Overview of Medium-Term Management Plan and its progress

Positioning of the internal investment phase towards realization of 2030 Vision

The Group positions the three-year Medium-Term Management Plan (FY 2022–FY 2024) as the internal investment phase for building structures, processes, and systems for realization of the 2030 Vision (consolidated net sales target of 60 billion yen and operating income target of 6 billion yen), which indicates what it aspires to be in 2023. It positions the subsequent period from 2025 to 2030 as the business expansion phase with improved profitability, in which the Group expects to succeed in full-fledged sales of environmentally friendly products for decarbonization, business expansion into the ASEAN region, actualizing the impact of introduction of technologies such as automation and remote operations, and review of production process. In 2030 Vision, the Group declares as targets 50 billion yen or more in market cap and 60% or higher in payout ratio in addition to other numerical targets.

(million yen)

	Previous Medium-Term Management Plan			New Medium-Term Management Plan				
	FY 2019 results	FY 2020 results	FY 2021 results	FY 2022 plan	FY 2022 results	FY 2023 plan	FY 2023 forecast	FY 2024 plan
Sales	35,151	37,866	38,846	42,000	39,665	48,000	44,000	50,000
Operating income	2,053	2,302	2,053	2,300	1,028	2,800	1,900	3,000
Net income attributable to owners of parent	1,588	2,082	1,649	1,600	1,020	1,900	1,200	2,100
Dividend per share (yen)	40	33	30	30	30	30	30	35
Total dividend	1,550	1,260	1,146	1,144	1,147	1,144	1,147	1,334
Dividend payout ratio	97.6%	60.5%	69.5%	71.5%	112.5%	60.2%	95.7%	63.5%
Net assets	30,293	31,451	32,050	32,506	31,604	33,262	31,657	34,028
ROE	5.2%	6.8%	5.2%	4.9%	3.2%	5.7%	3.8%	6.2%

Medium-term plan numerical targets by segment and progress

Asphalt Plant (AP)-Related Business: Aiming to improve operating margin

- Net sales target for FY 2024 of 23.0 billion yen and operating income target of 1.6 billion yen (operating margin target of 7.0%).
- We plan to restore operating margin to the 7% level through growth of environmentally friendly products and profit recovery at overseas subsidiaries.
- In FY 2022, both net sales and operating income fell significantly short of the plan.

Batcher Plant (BP)-Related Business: Expecting steady business performance

- Net sales target for FY 2024 of 10.8 billion yen and operating income target of 1.05 billion yen (operating margin target of 9.7%).
- We expect the prices in the market to remain high. We will maintain the market share and focus on growth investment such as development of decarbonization products.
- In FY 2022, net sales exceeded the plan, while operating income fell slightly short of it.

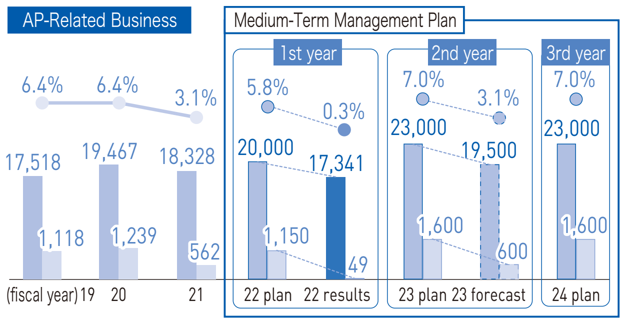
Environment- and Conveyor-Related Business: To maintain operating margin at 20% level

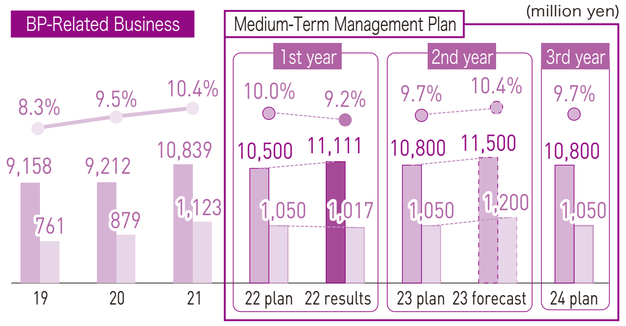
- Net sales target for FY 2024 of 2.7 billion yen and operating income target of 0.558 billion yen (operating margin target of 20.4%).
- We will prioritize securing high profitability even as we anticipate both sales and operating income to remain roughly unchanged.
- In FY 2022, both net sales and operating income exceeded the plan.

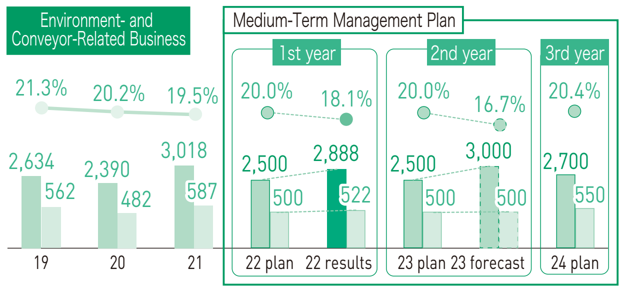
Other Related Business: Aiming to secure stable operating income

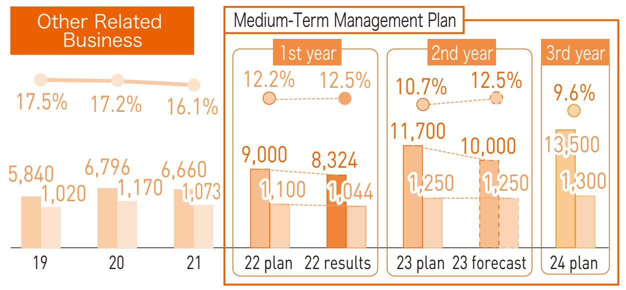
- Net sales target for FY 2024 of 13.5 billion yen and operating income target of 1.3 billion yen (operating margin target of 9.6%).
- We aim to secure stable operating income by absorbing the negative impact of the weaker yen with sales expansion.
- In FY 2022, both net sales and operating income fell short of the plan.

(million yen)









Net sales / Operating income / Operating margin

Progress in Medium-Term Management Plan and issues

The results for the initial fiscal year fell short of the plan because of the worsening external environment and the burden from active investment

For FY 2022, which is the first fiscal year of the Medium-Term Management Plan, consolidated net sales totaled 39.6 billion yen and operating income came to 1.0 billion yen (operating margin of 2.6%), falling short of the net sales target of 42.0 billion yen and operating income target of 2.3 billion yen (operating margin of 5.5%). By segment, the three business segments other than the AP-related business exceeded the plan in general, while the AP-related business significantly underperformed the plan. Nevertheless, the Group has been steadily implementing investment for growth by examining items that are necessary for achievement of the medium-term plan including increasing the number of employees by 26 from a year earlier to 1,064 as of the end of March (the medium-term plan calls for increasing the number of employees by 145 during the period), a 0.3 billion yen increase year on year in capital investment to 2.2 billion yen (the medium-term plan: 6.0 billion yen), and a 0.127 billion yen increase in R&D expenses to 0.576 billion yen (the medium-term plan: 2.53 billion yen).

Basic policy by segment in Medium-Term Management Plan

- The Group will make active investment in launch of new products and services for achieving the business structure reform set down by the 2030 Vision and for enhancement of the organizational capability required for that at each business.

	Basic policies	Key themes	Progress in FY 2022
AP in Japan	• Develop environmental products by leveraging the top manufacturer's development capability • Support customers' plant management as a solutions partner	• Support for decarbonization • Remote operations and automation support	○ ○
BP	• Implement comprehensive management of ready-mixed concrete plants • Develop products that satisfy the requirements for high quality of precast concrete	• Comprehensive management and plant support center • Mobile plants and environmentally friendly products	○ ○
Overseas AP	• Design and launch standard model products that are competitive also in overseas markets • Build an organizational structure for expansion in the ASEAN market	• Global standard machines • Expansion to the ASEAN region	△ △
Conveyors	• Realize short delivery time and low price through further modularization and offer convenience and efficiency that go beyond the boundaries of manufacturers, enabled by engineering conveyor lines • Improve online service and design structure to build the foundation for delivering new products and services	• Further modularization of portable conveyors • Offering of conveyor lines in package (full-fledged entry into the stringer conveyor market)	○ ○
Mobile plants (other business)	• Develop sales network, promote sales for rental business, promote the maintenance business • Promote sales of in-house developed products in Japan and abroad (study the needs of market and customer)	• Stabilization of the mobile plant business and strengthening of profitability • New product development, development of proposed products (-> To achieve a 50% market share and No.1 sales share in FY 2024)	○ ○

Progress by segment and issues

Asphalt Plant-Related Business in Japan

- Establishment of technologies for decarbonization, remote operation, and automation
- Provision of more support to plant operations at customers

Issue: Stagnation of capital investment at customers due to worsening business environment

(1) Support for decarbonization

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Development of low-carbon mixture manufacturing system	• Warm mix (foamed) equipment FY 2022 orders 40 units Sales 19 units FY 2023 estimate Orders 64 units Sales 55 units
Development of combustion technology for decarbonized fuels 	• Hydrogen burner Developed hydrogen burner for AP jointly with Tokyo Gas Co., Ltd. (100% hydrogen-fired; mixed-combustion with city gas is possible) In April 2023, we manufactured asphalt mixture at Maeda Road Construction Co., Ltd. and paved a road on a trial basis. • Ammonia burner Carried out in-house combustion test of LNG and ammonia
Offered biomass and gas combustion technology	• Developed biomass burner that uses rice hulls. We are in business negotiations for applications other than for AP, such as pulverized coal

(2) Remote operations and automation support

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Offering of partially remote shipping system	• Remote shipment from silos From April 1 to 3, we carried out necessary work at a user and started demonstration experiment for remote shipment.
Development of remote operations and automation technologies	• In the process of developing technology that leads to remote operation and automation from the aspects of both mechanical and control equipment
Accumulation of plant operation data based on expansion of the number of maintenance subscription contracts	• Concluded five contracts More proposals underway

Concrete Plant (BP)-Related Business

- Carrying out comprehensive management of ready-mixed concrete plants and product development to meet high quality expectations for precast concrete
- Aim to become the top manufacturer, which is also environmentally friendly

(3) Comprehensive management system and plant support center

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Promotion of plant standardization through deployment of in-house developed control panels and accumulation of customer plant operation information	• Promoted capturing other companies' shares as we expand sales of in-house developed control panels. (to improve market share) FY 2022 delivery share: 42% Working on manufacture of ready-mixed concrete with higher quality through visualization of plant using mobile equipment by collecting plant big data and enhancing facility ledger function as well as through demonstration experiment of comprehensive plant management and linkage with other systems
Introduction of customer plant operation support service	• Started working on plant maintenance that utilizes a prototype image processor and various sensors for predictive and preemptive maintenance from the perspectives of both infrastructure and services developed under the theme of DX plant management

(4) Enhancement of mobile plants and environmentally friendly products

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Deployment of mobile plants in areas that became unreachable due to the consolidation of plants	• Delivered a plant to a precast concrete user for a project We are receiving inquiries for disaster recovery and for special concrete demand
Product development and deployment in response to customers' environmental needs such as CO_2 emissions reduction	• Participated in a GI Fund project to develop manufacturing technology for concrete, etc. using CO_2 and received an order for demonstration plant Delivered an Eco Tankaru manufacturing facility to a precast concrete user. Continuing to receive inquiries.

Overseas Asphalt Plant (AP)-Related Business

- Build an organizational structure for expansion in the ASEAN market (Early takeoff of the Thailand production base and building a sales structure in Indonesia and Vietnam)
- Development of global standard products

Issue: Delay in making the Thailand business profitable

(5) Expansion to the ASEAN region

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Entry into the Indonesian and Vietnamese markets	• Singed an agent agreement with a construction machinery dealer in Vietnam • To monitor the local demand and then decide on such agreements in Indonesia
Enhancement of production capacity in Thailand to cover the entire area of ASEAN	• Making active capital investment at the Thai plant Plan to increase the scope of products manufactured in Thailand from **current** Nikko:NIC* = 8:2 to 2:8 from the products to be shipped in FY 2023
Building collaboration structures with local sales agents	• Discussed a system that generates synergies with the Thai agent • Promoted plant education at the Vietnamese agent

(6) Development of global standard plant

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Launch of a marketing team for grasping the needs of each country	• Established ASEAN Business Strategy Office to comprehensively discuss the ASEAN business and accelerate the implementation of numerous measures we need to drive forward
Designing of a standard plant with price competitiveness that corresponds to the needs of the overseas markets including introduction of locally purchased supplies	• Finalized the concept We aim to complete it by the end of FY 2023. Also, we plan to expand the scope of local procurement in Thailand from current Nikko:NIC = 8:2 to 2:8 from the products to be shipped in FY 2023

*NIC: Nikko NilKhosol (a local manufacturing subsidiary in Thailand)

Mobile Plants (Other Business): Aim for 50% market share by sales units in FY 2024

- Aim to stabilize the business and reinforce profitability
- Strengthen development of new products and proposal-based products

(7) Stabilization of business

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Building sales network, establish and promote rental business	• Continuing with the activities to increase the number of new sales agents in addition to the Mobile Plant Subcommittee (12 companies) of the Nikko Dealers' Association to build a structure of 66 sales agents in Japan from FY 2019 to FY 2022 and further add new sales agents • Established a sales structure with eight sales companies belonging to crusher construction machinery manufacturers that do not have mobile machines
Promotion of maintenance business	• Increased the number of employees engaged in maintenance from five to eight Net sales of maintenance increased 103% compared with FY 2021 due to an increase in the number of units in the market

(8) In-house development of products and development of proposal-based products

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Research of market and customer needs	• Continue to work to increase the variations and sales of new products and other products we offer
Promotion of sales in Japan and overseas through the development of in-house products	• Delivery to users with strong influence over industries such as crushing, mining, steel, and AP recycling increased • ODA orders for Ukraine (orders for three units and sales of two units) • Publishing articles and ads in industry newspapers
Creation of new hit products	• Development of an improved version of mobile soil improver Mobix and its launch in FY 2023

STRATEGY FOR VALUE CREATION

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