Financial Review

Overview

In FY2019, global economic growth reaccelerated mildly in the first half before slowing throughout the second half amid mounting uncertainty surrounding barriers to trade, most notably tariff hikes by the United States and China. The Japanese economy likewise slowed in the second half, largely in response to a consumption tax hike and a series of natural disasters, including a mega-typhoon, after growing sluggishly in the first half. Japanese auto sales surpassed five million units for a third consecutive year, boosted by new model releases by major client automakers. Overseas, the US auto market's growth stalled and the Chinese market was dampened by a downturn in consumer sentiment largely in response to US-China trade tensions. Global auto sales declined year on year for a second straight year. Against such a backdrop, the SARS-CoV-2 outbreak that erupted in China in late 2019 spread globally from January. The virus prompted countries to close their borders, heavily depressed consumer sentiment and caused supply chain disruptions that shut down production lines. In response, economies and auto markets precipitously deteriorated globally.

Amid such an environment, the Toyoda Gosei Group identified three key pillars of activity toward achievement of the targets in its 2025 Business Plan, a medium- and long-term plan unveiled in May 2018, and has been putting them into practice on a priority basis.

The first pillar is "Venture into innovation, new mobility," under which we are pursuing early commercialization in unconventional new domains through innovative technology. First, we exhibited e-Rubber, a next-generation dielectric rubber, for the first time at CES2020, a consumer-electronics trade show held in Las Vegas in January 2020. We also unveiled haptic (simulated touch) technology that combines a tactile hand and augmented reality. We aim to commercialize applications of such technology in various markets, including healthcare and entertainment. In the CASE (Connected, Autonomous, Shared, Electric) automotive space, we have been proactively investing in startups through a corporate venture capital fund set up in FY2018 and have accelerated development of new technologies, including modularization of interior and exterior components. Additionally, we will continue to commercialize new technologies and products by focusing on product development in response to automobiles' ongoing evolution and on vertical GaN power semiconductor devices that incorporate technology and know-how cultivated through development and production of blue LEDs.

The second pillar is "Strategy for growing markets/fields." In the Americas, a region that supports the Toyoda Gosei Group's earnings as a growth market, we opened a second engineering and sales office in the U.S. state of Ohio. By locating design and sales staff in proximity to customers, we aim to expedite development of interior and exterior components and airbags and further expand new product sales.

To expand our geographic footprint in the large interior and exterior component market, we plan to expand the molding and painting capacity of three manufacturing subsidiaries in the central and southern U.S.: TG Missouri Corporation, TG Kentucky, LLC, and Toyoda Gosei Texas, LLC. We will pursue further earnings growth through aggressive investment in growth markets. In China, the world's largest auto market and one with promising prospects of continued growth, we plan to enlarge and expand the production capacity of a plant of Hubei Toyoda Gosei Zheng Ao Rubber & Plastics Sealing Science and Technology Co., Ltd., in the aim of expanding inland operations. In Vietnam, an up-and-coming growth market, Toyoda Gosei Haiphong Co., Ltd., commenced production at its Thai Binh Plant, its second plant, to meet globally growing airbag demand. It plans to enlarge the plant in 2021.

Additionally, we are actively expanding sales of high-value-added products to both domestic and overseas customers. Such products include aesthetically designed plated products, emblems that combine design with functionality in the form of permeability to millimeter wave radar, and resin fuel filler pipes and resin turbo ducts, both of which improve environmental performance by reducing vehicle weight through substitution of metal with resin.

The third pillar is "Innovative manufacturing at production sites." We have realized labor savings by automating certain (e.g., inspection) processes and reduced losses with IoT technologies. To reduce manpower requirements through automation, we commissioned a plastic fuel filler pipe production line as an "automated model plant" in a new building at our Heiwacho Plant in May 2019. Initiatives to reduce losses with IoT technologies include use of big-data analytics to reduce defect losses and reduction of equipment downtime losses through continuous visual monitoring of airbag inflator production status. We plan to deploy such innovations across our entire product line and also share them with affiliates in the aim of increasing Group-wide productivity.

In addition to the three key pillars of activity, we have been restructuring in pursuit of sustained growth. We completed our latest round of restructuring on December 30, 2019, with the divestment of German manufacturing subsidiary Toyoda Gosei Meteor GmbH (TGM) and U.S. manufacturing subsidiary Meteor Sealing Systems, LLC, to SCUR-Alpha 1123 GmbH (subsequently renamed AEQPH GmbH). We expect these divestments to be accretive to shareholder value going forward.

FY2019 revenue decreased 3.3% year on year to ¥812.9 billion as a result of depreciation in the U.S. dollar and Chinese renminbi against the yen and auto production cutbacks due to the COVID-19 pandemic since January.

Profits also decreased, with operating profit down 51.0% year on year to ¥17.8 billion and profit attributable to owners of the parent down 51.8% to ¥11.2 billion. Their decline was largely the result of a loss on liquidation of TGM in addition to decreased sales due to the pandemic. The dollar/yen exchange rate averaged ¥109 in FY2019 versus ¥111 in FY2018.

(Millions of yen)

Consolidated results	FY2019	FY2018
Revenue	812,937	840,714
Operating profit	17,888	36,525
Profit attributable to owners of parent	11,226	23,309

Revenue by segment

Japan

Revenue slipped 0.5% year on year to ¥405.1 billion, mainly as a result of the pandemic. Although the bottom line benefited from non-recurrence of a year-earlier loss on antitrust law, the segment ended up incurring a ¥5.0 billion loss (vs. ¥11.0 billion profit in previous fiscal year), largely because of the loss booked on TGM's liquidation in the third quarter coupled with a pandemic-induced sales decline.

Americas

Sales to Japanese and foreign automakers were tracking above their year-earlier level through February 2020 but FY2019 revenue ended up dropping 2.2% year on year to ¥243.5 billion, largely in response to adverse exchange rate movements and a March sales decline due to the pandemic. Profit was down 5.1% to ¥16.6 billion, largely as a result of decreased sales due to the pandemic.

Asia

Despite growth in major customers' Chinese production through January 2020, revenue decreased 5.8% year on year to ¥188.2 billion, largely because of the pandemic's impact in February and March, mainly in China. Profit fell 17.0% to ¥10.6 billion, mainly as a result of decreased sales in China and Thailand due to the pandemic and auto market weakness, respectively.

Europe & Africa

Revenue was down 20.4% year on year to ¥36.5 billion. Despite decreased sales due to the pandemic, the segment reduced its loss to ¥4.2 billion from ¥4.7 billion in the previous fiscal year, largely by virtue of TGM's deconsolidation in the third quarter.

(Millions of yen)

Revenue by segment	FY2019	FY2018
Japan	405,116	407,084
Americas	243,590	249,150
Asia	188,292	199,790
Europe & Africa	36,567	45,955

Outlook for FY2020

The COVID-19 pandemic renders accurate forecasting of customers' production practically impossible at present. We are consequently refraining from issuing an earnings forecast for FY2020 until we are reasonably able to forecast.

Financial condition

Analysis of financial position

1. Assets, liabilities, and equity

Assets at fiscal year-end totaled ¥709.1 billion, a ¥1.0 billion year-on-year increase driven mainly by an increase in property, plant and equipment. Liabilities totaled ¥338.9 billion, a ¥10.9 billion year-on-year increase due mainly to growth in borrowings.

Equity totaled ¥370.2 billion, a ¥9.8 billion year-on-year decrease mainly due to a reduction in other components of equity.

2. Cash flows

Cash and cash equivalents at the end of the fiscal year under review increased by ¥20.6 billion, from ¥107.3 billion at the end of the previous fiscal year, to ¥127.9 billion.

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 ¥65.2 billion, an increase of ¥7.7 billion compared to ¥57.4 billion in the previous fiscal year. The increase resulted largely from a decrease in trade and other receivables.

Cash flows from investing activities

Investing activities used net cash of ¥54.1 billion, a ¥1.3 billion decrease from ¥55.4 billion in the previous fiscal year. The decrease was largely attributable to a reduction in purchases of property, plant and equipment and intangible assets.

Cash flows from financing activities

Financing activities provided net cash of ¥12.5 billion, an increase of ¥4.7 billion compared to ¥7.7 billion in the previous fiscal year. The increase was largely due to a reduction in repayments of long-term borrowings.

(Millions of yen)

Cash flows	FY2019	FY2018
Cash flows from operating activities	65,247	57,463
Cash flows from investing activities	(54,174)	(55,491)
Cash flows from financing activities	12,525	7,749