

TOKYO KEIKI INC.

Financial Results Briefing for 2Q of the Fiscal Year Ended March 31, 2021 (Fiscal 2020) —From April 1 to September 30, 2020—

November 10, 2020

The forward-looking statements contained in this material reflect the management's assumptions based on currently available information as of the date of announcement. Future changes in business environment and other factors may therefore cause differences with the actual situation.

Summary of 2Q Results (From April 1 to September 30, 2020)

- ◆ The Hydraulics and Pneumatics Business experienced a decline in demand in major markets from the ongoing impacts of the COVID-19 pandemic since the first quarter, despite a recovery in the China market.
- ◆ The full-year earnings forecast made changes to the forecast disclosed on August 11, 2020 taking into account the current business climate and earnings trends reflecting the impacts of COVID-19 up until now (see supplement on next page).
- ◆ The Defense & Communications Equipment Business and Marine Systems Business brought new products to market

Supplement to full-year earnings forecast for FY2020

- ◆ Regarding the COVID-19 pandemic, the Japanese government withdrew its state of emergency on May 25, 2020, and since then, we find that economic activities are in the process of recovering, including sales activities and production activities.
- ◆ Our group's earnings are being affected due to changes in customers' production plans and maintenance plans along with deferrals of projects to the next fiscal year, caused by COVID-19. However, as of the end of the second quarter, the impacts on the full-year earnings forecast for the Marine Systems Business, Fluid Measurement Equipment Business, and Defense & Communications Equipment Business are expected to be limited.
- ◆ The Hydraulics and Pneumatics Business experienced a decline in demand in the plastic processing machinery market, machine tool market, and construction machinery market due to weakness in the automobile industry in Japan, despite a recovery trend in the China market which was one of the first to rebound from the impacts of the COVID-19 pandemic. Downward revisions were made to forecasts for net sales and profits because it is difficult to anticipate a strong recovery during this fiscal year, even when including the forecasts of the Japan Fluid Power Association and others.
- ◆ As factors outside of the earnings of each business segment, we expect to see an increase in SG&A expenses for reinforcing risk management, including strengthening business continuity systems, such as the work-from-home environment.

1. Summary of financial results for 2Q of FY2020

Topics **Offering variations for semiconductor production equipment** **TOKYO KEIKI's microwave application products**

In addition to the general-purpose 50W microwave oscillator for ISM band (2.45GHz), we have newly launched a high-power microwave amplifier with newly expanded functions in semiconductor production equipment, which is positioned as our growth business.

We have established a proprietary position as one of the domestic vendors in Japan capable of manufacturing everything from microwave integrated circuits (MIC) to microwave units in-house. In addition to our specialty of aircraft and space equipment and satellite communication equipment, we provide a wide range of original products such as terrestrial digital broadcasting repeaters and high-power microwave amplifiers for semiconductor production equipment.



Example of microwave integrated circuit
(X band GaN High-power Amplifier)



Example of microwave unit
(solid state microwave power supply)

TOKYO KEIKI's DNA: Transition to Domestic Production in Modern Japan

Start of domestic production of microwave devices

Our original radar warning receiver developed in 1971 used microwave devices imported from overseas, but now we have moved the production of the main components to Japan using our existing technology. The technical know-how developed is now also being applied in the products of today.

- Yoshihira Wada, the company's founder, succeeded in producing the first domestically manufactured pressure gauge in Japan in 1896.
- Furthermore, he named measurement instrument, which had no Japanese translation at the time, KEIKI.

The pioneering ambition at the time of our founding, is still being passed down through generations in the DNA of TOKYO KEIKI.

1. Summary of financial results for 2Q of FY2020

Topics

Tapped into China's coastal vessels market and fishing vessel market!

Released new autopilot and gyrocompass products

We launched the following products as strategic products for China's coastal vessel and fishing vessel markets, which are considered important markets over the medium to long term

- 1) New mid-size autopilot PR-3000 featuring a color LCD and improved display functions added to a repeater unit
- 2) Gyrocompass TKG-1100 featuring a compact size and functions tailored to the market

In addition to new shipbuilding, there is expected to be demand for refitting existing vessels, and we are focusing on promoting sales to offset the new shipbuilding market which continues to experience weakness.



1) Autopilot PR-3000 for Chinese markets

TOKYO KEIKI's DNA: Pioneer in marine instruments in Japan

- 1901 First in Japan to manufacture magnetic compasses
- 1907 First in Japan to manufacture electric remote tachometers and depth sounders
- 1918 Began manufacturing gyrocompasses, a mainstay product today
- 1925 Began manufacturing autopilots
- 2011 Established TOKYO KEIKI (SHANGHAI) CO., LTD. in Shanghai, China to further expand sales in the China market

Today, TOKYO KEIKI continues to develop products that contribute to safe ocean passages through its cutting edge gyro technologies and autopilot technologies.



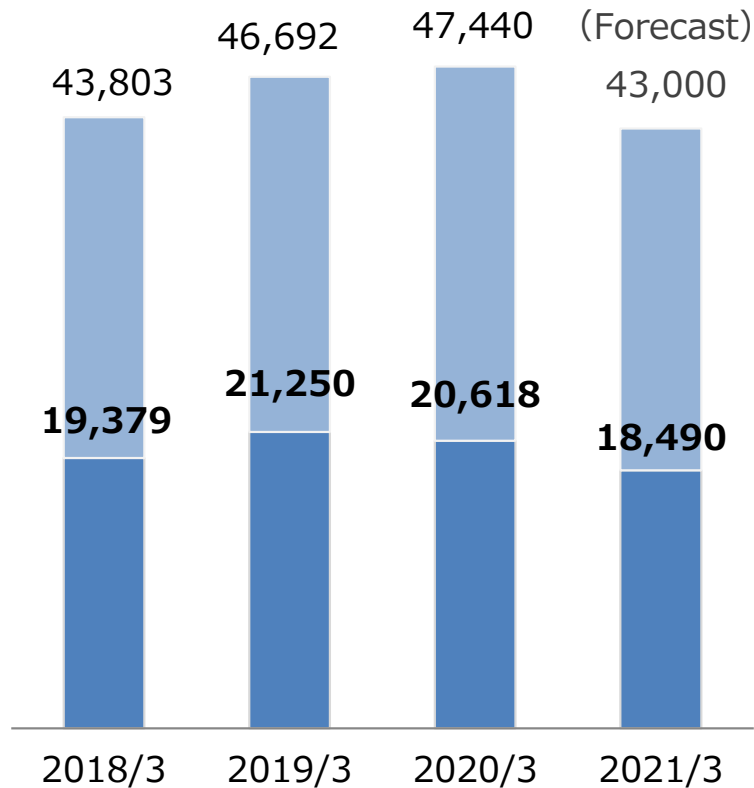
2) Gyrocompass TKG-1100 Chinese markets

2. Trend of Business Results

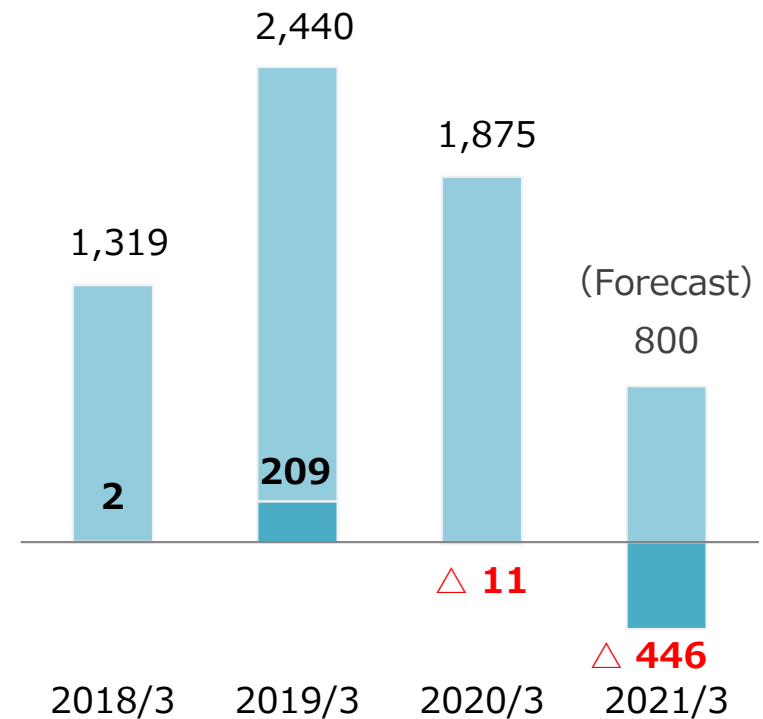
Changes in consolidated profit & loss



【Net Sales】



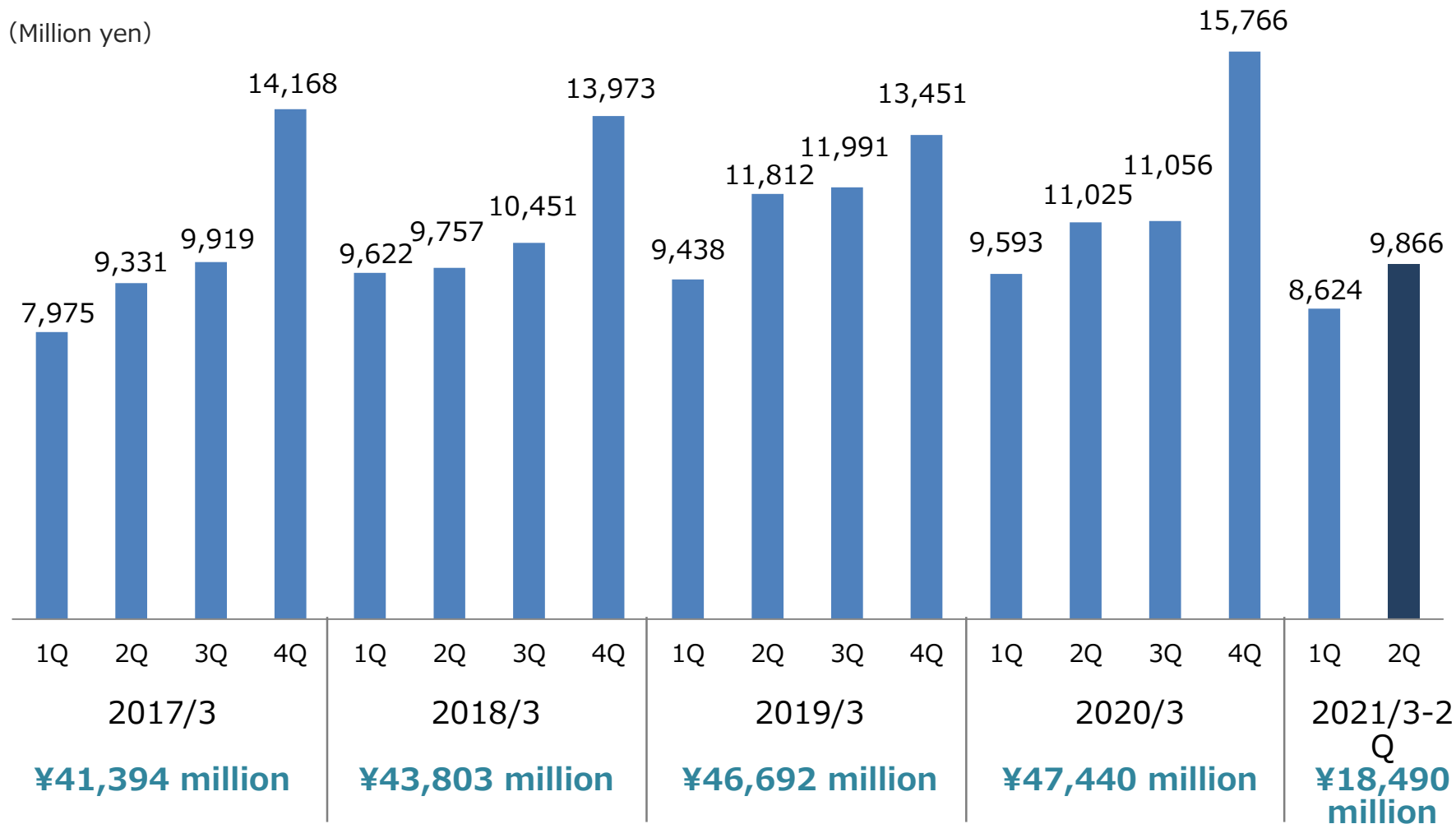
【Operating Profit】



*Full year forecast of Fiscal 2020 was changed in "Summary of financial results for the second-quarter of fiscal 2020" on November 10, 2020.

2. Trend of Business Results

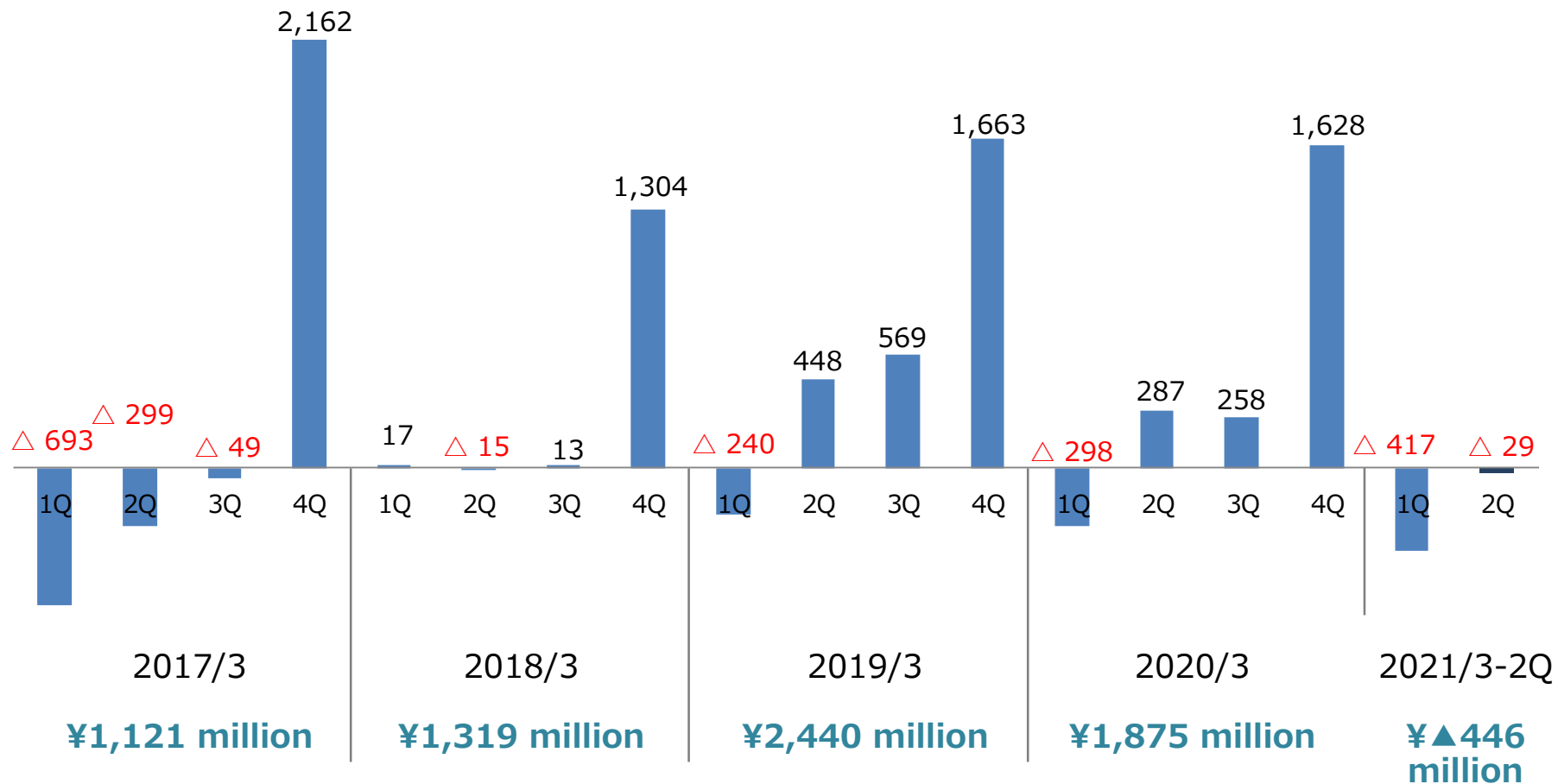
Quarterly changes in net sales



2. Trend of Business Results

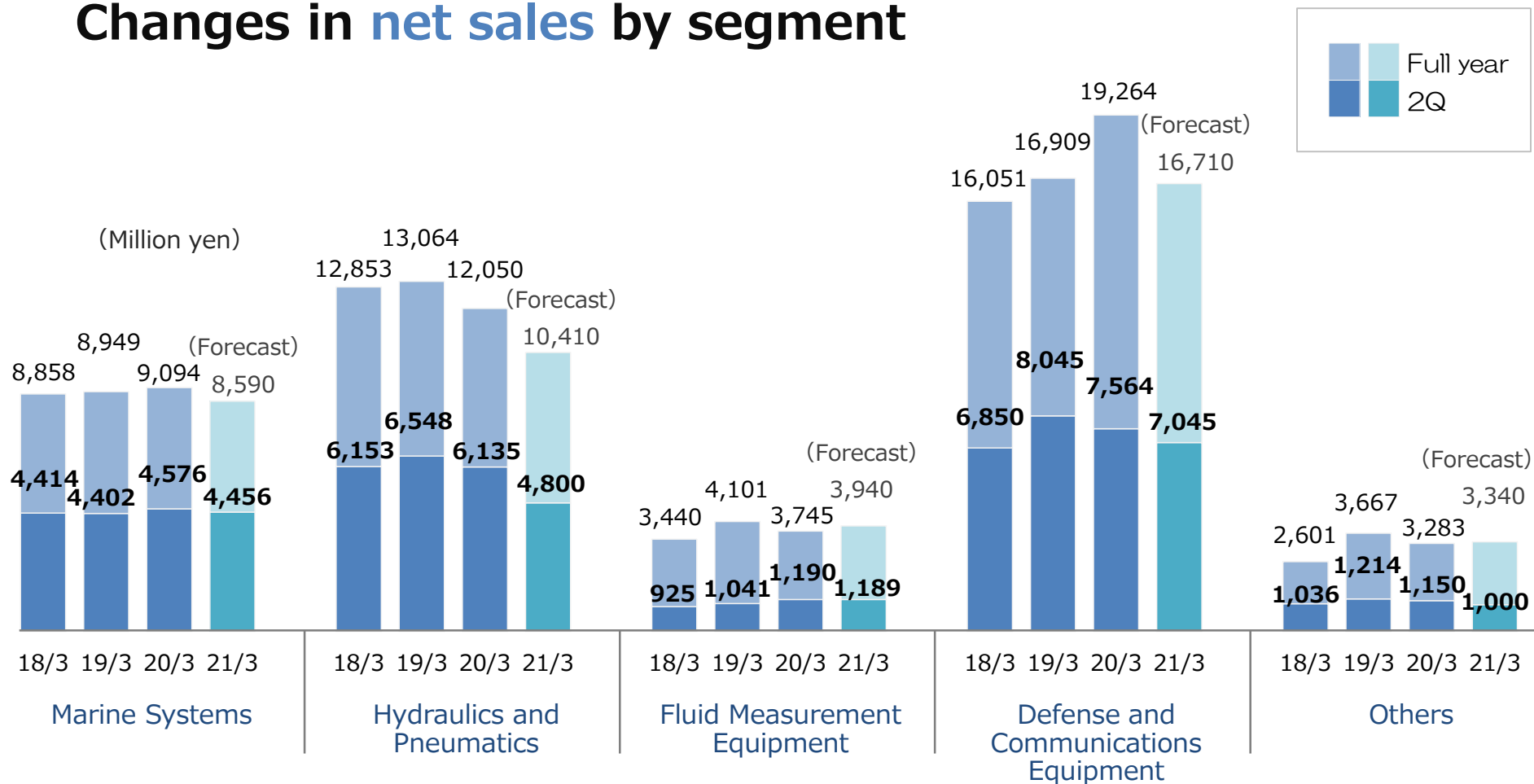
Quarterly changes in operating profits

(Million yen)



2. Trend of Business Results

Changes in net sales by segment



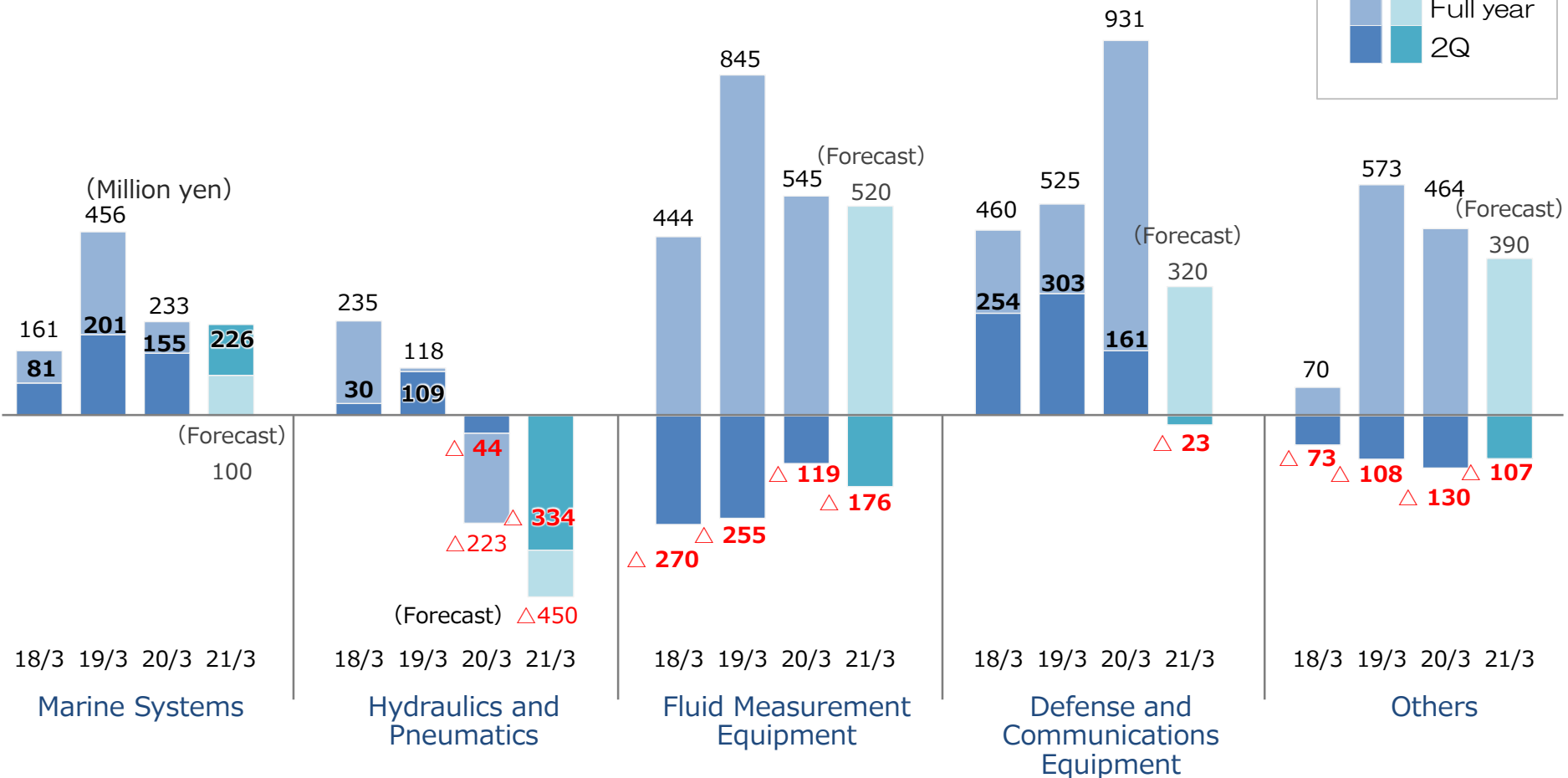
*Net sales before adjustment.

*"Fire Extinguishing Systems Business", which has been included under "Other Businesses", is included under the "Fluid Measurement Equipment Business" in Fiscal 2018. The amounts before Fiscal 2018 are updated to reflect the segment change.

*Full year forecast of Fiscal 2020 was changed in "Summary of financial results for the second-quarter of fiscal 2020" on November 10, 2020.

2. Trend of Business Results

Changes in operating profits by segment



*Operating profits before adjustment.

**"Fire Extinguishing Systems Business", which has been included under "Other Businesses", is included under the "Fluid Measurement Equipment Business" in Fiscal 2018. The amounts before Fiscal 2018 are updated to reflect the segment change.

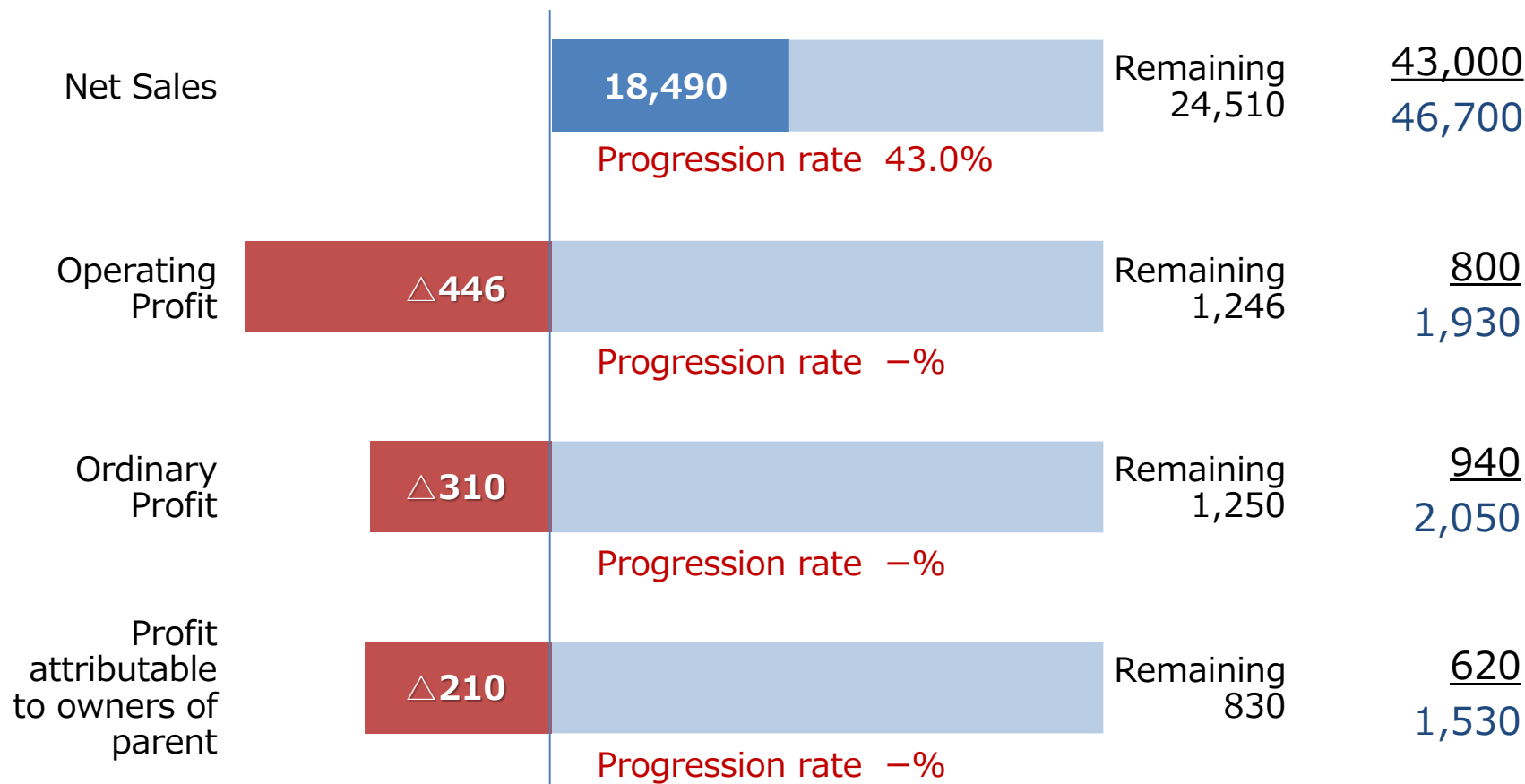
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3. Fiscal 2020 2Q Progress

Fiscal 2020 2Q progress

(Million yen)

Full year forecast
Forecast at the beginning of
the fiscal year



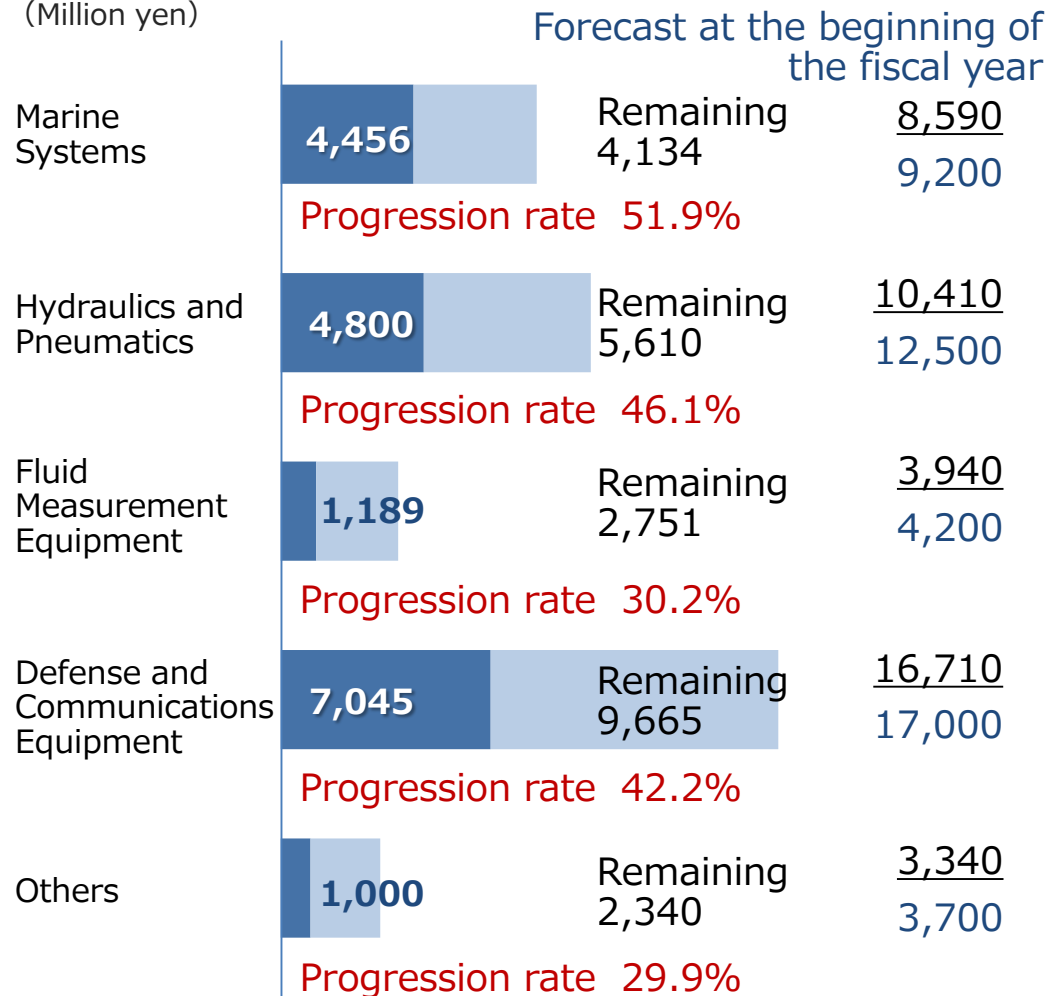
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3. Fiscal 2020 2Q Progress

Progress of **net sales** by segment

Full year forecast

(Million yen)



-Net sales are expected to decline due to a drop in budgets for refitting among shipowners and postponements in equipment installations due to the impacts of COVID-19.

-Net sales are expected to decline due to the delayed recovery in the mainstay plastic processing machinery market, machine tool market, and construction machinery market due to COVID-19.

-The public-sector market is expected to trend roughly according to forecasts, but net sales are expected to decline because some projects in private-sector market and overseas markets will be postponed to next fiscal year due to COVID-19.

-There was an increase in sales volume of satellite communications antenna stabilizers, but net sales are expected to decline because some overseas projects and private-sector projects have been postponed to next fiscal year due to COVID-19.

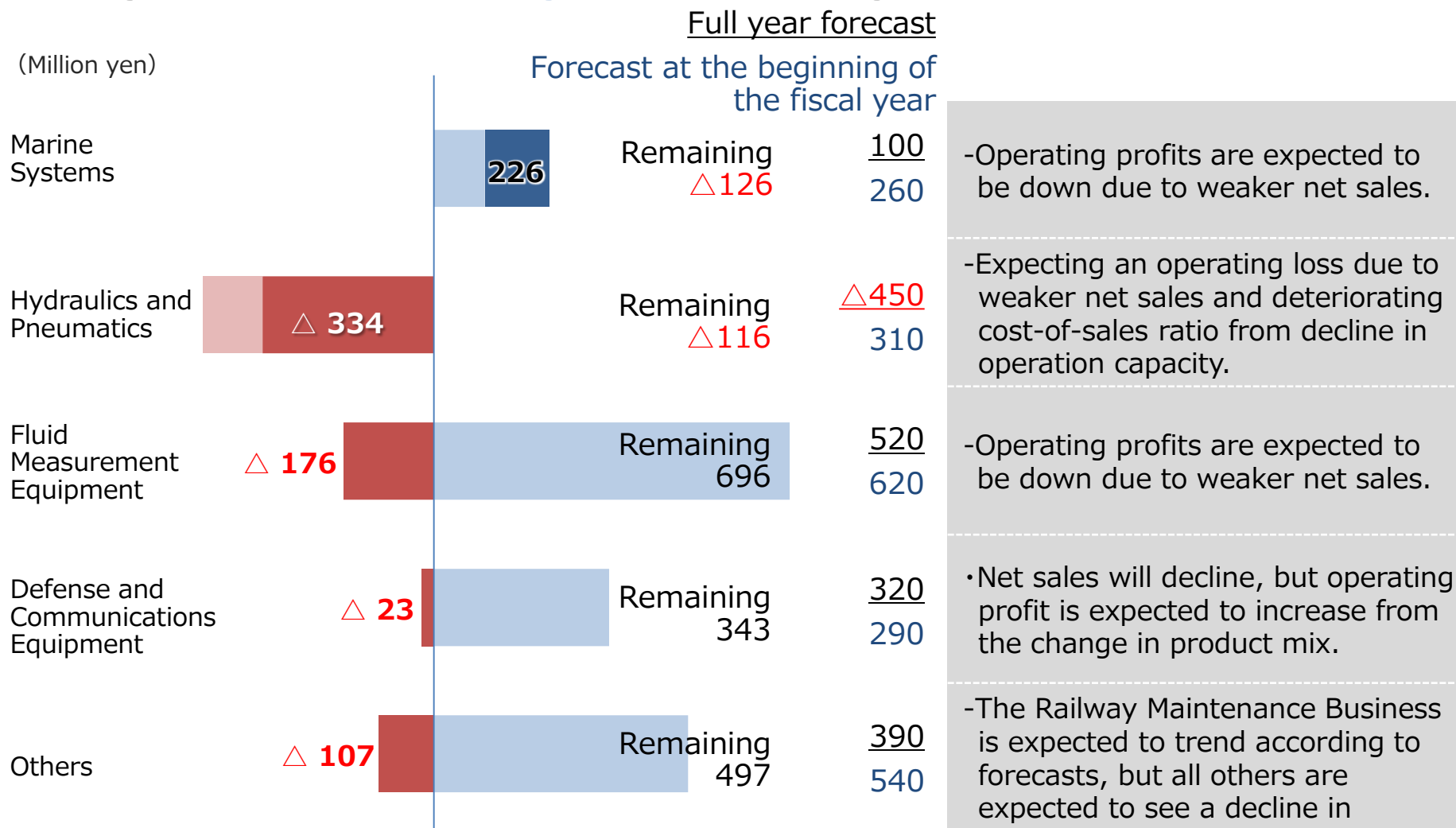
-The Printing Inspection Equipment Business is expected to see net sales decline as some projects have been frozen or postponed mainly in overseas markets due to COVID-19.
-The Railway Maintenance Business is performing according to forecasts.

*Net sales before adjustment.

*Full year forecast of Fiscal 2020 was changed in "Summary of financial results for the second-quarter of fiscal 2020" on November 10, 2020.

3. Fiscal 2020 2Q Progress

Progress of **operating profit** by segment



*Operating profits before adjustment.

*Full year forecast of Fiscal 2020 was changed in "Summary of financial results for the second-quarter of fiscal 2020" on November 10, 2020.

4. Status of Orders Received and Order Backlog

	Amount of orders received for 2Q of Fiscal 2020		Amount of order backlog at the end of 2Q of Fiscal 2020		
(Million yen)	Amount	YoY change	Amount	Change from the end of FY2019	YoY change
Marine Systems	4,135	△1.9%	2,355	△12.0%	△3.9%
Hydraulics and Pneumatics	4,686	△22.6%	2,434	△4.5%	△23.6%
Fluid Measurement Equipment	1,869	+4.6%	1,643	+70.7%	+25.2%
Defense & communications Equipment	6,167	△4.2%	14,389	△5.8%	△27.1%
Reported segment total	16,857	△8.8%	20,821	△2.9%	△22.0%
Others	1,808	+2.4%	1,239	+187.9%	+7.8%
Total	18,665	△7.9%	22,060	+0.8%	△20.7%

- ◆ The Hydraulics and Pneumatics Business experienced a large downturn in orders and order backlog due to declining demand in the plastic processing machinery market, machine tool market, and construction machinery market caused by COVID-19 from the first quarter on.
- ◆ The order backlog for the Defense & Communications Equipment Business declined largely year on year after a peak in mass-production orders for radar warning receivers in the public-sector market, which continued up to the previous first quarter.

5. Consolidated Balance Sheets (Main accounting items only) **TOKYO KEIKI**

(Assets)

(Liabilities and net assets)

(Million yen)	As of Mar 31, 2020	As of Sep 30, 2020	Amount of change	(Million yen)	As of Mar 31, 2020	As of Sep 30, 2020	Amount of change
Current assets	42,695	40,493	△2,202	Current liabilities	21,736	19,944	△1,793
Cash and deposits	7,709	11,195	+3,486	Notes and accounts payable	5,800	5,136	△664
Notes and accounts receivable	15,262	10,360	△4,902	Short-term loans payable	11,692	10,942	△750
Electronically recorded monetary claims	4,404	3,073	△1,330	Provision for bonuses	1,123	1,097	△26
Inventories	15,001	15,186	+185	Non-current liabilities	3,197	3,520	+323
Accounts receivable	81	355	+273	Long-term loans payable	1,076	1,412	+336
Other	240	327	+87	Net defined benefit liability	1,229	1,202	△27
Non-current assets	11,882	12,102	+220	Total liabilities	24,933	23,463	△1,470
Tangible assets	7,004	7,158	+154	Shareholders' equity	29,065	28,465	△600
Intangible assets	0	12	+12	Retained earnings	22,542	21,922	△620
Investment securities	2,991	3,143	+152	Total net assets	29,644	29,132	△512
Total assets	54,577	52,595	△1,982	Total liabilities and net assets	54,577	52,595	△1,982

- ◆ Accounts receivable-trade (notes and accounts receivable and electronically recorded monetary claims) declined significantly (down 6,232 million yen compared to the previous fiscal year end) due to the collection of accounts receivable in the Defense and Communications Equipment Business, which increased at the previous fiscal year
- ◆ Liabilities declined due to decrease in purchase liabilities (notes and accounts payable) and repayment of loans payable (down 414 million yen when combining short- and long-term loans)
- ◆ Retained earnings decreased due to dividends (409 million yen) and net loss attributable to owners of parent (210 million yen).

Strengthening of IR organization and disclosure of ESG information

- ◆ Effective April 1, 2020, we established the Corporate Communications Office in order to strengthen and accelerate positive and effective communication with various stakeholders of the Group (employees, customers, suppliers, investors, shareholders, governments, general public and local communities) using “corporate communications management.”
- ◆ We are now speeding up activities to publish a report on ESG, our response to which has been delayed, before the end of this fiscal year, as a short-term target on information disclosure. Also, our medium- to long-term target is to establish a structure and production processes that will make it possible to publish an integrated report in Japanese and English in a sustainable and efficient manner, spearheaded by the Corporate Communications Office.
- ◆ We will further deepen stakeholder engagement by carefully addressing the views and questions of investors effectively using ESG reports and integrated reports as an IR tool.

About the introduction of ROIC-focused management

- ◆ The Group will introduce ROIC-focused management in order to achieve ROE improvement and “balance sheet reduction” by measuring the earnings power and capital efficiency of each business.
- ◆ We will comply with the requirements of Japan’s Corporate Governance Code and fulfill the expectations of investors by aiming to generate profits in excess of capital costs by incorporating comparison with WACC as an evaluation indicator.
- ◆ By introducing ROIC-focused management, we will aim to pursue the profitability, growth and stability of the entire Group, while seeking a balance between investment and returns. In this manner, we will optimize our entire business portfolio and achieve sustainable growth.

Profit returns to shareholders

[Basic policy]

Implement stable returns to shareholders while maintaining balance with financial capacity.

Regarding the use of internal reserves

Allocate investments aimed at “new technology research” “new product development,” “productivity improvement,” “overseas base expansion,” “human resource development,” “organizational capacity building,” “management resource enhancement,” etc., which serve as the sources for profitability (earning power), in order to achieve sustainable growth and improve medium-to-long-term corporate value, while taking capital efficiency into account.

Dividend for the last five years and forecast for Fiscal 2020

	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3 (Forecast)
Annual dividend per share (yen)	5.00 (Common, 4 + Commemorative, 1)	4.00	20.00	25.00	25.00	25.00
Payout ratio (consolidated) (%)	33.2	46.8	29.6	21.3	28.8	66.1
Total return ratio (consolidated) (%)	39.8	46.8	37.1	25.6	34.7	—

*From Fiscal 2017 (2018/3) onward, dividend amounts are those after consolidation of shares.
(Dividend amount before consolidation of shares is 1/5 of amount shown.)

Status of recent acquisition of treasury shares

	May 2014	May 2015	Nov 2015	Nov 2017	Feb 2019	Nov 2019
Total number of reacquired shares* (yen)	310,000	300,000	335,000	58,000	76,800	84,700
Acquisition cost (million yen)	84	84	84	85	85	85

*From Nov 2017 onward, total numbers of reacquired shares are those after consolidation of shares.

