BP-Related Business

We will implement the comprehensive management of ready-mixed concrete plants and aim to become a top environmentally friendly manufacturer.

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SWOT analysis	Details	Countermeasures by Nikko
Strengths	Solid in-house maintenance service structure with the top market share in the Japanese market	Offering of new values such as environmentally friendly production and subscription-based maintenance service
Weaknesses	Relatively high fixed cost ratio	Provision of differentiated products and services
Opportunities	Advancement in use of precast concrete for building components	Product development that satisfies high-level demands
	Rising needs of CO_2 absorbing concrete	Product development and deployment addressing customers' environmental needs
Threats	Decline in the number of ready-mixed concrete plants in operation	Strengthening of mobile plant sales
	Price war with rival companies	Overwhelming maintenance service structure combining manufacturing and sales

PEST analysis	Details	Countermeasures by Nikko
Political factors	Risk of changes in public investment policy due to change of government	Operation support service for customer plants
	Re-evaluation of concrete for CO_2 absorption	Joint development with customers
Economic factors	Business performance improvement at customers following the improvement in the ready-mixed concrete market and growing replacement investment needs	Offering of values for improving output at customer plants
		Offering of services that address the shortage of engineers at customers
	Soaring prices and difficulties in purchasing various materials and equipment	Revision of product prices
Social factors	Promotion of workstyle reform at customers	Development of high performance precast concrete
Technological factors	Improvement of strength and diversification of concrete products	Development of next-generation mixers

Key points

- We aim to achieve net sales of 10.8 billion yen in FY 2024, operating income of 1.05 billion yen, and operating margin of 9.7%.
- We will strengthen the customer plant operation support business leveraging plant operation data analysis based on control panel developed in-house.
- We will promote product and business development for precast concrete, which requires high quality performance.
- Amid declining number of ready-mixed concrete plants, we will strengthen the sales of mobile plants in areas that are not covered.

Values to be realized

- We will ensure the stable supply of high quality products that meet the standards of not only JIS standard-concrete, which supports Japan's infrastructure, but also special precast concrete and CO_2 absorbing concrete.
- We will offer highly efficient maintenance service that improve customers' profits through provision of predictive maintenance service as well as stable operation support service for customer plants (subscription service), which addresses workstyle reform and operator shortage at the customer side.

Source of strength

- We develop and manufacture control technology and control panels in-house, which are the brain behind plant facilities, and we have a track record of supplying more than 4,000 such units in Japan and abroad. It enables optimum operation and preventative maintenance based on various data analysis in addition to the remote monitoring of plants.
- We are the only manufacturer that can comprehensively offers everything from design to construction work and maintenance including control panels. We have established superiority in our immediate responses to electrical as well as mechanical problems.

Business environment

- The ready-mixed concrete shipment volume in the past had close linkage to the amount of construction investment. However, while about 6.2 trillion yen has been spent against the backdrop of the redevelopment of urban areas, measures under the Fundamental Plan for National Resilience measures, and the Olympic Games Tokyo 2020 since FY 2014, the ready-mixed concrete shipment volume has been showing a declining trend given the increase in buildings and construction works that require smaller amount of concrete. The consolidation in the number of ready-mixed concrete plants also continued, decreasing to 3,157 in FY 2021 from 3,406 in FY 2014. Nevertheless, given the advancement of plant consolidation and increases in various costs, the price of ready-mixed concrete is seen rising in Osaka, which is slated to hold the World Expo 2025 Osaka Kansai, and Tokyo, where the metropolitan area is being redeveloped, as well as Sapporo and Fukuoka. The price of ready-mixed concrete attracts attention as a leading indicator of capital investment as well as the business performance trend of the ready-mixed concrete industry. In fact, replacement investment for plants built about 20 to 30 years ago continues to be strong and total demand in FY 2021 rose 3% to 25.9 billion yen year on year, which was the highest in the past 20 years.
- Our steady-state share in terms of the number of BPs operating in Japan has been increasing gradually. Nikko's high capability in maintenance service has been highly rated and its share in FY 2021 rose 11.4 pp to 46.5% from FY 2020, up 14.9 pp compared to six years ago.
- Orders in FY 2021 were strong, increasing 21% to 12.1 billion yen year on year, and net sales of plants rose 30% to 18.6 billion yen and those of highly profitable maintenance service also grew 4% to 4.2 billion yen. Operating margin was also up 0.9 pp, reaching 10.4%.

Business overview	Details
Products	Concrete plants, etc.
Customer	Ready-mixed concrete manufacturers, construction companies, etc.
Market share	Static share in Japan: 33%
Sales breakdown	Sales breakdown: 28% (Japan: 99%, China: 1%)
Operating margin	10.4% (FY 2021)
Ratio of MS net sales	39%
Production bases	Akashi head office factory and Shanghai, China

MS: maintenance service

Future business opportunities and strategies

- Ready-mixed concrete shipment in FY 2022 is expected to decline 3% to 73.50 million m3. While private demand, which slowed due to the COVID-19 pandemic, is gradually recovering led by redevelopment in the Tokyo metropolitan area including Shibuya and Shinjuku, and it is expected to post a record low for the fourth consecutive year. The number of ready-mixed concrete plants in operation is also expected to decline. Nonetheless, amid steady construction investment, the ready-mixed concrete price has been maintaining a high level nationwide, and it continues to show a rising trend in Tokyo and Sapporo also in FY 2022. For this reason, customers' appetite for making capital investment is high and replacement demand for plants we have supplied in the past is expected to continue surfacing given the need for automation due to manpower shortage for plant maintenance and the improvement of production efficiency from plants becoming larger.
- In this demand environment, Nikko has set forth three main strategies for achieving the medium-term plan numerical targets. The first strategy is business development leveraging our strength of control panels developed in-house. We will strengthen customer plant operation support service as well as standardization of plants by accumulating and analyzing various operation-related information of customer plants. In particular, we will offer values such as stable operation and predictive maintenance of customer plants through subscription-based maintenance service. The second strategy is to capture new demand stemming from consolidation of ready-mixed concrete plants. While the number of ready-mixed concrete plants in operation is showing a declining trend in Japan, the areas to which a plant can supply ready-mixed concrete is limited as the concrete needs to be used within 90 minutes after production. We will strengthen the sales of mobile plants that can be easily transported to areas where it is difficult to supply ready-mixed concrete within 90 minutes due to consolidation of the plants. The third one is strengthening the sales of plants for precast concrete building components. There is increasing requirement for producing high quality concrete components inside factories, which are not affected by the weather, rather than on site against the backdrop of manpower shortage and workstyle reform in the construction industry. High quality concrete is required for precast concrete, and the key to quality is the performance of the mixer. We will expand the sales of mobile concrete plants for precast concrete while strengthening the development of mixers.
We consider the impact of the need for CO_2 absorbing concrete on ready-mixed concrete and BP demand to be neutral, as it raises the unit price of concrete. We are still closely monitoring the trend while continuing to work on joint development with customers, as there is a possibility of concrete being given a re-evaluation, due to a backdrop of environmental issues.
- A relatively favorable market environment is expected to continue during the medium-term plan, and we are assuming the size of the market to remain roughly unchanged. We will continue to aim for business operation leveraging Nikko's strengths as well as the expansion of market share and profit growth through resolution of issues faced by customers.

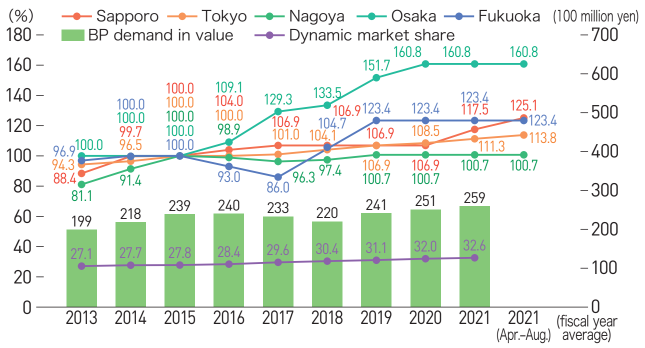
FY 2024 numerical targets

Net sales	Operating income	Operating margin
10.8 billion yen	1.05 billion yen	9.7%

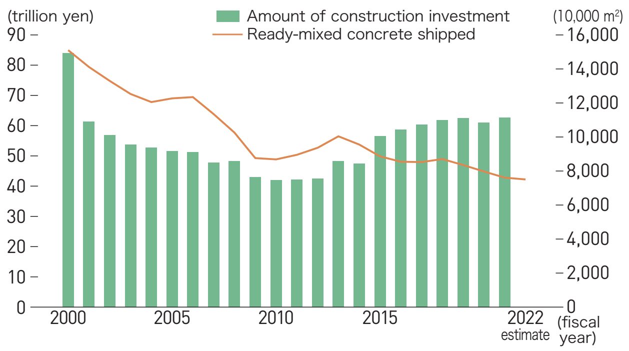
Business Strategies

- Data management and analysis using Nikko-developed control panels
- Customer plant operation support service
- Expansion of mobile plants to address consolidation of ready-mixed concrete plants
- Product development addressing customers' environmental needs

Ready-mixed concrete unit price index of major cities (FY 2015 = 100)



Construction investment and ready-mix concrete shipment volume



Net sales by product, operating margin, medium-term plan numerical targets