Nikko Co., Ltd.

Financial Results Briefing

First Quarter of the Fiscal Year 2024

(Ending March 31, 2025)

September 9, 2024

Event Overview

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First Quarter of the Fiscal Year 2024 (Ending March 31, 2024)

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Speaker: Hiroshi Fujii, Representative Director & Vice President
(hereafter, referred to as Fujii)

Website: https://www.nikko-net.co.jp/

Video URL: https://www.youtube.com/watch?v=mk5ngPD6chs

Corporate Report: https://www.nikko-net.co.jp/ir/library/corporate-report.html

Contents

* The last digit of the figures of changes in this document may differ from those in the Quarterly Report due to the treatment of fractions less than unit.

Fujii： Good day, everyone. This is Fujii from Nikko. Thank you for joining our first-quarter financial results briefing. I'll start with an overview of the 1Q results and our outlook for the current fiscal year and would be pleased to take as many questions as time allows.

FY2024 1Q Business Environment

FY2024 1Q Results

(million yen)

1Q (Apr.–Jun.)	Results	YoY	YoY Change
Net Sales	9,849	+1,403	+16.6%
Operating Income	462	+562	–
Quarterly Net Income Attributable to Owners of Parent	337	+309	+1,148.1%
Order Intake	14,039	+3,262	+30.2%

Net Sales and Order Intake

- AP-Related Business:
  - Domestic product sales and orders decreased, but increased maintenance led to overall domestic growth.
  - Overseas sales decreased, resulting in a slight overall decline.
- BP-Related Business: Product sales and orders fell; Maintenance remained flat.
- Crusher-Related Business: Increased sales and orders of high-priced products led to a 15.9% YoY rise.
- Contract-based manufacturing business: Sales increased by 576% YoY due to large-scale projects with Ube Machinery and the incorporation of Matsuda Kiko.
- Order intake: Increased across all segments except Environment and conveying-related business segment.

Business Environment

(million yen)

AP-Related Business

FY2024 1Q (Apr.–Jun.)	Results (10,000 tons)	YoY Change
Total Mixture Material	709	(3.9%)
Virgin Mixture	180	(1.6%)
Recycled Mixture	529	(4.5%)
Recycled Mixture Ratio	74.6%	

Source: Japan Asphalt Mixture Association

BP-Related Business

(million yen)

FY2024 1Q (Apr.–Jun.)	Results (10,000 tons)	YoY Change
Ready-mixed Concrete Shipment	1,649	(5.0%)

Source: ZENNAMA (National Federation of Ready-Mixed Concrete Industrial Associations and National Federation of Ready-Mixed Concrete Cooperatives Association)

So, let's start with an overview of the 1Q results. Since the figures in the first quarter of the previous fiscal year were quite poor, we saw significant year-on-year growth in both revenue and profit in this quarter. Compared to the internal budget, the results are largely in line with our plans.

While there are some shifts within the segments compared to the budget, overall net sales are almost in line with our forecasts, and profits slightly exceeded the budget.

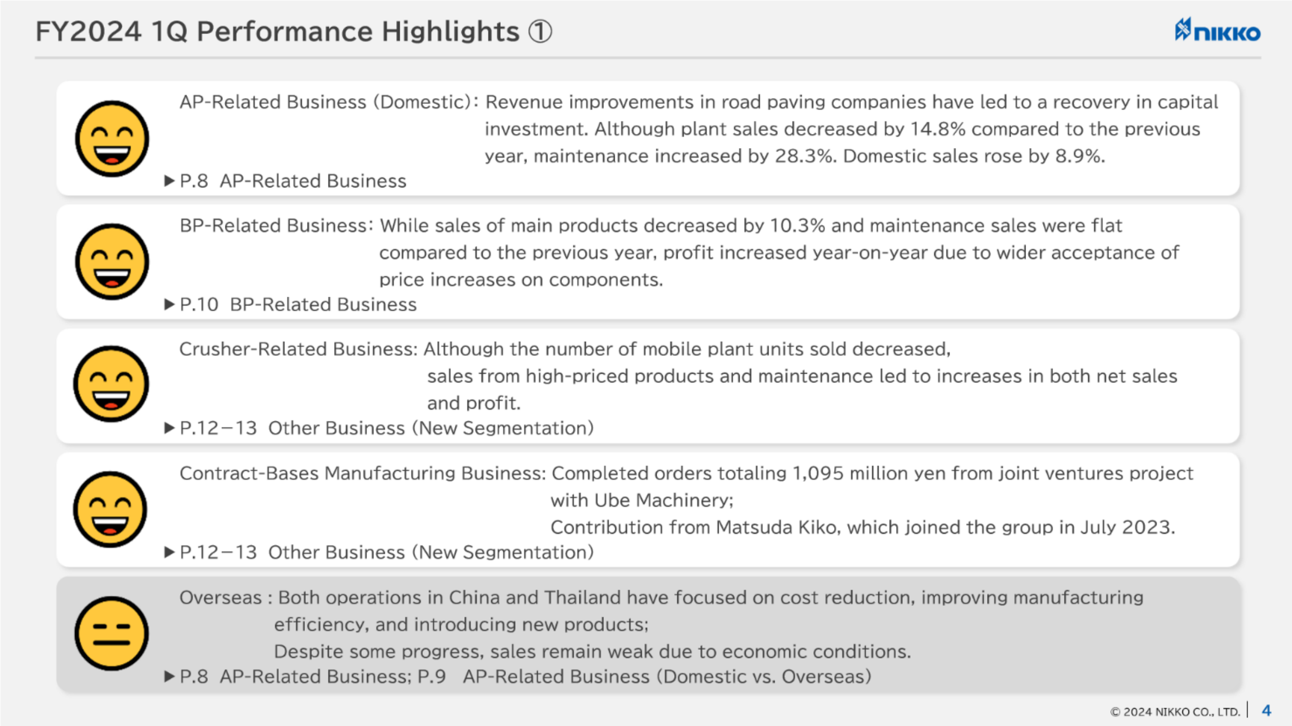
The main discrepancy was in our Thailand operations. We had expected approximately 700 million yen in sales in 1Q, based on a significant backlog at the end of the previous fiscal year. However, due to delays in inspections, actual sales in 1Q were nearly zero. This is a timing issue, and we anticipate that sales will catch up in 2Q, so it should not be a major concern for the full fiscal year.

On the other hand, the contract-based manufacturing segment, which was separated from 'Other Segments' in the previous fiscal year, performed better than expected. Although there were some special factors involved, the results were very positive.

Another key highlight of 1Q is that the order intake was more active than planned. We received orders totaling about 14 billion yen. While this doesn't directly translate to a fourfold increase for the year, we have set a full-year order target of 50 billion yen. The start of the year has been very promising, particularly with strong performance in BP orders.

Due to the strong order intake, the order backlog at the end of 1Q has significantly increased, and now stands at 26.5 billion yen. This represents an increase of 6.5 billion yen compared to the previous fiscal year.

Regarding the business environment on the right side, both the shipment volume of asphalt mixtures and ready-mixed concrete have been slightly decreasing in recent years. In this fiscal year, asphalt mixture production is down by 3.9% compared to the same period last year, and ready-mixed concrete shipments have decreased by 5%.



Next, I will highlight the 1Q performance and briefly explain each segment.

First, for AP. In the domestic market, revenue improvements of road paving companies have led to a recovery in their capital investment. However, for 1Q alone, domestic product sales have decreased compared to the previous fiscal year, while maintenance has seen a 28.3% increase.

Regarding domestic sales of AP products, while 1Q sales were below the previous year, we expect to achieve similar levels to last year over the full fiscal year. On the other hand, we anticipate a significant improvement in profit margins, so we expect domestic AP profitability to increase substantially compared to last year.

Next, for BP. As mentioned earlier, the 1Q order intake of BP was exceptionally strong. However, if we look at 1Q sales alone, product sales are down 10% compared to the previous year. Like AP, BP's product sales are expected to be concentrated in 2Q and beyond. For the full fiscal year, we anticipate BP's product sales will significantly exceed the previous year's figures.

Next, for the crusher-related business segment. Sales have decreased compared to the previous fiscal year, sales from high-priced products and a gradual increase in maintenance sales have led to overall growth in both sales and profits.

Next, for the contract-based manufacturing business segment. A special factor which I mentioned at the beginning is Ube Kohki, which we acquired, and the sales from a long term project that we had been working on as a joint venture generated about 1 billion yen in 1Q. Additionally, the inclusion of Matsuda Kiko, acquired through M&A in July of last year, has contributed to significant increases in both sales and profit in the segment compared to the previous fiscal year.

On the overseas front, we are actively working on reducing manufacturing costs in both China and Thailand, as well as developing new products to gain a competitive edge in overseas markets. These initiatives will take some time to show results. And as I mentioned earlier, 1Q sales in Thailand were nearly zero due to delays in inspections.

FY2024 1Q Performance Highlights ②

- Net sales: **AP** -48 mil. yen; **BP** -95 mil. yen; **Env. & Conveying** +129 mil. yen; **Crusher** +87 mil. Yen; **Contract Manufacturing** +1.32 B. yen; **Other** +10 mil. yen.
- Operating Income: Profit growth in the domestic AP business driven by effective price increases, with further gains in the contract-based manufacturing business following the integration of Matsuda Kiko.
- Order Intake: **AP** +139 mil. yen; **BP** +1.79 B. yen; **Env. & Conveying** -90 mil. yen; **Crusher** +92 mil. Yen; **Contract Manufacturing** +1.22 B. yen; **Other** +95mil. yen.
- Order Backlog: **AP** +1.16 B. yen; **BP** +4.34 B. yen; **Env. & Conveying** +277 mil. yen; **Crusher** +209 mil. Yen; **Contract Manufacturing** +457 mil. yen; **Other** +118 mil. yen.

(million yen)	FY2023			FY2024				
	1Q Results	1H Results	FY Results	1Q Results	YoY Change	FY Forecast Progress Rate	1H Forecast	FY Forecast
Net Sales	8,446	16,982	44,097	9,849	+1,403 +16.6%	20.5%	23,000	48,000
Operating Income	(99)	269	1,968	462	+562 —	17.7%	1,300	2,600
Operating Margin	(1.2%)	1.6%	4.5%	4.7%	+5.9pt	—	5.7%	5.4%
Ordinary Income	67	455	2,144	625	+557 +832.8%	24.0%	1,300	2,600
Quarterly Net Income Attributable to Owners of Parent	27	348	1,312	337	+309 +1,148.1%	19.8%	850	1,700
Order Intake	10,777	25,128	48,749	14,039	+3,262 +30.2%	31.0%	27,000	50,000
Order Backlog	19,987	25,986	22,371	26,560	+6,573 32.8%	—	30,560	28,560

Let’s look at the detailed numbers. Sales have increased by 1.4 billion yen compared to the previous fiscal year, mainly due to higher sales in the contract-based manufacturing business.

Operating profit has also improved significantly, with notable gains in the domestic AP business. Additionally, the inclusion of Matsuda Kiko in the group has resulted in a substantial increase in operating profit in the contract-based manufacturing business compared to the previous fiscal year.

Order intake increased by 3.2 billion yen compared to the previous fiscal year. This growth was largely driven by the BP business and the contract-based manufacturing business, both of which had special factors contributing to the higher figures.

Order backlog increased by 6.5 billion yen compared to the previous fiscal year, of which 4.3 billion yen is attributed to the BP business.

FY2024 1Q Performance Highlights ③

(million yen)		FY2023 1Q Results	FY2023 1H Results	FY2023 FY Results	FY2024 1Q Results	FY2024 YoY Change	FY2024 FY Forecast Progress Rate	FY2024 1H Forecast	FY2024 FY Forecast
AP-Related Business	Net Sales	3,795	7,114	17,938	3,746	(50) (1.3%)	18.7%	10,200	20,000
	Operating Income	(92)	29	331	179	+271 —	14.9%	700	1,200
	Operating Margin	(2.4%)	0.4%	1.8%	4.8%	+7.2pt	—	6.9%	6.0%
BP-Related Business	Net Sales	2,313	5,049	11,907	2,217	(96) (4.2%)	17.7%	6,000	12,500
	Operating Income	169	504	1,341	241	+72 +42.6%	16.6%	700	1,450
	Operating Margin	7.3%	10.0%	11.3%	10.9%	+3.6pt	—	11.7%	11.6%
Environment and Conveyor-Related Business	Net Sales	643	1,450	3,309	772	+128 +20.1%	24.1%	1,400	3,200
	Operating Income	126	332	793	162	+36 +28.6%	36.0%	220	450
	Operating Margin	19.6%	22.9%	24.0%	21.0%	+1.4pt	—	15.7%	14.1%
Crusher-Related Business	Net Sales	552	1,078	3,198	640	+88 +15.9%	25.6%	1,400	2,500
	Operating Income	22	56	274	54	+32 +145.5%	54.0%	80	100
	Operating Margin	4.0%	5.2%	8.6%	8.4%	+4.4pt	—	5.7%	4.0%
Contract-Based Manufacturing Business	Net Sales	229	369	3,072	1,550	+1,321 +576.9%	34.4%	2,200	4,500
	Operating Income	(16)	(32)	270	229	+245 —	50.9%	350	450
	Operating Margin	(7.0%)	(8.7%)	8.8%	14.8%	+21.8pt	—	15.9%	10.0%
Other	Net Sales	911	1,919	4,670	922	+11 +1.2%	17.4%	1,800	5,300
	Operating Income	98	191	769	37	(61) (62.2%)	3.9%	250	950
	Operating Margin	10.8%	10.0%	16.5%	4.0%	(6.8pt)	—	13.9%	17.9%

Next, let's compare 1Q sales, operating profit, and operating profit margin in each segment this fiscal year with those of the previous year.

First, for AP, sales were nearly flat compared to the previous year, showing a slight decrease. However, operating profit improved significantly, rising from a loss of 92 million yen last year to a profit of 179 million yen this year, with an operating profit margin of 4.8%. This substantial turnaround is due to major improvements in both domestic AP product sales and maintenance.

Similar to AP, BP's sales were nearly the same as the previous year, with a slight decrease. However, operating profit increased to 241 million yen, and the operating profit margin improved to 10.9% this fiscal year, significantly exceeding last year's figures. Despite the decrease in sales, profit has increased.

Next, for the environment and conveyance-related business, sales reached 770 million yen, which is about 20% higher than the previous fiscal year. Profit remained strong, and the profit margin slightly exceeded last year's figures.

For the crushing machinery segment, sales slightly exceeded last year's figures. Profit, however, has doubled, with the profit margin reaching 8.4%.

For the contract-based manufacturing business, last year's sales were 229 million yen with a loss of 16 million yen. This fiscal year, both sales and profit have increased significantly.

Finally, for the Other Business segment, sales remained stable compared to the previous year, though profits experienced a slight decrease.

FY2024 Quarterly Performance Trend

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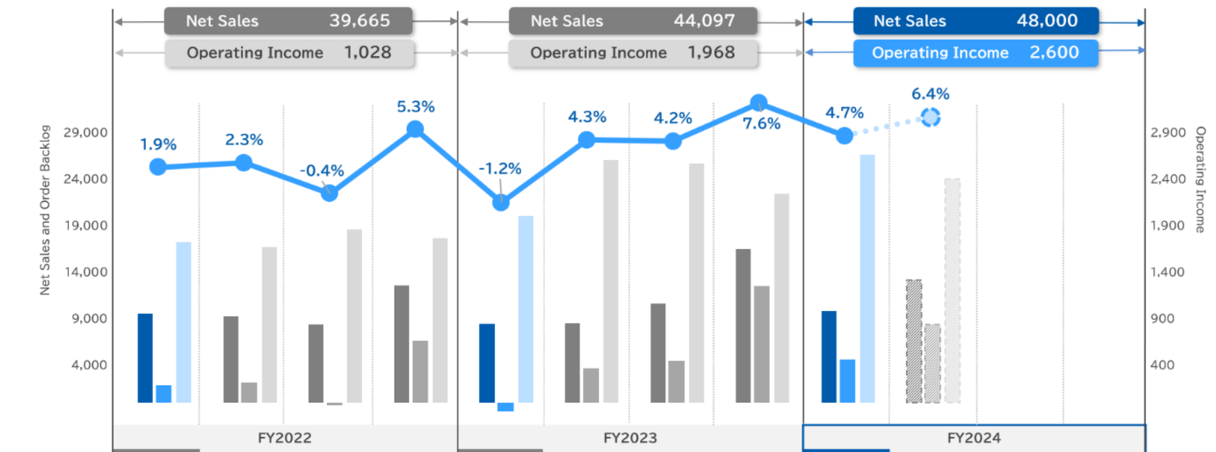
Quarterly Net Sales and Operating Income Trends

(million yen)



	FY2022				FY2023				FY2024			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q Forecast	3Q	4Q
Net Sales	9,504	9,256	8,369	12,536	8,446	8,536	10,637	16,478	9,849	13,151		
Operating Income	183	216	(32)	661	(99)	368	449	1,250	462	838		
Operating Margin	1.9%	2.3%	(0.4%)	5.3%	(1.2%)	4.3%	4.2%	7.6%	4.7%	6.4%		
Order Backlog	17,202	16,660	18,560	17,656	19,987	25,986	25,642	22,371	26,560	30,560		

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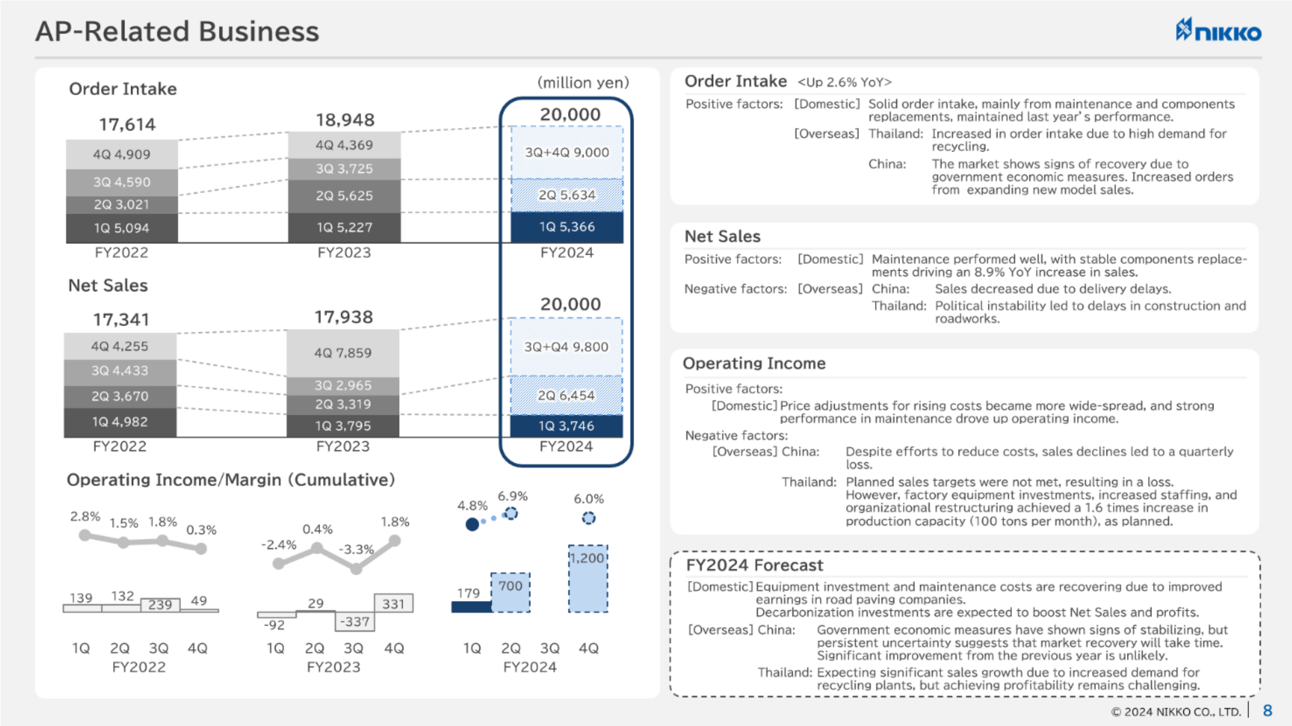
As you can see from our quarterly performance trends, sales tended to concentrate in the fourth quarter. Typically, 1Q starts off weak, and in some years, 3Q also underperforms, while 2Q tends to be relatively strong, following 4Q. However, for FY2024, we expect less fluctuation between the first and second halves of the year.

Reviewing the figures more closely, 1Q sales of 9.8 billion yen and operating profit of 460 million yen this year indicate a strong start, even when compared to periods before the last two fiscal years shown in this graph.

Another key feature this year is that 2Q will see significant growth. This is mainly due to domestic AP and BP product sales concentrating in 2Q. We expect 2Q sales to reach 13.1 billion yen, with a notable increase in profit.



Next, I will provide a more detailed overview of each segment. Let’s start with AP’s order intake and sales.

Orders increased by 2.6% compared to the previous fiscal year, showing modest growth. Overseas, demand for recycling in Thailand has emerged earlier than initially expected, leading to a rise in orders.

Regarding China, in the previous fiscal year (FY23), the real estate downturn led to significant cuts in public investment budgets by local governments, resulting in reduced road budgets. As a result, our local operations in China struggled with order intake.

While the business environment has not yet fully recovered to pre-FY22 levels, it shows signs of improvement compared to the previous year. Furthermore, our new models in China have been well-received, and 1Q order intake has exceeded last year's figures.

In terms of net sales, domestic maintenance performed well in 1Q and is expected to remain strong in 2Q. However, our overseas operations are facing some challenges.

Regarding operating profit, domestic profits have improved due to better margins on products and strong performance in maintenance. As a result, domestic operating profit has increased significantly compared to the previous fiscal year.

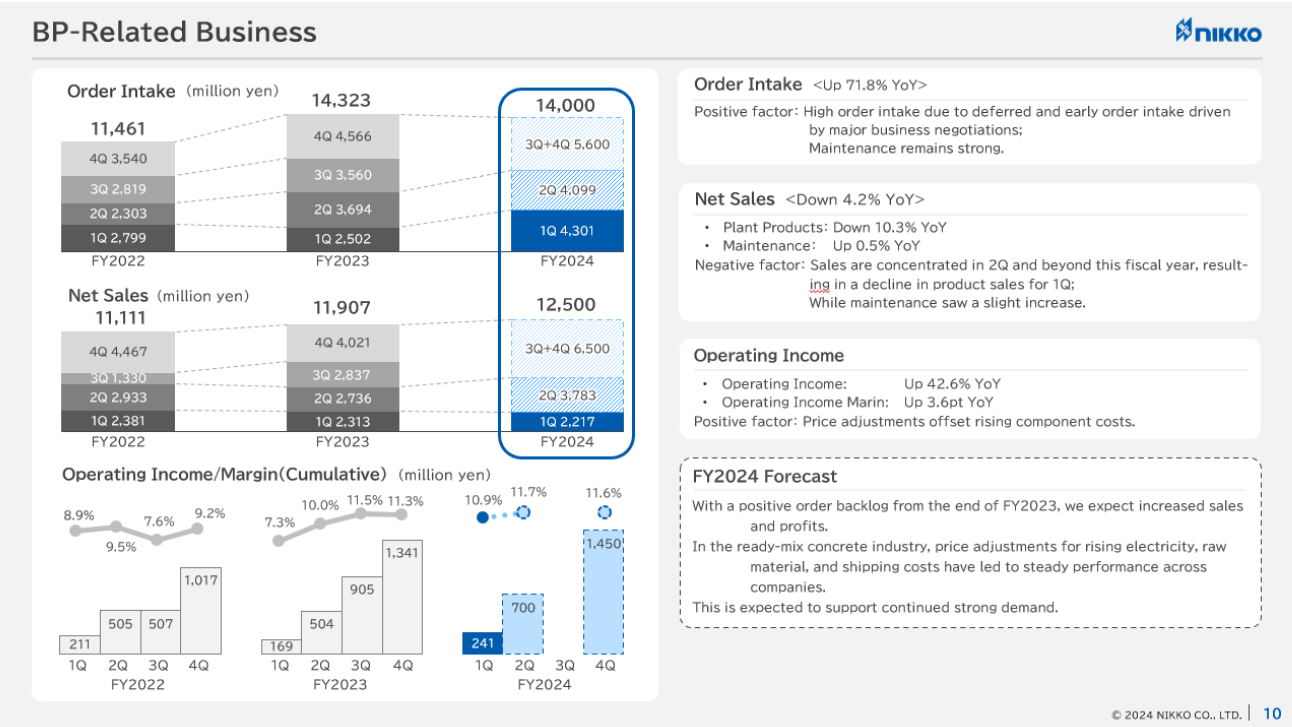
Regarding overseas operations, as previously mentioned, sales in Thailand fell short of expectations, leading to larger-than-anticipated losses. However, we are actively working to enhance our production capabilities in Thailand. This involves investing in factory equipment, expanding our workforce, and reorganizing our operations. Specifically, we aim to establish a production capacity of two asphalt plants per month. These efforts are progressing as planned

For the full fiscal year forecast, we expect significant growth in domestic maintenance profits due to improved profitability of road paving companies compared to FY23. Although overall product sales may not see a substantial rise, we expect an improvement in profit margins.

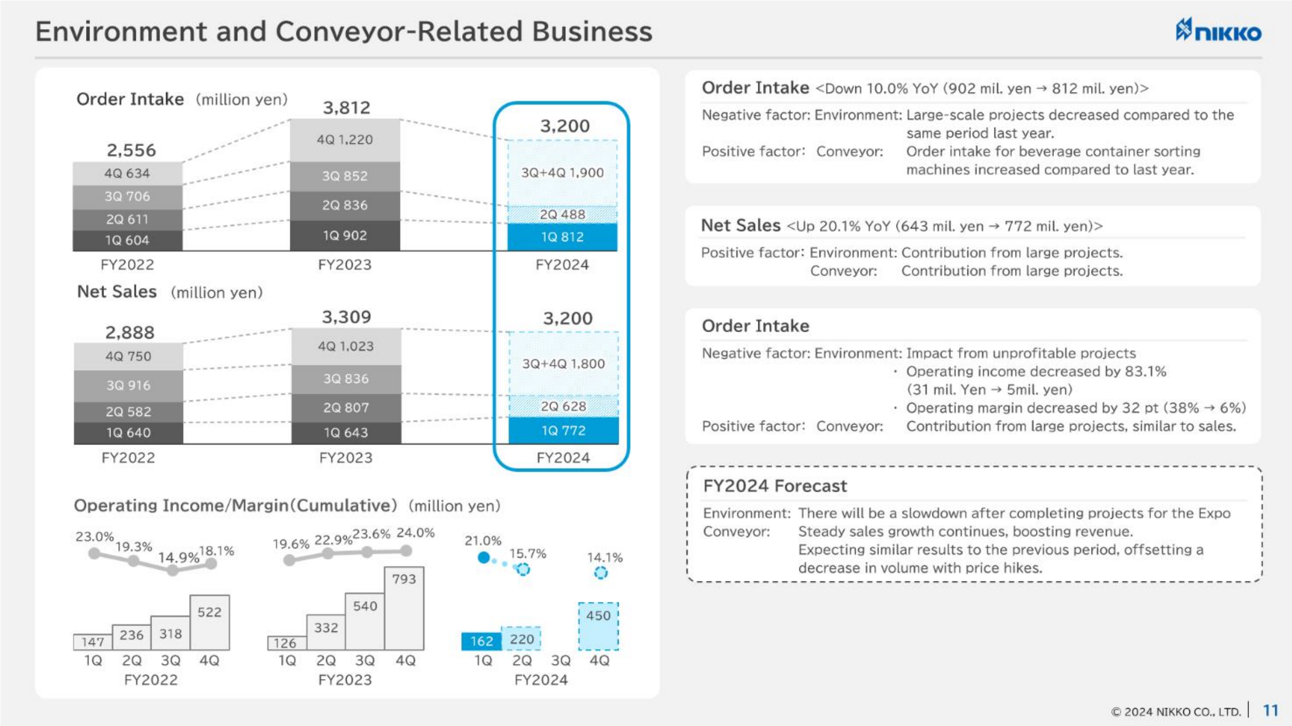
As for China, we are not particularly optimistic. Thus, we have budgeted for results similar to FY23. However, based on 1Q order intake, we expect slightly better figures this fiscal year compared to the previous one.

Regarding Thailand, we budgeted with the assumption of continuing losses in this fiscal year. The shift of 1Q sales to 2Q will not have a major impact on the full-year results. However, order activities are slower than expected. We anticipate a slightly larger loss for FY24 compared to the initial forecast, mainly due to delays rather than new negative factors.

The next section on domestic and overseas AP-related details contains repetitive information, so I will skip this part.



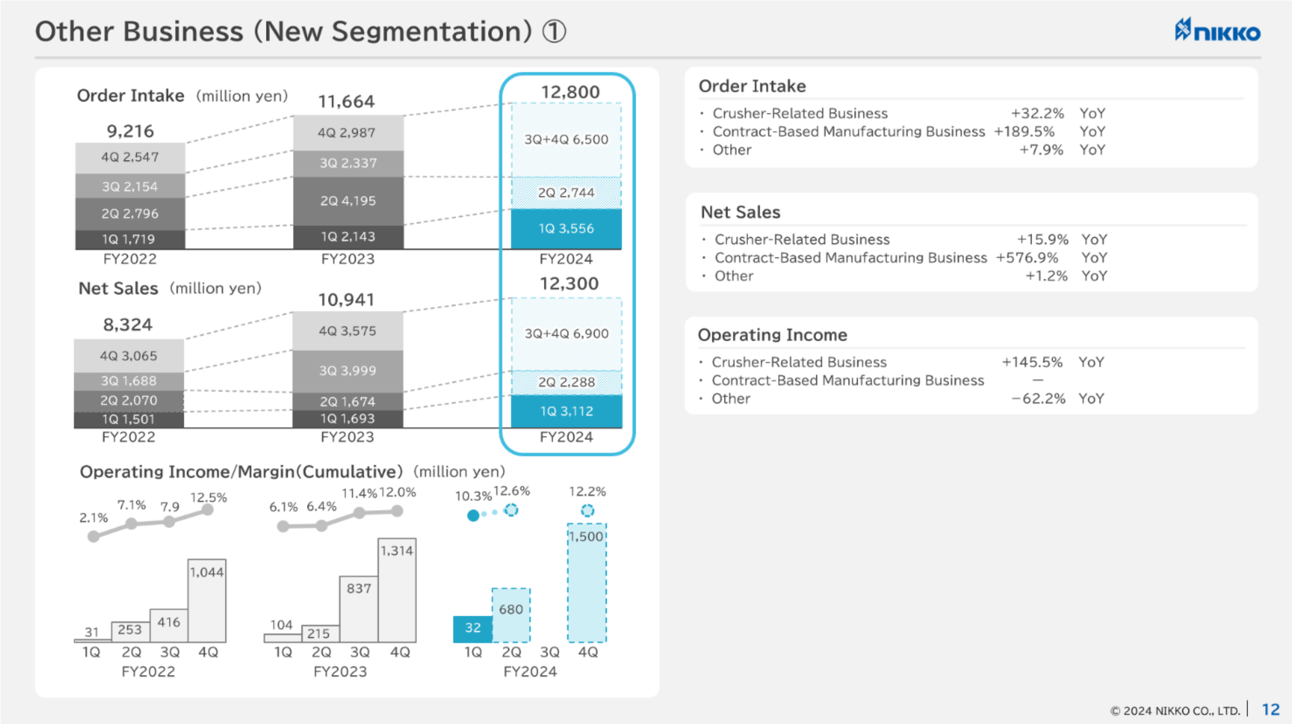
For BP, order intake has been exceptionally strong. In 1Q, sales met our expectations and there are no major concerns. With strong orders, we expect BP's sales and profit to grow significantly in 2Q and beyond into fiscal year 2025.



For the environment and conveyor-related business, order intake has decreased by about 100 million yen, a 10% drop from the previous year. This decline is mainly due to the absence of large environmental projects from last year, despite an increase in conveyor-related orders.

Sales have risen by over 100 million yen from the previous year. However, operating profit has suffered due to losses in the environment segment, while the conveyor segment has seen a notable improvement in profitability.

For the full fiscal year forecast, we expect a decrease in both sales and profits of the environment segment as the projects for the Expo have mostly been completed. The conveyor segment is expected to maintain steady sales at a same level of the previous year, supported by the effects of price increace, despite a slight reduction in volume.



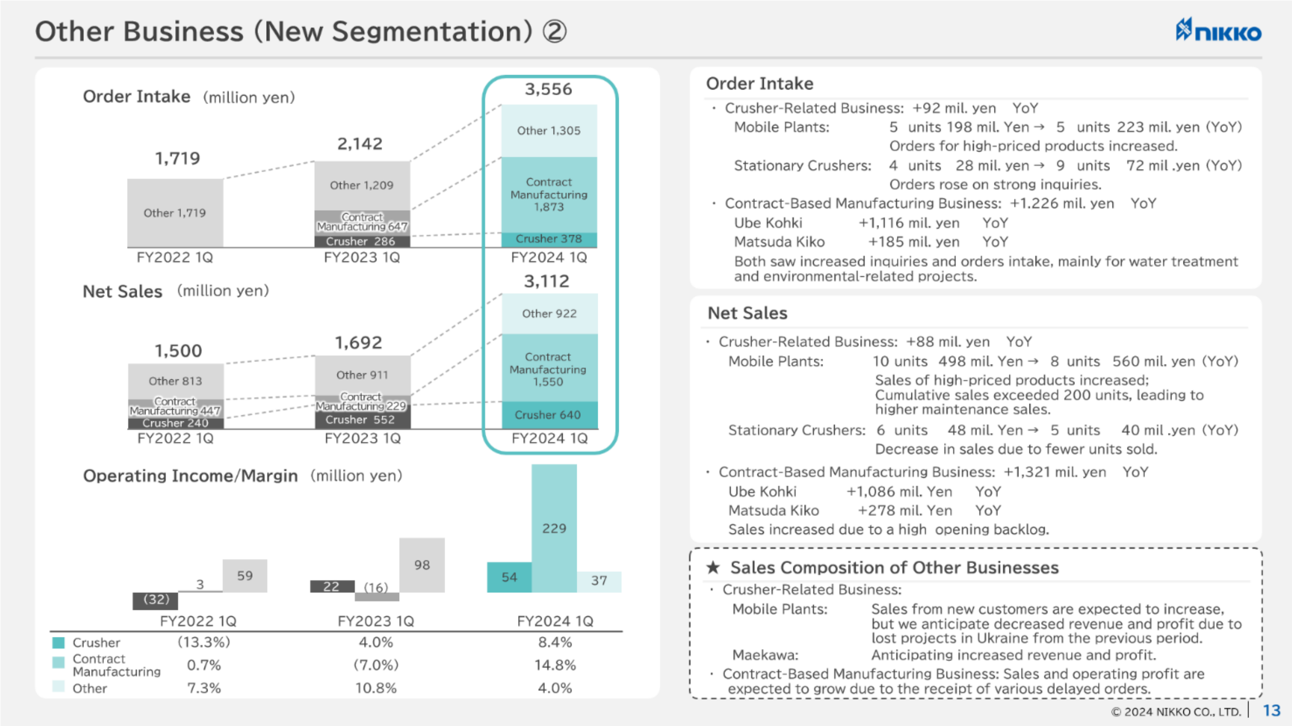
Let's move on to the other business segment. From the previous fiscal year, we have separated two segments as independent segments.

Starting with an overview of order intake, we have reported figures separately for the crusher-related business and contract-based manufacturing business segments, distinct from the previous other business segment. The remaining items reflect only those not included in these newly separated segments.

For order intake, crusher segment saw a 32% increase compared to the previous year, while contract-based manufacturing experienced a notable rise of 189%.

Sales also increased in both crusher and contract-based manufacturing segments compared to the previous fiscal year. The "other" category also saw a slight increase of 1.2%.

On the other hand, operating profit of the "other" business segment has decreased slightly compared to the previous fiscal year.



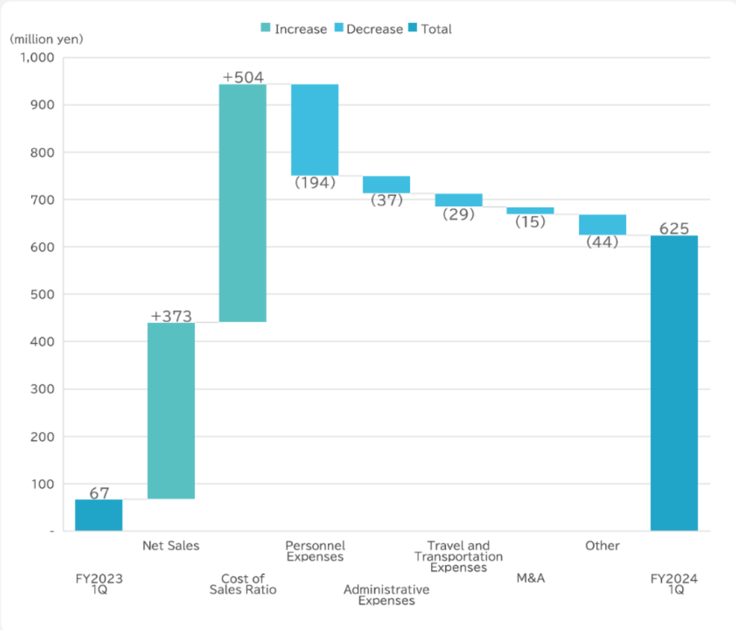
Next, I will talk about the crusher and contract-based manufacturing segments, which were previously part of the "Other" business segment until FY22.

For crushers, order intake has increased by 92 million yen compared to the previous year, indicating steady business growth. Both mobile and stationary crushers have seen higher order volumes.

For contract-based manufacturing, there were notable impacts from a one-time order with Ube Machinery and the consolidation of Matsuda Kiko. Despite these special factors, the rest of the business is progressing smoothly.

Sales figures show an increase of 88 million yen for crushers and a rise of 1.3 billion yen for contract-based manufacturing compared to the previous fiscal year.

FY2024 1Q Analysis of Factors Affecting Changes in Ordinary Income



(million yen)

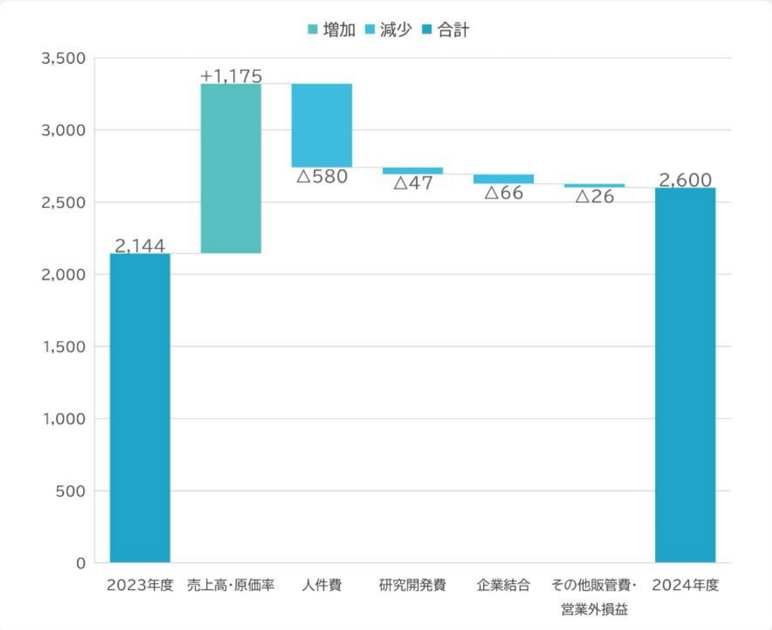
Items	Impact	Content
Net Sales	+373	Increase in net sales +1,403 mil. yen
Cost of Sales Ratio	+504	Improvement in cost-of-sales ratio (excluding labor costs): 73.4% → 68.8%
Personnel Expenses	(194)	Increase in number of employees and base-pay
Administrative Expenses	(37)	Increase in system usage fees and outsourcing costs
Travel and Transportation Expenses	(29)	Increase in Business trips
M&A	(15)	Nishinihon Real Estate to be included in Financial Reports from this fiscal-year (FY2024)
Other	(44)	Increase in Rental Expenses +23 Increase in Dividend Income +18 Decrease in Foreign Exchange Gains (19)

The next page analyzes the factors behind changes in 1Q ordinary profit compared to last year's loss, divided into positive and negative impacts.

The main positive factors were the 1.4 billion yen increase in sales, which added 373 million yen to profits, and a 5% improvement in the cost ratio, contributing 500 million yen. However, personnel expenses, administrative costs, travel and transportation expenses, and the acquisition of Nishinihon Real Estate led to higher SG&A costs.

During this medium-term management plan period, with the current fiscal year being the final year, we had planned for a significant increase in personnel. Although the pace of hiring has been slightly slower than expected, we have continued to increase staff and raise wages over the past three years, including this year. These factors have led to an impact of approximately 200 million yen.

2024年度通期 経常利益 増減要因分析(予想)



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項目	影響額	内容
売上高·原価率	+1,175	売上高の増加 3,903百万円
人件費	△580	賃金アップ △240 人員増加 △300 売上400億RS △40
研究開発費	△47	開発費用の増加
企業結合	△66	西日本不動産 162期よりP/L取込
その他販管費 営業外損益	△26	

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The next section analyzes the factors driving changes in full-year ordinary profit. Sales and cost ratio improvements together contribute a positive impact of 1.175 billion yen. On the other hand, increases in personnel expenses, R&D costs, impacts from corporate mergers, and other SG&A costs lead to a total negative impact of 2.14 billion yen. Overall, this results in an increase of approximately 500 million yen, from 2.1 billion yen to 2.6 billion yen.

Balance Sheet Trends

(million yen)		End of FY2023	FY2024 1Q	Change	Main Factors
Assets	Current Assets	41,033	42,656	+ 1,623	Increase: Cash and cash equivalents +890 mil. yen Electronically Recorded Monetary Claims +545 mil. yen Merchandise inventories/Finished goods +479 mil. yen Work on process +2,427 mil. yen Other +198 mil. yen Decrease: Notes receivable −190 mil. yen Accounts receivable −2,726 mil. yen
	Tangible Assets	13,247	13,828	+ 581	Increase: Buildings and structures +118 mil. yen Machinery, equipment and vehicles +134 mil. yen Land +24 mil. yen Construction in progress +289 mil. yen Investment securities +219 mil. yen
	Intangible Assets	1,208	1,189	− 19	
	Investments and Other Assets	6,740	7,019	+ 279	
Total Assets		62,229	64,693	+ 2,464	
Liabilities	Current Liabilities	21,743	24,114	+ 2,371	Increase: Notes and accounts payable-trade +357 mil. yen Accounts payable - other +759 mil. yen Contract liabilities +2,837 mil. yen Decrease: Income taxes payable −521 mil. yen Provision for bonuses −421 mil. yen Other −539 mil. yen
	Long-term Liabilities	7,399	7,383	− 16	
Total Net Assets		33,086	33,194	+ 108	Increase: Valuation difference on available-for-sale securities +152 mil. yen Foreign currency translation adjustment +227 mil. yen Decrease: Retained earnings −237 mil. yen
Net assets per share (yen)		861.74	865.93	+ 4.19	

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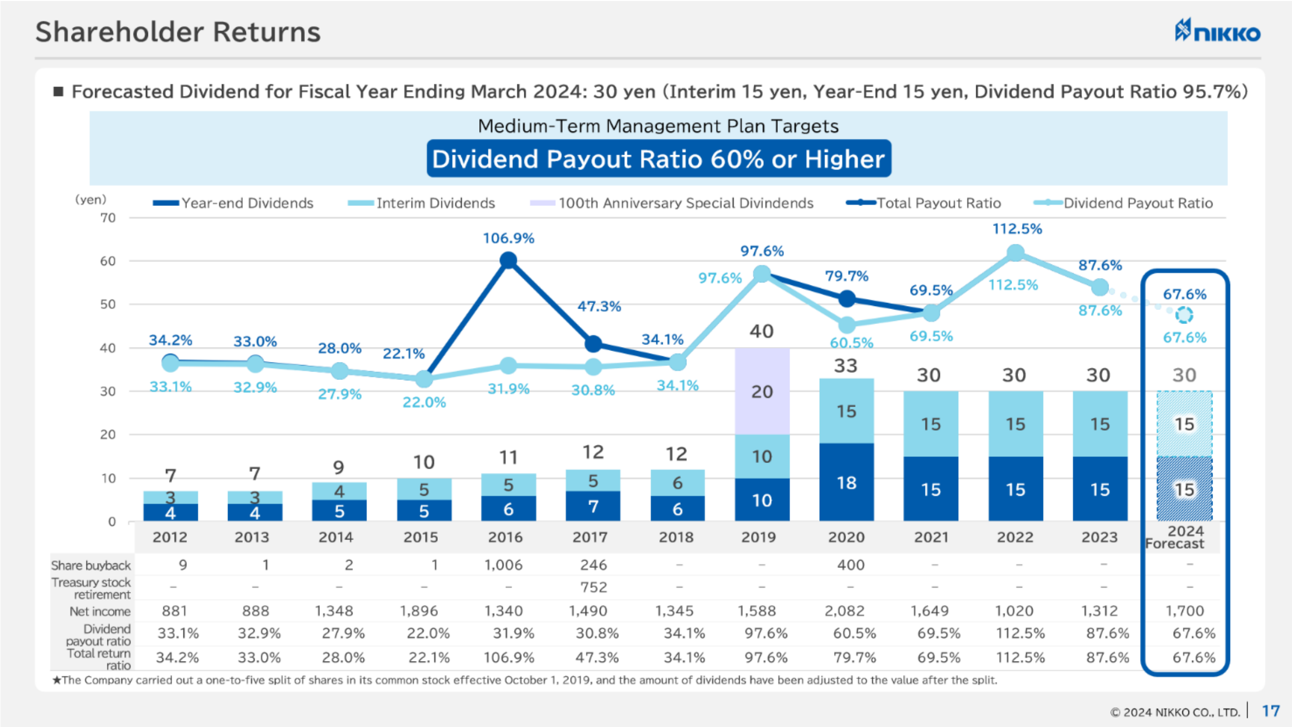
Next, let's review the balance sheet. Compared to the figures at the end of FY23, total assets increased by approximately 2.5 billion yen, reaching 64.6 billion yen. This includes a 1.6 billion yen increase in current assets and a 580 million yen rise in tangible fixed assets.

On the right side, we have included the breakdown. With strong order intake, work-in-progress and finished goods increased by about 3 billion yen combined. Cash and deposits increased by around 900 million yen. This is partly due to an increase in contract liabilities, which rose by 2.8 billion yen.

For net assets, there was an increase of 1.08 billion yen, reaching 33.19 billion yen. The net assets per share amount to 865.93 yen.



Finally, let’s address the shareholder return policy. During this medium-term plan period, we have announced a target dividend payout ratio of over 60%. Regarding the past two years' results, the dividend payout ratio was 112% in FY22 due to low profit levels and 87.6% in FY23.

For the current fiscal year, we forecast a net profit of 1.7 billion yen. With a planned dividend of 30 yen per share, the dividend payout ratio would be 67.6%. This 30 yen dividend per share remains unchanged from the past three years.

The following pages provide basic data. For today's presentation, we will not be discussing these details individually.

This concludes today’s briefing.

September 9, 2024

Tokyo Stock Exchange Code: 6306

Nikko Co., Ltd.

FY 2023 Results Briefing: Questions and Answers Session

Questioner [Q]：The AP segment's operating profit margin is expected to improve to 6.9% in 2Q, but it is forecasted to decline to 5.1% in the second half. Considering the price increase effects and a potential recovery in overseas business, it seems feasible to maintain at least the first-half margin. Could you explain the reasons for the expected decline?

Fujii [A]： Regarding the decline in the second-half profit margin, we've projected the margin based on a detailed analysis of individual product margins.

Specifically, in the domestic market, as we've explained before, there are strategic deals that may have lower profitability or even losses. Some of these less profitable projects are expected to impact the second half, leading to a slight decrease in the margin compared to the first half.

While we have seen some positive effects from price increases and a leveling off of raw material cost increases, including steel, our current forecast is based on a conservative outlook of a 5.1% profit margin for the second half. However, if there is a room for a margin review and improvement, we will adjust our performance forecast accordingly. At this stage, we have not fully factored in the benefits of price increases or reduced procurement costs, which is why the second-half margin is expected to decline from 6.9% to 5.1%.

Questioner [Q]：The order intake and sales for contract-based manufacturing segment have surged significantly. You mentioned there were special factors involved. Could you explain these factors and their sustainability beyond the 2Q? Moreover, with an operating profit margin of around 15%, is this level of profitability sustainable?

Fujii [A]：The special factor was a joint venture project with Ube Koki that we’ve been working on for 5–6 years, and its completion led to around 1 billion yen in sales being recorded in 1Q. About 50 million yen in profit was also booked from this project.

While the sales were boosted by this special factor, the profit itself wasn’t unusually inflated, as the margin was about 5%.

As for the full-year outlook, we are projecting a 10% profit margin. The 15% margin in 1Q was driven by strong performance from both Ube Koki and Matsuda Kiko, especially with Matsuda Kiko benefiting from several high-margin projects. However, we expect the full-year margin to settle around 10%.

You may wonder whether this contract-based manufacturing segment can consistently achieve double-digit profit margins, but both Ube Koki and Matsuda Kiko have unique strengths. They are highly regarded for their technical expertise and ability to meet short deadlines, which adds value for customers.

Additionally, with a shrinking supply side—especially among small to medium-sized competitors facing succession challenges—our focus on this area has helped us maintain high profitability.

To answer your question about sustainability, while a 15% margin might be a bit high, we believe maintaining a double-digit margin of around 10% is very feasible moving forward.

Questioner [Q]： In your analysis of changes in ordinary profit, the improvement in the cost ratio has contributed a significant 500 million yen. Could you break this down into the effects of price increases, material costs, and cost reductions? Also, can you comment on the sustainability of this improvement beyond 2Q?

Fujii [A]：Breaking down the cost ratio improvement into the specific contributions of price increases, material cost changes (which didn’t rise as much as expected), and cost reductions is quite challenging.

Additionally, we report our overall profit margin rather than separating it by product sales and maintenance services.

Maintenance services typically have a gross profit margin of around 25–30%, the product profit margin is around 10%. As the share of maintenance revenue increases, it makes the overall gross profit margin look better because of the higher margin contribution.

In 1Q, both the AP and BP divisions saw product sales decrease while maintenance revenue increased, which contributed to the improvement in the overall margin.

However, it's difficult to quantify the exact impact of price increases, material costs, or cost reductions at this stage. This is something we need to analyze more thoroughly going forward.

As for sustainability beyond 2Q, this will largely depend on the ratio of maintenance services to product sales. In 2Q and beyond, both AP and BP are expected to see a significant increase in product sales, which could raise the cost ratio and lower the gross profit margin. However, even considering the full year, we don’t expect the cost ratio to worsen compared to last year. We anticipate continued improvement in the cost ratio overall.

Questioner [Q]： How did the Q1 results, including order intake, progress relative to the internal budget? Were there any particular strengths or weaknesses across segments?

Fujii [A]： In terms of the 1Q results, we progressed almost as expected relative to the internal budget. Although there was a negative impact of about 700 million yen in expected sales from our business in Thailand, which came in close to zero, the manufacturing outsourcing segment was able to offset that with its strong sales and profit performance.

As for the other segments like AP, BP, and Environmental Transport, they performed mostly in line with the budget.

Questioner [Q]：I have a question regarding AP’s overseas performance. Order intake in China has grown significantly. Given that China's infrastructure investment seems to be stagnating, could you explain the reason for this? Additionally, what was the operating profit for AP overseas?

Fujii [A]： Regarding China's stagnant infrastructure investment, our sales team in China feels that the road budget for FY24 has slightly improved compared to FY23.

While the broader economic situation, particularly in the real estate sector, remains difficult, we don't expect road budgets to return to FY22 levels anytime soon. However, there has been a slight budget allocation this year.

Additionally, we believe we are in a relatively advantageous position compared to competitors, given the growing environmental awareness and demand for recycling plants among our customers in China. Even if the overall market size remains the same or only slightly increases, we may be gaining market share as other companies struggle.

As for the operating profit of AP overseas, in Q1 of FY24, we faced a loss of about 80 million yen in Thailand and a small loss in China. Overall, overseas operations incurred a loss of around 100 million yen in the first quarter.

Questioner [Q]： In Q1, maintenance sales have grown. What are your thoughts on the sustainability of this growth? Additionally, what is the current operating profit margin of maintenance?

Fujii [A]： Comparing with the previous fiscal year, we saw a significant drop in maintenance sales during 1Q last year due to postponed investments by road paving companies. However, since July 2023, we have consistently recorded year-over-year sales growth, and this trend has continued into FY24. We believe the sales rebound is sustainable, with levels now returning to, or even exceeding, previous highs.

As new plant demand in Japan remains limited, we aim to focus on maintenance services as a key profit stream.

While customer needs drive this growth, many clients are now outsourcing maintenance to manufacturers like us rather than handling it internally. We see this trend continuing.

However, our current team of maintenance service personnel is not yet large enough to fully meet the growing demand, and we are working to expand rapidly. That being said, it will take a few years to properly train new hires, so we expect the results to show in the years ahead.

As for the operating profit margin of maintenance, it’s around 10%. Gross profit margins are between 25–30%, but the operating profit margin stands at about 10% currently.

Questioner [Q]：To what extent has AP's profit margin improved due to price increases?

Fujii [A]：We haven't calculated the specific impact of price increases, so we're unable to provide a detailed answer.

Questions with Written Responses

[Q]： Regarding the environment and conveyor-related business, how much in order intake, sales, and operating profit was recorded for Expo-related projects last fiscal year, and what are the forecasts for this fiscal year?

[A]： Last fiscal year, we recorded two contracts, with an order intake and sales of 180 million yen each. There are no negotiations for soil improvement projects this fiscal year.

End

Note: This script is provided to offer information to those who did not attend the financial results briefing. Please be aware that some parts of the content have been added or modified to enhance clarity.