



東京産業株式会社
TOKYO SANGYO CO., LTD.

FY2023 Results Briefing

Aug26, 2024

TOKYO SANGYO CO., LTD.



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History of Prior Period Adjustments



	History
September 2023	During the financial settlement process for 1H FY2023 results, <u>we confirmed the fact that some assets pledged as collateral for long-term accounts receivable relating to solar power projects had been transferred without our approval.</u>
November 2023	An <u>external investigatory committee</u> was established to ascertain the accurate factual background and examine the impact on our financial statements in relation to the assessment of the potential for recovering the long-term accounts receivable and the assessment of the asset quality and profit potential of ID rights purchased in the solar power projects the same entity was involved in.
November 2023	<u>In a separate solar power construction contracting project we ordered as the general contractor, we confirmed that the subcontractor was unable to pay the secondary subcontractor for construction work performed, mainly due to additional construction costs the subcontractor incurred on the contracted construction, and this has made it difficult to proceed with construction.</u>
January 2024	We determined that a new investigation was necessary regarding new facts and suspicions about the possibility that the estimate for total construction costs was not revised properly to include an increase in construction costs related to additional construction work. <u>The additional investigation was entrusted to an external investigatory committee.</u>
April 2024	We received the final report of the external investigatory committee. <u>We submitted the adjustment report for past annual securities reports, etc. and publicly disclosed corrections to the summary financial statements.</u>

Summary of Prior Period Adjustments



- ▶ Provision of allowance for doubtful accounts associated with decreased potential for recovery of long-term accounts receivable related to solar power projects **A**
- ▶ Change in estimate of total construction costs associated with increase in construction costs for solar power construction contracting projects **B**
- ▶ Correction for recalculation of the percentage completion under the standards for progress on construction for the projects. **C**
- ▶ Correction due to switch in project accounting treatment from the percentage completion to the cost recovery standard. **D**

Impact on Financial Statements (Consolidated Income Statement)

(JPY billions)	FY2021			FY2022		
	Before correction	Correction	After correction	Before correction	Correction	After correction
Net sales	58.8	C (2.9)	55.8	63.8	C D 1.5	65.4
Cost of goods sold	50.7	(2.8)	47.8	54.3	B 3.9	58.3
Gross profit	8.0	(0.1)	7.9	9.5	(2.3)	7.1
Operating profit	2.4	(0.1)	2.3	3.1	(2.3)	0.7
Ordinary profit	2.6	(0.1)	2.5	3.3	(2.3)	0.9
Extraordinary income (losses)	(0.3)	0.0	(0.3)	(1.9)	A (3.7)	(5.7)
Profit (Loss)	1.2	0.0	1.1	0.4	(5.4)	(4.9)

Measures to Prevent Recurrence



- ▶ In light of the findings in the investigatory report, the following improvement measures were formulated to prevent recurrence of misrepresentation in disclosure and recording of large losses.
- ▶ We are making a comprehensive effort to strengthen risk management along with the measures we are implementing to prevent recurrence of cases of fraud.

Item	Main specific measures
(1) Establish a system for implementing improvement measures formulated to prevent recurrence	<ul style="list-style-type: none">• Appoint officers in charge of risk management. The officers in charge of the planning and management divisions should be appointed to these positions.• The audit department will assess progress on improvement measures each month and report it to the Board of Directors
(2) Strengthen risk assessment and response when undertaking businesses where we do not possess sufficient expertise	<ul style="list-style-type: none">• Clearly specify projects that should not be undertaken.• The newly established risk assessment meetings will engage in deliberation on project risks from multiple perspectives. The Division General Managers Meeting will also discuss project risks in depth, as the decision-making body.
(3) Implement and make a thorough effort to strengthen measures to improve accounting literacy	<ul style="list-style-type: none">• Conduct training in accounting for all officers and employees and training in risk management for officers and employees at the managerial level and above.
(4) Strengthen examination of unexpected events	<ul style="list-style-type: none">• Perform ongoing monitoring of projects requiring attention in risk assessment meetings and report monthly to the Division General Managers Meeting and the Board of Directors.

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Results Summary: Profit/Loss and Dividends



- ▶ The operating loss and ordinary loss recorded resulted from reassessment of the asset quality of receivables associated with solar power construction contracting projects, cost revisions, and a provision of allowance for doubtful accounts for overseas business receivables (solar-related business contributed approx. 5.5 billion yen and overseas-related business contributed approx. 1.3 billion to suppression of operating profit (loss)).
- ▶ Special investigation expenses were recorded as an extraordinary loss (Loss of special investigation) and profit (loss) at the net level continues to be in the red despite a gain on sale of investment securities.
- ▶ The annual dividend was 36.0 yen (DOE of 4.6%), the same as initially forecast, set from the perspective of “achieving DOE of 4.0% as soon as possible,” the target in the Medium-term Management Plan.

(JPY billions, unless otherwise indicated)

	FY2022	FY2023	YoY
Net sales	65.4	65.0	(0.4)
Gross profit	7.1	7.0	(0.1)
Operating profit (loss)	0.7	(4.5)	(5.2)
Ordinary profit (loss)	0.9	(4.0)	(4.9)
Profit (Loss) attributable to owners of parent	(4.9)	(1.5)	—
Earnings (Loss) per share (yen)	(191.22)	(60.96)	—
Annual dividend (yen)	30.0	36.0	+ 6.0

* YoY figures are not provided for profit attributable to owners of parent and earnings per share because a net loss was recorded in both FY2022 and FY2023.

Results Summary: Financial Standing



(JPY billions)

	FY2022	FY2023	YoY	Main factors behind change
Current assets	56.1	55.6	(0.5)	<ul style="list-style-type: none"> Cash and deposits increased by 3.1 billion yen, mainly due to the sale of cross-shareholdings.
Cash and deposits	7.9	11.0	+3.1	
Non-current assets ^{*2}	19.9	25.1	+5.2	
Total assets	76.0	80.7	+4.7	

*2 Deferred assets are included in non-current assets.

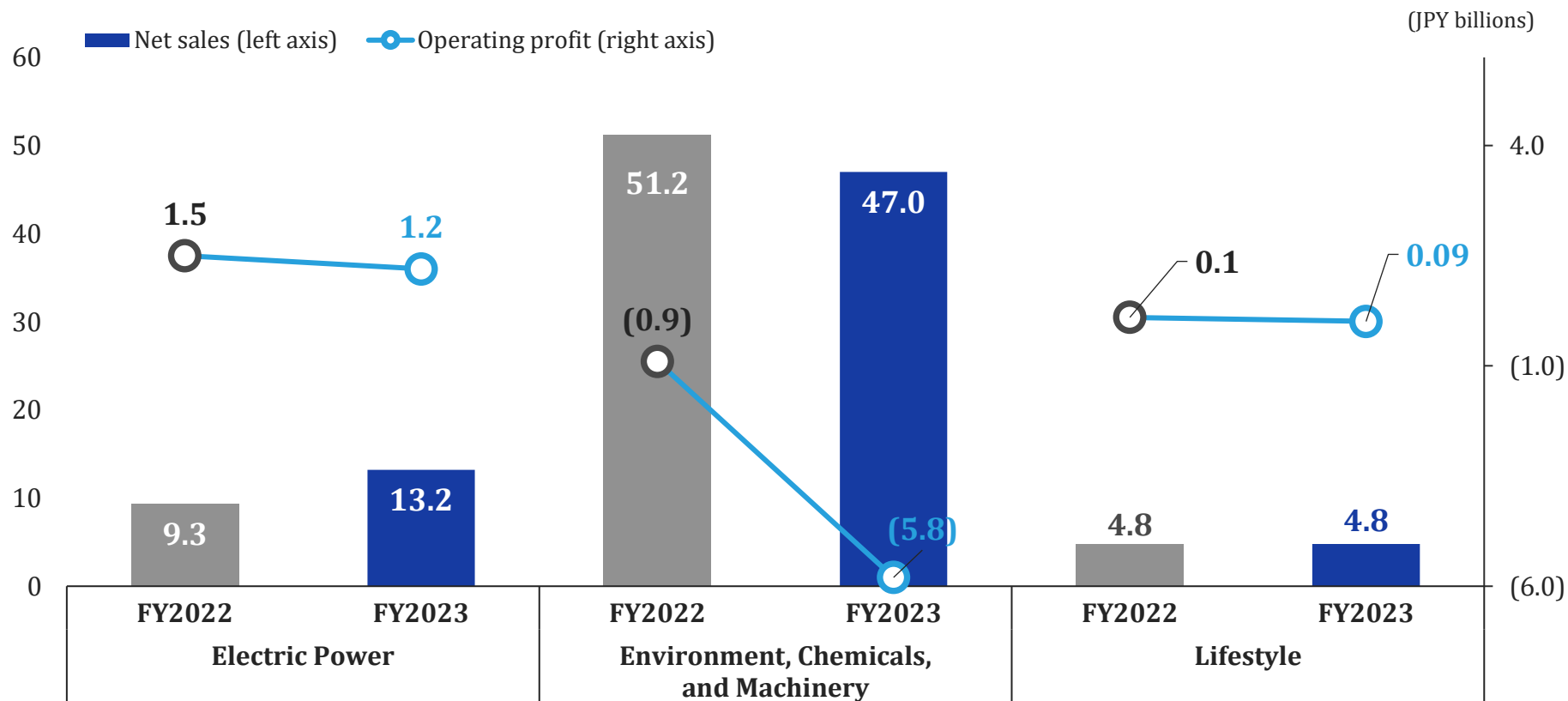
Current liabilities	46.4	51.8	+5.4	<ul style="list-style-type: none"> Interest-bearing debt increased by 3.6 billion yen due to temporary advance payments associated with solar power construction contracting projects. The loss recorded at the net level resulted in a decrease of 1.4 billion yen in net assets.
Short-term borrowings	9.5	12.8	+3.3	
Non-current liabilities	8.4	9.0	+0.6	
Bonds and long-term borrowings	6.6	6.8	+0.2	
Net assets	21.2	19.8	(1.4)	
Total assets	76.0	80.7	+4.7	

Equity ratio	27.9%	24.6%	(3.3%)
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Results Summary: Segment Results



- ▶ **Electric Power** : While continued firm demand for power generation equipment maintenance, our core business, and the increase in customer we supply biomass fuel to contributed to an increase net sales, this increase was not sufficient to absorb the increase in SG&A and operating profit declined.
- ▶ **Environment, Chemicals, and Machinery** : While investment in production equipment and demand for maintenance and replacement remained strong, revisions in cost of goods sold and the provision of allowance for doubtful accounts, mainly in solar-related business, resulted in a substantial operating loss.
- ▶ **Lifestyle** : Sales of packaging materials etc. using eco-friendly materials remained firm and resulted in net sales and operating profit on par with last fiscal year.



Results by Business Domain: (1) Thermal Power



- ▶ An increase in transactions stemming from our core business led to growth in sales.
- ▶ We received a new order for construction of a large-scale thermal power plant. We expect this, combined with the post-completion long-term maintenance agreement, to contribute to results from this fiscal year onward.

Business description

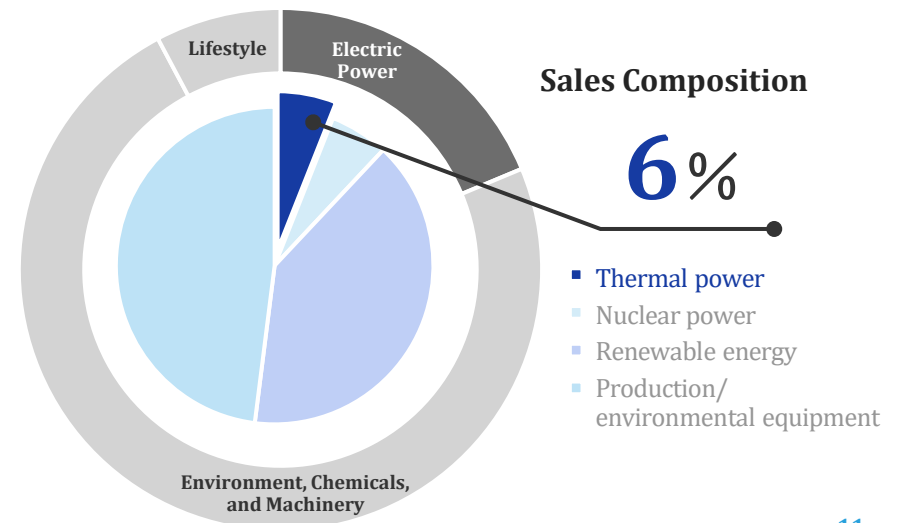
- New installation and renewal of thermal power generation equipment
- Maintenance on existing equipment and gas turbines for power generation



Consolidated net sales

(JPY billions)

FY2022	FY2023	YoY
4.3	4.4	+0.1



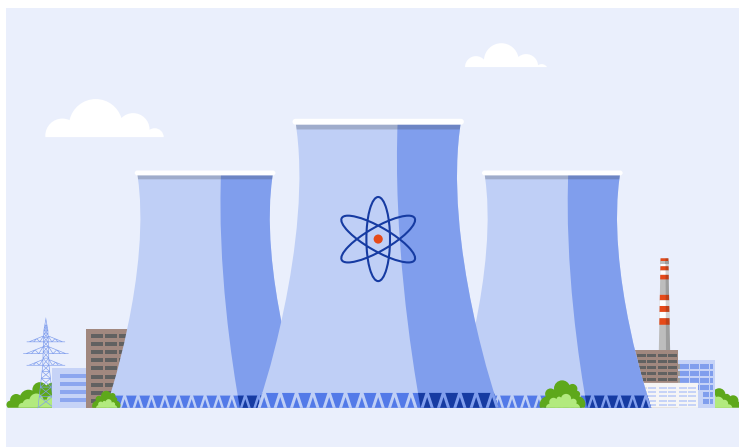
Results by Business Domain: (2) Nuclear Power, etc.



- ▶ Began distributorship services, including maintenance of nuclear power stations, recommissioning support, and other services.
- ▶ Sales increased, mainly from construction work on large-scale safety measures (seismic retrofiting, fire-proofing, etc.) for nuclear reprocessing plants, ancillary services stemming from safety measure construction work, and equipment supply to plant manufacturers.

Business description

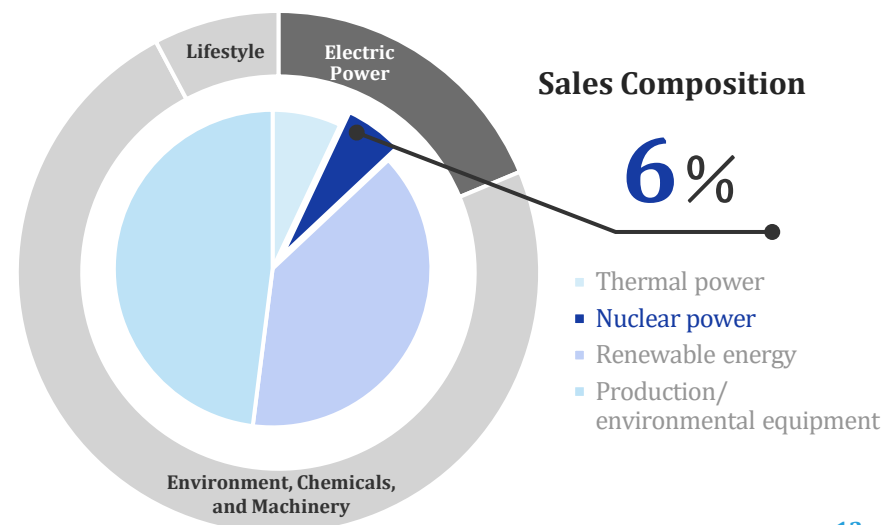
- Construction work on and maintenance/replacement of reprocessing plants and nuclear power stations
- Business relating to decommissioning of nuclear power stations
- Equipment supply to plant manufacturers



Consolidated net sales

(JPY billions)

FY2022	FY2023	YoY
2.9	4.2	+1.3



Results by Business Domain: (3) Renewable Energy



- ▶ In solar-related business, revenue from electricity sales was firm; however, a large loss was recorded on construction contracting-related business.
- ▶ In biomass-related business, progress made on construction of new power plants and highly profitable spot sales in the fuel supply business contributed to results, and we concluded a long-term agreement on wood pellets.

Business description

Biomass, solar, geothermal, and other power generation

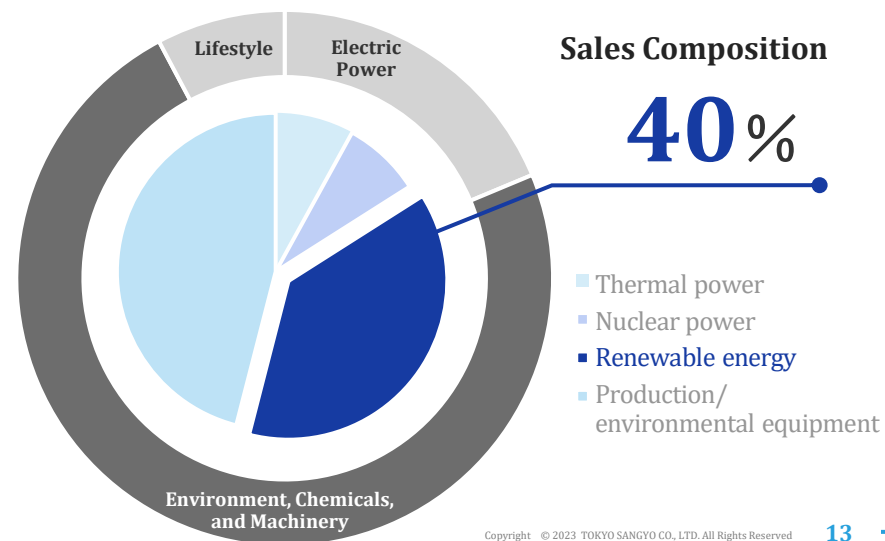
- Engineering, procurement and construction (EPC)
- In-house power generation and PPA
- O&M
- Fuel supply



Consolidated net sales

(JPY billions)

FY2022	FY2023	YoY
28.4	25.1	(3.3)



Results by Business Domain: (4) Production/Environmental Equipment



- ▶ Domestic demand remained firm for investment in and replacement/maintenance of production equipment.
- ▶ Performance was driven mainly by deliveries of export projects for EV-related equipment for the automotive industry and import projects from Europe and elsewhere.

Business description

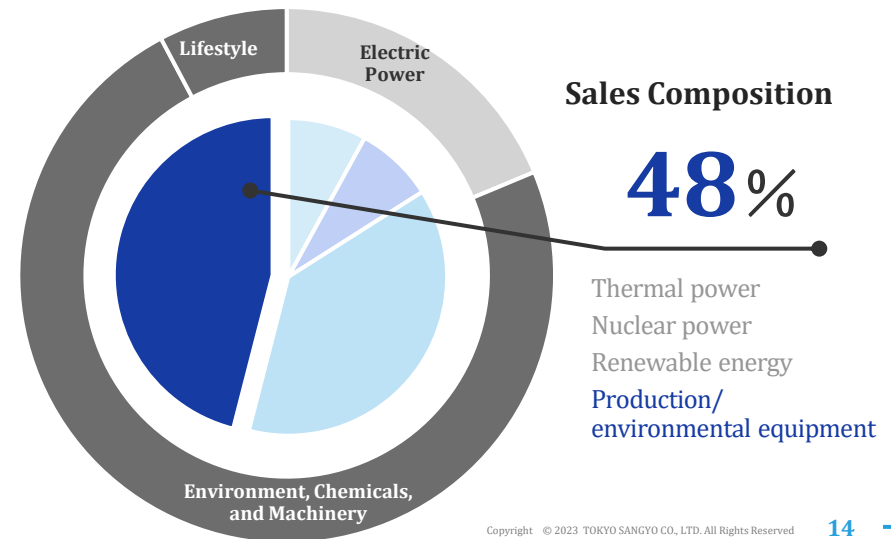
- Various machinery and equipment for chemical, food, pharmaceutical, and automotive industries
- Equipment for waste and water treatment and reducing CO₂
- Eco-friendly materials



Consolidated net sales

(JPY billions)

FY2022	FY2023	YoY
29.6	31.1	+1.5



I. FY2023 Results: Main Topics



- ▶ **Implementation of concrete measures aimed at achieving the Core Five growth strategies of the Medium-term Management Plan.**

Announcement	Topic	Aim
December 2023	Establishment of TSC Machinery (Shanghai) Co., Ltd.	To capture demand from Chinese companies expanding overseas
February 2024	Procurement of first Green Gold Label (GGL)-certified palm kernel shell (PKS) fuel	To expand our network of suppliers for the biomass fuel supply business
February 2024	Sale of investment securities	To review and reduce cross-shareholdings
March 2024	Decision to sell the solar power plant in Agano-shi, Niigata	To restructure assets of the solar-related business

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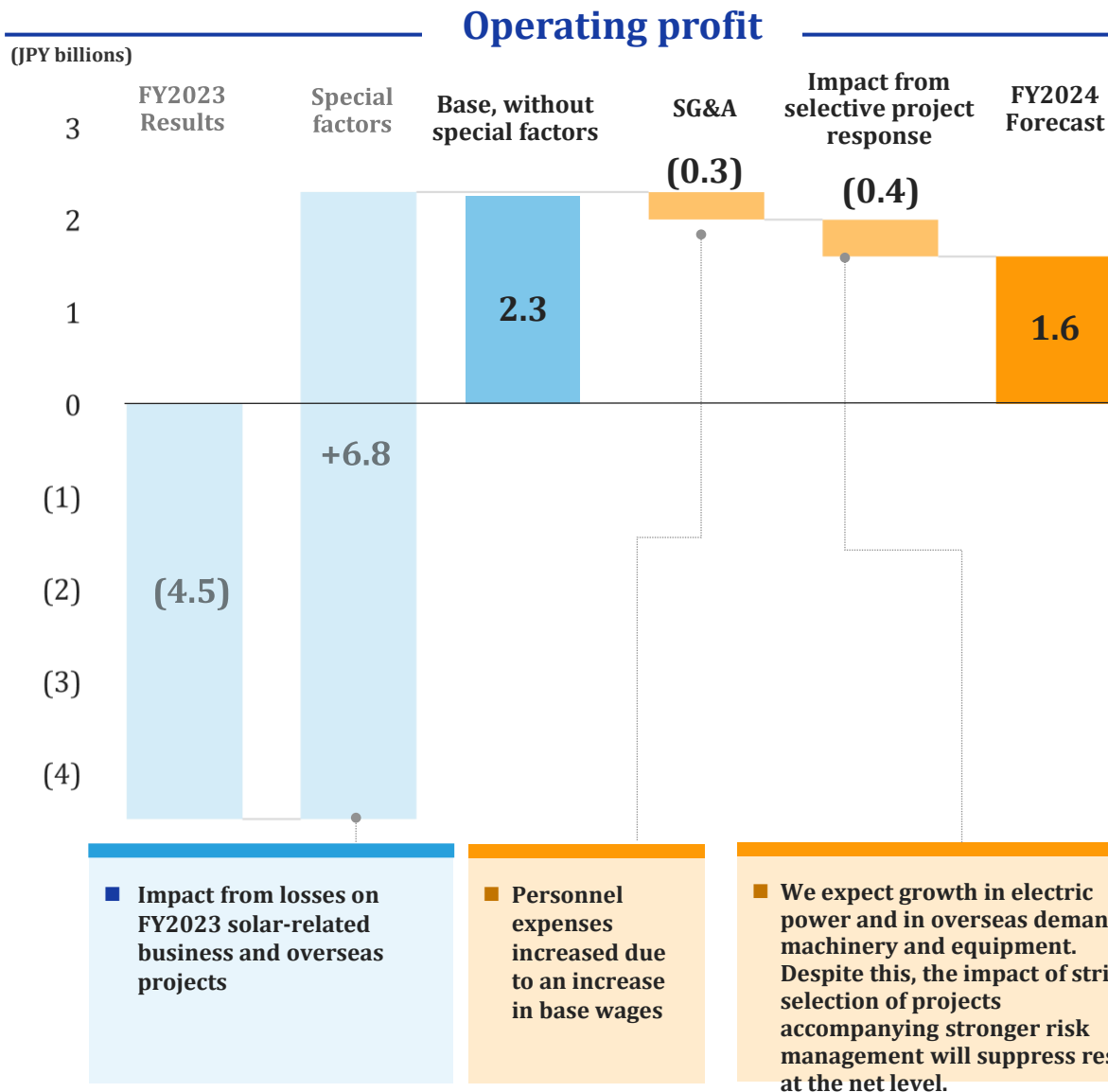
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Metric	FY2024	vs FY2023
Consolidated net sales	56.0	(9)
Consolidated operating profit	1.6	+6.1
Consolidated profit attributable to the owners of parent	3.1	+4.6



* Profit attributable to owners of parent includes a gain on the sale of non-current assets related to solar power equipment.

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Progress on Medium-term Management Plan: (Core Five) Priority Strategies



▶ Progress made on each of the priority strategies in the initial year of the Medium-term Management Plan is detailed below.

Main theme	Progress in FY2023
<p>Active involvement in energy transition</p>	<ul style="list-style-type: none"> ▶ Began distributorship services for nuclear power stations ▶ Expanded biomass fuel supply plants ▶ Participated in a feasibility study on co-combustion
<p>Creation of businesses contributing to building a sustainable society</p>	<ul style="list-style-type: none"> ▶ Continued marketing equipment developed by our investee, iFactory, in new CO2 reduction-related technologies ▶ Marketed a feeding barge to aquaculture farmers for food self-sufficiency.
<p>Enhancement of the collective strength of the Group</p>	<ul style="list-style-type: none"> ▶ Established TSC Machinery (Shanghai) Co., Ltd. in China to capture offshore commercial trade flow related to China. ▶ Strengthened the management structure and identified the issues at each company to strengthen corporate governance in Japan and overseas.
<p>Development of a strong management foundation</p>	<ul style="list-style-type: none"> ▶ Implemented measures to prevent recurrence of compliance-related incidents, in light of the fraudulent transactions that occurred, according to schedule. ▶ Formulated a framework of measures to strengthen risk management (incorporated in the improvement measures listed in the improvement report submitted to the Tokyo Stock Exchange) ▶ Collected employee opinions through various means, identified issues, and mounted a series of responses to improve employee satisfaction and strengthen the foundation.
<p>Expansion of shareholder returns</p>	<ul style="list-style-type: none"> ▶ Conducted a concrete review of asset holdings, including solar-related assets and cross-shareholdings ▶ Declared a dividend of 36 yen per share as forecast at the beginning of the period and achieved the DOE target of 4.0%

Revision of Medium-term Management Plan



- ▶ We reviewed the financial targets for the final year of the Medium-term Management Plan, based on the revision of the policy on initiatives in solar-related business in light of the projects incurring losses and strengthening the risk management system to prevent recurrence of fraudulent transactions.
- ▶ We reviewed net sales and operating profit after considering the impact of selectivity in initiatives, such as refraining from accepting new orders for construction contracting business in areas where we possess no expertise.
- ▶ We are sticking with our existing policy on the target for DOE.

(JPY billions, unless otherwise indicated)

Metric	FY2026 (Plan)	Revision	FY2023 (Results)
Consolidated net sales	73	(27)	65
Consolidated operating profit (loss)	2.5	(2.3)	(4.5)
Consolidated profit (loss) attributable owners of parent	1.7	(1.8)	(1.5)
ROE	8%	(2%)	—
DOE	4.0% or higher	None	4.6%

* ROE was not calculated for FY2023 because a net loss was recorded.

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- ▶ Integrated trading company focused on machinery with more than 75-year history

Basic Information

Company name	TOKYO SANGYO CO., LTD.
Address	2-1 Otemachi 2-chome, Chiyoda-ku, Tokyo
Representative	Minoru Kambara, President and Representative Director
Founded	October 20, 1947
Capital	3,443,284,858 yen
Business locations	26 in Japan (including 7 subsidiaries and 2 affiliates) 27 outside Japan (including 11 subsidiaries and 1 affiliate)

History

- 1942: Established as Daiwa Kikai Co., Ltd., which engaged in the manufacture and sales of equipment and tools
- 1947: Following its breakup, Mitsubishi Corporation relinquished its management rights in Daiwa Kikai Co., Ltd., and the company changed its trade name to TOKYO SANGYO CO., LTD.
With the support of Mitsubishi group companies, TOKYO SANGYO CO., LTD. became a dedicated trading company focused on the domestic sales, import, and export of general industrial machinery and equipment.
- 1950s: Opened major domestic business locations in Nagoya, Sendai and Osaka (currently, Kansai)
- 1959: Listed on the Tokyo Stock Exchange as an OTC stock
- 1961: Listed on the Second Section of the Tokyo Stock Exchange
- 2000s: Opened overseas business locations and actively expanded internationally
- Oct. 2022: Marked its 75th anniversary

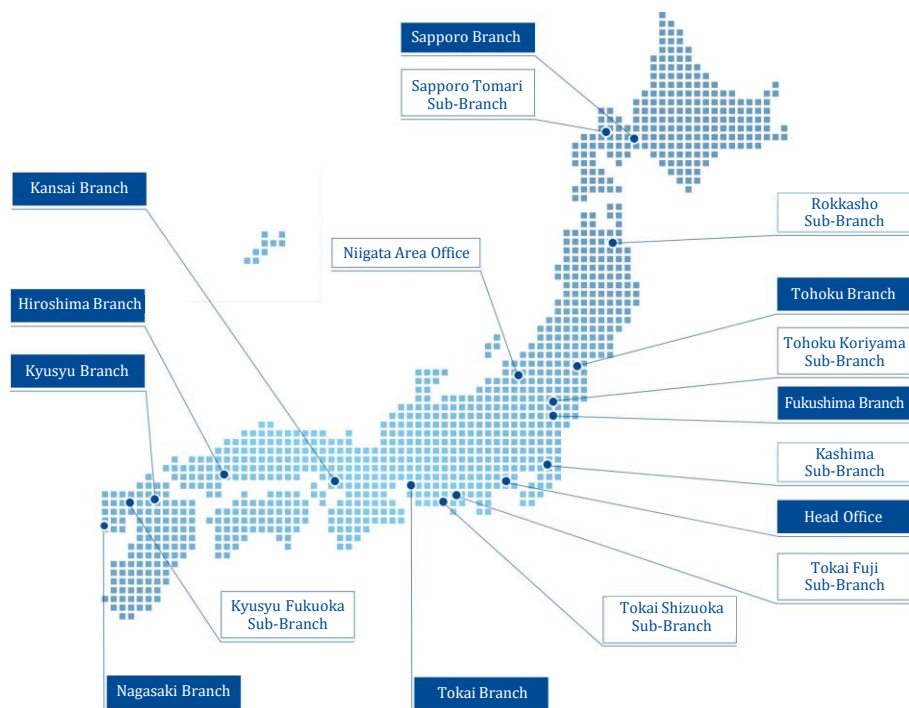
As of May 31, 2024

International and Domestic Networks



As of March 31, 2024

Domestic Network

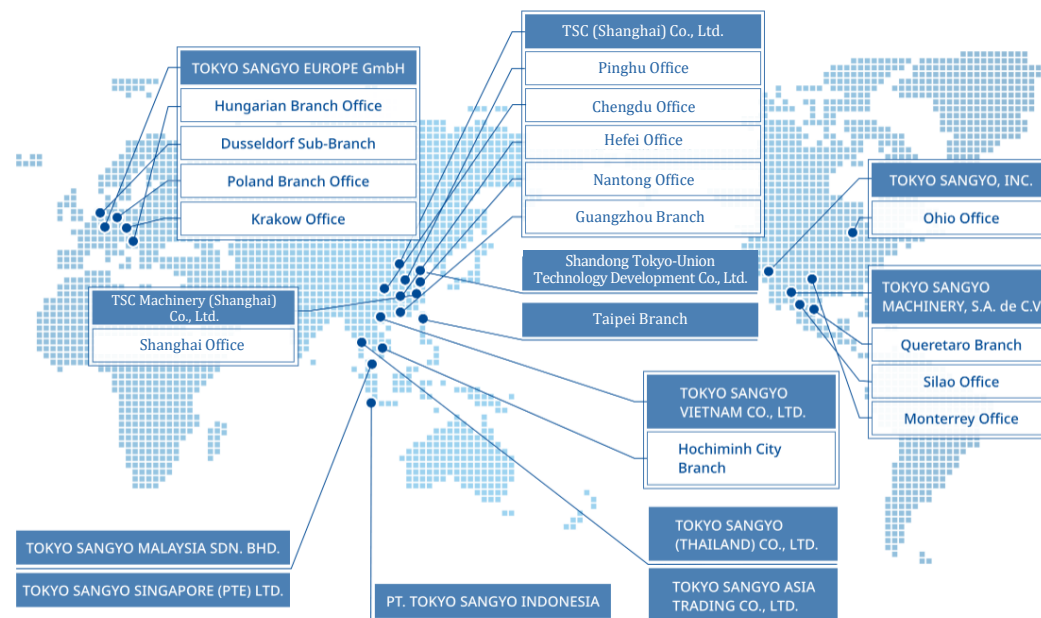


Total of **26** locations

Domestic Affiliates

- Tokyo Sangyo Fudosan Co., Ltd.
- Innovation of Social Environment Co., Ltd.
- Kowa Kogyo Co., Ltd.
- Joint company Tateshina Sun Sun Farm
- I·A·H Co., Ltd
- TR Energy Co., Ltd
- Development No. 65 Silent Partnership (solar power SPC)
- Aizu Komorebi Power Co., Ltd
- CO2 Reduction Co., Ltd

International Network



Total of **27** locations

TOKYO SANGYO CO., LTD.

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Medium-term Management Plan

T-ScaleUp2027

— Entering new domains for a green future —



We support the Sustainable Development Goals (SDGs).

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