THE NIPPON ROAD CO., LTD.

# Financial Results Briefing for the Six Months Ended September 30, 2024

Overview and Q&As

Date and Time: Tuesday, December 3, 2024 at 10:00-10:40

Attendees: Toshiyuki Ishii, Representative Director and President

Masakazu Hyodo, Representative Director and Senior Managing Officer

Kaoru Ito, Director and Senior Managing Officer

Delivery method: Online

## Financial results overview for the six months ended September 30, 2024

### Financial results for the six months ended September 30, 2024

(Refer to page 2 of the Financial Results Briefing Material)

Orders received and gross profit both increased year on year. Total net sales, operating profit and ordinary profit all decreased by around 1% to 7% year on year. Profit, however, increased by around 15% year on year.

### Construction business

(Refer to page 3 of the Financial Results Briefing Material)

Consolidated construction orders received was ¥74.3 billion (up ¥4.7 billion year-on-year) due to strong direct orders for large-scale public construction and private construction.

Net sales of completed construction contracts was ¥59.3 billion (down ¥1.5 billion year-on-year) as construction progress was focused toward the second half.

Gross profit on completed construction contracts was ¥6.3 billion (up ¥0.35 billion year-on-year), and the profit margin increased by 0.9 percentage points. This was due to steady progress on private construction as well as improved profitability in private construction compensating for progress on public construction being focused toward the second half, in addition to improved profitability when receiving orders.

(Refer to page 4 of the Financial Results Briefing Material)

In non-consolidated construction orders received, pavement construction and building construction increased by ¥1.4 billion and ¥2.2 billion or more, respectively, and the total amounted to ¥62.6 billion (up 1.5% year-on-year).

(Refer to page 5 of the Financial Results Briefing Material)
Regarding non-consolidated construction orders received by clients in the second quarter of the fiscal year ending March 31, 2025, public construction orders increased by 16.5% while private construction orders decreased by 6.0% due to a decrease in direct orders. As a result of orders for public construction being particularly favorable, the order ratio of public construction to private construction was 38% to 62%.

(Refer to page 6 of the Financial Results Briefing Material)
“Automotive-related construction,” “Sports-related construction,” and “Logistics-related construction” continue to be focused on as the three priority sectors in the “Mid-term Management Plan 2024” announced in the current fiscal year. Regarding non-consolidated construction orders received in the second quarter of the fiscal year ending March 31, 2025, orders increased in each of the three priority sectors, and total orders saw a significant increase by 67.9% year on year.

(Refer to page 7 of the Financial Results Briefing Material)
Non-consolidated net sales of completed construction contracts in the second quarter of the fiscal year ending March 31, 2025 saw a decrease of 5.2% year on year in pavement construction as progress on public construction in particular was focused toward the second half, resulting in a total decrease of 2.3% year on year.

(Refer to page 8 of the Financial Results Briefing Material)
Non-consolidated construction carried forward to next period in the second quarter of the fiscal year ending March 31, 2025 increased in all categories of pavement construction, civil works construction, and building construction, resulting in a total increase of 21.1% year on year.

## Overseas business

(Refer to page 9 of the Financial Results Briefing Material)
In the second quarter of the fiscal year ending March 31, 2025, total orders received at the two overseas local subsidiaries in Thailand and Malaysia saw a significant increase of 303.3% year on year. Orders received increased due to receiving an order from the Thai Industrial Standards Institute involving the large-scale construction project for a high-speed circuit.

## Material sales business

(Refer to page 10 of the Financial Results Briefing Material)

Total industry volume in the second quarter of the fiscal year ending March 31, 2025 decreased 3.9% year on year to 15,213 thousand tons. Consolidated manufactured volume of the Company, however, increased year on year to 1,018 thousand tons, and the Company secured a share of 6.7%, which is a 0.3 percentage point increase from the previous year.

Although net sales of finished goods increased due to securing manufactured volume and passing on costs to sales prices having progressed to a certain extent, gross profit - finished goods decreased by 2.3 percentage points year on year due to the impact of the surge in crude oil prices and the depreciation of the yen as well as an inability to offset the impact of factors such as higher transportation costs.

The graph in the upper right shows the trends in crude oil prices in yen per ton. It is evident that crude oil prices started to rise in the latter half of FY2021, and remains at a high level after achieving a peak in the first half of FY2022. Although crude oil prices have been on a declining trend in recent months, there are concerns about volatility as influenced by global affairs, and the Company will closely monitor any developments in the current situation. The Company considers it necessary to continue passing on the increased cost of electricity, crude oil, personnel, and transportation costs to customers.

## Co-creation business

(Refer to page 11 of the Financial Results Briefing Material)

This segment mainly represents the business performance of the Company's subsidiaries, which include ND Leasing System Co., Ltd, NDIC Co., Ltd., and Sports Media Inc. Although net sales in the leasing business and insurance agency business slightly declined, gross profit was on par with the previous year.

## Analysis of factors affecting profit

(Refer to page 12 of the Financial Results Briefing Material)

Although SG&A expenses increased due to depreciation associated with the core system that was updated in the previous fiscal year and Tsuchiura Techno BASE, which began operations in April, gross profit on construction increased due to the effect of improved profitability for construction, achieving results that exceeded those of the previous fiscal year and leading to a profit increase.

Consolidated balance sheet for the six months ended September 30, 2024

(Refer to page 13 of the Financial Results Briefing Material)

As for assets, total assets amounted to ¥145,128 million (down ¥4,797 million from the end of the previous fiscal year).

As for liabilities, total liabilities amounted to ¥45,734 million (down ¥3,977 million from the end of the previous fiscal year).

As for net assets, total net assets amounted to ¥99,394 million, while total liabilities and net assets amounted to ¥145,128 million (down ¥4,797 million from the end of the previous fiscal year).

## Financial results forecast for the fiscal year ending March 31, 2025

### Construction business

(Refer to page 15 of the Financial Results Briefing Material)

The Company forecasts achievement of the financial results forecast at the beginning of the fiscal year, with the amount of consolidated orders received to be ¥138,000 million (down 3.8% year-on-year), total net sales of ¥165,000 million (up 2.8% year-on-year), operating income of ¥8,500 million (up 8.5% year-on-year), ordinary income of ¥8,600 million (up 7.6% year-on-year), and profit of ¥5,200 million (up 2.9% year-on-year) for the fiscal year ending March 31, 2025.

(Refer to page 16 of the Financial Results Briefing Material)

The Company forecasts the amount of construction orders received to be ¥138,000 million (down 3.8% year-on-year), net sales of completed construction contracts to be ¥134,000 million (up 1.8% year-on-year), gross profit on completed construction contracts to be ¥15,800 million (up 9.0% year-on-year), and a construction profit margin of 11.8% (up 0.8 percentage points year-on-year) for the consolidated fiscal year ending March 31, 2025. Although construction orders received are expected to decrease compared to the previous year, net sales of completed construction contracts are projected to decrease by ¥1,000 million versus the plan despite increasing compared to the previous year due to an abundance of construction carried forward from the previous fiscal year.

The Company also expects gross profit on completed construction contracts to increase by ¥200 million versus the plan due to continued engagement in orders focused on profitability and appropriate contract revisions after orders are received.

### Material sales business

(Refer to page 17 of the Financial Results Briefing Material)

Total industry volume for FY2024 is forecasted to be 34,000 thousand tons (down 1.4% year-on-year). Although the business environment is expected to remain severe, the Company forecasts its consolidated manufactured volume to be 2,350 thousand tons (up 1.5% year-on-year), achieving a market share of 6.9% (up 0.2 percentage points year-on-year) as activities to pass on the increased cost to sales prices will be continued and value-added services including environmentally-friendly services will be further expanded.

The Company also forecasts net sales of finished goods to be ¥24,000 million (up 9.2% year-on-year; an increase of ¥1,000 million versus the plan) and gross profit - finished goods to be ¥2,200 million (down 5.1% year-on-year; a decrease of ¥200 million versus the plan). The Company forecasts the profit margin of finished goods to be 9.2% (down 1.4 percentage points year-on-year).

Although price increases had been passed on to clients to a certain extent by the end of the second quarter of the fiscal year ending March 31, 2025, business conditions remain severe amid higher volatility in exchange rates. While it is not realistic to have expectations for a significant increase in mixture manufactured volume, demand for the recycling business to collect and reuse asphalt and concrete waste is increasing and expected to expand further in the future. The Company will aim to recover profitability by focusing on the recycling business as well, including utilization of new recycling technologies.

Co-creation business

(Refer to page 18 of the Financial Results Briefing Material)

In addition to the existing business portfolio focused on the leasing business, the Company is promoting new business development with multiple stakeholders through M&As and expansion of PPP/PFI business to achieve further growth.

The Company forecasts the achievement of consolidated sales in co-creation business to be ¥7,000 million (up 0.6% year-on-year), gross profit of ¥1,500 million (up 3.9% year-on-year), and a profit margin of 21.4% (up 0.7 percentage points year-on-year).

## Topics

### Key completed construction

(Refer to page 19 of the Financial Results Briefing Material)

The Company has provided an introduction on examples of public construction and private construction projects. Public construction includes pavement construction for the Ministry of Land, Infrastructure, Transportation and Tourism (MLIT) and expressway companies, while private construction includes sports-related construction, which the Company has prioritized.

### Progress on Mid-term Management Plan 2024

(Refer to page 20 of the Financial Results Briefing Material)

<Satisfaction reform / Promoting DE&I>

The Company began revising the personnel system as a means to improve benefits for employees, and introduced internal briefings from December with plans for the introduction of these measures in FY2025.

In addition, on the behalf of promoting health management, the Company is engaging in awareness reforms for the health of employees and promoting support measures while aiming to obtain certification as a Health and Productivity Management Outstanding Organization in FY2025.

As illustrated in the image on the right, the Company conducted training for new employees at Tsuchiura Techno BASE for six months from April to September. These engineers, who will be taking on responsibility for the future, have now been deployed to worksites to gain further experience.

The Company also remains committed to promoting DE&I to secure human resources and drive the growth of the Group while aiming to increase employee engagement.

(Refer to page 21 of the Financial Results Briefing Material)

<Improving quality and profitability of service provision: Technology development>

The Company has advanced various forms of environmental measures and technology to the practical application stage while promoting DX by developing unmanned (labor-saving) technology for measurements after construction or pavement work is completed, which is now being put into operation at various sites.

These efforts also contribute to workstyle reform, and the Company aims to further expand their application.

(Refer to page 22 of the Financial Results Briefing Material)
<Improving quality and profitability of service provision: Environmental measures>
The images on the right show efforts to commercialize the reuse of waste materials, in which the Company promotes sales once verifying their effectiveness after construction is completed. The Company is also developing and promoting plans to convert the fuel used at asphalt plants to contribute to greenhouse gas (GHG) reduction, as depicted on the left.

(Refer to page 23 of the Financial Results Briefing Material)
<Improving quality and profitability of service provision: Environmental measures>
Starting with the Nagasaki Asphalt Mixture Center in FY2023, the use of waste cooking oil has now been expanded to six locations, with plans to introduce this measure at an additional eight locations in the future. Five facilities have transitioned from heavy oil to natural gas for use as heating fuel, with an additional five locations scheduled to adopt this measure moving forward.
These initiatives represent areas where value-added sales promotion and the provision of incentives are expected in the future, and taking an early lead in such efforts is expected to provide a link to achieving superiority.

<Synergy with Shimizu Corporation>
The Company has seen synergistic effects with Shimizu Corporation in joint development projects in technological development areas, such as orders received through engaging in joint ventures for civil engineering construction projects. As depicted on the right, in addition to the joint development of new products, the Company is also strengthening collaboration in private construction and increasing the number of customers who are willing to make direct orders.
Going forward, the Company will focus on business expansion abroad and steadily promote co-creation by personnel exchanges and other means.

(Refer to page 24 of the Financial Results Briefing Material)
<Co-creation business>
Resource Forest is a Fukuoka-based company that mainly manufactures wood blocks made from thinned wood and other materials that was made a subsidiary through a capital alliance in April 2024. Similarly, in July, the Company’s subsidiary Sports Media inherited the business of Morioka Royal Tennis Club in Iwate. Furthermore, in October, as a method for strengthening the construction business, the Company made ito Co.Ltd., an Aomori-based company that mainly engages in pipe construction and other related work, a subsidiary and expanded the scope of its business operations.

<IR/CSR activities>

At the end of September, the Company arranged an opportunity for investors to visit Tsuchiura Techno BASE and observe the potential of the Company's technology.

In October, the Company also participated in TOKYO Night Relay at the Japan National Stadium, contributing to activities supporting afforestation efforts.

<Conclusion>

In FY2026, the final year of Mid-term Management Plan 2024, the entire Group remains committed to steadily implementing plans one after the other in order to achieve the announced targets.

## Q&A topics

Please note beforehand that the listed Q&A topics are not exhaustive, instead summarizing common questions and answers based on the judgment of the Company.

### Synergy with Shimizu Corporation

Q1: The number of construction orders is increasing, but what are the details behind this increase?

A1: First, for civil engineering, a domain that we have been involved in since we initially became a consolidated subsidiary, in the previous fiscal year, the Company formed a joint venture (JV) with Shimizu Corporation for floor slab replacement construction on expressways and received orders for two projects, and we will continue to engage in this field in the future.

Next, for private construction, the Company is utilizing Shimizu Corporation's private sales network to strengthen sales to private-sector clients. In order to receive direct orders for projects that were previously subcontracted to us through Shimizu Corporation, we are in the process of seeking to build relationships with clients, and understand that the results of our efforts from the previous fiscal year are demonstrated in the current figures. In FY2024, we plan to reach ¥2.2 billion in private-sector orders, and are projected to surpass these plans if we continue to make steady progress in this manner.

Q2: The Company has stated that it will aim to collaborate in overseas business as well, but what kind of initiatives are possible in this regard?

A2: Starting in the previous fiscal year and continuing into the current fiscal year, we have dispatched engineers from the Company to Uganda in Africa where Shimizu Corporation is developing business, and engaged in technical cooperation in that region.

Going forward, we intend to seek collaboration with Shimizu Corporation in Asia and Southeast Asia from bases in Thailand and Malaysia where the Company has established local subsidiaries. In Africa, we would also like to continue dispatching engineers in responding to the needs of Shimizu Corporation and consider the potential of future business development.

As a current topic, we have been approached with a project involving PET Ascon (pavement utilizing recycled PET bottles) in Kenya in Africa, through Shimizu Corporation, and our engineers are visiting Kenya to push the conversation forward. We would like to consider the potential for commercialization of this endeavor with the contact point, the Japan International Cooperation Agency (JICA), acting as an intermediary.

Material sales business

Q3: The Company has stated that it will continue passing on the increased cost of electricity, crude oil, and personnel as well as transportation costs to customers, but what is the actual possibility that this will be implemented, and what impact will further passing on price increases have on business?

A3: As a result of the severe volatility in crude oil prices and exchange rates, it will be difficult to pass on price increases while unit prices for design in public construction remain in their current state, and we consider it necessary to increase the manufactured volume of composites to compensate for this amount.

In public construction, new pavement construction is also increasing as a method to resolve the missing links being promoted in the government's national resilience plan.

In private construction, we project business to remain firm due to capital investment for corporations increasing, and will secure our manufactured volume by acquiring orders.

In the recycling business, an area that we have been strengthening from the current fiscal year, when waste materials generated and recovered from urban areas is reclaimed through intermediate processing (crushing) and transported to regional areas for use as recycled asphalt mixtures or recycled pavement materials, our intentions will be to pass on transportation costs to customers as appropriate.

Q4: Considering that NIPPON ROAD became a subsidiary of Shimizu Corporation, has Shimizu Corporation led any initiatives to pass on price increases?

A4: Shimizu Corporation has expressed its commitment to improving earnings power, and as a group company, the Company is also working to improve the construction profit margin in the construction business. In the material sales business, we are also passing on the price of waste materials collected from Shimizu Corporation in the recycling business to the company.

Implementing management conscious of capital cost and stock price

Q5: PBR remains below 1x. Has any progress been made on negotiations with Shimizu Corporation regarding the acquisition of treasury stock?

A5: In order to achieve PBR of 1x, it is necessary for us to improve the earnings power of construction, expand the co-creation business, and expand our business scale and profits through M&A, but we also recognize the necessity of improving capital efficiency.

Due to the current tradable share ratio, the decision to purchase treasury stock cannot be made at our discretion, and we are considering the potential of an acquisition of treasury stock that maintains the current ownership ratio of Shimizu Corporation. Currently, we are proceeding with preparations to engage in negotiations with Shimizu Corporation.

Q6: The stock price has remained low since the takeover bid conducted in March 2022. Doesn't this mean that the market has assessed the synergy with Shimizu Corporation as being insufficient?

A6: Although it may be possible to make such an assessment in terms of the stock price alone, the reality is that profits are expanding and we are seeing a gradual emergence of synergies that the market will come to appreciate in the future.

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