Our response to carbon neutrality is important in our sales strategy toward 2030.

Senior Managing Director and General Manager of Sales Division

Tomomi Nakayama

Q What are the successes you have had in your FY 2023 sales strategy and the initiatives that you are focusing on in FY 2024?

The KPIs based on the current medium-term plan fully got on track only from FY 2024. Among these KPIs, we were able to achieve a major target of 3.0 billion in mobile plant sales in FY 2023. This is an achievement of the sales strategy that is worthy of special mention. In FY 2024, we are planning to further strengthen the sales of mobile plants. Specifically, in addition to mobile crushers, we plan to introduce our proprietary machine (mobile soil improvement machine). We have strengths in mixing and kneading technology using mixers, and we believe we can differentiate ourselves from the competition with this. Our estimate is that there is demand for about 100 mobile soil improvement machines in Japan, and to begin with, we are aiming to sell 10 units for about 0.5 billion yen in net sales.

Q What are the key points of the Nikko Group's sales strategy in terms of its relationship with management plans (medium-term plan and long-term vision)?

FY 2024 is the final fiscal year of the current medium-term plan. Under the original plan, the premise was that the existing businesses (AP, BP, and maintenance service) will shrink, and we will achieve growth under this situation. However, the biggest challenge is restoring profitability, and the structural reforms for that is important. In the first and second years of the medium-term plan, there were some areas where we did not achieve the targets, but we are going according to plan currently in our third year. In particular, the progress in structural reforms and profitability improvement are the major successes that would lead to the next medium-term plan.

For example, gross profit margin was about 20% in the maintenance service business for 2018–2019, but now we are in a position to aim for around 30%. This has been the result of raising maintenance charges as needed and visualizing unseen costs such as the working hours of sales personnel. The progress made in sharing of information has led to effective use of resources.

In connection with sales strategy, the technological response to carbon neutrality (CN) is a major point. Our CN technology has been rated highly, and the benefits of trading with Nikko became clear to our customers. Especially, showcasing our CN-related initiatives to customers at the Nikko Messe exhibition held in 2022 was successful. For Nikko Messe 2025, we are thinking of promoting a machine based on the concept of CN plus labor saving to the customers.

Q What are the features of overseas sales strategy, and also what are Nikko's advantages here and future plans?

Ratio of net sales outside Japan is expected to be about 12.5% in FY 2024. We are focusing on the ASEAN region and have cited the business expansion in Thailand as an important task in our medium-term plan. As a result, we were able to achieve the No. 1 share (Nikko study) based on orders in 2023. Further, demand for recycling plants (RP) also emerged at an early stage, which has been gathering pace since the end of 2023. In Thailand, companies that do not have RP cannot participate in bidding for recycled materials, and therefore we are expecting rapid growth in demand. Currently, RP is at the formative stage in Thailand, and its penetration rate is below 5%, and further growth is expected.

As part of our Thai market strategy, we started looking for a local agent in 2018. Initially, we narrowed down our focus to construction machinery agencies, but it was difficult to explore such agencies in part because the AP business was small in size. So, ultimately, we concluded an agency agreement with a major asphalt company in Thailand. Going forward, we intend to nurture local staff in order to further strengthen the expansion in the Thai market. We are also looking at expansion into the Vietnamese market from our Thailand subsidiary. There will be competition with Chinese and South Korean companies in the Vietnamese market, so we will allot marketing resources upon expanding. While there are high expectations on Japanese products, Nikko's products are not that well-known. It is difficult to corner all AP markets, so it is necessary to proceed by narrowing down the target.

Regarding conveyor-related business, establishing a foothold in the ASEAN region is one of the goals of the medium-term plan. We believe there is large room for growth, and we will initially expand to Thailand and Indonesia. For human resources, we will initially have to dispatch staff (with language skills) from Japan and subsequently secure local staff.

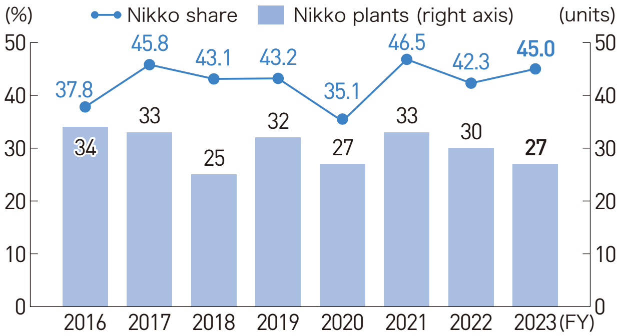
Q What kind of challenges do you see in sales? Also, in the domestic AP business, from the maintenance service perspective, there were some low profitability projects of plants alone so far. What is the current situation regarding such projects and what is the future outlook?

The biggest challenge in sales is labor management. Many of our sales personnel are quite friendly with the customers, but on the other hand, we are in need of workstyle reforms. Customers' requests for urgent responses go directly to the sales personnel with an increasing number of requests coming in outside of work hours. So, customers will also need to change their awareness in the future.

As for the margins on plants alone, the price adjustments have started showing results, especially in BP. In recent years, dynamic share of BP also has risen to around 45%. There was only one project in AP with a significant loss in this medium-term plan, which was an order carried forward from the previous medium-term plan.

AP's gross profit margin used to hover in the 5 to 10% range continuously, but recently, it has begun exceeding 10% on average. In particular, control equipment and burner replacement sometimes have very high margins. Recently, there have been times when we do not give approval for AP order intake with low gross profit margins. Differentiating products is indispensable for increasing gross profit margins. Toward that end, we have to prepare materials so that sales personnel can properly explain to the customers the difference such as safety standards and presence of cover attached to plant. The situation continues to be tough in terms of gross profit margin in our overseas AP business. We have, however, introduced a new model for overseas (only one model at present). We plan to add another model within FY 2024. We also plan to roll out an RP model built with overseas specifications in the future.

◆ **Trend in BP dynamic share**



Q What will be the important "input" items (management capital) in sales strategy with respect to what Nikko aspires to be in 2030? What contributions do you expect from sales? Also, what will be your own role and contribution?

Response to CN is quite a major element in the sales strategy toward 2030. Therefore, allotting management capital to that will be an important point also in the next medium-term plan. We are aiming for net sales of 70.0 billion yen in 2030 and that calls for not only growing the individual businesses going forward but also the Nikko Group as a whole to grow its business while streamlining management capital. For example, Ube Kohki in the contract-based manufacturing business currently has low management capital in sales, but this can be supplemented with Nikko's resources. Creating such growth opportunities has a higher priority in sales strategy.

My role is to effectively distribute the resources under the sales division and allot them appropriately to areas where there is room for growth. This is not limited to human resources but calls for a comprehensive approach including overseas marketing strategy and information capability. In existing fields, it is necessary to further bolster the relationships with customers. In particular, customers have a keen interest in CN-related information, and we hope to work together with them to solve social issues. For example, our collaboration with Nippon Concrete Industries in CO_2 capturing system has borne fruit, and it has succeeded as a business. Increasing the number of such successful cases is also one of my crucial responsibilities.