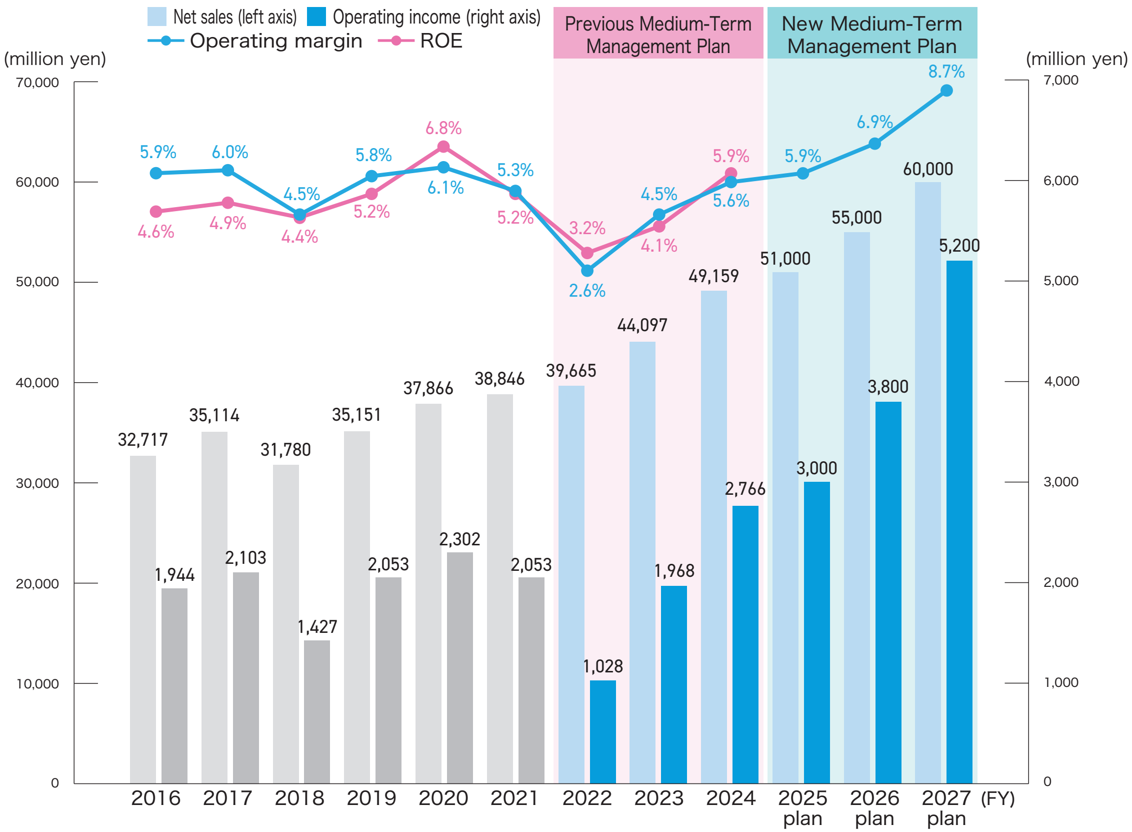
Medium-Term Management Plan

Outcomes of the 2022—2024 Medium-Term Management Plan and Challenges

We defined the 2022—2024 Medium-Term Management Plan as the internal investment phase to complete as we move toward the 2030 Vision. The plan focused on the enhancement of human capital, R&D, and capital investment. Although the quantitative results were slightly below the forecasts in the medium-term plan, net sales and operating income reached record highs. We also actively offered shareholder returns. The long-term policies we set out to move toward 2030 were: (1) Development of a stronger revenue base in Japan; (2) Net sales secured outside Japan; (3) Pursuit of new businesses (mobile); (4) Workstyle reforms; and (5) Entry into new growth fields. Of these policies, workstyle reforms and entry into new growth fields steadily yielded successful results. As for results by segment, the BP-related and environment- and conveyor-related businesses achieved significantly greater figures than planned. Other businesses saw largely the same results as the planned figures. The AP-related business faced challenges to meet as road pavement companies curbed their capital investments and our business in Thailand continued to report a loss.

Net sales, operating income, operating margin, and ROE over the years



Quantitative results of the 2022—2024 Medium-Term Management Plan

Performance figures

(million yen)

	2022–2024 Medium-Term Management Plan	FY2024 results	Rating	Review
Order intake	—	49,617		Order intake and net sales steadily grew, yet the results were slightly below the planned figures because of a slowdown in Asian markets and a slow recovery of the AP-related business in Japan. Operating income was affected by active human resource investment costs and underperformance by subsidiaries in other Asian countries, despite our efforts to revise selling prices.
Net sales	50,000	49,162		
Operating income	3,000	2,766		
Operating margin	6.0%	5.6%		
Net income	2,100	2,009		

Capital strategy and shareholder returns

ROE	6.2%	5.9%		ROE was a little short of the target. Yet, as for shareholder returns, the average dividend payout ratio over three years was 87%, which was greater than the target of 60% or higher we had set.
Equity ratio	—	54.2%		
D/E ratio	—	0.30 times		
Dividend payout ratio	63.5%	61.3%		
Total return ratio	63.5%	61.3%		
Share buyback	—	—		
Sales of strategically held shares	—	130		

Implemented measures in review

(million yen)

Key items	FY2024
1. Development of a stronger revenue base in Japan (operating margin in Japan)	5.6%
2. Net sales secured outside Japan (net sales growth overseas)	4,326
3. Pursuit of new businesses, including M&A (mobile plant business)	1,896
4. Target market capitalization in 2030 (50.0 billion and up)	27,440
5. Target ROE in FY2024 (6.2%)	5.9%

Entry into new business fields through M&A

	FY2021	FY2023	FY2024
M&A completed	Ube Kohki (contract-based manufacturing)	Matsuda Kiko (contract-based manufacturing)	Nishi-nihon Real Estate (real estate)

Results of the 2022—2024 Medium-Term Management Plan by segment

The results of the previous medium-term management plan by segment are as follows. The BP-related and environment- and conveyor-related businesses fared well, yet their results were not strong enough to make up for the shortfalls that faced the AP-related business, whose sales and profit were somewhat below the planned figures.

(million yen)

		FY2024 results [1]	2022—2024 Medium-Term Management Plan [2]	Compared to the Plan [1] - [2]	Rating	Review
AP-related Business	Net sales	19,480	23,000	-3,520	☂	The MS business remained stable in Japan. However, the AP-related business fell under the impact of curbed capital investments by road pavement companies due to rising prices of raw materials. In China, demand apparently touched bottom, and we achieved increased revenue and a surplus in FY2024. In Thailand, net sales are recovering, yet the business is slow in going out of the red.
	Operating income	976	1,600	-623	☂	
	Operating margin	5.0%	7.0%	-2.0pt	☂	
BP-related Business	Net sales	14,266	10,800	3,466	☀	Ready-mixed concrete businesses, who are our customers, went ahead with cost pass-through as raw material prices rose and their burdens grew. With their performance picking up, they began to actively make capital investments.
	Operating income	1,724	1,050	674	☀	
	Operating margin	12.1%	9.7%	+2.4pt	☀	
Environment- and Conveyor-related Business	Net sales	3,254	2,700	554	☀	With recycling laws on waste plastic more rigorously enforced, demand for conveyors targeted at recycling services dramatically grew. In addition to large projects (e.g., for Expo 2025 Osaka, Kansai), raised product prices led to the successful results.
	Operating income	847	550	297	☀	
	Operating margin	26.0%	20.4%	+5.6pt	☀	
Other Business	Net sales	12,159	13,500	-1,341	☂	In FY2024, the other business was split into three businesses, namely the crusher-related, contract-based manufacturing-related, and other business, so that what the business consisted of would be visible.
	Operating income	1,401	1,300	102	☁	
	Operating margin	11.5%	9.6%	+1.9pt	☁	
(Crusher-related Business)	Net sales	2,256	—		☂	The weaker yen pushed up the costs of buying imported machinery. Nevertheless, we acquired new customers in Japan and explored new fields. We also put more effort into the maintenance service field built upon an increasing number of machines delivered in an attempt to boost profitability. We also focused on winning orders geared toward the reconstruction of Ukraine.
	Operating income	40	—		☂	
	Operating margin	1.8%	—		☂	
(Contract-based Manufacturing-related Business)	Net sales	4,802	—		☁	Ube Kohki Co., Ltd. and Matsuda Kiko K.K., which joined the Nikko Group through M&A, contributed to our business expansion. Nikko will work more closely with them for a three-company partnership to further increase its profitability and achieve stable growth.
	Operating income	645	—		☁	
	Operating margin	13.5%	—		☀	
(Other Business)	Net sales	5,101	—		☁	The waterproof board and floodgate, temporary construction equipment, and leasing and renovation businesses continue to enjoy steady growth. We aim to strengthen these businesses' profitability and achieve their stable growth by continuing to put more effort into the disaster prevention and mitigation areas.
	Operating income	716	—		☁	
	Operating margin	14.0%	—		☀	

2025—2027 Medium-Term Management Plan

We have defined the 2025—2027 Medium-Term Management Plan as the powerful business expansion phase, in which our focus is to increase profitability. We aim to achieve an operating margin of 8.7% in FY2027 (up 3 pp from 5.6% in FY2024), along with an 8.0% ROE, to establish profitability that is significantly greater than the cost of equity. We have also set out that we will achieve a market capitalization of 40.0 billion yen. The new medium-term plan centers around six essential features. We will implement business strategies for the segments linked with financial and non-financial impacts. We have set the target of a 10.2% operating margin for the AP-related business, and the target of a 17.0% operating margin for other business, with the intention of strengthening ties between the Group companies . With M&A for establishing a stronger foundation in view, the whole of the Nikko Group will be committed to the further enhancement of its corporate value.

Basic policies for the new Medium-Term Management Plan

Theme of the Medium-Term Management Plan

Increase profitability!

Enhance earning power to maximize our corporate value

All this leads to increase revenue and net sales

"Produce appropriate profits through original ideas and improvement efforts"

1. Higher quality
2. Enhanced technology
3. Enhanced service
4. Maximized employee performance

Our Goals!

Six essential features set out in the new Medium-Term Management Plan

With the six essential features set out in the new medium-term plan, we will implement business strategies for the segments linked with financial and non-financial impacts.

Six essential features	Strategy for execution	Related segment	Anticipated financial/ non-financial impact
1. Establishment of sustained revenue streams	● Developing more solid pricing policies and proposals of high value-added products to increase profit margin ● Expanding subscription services to advance preventive maintenance and secure steady revenue ● Making company-wide improvements on prime costs through greater production and sales efficiency	AP-related BP-related	Net sales growth and profitability improvement
2. Contributions to the environment and recycling-based societies	● Developing innovative environmental products such as AI-driven sorting machines and lithium battery removal devices ● Developing advanced systems for material handling, crushing, and segregation geared to waste recycling ● Working collaboratively with municipalities and private businesses on the social implementation of the environment business	Environment- and conveyor-related Contract-based manufacturing-related	Net sales growth
3. Faster launch of global operations mostly in the ASEAN market	● Establishing international offices mostly in ASEAN, China, and Taiwan ● Building systems for product supply, technical support, and services that suit each country's market needs ● Establishing standards for responsible procurement and quality as a global enterprise	AP-related	Net sales growth
4. Product evolution and quality enhancement	● Developing products designed chiefly for automation, labor reduction, and remote operation ● Making effective use of quality guidelines and problem databases to improve quality ● Offering products and services designed to bolster customers' safety, sense of reassurance, and satisfaction	Company-wide	Profitability improvement
5. Human resource development and co-creation with partners to enhance the quality of services	● Hiring and training young human resources and enhancing skill transfer programs ● Stabilizing supply chains through joint training and safety assistance with contractors ● Providing work environments designed to support diverse workstyles	Company-wide	Employees feeling more comfortable working in their offices and more rewarded for their work
6. Management transparency and stronger governance	● Making effective use of ERP and other tools to visualize information and speeding up management decision-making ● Working collaboratively with Group companies to pursue total optimization ● Establishing a management foundation that prioritizes sustainability	Company-wide	Greater sustainability

2025—2027 Medium-Term Management Plan: Quantitative targets, business forecasting, and measures by segment

Each of the segments will work to increase profitability, so that we will achieve new record highs for the second consecutive medium-term. The growth of the AP-related business' (including M&A) and other business' operating income in particular holds the key.

(million yen)

		FY2024 results	FY2025 plan	FY2026 plan	FY2027 plan	Predicted trends and planned measures during the new medium-term plan period	Related page
AP-related Business	Net sales	19,480	19,500	21,600	23,000	● In Japan, we envisage a recovery in capital investment as road pavement companies' performance picks up. ● Subsidies for energy conservation may boost demand for renovation of asphalt plants. ● In addition to the effect of increased net sales, overseas subsidiaries' improved revenue will drive operating income.	p.51
	Operating income	977	1,000	1,600	2,350		
	Operating margin	5.0%	5.1%	7.4%	10.2%		
BP-related Business	Net sales	14,266	14,800	15,300	15,300	● We envisage that the price of ready-mixed concrete will remain high, and that our customers will continue to invest in renovation. With this forecast, we expect that our net sales and operating income will continue to be at high levels.	p.53
	Operating income	1,724	1,900	2,000	2,000		
	Operating margin	12.1%	12.8%	13.1%	13.1%		
Environment- and Conveyor-related Business	Net sales	3,254	4,100	3,300	3,500	● Following Expo 2025 Osaka, Kansai, IR projects are expected to generate new demand. We aim to improve operational efficiency by prioritizing profitability and updating the core system.	p.55
	Operating income	847	850	730	800		
	Operating margin	26.0%	20.7%	22.1%	22.9%		
Crusher-related Business	Net sales	2,256	3,000	3,700	4,300	● Increase sales channels to expand businesses. ● Boost Nikko-developed product lines. ● Increase net sales of maintenance services to boost profitability.	p.56
	Operating income	40	150	220	300		
	Operating margin	1.8%	5.0%	5.9%	7.0%		
Contract-based Manufacturing-related Business	Net sales	4,802	3,600	3,800	4,200	● In addition to acquiring new customers, increase the number and quality of employees and facilities to maintain and increase profitability.	p.57
	Operating income	645	400	450	500		
	Operating margin	13.5%	11.1%	11.8%	11.9%		
Other Business	Net sales	5,101	6,000	7,300	9,700	● We expect that revenue and profit connected to disaster prevention and mitigation will continue to increase, while we work to expand our sales channels and enhance our production and marketing bases.	p.58
	Operating income	716	900	1,100	1,650		
	Operating margin	14.0%	15.0%	15.1%	17.0%		
	(adjustments)	-2,183	-2,200	-2,300	-2,400		
Consolidated net sales		49,162	51,000	55,000	60,000	● Work toward new record-high consolidated net sales and operating income for the second consecutive medium-term.	
Consolidated operating income		2,766	3,000	3,800	5,200		
Operating margin		5.6%	5.9%	6.9%	8.7%		