Interview with the CFO

My biggest mission is to increase the earning power during the medium-term plan period to quantitatively show, both within and outside the Company, that the 2030 Vision is achievable.

Director and Director of Administrative Division **Koichi Kawakami**

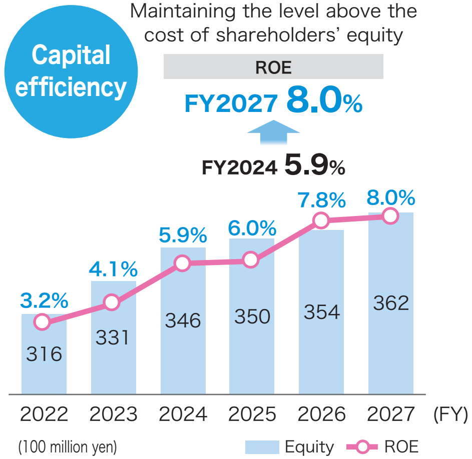
Q First of all, what are your roles and mission as the person in charge of financial affairs at the Nikko Group? What are the Group' s basic financial and capital policies?

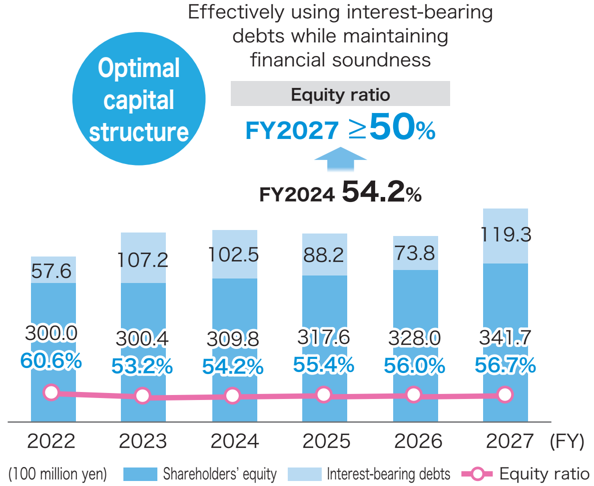
My mission as the person in charge of financial affairs is to take the initiative in maximizing corporate value from a financial aspect. It is my role to take the helm of financial and capital policies and support management in both offense and defense to achieve the Nikko Group' s sustainable growth and value creation. Specifically, I will emphasize realizing the 2030 Vision while striking a right balance between aggressive measures, such as growth investment and fund supply, and defensive measures, such as maintaining financial soundness and creditworthiness.

Regarding the basic financial and capital policies, first of all, I attach importance to ensuring the Company' s financial soundness and maintenance of optimal capital structure. On the basis of this, we will strategically optimize fund procurement and investment allocation to achieve sustainable growth and improve our corporate value. Furthermore, I believe that it is my duty to build a trusting relationship with stakeholders by promoting management conscious of capital cost and through appropriate information disclosure.

Through these initiatives, I will support the Nikko Group' s transformation from a financial aspect and powerfully promote sustainable corporate value maximization.

Capital efficiency and optimal capital structure





Q What indicators do you attach importance to when measuring corporate value? What are the financial and capital strategies for improving corporate value?

When I evaluate corporate value from the CFO’ s perspective, I consider multiple aspects rather than stock price and profits.
For example, in addition to enterprise value (EV), I use layers of quantitative indicators, such as the relationship between return on equity (ROE) and cost of equity, evaluation using discounted cash flow (CF) derived by discounting free CF, and gap analysis between market and intrinsic values.
The financial and capital strategies for improving corporate value have three pillars. The first pillar is to maximize capital efficiency to maintain a situation where ROE constantly exceeds cost of equity. This includes the optimization of invested capital, setting of KPIs related to asset turnover and margins, and ROE-based management of business segments. The second pillar is optimum capital distribution in anticipation of future value-conscious growth investment. In addition to investment for overseas expansion, we will promote digital transformation (DX), development of new businesses, review of dormant assets and unprofitable businesses, and M&A and alliances based on quantitative assessment, such as net present value and internal rate of return. The third pillar is the stable generation of CF and a flexible capital policy based on it. We are designing shareholder returns conscious of the cost of capital while improving the quality and continuity of operating CF.
I am playing the role of leading value creation from a financial aspect by planning strategy at the Board of Directors meetings, promoting KPI management, and holding constructive dialogues with the capital market. We will also work on consolidating funds and upgrading CF management, developing a fund procurement structure, and strengthening the hedging policy for foreign exchange, interest, and credit risks to ensure financial soundness and flexibility for improving corporate value. The Nikko Group will achieve medium to long-term sustainable improvement in corporate value through these measures.

Q What are the achievements and issues in the FY2024 financial results and the financial and capital policies for the previous three-year Medium-Term Management Plan?

Looking back at the previous Medium-Term Management Plan and the FY2024 financial results, we made a certain level of progress in enhancing the financial structure. However, improving capital efficiency remains a key task for the future. As for achievements, we made improvements toward establishing a sound financial foundation, such as record financial results, stabilized operating CF, and enhanced shareholder returns. In particular, a stable CF indicates the strength of a business portfolio, which has led to confidence in supporting future growth strategies. In contrast, capital efficiency indicators, such as ROE and price-to-book ratio (PBR), did not reach the targets. I believe that the pace of growth investment and capital use as well as asset management efficiency can still be improved.

Q What are the key points of financial and capital policies of the 2025-2027 Medium-Term Management Plan? What is the point you attach the utmost importance to for realizing 2030 Vision as the person in charge of financial matters?

In the 2025—2027 Medium-Term Management Plan, the most important theme is to maintain ROE at a level that exceeds the cost of equity and conduct capital distribution that enables the sustainable generation of free CF. Whether we can invest the limited capital at our disposal in growth businesses at an appropriate time holds the key for the 3 years, and we consider this period to be extremely important for the realization of 2030 Vision.
First, we will focus on increasing the operating margin to improve ROE. We will selectively invest capital in highly profitable businesses, such as turning the business profitable in the ASEAN region, upgrading maintenance services, and expanding the contract-based manufacturing business, in addition to growing the sales of high value-added products, including decarbonized equipment, automated and manpower-saving systems, and AI-based separating systems. Through these measures, we aim to achieve an operating income of 5.2 billion yen and ROE of 8%.
To improve total asset turnover, we will prevent capital from stagnating and redistribute it to fields that generate value by optimizing working capital, using dormant assets, and selling strategically held shares. We will ensure more efficient management of inventory and accounts receivable-trade by introducing ERP and improving the collection process. We plan to raise the asset turnover to 1.1 times from the current 1.0. We will strategically use cash and cash equivalents in growth investments, M&As, and shareholder returns.
We have the option of buying back shares by closely observing the market, along with reducing strategically held shares (to ≤10% of net assets), from the perspective of capital efficiency and shareholder returns.
Furthermore, we will review the capital structure to optimize financial leverage. Our equity ratio was 54.2% in FY2024 and interest-bearing debts were approximately 10.0 billion yen (debt-to-equity ratio = 0.3 times). Moreover, bearing in mind an aggressive scenario of raising the debt-to-equity ratio to 0.5 times depending on future growth opportunity, we will steadily work toward achieving 10% ROE as stated in the 2030 Vision while maintaining the equity ratio at approximately 50%. To raise the employees’ awareness of capital efficiency, we will introduce business administration based on KPIs primarily of ROE and other capital efficiency indicators with the aim of building a management system that ties numerical targets with on-site execution capability.
My biggest mission as CFO is to steadily increase the earning power during the medium-term plan period to quantitatively show, both within and outside the Company, that the 2030 Vision is achievable. We will constantly monitor whether we are receiving returns exceeding the cost of equity, review capital distribution as necessary, and give our all to improve corporate value.

Q Please explain the business portfolio strategy. What are the main initiatives for improving the profitability of existing businesses (asphalt plant [AP]- and batcher plant [BP]-related businesses) and growing new businesses?

With our mainstay AP and BP-related businesses, we are steadily growing despite declines in shipments of asphalt mixture and ready-mixed concrete in Japan, and I feel that this has not been accurately communicated to the capital market. The domestic shipments of these construction materials are actually on a declining trend, which leaves a strong impression that the market is maturing. However, we offer not construction materials but a system that supports the operation and infrastructure of the companies that manufacture such materials. Our essential value should not be limited to the manufacture and sales of plants but should lie in supporting the overall operation of plants, including maintenance service for stable operation, remotely operated or automated labor-saving plants, and maintenance subscription service considering customer plants as assets. These initiatives have been highly recognized as concrete solutions for addressing issues faced by the construction industry, such as manpower shortage and work style reform.
I believe that as the only Japanese manufacturer offering both AP and BP, we will grow and evolve by continuously meeting customer expectations. Our maintenance servicing staff have

been trained as all-rounders capable of independently handling all operations, and it has taken 5–7 years to nurture such personnel. Gong forward, we will subdivide the work and prepare manuals for each operation to support employees who are relatively new to the Company. This will improve their engagement and shorten the time it takes for them to become full-fledged service staff. Thereby, we can improve customer satisfaction and enhance earning power early on.

In the 2025—2027 medium-term plan, we will also focus on creating new growth areas and deepening existing businesses in Japan. The ASEAN market, in particular, is a tough market that requires time and track record to establish trust and brand. For us, turning the Thai subsidiary profitable is the key to medium- to long-term growth. In new areas such as crusher and contract-based manufacturing, we will enhance profitability and differentiation through synergies with existing businesses. To do this, we will leverage the Nikko Group' s comprehensive strengths in handling everything from engineering design, manufacturing, and installation to maintenance, in addition to the capabilities of individual products.

We are determined to constantly optimize the business portfolio that the Nikko Group should pursue by incorporating both inside and outside opinions. We will also follow up on each business division through the medium-term plan progress meeting held every quarter.

Q What are the initiatives for operating CF generation? Also, what is the policy for improving the balance sheet efficiency, including the sale of strategically held shares?

In the 2025—2027 medium-term plan, we plan to create 8.3 billion yen in operating CF. At its core is the steady accumulation of operating income through the improvement of the AP-related business' earning power and the expansion of highly profitable businesses. In specific terms, we expect contributions to cash generation from the expansion of the maintenance services business, firm sales growth in the BP-related business, and enhanced sales of Nikko-made mobile plants.

Overseas, we expect the Thai business to become profitable in FY2027, which will reinforce the worldwide revenue base. Businesses, such as contract-based manufacturing, temporary construction equipment, and waterproof boards, will also steadily generate revenue and support overall cash generation.

In addition to operating income, we will focus on improving balance sheet efficiency. We will use excess cash and cash equivalents in

Target business portfolio for 2030

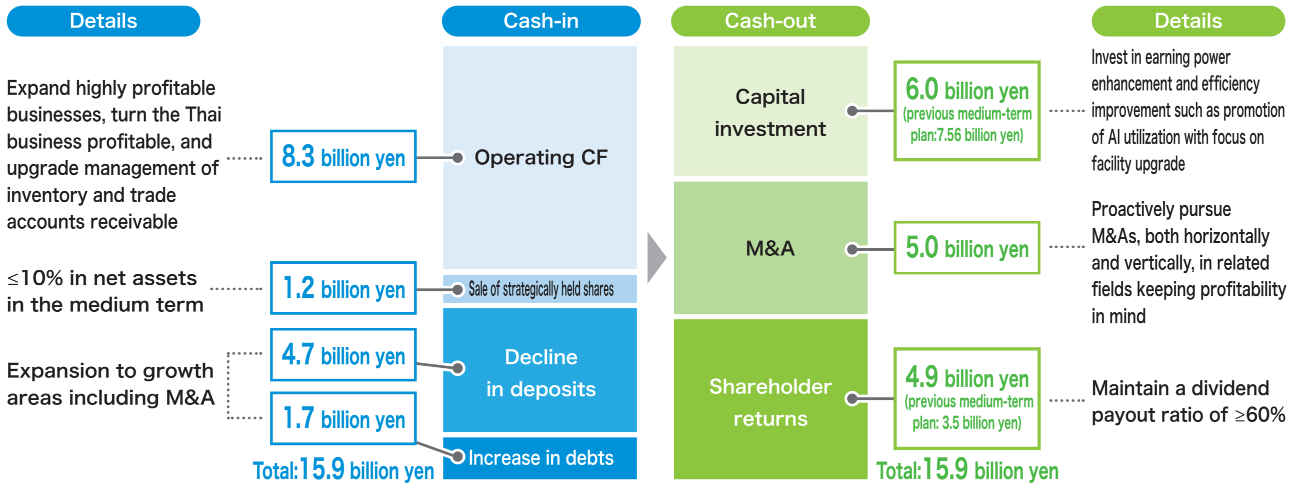
AP BP Environment and conveyor Crusher
Contract-based manufacturing Other

*Changes from FY2024 to FY2030 (estimate)
Profitability is based on the operating margin

Issues, goals, and strategic direction by segment

Segment	Issues and goals	Strategic direction
AP-related business	Profitability Business transformation	Focus on profitability improvement given expected recovery in domestic demand
BP-related business	Sales growth Business transformation	Improve profitability amid a continued positive business environment
Environment- and conveyor-related business	Sales growth, profitability Business transformation	Aim to maintain a highly profitable structure through improvement of operational efficiency
Crusher-related business	Sales growth Lateral expansion of the product market	Strengthen growth strategies for top-line expansion with improved profitability
Contract-based manufacturing business	Sales growth Lateral expansion of the product market	Aim for stable growth and securing a double-digit operating margin
Other business	Sales growth Lateral expansion of the product market	Achieve sales growth while maintaining high profitability
Maintenance services	Operation and maintenance service	Labor-saving services such as remote management
	Business transformation	Operation and maintenance services
New growth areas	M&A Partnerships	Explore new growth areas

Cumulative cash allocation for the new three-year medium-term plan

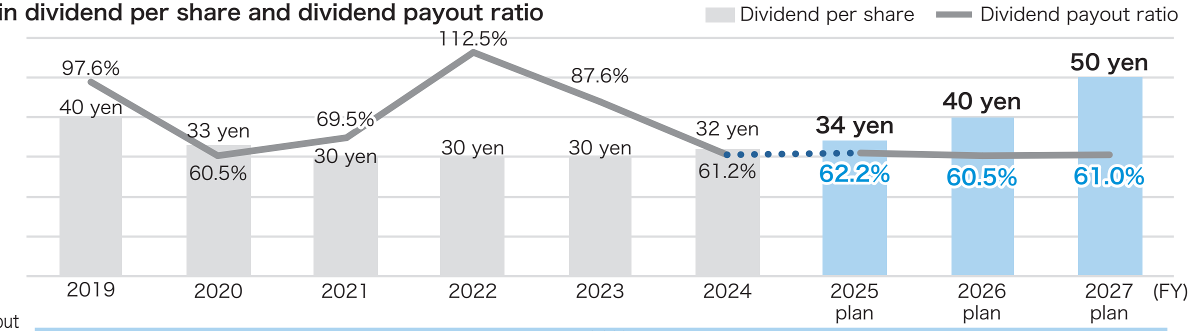


growth investment and shareholder returns. We will also introduce ERP, review the billing and collection process, and upgrade the management of inventory and trade accounts receivable to reduce working capital. We also plan to raise asset turnover through initiatives such as the utilization of dormant assets and the reduction of strategically held shares to a certain extent. We will ensure the achievement of 8.3 billion yen in operating CF under the medium-term plan by driving forward both operating income growth and balance sheet efficiency improvement.
Nikko has been working on selling strategically held shares. In the past 5 years, we have sold all shares in 12 of the sold stocks, which has resulted in the sale of 26 stocks in total, worth approximately 2.3 billion yen. We must continue working cautiously on selling shares by paying attention to the relationship with business partners. Reviewing strategically held shares is an unavoidable but important theme for improving balance sheet efficiency. Going forward, we aim to reduce the level of strategically held shares to ≤10% of net assets.

Q What is the breakdown of 6.0 billion yen in capital investment? Please explain specific investment projects for strengthening earning power and AI utilization, the policy for 5.0 billion yen M&A investment (projects, profitability guidelines, and target areas), and the shareholder returns policy.

We are expecting 6.0 billion yen in capital investment during the 2025—2027 medium-term plan period. The core of this investment is strategic investment for increasing the Group’ s earning power. Construction of a development test center in the head office premises began in FY2024, and it is expected to be completed by the end of FY2025. Factory E, which is new and the fifth factory, was completed in FY2024. They are all part of infrastructure development aimed at enhancing the development capability and production structure.
During the 2025—2027 medium-term plan, we plan to invest in raising the production capacity of Ube Kohki and Matsuda Kiko and also invest in the Nikko Sec rental base in the Kansai region. We will also actively promote improvement in business efficiency using AI. For example, we will develop a structure for various divisions to boldly take on the challenges of improving operations or efficiency by setting themes, such as introducing AI for operation of customer support centers or to prevent the recurrence of frequent mistakes, and improving quality at design divisions.
Regarding M&A, we acquired two companies in the contract-based manufacturing field during the previous medium-term plan period.

Trend in dividend per share and dividend payout ratio



	2019	2020	2021	2022	2023	2024	2025 plan	2026 plan	2027 plan
Dividend payout ratio guideline	≥60%								
Share buyback	0	4.0 billion yen	0	0	0	0	Flexible implementation		

In the 2025—2027 medium-term plan, we have set aside as much as 5.0 billion yen for investment and aim to pursue M&A even more actively by seizing the timing when the capital investment completes a cycle. The main M&A targets are companies that bring additional technological value and growth to our products. Several candidate companies are currently being studied. We are especially interested in suppliers in peripheral areas and aim to expand the business domain and strengthen the earning power.
As for the guideline for deciding investment, M&A criteria are 1.0–5.0 billion yen per project and 0.3–0.5 billion yen in earnings before interest and taxes. At the moment, we are primarily considering Japanese companies for M&A and are not considering foreign companies. As for fund procurement for this purpose, we plan to mainly use operating CF and flexibly leverage external procurement depending on the project’ s characteristics and situation. We will steadily implement this initiative to build a future growth foundation as we repeatedly study strategies carefully.
Under the 2025—2027 medium-term plan, we plan to raise the total amount of shareholder returns to 4.9 billion yen, which is a considerable increase compared with the 3.5 billion yen under the previous medium-term plan. There has been no change in the basic shareholder returns policy to maintain a dividend payout ratio of ≥60% and use steady profit growth as the source. For share buyback, our policy is to make flexible decisions without specifying any schedule or amount of money but by considering the revenue situation and capital accumulation as well as the balance with a future investment strategy. As part of the capital policy, we will take appropriate actions by comprehensively determining the market environment and financial standings.

Q In conclusion, how do you rate 0.8 in PBR? What are the IR and engagement policies for improving corporate value?

The current PBR of the Company’ s stock is below 1. This reflects our current situation of not being fully valued by the capital market, and I am taking it seriously. We attach the utmost importance to maintaining ROE above capital cost. To achieve this, we must improve earning power by steadily accumulating operating income. In the 2025—2027 medium-term plan, we aim to achieve consolidated net sales of 60.0 billion yen, operating income of 5.2 billion yen, and ROE of 8%. If the achievement of these goals becomes likely, achieving a PBR exceeding 1 and a market capitalization of 40.0 billion yen (1,000 yen in stock price) also becomes more realistic.
The fundamental premise of improving corporate value is to communicate these initiatives to shareholders and investors in a timely manner. I, for one, will hold online financial results meetings four times a year starting FY2025 based on this approach and use that as an opportunity to expound our stance as a corporation. I will make sure to convey what Nikko Group is working on and where it is heading, as well as its actual situation and passion, by proactively creating opportunities for investor and shareholder relations.
Communicating financial strategies and a growth story in our own words and building a lasting relationship of trust with shareholders and investors— I firmly believe that this is the most steadfast way to boost corporate value.