Financial Capital

For realization of management conscious of cost of capital and stock price

To achieve the targets set out in our vision for 2030 (net sales of 70.0 billion yen, 10% operating margin, 10.0% ROE, and a market capitalization of 50.0 billion yen), the 2025—2027 Medium-Term Management Plan, prepared around the theme "Increase profitability!", is geared to reach a net sales of 60.0 billion yen, an operating margin of above 8.0%, 8.0% ROE, and a market capitalization of 40.0 billion yen. Here, to boost earning power and maximize our corporate value, we have set four priority themes, namely (1) Higher quality, (2) Enhanced technology, (3) Enhanced service, and (4) Maximized employee performance.
To achieve all this, with a view to building a business portfolio that represents our aspirations, the existing businesses (the AP-, BP-, and environment- and conveyor-related businesses in Japan) will work toward greater net sales and profitability through the transformation of what the businesses entail. The overseas AP, crusher, contract-based manufacturing, and other business will work to expand their scales, leveraging the Nikko Group's four core technologies. We will also continue to create new growth fields through M&A. We will be accurately communicating these initiatives through dialogues and engagements with shareholders and investors.

Output (FY2024)

- Net sales of **49.2** billion yen, operating income of **2.77** billion yen,
- Dividend of **32** yen per share
- Operating CF of **3.0** billion yen

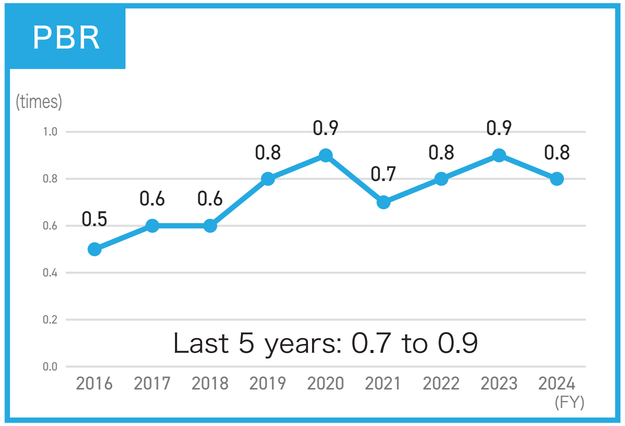
Outcome

- Attractive dividend yield (**5.2**%)
- High financial stability (equity ratio of **54.2**%)
- Equity spread earned (+**1.1** pp)

Analysis of current status and outlook

The Company's price-to-book ratio (PBR) has been hovering between 0.7 and 0.9 over the last five years, remaining below 1. Although we have been holding down any increase in net assets by focusing on shareholder returns, the profitability of our main business remains low. Operating margin for FY2024 was only 5.6%, and return on equity (ROE) 5.9%. This percentage of ROE is above 4.8% shareholders' equity in FY2024. However, the equity spread is barely positive. Our ROE over the last five years has been fluctuating in the 3.2% to 6.8% range (temporary factors included), and our price-to-earning ratio (PER) has been 17 on average. While our PER is at a relatively high level compared to other construction machinery companies in the same business category as we are, our ROE is at a relatively low level. Improving our operating margin is a challenge we must meet to enhance our corporate value, and raise our stock price, which will come with greater corporate value. We have set the goal of achieving a PBR of 1 (a stock price of 1,000 yen) in the 2025—2027 Medium-Term Management Plan as part of our efforts toward the 2030 Vision. To reach this goal, we envisage that approximately an 8% ROE and a PER of 13 will be needed. We are working toward an 8% operating margin in order to achieve an 8% ROE.

Trends in PBR, ROE, and PER



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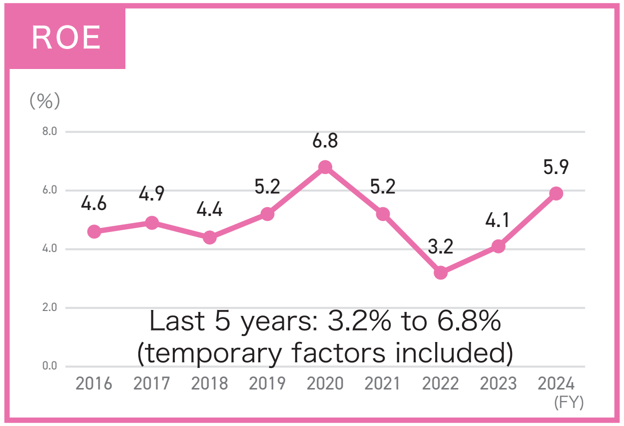

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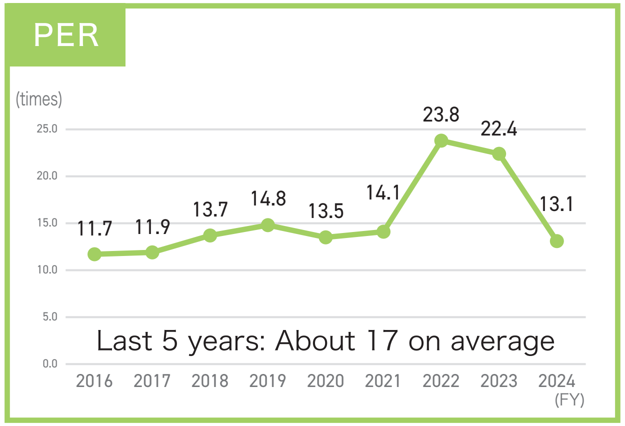
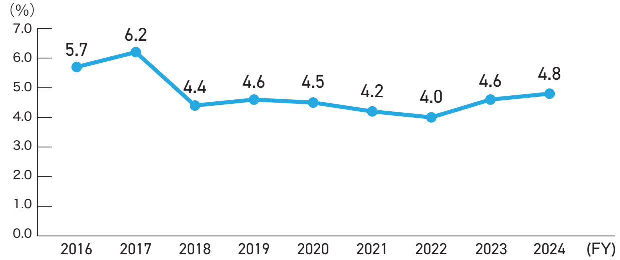


Over the last few years, our cost of shareholders' equity has been in the 4% range owing to lower beta values induced by an increase in the number of individual shareholders and low interest rates. The number of individual shareholders reached 21,907 at the end of FY 2024. We expect that there will be a gradual increase in the coming years.

On the other hand, Japan's policy interest rate is on the increase and expected to gradually keep rising. Given this factor, we project that the cost of shareholders' equity will reach slightly over 5% during the 2025—2027 Medium-Term Management Plan period, and around 6% as part of the 2030 Vision.

To expand our equity spread, we will be committed to boosting profitability by increasing operating income mostly from the AP-related business, continuing capital cost-conscious investments, selling strategically held shares, ensuring shareholder returns geared to curb an increase in net assets, and holding constructive dialogues with shareholders and investors through information disclosure and more engaging IR/SR activities.

Trends in cost of shareholders' equity



Targets and future initiatives

(1) Expansion of operating income

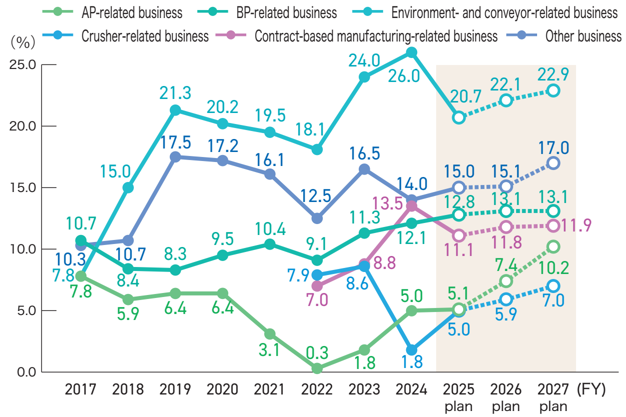
With the 2025—2027 Medium-Term Management Plan, we aim to achieve an operating income of 5.2 billion yen (8.7% operating margin). The operating income for FY2024 was 2.77 billion yen (5.6% operating margin), and thus operating margin will be up about 3 percentage points when this target is reached. The pillars of growth are two of our segments, namely the AP-related business (from 0.98 billion yen to 2.35 billion yen) and other business (from 0.72 billion yen to 1.65 billion yen).

The AP-related business plans to increase its profitability by meeting demand for renovation of plants in Japan to which subsidies for energy conservation is available, expanding high value-added product lines, and boosting organizational abilities to provide maintenance services, among others. In overseas locations, we will work to balance profit and loss of our Thai business, and to improve profit of our Chinese business.

For other business, we will expand the fields to enter for growth, including waterproof board and temporary construction equipment markets where demand is rising, and the market that is growing with the transition to electric equipment for melting white lining material (an estimated market size is 6.0 billion to 7.0 billion yen). We will also move into a wider range of business fields through M&A.

Moreover, we will present the business portfolio we aspire to have in 2030 and monitor the progress, thereby ensuring that our strategies will be part of every action our businesses take as one team.

Trends in operating margin by business



(2) Financial and capital policies

As for our financial and capital policies, we continue with a dividend payout ratio of 60% or higher for the 2025—2027 Medium-Term Management Plan period, and plan a substantial increase in our dividend to 50 yen for FY2027 (32 yen for FY2024). We will also flexibly buy back our shares, with increased capital efficiency in view.

With these measures, net assets at the end of FY2027 is projected at 36.2 billion yen (34.6 billion yen at the end of FY2024). We plant to maintain an equity ratio of 50% or higher (54.2% at the end of FY2024). We will also make effective use of interest-bearing debts while ensuring that we remain financially sound.

The reduction of strategically held shares is also defined as a key measure to enhance our capital efficiency. We aim to reduce the ratio of those shares to net assets to 10% or lower during the medium-term plan period.

For dialogues with shareholders and investors, we hold quarterly financial results briefing session where our financial officer presents the Company's medium- to long-term views, in addition to short-term performance. We will continue these sessions. We also plan to further develop the contents of our corporate report, which has been published since FY2019, to incorporate more of investors' perspective.

Furthermore, given changes in our shareholder composition, we will focus more on individual investors. More specifically, we will publish more detailed information about a wider range of topics on our website and issue Sponsored Research Report (planned) to boost the quality and quantity of publicly available information.

In addition, we invite shareholders and investors to the Nikko Messe, a large-scale trade show scheduled to be held in October 2025. We hope that the trade show will serve as an opportunity for them to have an even deeper understanding of the Company's products and businesses.

Trends in number of shareholders and market capitalization