In its 2030 Vision, Nikko Group aims to achieve 60.0 billion yen in net sales and 6.0 billion yen in operating income (operating margin of 10.0%) in terms of economic value by expanding service business while maintaining and strengthening the Nikko brand, symbolized by its technical prowess and product appeal as a manufacturer. Further, of the four material matters related to social and environmental values, it lists; “realization of carbon neutrality” and “establishment of a recycling-oriented society,” which are related to environmental value, and “human resource development and improving job satisfaction,” which is related to social value. The Group aims to improve its corporate value by simultaneously raising economic value and social and environmental values.

Image of corporate value improvement from FY 2021 to FY 2030

The Nikko Group created a graph illustrating how it will raise its corporate value from FY 2021 (results) to FY 2030. The Group positions the period of the current Medium-Term Management Plan till FY 2024 as a phase for internal and upfront investment for business transformation and scale expansion leveraging Nikko’s technology. It positions the period after that as a phase for business expansion in terms of both social and environmental values.

The Group expects operating margin, which is a KPI of economic value and was 5.3% in FY 2021 (results), of 6.0% in FY 2024 and forecasted to be 10.0% in FY 2030. At the same time, net sales of carbon neutrality-related products, which are KPIs of environmental value were almost 0.5 billion yen in FY 2021 (results) and are expected to be 1.2 to 1.3 billion yen in FY 2022–2024, almost 2.0 billion yen in FY 2025–2027, and about 4.0 billion yen in FY 2028–2030. The Group aims to achieve 50.0 billion yen in market cap, which is a KPI for corporate value, as of the end of FY 2030 (24.3 billion yen as of the end of FY 2021).

Image of corporate value improvement towards FY 2030

Economic value KPI

Operating margin

FY 2021:	5.3%
FY 2024:	6.0%
FY 2030:	10.0%

Environmental value KPI

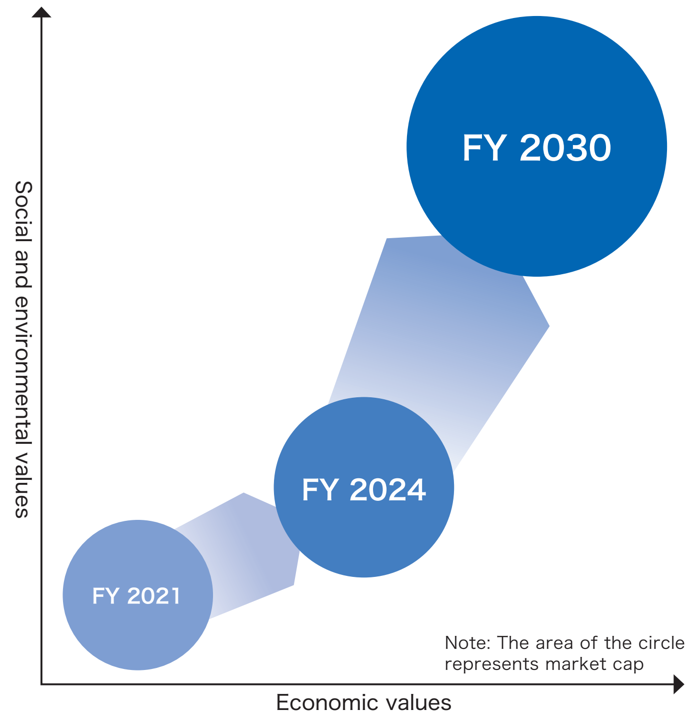
Net sales of CN-related products

FY 2021:	0.5 billion yen
FY 2025:	2.0 billion yen
FY 2028 onwards:	4.0 billion yen

Corporate value KPI

Market cap

FY 2021:	24.3 billion yen
FY 2030:	50.0 billion yen



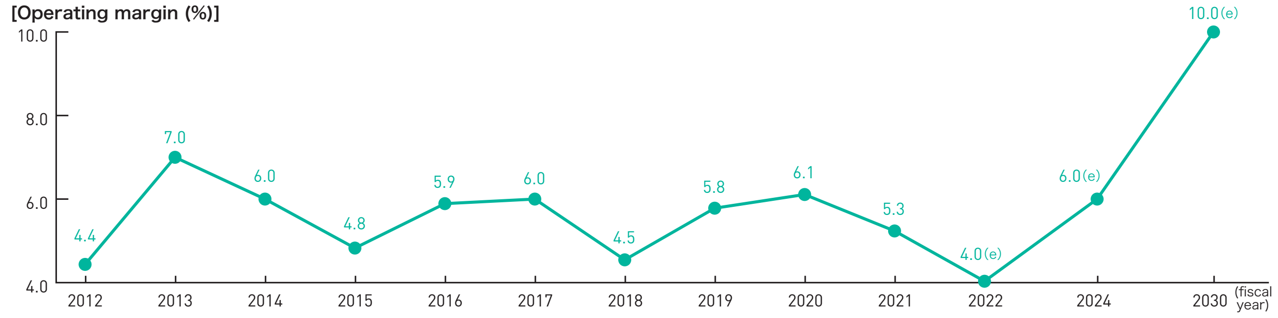
Economic value - operating margin

Looking at the operating margin of Nikko Group over the long term, it was low and trending within a narrow range of 0 to 2% until FY 2011, but since FY 2012, it has been in the range of 4 to 6% in general. However, the topline continued to expand steadily and net sales have grown from 27.1 billion yen in FY 2012 to a record 38.8 billion yen in FY 2021, even though growth in operating margin appeared sluggish.

The cause for the slackened growth in operating margin in the recent several years lies in the slow growth in profitability of the mainstay AP-related business. In the previous Medium-Term Management Plan, operating margin of the AP-related business was 6.4% in FY 2019, 6.4% in FY 2020, and 3.1% in FY 2021. Profitability of the AP-related business has been affected by factors such as recording sales on strategic order projects anticipating future maintenance revenues and cost increases especially in FY 2021 due to soaring steel and supply prices.

In the current medium-term plan, the Group expects gradual recovery in the AP-related business of 4.3% in FY 2022, 7.0% in FY 2023, and 7.0% in FY 2024.

Operating margin of Nikko (graph)

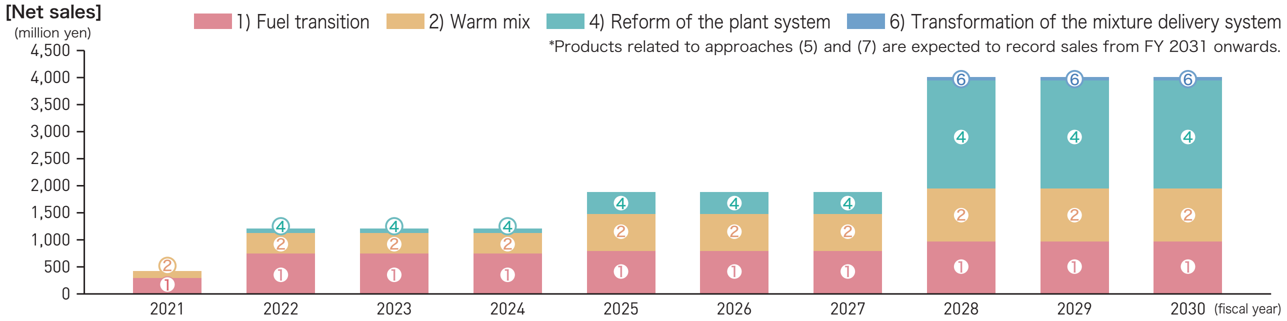


(FY 2012–2021 results; FY 2022, 2024, 2030 estimates)

Social and environmental values - net sales of carbon neutrality-related products

Nikko Group combines seven technologies for developing products to achieve carbon neutrality: 1) fuel transition, 2) warm mix, 3) transformation of the material storage system, 4) reform of the plant system, 5) CCU, 6) transformation of the mixture delivery system, and 7) electrification. In FY 2021, most of the net sales of carbon neutrality-related products, which is a KPI of environmental values, were from fuel transition and the remaining were from warm mix. In fuel transition, fuel is expected to be switched from heavy oil, which emits large volume of CO_2, to city gas, natural gas, and biomass fuel for the time being, and will subsequently switch to ammonia and hydrogen, which are free of CO_2 emissions (see p. 53).

Net sales target of related products and investment plan (the figures for FY 2021 are results)

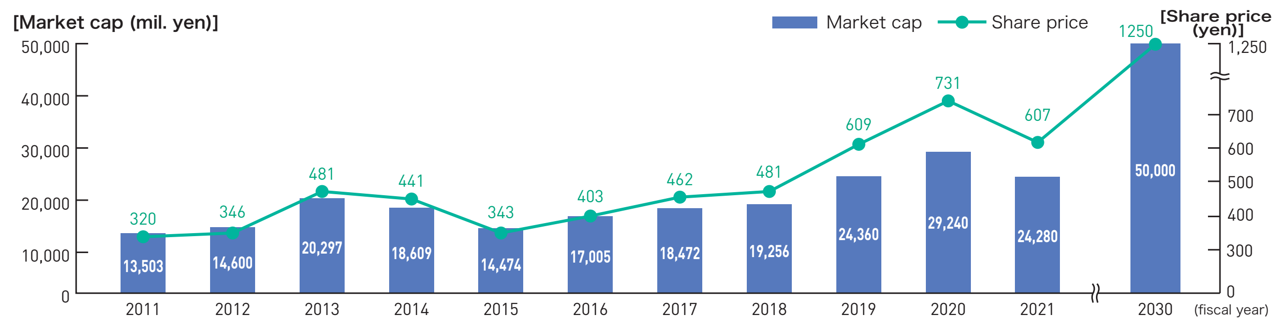


Corporate value - market cap

Nikko’s share price reached 919 yen (36.8 billion yen in market cap) at one time partly as announcement of the capital policy and strengthening information disclosure in 2019. Also, during the previous medium-term plan period, Nikko’s market cap trended from 19.25 billion yen as of the end of FY 2018 to 24.36 billion yen as of the end of FY 2019, to 29.24 billion yen as of the end of FY 2020, and to 24.28 billion yen as of the end of FY 2021, posting satisfactory total shareholder return (TSR) in general.

The 50.0 billion yen in estimated market cap as of the end of FY 2030 is based on an estimated share price of 1,250 yen (40.0 million shares outstanding). If EPS for FY 2030 is 105 yen, PER would be almost 12 times. Looking at PER for the past three years, at its lowest PER was just below 12 times and almost 18 times at its highest, with the median being almost 15 times. For this reason, the expected PER of almost 12 times as of the end of FY 2030 is considered to be reasonable, in light of the results from the past three years.

Nikko’s market cap



(on a fiscal year basis; end of FY 2012 to end of FY 2021; FY 2030 estimate)