BP-Related Business

In the steady market environment, we will emphasize on increasing market share and improving profitability by leveraging differentiating technologies and aim to become an environmentally friendly top manufacturer

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FY 2022 key points

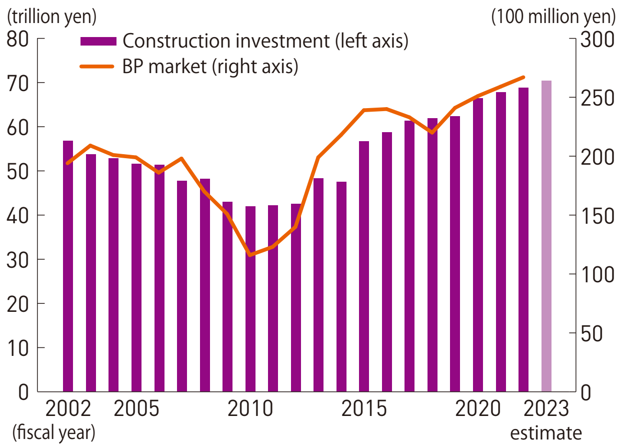
- The ready-mixed concrete price index, which is a leading indicator of the business environment, is showing a rising trend and the market is set to further rise in 2023.
- For FY 2022, the business posted an increase in net sales while its operating income declined due to the impact of unprofitable temporary projects. For FY 2023, we expect increased sales and double-digit growth in operating income.
- Ready-mixed concrete shipped in FY 2022 declined 2.2% from a year earlier to 7,445 m³, while net sales of maintenance services increased 4.8% from a year earlier.
- We are maintaining the medium-term plan of 10.8 billion yen in net sales, 1.05 billion yen in operating income, and 9.7% in operating margin for FY 2024, but as per our forecasts for FY 2023, we will achieve the above targets one year earlier than planned.
- Our static share in the BP market for FY 2022 reached a record 33%, rising 3.4 pp in the past five years.
- We are also strengthening external sales of Nikko-manufactured control panels, and we secured 43% in the dynamic share for control panels in FY 2022.
- We participated in a GI Fund project to develop manufacturing technology for concrete, etc. using CO_2 and received an order for demonstration plant.
- We delivered mobile plants to users of precast concrete, which requires high quality performance.

Trend in construction investment and BP demand

Having declined to 42 trillion yen in FY 2010, construction demand subsequently continued on a recovery trend and is expected to have reached 68.79 trillion yen in FY 2022. In addition to steady private construction investment, we are expecting moves related to the Five-Year Acceleration Measures for Disaster Prevention and Mitigation and National Resilience in the future. Tokyo has already launched the Tokyo Resilience Project, in which it plans to invest 6 trillion yen over 10 years from 2023.

Since FY 2018, ready-mix concrete shipments have declined for four consecutive years and were 74.45 million m³ in FY 2022. It is expected to decline again in FY 2023 to around 72 million m³. Nevertheless, the market for concrete plant (BP) is closely linked to construction investment and the market continues to be steady also buoyed by expansion in business at ready-mixed concrete manufacturers. Along with the consolidation of ready-mixed concrete plants, there are signs of demand for larger plants and increase in unit price (about 15% increase compared to three years earlier).

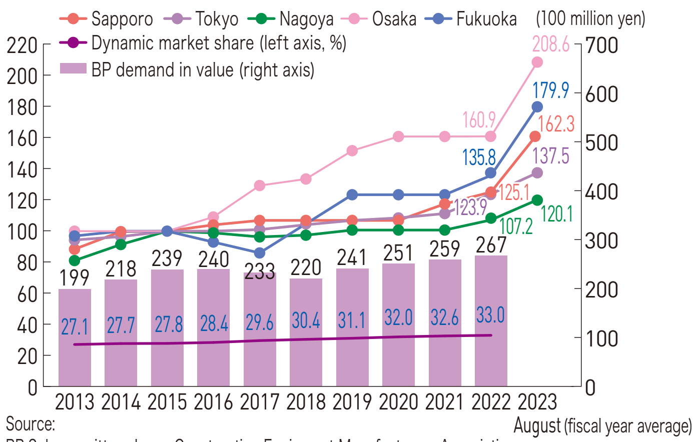
Trend in construction investment and BP demand



Trend in leading indicator (ready-mixed concrete price)

Prices of cement and aggregates, which are ready-mixed concrete raw materials, began rising around year 2000 and ready-mixed concrete manufacturers, who are customers of Nikko Group, have also made efforts to raise selling price of ready-mixed concrete to their clients. Osaka saw the largest increase in the price: price index, with FY 2015 set as 100, grew to 160.9 in FY 2022 and 208.6 in August 2023. Similarly in Tokyo, the index rose to 123.9 in FY 2022 and 137.5 in August 2023. The index showed rapid growth in all regions especially in 2023. The recent rise in ready-mixed concrete appears to be spreading throughout the country. (Source: Construction material price index by Economic Research Association)Ready-mixed concrete manufacturers appear to be performing strongly on the back of rising ready-mixed concrete price, and they continue to have steady appetite for capital investment. In addition to emerging demand for replacement, demand is expected to spread in the future to plant operation support services and other areas.

Ready-mixed concrete price index by city (FY 2015 = 100)



Source:
BP Subcommittee, Japan Construction Equipment Manufacturers Association
Economic Research Association

SWOT analysis	Details	Countermeasures by Nikko
Strength	The top market share in the Japanese market	Offering differentiating products that cannot be found at other companies such as predictive maintenance in addition to high-quality plants and equipment
	Solid in-house maintenance service structure and offering products that integrates machinery and electronics	
Weakness	Relatively high fixed cost ratio	Continuous price revision and strategy to increase maintenance revenue
Opptunity	Advancement in use of precast concrete for building components	Product development that satisfies high-level demands
	Needs of CO_2 absorbing concrete	Product development addressing customers' environmental needs and social implementation
	Increase in market share	Strengthening of external sales of Nikko-manufactured control panels and proposal of solutions
Threath	Decline in the number of ready-mixed concrete plants in operation	Strengthening of mobile plant sales
	Price war with rival companies	Provision of differentiated products and services

PEST analysis	Details	Countermeasures by Nikko
Politices	Risk of changes in public investment policy due to change of government	Expansion of market share and capturing of maintenance demand
	Re-evaluation of concrete for CO_2 absorption	Joint development with customers, etc.
Economy	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 operators at customers
	Soaring prices and difficulties in purchasing various materials and equipment	Revision of product prices
Society	Promotion of workstyle reform at customers	Strengthening of plant operation support service, etc.
Technology	Improvement of strength and diversification of concrete products	Development of next-generation mixers

Business overview	Details
Products	Concrete plants, etc.
Customers	Ready-mixed concrete manufacturers, construction companies, etc.
Market share	Static share in Japan: 33%
Sales composition and breakdown by region	28% of overall sales (Japan: 99%, China: 1%)
Operating margin	10.4%
Ratio of MS net sales	39.9%
Production bases	Akashi head office factory and Shanghai, China

MS: maintenance service

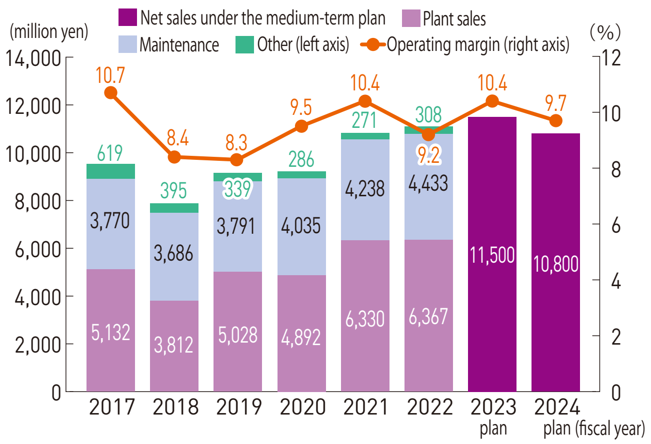
Values to be realized

- We will ensure the stable supply of high quality products that meet the standards of not only JIS standard-concrete but also special precast concrete and CO_2 absorbing concrete.
- We will offer highly efficient maintenance services that improve customers' profits through provision of predictive and preemptive maintenance services as well as stable operation support services for customer plants, which address workstyle reform and manpower shortage in the construction industry.

Source of strength

- We develop and manufacture control technology and control panels in-house, which are the brains behind plant facilities, and we have a track record of supplying more than 4,000 such units including AP products in Japan and abroad. It enables optimum operation and preventative maintenance based on various data analysis in addition to the remote monitoring and operation of ready-mixed concrete plants.
- Nikko is the only manufacturer that has high ability to propose technology and can offer from construction through maintenance as a package in addition to solid sales structure and customer base. We have established a customer support system that can promptly respond to electrical as well as mechanical problems.

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



Future business opportunities

Shipment of ready-mixed concrete is showing a declining trend as steel frame construction is increasingly adopted for buildings and more precast concrete manufactured at plants is used in place of ready-mixed concrete in order to shorten the construction period. Accordingly, the number of ready-mixed concrete plants in Japan has fallen by 395 in 10 years, from 3,456 locations in FY 2012 to 3,061 locations in FY 2022. However, demand for new BP increased in the same period from 55 to 71 units, and unit price also rose from 250 million yen to 380 million yen. The growing size of plants due to consolidation, an increase in the number of attached equipment, and the impact of product price increase are considered to be behind this trend. The need for plant operation support is expected to grow, reflecting the shortage of operators and the adoption of workstyle reform, on top of the expected demand for around 70 units per year mainly due to replacement demand.

Medium-Term Management Plan implementation strategy

We will strengthen customer plant operation support service including predictive maintenance as well as standardization of plants by accumulating and analyzing various operation-related information of customer plants. We will also aim to further increase the market share by capturing new demand resulting from consolidation of ready-mixed concrete plants. 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. Further, we will also strengthen the sales of plants for high quality precast concrete building components. The key to quality of precast concrete is the performance of the mixer. We will expand the sales of mobile concrete plants for precast concrete while strengthening the development of mixers.

FY 2022 results		FY 2023 forecast		FY 2024 numerical targets	
Net sales	11.1 billion yen	Net sales	11.5 billion yen	Net sales	10.8 billion yen
Operating income	1.0 billion yen	Operating income	1.2 billion yen	Operating income	1.05 billion yen
Operating margin	9.2%	Operating margin	10.4%	Operating margin	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