



28 February 2025

Q & A on 62nd (2024) Financial Results Presentation

Date and time: 21 February 2025 (Fri) 13:00 - 14:10

Answered by:

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* The number of pages shown below in the question is the number of pages of "62nd Term (2024)

Financial Results/ Revision of Mid-to Long-Term Vision 2030 and Mid-Term Management Plan 2027" posted on the IR Library on our website.

In the Mid-Term Management Plan 2027 "Overseas Business Development" (p. 37), which countries and cities are specifically listed as "candidate"?

What kind of business development do you plan there? How much investment do you expect?

Target countries are Australia and Malaysia.

In Australia, we would like to target companies for M&A with a certain scale which can collaborate with Waterman's office in Melbourne and Sydney. Since the amount of investment differs depending on the target, we cannot provide a specific amount.

In Malaysia, location of the target will be Kuala Lumpur.

How much do you expect sales per employee in the 2025 management plan?

How much impact has the decrease in sales per employee had on the attrition rate?

Sales per employee are expected to decrease slightly in 2025.

We have not analysed the impact on attrition rate in detail, but we believe it has a certain effect on reducing the attrition rate because the engagement score last year has improved.

In the 2024 results, there is an increase in orders received from Local Governments (p. 11). What type of business and contract methods are common?

The business nature is almost same as that of National Government.

In terms of contract methods, we receive orders from prefectural governments mainly by proposal method and comprehensive evaluation method, similar to National Government. For municipality government, we have made technical proposals and received the orders.

What is the definition of maintenance rate of rivers and roads as stated in the Mid-Term Management Plan 2027 "Domestic Market Environment (Infrastructure Development)" (p. 28)?
What does it mean that the maintenance rate extends to the right beyond 100%?

Maintenance rate of rivers shows the development ratio of a class A rivers against maximum flood after 1945 (after WW2).

Maintenance rate of roads indicates the development rate of national highways.

In all sectors, it is necessary to consider the impact of climate change and aging infrastructure, we recognise that the goal of development initially anticipated is insufficient, and the infrastructure market requiring consulting engineers is still large.

In the Mid-Term Management Plan 2027 "Overview of business portfolio transformation by source" (p. 30), why do you decrease the ratio of Ministry of Land, Infrastructure, Transport and Tourism with high profitability?

Orders from the Ministry of Land, Infrastructure, Transport and Tourism (the "MLIT") currently account for about 40% of our total orders, which we recognise is high compared with competitors. Considering the state of the national budget, orders from the MLIT are not expected to increase significantly in the future.

In the Mid-Term Management Plan 2027, we have decided that we can achieve growth in the Local Government (Prefectures and Municipality) and Private markets, which we have not focused on in the past so much, rather than increasing orders from the MLIT.

Do you expect M&A to become more active in the future in your M&A target markets as stated in the Mid-Term Management Plan 2027 "M&A Basic Policy" (p. 48)?

M&A opportunities for regional consulting engineers are expected to increase due to succession problems, etc.

M&A opportunities for water supply and sewerage companies and overseas companies are also expected to increase.

Do the management figures targeted in the Mid-to Long-Term Vision 2030 based include the expected synergies from M&A?

We do not expect to include from the impact of M&A synergies.

In the Mid-Term Management Plan 2027 "Management that is Conscious of Cost of Capital and Stock Price" (p. 44), it is stated that the expected future growth rate is insufficient.

What does growth rate mean in this context? How much do the utilisation of AI and investment in DX contribute to growth rate?

The "expected future growth rate is insufficient" part means that it is probably seen as unlikely to achieve significant growth in the future as our business model is currently dominated by public sector projects.

The "growth rate" in the Mid-Term Management Plan 2027 aims not only for sales growth but also for profit margin growth through productivity improvement. We aim for 10% improvement in internal productivity per hour through the utilisation of AI and investment in DX. However, we have not conducted a detailed calculation of how this will contribute to our profit margins.

With regard to "Strategic investment" listed in Mid-Term Management Plan 2027 "Basic Policy for Capital Allocation" (p. 46), if there are no suitable M&A deals, how do you use the cash allocated for strategic investments?

We will provide shareholder returns with a total payout ratio of 35% to 50%. We consider that shareholder returns, including share buybacks, are necessary to achieve the EPS growth target.

What measures do you consider to increase the profit margins of your overseas consulting engineering business?

We have been discussing with Waterman aiming to expand more profitable businesses related to sustainability and defense such as equipment design and structural design of defense facilities. Additionally, we will leverage technological development, digitalisation and AI to improve efficiency.

In the domestic consulting engineering business, is there any possibility of expanding your business to defense-related work?

Currently, we have received orders from the Ministry of Defense for geological surveys, cost estimation support, and other services.

The business related to defense facilities will be undertaken by Nissoken Co., Ltd., a group company specialises in construction.

In the Mid-Term Management Plan 2027 "Management that is Conscious of Cost of Capital and Stock Price" (p. 44), despite understanding the reasons for the low stock price, the dividend forecast is flat from the previous year and the profit margins are growing slowly in the plan for 2025. Is it still possible to achieve a CAGR of EPS by 10%?

The initial plan for this fiscal year is slightly conservative because we have restrained orders for the past several years.

We plan to accelerate structural reforms from the second year of the Mid-Term Management Plan and achieve an average CAGR of 10% growth for EPS in three years to 2027.