COMPANY RESEARCH AND ANALYSIS REPORT

E·J Holdings Inc.

2153

Tokyo Stock Exchange Second Section

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FISCO Ltd. Analyst
Yuzuru Sato

FISCO Ltd.
http://www.fisco.co.jp

Index

Summary

Forecasts are for higher sales and profits in FY5/18 against the backdrop of the strong demand for construction consultants

E·J Holdings Inc. <2153> (hereafter, also “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.

1. Although results were below forecasts in FY5/17 due to the extension of design periods

In the FY5/17 consolidated results, net sales increased 2.3% year on year (YoY) to ¥22,978mn, but ordinary income decreased 2.6% to ¥1,260mn. Due to the impact of the extension of design periods, particularly for large-scale projects, these results were below the initial forecasts (net sales of ¥24,200mn and ordinary income of ¥1,550mn), but orders-received trended strongly, increasing 16.3% YoY, and it also rose 9.2% compared to the forecast to ¥26,430mn, because of the implementation of a supplementary budget and the acquisition of orders for technology proposal-type projects. As the result of posting a provision for a litigation loss of ¥1,490mn as an extraordinary loss, the Company recorded a net loss attributable to the owners of the parent of ¥293mn (compared to net income of ¥943mn in the previous fiscal year).

2. Forecast of higher sales and profits in FY5/18

The forecasts for FY5/18 are for higher sales and profits, with net sales to increase 8.8% YoY to ¥25,000mn and ordinary income to rise 15.1% to ¥1,450mn. Results are expected to improve thanks to strong demand, particularly in the fields of social infrastructure management, such as for highways, and natural disaster risk mitigation. Orders are forecast to decline 4.1% to ¥25,340mn, as it does not incorporate the effects of a supplementary budget and other factors.

3. Announcement of medium-term management plan

The Company has announced its medium-term management plan, with FY5/21 as the plan’s final year. It is further expanding its business in its mainstay domestic construction consultancy field. In addition, it is working to expand its infrastructure management and overseas consultancy fields, as well as the regional revitalization businesses, and is pursuing business alliances toward this. Based on these efforts, it is targeting consolidated net sales of ¥30,000mn, ordinary income of ¥2,100mn, and ROE of 8% or above in FY5/21.

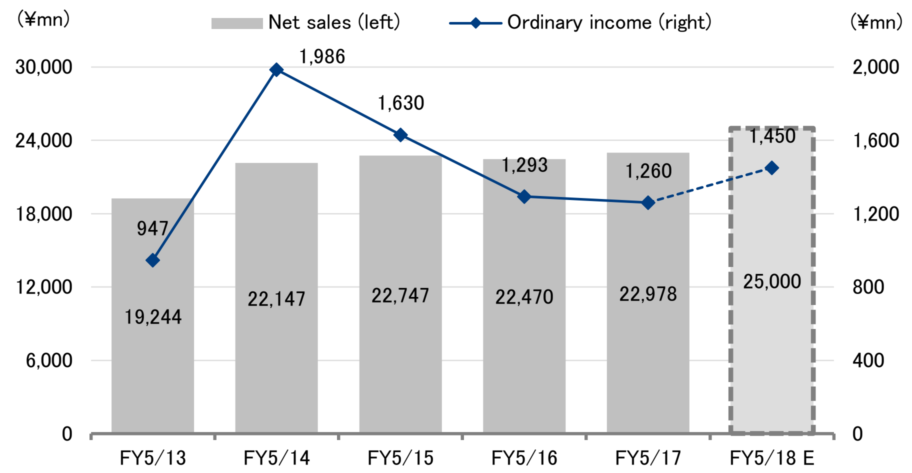
4. Continuation of stable pay dividends according to the profit level

The Company's basic policy for returning profits to shareholders is to stably pay dividends while considering results trends, the dividend payout ratio, and the ratio of dividends to shareholders' equity. For FY5/18, the Company plans to pay a dividend per share of ¥30.0, up ¥4.0 YoY (for a dividend payout ratio of 17.2%). It actively conducts IR activities, including the timely disclosure of information for the formation of an appropriate share price, meetings for institutional investors, and company briefings for individual investors. It is also considering providing a shareholder benefits program in the future.

Key Points

- Its strength is its 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
- Forecasting higher sales and profits in FY5/18, to be driven by the infrastructure management and natural disaster risk mitigation fields
- For FY5/21, it is targeting net sales of more than ¥30,000mn and ordinary income of more than ¥2,100mn

Result trends



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

Company profile

Established from the management integration 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. 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. This brings the Company's history up to the present day.

The origins of EJ are the initials of both companies, and it includes the meaning that the Company will respond to all requests, from the Earth (E) to every corner of Japan (J).

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.

Source: Prepared by FISCO from Company materials

Its strength is its 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

2. Business overview

The Company 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.

Within this work, Eight-Japan Engineering Consultants provides construction consultancy services, including for planning, design, diagnosis, and management, and it also provides overseas consultancy services. Japan Infrastructure Management conducts surveying, construction management, and measurement equipment rental sales businesses, while Kindai-Sekkei Consultant provides construction consultancy services for roads and urban structures. In addition, the subsidiaries of Eight-Japan Engineering Consultants, KYOURITSU ENGINEER CO., LTD. and Kyoritsu Kouei Co., Ltd., mainly 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.

Overview of the Company Group

E·J Holdings Inc.

Eight-Japan Engineering Consultants Inc.

Founded: March 1955

Head office: Okayama City, Okayama Prefecture

No. of employees: 866

Business description: Comprehensive construction consultancy services

Subsidiaries: KYOURITSU ENGINEER Co., LTD., Kyoritsu Kouei Co., Ltd., Toshi Kaihatsu Sekkei Corporation

Japan Infrastructure Management Co., Ltd.

Founded: July 1980

Head office: Okayama City, Okayama Prefecture

No. of employees: 70

Business description: Measurements, surveys, and analysis; equipment rental; construction management and temporary staffing; PM/CM; facilities maintenance and operations managements; construction consultancy services, etc.

Kindai-Sekkei Consultant, Inc.

Founded: January 1969

Head office: Chiyoda Ward, Tokyo

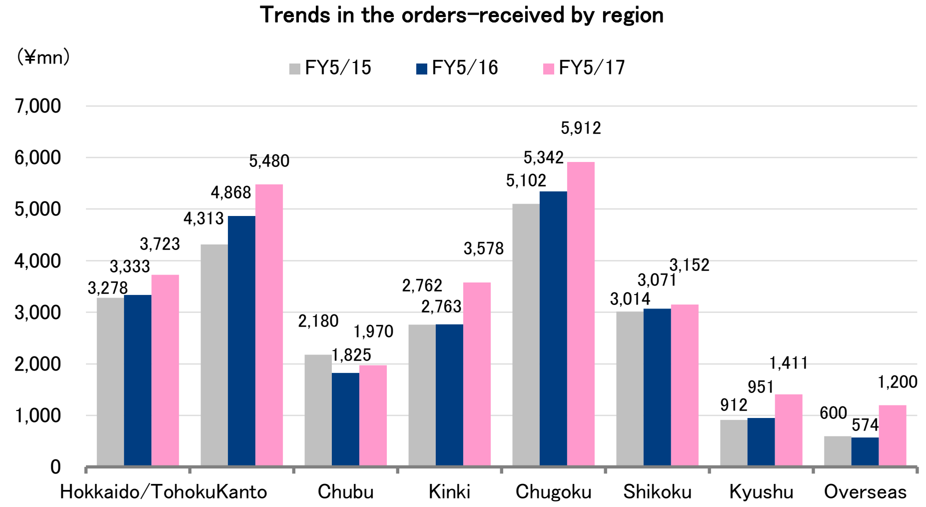
No. of employees: 183

Business description: Comprehensive construction consultancy services

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. Therefore, around 30% of net sales are 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 FY5/17, this region provided 22.4% of the total orders-received balance, followed by the Kanto area at 20.7%, and the Hokkaido and Tohoku area at 14.1%, and the Company receives orders from all over the country. In addition, overseas, it has acquired orders from projects through the Japan International Cooperation Agency (JICA) in the Africa and Asia regions, which constitute 4.5% of the orders-received balance.

Annually, it receives around 2,500 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. On 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.



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

3. Corporate philosophy

The Company 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 mission is "aiming to be Japan's leading infrastructure solutions consultancy group 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

Although results were below the initial forecasts in FY5/17 due to the extensions of the design periods for some large-scale projects, sales increased for the first time in 2 periods and operating income rose for the first time in 3 periods

1. Overview of the FY5/17 results

In the FY5/17 consolidated results, net sales increased 2.3% YoY to ¥22,978mn, operating income rose 2.0% to ¥1,274mn, ordinary income decreased 2.6% to ¥1,260mn, and the net loss attributable to the owners of the parent was ¥293mn (compared to net income of ¥943mn in the previous fiscal year). The orders-received increased 16.3% YoY to ¥26,430mn, and it also rose 9.2% compared to the initial forecast due to the rise in the value of orders from public investment following the recording of a supplementary budget, and from the acquisition of orders for proposal-type sales to create projects. On the other hand, net sales were down 5.0% compared to the forecast due to the extensions of the design periods of several large-scale projects (on a scale of ¥30mn to ¥100mn), which resulted in the period in which they were recorded as sales being pushed back to the following period. However, sales increased for the first time in two periods.

Despite increases in personnel expenses of around ¥100mn, and in SG&A expenses of approximately ¥200mn, operating income rose for the first time in 3 periods, up 2.0%, thanks to improvements in production efficiency in the Group as a whole and the thorough management of the progress of projects. However, in non-operating income, there were recordings of ¥26mn as a provision for doubtful accounts for loans to a subsidiary*1, and of ¥28mn as a provision for a loss on guarantees, and as a result, ordinary income fell for the third consecutive period, down 2.6%. In addition, the Company recorded a net loss attributable to the owners of the parent following the posting of an extraordinary loss of ¥1,490mn as a provision for a litigation loss*2.

*1 Loans and guarantees for Nakawood Co., Ltd. (a non-consolidated subsidiary)

*2 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 from Miyazaki Prefecture Environment Development Corporation (hereafter, MPEDC) in 1999 to 2002 to Eight-Japan Engineering Consultants (hereafter, EJEC), a subsidiary of The Company. In 2010, MPEDC demanded the payment of compensation of 1) ¥1,204mn from EJEC and three construction companies for damages following the completion of the facility, and 2) ¥705mn from EJEC for the deficiency in the chloride treatment capacity. In May 2017, it was ruled that EJEC must pay MPEDC compensation of ¥1,102mn and also an interest payment from the delay in this project. 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).

Business performance for FY5/17 (consolidated)

(¥mn)

	FY5/16		FY5/17				
	Results	Ratio to net sales	Forecast	Results	Ratio to net sales	YoY	Vs forecast
Orders-received	22,731	101.2%	24,200	26,430	115.0%	16.3%	9.2%
Net sales	22,470	100.0%	24,200	22,978	100.0%	2.3%	-5.0%
Cost of sales	16,222	72.2%	-	16,494	71.8%	1.7%	-
SG&A expenses	4,997	22.2%	-	5,208	22.7%	4.2%	-
Operating income	1,250	5.6%	1,500	1,274	5.5%	2.0%	-15.1%
Ordinary income	1,293	5.8%	1,550	1,260	5.5%	-2.6%	-18.7%
Profit attributable to the owners of the parent	943	4.2%	1,000	-293	-1.3%	-	-

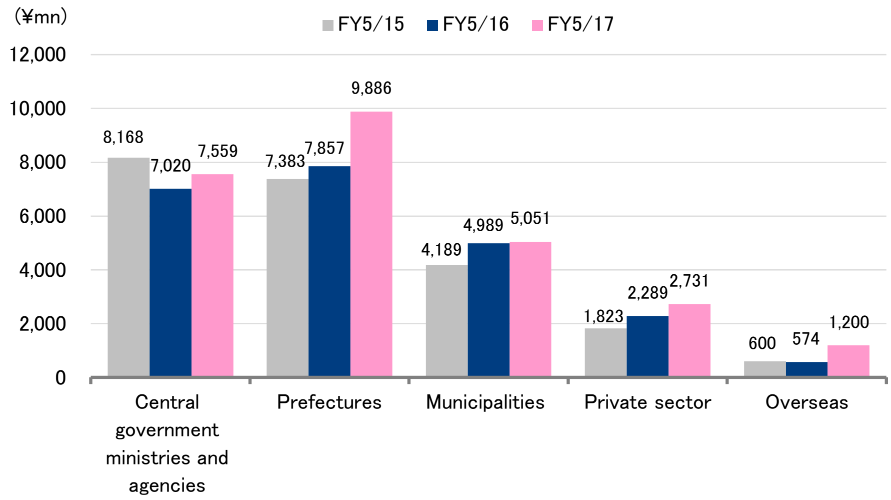
Source: Prepared by FISCO from the Company's financial results

2. Trends in the orders-received and net sales

(1) Trends in the orders-received

Looking at the breakdown in the orders-received by ordering institution, orders from prefectures increased greatly, up 25.8% YoY to ¥9,886mn, while orders also trended steadily to central government ministries and agencies and to municipalities, up 7.7% and 1.2% respectively. In addition, orders were strong from the private sector, up 19.3%, and to overseas, up 109.1%. The main factor behind the increase for the private sector was orders for construction management projects for expressway management companies, including NEXCO Central (Central Nippon Expressway Company Limited). In addition, overseas, there was an increase in orders via JICA, including a tunnel construction project in Myanmar and a waste disposal facility construction projection in Thailand.

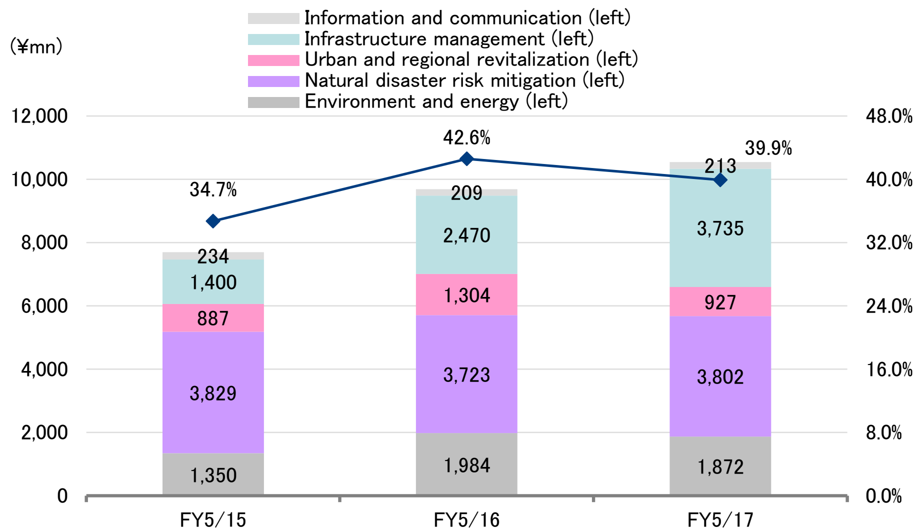
Orders–received by ordering institution



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

Looking by region also, orders increased for all regions, which would seem to be from the effects of measures for sales of proposal type projects that are tailored to each region. Among the regions, high growth was shown by Kinki, up 29.5% YoY and Kyushu, up 48.4%. In the 5 fields that the Company has positioned as its priority fields, orders increased 8.9% YoY to ¥10,549mn, which constituted 39.9% of the overall total. By field, orders increased greatly for the infrastructure management field, up 51.2%. This was mainly from orders for construction management and repair and design work for expressways, national roads, and other roads; seismic surveys and design work for river structures; and the formulation of plans and operations to prolong the lifespans of port facilities. In addition, orders trended firmly in the natural disaster risk mitigation field, up 2.1%, mainly from projects related to the recovery from the Kumamoto earthquakes.

Trends in orders in the five priority fields

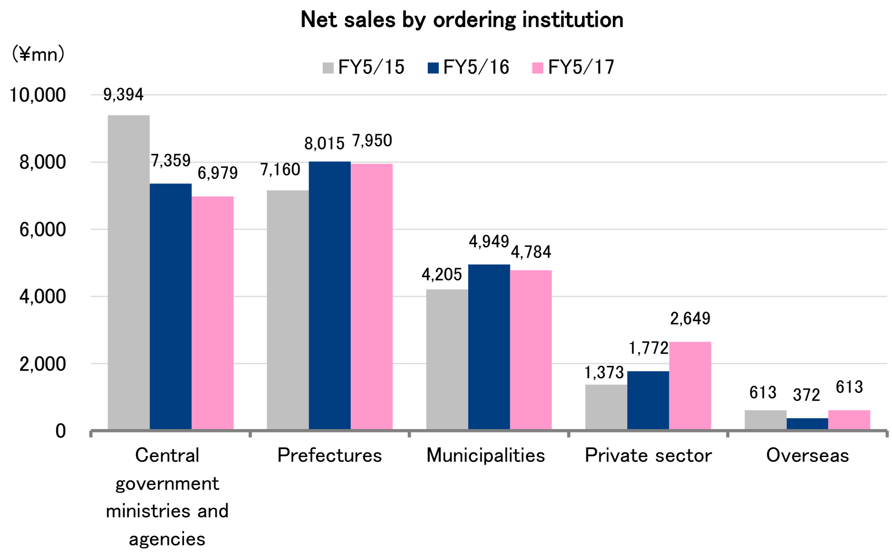


Source: Prepared by FISCO from Company materials

(2) Trends in net sales

Looking at the breakdown by the institution making orders, net sales increased by double digits for the private sector, up 49.5% YoY, and for overseas, up 64.8%. In contrast, they declined 5.2% for central government ministries and agencies, 0.8% for prefectures, and 3.3% for municipalities, meaning net sales fell for all types of government offices and agencies. This would seem to be due to the previously mentioned delays in the recordings of sales due to the extensions of design periods.

Looking by region, net sales increased in Kinki, up 14.1% YoY; Hokkaido and Tohoku, up 5.5%; Kanto, up 5.8%; and overseas, up 64.7%, while they decreased in other regions. Particularly in Hokkaido and Tohoku and Kanto, sales continued to trend positively, mainly due to projects for earthquake recovery, natural disaster risk mitigation, and infrastructure management. Also, although net sales overseas declined in FY5/16 due to the increase in political instability, since then they have recovered to the level of two years ago, as the political risk has subsided.



Source: Prepared by FISCO from Company materials

Despite recording a loss, financial soundness is being maintained

3. Financial position and management indicators

Looking at the Company's financial condition at the end of FY5/17, total assets were up ¥2,106mn on the end of the previous fiscal year to ¥23,457mn. The main increase and decrease factors were that in current assets, cash and deposits rose ¥1,560mn and uncompleted projects expenditure climbed ¥431mn. In non-current assets, goodwill decreased ¥99mn and deferred tax assets increased ¥315mn.

Total liabilities were up ¥2,521mn on the end of the previous fiscal year to ¥8,684mn. In addition to the recording of ¥1,490mn as a provision for a litigation loss, interest-bearing debt increased ¥593mn and uncompleted-projects money received rose ¥435mn. Net assets were down ¥415mn on the end of the previous fiscal year to ¥14,772mn, mainly because of the recording of a net loss attributable to the owners of the parent of ¥293mn and dividends of surplus of ¥149mn.

Looking at the management indicators, the equity ratio, which is an indicator of management stability, declined from 70.8% at the end of the previous fiscal year to 63.0%. This was primarily due to the recording of a provision for a litigation loss and the increase in interest-bearing debt. However, net cash (cash and deposits minus interest-bearing debt) continued to increase, up ¥967mn from the end of the previous fiscal year to ¥10,418mn, and we judge that the Company is maintaining the soundness of its financial structure. Meanwhile, looking at the indicators of profitability, each of the indicators of ROA, ROE, and the operating margin declined for the third consecutive fiscal year due to the effects of the delays in recording net sales and the posting of a provision for a litigation loss. In the last few years, the Company has been actively recruiting human resources toward growth in the future, and employee numbers have been increasing at a pace of 4% to 5% a year, which would seem to be the reason why net sales per employee are decreasing, if only slightly. Therefore, we can see that the key to improving profitability in the future will be acquiring more orders for high value-added, technology proposal-type projects, and improving productivity through collaborations between Group companies, utilizing IT, and sharing information.

Consolidated balance sheet

(¥mn)

	FY5/14	FY5/15	FY5/16	FY5/17	YoY
Current assets	14,205	14,468	14,255	16,200	1,944
(Cash and deposits)	10,341	9,977	9,901	11,461	1,559
Non-current assets	7,459	7,533	7,095	7,256	161
Total assets	21,664	22,002	21,351	23,457	2,106
Total liabilities	8,591	7,295	6,163	8,684	2,521
(Interest-bearing debt)	1,472	650	450	1,043	593
Net assets	13,072	14,707	15,187	14,772	-415
Management indicators					
(Stability)					
Equity ratio	60.1%	66.6%	70.8%	63.0%	-7.9pt
D/E ratio	11.3%	4.4%	3.0%	7.1%	4.1pt
Net cash (¥mn)	8,869	9,327	9,451	10,418	967
(Profitability)					
ROA	9.8%	7.5%	6.0%	5.6%	-0.3pt
ROE	14.1%	10.1%	6.3%	-2.0%	-8.3pt
Operating margin	8.8%	6.8%	5.6%	5.5%	-0.0pt
(Productivity)					
Net sales per employee (¥mn)	20.60	20.20	19.01	18.74	-1.4%

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

Business outlook

Forecasts for FY5/18 are for higher sales and profits, driven by the infrastructure management and natural disaster risk mitigation fields

1. FY5/18 outlook

For FY5/18, the Company forecasts higher sales and profits on a consolidated basis, with net sales of ¥25,000mn (up 8.8% YoY), operating income of ¥1,400mn (up 9.8%), ordinary income of ¥1,450mn (up 15.1%), and profit attributable to the owners of the parent of ¥1,000mn (compared to loss attributable to the owners of the parent of ¥293mn in FY5/17).

Net sales are expected to increase, mainly from demand from the public sector against the backdrop of an abundant backlog of orders. By ordering institution, sales are set to increase 13.9% YoY for central government ministries and agencies, mainly for the Ministry of Land, Infrastructure, Transport and Tourism, and 15.7% for prefectures. In addition, the double-digit growth from overseas is expected to continue, with sales rising 30.3%. Conversely, the forecasts are for decreased sales for municipalities, down 7.0%, and a slight decrease for the private sector, down 1.9%. By region, the forecasts are for double-digit sales growth in Kanto, up 20.4%, in Chubu, up 27.3%, in Chugoku, up 19.4%, and in Kyushu, up 15.1%. However, they are expected to decline 18.3% in Hokkaido and Tohoku, as the peak of earthquake recovery-related projects has now passed. The forecast for the orders-received is ¥25,340mn, down 4.1%, as it does not take into consideration the supplementary budget. The Company intends to increase orders for high value-added, technology proposal-type projects, and also to expand order-support services and orders for overseas projects.

FY5/18 outlook (consolidated)

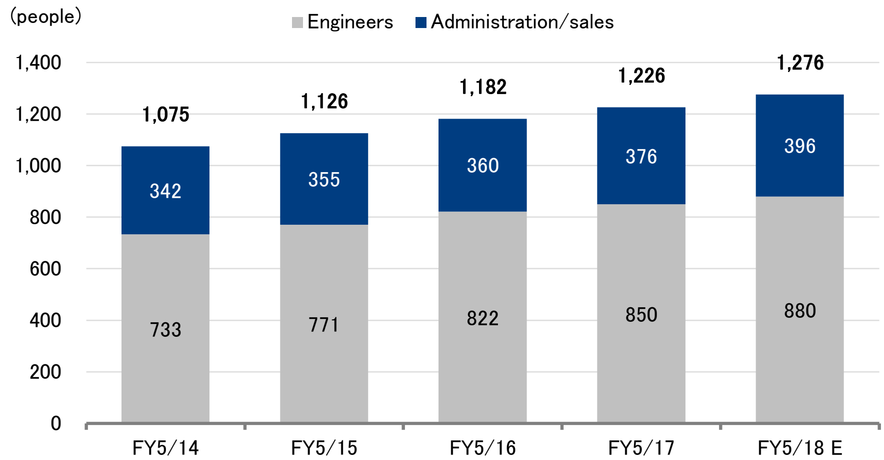
(¥mn)

	FY5/17		FY5/18		
	Results	Ratio to net sales	Forecast	Ratio to net sales	YoY
Orders-received	26,430	115.0%	25,340	101.4%	-4.1%
Net sales	22,978	100.0%	25,000	100.0%	8.8%
Cost of sales	16,494	71.8%	18,220	72.9%	10.5%
SG&A expenses	5,208	22.7%	5,380	21.5%	3.3%
Operating income	1,274	5.5%	1,400	5.6%	9.8%
Ordinary income	1,260	5.5%	1,450	5.8%	15.1%
Profit attributable to the owners of the parent	-293	-1.3%	1,000	4.0%	-

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

In terms of profits, the Company is forecasting that the costs of sales ratio will rise by 1.1 percentage points YoY, but this is due to conservative estimates of labor expenses and outsourcing expenses. While outsourcing expenses will increase alongside the expansion in the volume of operations, it considers that securing subcontractors has become somewhat more difficult than in the past. However, at FISCO we think that if the Company continues its efforts from the previous fiscal year to improve operational efficiency and productivity and net sales achieve their forecast, then it is possible that profits will exceed their targets. On a consolidated basis, employee numbers are set to increase by 50 on the end of the previous fiscal year to 1,276 employees.

Trend in the no. of consolidated employees



Source: Prepared by FISCO from Company materials

2. FY5/18 sales policy

As its sales policy for FY5/18, it is thought that the Company is particularly focusing on the following three points; increasing orders for technology proposal-type projects, strengthening Group collaborations, and expanding the overseas consultancy services field.

(1) Increasing orders for technology proposal-type projects

In the form of Do Tank, 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). It is also focusing on progressing technology proposals centered on natural disaster risk mitigation for damage caused by natural disasters like earthquakes and torrential rain, and also on infrastructure management for measures for aging social infrastructure, like roads and bridges.

(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 as the sales base. 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 technological 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.

Medium-term management plan

Aiming to be Japan's leading infrastructure solutions group

1. Basic policy of the medium-term management plan

The Company has announced "EJ Glocal Challenge 2020"as its 4-year medium-term management plan that will start from FY5/18. It is aiming to establish its Group vision of aiming to be "Japan's leading infrastructure solutions consultancy group by continuing to pursue sustainable growth and improving corporate value." Toward this, it has set the following four basic policies.

First, it will consolidate the comprehensive strength of the Group to establish a firm position in the domestic construction consultancy field, which is its mainstay business. Second, in order to build a solid foundation in this field, it will aim to create new business fields that can respond to changes in the social environment and meet new needs. This means that it will develop its business not just for public-sector demand as in the past, but for the private sector also. The third policy is the pursuit of global development, and the fourth is working to promote the establishment and improvement of a management infrastructure that adapts to changes in the environment.

Basic policy of the medium-term management plan

Aiming to establish an appealing, intellectual value creation-type corporate group with the following four as the basic policies.

① **Deepening the mainstay business and creating brands**
Consolidating the comprehensive power of the Group and firmly establishing a position in the domestic construction consultancy field

② **Creating new business fields**
Aiming to create new business fields that can respond to changes in the social environment and meet new needs

③ **Pursuing global development**
Evolving as a professional company that contributes to the world

④ **Promoting the establishment and improvement of a management structure that adapts to changes in the environment**
Transitioning to a high value added-type structure by promoting process innovation and product innovation.

Aiming to be Japan's leading infrastructure solutions consultancy group by continuing to pursue sustainable growth and improving corporate value.

Source: The Company's results briefing materials

Targeting net sales of more than ¥30,000mn and ordinary income of more than ¥2,100mn in FY5/21

2. Numerical management targets and business strategy

(1) Numerical management targets

The numerical management targets in the medium-term management plan are consolidated net sales of more than ¥30,000mn, ordinary income of more than ¥2,100mn, 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)

	FY5/17	FY5/18 (forecast)	FY5/21 (target)	Comments
Net sales	22,978	25,000	30,000 or above	Promoting alliances
Ordinary income	1,260	1,450	2,100 or above	Profit margin, 7.0% or above
Profit attributable to the owners of the parent	-293	1,000	1,400 or above	ROE, 8% or above

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

(2) Business strategy

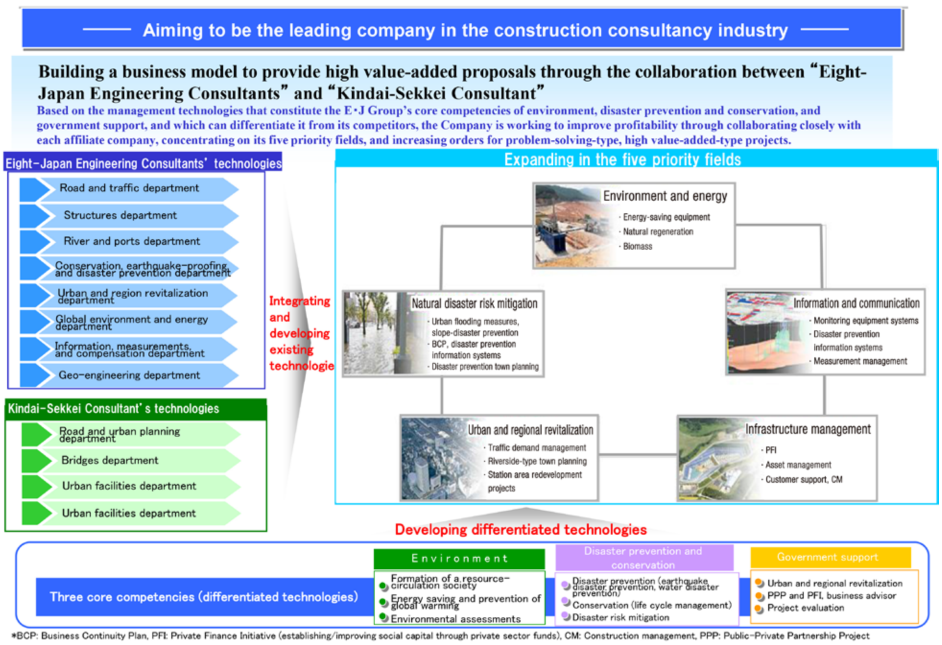
In order to achieve the targets in the medium-term management plan, the Company has divided the comprehensive construction consultancy field into four sub-fields and is pursuing strategies to expand its business in each of these fields.

a) 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.

It would seem that the Company is aiming to achieve its targets by deepening its technological capabilities through improving its marketing capabilities and strengthening Group collaborations; promoting one-stop solutions, from the planning and concept stage through to construction management; improving customer evaluations and reliability; and also overcoming issues in fields in which it is has weak points. 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 high value-added, technology proposal-type 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 technology proposal-type projects. Specifically, in the natural disaster risk mitigation field, it is constructing systems that utilize AR (augmented reality) and VR (virtual reality) to enable three dimensions to be experienced for damage simulations, such as when a tsunami occurs. Also, in the overall design and information and communication fields, it is actively utilizing CIM technologies* to save labor and to improve quality.

* CIM (Construction Information Modeling/Management): Measures that aim to improve the efficiency of the entire production system by sharing between the relevant parties the information needed at every level, from construction project surveys and design, through to construction, and maintenance management (including 3D data information on terrain and other features).

b) Overseas consultancy field

The Company plans to raise the percentage of total net sales provided by overseas sales from 2.7% in FY5/17 to 10% in FY5/21. In terms of the scale of sales, it is estimated they will expand from ¥613mn 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, while the Company's business will remain centered on the many fields in which it has a track record of results in the past, including 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.

c) 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 FY5/17 was 14.1% on an orders basis, while the orders-received was ¥3,735mn, but it plans to increase sales to a scale of ¥6,000mn by FY5/21. In the social infrastructure field, demand is strong for measures for aging infrastructure, such as roads and bridges, and it is aiming to expand orders for operations and maintenance management. 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.

d) Business development field (establishing new businesses)

Through its measures for advanced technologies, as a group of practical companies, the Company Group is deepening the functions of Do Tank and following a path toward a new business model for businesses peripheral to its existing businesses (including the utilization of ICT, CM, PPP/PFI*, maintenance, management and administrative services) and for new businesses (such as agri-business, and the tourism business).

* PPP/PFI: Schemes to provide public services through collaborations between the public and private sectors are called PPP (Public-Private Partnership). PFI (Private Finance Initiative) is one method for this, in which private sector funds and expertise are used for the designs, maintenance management and operations for public works projects and construction, with the aim of the provision of public services being led by the private sector.

The Company has itself invested and 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.

Enjoyfarm Co. Ltd. in Okayama Prefecture operates the "Suisha no Sato Fruitopia" facility for visitors to experience fruit cultivation and agricultural work in its gardens. It also manufactures processed foods, like jams from the strawberries and pears it harvests. Also, 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. Its sales unit price is around two to three times higher than the price of normal seasonal strawberries, but despite this, demand for their commercial use is high, and it is looking into expanding its vinyl-house facilities in the future. If it can build a profit model, the Company plans to sell its shares in the 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 April 2017, it established the Naka Town Forestry Business Center in the Shin-rinsangyo Industrial Park, which is the base for forestry promotion established by Naka Town, Tokushima Prefecture. From this Center, it is actively gathering, accumulating, and communicating information on timber from inside and outside of the town. In the future also, 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 Company materials

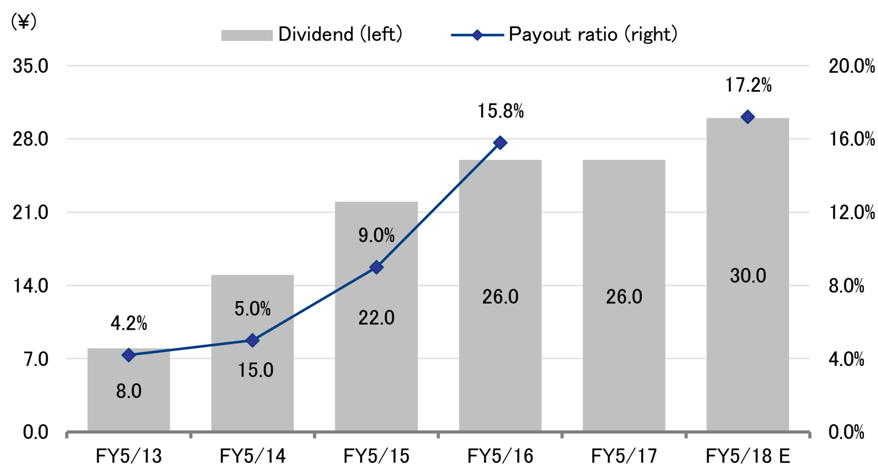
Shareholder return policy

In FY5/18, plans to increase the dividend by ¥4.0 YoY to ¥30.0

The Company pays dividends in order to return profits to shareholders and 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 FY5/18, the Company plans to increase the dividend per share ¥4.0 YoY to ¥30.0 (for a dividend payout ratio of 17.2%). Based on the latest share price (closing price on Aug. 3 of ¥1,090), the dividend yield will be at the level of slightly less than 3%. It is also actively conducting IR activities for the formation of an appropriate share price, such as the timely disclosure of information, meetings for institutional investors, and company briefings for individual investors. However, on looking at the PBR level, the same as in the past it is 0.4 times, which is below the liquidation value, while the market capitalization is also a little under ¥8bn, which is below net cash (¥10,418mn). The Company intends to be listed on the Tokyo Stock Exchange First Section in the future, but the current situation is that the number of unit shareholders is around 1,600 people, which is lower than the 2,200 people that is a criterion to be listed on the First Section. Therefore, it would seem that an issue it will have to address in the future is implementing measures to increase the number of shareholders. Measures to increase shareholder numbers are considered to include introducing a shareholder benefits program and conducting a share split, while another option would be to sell treasury shares, as it currently holds 20.9% of its outstanding shares. It is also expected to utilize the treasury shares it holds for M&A.

Dividend per share and payout ratio



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

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