COMPANY RESEARCH AND ANALYSIS REPORT

E·J Holdings Inc

2153

Tokyo Stock Exchange First Section

12-Oct.-2021

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Summary

Demand for construction consulting continues to be strong, centered on the natural disaster risk mitigation and infrastructure management fields

E·J Holdings Inc. <2153> (hereinafter referred to as "the Company") is a major, comprehensive construction consultant whose strength is that it is able to provide services in every process for public work, etc. from planning and development through to plan formulation, surveys and design, construction management, and operations and maintenance management, with its subsidiary Eight-Japan Engineering Consultants Inc. as the core company. Orders-received to central and local government offices and agencies account for 80 to 90% of its total sales, and overseas, it has a track record of projects in Africa and Southeast Asia, etc. The Company is also involved in the planning and management of regional revitalization projects. In the new market classifications to be introduced by the Tokyo Stock Exchange (TSE) from April 2022, it is scheduled to be selected in the Prime Market.

1. FY5/21 results overview

In the FY5/21 consolidated results, sales and profits increased by double digits, with net sales rising 13.0% year-on-year (YoY) to ¥34,334mn and operating income growing 29.2% to ¥3,857mn. So sales and profits both increased significantly and once again set new record highs. The strong results were because, even in a situation of the ongoing novel coronavirus pandemic (hereafter, COVID-19), public works-related costs for disaster prevention and mitigation and national resilience continue to trend at high levels, so orders-received steadily grew, centered on the 5 priority business fields*. The cost ratio also improved, including due to the reduction in time loss due to the homogenization of work and the restrictions on movement, and the operating margin rose to 11.2% (9.8% in the previous period), exceeding 10% for the first time. Orders-received increased 4.0% to ¥36,902mn and were higher than the initial forecast (¥33,000mn), including because in December 2020, a 15-month supplementary budget was formed that included FY2021. The order backlog at the end of the period had also grown greatly, increasing 12.3% YoY to ¥27,396mn.

* The five fields that the Company is working on as a priority are the environment and energy, natural disaster risk mitigation, urban and regional revitalization, infrastructure management, and information and communications.

2. Outlook for FY5/22

The outlook for the FY5/22 results is that net sales will increase 1.9% YoY to ¥35,000mn and operating income will rise 1.1% to ¥3,900mn. Based on the FY2021 public works-related budget, orders-received are forecast to decrease 5.2% to ¥35,000mn. But the outlook is still for increases in sales and profits to be secured as the order backlog at the end of the period will remain at a high level. This is because demand is expected to be strong, particularly in the natural disaster risk mitigation and infrastructure management fields, due to the Five-year Acceleration Measures for Disaster Prevention and Mitigation and National Resilience.

3. Summary of the long-term vision and the medium-term management plan

Based on the recent changes to the social environment, the Company has newly formulated a long-term vision toward FY2030. With the aim of becoming a "Future-orientated social infrastructure creation group," it has set the policies to achieve sustainable growth while also contributing to SDGs through promoting ESG management. In the fifth medium-term management plan, which will be the first step for this vision, it has set consolidated results targets for FY5/25 of net sales of ¥38bn and operating income of ¥4.6bn, and compound annual growth rates (CAGR) of 2.6% for net sales and 4.5% for operating income, so it is aiming for steady growth. It is working on three points as the basic policies: to strengthen existing businesses and expand the service areas, to strengthen the ability to respond to diversifying needs, and to construct a management foundation able to respond flexibly to environmental changes. As investment in innovation to support growth, it plans to conduct investment of approximately ¥4bn over 4 years. Its policy is also to continue to investigate M&A in order to expand the business scale, supplement regions and work, and strengthen collaborations.

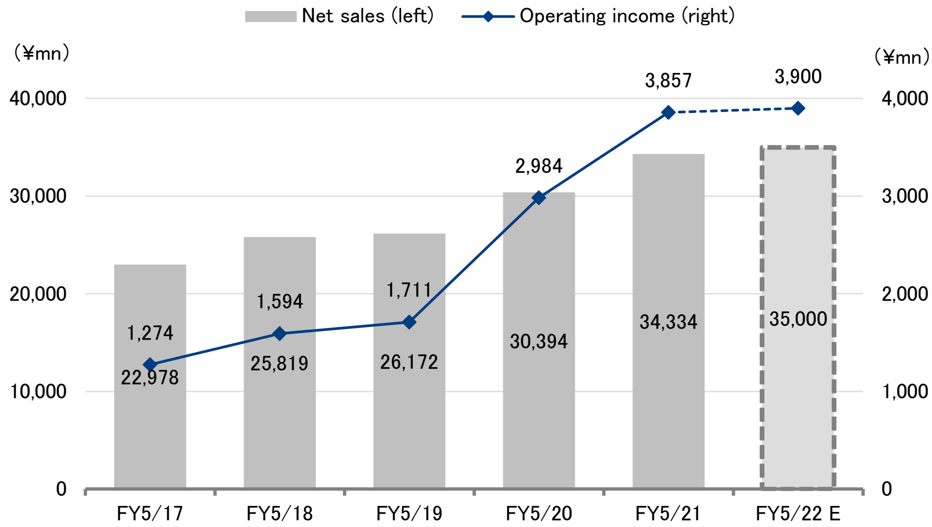
4. Shareholder return policy

The Company's basic shareholder return policy is to stably and continuously pay and increase the dividend, and it determines it on comprehensively considering factors including the business environment, the level of profits, and the dividend payout ratio, while targeting a dividends on equity (DOE) ratio of 3%. In FY5/22, it plans to increase the dividend per share by ¥5.0 YoY to ¥40.0, for the fifth consecutive period of higher dividends. The DOE level is 2.3%, but it is aiming to increase it to the 3% level by FY5/25. The Company has also introduced a shareholder benefits program, gifting to shareholders a QUO card according to the number of shares they hold at the end of November in each year (worth ¥1,000 for shareholders holding 100 or more but less than 1,000 shares).

Key Points

- In the FY5/21 results, sales and profits increased by double digits and exceeded the initial forecasts, while the operating margin also rose above 10%
- For the FY5/22 results, sales and profits will continue to increase against the backdrop of the abundant order backlog
- The Company is aiming to become a future-oriented social infrastructure creation group and is targeting sustainable growth while also contributing to SDGs through ESG management
- The Company will start the fifth medium-term management plan and is targeting net sales of ¥38bn and operating income of ¥4.6bn in FY5/25

Result trends



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

Company profile

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

1. Company history

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

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

Recently, the Company made subsidiaries of Ark Consultants Co., Ltd., which conducts construction consultancy business in Okayama Prefecture, in March 2019, and of i DEVELOP CONSULTANTS Co., Ltd., which provides customer support and infrastructure-management services in the Kyushu region, in July of the same year. In November of the same year, it made subsidiaries of Futagami Architects & Associates, which conducts construction-related planning, surveys, and project planning as well as seismic diagnostics, mainly in Hyogo Prefecture, and DAIMIC Co., Ltd., which is a leading construction consultancy company in Tochigi Prefecture, and it is working to expand share in every region through its M&A strategy.

Overseas also, in August 2020 Eight-Japan Engineering Consultants established EJEC Thailand as a local subsidiary in Thailand.

Company history

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

Source: Prepared by FISCO from Company materials

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

2. Business overview

The Group's strength is its ability to provide a one-stop service for all the processes in a project, from planning and concepts through to plan formulation and project creation, surveys and design, construction management, and operations and maintenance management. This is mainly for the public works projects of government offices and agencies. As of the end of May 2021, the Group consisted of 12 consolidated subsidiaries (and 6 non-consolidated subsidiaries and 1 equity-method affiliate), and had a total of 1,621 employees (an increase of 104 employees compared to the end of the previous fiscal period). Also, the Company has an investment ratio of 38.1% in its equity-method affiliate ENZAN KOUBOU Co., Ltd., which has its head office in Kyoto and which develops and provides software to control surveying equipment and for data management, mainly in the construction and civil engineering fields.

(1) Overview of subsidiaries

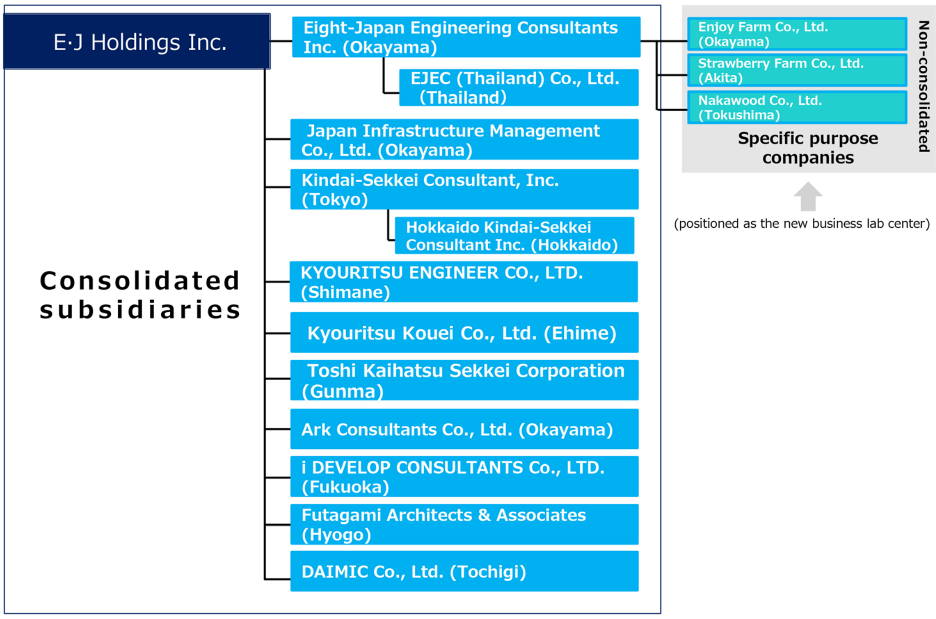
Eight-Japan Engineering Consultants, the main subsidiary contributing nearly 70% of total consolidated net sales, provides construction consultancy services, including for planning, project formulation, surveys and design, diagnostics, and management. It also provides overseas consultancy services and the development of businesses leading to regional creation, such as tourist farms and agri-businesses.

Kindai-Sekkei Consultant, Inc. which provides slightly more than 10% of total net sales, conducts businesses including planning, design and construction management for roads, bridges, and other structures and customer support projects. Its features also include that it has a strong track record for the electrical projects that do not use utility poles that are being promoted by the Ministry of Land, Infrastructure, Transport and Tourism (planning and design, surveys, and maintenance-management support), with a share of orders of more than approximately 20%. There are several methods for removing utility poles, but the basic method is to remove the above-ground utility poles, while moving the communications cables below ground. This requires close negotiations and adjustments between various operators, as it involves grouping cables together with other infrastructure that are buried under the road, such as gas and water pipes. This expertise, which is one source of the Company's competitiveness, is shared throughout the Group, and Eight-Japan Engineering Consultants has also received an increased number of orders.

Other than the above, Japan Infrastructure Management conducts operations including measurement surveys, construction management, dispatches of engineers, and rentals and sales of measuring equipment; KYOURITSU ENGINEER CO., LTD., and Kyoritsu Kouei Co., Ltd., carry out measurement and geological surveys, and design work; and Toshi Kaihatsu Sekkei Corporation primarily formulates plans and conducts surveys and design work, including water supply and sewer systems, and roads.

Also, Ark Consultants, which was made a subsidiary in March 2019, primarily provides construction consultancy services, mainly in the north of Okayama Prefecture, including planning and design, such as for roads and bridges, and for the design of rivers. i DEVELOP CONSULTANTS, which was made a subsidiary in July of the same year, is based in the north of Kyushu and conducts businesses including a social infrastructure project orderer support business and an infrastructure facilities management business. Futagami Architects & Associates and DAIMIC, which were made subsidiaries in November of the same year, were made consolidated subsidiaries from FY5/21 based on the principle of importance.

Overview of the E·J Group

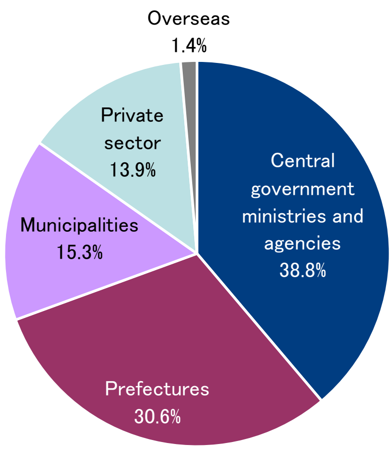


Source: Prepared by FISCO from the Company's results briefing materials

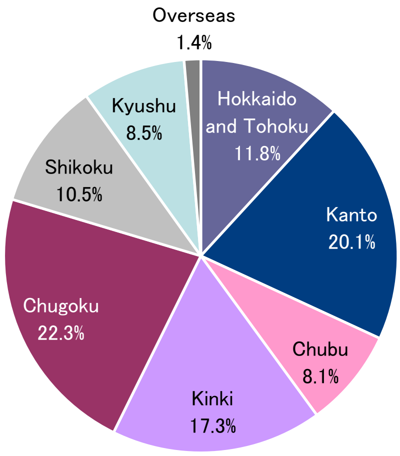
(2) Percentages of orders-received by ordering institution and region

Of the Company's orders-received, 80 to 90% are provided by sales to government offices and agencies, and a feature is that a high percentage of those projects are related to traffic infrastructure, such as roads and bridges, and conservation of national land, including river and mountain flood management. In the FY5/21 results, the composition of orders-received was 38.8% for central government ministries and agencies, mainly for the Ministry of Land, Infrastructure, Transport and Tourism; 30.6% for prefectures; and 15.3% for municipalities, therefore totaling 84.8% for government ministries and agencies alone, 13.9% for private sector companies, and 1.4% for overseas. For private sector companies also, the majority of projects are for expressway management companies such as NEXCO, and they can also be said to be in the public works field. Overseas, the Group has a track record of orders in the Africa and Asia regions, including road maintenance, flood control, and water supply projects, with the majority being ODA projects obtained through the Japan International Cooperation Agency (JICA). In the composition of orders received by region, the highest is the Chugoku area, which is the location of the head office, at 22.3%, followed by the Kanto area at 20.1% and then Kinki at 17.3%, and those 3 regions provide approximately 60% of the total.

Composition of orders-received by ordering institution (FY5/21)



Composition of orders-received by region (FY5/21)



Source: prepared by FISCO from materials provided by the Company

Nearly all ordered projects are scheduled to end within a year. In the case of a continuous ordered project in which construction periods are divided into multiple periods, there are long-term projects that last as long as 3 to 4 years in total. Also, for projects for government offices and agencies, sales tend to be concentrated in March, which is the acceptance-inspection period, so around 60% to 70% of net sales are concentrated in the 4Q (March to May). Therefore, it is necessary to be aware that in a typical year a loss is recorded up to the 3Q, but that this is a seasonal factor.

3. Corporate philosophy

The Group's 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 the Code of Conduct that it formulated from the four viewpoints of innovation*1, professionalism*2, integrity*3, and teamwork*4.

*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

In the FY5/21 results, sales and profits increased by double digits and exceeded the initial forecasts, while the operating margin also rose above 10%

1. Overview of the FY5/21 results

In the FY5/21 consolidated results, net sales increased 13.0% YoY to ¥34,334mn, operating income rose 29.2% to ¥3,857mn, ordinary income grew 26.6% to ¥4,054mn, and profit attributable to owners of the parent increased 37.2% to ¥2,784mn, So the results were strong with every item exceeding its initial Company forecast. Net sales and operating income increased for the fifth consecutive period and ordinary income and profit attributable to owners of the parent for the fourth consecutive period, each setting new record highs.

Business performance for FY5/21 (consolidated)

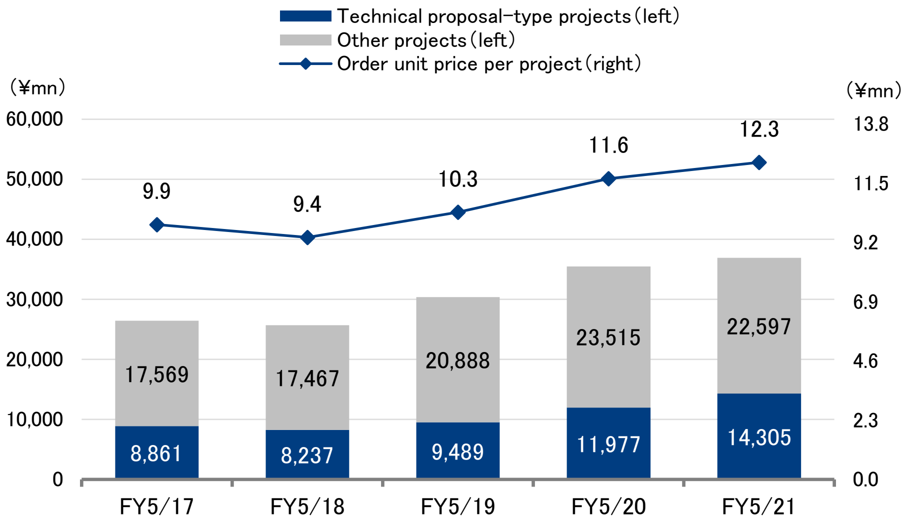
(¥mn)

	FY5/20		FY5/21				
	Results	Ratio to net sales	Forecast	Results	Ratio to net sales	YoY	Vs. forecast
Orders-received	35,492	-	33,000	36,902	-	4.0%	11.8%
Net sales	30,394	100.0%	33,000	34,334	100.0%	13.0%	4.0%
Cost of sales	20,470	67.4%	23,000	22,933	66.8%	12.0%	-0.3%
SG&A expenses	6,938	22.8%	7,000	7,543	22.0%	8.7%	7.8%
Operating income	2,984	9.8%	3,000	3,857	11.2%	29.2%	28.6%
Ordinary income	3,203	10.5%	3,100	4,054	11.8%	26.6%	30.8%
Profit attributable to owners of the parent	2,029	6.7%	2,000	2,784	8.1%	37.2%	39.2%

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

Orders-received increased 4.0% to ¥36,902mn, setting a record high for the third consecutive period. The number of orders declined 1.3%, but the order unit price per project rose 5.4% to ¥12.3mn. The main reason for the rise in the unit price is that the Company is focusing on high value-added, technical proposal-type projects, and orders received for these projects increased 19.4% YoY to ¥14,305mn and their percentage of total orders-received rose from 33.7% in the previous period to 38.8%. In FY5/21, the order unit price per project for technical proposal-type projects was ¥41.9mn, which is approximately 4.9 times higher than the unit price of the other projects.

Breakdown of orders-received and trend in the order unit price



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

For the costs of government public works at the initial stage, compared to approximately ¥8.5tn in FY2019, the budget started from around ¥7tn in FY2020, so the Company's forecast was for a YoY decline in orders. But a supplementary budget was also formed in December 2020, and as a result, orders exceeded the previous period. To conduct measures to respond to natural disasters, which have occurred frequently in recent years, in December 2020 the government formed a supplementary budget following a Cabinet resolution on the Five-year Acceleration Measures for Disaster Prevention and Mitigation and National Resilience (below, the Five-year Acceleration Measures; budget of approximately ¥2.4tn from January 2021 to March 2022), which was the reason why orders exceeded the forecast by around ¥1.5bn. The scale of the projects for the government's Five-year Acceleration Measures is around ¥15tn in total, of which, approximately ¥9.4tn has been allocated to the Ministry of Land, Infrastructure, Transport and Tourism.

Net sales exceeded the initial forecast by 4.0% due to the abundant order backlog and the steady acquisition of orders during the period. The addition to the scope of consolidation from FY5/21 of 2 non-consolidated subsidiaries and the full fiscal year contribution of i DEVELOP CONSULTANTS were factors adding around ¥1bn to both orders-received and net sales. The order backlog at the end of the period also further increased, rising 12.3% on the end of the previous period to ¥27,396mn.

In profits, the operating margin rose for the fourth consecutive period to 11.2%, exceeding 10% for the first time. The cost-of-sales ratio improved 0.6 of a percentage point (pp) YoY, while the SG&A expenses ratio fell 0.8 of a pp. Regarding the cost-of-sales ratio, the improvement factors were that the Company was able to level out operations against the background of abundant backlog of orders, and that productivity was improved by reducing travel time loss due to restrictions on employee movement due to the COVID-19 pandemic. On the other hand, for SG&A expenses, although personnel expenses* increased ¥494mn YoY and amortization of goodwill rose ¥28mn, the Company was able to keep down other costs, mainly travel costs, while the increase in sales also had an effect, and as a result the SG&A expenses ratio declined.

* Personnel expenses: Total of executive compensation, salaries and allowances, bonuses, retirement benefit expenses, provision for share-based remuneration, and legal welfare expenses

Orders increased, centered on for central government ministries and agencies and for the natural disaster risk and infrastructure management fields in the West Japan area

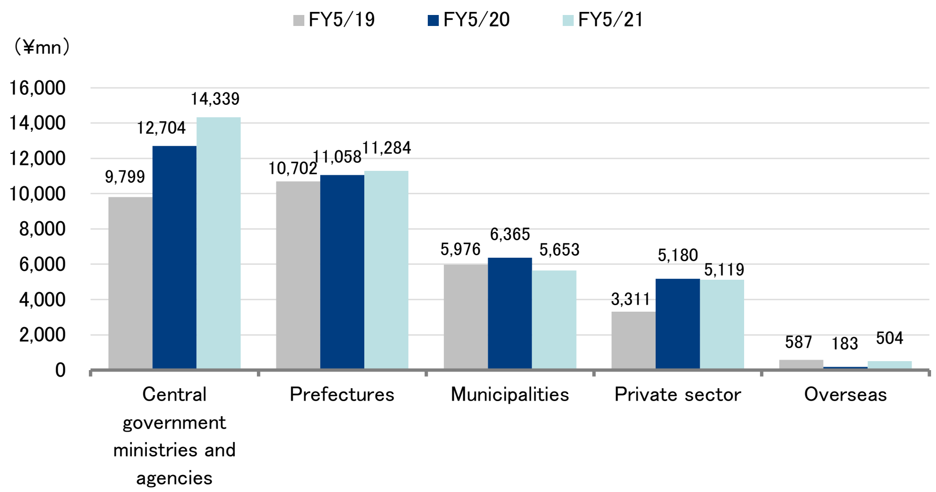
2. Trends in orders-received and net sales

(1) Trends in orders-received

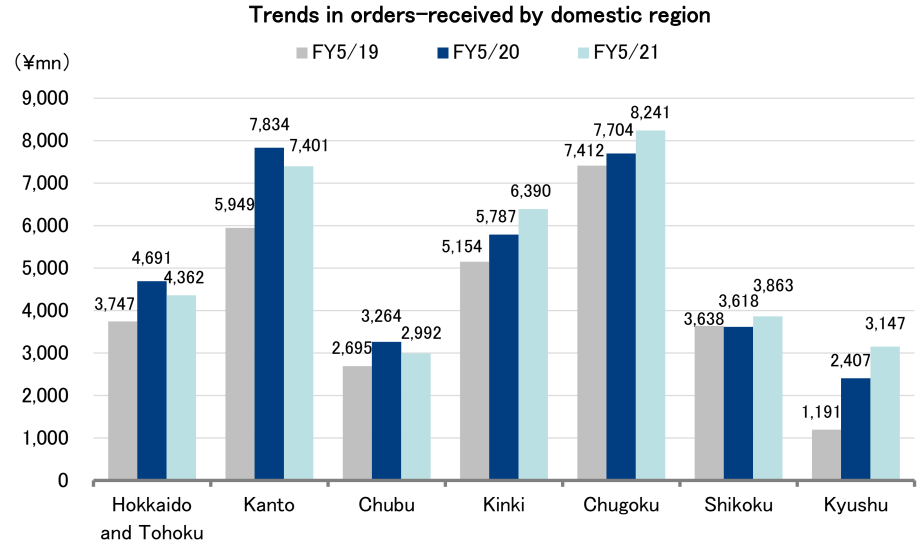
In FY5/21, orders-received increased 4.0% YoY to ¥36,902mn. Looking at the increase and decrease rates by ordering institution, they increased 12.9% YoY for central government ministries and agencies, increased 2.0% for prefectures, decreased 11.2% for municipalities, decreased 1.2% for the private sector, and increased 175.1% for overseas. Orders-received for central government ministries and agencies continued to increase at a double-digit pace against the backdrop of the measures for disaster prevention and mitigation and national resilience. Conversely, orders-received for local governments, such as prefectures and municipalities, were sluggish, primarily because they are prioritizing budgets for the costs to respond to COVID-19. For the private sector (mainly expressway companies), orders-received were basically unchanged in FY5/21 due to the significant growth in the previous period. Overseas, orders-received fell greatly in the previous period due to the impact of COVID-19, but they recovered to close to the FY5/19 level, mainly from the re-starts of projects ordered by JICA.

Looking at ordering conditions by region, the decline in the East Japan area and the increase in the West Japan area stand out. For Hokkaido and Tohoku, the reconstruction-related projects for the Great East Japan Earthquake have been completed, so orders decreased 7.0% YoY. For Kanto and Chubu, they decreased 5.5% and 8.3% respectively due to the declines for local governments. Conversely for Kinki, they continued to increase at a double-digit pace, rising 10.4%, because in addition to projects for the priority fields, such as the natural disaster risk mitigation, infrastructure management, and information and communications fields, there were many orders for the mainstay road- and bridge-related projects. Orders trended solidly in Chugoku, up 7.0%, and in Shikoku, up 6.8%, while in Kyushu as well, continuing from the previous period they increased significantly, up 30.7%, including the full fiscal year contribution of i DEVELOP CONSULTANTS.

Trends in orders-received by ordering

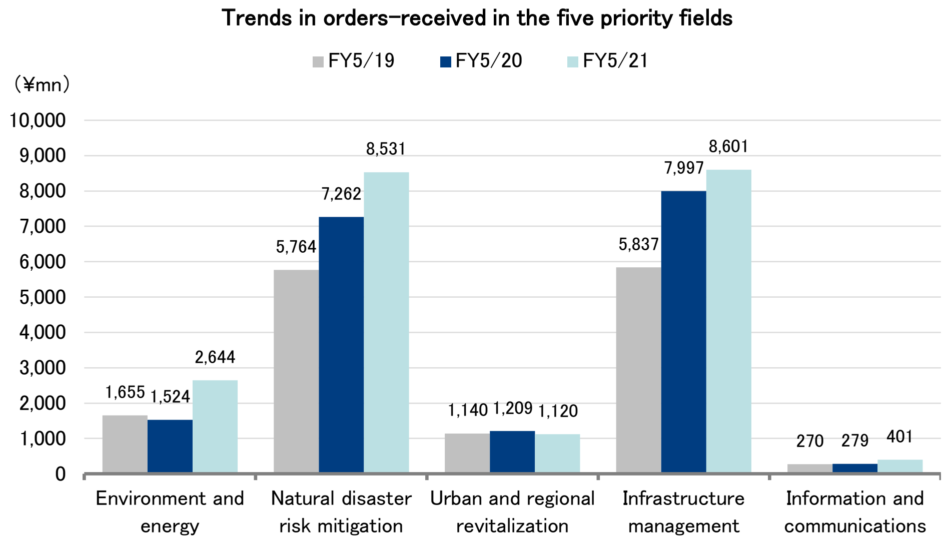


Source: prepared by FISCO from materials provided by the Company



Source: prepared by FISCO from materials provided by the Company

Looking at the ordering conditions of the five fields positioned by the Company as its priority business fields, in total their orders increased 16.6% YoY to ¥21,297mn, once again setting a record high, while their percentage of total orders-received rose from 51.5% in the previous period to 57.7%. In the YoY increase and decrease rates by field, orders grew significantly in the environment and energy fields, mainly for environment assessment projects, up 73.5%. In the natural disaster risk mitigation field, they continued to increase at a double-digit pace, up 17.5% by receiving orders of technical surveys to predict the occurrence of landslides and surveys to create hazard maps. In the infrastructure management field, orders increased 7.6%, such as for NEXCO construction management, bridge earthquake resistance reinforcement design work, and for orderer support. In the information and communications field, although the scale of orders is still small, they increased 43.7% for basic design work for projects for wireless digitalization and for disaster prevention government wireless radio wave transmission surveys. The only decrease was in the urban and regional revitalization field, falling slightly by 7.4%.



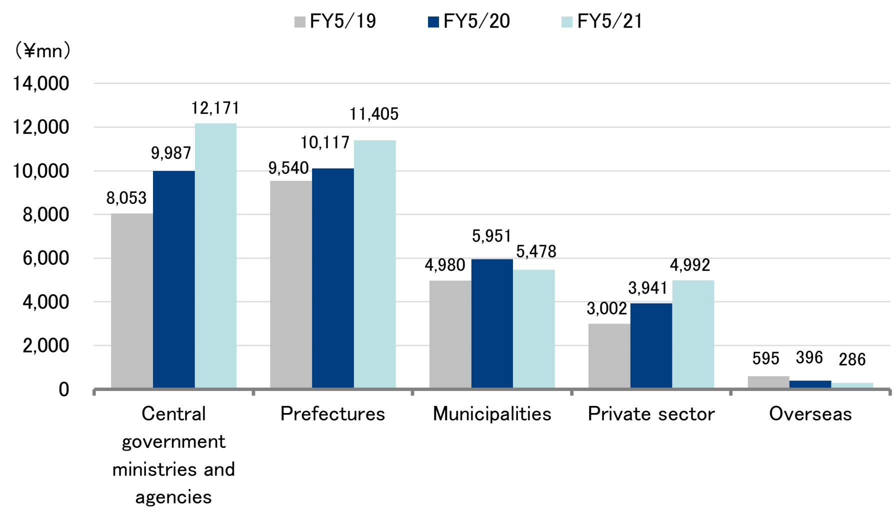
Source: prepared by FISCO from materials provided by the Company

(2) Trends in net sales

Looking at net sales by ordering institution, they increased 21.8% YoY for central government ministries and agencies, increased 12.7% for prefectures, decreased 7.9% for municipalities, and in total they increased 11.5% to ¥29,054mn for government offices and agencies. They also continued to grow by double digits for the private sector, up 26.7% to ¥4,992mn, due to the abundant order backlog. Conversely, overseas orders continued to slump, down 27.3% to ¥286mn. Although they are recovering, the actual work is only just beginning to gradually start due to COVID-19.

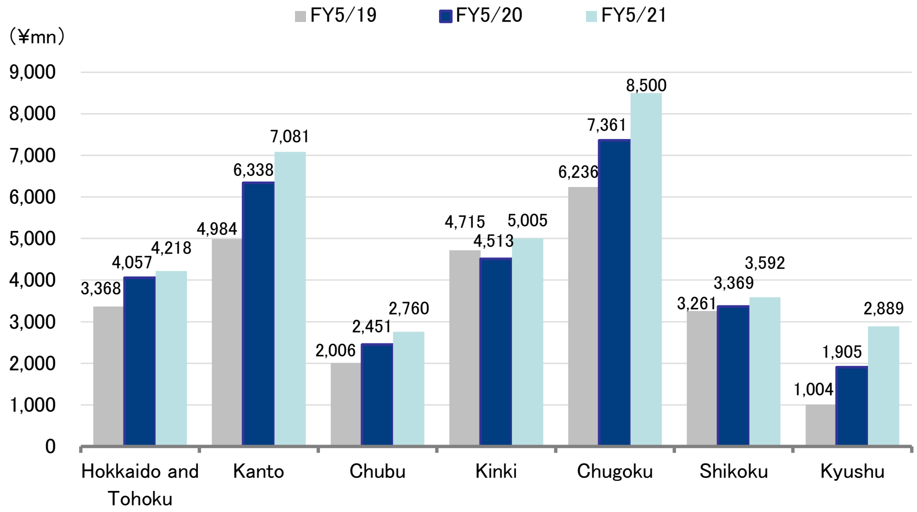
Looking at sales conditions by region, they increased in every region because the balance of sales at the end of the period was at a high level. For the growth rates, the highest was Kyushu, up 51.7% YoY, followed by Chugoku, up 15.5%, then Chubu, up 12.6%, Kanto, up 11.7%, Kinki, up 10.9%, Shikoku, up 6.6%, and Hokkaido and Tohoku, up 3.9%.

Trends in net sales by ordering institution



Source: prepared by FISCO from materials provided by the Company

Trends in net sales by domestic region



Source: prepared by FISCO from materials provided by the Company

The Company's equity ratio is at a sound level of above 60% and their financial position is excellent

3. Financial position and management indicators

Looking at the financial position at the end of FY5/21, total assets had increased ¥6,328mn on the end of the previous period to ¥37,513mn. The main increase and decrease factors were that in current assets, cash and deposits increased ¥4,837mn due to the higher earnings, and also notes and accounts receivable rose ¥1,320mn. In non-current assets, there were increases in property, plant and equipment of ¥223mn and in investments and other assets of ¥276mn.

Total liabilities increased ¥1,155mn on the end of the previous period to ¥12,015mn. Interest-bearing debt declined ¥397mn, but there were increases of unpaid expenses of ¥527mn, unpaid corporation tax etc., of ¥681mn, and unpaid consumption tax etc., of ¥218mn. Total net liabilities increased ¥5,173mn at the end of the previous period to ¥25,497mn. Alongside the growth in earnings, retained earnings increased ¥2,500mn, while following the capital increase through a public offering and the disposal of treasury shares, capital and the capital surplus increased ¥1,405mn and treasury shares decreased ¥974mn (an increase factor).

Looking at the management indicators, the equity ratio, which is an indicator of management stability, rose from 65.2% at the end of the previous period to 68.0%, mainly due to the growth of earnings and the capital increase through a public offering. Also, the extent of reliance on interest-bearing debt is trending at the low level of 2.5% and the Company can be said to have further strengthened its financial foundation. For the indicators of profitability, ROA was 11.8%, ROE 12.2%, and the operating margin 11.2%, all rising compared to in the previous period. This is thought to be from the effects of the Company focusing in recent years on acquiring orders in the 5 priority fields and for technical proposal-type projects, and also from its efforts to improve productivity, including by strengthening project management.

Consolidated balance sheet

(¥mn)

	FY5/18	FY5/19	FY5/20	FY5/21	Increase/ decrease
Current assets	14,907	16,417	20,580	26,480	5,900
(Cash and deposits)	9,989	10,884	14,138	18,975	4,837
Non-current assets	9,939	10,313	10,604	11,032	428
Total assets	24,860	26,731	31,185	37,513	6,328
Total liabilities	9,095	8,582	10,860	12,015	1,155
(Interest-bearing debt)	759	524	1,325	927	-397
Total net assets	15,751	18,149	20,324	25,497	5,173
(Stability)					
Equity ratio	63.4%	67.9%	65.2%	68.0%	2.8pt
Extent of reliance on interest-bearing debt	3.1%	2.0%	4.2%	2.5%	-1.7pt
(Profitability)					
ROA (return on assets)	6.8%	6.6%	11.1%	11.8%	0.7pt
ROE (return on equity)	6.3%	7.4%	10.5%	12.2%	1.7pt
Operating margin	6.2%	6.5%	9.8%	11.2%	1.4pt

Source: prepared by FISCO from the Company's financial results summary report, financial results briefing materials, and the CORPORATE REPORT 2020

Business outlook

For the FY5/22 results, sales and profits will continue to increase against the backdrop of the abundant order backlog

1. FY5/22 outlook

FY5/22 is the first year of the fifth medium-term management plan, which the Company has formulated to be the first step toward becoming the "future-oriented social infrastructure creation group" it describes in its long-term vision. Its policy is to work on the following five priority measures, based on the concept of "establishing an infrastructure for innovation and evolution."

a) By increasing the sophistication of and combining the technologies in the six new priority fields (natural disaster risk mitigation, infrastructure maintenance, digital infrastructure solutions, the environment and energy, urban and regional revitalization, and infrastructure management), progress the strengthening of existing businesses and of project creation-type management
b) While looking to develop businesses in the area of future-oriented social infrastructure creation, progress the development of next-generation core technologies
c) Progress workstyle reforms and value chain reforms in the with-COVID-19 and post-COVID-19 eras
d) Progress measures to secure and develop excellent human resources
e) Strengthen risk management and the Group's governance

Regarding the assumed business environment in Japan, through the addition of a budget for the Five-year Acceleration Measures for National Resilience (total amount, ¥15tn) to the public works-related budget in FY2021 of ¥6.1tn, demand from central government ministries and agencies is forecast to be strong. Conversely, regional local governments are allocating their budgets to measures for COVID-19, so their orders are forecast to decline by approximately 15% compared to in the previous fiscal year. For overseas, there has been no change to a situation in which the future is unclear due to COVID-19.

In this sort of environment, in FY5/22 orders-received are forecast to decrease 5.2% YoY to ¥35,000mn. In addition to approximately ¥1.5bn for advanced orders in the previous year relating to projects for the Five-year Acceleration Measures, the forecast incorporates a decline in orders from regional local governments. Conversely, the forecasts are for sales and profits to increase, if slightly, with net sales rising 1.9% YoY to ¥35,000mn, operating income growing 1.1% to ¥3,900mn, ordinary income climbing 1.1% to ¥4,100mn, and profit attributable to owners of the parent increasing 0.6% to ¥2,800mn. Although the end of the COVID-19 pandemic is not yet in sight, it seems that the Company will be able to secure increases in sales and profits against the backdrop of its abundant order backlog. It appears that the impact of COVID-19 will be limited, as long as the government does not declare a nationwide state of emergency that will restrict companies' business activities.

FY5/22 outlook (consolidated)

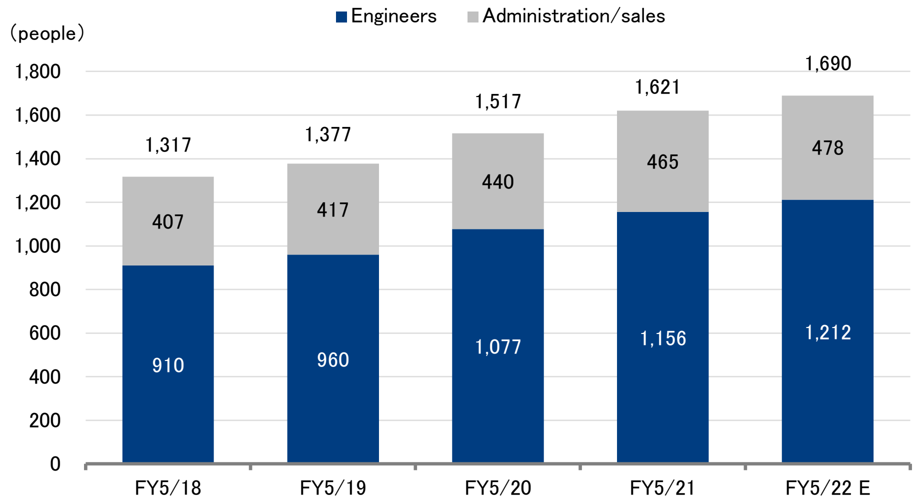
(¥mn)

	FY5/21		FY5/22		
	Results	Ratio to net sales	Forecast	Ratio to net sales	YoY
Orders-received	36,902	-	35,000	-	-5.2%
Net sales	34,334	100.0%	35,000	100.0%	1.9%
Cost of sales	22,933	66.8%	23,450	67.0%	2.3%
SG&A expenses	7,543	22.0%	7,650	21.9%	1.4%
Operating income	3,857	11.2%	3,900	11.1%	1.1%
Ordinary income	4,054	11.8%	4,100	11.7%	1.1%
Profit attributable to owners of the parent	2,784	8.1%	2,800	8.0%	0.6%
EPS (¥)	187.47		175.87		

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

The cost-of-sales ratio is forecast to rise 0.2 of a pp YoY to 67.0%. The Company will continue to work on improving productivity through the homogenization of work, while it will also strengthen the personnel structure, so the forecast seems somewhat conservative, including as productivity improved more than expected in the previous period. Conversely, the outlook is that the SG&A expenses will increase only slightly, up 1.4% YoY. Personnel expenses are expected to remain at the same level YoY, including due to the increase in bonuses in the previous period, while other expenses, such as IT investment, education and training expenses, and R&D expenses, are forecast to increase. The Company intends to recruit employees at the same pace as in the previous period, and at the end of FY5/22, it plans to have increased the number of full-time employees by 69 people at the end of the previous period to 1,690 people, of whom the number of engineers will increase by 56 people to 1,212 people.

Trends in the no. of employees



Source: prepared by FISCO from materials provided by the Company

The order forecasts by ordering institution are on the decline for each, decreasing 8.8% YoY for central government ministries and agencies, 4.0% for prefectures, 4.7% for municipalities, and 2.4% for the private sector. The only increase is for overseas, up 38.7%, as it is expected to continue to recover. Conversely, the net sales forecasts are for an increase of 9.3% for central government ministries and agencies, a decrease of 5.3% for prefectures, an increase of 0.4% for municipalities, an increase of 0.2% for the private sector, and an increase of 39.8% for overseas. The differences with the order growth rates is due to the progress made in processing the order backlog at the end of the period. For overseas, it is anticipated that there is the risk of projects being postponed in regions where the COVID-19 pandemic is worsening. But even when estimating conservatively, at FISCO we think that this can be covered by the growth of sales in Japan.

Orders-received by ordering institution

(¥mn)

	FY5/17	FY5/18	FY5/19	FY5/20	FY5/21	FY5/22 (E)	YoY
Central government ministries and agencies	7,559	8,236	9,799	12,704	14,339	13,080	-8.8%
Prefectures	9,886	8,715	10,702	11,058	11,284	10,838	-4.0%
Municipalities	5,051	5,086	5,976	6,365	5,653	5,386	-4.7%
Private sector	2,731	3,397	3,311	5,180	5,119	4,996	-2.4%
Overseas	1,200	268	587	183	504	700	38.7%
Total	26,430	25,704	30,377	35,492	36,902	35,000	-5.2%

Source: prepared by FISCO from materials provided by the Company and the CORPORATE REPORT 2020

Net sales by ordering institution

(¥mn)

	FY5/17	FY5/18	FY5/19	FY5/20	FY5/21	FY5/22 (E)	YoY
Central government ministries and agencies	6,979	7,469	8,053	9,987	12,171	13,300	9.3%
Prefectures	7,950	9,542	9,540	10,117	11,405	10,800	-5.3%
Municipalities	4,784	5,174	4,980	5,951	5,478	5,500	0.4%
Private sector	2,649	2,909	3,002	3,941	4,992	5,000	0.2%
Overseas	613	723	595	396	286	400	39.8%
Total	22,978	25,819	26,172	30,394	34,334	35,000	1.9%

Source: prepared by FISCO from materials provided by the Company

Also, the order amount from the five priority business fields is forecast to increase 3.3% to ¥22,000mn. By field, it will increase in each of the urban and regional revitalization field, up 20.5%, the information and communications field, up 24.7%, and the environment and energy field, up 9.7%. The forecasts are also for slight increases in the mainstay natural disaster risk mitigation field and the infrastructure management field. In addition, the outlook is that the percentage of total orders-received from the five priority fields will further rise from 57.7% in the previous period to 62.9%.

Trends in orders in the five priority fields

(¥mn)

	FY5/19	FY5/20	FY5/21	FY5/22 (E)	YoY
Environment and energy	1,655	1,524	2,644	2,900	9.7%
Natural disaster risk mitigation	5,764	7,262	8,531	8,600	0.8%
Urban and regional revitalization	1,140	1,209	1,120	1,350	20.5%
Infrastructure management	5,837	7,997	8,601	8,650	0.6%
Information and communications	270	279	401	500	24.7%
Total	14,666	18,271	21,297	22,000	3.3%
Percentage of total orders-received	48.3%	51.5%	57.7%	62.9%	

Source: prepared by FISCO from materials provided by the Company

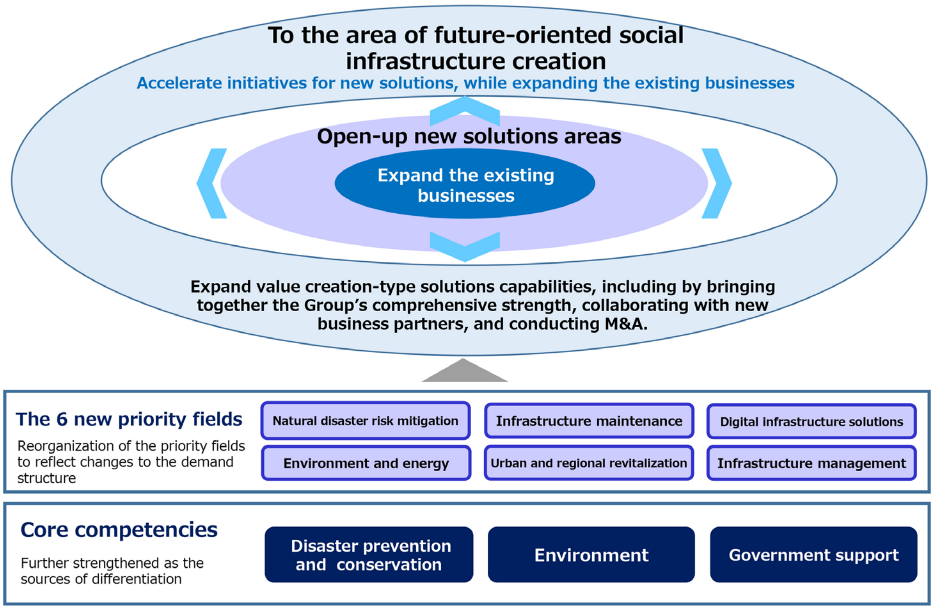
Aiming to become a future-oriented social infrastructure creation group and targeting sustainable growth while also contributing to SDGs through ESG management

2. The long-term vision E·J-Vision 2030

In July 2021, the Company announced its new long-term vision up to FY5/30, and also its fifth medium-term management plan (from FY5/22 to FY5/25) as the first step toward realizing this vision. Spurred on by COVID-19, societal changes are accelerating and, in this situation, it is anticipated that the forms and qualities of social capital will change, that the role of the construction consulting industry to which the Company belongs will also change, and that interest will rise in protecting the global environment and in SDGs. Therefore, taking an ESG perspective in corporate management has become even more important, and the content of the vision and plan are based on this.

In the long-term vision, while aiming to strengthen the governance structure from an ESG perspective, the Company is working on three themes: “Contribute to mitigating the burden on the environment,” “Contribute to creating a sustainable and resilient society,” and “Contribute to solving problems in and the revitalization of regions,” and it is aiming to become a future-oriented social infrastructure creation group (from a problem solving-type to a value creation-type company). For business development, while working to expand its existing businesses, its strategy is to strengthen its value creation-type solutions capabilities and to open-up new solutions areas, including by bringing together the Group’s comprehensive strength, collaborating with new business partners, and conducting M&A.

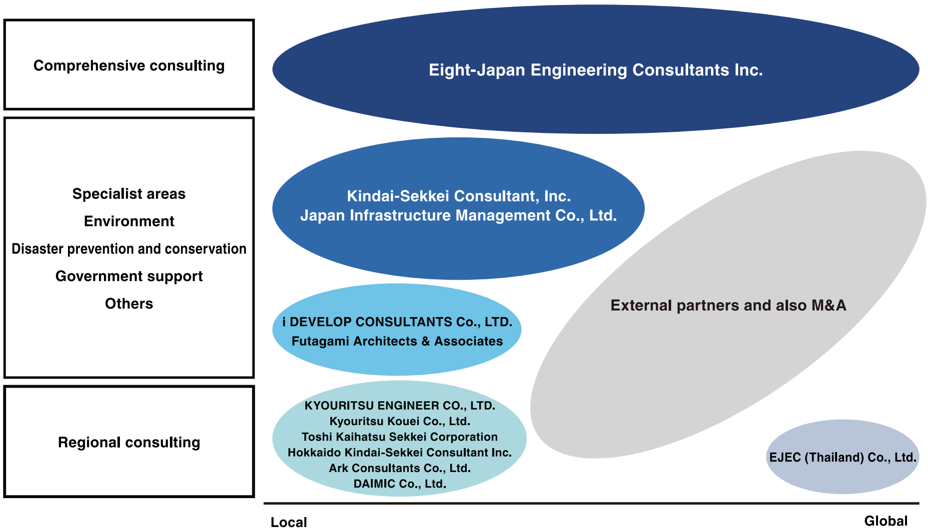
Business development



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

The Company has revised the categories for the priority fields, from the previous 5 fields to 6 new fields, in order to respond to the directions being taken by social capital and other aspects, and its policy is to utilize the strengths of each Group company to expand the activity areas. It is also investigating conducting M&A in Japan and overseas. In Japan, its aims are to increase sales in regions where its market shares are low, and also to expand its technological areas and to secure human resources. The regions with high levels of priority include Kyushu, Hokuriku, and Hokkaido, but in other regions as well, if there is proposal for which synergies can be expected, it will proactively investigate it. On the other hand, for overseas, it is thought to be targeting local construction consulting companies. The Company will combine its advanced technological capabilities and consulting capabilities with the networks of local companies, with the aim of expanding the overseas business so that in 10 years' time, overseas net sales will have increased to ¥5bn and will provide 10% of total net sales.

The roles of Group companies and collaborations



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

The 6 new priority fields

Natural disaster risk mitigation	Responses to build national resilience, measures for disaster prevention and mitigation, BCP, etc.
Infrastructure maintenance	Extending the useful lives of infrastructure facilities and increasing the sophistication of inspections and diagnoses
Digital infrastructure solutions	Promoting BIM/CIM, utilizing robots and AI for surveys, inspections, etc., a disaster information system that utilizes IoT, etc.
Environment and energy	Green infrastructure promotion, resource circulation (waste processing and utilization), renewable energy, etc.
Urban and regional revitalization	Smart cities, compact cities, urban regeneration, regional revitalization, renewal of towns, etc.
Infrastructure management	Orderer support for CM/PM etc., PPP/PFI, infrastructure facilities management, etc.

Note: from the previous 5 priority fields, 1) infrastructure management has been divided into infrastructure maintenance and infrastructure management, and 2) the name of information and communications has been changed to digital infrastructure solutions, and DX will be promoted.
Source: Prepared by FISCO from the Company's results briefing materials

The Company will start the fifth medium-term management plan, aiming for net sales of ¥38bn and operating income of ¥4.6bn in FY5/25

3. The fifth medium-term management plan

In E·J-Plan 2024, which is the fifth medium-term management plan to start from FY5/22, the Company has set the theme of "Establishing an infrastructure for innovation and evolution" and positioned it as a period to work on building an infrastructure toward realizing its long-term vision. It has set three points as the basic policies: 1) strengthen existing businesses and expand the service areas, 2) strengthen the ability to respond to diversifying needs, and 3) construct a management foundation able to respond flexibly to environmental changes. For these policies, it is working on five themes (build a structure to generate innovation, digital transformation, human resources development and training and workstyle reforms, build a global management structure, and achieve the SDG targets).

(1) Basic policies

1) To strengthen existing businesses and expand the service areas

a) As priority issues, the Company will work to incorporate cutting-edge technologies, build national resilience, maintain aging infrastructure facilities, establish a sustainable social environment that is considerate to the environment, and deepen government-support services, including CM (orderer support).

b) Through the six new priority fields that are based on its three core competencies (disaster prevention and conservation, the environment, and government support), it is aiming to expand and reform the business areas that expected to grow in the future.

c) Alongside economic development, centered on South East Asia in which the market for infrastructure establishment and maintenance is growing, it intends to rebuild its overseas business foundation, including through M&A, and increase orders not only of projects through JICA, but also of direct orders made locally, targeting net sales of ¥1bn in FY5/25.

d) It will accelerate the promote of DX by actively investing in R&D and digital equipment, and thereby secure competitive advantages over the competition. Also, when actually promoting DX, each Group company will progress initiatives while at the same time, Eight-Japan Engineering Consultants will deploy model cases in the Group.

2) To strengthen the ability to respond to diversifying needs

a) The Company will develop new products and new services that utilize data, information assets, and ICT technologies.

b) It will deepen the business to solve problems in regions that utilize existing agriculture and forestry businesses (B-to-B-to-C etc.)

c) It will acquire findings and expertise on future-oriented social infrastructure, including green infrastructure, smart cities, and the promotion of distribution and logistics, and it will work to capture new infrastructure needs.

d) It will actively form alliances and conduct M&A that are necessary for strengthening new businesses and technological capabilities.

The Group's initiatives for new solutions that utilize IT include introductions of construction production and management system technologies based on 3D data such as BIM/CIM*, and measurement surveys and infrastructure-facility inspections using drones (UAV). As a solution that uses drones, in March 2020 Eight-Japan Engineering Consultants concluded a partnership agreement with Japan Infrastructure Waymark Co., Ltd. (JIW), and then in May 2021, they concluded a capital and business partnership agreement. JIW uses drones to conduct inspections of aging facilities, such as bridges. In order to further improve the sophistication and efficiency of its technologies in the future, it is working on the practical realization of fully automated inspections that utilize AI.

* Serving as a solution for sharing and utilizing information in every process from design to construction and maintenance, BIM (Building Information Modeling) is a work flow that contributes to improving the efficiency of construction projects, etc. through a building database in which attribute data, including costs, finishing, and management information, are included in the creation of a digital model of a 3D building on a computer. The Ministry of Land, Infrastructure, Transport and Tourism, which is aiming to reduce costs for public works projects and other projects, has formulated BIM guidelines, together with CIM guidelines.
CIM (Construction Information Modeling/Management) is an IT system that introduces 3D modeling in the planning, research and design stages of construction projects, with the aims of improving the efficiency and sophistication of a series of construction and production systems. In each of the subsequent stages of construction and maintenance management, 3D modeling is coordinated and developed, making it easier for relevant parties to share information across the entire project.

As the regional problem solving businesses, since 2012 in Akita Prefecture, Okayama Prefecture, and Tokushima Prefecture, the Group has been working on sixth-sector industrialization in agriculture businesses through joint investments with local public works organizations and companies. Strawberry Farm Co., Ltd., in Akita Prefecture has succeeded in cultivating Natsu Akari (summer light) strawberries, which are a rare summer variety. It has been able to acquire orders from pastry and confectionary stores and restaurants nationwide, and since 2020, it has increased the amount harvested by expanding its greenhouse facilities. Since April 2013, a local government in Okayama Prefecture has outsourced to Enjoy Farm Co., Ltd., (outsourcing contract period, until FY2022) the management of Suisha no Sato Fruitopia, which is a facility for visitors to experience fruit cultivation and agricultural work in its gardens. Nakawood Co., Ltd., in Tokushima Prefecture, as a part of the projects to promote the utilization of timber and to revitalize the regional economy, has been using the high quality wood powder produced in Tokushima Prefecture to produce wood tables and wood decks for use in public facilities and conducting sales of it as a material for simple toilets, fans, and interior-use products. Of these businesses, the plan is to sell the shares of the businesses in Akita Prefecture and Tokushima Prefecture to local companies and others at the stage at which they become profitable. However, it is expected that some time will still be required before they become profitable.

Eight-Japan Engineering Consultants has been conducting development, including differentiated technologies that utilize digital technologies such as ICT and AI, and also of technologies that relate to general infrastructure, which is the Company's foundation. As the organization that will horizontally deploy this expertise to the Group's companies, the EJ Innovation Technology Center was established in June 2021 (developmental reorganization of the Disaster Risk Research Center).

3) To construct a management foundation able to respond flexibly to environmental changes

a) By evolving the value chain, the Company intends to improve work efficiency and productivity and to secure the quality of results.

b) It is aiming to bring together the Group's comprehensive strength to further improve enterprise value.

c) It will facilitate diverse workstyles that utilize satellite offices and teleworking, create workplaces that respect diversity, and strengthen the Group's brand power.

d) It will create and utilize "corporate schools" in order to strengthen innovation and the training of management human resources development, and it is aiming to improve the Group's technological capabilities and supplement its human resources through securing a diverse range of human resources.

e) In addition to strengthening risk management and internal controls, it will cultivate relations of trust with shareholders and investors by establishing a strong governance system and improving management transparency based on its corporate governance code.

* For OJT, a school was opened in June 2021 with various objectives, including the improvement of basic and applied technological capabilities that are hard to acquire, disseminating expertise and implicit knowledge needed for work, raising the levels of productivity and quality, and developing star engineers. In its first fiscal year, it is providing education such as specialist courses and shared lectures for the employees of Eight-Japan Engineering Consultants. It can also provide online lectures.

(2) Numerical management targets

The numerical management targets in the medium-term management plan for FY5/25, which is the plan's final fiscal year, are consolidated net sales of ¥38bn, operating income of ¥4.6bn, profit attributable to owners of the parent of ¥3.1bn, an operating margin of 12%, and ROE of 10% or above. For the four-year CAGR, the firm forecasts are 2.6% for net sales and 4.5% for operating income. The targets for FY5/31, which is the final fiscal year of the long-term vision, are net sales of ¥50bn and operating income of ¥6bn.

Consolidated numerical management targets

(¥mn)

	FY5/21 Results	FY5/25 Targets	CAGR (four year)	FY5/31 Targets	CAGR (ten year)	Special notes
Net sales	34,334	38,000	2.6%	50,000	3.8%	Promoting alliances
Operating income	3,857	4,600	4.5%	6,000	4.5%	Profit margin, 12%
Profit attributable to owners of the parent	2,784	3,100	2.7%	4,000	3.7%	ROE, 10% or above

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

Also, in four years, the Company is planning investment of approximately ¥4bn as investment in innovation. Specifically, it will invest in work process reforms and production efficiency improvements through DX, in BCP measures (including infection-prevention measures), in establishing work environments in response to the diversification of workstyles, in disaster prevention and mitigation and R&D to develop new technologies relating to projects to build national resilience including for aging infrastructure, and in education and training for the recruitment and development of diverse human resources. It also plans to invest in M&A in a framework separate to these investments.

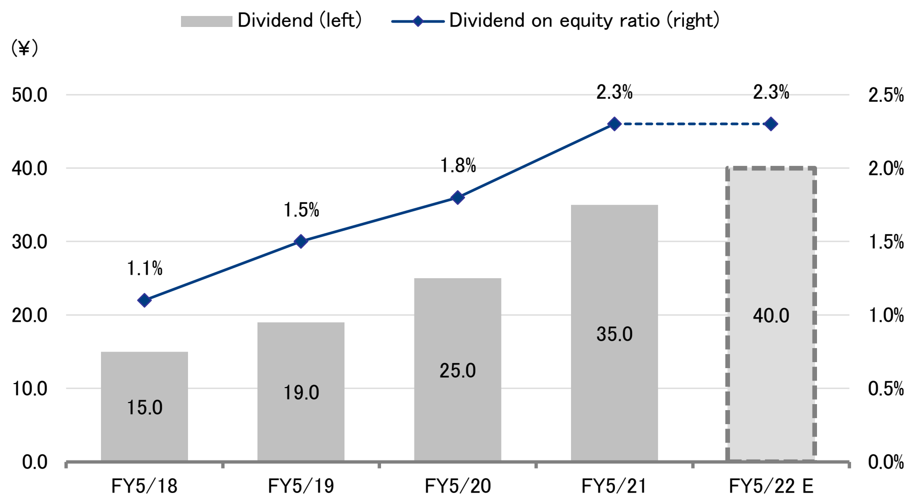
Shareholder return policy

Policy is to stably and continuously increase the dividend, targeting a DOE ratio of 3%

The Company returns profits to shareholders through dividends and also through its introduction of a shareholder benefits program. Its basic policy is to stably and continuously increase the dividend, and currently it determines it after comprehensively considering factors such as the business environment, the level of profits, and the dividend payout ratio, while targeting a dividend on equity (DOE) ratio of 3%. In FY5/22, it plans to increase the dividend per share by ¥5.0 YoY to ¥40.0, for the fifth consecutive period of higher dividends. The DOE ratio level is 2.3%, but it is aiming to increase it to the 3% by FY5/25.

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

Dividend per share and dividend on equity ratio



Note 1: Includes commemorative dividends of ¥2.0 in FY5/18 and ¥2.5 in FY5/19
Note 2: Conducted a 2-for-1 share split in December 2020 and the past dividends have been retroactively adjusted
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Details of the shareholder benefits program

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

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

FISCO

Disclaimer

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