



FY 2019-2021 Medium-Term Management Plan Briefing Session Materials

August 8, 2019

Nikko Co., Ltd.

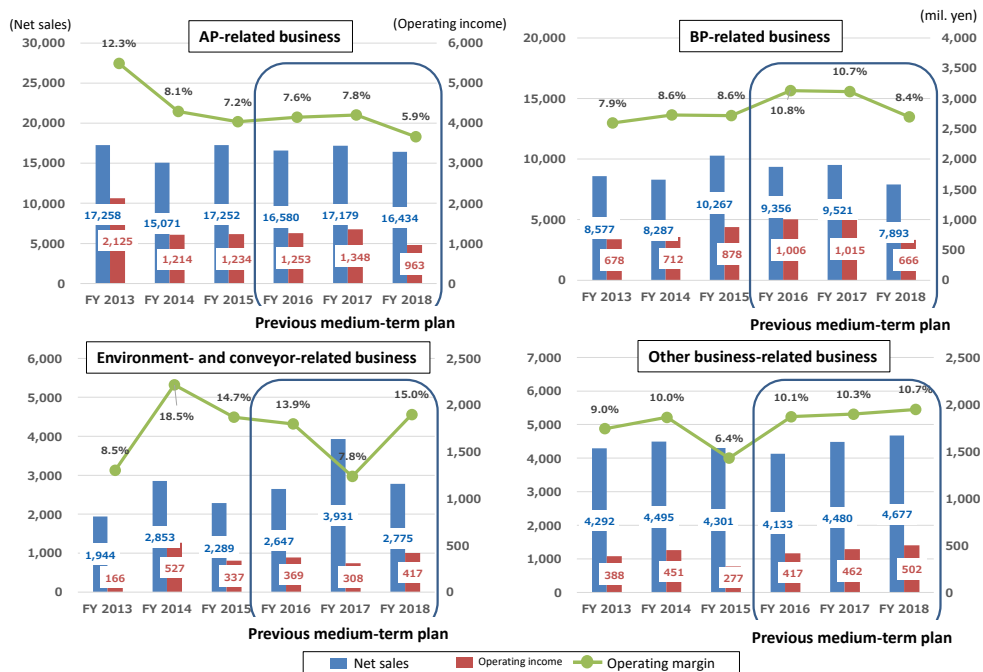
(Tokyo Stock Exchange Code: 6306)

Masaru Tsuji, President and Representative Director

- In this briefing material, AP demotes asphalt plants in our business and BP concrete plants.

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Net Sales and Operating Income Trends by Business Segment

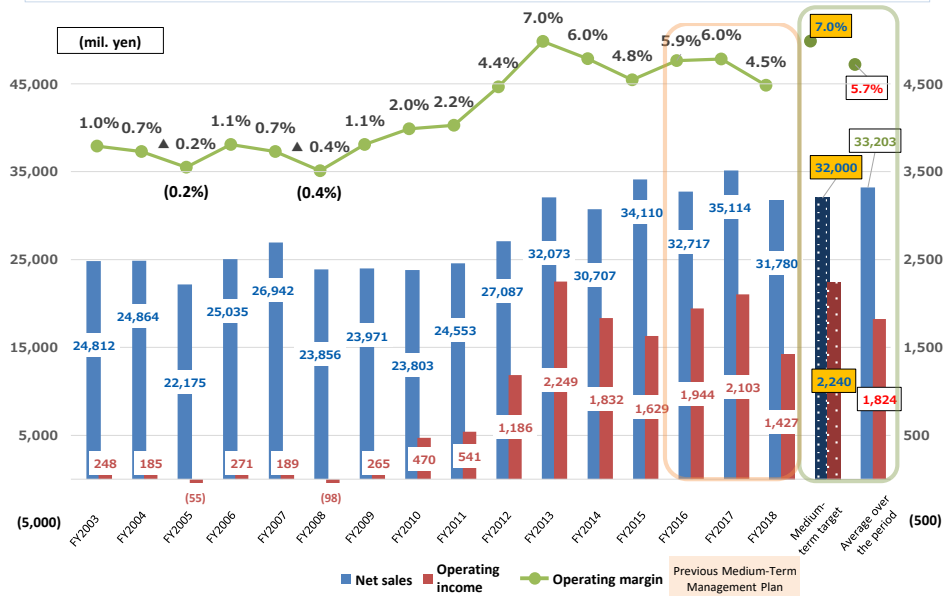


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- ❑ First, we would like to review the previous medium-term plan.
- ❑ We wanted all businesses to grow during the previous medium-term plan, but the AP-related business declined in FY 2018. It was primarily caused by the circumstances at users such as delays in foundation work and delays in application.
- ❑ Sales of BP declined in the final fiscal year.

Numerical targets under the previous Medium-term plan: net sales of 32.0 bil. yen and operating margin of 7.0% (average for the period)



- ❑ The numerical targets of the previous medium-term plan were average net sales of 32.0 bil. yen for the entire group and operating margin of 7%, but the operating margin target was unachieved.

Business environment

While shipments of asphalt mixture and concrete in Japan continued to decline slightly, orders remained strong thanks to sustained strong capital investment appetite of customers. In the final fiscal year of FY 2018, sales were below the level of FY 2017, which was caused by a hold-up in delivery timing due to circumstances at the customer side. In China, the high-end market, which Nikko targets, expanded reflecting increasingly stricter environmental restrictions. The ASEAN market stagnated because of factors including foreign exchange and elections.

Issues under the previous medium-term plan

- The existing fields progressed largely in line with the plan. While the new fields fell short of the plan, the company held NIKKO Messe 2018 (exhibition of new products) in the final year of the Medium-Term Management Plan. Through Messe, we were able to showcase our new products and technologies and were able to get some response in the form of sales growth of new products during the new Medium-Term Management Plan period.
- Overseas, sales of recycling plants increased more than expected in China due to the increasingly stricter environmental regulations, but we could not achieve expansion of the market in ASEAN region. We will focus on it by positioning it as the utmost priority in the new Medium-Term Management Plan.
- As for profitability, we raised prices in the final fiscal year, but there was no immediate effect. We will continue to work on profit improvement through sales expansion of the new VP series.

- ❑ As for the business environment, the orders were strong in the previous term, reflecting strong capital investment appetite of customers. We were not able to achieve the sales budget due to delay in delivery timing, etc., while orders remained strong.
- ❑ We have been focusing on the ASEAN region for about five years, but the business stagnated due to foreign exchange fluctuations and the state of affairs in the countries.
- ❑ Deployment in new markets and of new products was the primary focus in the previous medium-term plan, but we were unable to achieve it. We consider this as an issue.
- ❑ We held NIKKO Messe 2018 (exhibition of new products) in Japan in autumn of last year, the final year of the medium-term plan, and made large-scale preparation for awakening the market. It temporarily became a slightly negative factor on sales, etc., as the employees spent their energy on it, but we will follow up to harvest the fruits. We were able to showcase our new products and technologies at the Messe and were able to get some response in the form of sales growth of new products under the new medium-term plan.
- ❑ As I have explained in the business environment of China, demand for recycling asphalt mixture has emerged due to the increasingly stricter environmental regulations, and we would like to expand sales by deploying technology, which is our strong point.
- ❑ As for profits, we raised prices in the final year, and we expect the impact to show in the future partly due to the fact that we handle products where the sales are realized over a long term with respect to the order. We also think the new key asphalt plant product VP series will contribute to sales and profits.

Long-term (10 years) basic policy, looking into the future

1. Strengthen revenue base in Japan		We aim to improve profitability by boosting product appeal by raising the level of all divisions of sales, service, engineering, and manufacturing. (Profit margin of 10%)
2. Establish overseas sales		We, as a manufacturer, aim to establish new overseas bases to spread Nikko products, which are the best in the world, in the ASEAN region. (To double current level of overseas sales from 4.5 bil. yen to 9.0 bil. yen.)
3. Promote new businesses (M&A)		We will invest management resources in expansion of new businesses and nurture products that will become new pillars of the industrial and construction machinery fields. (To create 10.0 bil. yen in sales from the new businesses.)
4. Put work-style reform into practice		We will improve operation efficiency and significantly improve labor productivity. (To centralize office work and utilize IoT and AI)
5. Make ROE a KPI		We aim to achieve market valuation of 50.0 bil. yen or more and ROE of 8% or higher. We will also aim for a dividend payout ratio of 60% or higher and enhance returns to shareholders.

Setting these five policy items at the center, we will strengthen corporate governance and implement business management that is highly transparent and vibrant.

- ❑ In the new Medium-Term Management Plan, we formulated the numerical targets for the next three years by taking the next 10 years into consideration, given the fact that we are looking to mark our 100th anniversary.
- ❑ The long-term policies for the 10 years are as follows.
 - Improve product appeal by upgrading all segments to strengthen revenue base in Japan and increase the profit margin to 10% from the current single digit margins.
 - To establish overseas sales, change the style of marketing, especially in Thailand and Indonesia, where we are building business.
 - To promote new businesses, we will invest management resources not only in M&As but also in new businesses we are currently working on so as to nurture them into key businesses and create sales of 10.0 bil. yen in 10 years.
 - To put into practice work-style reform, we would like to deploy products that contribute to our customers' work-style reform, as they also face the same issues. We will also improve labor productivity, create reserve power and invest in new areas.
 - In 10 years, we aim to achieve market valuation of 50.0 bil. yen or more, ROE of 8% or higher, and dividend payout ratio of 60% or more, in order to enhance returns to shareholders.

Net Sales and Operating Income Trends by Nikko Group Business Segment



(mil. yen)

		Previous Medium-Term Management Plan			New Medium-Term Management Plan		
		FY 2016	FY 2017	FY 2018	FY 2019 plan	FY 2020 plan	FY 2021 plan
AP-related business	Net sales	16,580	17,179	16,434	18,700	19,000	20,000
	Operating income	1,253	1,348	963	1,570	1,710	1,900
	Operating margin	7.5%	7.8%	5.8%	8.3%	9.0%	9.5%
BP-related business	Net sales	9,356	9,522	7,893	9,200	9,300	9,400
	Operating income	1,006	1,015	666	750	837	893
	Operating margin	10.7%	10.6%	8.4%	8.1%	9.0%	9.5%
Environment- and conveyor-related business	Net sales	2,647	3,931	2,775	2,900	3,200	3,400
	Operating income	369	308	417	500	544	578
	Operating margin	13.9%	7.8%	15.0%	17.2%	17.0%	17.0%
Other business	Net sales	4,133	4,480	4,677	4,900	5,000	5,200
	Operating income	417	462	502	510	559	679
	Operating margin	10.0%	10.3%	10.7%	10.4%	11.1%	13.0%
Total for Nikko	Net sales	32,717	35,114	31,780	35,700	36,500	38,000
	Operating income	1,944	2,103	1,427	2,300	2,600	3,000
	Operating margin	5.9%	5.9%	4.4%	6.4%	7.1%	7.8%
Corporate expenses		(1,102)	(1,031)	(1,122)	(1,030)	(1,050)	(1,050)

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- In concrete figures, we aim to achieve increase in all segments over the three years, with net sales of 50.0 bil. yen in 10 years.

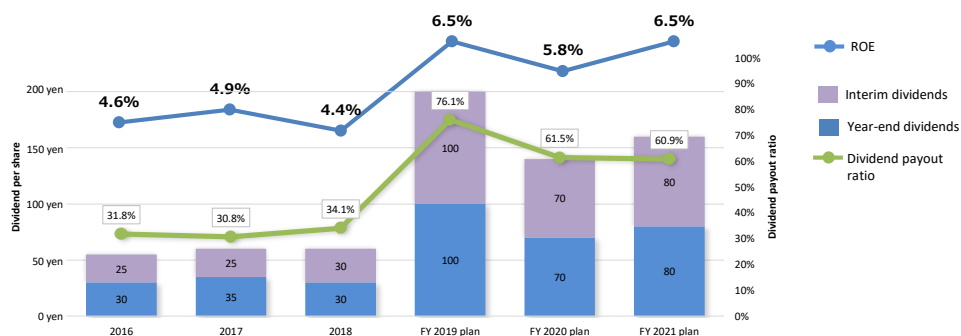
Dividend Payout Ratio and ROE



(mil. yen)

	Previous Medium-Term Management Plan			New Medium-Term Management Plan		
	FY 2016	FY 2017	FY 2018	FY 2019 plan	FY 2020 plan	FY 2021 plan
Sales	32,717	35,114	31,780	35,700	36,500	38,000
Operating income	1,944	2,103	1,427	2,300	2,600	3,000
Net income attributable to owners of parent	1,340	1,490	1,345	2,000	1,820	2,100
Dividend per share	55	60	60	*200	*140	*160
Total dividend	427	459	459	1,600	1,120	1,280
Dividend payout ratio	31.8%	30.8%	34.1%	76.6%	61.5%	60.9%
Net assets	29,089	30,286	30,414	30,814	31,514	32,334
ROE	4.6%	4.9%	4.4%	6.5%	5.8%	6.5%

*Dividend per share for FY 2019 to 2021 does not take into account the 1-to-5 split of its common stock scheduled to be implemented on October 1, 2019.



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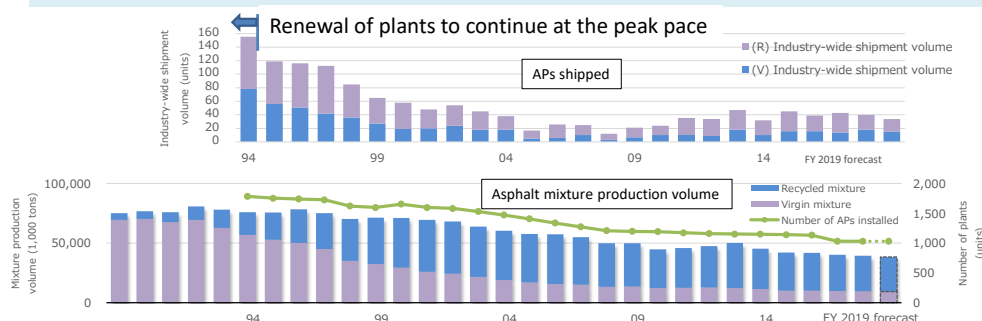
- Regarding dividend payout ratio, it had been our policy to pay dividends equivalent to about 30% until now, and this year to commemorate the 100th anniversary, we plan to pay a commemorative dividend of 100 yen per share and an annual dividend of 100 yen per share for a total of 200 yen per share, which will bring the dividend payout ratio to 76.6%, with the payout ratio at about 38%, excluding the commemorative dividends.
- For the next fiscal year and afterward, our policy is to keep the dividend payout ratio at 60% or higher.

Business environment

While the trend of asphalt mixture shipment has not changed and continues to decline slightly, capital investment appetite of customers remains strong, as the time has come for upgrading the plants that were built intensively around 1990.

Measures in the Japanese business

- Increase the sales ratio of the new model asphalt plant (VP), which can handle the rise in the recycled material blend ratio, to 50% or more.
- Efforts to reduce environmental burden by expanding sales of energy saving (25% reduction in CO2 emissions) equipment
- Expand sales of recycled mixture crushing plants
- Establish remote controlled shipment system and automated plant shipment system, which enables manpower reduction



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- ❑ The shipment volume of the mainstay AP business segment continues to decline slightly.
The plants that were newly built during the bubble economy period around 1990 have been in operation for about 30 years with repairs and replacements of main units, and (these can no longer be sustained with repairs alone) customers' appetite for replacement of facilities has become strong.
- ❑ The recycled material blend ratio of asphalt has exceeded 70% and asphalt mixture using recycled materials has become the mainstream. Until now, we have been adding facilities for recycling, but we will replace with new plants and VPs with recycling as the main strength when replacing in the future.
- ❑ We are saving energy by improving combustion efficiency, and we also have a track record of APs that use carbon-neutral alternative fuel. We would like to work thoroughly on CO2 emission reduction by expanding the sales of such plants.
- ❑ Along with AP, it is also the time for replacing crushing plants for recycled asphalt mixture, and we are planning to manufacture crushing plants by ourselves.
- ❑ There was demand for fully automated plants in work-style reform at customers. Taking into consideration the fact that we handle machinery, control and maintenance entirely by ourselves and have a market share exceeding 70%, we should be able to realize it and will accelerate the speed at which we work on this initiative.
- ❑ Since 25 years ago, both number of units and asphalt mixture shipment volume have been declining, but the maintenance service ratio to total AP related sales is more

than 60% and sales are not declining. Going forward, we are utilizing IT to further expand sales of maintenance service and have been focusing on improving customer satisfaction by saving manpower.

Business environment

- The trend in ready-mixed concrete shipment has not changed, continuing to decline slightly, while the demand for concrete secondary products is showing an increasing trend. In the future, the number of ready-mixed concrete plants is expected to decrease and there will be consolidation. The plant owners' appetite for capital investment will, on the contrary, be stimulated as the number of ready-mixed concrete plants reaches an optimum level, so the demand for ready-mixed plants is estimated to remain flat.



Measures in the Japanese business

- Leverage DASH brand and boost the dynamic market share to 50% from 40%.
- Ensure profits with environmental products and new technologies from measures for residual and returned concrete.
- Differentiate by developing a new high-performance mixer and approach concrete plants for secondary products.
- Expand sales of mobile BP, which is suitable to disaster-stricken areas
- Build cloud system by evolving NIKKO Contents Service.
 - Existing remote maintenance is after-sales maintenance. Evolve it into presales maintenance employing predictive diagnosis utilizing sensor technology.
- Expand sales of new model automatic mixer cleaner which realizes manpower saving.

- ❑ The business trend for BP is similar to that of AP and shipment volume of ready-mixed concrete is also on a declining trend. Infrastructure has already been developed and it has shifted to the maintenance era, and we have to take measures also in the BP business.
- ❑ Currently, the annual market share of BP is about 40% and we will carry out activities to overcome other companies and increase the share to 50% as a target in three years.
- ❑ We will introduce new products and technologies for environmental measures addressing returned concrete, which is concrete returned from work sites, and residual concrete, which occurs in the manufacturing process, and grow them.
- ❑ We will introduce new models in a timely manner to respond to mixing of new, high performance and high quality concrete.
- ❑ We have been introducing new mobile BP products that can be operated at disaster-stricken areas since last year and we will expand sales of these products.
- ❑ Like AP, we will evolve the remote maintenance service we have been offering for more than 15 years into preventive maintenance.
- ❑ We will work on manpower saving for other matters, which are taking up our customers' time.

Maintenance method reform (work-style reform)

- Promote replacement of products that save manpower and require less maintenance.
- Reform of inspection method using IoT including wearable, sensor, etc.
- Build cloud system by evolving NIKKO Contents Service.

Existing remote maintenance is after-sales maintenance. Evolve it into presales maintenance employing predictive diagnosis utilizing sensor technology.

Improve customer satisfaction

- Expand Nikko Fan by expanding Plant Training Center and technical training.
Completed refurbishment of Plant Training Center at the head office and Tokyo Service Center in 2019.
- Bolster backup structure with the Customer Support Center (CSC).

- ❑ In the maintenance service business, we will promote switching to products that contribute to work-style reform at customers.
- ❑ We are also working on reform of inspection methods such as personnel at a support center checking the situation of the worksite by utilizing Smartglasses, which is a wearable terminal, to provide technical support and accurate responses.
- ❑ We also have been offering maintenance training for plant operators for several decades to improve customer satisfaction and have them continue to use the plants in good condition. We are receiving increasing requests from customers regarding the issue of skill transfer, so we will enhance training and technical courses to further foster a sense of unity with customers.

Business environment

Demand for renewal and modification of existing asphalt plants will increase primarily in the urban areas given the active infrastructure investment policy of the government and increasingly stricter environmental regulations. We expect the trade friction between the U.S. and China not to have any direct impact on infrastructure investment in China and the business environment would remain reasonable.

Respond to changes to stationary plant factories.

- (i) Introduce new development projects into the market one by one: mixer 6t/B, RU enlargement, etc.
- (ii) Differentiate by introducing new equipment with environmental measures.
- (iii) Fully expand the maintenance service business (targeting large-scale stationary plants).

Handle facilities that are suitable for the stationary plant factory.

- (i) Improve plant functions.
- (ii) Improve safety and ease of maintenance of plants.
- (iii) Work on remote monitoring system (response to remote maintenance)

- ❑ Even though the situation in China is unstable due to the trade war between China and the U.S., investment in domestic demand-related infrastructure is strong. Expressways run throughout the nation and it has become necessary to construct roads branching from them, which in turn has led to requirements for having one plant in each area in addition to the plants for expressways.
- ❑ In the Chinese market, our APs are recognized as high-end plants and we can expect the market to expand.
- ❑ It has become possible for us to deploy the technology we have to respond to the environmental regulations and it has become easier for us to differentiate ourselves.
- ❑ In the year 2019 also, there have been many orders, exceeding the levels of the previous fiscal year. Nevertheless, we don't have any intention expand our production capacity.
- ❑ In China, we sell about 20 units of AP a year and that figure has been expanding. While supporting it, we will expand the maintenance field like in Japan and aim to build a recurring revenue model.
- ❑ At the stationary plant, we will also pursue initiatives related to remote maintenance service like in Japan.

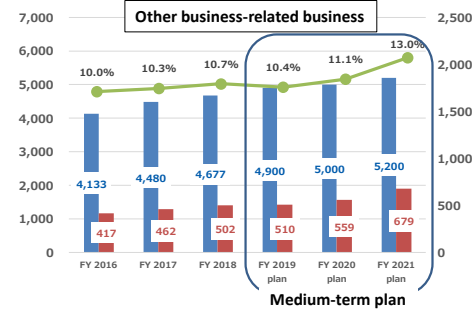
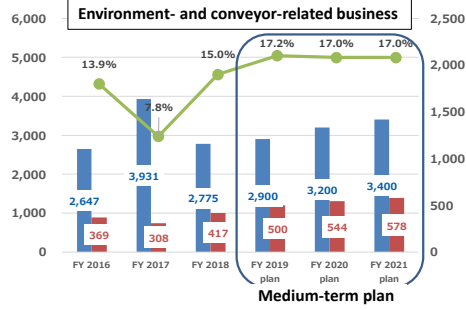
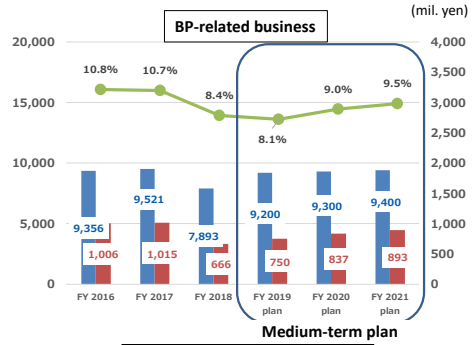
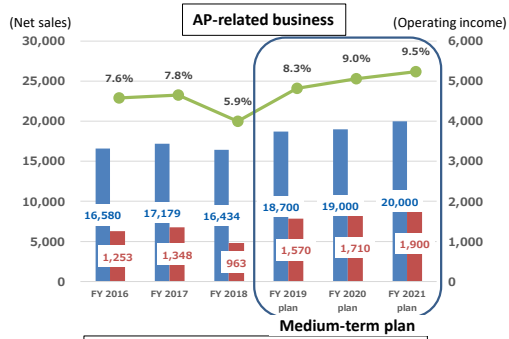
Summary of product and service measures

■ Along with the sales enhancement of the new product business, we aim to enter into the business of second-hand products, parts, and maintenance corresponding to the targets and needs.

		Profitability	Level of needs fulfillment	Issues	Competitive edges	Feasibility	Timing of realization
		Degree of contribution to profits	Scope of needs to be met	Level of difficulty to solve	Level of originality	Experience	Time it takes
(i)	Strengthen new plant sales	<ul style="list-style-type: none"> Secure double the current sales and make it a main revenue source. 	<ul style="list-style-type: none"> Fulfill the requirements for quality and stable operation by some users. Review targets and improve opportunity loss. 	<ul style="list-style-type: none"> Enhance sales structure. Expand dealers and build partner management structure. 	<ul style="list-style-type: none"> Trust in quality (stable operation) Control of running costs with technological support Ease of operation 	<ul style="list-style-type: none"> Necessary to review sales strategy 	<ul style="list-style-type: none"> Short term (within 1 year)
(ii)	Enter the second-hand plant business	<ul style="list-style-type: none"> Secure new revenue source Potential for capturing sales volume, though unit price is lower than new products 	<ul style="list-style-type: none"> Control the second-hand products, which accounts for majority of the market, and control sales channels of Nikko products. 	<ul style="list-style-type: none"> Procurement and stock management of second-hand products Quality assurance Alliance with dealers handling second-hand products. 	<ul style="list-style-type: none"> Even though they are second-hand products, offer high quality products and do not handle inferior products. 	<ul style="list-style-type: none"> Necessary to establish operation of a new business, which we have no experience even in Japan. 	<ul style="list-style-type: none"> Medium to long term (within 2 to 3 years)
(iii)	Enter the parts sales business	<ul style="list-style-type: none"> It is purely a support measure for selling new and second-hand products. 	<ul style="list-style-type: none"> Offer parts quickly, which is what all users seek. 	<ul style="list-style-type: none"> Parts stock management 	<ul style="list-style-type: none"> Quality as genuine product parts Enable handling of key parts that can be offered only by the manufacturers. 	<ul style="list-style-type: none"> Necessary to build a structure locally. 	<ul style="list-style-type: none"> Medium term (within 1 to 2 years)
(iv)	Enter the maintenance service business	<ul style="list-style-type: none"> It is purely a support measure for selling new and second-hand products. 	<ul style="list-style-type: none"> Support maintenance by customers themselves, which is a need for medium scale or smaller customers. 	<ul style="list-style-type: none"> Local maintenance structure (rotation from Japan, hiring of local engineers) 	<ul style="list-style-type: none"> Knowhow accumulated in the Japanese market 	<ul style="list-style-type: none"> Necessary to build a structure locally. 	<ul style="list-style-type: none"> Medium term (within 1 to 2 years)
-	Review product groups	<ul style="list-style-type: none"> Profitability is lower than the existing business of new plants. 	<ul style="list-style-type: none"> Enhance the lineup of products in the low price range. Reduce loss of opportunity. 	<ul style="list-style-type: none"> Decline in brand value (unclear positioning) Possible to fulfill with second-hand products 	<ul style="list-style-type: none"> Introducing low-order products means less differentiation with competitors (?) 	<ul style="list-style-type: none"> Newly require product design, price setting, production facilities, etc. 	<ul style="list-style-type: none"> Long term (requires 3 to 5 years)

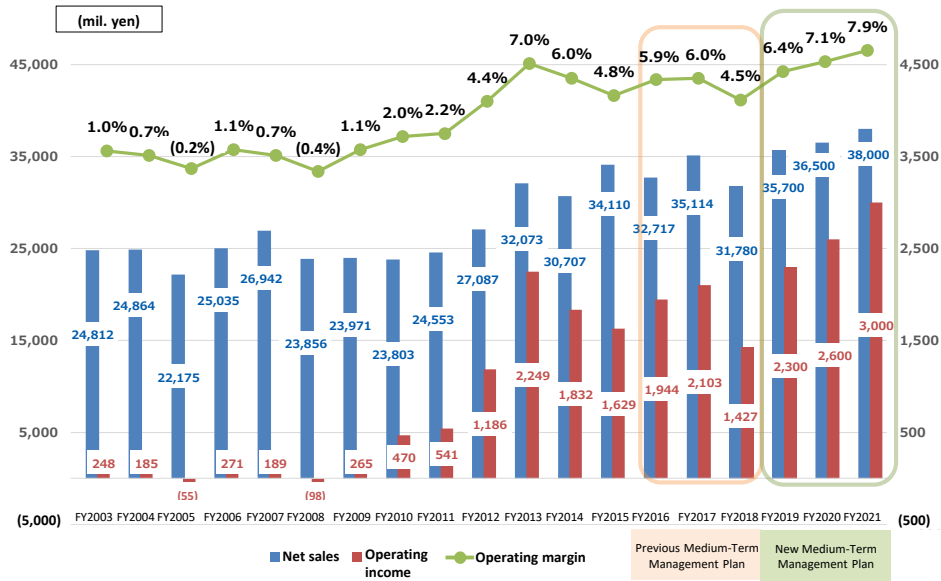
- In the ASEAN region, while cumulative sales volume increased to double digits, the local purchasing power and economic power are insufficient for buying products that are of grades equivalent to those in Japan. We are manufacturing core units in Japan, and assembling and selling them overseas, and sales are somewhat stagnating.
- We are reviewing the methods taken so far with the help of consultants and are considering improving sales and service efficiency by building local bases.

Net Sales and Operating Income Plans under Medium-Term Management Plan (1)



■ Net sales ■ Operating income ● Operating margin

Net Sales and Operating Income Plans under Medium-Term Management Plan (2)



Classification	Committee and project list	Explanation of function
Sales	Project to liberalize sales of group products	Generate synergies as the entire company sells the group products.
Sales	Project to promote sales in response to Expo 2025 Osaka	Vitalize business negotiations related to Expo 2025 Osaka
Maintenance	Project to promote smart services	Sell add-on to existing equipment, replacement with new functions, and safety equipment as maintenance products.
Maintenance	Project to develop equipment for work-style reform	Develop products that offer manpower saving, energy saving, and safety (linked to smart service)
Overseas	Project to install business bases in the ASEAN region	Build business bases for expanding sales in the ASEAN market and expand overseas business.
Overseas	Second-hand business project	Sell second-hand machines in Japan and abroad (linked to the ASEAN project)
Engineering	New development project review committee	Uncovers new businesses by deploying core technologies in areas other than existing business fields.
Manufacturing	Project to consider establishing global production bases	Expand business base including overseas procurement and domestic dispatch to reduce costs and improve productivity.
Operations	Sales innovation project	Improve speed and customer satisfaction with work-style reform in sales method reform.
Operations	Engineering method reform project	Build design method not constrained by existing methods and boost the speed of creating manufacture drawing.

- We have started committees and projects to achieve the Medium-Term Management Plan, and the officers are leading and driving them forward.