

FY 2021 Results Briefing: Gist of Questions and Answers Session

New Medium-Term Management Plan

- You have revised up the numerical targets of the 10 year vision but left the market cap target unchanged at 50 billion yen. In the part where you reviewed the previous medium-term plan, you seemed to have been indicating that you were not satisfied with the share price level.

What is your image of the market cap after three years of the new medium-term plan?

→ It is just a representational image, and currently our shares are at a level slightly higher than 600 yen. It has been three years since I became president and the fact that the share price momentarily exceeded 900 yen left a strong impression. I am not saying this should be the share price after three years of the new medium-term plan, but I hope it will exceed at least 700 yen reflecting the company's growth.

- What is the reason why the outlook for the BP-related business is almost flat in the new medium-term plan? What is your forecast for total BP demand for the next three years?

→ The outlook for the BP-related business is flat, but the image is that it will go up and remain at a high level. BP-related sales have been gradually increasing and have been remaining at a high level. We will have to expand our market share to increase sales from this point. Three companies are competing in the BP industry and we came to claim more than 40% of market share, which stands out among competitors. We believe that it is not possible to expand the BP market further unless there is some major event. Under such circumstances, we believe that our preparation for achieving carbon neutrality will become a factor in boosting figures. In the three years of the new medium-term plan, we will definitely maintain the current status and improve our results to some extent.

- Regarding the financial results outlook during the three years of the new medium-term plan, it appears to come to a temporary standstill in the current fiscal year, but the plan shows it will grow significantly in the next fiscal year. What is the breakdown of the factors leading the growth in the plan, such as AP overseas, new products and new businesses?

→ We consider all of AP overseas, new products, and new businesses as factors growing our earnings greatly. As I have explained earlier, AP overseas is focusing on the ASEAN region. We have

established local subsidiaries for sales and servicing in Thailand and the manufacturing plant is nearing full-scale operation. Starting with Thailand, now we can manufacture and we will deeply develop the market by leveraging cost competitiveness. In addition, we are planning to expand throughout ASEAN with an eye on Vietnam and Indonesia. Expansion of the sales scale of AP overseas is a major factor of business expansion. Regarding new businesses, we would like to grow decarbonization-related business in addition to those that have started growing, and we also want to expand environment- and recycling-related businesses, in which we already have some track record but are yet to grow into a pillar. We believe that the results so far have been directly connected to carbon neutrality, environment and recycling, and utilization of urban mines, and we will realize growth by upgrading the business in which we already have a track record of supplying products to a new business.

- In the strategy for the maintenance business, do you aim to further expand sales despite the already high sales ratio, or do you improve profitability? I would like to know what you aim to achieve with the upcoming measures.

→ The maintenance business accounts for almost 60% of sales in both AP- and BP-related businesses and it is also important in terms of business strategy. In terms of its details, it offers a wide range of services starting from sales-like activities to maintenance and sales closing at the end. It is a job for which you require a lot of time to nurture human resources, and it also has a high work-load, so those who want to do it is limited. Partly due to this, we are trying to increase efficiency by dividing operations into smaller pieces and implementing measures to specialize in clerical and office work. Another thing is that we are driving forward the subscription business model and are aiming to increase sales by increasing efficiency through initiatives that allows us, a manufacturer, to decide the maintenance opportunities and timing. Subscription is an activity that improves profitability. We would like to follow up with reports regarding the future progress.

AP-related business and carbon neutrality-related initiatives

- What are the concrete initiatives for improving profitability of the AP-related business?

→ Regarding the improvement of profitability of the AP-related business, there are some projects which we took on for policy purposes in order to secure a certain level of maintenance services. However, we will be thorough in selecting projects from now on, as it is too counterproductive for a business to start operations with a large number of negative factors. Another thing is that we will carry out activities to improve quality so that we would not get involved in price competition. We want to strengthen quality by increasing development investments every year. We are collaborating with companies outside the group and repeatedly carrying out experiments within the company regarding

carbon neutrality so that we can build a track record that can differentiate us from our competitors. Another point is the improvement of cost competitiveness. We will reduce production-related costs by not only lowering the prices of supplies but also changing the fundamental concept of manufacturing. We are increasing the variation of new models as well as the organizing of units, which we are good at like in BP. If we have a lineup of various products with a high degree of completion within the company, so that they can be made into units, it becomes easier for us to reduce costs as the portion manufactured in-house becomes large and we can also significantly reduce the man-hours for design.

- Achieving decarbonization has become a social need. What is the development status of new technologies especially in the AP-related business?

→ Ultimately, we are pursuing the technology development of a heat combustion device burner that is fueled by ammonia and hydrogen, which are alternative fuels for fuel oil A and LNG. For the development of technology for ammonia, which has got a head start, we are currently conducting in-house combustion test of a small-sized test burner. We are pushing forward with the development of a system that would enable us to supply products right away once the fuel supply structure is developed and the supply of ammonia and hydrogen starts. For BP, the technology to absorb CO₂ with ready-mixed concrete has been making progress, and we have a track record in such development, including for test equipment with customers from about 15 years ago. We have a device that makes calcium carbonate by absorbing CO₂ with cement residue and calcium and we are actively pursuing sales expansion. We hope to reflect that in sales figures as early as possible.

- What is your image of the analysis of changes in operating income of the AP-related business alone for the next three years? What is your forecast of overseas net sales of AP in the next three years and how do you think operating income of the overseas AP business will perform?

→ I am going to explain how operating income would change during the three years of the new medium-term plan by dividing the AP-related business into Japan and overseas with FY 2021 as the base. We posted operating loss of about 200 million yen on the AP products in Japan for FY 2021 and we would like to turn this around to about 100 million yen in profit during the medium-term plan. Overseas, we plan to increase net sales in China to exceed 5 billion yen in the final fiscal year from the current 4.5 billion yen. Regarding Thailand, we plan to increase sales from the 100-odd million yen in FY 2021 to about 1.2 to 1.3 billion yen. Operating income in China fell to almost zero in FY 2021 but we want to bring it up to about 350 million yen level on net sales of 5 billion yen with operating margin in excess of 6%. Regarding Thailand, we want to turn it around and make it

profitable in the final fiscal year of the medium-term plan. In FY 2021, it was more than 250 million yen in loss.

- **In AP-Related Business Details and Strategy for the Future (2), it says the number of decarbonization-related products in FY 2021 increased to nine. What kind of numbers are you assuming for FY 2022 and FY 2024, which is the final year of the medium-term plan? Also, what is your expectation regarding decarbonization-related products?**

→ The name of the decarbonization-related product here is foamed asphalt device, which keeps asphalt mixture soft at a lower temperature to enable construction work. Asphalt mixture usually needs to be used while its temperature is still high, or else it hardens. The number of foamed asphalt devices we sold in FY 2021 was nine and the number of inquiries we are receiving is increasing greatly. While there are possibilities of worsening earnings at customers due to the recent fuel price hike and delivery being delayed due to prolonging delivery time of supplies, there is an increasing trend and it is a base device as all plants will be eventually connected to this foamed asphalt device.

- **In the earnings forecast of Nikko Shanghai for FY 2022, you expect the number of units to decline a lot from 22 to 17 but net sales to grow significantly to almost 4.6 billion yen. What is the reason for this?**

→ As I have mentioned earlier, the sales growth forecast is based on the assumption of transferring the rises in prices of raw material prices and supplies as well as personnel costs, the sales of two large-scale plants, and foreign exchange fluctuations.

Other

- **What is your view on the geopolitical risks in the Asian region including China?**

→ There are various problems. For example, the lockdown in Shanghai, which is something unthinkable in Japan but happens sometimes. We have a plant with our own capital in Shanghai, which manufactures APs, and supplies them in China. However, we are not thinking of making any further investment regarding manufacturing facilities. We will respond to manufacturing needs by utilizing means including outsourcing. We will drive forward the business by keeping in mind that something even riskier could also happen. China is an extremely large market and our policy is to go forward as an extension of our track record so far, while always watching out for risks.

- **The yen's depreciation continues and what is its impact on your business?**

→ A stronger yen is desirable for our business. A stronger yen is negative for exports, but the mobile plant business, which is growing, is based on product imports from overseas and the weaker yen has a negative impact of rising import costs. As an example, our current imports from overseas are worth about 10 million euros, and a one yen decline against a euro can translate to a negative impact of 10 million yen. As for FY 2022, there is no impact as we have hedged currencies to some extent, but if it progresses into the 145 or 150 yen level against the dollar, it will become difficult in terms of profits if we do not transfer it to the selling prices in Japan in the next fiscal year and onwards.

Note: This summary of the question and answer session was created in part to provide information to those who did not attend the results briefing. Please note that parts of the text have been edited to improve clarity and enhance understanding.

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