

FY 2021 3Q Results Briefing: Gist of Questions and Answers Session

Business results for the current and next fiscal years

- When did you raise the product prices, what were the increases, and what was the impact on operating income? Also, were you able to revise the prices of the projects you have already received orders for? What is your policy for future price increase in the AP-related business?

→ We implemented the price increase from April 2021 of the current fiscal year. Our products need quite a long time from order to sale and we received orders for most of projects whose sales were recorded in the current fiscal year that was before the price increase. Our products vary and it is hard to say an X% increase evenly, but we shifted the entire increase in procurement prices to the product prices. There are no immediate impacts from raising plant prices, but the increase in raw materials costs of units, part of plants, have been absorbed with the price increase, as the time period between order to delivery of units is relatively short.

→ The impact on operating income from the rise in steel price and other procured items is about 220 million yen. This is simply a decline in operating income as we received orders in the past and the goods prices increased halfway through the fiscal year. Price revision of the projects for which we have already received an order is extremely difficult because customers will not agree to it. Nevertheless, inflation is also an opportunity for improving the profitability of a company with a high market share. Our AP market share is about 70%, so we would like to raise our profitability by taking this as an opportunity.

- There were talks that AP orders would increase. What is the direction of profits after taking into consideration the steel price and product price increase and image of the business performance for the next fiscal year?

→ The image of the business performance for the next fiscal year is that net sales would be almost unchanged, as orders in the current fiscal year slightly declined compared with the previous fiscal year. While we have a number of AP projects lined up for the next fiscal year, order backlog as of the end of the current fiscal year will be reflected to sales and profits. For this reason, in our image the business performance is expected to be roughly unchanged for Japan. Overseas, it is hard to foresee the impact of the Russian situation, but if we assume that it will not have a major impact on

China and ASEAN, of which are our mainstay markets, we can expect it to be relatively good in both ASEAN and China. We can expect better overseas performance in the next fiscal year compared to the current fiscal year. The direction of profits after taking into account the rise in steel price and product price increases is that there would be no negative impact because the rises in steel and other raw material prices have been reflected in the selling prices from April 1 of the current fiscal year and at least the increase in raw material prices have been absorbed.

→ It is important to improve the profitability of AP products by raising product prices. While main sales for the next fiscal year is coming from the projects for which we received orders in the current fiscal year, there have been not many low-profitability projects and we believe the profit aspect in the next fiscal year will improve from the current fiscal year.

- In the explanation of AP, you have commented that orders in the next fiscal year would increase significantly. Is this mainly due to the delay in large-scale projects in Japan? Also, what kind of orders overseas, especially in Thailand, are you expecting in the next fiscal year?

→ Regarding the delay in large-scale AP projects in Japan, there are delays of several projects for 2 major road builders as their organizational composition has changed and it takes longer to get internal approval. However, we have lined up many other AP projects which we can receive orders in the next fiscal year. As for Thailand, we so far are expecting about 10 projects a year in the next fiscal year.

Next-generation maintenance service (subscription)

- Regarding subscription, what are your strategies for differentiating with competitors and what is your advantage?

→ We have been accumulating data of the interactions with customers at the customer support center (CSC) since about 15 years ago and we have a history of repair and parts shipment. In addition, we currently have about 90 sales persons throughout Japan and about 200 contractors to support the sales persons. It is our biggest advantage that we can operate the subscription service based on this foundation.

→ Furthermore, we have built a new system based on the basic data with the function to predict plant failures at customers, and with the new system we have a mechanism to propose the timing and frequency of parts replacement early on. We have a subsidiary in the group manufacturing control panels and we can collect information also from control panels. The most significant difference with

other companies is our response such as our ability to offer an environment to visualize it.

- I felt that it was not easy to understand the advantages of the “subscription” in terms of the next-generation maintenance service. It must be significant that you can decide the response period and price setting in detail. How is it going to lead to an increase in planned repairs?

→ There has been no subscription service for construction machinery and it was the management and repairs of the customer assets by oneself. Until now there have been employees in charge of machinery maintenance at the customers but their numbers are rapidly declining. We feel that is leading to increased loss of sales opportunities due to failure and we decided to introduce subscription as a way for the customers to switch to us.

→ If customers can see the current situation of their machines and what needs to be done from now on, they can set the budget too. Introduction of subscription will not completely eliminate opportunity loss or sudden troubles but it will definitely reduce them. We manage information regarding customers' system and machines. We can perform in advance the repair, which we used to do in emergencies, by sorting out replacement periods and inspection for preventing troubles in detail and controlling them, and it should ultimately lead to an increase in planned repair.

- The 8% subscription sales ratio in FY 2025 for the next-generation maintenance does not sound very high. Are there some internal reasons why you cannot raise it quickly?

→ The largest reason that is preventing us from swiftly raising the subscription ratio is our internal structure. As I have explained earlier, our structure consists of about 90 service persons and about 200 contractors, and to greatly grow the figure by suddenly shifting them from after-incident maintenance to predictive maintenance, we need to train them and enhance the personnel. For this reason, we want to raise the subscription ratio more, it currently has stopped at the 8% sales ratio in FY 2025.

- Is it possible to use the subscription service for plants delivered by other companies?

→ It will probably be possible in the end but it is unclear how much of the information of plants by other companies we can obtain. There must be no significant difference in functions between our plants and other companies' plants but we do not have a complete grasp of the parts supply structure and the actual status of the control devices. If we can do this, it would become feasible, but at the current stage it seems to be a little difficult.

Why Ube Kohki as a target of M&A

- What are the market shares of the mainstay products of Ube Kohki and who are its competitors? The margins do not appear to be too high. What are the images of improvements that it can improve by working together with Nikko?

→ Ube Kohki's business model is to manufacture based on customers' (users') drawings and install them and it does not have many own products. More than 90% of sales come from making products requested by the customers based on their drawings, the designers of Ube Kohki redraw the drawings for efficient manufacturing in some cases. Its base is to manufacture upon request by customers. We position ourselves as the side that place orders with Ube Kohki. We will design environment- and recycling-related plants such as drying and burning in particular and outsource manufacturing to Ube Kohki. You have pointed out that Ube Kohki's profit margin is not high and we believe it is about adequate level considering the fact that it does not have its own products.

- I felt that there is a gap between the most recent 2 years and before that in the 3 year data you have provided regarding its business results. Is it okay to think of profit contributions for the next fiscal year based on the most recent years? Isn't it more likely the most recent 2 years have been too well?

→ Ube Kohki's customers include Nippon Steel, JFE, Kobe Steel, Major electric power company, and major chemicals manufacturers. The number of ironworks that have a certain scale and technical capability for engaging in detailed manufacturing has been declining in Japan. From that perspective, it is not that Ube Kohki's performance was especially strong in the past 2 years. There is more potential of customers placing orders with Ube Kohki and it is expected to increase in the future. Regarding earnings contributions from Ube Kohki, there is no impact in the current fiscal year. In the next fiscal year, profits are expected to slightly worsen compared with the past 2 years due to the impact of price increases of steel and other materials. However, it has shifted such costs to prices after that and it is expected to give positive impact also on our earnings.

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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