

FY 2018 Results Briefing: Gist of Questions and Answers Session

May 30, 2019

- 1. I see margins were low for individual deals in AP and BP segments in fiscal 2018. Did you accept orders under such terms as part of your strategy or margin shrank as a result of demand decreasing structurally?**

-> In terms of lower margins for plants, we strategically accepted low-margin orders. In particular, the number of installed plants for the BP business is the smallest among the top three industry players, so idea was to prioritizing orders for our goal to become the top manufacturer, even if it means sacrificing some of the margin.

AP has a market share of 70%, but we decided to accept large deals we had to win, even though they carried low margins, to fend off challenge from rivals offering lower prices.

- 2. I see plant unit sales increased in China. When do you expect this will start to have positive impact on sales of your maintenance service in China?**

-> Unlike the Japanese market, it is difficult for us to predict exactly when we may start to receive maintenance orders. In Japan, about 60% of sales in the plant business is from maintenance service, but the figure has not even reached 10% in China. In China, our plants are mainly used for expressway construction, and we are facing two European rivals. If they start to use static plants when building narrow roads from large roads, that will make the situation similar to Japan's, which we expect will lead to increased demand for maintenance service. We expect Chinese customers will shift to relying on manufacturers for maintenance, not just performing it in-house, so we aim to be careful not to miss such opportunities.

- 3. I'd like to ask about the slump in product margins. Do you expect margins to improve over a medium term? Do you expect to be able to expand margins by improving productivity? If margins improve through improved productivity, do you intend to lower prices further to expand your share? Or do you retain the increased profit? Discuss your strategy.**

-> The number of rivals has decreased in both AP and BP segments, and we do not aim to further increase shares to establish our dominance in AP. But we hope to become the leading player in terms of steady-state share. As it is also important to secure stock business opportunity, not just sales of plants, we may lower prices to obtain market shares from rivals if we can improve productivity.

- 4. Indonesia's plan to move its capital has made headlines recently. If it officially decides to do so, what do you expect to happen?**

-> We are yet to paint a vision in that scenario, but if the decision becomes definite, we think it

would undoubtedly work in our favor in the form of increased spending on infrastructure building.

5. How many of the installed plants have your remote maintenance service?

-> Our remote maintenance service is available to customers who installed our control panel. It allows us to monitor the state of the plant's operation. We cannot provide the service to customers who have older control panels, but 30% to 40% of our customers have a remote maintenance contract with us. We are aiming to raise the figure to 100% by capturing the opportunities that emerge when control panels are updated.

6. You do not expect much change in your business environment in FY 2018 and FY 2019, but you would likely receive a large number of orders if the situation in the fourth quarter of FY 2018 continues. What is the balance between these in your view?

-> The orders received in 4Q in fiscal 2018 did not increase abruptly. The number increased because orders happened to concentrate in 4Q in the normal course of negotiations. So do not expect the 4Q figure will quadruple in the current fiscal year. Our view is that the current fiscal year will be just as normal years, and there will be no concentration of orders in any of the quarters.

7. Explain the new business model you are working to adopt. How much do your customers, including companies that do road surface work, spend on maintenance, including labor costs (size of user maintenance costs), and what do you plan to target to capture such spending? Give me a rough image. What additional investment do you plan to make in order to do that? Or, instead, do you expect to be able to capture customer budgets by sales efforts without using the additional investment?

-> Customers seek maintenance service as they are mindful of risk that they may become unable to ship products. So they budget for maintenance costs to spend on repairing aged equipment and enhancing functions.

In the past, customers had adequate knowledge and repaired their equipment in-house, but today, nearly none of them have operators with deep knowledge about the machines, leading to an increased need to rely on manufacturers.

They typically budget for maintenance in terms of costs per ton of products produced. Going forward, we aim to capture the increasing customer demand by increasing service staff and expanding tie-ups with companies performing maintenance work for us. In terms of business model, we aim to expand the maintenance service to asset management.

8. The dividend targets for FY 2019 are 100 yen, excluding the special payout, and the payout ratio is 38.3%. These are high levels compared to past figures. Do you plan to continue to aim for similarly high payout ratios in the future?

-> We have never set a definite target on payout ratios, but have targeted levels around 30% to 33%.

As this year marks the 100th anniversary of our company's foundation, we adopted a figure that symbolizes it. Thus, the commemorative payout of 100 yen and the regular payout of 100 yen. So it is not like we increased the payout ratio because we now have a different view on payout ratios.

As I said in discussing our historic balance sheets and the balance of cash and deposits, we have no immediate plans for major capital investment. So we hope to enhance shareholder return more than we did in the past.

We did not set criteria, but we hope to raise payout ratios after debating it, considering increased expectations of our shareholders.

9. I think it is very unusual for a company to issue shares to employees as a means to reward them. Discuss what you expect from doing this.

-> We wanted to give them an opportunity to know what it is like to own shares in their own account and receive dividends, raise their morale, inspire their loyalty, and understand that if we develop new products and improve earnings, share prices will respond in a positive way.

10. This is related to the first line in the Business Vision, which is to clear the listing criteria of the [TSE] first section, and let me know what measures you are considering in order to increase liquidity of your shares and make it easier for investors to trade them. Also discuss your criteria for mutually releasing strategic cross shareholdings.

-> We have reduced strategic shareholdings to about 6 billion yen from the peak level of 8 billion yen. We do not plan to sell shares in our important customers for the AP or BP business any time soon, but we do plan to dissolve cross shareholdings with financial institutions.

We do not plan to spend a long time to do this, but hope to sell all of the shares that have no future benefit for us, in about three years.

Note: This gist from the question and answer session was created in part to provide information about it to people who did not attend the results briefing. Please note that parts of the text have been edited to clarify the meaning.

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