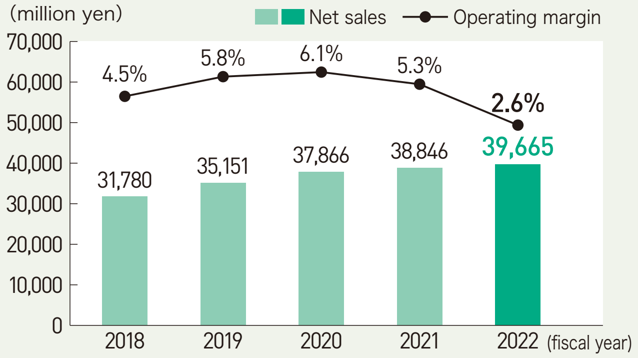
Financial and Nonfinancial Highlights

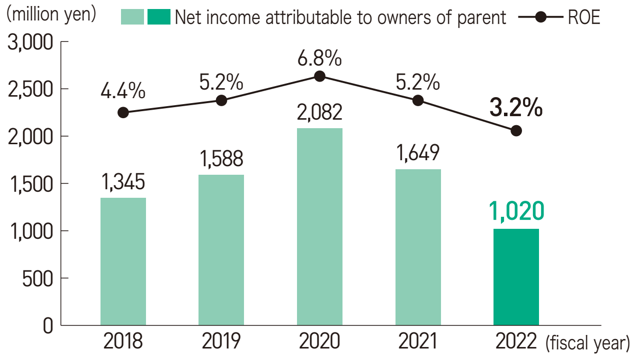
Financial highlights

Net sales and operating margin



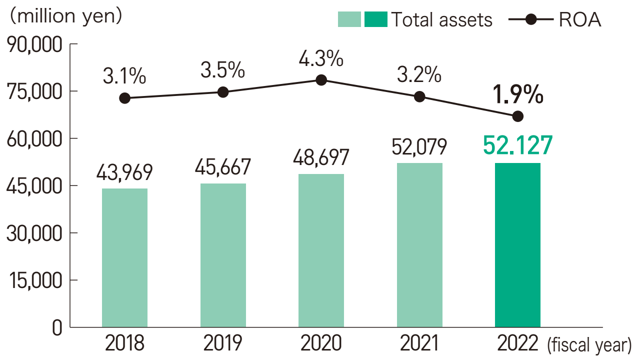
Operating margin in FY 2022 came to 2.6%, down 2.7 pp from 5.3% in FY 2021. By business, operating margin of AP-related business declined 2.8 pp and that of BP-related business fell 1.2 pp due to low-margin projects in unit products. Profitability of the environment and conveyor-related business and other business also worsened. The Company expects 4.3% in operating margin in FY 2023 as it expects improvement in both AP- and BP-related businesses.

Net income attributable to owners of parent, return on equity (ROE)



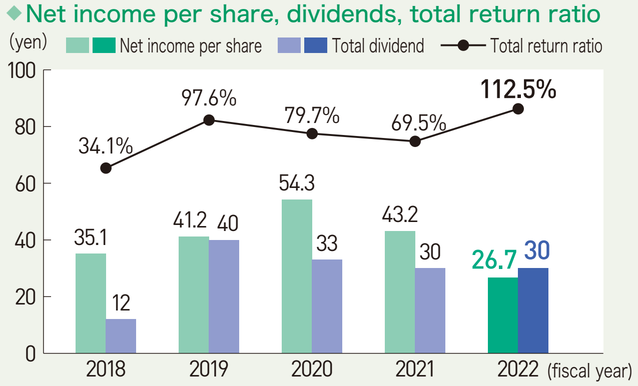
Net income attributable to owners of parent in FY 2022 decreased 38.1% from a year earlier to 1.02 billion yen. The rate was less than the 49.9% decline in operating income. Net assets fell 0.4 billion yen compared with FY 2021 to 31.6 billion yen, while ROE came to 3.2%, a decline of 2.0 pp from 5.2% in FY 2021. The Company expects ROE to recover in FY 2023, given the high level of total return ratio and as it anticipates a recovery in business results.

Return on total assets (ROA)



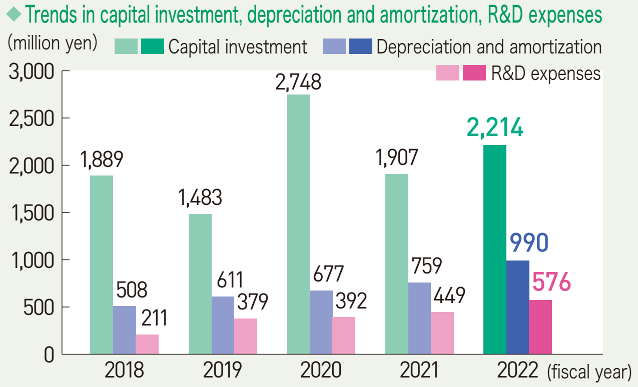
ROA in FY 2022 came to 1.9%, a decline of 1.3 pp compared with FY 2021. This was due to a large decline in net income, even though net assets at the end of FY 2022 remained roughly unchanged from FY 2021 at 52.1 billion yen. On the balance sheet, cash and cash equivalents declined 2.1 billion yen while interest-bearing debts increased 1.9 billion yen, resulting in a decline in net cash.

Net income per share, dividends, total return ratio



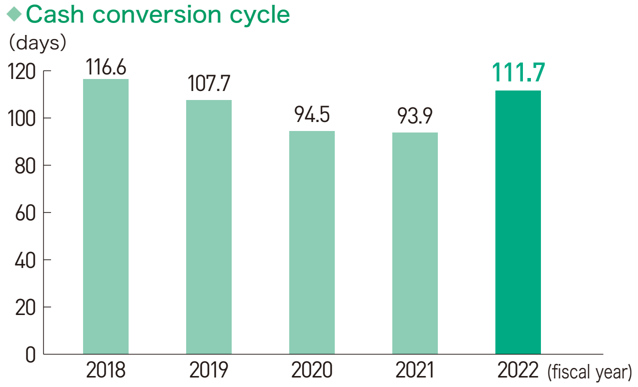
Dividends for FY 2022 were 30 yen per share, exceeding the net income per share of 26.7 yen. While the Company did not carry out share repurchase as treasury stock, total return ratio came to 112.5%, up from 69.5% in FY 2021. The Group expects to pay a dividend of 30 yen per share in FY 2023, with which payout ratio is expected to reach 95.7%. Under the Medium-Term Management Plan, the Company's shareholder return policy is to maintain payout ratio at 60% or higher.

Trends in capital investment, depreciation and amortization, R&D expenses



The Group made capital investment of 2.2 billion yen in FY 2022 including 0.58 billion yen for construction of buildings for rent, 0.25 billion yen for machines and equipment for the AP-related business, and 0.11 billion yen for construction of warehouses for the AP- and BP-related businesses. Further, it spent 0.36 billion yen for purchase of software. Depreciation and amortization is on a rising trend reflecting active capital investment. R&D expenses, at 0.58 billion yen, were up from 0.45 billion yen from FY 2021. Nevertheless, it was below the level of the company plan under Medium-Term Management Plan.

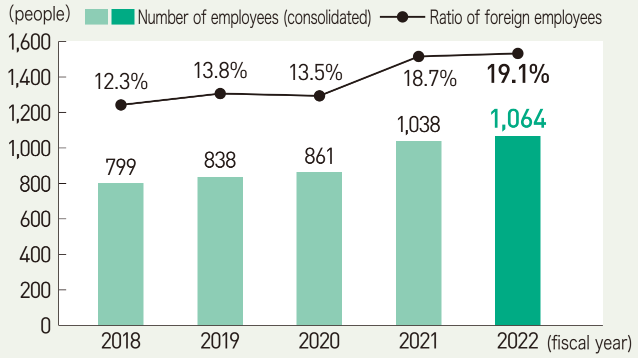
Cash conversion cycle



In FY 2022, the Company's CCC was 111.7 days, which was significantly longer than the 93.9 days in FY 2021. This was because inventory turnover period worsened to 127.7 days from 108.5 days in FY 2021 partly due to a supply chain issue. On the other hand, turnover period of trade receivables improved to 64.9 days from 73.6 days in FY 2021, while turnover period of notes and accounts payable-trade also improved to 80.9 days compared with 84.9 days a year ago. The Group intends to improve CCC in FY 2023 by reducing inventories.

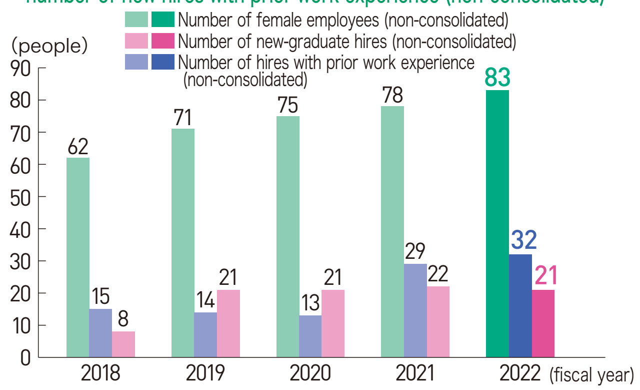
Nonfinancial highlights

Number of consolidated employees, ratio of foreign employees



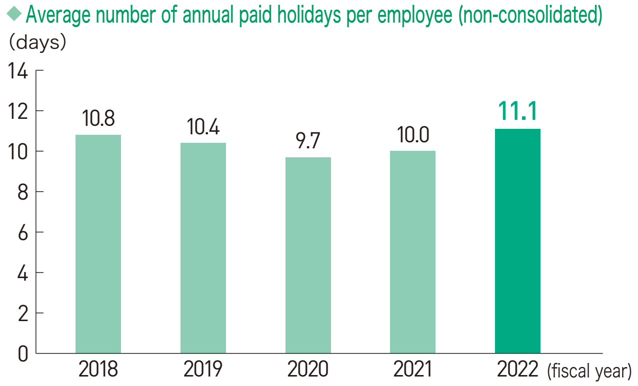
The number of consolidated employees was 1,064 at the end of FY 2022, up 26 from the end of FY 2021. The change reflected increases from the acquisition of Ube Kohki and the start of operations of the Nikko NilKhosol plant in Thailand at the end of FY 2021. Among the employees, foreign employees were 205, an increase of 11 from the end of FY 2021 and accounting for 19.1% of the total. The primary reason for the increase in foreign employees is the addition of 10 employees at the Nikko NilKhosol plant in Thailand.

Number of female employees, number of new-graduate hires, number of new hires with prior work experience (non-consolidated)



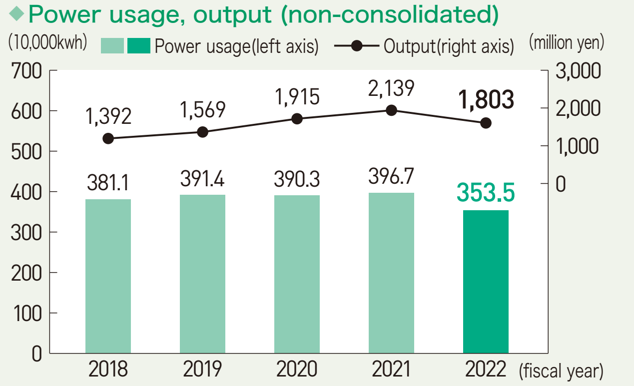
The number of female employees (non-consolidated) was 83 as of the end of FY 2022, an increase of five from 78 as of the end of FY 2021. The number of new hires was 32 on a non-consolidated basis, an increase from 29 in FY 2021, while the number of new female hires was six compared to three in FY 2021. The number of hires with prior work experience was 22 (21 in FY 2021) maintaining a high level. The Group will continue to boost such hiring in accordance with the new Medium-Term Management Plan.

Average number of annual paid holidays per employee (non-consolidated)



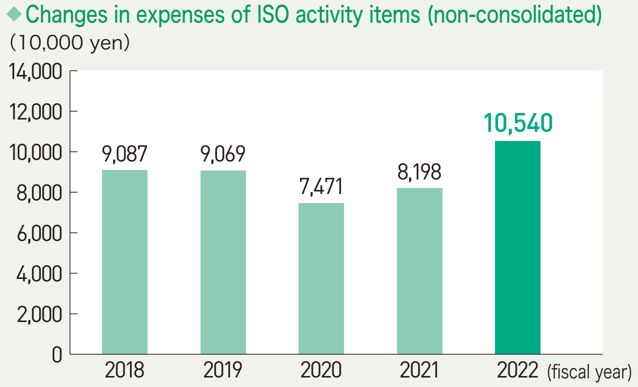
The average number of annual paid holidays used per employee was 11.1 days in FY2022 on a non-consolidated basis compared with 10.0 days in FY 2021. The increase from FY 2021 is partly attributed to the fact that improvements in the workplace environment have made it easier for employees to take paid holidays. The Group believes the number of paid holidays taken by employees is important for improving employee satisfaction and realizing a good work-life balance ultimately to significantly raise labor productivity by improving operating efficiency.

Power usage, output (non-consolidated)



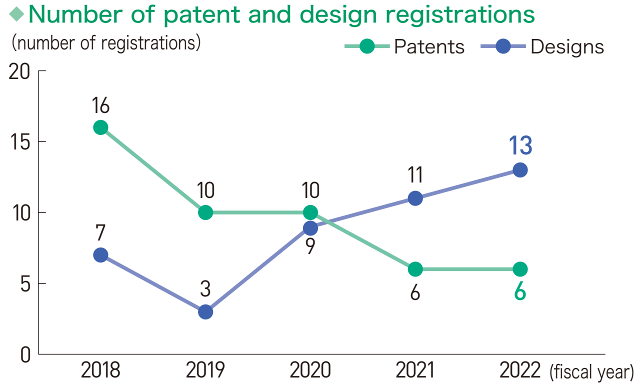
Power usage in FY 2022 came to 3,535,000 kwh, a decline of 10.9% from 3,967,000 kwh in FY 2021. This was a result of the fact that production volume declined 15.7% in FY 2022 compared with FY 2021, and power usage on a unit consumption basis continued to decline. In accordance with the guidelines for achieving carbon neutrality, the Group will continue to reduce CO_2 emissions by increasing the ratio of renewable energy as well as implementing electricity conservation initiatives.

Changes in expenses of ISO activity items (non-consolidated)



Total expenses of ISO activity items (electricity, water, waste, and paper) in FY2022 came to 105.4 million yen, up 28.6% from FY2021. The expenses of ISO activity items have been increasing for the past several years and the major factor behind this is the rise in electric power charges due to increasing crude oil prices, etc. The Group will promote effective utilization of resources and continue to make contributions to environmental activities.

Number of patent and design registrations



In FY 2022, the Group registered six patents, unchanged from FY 2021, and 13 designs, up two from FY 2021. The patents registered in FY 2022 include those related to woody biomass facilities as well as related to the AP-related business. The design registrations range widely including AP-related products, Nikko Sec's temporary scaffolding products, Tombo Industry's hand tools, and Nihon Kogu Product's barbeque grill.