

VALUE CREATION VISIONS & STORIES



Creating robust, people-friendly cities around the world.

Interview with CEO

VALUE CREATION VISIONS & STORIES

It is essential for the Nikko Group to build a foundation for growth and take on new challenges for realizing the vision of “Making the world a resilient and gentle place.” My mission is to not lose sight of this perspective.



Representative Director and President

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Masaru Tsuji

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<< Session.1 Nikko Group's business model and what it aspires to be

—First, could you please explain Nikko Group's business model? What are Nikko's technological strengths, and how do they differentiate it from other companies?

Nikko's business model is based on four core technologies of heating, mixing and kneading, material handling, and control, and our strength lies in the integrated handling of everything

from development and design to manufacturing, construction, and maintenance. This is the point where we set ourselves apart from other companies. Another feature of our business model is that it consists largely of stock business, as we have the top share of the domestic market for asphalt plants (AP) and batch plants (BP), and the maintenance service business for them accounts for about 60% of net sales. We consider the requirements of the customers as our tasks and

the major theme here is the response to carbon neutrality (CN). AP customers, mainly road pavement companies, bear a sense of mission to respond to CN, and I am confident that Nikko's technology development will play an important role in CN.

In CN initiatives, we so far have been carrying out R&D ahead of our competitors, and I am proud to say that we are in an advantageous position globally in CN-related products.

For example, of the core technologies, heating technology used in APs includes biomass fuel burners we have been developing to achieve CN for many years. In April this year, we succeeded in mixture manufacturing and pavement works using hydrogen burners. In addition to the hydrogen burners, our warm mix (foamed) equipment for warm mix (low-carbon) asphalt mixture is seeing a major growth in orders.

The equipment manufactures asphalt mixture at a temperature lower than the usual heating temperature as it reduces the viscosity of asphalt by adding a small quantity of water to heated asphalt and foaming it, which leads to reduction in CO₂ emissions. As shown in the product development road map through FY 2050, we will continue to develop decarbonization-related equipment to achieve CN (see pp. 35, 51).

— Domestic demand for APs and BPs, excluding decarbonization-related and low-carbon-related products for CN, has been sluggish. Taking into account the future business environment, how do you think the business model needs to be changed from what it is now?

Our assessment shows that domestic demand for APs and BPs is in a mature state, and we think that the key to business continuity is the maintenance service business. In this field, we have been receiving requests from customers for unmanned plant operation as part of workstyle reforms and as a solution

to the labor shortage, and we also have been continuing to approach them. The workstyle reform law is about to be applied, which, in principle, will require the construction industry to limit overtime work to 360 hours or less per year. It is the so-called 2024 problem. In the transportation field, also, customers will face the 2024 problem as they manufacture and deliver materials. We are considering a technological approach to lighten the burden on the customers resulting from transportation of materials. In utilizing the service stock business, we are working on a remote maintenance service where the Customer Support Center (CSC) at the head office would monitor the customers' plants. We are also optimizing the division of labor in such a way that maintenance staff can improve their skills and focus on operations that require skills (see p. 65).

Customers' ultimate challenge is how many employees they can reduce in plant operation, with the final aim of achieving unmanned operation. In particular, customers operating multiple plants are facing issues with employee management. As a first step towards solving the issues, we developed a system called SiiLO that enables shipment from mixture silos of multiple plants through remote operation in August this year. Mixture silos are facilities that store manufactured asphalt mixture while retaining the heat. Asphalt mixture plants in urban areas with high shipment volume usually have staff to handle shipping operations during night time and holidays to enable 24-hour shipping, and are facing issues with attendance management and work styles. Our system enables remote shipping from mixture silos regardless of the location, reducing the working hours of employees at asphalt mixture silos, and will lead to work style reform. If this remote operation of asphalt mixture silos of multiple plants can be expanded to all the plants, labor saving can be accelerated. What is important upon operation of the system is guaranteeing its safety. In carrying out shipping operation, SiiLO verifies the footage from a surveillance camera installed inside the plant and communicates with the driver of the dump truck to confirm the safety. Going forward, we need to consider measures including DX solutions.

In the future, we are aiming to transform the current maintenance service business model from remote maintenance to asset management where Nikko manages the assets of the customers including preventive maintenance. If we expand the scope of asset management, emergency deployment of maintenance staff will decrease, which will enable leveling of operations. We will work on DX and labor saving in plant operations and the transition to asset management of maintenance service by using control technology, one of our core technologies. With the increasingly serious decrease in working population in the construction and civil engineering industries, we will strive to realize our vision of "Making the world a resilient and gentle place" by ensuring labor-saving and

In development, we are providing advanced technical support to customers based on our assumptions and hypotheses. We will tenaciously continue with the trial-and-error method

deploying DX solutions in plant operation as we also address the 2024 problem.

— You have apparently changed the approach to R&D from what it was before upon pursuing CN initiatives and labor-saving. What are the specific initiatives you are taking?

The technologies Nikko possess now were developed through our long history of sincerely addressing each and every one of customers' requests. However, from now on it is imperative that we grasp the requirements of customers, take the social issues as our mission, and proceed with development in advance. If we start development after receiving a request from the customer, we will not make it in time. The same applies to the 2024 problem and CN. Among those, CN requires drastic measures such as energy saving and alternative fuels, and we need to respond in advance with technology based on our predictions. While these efforts will most likely see the light of day some 10 years from now or even later, we are pushing forward with our operations by taking an R&D approach that is different from the past.

In this regard, we will take on challenges for various developments without fear of failure or hesitation. We have started seeing some changes in the course of our trials and errors. We follow the Ringi decision-making system in development. Prior to that the person in charge has to present a proposal of the objective, method, amount, etc. to the Development Technology Committee and obtain its approval. A project that has passed the committee goes through the



Ringi decision-making process by the executive board, and receives investment if approved. Recently we have seen more proposals from young engineers. Their explanations are realistic and passionate, making meetings very lively. The meetings of the Development Technology Committee used to be boring for me, but have recently become very interesting. Development themes also used to be often passive responses to customers' requests. Now we are carrying out quite a few development projects that pass the Ringi decision-making process based on ideas that will be needed in the future, even if they may not lead to sales for several years. I have been conveying to the employees that we should resolutely continue with this (see p. 40).

◀ Session.2 Review of the first year of Medium-Term Management Plan and new businesses

— The first fiscal year of the Medium-Term Management Plan ended in FY2022. How would you summarize it?

The results for the first year of the medium-term plan regrettably fell much short of the passing score. While there was the impact from many overlapping negative factors such as the rapid depreciation of yen, soaring energy costs, steep rise in price of supplies, and prolonged delivery times, we also have numerous points to reflect on. Asphalt prices rose due to the rise in crude oil price, and management of road pavement companies, the customers of our AP-related business, worsened, which diminished their appetite for capital investment. Overseas, the COVID-19 pandemic took the wind out of the sails of the Thai business, which is yet to get back on track, and the resultant poor performance of the AP-

related business both in Japan and overseas has acted as a brake in the first year of the medium-term plan. However, even if orders stop for one year, our AP-related maintenance services cannot fully protect the customers' plants unless maintenance work resumes the following year. If sales are concentrated in a certain period, including maintenance work postponed, then there is a risk of us not being able to handle work, so we will be reconsidering our supply structure, etc. On the other hand, the BP-related business is generally performing well, as our customers in the ready-mix concrete industry have successfully passed on cost increases to selling prices, and as there are some regions where the economy is good. We expect that delivery times for supplies will continue to be prolonged, and since the cycle from order receipt to sale is expected to become longer, we will work

We will aim to transform the business model of maintenance service into asset management where we manage the assets of the customers

The contract-based manufacturing by the two companies we acquired through M&A offers business chances for the future. We can also grow the environmentally friendly and recycling products



to ensure appropriate cost management to secure profits while upgrading management of schedules for production, shipment, and on-site construction (see p. 32).

— What is your assessment of new businesses?

Regarding new businesses, while the expansion of sales of waterproof boards has slowed due to a delay in the shifting of costs to prices, the mobile plant business including mobile crushers has continued to grow with net sales rising 24% year on year to 1.8 billion yen in FY 2022. We recognize that this is partly due to the good market environment. At the same time, requirements at stone crushing plants, etc. using aged crushing equipment are changing from stationary-type to mobile machines. In emerging countries overseas, crushing equipment started off originally with mobile ones, whereas stationary machinery was popular in Japan. While it takes time for the facility to start operations in the case of stationary machinery, mobile equipment can be delivered at short notice and can start operations immediately on delivery. With customers increasingly becoming cognizant of mobile crushers, we were able to sell 170 units cumulatively and we can also expand sales further to stock business, etc. Though we are confident that German company KLEEMANN's products that we offer are superior in performance to our competitors' products, the current depreciation of the yen against the euro is a negative factor for profit from them. Nonetheless, the superiority of the products in performance including running costs allows us to compete with other companies even at the current level of exchange rate. Also, we expect that the net sales for the mobile plant business for FY 2023 will be close to 3 billion yen and that operating income will turn profitable earlier than planned (see p. 42). Another topic to be mentioned here is that we recently

received orders worth about 1.1 billion yen for mobile plants for Ukraine, which continues to be at war with Russia, as ODA from Japan. We hope to contribute to the restoration of Ukraine through our AP and BP business as well. This is related to our vision of "Making the world a resilient and gentle place."

— The Group acquired Matsuda Kiko this July following the acquisition of Ube Kohki in March of 2022. What was the objective in purchasing two contract-based manufacturing companies, and what contributions do you expect from them in the medium to long term?

Many people feel contract-based manufacturing is subcontracting, but the products being manufactured under contract require high processing technology and experience to handle various materials and temperatures and to ensure accuracy.

It is necessary to broaden and improve the manufacturing technology in order to broaden the range of Nikko's products. The M&A this time was also to attain this goal and I am convinced that it will be a source of energy for us to grow as a manufacturer. We have been supplying improvement devices for manufacturing equipment to many companies. Among them, many are recycling equipment for waste generated in the production process at plants. Nikko has a track record of solving, with engineering, the demands from companies for stable treatment of the effluents and waste generated in the production process to achieve their zero emission goals. Nonetheless, we have not been able to develop this track record into a major business pillar. Going forward, I would like to make the environmentally friendly and recycling products as a pillar of our business.

Till now we have been manufacturing the environmentally friendly and recycling products at the head office factory, but it took a little longer to deliver them as regular products were given priority. This disrupted the process of regular products and was also disadvantageous from the profitability perspective as we sometimes could not manufacture them at a low price. The reasons for acquiring Ube Kohki and Matsuda Kiko are that they possess solid manufacturing capability and adaptability in contract-based manufacturing. With the two companies carrying out the manufacturing of the environmentally friendly and recycling products, we would like to grow it into a new pillar of Nikko Group's business.

I was involved in launching the business for environmentally friendly and recycling products. I remember that staff at the plant felt demotivated when they found the products they made based on orders from various companies were very unprofitable despite the amount of time and effort they spent. Now, contract-based manufacturing also has high profitability, but in those days we were trapped by stereotypical views,

for example, that you cannot win orders unless you offer manufacturing at low cost. There is also the social issue of business succession in the manufacturing industry, and I think

high-level contract-based manufacturing presents a business chance for the future.

◀ Session.3 Initiatives on sustainability transformation

— Sustainability transformation (SX), in which sustainability of the society and that of Nikko are synchronized so as to create values in the future, is gaining attention. We talked about the industry environment at the beginning. What are the challenges and risks in environment (E) and what kind of strategies are you considering?

Nikko and customers share the same challenges such as carbon neutrality and the 2024 problem. What is important in advancing SX from now on is to come up with countermeasures for common challenges and share a common schedule for implementing the measures. In addition to solving the challenges, it is important to develop a structure for cooperation to accomplish growth. In other words, the most important thing is to create an environment in which the market as a whole can work on solving them rather than doing it on our own or alone. To this end, it will be effective to involve the industries related to the market and we would like to take the lead in doing this.

Risks faced in decarbonization include the fact that APs emit 1.3 million tons of CO₂ a year. Road pavement companies are required to take measures for large-scale decarbonization, but they may not be able to do so in time if the industry as a whole does not take drastic measures.

Taking this as an opportunity, we are considering decarbonization measures as the most significant theme for our development investment, and we are allocating a large amount of management resources to the development of products that run on alternative fuels such as hydrogen and ammonia in addition to energy saving. In this field, warm mix (foamed) equipment among decarbonization-related devices has been contributing to sales. In the future, we should promote the launch of system products that can be significantly effective in decarbonization, on a regional basis rather than on a plant-by-plant basis. It is necessary to target multiple plants in each area for sales through associations, etc., and to this end, the regional divisions of the Japan Asphalt Mixture Association have been carrying out PR activities such as lectures on a regular basis (see p. 61).

— In society (S), Nikko has introduced a new personnel system along with three measures to strengthen human capital in April 2023. What kind of effect are you expecting from this in the future?

The new personnel system is designed to create a structure for young employees who will support Nikko in the future, and aims to make the company a more rewarding place to work than it is now. Employees have various values such as income, position, how interesting the job is, and how well their opinions are accepted. It may not be easy for this personnel system to raise the motivation of the employees as a whole, but it focuses on giving young employees hope in Nikko's future and is premised on the scrapping of the seniority system. My hope is that by implementing the new personnel system gradually and steadily, we will be able to increase the number of motivated employees, raise the motivation of the company and make it a corporate entity that can progress towards goals in the shortest possible distance.

In formulating the new personnel system, we paid attention to ensure that no one would have a feeling of unfairness. If we make it a system that gives special recognition to employees who tried hard, we would not be living up to our words. For



Strengthening of human capital is imperative for building the foundation for growth towards 2023 vision. With the new personnel system, we aim to become a corporate entity that can progress towards goals in the shortest possible distance

this reason, we decided to let the employees set six goals at the beginning of the fiscal year and then objectively give scores for the results. Setting the targets also is not something that should be forced on the employees. Our aim is to let them develop the targets through dialogues with their respective managers and have both employees and managers share not only short-term but also medium- to long-term perspectives. Managers must have five one-to-one meetings with employees and we are asking managers to spend half of their working time for this purpose. It is embarrassing that we lacked such a mechanism till now. While employees are evaluated based on scores, we make sure that managers use their discretion to a certain extent.

The new personnel system is designed so that its introduction will not significantly raise the personnel expenses for the Nikko Group as a whole. Strengthening of human capital is indispensable for the Nikko Group to enter the business expansion phase in the next medium-term plan and it also leads to achieving sustainability (see p. 69).

—In governance (G), the number of outside directors declined by one, and now they account for three out of the nine members of Board of Directors. What did you learn in terms of management in relation with the skill matrix of each outside director?

As the skill matrix indicates, we receive various management advices from the three outside directors, who also supervise the board of directors. Ms. Saeki, who manages a system company and is also guiding us on SDGs, pointed out that we need to set forth concrete numerical targets for female managers and executives. She also proposed expanding the scope to include not just young employees but up to division head level when hiring people with prior work experience. Ms. Saeki also suggested to turn one floor of the three-story bachelors' dormitory into a women-only floor when we built it last year and we adopted her proposal. With his experience of serving as the Ambassador Extraordinary and Plenipotentiary to Indonesia, Mr. Ishii is well versed in international affairs and we have been consulting with him for our expansion into the ASEAN region. He gives lectures once a month on overseas situations to employees, helping to raising their awareness. He also advised us to increase the opportunities for employees to experience and learn English conversation in places where it is spoken. Mr. Sadakari, who is experienced in management of financial institutions, is also an expert in financial matters and provides us comprehensive opinions based on figures from a third-party perspective. He studies materials in advance and gives in-depth views backed by figures, and we are learning from them. He has served as the representative director of a bank and knows various company managers, which also I consider as one of his strengths (see p. 76).

<< Session.4 Stakeholder engagement and improvement of corporate value

—Last year, the Group established its Corporate Identity (CI). What are the new initiatives you implemented in the past one year to instill it throughout the Company?

It has been one year since we established CI of Nikko Group. CI consists of values, spirit, and slogans for bridging "Update the social infrastructure by leveraging engineering that is one step ahead of others," which is Nikko's raison d'être and mission on a day-to-day basis, to its vision of "Making the world a resilient and gentle place." We have retained the three basic principles as long-standing values from the time of our founding. CI is not something that an employee representative decided from top down, but is something that emerged from the various discussions held by employees who had volunteered on their own, and was subsequently disseminated as message from Nikko Group to the society. While there have been no visible changes resulting from the establishment of CI till now, we produced a branding movie as one of the tools

to spread the philosophy and created a booklet of philosophy cards and distributed them to all employees including those at group companies. We also watch the movie at the end of the



Dialogue and engagement with employees enable us to take actions with confidence

I feel it is also necessary to improve external name recognition to improve corporate value. We will continue taking on various challenges

morning meeting held once a month.

In July this year, we started dialogue and engagement as a forum where I directly address the employees. I do not limit the topics there to CI and philosophy, and I exchange views with employees regarding various themes including job-related doubts and measures for improvement for one to two hours. Learn extensively, both from within and outside is one of CI spirit items, and I feel I too learn a lot from the dialogue with employees. If we take the dialogue I mentioned initially as an example, all of the entries were from young employees, five of them. Through this dialogue, I felt a high level of interest among young employees in the Medium-Term Management Plan. Young employees nowadays are more interested in management than when I was young, asking questions such as what the Nikko Group's key performance indicators (KPIs) are and what needs to be done by when. Our website has materials on the medium-term plan and employees have many opportunities to learn such information, which enables them to understand the gist of management.

From the dialogue, I am learning the points I can relate to among the opinions of the employees regarding the medium-term plan and the questions I have regarding them. I am thinking of leveraging the things I learn from this continued dialogue and engagement in management. It is also true that I used to be worried about how employees would react to the policies, as we had announced them top down till now. Now I can listen to employees' opinions directly, which is very effective for making management decisions, and I feel more confident in implementing something based on that (see p. 1).

—What do you think is necessary in the future for engagement with stakeholders other than employees? What roles are you going to play in this and what are your responsibilities?

For me to engage with stakeholders other than employees, I believe it is important to have them fully understand and empathize with the business of the Nikko Group. Public relations activities are also important and we need to highlight our activities more externally. I need to make efforts to increase contacts with customers in my role as top management of the company. We are increasing steady efforts, for example, to showcase our various initiatives by joining the Japan Road Contractors Association as a support member.

To improve our press releases and website, we are having employees come up with various opinions and ideas as to how to raise our name recognition, and have been driving forward new initiatives. One example of the ideas was the launch of a new game called Let's Protect Roads! in Gokko Land, a social experience app for children, in an effort to engage with future



generation. Gokko Land is a free app that enables children to learn how the society works interactively through playing pretend, which children love. There are about 5.5 million households using the app, which account for about a third of the child-rearing generation (see p. 57).

We have long been supporting roads through delivery of APs. The number of people engaged in the road pavement industry has declined because of its 3K—kitsui, kitana, and kiken (demanding, dirty, and dangerous) image. It is also difficult to gain the understanding of local residents for building a new AP, and I have been feeling the need for improving the image of the industry and correctly communicating the significance of APs to maintain the infrastructure. For this reason, we launched the game as we wish everyone including children to deepen their understanding of roads and feel familiar with APs. We are making an appeal to the future generation 20 years from now, with Japan facing social issues such as a decline in workforce and aging infrastructure.

I believe new initiatives like this aimed at improving name recognition in the society will become more and more relevant in order to think from the same perspective as our stakeholders and to raise our corporate value through engagement. My responsibility in these endeavors is to firmly instill in employees the Nikko Group's mission to "Update the social infrastructure by leveraging engineering that is one step ahead of others," and to complete within the current medium-term plan period the development of the foundation for growth towards "Making the world a resilient and gentle place," the future vision we want to achieve. In the next medium-term plan, we will link it to raising not just economic value but also social and environmental values (see p. 13).

We look forward to the continuous support from our stakeholders. We will continue to take on various challenges in our efforts to live up to their expectations.