

Financial Results for the 2nd Quarter of FY3/23



November 30, 2022
NICHIREKI CO., LTD.
(TSE Prime, Stock Code: 5011)

A leading company in creating 'roads'
which contributes to the society through creating 'roads'

“Sow the Seeds”



“Sow the Seeds”

“Let us advance forward by sowing the good seeds”.

This is the motto of the Nichireki Group.

Let us sow the strong seeds that will not die even if a severe drought strikes.

By the sweat of our brow,
let us spread fertilizer.

Then the plants will grow up to bear good fruit.

Even if we do not harvest the fruits ourselves,
I believe this:

If we do not sow the seeds and
spread fertilizer,
but only aim to gain the fruits,
we will never enjoy true prosperity.

Eiichi Ikeda (Founder of the Nichireki Group)

Corporate philosophy



Corporate philosophy of Nichireki Group

Basic philosophy (Spirit of sowing the seeds)

Sowing the seeds, giving them water, letting them flower,
Continuously creating new business through the accumulation of unceasing effort

Management philosophy

To ensure the Nichireki Group contributes to the society through creating roads:

- ① **We will supply road paving materials and their corresponding construction methods to satisfy requirements for outstanding functionality and cost.**
- ② **We will offer advanced consulting that watches vigilantly over roads, which are the common assets of the people.**
- ③ **We will implement construction technology that is trusted by customers.**

By completely unifying these elements, the Nichireki Group considers its management philosophy as the aim of remaining a highly profitable corporate group that spearheads the creation of roads worthy of the trust of its stockholders and a wide range of customers. We also strive to ensure that every employee in the Group can exercise his or her abilities to the fullest through meaningful work.

Contents



- I . Corporate Profile
- II . Summary of Financial Results for the 2nd Quarter of FY3/23
- III . Full-Year Business Forecasts for FY3/23

I . Corporate Profile

Corporate Profile



Name	NICHIREKI CO., LTD.
Head office location	4-3-29 Kudan-kita, Chiyoda-ku, Tokyo
Founded	October 1943 (Established in September 1949)
Capital	2,919 million yen
Representative	Manabu Obata, President and Representative Director
No. of employees	958 employees (Consolidated, as of March 31, 2022)
Business description	<ul style="list-style-type: none">▪ Manufacturing and sales of applied and processes asphalt products▪ Manufacturing, processing and sales of construction and civil engineering materials▪ Contracting for road paving, waterproofing, water and sewage and other civil engineering work, including relevant survey and diagnosis, design and administration processes

History of Our Group



1943	Eiichi Ikeda founded Nihon Rekisei Kagaku Kogyosho to engage in construction waterproofing works using asphalt.
1946	Began to undertake paving construction works
1949	Founded a company
1950	Established a Tokyo Plant and Laboratory in Arakawa-ku, Tokyo; started production of asphalt emulsion
1954	Changed the corporate name to Nichireki Kagaku Kogyo Co., Ltd. due to company split and merger, etc.
1961	Japan's first cationic asphalt emulsion, CATIOZOL, was awarded the Tanahashi Invention Award
1968	Built a new head office building in Kudan, Chiyoda-ku, Tokyo (to present)
1974	Listed on the First Section of both Tokyo Stock Exchange and Osaka Securities Exchange.
1977	Opened a technical research center in Oyama Plant in Tochigi Prefecture
1994	Changed the corporate name to NICHIREKI CO., LTD.
2002	Started overseas business by establishing Beijing Luxin Dacheng Exquisite Paving Co., Ltd. in Beijing, a joint venture between Japan and China
2007	Conducted its first M&A, making ASAHI INDUSTRIES CO., LTD. in Oita City, Oita Prefecture a wholly owned subsidiary.
2010	Established a subsidiary NICHIREKI SHANGHAI CO., LTD. in Shanghai, China
2014	Made consolidated subsidiaries into wholly owned subsidiaries
2017-2019	Conducted M&A to make LINEPHALT CO.,LTD., Shinwa Kakoh Co., Ltd., and Heat Rock Industry Co., Ltd. wholly owned subsidiaries.
2020	Acquired a large parcel of land in Tsukubamirai City to construct a new production and logistics base (Tsukuba Big Ship)
2022	Selected and shifted to "Prime Market" in accordance with the market reorganization of the Tokyo Stock Exchange

Offices and Group Companies (as of August 31, 2022)

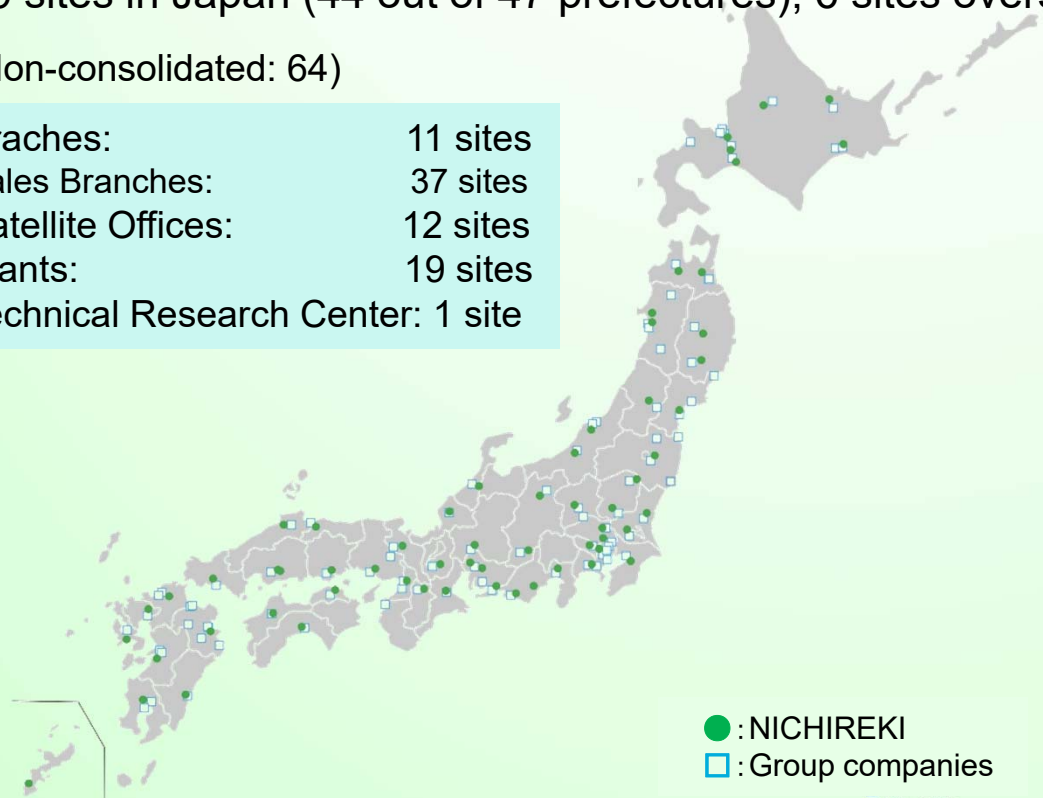


◆ Offices

99 sites in Japan (44 out of 47 prefectures), 6 sites overseas

(Non-consolidated: 64)

Branches:	11 sites
Sales Branches:	37 sites
Satellite Offices:	12 sites
Plants:	19 sites
Technical Research Center:	1 site



● : NICHIREKI
□ : Group companies

◆ Group companies (Consolidated subsidiaries)

33 companies including
HOKKAIDO NICHIREKI CONSTRUCTION CO., LTD.
TOHOKU NICHIREKI CONSTRUCTION CO., LTD.
NICHIREKI ROAD CO., LTD.
NICHIREKI SPECIAL CONSTRUCTION CO., LTD.
CHUBU NICHIREKI CONSTRUCTION CO., LTD.
KINKI NICHIREKI CONSTRUCTION CO., LTD.
CHUGOKU NICHIREKI CONSTRUCTION CO., LTD.
SHIKOKU NICHIREKI CONSTRUCTION CO., LTD.
ASAHI KOGYO CO., LTD.
KYUSHU NICHIREKI CONSTRUCTION CO., LTD.
LINEPHALT INDUSTRY CO., LTD.
HEAT ROCK INDUSTRY CO., LTD.

Business Overview



The Nichireki Group develops business activities that offer a wide variety of products, technologies, works, and so forth mainly related to road paving.

● Applied and Processed Asphalt Products Business

Manufacturing and sales of applied and processed asphalt products including asphalt emulsions, modified asphalt, bridge deck slab waterproofing materials, road surface repairing materials, crack repairing materials, landscape paving materials and industrial products, as well as manufacturing, processing, and sales of construction and civil engineering materials

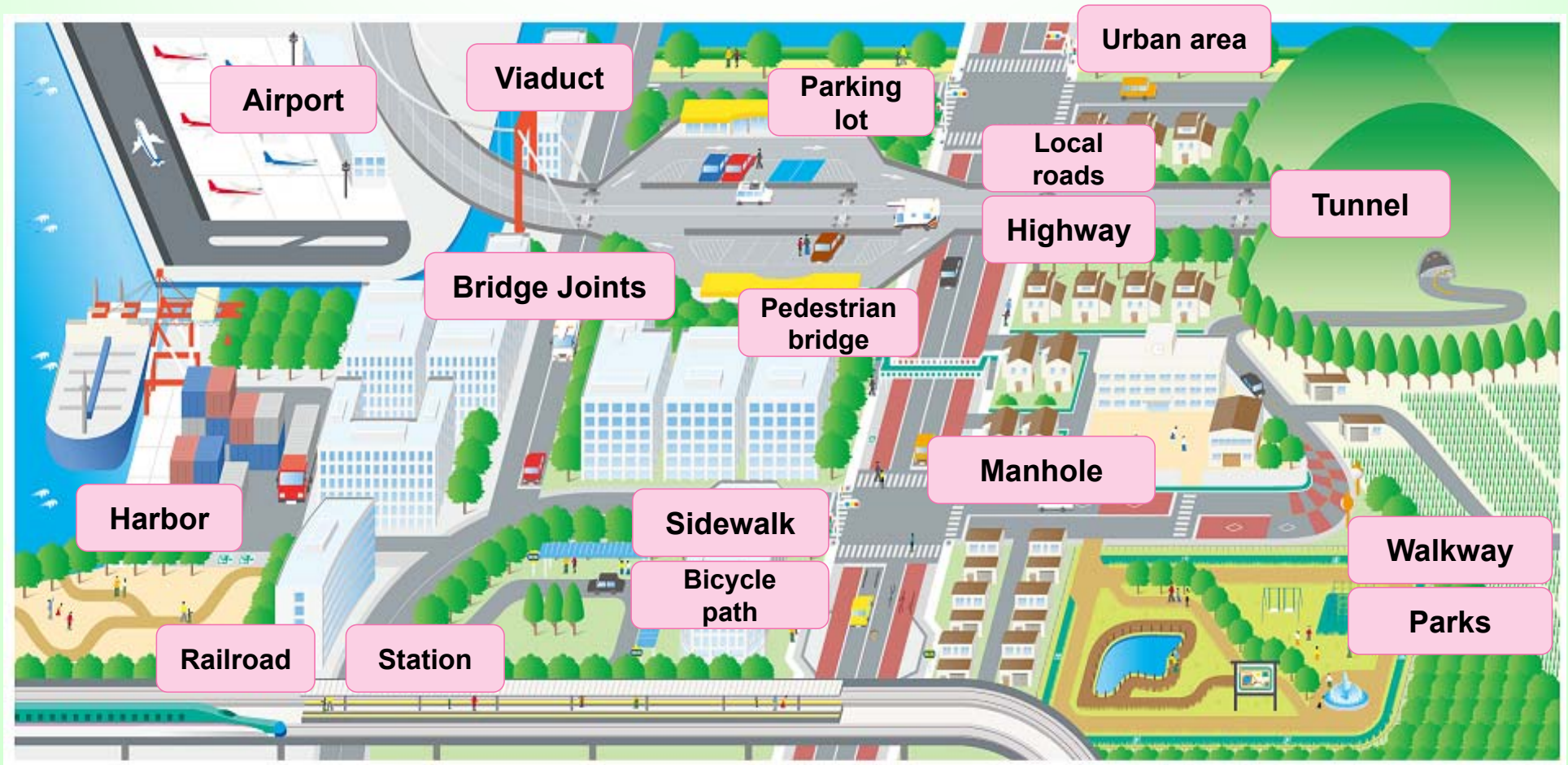


● Road Paving Business

Contracting for road paving, bridge deck slab waterproofing, water and sewage and other civil engineering work, including relevant survey and diagnosis, design and administration processes



Business Domain



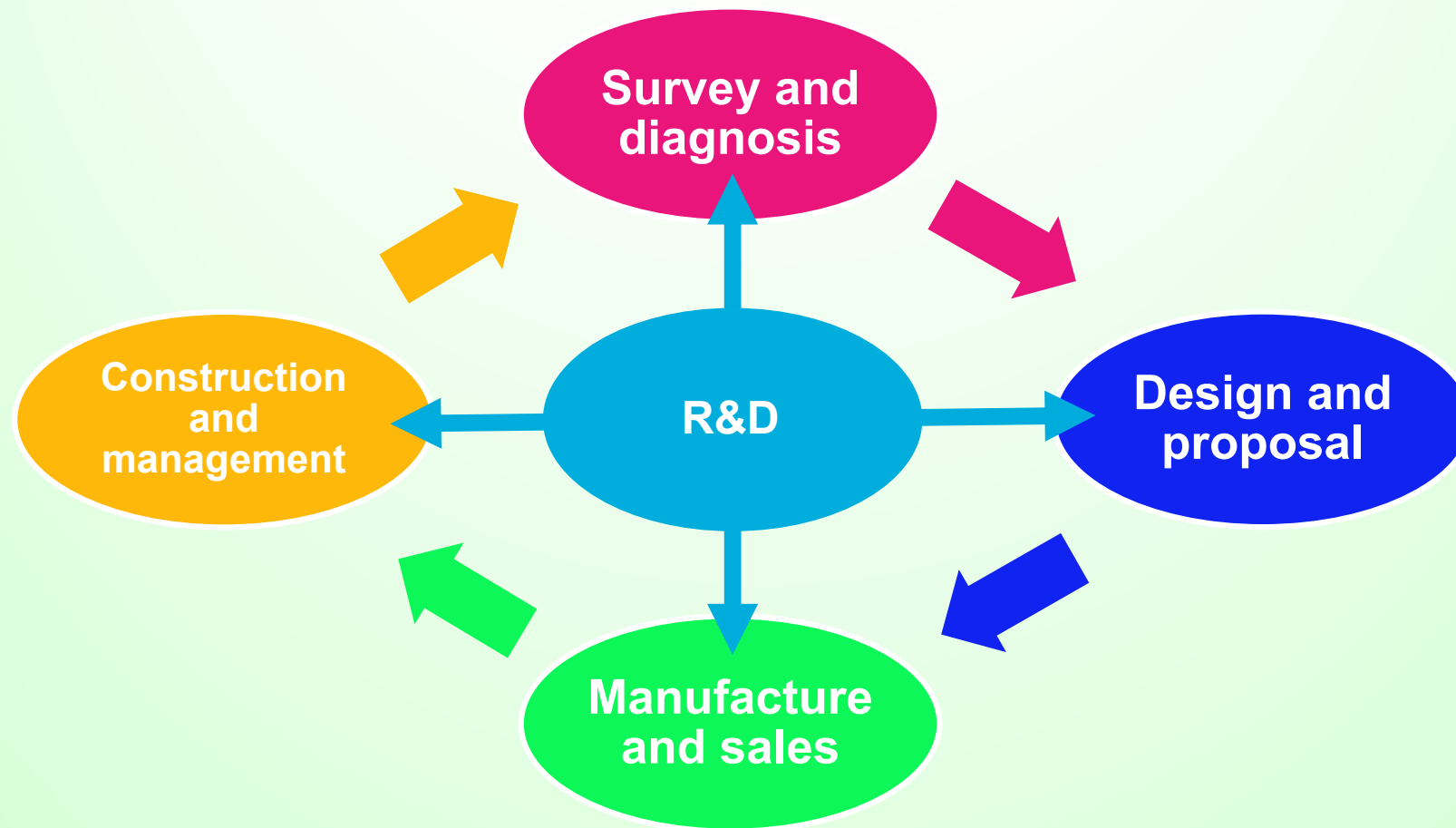
Advantages in Research and Development



- ◆ About 10 percent (about 40 employees) of the NICHIREKI employees belong to the technical research center and about 10 percent of operating profit (consolidated) is being invested in research and development
- ◆ Installed performance evaluation testing machines and promoted R&D of eco-friendly products and construction methods in response to the demands of the era of social infrastructure maintenance, such as making roads last longer and making large-scale renewals



Strengths in the Business Model



Response to Climate Change



The NICHIREKI Group regards the impact of climate change on its business as an important management issue and actively implements measures to address climate change.

- Endorsement of the Task Force on Climate Related Financial Disclosures (TCFD)

Goals

*Disclosures based on TCFD recommendations are made in the Integrated Report 2022.

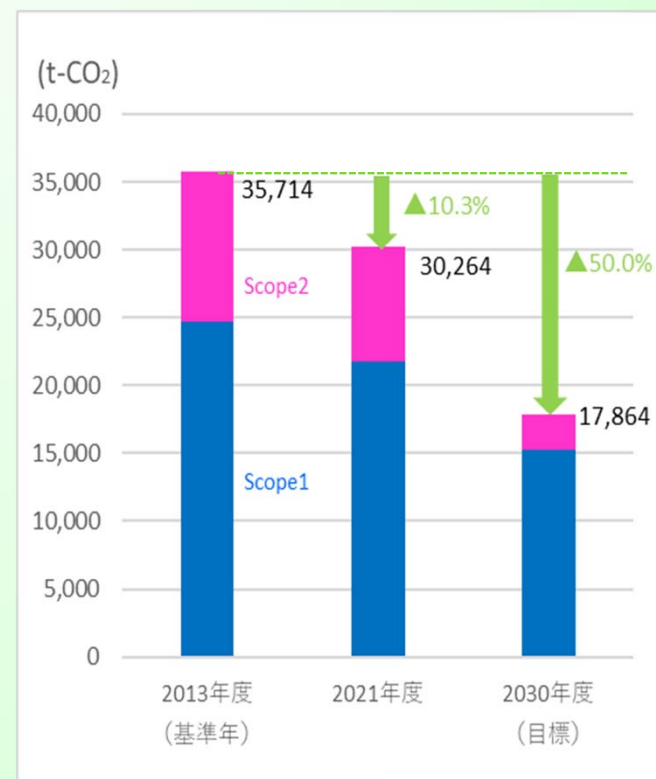
- Reduce greenhouse gas emissions in Scope 1+2 by 50% from FY2013 by FY2030
- Reduce greenhouse gas emissions of the entire value chain to net zero by 2050

Measures



- Reform manufacturing methods, purchase green electricity, promote installation of solar panels, etc.
- Expand sales of environmentally friendly products such as long-life and warm mix modified asphalt
- Promote development of low-carbon, cold-laid pavement materials and construction technology

<CO2 emission reduction targets>



NICHIREKI's "Tastainability"



The NICHIREKI Group responds to the CO2 emissions reduction needs of our stakeholders with environmentally friendly products and construction methods.

Asphalt emulsion

Modified asphalt

Bridge deck slab
waterproofing

Pavement for
landscaping

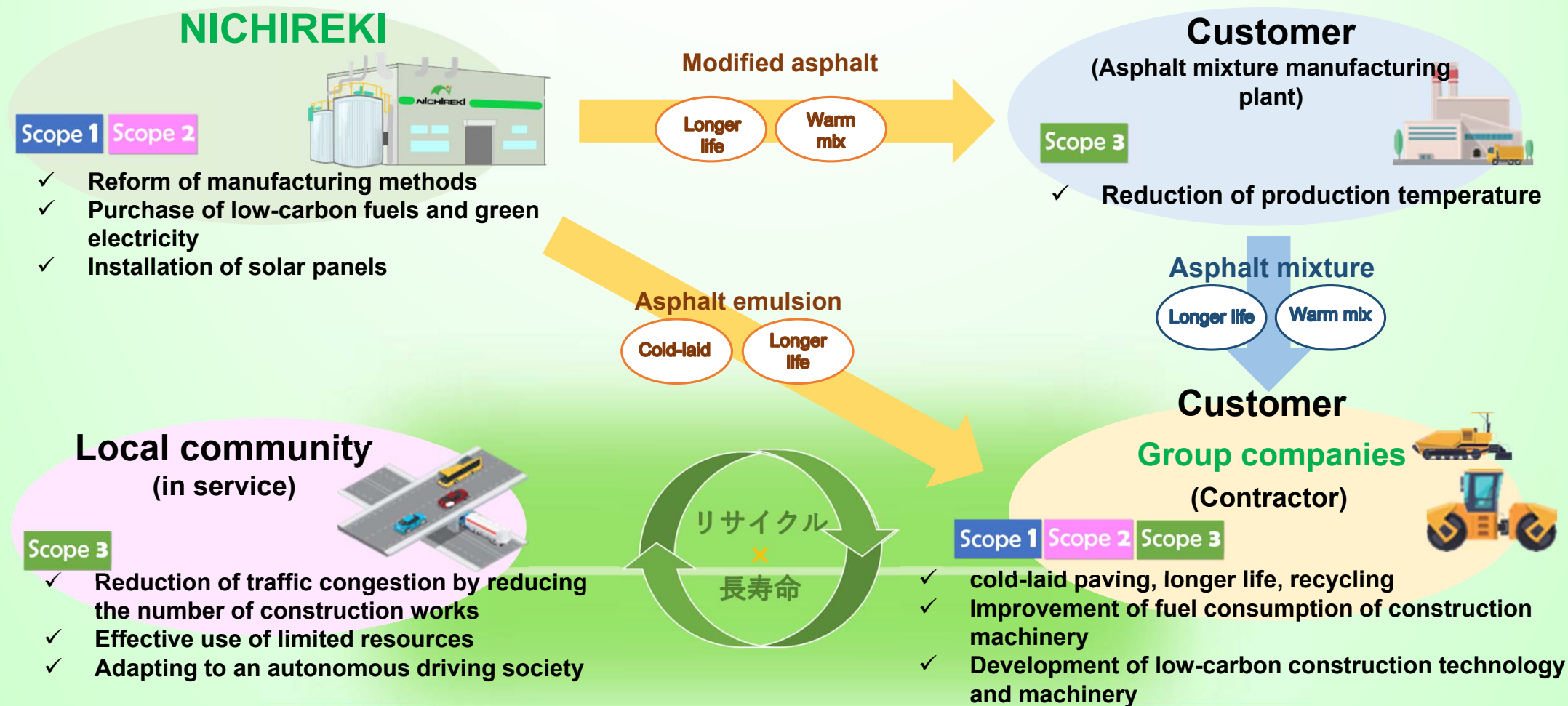


etc...



We contribute to the creation of sustainable roads by "adding" further performance and functions such as longer life, recycling, etc., in other words, "Tastainability". *"Tasu" means "plus" in Japanese. "Tastainability" means plus sustainable feature.

Example of CO2 Reduction Image of Nichireki's Products and Construction Methods



Super SHINAYAKAPHALT

CO₂ emissions from asphalt mixture production
Reduce by approx. **22%**

- ◆ Specially modified asphalt that is flexible enough to be bent by hand and tough enough to withstand traffic loads.
- ◆ Compared to the former SHINAYAKAPHALT, the mixture manufacturing temperature is reduced by 50°C from 180°C to 130°C.



足すコスト削減 **Sustainability**



Contributes to a longer pavement life and a reduction in the number of construction works to about one-half, thereby reducing CO₂ emissions due to construction work and traffic congestion.

STABI-CEMENT RC Construction Method



Recycled use of existing pavement reduces **CO2 emissions**
Reduce by approx. **20%**

- ◆ Recycling damaged existing pavement in place and constructing new pavement reduces pavement waste generated from the site by approximately 80%.



足す可塑性 T^astainability

- + Contributes to further reduction of CO2 emissions by shortening the construction period and reducing associated traffic congestion, etc.

*Comparison with the “construction method of reconstructing full layers”
(Typical local level, design CBR=4, heavy traffic N5)

Super SHINAYAKAPHALT + STABI-CEMENT RC Construction Method



Reduce **CO2 emissions** due to long life and recycling
Reduce by approx. **48%**

- ◆ By paving Super SHINAYAKAPHALT on the base constructed by STABI-CEMENT RC Construction Method, an unprecedentedly long pavement life is realized.
- ◆ This reduces CO2 emissions by approximately 48% over the 50-year life cycle of the pavement.



足可サポビリティ

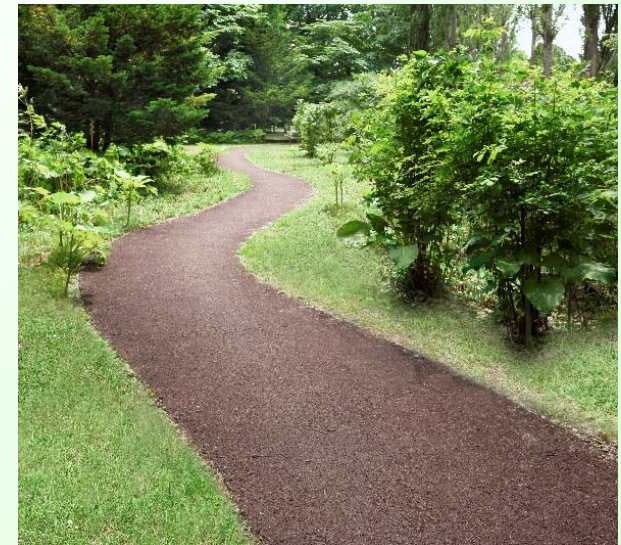
Tastainability



ASWOOD Paving

CO2 emissions compared to conventional heated pavement
Reduce by approx. **30%**

- ◆ Woodchip pavement constructed by cold-laid paving
- ◆ Excellent water permeability and soft texture, blend with the natural surroundings, and consider the landscape



足立木材株式会社 **Tas**tainability



By using thinned wood without burning it, CO2 is fixed without emitted to the atmosphere.

For example, if 1,000 square meters of 4cm thick are constructed with ASWOOD paving, the amount of CO2 that can be fixed is equivalent to the amount absorbed by about 1300 cedar trees annually.

Super SURFTREAT Construction Method



CO2 emissions compared to heated thin paving
Reduce by approx. **61%**

- ◆ A construction method to improve the function of existing road surfaces that have become rough by spreading a thin layer of a special slurry mixture at normal temperatures.



足可サポビリテヤ **Tastainability**



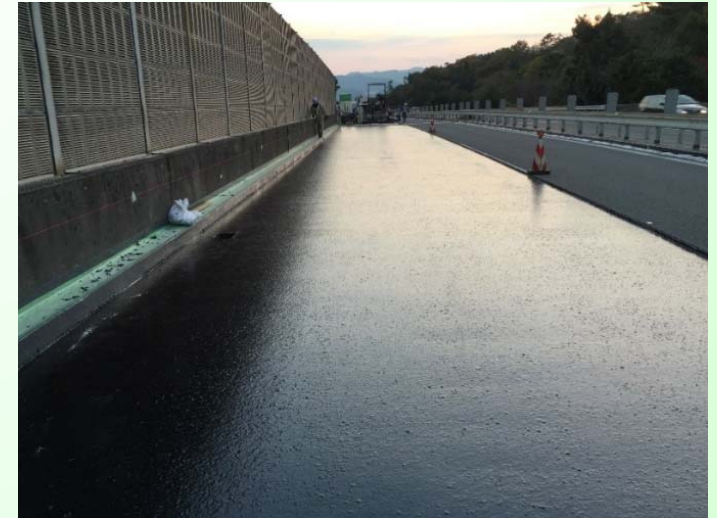
Extends pavement life by preventing potholes caused by crack propagation



Modified Asphalt for Gussasphalt

CO2 emissions during the production of asphalt mixtures
Reduce by approx. **17%**

- ◆ Mixtures using modified asphalts for gussasphalt are comparable to graded II waterproofing (standard of waterproofing performance assuming 2030 years) targeting concrete slabs.
- ◆ Reduce the manufacturing temperature of the mixtures from 240° C to 190° C and 50° C, respectively, compared to a typical gussasphalt mix.



足す可塑性 T_{as}tainability

- + Temperature reduction reduces odors specific to asphalt.
In addition, it contributes to reducing CO2 emissions due to its high durability and low frequency of repairs.

II . Summary of Financial Results for the 2nd Quarter of FY3/23

Financial Highlights I (Outline of the 1H)



- **Despite steady public investment against the backdrop of rising demand for construction, including measures for disaster prevention, disaster mitigation, and measures to strengthen national land resilience, the situation continues to require close attention to downward pressure on business performance, such as soaring crude oil prices and the yen's depreciation.**
- **In this business environment, we have been promoting activities to design and win orders for high-value-added products. In the road paving business in particular, due to delays in construction progress in some regions and the impact of soaring materials, operating profit fell YoY. On the other hand, net income attributable to owners of parent increased significantly YoY due to the recording of extraordinary income associated with the partial transition of the retirement benefit plan.**

Financial Highlights II (Consolidated)



(Million yen)

	1H FY3/22	1H FY3/23	YoY change (%)
Net sales	32,416	33,677	3.9% ↑
Gross profit	7,464	7,170	▲3.9% ↓
SG&A expenses	4,684	4,992	6.6% ↑
Operating income	2,779	2,178	▲21.6% ↓
Ordinary income	2,947	2,441	▲17.2% ↓
Net income attributable to owners of parent	2,002	2,646	32.2% ↑

Financial Highlights III (by Segment)



(Million yen)

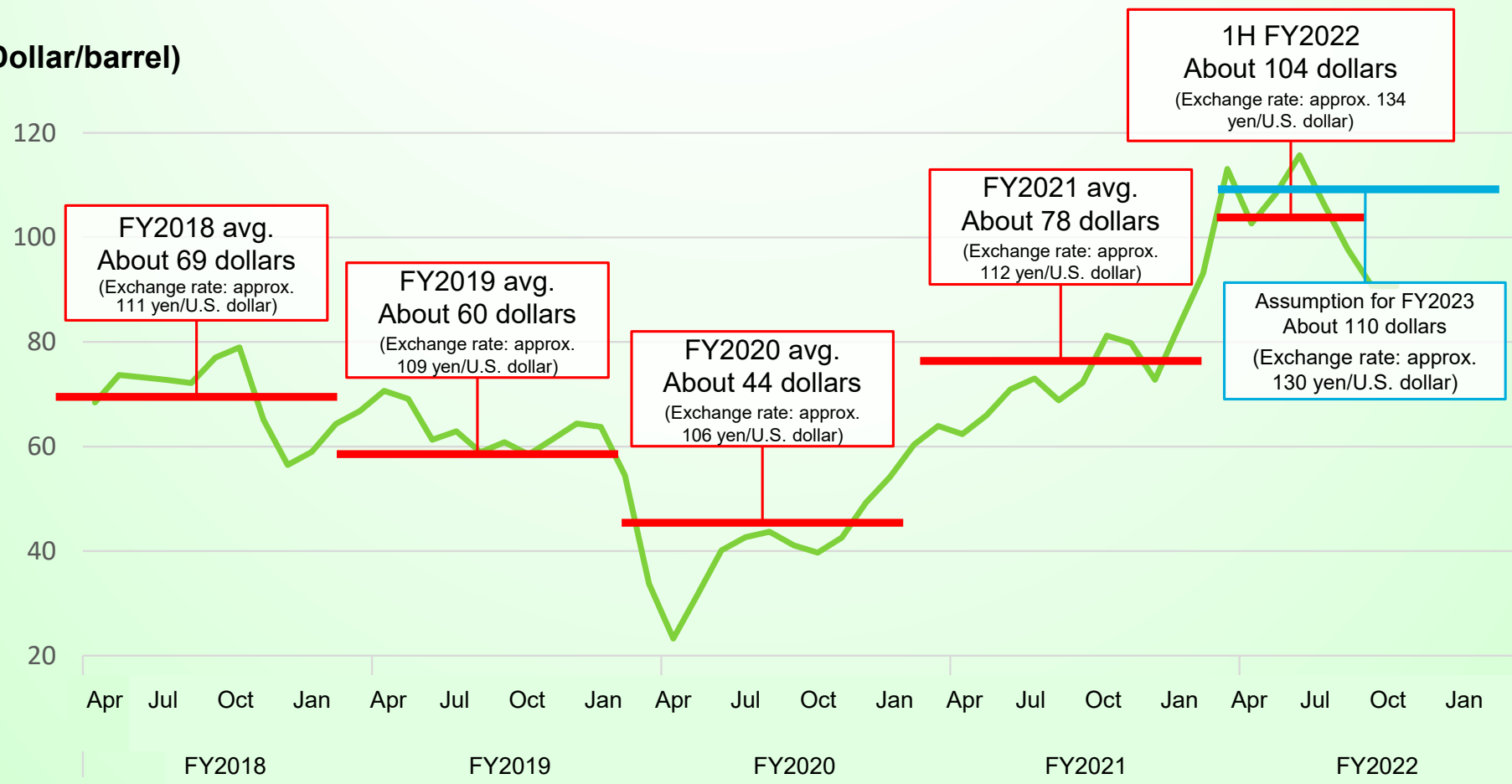
	Applied and Processed Asphalt Products Business			Road Paving Business		
	1H FY3/22	1H FY3/23	YoY change	1H FY3/22	1H FY3/23	YoY change
Segment sales	11,051	12,760	15.5% ↑	21,214	20,763	▲2.1% ↓
Segment profit	2,705	2,785	3.0% ↑	1,599	972	▲39.2% ↓
Segment profit margin	24.5%	21.8%	▲2.7pt ↓	7.5%	4.7%	▲2.8pt ↓

*Segment sales in the Applied and Processed Asphalt Products Business are net sales to external customers.

*Segment profit is before elimination of intersegment transactions and adjustments for corporate expenses.

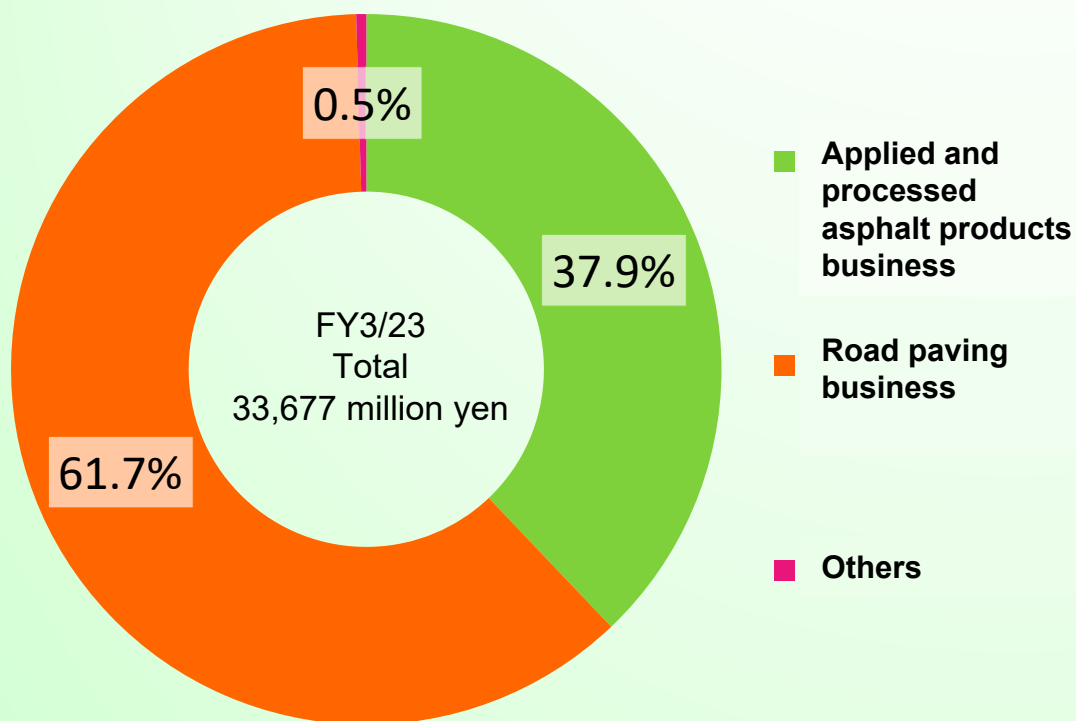
Reference: Dubai Crude Oil Prices

(Dollar/barrel)

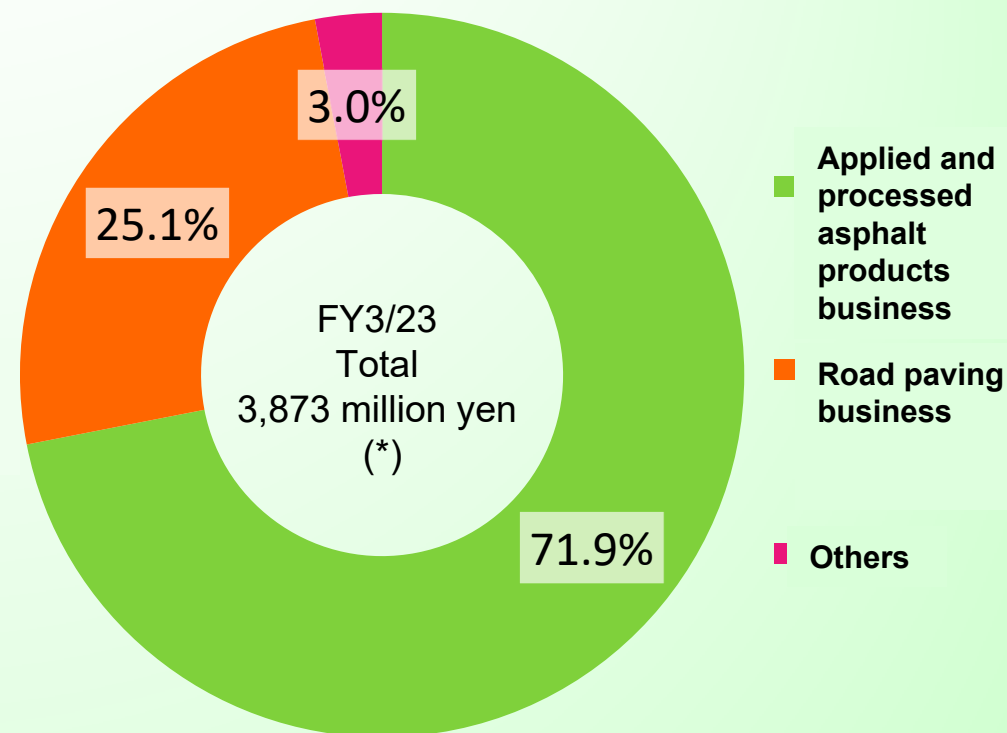


Ratios of Operating Results by Segment

Net sales

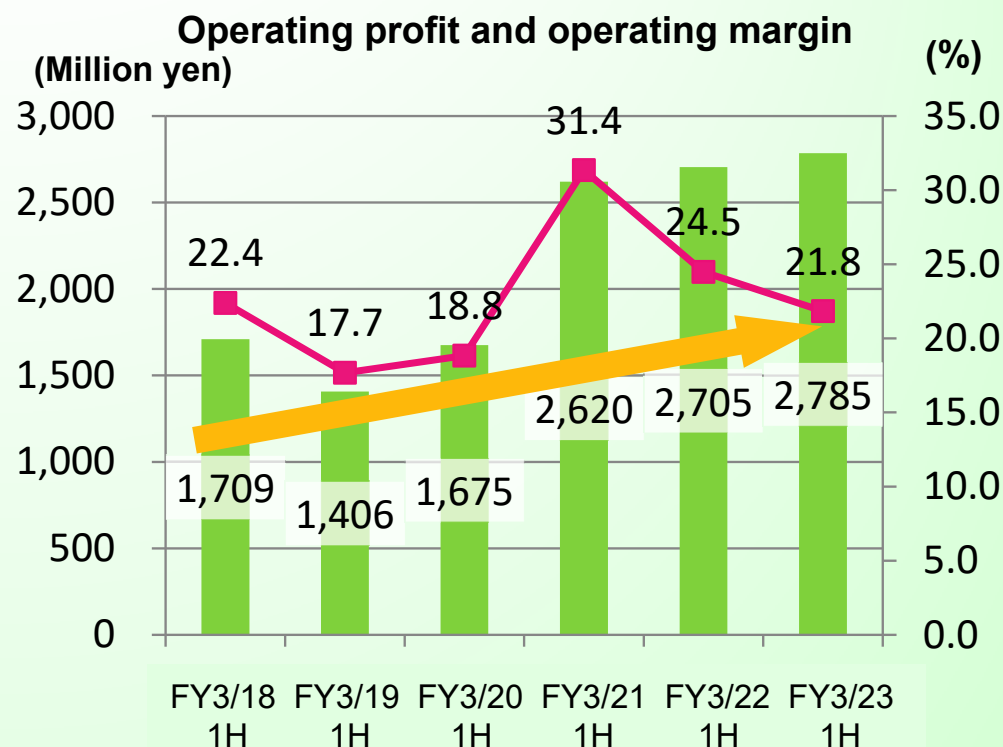
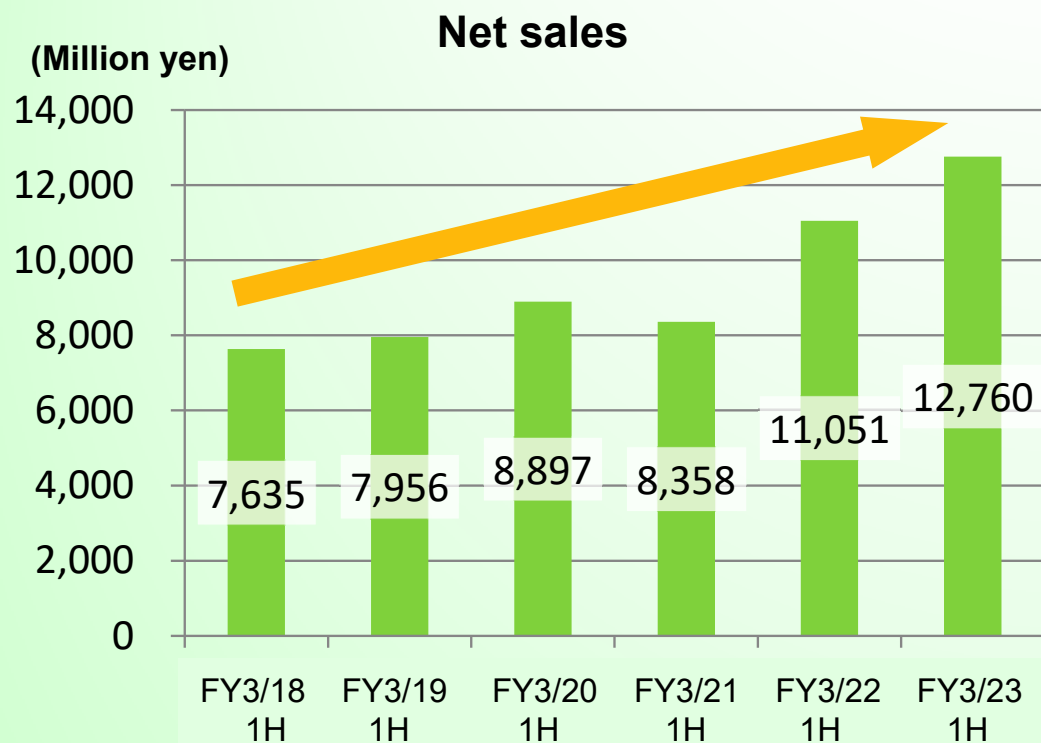


Operating profit



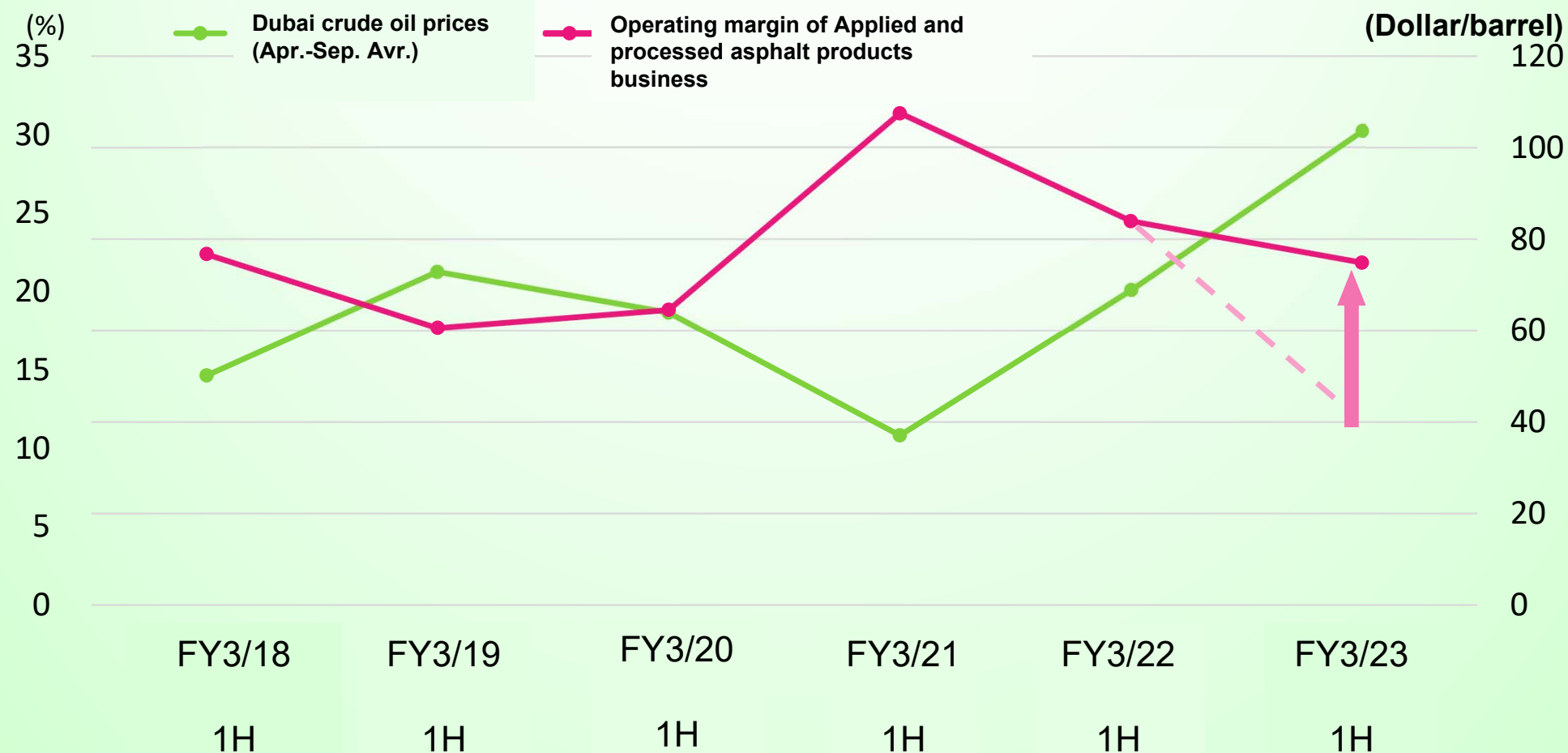
*: Amount before adjustment of 2,684 million yen, which includes elimination of inter-segment transactions and corporate expense

Changes in Operating Results by Segment (Applied and Processed Asphalt Products Business)

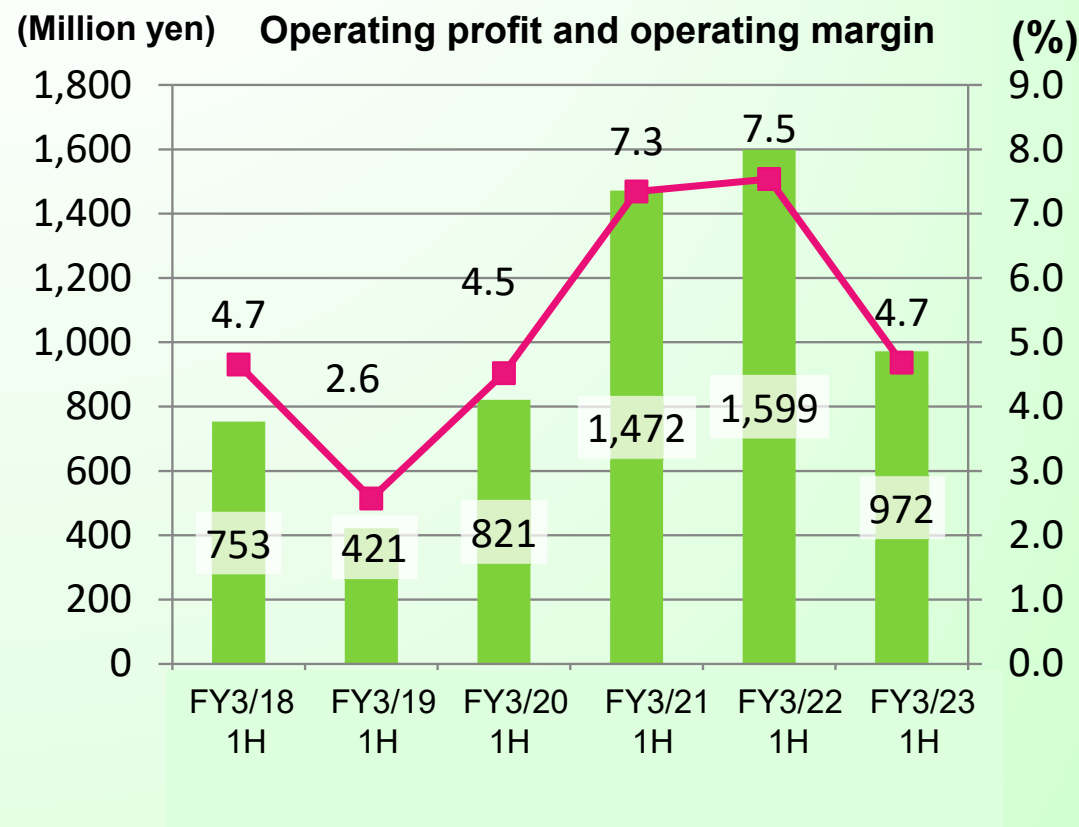
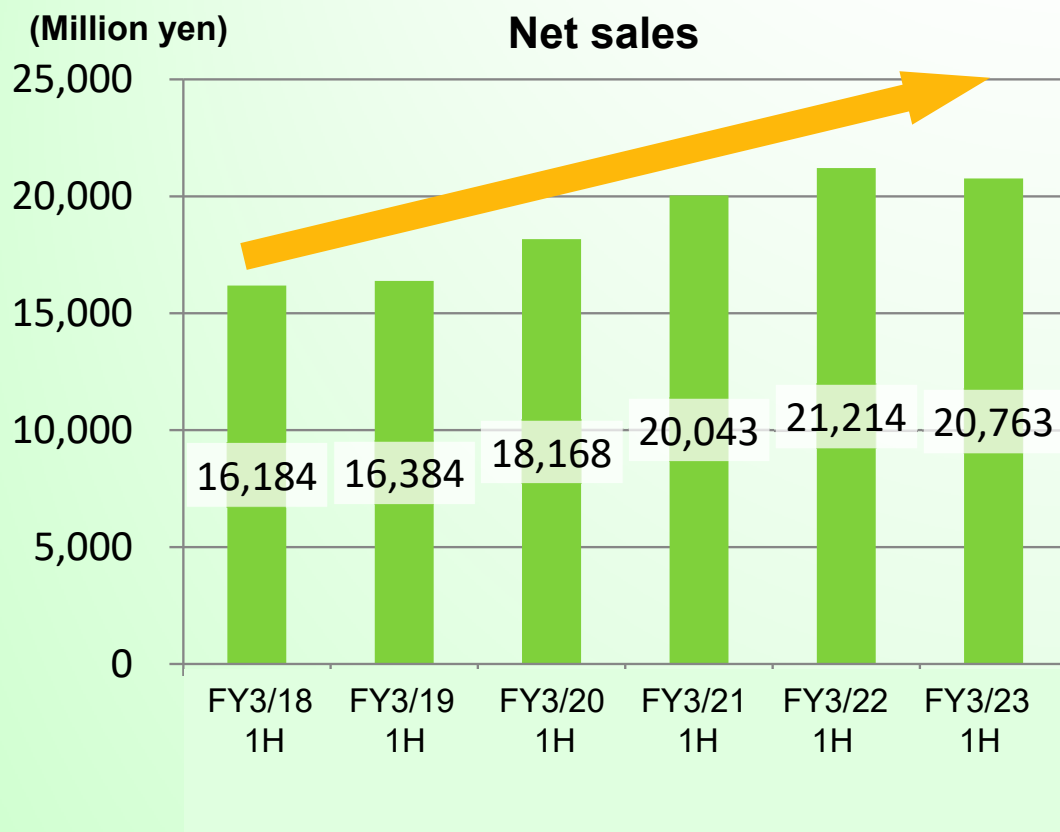


*Segment sales are sales to external customers only. Segment profit is before eliminations of intersegment transactions and adjustments for corporate expenses.

Changes in Operating Margin and Dubai Crude Oil Prices (1H Avr.)

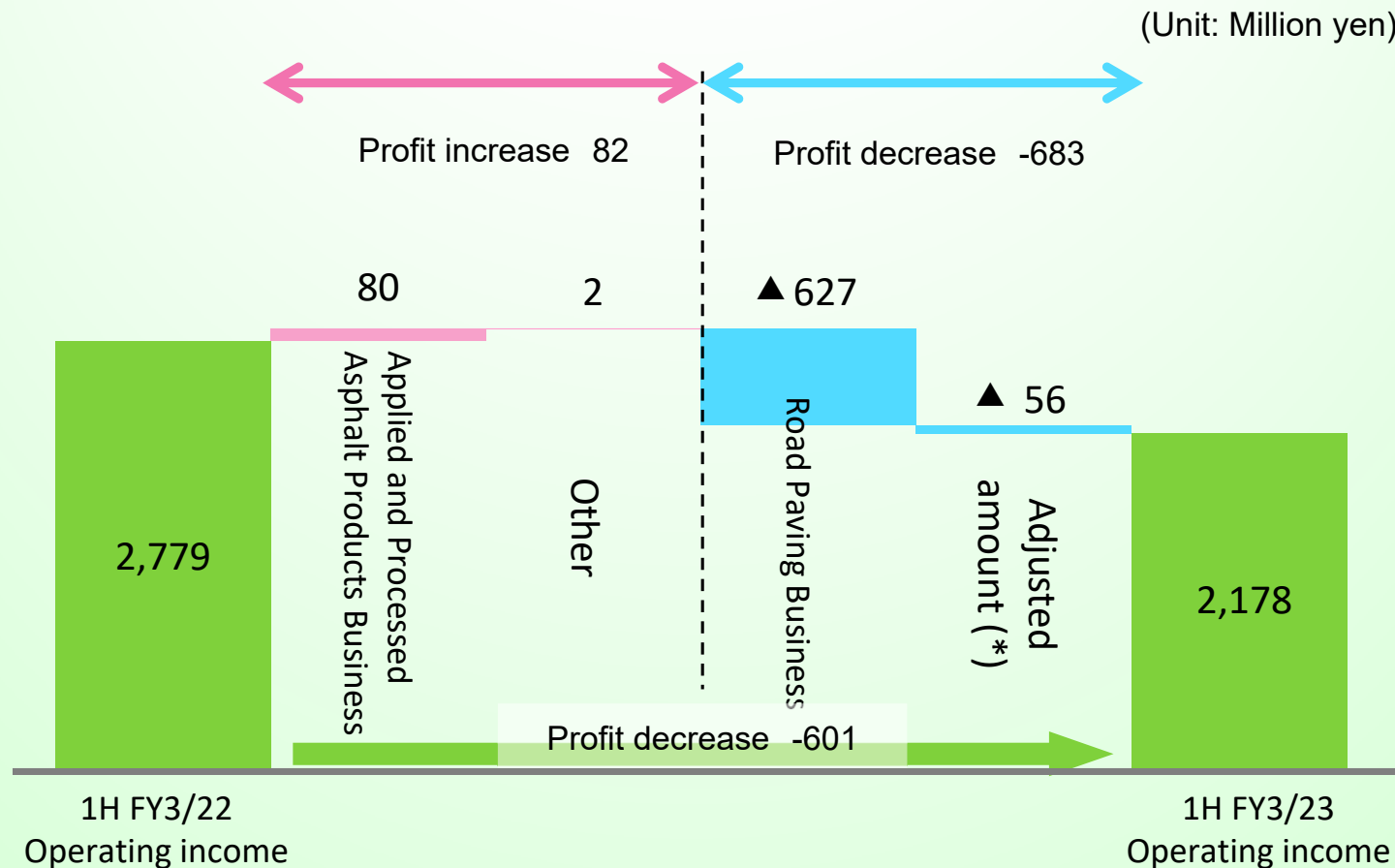


Changes in Operating Results by Segment (Road Paving Business)



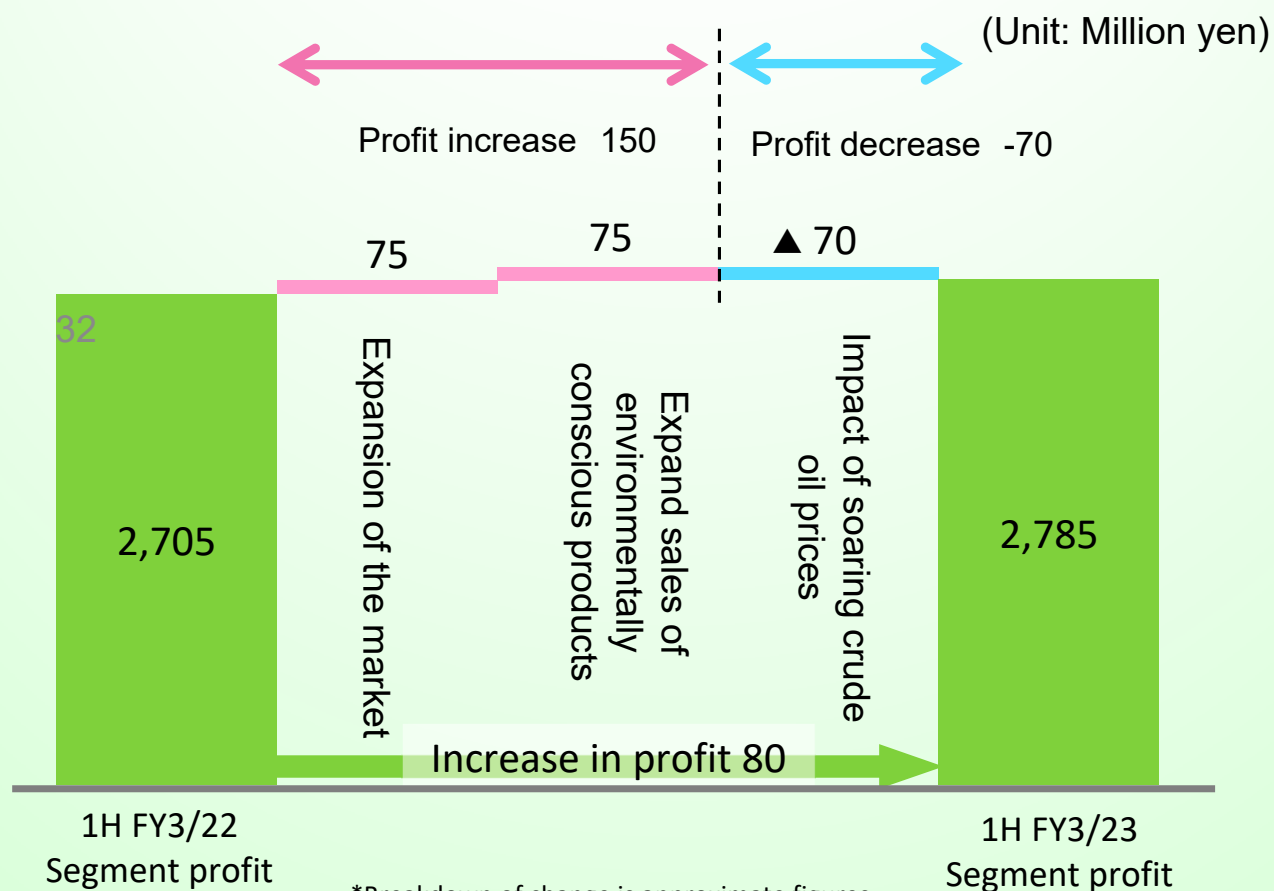
*Segment sales are sales to external customers only. Segment profit is before eliminations of intersegment transactions and adjustments for corporate expenses.

Analysis on Changes in Operating Income



*Includes adjustments, eliminations of inter-segment transactions and corporate expenses not allocated to each segment (primarily corporate management expenses)

Factors behind Changes in Profits in the Applied and Processed Asphalt Products Business



*Breakdown of change is approximate figures

Balance Sheet (September 30, 2022)



*: figures in brackets indicate increase/decrease for end-FY3/22

(Unit: Million yen)

Assets 86,418 (-2,006)	Current assets 53,037 (-3,523)	Current liabilities 16,064 (-3,377)	Liabilities 17,286 (-3,063)
		Fixed liabilities 1,221 (313)	
	Fixed assets 33,381 (+1,517)	Net assets 69,132 (+1,057)	

Topics



Apr

Selected and transferred to the "Prime Market" following the reorganization of the Tokyo Stock Exchange market

Appeared on the radio program "Souba-no-Fukunokami" by Radio NIKKEI

May

Financial Results Briefing for FY3/22

Jul

Concluded an official sponsor agreement with Utsunomiya Brex, a professional basketball team

Published advertisements in the morning edition of Nihon Keizai Shimbun

Launch of Super SHINAYAKAPHALT

Aug

Interview with the President published in "Kaisha Shikiho Online"

Sep

Published integrated report (Japanese version)

Disclosed information based on the Task Force on Climate Related Financial Disclosures (TCFD)

IR briefings for individual investors

Oct

Received the 71st Nikkei Advertising Award "Production Goods and Industries Category Grand Prize"

Published integrated report (English version)

Concluded a Sponsor Agreement with Utsunomiya Brex



- ◆ Utsunomiya Brex belongs to the men's professional basketball league B.LEAGUE
- ◆ The team was a champion of the Year in the 2021-22 season
- ◆ NICHIREKI supports this team as part of its contribution to the Tochigi local community, since its Technical Research Institute, which is the core of research and development, and Oyama Plant, its main production base, are located in Tochigi Prefecture.



Published In Newspaper Advertisements and Won Advertising Awards



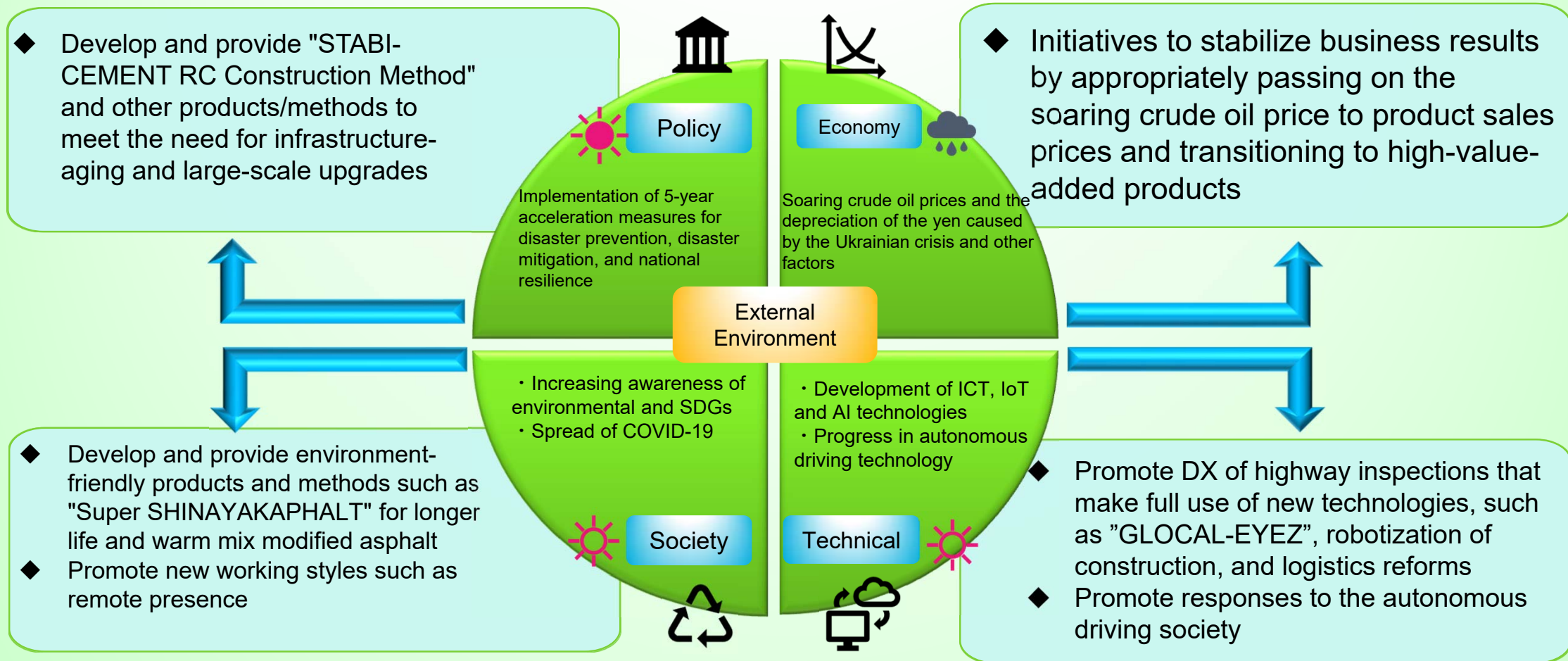
◆ The 71st Nikkei Advertising Award, Excellent in the Production Goods & Industry Division

On July 26 and August 1, a series of advertisements appeared in the morning edition of the Nihon Keizai Shimbun for two consecutive weeks. Using the catchphrase "**Tastainability**" (means "plus sustainable feature"), we express our stance toward achieving SDGs and carbon neutrality through products/methods that contribute to reducing CO2.



Ⅲ. Full-Year Business Forecasts for FY3/23

Our Group's External Environment and Responses



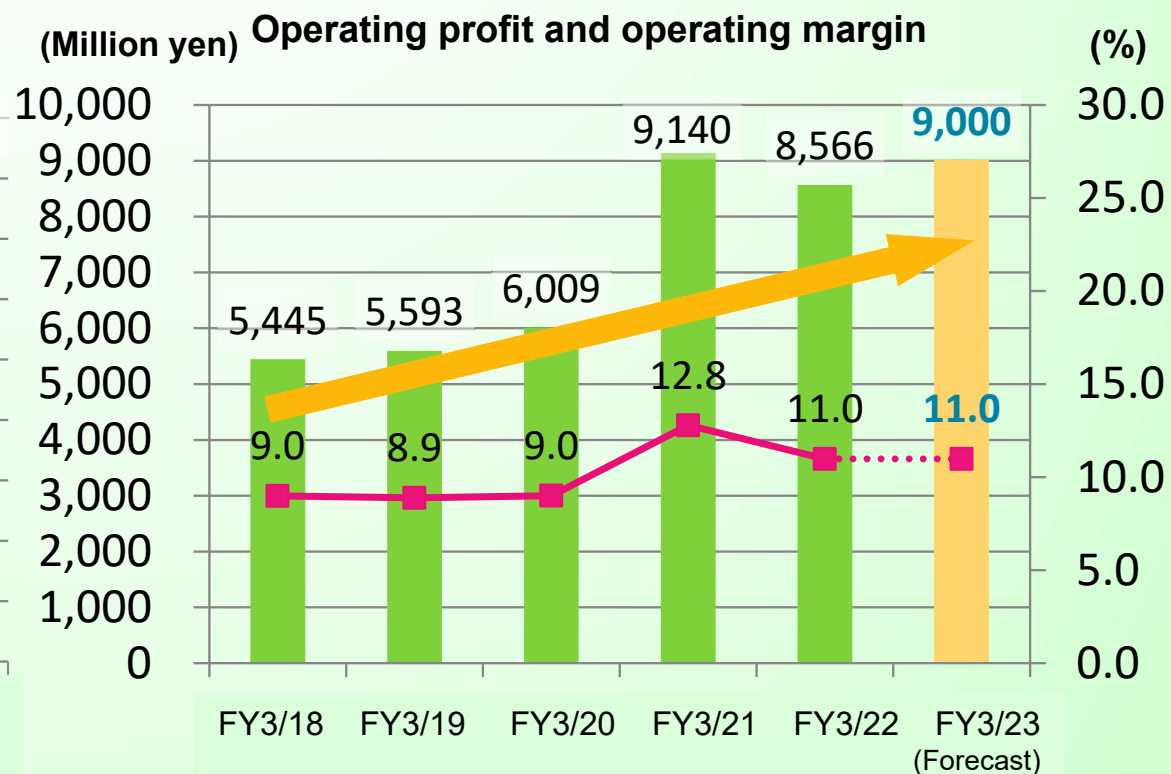
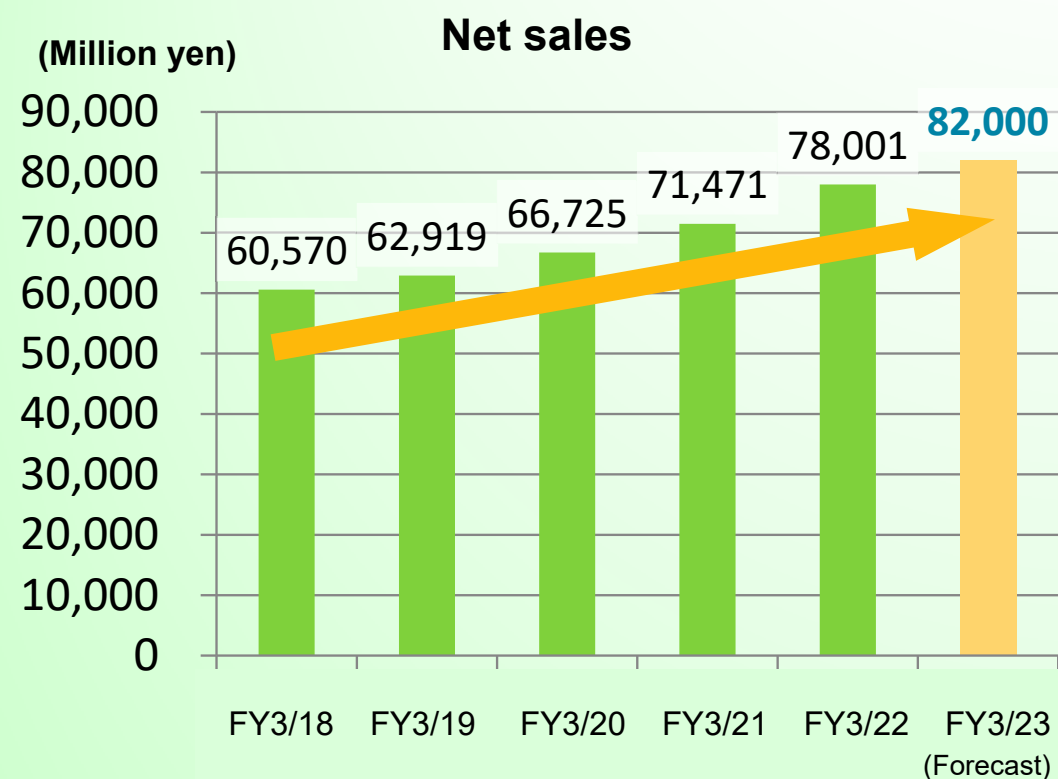
Full-Year Business Forecasts (Consolidated)



(Unit: Million yen)

	FY3/22	FY3/23(forecast)	YoY pct. change
Net sales	78,001	82,000	5.1%
Operating profit	8,566	9,000	5.1%
Ordinary profit	9,311	9,300	▲0.1%
Net income attributable to owners of parent	6,811	7,200	5.7%

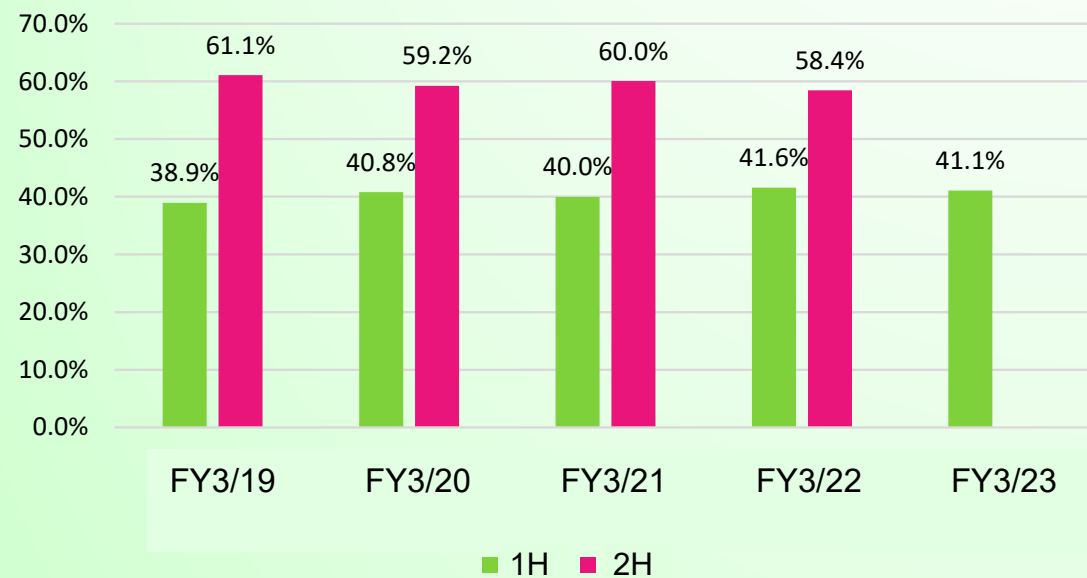
Full-Year Business Forecasts (Changes)



Changes in Net Sales and Ordinary Profit

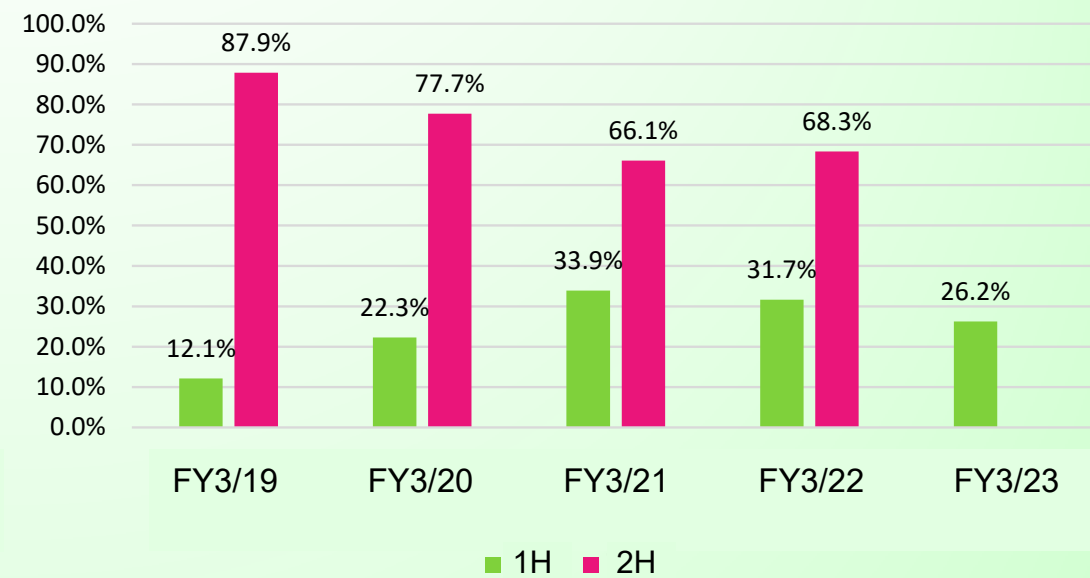


Net sales 1H/2H Ratio



*Ratios for FY3/23 are forecasts

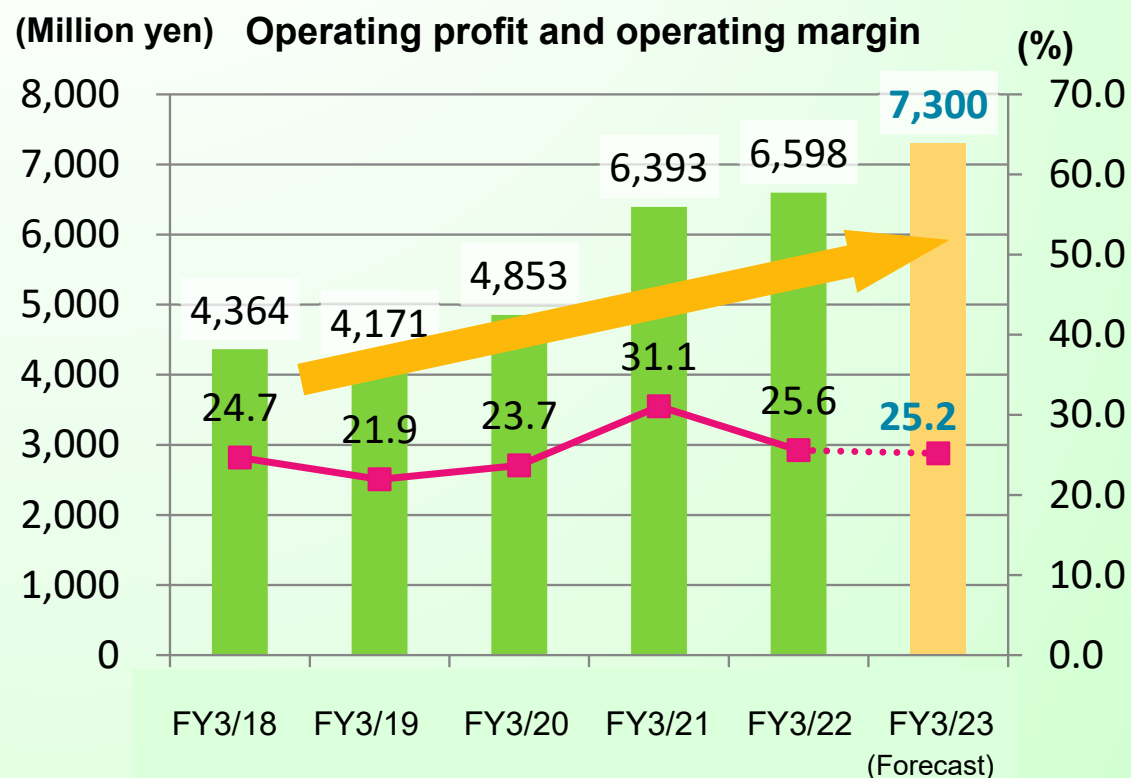
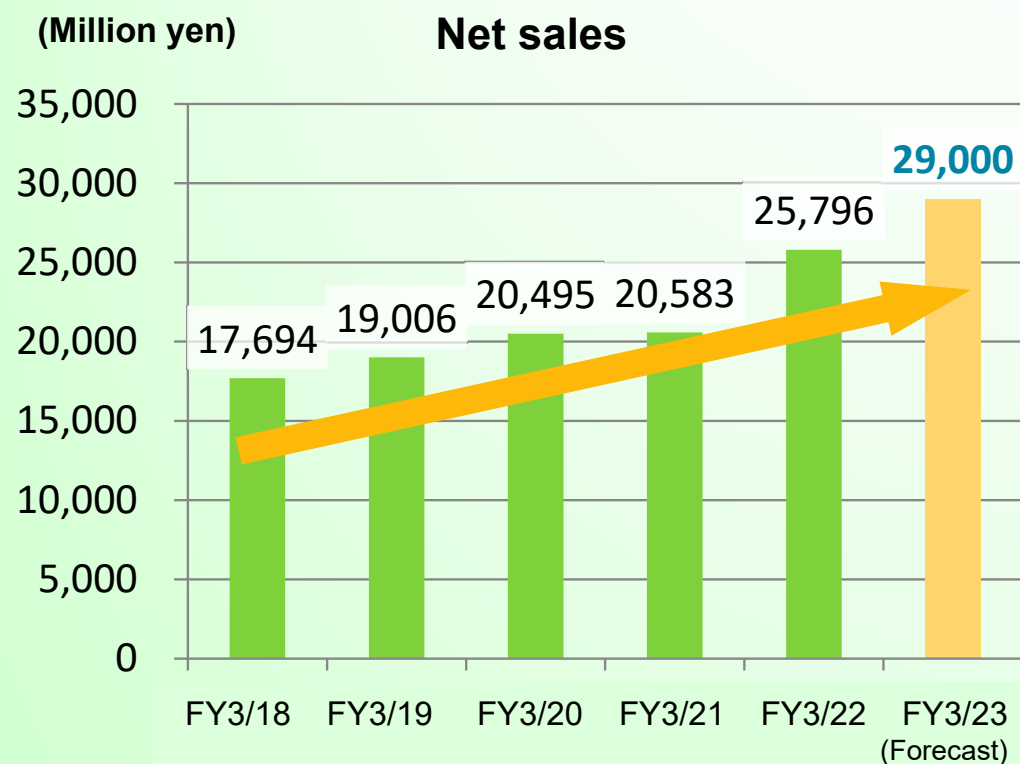
Operating income 1H/2H Ratio



*Ratios for FY3/23 are forecasts

Business Forecasts by Segment

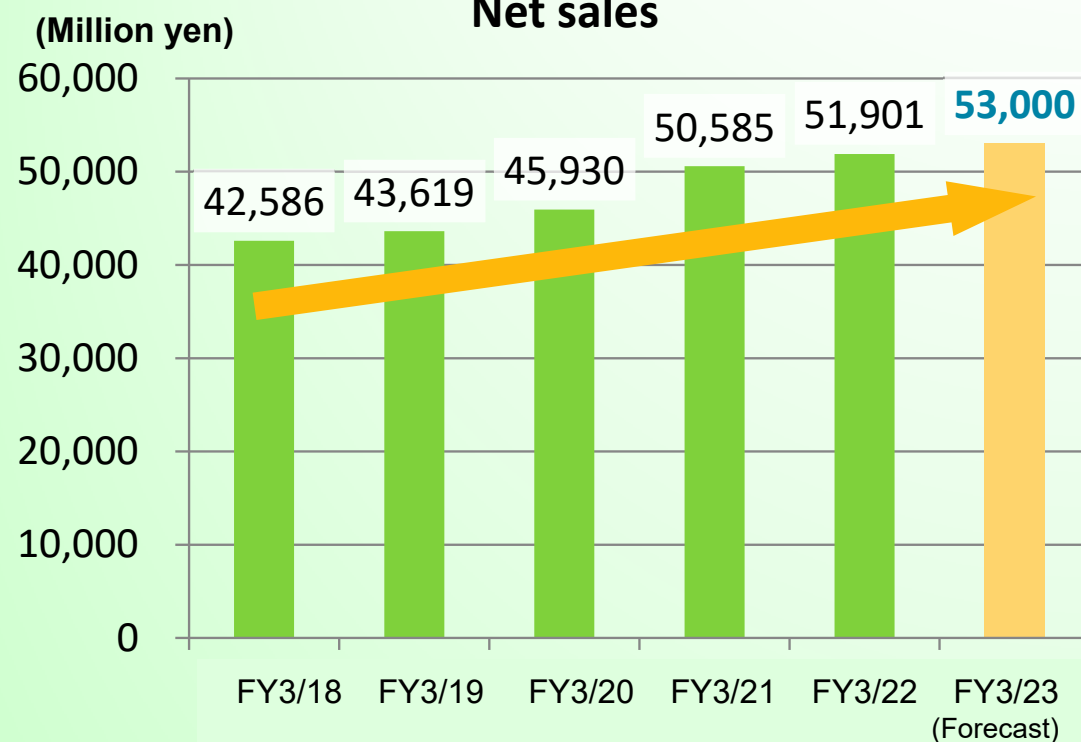
(Applied and Processed Asphalt Products Business)



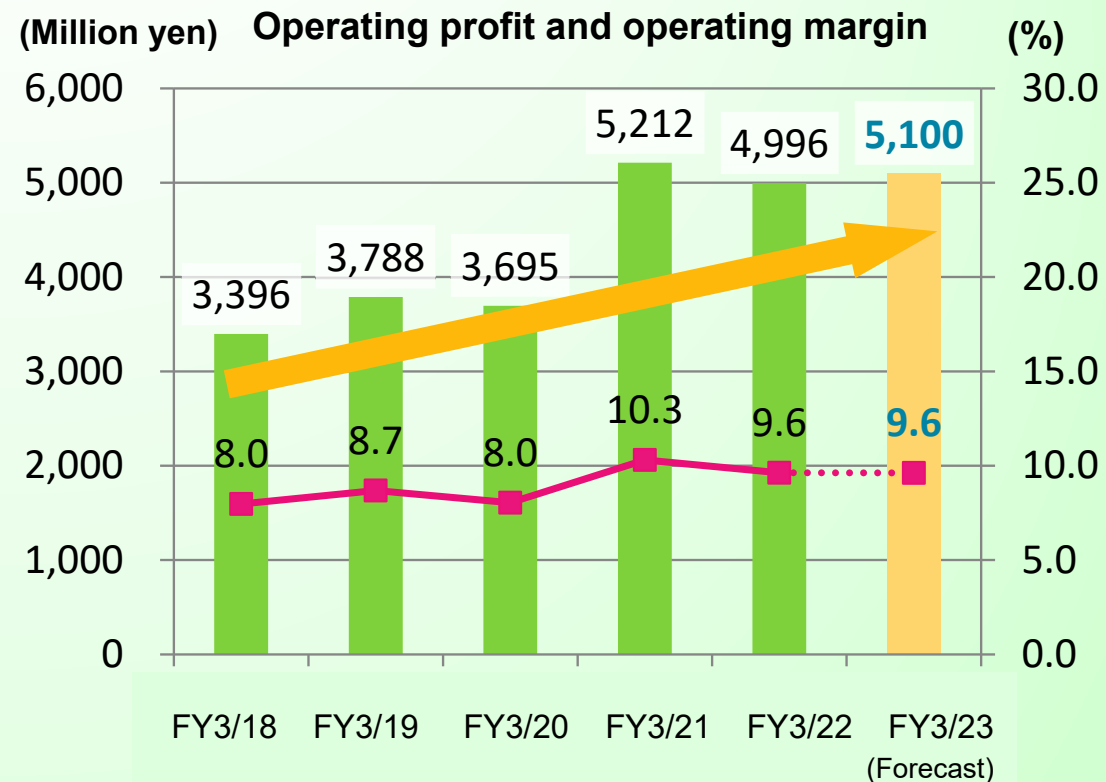
Changes in Operating Results by Segment (Road Paving Business)



Net sales

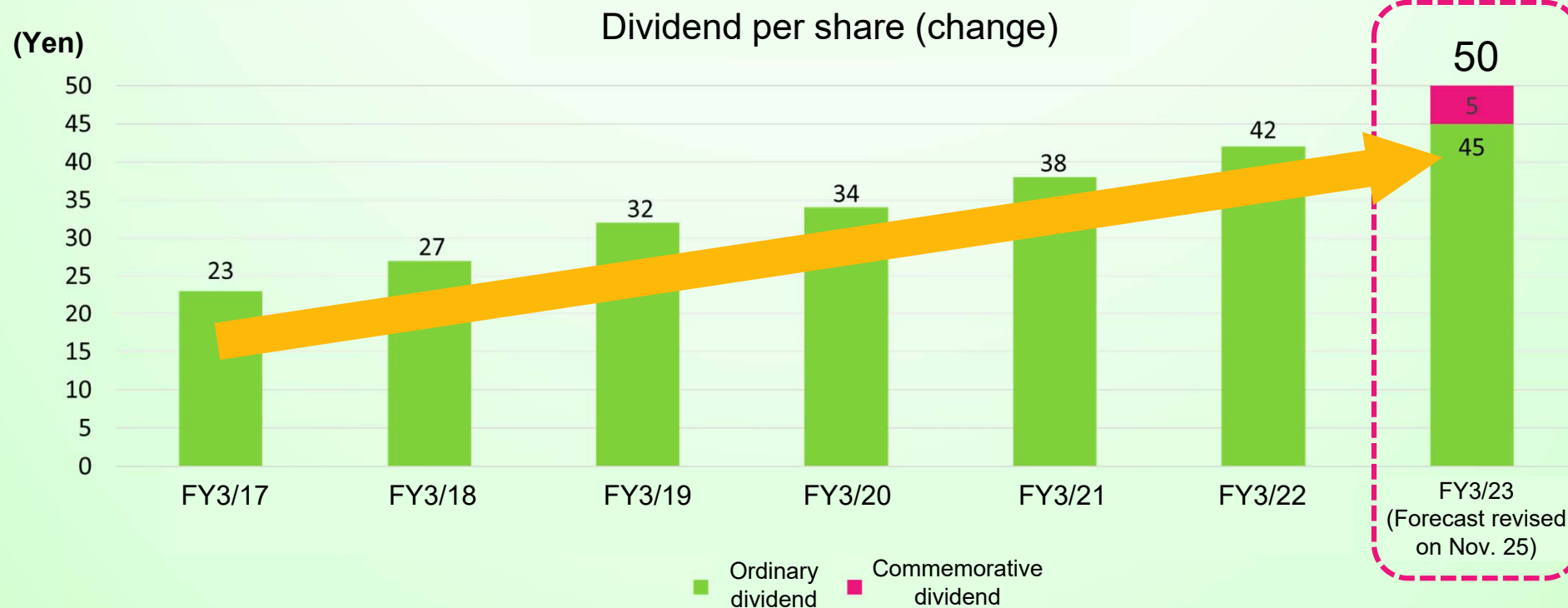


Operating profit and operating margin



Dividend Forecast

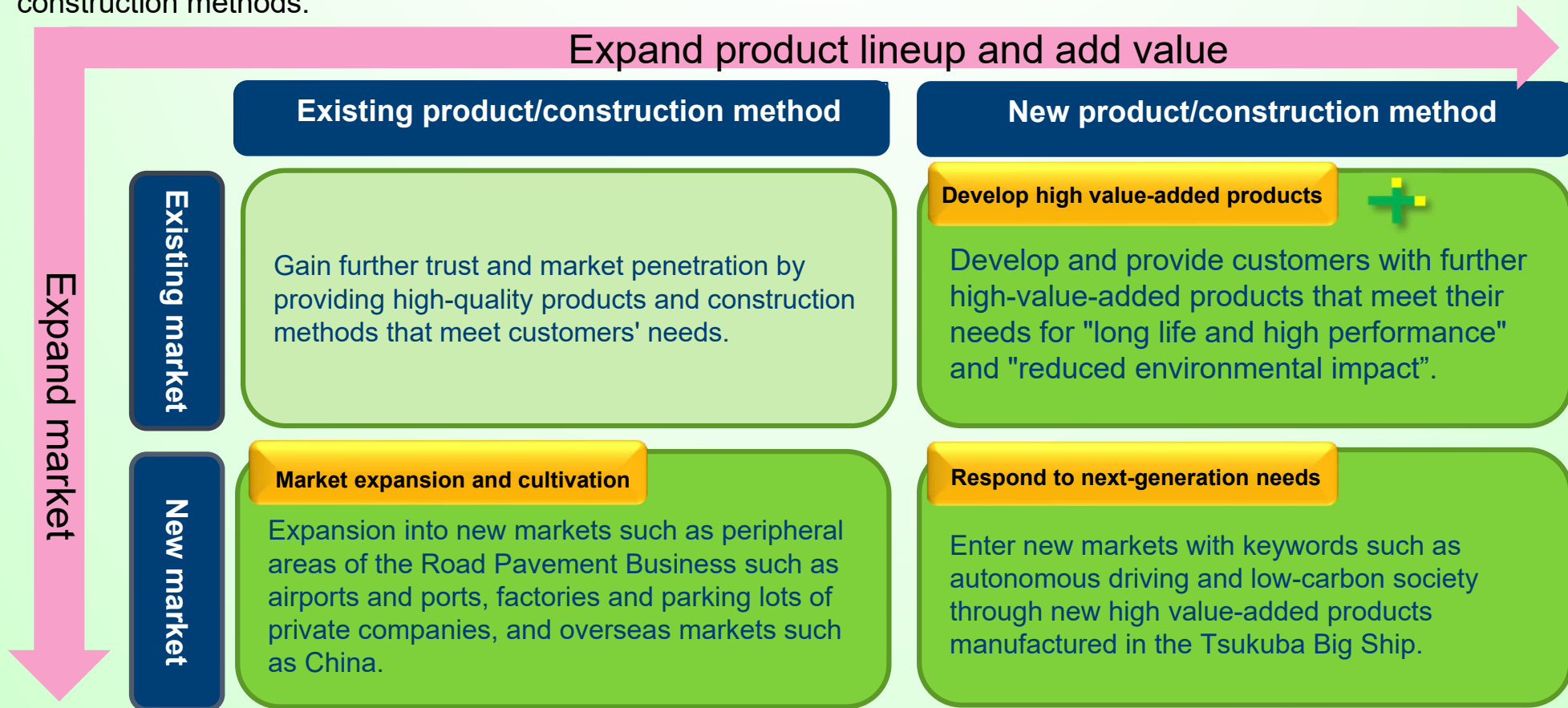
- ◆ Our basic policy is to pay stable dividends, and we will continue our efforts to increase dividends through improving performance.
- ◆ We plan to pay a commemorative dividend of 5 yen per share as the year-end dividend for the current fiscal year to mark the 80th anniversary of the company's founding on October 26, 2023.



Growth Strategy of NICHIREKI Group



Aim for further growth by leveraging R&D capabilities to expand markets and develop high value-added products and construction methods.



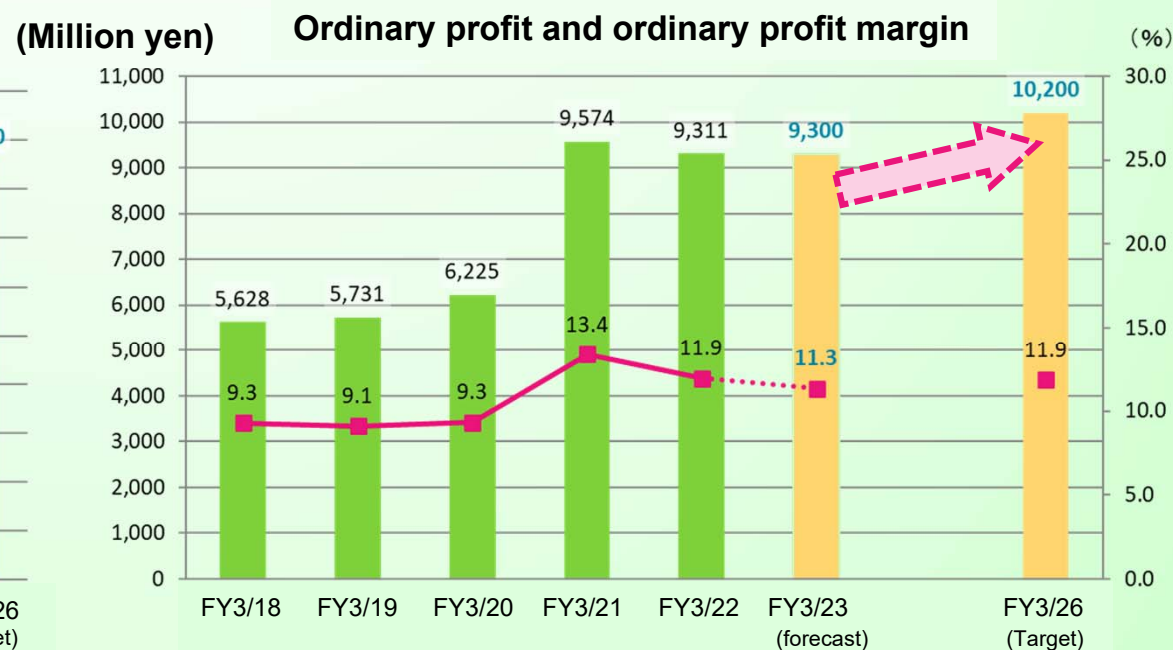
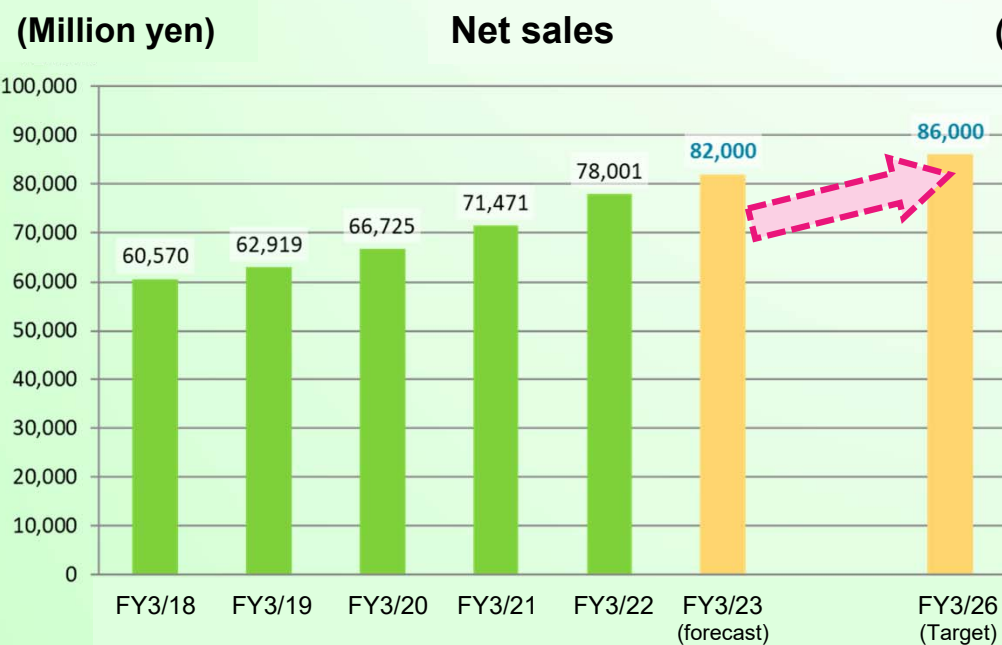
Business Performance Targets



High level of public investment is expected to continue against a backdrop of rising construction demand for disaster prevention, disaster mitigation, and national land resilience measures. Although crude oil prices are expected to remain high, we expect to achieve its sales and profit targets by expanding the market and providing high-value-added products and construction methods.

*The decision to postpone the start of construction of the Tsukuba Big Ship development was made due to a significant delay in delivery dates caused by soaring steel prices and difficulties in procuring materials.

The revised numerical targets do not include the depreciation burden related to the Tsukuba Big Ship.



About the Tsukuba Big Ship Project



- ◆ Construction of the "Tsukuba Big Ship" project, the start of which has been postponed, will begin as soon as external factors are resolved.
- ◆ As an environmentally friendly production and logistics base, the project will be an advanced decarbonization initiative, and will improve profitability and reduce costs through the manufacture of high value-added products and more efficient logistics.

Improve production capacity

Improve production capacity for various products by using advanced facilities and promoting DX, etc., while reducing manufacturing costs and boosting profitability.

Manufacture high value-added products

Manufacture high value-added products that meet next-generation needs

Function as a "construction center" in the Tokyo metropolitan area

Strengthen our ability to respond to construction projects as a "construction center" in the Tokyo metropolitan area

Realize environmentally friendly production and logistics

Enhance mid- to long-term sustainability by building an environmentally friendly production and logistics system

Improve efficiency of logistics management

As the logistics control center of the NICHIREKI group, build an efficient production management and transportation system

Strengthen BCP (Business Continuity Plan) functions

By owning multiple plants in the Tokyo metropolitan area, we will fulfill our social responsibilities in supplying products even in the event of a disaster



Road Maintenance through Preventive Maintenance

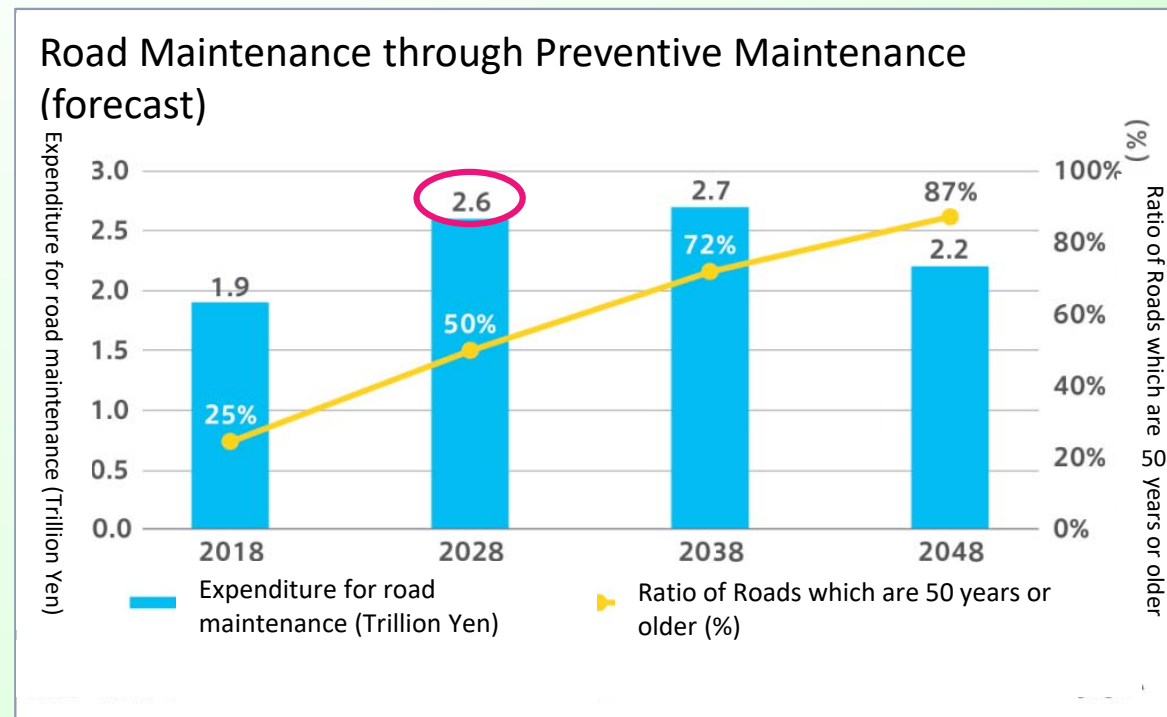


Expenditures for road maintenance, repair and renewal through preventive maintenance

2028: 2.6 trillion yen (forecast)

<Vision of Road Administration>

- Roads that protect people and their lives from disasters
- Low-carbon road transportation
- Extending the service life of road networks

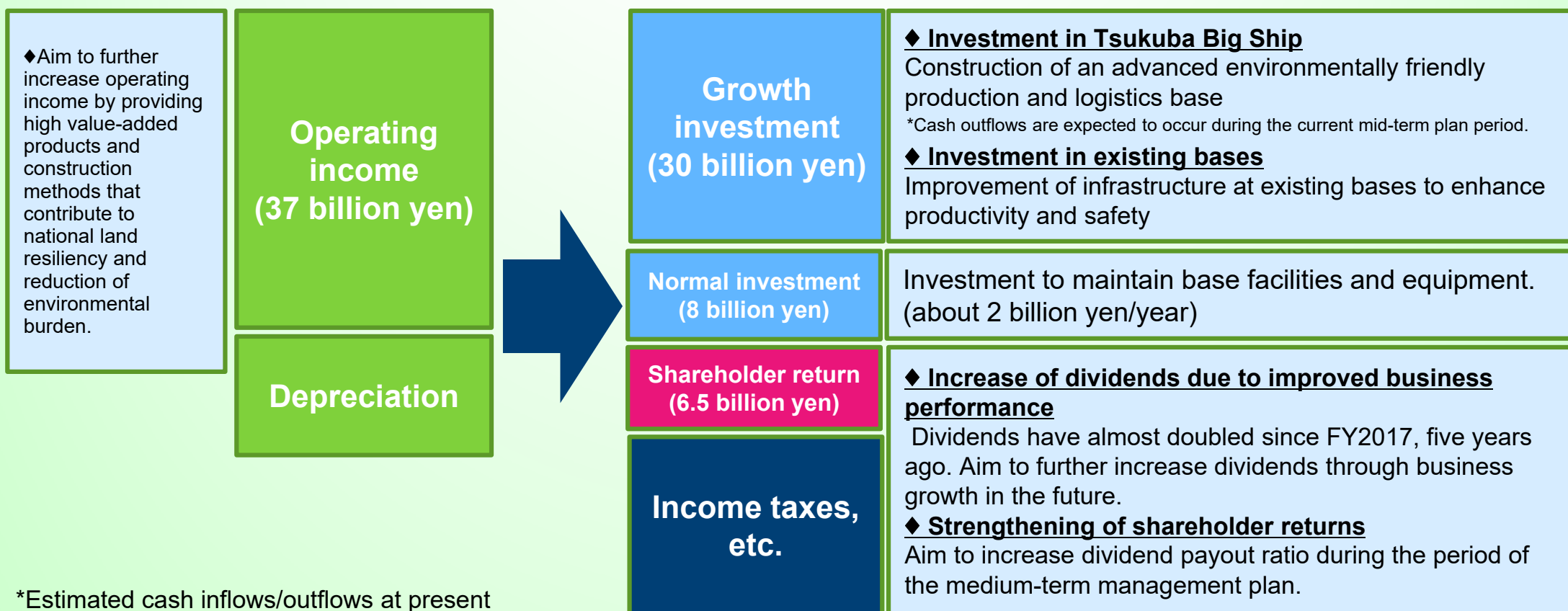


Source: Ministry of Land, Infrastructure, Transport and Tourism, "The Road Landscape Will Change in 2040"
<https://www.mlit.go.jp/road/vision/pdf/01.pdf>

Financial Policy - Cash Allocation (FY2022 - FY2025)



Use cash flow generated from business growth to invest in growth for the next generation and provide more generous shareholder returns.



◆ Precautions

Forward-looking statements, including business forecasts, contained in this material is based on information available at the time of preparation of the material and on our Company's judgement and assumption. Actual results may deviate from current forecasts due to future changes in economic conditions and business environment, etc.

◆ Contact Information

Investor Relations, Public Relations Office, NICHIREKI CO., LTD.

TEL: 03-3265-1513 (8:30-17:30, except for Saturdays, Sundays and holidays)

Website: <https://www.nichireki.co.jp/inquiry/>