Event Summary

【Company Name】Torishima Pump Mfg. Co., Ltd.

【Event Name】 Financial Results briefing for the 2nd quarter FY2024

【Financial results announcement date】November 14, 2024

【Financial results briefing date】November 15, 2024

【Speaker】Representative Director, CEO　Kotaro Harada

Hello everyone. I am Kotaro Harada, Representative Director and CEO of Torishima Pump Mfg. Co., Ltd. Thank you very much for taking time out of your busy schedules today to attend this briefing on our financial results for the first half of FY2024. I will now start with my presentation.

【1】Financial Results for the 2Q FY2024

【2】FY2024 Full-Year Forecast

【3】TOPIXS

2

First, I will explain the financial results for the cumulative 2Q period, and then I will talk about the outlook for this year based on that. And finally, I will proceed with TOPIX.

2Q FY2024 Highlights

- ✓ **Orders received have increased in all categories: public sector, private sector and overseas sector.**
- ✓ **Sales Revenue has increased due to a significant increase in sales at our subsidiaries.**
- ✓ **Operating profit increased at subsidiaries, however decreased at the consolidated base.**
- ✓ **The full-year plan has been revised downwards for operating profit.**
- ✓ **The order backlog is at a record high of 115.4 billion yen.**

4

As for the medium-term financial highlights, orders received have increased in all categories, namely public sector, private sector, and overseas sector. Overall sales revenue has increased due to a significant increase in sales at our subsidiaries. Operating income increased at the subsidiaries, but decreased on a consolidated basis due to a significant decrease in non-consolidated operations. I shall explain about it later in the presentation. As a result, while orders and sales are expected to remain unchanged from the FY2024 full-year plan, operating income has been revised downward. As for the order backlog, as I mentioned at the beginning, we are maintaining a record high level of 115 billion yen thanks to strong orders.

2Q FY2024 Financial Results Outline

		Billions of yen	YOY billions of yen
● Orders Received	···	57.8	+12.8
● Sales	···	37.6	+3.7
● Operating Income	···	0.6	-1.3
● Ordinary Income	···	-0.2	-2.1
● Net Income	···	0.5	-0.8

5

Here are a few more details and figures. Both orders received and sales increased YoY. Operating income was down 1.3 billion yen YoY, while the ordinary income was down 2.1 billion. The foreign exchange rate at the end of September was 142 yen due to a significant appreciation of the yen, and resulted in a foreign exchange loss of 1.1 billion yen due to a significant negative currency effect on dollar-denominated assets. As a result, ordinary income decreased by 2.1 billion yen compared with the previous year. Medium-term net income was 0.5 billion yen, down 0.8 billion yen from the previous year.

2Q FY2024 Consolidated Financial Results

Orders Received: 43.1% increase in public-sector, 1.6% increase in private-sector, 28.5% increase in overseas-sector, resulting in an overall increase by 28.5% to 57.8 billion yen.
Sales: 14.7% increase in public-sector, 9.3% decrease in private-sector, 15.4% increase in overseas, resulting in an overall increase by 10.8% to 37.6 billion yen.
Profits: Operating profit decreased by 1.3 billion yen to 600 million yen due to an increase in production costs and SG&A expenses.
Ordinary income was -200 million yen due to a large foreign exchange loss resulting from the sharp appreciation of the yen since August.
Net income was 500 million yen as a result of the sale of certain securities holdings.

Billions of yen

	2Q FY2023	2Q FY2024	YOY		FY2024 plan	Progress
			Amount	%		
Orders Received	45.0	57.8	+12.8	+28.4%	89.0	64.9%
Sales	33.9	37.6	+3.7	+10.9%	86.0	43.7%
Gross Operating Income (Gross profit margin)	9.6 (28.3 %)	9.6 (25.5 %)	±0.0 (-2.8pt)	±0%		
SG&A expense	7.7	8.9	+1.2	+15.6%		
Operating income (Operating profit margin)	1.9 (5.6%)	0.6 (1.6%)	-1.3 (-4.0pt)	-68.4%	7.3 (8.5%)	8.2%
Non-operating Profit or loss	+0.0	-0.8	-0.8	—	—	
Ordinary income	1.9	-0.2	-2.1	—	6.3	—
Extraordinary profit or loss	+0.2	+1.0	+0.8	+400.0%	—	
Net income	1.3	0.5	-0.8	-61.5%	5.3	9.4%
Foreign exchange rate (1USD)	¥149.58 30/09/2023	¥142.73 30/09/2024			Assumed rate¥150	

6

Orders from the public, private and overseas sectors were all strong, and while demand from the private sector was down slightly in these three sectors, overall sales were up 10%. While I will discuss profits in more detail now, there was an increase in production costs and SG&A expenses; the latter being as planned. But this resulted in a decrease in operating income of 1.3 billion yen. Ordinary income decreased by 0.2 billion yen due to a large foreign exchange loss resulting from the sharp appreciation of the yen since August, as I mentioned earlier. Net income was steady as a result of the sale of certain securities holdings. The gains on the sale being 1 billion yen, the interim net income was 0.5 billion yen.

2Q FY2024 Financial Results (Non-consolidated / Subsidiaries)

■ **Non-consolidated**

Billions of yen

	2Q FY2023	2Q FY2024	YOY Amount	YOY %
Sales	26.3	26.6	+0.3	+1.1%
Gross Operating Income (Gross profit margin)	6.4 (24.3%)	4.6 (17.3%)	-1.8 (-7.0pt)	-28.1%
SG&A expense	4.8	5.3	+0.5	+10.4%
Operating income (Operating profit margin)	1.6 (6.1%)	-0.8 (-3.0%)	-2.4 (-9.1pt)	—

- ✓ Sales continue to remain at a high level, but profit has decreased due to the following two factors
  - ① An increase in pump production costs
  - ② A decrease in sales due to wind turbine breakdowns
- ✓ While gross profit decreased, SG&A expenses progressed as planned, resulting in an operating loss of 800 million yen.

■ **Subsidiaries**

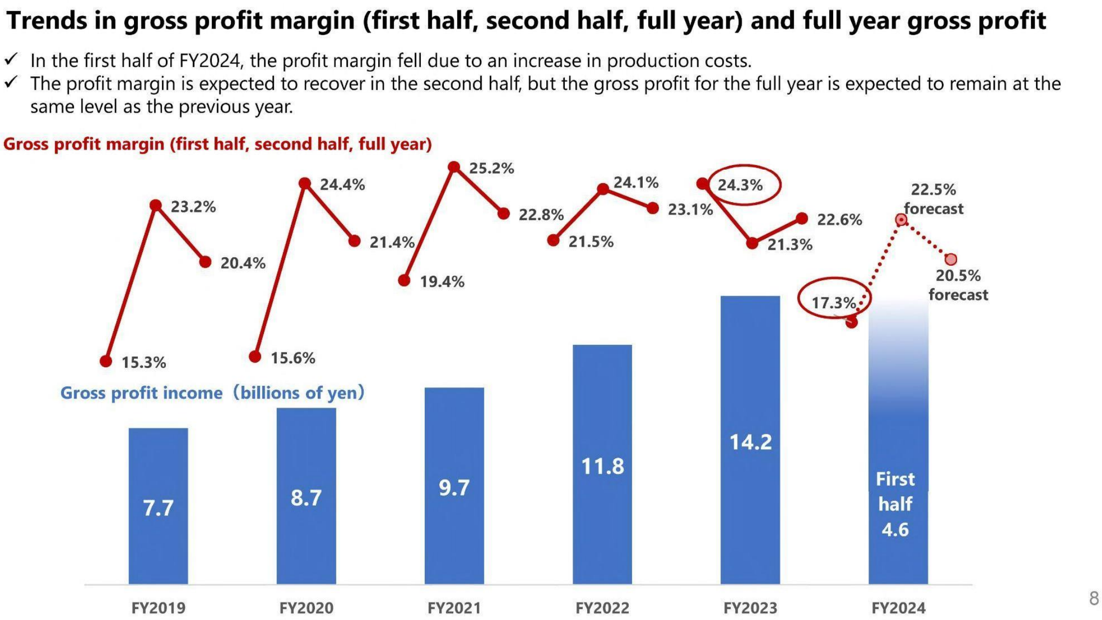
Billions of yen

	2Q FY2023	2Q FY2024	YOY Amount	YOY %
Sales	11.7	14.9	+3.2	+27.4%
Gross Operating Income (Gross profit margin)	3.9 (33.3%)	5.3 (35.6%)	+1.4 (+2.3pt)	+35.9%
SG&A expense	3.3	4.0	+0.7	+21.2%
Operating income (Operating profit margin)	0.6 (5.1%)	1.4 (9.4%)	+0.8 (+4.3pt)	+133.3%

- ✓ Overall, our subsidiaries performed well, resulting in a significant increase in sales.
- ✓ Despite an increase in SG&A expenses, the increase in sales and improved profit margin absorbed the increase in expenses, resulting in a significant increase in operating income.

7

As usual, this is divided into parent-only and subsidiaries, mainly overseas. First of all, if you look at the subsidiaries on the right-hand side, you will see that both sales and margin and operating income have increased significantly. We made steady progress in almost all subsidiaries, generating an additional 1.4 billion yen in operating income. This was an improvement of 0.8 billion yen from the previous fiscal year. On the other hand, parent-only sales remained at the same level as the previous year, but gross profit was 4.6 billion yen, which is a decrease of 1.8 billion yen from the previous year. Gross profit margin was exactly 7 points lower. SG&A expenses increased by 0.5 billion yen, but this was as planned, and since profits did not increase but SG&A expenses did, this resulted in a decrease in operating income of 0.8 billion yen, a decrease of 2.4 billion yen from the previous year. It is a fact that the profit margin has gone down, as you can see here in the lower left box. The main reasons for this are rising costs and individual factors. We sold electricity from our wind turbines, but there was a breakdown that reduced electricity sales by approximately 0.2 billion yen compared with the previous year. The FIT feed-in tariff expires next year, so we have decided to leave the turbines as they are without repairing them. As a result, only income from electricity sales is negative. The lower income, together with the planned SG&A expenses, resulted in lower profits. The point is that the gross profit margin fell from 24.3% last year to 17.3%, which is minus 7 points.

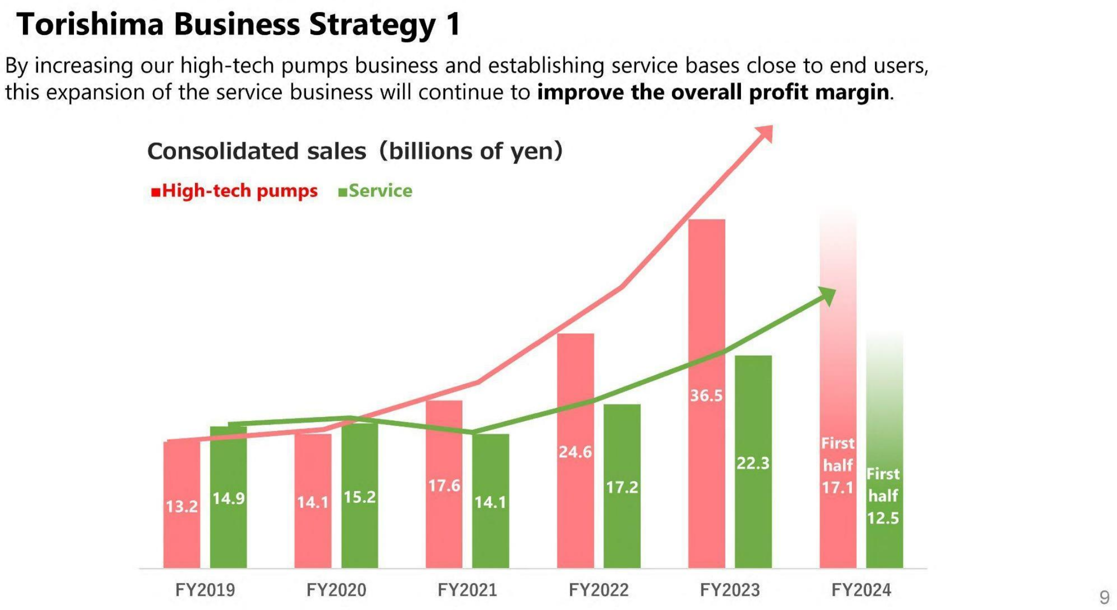


This is the chart that focuses only on the gross profit margin of the parent-only segment for the last 5 years. The red line shows the gross profit margin for the first half, the second half, and the full year. As this narrates, Torishima has always been strong in the second half. This is due to strong sales in the government and public sector, as well as an increase in service parts deliveries towards the end of the fiscal year. The second half of the year is always strong in terms of volume, accounting for almost 60 to 70% of sales. As a result, the gross profit margin is low in the first half of the year, increases in the second half of the year and settles over the full-year. Last year, however, it was 24.3% in the first half and 21.3% in the second half, which was a very exceptional result for the first half. In the first half of this year, however, it fell sharply to 17.3%. Over the last three years, the first half of the year was 19.4%, 21.5%, and 24.3%, respectively. Compared to that, it has deteriorated. There are many reasons for this, but one is that while orders were steady last year, we manufactured high-tech pumps efficiently focusing on a limited number of models. Also, the profit margin was very high because we were processing and assembling them in-house and then selling them. This year, however, there were many different types of products. Although each in small quantities, engineering and designing consumed a lot of time, resulting in shortened delivery lead times. Hence, to meet customer deadlines, we needed to outsource a lot of work, mainly that involved machining. You lose income by outsourcing, which was certainly unplanned this time. On top of that, because the outsourcing had to be done on short notice, the cost was higher than we had expected. First, the profit margin declined due to a significant increase in overseas outsourcing in addition to domestic outsourcing.

Then, as I mentioned earlier, while we sold a limited number of product types last year, we sold higher volumes of each of them. Whereas this year we had a fairly large number of product types, but small quantities. Also, sales of the first batch concentrated in the first half. For an instance, if you send ten shipments, the cost will be higher for the first one or two shipments. This is because initial costs, such as those for wooden patterns and so on, add up. This also needs to be reviewed a bit from the accounting standpoint, but the fact that there were a lot of first-shipments was another factor that lowered sales and gross profit margin. Considering this, we closely reviewed the second half. It returned to the normal pattern, with 22.5% predicted for the second half as you can see here. The full-year is expected to be 20.5%.

Therefore, while the first half of this year was only 4.6 billion yen compared to 14.2 billion yen in the previous year, it is expected to return to the 14 billion yen level for the full-year, ensuring that profit will be at the same level as the previous year. However, the year before last was 23.1% and last year was 22.6%, so the forecast of 20.5% for this full-year is 2 to 2.5 points lower than the previous two years. We apologize for not being able to recover that in the second half, but I will explain in a moment what we have done to revise down the full-year profit.

On the other hand, the bar chart shows that five years ago, gross profit was 7.7 billion yen, but last year it was 14.2 billion yen, about double. We believe we can reach the 14 billion yen level again this year. This means that we can take on a lot of work and increase profits, but this year, unexpected outsourcing caused our profits to drop.



The next thing I want to talk about is the pink, which represents high-tech pumps, and the green, which represents services. Five years ago, high-tech pumps and services were almost level at 14 billion yen. But in the last five years, high-tech pumps have grown significantly. This is certainly not a bad thing, and as high-tech pumps are sold, installed, and put to work, services are expected to grow as well. While services are also growing well, high-tech pumps are currently growing significantly well, with an order backlog of 115 billion, as mentioned earlier, and sales of nearly 90 billion. As a result, sales of high-tech pumps are currently growing faster than planned in the medium-term plan.

This is not a problem, as we see it as an investment in the future and a basis for growing services. However, in contrast to the increased sales of high-tech pumps, our engineering capacity has not been able to keep up and was particularly slow in the first half of the year. This is a problem. We have already begun to take steps to address this issue. For example, the engineering department has launched a design reform project and is beginning to move toward more efficient manufacturing in a single integrated process from sales to production. To minimize outsourcing, we are working hard to increase our production capacity, especially in machining, by establishing a cooperative structure with partner companies and building machining capacity within the company. We believe that these actions will become more concrete in the second half of the year, and we will provide you with regular updates. We expect to have more information to share with you all by the end of the full-year 2024.

So, going back to page 1, in the second half of the year, sales in public sector will increase. Also, including domestic and overseas high-tech shipments, shipments will shift from the first batch to the second batch, third batch, which will be less costly. We will do our best to ensure that the full-year does not follow the pattern of the first half.

Torishima Business Strategy 2

Since we began focusing on the service business in FY2009, we have **expanded to 15 locations worldwide**.
We expect to continue expanding in the future.

	Year	Company	Country
1	1999	Torishima Guna Engineering	Indonesia
2	2009	Torishima Service Solutions	UAE
3	2010	Torishima Service Solutions Europle	UK
4	2012	Torishima Service Solutions Asia Private	Singapore
5	2016	Torishima Service Solutions (Saudi Arabia)	Saudi Arabia
6	2016	Torishima Pumps (India) Pvt Ltd. Service Division	India
7	2016	Torishima Service Solutions Thailand	Thailand
8	2018	Torishima Service Solutions Malaysia	Malaysia
9	2018	Torishima Service Solutions Formosa	Taiwan
10	2018	Torishima Service Solutions Michigan	USA
11	2019	Torishima Service Solutions Asia Philippines Office	Philippines
12	2021	Cryo Pump Repairs	UK
13	2021	Australia Fluid Handling	Australia
14	2024	Torishima Service Solutions Qatar	Qatar
15	2024	Torishima Service Solutions Egypt	Egypt

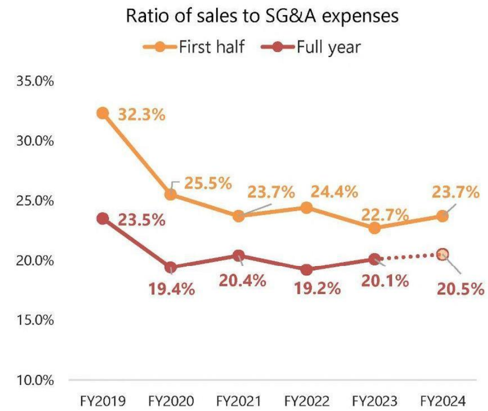
10

Next, regarding the status of profits, as shown in the following table, we are continuing to expand our service network, especially in overseas subsidiaries. Our business strategy is to further increase sales of high-tech pumps and thereby services by 2029.

SG&A expenses and SG&A expenses ratio (consolidated)

SG&A expenses are on the rise, but the ratio of SG&A expenses to sales remains stable.
In addition, the SG&A ratio tends to be higher in the first half of the year, as sales on the parent company basis are weighted towards the second half of the year.
All of the following are forward-looking investments, and we expect to see a similar level in the second half of the year.

	Factors contributing to the increase	YoY increase
Personnel cost	In addition to base salary increases for employees and bonus increases due to strong business performance, we are investing in human resources for future growth.	+0.8
R&D	Promote the development of pumps for new energy sources, such as liquefied ammonia, liquefied hydrogen, and pumps for deep sea desalination system.	+0.2
Newly consolidated subsidiary	Enhance service subsidiaries in Japan and overseas.	+0.2
Total		+1.2



11

On the other hand, SG&A expenses are rising steadily as planned. This was due to the increase in personnel costs, including base salary increases, investments in human resources, as well as an increase in our R&D activities over the past year, including the development of pumps for new fuels such as ammonia and hydrogen that do not emit carbon dioxide, and the development of a pump prototype for a new deep seawater desalination plant. SG&A expenses are rising as planned as we continue to invest in improving our services. However, in the first half of the year, due to low sales, the ratio of sales to SG&A was 23.7%, but for the second half of the year it is planned to be 20.5%, and we are on track. These are basically the highlights of the financial results for the first half of FY2024.

FY2024 Full-Year Forecast (Consolidated)

- Orders received and revenue are progressing in line with the plan.
- Profit is expected to recover in the second half of the year, but the full-year forecast has been revised downwards due to the results of the first half of the year

Billions of yen

	FY2023 Result	FY2024			Difference from initial plan
		First half result	Initial plan	Revised plan	
Orders received	88.0	57.8	89.0	91.0	+2.0
Sales	81.1	37.6	86.0	88.0	+2.0
Operating income (Operating profit margin)	6.8 (8.4%)	0.6 (1.6%)	7.3 (8.5%)	6.2 (7.0%)	-1.1 (-1.5pt)
Ordinary income	6.3	-0.2	6.3	5.5	-0.8
Net income	6.2	0.5	5.3	4.8	-0.5
Foreign exchange rate (1USD)	31th Mar. 2024 ¥151.41	30th Sep. 2024 ¥142.73	Assumed rate¥150	Assumed rate no change	

13

FY2024 Full-Year Forecast (Non consolidated & Subsidiaries)

■Non consolidated

	FY2023 Result	FY2024			Difference from initial plan
		First half	Initial plan	Revised plan	
Sales	62.9	26.6	67.0	68.0	+1.0
Operating income (Operating profit margin)	4.3 (6.8%)	-0.8 (-3.0%)	4.8 (7.1%)	3.5 (5.1%)	-1.3 (-2.0pt)

■Subsidiaris（Before consolidation adjustments）

	FY2023 Result	FY2024			Difference from initial plan
		First half	Initial plan	Revised plan	
Sales	27.3	14.9	28.0	28.0	No change
Operating income (Operating profit margin)	2.8 (10.3%)	1.4 (9.4%)	2.8 (10.0%)	2.9 (10.4%)	+0.1 (+0.4pt)

14

As a result, we have revised our full-year forecast for this year. Orders are over 90 billion and revenue is also approaching 90 billion, so there is a slight upward revision to orders and sales. This indicates very strong orders and sales.

In terms of operating income, since we will not be able to compensate for the first half, we have lowered the operating income forecast for the full-year from 7.3 billion yen to 6.2 billion yen, a decrease of 1.1 billion yen. Since the yen has not appreciated as much as it did in September, and since the foreign exchange loss is not expected to be very significant, we revised ordinary income from 6.3 billion yen to 5.5 billion yen, a decrease of 0.8 billion, assuming that the exchange rate would remain at the level of 150 yen. As a result, net income decreased by 0.5 billion yen to 4.8 billion yen.

In line with the first-half results, both the parent-only and the subsidiaries are performing relatively well as planned. As for parent-only, we can maintain sales, but operating income is expected to be 3.5 billion yen, down 1.3 billion yen from 4.8 billion yen. Just to reiterate, sales are and will be good; we just need to focus on controlling production costs and securing profits. The gross margin, which is almost 2 to 3 points worse than last year, can be turned inward if we can control outsourcing. At the same time, by properly managing engineering lead time and encouraging insourcing, if we could have recovered even 2 points of margin, we would have been able to secure more than the 7.5 billion we originally planned. However, we believe that the failure to do so was entirely a management issue.

Revised management targets for FY2029.

Consolidated Financial Results for the FY2023

Initial plan: sales CAGR 6% excluding special large orders.

Revised plan: sales CAGR 6.5% including special large orders > Aim for Sales of ¥100 billion.

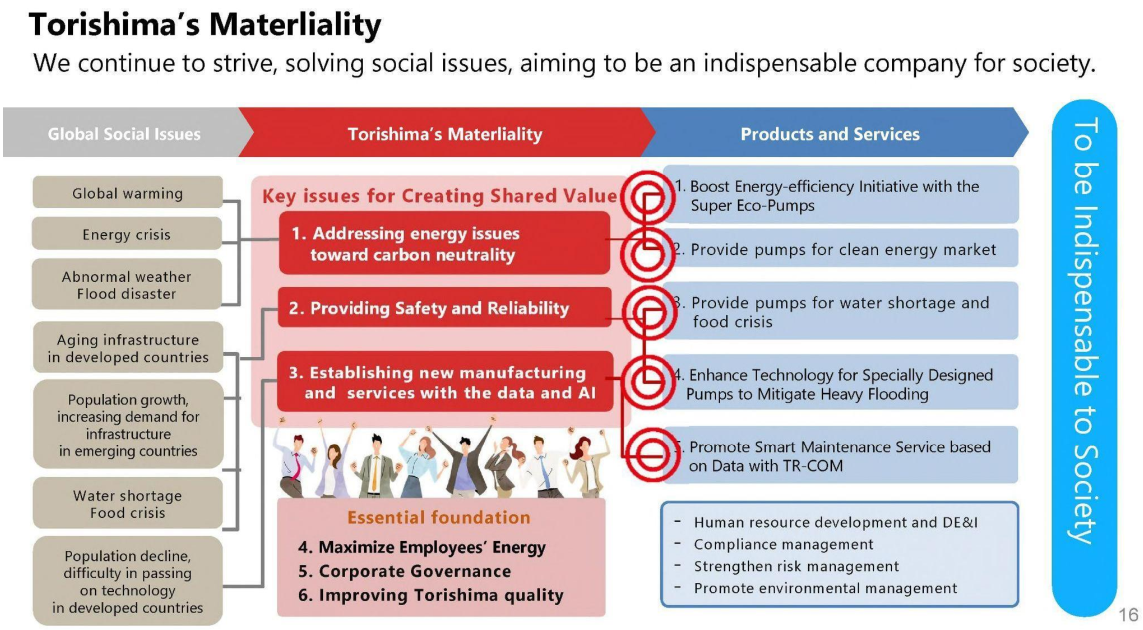
	FY2023 result	Initial plan Target for 2029 (announced in May 2023)	Revised plan Target 2029
Growth (sales CAGR)	16.9% (HOP average)	6.0%以上 (excluding special large orders)	Around **100 billion yen** (CAGR more than 6.5%)
Profitability (Operating income margin)	8.4%	9.0%以上	more than **10.0%**
Efficiency (ROE)	12.8%	9.0%以上	more than **10.0%**

As to whether the margin decline is temporary, I believe it will gradually improve as measures have already been implemented. The medium-term plan targets for 2029, announced at the time of the announcement of the full-year results, were as follows: sales, 100 billion yen; operating income, 10 billion yen; and profit margin, 10%. In terms of growth potential or sales, the plan already mentions the 90 billion yen level, so we can certainly foresee our medium-term management plan target of 100 billion yen. On the other hand, the profit margin for the current fiscal year is projected to be 7%, compared with 8.4% in the previous fiscal year, which is still 3 points below the profit margin of 10% in the medium-term management plan.

We will work on our current problems, including production cost disruptions and production cost increases, and bring the profit margin closer to the medium-term management plan target of 10%. And because we have significant orders, we are confident that our service revenue will grow over the next three to four years through 2029. With this increase, we believe it will also be very possible to achieve a 10% profit margin.

We have identified our problems and we see them as growing pains. We will continue to overcome these problems from the second half of the year onward, and we will tighten the reins again as we move toward our management targets of sales, 100 billion yen; operating income, 10 billion yen, as you can see here. We look forward to your continued support and cooperation.

This concludes my comments on the first half results.



Finally, regarding TOPIX, we at Torishima believe that we can make a significant contribution to the global environment and to solving global problems through our pumps. For example, this year also is experiencing heavy rains. Two weeks ago, many people died in Spain because of the rains. Toward the end of the summer, especially Southeast Asia, the Philippines, and China also experienced heavy rains. In Japan too, unfortunately, the Noto Peninsula was hit by heavy rains after the earthquake. In general, we are experiencing abnormal climatic changes around the world. In response, Torishima is committed to reducing CO2 emissions and developing pumps for clean energy markets. We will also continue to provide pumps to address problems such as water shortages due to poor rainfall or uneven water distribution. Helping to mitigate disasters will also be one of our goals. In addition, we are moving forward as planned with more digital maintenance as we face increasing staffing shortages.

Provide pumps for clean energy market (Ammonia)

Jun. 2024
The demonstration test at the JERA Hekinan Power Plant ended with positive results.

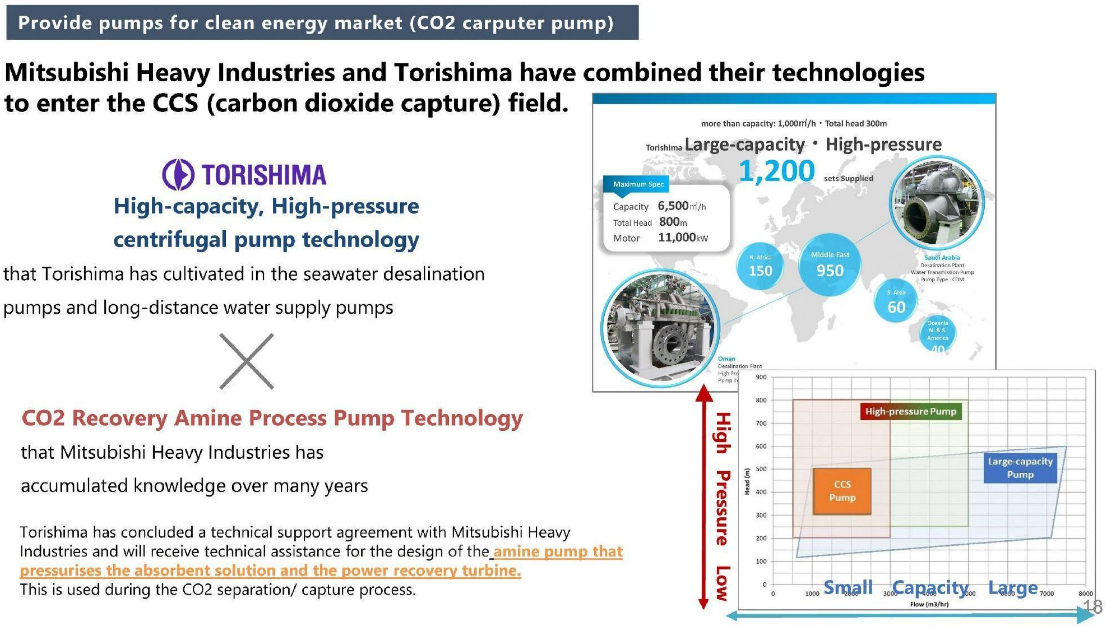
Oct. 2024
Installation of an in-tank pump system in Indonesia progressing smoothly

Dec. 2024 – Jan. 2025 (plan)
A demonstration test of an 'in-tank' pump system using liquid ammonia scheduled to be held in Indonesia.

▼Installation of the Pump completed at Torishima Indonesia

TORISHIMA × LEDERLE Hermetic

In the first half of this year, the ammonia co-firing demonstration test at the JERA Hekinan Power Plant in Aichi Prefecture was successfully conducted from April to June this year. Torishima pumps contributed to the success of the demonstration. It will now be launched as a full-fledged project. Preparations are also on track for a demonstration test of a large "in-tank" pumping system using liquid ammonia, scheduled to take place in Indonesia from December 2024 to January 2025.



As for the first half of this year, as along with promoting new energy, capturing CO2 is also becoming essential on a larger scale, we started developing pumps with the same specifications as our globally competitive seawater desalination plant pumps for these CCS (Carbon Dioxide Capture and Storage) needs, and we signed a technical support agreement with Mitsubishi Heavy Industries for this purpose. Mitsubishi Heavy Industries has been involved in small-scale CCS pump projects in the past, while Torishima will assume responsibility for manufacturing larger pumps. We are already developing and marketing products to enter the CCS market, leveraging Mitsubishi's track record in this field. This is another area we look forward to discussing in more detail when we next speak with all of you.

Provide pumps for water shortage and food crisis (Deep sea desalination pump)

TORISHIMA × waterise

Successful performance test of a pump for a 500m deep seawater desalination plant

Expanding opportunities for our water-sealed motor technology, one of the Torishima's strengths

Final design for the complete Subsea Module in Process.

▼Deep sea RO system

▼Performance test

19

Another project, as mentioned earlier, is a pump for a 500m deep seawater desalination plant. In addition to water for drinking and domestic use, we also need deionized water to produce hydrogen or ammonia. To do this, we must first electrolyze water to produce hydrogen. We see an increasing demand for such seawater desalination plants. In this area, we are working on a project with a Norwegian company. This project will use our pumps exclusively, and we are also in the process of developing new pumps. A prototype pump has been manufactured and testing has been completed. We will continue to develop the product to improve its safety and reliability.

Provide pumps for water shortage and food crisis (Seawater desalination pump)

Torishima pumps for seawater desalination plants are attracting attention

An article about Torishima's pumps for seawater desalination plants was published in the Nikkei newspaper on 11th October 2024.

ポンプ、脱炭素で新市場

西島製作所▼海水淡水化

北アフリカで大量受注

11th Oct. 2024
Nikkei news paper

20

Torishima has now achieved global competitiveness in pumps for seawater desalination plants. This article published by the Nikkei in October describes our achievements in this field, including our contribution in Algeria. Until recently, Algeria had enough water sources, including groundwater. But due to a sudden decrease in rainfall or changes in groundwater veins, the whole country is facing a major water shortage problem and may face food shortages if it does not secure water. To solve this basic survival problem, they need pumps and have been ordering large numbers of pumps since last year. We received orders for several types of pumps. Due to very short lead times, the first half of the year looked a bit overwhelming, but we shipped most of them. The second half will be more stable and the backlog will be converted into sales. This is how our pump business is now growing worldwide.

This concludes my presentation on the financial results and the TOPIX. We will now answer the questions we have received from you.