

August 31, 2022

FY 2022 1Q Results Briefing: Gist of Questions and Answers Session

Progress of the 1Q results and comparison with the outlook

- **The results for the first quarter of the current fiscal year appears to be rather weak. How did they fare when compared with the internal plan?**

→ I believe that the question was how the first-quarter progress of 18% in operating income against the first-half forecast of 1,000 million yen compared with the internal budget. Both net sales and operating income were slightly poor compared with the internal budget but the discrepancies are not large. Originally we had expected weak figures for the first quarter and do not think the first-quarter results were significantly worse than the plan in the internal budget.

- **Please explain the measures for achieving the second-quarter forecast, how sure you are about achieving it, and how certain you are about achieving the second-half forecast. What is expected to drive the business performance?**

→ We do not have a plan to implement new measures for improving earnings. In our case, we can mostly predict sales and income for three months or a year when the year or the term starts based on the order backlog. So far, we are expecting to achieve the forecast figures if we can steadily work on the current order backlog. In terms of revenue drivers, we are expecting the Chinese business to come up with quite strong figures. Also, the figures for both sales and income of BP were not that strong in the first quarter, but we are expecting quite a lot of sales will concentrate in this second quarter, so we think BP will contribute to the overall figures. Furthermore, mobile plants, waterproof boards, and temporary construction materials did not do well in the first quarter but they are expected to recover in the second quarter, and therefore we believe we can sufficiently achieve the plan we formulated at the beginning of the term.

→ Among things that were not reflected in the initial budget and plan, orders for the foamed asphalt device for making warm-mix asphalt, which is an environmentally friendly AP product, have been increasing significantly. The announcement by the Tokyo Metropolitan Government that it would adopt warm-mix asphalt from now on has been the biggest factor. In particular, major road pavement companies also have been very proactive or have a sense of urgency regarding CO2 emission reduction, and demand for products that lead to CO2 emission reduction or those that do not

consume extravagant amounts of fossil fuel have been very strong. Given this situation, there are great many inquiries regarding foamed asphalt devices. This had almost no impact on the figures for the first quarter, but we believe that it will show up considerably in the second quarter or second half as well as from the next fiscal year on.

- **What were the new, positive business opportunities and conversely the new risk factors in the first quarter and until now? For example, price revision has been making more-than-expected progress, or the issue of parts procurement is more serious than anticipated.**

→ In the sense of new, positive business opportunities, orders for environmentally friendly products (foamed asphalt devices) have been increasing and the Chinese business. We are naturally not optimistic about China, but there have been very active investments in road development in our business environment. In particular, considerable budget has been allotted for roads in inland China. We feel that the share of recycled mixture has also risen comparatively in China, and demand for urban-type plants are becoming higher, reflecting a rise in environmental awareness. We have originally been selling our products targeting only the high-end market, and what we have been steadily working on may begin to bear fruit at this point.

→ This is about the rise in raw materials costs and transferring it to the selling price of products. Regarding this, it is not that our customers do not accept the transfer to the selling price. Since April of last year, we have been having price negotiations with higher estimates, and customers fully understand the rise in steel price, and therefore we have been receiving new orders at prices based on the raw material prices at that time. However, as for orders we received before the steel price rose, there is no business practice where the selling price is increased in between because of a rise in raw material prices, or conversely to lower it when raw material prices decline. So, it is inevitable that the continued rise in raw material prices to have a negative impact on profit, like the current situation. The rate of increase in raw material prices for the last one-year period was extremely steep, and although steel price is still rising at the moment, we believe the rate of the rise would not be as bad as last year. In addition to the impact of higher prices of raw materials, the delivery time of electronic components has become very long, and this is something we consider as a problem that is more serious than the price increase. We are trying as much as we can to stock those parts with long delivery time.

Nikko Messe 2022

- **There is information on Nikko Messe 2022 on page 18 of the Financial Results Briefing Session Materials. How much orders are you expecting from Messe?**

→ There has never been a case where business negotiations get finalized at Nikko Messe right then and there, with orders worth 500 million yen or 1,000 million yen. Something like that has never happened so far. Of course, I would not say that there has been no business negotiations finalized at Messe, but Messe itself is positioned as a place for introducing new products rather than as an opportunity for business negotiations. First, customers will look at the products we newly developed, then they will understand the value of these products, and then we will drive forward business negotiations after the Messe is over. That is the method we follow. It goes without saying that it requires a considerable amount of money for holding the event and to develop products to be released there, and naturally we conduct the event with a certain level of orders and prospect in mind. We do not have the order estimate in figures at the moment, but it would be good if you could imagine that we will be selling the new products over the course of one, two, or four to five years once Messe is over.

Regarding the Tokyo Metropolitan Government's announcement for environmentally friendly AP products of foamed asphalt device and warm-mix asphalt

- Regarding the decision by the Tokyo Metropolitan Government to purchase warm-mix asphalt, please elaborate on more details and the potential that this would spread to prefectures other than Tokyo.

→ Asphalt mixtures will solidify at the construction site if its temperatures are low while being transported to the site. For this reason, we have not been able to lower its temperature taking into account the workability using existing technology. There is no choice other than using lots of fuel to dry-heat it to a high temperature at the mixture plant. To reduce CO2 emissions, it is most effective to reduce the amount of fossil fuel consumed by asphalt mixture plants. The temperature of warm-mix asphalt is usually 20 to 30 degrees Celsius conventionally lower, and its workability for road pavement works is also sufficient. The amount of fossil fuel necessary for raising the temperature is smaller, so it has cost benefit for customers and leads to CO2 emission reduction. As for the possibility of this spreading outside Tokyo, we believe that it is likely to spread from Tokyo to the entire country. Tokyo Metropolitan Government decided to use it because it was confirmed that it did not have any problems for use as a mixture for paving roads, and we feel there is no reason why other prefectures will not be influenced. Using warm-mix asphalt leads to CO2 emissions reduction and we believe that this trend will spread throughout the country.

Business outlook of the Thailand business

- You have explained that the loss at the Thailand subsidiary expanded in the first quarter. When do you expect it to turn profitable and how does it compare with the initial forecast?

→ From the time we established a subsidiary in Thailand, we expected it to lose money for the first three years, and it is not that the forecast was revised downwards at this point. When we first entered China 20 years ago, it took about seven years to turn the business profitable and we struggled considerably. We expanded out of Japan knowing that it will not be easy to make it profitable overseas. In our case, we entered into another country without any local customers. Our business model is different from that of auto parts manufacturers where you can sell the products to Japanese companies operating in the market. We sell products to 100% local businesses and we had to develop customers from scratch, and it is in line with our prediction as of now. If future customer development does not go as planned, it might lose money for a little longer than the three years. There are, however, no major negative factors in particular at this point. If anything, we were able to find a very strong distributor in Thailand. It is a top manufacturer who makes asphalt in Thailand and sells it to asphalt mixture plants in the country. The distributor has customers that account for more than 50% of the asphalt mixture plants in Thailand and we think we would be able to expand our sales route comparatively soon.

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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