COMPANY RESEARCH AND ANALYSIS REPORT

E·J Holdings Inc.

2153

Tokyo Stock Exchange Prime Market

12-Oct.-2022

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Index

Summary

A growing construction consulting firm with core competencies in disaster prevention and conservation, the environment, and government support

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 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 from 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.

1. FY5/22 results overview

In the Company's FY5/22 consolidated results, net sales rose 6.8% year-on-year (YoY) to ¥36,668mn and operating income increased 16.4% to ¥4,491mn, both of which exceeded initial forecasts (net sales of ¥35,000mn and operating income of ¥3,900mn) and set consecutive record highs. Net sales increased for the sixth straight year on buoyant demand for construction consulting related to disaster prevention and mitigation and national resiliency, and operating income increased for the fifth straight year thanks to increased revenue and productivity improvements. Orders-received decreased 7.7% to ¥34,074mn, reversing a trend, but this was due to personnel being assigned to filling the large order backlog. The term-end balance of orders-received decreased 7.2% to ¥25,431mn, but remained at a high level.

2. Outlook for FY5/23

The outlook for FY5/23 results is that net sales will increase 0.9% YoY to ¥37,000mn and operating income will increase 2.4% to ¥4,600mn, as revenue and profit growth are expected to continue. The Company is projecting orders-received to increase 5.7% to ¥36,000mn through a focus on technical proposal-type projects that center on six priority fields (natural disaster risk mitigation, infrastructure maintenance, digital infrastructure solutions, environment and energy, urban and regional revitalization, and infrastructure management). It intends to steadily increase earnings while making IT and personnel investments to improve business efficiency and R&D investments to expand business.

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

In July 2021, the Company created a long-term vision for FY2030, E·J-Vision 2030, and formulated a policy of pursuing sustainable growth while contributing to the SDGs through the promotion of ESG management in order to become a future-oriented social infrastructure creation group. In its medium-term management plan to FY5/25, which is the first step of the vision, the Company will work, in terms of its basic policies, to strengthen existing businesses and expand the service areas, strengthen the ability to respond to diversifying needs, and construct a management foundation able to respond flexibly to environmental changes. Along with these three points, it plans to make innovation investments totaling around ¥4.0bn over four years. Results in the first year exceeded forecasts, so the Company has upwardly revised results targets for FY5/25 from its initial forecasts (net sales of ¥38.0bn, operating income of ¥4.6bn) to net sales of ¥38.5bn and operating income of ¥4.85bn, and steady growth is expected to continue going forward toward achievement of the results targets for FY5/31 (net sales of ¥50.0bn and operating income of ¥6.0bn).

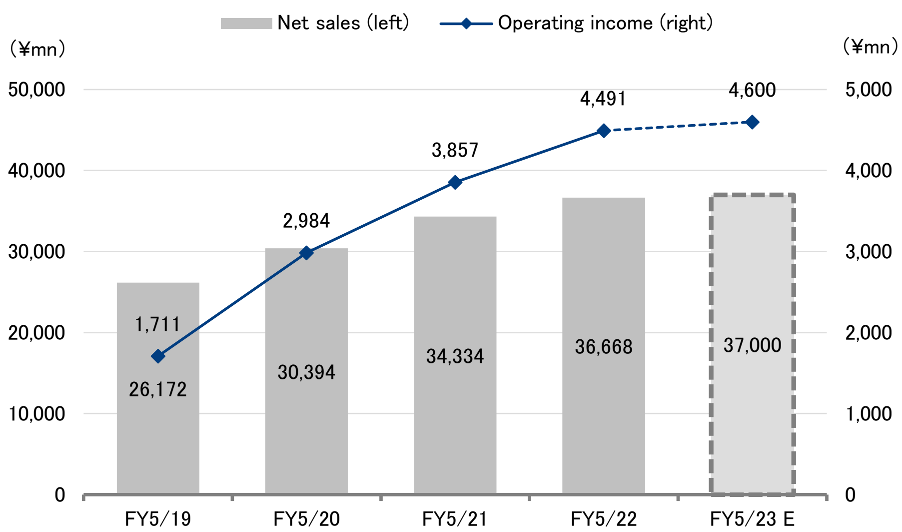
4. Shareholder return policy

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 dividend on equity (DOE) ratio of 3%. In FY5/23, it plans to increase the dividend per share by ¥7.0 YoY to ¥50.0, for the sixth consecutive period of higher dividends. The DOE level is 2.6%, but it is aiming to increase it to the 3% level toward 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 FY5/22 results, steady progress was made in filling the large order backlog, and sales and profit growth were achieved that exceeded initial forecasts
- Public works demand, including national resiliency measures, has been firm, and further sales and profit growth are expected in FY5/23 as well
- The Company is aiming to become a future-oriented social infrastructure creation group and is targeting long-term growth while also contributing to realization of a sustainable society through the promotion of ESG management
- The fifth medium-term management plan got off to a steady start, and FY5/25 results targets were revised upward, albeit by a small margin

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, 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 established the local subsidiary, EJEC (Thailand) Co., Ltd., in August 2020.

The Company is also proactively advancing M&A, and 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.

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.
August 2020	Eight-Japan Engineering Consultants established a local affiliate in Thailand, EJEC (Thailand) Co., Ltd.
April 2022	Changed to the Tokyo Stock Exchange Prime Market

Source: Prepared by FISCO from the Company's website, annual securities, and news release.

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 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 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 2022, the Group consisted of 12 consolidated subsidiaries (and 6 non-consolidated subsidiaries and 1 equity-method affiliate), and had a total of 1,686 employees (an increase of 65 employees compared to the end of the previous fiscal period). Also, its equity-method affiliate ENZAN KOUBOU Co., Ltd. (investment ratio of 38.1%) has its head office in Kyoto and develops and provides software to control surveying equipment and for data management, mainly in the construction and civil engineering fields.

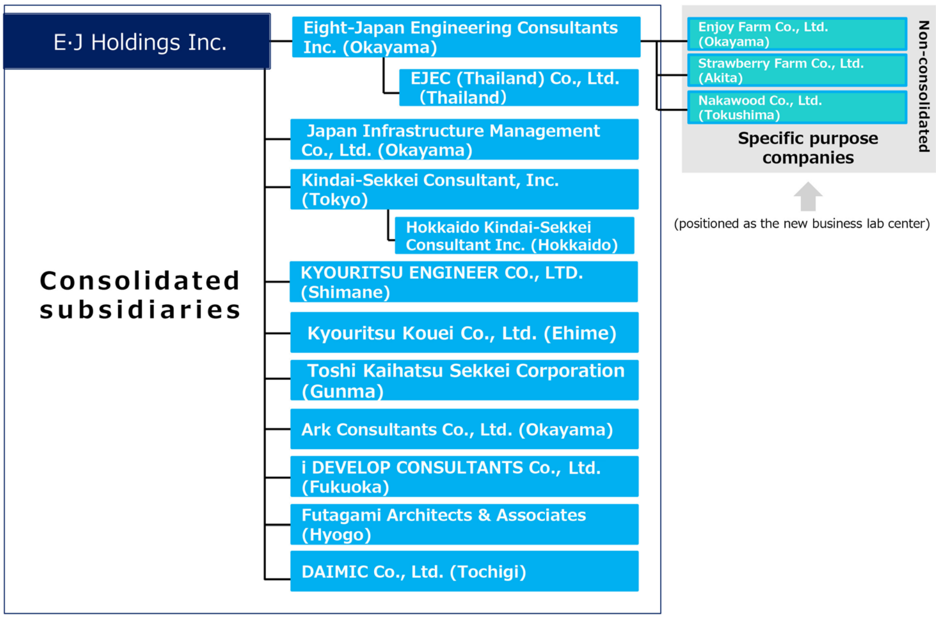
(1) Overview of subsidiaries

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, and this expertise, which is one source of the Company's competitiveness, is shared throughout the Group.

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. Ark Consultants Co., Ltd., i DEVELOP CONSULTANTS Co., Ltd., Futagami Architects & Associates, and DAIMIC Co., Ltd. have been referred to above.

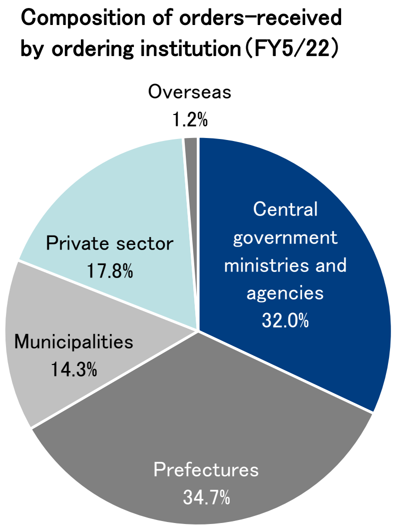
Overview of the E·J Group

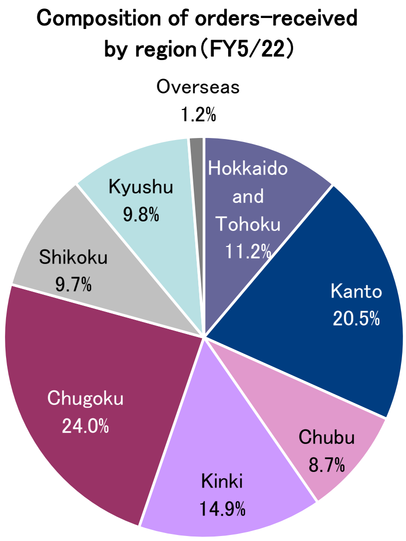


Source: Prepared by FISCO from the Company's results briefing materials

(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 FY5/22 results, the composition of orders-received was 32.0% for central government ministries and agencies, mainly for the Ministry of Land, Infrastructure, Transport and Tourism; 34.7% for prefectures; and 14.3% for municipalities, therefore totaling 81.0% for government ministries and agencies alone, 17.8% for private sector companies, and 1.2% 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 24.0%, followed by the Kanto area at 20.5% and then Kinki at 14.9%, and those 3 regions provide approximately 60% of the total.





Source: Prepared by FISCO from materials provided by the Company

Nearly all ordered projects are scheduled to end within a year. But 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 three to four 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 FY5/22 results, steady progress was made in filling the abundant order backlog, so sales and profits increased and exceeded the initial forecasts

1. Overview of the FY5/22 results

In the FY5/22 consolidated results, net sales increased 6.8% YoY to ¥36,668mn, operating income rose 16.4% to ¥4,491mn, ordinary income grew 16.1% to ¥4,706mn, and profit attributable to owners of the parent increased 12.1% to ¥3,121mn, So the results were strong with every item exceeding its initial Company forecast, achieving a record high. Net sales and operating income increased for the sixth consecutive period and ordinary income and profit attributable to owners of the parent for the fifth consecutive period, each setting new record highs, with the operating margin of 12.3% also reaching a record high level.

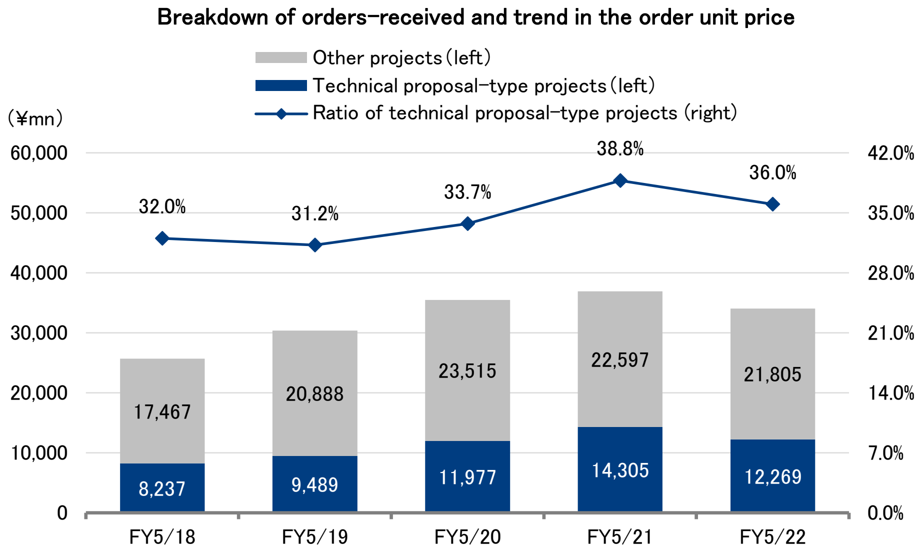
Business performance for FY5/22 (consolidated)

(¥mn)

	FY5/21		FY5/22				
	Results	Ratio to net sales	Forecast	Results	Ratio to net sales	YoY	Vs. forecast
Orders-received	36,902	107.5%	35,000	34,074	92.9%	-7.7%	-2.6%
Net sales	34,334	-	35,000	36,668	-	6.8%	4.8%
Cost of sales	22,933	66.8%	23,450	24,465	66.7%	6.7%	4.3%
SG&A expenses	7,543	22.0%	7,650	7,711	21.0%	2.2%	0.8%
Operating income	3,857	11.2%	3,900	4,491	12.3%	16.4%	15.2%
Ordinary income	4,054	11.8%	4,100	4,706	12.8%	16.1%	14.8%
Profit attributable to owners of the parent	2,784	8.1%	2,800	3,121	8.5%	12.1%	11.5%

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

Orders-received decreased 7.7% to ¥34,074mn, the first decline in four terms. Factors included personnel being assigned on a priority basis to fill the order backlogs, orders-received in FY5/21 including approximately ¥1.5bn in advance orders related to projects for the government's Five-year Acceleration Measures for National Resilience, and local government budgets being allocated to COVID-19 measures. In particular, regarding technical proposal-type projects, submissions declined by 15.4% to just 1,037 amid limited resources, and orders-received dropped 14.2% to ¥12,269mn. The year-end balance of orders-received declined 7.2% YoY to ¥25,431mn, reversing a trend, but it remained at a high-level equivalent to eight months of net sales.



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

Net sales were almost entirely unaffected by the novel coronavirus pandemic (hereafter, COVID-19), and the order backlog was steadily eliminated, which resulted in net sales exceeding the Company's initial forecast by 4.8%. The cost-of-sales ratio was set at a somewhat conservative 67.0% in initial forecasts, but it declined by 0.1 percentage points to 66.7% thanks to productivity improvements and other factors. In addition, regarding SG&A expenses, personnel expenses increased, but as a result of working to raise business efficiency by promoting DX, the increase was kept to 2.2% YoY, and the SG&A ratio declined 1.0 percentage points to 21.0%. As a result, the operating margin increased for the fifth consecutive year, by 1.1 percentage points to 12.3%, which set a new record high (5.5% in FY5/17). The accounting standard for revenue recognition and other accounting changes were applied beginning in FY5/22, which increased net sales by ¥337mn, costs of sales by ¥277mn, operating income by ¥60mn, and ordinary income by ¥60mn compared to the previous accounting standards.

Orders-received for central government ministries and agencies and for municipalities decreased, but net sales for private sector companies increased by double digits

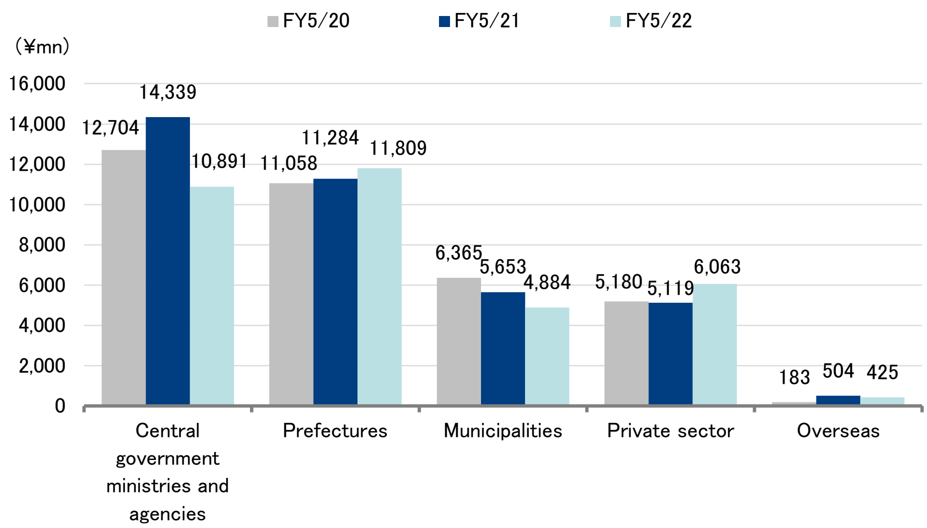
2. Trends in orders-received and net sales

(1) Trends in orders-received

Orders-received in FY5/22 declined 7.7% YoY to ¥34,074mn. Looking at percentage change by ordering institutions, central government ministries and agencies fell by 24.1%, municipalities by 13.6%, and overseas by 15.6%, while prefectures increased 4.7% and private sector companies by 18.4%. For central government ministries and agencies, the Company had received orders for numerous projects due to a supplementary budget created the previous term in connection with an increase in natural disasters, and the order backlog swelled as a result, so in the FY5/22, the Company prioritized filling the order backlog and took new orders selectively, which was a factor behind the decline this term. Also, for municipalities, orders were affected by local government budgets continuing, since the previous year, to be allocated to COVID-19 measures. In the overseas category as well, JICA projects slowed because of COVID-19, reversing a trend to register a decline. Conversely, for the private sector (mainly expressway companies), orders increased by double digits, primarily in connection with inspection work on aging expressways and design work for reinforcing earthquake resistance, with a record high being set for the first time in two terms. Orders-received for prefectures also set another consecutive record high.

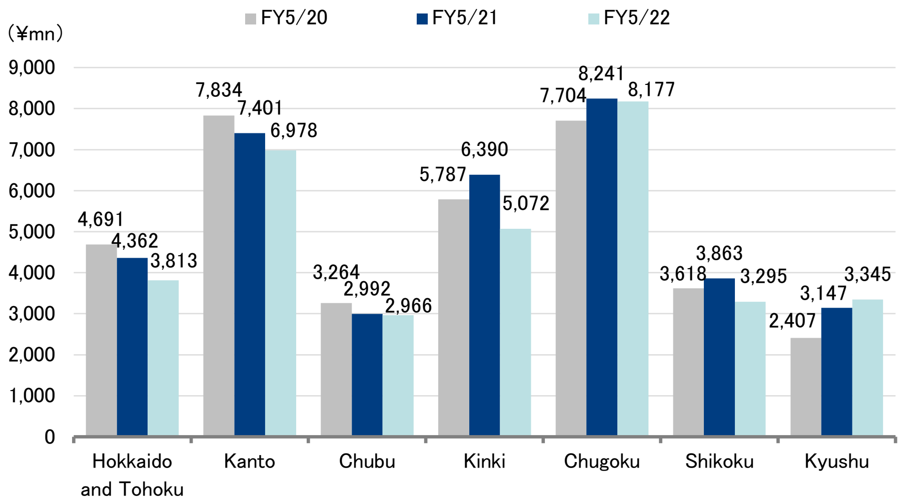
Looking at orders-received by region, Kyushu increased by 6.3% YoY, the only region to register growth; the other regions all declined. The Hokkaido, Tohoku, Kanto and Chubu regions declined for the second straight term after peaking in FY5/20. The Kinki, Chugoku, and Shikoku regions began declining after peaking last year, FY5/21.

Trends in orders-received by ordering



Source: Prepared by FISCO from materials provided by the Company

Trends in orders-received by domestic region



Source: Prepared by FISCO from materials provided by the Company

Regarding orders-received in priority fields, there had been five categories such as environment and energy, natural disaster risk mitigation, urban and regional revitalization, infrastructure management, and information and communications, but these have been reorganized into six categories as of FY5/22. Infrastructure management was divided into infrastructure maintenance and infrastructure management, and information and communication were renamed digital and infrastructure solutions. Orders-received in the six priority fields dipped 3.8% YoY to ¥20,491mn, but its share of total orders-received continued to rise, from 57.7% the previous term to 60.1%. By field, orders-received on the themes of environment and energy and natural disaster risk mitigation declined, but increased in the urban and regional revitalization and digital and infrastructure solutions fields. Also, infrastructure maintenance-related and other orders can be seen to have increased centering on the private sector and other areas.

Trends in orders-received in the priority fields

(¥mn)

	FY5/20 Results	FY5/21 Results
Environment and energy	1,524	2,644
Natural disaster risk mitigation	7,262	8,531
Urban and regional revitalization	1,209	1,120
Infrastructure management	7,997	8,601
Information and communications	279	401
Total	18,271	21,297
Priority field ratio	51.5%	57.7%

(¥mn)

	FY5/22		FY5/23	
	Results	YoY	Forecast	YoY
Environment and energy	2,281	-13.7%	2,485	8.9%
Natural disaster risk mitigation	4,944	-42.0%	5,201	5.2%
Urban and regional revitalization	1,600	42.9%	1,936	21.0%
Infrastructure maintenance	4,550	-	4,704	3.4%
Infrastructure management	6,173	-	6,614	7.1%
Digital infrastructure solutions	943	135.2%	1,120	18.8%
Total	20,491	-3.8%	22,060	7.7%
Priority field ratio	60.1%		61.3%	

Source: Prepared by FISCO from materials provided by the Company

The 6 new priority fields

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

* Building information modeling (BIM) is a workflow that helps raise the business efficiency of construction projects through 3D digital models of buildings created on a computer. It is a solution for information-sharing and utilization of building databases with additional attribute data, including costs, finishings and management information, in all processes from building design and construction to maintenance and management. The Ministry of Land, Infrastructure, Transport and Tourism has created guidelines together with CIM to reduce the costs of public works and other projects. Construction information modeling/management (CIM) is an IT system for construction projects that uses 3D models from the planning, survey and design stages in order to increase the efficiency and sophistication of construction production systems. It allows 3D models to be linked and further developed at the subsequent construction and maintenance/management stages, simplifying the sharing of information among the people involved for the duration of a project.

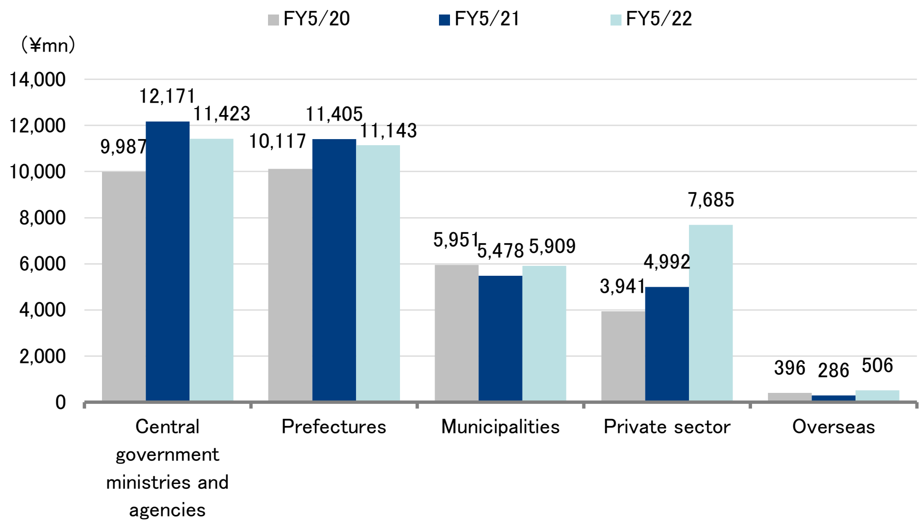
Source: Prepared by FISCO from the Company's results briefing materials

(2) Trends in net sales

Looking at net sales by ordering institution, central government ministries and agencies declined by 6.1% YoY and prefectures by 2.3%, but municipalities increased by 7.9%, the private sector by 54.0% and the overseas category by 77.0%, with these areas all showing growth. The total for government offices and agencies declined 2.0% to ¥28,475mn, but, thanks to major growth in sales to the private sector, increased revenue was maintained overall. Sales overseas increased owing in part to its low level in FY5/21 because of COVID-19, but the figure has still not returned to pre-COVID-19 levels.

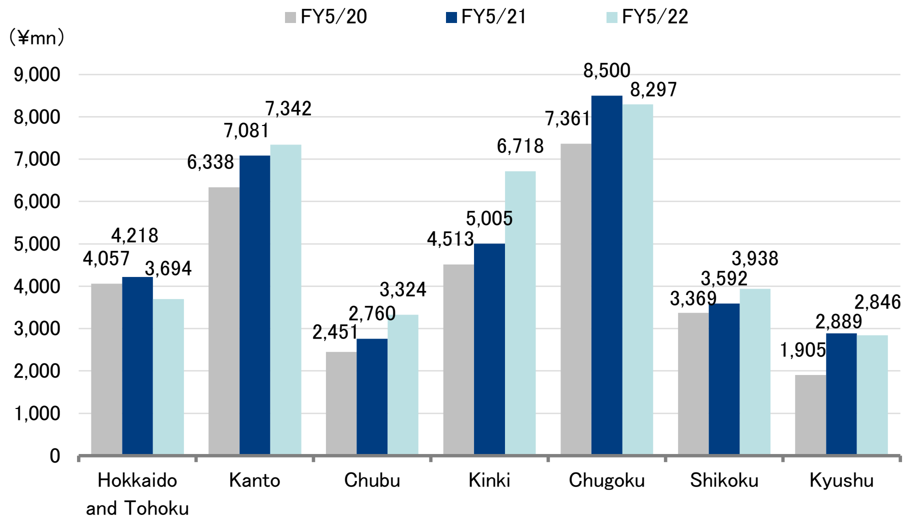
Regarding sales by region, Hokkaido and Tohoku declined by 12.4% YoY, Chugoku by 2.4% and Kyushu by 1.5%, all of which dropped back after setting record highs in FY5/21. However, Kanto increased by 3.7%, Chubu by 20.4%, Kinki by 34.2% and Shikoku by 9.6%. These regions set record highs as sales continued to increase against the backdrop of extensive backlogs.

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 rose to the 70% range and its financial position is excellent

3. Financial position and management indicators

Looking at the Company's financial position as of the end of FY5/22, total assets increased ¥1,727mn compared to the end of the previous year to ¥39,240mn. The main change factors were, in current assets, a decrease of ¥885mn in cash and deposits and, due to growing net sales toward the end of the fiscal year, an increase of ¥1,493mn in notes and accountings receivable-trade and contract assets, and also an increase of ¥394mn in inventories. In non-current assets, property, plant and equipment increased by ¥40mn, investments and other assets rose by ¥546mn, and goodwill decreased by ¥125mn.

Total liabilities decreased ¥319mn on the end of the previous period to ¥11,696mn. Accounts payable – operating and accounts payable - other increased ¥483mn, but there were decreases of interest-bearing debt of ¥356mn, unpaid consumption tax etc., of ¥315mn, and advances received on service contracts in progress and contract liabilities, of ¥342mn. Total net liabilities increased ¥2,047mn at the end of the previous period to ¥27,544mn. Alongside the growth in earnings, retained earnings increased ¥2,457mn, treasury shares increased ¥383mn due to a purchase of treasury shares (a decrease factor).

Looking at management indicators, the equity ratio, which expresses management stability, rose from 68.0% the previous fiscal term-end to 70.2% on earnings growth. Also, the extent of reliance on interest-bearing debt went down from 2.5% to 1.5%, so it can be said that the Company's financial base has gotten stronger. At the same time, regarding profitability as well, ROA was 12.3%, ROE, 11.8%, and the operating margin, 12.3%, all consecutively maintaining levels above 10%. Over the past several years, the Company has strengthened technical proposal-type projects with high added-value and worked to raise productivity by standardizing operations, which can be seen as having led to earnings growth and higher profitability.

Consolidated balance sheet

(¥mn)

	FY5/19	FY5/20	FY5/21	FY5/22	Increase/ decrease
Current assets	16,417	20,580	26,480	27,683	1,203
(Cash and deposits)	10,884	14,138	18,975	18,090	-885
Non-current assets	10,313	10,604	11,032	11,556	524
Total assets	26,731	31,185	37,513	39,240	1,727
Total liabilities	8,582	10,860	12,015	11,696	-319
(Interest-bearing debt)	523	1,324	927	571	-356
Total net assets	18,149	20,324	25,497	27,544	2,047
<Stability>					
Equity ratio	67.9%	65.2%	68.0%	70.2%	2.2pt
Extent of reliance on interest-bearing debt	2.0%	4.2%	2.5%	1.5%	-1.0pt
<Profitability>					
ROA (return on assets)	6.6%	11.1%	11.8%	12.3%	0.5pt
ROE (return on equity)	7.4%	10.5%	12.2%	11.8%	-0.4pt
Operating margin	6.5%	9.8%	11.2%	12.3%	1.1pt

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

Business outlook

With firm demand from public works projects, including national resiliency measures, higher sales and profits projected for FY5/23 as well

1. FY5/23 outlook

The Company's forecasts for consolidated results in FY5/23 are as follows. Net sales are projected to increase by 0.9% YoY to ¥37,000mn, operating income, by 2.4% to ¥4,600mn, ordinary income, by 2.0% to ¥4,800mn, and profit attributable to owners of the parent, by 2.5% to ¥3,200mn, as higher sales and profits are expected to continue. Orders-received are also forecast to increase, by 5.7% to ¥36,000mn, reversing the previous trend.

FY5/23 outlook (consolidated)

(¥mn)

	FY5/22		FY5/23		
	Results	Ratio to net sales	Forecast	Ratio to net sales	YoY
Orders-received	34,074	92.9%	36,000	97.3%	5.7%
Net sales	36,668	-	37,000	-	0.9%
Cost of sales	24,465	66.7%	24,650	66.6%	0.8%
SG&A expenses	7,711	21.0%	7,750	20.9%	0.5%
Operating income	4,491	12.3%	4,600	12.4%	2.4%
Ordinary income	4,706	12.8%	4,800	13.0%	2.0%
Profit attributable to owners of the parent	3,121	8.5%	3,200	8.6%	2.5%
EPS (¥)	197.46		202.43		

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

The Company will pursue the following five points as its priority policies for FY5/23, continuing on from FY5/22.

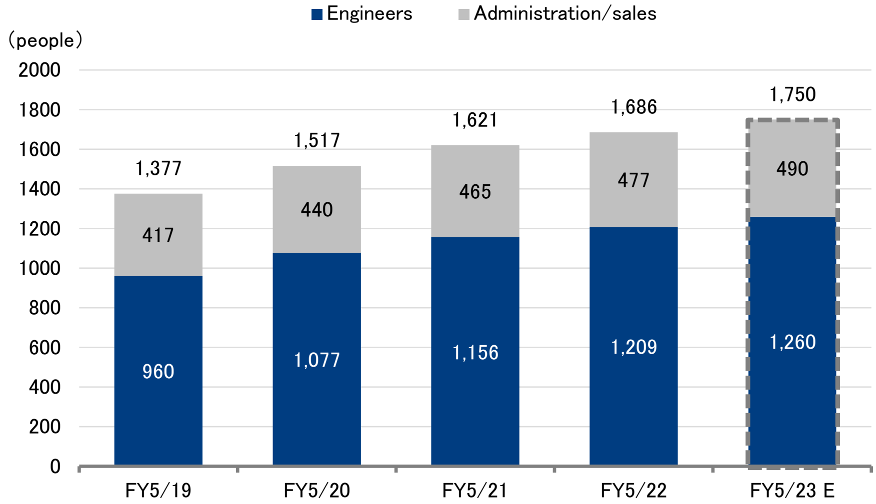
a) By increasing the sophistication of and combining the technologies in the six priority fields (natural disaster risk mitigation, infrastructure maintenance, digital and infrastructure solutions, the environment and energy, urban and regional revitalization, and infrastructure management), progress 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 incorporating DX 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 business environment assumed by the policies, in Japan, the initial budget for public works in FY2022 of ¥6.1tn is equivalent to the previous fiscal year, and to this is added the budget (total of ¥15 trillion) for the Five-year Acceleration Measures for National Resilience that started in January 2021, so firm demand is expected from central government ministries and agencies. At the same time, local government budgets are being allocated to COVID-19 measures, so demand from these bodies is expected to drop by around 15% compared to the previous fiscal year. There remain concerns regarding the impact of COVID-19, but domestically the impact is expected to be limited unless the government declares another nationwide state of emergency. Overseas, there is still risk of business slowing due to restrictions on movement and quarantine policies, but it is thought that the impact on overall results will be minor.

In such an environment, orders-received in FY5/23 is expected to increase 5.7% YoY to ¥36,000mn. Demand will continue to be buoyant, and backlogs have been cleared to a certain extent as of the end of last term, so the Company can now assign more human resources to acquiring new orders. At the same time, considering man-hour restrictions as it works to make quick progress on its backlog, the Company is planning at minimum to secure sales growth. If the process makes steady progress, there is adequate potential for net sales to outperform the forecast, as was the case in FY5/22.

The cost-of-sales ratio is projected to decline 0.1 percentage points to 66.6%. Slight improvement is expected as a result of continued efforts to improve productivity through process standardization and other initiatives. At the same time, SG&A expenses are forecast to only increase slightly, by 0.5%. The Company is expecting to make IT investments to improve business efficiency, increase personnel expenses and training expenses to strengthen human resources, and increase R&D expenses (¥100mn increase to ¥200mn), etc. It is anticipated that hirings will continue at the same pace as the previous year, with the Company expecting to increase employees by 64 compared to the end of the previous fiscal year to 1,750 as of the end of FY5/23, and engineers in particular by 51 to 1,260.

Trends in the no. of employees



Source: Prepared by FISCO from materials provided by the Company

Looking at orders-received forecasts by ordering institution, central government ministries and agencies are projected to increase 12.0% YoY, prefectures by 1.6%, and municipalities by 2.4%, while the private sector is expected to decrease by 1.0%. The overseas category is also expected to increase, by 88.2%. So, increases are expected across categories with the exception of the private sector, which saw growth the previous year. Also, technical proposal-type projects are forecast to increase by 18.0% to ¥14,475mn, which would be a record high for the first time in two years. The ratio to total orders-received is also expected to increase to 40.2%.

At the same time, regarding net sales, central government ministries and agencies are forecast to increase 0.7% YoY, prefectures by 0.5%, municipalities by 1.5%, the private sector by 0.2%, and overseas by 18.6%, so growth is expected across the board. Overseas, there is potentially the risk that projects will be delayed due to COVID-19, but FISCO expects the Company to cover for this through domestic sales growth, which is estimated conservatively.

Orders-received by ordering institution

(¥mn)

	FY5/19	FY5/20	FY5/21	FY5/22	FY5/23 E	YoY
Central government ministries and agencies	9,799	12,704	14,339	10,891	12,200	12.0%
Prefectures	10,702	11,058	11,284	11,809	12,000	1.6%
Municipalities	5,976	6,365	5,653	4,884	5,000	2.4%
Private sector	3,311	5,180	5,119	6,063	6,000	-1.0%
Overseas	587	183	504	425	800	88.2%
Total	30,377	35,492	36,902	34,074	36,000	5.6%

Source: Prepared by FISCO from materials provided by the Company

Net sales by ordering institution

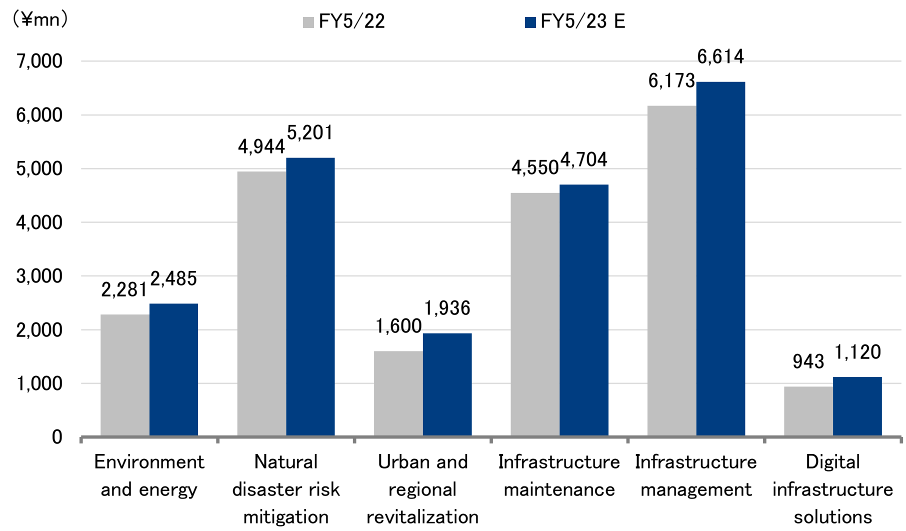
(¥mn)

	FY5/19	FY5/20	FY5/21	FY5/22	FY5/23 E	YoY
Central government ministries and agencies	8,053	9,987	12,171	11,423	11,500	0.7%
Prefectures	9,540	10,117	11,405	11,143	11,200	0.5%
Municipalities	4,980	5,951	5,478	5,909	6,000	1.5%
Private sector	3,002	3,941	4,992	7,685	7,700	0.2%
Overseas	595	396	286	506	600	18.6%
Total	26,172	30,394	34,334	36,668	37,000	0.9%

Source: Prepared by FISCO from materials provided by the Company

Orders-received in the six priority fields are forecast to increase 7.7% YoY to ¥22,060mn, and the ratio to total orders-received is expected to increase further, from 60.1% the previous year to 61.3%. Orders-received are projected to increase in all fields, with double-digit growth of 21.0% predicted in urban and regional revitalization and 18.8% in digital and infrastructure solutions.

Trends in orders-received in the six priority fields



Source: Prepared by FISCO from materials provided by the Company

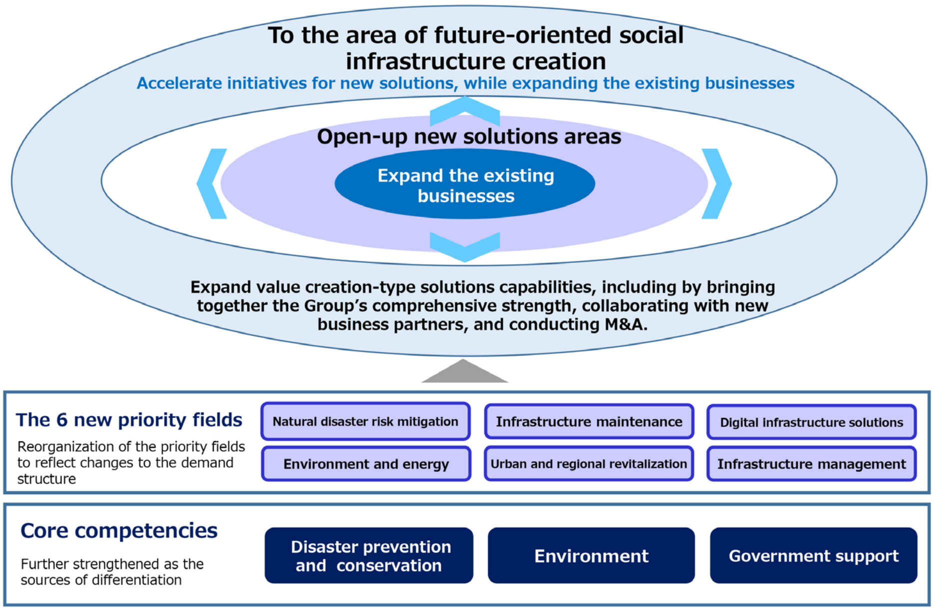
Aiming to become a future-oriented social infrastructure creation group and targeting long-term growth while also contributing to realization of a sustainable society through the promotion of through ESG management

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

In July 2021, the Company announced its new long-term vision E·J-Vision 2030 up to FY5/31, and also its fifth medium-term management plan E·J-Plan2024 (from FY5/22 to FY5/25) as the first step toward realizing this vision. Spurred on by COVID-19, 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 realizing a sustainable society. 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.

The Company's long-term vision lays out four basic policies for ESG management: to strengthen measures to mitigate the burden on the environment, to contribute to the creation of a sustainable and resilient society, to practice diversity management, and to strengthen governance to build an optimal structure, as the Company aims to become a future-oriented social infrastructure creation group (from a problem solving-type to a value creation-type company). It will further strengthen its three core competencies (disaster prevention and conservation, the environment, and government support) and consolidate the Group's comprehensive strengths in order to focus on its six priority fields. The Company also will collaborate with new business partners and promote M&A and other initiatives as it further develops new solution areas in the pursuit of long-term growth.

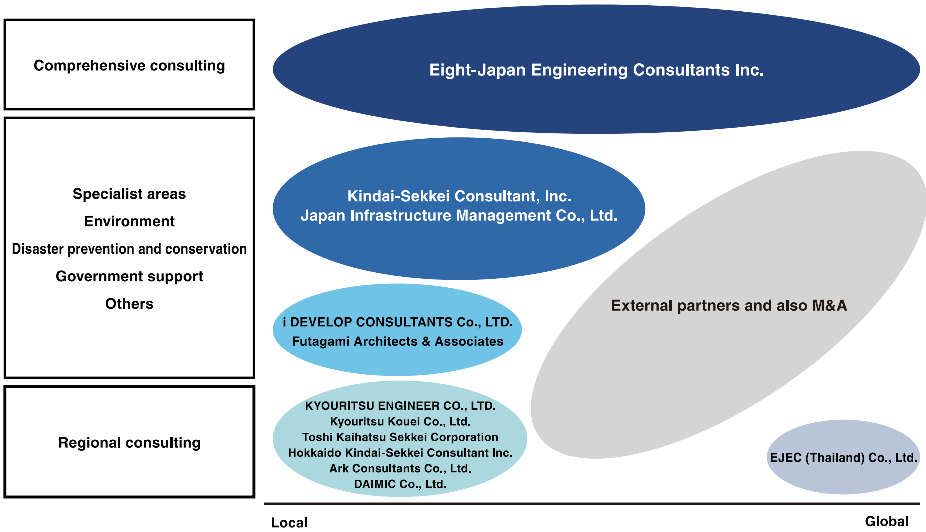
Business development



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

The results targets set for FY5/31 in the long-term vision are net sales of ¥50.0bn, operating income of ¥6.0bn, profit attributable to owners of the parent of ¥4.0bn, and ROE of 10% or higher. M&A is being considered both in Japan and overseas. In Japan, it will be to increase sales in regions of low market share, supplement technical areas and secure personnel. Regionally, Kyushu, Hokuriku, Hokkaido, etc. are high priority, but in other regions as well, the Company intends to proactively consider M&A partners with which synergies can be expected. From an efficiency perspective, it will target companies with annual sales of over ¥500mn. By contrast, overseas, the Company is considering targeting local construction consulting companies. It will expand its overseas business by combining its advanced technical capacities and consulting capabilities with the networks of local companies to aim for overseas sales of ¥5.0bn and an overseas sales ratio of 10% in ten years. The Company first plans to strengthen its business base by training management personnel in order to expand overseas business.

The roles of Group companies and collaborations



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

With the fifth medium-term management plan off to a steady start, FY5/25 results targets upwardly revised, albeit by a small margin

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 works on five themes (building a structure to generate innovation, digital transformation, human resources development and training and workstyle reforms, rebuilding a glocal management structure, and achieving the SDG targets).

(1) Basic policies

1) To strengthen existing businesses and expand the service areas

a) The Company will incorporate the latest technologies to deepen government support services, including maintenance for aging infrastructure facilities, development of sustainable social infrastructure that considers the environment, and construction management (orderer support), and will engage in this as a priority issue. As an example of a specific initiative, the Company will create 3D models of planned bridges using augmented reality (AR) and layer them with the local landscape to verify conditions after the planned bridge is completed, which will help in the process of verifying plans and identifying problems at an early stage. In addition, in projects to remove utility poles, the Company conducts radar exploration to grasp underground installation conditions and creates 3D models using BIM/CIM to improve design precision, improve project efficiency and enhance visual comprehensibility for planning discussions and presentations for local residents, which is helping to smooth deliberations.

b) Through the six 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. As an organization to fulfill this purpose, the EJ INNOVATION TECHNOLOGY CENTER was established in June 2021 (a developmental reorganization of the EJ Research Center for Disaster Risk Mitigation).

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) The Company will deepen its business to solve problems (BtoBtoC, etc.) while utilizing existing agriculture and forestry businesses. Regarding the local solutions business, since 2012 the Company has been engaged in “sixth industrialization” activities in the agribusiness through joint investment with local public bodies, companies, and other organizations in Akita, Okayama, and Tokushima Prefectures. Strawberry Farm Co., Ltd. in Akita Prefecture cultivates a rare summer strawberry, Natsuakari, and sells around four tons each year to confectioneries and restaurants nationwide. This has grown into a business with annual sales of over ¥10mn. The company also began to transfer production technologies to local agricultural producers in 2021 and hopes to generate annual sales of ¥100mn when combined with its own production.

The Company has been contracted by the local government for operation and management of Enjoy Farm Co., Ltd. in Okayama Prefecture since April 2013 (contract runs through FY2022), which includes cultivating fruit on its farm and operating SUISHA NO SATO FRUIT TOPIA, an interactive facility for food education and farming. At Nakawood Co., Ltd. in Tokushima Prefecture, high-quality wood flour produced in Tokushima Prefecture is used to produce wooden tables and decks for public facilities as a part of a wood utilization promotion and regional development project. The company also sells it as a material and in woodworking products, including portable toilets, handheld fans, and interior furnishings. In February 2022, at the Sustainability Awards 2021* held by the Ministry of Agriculture, Forestry and Fisheries, Consumer Affairs Agency, and Ministry of the Environment, the company’s local development efforts for sustainable forestry through tree utilization and cultivation were honored with a Green Food System Promotion Award. Regarding its businesses in Akita Prefecture and Tokushima Prefecture, the Company plans to sell shares to local companies, etc. when they reach profitability, but it is expected that this will still take some time.

* At the Sustainability Awards 2021, videos introducing sustainability initiatives in an easy-to-understand manner were solicited in 2021 in order to broadly communicate, both in Japan and overseas, the initiatives of communities, producers, and business operators that handle sustainable products and services related to food and the agricultural, forestry, and fisheries industries based on SDG Goal 12, “Ensure sustainable consumption and production patterns.” The 92 entries were judged by a panel of experts and then awards were announced.

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.

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

a) As a part of DX promotion activities, the Company will utilize ICT technologies, starting with core system upgrades, to greatly evolve its internal value chain and work to raise business efficiency and productivity while ensuring output quality.

b) The Company will seek to marshal the Group's collective strengths in pursuit of higher corporate value. As a concrete initiative for realizing strong and flexible group management, the Company holds regular meetings of the Group Management Committee, which is made up of the management team, the Group Risk Management Committee, which is a group liaison committee made up of managerial employees, and Sustainability Promotion Committee.

c) The Company will put into practice diverse workstyles using satellite offices and telework, form workplaces that respect diversity, and strengthen the Group's brand. As for specific initiatives, it relocated around 50 engineers affiliated with the Tokyo headquarters of Eight-Japan Engineering Consultants to a new satellite office in Omiya, Saitama Prefecture in August 2022 and will start a hybrid work trial (work format combining telework and regular work at the office) as the first step in a Groupwide rollout. This initiative is also a business continuity planning measure. Also, by promoting health management, the Company is working to increase employee motivation and support retention as well as secure human resources and support retention aimed at promoting women's active participation.

d) The Company established "corporate schools"* in June 2021 to strengthen innovation and the development of managerial human resources. By improving basic and applied technical skills that cannot be obtained through on-the-job training, passing on operational know-how and implicit knowledge, raising productivity and quality through these initiatives, developing star engineers and other activities, it will raise the overall Group's technical capabilities and further enhance its human resources.

* In the initial fiscal year, various (online) courses were established with outside instructors, including company retirees and university professors, for employees of Eight-Japan Engineering Consultants. In FY5/23, the scope of participants was expanded to all Group companies.

e) The Company will strengthen risk management and internal controls as a matter of course, and also build a robust governance system rooted in the Corporate Governance Code and increase management transparency in order to foster trust with shareholders and investors. In addition, to address climate change risk, the Company established the Sustainability Promotion Committee in May 2022, and has expressed its support for the Task Force on Climate-Related Financial Disclosures (TCFD) while disclosing on its website specific initiatives going forward in line with the TCFD recommendations. Regarding CO_2 emissions reductions, the Company will begin concrete initiatives in FY5/24. These will mainly consist of converting its entire fleet of vehicles from gasoline-powered cars to hybrids and electric vehicles by FY2030 and switching its electric power contracts at all business sites to renewable energy.

(2) Numerical management targets

Looking at the Company's numerical management targets in its medium-term management plan, results in FY5/22, the first fiscal year of the plan, exceeded initial forecasts, so the Company upwardly revised its targets for FY5/25, the final year of the plan. Specifically, it revised consolidated net sales from ¥38.0bn to ¥38.5bn, operating income from ¥4.6bn to ¥4.85bn, and profit attributable to owners of the parent from ¥3.1bn to ¥3.35bn. For ROE, the Company is aiming for 10% or higher. Regarding annual average growth rates over four years, the Company has sound plans for 2.9% growth in net sales and 5.9% growth in operating income. An issue is strengthening human resources. This is because the construction consulting industry has a chronic shortage of personnel, therefore human resources tend to be concentrated in major companies. The Company has substantially updated recruitment-related content on the websites of its Group companies and is carrying out initiatives to attract prospective new graduates and mid-career professionals via the Internet. It will also promote the aforementioned initiatives to develop personnel and support their retention to strengthen human resources and work to achieve its medium-term plan.

Consolidated numerical management targets

(¥mn)

	FY5/21 Results	FY5/25 Initial targets	FY5/25 Revised targets	CAGR (four years)	FY5/31 Targets	CAGR (ten years)	Special notes
Net sales	34,334	38,000	38,500	2.9%	50,000	3.8%	Promoting alliances
Operating income	3,857	4,600	4,850	5.9%	6,000	4.5%	Profit margin, 12%
Profit attributable to owners of the parent	2,784	3,100	3,350	4.7%	4,000	3.7%	ROE, 10% or above

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

Over the four years to FY5/25, the Company plans to invest approximately ¥4.0bn in innovation. Specifically, this will include investment to reform business processes and improve production efficiency via DX, investment in BCP measures (including infection control measures) and in establishing workplace conditions for diversifying working styles, R&D investment for new technology development related to the national resiliency business, which includes disaster prevention and mitigation and addressing aging infrastructure, and education- and training-related investment for recruiting and training diverse human resources. Of this, the Company is planning around ¥1.8bn to fund development of a new ERP system and introduce DX tools in order to realize business process DX. Also, apart from these investments, it is also planning to invest in M&A.

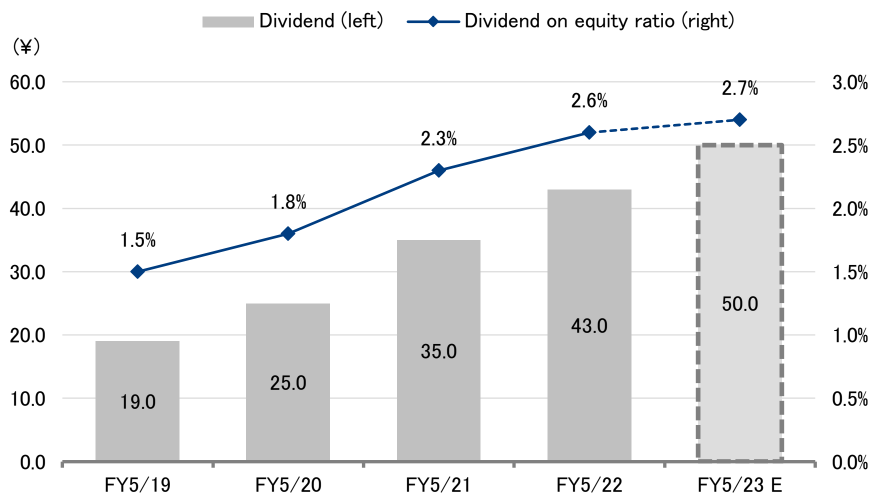
Shareholder return policy

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

The Company returns profits to shareholders through dividends and the shareholder benefits program it has introduced. Its basic policy on dividends is to maintain stable and ongoing dividend growth, and for the immediate future it will determine its dividend upon comprehensively considering the business environment, profit levels, payout ratio, and other factors, aiming for a dividend on equity ratio (DOE) of 3%. The Company is planning a per-share dividend for FY5/23 of ¥50.0, an increase of ¥7.0 YoY that would be the sixth consecutive year of increases. DOE is at 2.6%, and the Company is aiming for 3% by FY5/25. Supposing that results make progress in line with the Company's medium-term management plan and DOE reaches 3.0%, this would mean an increase in the dividend per share to around the middle of the ¥60-69 range in 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: 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

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