

Main questions and answers at the Q2 FY2024 results briefing

Q1.

In the early 2000s, there was confusion in the design and manufacturing processes due to an overload of orders. Therefore a radical reform of the production system was implemented, but what are the **downturn** factors this time around?

A1.

Torishima has been growing steadily since we started to globalize in 2002. However the rapid growth outpaced the company's system, so we restricted orders from 2013 to 2014 to review our production system including engineering and business operations, then we have been growing again since around 2020.

Regarding the current performance, we believe that it happened at a higher level than in the past when our performance deteriorated.

Orders are now unexpectedly approaching 100 billion yen, which is a very good thing, but it is a fact that our capability has not kept up. We think that it is necessary to decide on pump specifications at the design or sales stage and to control lead times even more. There are also many requests with short delivery times, so we should change the manufacturing system for it. In addition, as a short-term initiative, which has already been implemented since the first half of the year, we are working on building up the capacity to manufacture in-house what we currently outsource, mainly for machining. In the medium term, we are also considering expanding machining at our plant in India, and we would like to further improve our manufacturing system so that we can respond to orders of 100 billion yen and orders with short delivery times without confusion.

Q2.

Regarding Amine pumps, what are the business opportunities (potential market size), the status of competitors in the industry, the target regions and the market share?

A2.

Pump technology for capturing CO₂ with amines has been used before and is not a new technology, but as the scale of CO₂ recovery is expected to become larger and larger in the future, it will be the pump field, which is our forte.

For example, if JERA carries out ammonia co-firing at its Hekinan power plant, it will require an enormous amount of ammonia more than all the ammonia currently available in Japan. The quickest way to produce ammonia is to use blue ammonia, which emits CO₂. We believe that our pump technology can be used to recover the CO₂ generated in the ammonia

production process. In the pump industry, delivery records have a significant impact, so we would like to challenge the world in new fields through the track record of MHI's pump division.

At present, we have started marketing small-scale pumps for oil and gas, which we have not worked on before, and we are on the verge of receiving several orders by the end of this year. On the other hand, it will take some time before the hydrogen and ammonia generation is commercialized and the pumps will become larger as this will happen after the off-takers have been decided.

Q3.

The orders received have increased significantly in Q2. What are the main reasons and risk management, and what are the prospects for orders in the second half of the year?

A3.

In terms of orders received in Q2, orders from overseas increased. The domestic public sector has also increased more than expected. Overseas orders are increasing for seawater desalination pumps in the Middle East and North Africa and for combined cycle power plants, mainly in the USA.

Orders received for the second half of the year are expected to be just over 30 billion yen, so we should be able to achieve this target. Sales are expected to be approximately 50 billion yen in the second half of the year.

In addition, the demand for pumps for power plants, which is our forte, will increase as more power will be needed for AI and data centers in the future, new fossil fuel power plants are planned in the US under the Trump administration and in China and India where there is a shortage of electricity.

Q4.

The full-year plan has now been revised downwards, does this only reflect the downward swing in the first half of the year, or has the outlook for the second half also been revised downwards?

A4.

Only the downswing in the first half of the year is reflected. We don't expect that it will be able to cover the first-half downturn in the second half of the year. The second half of the year will go according to plan.

Q5.

The loss of income from wind power sales was 200 million yen lower than the previous year. Is it based on gross profit?

A5.

Yes, it is. The gross profit has been affected by a decrease in income from electricity sales due to wind turbine breakdowns. Depreciation of equipment and other assets has been completed.

Q6.

The sales profits of subsidiaries tend to be biased towards the second half of the year, but the revised plan assumes that the second half of the year will be at the same level as the first half of the year. Do the full-year forecasts similarly reflect the first-half upswing?

A6.

As you say, orders received and sales at our subsidiaries tend to be concentrated in the second half of the year, but we have made plans after consulting with our subsidiaries, so we are sure to achieve these figures, and hopefully we can achieve even more.

Q7.

Have you already planned or implemented the price increase to improve the profitability?

A7.

We believe that we have to pass on the price increase. For example, during the Covid-19 disaster around 2020-2021, the cost of shipping containers soared to 6-8 times the normal cost, causing havoc. Even now, transport costs are rising in the Panama Canal and Suez Canal due to international conflicts and water level changes so we have to pass on the price increase. In addition, for high-tech pumps, we may not be able to raise prices significantly because of competition from other companies. However, we believe that we can still make a solid profit at the current price. Furthermore we will control our production costs and increase our gross profit margin through corporate efforts so that we can make the same level of profit as last year.

We will also continue our sales activities to ensure that our customers understand the technical capabilities that only we can offer and reflect the capabilities in the price.

As for service, we will keep the price at a level that ensures a sufficient profit margin, as it will be judged by our technical capabilities.

After the delivery of high-tech pumps, demand for services will emerge after three to five years, so we will work to report an increase in services towards the 2029 mid-term management plan

target.

Q8.

There has been a significant year-on-year increase in Project orders received. Is it considered as investment in domestic rivers under the National Resilience Plan?

A8.

This is due to the National Resilience plan and the projects in Hong Kong.

In Japan, demand is increasing for pumps to drain unexpectedly heavy rainfall, including our patented pumps.

In addition, there have been floods and inundations not only in Japan but also in China and Hong Kong, and demand for drainage pumps is spreading to Southeast Asia and other regions. In particular, last year we received orders from the Hong Kong government for six pumps that drain 50 tons per second.

In Hong Kong, we have received orders for project work, and until now we have received many orders from the Hong Kong Government for water supply, sewage and drainage projects, and rainwater drainage projects have been increasing in recent years. With rainfall becoming more intense worldwide, the demand for our unique technology pumps is expected to help limit the damage.

Q9.

How much additional capital investment is required? And is there any problem with securing human resources?

A9.

As for capital investment, not everything is included in the budget with regard to bringing outsourced machining work into the company. The operating profit was about 1 billion yen lower but it is no exaggeration to say that the major factor was due to outsourcing costs. We will explain our future investment to bring in the parts we currently rely on outsourcing for when the time comes.

In terms of securing human resources, we have been recruiting new graduate engineers from overseas universities, mainly in Southeast Asia, for the past 10 years or so, and many of those who joined us 10 years ago have already become the core of our company. In recent years, we have also been actively recruiting new graduate engineers from Thailand, Indonesia and Taiwan.

In addition, our service subsidiaries will have new bases in Qatar and Egypt this year, and the subsidiaries are promoting local hiring, particularly in Egypt, where many local hires are

underway. We would like particularly talented people to work as engineers at our head office in Japan, even if they are recruited locally.

In conclusion, I think the number of overseas employees will increase in the future, and overseas recruitment and training will become more important.