# Main questions and answers at the Q2 FY2025 results briefing

Q1.
Could you tell us whether the selling price level of your products has risen compared to the previous fiscal year? Alternatively, has the price difference expanded in recent projects compared to last year's quotation prices?

A1.
For the orders recorded as sales in the first half (which were accepted last fiscal year), the transfer of increased costs to the selling price was not timely, and thus, this has not been reflected in the profit margin.However, we are diligently working to rectify the selling price level for orders that will be recorded as sales from the second half onwards. We anticipate that this effort will gradually improve the profit margin of our high-tech pumps.Due to the lead time, we expect the full-scale effect of the price transfer to permeate the entire business and significantly contribute to the profit level starting next fiscal year. It is based on this situation, among other factors, that we have decided to revise the full-year profit plan this time.

Q2.
Is it correct to understand that the internal system has established a higher benchmark for the order price (acceptance level)?

A2.
We are currently working on the internalization (in-house production) of previously outsourced work, but the progress has been delayed. As a countermeasure, we have been incorporating the outsourcing costs into the selling price for all quotations starting with orders accepted in the second half of the previous fiscal year. We anticipate that a certain level of sales from these orders will be recorded from the latter half of H2.

Q3.
Regarding the downward revision of the full-year performance forecast this time, please tell us the main factors for the increase/decrease from the original plan. Also, to what extent is the impact of the change in the exchange rate (a change from 145 yen to 150 yen per USD) factored in?

A3.
Since we fundamentally hedge our exchange rate risk through forward contracts, we believe that the change in the assumed H2 exchange rate from a change from 145 yen to 150 yen per USD will not have a significant impact on our performance.The primary reason for the downward revision is that the profit margin in H1 fell below our assumptions. The revised plan is the result of aggregating the efforts planned for H2 to recover this shortfall. Furthermore, we are performing appropriate currency hedging, and we believe that even if the yen appreciates, the impact on profit will be limited.

Q4.
The operating profit level of approximately 5.3 billion yen for H2 based on the full-year plan (roughly 11% of net sales) seems quite challenging, considering last year's results and the expected suppression of H2 net sales. Please tell us about the probability of achieving this profit target and the outlook for potential upside/downside risks.

A4.
In H2, we expect to record approximately 15 billion yen in government and public demand projects, which have higher profit margins and are managed by the percentage-of-completion method. This provides a relatively stable profit level. We have also adopted a conservative estimate for the profit level of private-sector projects. Furthermore, we have planned our overseas high-tech pump sales to be more restrained compared to H1, taking into account the risk of customer-side shipping delays that occurred in H2 last year. This measure reduces the downside risk.
In addition, we believe that the accumulated sales from our subsidiary's service business and short-lead-time projects will serve as a profit buffer towards the end of the year. Please understand that we are confident in achieving the full-year operating profit forecast of 5.8 billion yen, which was set after factoring in these risks.

Q5.
If the costs associated with the temporary production issues, such as the decline in utilization rate that occurred this fiscal year, are excluded, what level of profit improvement can be expected next fiscal year?

A5.
The order backlog at the end of Q2 stands at a high level of 110 billion yen, so we do not have concerns regarding sales for the next fiscal year.

The greatest focus is on establishing a system for internalization and complete production (the ability to fulfill all orders). If this succeeds, we anticipate a significant recovery, especially in the non-consolidated profit margin, potentially approaching 10% for the operating profit margin. We view the current fiscal year as the profit bottom and are proceeding with our plans based on the expectation of improvement from the next fiscal year onwards.

Q6.
Could you tell us the background and the extent of the growth in the ratio of orders/sales overseas, particularly in the US? Also, what is the impact of US tariffs on the operating profit for the current fiscal year, and what is the outlook?

A6.
In the US, power demand is increasing remarkably due to the surge in demand for AI and data centers, leading to active inquiries for power plant pumps. We also introduced new pump models last year, which we anticipate will lead to future service demand.Regarding the tariff impact, currently, the tariffs are added to the price and paid by the customers, so we are not directly affected by them in our performance. We believe this underscores the high competitiveness of our products.In terms of profitability, since the US has a policy of adopting equipment from developed countries (OECD nations), there is no excessive price competition, allowing us to secure orders while maintaining a relatively high profit margin.

Q7.
The H2 order plan is lower compared to H1 and appears conservative. Is there a possibility that you might intentionally suppress orders or sales in H2 or the next fiscal year to rebuild the profit structure?

A7.
We have no intention of suppressing orders.Regarding the demand outlook, we anticipate that the demand for seawater desalination in the Middle East and North Africa will remain at a steady level. Additionally, power demand (including in the US, Southeast Asia, and Japan) to secure electricity for AI/data centers is surging. We project that this will underpin our orders and profit for some time to come.Regarding capacity, we are making steady progress in securing outsourcing partners for machining, investing in equipment, and expanding our in-house assembly and design capacity, thereby building a system to handle the orders. Therefore, we are not considering restricting orders at this time. For the next fiscal year, we plan to maintain the current high level of orders while proceeding with plans to fulfill them at an even higher profit margin.

Q8.
With the expansion of pump production capacity, the ratio of service sales tends to be declining. Please tell us about the future goal for the service business and the status of internalization.

A8.
The expansion of high-tech pump orders is a seed that will generate future service projects, which we see as a positive trend.
Goal for the service business: As we aim for 100 billion yen in net sales, we want to increase the current service sales (around 25 billion yen) to 35 billion yen at an early stage. If the service business expands as planned, achieving an operating profit margin of 10%

will become completely visible.
Regarding the status of internalization, as high-tech pump orders have expanded from the former 10 billion yen level to the 35 billion yen level, our in-house machining capacity has become completely insufficient, forcing us to outsource most of the work. We believe that if we can recover the former internalization rate of 70% to 80% profitability will significantly improve. While assembly and testing processes have sufficient capacity, the expansion of machining capacity is currently considered the biggest challenge.