

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

### **Status of the existing businesses**

- **Sales are progressing in line with the medium-term plan but operating income has been sluggish. What is your analysis behind the gap with the company's assumption in the AP-related business and how are you trying to narrow the gap?**
  - For many years now, we have been repeatedly receiving the question as to why we cannot take the leadership in price despite our 70% market share in AP. Currently, we are securing profits in both product sales and maintenance service and more than half of the profit comes from maintenance service.
  - There are cases in which we get involved in price wars to secure future maintenance service. As a mechanism to avoid getting involved in price wars, we are focusing on differentiation of functions by introducing new models that our competitors do not have. We are taking actions to encourage users to introduce new models when they replace facilities and it is going to take some time.
  - At the same time, to improve profitability of maintenance, we are also changing our business model to a mechanism that secures plant operations at the minimum cost through failure detection and preventive maintenance. Through these initiatives, operating efficiency will increase, through which we aim to improve profitability of AP in the future.
- **How can we grasp the conditions and the pace at which replacement with new plant models would progress in the AP-related business? Also, is the profitability of new plant models going to improve?**
  - Replacement with a new plant model depends on the customer's timing. They usually do not replace plants that are still working but we are assuming that there will be cases of rebuilding working plants to respond to carbon neutral requirements in the future. When that happens, we hope to enable reducing CO2 emissions with technologies that our competitors do not have.
  - The new model has good cost performance. As for the question of whether it would improve profitability, the new model has the advantage that it is easy to standardize, given its unit-based structure combining a recycling plant and a plant for virgin mixture. Pursuing sales of this new AP model will further improve our market share and profitability.

- **The briefing material lists the unit price of ready-mixed concrete but it does not have asphalt unit price. Unit price of asphalt is surging, and what kinds of impact, both good and bad, does the rise in asphalt unit price have on Nikko's performance?**
- It would naturally be a setback for us if the surge in asphalt price gives a significant impact on customers' profits and they end up reducing capital investment, but it has not reached a situation where they are curbing capital investment in a major way. However, we should pay close attention to the trends in capital investment of customers.
- **The ratio of remote maintenance has increased. Does it contribute to profits?**
- More than 70% of the users have signed up for remote maintenance service. We are utilizing it as a communication means with our customers and as an item that improves the efficiency of maintenance service. If this evolves and enables to detect plant breakdowns beforehand, it will further boost the degree of contribution to our customers and improve profitability.
- We receive remote maintenance fees every month and it is generating more than enough to cover the cost associated with the division. Going forward, we will improve profitability by developing it as a system based on a mechanism that judges and predicts by collecting information in advance instead of remote maintenance that works in response to customer input. It is still at a basic level and we would like to add items to make it a major revenue source. We think the volume of information we can grasp also increases as IoT develops and we will focus on this.

#### **Carbon neutral-related initiatives**

- **Page 10 of the briefing material shows the road map of decarbonized product development. How interested are the users in these products and how much inquiry are you getting for them? Will the decarbonized products become a new profit driver for Nikko?**
- Users have shown extremely high interest in carbon neutral and we have held several interviews and briefings this year. As it is a major capital investment, users mainly ask questions such as what kind of CO2 reduction can be achieved with currently available technology. However, we need to reduce CO2 emissions by 50% by 2030 and the users will take necessary measures in the 10 years. We think this would cause industrial consolidation.
- Various capital investment for achieving carbon neutral to be made by 2050 will generate new demand for us and it is a positive factor. There is a sense of crisis that the number of plants will decline due to the industry consolidation in 2050, but we would rather like to take it as an opportunity and act accordingly.

- **How much of costs do you plan to record for developing decarbonized burners, such as those using ammonia and hydrogen?**

→ Decarbonized burners are not so difficult as a theme in terms of technology because we currently have burners for various fuels and also have a track record. It is its extension and we do not think it would cost a lot to develop them. It is not a theme where we would be technologically insufficient at a time when ammonia and hydrogen can be supplied at cheap rates. We will continuously invest in it as part of the total budget for other various CO2 reduction and carbon neutral mechanisms and technologies.

- **The track record for delivery of foamed asphalt manufacturing equipment must have been about 10 in the previous fiscal year. How many orders are you expecting for the current fiscal year? You have explained that the foamed asphalt manufacturing equipment can be installed in existing AP. Are they currently sold mainly with new plants?**

→ Inquiries for foamed asphalt manufacturing equipment has been increasing, as it is building a track record and being effective. We have delivered eight units up to the previous fiscal year and we are expecting to deliver 14 units in the current fiscal year. We are basically thinking of incorporating new products such as foamed asphalt manufacturing equipment to plants as a standard. The equipment was developed on the basic premise of being retrofitted in plants and we will sell it also for existing plants. Users such as major road builders would install it at one or two plants, and if it is effective, they will use it at other plants, so sales tend to increase in such cases. We are continuing with development that broadens the variations for different sizes of plants.

- **In the current fiscal year, you are planning to increase R&D expenses by 300 million yen. Do you plan to increase it further in the next fiscal year on? Or has it plateaued?**

→ So far, we had wanted to use more R&D expenses, but was unable to do so because of human resource issues. Now, we do not have any time to waste for achieving carbon neutral in 2050, and we expect to spend about 700 million yen in R&D expenses for the current fiscal year, as we focus on research and development. We would like to continue with this level in the future.

#### International Business (Thailand)

- **Is it possible to make the Thai business profitable in the current fiscal year? How is it reflected in the earnings forecast for the current fiscal year?**

- We have already received orders for two AP projects and one of them has been installed and is operational. In addition, there are four projects for which we are likely to receive orders. There are maintenance projects for which we receive orders in a fiscal year and sales are recorded in the same fiscal year, and we are formulating the budget for the current fiscal year based on them. As for operating income, we are expecting a loss exceeding 100 million yen and we do not see it turning profitable in the current fiscal year. The current schedule is to turn it profitable in real terms in three years from the establishment, and we want it to reduce losses to a level close to zero in the next fiscal year.
- For the current fiscal year, we will actively win sales negotiations and boost the presence of Nikko brand in Thailand. Establishment of the sales company went ahead and the launch of the manufacturing company will be next year or later, so we have to manufacture AP products for the current fiscal year in Japan to a certain extent and export them. The negative impact of this on profit has also been reflected in the earnings forecast.

#### Earnings forecast for the current fiscal year

- **At the previous third quarter earnings briefing, you mentioned that sales would increase in the fiscal year through March 2022 given the strong order environment and high level of order backlog. For the current fiscal year, sales are expected to increase but the rate of increase is small and you are expecting operating income to decline. It seems like you could achieve net sales close to 40.0 billion yen. Is there a bottleneck or something? Marginal profit ratio also appears to slightly decline.**
- I guess you are asking whether we are holding back our net sales forecast at 39.0 billion yen instead of 40.0 billion yen, but frankly, we are assuming net sales to be just above 39.0 billion yen and that is why we forecast 39.0 billion yen. If we simply compare order backlog with the same period in the previous year, it is 2.0 billion yen higher, but, other than order backlog, orders and sales of maintenance services received and recorded within the fiscal year in particular are expected to decline 400 to 500 million yen compared with last year.
- Profit forecast shows 2.3 billion yen in operating income. It would be 2.6 billion yen if the 300 million yen increase in R&D expenses are reversed, and there is no bottleneck regarding the operating income decline in the current fiscal year. It is due to increases in R&D expenses and depreciation and amortization.

Other

**- Regarding the novel coronavirus vaccination, what is your thinking about workplace vaccinations by companies, your current initiatives, and preparations, if any?**

→ Currently there are almost no employees who have been vaccinated. If the situation changes and there is an offer for corporate vaccination, we would very much like to carry it out. The target would be our employees and their family members and I believe it starts with companies with a large number of employees, but if we become qualified, we would like to respond to it. For employees also, we would like to develop an environment that allows them to take a day off on the day of vaccination.

Note: The summary of the question and answer session was created in part to provide 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.

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