Q1 FY3/2027 Financial Results Briefing – Transcript

Domestic crusher adjustment drives lower sales and profit; aftermarket and overseas continue to grow

OKADA AIYON CORPORATION (6294 / TSE Prime, Machinery)

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Presenter: Nobuo Maenishi, CFO, Senior Managing Director (presentation and Q&A)

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Presentation

Nobuo Maenishi (hereinafter, Maenishi): Good afternoon, everyone. This is Maenishi from Okada Aiyon. Thank you very much for taking time out of your busy schedules to join our financial results briefing for the first quarter of the fiscal year ending March 2027. Today, I will first give a brief overview of the Company, and then explain our first-quarter results, the domestic and overseas business environment, capital expenditure and shareholder return, and the progress of our new Medium-Term Management Plan, “Onyx.” Thank you in advance.

Company Overview (p.2)

First, an overview of the Company. We operate a network of bases in Japan and overseas, handling everything from product development, manufacturing and sales through to after-sales service on an integrated basis. We are the only company in our industry that provides after-sales service in-house. This means that even for sales made through dealers, we maintain a solid point of contact with end users. This is a key characteristic and strength of our business.

Bases (p.3)

In Japan, in April this year we opened a new North Kanto Sales Office in the northern part of Saitama Prefecture, strengthening our presence in the Kanto region.

Company History (p.4)

Regarding our history, since the Great East Japan Earthquake we have grown steadily along with the increase in domestic demolition demand. Through the development of overseas bases and M&A—Nansei Kikai in 2017 and Tosen in the U.S. in 2022—we have expanded our product and sales domains. Over the past three years, however, mainly overseas, we have been in something of a plateau amid the reaction following the recovery from COVID-19. Accordingly, we are now advancing the development of our business foundation for the next growth stage, with an eye on the fiscal year ending March 2031, the final year of our long-term vision “VISION30.” Our business alliance with AP (Advantage Partners) is part of this effort.

Main Products (p.5)

Our main products are as shown in the materials. Based on our own estimates using CEMA (Japan Construction Equipment Manufacturers Association) statistics for the one-year period from July 2025 to June 2026, we continue to hold the top domestic share in our mainstay crushers, particularly the three models on the left. Underpinning this share—and serving as a barrier to entry for competitors—is our manufacturing method using “cast steel,” a special-steel casting used in our large pulverizers and steel cutters. This enables us to make products that are both lightweight and durable. In addition, our nationwide sales and after-sales service network is a major strength.

Q1 Results Summary (p.6)

Now, our first-quarter results. Net sales were ¥5,978 million, down 3.0% year on year. Operating profit was ¥339 million, down 34.4%; ordinary profit was ¥376 million, down 26.3%; and profit attributable to owners of parent was ¥216 million, down 33.9%. The decline in profit was larger than that in sales mainly because of a decrease in gross profit due to lower sales of domestic crushers and others, combined with an increase in selling, general and administrative (SG&A) expenses centered on personnel costs. Progress against the full-year plan was 21.0% for net sales and 13.6% for operating profit, significantly behind. While this is a low first-quarter progress rate, our results tend to be weighed toward the second and fourth quarters, with the first quarter typically low. In addition, overseas is recovering, and in Japan orders show signs of bottoming out. For these reasons, we have left our full-year forecast unchanged at this time.

Results and Full-Year Forecast (p.7)

Here are the details of profit and loss. Gross profit was ¥1,833 million, down ¥62 million year on year. SG&A expenses, meanwhile, were ¥1,493 million, up ¥114 million, and as a result operating profit decreased ¥177 million. The assumed exchange rates underlying the full-year plan are ¥150 to the U.S. dollar and ¥170 to the euro. One point to keep in mind is that the first-quarter operating profit decline reflects the overlap of lower domestic crusher sales and higher SG&A expenses; it does not mean that many businesses, including overseas operations and the aftermarket business, deteriorated all at once.

Factors Behind the Change in Net Sales (p.8)

Net sales decreased ¥182 million year on year. Crushers fell ¥312 million, while hydraulic breakers rose ¥28 million, grapples ¥87 million, and other attachments ¥26 million. Forestry and large environmental machinery and others decreased ¥186 million, of which forestry machinery fell ¥83 million and large environmental machinery ¥114 million. On the other hand, consumables and repairs rose ¥96 million, and overseas increased ¥89 million, mainly in North America. In Japan, hydraulic breakers, grapples, and consumables and repairs grew, but not enough to offset the decline in crushers. Overseas, Europe was affected by a slowdown in demand, while in North America inventory adjustments at rental companies gradually eased and Asia expanded, so overseas business increased. In other words, this quarter, declines in domestic crushers, large environmental machinery and forestry machinery were partly absorbed by growth in the aftermarket business and overseas operations.

Sales Trends by Product (p.9)

Let me explain the situation by product in a little more detail. Domestic crushers were ¥1,804 million, down 14.8% year on year and down 19.4% versus two years earlier, making them the largest drag on domestic results. We believe this reflects some postponement of demolition work due to higher construction costs and labor shortages, as well as a wait-and-see stance on investment and resulting reluctance to buy amid growing uncertainty over the outlook. Sluggish sales of hydraulic excavators, which are the base machines, are also thought to be a factor. That said, since consumables and repairs are growing, we believe demolition sites themselves are operating at a reasonable level. Hydraulic breakers, on the other hand, were ¥253 million, up 12.5%, and grapples were ¥309 million, up 39.4%. Items that had temporarily declined are on a recovery trend, suggesting that civil engineering work, recycling, and disaster recovery sites are active. In the aftermarket business, consumables were ¥523 million, up 8.2%, and repairs ¥348 million, up 19.6%, for a total of ¥872 million, up 12.5%. In addition to an increase in repairs and consumables for large environmental machinery, we believe that stronger customer contact leveraging our service base network, at a time when demolition sites are reasonably active, contributed to higher sales. The aftermarket business is less susceptible to demand fluctuations than new product sales, offers higher margins, and supports ongoing relationships with customers, so we are treating it as our top priority. Overseas, North America was ¥1,308 million, up 8.1%; Asia was ¥167 million, up 35.0%; and Europe was ¥199 million, down 16.0%. As a result, the domestic segment declined 6.0% and the overseas segment rose 5.5%, for a consolidated net sales decrease of 3.0%.

Domestic Market Shipment Trends (p.10)

Here, let me relate our results to trends in the overall domestic market. This decline in crushers was beyond our expectations, but when we checked the market, we believed the causes lie in the movements of hydraulic excavators and of hydraulic breakers and crushers. Looking at CEMA (Japan Construction Equipment Manufacturers Association) domestic shipment values by quarter, both categories show seasonality in which shipments rise in the fourth quarter and fall back in the first quarter. The first quarter of the current period also fell back from the fourth-quarter peak, but this time there is weakness that cannot be explained by ordinary seasonality alone. Domestic shipment value of hydraulic excavators is at a low level even among the first quarters of the past several years, and hydraulic breakers and crushers are also at low levels compared with the past several periods. Accordingly, we believe the decline in our domestic crushers reflects not only Company-specific factors but also the overall weakness of the domestic market, including hydraulic excavators and attachments.

Domestic Share Trends (p.11)

As for share, even in a weak overall market our competitiveness has been maintained. Compared with the previous period, the share of steel cutters and small pulverizers rose, and while large pulverizers declined slightly, they continue to hold a high level. Looking at the trend since the fiscal year ended March 2020, our share has been rising as a trend, and we would ask you to understand that our competitiveness has not weakened.

Orders, Production and Sales Trends (p.12)

Next, order, production and sales trends for mainstay products such as crushers. The 12-month moving average of monthly crusher sales has declined from the level up to the previous period. On the other hand, the order backlog fell in the second half of the fiscal year ended March 2026 to below 100 on an index with the first half of the fiscal year ended March 2020 set at 100, but it rebounded somewhat in the current first quarter. The order index has also rebounded slightly from the second half of the previous period. Orders are recovering after bottoming out in the first half of the previous period, and the order backlog rebounded in the first quarter after bottoming out in the second half of the previous period. We view these as positive materials when considering future sales. We regard demolition demand as firm over the medium to long term; while there are short-term fluctuations such as shifts in construction timing, we see signs of bottoming out.

Overseas Sales Composition by Region (p.13)

Now overseas operations. The overseas ratio of consolidated net sales in the first quarter was 28.8%. It did not reach our target of 30%, mainly due to the decline in crusher sales. North America accounts for 76% of overseas net sales, and North American net sales were ¥1,308 million, up 8.1% year on year. Inventory adjustments at rental companies are gradually easing, and sales are recovering, centered on large products. Crusher sales are also ramping up in earnest and gradually growing, while the development of new customers is progressing. Asia expanded, centered on Taiwan and Thailand. In Taiwan, demand for crushers grew, and in Thailand we developed and launched a price-competitive entry-model hydraulic breaker that was adopted by a major excavator manufacturer, steadily building a sales track record. By rolling this hydraulic breaker out horizontally across the Asia region, we are expanding sales channels to other areas as well. Europe, meanwhile, saw moves to curb capital expenditure against a backdrop of geopolitical uncertainty such as interest rates, business sentiment and the Middle East situation, though it is on a recovery trend overall of late. However, there is significant country-by-country variation: among major countries, Germany, Italy and France were up year on year, while the United Kingdom fell sharply and Spain was also negative.

Changes in Sales Composition (p.14)

This shows the sales composition by segment and business. With the decline in crushers, the composition ratio of demolition and environmental attachments fell, while the aftermarket business rose to about 15% and overseas to about 29%. This change partly reflects the decline in domestic crushers, but over the medium to long term we aim to diversify our revenue sources by growing the aftermarket business and overseas operations rather than relying solely on new-machine sales in Japan. In that sense, the higher composition ratios of the aftermarket business and overseas sales represent progress in line with the direction of our new Medium-Term Management Plan, “Onyx.”

Change in Operating Profit (p.15)

Operating profit decreased ¥177 million, from ¥517 million in the same period last year to ¥339 million. In Japan, a ¥148 million decrease in gross profit due to lower sales and a ¥27 million impact from higher SG&A expenses reduced operating profit by ¥175 million. The main factor domestically was the decline in gross profit from lower sales of crushers, large environmental machinery and forestry machinery. In addition, at our forestry-machinery subsidiary Nansei Kikai, product inventories increased due to weaker demand, so we curbed production somewhat in early spring. Also in early spring, a shortage of thinner—linked to the situation in Iran—led to a paint shortage that affected production, but the production environment, including the supply of paint, has subsequently been normalizing. Overseas, higher sales increased gross profit by ¥89 million, but SG&A expenses rose ¥87 million, mainly due to personnel costs from increased staffing, so the profit gain was limited to ¥2 million. Organizing the factors behind the profit decline in rounded figures: the profit impact of lower domestic sales was about ¥70 million, which is reasonable given the cost-to-profit ratio; the impact of the lower utilization at Nansei Kikai was about ¥70 million, a one-time factor from the early-spring production adjustment; and the increase in SG&A expenses centered on human-capital investment was about ¥110 million, of which about two-thirds, or ¥70 million, was an increase in personnel costs. The limited profit growth despite higher overseas sales is an issue going forward; however, to grow overseas we need to strengthen our products, sales structure and service structure, so we position the current increase in personnel costs as upfront investment to strengthen that structure.

Capital Expenditure and Depreciation (p.16)

Now capital expenditure. Our capital expenditure plan for the fiscal year ending March 2027 is ¥800 million, a substantial decrease from the previous year’s actual results. Depreciation is projected at ¥790 million. First-quarter capital expenditure was ¥139 million, a progress rate of 17.5% against the full-year plan, and depreciation was ¥201 million, a progress rate of 25.4% roughly in line with plan. Major capital expenditure this year includes the acquisition of land adjacent to the Hiroshima Sales Office, the renewal of our core system, and the acquisition of crusher demonstration machines for overseas markets. Having largely completed the strengthening of our domestic sales offices and service bases through the previous period, we will now invest in building the execution foundation for “Onyx,” such as visualization and standardization of operations through system development and stronger proposal capabilities in overseas markets.

Shareholder Returns (p.17)

Now shareholders return. For the fiscal year ended March 2026 we paid an annual dividend of ¥75, an increase of ¥1 over the previous year. For the fiscal year ending March 2027, we forecast a further ¥1 increase to an annual ¥76; if realized, this will mark 17 consecutive years of dividend increases. We also plan to pay an interim dividend for the first time this fiscal year. Premised on stable business growth, our dividend policy is progressive dividends and a payout ratio of 30% or more, and the forecast payout ratio this fiscal year is 36.0%. In addition, as disclosed on August 7, we have set a share buyback framework of up to 200,000 shares and ¥500 million to enable flexible capital policy and shareholder returns.

Overview of the New Medium-Term Management Plan “Onyx” (p.18)

Now our new Medium-Term Management Plan, “Onyx.” As we have explained the overall picture at previous briefings, I will omit it today. “Onyx” is a commitment plan that emphasizes the quality of profit, the reproducibility of growth, and capital efficiency, and that we will carry through on five priority themes over three years.

Current Status of “Onyx” (p.19)

Here is where we stand in the first quarter. Net sales and operating profit were below the same period last year, a difficult start in numerical terms. On the other hand, the aftermarket business grew 12.5% year on year, overseas net sales were ¥1,722 million, and the overseas net sales ratio was 28.8%, showing the change toward the business mix that “Onyx” aims for. In domestic operations, we have begun building pricing discipline and are revising prices for mainstay models in sequence while surveying the industry. In the aftermarket business, we are thoroughly implementing price revisions for consumables and, through various measures, strengthening our approach to designated service workshops. In overseas operations, crusher sales are gradually gaining traction in North America, and we are advancing efforts to verify sales channels and region-specific sales methods. In inventory management, we are advancing inventory visualization and KPI design. For new businesses and M&A, there is no specific progress to report in the first quarter. The first quarter was not a stage at which the results of “Onyx” appear in earnings, but rather a phase in which we began executing priority measures; going forward we will advance each measure and strengthen our structure and systematization.

Market Growth Potential (Global Market) (p.20)

Finally, the medium- to long-term growth potential of the demolition market in which we operate. Based on our own estimates using a private research firm’s survey data, the global demolition-attachment market is expected to expand from about US$4.1 billion in 2023 to about US$7.1 billion in 2033. The compound annual growth rate from 2023 to 2033 is about 5.6% for the world, about 5.2% for the U.S., Europe and Asia, and about 4.0% for Japan.

U.S. Market (p.21)

For the U.S. and Japan, when formulating the “Onyx” plan we conducted separate market forecasts with the cooperation of AP. The U.S. market adjusted significantly in 2024 due to higher interest rates and inventory adjustments, but our materials assume the market as a whole will grow at an average of about 4.0% per year from 2025 to 2030.

Domestic Market (p.22, 23)

For the domestic market, we assume average annual growth of about 3.7% from 2025 to 2030. The background includes private-sector infrastructure investment as well as an increasing stock of aging buildings. The stock of non-residential, non-wooden concrete buildings aged 40 years or older is expected to keep increasing, which we believe will support demand for our demolition attachments over the medium to long term.

Plant and Ship Demolition (p.24, 25)

In addition, demand we expect going forward includes plant demolition and ship demolition. For large facilities such as thermal power plants, chemical plants and steelworks, we expect demolition demand driven by aging, decarbonization, business restructuring, and site redevelopment. At these sites, the performance, durability and safety of large attachments such as steel cutters are valued, so this is our area of strength. In the global ship-demolition market as well, a shift to safer, lower-environmental-impact demolition methods is expected against a backdrop of an increasing number of aging ships, the recycling of scrapped ships, and tightening environmental regulations. The manual demolition currently carried out in India and Bangladesh has also been noted for human-rights and environmental issues. Building on our domestic building-demolition market as a foundation, we will expand our business opportunities into plants, ships, and overseas areas where we can leverage our technology.

Summary

That concludes my explanation of the first-quarter results and our initiatives going forward. In the first quarter, mainly due to the decline in domestic crushers, we posted lower sales and lower operating profit, a difficult start against the full-year plan. However, our domestic share remains at a high level, and orders and the order backlog show signs of bottoming out. The aftermarket business and overseas operations are also growing, and we can continue to expect more from them. While responding carefully to short-term market fluctuations, we will steadily execute the measures set out in “Onyx”—pricing, the aftermarket business, overseas operations, and inventory optimization—and connect them to growth accompanied by quality of profit and capital efficiency. We ask for your continued understanding and support. Thank you very much for your attention.

Q&A Session

Q&A: The winning strategy for an aftermarket business that matches the investment, and internal KPIs

Question: Under Onyx, you position overseas operations and the aftermarket business as growth areas, but last fiscal year's investment of about ¥3.9 billion was centered on land acquisition, and the increase in depreciation is limited. Although the aftermarket business grew in the first quarter, our understanding is that it is still developing relative to the investment amount. (1) What winning strategy do you see in an aftermarket business that other companies do not pursue? (2) Please tell us any KPIs you use in making investment decisions.

Maenishi: Last fiscal year's investment included a fair amount of buildings as well, but because their depreciation periods are long, depreciation tends not to increase much. (1) Our winning strategy is to "capture demand we have not been able to capture." While we carry out repairs with service staff at each base, there are quite a few repairs we have not been making, and cases in which imitation parts are used instead of genuine parts. We handle large, advanced repairs in-house and entrust repairs that local workshops can do to our "designated service workshops" (a network of partner companies); by strengthening our grip on that network, we will capture more genuine-parts sales and repairs. While our product share is high, we have not fully captured the aftermarket area, and we are treating that as a point of reflection and systematizing our approach. (2) As KPIs, we set the repair gross margin at each base and the gross margin of the aftermarket business including consumables and repairs. For capital expenditure, we set a minimum standard of investment efficiency above our cost of capital (about 8%). We would ask you to refrain from expecting specific figures on aftermarket margins here, but please understand that they are at a level one notch higher than our average margin across all businesses.

Q&A: Growth potential of demolition attachments in the ship-demolition market

Question: What kind of growth do you expect for demolition attachments in the ship-demolition market?

Maenishi: We regard ship demolition as one of our promising future markets. As background, the Ship Recycling Convention took effect in June 2025, and a shift toward demolition that gives due consideration to environmental protection and occupational safety is now called for worldwide. The manual demolition currently carried out in India and Bangladesh has been noted for environmental and human-rights issues such as oil spills and labor accidents, and we expect a transition to safer, lower-environmental-impact methods to advance. In Japan as well, moves are emerging toward commercialization using environmentally conscious docks capable of handling large ocean-going vessels, and at such sites the performance, durability and safety of large attachments such as steel cutters are valued. We see this as a promising area where we can leverage our technology, and we are looking at the opportunity closely. That said, quantifying the market size remains an issue for the future.

Q&A: Sales channels and the competitive environment for ship demolition

Question: Is ship demolition through the same sales channels as before? Also, China and South Korea are dominant in demolition; what initiatives are you undertaking to win orders?

Maenishi: Because ship demolition is carried out by demolition operators, we believe the distribution flow does not change significantly from before. China and South Korea are said to be dominant mainly in shipbuilding; demolition itself currently centers on regions that rely on inexpensive labor. However, such methods involve environmental and human-rights issues, and a shift to safer, lower-environmental-impact methods is called for. Amid this trend, we believe we can contribute to the areas where we have strengths—large attachments such as steel cutters, and the after-maintenance service that supports them.

Q&A: The first-quarter reaction and the possibility of higher full-year sales and profits

Question: Given the large first-quarter decline, is higher sales and profit possible from the second quarter onward and for the full year?

Maenishi: Because the first-quarter decline is large, we cannot be optimistic; however, overseas is coming back, and we do not see the situation continuing to deteriorate. Our share and competitiveness are unchanged, and we can capture demand once it returns, so we are aiming to achieve the full-year plan.

Closing Remarks

Maenishi: Thank you very much for joining us today despite your busy schedules. We will continue to work toward achieving our full-year budget. We look forward to your continued support of OKADA AIYON Corporation. Thank you very much.

**This transcript has been partially edited and summarized for readability and accuracy, while preserving the substance of the remarks made at the briefing.*

**This transcript contains forward-looking statements based on the Company's plans, expectations, and judgments as of the date of the briefing. These statements are based on information available at the time of the briefing, and actual results may differ from these forward-looking statements due to various factors, including economic conditions, market environment, and foreign exchange fluctuations.*