COMPANY RESEARCH AND ANALYSIS REPORT

E·J Holdings Inc.

2153

Tokyo Stock Exchange First Section

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Index

Summary

Due to frequent natural disasters and other factors, consulting demand is growing, and sales and profits will increase by double digits in FY5/20

E·J Holdings Inc. <2153> (hereinafter referred to as "the Company") is a major, comprehensive construction consultant whose strength is that it is able to provide services in every process for public work, etc. from planning and development through to plan formulation, surveys and design, construction management, and operations and maintenance management, with its subsidiary Eight-Japan Engineering Consultants Inc. as the core company. Sales to central and local government offices and agencies account for nearly 90% of its total sales, and overseas, it has a track record of projects in Africa and Southeast Asia. The Company is also involved in the planning and management of regional revitalization projects. In July 2018, its listing was upgraded from the Second Section to the First Section of the Tokyo Stock Exchange (TSE).

1. FY5/19 results overview

In the FY5/19 consolidated results, sales and profits increased, with net sales rising 1.4% year-on-year (YoY) to ¥26,172mn and ordinary income growing 4.3% to ¥1,709mn. Priority was given to emergency response in the disaster-support projects for the heavy rain and flooding disaster in western Japan in July 2018, so net sales were 1.2% below the Company forecast. However, ordinary income was 1.1% above forecast due to the reduction in the cost ratio through improving work efficiency. A recovery and reconstruction budget for the disaster areas was incorporated into the primary supplementary budget, and also a secondary supplementary budget was set for prevention and mitigation against disaster and strengthening national resilience, and orders-received increased 18.2% to ¥30,377mn. By field, in the natural disaster risk mitigation field, orders increased significantly, up 59.1% to ¥5,764mn. At the end of the period, the order backlog was up 29.7% at the end of the previous fiscal year to ¥18,354mn.

2. Outlook for FY5/20

Against the backdrop of the many orders received, the outlook for FY5/20 is for sales and profits to increase by double digits and ordinary income to achieve a record high for the first time in 6 fiscal periods, with net sales to rise 10.8% YoY to ¥29,000mn and ordinary income to grow 22.8% to ¥2,100mn. Projects for the natural disaster risk mitigation field will continue to expand, while sales are expected to increase in the environment and energy, infrastructure management, and overseas fields. Orders-received is forecast to decline 4.5% YoY to ¥29,000mn when the supplementary budget is not taken into consideration. The Company has many order backlogs, and it intends to select orders by prioritizing aspects such as high value-added projects. Also, the Company acquired Arc Consultants Co., Ltd., in March 2019 and i DEVELOP CONSULTANTS Co., Ltd., in July of the same year through M&A and made them subsidiaries. They are scheduled to be incorporated into the consolidated results from the current 2Q, which is expected to be a factor increasing net sales by slightly less than ¥1bn.

3. Progress on the medium-term management plan

In 4th medium-term management plan, which started in FY5/18, the numerical management targets for FY5/21, the plan's final fiscal year, are consolidated net sales of not less than ¥30bn, ordinary income of not less than ¥2.1bn, and ROE of not less than 8%. The Company made steady progress up to the plan's second year, and the outlook is that it will achieve the ordinary income target one year ahead of schedule. As the growth strategy, it will expand in the domestic construction consultancy field, its core business, and the infrastructure management field. For the overseas business, it has started investigating establishing local subsidiaries in Southeast Asia and intends to work to expand the business scale through collaborations with local companies and others. It will also continue to investigate M&As within Japan with the aims of strengthening in regions and fields in which it is weak.

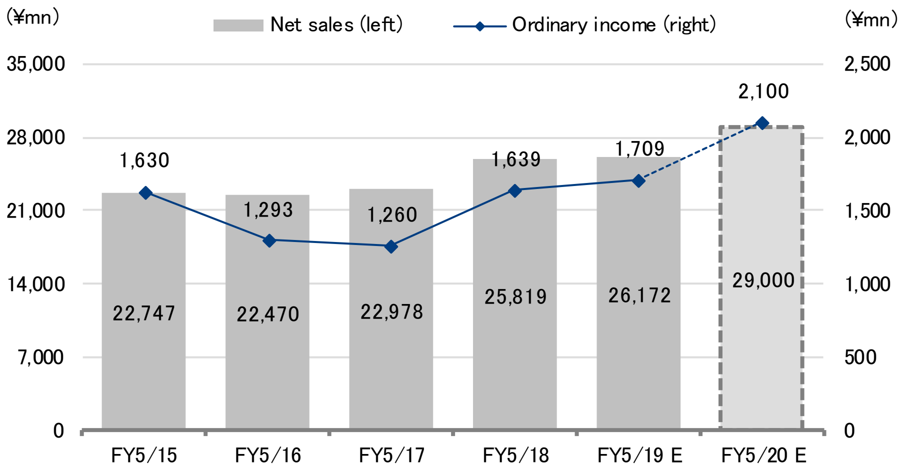
4. Shareholder return policy

The Company returns profits to shareholders through dividends, and its basic policy is to pay stable dividends while considering factors such as the results trend, the dividend payout ratio, and the ratio of dividends to shareholders' equity. The FY5/20 dividend per share is forecast to increase for the third consecutive period, up ¥2.0 YoY to ¥40.0 (for a dividend payout ratio of 20.9%). The Company has also introduced a shareholder benefits program, gifting to shareholders a QUO card according to the number of shares they hold at the end of November in each year (worth ¥1,000 for shareholders holding 100 or more but less than 1,000 shares).

Key Points

- A comprehensive construction consultancy major that is currently expanding its business areas and fields through M&A
- Against the backdrop of the many orders received, the outlook for FY5/20 is for sales and profits to increase by double digits and ordinary income to set a new record high for the first time in six fiscal periods
- Aiming to be the leading solutions consultancy group for infrastructure in Japan

Result trends



Source: Prepared by FISCO from the Company's financial results

Company profile

A comprehensive construction consultancy major that is currently expanding its business areas and fields

1. Company history

The Company is a holding company that was established in June 2007 by a joint share transfer between Eight Consultants Co., Ltd. and Japan Engineering Consultants Co., Ltd.--two companies that primarily operated construction consultancy businesses. After this development, in January 2008, Eight Consultants' measurement equipment rental business was succeeded by Japan Infrastructure Management Co., Ltd., and then in June 2009, Japan Engineering Consultants' construction consultant business was succeeded by Eight Consultants Co., Ltd. After these successions, Eight Consultants Co., Ltd. changed its company name to Eight-Japan Engineering Consultants Inc., and Japan Engineering Consultants Co., Ltd. changed its company name to EJ Business Partners Co., Ltd., respectively. (EJ Business Partners was merged into Eight-Japan Engineering Consultants Inc. through an absorption merger in May 2015).

In June 2010, the Company conducted a share exchange to make a subsidiary of Kindai-Sekkei Consultant, Inc., which is a construction consultancy specializing in bridges, structures, and urban infrastructure. Then in December 2017, it established Hokkaido Kindai-Sekkei Consultant Inc., from a company split from Kindai-Sekkei Consultant, Inc. in order to expand its business in Hokkaido. Also, for overseas business development, Eight-Japan Engineering Consultants Inc. opened a representative office in Bangkok, Thailand, in November 2014, and a branch office in Myanmar in September 2018.

Recently, the Company made subsidiaries of Arc Consultants Co., Ltd., which conducts a construction consultancy business in Okayama Prefecture, in March 2019, and of i DEVELOP CONSULTANTS Co., Ltd., which provides customer support and infrastructure-management services in the Kyushu region, in July of the same year.

Company history

Date	Major events
June 2007	Eight Consultants Co., Ltd. and Japan Engineering Consultants Co., Ltd. conducted a share exchange to establish E·J Holdings Inc., as the parent company. Listed on the Tokyo Stock Exchange Second Section.
January 2008	Japan Infrastructure Management Co., Ltd. succeeded the measurement equipment rental business of Eight Consultants Co., Ltd. through an absorption split, while at the same time, the company acquired the shares of Japan Infrastructure Management Co., Ltd. held by Eight Consultants Co., Ltd.
June 2009	Eight Consultants Co., Ltd. succeeded the construction consultancy business of Japan Engineering Consultants Co., Ltd. and changed its company name to Eight-Japan Engineering Consultants Inc., and Japan Engineering Consultants Co., Ltd. changed its company name to EJ Business Partners Co., Ltd.
June 2010	Kindai-Sekkei Consultant, Inc. was made a subsidiary through a share exchange.
May 2015	Eight-Japan Engineering Consultants, Inc. merged with EJ Business Partners through an absorption merger.
December 2017	Established Hokkaido Kindai-Sekkei Consultant, Inc. from a company split from Kindai-Sekkei Consultant, Inc.
July 2018	Listed on the First Section of the TSE.
March 2019	Made a wholly owned subsidiary of Arc Consultants Co., Ltd.
July 2019	Made a wholly owned subsidiary of i DEVELOP CONSULTANTS Co., Ltd.

Source: Prepared by FISCO from Company materials

The Group's strength is its ability to provide services for all processes in a social capital development project, from planning and project formulation through to surveys, design, construction, and management operations

2. Business overview

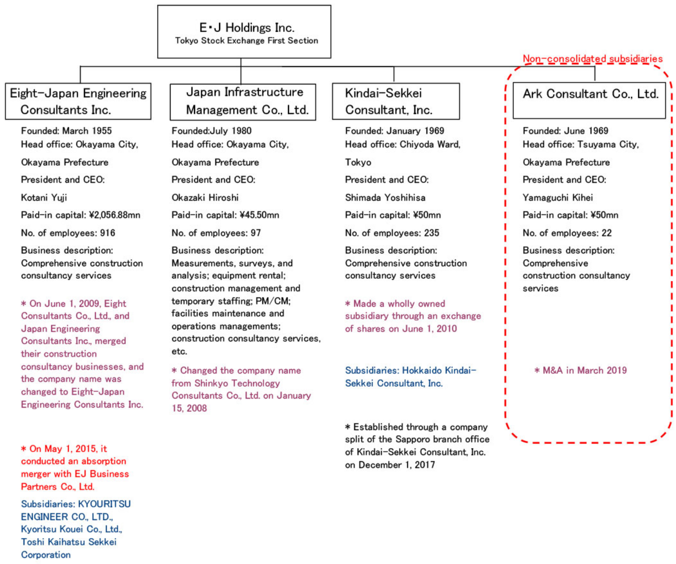
The Group's strength is its ability to provide a one-stop service for all the processes in a project, from planning and concepts through to plan formulation and project creation, surveys and design, construction management, and operations and maintenance management. This is mainly for the public works projects of government offices and agencies. As of July 2019, the Group is comprised of nine consolidated subsidiaries (in addition to seven non-consolidated subsidiaries and two affiliates).

(1) Overview of the subsidiaries

Eight-Japan Engineering Consultants Inc., which is the main subsidiary that contributes nearly 80% of total consolidated net sales, provides construction consultancy services, including for planning, surveys and design, diagnosis, and management. It also provides overseas consultancy services and the development of businesses leading to regional creation, such as tourist farms and agri-businesses. Its subsidiaries, KYOURITSU ENGINEER CO., LTD., and Kyoritsu Kouei Co., Ltd., conduct surveying, geological surveys, and design work, while Toshi Kaihatsu Sekkei Corporation primarily conducts planning, construction design, and management work, including for the designs of water supply and sewer systems, etc. Also, Japan Infrastructure Management Co., Ltd. mainly conducts surveying, construction management, dispatching of engineers, and a measurement equipment rental sales business, while Kindai-Sekkei Consultant, Inc. provides construction management and customer support services, including for roads, bridges and other urban structures. A feature of Kindai-Sekkei Consultant, Inc. is that it has a high share of orders, of more than 20%, of the projects for electricity that do not use utility poles that are being promoted by the Ministry of Land, Infrastructure, Transport and Tourism (for planning and design, surveys, and maintenance-management support). In order to not use utility poles, it is necessary to build a shared trench underground and consolidate elements into it, such as electric wires, communication cables, and gas and water pipes. This requires negotiations with the relevant waterworks bureau and telecommunications and gas companies, and expertise in this area is the source of its competitiveness. It is sharing this expertise within the Group, and Eight-Japan Engineering Consultants Inc. has also acquired a number of orders in this area.

Arc Consultants Co., Ltd., which has been newly added as a subsidiary, mainly provides construction consultancy services in Okayama Prefecture, including for surveying, the planning and design of roads and bridges, and the design of rivers, and its annual sales are slightly less than ¥0.3bn. Also, i DEVELOP CONSULTANTS Co., Ltd., which is based in the north of Kyushu, conducts businesses including a social infrastructure customer support business and an infrastructure facilities management business, and it has annual sales of around ¥0.8bn to ¥0.9bn. The Company made them subsidiaries in order to expand its business scale in the Kyushu region. The cost of acquiring the shares of Arc Consultants Co., Ltd. was a small amount, but it paid ¥1.7bn to acquire all of the shares of i DEVELOP CONSULTANTS Co., Ltd. Net assets are estimated to be around ¥0.5bn, and while goodwill will be generated, the amortization method and period have not yet been decided. The results of both companies are scheduled to be included in the consolidated results from FY5/20 2Q.

Overview of the Group



Source: Prepared by FISCO from the Company's results briefing materials

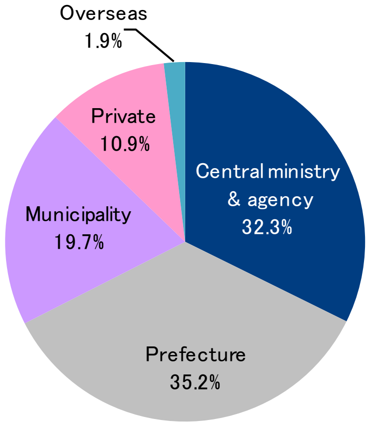
(2) Percentages of orders-received by ordering institution and by region

Nearly 90% of the Company's net sales are provided by sales to government offices and agencies, and within them, an increasing percentage of projects are related to traffic infrastructure, such as roads and ports, and to the conservation of national land, including river and mountain flood management. In the FY5/19 results, the percentages were 32.3% for central government ministries and agencies, mainly for the Ministry of Land, Infrastructure, Transport and Tourism; 35.2% for prefectures; 19.7% for municipalities; 10.9% for private-sector companies; and 1.9% for overseas. The majority of the overseas orders were for projects in Africa and Asia through the Japan International Cooperation Agency (JICA), including for road infrastructure, flood control, and water supply projects.

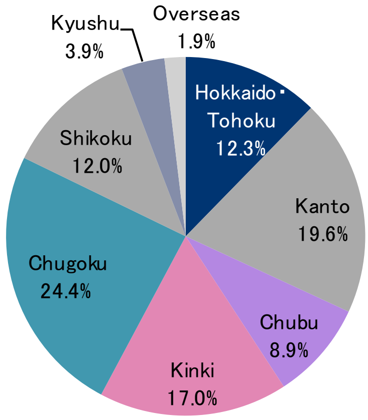
Looking at the percentages of orders-received by region, it is the highest for Chugoku, which is where the head office is located, at 24.4%, followed by Kanto at 19.6%, and Kinki at 17.0%, and these 3 regions accounts for approximately 60%. Compared to the percentages of orders-received 5 years' ago in FY5/14, Kanto has increased by 4pt and Kinki by 3pt, while conversely, Shikoku, Hokkaido, Tohoku have decreased by slightly less than 3pt.

Annually, it receives around 2,900 orders for projects, and the average unit price of the order-received per project is on a scale of ¥9mn to ¥10mn. Although most of the projects are completed within a year, in the case of continuous projects in which the design and construction management period is split into several phases that can last 3 to 4 years in total. Looking at the results, 60-70% of net sales are concentrated in Q4 (March to May), so it is necessary to be aware of this seasonal factor that means, in a typical year, results will be in a deficit until the end of Q3.

Composition of orders-received by ordering institution (FY5/19)



Composition of orders-received by region (FY5/19)



Source: Prepared by FISCO from the Company's results briefing materials

3. Corporate philosophy

The Group's management mission is to "contribute to the creation of a truly affluent society through using our technological and decision-making capabilities that are kind to the global environment." Its management vision is "aiming to be a leading solution group for infrastructure in Japan by continuing to pursue sustainable growth and improving corporate value."

In order to realize its management vision, the Company conducts its business activities in accordance with its Code of Conduct* that it has formulated from the four viewpoints of innovation, professionalism, integrity, and teamwork.

* Innovation:	Aiming to ascertain changes in society and the environment and to solve problems in all infrastructure fields by acting based on "glocal" (from global to local) thinking
Professionalism:	As a group of professionals with excellent skills who are able to respond precisely to diverse and high-level needs, and who possess an abundance of sensitivity and sincere personalities, to work toward self-improvements in order to increase the value of our human resources and our corporate value
Integrity:	Observing not only the relevant laws, but also corporate and professional ethics, and fulfilling our social responsibilities from a fair and neutral standpoint
Teamwork:	Aware of being Japan's leading infrastructure solutions consultancy group, always aiming for high targets, and taking on the challenge of achieving these targets using the Group's comprehensive strength

Result trends

Orders grew in FY5/19, particularly in the natural disaster risk mitigation field, rising 18% YoY, and profits continued to increase through improved production efficiency

1. Overview of the FY5/19 results

In the FY5/19 consolidated results, net sales increased 1.4% YoY to ¥26,172mn, operating income rose 7.4% to ¥1,711mn, ordinary income grew 4.3% to ¥1,709mn, and net profit attributable to owners of the parent was up 30.5% to ¥1,261mn. Net sales reached a new record high for a third consecutive fiscal year, operating income increased for a third consecutive fiscal year, and ordinary income and net profit attributable to owners of the parent both increased for a second consecutive fiscal year.

Business performance for FY5/19 (consolidated)

(¥mn)

	FY5/18		FY5/19				
	Results	Ratio to net sales	Forecast	Results	Ratio to net sales	YoY	Vs. forecast
Orders-received	25,704	99.6%	26,600	30,377	116.1%	+18.2%	+14.2%
Net sales	25,819	100.0%	26,500	26,172	100.0%	+1.4%	-1.2%
Cost of sales	18,279	70.8%	19,370	18,369	70.2%	+0.5%	-5.2%
SG&A expenses	5,946	23.0%	5,500	6,091	23.3%	+2.4%	+10.7%
Operating income	1,594	6.2%	1,630	1,711	6.5%	+7.4%	+5.0%
Ordinary income	1,639	6.3%	1,690	1,709	6.5%	+4.3%	+1.1%
Profit attributable to owners of the parent	966	3.7%	1,050	1,261	4.8%	+30.5%	+20.1%

Source: Prepared by FISCO from the Company's financial results

Orders-received increased 18.2% YoY to ¥30,377mn for the first record high in 2 fiscal periods, and moreover exceeded ¥30bn for the first time ever. Following the heavy rains and flooding disaster in western Japan in July 2018, a recovery and reconstruction budget for the disaster areas was incorporated into the primary supplementary budget, and also a secondary supplementary budget was set for disaster prevention and mitigation and to strengthen national resilience, and orders for related fields increased. The number of orders rose 7.1% YoY to 2,926 orders, while the amount per order also continued to trend upward, rising 10.3% to ¥10.38mn.

For sales, the Company prioritized disaster-support projects (worth approximately ¥1.5bn) and this had an impact, such as causing the construction periods of other projects to be extended. But an increase in sales was still secured, including from the effects of strengthening collaborations between Group companies. Also, the cost-of-sales ratio declined by 0.6pt YoY to 70.2% from the improved production efficiency, mainly from thoroughly implementing work progress management and the effects of introducing CIM*.

* CIM (Construction Information Modeling/Management) is an IT system that introduces three-dimensional (3D) models into the planning, survey, and design stages of construction projects to facilitate the sharing of information between the related parties throughout the entire project through coordinating and developing 3D models during each stage of the subsequent processes and maintenance management, with the goal of increasing the efficiency and sophistication of the series of construction and production systems. The Ministry of Land, Infrastructure, Transport and Tourism has formulated guidelines to introduce CIM toward reducing the cost of public works projects.

On the other hand, the SG&A expenses ratio rose 0.3pt YoY to 23.3%, because the Company actively invested, including in remodeling branches and introducing IT equipment and the latest measuring equipment (such as underwater self-propelled robots and drones), and also due to the increase in personnel expenses to promote workstyle reforms and to actively recruit new graduates (approximately 60 people). As a result, the operating margin increased 0.3pt to 6.5%. Also, the rate of increase of net income attributable to owners of the parent grew significantly both YoY and compared to the forecast, but this was mainly due a reduction in the tax burden of approximately ¥0.4bn due to the recording of deferred tax assets.

* This relates to the discovery of damage after the completion of a leachate adjustment reservoir and of deficiencies with the chloride treatment capacity of the facility. This was part of the “Eco Clean Plaza Miyazaki” waste disposal facility project that was ordered by Miyazaki Prefecture Environment Development Corporation (hereinafter referred to as “MPEDC”) from 1999 to 2002 to Eight-Japan Engineering Consultants Inc. (hereinafter referred to as “EJEC”), a subsidiary of the Company. In 2010, MPEDC filed a lawsuit to demand ¥1,014mn in compensation from EJEC and three construction companies for damages following the completion of the facility, and ¥573mn in compensation from EJEC (which was changed to ¥705mn in 2015) for the deficiency in leachate chloride processing capacity. Eight-Japan Engineering Consultants Inc. appealed to the Fukuoka High Court, but in June 2018 the decision to dismiss the appeal was announced and the ruling of the trial came into effect. In FY5/17, it recorded a provision for a litigation loss of ¥1,490mn, but the realized loss was recorded as deferred tax assets in FY5/19.

The percentage of orders-received from the 5 priority business fields increased greatly, up 30.4% YoY

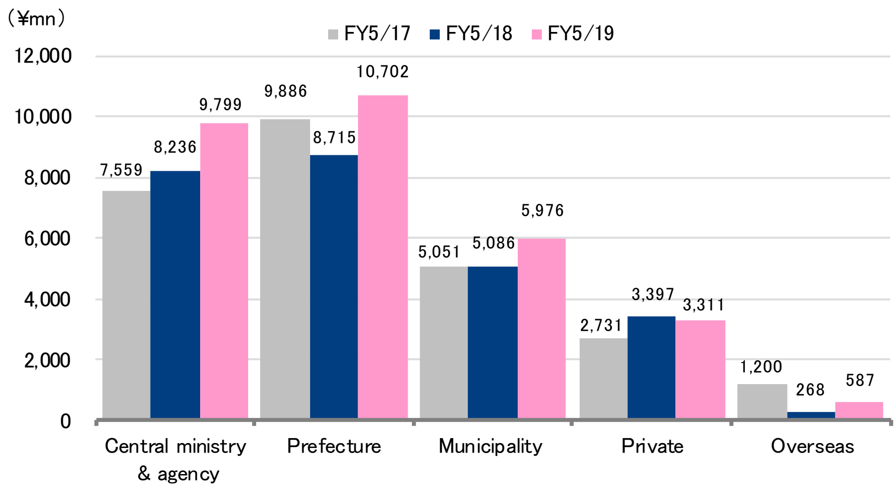
2. Trends in the orders-received and net sales

(1) Trends in the orders-received

In FY5/19, orders-received increased 18.2% YoY to ¥30,377mn. Looking at the breakdown by ordering institution, it increased 19.0% for central government ministries and agencies, 22.8% for prefectures, and 17.5% for municipalities, while it decreased 2.5% for the private sector and rose 118.6% for overseas. Overseas orders increased for the first time in 2 fiscal periods because projects via JICA that had been stopped in FY5/18 became active again from the end of 2018. For the private sector, the sluggish growth in this fiscal period was mainly due to the double-digit increase in the previous fiscal year, which was primarily for expressway management companies.

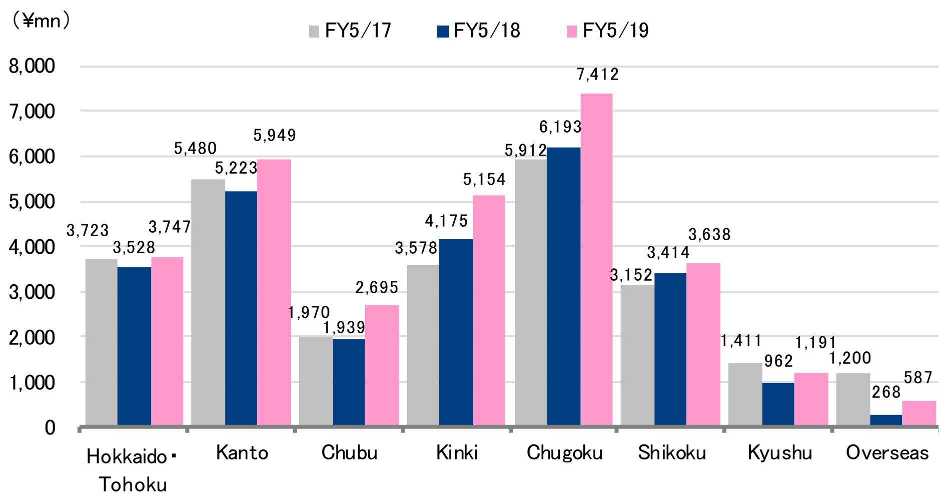
Looking at the ordering conditions by region also, a feature is that orders increased for all regions. Among them, growth was high for Chubu, up 39.0% YoY; Kinki, up 23.5%; and Chugoku, up 19.7%. The order backlog was also up 29.7% at the end of the previous fiscal year to ¥18,354mn and is accumulating to a record-high level.

Trends in orders-received by ordering institution



Source: Prepared by FISCO from the Company's results briefing materials

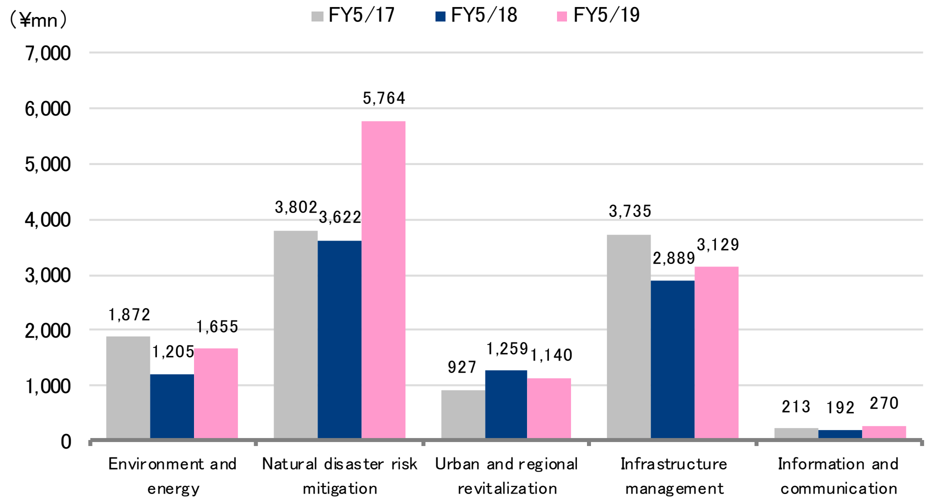
Trends in orders-received by region



Source: Prepared by FISCO from the Company's results briefing materials

Looking at the ordering conditions for the 5 fields that the Company has positioned as the priority business fields, in total, orders increased 30.4% YoY to ¥11,959mn (Company forecast, ¥10,000mn), the first increase in 2 fiscal periods and also above the Company forecast. Their percentage of total orders rose from 35.7% in the previous fiscal period to 39.4%. By field, orders grew rapidly for the natural disaster risk mitigation field, up 59.1% to ¥5,764mn, which included approximately ¥1.5bn for disaster-support projects for the heavy rain and flooding disaster in western Japan. Other than in this field, orders also increased in the environment and energy, infrastructure management, and information and communications fields, while they decreased only in the urban and regional revitalization field, in which they had grown significantly in the previous fiscal year.

Trends in orders in the five priority fields



Source: Prepared by FISCO from the Company's results briefing materials

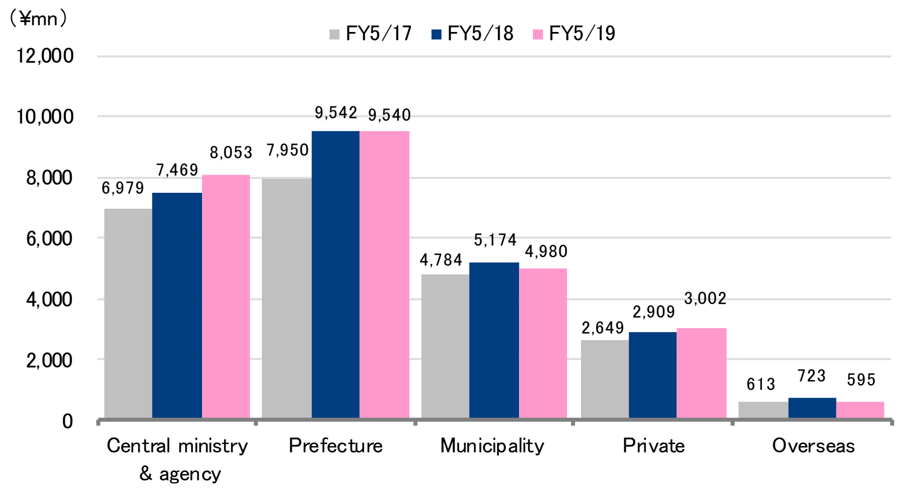
Also, the order amount for high value-added, technical proposal-type projects was lower than the Company forecast of ¥10,396mn, but it still increased 15.2% YoY to ¥9,489mn, the first increase in 2 fiscal period. The number of proposals submitted rose 2.7% to 1,154 proposals, while the number of proposals adopted rose 2.5% to 249 proposals. The adoption rate was unchanged YoY at 21.6%, which was below the Company forecast of 28.3% and became a downside factor. This was due to the intensification of competition, and it can be said that improving the adoption rate is an issue to be addressed in the future.

(2) Trends in net sales

Looking at net sales by ordering institution, they increased 7.8% YoY for central government ministries and agencies and 3.2% for the private sector, but decreased 3.8% for municipalities and 17.8% for overseas, while they were unchanged for prefectures. The Company worked on disaster-support projects as a priority, which meant that the delivery dates of some projects had to be extended, and this was a factor behind the sluggish growth.

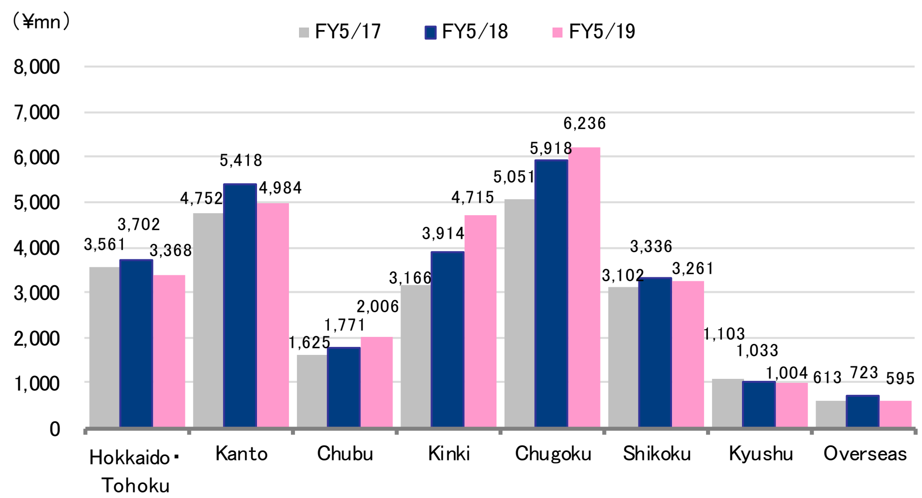
Looking at the sales conditions by region, they decreased in all regions other than in Kinki, up 20.4% YoY; in Chubu, up 13.3%; and in Chugoku, up 5.4%. In Kinki and Chubu, road and bridge-related projects contributed to sales, as did the disaster-support projects in Chugoku.

Trends in net sales by ordering institution



Source: Prepared by FISCO from the Company's results briefing materials

Trends in net sales by region



Source: Prepared by FISCO from the Company's results briefing materials

Improved financial stability through the disposal of 1.15 million treasury shares

3. Financial position and management indicators

Looking at the Company's financial condition at the end of FY5/19, total assets were up ¥1,883mn at the end of the previous fiscal year to ¥26,731mn. The main change factors were that in current assets, cash and deposits rose ¥895mn, and also, against the backdrop of the increase in the volume of projects, there were increases in inventory assets of ¥355mn and trade receivables of ¥223mn. In non-current assets, deferred tax assets increased ¥449mn, while investments in affiliates decreased ¥165mn following the implementation of a devaluation.

Total liabilities were down ¥513mn at the end of the previous fiscal year to ¥8,582mn. Accounts payable increased ¥230mn and uncompleted projects money received rose ¥203mn, while accrued payments decreased ¥884mn and interest-bearing debt declined ¥235mn. Total net assets were up ¥2,397mn at the end of the previous fiscal year to ¥18,149mn. Dividend payments of ¥172mn was a decrease factor, but the increase factors were the recording of net income attributable to owners of the parent of ¥1,261mn and fund raising of ¥1,526mn following the disposal of treasury shares (1.15 million shares).

Looking at the management indicators, the equity ratio, which is an indicator of management stability, increased from 63.4% at the end of the previous fiscal year to 67.9%, while the interest-bearing debt ratio decreased from 3.0% to 2.0%. Net cash (cash and deposits – interest-bearing debt) increased by ¥1,130mn at the end of the previous fiscal year to ¥10,361mn, and in such ways, the Company enhanced its financial base. Looking at the indicators of profitability, ROA declined 0.2% YoY, but both ROE and the operating margin improved, so looking at the overall picture, profitability is steadily improving.

In June 2019, the Company paid ¥1.7bn to acquire all of the shares of i DEVELOP CONSULTANTS Co., Ltd., so recently it would seem that the level of cash and deposits has declined somewhat. However, one part of the costs from acquiring these shares was covered by borrowing and other methods, and the Company's policy is to maintain the level of cash and deposits.

Consolidated balance sheet

(¥mn)

	FY5/16	FY5/17	FY5/18	FY5/19	YoY
Current assets	14,255	16,200	14,907	16,417	1,510
(Cash and deposits)	9,901	11,461	9,989	10,884	895
Non-current assets	7,095	7,256	9,939	10,313	373
Total assets	21,351	23,457	24,847	26,731	1,883
Total liabilities	6,163	8,684	9,095	8,582	-513
(Interest-bearing debt)	450	1,043	758	523	-235
Net assets	15,187	14,772	15,751	18,149	2,397
Management indicators					
(Stability)					
Equity ratio	70.8%	63.0%	63.4%	67.9%	4.5pt
D/E ratio	2.1%	4.4%	3.0%	2.0%	-1.0pt
Net cash (¥mn)	9,451	10,418	9,231	10,361	1,130
(Profitability)					
ROA (return on assets)	6.0%	5.6%	6.8%	6.6%	-0.2pt
ROE (return on equity)	6.3%	-2.0%	6.3%	7.4%	1.1pt
Operating margin	5.6%	5.5%	6.2%	6.5%	0.3pt

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Business outlook

Against the backdrop of many order backlogs, sales and profits are set to increase by double digits in FY5/20
The outlook is for record high ordinary income for the first time in 6 fiscal periods

1. FY5/20 outlook

The outlook for the FY5/20 consolidated results is for sales and profits to continue to increase, with net sales rising 10.8% YoY to ¥29,000mn, operating income growing 16.8% to ¥2,000mn, ordinary income climbing 22.8% to ¥2,100mn, and net income attributable to owners of the parent increasing 3.1% to ¥1,300mn. Against the backdrop of the many order backlogs, sales and profits are forecast to continue to increase by double digits, and operating income and ordinary income are set to achieve record highs for the first time in 6 fiscal periods. Also, orders-received is forecast to decrease 4.5% YoY to ¥29,000mn when not taking into consideration special factors, such as the supplementary budget. The Company has many orders on hand in its order backlog, so its policy for this fiscal period is, while proceeding with selected orders, to focus on acquiring orders for high value-added projects, such as technical proposal-type projects, for the 5 priority business fields, and for customer support projects and overseas projects.

FY5/20 outlook (consolidated)

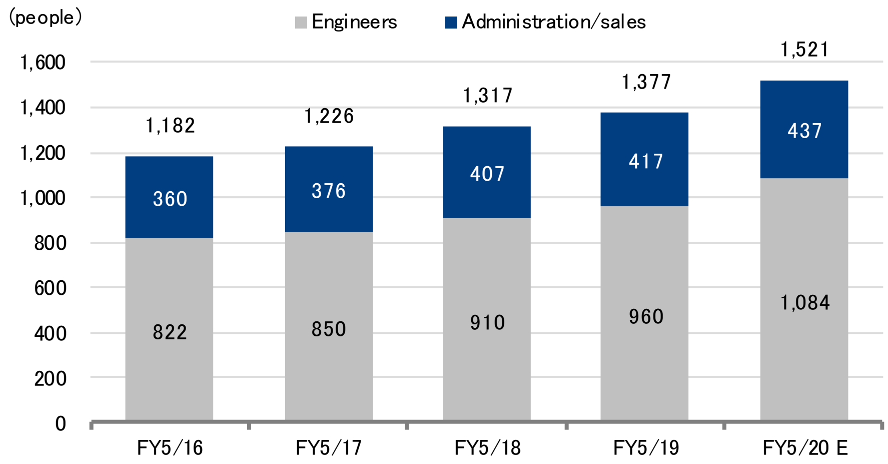
(¥mn)

	FY5/19		FY5/20		
	Results	Ratio to net sales	Forecast	Ratio to net sales	YoY
Orders-received	30,377	116.1%	29,000	100.0%	-4.5%
Net sales	26,172	100.0%	29,000	100.0%	10.8%
Cost of sales	18,369	70.2%	20,700	71.4%	12.7%
SG&A expenses	6,091	23.3%	6,300	21.7%	3.4%
Operating income	1,711	6.5%	2,000	6.9%	16.8%
Ordinary income	1,709	6.5%	2,100	7.2%	22.8%
Profit attributable to owners of the parent	1,261	4.8%	1,300	4.5%	3.1%
EPS (¥)	189.39		191.22		

Source: Prepared by FISCO from the Company's financial results

The cost-of-sales ratio will rise 1.2pt YoY to 71.4%, mainly due to an increase in the labor-cost ratio caused by workstyle reforms, including reducing overtime and working on holidays while increasing recruitment of more employees to compensate. At the end of FY5/20, the number of employees (engineering professions) is forecast to increase by 124 people at the end of the previous fiscal year to 1,084 employees. Conversely, the SG&A expenses ratio is expected to decline 1.6pt YoY to 21.7%, because the increases in expenses, including personnel expenses and IT investment expenses, will be absorbed by the effects of the higher sales. Therefore, the operating margin will rise 0.4pt to 6.9%. Also, the rate of increase of net income attributable to owners of the parent will be limited to in the single-digit range due to the normalization of the tax burden. The amount from the effects of Arc Consultants Co., Ltd. and i DEVELOP CONSULTANTS Co., Ltd. being added to the scope of consolidation from the current 2Q will be to add slightly less than ¥1bn to net sales, but the effect on profits is expected to be negligible due to the occurrence of amortization of goodwill.

Trends in the no. of consolidated employees



Source: Prepared by FISCO from the Company's results briefing materials

Orders-received for the 5 priority business fields is expected to increase 13% YoY

2. FY5/20 sales policy

As its sales policy for FY5/20, the Company is particularly focusing on the following three points: Increasing orders for technical proposal-type projects, strengthening Group collaborations, and expanding the overseas consultancy services field.

(1) Increasing orders for technical proposal-type projects

To respond to the strengthening of national resilience to prepare for natural disasters, such as the heavy rains and earthquakes that have occurred frequently in the last few years, the Company is aiming to increase orders for technical proposal-type projects in the natural disaster risk mitigation field. Moreover, to respond to needs for customer support, it also focusing on acquiring orders for technical proposal-type projects in the infrastructure management field. In particular, orders for customer support projects are expected to increase in the Kyushu region from the addition of i DEVELOP CONSULTANTS Co., Ltd., which has newly been made a subsidiary. It is also working to create community-based projects by using BIM*/CIM to progress the development of new technologies. Due to these measures, orders-received for technical proposal-type projects is forecast to increase 6.2% YoY to ¥10,074mn.

* Serving as a solution for sharing and utilizing information in every process from design to construction and maintenance, BIM (Building Information Modeling) is a building database in which attribute data, including costs, finishing, and management information, is included in the creation of a digital model of a 3D building on a computer. It is a workflow that contributes to improving the work efficiency of construction projects. The Ministry of Land, Infrastructure, Transport and Tourism has formulated guidelines for it, together with for CIM.

Also, the order amount for the 5 priority business fields is expected to increase 13.7% YoY. By field, infrastructure management will have the highest growth rate, up 31.4% due to the effects of the M&A, while the amounts for the other 4 fields are also forecast to increase.

Forecast for orders in the five priority fields

(¥mn)

	FY5/17	FY5/18	FY5/19	FY5/20 E	% of change
Environment and energy	1,872	1,205	1,655	1,840	11.2%
Natural disaster risk mitigation	3,802	3,622	5,764	6,150	6.7%
Urban and regional revitalization	927	1,259	1,140	1,200	5.3%
Infrastructure management	3,735	2,889	3,129	4,110	31.4%
Information and communication	213	192	270	300	11.1%
Total	10,548	9,168	11,959	13,600	13.7%
Expanding in the five priority fields	39.9%	35.7%	39.4%	46.9%	

Source: Prepared by FISCO from the Company's results briefing materials

(2) Strengthening Group collaborations

The Company will expand orders for one-stop services from upstream to downstream, for infrastructure projects, regional revitalization projects, and social capital maintenance projects through utilizing the expertise of each Group company, and also through technological collaborations between these companies. It also intends to use Group collaborations and promote M&A deals to strengthen those fields in which it currently has weak points.

(3) Expanding the overseas consultancy field

The Company is utilizing its track record in various countries in Africa and South East Asia to establish wide-area infrastructure that connects countries and to strengthen business development in the urban lifeline and other fields. In particular, in Southeast Asia, with the Thailand representative office and the Myanmar branch office as the sales bases, it plans to expand business scale while aiming to collaborate with local companies, and it has also started to investigate establishing local subsidiaries at these bases.

(4) Outlook for sales by region

In sales by region, due to the effects of the M&A, net sales in Kyushu will double, up 119.1% YoY, while they are also expected to increase by double digits for Kanto, up 20.4%; Chubu, up 14.7%; and overseas, up 51.3%. Sales from overseas are forecast to change direction and increase for the first time in 2 fiscal periods due to the effect from the restart of orders via JICA at the end of 2018. On the other hand, in Kinki, which has maintained high growth over the last few years, a round of projects has been completed, so its growth will cease in this fiscal period.

Sales outlook by region

(¥mn)

	FY5/17	FY5/18	FY5/19	FY5/20 E	Growth rate
Hokkaido-Tohoku	3,561	3,702	3,368	3,300	-2.0%
Kanto	4,752	5,418	4,984	6,000	20.4%
Chubu	1,625	1,771	2,006	2,300	14.7%
Kinki	3,166	3,914	4,715	4,200	-10.9%
Chugoku	5,051	5,918	6,236	6,800	9.0%
Shikoku	3,102	3,336	3,261	3,300	1.2%
Kyushu	1,103	1,033	1,004	2,200	119.1%
Overseas	613	723	595	900	51.3%
Total	22,978	25,819	26,172	29,000	10.8%

Source: Prepared by FISCO from the Company's results briefing materials

4th medium-term management plan

Aiming to be the leading solution consultancy group for infrastructure in Japan

1. Basic policy

EJ Glocal Challenge 2020 is the Group's four-year medium-term management plan that started in FY5/18, and this period has been positioned as the time to build a solid management foundation on which to actively advance its Group vision of being "a leading solution consultancy group for infrastructure in Japan by continuing to pursue sustainable growth and improving corporate value." The plan also sets out that it will contribute to achieving the SDGs (Sustainable Development Goals)* toward "realizing a strong and sustainable society."

* SDGs (Sustainable Development Goals) refers to the international goals for the period 2016 to 2030 described in the 2030 Agenda for Sustainable Development adopted at the United Nations Summit in September 2015. It consists of 17 goals and 169 targets for realizing a sustainable world.

(1) Deepen the core businesses and strengthening new businesses

Aim to create a solution services brand in the mainstay businesses and become the leading company within the industry as a comprehensive construction consultancy. Strengthen new businesses in peripheral areas and work to develop them.

(2) Expand business volume by promoting globalization

Increase the recruitment of engineers able to work overseas and advance their development as human resources, and also aim to increase orders by expanding overseas bases and promoting alliances with local companies and universities.

(3) Promote the establishment of a management infrastructure able to respond immediately to environmental changes

Implement various measures, including to promote improved operational efficiency through process innovation (reforming business and production processes), to realize higher quality and improved productivity through product innovation (reforming the production foundation through utilizing IT), and to improve the vitality of employees by advancing a work-life balance and reforms to ways of working.

Expected to achieve the medium-term management plan's ordinary income target one year ahead of schedule

2. Numerical management targets and growth strategy

(1) Numerical management targets

The numerical management targets for FY5/21 in the medium-term management plan are consolidated net sales of not less than ¥30bn, ordinary income of not less than ¥2.1bn, and net income attributable to owners of the parent of not less than ¥1.4bn. Also, as its capital policy, the Company is aiming to improve its corporate value and achieve ROE of a level of 8% or above through improving capital efficiency and expanding its businesses through investing in growth. The progress made up to FY5/19 was steady, and the outlook is that it will achieve the ordinary income target one year ahead of schedule. On the other hand, for ROE, net assets increased due to the sale of treasury shares in the previous fiscal year, so net income of around ¥1.6bn will be required in order to achieve the target of 8% or above.

The Group's numerical targets

(¥mn)

	FY5/18	FY5/19	FY5/20 (forecast)	FY5/21 (target)	Note
Net sales	25,819	26,172	29,000	30,000 or above	Promoting alliances
Ordinary income	1,639	1,709	2,100	2,100 or above	Profit margin, 7.0% or above
Profit attributable to owners of the parent	966	1,261	1,300	1,400 or above	ROE, 8% or above

Source: Prepared by FISCO from the Company's results briefing materials

(2) Growth strategy

As the growth strategy to achieve the medium-term management plan's targets, the Company has set the following points as its priority strategy.

a) Strengthening Group collaborations

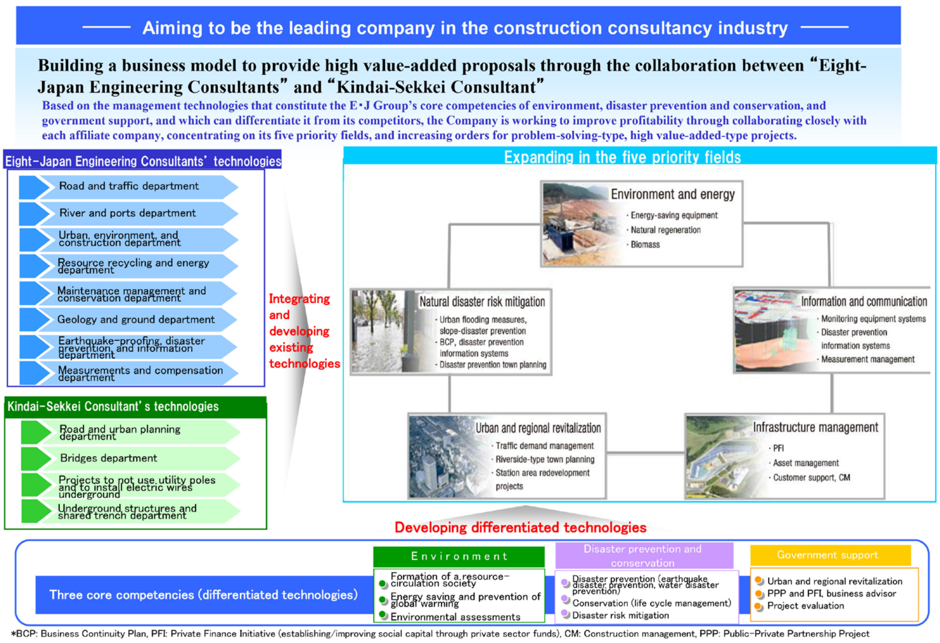
It will aim to strengthen technological capabilities of the main axis of the core competencies, enhance collaborations between Group companies, and deepen one-stop services.

b) Strengthening the domestic consultancy services field

In order to further strengthen in the domestic construction consultancy field, its core business, the Company is focusing on reinforcing its businesses in fields and regions in which it is weak and winning high value-added, technical proposal-type projects. The fields in which it is weak include the railway and electric power fields, and it is also reinforcing in the compensation consultancy field. In addition, regionally, it is weak in regions such as Kyushu, Hokuriku, Hokkaido, and Okinawa, and its strategy is to cover for these regions by promoting M&A and alliances.

In addition, the domestic construction consultancy field is divided into approximately 20 fields when the market is divided into the fields, such as roads and bridges, rivers, ports, waste disposal, and renewable energy. Within these, the Company is aiming to double the fields in which it is among the top 5 companies for net sales, from the current 5 fields to 10 fields, and also to enter the top 5 companies for total sales to all fields. Among them, based on its management technologies for the environment, disaster prevention and conservation, and government support, which are the Company Group's core competencies, it is looking to expand business scale, while improving profitability, by focusing on the five priority fields (environment and energy, natural disaster risk mitigation, urban and regional revitalization, infrastructure management, and information and communications) and by increasing orders for problem-solving-type, high value-added projects.

Group business strategy in the construction consultancy field



Source: Prepared by FISCO from the Company's results briefing materials

The Company is actively introducing the latest IT technologies and other technologies to strengthen the competitiveness of its technical proposal-type projects. To give some specific examples, in the natural disaster risk mitigation field, it is utilizing augmented reality (AR) and virtual reality (VR) technologies for evacuation simulations that assume the occurrence of tsunamis in local disaster prevention plans. Also, regarding technologies to reduce the use of utility poles, in which Kindai-Sekkei Consultant, Inc. has a strong track record, it has design expertise that can reduce costs (such as small boxes and shallow burial installation work) and design methods for narrow (or no) sidewalks. In addition, it has been developing and introducing an underground space management system that uses IC tags and QR codes. This system makes visible the position of pipes by attaching IC tags to them at the same time they are buried. It is a technology that achieves safety and lower costs by reducing the number of exploratory surveys and eliminating the risk of wires being severed when conducting shallow burial installation work. Kindai-Sekkei Consultant, Inc. also has a track record of customer support work, including for the construction management of expressways and other structures, and it is expected to receive an order for the underground project for the Tokyo Metropolitan Expressway near Nihonbashi, Tokyo, for which construction is scheduled to start after FY2020.

In the information and communications field, the Company is utilizing drones to conduct 3D measurements of disaster sites. In the heavy rain and flooding disaster in western Japan in July 2018, immediately after the disaster it used a drone to take 3D measurements (laser measurements) of the damage conditions in the areas flooded by rivers, which were subsequently used for the damage-recovery design. The Group previously owned 6 drones, but in February 2019 it purchased 3 more new drones and so now has 9 drones. Moreover, the underwater drone (an unmanned submersible) it introduced in FY5/18 can acquire high-resolution underwater data measurements (position, topography, water quality, flow conditions, etc.) and underwater images, and it is being actively used for underwater surveys at sites including dams, rivers and ports. In FY5/20, it plans to introduce a new above-water drone (a self-piloting floating drone) to strengthen competitiveness in the surveying field.

c) Progress in the overseas consultancy field

The targets in the medium-term management plan for the overseas business are to increase its percentage of total net sales to 10% in FY5/21 (3.8% in FY5/18) and to expand its sales scale to around ¥3bn. However, in FY5/18, JICA temporarily froze its budget (it restarted it at the end of 2018), so orders fell and the conditions for achieving the targets became severe. With that said, there has been no change to its expansion trend as a growth market in the future. The Company is actively progressing the expansion of overseas bases (it is considering entering-into Vietnam), establishing local subsidiaries, and promoting alliances (including with other companies in the same industry, local companies, universities, and research institutions), and its policy is to particularly focus on business expansion in Southeast Asia. In terms of fields, it would seem to be developing business for fields including roads and traffic, water supply, waste and renewable energy, disaster prevention (earthquake and flood countermeasures), and urban planning.

d) Expansion in the infrastructure management field

In the infrastructure management field, centered on Kindai-Sekkei Consultant, and also through collaborations with Japan Infrastructure Management Co., Ltd. and i DEVELOP CONSULTANTS Co., Ltd., which have newly been made subsidiaries, the Group is working to expand the business scale, including for the dispatch of engineers and construction management support, facilities maintenance and operations management support, and the measurement equipment rental business. It is targeting increasing its percentage of total net sales to as high as 20% in FY5/21 (10.3% in FY5/19, based on orders-received). In FY5/19, orders-received was ¥3,129mn, and by FY5/21, net sales will grow to around ¥6bn. For the development and maintenance of social infrastructure, there are shortages of engineers at the ordering parties and there has been a series of natural disasters. In this situation, implementing anti-aging measures for roads and bridges became a pressing issue, and demand is expected to increase for construction and operations management support and customer support projects.

e) Evolving in the business development field

Centered on Eight-Japan Engineering Consultants Inc., the Group is progressing the expansion of the CDM (clean development mechanism) business and the advisory business, through collaborations with trading companies and other companies in different industries. As a new business development in a peripheral field, it is also conducting a regional revitalization business on the main axes of tourism and agriculture.

In the regional vitalization business since 2012, the Company has been conducting measures for sixth-sector industrialization in the agri-business in Okayama Prefecture, Akita Prefecture, and Tokushima Prefecture, through joint investment with local public bodies, companies, and other organizations. Enjoy Farm Co. Ltd., in Okayama Prefecture concluded a designated management operations contract for the 5 years from April 2013 for “Suisha no Sato Fruitopia,” which is a facility for visitors to experience fruit cultivation and agricultural work in its gardens, and at the end of this contract, it newly entered into a contract for another 5 years (up to FY2022). In May 2018, the upgraded facility was re-opened, including with a newly established refreshments corner and a larger strawberry greenhouse. Visitor numbers are increasing, and it has become profitable, if only slightly.

Also, Strawberry Farm Co., Ltd., in Akita Prefecture is working on the sixth-sector industrialization of summer and fall strawberry agriculture. Summer and fall strawberries currently depend on imports for around 90% of their total, and their distribution price is also high, at around 4 to 5 times the normal price. Strawberry Farm has succeeded in cultivating the rare Natsu Akari (summer light) strawberry variety, and it is able to acquire orders from pastry and confectionary stores around the country. In order to respond to the rising demand, it increased the number of greenhouses from 3 to 6 in 2019, and shipments are forecast to double from the summer of 2020 (yielding approximately 5 tons). It is expected to become profitable from FY5/21.

Nakawood Co., Ltd. in Tokushima Prefecture is working on the sixth-sector industrialization of the forestry industry. As a part of the projects to promote the utilization of timber and for regional development, it aims to sell high-quality wood powder from Tokushima Prefecture as “wood plastic,” which is a material used in engineering and construction work, and also as a raw material for “plastered walls.” Although this business has started, a gap remains between prices and quality requirements, and currently sales are limited to materials for wooden tables and decks in public facilities or products that utilize wood powder, such as simple toilets made using wood powder, and it continues to search for ways to become profitable.

Regional development projects in Japan

Company name	Date of establishment	Location	Description of business
Enjoy Farm Co. Ltd.	August 2012	Okayama Prefecture	Started business activities as the designated manager of “Suisha no Sato Fruitopia.” Sales of fruits harvested locally, and public relations and event activities that will lead to regional revitalization
Strawberry Farm Co., Ltd.	November 2012	Akita Prefecture	Established to cultivate and sell summer strawberries, it will develop multiple business in the future, including a tourism business with the aim of contributing to regional revitalization.
Nakawood Co., Ltd.	April 2014	Tokushima Prefecture	Established to manufacture and sell cedar wood powder. It sells wood powder to customers including plastic manufacturers as the raw material of “wood plastic.” Also, in April 2017, it opened the Naka Town Forestry Business Center as a base to promote the forestry industry.

Note: All 3 companies are non-consolidated subsidiaries
Source: Prepared by FISCO from the Company's results briefing materials

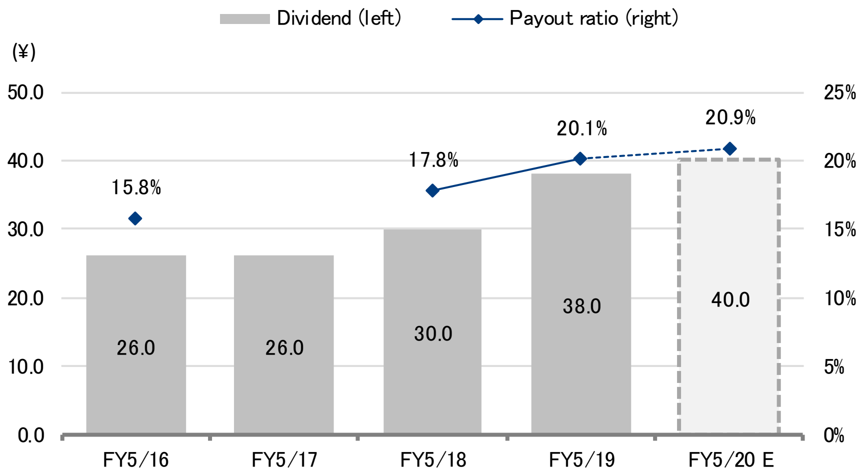
Shareholder return policy

In FY5/20, plans to increase the annual dividend per share for the third consecutive fiscal period, to ¥40

The Company pays dividends and has introduced a shareholder benefits program in order to return profits to shareholders. Its basic dividend policy is to continuously pay dividends from a medium- to long-term perspective. While supplementing internal reserves to strengthen its corporate structure and for business development, it determines the dividend by taking into consideration not only the results of a single fiscal year, but also factors such as the market environment, the results trends, the dividend payout ratio, and the ratio of dividends to shareholders’ equity. In FY5/20, it plans to increase the dividend to ¥40.0 per share, an increase of ¥2 per share YoY (dividend payout ratio: 20.9%), a third consecutive fiscal year for dividend increases.

Also, in the shareholder benefits program, the Company gifts a QUO card to shareholders at the end of November each year according to the number of shares that they hold. Shareholders holding 100 or more but less than 1,000 shares receive QUO cards worth ¥1,000, those holding 1,000 or more but less than 5,000 shares receive cards worth ¥3,000, and those holding 5,000 shares or more receive cards worth ¥5,000.

Dividend per share and payout ratio



Note: Includes commemorative dividends of ¥4.0 in FY5/18 and ¥5.0 in FY5/19
Source: Prepared by FISCO from the Company's financial results

Details of the shareholder benefits program

No. of shares held	Shareholder benefit
100 or more to less than 1,000 shares	QUO card worth ¥1,000
1,000 or more to less than 5,000 shares	QUO card worth ¥3,000
5,000 shares or more	QUO card worth ¥5,000

* For shareholders registered at the end of November
Source: Prepared by FISCO from the Company website

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