

June 13, 2023

## **FY 2022 Results Briefing: Gist of Questions and Answers Session**

**Questioner [Q]:** This is a question about the amount of loss in Thailand. There was a loss of approximately 400 million yen. It is expected to be about the same again in the current fiscal year. Have you been carrying out rationalization or other measures?

**Fujii [A]:** To raise our presence in the Thailand market, it is important to increase sales and raise the local manufacturing ratio. While it is necessary to improve the productivity of the factory, we have so far not implemented any rationalization measures such as job cuts.

**Questioner [Q]:** Mr. Tsuji said that the company is working on equipment for Eco Tankaru. What is its order and sales potential in the future?

**Tsuji [A]:** In terms of orders of Eco Tankaru, we are currently in the phase of delivering test equipment and whether or not the market would expand depends on that result. Eco Tankaru is used to solidify concrete sludge and CO<sub>2</sub> and we are aiming to popularize it throughout the country. We still cannot discuss any specific figures, but demand for several units is expected in the immediate future.

**Questioner [Q]:** TSE has issued guidelines for companies whose PBR is below 1. Do you have any plans to disclose return on invested capital (ROIC)?

**Fujii [A]:** Our PBR is currently about 0.75 and it has continued to be below 1. While we have been actively working on shareholder returns, the biggest issue is improving profitability. We have been considering the disclosure of rate of return and ROIC as investors are interested in them.

**Questioner [Q]:** There seem to be changes to order inquiries in Southeast Asia. What are the reasons? Regarding the market environment in China, please comment on the order outlook in China from the perspectives of 1) recovery from the pandemic, 2) trend in construction investment, and 3) level of environmental awareness.

**Tsuji [A]:** Regarding the change in the order inquiries in Southeast Asia, more Japanese road

pavement companies are entering the region. In particular, demand has emerged for recycling equipment for roads, especially as an environmental measure. This demand has also increased in Thailand and Vietnam, and we want to promote the sale of manufacturing plants including recycled materials to boost our competitiveness. In the Chinese market, construction investment is a major factor but it is hard to see when such decisions would be made because of the impact of COVID-19. China is also working on environmental measures and we think that the higher the hurdles, the greater the rise in our competitiveness.

**Questioner [Q]:** What is your view on your superiority in decarbonization and remote operation technology in the AP-related business compared with other companies as well as its continuity and contribution to profits?

**Fujii [A]:** Currently in the decarbonization business of the AP-related business, foamed equipment is contributing to sales and profits. We expect sales of 50 to 70 units a year, and it is expected to contribute approximately 1,000 million yen in sales and also to profits. Regarding remote technology, there is only one other competing manufacturer in Japan and we believe that we have the overwhelming superiority in R&D. As for profit contribution from decarbonization-related technology, demonstration of hydrogen burner and ammonia burner has been making progress and they have the potential of turning into a major business in the future. However, that is expected to be a bit further down in the future.

**Questioner [Q]:** Nikko is aiming to achieve a 50% share in the mobile plant market in FY 2024. Is this the domestic market share? Please also elaborate on the current share and the measures for expanding the share.

**Fujii [A]:** The mobile plant market in Japan is about 200 units a year and we need to aim for 100 units to have a 50% share. Our sales track record at the moment is 37 units and it has not yet reached 20%. As a measure to expand our market share, we plan to boost our presence and strengthen our sales capability by leveraging the fact that our products are superior to that of the competition. The issue is the distribution of human resources, and we are focusing on nurturing and increasing our sales representatives and maintenance service staff.

**Questioner [Q]:** What were the profit impacts of the higher raw materials costs in the previous and current fiscal years? Please also elaborate on the impact to the operating income by including the connection with price increase.

**Fujii [A]:** The price rises in raw materials had an impact of approximately 400 million yen on the business results for the previous fiscal year and the impact is expected to be less than 100 million yen on profits for the current fiscal year. The main cause is the steel price increase reflected from the last fiscal year on. The rise in steel prices has almost stopped and the impact from orders in FY 2021 or earlier has also more or less disappeared. Nevertheless, prices of other procured parts have continued to rise and this is expected to have an impact of as much as 100 million in the current fiscal year. For the current fiscal year, we aim to expand the profit margin by 5% and raise the profitability of sales by 1%.

★Summary of questions received outside the session and the answers to them

**[Q]:** You have said that you are working on mixture production using hydrogen and ammonia as fuels in the decarbonization support field. Do you also have a plan to work on the development of alternative materials for asphalt and concrete from the perspective of decarbonization?

**[A]:** Our customers are carrying out research on it. We do not have any plans for research and development of alternative materials at the moment.

**[Q]:** Mr. Fujii mentioned that business negotiations related to World Expo in Osaka and IR have been increasing in the Environment- and conveyor-related business. Can you elaborate on the actual products, the scale of the inquiries, and the time frame?

**[A]:** We are expecting a project with orders and sales of about 100 million yen over a two year period starting from the current fiscal year. We cannot disclose the project details because a counterparty is also involved in the project.

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.

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