Financial Review

Operating results

Summary

In fiscal 2017, the global economy overall stayed on a recovery track while being exposed to political and policy risks in the United States and major European countries and geopolitical risks in the Middle East, the situation in North Korea and other matters. There was concern of a slowdown in the Chinese economy, but it remained firm, supported by government economic measures and external demand. In developed countries employment continued to improve while capital investment also increased, sustaining the economic recovery. Economic growth in developing countries also accelerated, centered on Russia and Brazil, favored by rising prices for natural resources.

In the Japanese economy both consumer spending and capital investment remained firm amid turbulent domestic and foreign politics, in a stable expansion.

The automobile industry sold more vehicles than in the previous fiscal year thanks to the introduction of new vehicles, although the number of units sold in Japan decreased due to problems from falsified fuel economy tests and inspections. In other countries, while the number of units sold in the United States, which had been a favorable market, decreased, a recovery was seen in Asia and Europe. Worldwide, increasing demand was maintained.

In the LED industry, prices continued to decline for lighting and backlights due to price competition and the emergence of competing technologies such as organic electroluminescence.

Under these circumstances, the Toyoda Gosei Group continued its aim of being a truly global supplier of choice that delivers satisfaction to customers worldwide, endeavoring to ensure safety and raise quality globally with its corporate policy of first creating a corporate culture and developing mechanisms so that major accidents and serious quality problems will never occur.

To follow the path of sustainable growth as a global supplier, we have also prioritized efforts to develop technologies and expand sales in ways that correspond to environmental changes and future needs, and to build a solid revenue base that supports sustainable growth.

In the automotive parts business, we have introduced a series of attractive new products to the market based on our technical development. These products include steering wheels with grip sensors that automatically detect the status of the driver's grip on the steering wheel and provide feedback to the autonomous driving system, large radiator grilles that are lighter in weight with an improved design and a dynamic shape, and glass runs with a stylish new configuration that improve quietness and provide comfortable interior spaces. This has resulted in expanded sales.

We have accelerated movement toward the commercialization of next-generation "e-Rubber" as one aspect of our technical development for the future. e-Rubber is promising for applications such as artificial muscle, with a next-generation power source (actuator) that moves with electricity, as well as for commercialization in tactile or pressure sensors that take advantage of the softness of rubber. Measures and efforts are being executed in rapid succession to move steadily toward commercialization, including strengthening the organization that will work toward commercialization, concluding tie-ups with venture companies, and actively displaying e-Rubber in trade shows and other venues. We have also formulated a medium- and long-term management plan for fiscal 2025 that sets our course for sustainable growth in a rapidly changing environment. Prior to its announcement in May 2018, we announced our medium-term business outlook for fiscal 2020 as a milestone in May 2017 and explained our medium-term management objectives and short-term priority measures.

For the fiscal year under review, net sales increased to 806.9 billion yen (up 6.8% year on year), based on increased sales in our automotive parts business and the effects of exchange rate fluctuations.

Despite a worsening product mix, increased fixed costs and other factors, operating profit increased to 41.1 billion yen (up 1.1% year on year), ordinary profit grew to 43.2 billion yen (up 10.7% year on year) and profit attributable to owners of parent rose to 21.1 billion yen (up 30.4%).

(Billions of yen)

Consolidated operating results	FY2017	FY2016
Net sales	**806.9**	755.6
Operating profit	**41.1**	40.6
Profit attributable to owners of parent	**21.1**	16.2

Operating results by segment

In the automotive parts business, net sales increased to 792.3 billion yen (up 7.5% year on year), based on expanded sales to mainly Toyota Motor Corporation and Japanese customers not in the Toyota Group, as well as the exchange rate effects from a weaker yen. Meanwhile, segment profit was 41.9 billion yen (down 9.2% year on year), due to a worsening product mix and increased fixed costs, despite the effects of increased sales and Groupwide rationalization efforts.

(Billions of yen)

Sales by segment	FY2017	FY2016
Automotive parts	**792.3**	737.0
Weatherstrips	**131.9**	134.4
Functional Components	**125.3**	117.6
Interiors and Exteriors	**309.5**	273.1
Safety Systems	**225.5**	211.8
Optoelectronic	**14.5**	18.5

Net sales in the optoelectronic business totaled 14.5 billion yen (down 21.6% year on year), due to decreased sales for LED products for backlights. Segment loss was 844.0 million yen (up from a segment loss of 5.5 billion yen in the previous fiscal year), due to decreased fixed costs and other factors.

Sales by region

To expand sales and build a revenue base, we have made a powerful push to grow our airbag business, one of the drivers of Toyoda Gosei's growth. Specifically, to meet the needs of the growing market in Asia, particularly India, we established a new plant in Bawal, Haryana, which is in northern India, and then began working to establish another new plant in the western state of Gujarat. We are preparing to meet growing demand by strengthening our local business structure and raising cost competitiveness. We have also strengthened our development structure in developed countries to meet the needs for airbag diversification and an increasing number of airbags in cars due to stricter safety regulations. Through a capital tie-up with a business partner that produces inflators—a key component of airbags—and other activities, we enhanced our production capability to meet this growing demand.

We are also enhancing our global business structure to build other revenue bases. In Europe, which has been a challenging market for us, we are reviewing the division of roles in our three locations and have begun optimizing our production and cost structures. In South America, we have strengthened our production capabilities for interior and exterior parts by making Pecval Industria Ltda. in Brazil, a company in which we previously had only an equity interest, a wholly owned subsidiary.

(Billions of yen)

Sales by region	FY2017	FY2016
Japan	**381.3**	361.9
Americas	**241.2**	230.1
Asia & Australia	**197.6**	179.0
Europe & Africa	**47.9**	45.4

Financial position

Capital requirements and financial policies

The Toyoda Gosei Group had made capital investment of 64.8 billion yen in the fiscal year under review. Our planned capital investment in the next consolidated fiscal year will be mainly to enhance production capacity for inflators made in-house and plastic fuel filler pipes in Japan, and in other countries to strengthen production in India and enhance airbag production capacity in Vietnam, and to enhance our ability to expand production of plastic fuel filler pipes in North America.

We will continue to look at capital requirements with a long-term view for capital investment and financing globally, including responses to globalization of markets and enhancing our business in growing markets.

The outstanding balance of interest-bearing debt at the end of the fiscal year under review, including loans and bonds payable, was 108.1 billion yen. The outstanding balance of cash and deposits was 104.3 billion yen.

(Billions of yen)

Investment, cash and debt	End of FY2017	End of FY2016
Capital investment	**64.8**	55.2
Cash and deposits	**104.3**	97.5
Interest-bearing debt	**108.1**	89

Cash flows

The outstanding balance of cash and cash equivalents (excluding time deposits with maturities greater than three months) on a consolidated basis at the end of the fiscal year under review increased 28.0 billion yen over the previous consolidated fiscal year, to 97.9 billion yen. This was mainly due to cash inflow of 60.8 billion yen from operating activities, net decrease in time deposits of 21.4 billion yen and fundraising of 34.1 billion yen from long-term loans and issuance of bonds, despite outlays of 60.9 billion yen for the acquisition of non-current assets. Cash flows and related factors during the fiscal year under review were as follows.

● Cash flows from operating activities

Operating activities provided net cash of 60.8 billion yen, an increase of 400 million yen compared to 60.4 billion yen in the previous fiscal year. This was due to increases in profit before income taxes and adjustment of depreciation, profit and loss of non-fund items, despite an increase in income taxes paid.

● Cash flows from investing activities

Investing activities used net cash of 39.2 billion yen, a decrease of 42.9 billion yen compared to 82.1 billion yen in the previous fiscal year. This was due mainly to a net decrease in time deposits.

● Cash flows from financing activities

Financing activities provided net cash of 6.5 billion yen, a decrease of 8.2 billion yen compared to 14.7 billion yen in the previous fiscal year. This was due mainly to an increase in repayments of loans.

(Billions of yen)

Cash flows	FY2017	FY2016
Cash flows from operating activities	**60.8**	60.4
Cash flows from investing activities	**(39.2)**	(82.1)
Cash flows from financing activities	**6.5**	14.7