Nikko Co., Ltd.

Financial Results Briefing

Second Quarter of the Fiscal Year 2024

(Ending March 31, 2025)

December 9, 2024

Event Overview

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

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

Video URL: https://www.youtube.com/watch?v=-h_qSN953sI

Corporate Report: https://tinyurl.com/2dey26nh

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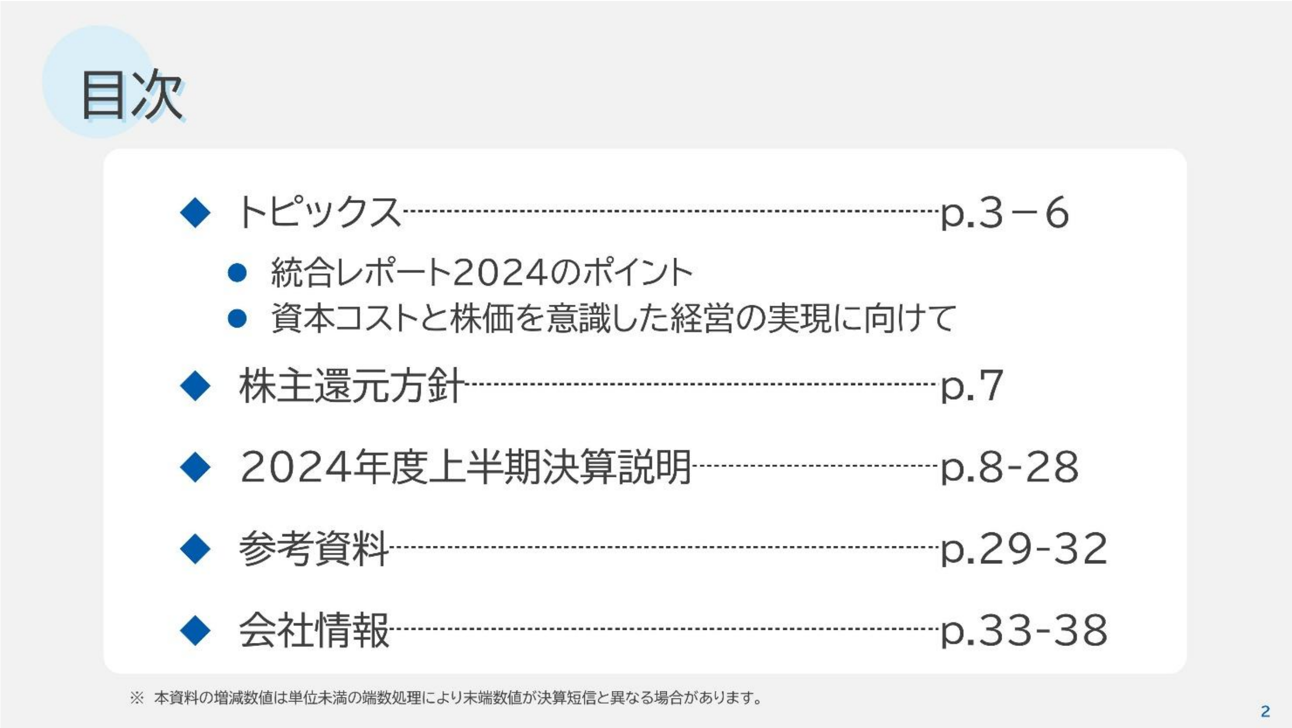
Fujii: Hello, everyone. This is Fujii from Nikko Co., Ltd. Thank you for joining our second-quarter financial results briefing. I will present for about 30 minutes first, and then I hope you will ask as many questions as you can.



Today, I will begin with two main topics. The first is the key points of the recently published Nikko Corporate Report 2024, and the second is the measures to achieve a PBR of over 1.

After that, I would like to explain the Shareholder Returns Policy, followed by an outline of the financial results for the first half of the fiscal year 2024. Finally, I will discuss the full-year performance outlook for this fiscal year.

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Let's head to the first topic. We recently announced the Nikko Corporate Report 2024. This report does not have significant changes in content, but I will highlight the parts we have particularly focused on compared to the previous.

First is our Value Creation Process. This has been made clearer and explained with better use of visuals, focusing on resolving key issues to enhance corporate value based on our 2030 Vision. Second, we have devoted more space to our Sustainability Activities, offering clearer and more detailed explanations. Third, we have enhanced our efforts toward achieving management focused on cost of capital and stock prices. We also made the content more accessible and understandable for institutional investors, individual investors, and even students currently looking for jobs.

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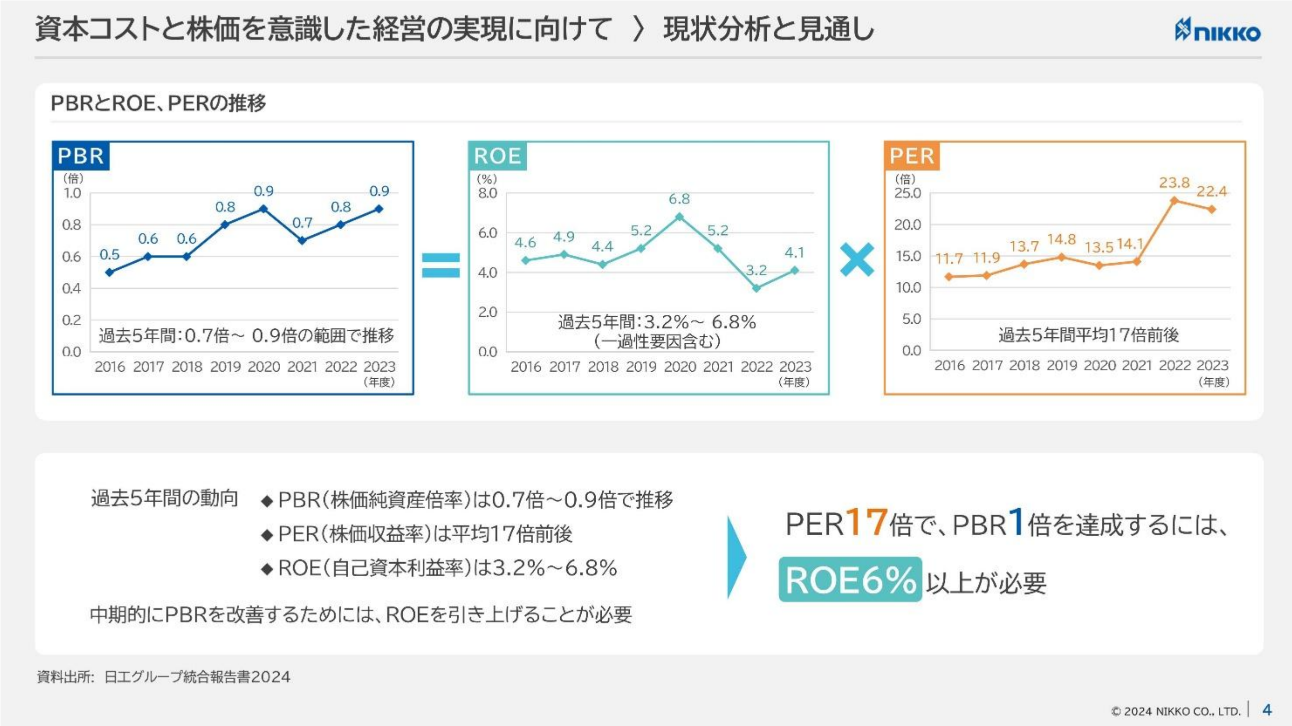

Next, I will talk about our efforts to achieve management focused on the cost of capital and stock prices. First, I will explain the trend of PBR, ROE, PER over the last few years.

First, for the PBR, calculated at the stock price yesterday, it is 0.83 times. Over the past 5 years, the PBR has ranged from 0.7 to 0.9 times, and the closing price at the end of last week is also within this range. There has been no significant improvement over the past year.

Next is the PER ratio. The PER for the fiscal year 2022 and 2023 are very high, due to the low profits levels during those years. Despite low profits, the stock price did not decrease significantly, which led to a high PER. The averaged PER over the past 5 years is about 17 times, but calculated with last week's closing price, it is 13.7 times, showing a slight decrease recently.

Finally, let's look at the ROE. Our goal is to achieve an ROE of 8% in the new future, but over the past five years, the ROE has ranged from 3.2% to 6.8%. The outlook for this fiscal year is expected to be around 5.8%. This is lower than the 6.8% of fiscal year 2020, but it is expected to be close to that level.

To improve the PBR in the medium term, it is necessary to enhance ROE. To achieve a PBR of 1 with a PER of 17, an ROE of over 6% is required. However, the current PER is below 17, and with a target of 13 times, an ROE of 8% is required. Therefore, it is important to achieve an ROE of 6% as

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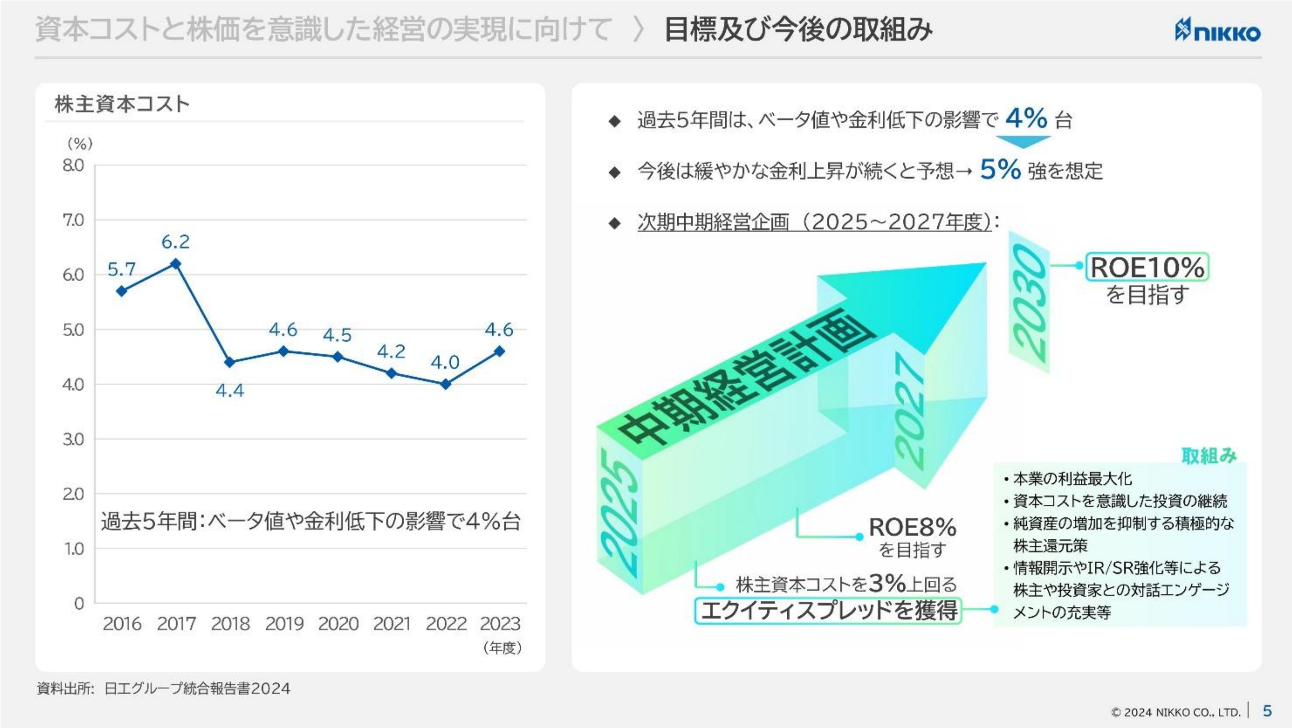
the minimum level in the near future, with the ultimately goal if reaching 8%.



Next, let's move on to thecost of equity capital. Looking at data from fiscal year 2016, particularly over the past 5 years, the cost of equity capital has remained relatively low, around 4%, due to lower betas and interest rates. However, since interest rates are expected to rise gradually, we believe the cost of equity capital will reach at least 5%.

We are currently preparing the next medium-term management plan and plan to announce the three-year plan starting from fiscal year 2025. We aim to raise the ROE to 8% during this period. Therefore, we aim to secure an equity spread of at least 3% above the cost of equity capital, leading to an increase in stock prices.

Specifically, we must first increase the profits from our core business. We will also continue investing with a focus on the cost of capital and actively return capital to shareholders to limit the increase in net assets. Furthermore, we aim to enhance dialogue with shareholders and investors by improve information disclosure and strengthening investor/shareholder relations (IR/RS) activities.

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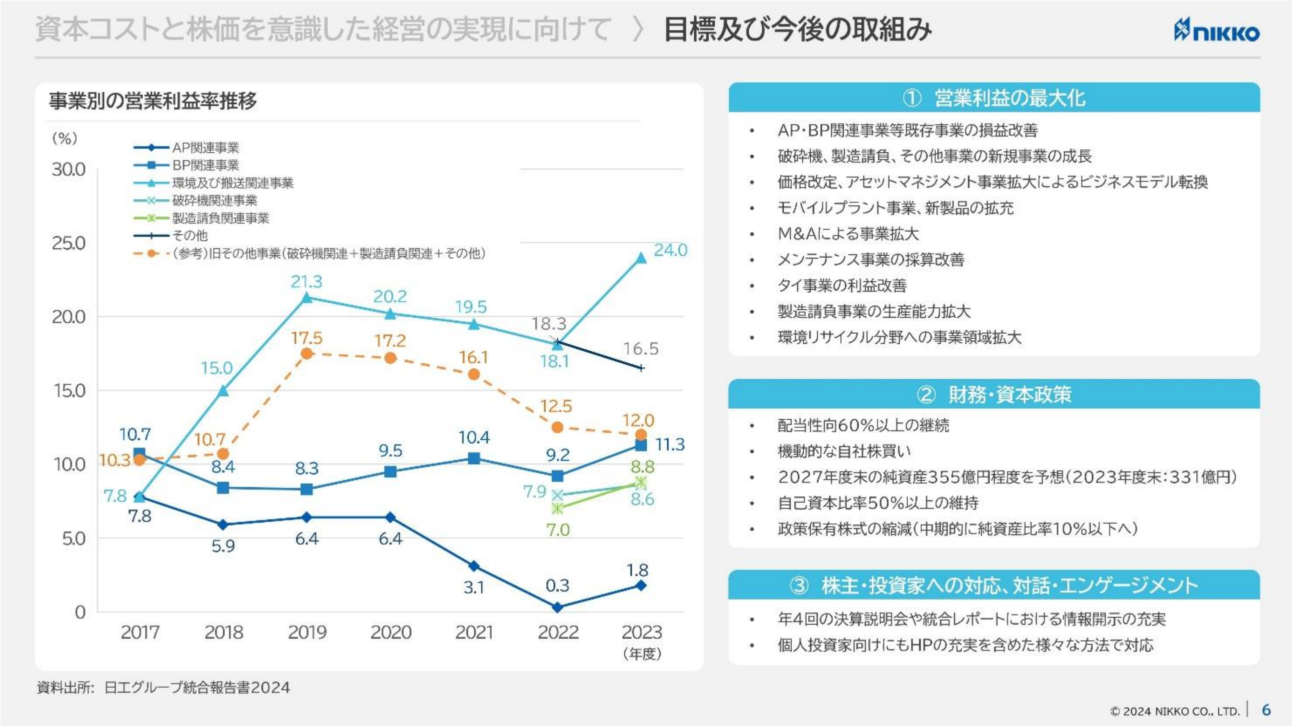

Next, I will explain the line graph on the left. This graph shows the current operating margin by segment. Since we increased the number of segments the last fiscal year, the data is not consistent with the figures up to fiscal year 2021. However, please refer to the most recent figures from fiscal year 2023.

The segment with the highest profit margin is the Environment- and Conveyor-Related Business segment, at 24%. The next highest is the Other Business segment, with 16.5%. The 12.0% shown in the orange line is a reference value for the former Other Business segment. The profit margin for the Concrete-Related Business (BP) is 11.3%, the Contract-Based Manufacturing Business, which is primarily carried out by companies acquired through M&A, is 8.8%, and the Crusher-Related Business segment is 8.6%.

The segment with the lowest profit margin is the Asphalt Plant-Related Business, at 1.8%. The figures for this fiscal year are expected to improve significantly, but it will still remain the lowest among all segments.

I will now explain the measures to maximize the operating profit of each segment. The most important measure is to improve the profit margin of the asphalt plant business. Specifically, we will focus on the following three points.

First is improving the profitability of Thailand Business. The Thailand Business has not been profitable since its launch, and the deficit for fiscal year 2023 exceeded 500 million yen. A deficit is also expected this fiscal year, but we aim to achieve profitability as soon as possible.

Second is increasing the profit from the AP maintenance business. We are aiming to increase maintenance sales and improve profit margins. We believe there is still room for sales growth in the AP and BP maintenance business.

Third is improving the profitability of new asphalt plant sales in Japan. We will strengthen efforts to improve the profitability of sales of new plants.

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We are also focusing on growing growth areas such as crushing machines, contract-based manufacturing, and new businesses, as well as expanding our asset management services. Over the past three years, we have completed three M&A deals and will continue to pursue opportunities for business expansion when they arise. We are also expanding production capacity in the Contract-Based Manufacturing Business and expanding the scope of our business to the environmental recycling sector.

Next, Let's head to the Financial Capital Policy. We will maintain a dividend payout ratio of 60% and consider flexible share buybacks. We expect net assets to reach approximately 35.5 billion yen by the end of fiscal year 2027 and aim for an equity ratio of 50% to maintain financial stability.

Regarding the reduction of policy shareholdings, the current ratio to net assets exceeds 15%. We aim to lower this to below 10% in the near term and ultimately eliminate it in the medium term.

To engage with shareholders and investors, we will continue holding quarterly financial results briefings and enhance information disclosure through our Corporate Report. For individual investors, we will explore various approaches, including enhancing our home page.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 予想
自社株買い	9	1	2	1	1,006	246	–	–	400	–	–	–	–
自社株消却	–	–	–	–	–	752	–	–	–	–	–	–	–
当期純利益	881	888	1,348	1,896	1,340	1,490	1,345	1,588	2,082	1,649	1,020	1,312	2,000
配当性向	33.3%	33.0%	27.9%	22.0%	31.9%	30.8%	34.1%	97.6%	60.5%	69.5%	112.5%	87.6%	61.3%
総還元性向	34.3%	33.1%	28.0%	22.1%	106.9%	47.3%	34.1%	97.6%	79.7%	69.5%	112.5%	87.6%	61.3%

★ 2019年10月1日を効力発生日として、普通株式1株につき5株の割合で株式分割を実施しており、分割後の配当金額に統一して記載しています

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Next, I will talk about Shareholder Returns. Regarding the dividend forecast for the current fiscal year (ending March 31, 2025), we announced during the second-quarter earnings release that the year-end dividend forecast has been raised from the previous 15 yen to 17 yen, an increase of 2 yen.

The reason for this 2-yen increase is that profits are expected to exceed the initial forecast, allowing us to maintain the dividend payout ratio of 60% or more as promised to our shareholders. As a result, the annual dividend amount will be 32 yen, and the dividend payout ratio will be 61.3%.

This shows the trend in our dividend payouts since fiscal year 2012. In fiscal year 2019, a special dividend of 20 yen per share was distributed to commemorate the company's 100th anniversary, which caused a spike in the dividend amount.

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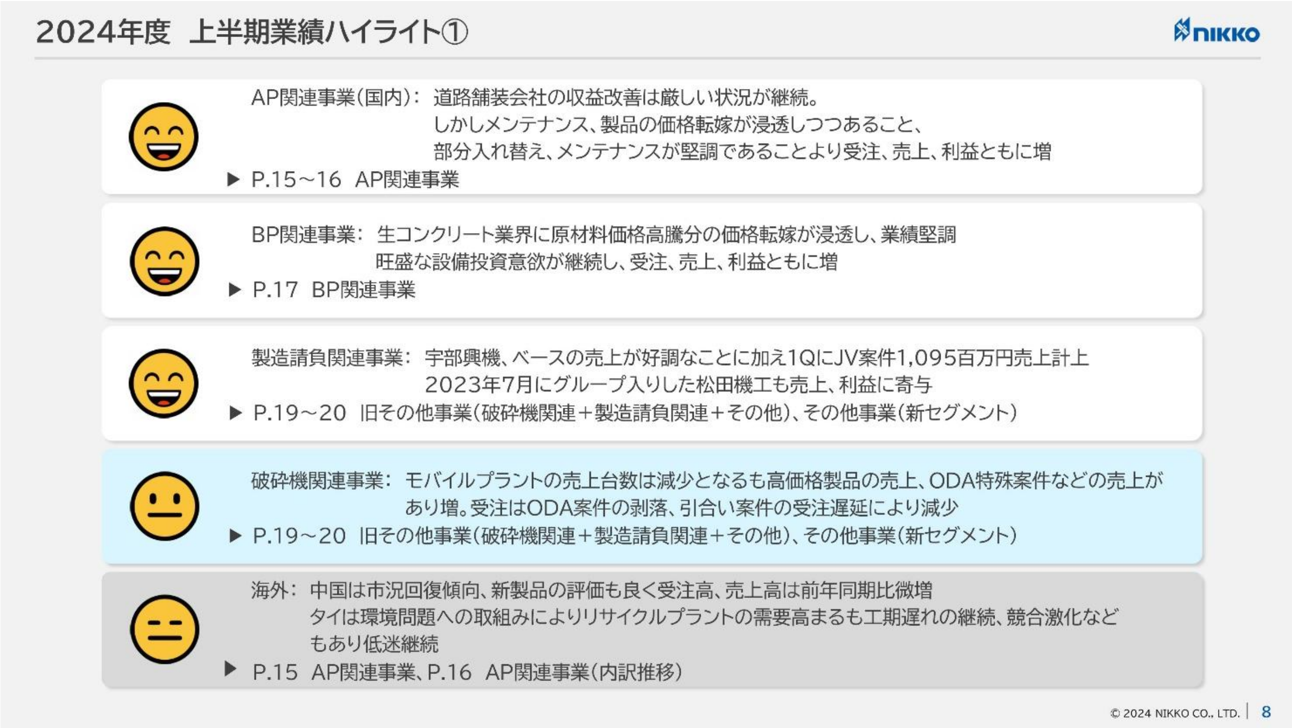
Since the previous medium-term management plan, our target has been a dividend payout ratio of 60% or higher. For the final year of the current medium-term management plan, we are expecting a payout ratio of 61.3%.



Next, I will discuss this year's performance, particularly for the first half, by categorizing it into positive points, neutral points, and areas that need improvement.

First of all, regarding the positive points. In the domestic AP-Related Business, while the earnings situation of road paving companies has not improved significantly, the maintenance sales, which had declined last year, have shown some recovery. Additionally, while it is not a full replacement of new units, partial replacements have been progressing steadily.

In terms of BP, it has been very strong in recent years, and in the first half of this fiscal year, net sales and order intake and profits have all been favorable. This is because the interest in capital investment of ready-mix concrete companies is rising due to higher ready-mix concrete prices.

Contract-Based Manufacturing Business also contributed significantly to net sales and profits in the first half of the year. In Ube Kohki in particular, a one-time joint venture project resulted in a net sales of approximately 1 billion yen, which contributed to the Group-wide performance.

Sales in the growth area of the Crusher-Related Business, particularly mobile plants, saw a slight decrease. However, sales of high-priced products and special projects under ODA have led to an overall increase. However, order intake is subject to decrease due to the completion of ODA projects and inquiry projects delays.

Next, we will focus on areas that need improvement. The China Business posted a loss, with a significant decrease in net sales compared to last year and the year before. Although a significant recovery is not expected this fiscal year, the order intake has improved compared to last year, and a return to profitability is anticipated. Amid the ongoing economic downturn in China, we aim to achieve stable profitability by responding to the growing demand for recycling.

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For Thailand Business, while demand for recycling plants has been rising, the sales in the first half fell short of expectations due to delays in installation work and increased competition with Chinese manufacturers. However, the local manufacturing system is being established and going forward. We will focus on acquiring order intake in the future.

This section explains the Business Environment. The upper-right graph shows the sales trend of five listed road paving companies and Nikko's AP-Related sales trend. Overall, there have been no significant fluctuations, but since the sales of domestic listed road companies have not been increasing steadily, our AP-related sales have also remained largely unchanged.

For BP, the concrete price index is based on fiscal year 2015 (100), showing the prices for the major six cities (Osaka, Fukuoka, Sapporo, Tokyo, Nagoya, Sendai) in fiscal year 2023. Osaka's price has more than doubled, and Sendai's only price is slightly lower than it was in 2013. However, overall, the unit price of ready-mix concrete has risen significantly, which is believed to be a factor driving customers' investment willingness.

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2024年度　上半期業績ハイライト②

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- 売上高　：AP事業+18.6億円、BP事業+10.9億円、環境・搬送事業△0.1億円、破砕機事業+2.3億円、製造請負事業+22.2億円、その他事業+2.5億
- 営業利益：AP事業の国内事業の回復、BP事業の堅調な状況の継続、製造請負事業の子会社の好調な状況により増加。利益率も増
- 経常利益：営業利益の増加により増
- 受注高　：AP事業+2.2億円、BP事業+17.0億円、環境・搬送△1.8億円、破砕機事業△9.3億円、製造請負事業+11.0億円、その他事業△1.4億円
- 受注残高：AP事業△5.9億円、BP事業+28.5億円、環境・搬送+3.3億円、破砕機事業△9.6億円、製造請負事業△5.7億円、その他事業△4.2億円

（単位：百万円）	2023年度		2024年度					
	上半期実績	通期実績	上半期実績	対前年同期	通期予想進捗率	上半期予想	通期予想（修正）	通期予想（期初）
売上高	16,982	44,097	22,634	5,652 33.3%	47.2%	23,000	48,000	48,000
営業利益	269	1,968	1,280	1,011 374.9%	47.4%	1,300	過去最高 2,700	2,600
営業利益率	1.6%	4.5%	5.7%	4.1pt	—	5.7%	5.6%	5.4%
経常利益	455	2,144	1,468	1,013 222.4%	50.6%	1,300	2,900	2,600
親会社株主に帰属する四半期純利益	348	1,312	881	533 153.2%	44.1%	850	2,000	1,700
受注高	25,128	48,749	26,889	1,760 7.0%	55.4%	27,000	48,500	45,250
受注残高	25,986	22,371	26,626	640 2.5%	—	26,371	22,871	24,371

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Next are the highlights of business performance in the first half. The results in the first half are shown in blue in the center. The third column from the right shows the forecasted figures for the first half of the fiscal year, which were announced at the beginning of the period. Please compare these with the actual results.

Net sales and operating income were slightly below the forecast, but the results were close to what was expected. The operating margin is 5.7%, as forecasted. The ordinary income slightly exceeded expectations, reaching 1.468 billion yen.

The order intake is 26.8 billion yen, almost in line with the initial forecast of 27 billion yen. Therefore, the order backlog at the end of the first half was 26.6 billion yen, in line with the initial forecast.

This time, we have slightly revised our full-year performance forecast. Sales remain unchanged, but we have revised upward the figures for operating profit and below. This resulted in an increase in the dividend forecast.

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2024年度 上半期業績ハイライト③

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(単位:百万円)		2023年度 上半期実績	2023年度 通期実績	2024年度 上半期実績	2024年度 対前年同期	2024年度 通期予想進捗率	2024年度 上半期予想	2024年度 通期予想(修正)	通期予想(期初)
AP関連事業	売上高	7,114	17,938	8,979	+1,865 +26.2%	49.3%	10,200	18,200	20,000
	営業利益	29	331	498	+469 +1,617.2%	51.3%	700	970	1,200
	営業利益率	0.4%	1.8%	5.5%	+5.1pt	—	6.9%	5.3%	6.0%
BP関連事業	売上高	5,049	11,907	6,142	+1,093 +21.6%	44.8%	6,000	13,700	12,500
	営業利益	504	1,341	748	+244 +48.4%	43.5%	700	1,720	1,450
	営業利益率	10.0%	11.3%	12.2%	+2.2pt	—	11.7%	12.6%	11.6%
環境及び搬送関連事業	売上高	1,450	3,309	1,433	△17 △1.2%	44.8%	1,400	3,200	3,200
	営業利益	332	793	326	△6 △1.8%	54.3%	220	600	450
	営業利益率	22.9%	24.0%	22.7%	△0.2pt	—	15.7%	18.8%	14.1%
破砕機関連事業	売上高	1,078	3,198	1,313	+235 +21.8%	46.6%	1,400	2,820	2,500
	営業利益	56	274	96	+40 +71.4%	87.3%	80	110	100
	営業利益率	5.2%	8.6%	7.3%	+2.1pt	—	5.7%	3.9%	4.0%
製造請負関連事業	売上高	369	3,072	2,593	+2,224 +602.7%	55.9%	2,200	4,640	4,500
	営業利益	△32	270	369	+401 —	72.4%	350	510	450
	営業利益率	△8.7%	8.8%	14.2%	+22.9pt	—	15.9%	11.0%	10.0%
その他事業	売上高	1,919	4,670	2,171	+252 +13.1%	39.9%	1,800	5,440	5,300
	営業利益	191	769	226	+35 +18.3%	30.1%	250	750	950
	営業利益率	10.0%	16.5%	10.4%	+0.4%	—	13.9%	13.8%	17.9%

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I will explain the results for each segment in the first half. First of all, the net sale of AP was 8.9 billion yen, falling short of the forecast of 10.2 billion yen by approximately 1.3 billion yen. The main causes are businesses in Thailand and China. The profit in China was as forecasted, but the net sales were affected by timing differences, resulting in 1.2 billion yen instead of the forecasted 2 billion yen. Sales in Thailand also fell short of expectations, with 500 million yen compared to the forecast of 1.2 billion yen, resulting in a shortfall in overseas sales. As a result, operating profit was approximately 500 million yen, compared to the forecast of 700 million yen.

The full-year forecast has been revised downward based on the results of the first half, with sales expected to be 18.2 billion yen, operating profit 970 million yen, and an operating margin of 5.3%.The full-year profit for the previous fiscal year was 330 million yen, but this year, due to strong performance in the domestic market, we expect a significant recovery in profits.

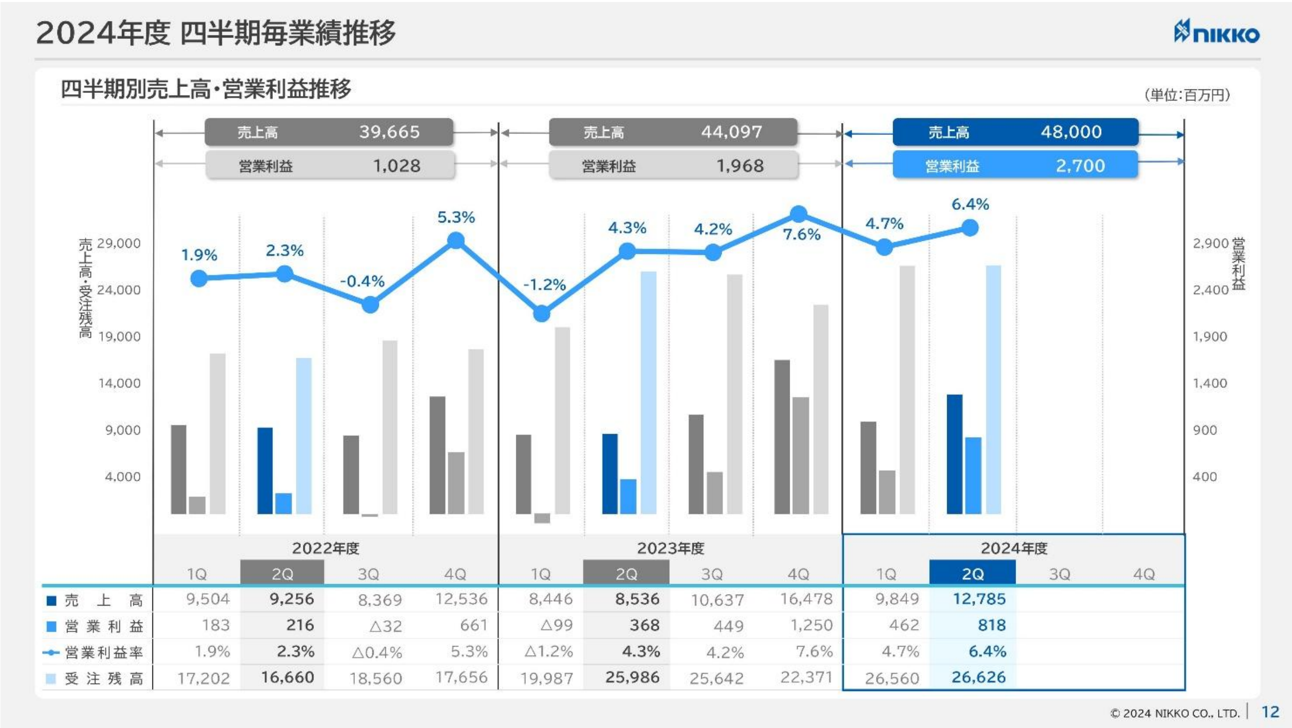
BP's sales and profit for the first half exceeded expectations, leading to an upward revision of the full-year performance forecast. This is because the order intake in the first half greatly exceeded expectations.

In the Environment- and Conveyor-Related Business segment, net sales were in line with the forecast, but profits exceeded expectations. In particular, the profitability of the Conveyor-Related Business is the result of the price revisions implemented since last year. The full-year profit forecast has been revised upward from 450 million yen to 600 million yen.

In the Crusher-Related Business, net sales in the first half were slightly below the forecast of 1.4 billion yen, reaching 1.3 billion yen, but profits exceeded expectations. The full-year sales forecast was revised upwards by more than 300 million yen, but profits saw only a slight increase.

In Contract-Based Manufacturing Business, net sales in the first half were approximately 2.6 billion yen, and profits exceeded the forecast. The full-year forecast has also been slightly revised upward.

In the Other Business segment, net sales in the first half were 2.1 billion yen, exceeding the forecast of 1.8 billion yen, but profits were 220 million yen, falling short of the forecast of 250 million yen. The full-year sales forecast has been slightly increased, but the profit forecast has been slightly revised downward.



	2022年度 1Q	2022年度 2Q	2022年度 3Q	2022年度 4Q	2023年度 1Q	2023年度 2Q	2023年度 3Q	2023年度 4Q	2024年度 1Q	2024年度 2Q	2024年度 3Q	2024年度 4Q
売上高	9,504	9,256	8,369	12,536	8,446	8,536	10,637	16,478	9,849	12,785		
営業利益	183	216	△32	661	△99	368	449	1,250	462	818		
営業利益率	1.9%	2.3%	△0.4%	5.3%	△1.2%	4.3%	4.2%	7.6%	4.7%	6.4%		
受注残高	17,202	16,660	18,560	17,656	19,987	25,986	25,642	22,371	26,560	26,626		

This is the quarterly performance trends.

This year, compared to the fiscal years 2022 and 2023, net sales and profits were concentrated in the fourth quarter of the previous fiscal year. While we expect a similar concentration in the fourth quarter of this fiscal year, the performance has shown less variation across quarters compared to last year. In comparison to the previous fiscal year, the first half of this fiscal year is performing well.

	2015年度	2016年度	2017年度	2018年度	2019年度	2020年度	2021年度	2022年度	2023年度	2024年度予想	2023年度上半期	2024年度上半期	対前年増減率
AP	16,553	16,718	17,182	18,884	16,133	20,279	18,180	17,614	18,948	19,600	10,853	11,078	+2.1%
BP	9,517	9,965	9,066	8,438	9,478	9,961	12,086	11,461	14,323	12,900	6,197	7,900	+27.5%
環境及び搬送	2,796	3,202	2,948	2,773	2,401	2,875	3,014	2,556	3,812	3,740	1,738	1,557	△16.2%
旧その他※	4,203	4,247	4,420	5,007	5,902	6,894	6,572	9,216	11,664	12,260	6,337	6,353	+0.25%
計	33,069	34,134	33,616	35,103	33,915	40,009	39,853	40,849	48,749	48,500	25,128	26,889	+7.0%

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I will explain the transition of order intake for the fiscal year 2024. The total forecast for the fiscal year is 48.5 billion yen, with the breakdown by segment as follows:

The BP segment had an extremely strong order intake in the first half, reaching 7.9 billion yen. The full-year forecast for BP is 12.9 billion yen, with an expected 5 billion yen in the second half. While further order intake growth is anticipated, the figure has not been finalized yet, so it has been announced as 12.9 billion yen.

For the AP segment, the full-year forecast is 19.6 billion yen, with 11 billion yen achieved in the first half. The second half is expected to contribute approximately 8.5 billion yen, which appears to be a reasonable estimate.

In the Environment- and Conveyor-Related business, the order intake forecast for the full year is 3.7 billion yen.

Lastly, Other Business segment, including Contract-Based Manufacturing and Crusher-Related Business, are expected to see a slight increase in order intake, with a full-year forecast of 12.26 billion yen, reflecting a small growth compared to the previous year.

	2015年度	2016年度	2017年度	2018年度	2019年度	2020年度	2021年度	2022年度	2023年度	2024年度予想	2023年度上半期	2024年度上半期	対前年増減率
AP	6,027	6,356	6,359	8,808	7,423	8,235	7,725	7,998	8,975	10,375	11,666	11,073	△5.1%
BP	2,716	3,350	2,894	3,439	3,760	4,508	5,755	6,105	8,555	7,755	7,456	10,313	+38.3%
環境及び搬送	815	1,390	387	385	152	636	631	281	778	1,318	570	903	+58.4%
旧その他※	435	531	490	820	883	981	2,377	3,269	4,061	3,421	6,294	4,335	△31.1%
計	9,997	11,629	10,132	13,454	12,219	14,361	16,490	17,656	22,371	22,871	25,986	26,626	+2.5%

This section explains the transition of the order backlog at the time of year-end. As of March 31, 2025, the forecasted order backlog is 22.8 billion yen. Since the order backlog at the end of fiscal year 2023 was 22.3 billion yen, we expect an increase of approximately 500 million yen. Compared to historical data, we see that we can start the next fiscal year with a very strong order backlog.

The order backlog as of the end of September was 26.6 billion yen, but as net sales will increase significantly in the third and fourth quarters, we expect the order backlog to decrease by more than 4 billion yen by the end of next March.

Detailed explanations for each segment from pages 15 to 20 will be omitted due to time.

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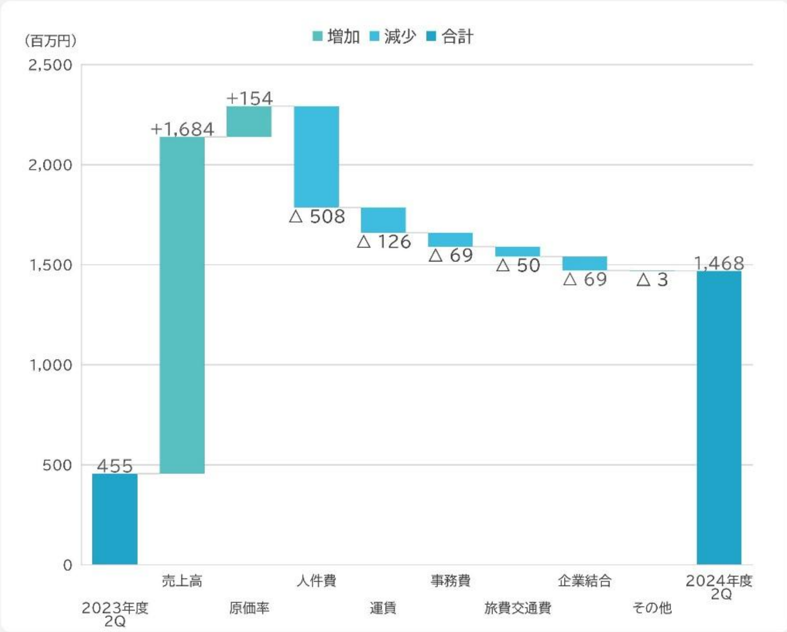
2024年度 上半期 経常利益 増減要因分析



（単位：百万円）

項目	影響額	内容
売上高	+1,684	売上高の増加 5,652百万円
原価率	+154	原価率上昇 70.2%→70.5% ※労務費を除く原価率は改善
人件費	△508	人員増、ベースアップ 業績好調による賞与増
運賃	△126	売上増に伴う増加
事務費	△69	システム利用料増、派遣費用の増加
旅費交通費	△50	出張の増加
企業結合	△69	松田機工（161期下期よりP/L取込）西日本不動産（162期よりP/L取込）
その他	△3	取得関連費用 +54 賃借料 △39 等

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Let’s analyze the factors affecting profit changes in the first half. Comparing the ordinary profit, last fiscal year’s figure was 455 million yen, while this year’s is 1.468 billion yen, showing an increase of 1.013 billion yen.

The biggest factor in the profit increase was the significant rise in net sales. Sales increased by 5.6 billion yen compared to the previous year, contributing 1.6 billion yen to the profit increase. Additionally, improvements in cost rate and cost amount resulted in a 154 million yen profit increase.

On the other hand, personnel expenses increased by approximately 500 million yen due to a rise in the number of employees and base-pay base salary increases, and bonus payments. Freight costs, administrative expenses, and travel and transportation expenses also increased due to the activation of business activities. As a special factor, SG&A expenses from the M&A with Matsuda Kiko and Nishinihon Real Estate, which did not exist in the first half of the previous fiscal year, had an impact of 69 million yen.

Next, due to time constraints, I will skip the explanation of the balance sheet transition on page 22.

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2024年度 通期業績予想①

(単位:百万円)	2023年度			2024年度			
	上半期実績	下半期実績	通期実績	上半期実績	下半期予想	通期予想(修正)	通期予想(期初)
売上高	16,982	27,115	44,097	22,634	25,366	48,000	48,000
営業利益	269	1,699	1,968	1,280	1,420	2,700	2,600
営業利益率	1.6%	6.3%	4.5%	5.7%	5.6%	5.6%	5.4%
経常利益	455	1,689	2,144	1,468	1,432	2,900	2,600
親会社株主に帰属する四半期純利益	348	964	1,312	881	1,119	2,000	1,700
受注高	25,128	23,621	48,749	26,889	21,611	48,500	45,250
受注残高	25,986	22,371	22,371	26,626	22,871	22,871	24,371

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I will explain the full-year performance forecast. To reiterate, the forecast figures are as follows: net sales are expected to be 48 billion yen, operating profit is forecast to be 2.7 billion yen, and the operating margin is expected to be 5.6%. This is an improvement of over 1% compared to the previous fiscal year, where the profit margin was 4.5%. Ordinary profit is forecast to be 2.9 billion yen, and net profit for the quarter is expected to be 2 billion yen.

The order intake is forecast to reach 48.5 billion yen, and the order backlog is expected to be 22.8 billion yen, both of which represent significant increases compared to the previous fiscal year.

Due to time constraints, I will omit the full-year performance forecast by segment on page 24.

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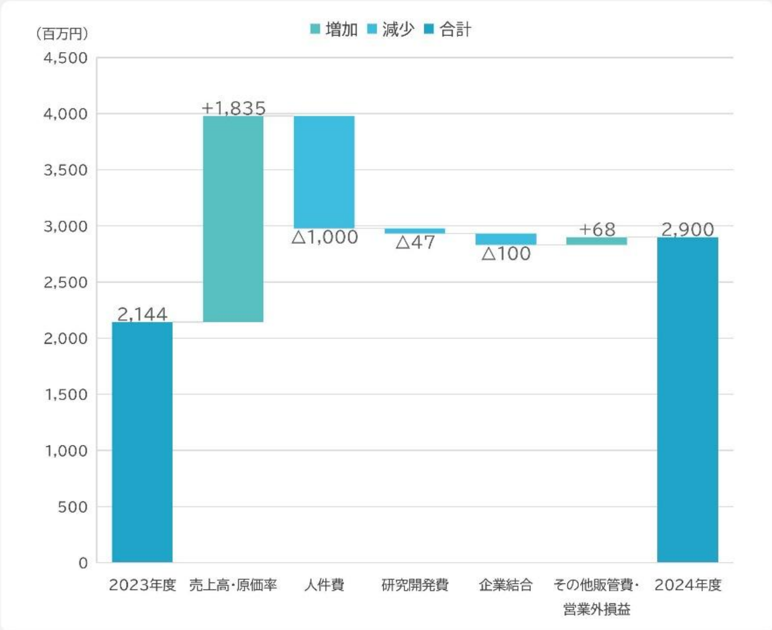
2024年度 通期 経常利益 増減要因分析(予想)



(単位:百万円)

項目	影響額	内容
売上高・原価率	+1,835	売上高の増加・原価率改善(労務費除く)
人件費	△1,000	賃金・賞与アップ △660 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	△100	松田機工(161期下期よりP/L取込) 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	+68	取得関連費用 +86 等

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Finally, I will explain the factors behind the change in operating profit for the full year, comparing it to fiscal year 2023. Due to the increase in net sales and improvement in the cost of sales ratio, a profit increase of approximately 1.8 billion yen is expected. On the other hand, personnel expenses are expected to increase by around 1 billion yen for the year, R&D expenses by 47 million yen, and the impact of M&A activities is expected to add around 100 million yen.

Considering these factors, the operating profit for fiscal year 2023 was 2.14 billion yen, and it is expected to rise to 2.9 billion yen in fiscal year 2024.

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Questions with Written Responses

[Q]：Could you explain why BP's order intake for the second half is expected to be 5 billion yen, significantly lower than the first half?

[A]：Please refer to page 13. As I mentioned earlier, the order intake for the first half was 7.9 billion yen, while the expected order intake for the second half is around 5 billion yen, a difference of approximately 3 billion yen. This is because the 7.9 billion yen order intake in the first half was exceptionally high compared to past periods.

Looking at the annual order intake since 2015, up until 2020, the annual order amount did not reach 10 billion yen, mostly staying in the 9 billion yen range. Therefore, the 8 billion yen order intake in the first half is already equivalent to nearly the entire annual order intake from previous years.

While the order intake for the first half was unusually high, we anticipate the order intake for the second half to be around 5 billion yen. This does not indicate that customers' investment appetite has drastically decreased, and depending on the future order situation, we may adjust the numbers. However, I want to emphasize that the 8 billion yen order intake in the first half was an exceptionally high figure. That is all.

[Q]: Could you explain the expected positive business opportunities and risks for 2025, specifically regarding BP? I believe BP might be a risk next year. How do you view BP's performance for the next year?

[A]: I will provide details for each segment later, but I will address BP, which is of particular concern. BP's order intake this year is very high, and we expect the sales and profits for next year to be higher than this year's, as BP will maintain a high level at the start of next year. The risk is whether the order intake during the year will be as high as this year's, but when it comes to sales and profits reflected in the financial results, BP is not expected to drag down performance significantly next year.

Regarding the concern that BP's business environment may decline next year, I do not believe so. Unlike AP, BP's customers have been actively investing in equipment over the past 3-4 years, which has led to increased orders and sales for our company. The recent surge in investment is a reaction to the past 20-30 years of low concrete prices and limited capacity for equipment upgrades. As long as concrete prices are maintained, I believe the investment appetite will continue.

Moving on to business opportunities and risks in other segments, in AP, there are no significant expectations domestically next year. However, in the medium to long term, we expect products and systems related to CO_2 reduction and carbon neutrality to be reflected in our business. Overseas, we expect the Chinese business to maintain profitability despite a general economic slowdown, while in ASEAN, we are seeing a rise in orders from Vietnam, which is a positive factor.

In domestic AP services, the expectation for our company is increasing as fewer customers are handling maintenance in-house. The domestic AP service segment is expected to continue its positive outlook with increased personnel and improved operations.

As for businesses outside AP and BP, there are no major risks expected for the next year. We are aiming to increase sales and profits in new areas within each segment. Although there are no specific major plans to highlight at this time, we will continue to make efforts.

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[Q]: You mentioned on slide 6 that you aim to eliminate policy holdings of stocks in the medium term. Should we expect the sale gains from policy holdings to be reflected in shareholder returns?

[A]: We have not set a specific target to eliminate policy holdings by the end of the fiscal year, but we aim to do so in the medium to long term. The gains from selling these policy investment stocks will increase our net profit, and if we maintain a dividend payout ratio of 60% in the next mid-term management plan, 60% of that net profit will be allocated to dividends.

While there have been few gains from stock sales over the past three years, as we proceed with selling stocks, those gains will be reflected in our net profit. We do not view the sale gains as unrelated to dividends, so you can understand that these gains will be reflected in dividends.

[Q]: I understand that a new mid-term plan will start next year. This year, operating profit has reached a record high, and you mentioned efforts to maximize operating profit. Could you share your thoughts, effectiveness, and target levels for the next mid-term plan?

[A]: During the current mid-term plan period, our company and group have focused on expanding our business scale and sales. To achieve this, we needed to increase personnel, and we hired about 20% more employees over three years. However, we didn't just focus on increasing headcount but also made significant investments in strengthening and educating our human resources, building a solid foundation.

In this way, the current period has focused on expanding our business scale and strengthening human capital. While we have not neglected profit margins, we proceeded with the idea that expanding scale was necessary before improving absolute profit and profit margins. As a result, we have now established a solid foundation, and in the next mid-term plan, we aim to focus on increasing absolute profit and improving profit margins.

However, we do have challenges. One of them is the overseas expansion, particularly into ASEAN markets. The Chinese market is impacted by a general economic slowdown, but new products in the recycling field have been highly evaluated, and we expect continued success in this area. In ASEAN, simply exporting from Japan does not allow us to compete in price, so we have worked on cost reduction through local production. We are making some progress, but our next challenge is a full-scale entry into markets like Thailand, Vietnam, and Indonesia.

Our goal for the next mid-term plan is to achieve profitability in ASEAN businesses and build a system where ASEAN contributes to overall profits by 2030. Although price competition is tough, we aim to leverage our strengths with high-quality plants and differentiate ourselves from competitors while gaining customer approval.

For domestic business, there are no significant risk factors, and there is still room for growth in the maintenance services sector. We believe the foundation for this growth has already been established.

Our target is to achieve sales of 70 billion yen by 2030. For the next mid-term period, we aim for sales of 60 billion yen and a profit margin of 8% (operating profit of around 5 billion yen), which would represent more than 1.5 times the current operating profit level. We are fully committed to achieving this goal.

[Q]: Regarding AP, operating profit is expected to decrease to 970 million yen, down from the initial forecast of 1.2 billion yen. How will the performance of Thailand, China, and domestic markets be affected, and what is the outlook for next year's performance in Thailand and China?

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[A]: We expect operating profit to decrease by about 200 million yen compared to the initial forecast. The performance in China will remain mostly unchanged, but we anticipate a nearly 200 million yen drop in profit from the Thailand business. Therefore, the main reason for the decrease in profit is the ASEAN business, particularly Thailand. Domestic business is expected to follow the initial forecast.

For next year's outlook, we expect China's business to remain stable or show slight improvement, but it is not expected to return to the level of two years ago. On the other hand, in ASEAN, particularly Vietnam, we expect sales to gradually increase, as there were no sales until last year but are now expecting 2-3 units this year. In Thailand, we expect the proportion of recycling to continue to rise, and we aim to leverage our strengths to secure profits.

At this point, we expect ASEAN, including Thailand, to break even next year. That is all.

[Q]: Regarding this year's AP, operating profit is expected to be 970 million yen, which is a decrease from the initial forecast of 1.2 billion yen. How will the performance in Thailand, China, and domestic markets affect this? Also, what is the outlook for next year's performance in Thailand and China?

[A]: Compared to the initial forecast, we expect a decrease of about 200 million yen in operating profit, with China's business remaining almost unchanged. However, Thailand's business is expected to account for nearly a 200 million yen decrease in profit, primarily contributing to the decrease in operating profit. Domestic operations are expected to perform as initially forecast.

For next year, we expect China's performance to remain similar to this year or see slight improvement, but it is unlikely to reach the levels of two years ago. In ASEAN, especially Vietnam, sales are expected to increase slightly, with 2-3 units planned this year. In Thailand, we expect the recycling ratio to increase, and we aim to secure profits by leveraging our strengths.

At this stage, the forecast for next year's performance in ASEAN, including Thailand, is expected to break even.

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.

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