COMPANY RESEARCH AND ANALYSIS REPORT

E·J Holdings Inc.

2153

Tokyo Stock Exchange First Section

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Summary

Target higher sales and profits in FY5/19 through increasing orders for technical proposal-type projects

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 social infrastructure, 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 renewable energy and 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. FY5/18 results overview

In the FY5/18 consolidated results, sales and profits increased by double digits, with net sales rising 12.4% year on year (YoY) to ¥25,819mn and ordinary income growing 30.1% to ¥1,639mn. Moreover, both results were above the Company forecasts (net sales of ¥25,000mn and ordinary income of ¥1,450mn). Ordinary income increased for the first time in four fiscal years, which was mainly because, in addition to the increase in the volume of operations carried over from the previous fiscal year, domestic orders trended steadily. SG&A expenses increased, mainly personnel expenses, but due to the effects of the higher sales and the improvement in the cost ratio from the higher productivity, the ordinary margin rose by 0.9 of a percentage point to 6.4%. Also, due to the end of the provision for a litigation loss of ¥1,490mn, which was posted as an extraordinary loss in the previous fiscal year, the Company recorded net profit attributable to the owners of the parent of ¥966mn (compared to a net loss of ¥293mn in the previous fiscal year), which was the first net profit in 2 fiscal years.

2. Outlook for FY5/19

The outlook for FY5/19 is for the higher sales and profits to continue, with net sales to rise 2.6% YoY to ¥26,500mn and ordinary income to grow 3.1% to ¥1,690mn. The Company is aiming to achieve steady growth by working to increase orders for technical proposal-type projects and other high value-added operations, order-support services, and overseas projects. At this stage, it seems that the impact on results of the heavy rainfall and flooding in western Japan in July 2018 will be neutral. This is because on the one hand, in addition to being required to deal with emergency projects, such as surveys of local damage conditions, going forward projects will be launched for the recovery, including flood control measures, and the Company expects to acquire orders related to this. But on the other hand, it is possible that the disaster will delay the progress of existing projects. However, due to the occurrence of successive natural disasters, the importance of disaster prevention and mitigation measures is starting to be recognized once again, and it is considered that this will lead to greater opportunities to increase orders in the medium term.

3. The medium-term management plan

In the 4th medium-term management plan started in FY5/18, the Company has set numerical management targets of consolidated net sales of ¥30,000mn, ordinary income of ¥2,100mn, and ROE of above 8% for FY5/21, and it would appear to have made a steady start in the plan's first year. Going forward, it will further progress business expansion in the domestic construction consultancy field, which is the business it is focusing on, and also increase sales, including by developing new businesses in peripheral areas and expanding its overseas business. In terms of profits, it is thought that the Company is aiming to increase profitability by improving operational efficiency through introducing IT within the Company and by improving productivity per consultant through human resources training and development.

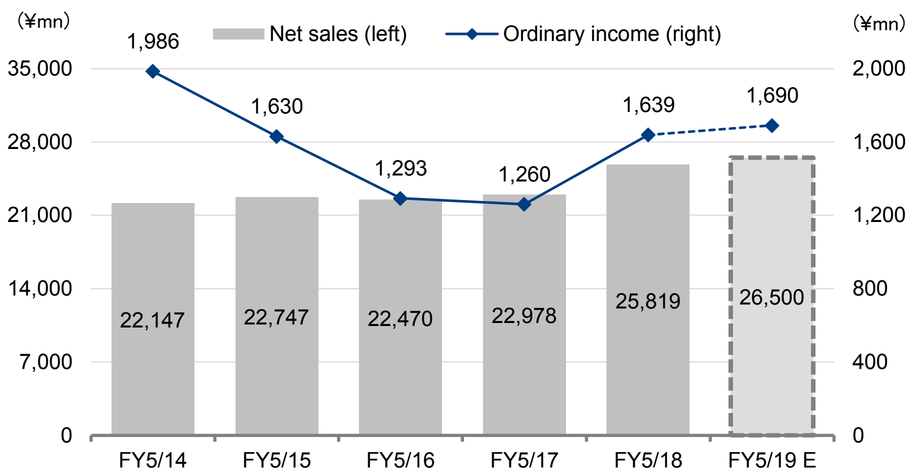
4. Shareholder return policy

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 dividend per share in FY5/19 is set to be unchanged YoY at ¥30.0 (dividend payout ratio, 19.2%). But as the FY5/18 dividend included a commemorative dividend of ¥4.0, it will be higher on an ordinary-dividend basis. The Company also introduced a shareholder benefits program from 2017 and in 2018, it changed one part of this program's content. Specifically, it gifts a QUO card to shareholders registered at the end of November according to the number of shares they hold, and it raised the value of the card from the previous ¥500 to ¥1,000 for shareholders holding 100 or more but less than 1,000 shares (it also improved the benefits for shareholders holding 1,000 shares or more).

Key Points

- Its strength is the ability to provide a one-stop service for all the processes in public works projects, from project planning and concepts, through to operations and maintenance management
- Achieved double-digit increase in sales and profits in FY5/18 from larger volume of operations carried forward from the previous fiscal period and steady performance of domestic orders
- For FY5/21, it is targeting net sales of ¥30bn or more and ordinary income of ¥2.1bn or more

Result trends



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

Company profile

Established in 2007 through integration of the management of two construction consultancy companies

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. After these successions, Eight Consultants changed its company name to Eight-Japan Engineering Consultants, and Japan Engineering Consultants changed its company name to EJ Business Partners Co., Ltd. (in May 2015, EJ Business Partners was merged into Eight-Japan Engineering Consultants through an absorption merger). In addition, in June 2010, the Company conducted a share exchange to make a subsidiary of Kindai-Sekkei Consultant, Inc., which is a construction consultant specializing in bridges, structures, and urban infrastructure.

In July 2018, the Company's listing was upgraded from the Second Section to the First Section of the TSE.

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 through an absorption split, while at the same time, the company acquired the shares of Japan Infrastructure Management held by Eight Consultants.
June 2009	Eight Consultants succeeded the construction consultancy business of Japan Engineering Consultants and changed its company name to Eight-Japan Engineering Consultants Inc., and Japan Engineering Consultants 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 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.

Source: Prepared by FISCO from Company materials

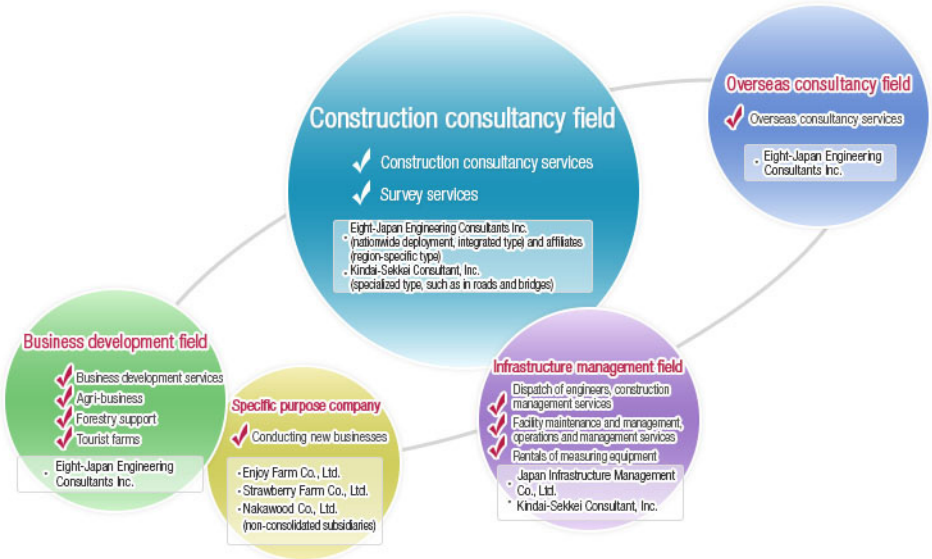
Its strength is the ability to provide a one-stop service within the group for all the processes in public works projects, from project planning and concepts through to operations and maintenance management

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. The Group is comprised of seven consolidated subsidiaries (also seven non-consolidated subsidiaries, one affiliate, and one other affiliate).

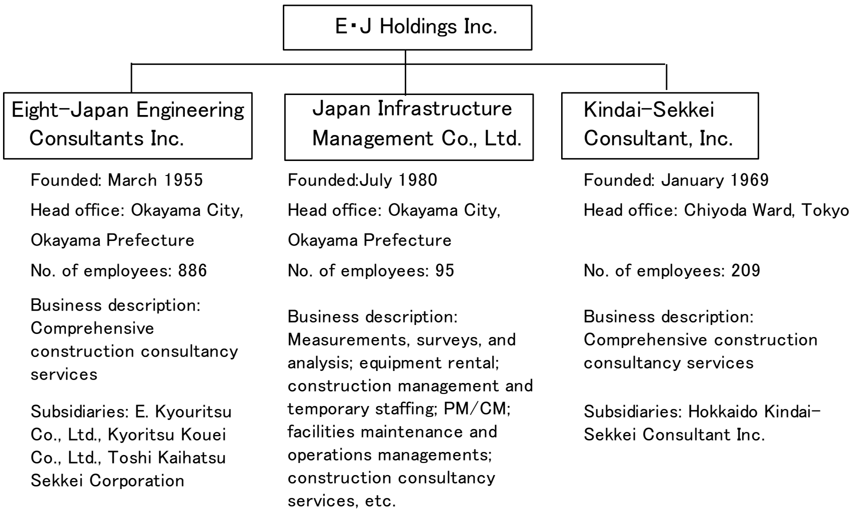
Eight-Japan Engineering Consultants, which is the main subsidiary that contributes not less than 70% of total consolidated net sales, provides construction consultancy services, including for planning, design, diagnosis, and management, while it also provides overseas consultancy services and the development 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 provides construction consultancy services that are tailored to individual regions, including for the designs of water supply and sewer systems. Also, Japan Infrastructure Management mainly conducts surveying, construction management, and measurement equipment rental sales businesses, while Kindai-Sekkei Consultant provides construction consultancy services for roads and urban structures. In December 2017, the Sapporo branch office of Kindai-Sekkei Consultant was spun off to newly establish Hokkaido Kindai-Sekkei Consultant. This was because it was judged that it would be more effective to locate the head office in Hokkaido to increase orders within Hokkaido.

The Group's business fields



Source: The Company's website

Overview of the Group

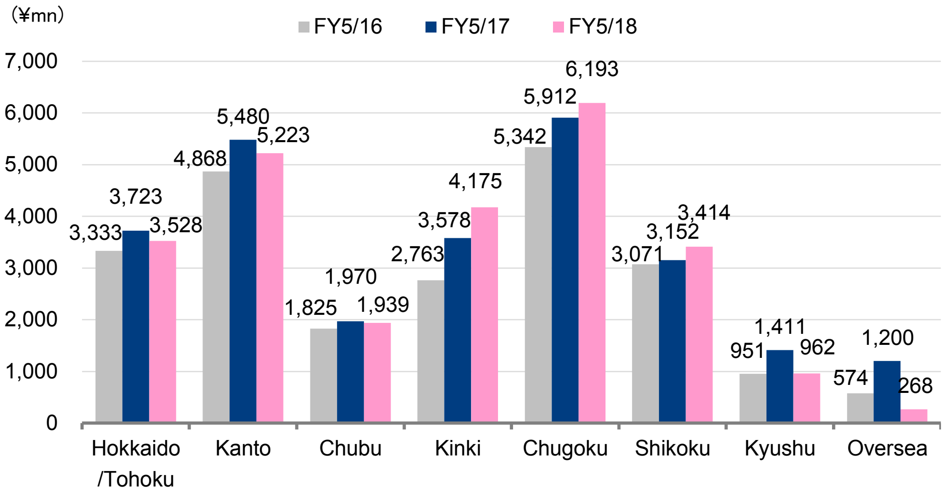


Source: Prepared by FISCO from the Company's results briefing materials

Nearly 90% of the Company's net sales are provided by sales to government offices and agencies, and within them, a high percentage of projects are related to traffic infrastructure, such as roads and ports, and to the conservation of national land, including river and mountain management. In FY5/18, 23.7% of net sales were for projects for the Ministry of Land, Infrastructure, Transport and Tourism. Also, looking at the orders-received by region in the last 3 fiscal periods, it was highest in the Chugoku area, which is where the head office is located, and in FY5/18, this region provided 24.2% of the total orders-received balance, followed by the Kanto area at 20.4%, and the Kinki area at 16.2%, and the Company receives orders from all over the country. In addition, the large majority of its overseas projects are through the Japan International Cooperation Agency (JICA), such as road improvement projects, water supply projects and waste management projects in Africa and Asia, and therefore it tends to be affected by changes to JICA's budget. As JICA's budget was small in FY5/18, the value of its orders decreased and its percentage of total orders fell from 4.5% in the previous fiscal year to 1.0%. such as road improvement projects, water supply projects and waste management projects in Africa and Asia, and therefore it tends to be affected by changes to JICA's budget. As JICA's budget was small in FY5/18, the value of its orders decreased and its percentage of total orders fell from 4.5% in the previous fiscal year to 1.0%.

Annually, it receives around 2,600 orders for projects, and the average value 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, nearly 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.

Trends in the orders-received by region



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.

* 1) 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
2) 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
3) Integrity: Observing not only the relevant laws, but also corporate and professional ethics, and fulfilling our social responsibilities from a fair and neutral standpoint
4) 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

Achieved double-digit increase in sales and profits in FY5/18 from larger volumes of operations carried forward from the previous fiscal period and steady performance of domestic orders

1. Overview of the FY5/18 results

In the FY5/18 consolidated results, net sales increased 12.4% YoY to ¥25,819mn, operating income rose 25.1% to ¥1,594mn, ordinary income grew 30.1% to ¥1,639mn, and net profit attributable to the owners of the parent was ¥966mn (compared to a loss of ¥293mn in the previous fiscal year). Net sales were a new record high for the second consecutive fiscal year, ordinary income increased for the first time in four fiscal years, and net profit attributable to the owners of the parent was profitable for the first time in two fiscal years, so it is clear that the results recovered. Compared to the initial Company forecasts also, all of the items exceeded their forecasts, except for net profit attributable to the owners of the parent.

Business performance for FY5/18 (consolidated)

(¥mn)

	FY5/17		FY5/18				
	Results	Ratio to net sales	Forecast	Results	Ratio to net sales	YoY	Vs forecast
Orders-received	26,430	115.0%	25,340	25,704	99.6%	-2.7%	1.4%
Net sales	22,978	100.0%	25,000	25,819	100.0%	12.4%	3.3%
Cost of sales	16,494	71.8%	18,220	18,279	70.8%	10.8%	0.3%
SG&A expenses	5,208	22.7%	5,380	5,946	23.0%	14.2%	10.5%
Operating income	1,274	5.5%	1,400	1,594	6.2%	25.1%	13.9%
Ordinary income	1,260	5.5%	1,450	1,639	6.4%	30.1%	13.0%
Profit attributable to the owners of the parent	-293	-1.3%	1,000	966	3.7%	-	-3.4%

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

Although the impact of the decline in overseas projects meant orders received decreased 2.7% YoY to ¥25,704mn, the volume of operations carried over from the previous fiscal period increased and domestic orders during the period trended steadily, so net sales were strong, increasing 12.4%. Also, the cost of sales ratio declined 1.0 percentage point compared to in the previous fiscal year to 70.8%, due to the effects of the measures to improve productivity in the Group as a whole, in addition to the effects of the higher sales. The measures to improve productivity include strengthening the production cooperation system through collaborations between companies within the Group, working to thoroughly manage the progress of projects and to shorten delivery times while maintaining the quality of services, and aiming to further improve operational efficiency by 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.

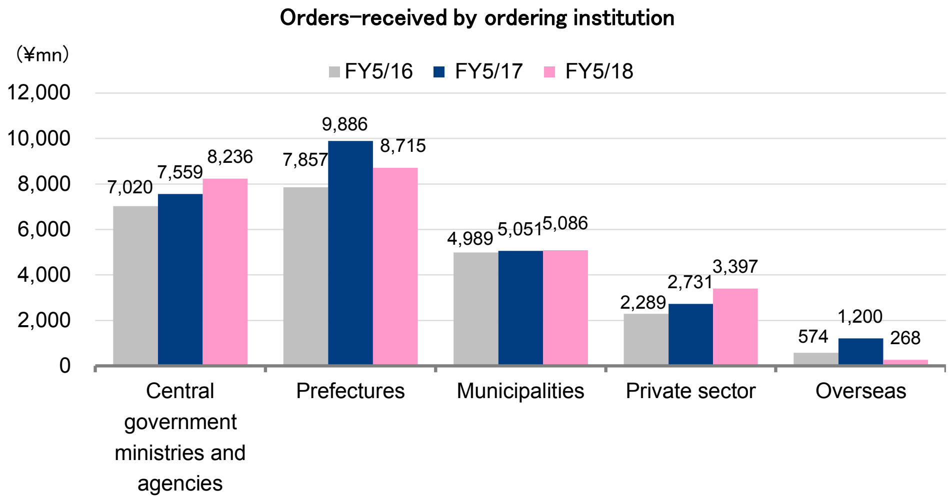
On the other hand, the SG&A expenses ratio rose from 22.7% in the previous fiscal period to 23.0%, mainly due to personnel expenses increasing ¥500mn following the progress made in actively recruiting young human resources (an increase of around 60 people in the Group). But this increase was exceeded by the effects of the improvement in the costs of sales ratio, so the operating margin rose from 5.5% in the previous fiscal year to 6.2%. Net profit attributable to the owners of the parent improved greatly following the end of the extraordinary loss recorded in the previous fiscal year, of a provision for a litigation loss of ¥1,490mn*. The fact that net profit was slightly below the Company forecast was because the income tax adjustment amount was higher than expected.

* 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 (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. In May 2017, it was ruled that EJEC must pay MPEDC compensation of ¥1,490mn. In June 2017, EJEC appealed to the Fukuoka High Court for this ruling to be overturned (MPEDC also appealed against the three construction companies to be dismissed). The case is still on trial at present.

2. Trends in the orders-received and net sales

(1) Trends in the orders-received

In FY5/18, orders-received decreased 2.7% YoY to ¥25,704mn. Looking at the breakdown by ordering institution, they increased by 9.0% to central government ministries and agencies, by 7.0% to municipalities, and by 24.4% to private-sector companies, to ¥3,397mn. However, they decreased by 11.8% to prefectures and by 77.6% to overseas. This result for prefectures was a reaction to the high level achieved in the previous fiscal period, and it is an increase compared to the level of two fiscal years ago. Conversely, it seems that the reason for the major decline from overseas was the impact of the reduction of the JICA budget. The double-digit growth for the private sector continued, mainly for expressway management companies, and its percentage of total orders rose from 6.4% in FY5/15 to 13.2% in FY5/18, and its strong performance stands out. Looking at the ordering conditions by region, as previously mentioned, orders from the Chugoku area trended steadily, up 4.7%, while they also grew for the Shikoku and Kinki areas, up 8.3% and 16.7% respectively. However, they decreased for the other regions, and within them, they declined greatly for overseas, which was the main reason for the decline in total orders. Although the order backlog decreased slightly at the end of the previous fiscal year, down 0.8% to ¥14,149mn, it continues to be maintained at a high level.



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

Looking at the ordering conditions in the five fields that the Company positions as priority fields, in total their orders decreased 13.1% YoY to ¥9,168mn, which is the first decline in 2 fiscal years, while their percentage of total orders also fell from 39.9% to 35.7%. Although orders increased by 35.8% in the urban and regional revitalization field, this was the only increase, and they decreased in each of the other four fields, of environment and energy, natural disaster risk mitigation, infrastructure management, and information and communication. Within them, they decreased 4.7% for the largest-scale field of natural disaster risk mitigation, because orders relating to the recoveries from the Great East Japan Earthquake and the Kumamoto earthquakes have peaked out.

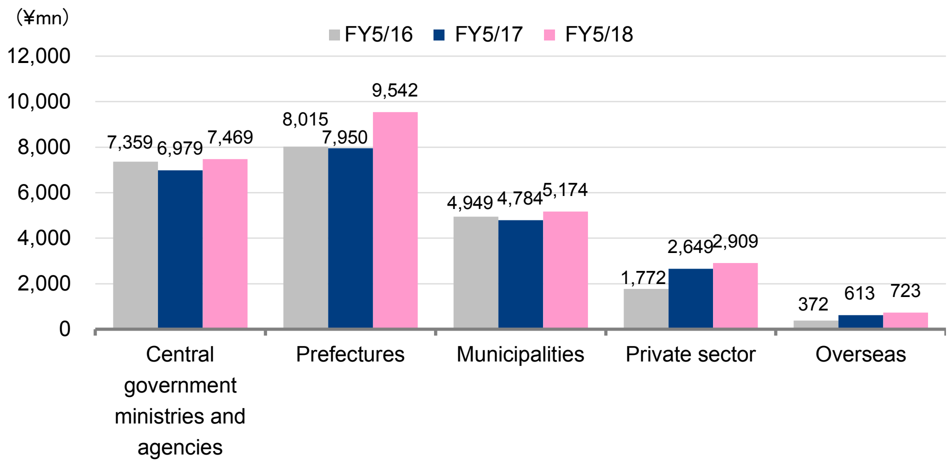
Orders for technical proposal-type projects also decreased, down 7.0% YoY to ¥8,237mn. In a situation in which the Company has many backlog orders, a factor behind this is that it is focusing on projects that are highly likely to be adopted, from the perspective of its human resources. The number of technical proposal-type projects adopted decreased 9.3% to 243, although the adoption rate increased from 20.1% in the previous fiscal year to 21.6%.

(2) Trends in net sales

Looking at net sales by ordering institution, they grew by double digits for prefectures, up 20.0% YoY, and for overseas, up 17.9%. In addition, sales increased in every category, up 7.0% for central government ministries and agencies, 8.1% for municipalities, and 9.8% for the private sector. The main reason for the higher sales for prefectures was the increase in operations carried forward from the previous fiscal period.

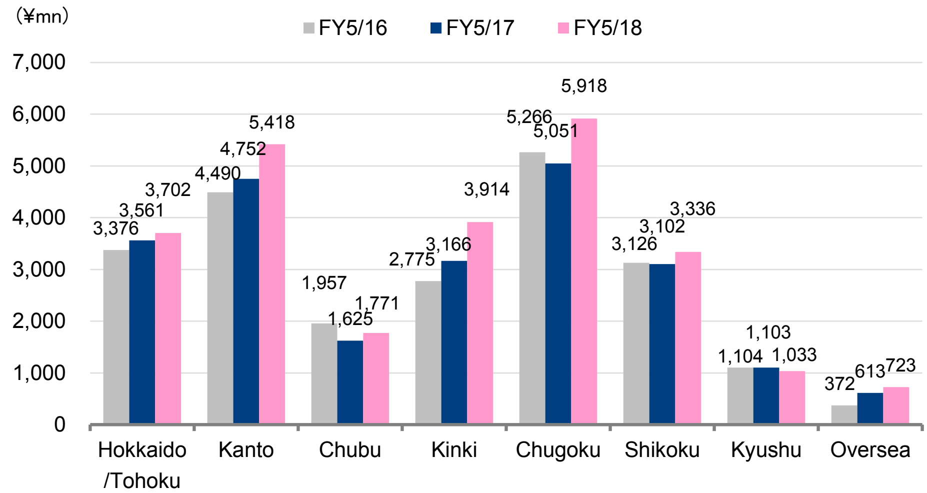
By region also, sales increased in every region, except for Kyushu, in which they fell 6.3% YoY due to the peak-out of projects related to the recovery from the Kumamoto earthquakes. Moreover, within them, there were regions that achieved double-digit growth, with sales increasing 23.6% in the Kinki area, 17.2% in the Chugoku area, and 14.0% in the Kanto area. Sales to overseas also steadily rose, up 17.9%.

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

Disposed of 1.15 million treasury shares and allocated approximately ¥1.5bn to capital investment and development funds

3. Financial position and management indicators

Looking at the Company's financial condition at the end of FY5/18, total assets were up ¥1,403mn on the end of the previous fiscal year to ¥24,860mn. The main increase and decrease factors were that in current assets, cash and deposits decreased ¥1,472mn, while accounts receivable for completed operations increased ¥413mn. In non-current assets, tangible non-current assets increased ¥1,067mn due to the construction of the new building for the Okayama head office, and the Company also recorded ¥1,498mn in long-term provisional payments for a litigation-related loss.

Total liabilities were up ¥425mn at the end of the previous fiscal year to ¥9,109mn. Alongside the construction of the new building and the increase in the allowance for bonuses, accrued payments and expenses increased ¥1,213mn, while uncompleted projects money received decreased ¥341mn and interest-bearing debt declined ¥285mn. Net assets were up ¥978mn at the end of the previous fiscal year to ¥15,751mn. Dividend payments of ¥149mn was a decrease factor, but this was covered by the recording of net profit attributable to the owners of the parent of ¥966mn and the ¥161mn increase in other accumulated comprehensive income.

Looking at the management indicators, the equity ratio, which is an indicator of management stability, increased from 63.0% at the end of the previous fiscal year to 63.4%, while the interest-bearing debt ratio decreased from 7.1% to 4.8%, and the Company's financial condition improved. Net cash (cash and deposits – interest-bearing debt) declined ¥1,187mn at the end of the previous fiscal year, because within cash and deposits, ¥1,498mn was transferred to long-term provisional payments. But when compared to the standard, it maintained its high level and it can be judged that the Company is maintaining a sound financial condition. On the other hand, looking at the indicators of profitability, each of ROA, ROE, and the operating margin rose due to the growth in results. In terms of productivity also, net sales per employee increased 4.6% YoY, and it would seem that the effects of the measures to improve productivity are being realized.

Consolidated balance sheet

(¥mn)

	FY5/15	FY5/16	FY5/17	FY5/18	YoY
Current assets	14,468	14,255	16,200	15,085	-
(Cash and deposits)	9,977	9,901	11,461	9,989	-
Non-current assets	7,533	7,095	7,256	9,775	2,518
Total assets	22,002	21,351	23,457	24,860	1,403
Total liabilities	7,295	6,163	8,684	9,109	425
(Interest-bearing debt)	650	450	1,043	758	-
Net assets	14,707	15,187	14,772	15,751	978
Management indicators					
(Stability)					
Equity ratio	66.6%	70.8%	63.0%	63.4%	0.4pt
D/E ratio	4.4%	3.0%	7.1%	4.8%	-2.3pt
Net cash	9,327	9,451	10,418	9,231	-1,187
(Profitability)					
ROA	7.5%	6.0%	5.6%	6.8%	1.2pt
ROE	10.1%	6.3%	-2.0%	6.3%	8.3pt
Operating margin	6.8%	5.6%	5.5%	6.2%	0.7pt
(Productivity)					
Net sales per employee	20.20	19.01	18.74	19.60	4.6%

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

In July 2018, the Company disposed of 1.15 million treasury shares and raised funds of approximately ¥1.5bn. It plans to allocate the funds raised mainly to the subsidiary Eight-Japan Engineering Consultants, including for investment toward improving productivity and for R&D funds; for the costs of seismic reinforcement work for the Company's own assets based on its business continuity plan (BCP); and to repay borrowing. It is aiming to improve profitability in the medium to long term and to strengthen its financial base.

Uses of funds raised

(¥mn)

Usage		Amount	Period
Improving productivity through increasing the sophistication of system usage	(IT investment)	781	August 2018-May 2021
	(Purchases of survey and inspection equipment)	110	August 2018-May 2020
R&D funds, including for disaster prevention and mitigation measures, and for surveys, inspections and countermeasures for aging infrastructure facilities		170	August 2018-May 2020
Funds for capital investment for seismic reinforcement work based on the BCP and for work to maintain functions, such as interior refurbishments		238	August 2018-May 2020
Repayment of long-term borrowing		217	August 2018-May 2022
Total		1,516	

Source: Prepared by FISCO from Company materials

Business outlook

Strengthen orders in technical proposal-type projects and order-support services to increase sales and profits for FY5/19

1. FY5/19 outlook

The outlook for the FY5/19 consolidated results is for the higher sales and profits to continue, with net sales to increase 2.6% YoY to ¥26,500mn, operating income to rise 2.3% to ¥1,630mn, ordinary income to grow 3.1% to ¥1,690mn, and net profit attributable to the owners of the parent to climb 8.6% ¥1,050mn. Without taking into consideration any special factors, such as a supplementary budget, orders-received are forecast to increase 3.5% to ¥26,600mn due to the increase in orders for technical proposal-type projects and other high value-added operations, order-support services, and overseas projects. Within this amount, the Company is aiming for orders-received from the 5 priority fields to increase 9.1% to ¥10,000mn. Earnings per share (EPS) is forecast to decrease from ¥168.45 in the previous fiscal period to ¥156.69, mainly due to the increase in the average number of shares during the period due to the disposal of treasury shares in July 2018.

FY5/19 outlook (consolidated)

(¥mn)

	FY5/18		FY5/19		
	Results	Ratio to net sales	Forecast	Ratio to net sales	YoY
Orders-received	25,704	99.6%	26,600	100.4%	3.5%
Net sales	25,819	100.0%	26,500	100.0%	2.6%
Cost of sales	18,279	70.8%	19,370	73.1%	6.0%
SG&A expenses	5,946	23.0%	5,500	20.8%	-7.5%
Operating income	1,594	6.2%	1,630	6.2%	2.3%
Ordinary income	1,639	6.4%	1,690	6.4%	3.1%
Profit attributable to the owners of the parent	966	3.7%	1,050	4.0%	8.6%
EPS (¥)	168.45		156.69		

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

Looking at the sales forecasts by ordering institution, the outlook is for the higher sales to continue to central government ministries and agencies, up 7.1% YoY, mainly to the Ministry of Land, Infrastructure, Transport and Tourism; to municipalities, up 4.4%; and to the private sector, up 6.6%. However, sales to prefectures are forecast to decline by 5.7%. This can be seen to be a reaction to the fact that in the previous fiscal period, sales increased through the recording of the portion from operations carried forward. Moreover, the outlook for overseas is for the double-digit increase in sales to continue, rising 38.3%.

Net sales by ordering institution

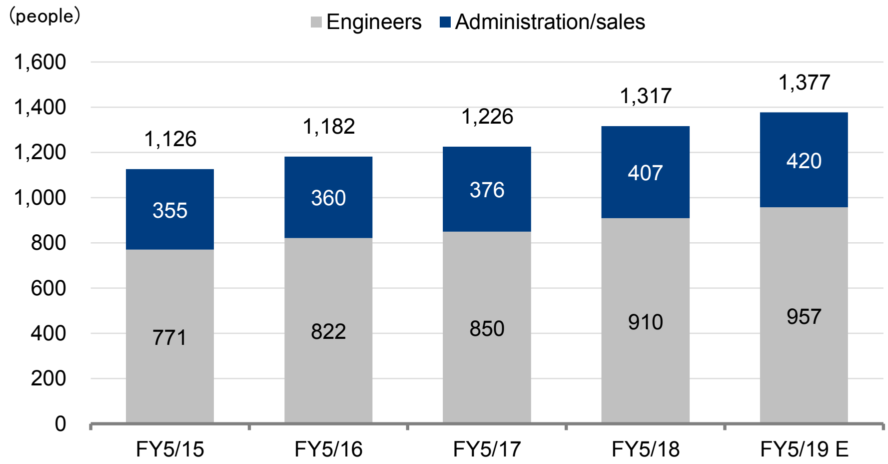
(¥mn)

	FY5/16	FY5/17	FY5/18	FY5/19	YoY
Central government ministries and agencies	7,359	6,979	7,469	8,000	7.1%
Prefectures	8,015	7,950	9,542	9,000	-5.7%
Municipalities	4,949	4,784	5,174	5,400	4.4%
Private sector	1,772	2,649	2,909	3,100	6.6%
Overseas	372	613	723	1,000	38.3%
Total	22,470	22,978	25,819	26,500	2.6%

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

The cost of sales ratio will rise from 70.8% in the previous fiscal year to 73.1%. But this will mainly be because in the previous fiscal year, the cost ratio fell more than expected due to the increase in operations carried forward and other factors, that personnel expenses will increase alongside the recruitment of personnel, and that part of the development expenses recorded in SG&A expenses has been transferred to cost of sales from FY5/19. The SG&A expenses ratio will decline from 23.0% in the previous fiscal period to 20.8% because of the transfer of development expenses to cost of sales, and also on the end of the expenses relating to the construction of the head office that were recorded in the previous fiscal year. As a result, the operating margin is forecast to remain unchanged YoY, at 6.2%. The Company plans to increase the number of consolidated employees by 60 on the end of the previous fiscal year to 1,377.

Trend in the no. of consolidated employees



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

2. FY5/19 sales policy

As its sales policy for FY5/19, 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. Each of the policy points are as follows.

(1) Increasing orders for technical proposal-type projects

Under the concept of a "Do Tank," a think tank that moves towards action on issues, the Company is demonstrating its individuality and developing nationwide its search to find projects toward solving problems that are specific to regions (such as renewable energy and PPP projects, "People, Towns, and Work Creation" projects, and management projects). In addition, for the nationwide disaster prevention response, it is focusing on advancing technological proposals with "natural disaster risk mitigation" at their core, while for measures for aging social infrastructure, such as roads and bridges, it is focusing on technological proposals with "infrastructure management" at their core. The forecast for orders-received in FY5/19 is for double-digit growth, up 26.2% YoY to ¥10,396mn, and for an adoption rate of 28.3% (compared to 21.6% in the previous fiscal period).

(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 to strengthen in those fields in which it currently has weak points.

(3) Expanding the overseas consultancy field

The Company plans to utilize its track record in the various countries of Africa and Southeast Asia to strengthen the development of a wide-area infrastructure connecting countries and for developments in the urban lifeline field and other fields. It also intends to expand the volume of operations in Southeast Asia, using its representative office in Thailand and the newly established Myanmar office as the sales bases. For overseas projects, because the majority of the grant-aided projects via JICA have low added value, going forward it intends to increase the number of directly-ordered project from collaborations with the governments of the relevant countries through forming alliances with universities and other organizations. Already in Thailand, it is collaborating with the Asian Institute of Technology to provide technical proposals in various fields, including disaster mitigation, tunnels, and waste and energy, and it is thought it plans to do the same in other countries through collaborations with universities and companies.

4th medium-term management plan

Become a leading solution group for infrastructure

1. Basic policy of the medium-term management plan

The Company is currently implementing EJ Glocal Challenge 2020, its four-year medium-term management plan that it started in FY5/18. It made a smooth start in the plan's first year, with both net sales and ordinary income exceeding their targets. In the medium-term management plan, the Company is aiming to build "a rock-solid management foundation" on which to actively advance its Group vision of being "a leading solution consultancy group for infrastructure by continuing to pursue sustainable growth and improving corporate value." Toward this, it is working on the following four basis policies.

(1) Deepen the core businesses: In the construction consultancy field in Japan, aim to create a solutions and services brand and become the leading company within the industry as a comprehensive construction consultancy by focusing on technical proposal-type projects
(2) Strengthen new businesses: Strengthen new businesses in peripheral areas and aim to develop fully fledged businesses
(3) 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 the overseas business and promoting alliances with local companies and universities
(4) 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.

Targeting net sales of not less than ¥30bn and ordinary income of not less than ¥2.1bn in FY5/21

2. Numerical management targets

The numerical management targets 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 the owners of the parent of ¥1.4bn in FY5/21. 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 business through investing in growth.

Consolidated numerical management targets

(¥mn)

	FY5/18	FY5/19 (forecast)	FY5/21 (target)	Comments
Net sales	25,819	26,500	30,000 or above	Promoting alliances
Ordinary income	1,639	1,690	2,100 or above	Profit margin, 7.0% or above
Profit attributable to the owners of the parent	966	1,050	1,400 or above	ROE, 8% or above

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

3. Business strategy

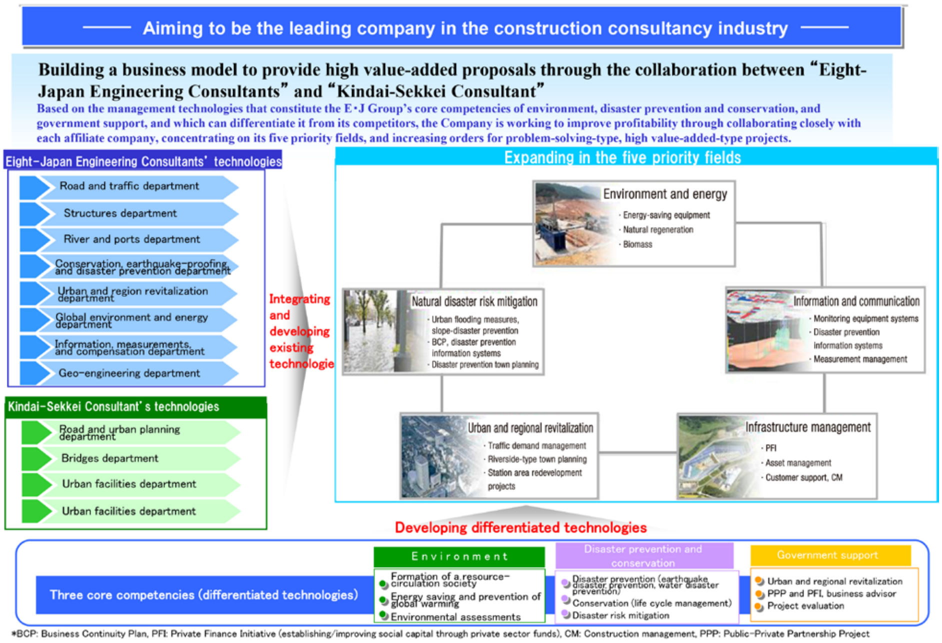
In order to achieve the targets in the medium-term management plan, the Company has divided the comprehensive construction consultancy field into four sub-fields and is pursuing strategies to expand its business in each of these fields.

(1) Domestic construction consultancy field

For the domestic construction consultancy field, on dividing the market into fields, such as roads and bridges, rivers, ports, waste disposal, and renewable energy, it can be divided into approximately 20 fields. Within these, the Company is aiming to double the fields in which it is in the top 5 for net sales, from the current 5 fields to 10 fields, and also to enter into the top 5 for total sales to all fields.

The Company's management technologies constitute its core competencies of environment, disaster prevention and conservation, and government support, which can differentiate it from its competitors. The Company is working to improve profitability by focusing on is five priority fields (environment and energy, natural disaster risk mitigation, urban and regional revitalization, infrastructure management, and information and communication), and increasing orders for problem-solving-type, high value-added projects.

Group business strategy in the construction consultancy field



Source: The Company's results briefing materials

The Company is actively utilizing the latest IT technologies and other technologies toward increasing orders for 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. Further, in the field of technologies for electricity networks that do not use utility poles, in which it has a strong track record, it has developed an underground space management system that utilizes IC tags, and this system has been registered in the Ministry of Land, Infrastructure, Transport and Tourism's New Technology Information System (NETIS). This system makes visible the positions of pipes by attaching IC tags to them at the time they are buried. It is a technology that achieves safety and lower costs, such as by reducing the number of exploratory surveys and eliminating the risk of wires being severed when conducting shallow burial installation work, and it is expected to be increasingly adopted in the future.

In the information and communications field, the Company is utilizing drones to conduct 3D measurements of disaster sites. The 3D measurements of the damage situation, such as at sites of landslide disasters caused by heavy rain, enables the damage situation to be ascertained precisely, and they are also being used for technologies to predict damage in the future. Currently, the Group as a whole owns six drones, but it plans to increase this number as demand for these services is increasing. Moreover, in FY5/18, it became the first consultancy company in Japan to introduce an unmanned submersible. This submersible is able to automatically and simultaneously acquire high-resolution data measurements (such as on position, topography, water quality, and flow conditions) and underwater images, and it makes possible the provision of optimal solutions proposals by carrying out detailed analyses of the various problems that occur underwater, such as at dams, rivers, and harbors.

(2) Overseas consultancy field

The Company plans to raise the percentage of total net sales provided by overseas sales from 3.8% in FY5/18 to 10% in FY5/21. In terms of the scale of sales, it is estimated they will expand from ¥723mn to around ¥3bn. It is actively expanding its overseas bases and pursuing alliances (including with companies in the same industry, local companies and universities, and research institutions) and aiming to grow its business in the Asia and Africa regions. In terms of fields, in addition to the road and transport, water supply, and waste and renewable energy fields, it also intends to actively develop its business in fields in which demand is expected to grow in the future, including disaster prevention (measures for earthquakes and floods), and urban planning.

(3) Infrastructure management field

The Company is aiming to increase the percentage of total net sales provided by the infrastructure management field to the 20% level by FY5/21. The level in FY5/18 was 11.3% on an orders basis, while the orders-received was ¥2,889mn, but it plans to increase sales to a scale of ¥6,000mn by FY5/21. For social infrastructure, demand is strong for anti-aging measures such as for roads and bridges, and in particular the need for bridge surveys utilizing drones is growing. Also, against the backdrop of the landslide disasters that have been frequently occurring due to the heavy rain, it is forecast that in the future, demand will increase for soundness surveys for the maintenance and management of ground anchor devices installed on the road surface. In addition, it intends to increase orders targeting not only government offices and agencies, but also for private-sector projects (including for expressway management companies) from construction management; customer support; measurements, surveys, and analysis; and rental of measurement equipment, through to facilities management.

(4) Business development field (establishing new businesses)

The Company is expanding its clean development business and advisory business as new businesses in peripheral areas. By collaborating with companies in different industries, such as trading companies, mainly for private-sector projects, it intends to develop projects for the operation and management of infrastructure-related projects and to invest in businesses, including in regional revitalization businesses toward regional creation, and thereby expand its business area.

The Company is involved via its relevant subsidiaries in pilot projects, including for regional revitalization. From 2012 onwards, as part of a series of regional revitalization projects in Okayama Prefecture, Akita Prefecture, and Tokushima Prefecture, it is conducting measures for sixth-sector industrialization in the agri-business through joint investment with local public bodies, companies, and other organizations.

Enjoy Farm Co. Ltd. in Okayama Prefecture concluded the designated management operations 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 it has newly entered into a contract for another 5 years. The facility has been profitable since the third year of the designated management, and in May 2018, the upgraded facility was re-opened, including with a newly established refreshments corner and a larger strawberry greenhouse, and visitor numbers are increasing.

Strawberry Farm Co., Ltd. in Akita Prefecture is working on the sixth-sector industrialization of summer strawberry agriculture. Summer 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 cultivates the rare Natsu Akari (summer light) strawberry variety and has become able to harvest it stably, and it has therefore begun to sell it on the Internet in 2017. The farm is planning to double the number of greenhouse installations in 2018 in order to meet increased demand. If it can build a profit model, the Company plans to sell its shares in a local company and will subsequently only manage this facility. Also, it will continue to conduct joint research with a national research institute up to 2018, and if a mass production model can be built, it plans to transition this model to the business and area expansion phase.

Nakawood 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 sells 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” and other structures. Currently, the price and quality requirements from home-builder customers are severe, so it is also selling it for niche applications, such as cat litter and for the wooden tables and wooden decks of public facilities. In the future, it intends to continue to collaborate with government agencies and related business groups and to work to promote the sixth-sector industrialization of the forestry industry.

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 In the future, it will develop multiple businesses, 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, and it is aiming for the sixth-sector industrialization of this industry through cooperation with local businesses.

Source: Prepared by FISCO from the Company materials

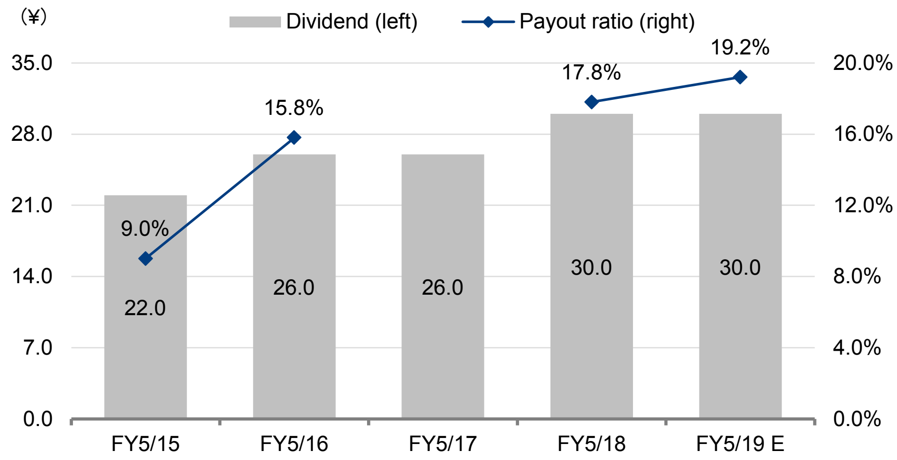
Shareholder return policy

Secure a dividend of ¥30.0 per share for FY5/19 and enhance the shareholder benefits program

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 FY5/19, it plans to pay a dividend per share of ¥30.0, the same as in the previous fiscal year (dividend payout ratio, 19.2%). But as the FY5/18 dividend included a commemorative dividend of ¥4.0, it will be higher on an ordinary-dividend basis.

Further, in 2017 the Company introduced a shareholder benefits program, and then in August 2018, it changed a part of the content of the program. Each year at the end of November, shareholders are given a QUO card according to the number of shares that they hold, and the Company changed the program to increase the value of the QUO card it gives them. Specifically, it raised the value of the card from the previous ¥500 to ¥1,000 for shareholders holding 100 or more but less than 1,000 shares, from ¥1,000 to ¥3,000 for shareholders holding 1,000 or more but less than 5,000 shares, and from ¥2,000 to ¥5,000 for shareholders holding 5,000 shares or more.

Dividend per share and payout ratio



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

Details of the shareholder benefits program

No. of shares held	Shareholder benefit	
	Before the change	After the change
100 or more to less than 1,000 shares	QUO card worth ¥500	QUO card worth ¥1,000
1,000 or more to less than 5,000 shares	QUO card worth ¥1,000	QUO card worth ¥3,000
5,000 shares or more	QUO card worth ¥2,000	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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