February 25, 2021

FY 2020 3Q Results Briefing: Gist of Questions and Answers Session

Nikko's initiatives regarding environmental technologies

- You have said that you have began the development of burners that use ammonium and hydrogen for fuel. Can your company go at this development alone? Is there a possibility that you would team up with a partner?

-> Burners for us is like a cluster of technology. After acquiring the knowledge of basic combustion regarding ammonium and hydrogen in a joint research with a university, we will develop the actual products on our own. If we accelerated the speed of development, we can develop it in a short period of time. But we plan to complete it in 2025 by taking into consideration of the timing at which fuel costs decline.

- Regarding the warm-mix asphalt plant, how much does foamed asphalt manufacturing equipment cost? Is it something that can be additionally installed at an existing plant? At what kind of pace will this business grow?

-> The foamed asphalt manufacturing equipment can be installed in both newly built plants and existing plants. 1 plant will cost more than 10 million yen. We are expecting sales of about 30 to 40 units a year in the future.

- Have other companies introduced products competing with your equipment that can handle warm-mix asphalt mixture? Also, what is your idea of the product's profitability and growth rate?

-> Rival companies in AP do not have any similar products. However, there are other manufacturers manufacturing similar products, so there is competition. Among them, we are the only company that is manufacturing both plants and foamed asphalt manufacturing equipment, so we have a competitive edge.

-> There is high demand from the user for warm-mix asphalt, so we believe its growth rate is also high. We expect profitability to improve in the future, as we move on towards mass production.

Status of the existing businesses

- I understand the replacement investment for AP. But what are your plans regarding BP?

-> Like AP, there is almost no newly built BP plants, as it is SB (scrap and build) most of the time. Currently, there are more than 3,000 BPs installed in Japan but the number of BPs are declining at a pace faster than that of APs. While new construction of APs were concentrated on a certain period of time, construction of BPs were more dispersed. It requires capital investment of about 100 million yen for a ready-mixed concrete company to purchase a new BP plant, so it is necessary to consider profitability. Investment in BP will continue to be judged based on the market.

- You've stated the margin of BPs improved through sales efforts. What are specific examples?

-> We were able to cut costs by optimizing the business negotiations for projects with long turnaround time, as well as putting together the specifications in a short period of time to allow for some leeway until delivery.

- Regarding the JR-related order in the environment- and conveyor-related business, what was the background of the order? Was it for disaster recovery? Also, you have stated that it was a first in a long time to receive a railway-related order. What kind of order was it when compared with past orders?

-> It is not the first time that we received a JR-related order. Aside from this order at this time, we receive JR-related works once every 3 to 4 years. Furthermore, this order is also not related to disaster recovery.

- Which contributed more to the large growth of the mobile plant products? Mobile crushers or new products? Also, could you share your plans for profit?

-> The main merchandise of the mobile plant business are mobile crushers and mobile conveyors, with most of net sales coming from mobile crushers. These 2 are not our own products. We import crushers from a German company, and mobile conveyors from a company in Northern Ireland.

-> We just launched the business but it has already posted net sales enough to exceed the break-even point, and the mobile plant business is expected to post profits in the current fiscal year. We want to further expand our market share.

- What is the current penetration rate of remote maintenance?

-> The contract rate is more than 70% of the users. The sign-up rate of remote maintenance is slowly rising.

- Have there been any negative impact to the maintenance sales due the novel coronavirus pandemic? Also, are there any risk of delays in delivery?

-> There has been almost no impact of the coronavirus towards maintenance. There also has been no coronavirus-related delays in delivery. None of the maintenance or construction works were affected by the third wave of infections.

- Could you provide additional supplementary information on the trend of customers in China (In which regions are investments being actively made? Have you been acquiring new customers?)?

-> It is not about certain areas but there has been investments made on infrastructure in general. China succeeded in suppressing the coronavirus in a very short period of time and is continuing a high economic growth rate. Significant amount of funds have been invested in infrastructure and the situation has completely gone back to how it was before the coronavirus.

Outlook for the next fiscal year and thereafter

- I would like to know the orders and performances for the next fiscal year, even if it is just an overall estimate.

-> We have explained that we are expecting orders to land somewhere at a high level for the current fiscal year, and according to the information from the sales division, it is expected to be good again in the next fiscal year.

-> From what we gathered from the graph of past shipment volume, we are expecting APs to continue performing at a relatively high level for the time being. The situation of BPs depends on the price of ready-mixed concrete, but so far we are expecting that the customers' appetite for capital investment will continue to be high, partly thanks to the government's policies for strengthening national resilience.

-> Sales in the next fiscal year are expected to be higher than the current fiscal year, as we can start the next fiscal year with an order backlog that is higher than the when the current fiscal year started.

- What is your view of AP and BP for the next fiscal year and onwards? From the order figures it appears that you can further improve the profitability, and I would like to know how we should expect profitability to recover.

-> For AP, we think user demand would continue to be high for the time being in the next fiscal year onwards, as the timing for SB (scrap and build) of the plants built in the late 1980s to 1990 are approaching. We aim to improve the profit margin by expanding the sales of the VP series, which are standard design products, and by making efforts into reducing costs.

-> Regarding BP, we are expecting higher sales figures than the current fiscal year, given the high level of order backlog at the start of the next fiscal year. In the medium term, user appetite for capital investment are expected to continue to be strong, partly with a boost from the government's policies for strengthening national resilience. If demand continues to be high, we think we can maintain a profit margin at a level similar to the current fiscal year.

Shareholder returns

- You have been strengthening shareholder returns. How important is share buyback for you?

-> In the current fiscal year, we bought back about 400 million yen worth of treasury stock. We would like to proceed as-is with consideration to the profit situation in the next fiscal year and onwards, but there is nothing we are currently assuming regarding share buyback for the next fiscal year and afterwards. The background of the share buyback (worth about 400 million yen) in the current fiscal year is that there were 350 million yen in special dividends from Maeda Road Construction in extraordinary profits, and we used it for share buyback since we decided to use the entire amount for shareholder returns. If we again have a situation like this in the next fiscal year onwards, where we have special, temporary profit or profit increases more than expected at the beginning of the term, we would like to consider share buyback.

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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