FY 2023 Business Summary and FY 2024 Outlook

FY 2023 Construction investment overview

Labor shortage grows as steady construction investment continues

Domestic construction investment (nominal value) in FY 2023 is expected to increase 3.7% year on year to 71.9 trillion yen, 14.1% higher than the construction investment amount of 62.328 trillion yen in FY 2019 before the COVID-19 pandemic. Breakdown of the investment shows that private construction investment, which accounts for 65% of the investment, is expected to increase 9.0% year on year to 45.82 trillion yen, while government investment, which accounts for the remaining 35%, is expected to decrease 3.2% to 25.27 trillion yen. Construction investment in FY 2024 is expected to increase 2.7% year on year to 73.02 trillion yen. While private construction investment is expected to remain steady at 2.2% increase year on year, government investment is expected to increase 3.7% year on year to 26.21 trillion yen. While such steady construction investment is expected, the number of people engaged in the construction industry is on the decline. The number of people engaged in 2023 is unchanged from the previous year at 4.83 million, but is 3.3% lower than in 2019. In addition, the percentage of people engaged aged 55 and over reached 36.6%, much higher than the 31.9% average for all industries. In the future, the need for automation and labor saving in the construction industry is expected to expand.

Business performance in FY 2023

Significant income growth was achieved, but fell short of interim plan numerical targets.

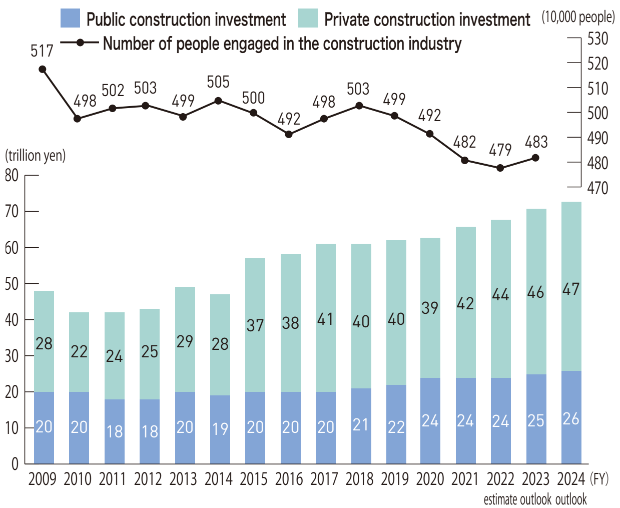
For FY2023 performance, order intake increased 19.3% year on year to 48,749 million yen, and net sales increased 11.2% year on year to 44,097 million yen. The BB ratio, calculated by dividing order intake by sales, improved to 1.11 times (1.03 times in the previous fiscal year), and the order backlog at the end of FY2023 reached 22,371 million yen (monthly sales of 6.1 months), up 4,715 million yen year on year. Operating income increased 91.4% year on year to 1,968 million yen (operating margin 4.5%, up 1.9 points year on year) due to the effect of increased revenue as well as the effect of improved cost rates, including product price revisions, which absorbed increases in various expenses. Ordinary income increased 70.8% year on year to 2,144 million yen, and net income attributable to owners of parent increased 28.6% year on year to 1,312 million yen due to a decrease in gains on sales of investment securities, etc. ROE improved by 0.9 pt to 4.1%. In FY 2023, the second year of the medium-term management plan, we implemented growth investments including human resource investments, strengthening internal functions, and M&A. However, the deterioration of the external environment for the AP-related business had an impact, and we fell short of our medium-term plan targets of 48 billion yen in net sales and 2.6 billion yen in operating income.

Business overview by segment

Pending AP-related business performance shows stronger recovery trend.

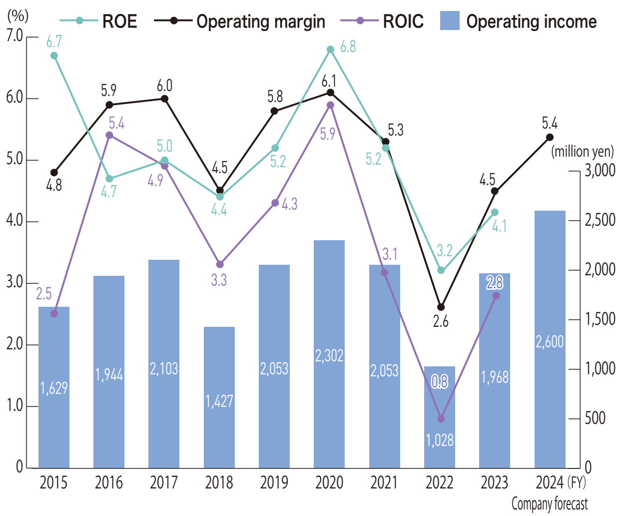
In FY2023, net sales in the AP-related business increased 3.4% year on year to 17,938 million yen, and operating income increased 575.5% year on year to 331 million yen (operating margin of 1.8%), as the effect of increased revenue etc. absorbed losses in overseas businesses. In the BP-related business, net sales increased 7.2% year on year to 11,907 million yen, and operating income increased 31.9% to 1,341 million yen (11.3% year on year), thanks to the effect of increased revenue and product price increases. In the environment and conveyance-related business, net sales increased 14.6% year on year to 3,309 million yen, and operating income increased 51.9% year on year to 793 million yen (24.0% increase) due to the effect of increased revenue. In the crusher-related business, net sales increased 44.2% year on year to 3,198 million yen and operating income increased 56.6% year on year to 274 million yen (8.6% increase). In the contract-based manufacturing related business, net sales increased 38.6% year on year to 3,072 million yen due to the incorporation of Matsuda Kiko into the group, and operating income increased 73.0% year on year to 270 million yen (8.8% increase). In other businesses, net sales increased 20.0% year on year to 4,670 million yen and operating income increased 8.2% year on year to 769 million yen.

● Amount of construction investment and number of people engaged in the construction industry

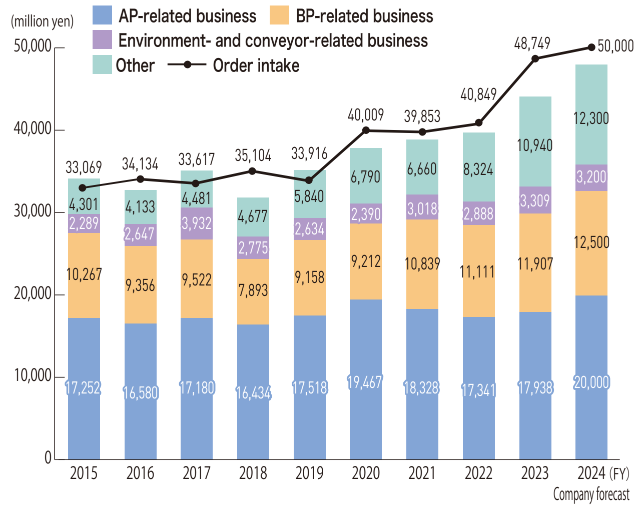


Note: The number of people engaged in the industry is on a calendar year basis and its source is the Construction Handbook.

● Operating income and margin, ROE, and ROIC



● Net sales by segment and consolidated order intake



Analysis of Changes in Ordinary Income

Absorbed the burden of investment in human resources and ensured increased income.

Ordinary income for FY2023 increased 889 million yen year on year to 2,144 million yen. The items that contributed to the increase in income were the increase in net sales (+4,432 million yen) of 1,153 million yen, the improvement in cost rate excluding labor costs of 976 million yen, and other non-operating income of 48 million yen. On the other hand, items that reduced incomes were personnel expenses of 763 million yen due to active investment in human resources, business combination expenses of 138 million yen (selling and administrative expenses of Matsuda Kiko, expenses related to stock acquisition), travel, transportation and entertainment expenses of 131 million yen, other selling and administrative expenses of 129 million yen, damage compensation expenses of 101 million yen, and R&D expenses of 26 million yen.
Ordinary income for FY2024 is expected to increase 456 million yen year on year to 2.6 billion yen. While the increase in income item is the 1,175 million yen of the effect of increased net sales (+3,903 million yen), the decrease in income item is the intended increase in personnel expenses of 580 million yen, business combinations of 66 million yen (reflecting Nishi-nihon Fudohsan in the statement of income), R&D expenses of 47 million yen, and other selling and administrative expenses and non-operating expenses of 26 million yen.

Financial conditions

Equity ratio fell to 53.1%.

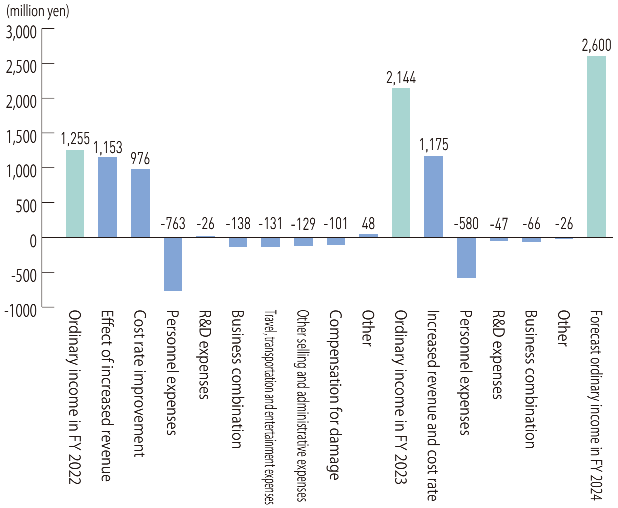
Total assets at the end of FY2023 increased 10,102 million yen year on year to 62,229 million yen.
Current assets increased 7.31 billion yen year on year to 41.033 billion yen, and non-current assets increased 2.792 billion yen to 21.196 billion yen. Main items that increased include cash and cash equivalents increased by 5.234 billion yen year on year to 15.551 billion yen, accounts receivable increased by 2.33 billion yen year on year to 8.975 billion yen, property, plant and equipment increased by 1.408 billion yen year on year to 13.247 billion yen, and investments and other assets increased by 1.2 billion yen year on year to 6.74 billion yen.
On the other hand, current liabilities increased 6.405 billion yen year on year to 21.743 billion yen, and non-current liabilities increased 2.215 billion yen year on year to 7.399 billion yen. Main items include short-term borrowings increased by 2.854 billion yen year on year to 6.166 billion yen, and long-term borrowings increased by 2.101 billion yen year on year to 4.55 billion yen. Net assets increased 1.482 billion yen year on year to 33.086 billion yen, and shareholders' equity, which is net assets minus non-controlling interests of 57 million yen, was 33.028 billion yen, the equity ratio fell 7.6 pt to 53.1%.

Cash flows

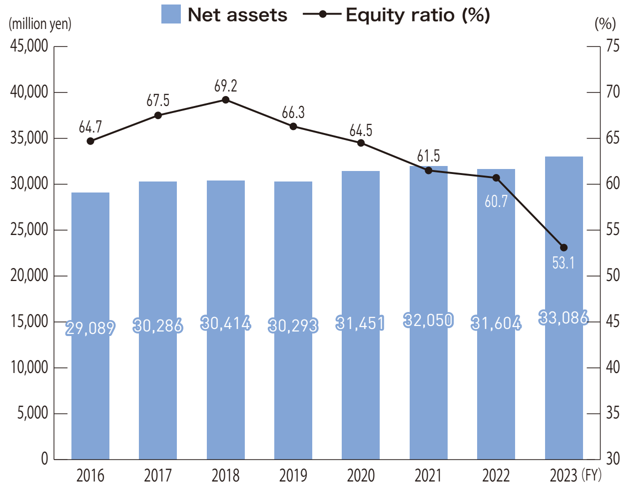
Free cash flow turned positive.

Cash flows from operating activities turned from an expenditure of 1.644 billion yen in the previous fiscal year to an inflow of 4.332 billion yen. Major inflows include 2.231 billion yen in net income before income taxes, 998 million yen in depreciation and amortization, and 844 million yen in increased contract liabilities. On the other hand, main expenditures include an increase of 1.77 billion yen in notes and accounts receivable-trade and an increase of 281 million yen in notes and accounts payable-trade. Cash flows from investing activities amounted to an expenditure of 2.333 billion yen, compared to an expenditure of 1.226 billion yen in the previous fiscal year. As a result, free cash flow (FCF) was 1.999 billion yen. Cash used in financing activities totaled 3.185 billion yen. An increase in short-term loans payable of 2.081 billion yen and proceeds from long-term loans payable of 3.74 billion yen were offset by repayment of long-term loans payable of 1.488 billion yen, cash dividends paid of 1.149 billion yen, etc. Cash and cash equivalents at the end of the fiscal year amounted to 15.504 billion yen.

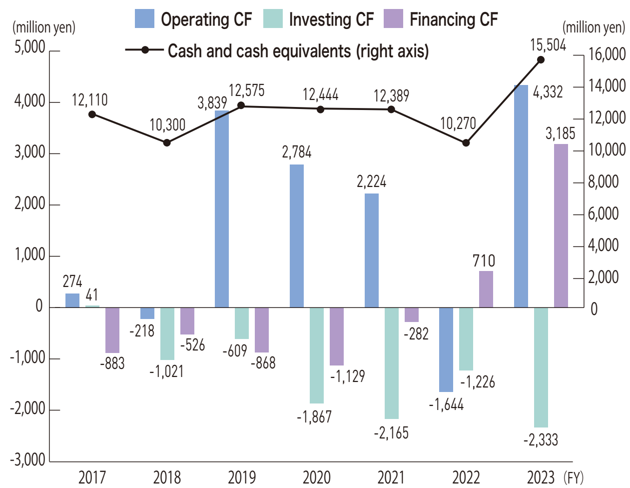
● Analysis of Changes in Management Income



● Net assets and equity ratio



● Cash flow and cash and cash equivalents

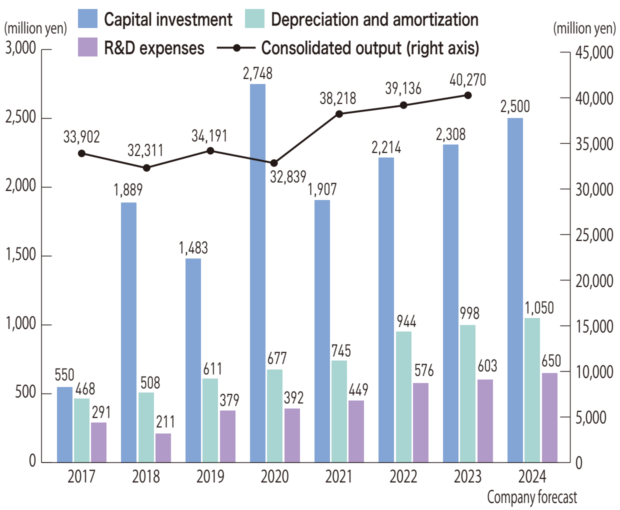


Trends in capital investment, depreciation and amortization, R&D expenses

High level of capital investment

Capital investment for FY2023 was 2.308 billion yen, depreciation and amortization was 998 million yen, and the capital investment ratio to net sales was 5.2%. R&D expenses amounted to 603 million yen, and the ratio of R&D expenses to net sales was 1.4%. Major capital investment projects include 891 million yen for construction of buildings for lease in other businesses, 284 million yen for a new factory construction in crusher-related business, and 239 million yen for a new factory and machinery in AP and BP-related businesses. Major R&D projects include the development of global strategic models for the overseas ASEAN market in the AP-related business, improved models of asphalt foamed equipment, combustion equipment for decarbonized fuels, and a self-propelled soil improvement machine (MOBIX-ECO) in the crusher-related business. For FY2024, capital investment is planned at 2.5 billion yen, depreciation and amortization at 1.05 billion yen, and R&D expenses at 650 million yen. In the current medium-term plan, we plan to make capital investments of 6 billion yen and R&D expenses of 2.53 billion yen over a three-year period. Over the past two years, we have made cumulative capital investments of 4.52 billion yen and R&D expenses of 1.18 billion yen.

● Trends in capital investment, depreciation and amortization, and consolidated output

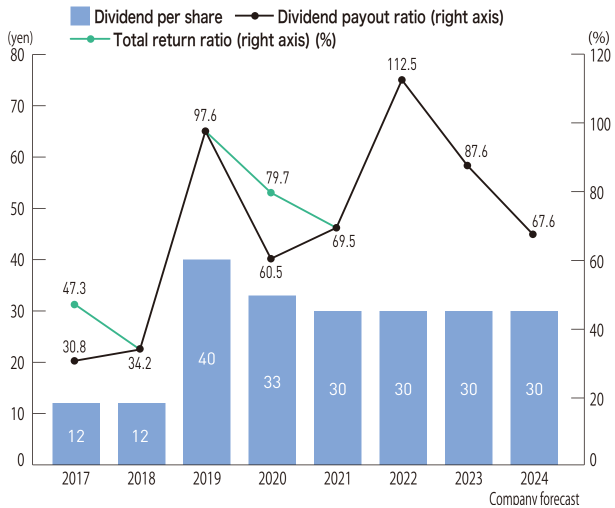


Shareholder returns

Shareholder returns in excess of pledged dividend payout ratio

The Company has committed to a dividend payout ratio of 60% or more. The dividend per share for FY2023 was 30 yen, the same amount as the previous year (year-end dividend yield of 3.9%), and the dividend payout ratio was 87.6%. Although we have not set a target dividend on equity ratio (DOE), the actual DOE for FY2023, calculated by multiplying ROE of 4.1% by the dividend payout ratio of 87.6%, was 3.6%, ensuring the same level as in FY2023. As a result, TSR (Total Shareholder Return) over the past year was +25.6%, and over the past two years +36.1%, achieving good stock performance over the past two years of weak performance. The forecast dividend per share for FY2024 is 30 yen, the same as the previous year. In FY2024, net income attributable to owners of parent is expected to increase 29.6% year on year to 1.7 billion yen, and the dividend payout ratio is expected to fall to 67.6% as business performance recovers, but it is still expected to exceed the pledged dividend payout ratio.

● Dividend per share, dividend payout ratio, total return ratio



FY 2024 performance outlook

Significant income growth expected in FY2024

For FY 2024 (ending March 31, 2025), we expect order intake to increase 2.6% year on year to 50 billion yen, net sales to increase 8.9% year on year to a record high of 48 billion yen, operating income to increase 32.1% year on year to 2.6 billion yen (operating margin 5.4%, 0.9 points year on year), ordinary income to increase 21.3% year on year to 2.6 billion yen, and net income attributable to owners of parent to increase 29.6% year to year to 1.7 billion yen. The environment and transportation-related business is expected to decrease sales and operating income due to the completion of a large project for the Osaka Expo, but the AP-related business is expected to turn profitable, and the BP-related business and other businesses are also expected to ensure an increase in incomes, resulting in a significant turnaround in incomes. The full-year forecast operating income of 2.6 billion yen exceeds the operating income of 2.3 billion yen for FY2020 before the spread of COVID-19, and will be the second-highest income level ever recorded after the record operating income of 2.7 billion yen recorded in the fiscal year ended November 1990. For the first half of the year, net sales are expected to increase 35.4% year on year to 23 billion yen, and operating income is expected to increase 383.1% year-on-year to 1.3 billion yen (5.7%), and for the second half of the year, net sales are expected to decrease 7.8% year-on-year to 25 billion yen, and operating income is expected to decrease 23.5% year-on-year to 1.3 billion yen (5.2%).

● Performance Forecast

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024 (forecast)
Order intake (million yen)	40,009	39,853	40,849	48,749	50,000
Net sales (million yen)	37,866	38,846	39,665	44,097	48,000
Operating income (million yen)	2,302	2,053	1,028	1,968	2,600
(Operating margin)	6.1%	5.3%	2.6%	4.5%	5.4%
Ordinary income (million yen)	2,973	2,274	1,255	2,144	2,600
Net income attributable to owners of parent (million yen)	2,082	1,649	1,020	1,312	1,700
Net income per share (yen)	54.31	43.16	26.67	34.25	44.37
ROE	6.8%	5.2%	3.2%	4.1%	—
Order backlog (million yen)	14,361	16,490	17,656	22,367	24,371

*Record net sales of 44 billion yen (FY2023), record operating income of 2.7 billion yen (FY1990)
*Record ROE of 6.8% (FY2020)