




President Masamitsu Takahashi

DAI-ICHI CUTTER KOGYO K.K. (1716)

 第一カッター興業株式会社

## Company Information

Market	TSE 1st
Industry	Construction
President	Masamitsu Takahashi
HQ address	833 Hagisono, Chigasaki-shi, Kanagawa
Year-end	June
Homepage	<a href="http://www.daiichi-cutter.co.jp/">http://www.daiichi-cutter.co.jp/</a>

## Stock Information

Share Price	Shares Outstanding (End of term)		Total market cap	ROE (Act.)	Trading Unit
1,334 yen	12,000,000 shares		¥16,008 million	13.6%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥27.00	2.0%	¥123.88	10.8x	¥1,197.33	1.1x

\* The share price is the closing price as of December 7, 2021. Each number is taken from the brief report on earnings results for FY ended June 2021.

## Earnings Trends

Fiscal Year	Net Sales	Operating Profit	Ordinary Profit	Profit Attributable to Owners of Parent	EPS	DPS
June 2018 Act.	16,283	2,187	2,263	1,487	130.68	12.50
June 2019 Act.	14,871	1,760	1,843	1,251	109.90	10.00
June 2020 Act.	17,440	2,296	2,482	1,523	133.86	12.50
June 2021 Act.	19,337	2,760	2,936	1,743	153.16	18.00
June 2022 Est.	18,190	2,422	2,569	1,410	123.88	27.00

\* The estimated values are based on the forecasts made by the Company. Unit: million-yen, yen

\* A 2-for-1 stock split was conducted on January 1, 2021. EPS and DPS were adjusted retroactively.

We will report on the financial results of DAI-ICHI CUTTER KOGYO K.K. for FY ended June 2021, the outlook for the fiscal year ending June 2022, Medium-term Business Plan and so on.

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## Key Points

- Net sales for the FY ended June 2021 were up 10.9% year-on-year to 19,337 million yen. Sales increased in all segments. Operating profit was up 20.2% year-on-year to 2,760 million yen. The outsourcing ratio rose due to the increase in sales and the gross profit margin decreased by 0.9 points. Nevertheless, the gross profit was up 8.1% year-on-year. SG&A expenses were on a par with the previous year. Therefore, the operating profit margin also improved 1.1% due to a double-digit increase in profits. Both sales and profits reached record highs and also exceeded forecasts.
- Net sales for the FY ending June 2022 are expected to decrease 5.9% year-on-year to 18,190 million yen. The company can expect relatively stable orders for anti-aging construction work that is essential and urgent. On the other hand, the transportation infrastructure department is at a level at which it is necessary to curb orders. Weak fields are also becoming apparent. The forecasts incorporate the impact of unit price restraints. Operating profit is expected to decrease 12.2% year-on-year to 2,422 million yen. Weak fields are becoming apparent in light of the fact general contractors are tending to see a decrease in profit. Accordingly, it is assumed there will be a deterioration (competition) in the order environment due to pressure to reduce prices. The company will aim to maintain profitability by focusing on new construction methods and fields in which it has a strong advantage. It plans to pay a dividend of 27 yen per share. The expected dividend payout ratio is 21.8%.
- The company announced its mid-term management plan (FY ending June 2022 to FY ending June 2024) in November 2021. The new mid-term management plan expresses how it can provide value to social issues as a company involved in the maintenance and repair of social capital stock. Moreover, it expresses the framework for how it will provide value to social issues such as creating an attractive workplace and passing on technologies in response to the accelerating decline in the birthrate and the aging of the population. It has also updated its corporate branding.
- The company is committed to environment(E), society (S) and governance (G) targets and numerical targets (financial and non-financial) while aiming to become the world's number one engineer group and to achieve a market capitalization of 100,000 million yen for its long-term outlook. It has established a personnel strategy, advantage enhancement strategy, governance strategy and growth strategy to realize that.
- The themes of its personnel strategy are as follows: diversification and improvement in the quality of the employee experience, branding, and pursuit of safety and security. The themes of its advantage enhancement strategy are as follows: R&D, group deployment, and partner company network enhancement. The themes of its governance strategy are as follows: governance enhancement, enhancement of sustainability-related disclosures and deepening of dialogue with shareholders. The themes of its growth strategy are as follows: expansion in existing markets, M&As and new businesses.
- The company's main numerical targets for the final FY ending June 2024 of the plan are 20,000 million yen in net sales, 2,700 million yen in operating profit, a ROE of 12% and a market capitalization of 20,000 million yen. This will be the foundation toward 51,000 million yen in net sales, 8,650 million yen in operating profit and a market capitalization of 100,000 million yen in the FY ending June 2036.

- **The company achieved a double-digit increase in sales and profit despite the impact of COVID-19. Both sales and profit exceeded its revised forecast. In addition, it achieved all the numerical targets in its mid-term management plan. It was able to fully demonstrate its competitive advantage to show excellent performance. Moreover, the company's new mid-term management plan (FY ending June 2022 to FY ending June 2024) contains clear corporate branding while specifying the policies and initiatives in its four strategies. It will be an extremely useful guidepost for investors when looking at the company in the future. In particular, enhancing non-financial information and sustainability-related disclosures has an important relationship with securing and training the excellent craftsmen that form the basis of the company's advantage. We plan to interview President Takahashi again about the new mid-term management plan. We would like to observe the trends in the company as it aims to become the world's number one engineer group while taking advantage of the lessons from a scandal in one of its subsidiaries.**

# 1. Corporate Overview

DAI-ICHI CUTTER KOGYO is providing maintenance and repair services for social infrastructure based on its expertise in diamond and water jet method, as well as services of building maintenance and reuse and recycling of IT equipment. The diamond method uses industrial diamonds to saw and drill roads and structures. In the conventional concrete crushing method, it was always necessary to be conscious of nuisances such as noise, vibration, dust, but in the diamond method, the operation can be executed safely, speedily, accurately and without having an adverse effect on the environment. On the other hand, the water jet method destroys concrete bonds by jetting water under extremely high pressure. With this method, a concrete structure can be repaired with pinpoint accuracy without damaging reinforcing steels.

The Group includes 5 consolidated subsidiaries, WALLCUTTING Co., Ltd which engages in wire saw and core boring works; KOUMEI Corporation which is strong in offshore engineering (underwater sawing and drilling works); Shin Shin Corporation which is based in Okinawa Prefecture; ASIRE Corporation which is strong in architecture-related water jet method; Movable Trade Networks Corporation which engages in reuse and recycling business; and Diamond Kiko Corporation, which is an equity method affiliate.

The company operates 23 business establishments, including newly established ones and subsidiaries acquired through M&A, around Japan.

## 1-1 Corporate History

The founder of the Company, who worked at the operation company that introduced flat saws for roads for the first time in Japan, foresaw the expansion in demand for that in the future. He then founded the Company in Chigasaki in Kanagawa Prefecture in August 1967. He did this to engage in the sawing and drilling work of asphalt and concrete structures with the diamond method.



The Company had few projects at first. However, the Ministry of operation (now: Ministry of Land, Infrastructure, Transport and Tourism) issued a directive making it mandatory to use flat saws from a safety perspective when performing road cutting work. This triggered an increase in the amount of this work.

While other companies in the same industry were doing business locally, the Company expanded to Chiba, Tochigi, Mito and Takasaki upon opening its Sapporo Office in June 1969. At the same time, it also expanded the scope of its operations to include the drilling and cutting work of concrete structures in addition to road cutting. The mobility to respond quickly to customer needs, the level of operation quality, and the wealth of knowledge and expertise on materials and machines used in operations have been highly appreciated by the Company's customers. Therefore, its business operations steadily expanded and it registered its stock over the counter with the Japan Security Dealers Association in 2004.

In the 2000s, the Company further accelerated its diversification of methods and expansion of offices across Japan through M&As. It then listed on the First Section of the Tokyo Stock Exchange in December 2017. It is working to solve the social issues faced by Japan (e.g., aging infrastructure).

## 【1-2. Corporate Philosophy】

The company updated its corporate brand when formulating its new mid-term management plan (FY ending June 2022 to FY ending June 2024). At the same time, it also established the following tagline\*, purpose, statement and mission.

<p>CORPORATE IDENTITY</p> 	<p>BRAND IDENTITY</p> 
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TAGLINE	RESET AND GO
PURPOSE	To protect the safety of social infrastructure in both ordinary times and emergencies to support a stable society
STATEMENT	<p>Much of the social infrastructure built during the post-war period of rapid economic grow is approaching the time when it needs to be renovated. In addition to roads and water services across Japan, if the buildings, power plants, dams, railroads and other infrastructure used on a daily basis come to a stop, it will have a massive impact on daily lives and the economy. Before that happens, we at Daiichi Cutter will work on removing and restarting old structures prior to building new ones as the first step in social infrastructure renovation work.</p> <p>We will aim to create an environment in which diverse people can work even if the number of young workers decreases by improving work efficiency, developing personnel training systems and innovating technology in addition to ensuring safety and security in our daily operations. We will aim for an environment in which anyone can work by collaborating with people who speak different languages around the world. It may also eventually become possible to perform work with robots without sending people to dangerous sites.</p> <p>Natural disasters occur frequently in Japan. Disaster response has become commonplace. We will train on a daily basis to display our real abilities even in work in an emergency and to work safely even in dangerous places.</p> <p>We are not just craftsmen. We bring innovation to our daily work. This leads to us supporting society. We will aim to be a company called the number one in the world and in the universe.</p>
MISSION	<p>To contribute to the development of industry by creating a safe and pleasant working environment for craftsmen regardless of gender or nationality.</p> <p>To respond to the challenges of society and customers by refining highly efficient and low-environmental burden construction technologies.</p> <p>To be a company that society and families can take pride in by aiming to be stylish people without becoming selfish.</p>

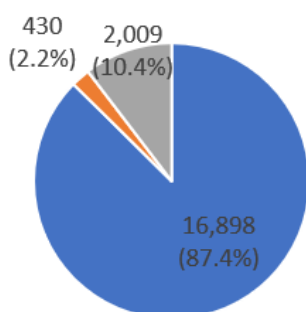
※TAGLINE

These are words that express a company’s concept and philosophy or simply state what value that company, its products and its services provide.

**【1-3. Business Overview】**

The business is divided into several categories, Sawing and Drilling Business, Building Maintenance Business, and Reuse and Recycling Business. The Sawing and Drilling Business is handled by DAI-ICHI CUTTER KOGYO, WALLCUTTING, KOUMEI Corporation, Shin Shin Corporation, ASIRE Corporation and Diamond Kiko. The Building Maintenance Business is handled by DAI-ICHI CUTTER KOGYO and the Reuse and Recycling Business is handled by Movable Trade Networks respectively.

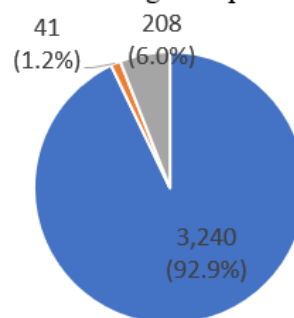
Composition of Sales (FY6/21)



■ Sawing and Drilling Business ■ Building Maintenance Business ■ Reuse and Recycling Business

※ Sales for the external customer. Unit: million yen

Composition of Segment profit (FY6/21)



■ Sawing and Drilling Business ■ Building Maintenance Business ■ Reuse and Recycling Business

※ Composition of total profit before adjustments. Unit: million yen

<Sawing and Drilling Business>

“Sawing and drilling” refers to the sawing and drilling work necessary for various types of road pavement and the demolition and removal of concrete structures. The Company’s Sawing and Drilling Business mainly focuses on the diamond method using industrial diamond (Diamond Method is a registered trademark of DAI-ICHI CUTTER KOGYO) and the water jet method using water pressure. Wastewater generated from sawing and drilling work is collected and neutralized at a large intermediate treatment facility to be reused as cutting water. Waste generated from sawing concrete is dehydrated and recycled into raw materials for concrete.



(Source: The Company’s website)

The Group operates nationwide. DAI-ICHI CUTTER KOGYO’s sales operation covers all eastern Japan. ASIRE has sales based in Kanagawa and Osaka. WALLCUTTING has sales based mainly in the Tokai region. KOUMEI has sales based in Osaka and the Chugoku and Shikoku regions. Shin Shin has sales based in Okinawa prefecture. Diamond Kiko has sales based in the Kyushu region.

As a constructor, the Group plays a major role in the work and maintenance of infrastructure, and its main clients are general contractors, road contractors, and facility providers. When they receive an order, they order sawing and drilling work of concrete to the Group. Since its clients mainly engage in public works, most of the works carried out by the Group are public works (except ASIRE whose clients are from the private sector). On the other hand, works other than public ones include maintenance of chemical plants, oil refineries, electric power plants as well as cleaning by water jet method. Works are classified into civil engineering works, architecture-related works, urban civil engineering works, road and airport works, and plant maintenance.

◎Main Clients

TAISEI CORPORATION, OBAYASHI CORPORATION, KAJIMA CORPORATION, SHO-BOND CORPORATION, TEKKEN CORPORATION, TOTETSU KOGYO CO., LTD., JFE Engineering Corporation, IHI Infrastructure Systems Co., Ltd., Nomura Real Estate Partners Co., Ltd., Taisei Rotec Corporation, KAJIMA ROAD CO., LTD., Sankyu Inc., Mitsubishi Jisho Community Co., Ltd., Mitsui Fudosan Residential Service Co., Ltd., NIPPO CORPORATION, THE NIPPON ROAD Co., Ltd., SHIMIZU CORPORATION, Sumitomo Mitsui Construction Co., Ltd. (in random order).

◎Main operating work contents

Civil Engineering Work

DAI-ICHI CUTTER KOGYO undertakes repair and removal services for large structures, such as bridge, port and dam, as well as sawing and drilling services under special environments such as underwater operation. In those specific cases, services are carried out by the Company’s exclusive engineers.

Architecture-Related Work

Various kinds of services for demolition and renewal works are carried out, such as demolition work of a building, base isolation work, seismic retrofit, repair work, and new construction. In addition, the Company can carry out service which is difficult by conventional methods, using alternative methods suitable for reducing the environmental load on the surrounding facilities.

Urban Civil Engineering Work

The Company operates civil engineering related works in urban infrastructure, such as railway operation, waste treatment facility, and waterworks facility, and is also involved in environment-related works that can be handled in total from planning to operation.

Road and Airport Operation

The Company carries out various types of sawing and surface treatments for road repair, removal of deteriorated concrete, core drilling for installing lights, runway grooving at airports and others. Its strength is its ability to do the operation even under specific conditions thanks to unique equipment such as grooving machines and custom-made vehicles for core drilling.

### Maintenance of Production Facilities

In the maintenance of production facilities, the Company carries out cleaning for plant maintenance, fireless sawing for remodeling work, repainting of floors, and surface treatment. The Company ensures the quality and safety of the work by stationing certified workers for industrial cleaning.

©Main technology : The Company's original method

#### \*Diamond Method

The method is to saw and drill roads or structures by using an industrial diamond. Based on the five basic methods of flat sawing, core drilling, wall sawing, wire sawing, and grooving, the Company has developed a wide variety of diamond methods with its unique ideas. The "Diamond Method" is a registered trademark of the company, and it has the No. 1 track record in the industry.

The tools used in the diamond method are "Diamond Blade", "Diamond Bit", and "Diamond Wire", each of which uses diamond segments.

"Diamond Blade" is a blade whose edge is attached with segments made by hardening diamond powder with metal bond.

The object is cut by rotating "Diamond Blade" at high speed (using different sizes depending on the type of material and the depth of sawing).

"Diamond Bit" is a cylindrical tool with a cutting edges of diamond tips. It is rotated at a high speed to bore an object (using different bits depending on the size of a hole and the depth of the hole).

"Diamond Wire" is made by attaching beads made by sintering diamond segments with metal bond to a wire at fixed intervals.

"Diamond Wire" can cut any object even in a complicated shape.

#### Flat Sawing

Generally, flat sawing is the most suitable solution to sawing horizontal surfaces such as floors, floor slabs and pavement. The machine is mounted with a diamond blade. An operator walks from behind and operates the machine by only himself as the machine progresses. It is used for joint sawing, sawing concrete parts for replacement and removal of damaged pavement, and sawing pavement parts when laying pipes under the pavement such as electricity, telephone, gas, water, and sewer pipes. The power source of the machine is gasoline, diesel, electricity and oil pressure. Water is set to come up to the sawing edge during the sawing process in order to cool the cutting edge heated by sawing (dry flat sawing uses compressed air for cooling).

#### Electric Flat Sawing



(Source: The Company's website)

#### Core Drilling

In this method, holes are made on objects that are drilled by a diamond bit. Core drilling is used in the field where accurate circular sawing is required. Any diameter of hole can be easily perforated, for water supply and drainage pipes, electric wiring, ducts for air-conditioning system, seismic reinforcement, and others. Core drilling can be very useful when the accuracy of the finish is especially required, such as when collecting samples for strength inspection, drilling holes for anchor bolts, and stitch drilling when removing a part of a thick wall.



(Source: The Company's website)

### Wall Sawing

In this method, a traveling guide rail is fixed to a wall, a slope, a floor or the like with anchor bolts, and an object is cut by high-speed rotation of a diamond blade and movement of a machine on the track. Wall sawing is often used to install door openings, vents, and windows, and can be cut at both right and oblique angles. As it saws along the rail, it can accurately secure an opening. It can also be operated remotely, making it safe to work in any situation. The compact and lightweight machine makes it easy to carry and provides excellent mobility even in places with limited work space such as buildings, expressways and subways.

Wall saw is making a slit for earthquake-resistant on the building



(Source: The Company's website)

### Wire Sawing

In this method, an object is cut by rotating the wire saw at a high speed by a hydraulic or engine type machine while maintaining a constant tension in the wire saw. The method can easily saw a thick and complicated structure regardless of the shape of the object. It can also be operated remotely or automatically, so it can be used safely and freely in all environments, including underwater, high places, and undergrounds.

Wire Sawing can cut metals as well



(Source: The Company's website)



**Grooving**

In this method, multiple shallow grooves (safety groove) are carved on a road surface in a direction parallel or perpendicular to the traveling direction of vehicles. Diamond blades are attached to a cylindrical device called a drum at a predetermined pitch, which is rotated to cut a road surface (to improve quality of the road surface by improving slip resistance and drainage). And a drum is attached with a grooving machine. There are both dry method and wet method, and by carving grooves on runways, paved roads and steep slopes, slippage can be prevented. This method was first used at an airport in England in 1956, and has spread throughout the world.



(Source: The Company’s website)

**\*Water Jet Method**

In this method, high-speed water, pressurized and compressed by a high-pressure water generator and jetted from a nozzle, is used for chipping and washing. This method is attracting attention from the industry as an excellent method with consideration for the environment, because it has features such as generating less distortion, few microcracks, and less vibration.

The Company uses the water jet method in a wide range of fields, including civil engineering, architecture, plant maintenance and the environment. In civil engineering and architecture, it is used in concrete removal, molding (opening through concrete walls, selective demolition of concrete structure), surface treatment, coating removal, cleaning, and others. In plant maintenance, it is used in cleaning work (including scale removal, and others.) of plant equipment such as tank reactors, and others. In addition, this method can be used for sawing metal (abrasive sawing), so it can be deployed in places where fire is strictly prohibited.

(The strong point of Water Jet Method)

Less Vibration	Unlike the impact crushing by breakers, rock drills, and others, it is characterized by the mechanism to destroy cement mortar bond of concrete by the energy of ultra-high-pressure water jetted from the nozzle.
Minimal Impact on the Structure	Since deformation, strain and residual stress given to the object are small and microcracks are hardly generated, it is possible to work with the minimized impact on the structure.
Pinpointed Removal	By setting the appropriate pressure and flow rate, only the deteriorated part of the concrete can be removed with pinpoint accuracy without damaging the reinforcing steels.
Removing only Coating and Stains	By adjusting the pressure, only the coating or stains of the object can be removed.
Remote Operation	Remote operation of the machine is easy because the nozzle does not contact with the object. This allows operation in curves and on curved surfaces with uniform quality.

**<Building Maintenance Business>**

DAI-ICHI CUTTER KOGYO is the only one in the group which handles this business. In complex housing and office buildings, the Company carries out drain pipe cleaning, water tank cleaning, water supply facility inspection, floor cleaning, fiberscope survey, mechanical pit cleaning and so on.

### <Reuse and Recycling Business>

Reuse and Recycling Business is undertaken by Movable Trade Networks Co., Ltd., a non-consolidated subsidiary subject to the equity method, and two non-equity method affiliates. In the Reuse Business, used IT-related equipment and office automation equipment, such as tablets, PCs, server, and liquid crystal displays (LCD displays), are purchased mainly from companies, and this equipment are sold mainly to corporate clients after data erasing and repairing. The Company also provides data erasing services of IT-related equipment and office installation services of office automation equipment mainly for corporate clients. Used products that are difficult to reuse are dismantled and intermediate processed, then sold to material manufacturers which carries out recycling. The items that the Company sells to recyclers range from general materials to “rare metals” such as gold, silver, cobalt and others.

## 2. Fiscal Year ended June 2021 Earnings Results

### 2-1 Consolidated Earnings for the first half

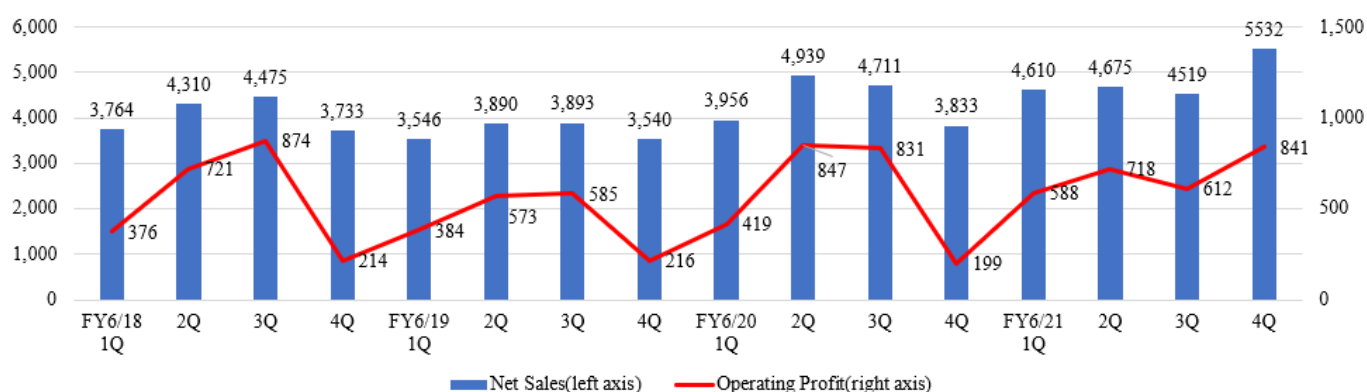
	FY 6/20	Ratio to Sales	FY 6/21	Ratio to Sales	Year on Year	Compared to Initial Forecast	Compared to The Revised Forecast
Net Sales	17,440	100.0%	19,337	100.0%	+10.9%	+14.7%	+9.5%
Gross Profit	5,840	33.5%	6,313	32.6%	+8.1%	-	-
SG&A	3,543	20.3%	3,553	18.4%	+0.3%	-	-
Operating Profit	2,296	13.2%	2,760	14.3%	+20.2%	+46.2%	+24.4%
Ordinary Profit	2,482	14.2%	2,936	15.2%	+18.3%	+48.1%	+25.6%
Quarterly Net Profit	1,523	8.7%	1,743	9.0%	+14.4%	+50.3%	+34.5%
EBITDA	2,817	17.1%	3,187	16.5%	+13.1%	-	-

\* Unit: million yen. Compared to the revised forecast is to the earnings forecast announced in May 2021.

### Increase in sales and operating profit year-on-year. Net sales and operating profit both hit record highs, exceeding the estimates.

Net sales for the FY ended June 2021 were up 10.9% year-on-year to 19,337 million yen. Sales increased in all segments. Operating profit was up 20.2% year-on-year to 2,760 million yen. The outsourcing ratio rose due to the increase in sales and the gross profit margin decreased by 0.9 points. Nevertheless, the gross profit was up 8.1% year-on-year. SG&A expenses were on a par with the previous year. Therefore, the operating profit margin also improved 1.1% due to a double-digit increase in profits. Both sales and profits reached record highs and also exceeded forecasts.

Transition of Quarterly Net Sales and Operating Profit(unit: million yen)



On a quarterly basis, sales and profits both increased significantly in the fourth quarter (April to June) unlike in a usual year.

(Note) As the business of the company is mostly related to public works, Net Sales tend to be concentrated in the second quarter (October to December) and the third quarter (January to March), while the Net Sales in the first quarter (July to September) and the fourth quarter (April to June) tend to be smaller. The company plans to level off the deviations in business performance, but it is estimated that Net Sales will continue to be concentrated in the second and third quarters for some time.

## 2-2 Segment Earnings Trends

	FY 6/20	Ratio to Sales/ Profit Ratio	FY 6/21	Ratio to Sales/ Profit Ratio	Year on Year
Sawing and Drilling Business	15,311	87.8%	16,898	87.4%	+10.4%
Building Maintenance Business	358	2.1%	430	2.2%	+20.1%
Reuse and Recycling Business	1,769	10.1%	2,009	10.4%	+13.6%
<b>Consolidated sales</b>	17,440	100.0%	19,337	100.0%	+10.9%
Sawing and Drilling Business	2,853	18.6%	3,240	19.2%	+13.6%
Building Maintenance Business	25	7.1%	41	9.6%	+64.0%
Reuse and Recycling Business	92	5.2%	208	10.4%	+126.1%
Adjustments	-674	-	-729	-	-
<b>Consolidated operating profit</b>	2,296	13.2%	2,760	14.3%	+20.2%

\* Unit: million yen

Net Sales and Profit grew in all business segments.

### Sawing and Drilling Business

Transportation infrastructure (highways) continued to drive the whole. On the other hand, some private and small public projects were a struggle due to the COVID-19 pandemic. The water jet construction method is performing well across Japan.

### Building Maintenance Business

The company has worked on cultivating new projects for major developers mainly in the Tokyo metropolitan area. In particular, it has constructed projects that were delayed due to the impact of COVID-19 in the fourth quarter of the previous term on an intensive basis in the second quarter (January to March).

It secured screened orders and weekday operation projects. It also focused on increasing its number of partner companies and improving vehicle allocation efficiency.

### Reuse and Recycling Business

Although affected by the stagnation in logistics and the soaring price of used PCs due to the impact of COVID-19, the company acquired large customers with high profit margins as a result of focusing on cultivating new customers relating to the sale of used smartphones and other devices.

## 2-3 Financial Condition and Cash Flows (CF)

### Financial condition

	June 2020	June 2021	Increase/De crease		June 2020	June 2021	Increase/D crease
Current Assets	9,630	10,915	+1,285	Current Liabilities	2,238	2,756	+517
Cash	6,348	6,640	+291	Purchased Liabilities	637	1,076	+439
Receivables	2,640	3,645	+1,005	Short-term Loans Payable	53	34	-19
Fixed Assets	5,903	7,076	+1,172	Fixed Liabilities	746	914	+167
Tangible Assets	4,063	5,225	+1,161	Long-term Loans Payable	48	212	+164
Intangible Assets	466	388	-77	Liabilities Total	2,985	3,670	+685
Investment & Others	1,373	1,461	+88	Net Assets	12,548	14,321	+1,772
Total Assets	15,533	17,991	+2,458	Retained Earnings	11,211	12,811	+1,600
				Total Liabilities and Net Assets	15,533	17,991	+2,458

\*Unit: Million-yen. Borrowings include lease obligations.

## BRIDGE REPORT



Total assets increased 2,458 million yen from the end of the previous term to 17,991 million yen, due to the augmentation of receivables, tangible assets, etc.

Liabilities rose 685 million yen from the end of the previous term to 3,670 million yen, due to the increase in long-term debts, etc.

Net assets grew 1,772 million yen from the end of the previous term to 14,321 million yen, due to the increases in retained earnings and valuation difference on available-for-sale securities, etc.

Capital-to-asset ratio declined 1.3 points from the end of the previous term to 75.8%.

**Cash Flows (CF)**

	FY 6/20	FY 6/21	Year on Year
Operating Cash Flow	2,515	1,957	-557
Investing Cash Flow	-1,699	-1,594	+105
Free Cash Flow	815	363	-452
Financing Cash Flow	-198	-69	+129
Term End Cash and Equivalents	6,316	6,610	+294

\* Unit: million yen

The positive range of operating cash flow and free cash flow narrowed due to an increase in trade receivables.

The cash position improved.

### 3. Fiscal Year ending June 2022 Earnings Forecasts

#### 3-1 Consolidated Earnings

	FY 6/21 Act.	Ratio to Sales	FY 6/22 Est.	Ratio to Sales	Y-on-Y
Net sales	19,337	100.0%	18,190	100.0%	-5.9%
Operating Profit	2,760	14.3%	2,422	13.3%	-12.2%
Ordinary Profit	2,936	15.2%	2,569	14.1%	-12.5%
Net Profit	1,743	9.0%	1,410	7.8%	-19.1%

\*Unit: million yen

#### Sales and profits are forecasted to decrease.

Net sales are expected to decrease 5.9% year-on-year to 18,190 million yen. The company can expect relatively stable orders for anti-aging construction work that is essential and urgent. On the other hand, the transportation infrastructure department is at a level at which it is necessary to curb orders. Weak fields are also becoming apparent. The forecasts incorporate the impact of unit price restraints. Operating profit is expected to decrease 12.2% year-on-year to 2,422 million yen. Weak fields are becoming apparent in light of the fact general contractors are tending to see a decrease in profit. Accordingly, it is assumed there will be a deterioration (competition) in the order environment due to pressure to reduce prices. The company will aim to maintain profitability by focusing on new construction methods and fields in which it has a strong advantage. It plans to pay a dividend of 27 yen per share. The expected dividend payout ratio is 21.8%.

#### 3-2 Topics

##### (1) Illegal Misappropriation of Funds at a Consolidated Subsidiary

Some officers and employees were suspected of illegally misappropriating funds by settling expenses different to the original purpose of use due to whistleblowing from an employee at a consolidated subsidiary called Komei Koji KK in August 2021.

Accordingly, the company set out to clarify the facts and to investigate the causes by establishing a third-party committee with outside experts and others to conduct an even more professional, neutral and impartial investigation.

It received an investigation report from the third-party committee and accepted the report of the illegal misappropriation of funds in October 2021.

The following are considered to be the factors that led to the delay in the early detection, investigation and correction of the fraud in this case based on the investigation results report by the third-party committee and the results of the internal investigation by Daiichi Cutter Kogyo: the management functions of Daiichi Cutter Kogyo were weak, there was a low level of awareness about compliance, and there were a lack of effective mechanisms for information transmission and monitoring functions in the company-wide internal controls in addition to the fact Daiichi Cutter Kogyo's management and supervision of Komei Koji did not function sufficiently.

Under this recognition, Daiichi Cutter Kogyo will develop and operate appropriate internal controls by taking the following recurrence prevention measures based on the findings and recommendations of the third-party committee to correct the serious deficiencies.

- (1) Create a corporate culture that places compliance at its core
- (2) Provide education to change awareness toward governance and compliance among officers and employees
- (3) Review the ideal state of the board of directors
- (4) Enhance the compliance structure
- (5) Build a governance structure for the whole group
- (6) Enhance the internal reporting system
- (7) Enhance coordination and ensure the effectiveness of group-wide internal audits, Audit & Supervisory Board member audits and accounting audits by corporate auditors
- (8) Ensure compliance-orientated personnel
- (9) Improve internal communication

This matter led to Masamitsu Takahashi, President and Representative Director, voluntarily returning 50% of his remuneration for six months and Yo Adachi, Senior Managing Director, Seiji Watanabe, Full-time Corporate Auditor, and Koji Hayashi, Corporate Auditor, resigning and voluntarily part of their officer retirement benefits in Daiichi Cutter Kogyo. Komei Koji also announced the resignation of Akihiko Hataoka, President and Representative Director, Yo Adachi, Dispatched Director, Tatsuya Ishikawa, Dispatched Director, and Seiji Watanabe, Dispatched Auditor.

Moreover, the announcement of the financial results for the FY ended June 2021 initially scheduled for August 13, 2021 was delayed until October 29, 2021.

## (2) Selection of the New “Prime Market” Segment

Daiichi Cutter Kogyo confirmed that it received the results of the primary judgment relating to compliance with the standards to maintain a listing in the new market segments from the Tokyo Stock Exchange and that it complied with the standards to maintain a listing in the “Prime Market” segment in July 2021.

In response to this, the company selected the “Prime Market” as its new market segment on the Tokyo Stock Exchange.

It will work on the prescribed procedures relating to its new market segment selection application in line with the schedule established by the Tokyo Stock Exchange.

## 4. Medium-term Business Plan Strategy FY6/22-FY6/24

The company announced its mid-term management plan (FY ending June 2022 to FY ending June 2024) in November 2021.

### 4-1 Look back of the previous Medium-term Business Plan Strategy

The company announced its mid-term management plan (FY ending June 2022 to FY ending June 2024) in November 2021. The new mid-term management plan expresses how it can provide value to social issues as a company involved in the maintenance and repair of social capital stock. Moreover, it expresses the framework for how it will provide value to social issues such as creating an attractive workplace and passing on technologies in response to the accelerating decline in the birthrate and the aging of the population. It has also updated its corporate branding. To that end, the company placed a focus on people in its previous mid-term management plan and worked on the following four basic strategies: “basic strategy 1: enhance and expand personnel recruitment and training,” “basic strategy 2: enhance sales deployment,” “basic strategy 3: enhance partner company network,” and “basic strategy 4: conduct R&D.”

The status of achievement of each item established as numerical targets is as below.

### ◎Quantitative Targets of recent three years

	FY 6/19 Plan	FY 6/19 Act.	FY 6/20 Plan	FY 6/20 Act.	FY 6/21 Plan	FY 6/21 Act.
Net Sales	14,318	14,871	15,700	17,440	17,400	19,337
Operating Profit	1,624	1,760	1,730	2,296	1,910	2,760
Operating Profit Margin	11.3%	11.8%	11.0%	13.2%	11.0%	14.2%
Profit Attributable to Owners of Parent	1,014	1,251	1,080	1,523	1,190	1,743
EPS	89.12	109.90	94.88	133.86	104.54	153.16

Number of Employees (Consolidated)	500	501	525	568	550	608
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\*Unit: Million-yen, yen, person. EPS is shown for the previous fiscal year according to the current number of shares outstanding, since a 1:2 stock split was implemented on January 1, 2021.

The company exceeded its planned values for all items.

### ◎Sales Composition Ratio by Infrastructure

	FY 6/16	FY 6/17	FY 6/18	FY 6/19	FY 6/20	FY 6/21 Act.
Living Infrastructure	62.0%	59.1%	56.9%	58.9%	54.8%	<b>56.4%</b>
Transportation Infrastructure	23.5%	26.6%	27.0%	29.0%	32.2%	<b>33.9%</b>
Industrial Infrastructure	14.6%	14.3%	16.1%	12.1%	12.9%	<b>9.7%</b>

The bullish market conditions have served as a tailwind for transportation infrastructure. Although this ratio increased, there was a slump in industrial infrastructure due to the impact of COVID-19. The ratio of transportation and industrial infrastructure has increased over the past three years for the overall ratio.

### ◎Growth Investment

	Content	FY 6/19 Act.	FY 6/20 Act	FY 6/21 Plan	FY 6/21 Act.	3 years accumulative
Human Resource Development	Recruitment and Training	170	200	100	160	530
Productivity Improvement	Improvement of workplace environment and promotion of work style reforms	400	410	300	1,160	1,970
Expansion of Business Fields	Establishment of new offices, M&A	120	870	200	10	1,000
Research and Development	Investment in R&D and new technologies	30	80	50	130	240
Total		720	1,560	650	1,460	3,740

\*Unit: million yen

The company has proactively invested in personnel education, R&D, base function enhancement and M&As. Its investment record exceeded its target investment level (2,000 million yen). This led to the source of growth.

### 4-2 New Mid-term Management Plan

The new mid-term management plan expresses how it can provide value to social issues as a company involved in the maintenance and repair of social capital stock. Moreover, it expresses the framework for how it will provide value to social issues such as creating an attractive workplace and passing on technologies in response to the accelerating decline in the birthrate and the aging of the population.

The company's business is deeply related to social issues. This means it strongly feels the need to clarify its reason for existence, to increase communication to business partners, shareholders and communities in addition to company employees, and to make preparations in ordinary times to continue to have an existence of being the first to rush to disasters that have been more frequent and severe in recent years. It decided to update its corporate branding in line with its mid-term management plan.

#### (1) Brand Update

President Takahashi and interested employees worked together to update the corporate branding in the branding project. At the same time, it established the following tagline\*, purpose, statement and mission.

CORPORATE IDENTITY	BRAND IDENTITY
	

TAGLINE	RESET AND GO
PURPOSE	To protect the safety of social infrastructure in both ordinary times and emergencies to support a stable society
STATEMENT	<p>Much of the social infrastructure built during the post-war period of rapid economic growth is approaching the time when it needs to be renovated. In addition to roads and water services across Japan, if the buildings, power plants, dams, railroads and other infrastructure used on a daily basis come to a stop, it will have a massive impact on daily lives and the economy. Before that happens, we at Daiichi Cutter will work on removing and restarting old structures prior to building new ones as the first step in social infrastructure renovation work.</p> <p>We will aim to create an environment in which diverse people can work even if the number of young workers decreases by improving work efficiency, developing personnel training systems and innovating technology in addition to ensuring safety and security in our daily operations. We will aim for an environment in which anyone can work by collaborating with people who speak different languages around the world. It may also eventually become possible to perform work with robots without sending people to dangerous sites.</p> <p>Natural disasters occur frequently in Japan. Disaster response has become commonplace. We will train on a daily basis to display our real abilities even in work in an emergency and to work safely even in dangerous places.</p> <p>We are not just craftsmen. We bring innovation to our daily work. This leads to us supporting society. We will aim to be a company called the number one in the world and in the universe.</p>
MISSION	<p>To contribute to the development of industry by creating a safe and pleasant working environment for craftsmen regardless of gender or nationality.</p> <p>To respond to the challenges of society and customers by refining highly efficient and low-environmental burden construction technologies.</p> <p>To be a company that society and families can take pride in by aiming to be stylish people without becoming selfish.</p>

※ TAGLINE

These are words that express a company's concept and philosophy or simply state what value that company, its products and its services provide.

## (2) Position of the Mid-term Management Plan 2024

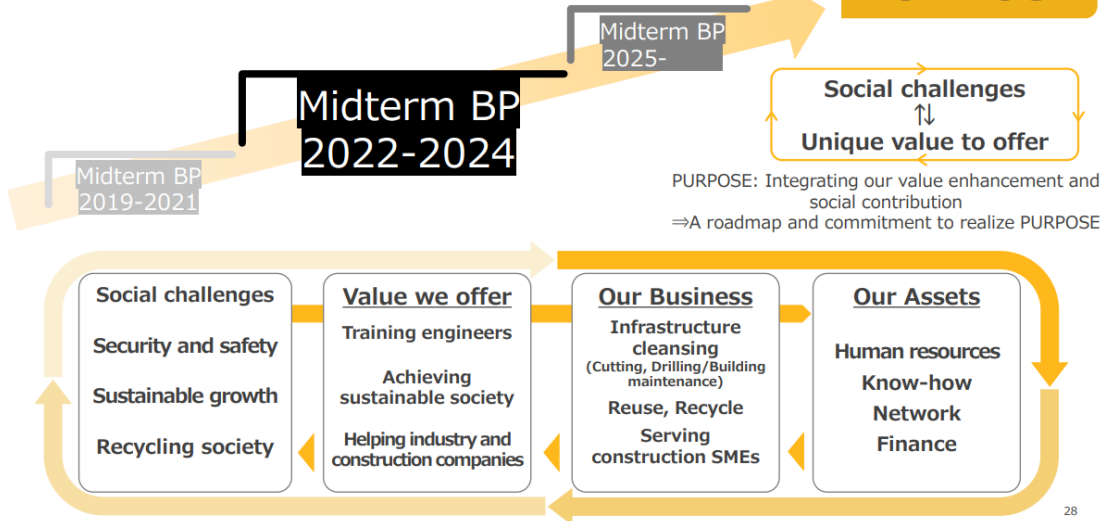
The mid-term management plan is a guidepost and also a commitment to achieving the company's purpose to protect the safety of social infrastructure in both ordinary times and emergencies to support a stable society.

The company will provide value through infrastructure cleansing (cutting and drilling / building maintenance), reuse and recycling, and services for small and mid-sized construction companies by utilizing its personnel, expertise, network and finance capital to solve social issues such as safety and security, sustainable growth, and a recycling-orientated society.



### Midterm Business Plan 2024 Positioning

### PURPOSE



(Source: The Company's website)

### (3) Overview of the Mid-term Management Plan 2024

The company is committed to environment (E), society (S) and governance (G) targets and numerical targets (financial and non-financial) while aiming to become the world's number one engineer group and to achieve a market capitalization of 100,000 million yen for its long-term outlook.

It has established a personnel strategy, advantage enhancement strategy, governance strategy and growth strategy to realize that.

#### Reason Why Daiichi Cutter Kogyo Is Particular about Engineers (Craftsmen and Skilled Workers)

It is said that one-third of the approximately 3.4 million workers currently engaged in construction will leave their jobs due to aging while the birthrate declines and the population ages in the labor-intensive construction industry. To deal with this decrease in craftsmen, construction is being outsourced at construction sites and the conversion to fables is proceeding by assembly products manufactured in factories on-site. To that end, craftsmen are positioned as subcontractors rather than demonstrating their skills. Their treatment has also declined. There is a negative spiral in that this environment makes becoming a craftsman even less popular.

On the other hand, social infrastructure in Japan is aging. The situation is such that 63% of the approximately 726,000 overpasses and 52% of the approximately 44,000 port facilities that exist in Japan will be more than 50 years old in 15 years. Moreover, looking at long-term trends in the Japanese construction market, the total amount of net social capital stock has seen less of an increase since 2000. It has changed from being flat to slightly declining in recent year. This indicates that construction investment is shifting from new establishment and new construction to maintenance and repair. Accordingly, while it has been almost 50 years since most infrastructure structures were newly established as mentioned above, the necessity of demolishing and rebuilding and rehabilitating for long-term use is rapidly increasing together with the aging of social infrastructure.

In the midst of this gap developing, the company believes there is no doubt that the value in having people will rise incomparably higher than it is now. It also thinks that the competitive advantage of companies with people will improve dramatically. Accordingly, it recognizes that providing excellent engineers (craftsmen and skilled workers) is its social responsibility.

### (3) Mid-term Management Targets

The numerical targets of the company for its new mid-term management plan and for the FY ending June 2036 are as follows.

#### Mid- to Long-Term Management Indices

C ... Cutting, drilling  
 B ... Building maintenance  
 R ... Reuse, recycle  
 N ... New business

	(Consolidated, billion of yen)				(Consolidated, billion of yen)	
	FY2022	FY2023	FY2024	...	FY2036	
Sales	18.19 C 15.82 B 0.42 R 1.95	18.5 C 16.3 B 0.38 R 1.82	20 C 17.3 B 0.41 R 2 N 0.29	...	51 C 30 B 1 R 10 N 10	
Operating Profit	2.42 C 2.25 B 0.04 R 0.13	2.64 C 2.4 B 0.04 R 0.2	2.7 C 2.53 B 0.05 R 0.22 N ▲0.1	...	8.65 C 4.5 B 0.15 R 1 N 3	
ROE/ROIC	ROE 12% · ROIC10%				ROE 15% ROIC 13%	
Market Capitalization(Billion of yen)	20				100	
Payout Ratio	20%				-	
Investment Amount (Billion of yen)	4 (Total for 3 years)				-	
Number of Employees	630	655	690	...	1000	

32

(Source: The Company’s website)

### (4) Overview of Each Strategy

The overview of the four strategies – personnel strategy, advantage enhancement strategy, governance strategy and growth strategy – to achieve its commitments is as follows.

#### ① Personnel Strategy

The company has set targets in the three themes that form the basis of sustainable growth.

Theme	Target
Diversification and improvement in the quality of the employee experience (EX)	Engineer career diversification Educational opportunities according to life stage Advancement of women in the workplace
Branding	Visualization of social value Showcasing of stylishness Expansion of partners (stakeholders)
Pursuit of safety and security	Visualization of safety Securing of work life Safe environment

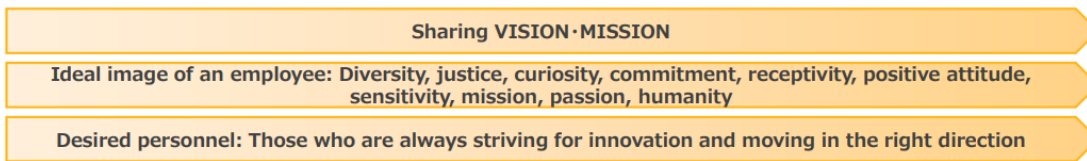
#### ◎Diversification and Improvement in the Quality of the Employee Experience

The company will create a journey map from when an employee joins the company until when he/she leaves to visualize the employee experience value.

It is very important to always share the vision and mission.

**Visualizing employee experience value through journey mapping**

	Recruitment period	Training period	Sharing period	Retirement period
Employees' wishes	[Respect for Diversity]  No matter what gender, nationality or expertise  [Sharing values]	[Respect for diversity] Career path Gender and nationality  [Educational opportunity diversification] Safety, technology and knowledge fields Humanity, non-technical fields, teaching skills	[Output in specialized areas]  [Role as an educator and trainer]  [Enhancing management team quality and quantity]	
Likely troubles difficulties encountered				
EX improvement measures				
Mind state gained				
KPI Evaluation criteria				



(Source: The Company’s website)

**◎Branding**

The company will expand stakeholder trust through brand renewal and action.

Stakeholders include people and organizations that the company may build a relationship with in the future (e.g., potential shareholders, potential business partners, potential employees and potential stakeholders) in addition to current shareholders, customers, suppliers, partner companies and employees.

Daiichi Cutter Kogyo will increase the number of employees who take pride in their work at the company, candidates for recruitment who want to work at the company, stakeholders who want to help the company somehow, customers who want to work together with the company and shareholders who want to support the company with a corporate culture that places compliance at its core.

**◎Safety and Security**

The company achieved its targets for 2023 in relation to an initiative it has been concentrating on to curtail overtime hours to within 840 hours a month (70 hours a month on average) and to within 80 hours on average for four six months including holiday work ahead of schedule.

It will aim to achieve its target of less than 45 hours including holiday work in principle by 2024.

The company is also striving for the following: “time: complete five-workday week system and an increase in the number of annual holidays, “remuneration: increase in base salary and expansion of retirement system using shares” and “lifestyle: expansion of insurance, promotion of health and diversification of working styles.”

Moreover, in addition to diversifying the training system by year, rank and purpose, the company is also focusing on safety and technology training (e.g., safety patrols, safety and technology visualization, and compliance).

## ② Advantage Enhancement Strategy

The company has set the following three themes and targets.

Theme	Target
<b>R&amp;D</b>	R&D Subcommittee New Co-Dimensional Innovation Lab. (CDI-Lab.) development organization Skills × tech
<b>Group deployment</b>	Maximization of the benefits of group companies Personnel exchange Sharing of education
<b>Partner company network enhancement</b>	Opening of maintenance areas Safety education Support for hiring inexperienced people

### ◎R&D

The R&D Subcommittee comprised of the Construction Division and Sales Division under the direct control of the President is working on areas from the improvement of existing technology to automation and visualization.

The company is promoting development projects regardless of their size under the keywords of "troubles," "inconvenience" and "eco" with a development organization for both self-recommendations and recommendations by others.

It has output 172 items over the past eight years. This has produced construction methods and technologies unique to the company.

The company has established a new Co-Dimensional Innovation Lab. (CDI-Lab) development organization.

This is an independent organization in the company. It operates separately from the aforementioned R&D Subcommittee. The company is also considering acquiring external experts for it.

Therefore, it is compartmentalized from the R&D Subcommittee's improvement of existing technologies. It mainly develops advanced IoT-compatible machines from basic research, researches assist technologies and develops new construction methods in the mid- to long-term (e.g., digital transformation-compatible machine development, assist technologies and new construction methods).

It provides productivity improvement and burden reduction widely to the entire industry with development of advanced technologies and construction methods. In this way, it is transforming the professional construction industry that is indispensable for Japan into a sustainable and attractive workplace. Moreover, the company see it as its mission to contribute to the deep tech\* economy.

\*Deep Tech

This is an initiative to solve problems that have a massive impact on the world based on scientific discoveries and innovative technologies

### ◎Group Deployment

The company is involved in the specialized construction business in a niche industry. Therefore, it needs to secure a certain number of construction projects and customers to pursue scale of sales and profits. Consequently, it has worked on deploying across Japan using M&As at an early stage.

It provides multifaceted benefits including training, recruitment, personnel exchanges and sales for the companies in its group. This has led to sales and profits increasing significantly for each company after consolidation.

### ◎Partner Company Network Enhancement

The network with partner companies is a very important element in the competitive advantage of the company. Its network with partner companies enabled the company's aforementioned advancement across Japan. Accordingly, it recognizes its partner companies as important partners. It forbids its partner companies to be called "subcontractors" internally.

It believes it has an obligation to provide safe and secure foundations to partner companies for the company's sustainable growth and social contribution.

Many of its partner companies are small operators. Therefore, it works on preparations with the opening of maintenance areas, the provision of various safety education programs and the provision of recruitment support based on the current situation in which it is difficult to develop infrastructure alone.

### ③Governance Strategy

The company has set the following three themes and targets. It is aiming for a level of conformity with the Prime Market to which it has applied for selection.

Theme	Target
<b>Governance enhancement</b>	Enhancement of the supervisory functions of the board of directors Enhancement of management and internal audit departments Basic philosophy and action guidelines formulation and education enhancement
<b>Enhancement of sustainability-related disclosures</b>	Clarification of the sustainability policy TCFD support Diversification of non-financial information disclosures
<b>Deepening of dialogue with shareholders</b>	Shareholder return policy Specification of capital costs Enhancement of information dissemination

### ◎Governance Enhancement

The company is looking to enhance its supervisory functions by raising its external ratio of Directors to more than half of them, of Corporate Auditors to all of them and of members of top decision-making bodies to more than half of them.

### ◎Enhancement of Sustainability-related Disclosures

It is working on its response to each challenge according to the following schedule, contributing to society, and presenting and widely raising the recognition of a sustainable business model.

Topic	2021	2022	2023	2024	Remarks
Sustainability Policy	×	○	○	○	
Responding to TCFD	×	△	○	○	△: Promote numerical evidence development
Diversifying Non-financial Information Disclosure	×	△	○	○	△: Promote numerical evidence development
ESG Report	△	△	○	○	△: Brushing up the content based on integrated reporting
Integrated Report	×	×	×	○	

(Source: The Company's website)

### ◎Deepening of Dialogue with Shareholders

The company is aiming to achieve the following targets.

<b>Shareholder Return</b>	<ul style="list-style-type: none"> <li>•Review existing dividend policy and raise its level</li> <li>•Stable return of dividends</li> <li>•Share buybacks considered depending on investment trends</li> </ul>			
<b>Capital cost</b>	<ul style="list-style-type: none"> <li>•Capital cost 6.04%</li> <li>•ROE 12% or more</li> </ul>	<ul style="list-style-type: none"> <li>WACC 6.02%</li> <li>ROIC 10% or more</li> </ul>		
<b>Dissemination of information</b>	<ul style="list-style-type: none"> <li>•Corporate website reconstruction (enrichment of information)</li> <li>•Diversification of information dissemination</li> <li>•Briefings for individual shareholders</li> </ul>			

(Source: The Company's website)

### ④Growth Strategy

The company has set the following three themes and targets.

Theme	Target
<b>Expansion in existing markets</b>	Strengthening in the central Tokyo metropolitan area Strengthening in the Kyushu area Carbon neutral Space-related business
<b>M&amp;As</b>	Existing business (business succession, growth companies and niche specialized companies) Search for peripheral businesses
<b>New businesses</b>	Trial and error toward the fourth segment Preparations for the commercialization of the unique strengths of internal personnel capital

### ◎Expansion in Existing Markets

The company estimates that the size of the market in the central Tokyo metropolitan area is 3,000 million yen per year, 8,000 million yen per year in Kyushu and 50,000 million yen per year in Kansai.

The company is looking to capture the green growth strategy market by being carbon neutral.

The Electric Power Department currently has the highest CO2 emission ratio by department. However, it is expected that the ratio derived from electric power will further increase in the future due to the electrification of industries and transportation that now use fossil fuels. It will explore the electric power industry.

The estimated market size is 17,000 million yen.

The company expects to acquire spaceport development and maintenance-related business and to be active in outer space in the space-related market.

In the case of the former, development of a spaceport (departure and landing site) is expected to proceed in the future based on the Basic Space Plan determined by the Cabinet in June 2020. Therefore, it is working to acquire airport development-related technologies that are the specialty of the company.

In the case of the former, it will seek out businesses that allow it to utilize its expertise in outer space as the world's number one engineer group.

It is currently participating as the only full member specialist construction company in Space Port Japan\*.

**\*Space Port Japan**

This is an organization aiming to widely promote the Japanese space-related industry by opening a spaceport in Japan. Under this aim, it is creating business opportunities, exchanging information and cooperating with related companies and organizations in Japan and overseas, disseminating information, and holding seminars and events.

**◎M&As**

The company is aiming to become a receptacle for engineers and technologies with high-added value that will be in short supply in the future. Under this aim, it is promoting an M&A strategy.

It has three M&A policies.

**\*Clarification of Business Areas**

Specialized construction companies involved with the five keywords that are the specialty of the company: cutting, chipping, cleaning, stripping and grinding

**\*Before and After the Supply Chain**

Companies involved in surveys, design and maintenance before and after the construction work in the company's business

**\*Related Businesses with Specialized Technologies**

Companies with specialized technologies, mechanisms and customer bases that cannot be found elsewhere

**◎New Businesses**

The company has the expertise needed by companies that find it difficult to comply with regulatory frameworks (e.g., the subcontracting format and SMEs). Accordingly, it believes this expertise has a high level of synergy with an improvement in productivity of SMEs. Consequently, it is exploring service businesses for SMEs using that expertise.

It will target SMEs. SMEs account for 99.7% of Japanese companies. There are approximately 470,000 companies in the construction industry alone. It will contribute to lowering the turnover rate by providing education in addition to contributing to an improvement in administrative productivity in SMEs through the development and provision of services for SMEs.

## 5. Conclusions

The company achieved a double-digit increase in sales and profit despite the impact of COVID-19. Both sales and profit exceeded its revised forecast. In addition, it achieved all the numerical targets in its mid-term management plan. It was able to fully demonstrate its competitive advantage to show excellent performance. Moreover, the company's new mid-term management plan (FY ending June 2022 to FY ending June 2024) contains clear corporate branding while specifying the policies and initiatives in its four strategies. It will be an extremely useful guidepost for investors when looking at the company in the future. In particular, enhancing non-financial information and sustainability-related disclosures has an important relationship with securing and training the excellent craftsmen that form the basis of the company's advantage. We plan to interview President Takahashi again about the new mid-term management plan. We would like to observe the trends in the company as it aims to become the world's number one engineer group while taking advantage of the lessons from a scandal in one of its subsidiaries.

## <Reference: Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with a board of company auditors
Directors	5 directors, including 3 outside directors
Auditors	3 auditors, including 2 outside auditors

◎Corporate Governance Report (last updated on December 21, 2021)

### Basic Concept

The Company recognizes that building a corporate governance system that enables coexistence and co-prosperity with stakeholders, such as clients, shareholders, local communities, and employees, and improving corporate value over the medium to long term is an important management issue. In addition, in order to ensure the transparency and soundness of management, they appointed outside auditors and outside directors to strengthen management monitoring functions.

<the Principles of the Corporate Governance Code which the Company doesn't Carry out and the Reasons >

[Principle 1 -4. Strategically held shares]

As a general rule, they do not strategically hold shares. However, if it is determined that maintaining and strengthening stable business relationships in total consideration of the nature and scale of transactions will contribute to the improvement of the Company's corporate value, the Company may strategically hold shares of its clients. The Board of Directors examines each year whether the shares held by the Company contribute to the improvement of corporate value. If it is judged that the holding of the shares is no longer meaningful, as a result of the examination, the Company will proceed with selling the shares as deemed appropriate. Regarding the exercise of voting rights in shares held by the Company, the Company will exercise the voting rights after examining whether there is any possibility of damaging the Company's corporate value.

[Principle 5 -1. Policy on constructive dialogue with shareholders]

The Company's Corporate Planning Department is in charge of investor relations. For shareholders and investors, it holds semiannual financial results briefings and hold individual meetings. In addition, the Company recognizes that in order to promote constructive dialogue with shareholders and investors, building and maintaining trusting relationships with them is important, and that for this purpose, it is essential to appropriately disclose information. In order to put this awareness into practice, in addition to disclosure based on laws and regulations, the Company actively discloses information deemed important to shareholders and other stakeholders (including non-financial information) as well as actively discloses management strategies and the state of management on its website.

The design and disclosure of policies concerning the development of organizational structure and its initiatives to promote constructive dialogue with shareholders will be subject to future consideration.



<The Principles of the Corporate Governance Code which the Company Disclosed>

Principle 3 -1. Enhancement of Information Disclosure

(i)The Company's corporate philosophy and other information are disclosed on the Company website and in the financial results explanatory materials.

(ii)Basic policies on corporate governance are disclosed on the Company website and in the report on corporate governance.

(iii)The compensation for directors and corporate auditors is determined by resolution of the board of directors within the limit defined at the shareholders meeting, with due consideration of contribution of each director and their business performances in view of future management strategies.

The above information is disclosed in the Securities Report.

(iv)The Company does not stipulate the policies and procedures for nominating candidates for directors and corporate auditors in its internal rules, but the board of directors selects candidates who are capable of fulfilling the duties and responsibilities of directors and corporate auditors who have abundant experience and high insight with excellent character.

(v)Reasons for selecting candidates for directors and corporate auditors are disclosed in the notice of convocation of the general meeting of shareholders

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