

December 2, 2021

FY 2021 2Q Results Briefing: Gist of Questions and Answers Session

Next Medium-Term Management Plan

- The new three-year Medium-Term Management Plan is starting in the next fiscal year. Could you tell us the goals of the plan other than numerical targets, for example, your image of the what the company aspires to be?

→ We would like the new Medium-Term Management Plan essentially to be a business plan for achieving growth based on the current 10-year long-term policies. We are also elaborating the figures to be in line with the 10-year plan.

- You have raised net sales in 10 years by 5.0 billion yen to 55.0 billion yen, up from 50.0 billion yen. What are the details of the increase by business segment, etc.? I would like to know your strategy to improve the operating margin to 8% while you are increasing fixed costs to achieve carbon neutrality.

→ We have been discussing the new Medium-Term Management Plan for over one year with the entire company. Under the policy of making active investment, we analyzed the businesses and raised the figures as much as possible, and that is how we came up with net sales of 55.0 billion yen in 10 years. The increase in fixed costs towards the achievement of carbon neutrality is the largest and most important factor, and through investments, we hope to achieve business expansion which exceeds the impact of that factor. Regarding importance by business segment, we have planned investments to streamline the service business and shift to asset management to improve operations in existing fields. Other than that, we have mostly raised the figures in overseas and new business fields.

- Could you reveal, as much as you can, whether there will be changes in the shareholder return policy in the next Medium-Term Management Plan from the ongoing plan?

→ In the current Medium-Term Management Plan, the profitability aspect is a little challenging from the perspective of the 10-year long-term plan, but it has not deviated by much and we plan to stay on the same course in the next medium-term plan too. We cannot be definitive regarding shareholder returns either, but we would like to continue with the current policies on dividend payout ratio and other matters without changing them.

→ We want to make quite a large amount of capital investment to put the company on a growth track by leveraging the overseas business and new businesses in Japan. Currently, there are sufficient funds for investment on the balance sheet and in our case it is not necessary to use a large amount of cash flow for capital investment, so we think we can implement sufficient shareholder return at the same time.

Carbon neutral-related initiatives

- General contractors have been actively pursuing development of technology to absorb CO2 using concrete debris. Please update us on the joint development with Nikko and other developments.

→ We know the initiatives being taken by general contractors to absorb CO2, but I would like to not make any comments at this point on individual cases or our intentions to work with any specific company. We are taking actions regarding all sorts of initiatives. We would like to be part of these efforts in collaboration with all general contractors, but there have been no concrete talks as of now.

AP-related business

- Regarding the AP-related business, I am concerned about the low profit margin in contrast to the high market share. What are the challenges for the next medium-term plan? What is the ideal profit margin and your strategy to improve it?

→ We believe that in the AP-related business, competitiveness means product appeal and development capability, and we believe that we are not technologically inferior to competitors. We will demonstrate our technological strength in response to carbon neutrality, which is of utmost interest to customers, to gain advantage over competitors and acquire appropriate profits.

→ In the maintenance business, which accounts for almost 60% of the AP-related business, we are trying to expand from maintenance service to asset management and will improve operating efficiency by leveraging IT to raise profitability of AP-related business.

- In the past you have talked about the plan to significantly grow the Value-Pack plant with enhanced recycling functions, but it has been sluggish since FY 2019. What is the reason behind this?

→ Value-Pack is a plant which was optimized for the modern manufacturing of asphalt mixture centered on recycling. This product is the base plant and we are expecting customers to adopt this at the time of replacement, but there has been less-than-expected plant replacement demand. I suspect that

customers are probably considering major refurbishment related to carbon neutrality and that is the reason. We will vigorously promote the effectiveness of a plant structure that is primarily centered on technology development for achieving carbon neutrality and recycling suitable for the current market environment.

High raw material prices

- You have explained that raw material costs increased 100 million yen. Which businesses were most affected? Also, do you plan to raise the price of products given the situation?

- We are in a business category that has high ratio of steel among raw materials, therefore the price increase in steel affects not only the plant business but also the industrial machinery business. Imported items also have a component composition similar to plants and prices of raw materials as a whole are rising. The negative impact from the price rise has been significant in Japan as well as at Nikko Shanghai in China.
- Taking this into consideration, we have been raising prices as necessary. However, our products require a very long period of time from the start of business negotiations to delivery, and we have been managing many projects in which we cannot raise prices. We have been requesting customers to accept a price increase to solve this, and we will address it one company at a time.

Note: This 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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