

December 6, 2022

FY 2022 2Q Results Briefing: Gist of Questions and Answers Session

About the Business Outlook

Q. The AP-related business posted an operating loss in the second quarter (July– Sept.). You explained that you are expecting the effect of product price hike in the second half.

What would be the third and fourth quarters' shares of the operating income forecast of approx. 400 million yen for the second half?

A. We expect the second-half operating income of the AP-related business to be approx. 400 million yen. The breakdown by quarter will be ± 0 million yen for the third quarter, with a possibility of it being slightly in negative territory. In the fourth quarter, we are expecting an operating income of 400 to 500 million yen.

Q. What is your current view of the performance for the next fiscal year, which is the second year of the Medium-Term Management Plan?

A. Economic environment has the biggest impact on business performance. Price rise in raw materials and prolonged delivery times of electronic and other parts had major impact also in the previous medium-term plan period, but currently it is showing improvement to a certain extent. As long as the economic environment does not worsen further, customers also cannot leave manufacturing facilities as they are, as they need the facilities for manufacturing their products. Consequently, we think things will begin improving compared to now.

FY 2022 perhaps is going to be very tough especially in terms of profit and is likely to be the bottom when you consider it over a 10 year period. Though we have been raising product prices from the last fiscal year, there is a time lag of one to two years for AP, and sometimes even more than two years, for the contract to be recorded as sales, and if the raw material prices increase, profits will be down just as much. We expect that impact to more or less disappear in the next fiscal year. As for BP, we expect it to continue its good performance.

A concern going forward is the loss of approx. 200 million yen for the half year posted by the recently started Thailand subsidiary. We are planning to offer across-the-board support, including from the

parent company to narrow the losses. Still, the loss at the Thailand subsidiary is the risk for the next fiscal year as of now.

On the whole, in figures, we expect increases in revenue and profits for the next fiscal year compared to the current fiscal year.

Q. You explained that the NIKKO MESSE was booming. What is its impact on future performance?

A. The NIKKO MESSE exhibition, despite the impact of the COVID-19 pandemic, attracted 1,126 visitors, which is quite a large number. The new large model AP exhibited at the MESSE does not have any novelty in terms of appearance, but has a unit structure, which would enable reducing the time required for on-site construction work as the units can be assembled like building blocks. It has been highly acclaimed, with some business negotiations having developed into orders. While we cannot provide any quantitative figures for orders, qualitatively, we are getting increased number of inquiries not just for the mainstay products but also for other products of the Group. We believe getting customers interested in the displayed products will positively affect the order numbers too.

Q. You have a target of 4.0 billion yen in net sales of decarbonization-related products in FY 2030. What is the operating margin you are envisaging there? How does it compare to the company-wide goal of 10%?

A. Currently we are pushing forward various research and development activities to achieve carbon neutrality. Close at hand is the device that would reduce the temperature of asphalt, and ultimately fuel conversion to hydrogen and ammonia may be possible and as such, we are pursuing that development too.

If we are able to develop a device whose added value is appreciated by the customers, we believe we would be able to achieve an operating margin slightly higher than the 10% company-wide target. There are uncertain areas regarding future energy supply, and we are unable to provide concrete figures as to which product is suited for the requirements. Nonetheless, we would like to strive to secure operating margin of devices for which we are considered as the only supplier and devices that are distinctive.

Future capital investment

Q. Regarding the 6.0 billion yen capital investment described in page 9 of the briefing material, what are the objectives behind the 500 million yen for new plant construction and 1.0 billion

yen for development test center? Where are you going to build them? Also, what is the remaining 4.5 billion yen in capital investment going to be allotted to?

- A. Regarding the specifics of capital investment, we have not taken a final decision as a company for the 500 million yen for new plant construction and the 1.0 billion yen for development test center. We are, in fact, not thinking of something big regarding the new plant.

Specifically, there has been a steady increase in the number of contractors around us who are gradually closing down due to difficulties in finding successors. Our concept is that, going forward, we will offer space to contractors who have no choice but close down their business due to lack of successors, and gather them and build plants to support them, but we have not decided on a site or timing.

Regarding the development test center, we have strategically increased not only R&D expenses but also the size of the team over the past several years. We are planning to build a development test center in the premise of the Head Office Plant to house the staff of this division and carry out simple tests.

Regarding the remaining capital investment, which is 4.5 billion yen, we do not have any specific large-scale projects as of now. Compared with the capital investment of 6.3 billion yen in the previous Medium-Term Management Plan, we planned to spend 6.0 billion yen in the three years under the current medium-term plan but it is likely to be slightly less than that. In the previous medium-term plan, we made an extremely large investment in Thailand but we do not have a project like that during the current medium-term plan, so there is a possibility that it would not reach 6.0 billion yen. However, we plan to steadily carry out investments that lead to rationalization and improvement in productivity including equipment and machinery.

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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