

## **FY 2020 2Q Results Briefing: Gist of Questions and Answers Session**

- 1. In page 10 of the briefing session materials, it says that you will work to improve efficiency of maintenance service and further expand margins. In the 1Q briefing session, you have explained that the enrollment ratio of remote maintenance service increased. Does increasing the remote maintenance service enrollment ratio mean improving the efficiency of the operations or are there other issues, which you are going to solve?**

-> Maintenance services account for a large portion of net sales and we recognize their profitability as the largest issue. About 70% of the users are enrolled in remote maintenance and the efficiency would further rise if all users enroll in it. We are considering promoting standardization so as to carry out maintenance swiftly and efficiently, and as an extension of remote maintenance. Further, we would like to consider preventive maintenance actions, such as an annual maintenance contract, to avoid stoppage of plants.

**You have used the term “before” maintenance in briefing sessions so far. Is remote maintenance one of before maintenance measures? What are the before maintenance measures you are currently implementing and what are the ones you are planning to implement in the future?**

-> Going forward, remote maintenance is expected to become one of the before maintenance measures. Until now, we have used remote maintenance as a measure to enable quick repair when there is a breakdown. We are considering before maintenance under a framework that improves efficiency with less effort from us and no plant stoppage so that customers will not miss profit opportunities, by detecting signs with the help of IoT, such as installing more sensors, and replacing parts before a failure occurs.

- 2. It is mentioned that the number of shipments of APs including recycling plants exceeded the shipment of virgin plants for the first time in China in this term. I would like to know the situation in Japan.**

-> In Japan, most of APs have a recycling function and plants solely for virgin mixtures are rare. Historically we have added recycling equipment to virgin plants, and because we imagine that if a customer is replacing a plant from now on, it would be replaced with a virgin-recycling

integrated one, we are focusing on introduction of new models addressing it.

- 3. You have explained that the AP demand in China was weak in 1Q and recovery is seen from 2Q onwards. China seems to have overcome the impact of coronavirus quickly and infrastructure investment increased there. I would like to know the reason why new orders received and net sales of Nikko Shanghai have lagged: is it because there simply is a time lag from the increase in infrastructure investment in China or is it because it is waiting for environmental measures to be taken?**

-> The reasons why net sales of China (Nikko Shanghai) were not recorded in 1Q were that the plant could not operate because workers did not return and that it could not procure raw materials due to logistics issues as movement between provinces was restricted. We could not visit customers for business negotiations and that is why recording of net sales and new orders received were delayed. For the current fiscal year, we expect both net sales and operating income of Nikko Shanghai to decline compared with the previous fiscal year as it would not be able to make up for the delay in net sales in 1Q. At the same time, we expect new orders received to be about the same level as the previous year.

**Is China (Nikko Shanghai) receiving more inquiries than last year?**

-> The government is investing for domestic demand, but this has not had any significant impact on AP demand so far, and the inquiry situation is unchanged from the previous year.

- 4. What is the reason for the weak first half net sales of crushers in the other business?**

-> We assume that the slump in net sales at Maekawa Kogyosho, which manufactures and sells crushers, was mostly due to the novel coronavirus infection. That was because many customers curbed their capital investment due to the impact of the coronavirus.

**I would like to know, in terms of latent demand, if it is safe to assume that there is no change in the number of cases using crushers in urban development in Tokyo metropolitan area and Osaka.**

-> Our crushers are not for crushing buildings or large clumps but used to crush small hard objects at production plants, and the users are different from those who use crushers that are construction machinery. However, manufacturing would not last without making an investment in equipment,

so (although the market shrank this time) we would like to carry out activities to capture more market share.

Note: The summary of the question and answer session was created in part to provide the information to those who did not attend the results briefing. Please note that parts of the text have been edited to improve clarity and enhance understanding.

IR Team, Financial Department, Nikko Co., Ltd.