

March 3, 2023

FY 2022 3Q Results Briefing: Gist of Questions and Answers Session

About the AP-related business

Q. You said that you would have a large-scale order for AP in Japan in the fourth quarter of FY 2022. Isn't it going to lose money? Also, is my understanding correct that the price increases in raw materials costs have been passed on to selling prices?

A. It is a large-scale AP project. Its margin is a little low, but as of now it is not expected to lose money. We have been reviewing the quotes every month since FY 2021 when steel prices began rising, and have been passing on the price increase. We negotiate prices with customers based on costs that reflect the raw and other material costs at the time, and we have been able to cover the price increase in raw materials. In the case of AP, it takes about one and a half to two years from order to delivery, and it is difficult to pass on the increase in raw material costs occurring during that period to the price. However, we assume that raw materials costs have probably peaked in autumn last year.

Q. You have explained that sales of foamed asphalt devices will grow significantly in the next fiscal year. I would like to know if the relaxation of regulations in Tokyo, which you explained in an earlier press briefing, has been expanded to other regions. Also, I would like to know if the competitors of foamed asphalt devices are the same as those of AP.

A. The restrictions on warm-mix asphalt were eased in Tokyo, and now it can be used throughout the country. The road pavement companies, which are our customers, are currently having very high interest in measures for reducing CO2 emissions, etc. and there is demand for warm-mix asphalt as they implement measures to reduce CO2 emissions as much as they can in the intermediate stage before the fuel shift of AP. Our foamed asphalt device for making warm-mix asphalt has been highly praised by our customers, and as of the end of the current fiscal year we have enough inquiries to anticipate sales of about 50 units in the next fiscal year. The competitors of foamed asphalt devices do not overlap much with the competitors for AP. We are competing with different companies.

Leading indicators of business performance

Q. Looking forward two to three years from now, what are the events, benchmarks, and leading indicators of business performance, if there are any, that you are paying attention to in the medium term, such as the revision of estimation standards for public works in the immediate future or the 2025 World Exposition in Osaka, Kansai?

A. The Expo in Osaka, which you mentioned, is one of the events we should follow up around next year. It is difficult to point out the benchmarks that predict the environment of AP- and BP-related businesses in Japan. For AP, we are no longer in an era when new highways or other roads will be built and demand volume and shipment volume of asphalt mixture for paving roads are expected to be unchanged or show a slight and gradual decline in trend. Under such circumstances, road paving companies, our customers, reduced capital investment in FY 2022 due to the soaring price of asphalt, which is their raw material. We cannot expect the price of asphalt, a raw material, to come down, but we are focusing on whether there will be progress in passing on the cost to the price of asphalt mixture, which is produced by road pavement companies. More than 90% of asphalt mixture is used in public work projects and the passing through of price increase to selling price will gradually progress even though there would be some time lag or delay. If that happens, the probability is high that demand for nonessential and nonurgent maintenance services postponed in the current fiscal year will materialize from the next fiscal year on.

Regarding BP, in the case of the Kansai region, it depends on how many events like the Expo will occur. At the same time, we believe that there will be some more re-development works in Tokyo and in the metropolitan area. Total nationwide shipment of ready-mixed concrete also continues to decline little by little like asphalt mixture. We believe it would also gradually decline in the long term, and it is important how much capital investment the customers' earnings situation would allow. The increased cost of ready-mixed concrete has been relatively smooth and passed onto the selling price, and when we look at how the ready-mixed concrete price would trend in the future as a leading indicator, this is what we will focus on.

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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