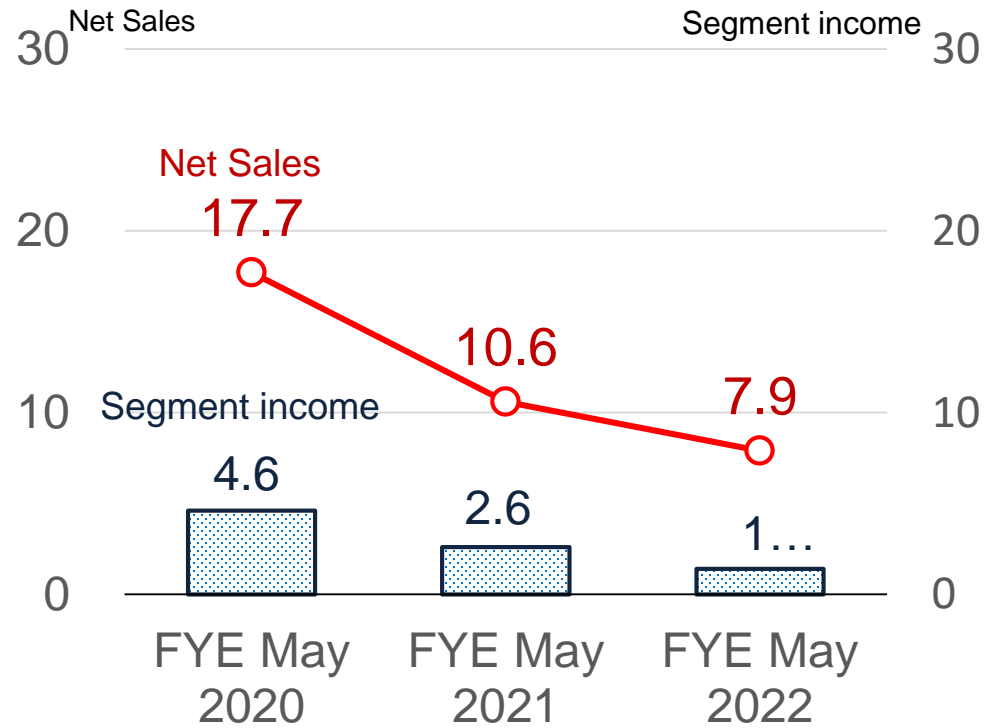
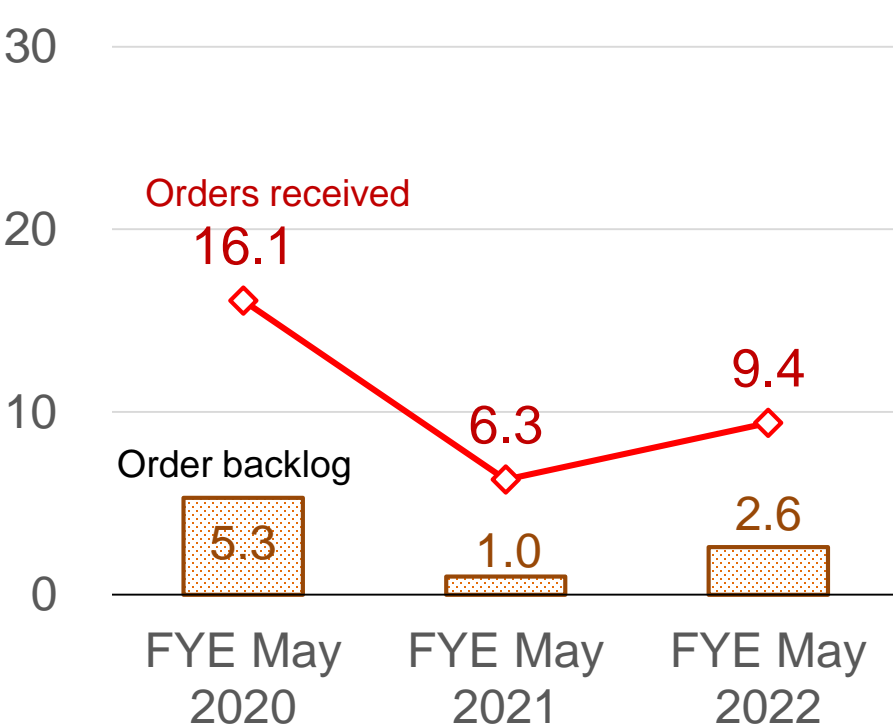


1-8. Segment Performance Information Equipment Systems

Sales and profits continued to decline due to the impact of curbs on facility upgrades by railway operators.

■ Orders received and order backlog

■ Net sales and segment income (100 million yen)



- Orders increased, but the impact of curbing facility upgrades continued.
- Net sales fell due to the impact of curbing facility renewal.
- Segment income slipped due to lower net sales.

1-9. Consolidated Financial Position

100 million yen

	May 31, 2021	May 31, 2022	Change	Remarks
Total assets	519.6	469.1	-50.5	
Current assets	253.0	241.8	-11.1	
Fixed assets	266.6	227.2	-39.4	Equipment, etc. for Industrial Systems: -2,200 million yen Investment securities: -1,300 million yen
Total liabilities	279.5	249.0	-30.5	
Of which, net interest-bearing debt	98.8	73.0	-25.7	
Net assets	240.0	220.1	-19.9	Unrealized holding gain/loss on available-for-sale securities: -800 million yen
Shareholders' equity ratio	46.2%	46.9%	+0.7pt	

1-10. Trends in Consolidated Cash Flows

100 million yen

	FYE May 2018	FYE May 2019	FYE May 2020	FYE May 2021	FYE May 2022
Cash flows from operating activities	-15.7	37.2	21.4	17.7	25.0
Cash flows from investing activities	-30.8	-10.1	0.4	-1.5	2.8
Purchases of property, plant and equipment	-34.4	-22.7	-6.4	-5.4	-3.5
Cash flows from financing activities	41.4	-20.1	-11.2	-9.7	-23.5
Free cash flow	-46.5	27.0	21.8	16.2	27.9

Cash at the end of the period	15.5	22.4	32.9	39.6	44.4
Interest bearing debt	161.7	154.2	145.5	138.4	117.5
Net interest-bearing debt	146.1	131.8	112.5	98.8	73.0

- Operating cash flow increased due to a decrease in accounts receivable-trade and inventories.
- Investment cash flow increased due to the sale of investment securities and others.
- Free cash flow has remained positive in recent years.
- Net interest-bearing debt decreased to 7.3 billion yen (down 2.5 billion yen year-on-year).

2. Outlook for Financial Results for Fiscal Year Ending May 2023

2-1. Outlook for Financial Results for Fiscal Year Ending May 2023 (Consolidated)

Orders received of 34.6 billion yen, net sales of 34.0 billion yen, and operating income of 450 million yen.

100 million yen

	FYE May 2022		FYE May 2023		YoY Change Full year
	2Q	Full year	2Q	Full year	
Net Sales	148.0	301.5	160.0	340.0	+38.4
Operating Income (%)	-3.6 (-%)	1.7 (0.6%)	-0.8 (-%)	4.5 (1.3%)	+2.7 (+0.7pt)
Ordinary Income	-0.8	7.6	1.6	7.0	-0.6
Net Income [Net income per share (yen)]	1.8 20.82	-9.3 -104.02	3.0 33.56	8.0 89.48	+17.3 +193.50
Dividend per share (yen)		30.0		30.0	
Orders received	142.1	304.4	163.0	346.0	+41.5

2-2. Outlook for Financial Results (by Segment)

100 million yen

		Transportation	Industrial	ICT Solution
FYE May 2023 Forecast (Full Year)	Net Sales	210.0	118.0	12.0
	Segment income	22.0	9.0	2.0
	Orders received	208.0	124.0	14.0
YoY Change	Net Sales	+ 15.5	+ 19.0	+ 4.1
	Segment income	+ 0.1	+ 4.3	+ 0.6
	Orders received	+ 20.0	+ 17.2	+ 4.6

* In the fiscal year ending May 2023, the reporting segment will be changed from “Information Equipment Systems” to “ICT Solution Systems.”

<Reference> Assumptions for Outlook for Financial Results

The business environment assumed in the outlook for the financial results for the fiscal year ending May 2023

Business Environment	
Transportation Systems	<ul style="list-style-type: none">- In Japan, the number of railway passengers is expected to recover gradually against the backdrop of a certain degree of containment of COVID-19 outbreak. Although investment in new rolling stock plans continues to be restrained, demand for replacing aging rolling stock equipment is expected to increase, mainly in private railways.- In China, although there remains a risk that the zero-COVID policy will be reactivated, an expansion of infrastructure investment can be expected. In addition, since there are plans to extend high-speed railways and urban transportation, we can expect demand for maintaining existing rolling stock as well as an increase in the construction of new rolling stock.
Industrial Systems	<ul style="list-style-type: none">- Although there is concern about a shortage of members, a recovery in orders for production equipment can be expected, including customized system products that require detailed discussions.- We have high hopes for the reinforcement of infrastructure facilities such as emergency power generation equipment for national resilience.- The introduction of test equipment that assumes engine drive is being partially reconsidered due to the electrification of automobiles, but we will expand sales of the test machines (in-tire house dynamo) in anticipation of the testing of advanced driver-assistance systems (ADAS).

3. Medium-Term Management Plan

3-1. Review of the Four Years of the Previous Medium-Term Management Plan

Numerical Targets and Results of the Medium-Term Management Plan "Revitalize 2020/2022" (from fiscal year ended May 2019 to fiscal year ended May 2022)

100 million yen

	2018/5
	Result
Net Sales	425.2
Operating Income	3.6
(Operating margin ratio)	(0.9%)
Ordinary Income	5.1
Net Income	6.9
Equity in profit of unconsolidated subsidiaries and affiliates	1.1
ROE	2.7%
Payout ratio	68.2%

2020/5			
Plan	Result		
430.0	390.7	×	
9.0	10.6	○	
(2.1%)	(2.7%)	○	
11.0	12.0	○	
7.0	10.8	○	
1.2	-0.3	×	
3.3%	4.4%	○	
30.0%	24.8%	△	

2022/5			
Initial plan	Reviewed plan	Result	
More than 470	360.0	301.5	×
20.0	6.0	1.7	×
(4.3%)	(1.7%)	(0.6%)	×
24.0	8.0	7.6	△
16.0	7.0	-9.3	×
4.0	1.0	2.4	○
5.0%	3.0%	-4.0%	×
30.0%	30.0%	-	-

*Fiscal year ended May 2018 includes commemorative dividend.

<Net sales by segment>

Transportation Systems	279.4
Industrial Systems	117.6
Information Equipment Systems	28.0

290.0	242.6	×
130.0	130.2	○
10.0	17.7	○

310.0	220.0	194.5	×
150.0	130.0	99.0	×
10.0	10.0	7.9	×

3-2. Reasons for non-achievement of the previous Medium-Term Management Plan

Major factors behind the failure to achieve the Medium-Term Management Plan

Industrial Systems	A significant increase in demand was expected against the backdrop of the investment effect in Shiga Ryuo. Although the first half progressed more than planned, we saw a significant drop in demand due to the COVID-19 pandemic in the second half. Further, it was not possible to respond to the rapid electrification changes in the field of automotive testing machines.
Transportation Systems	Because we could not build a stable business profit structure, we were unable to respond to changes in the business environment caused by the decrease in railway passengers amid the COVID-19 pandemic in the second half.
Information Equipment Systems	In station service equipment, we were affected by the trend of general-purpose terminals and the curtailment of investment by railway operators due to the COVID-19 pandemic, and were not able to capture demand in the DX and IoT fields other than station service equipment.
Profits and Losses	Net income fell into the red due to the recording of impairment losses on business assets related to Industrial Systems.

3-3. Results and Issues of the Previous Medium-Term Management Plan

Results and Issues of Basic Policies and Major Measures

Outcome	<ul style="list-style-type: none">◆ Development of a robust business structure has progressed with the completion of integration in Industrial Systems at Shiga Ryuo Plant.◆ Progress has been made in strengthening the urban traffic maintenance business system with local subsidiaries/affiliates in China.◆ Commercialization of new dynamo (ITHD, fast slender) for CASE-compatible automotive test equipment◆ Proposal to CBM using IoT technology◆ Establishment of Sustainability Policy and Commencement of Sustainability Initiatives
Challenges	<ul style="list-style-type: none">◆ Promoting the development of new products unique to the Company by reorganizing our core technologies and matching them with changes in market needs accompanying changes in the environment◆ Thorough enhancement of our business profitability by improving profitability and deepening verification of low-profit projects◆ Reconstruction of the company-wide personnel strategy, human resource development based on the company-wide strategy, strengthening of workforce, and raising the level◆ Concrete initiatives for sustainability (decarbonization, human rights, and gender)

3-4. New Medium-Term Management Plan

Under the new Medium-Term Management Plan, we will promote efforts to achieve "regeneration and transformation of Toyo Denki" in order to "restore and improve the corporate value." Numerical targets will be disclosed in the next fiscal year.

- ◆ Under the previous Medium-Term Management Plan "Revitalize 2020/2022," we could not obtain sufficient earning power to respond to major changes in the business environment, such as the decrease in the number of railway passengers due to the COVID-19 pandemic and the review of test equipment for the electrification of automobiles. As a result, the Company fell far short of the target value.



- ◆ In light of the Company's challenges, the new Medium-Term Management Plan (term: fiscal year ending May 2023 to fiscal year ending May 2026) aims to achieve "revitalization and reform of Toyo Electric" in order to "restore and improve the corporate value."

<Basic Policies>

- (1) "New businesses and expansion of products"
- (2) "Thoroughly improving the profit structure of existing businesses," and
- (3) "Improving asset efficiency with an awareness of capital costs."

By working on these items, strengthen the management foundation drastically to achieve an ROE of 8% or more at an early stage.

3-4. New Medium-Term Management Plan

Priority Initiatives for Structural Reform over the Next Year

- ◆ In addition to focusing on the following initiatives, we will work to establish an organizational structure that supports these initiatives aimed at under the new Medium-Term Management Plan, strengthen the workforce, which is the core of management resources, and reform human resource strategies to revitalize the organizational culture.

(1) Efforts to expand new businesses and products	<ul style="list-style-type: none">(i) Strengthen and expedite development of new business areas across the company centered on the development center newly established this term (Creation of technologies and products that contribute to a decarbonized and sustainable society and discovery of new business fields)(ii) Expanding the business domain from station service equipment to general ICT through the ICT Solution Business Unit reorganized this period (Establishment of an ICT business field unique to the Company through the fusion of power electronics and ICT)
(2) Thoroughly improving the profit structure of existing businesses	<ul style="list-style-type: none">(i) Drastically strengthen profitability of both factories and sales from the viewpoint of improving production efficiency and securing appropriate selling prices(ii) Strengthen the operation of existing businesses with a greater focus on profitability, in order to increase investment in R&D and human resources.
(3) Improving asset efficiency with an awareness of capital costs	<ul style="list-style-type: none">(i) Continue to reduce cross-shareholdings and idle assets(ii) Review capital efficiency of each business and consider reallocation of management resources

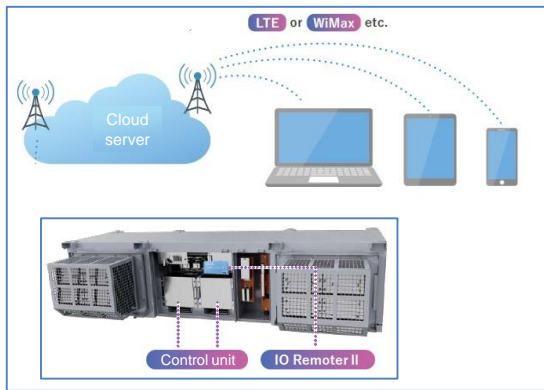
3-5. Topics

We exhibited our products at the Railway Technology Exhibition in Osaka and the Automotive Engineering Exposition held in May.

◆ Railway Technology Exhibition in Osaka

We exhibited our products also in Osaka following the Railway Technology Exhibition in Makuhari at the end of last year.

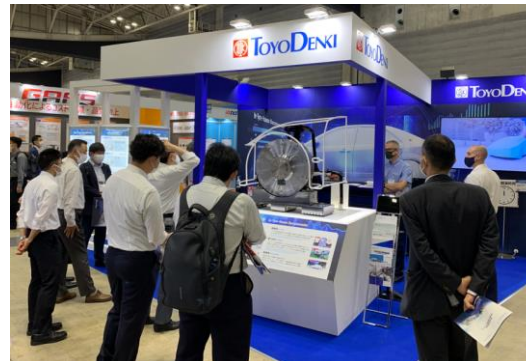
The Company exhibited proposals for Condition Based Maintenance (CBM) using IoT technology.



◆ Automotive Engineering Exposition 2022 in Yokohama

We exhibited our products at a real exhibition held for the first time in three years.

A new dynamo (in-tire house dynamo) for CASE-compatible automotive test equipment was exhibited.

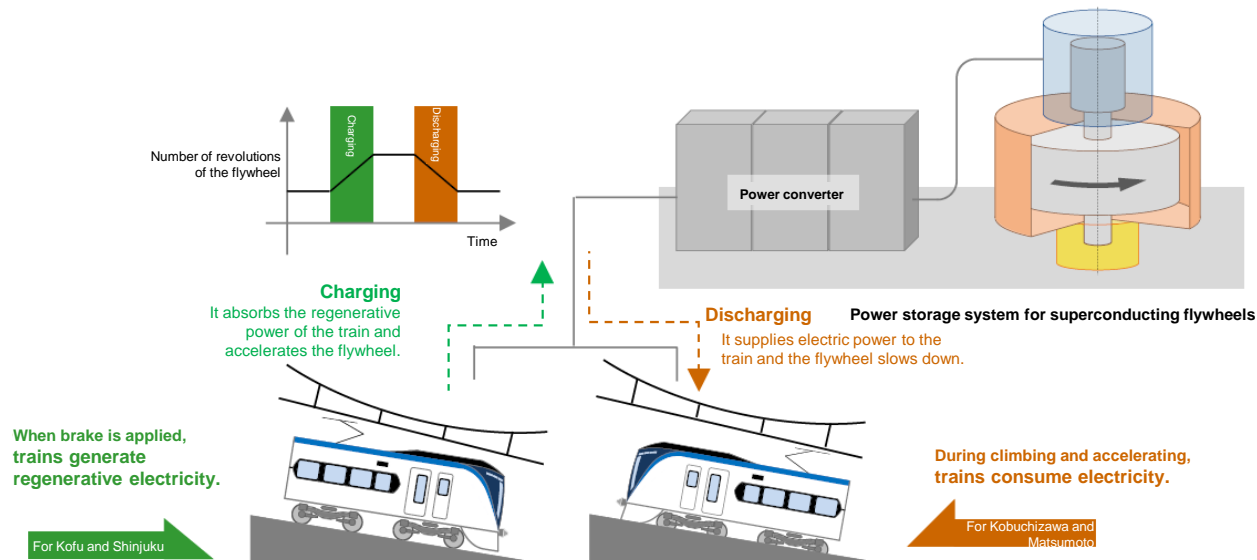


3-5. Topics

We started demonstration tests of a power storage system for superconducting flywheels for railroads.

We have completed the delivery of a power storage system for superconducting flywheels for railways commissioned by East Japan Railway Company, and the railway operator has started demonstration tests on the Chuo Main Line.

Through this project, we will work on constructing new power storage systems that contribute to the improvement of energy efficiency in the railway sector, the stable use of renewable energy, and the development of technologies, and contribute to bringing about a sustainable society, including decarbonization.



<Conceptual Image of System>

<Reference> Our company profile and business overview

- (1) Establishment** : **June 20, 1918 (104 years since establishment)**
- (2) Capital stock** : **4.9 billion yen**
(consolidated: fiscal year ended May 2022)
- (3) Net Sales** : **30.1 billion yen (ditto)**
- (4) Number of employees** : **1,193 (ditto)**
- (5) Business lines** : **Transportation Systems
Industrial Systems
ICT Solution Systems**
- (6) Production base** : **Yokohama Plant
Shiga Ryuo Plant**



<Yokohama Plant>



<Shiga Ryuo Plant>

<Reference> Our company profile and business overview

We are contributing to the development of the railway and industrial fields as a heavy electric machinery manufacturer with three businesses: Transportation Systems, Industrial Systems, and ICT Solution Systems.

Transportation Systems: products and systems for moving trains



Pantograph



Variable Voltage Variable Frequency (VVVF) Inverter Controller

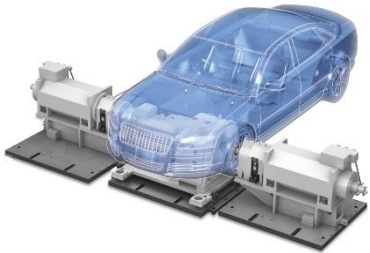


Motor



Gear units

Industrial Systems: production, infrastructure facilities, etc.



Automobile test system



Inverter



ED motor

ICT Solution Systems: station service equipment, etc.



Portable terminal for conductor



Cloud-type remote monitoring control system

<Reference> Our company profile and business overview

◆ Sustainability Policy

The Group's Corporate Philosophy calls for contributions to society, while its Environmental Philosophy calls for efforts to protect the global environment as an important issue. And we have established our Sustainability Policy as a guideline for contributing to the sustainable development of society. We organize the relationship between our efforts and the realization of the SDGs from the following three perspectives to proceed with our future initiatives based on Corporate Philosophy, Environmental Philosophy and Corporate Slogan.

The Group Corporate Slogan —Our Heart and Technology for the Future

Initiative in Products and Services

- Supply of decarbonized energy, such as small hydroelectric power generation
- Popularization of energy-efficient transportation, such as railroads and electric vehicles
- Efficiency of electrical equipment and the spread of power storage systems
- Improving safety, etc. through barrier-free transportation



Initiative in Production Activities

- Reduction of energy consumption in production
- Study of solar power generation and decarbonization of energy currently used
- Reduction of energy consumption during transportation of materials and products
- Recycling activities at production sites and offices, etc.

Initiative in Valuing People and Communities

- Support for school education by offering university endowed lectures and accepting school field trips in plants
- Promotion of gender equality initiatives and appointment of female managers
- Protecting the local environment, contributing to nature conservation, etc.



Disclaimer

- Statements concerning financial results forecasts are based on data available as of the date of publication of this material and assumptions concerning the elements of uncertainty that will affect future business performance as of the date of publication of this material. Actual financial results may differ depending on a variety of factors.
- 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.

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