

Annual Results for the Fiscal Year Ended March 31, 2020 (FY 2019)

May 19, 2020

A thick, pink arrow pointing downwards and to the right, positioned above the text "Engineering for Fusion".

Engineering for Fusion

URL: <https://www.exeo.co.jp/en/ir/>

We renewed our website.

株式会社 協和エクシオ

Contents



1. Overview of FY19 Results

(1) Performance Figures	...	2
(2) Orders Received	...	3
(3) Net Sales	...	4
(4) Operating Income	...	5
(5) Cash Flow	...	8

2. Plans for FY20

(1) Performance Figures	...	9
(2) Orders Received	...	10
(3) Net Sales	...	11
(4) Operating Income	...	13
(5) NTT Group (Access/Network)	...	14
(6) NTT Group (Mobile)	...	15
(7) NCCs	...	16
(8) Urban Infrastructure	...	18
(9) System-Solutions	...	19
(10) Efforts for Mid- to Long-Term Growth	...	20

3. Our M&A Strategy

(1) Development Direction by Business Segment	...	23
-----------------------------------------------	-----	----

4. Raising Shareholders' Value

(1) Shareholder Return Policy	...	24
(2) Plan for shareholder returns for FY20, etc.	...	25

5. Topics

(1) Singapore-based DeClout was made into a group company	...	26
(2) Our company selected as "Nadeshiko Brand"	...	27

1. Overview of FY19 Results



(1) Performance Figures

- ◆ Sales increased substantially thanks to organic growth and year-round contributions by the three companies in western Japan, but profit fell due to an increase in SG&A expenses.
- ◆ Profit for FY19 fell substantially as a result of the extraordinary loss recorded after a review of valuation of the subsidiaries acquired.

Overview of FY19 results (consolidated) (¥bn)

	FY 2018	FY 2019			
	Full year	Full year			
		Plan	Actual	YOY	Plan accuracy
	A	B	C	C/A	C/B
Orders received	424.3	495.0	556.3	131%	112%
Net sales	423.7	495.0	524.5	124%	106%
Gross profit	(13.8%) 58.3	(13.4%) 66.3	(13.0%) 68.3	117%	103%
SG&A expenses	(6.3%) 26.6	(6.9%) 34.3	(7.1%) 37.2	140%	109%
Operating income	(7.5%) 31.7	(6.5%) 32.0	(5.9%) 31.1	98%	97%
Ordinary income	(7.9%) 33.4	(6.6%) 32.8	(5.8%) 30.6	92%	94%
Net income attributable to owners of parent	Note: (9.5%) 40.2	(4.4%) 21.8	(3.0%) 15.6	39%	72%

Note: Negative goodwill (18.3 billion yen) was posted as an extraordinary loss in FY18.

The impact of the COVID-19 coronavirus on performance was seen to a slight extent in overseas subsidiaries but was extremely limited in FY19.

Notes: All amounts less than ¥100m are disregarded. Figures in parentheses are ratio to net sales.

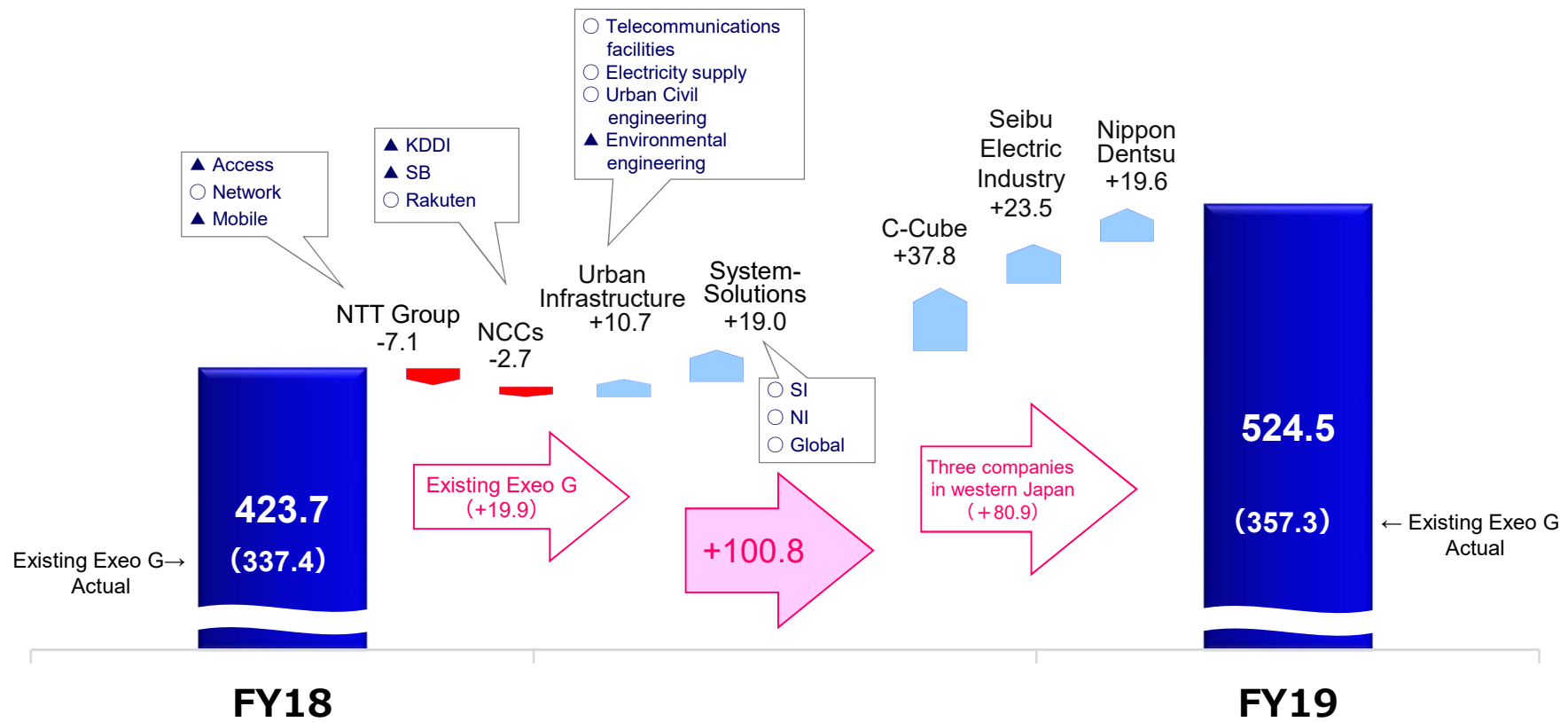
1. Overview of FY19 Results



(3) Net Sales

◆ Orders in urban infrastructure and system-solutions were favorable and grew significantly. Net sales targets were achieved in all segments including the three companies in western Japan.

(¥bn)



○ Reason for increase ▲ Reason for decrease — No increase/decrease

Note: All amounts less than ¥100m are disregarded.

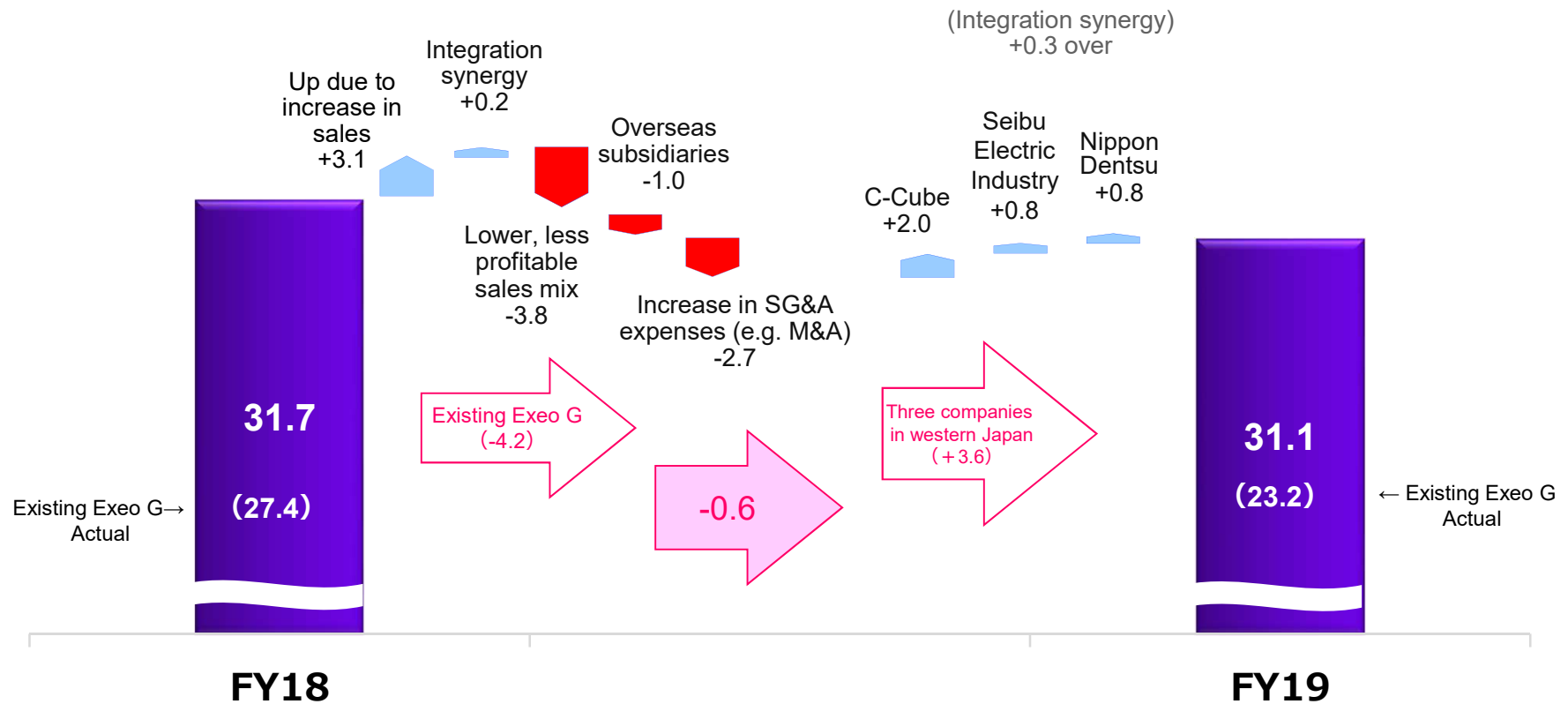
1. Overview of FY19 Results



(4) Operating Income

◆ Operating profit decreased as the sales mix worsened and the SG&A expenses increased due to M&A and new subsidiaries.

(¥bn)



Note: All amounts less than ¥100m are disregarded.

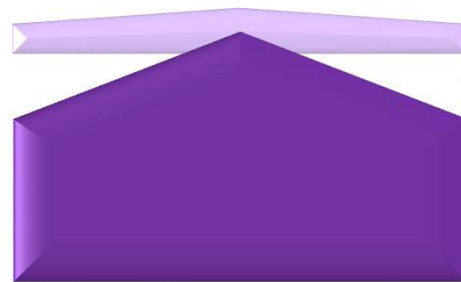
1. Overview of FY19 Results

Reference1: Synergy with three companies in western Japan

◆ The cooperation policy with the three integrated companies in western Japan has been proceeding well, and integration synergy has been steadily created.

- While securing the profit level, concentrating operations in the same area as one operation for better construction efficiency
(NTT access/service comprehensive construction in the Kyoto-Osaka region, and others)
- Improvement of profitability through rebuilding of construction formation
(reduction of outsourcing costs outside the group by mutually utilizing subsidiaries)
- Acquisition of orders through sales collaboration and construction collaboration and provision of mutual support for construction work on a nationwide basis
(e.g. the joint response of the three companies to Rakuten Mobile's construction in the Tokyo-Nagoya-Osaka area)

Synergy from integration
over 500 million



FY19 actual per year

On a consolidated operating profit basis, we securely generated the integration synergy of 500 million per year as initially planned for FY19.

1. Overview of FY19 Results



Reference2: Trends in Group company profitability

◆ The group companies achieved significant growth, and the ratio of consolidated to non-consolidated profits more than doubled.

■ Trends in operating profits over the past five years (consolidated/non-consolidated)

(Ratio of consolidated to non-consolidated profits)

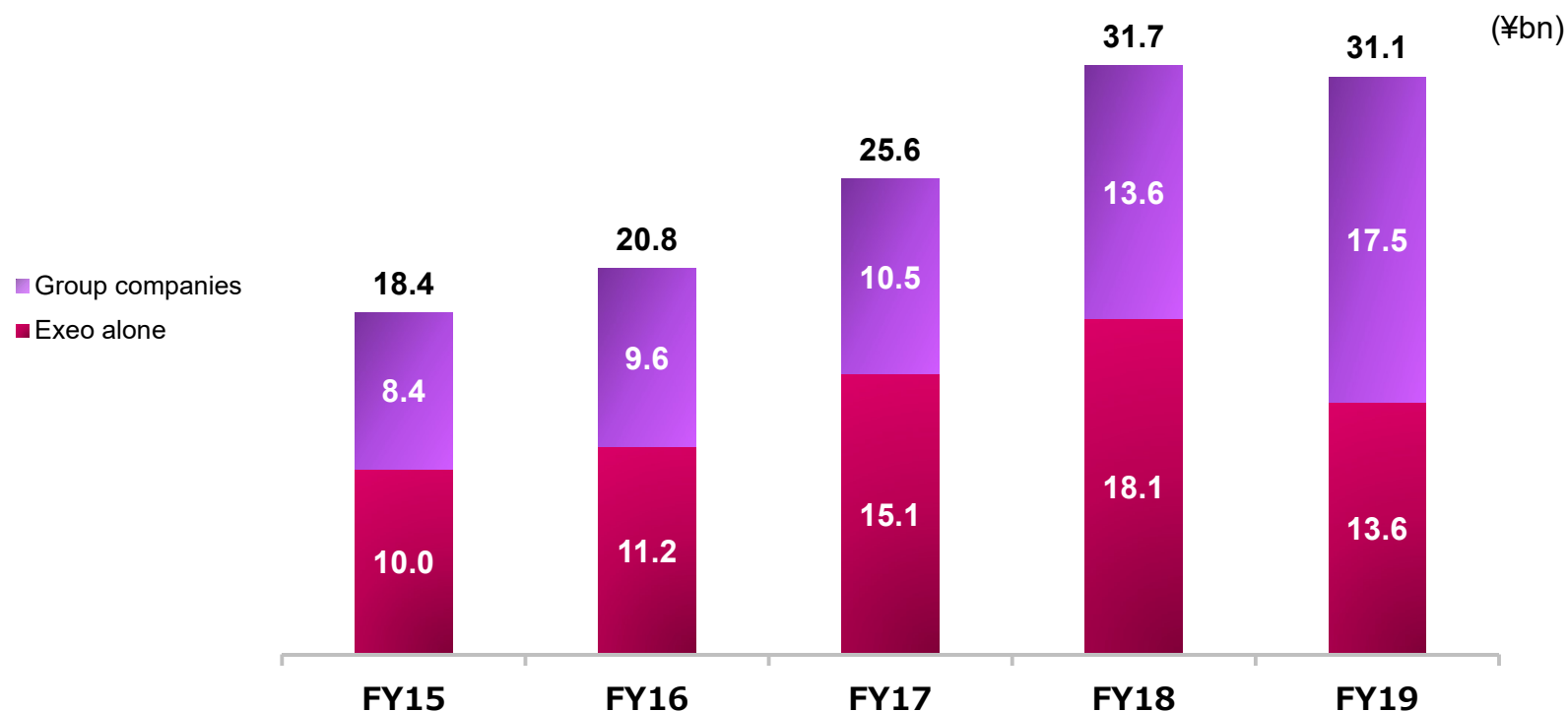
(1.8)

(1.9)

(1.7)

(1.8)

(2.3)



Notes: Ratio of consolidated to non-consolidated profits = operating profits from consolidated projects ÷ operating profits from non-consolidated projects. All amounts less than ¥100m are disregarded.

1. Overview of FY19 Results



(5) Cash Flow

◆ Cash flow is stable and ample cash on hand has been secured.

■ Cash flow (consolidated)

(¥bn)

	FY16	FY17	FY18	FY19
Cash at beginning of FY	16.0	15.2	30.3	41.4
Operating activities	15.5	24.8	12.7	17.2
Investing activities	-6.0	-4.5	-17.6	-17.0
Financial activities	-10.2	-5.1	-4.9	4.2
Increase/decrease of cash due to share exchange			21.0	0.1
Cash at end of period	15.2	30.3	41.4	46.0

Note: All amounts less than ¥100m are disregarded.

2. Plans for FY20



(1) Performance Figures

- ◆ We strive to increase sales through organic growth, but the impact of the COVID-19 coronavirus is somewhat unclear.
- ◆ Although business activities are partially limited, we aim to achieve a record-high profit while improving productivity.

■ Plans for FY20 (consolidated) (¥bn)

	FY 2019 Actual A	FY 2020	
		Plan B	YOY B/A
Orders received	556.3	525.0	94%
Net sales	524.5	525.0	100%
Gross profit	(13.0%) 68.3	(13.8%) 72.5	106%
SG&A expenses	(7.1%) 37.2	(7.7%) 40.5	109%
Operating income	(5.9%) 31.1	(6.1%) 32.0	103%
Ordinary income	(5.8%) 30.6	(6.3%) 33.0	108%
Net income attributable to owners of parent	(3.0%) 15.6	(4.0%) 21.1	135%

In plans for FY20, the impact of the COVID-19 coronavirus on performance has been reflected in items only where the impact is clear based on the information currently available.

<e.g.>

- Decline in sales due to the temporary suspension of construction inside customers' houses
- Decline in orders for solutions related to commercial facilities and others due to their limited operations

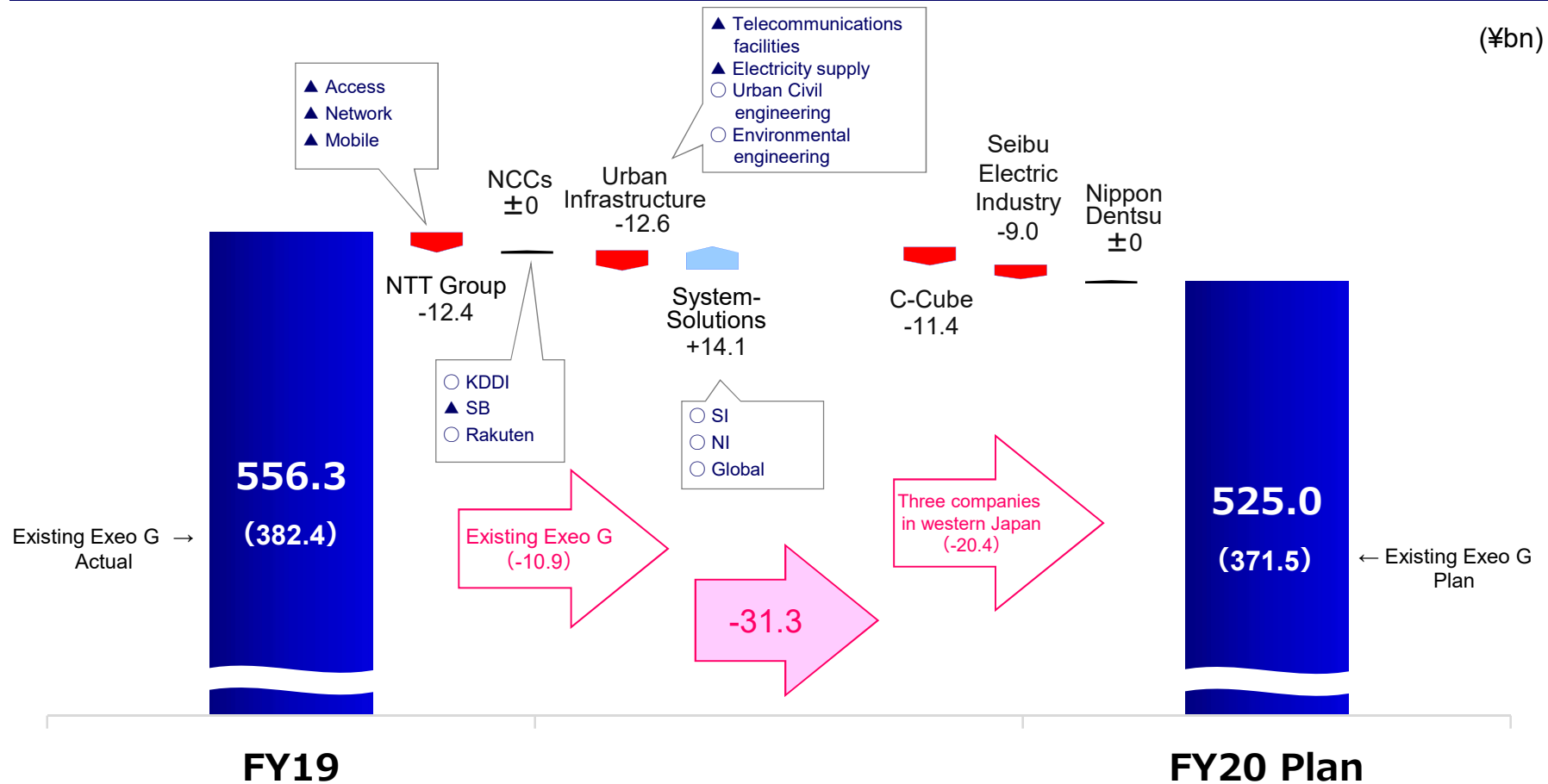
Notes: All amounts less than ¥100m are disregarded. Figures in parentheses are ratio to net sales.

2. Plans for FY20



(2) Orders Received

◆ Orders are expected to decrease temporarily against the previous fiscal year's large orders in urban infrastructure and the three companies in western Japan.



○ Reason for increase ▲ Reason for decrease — No increase/decrease

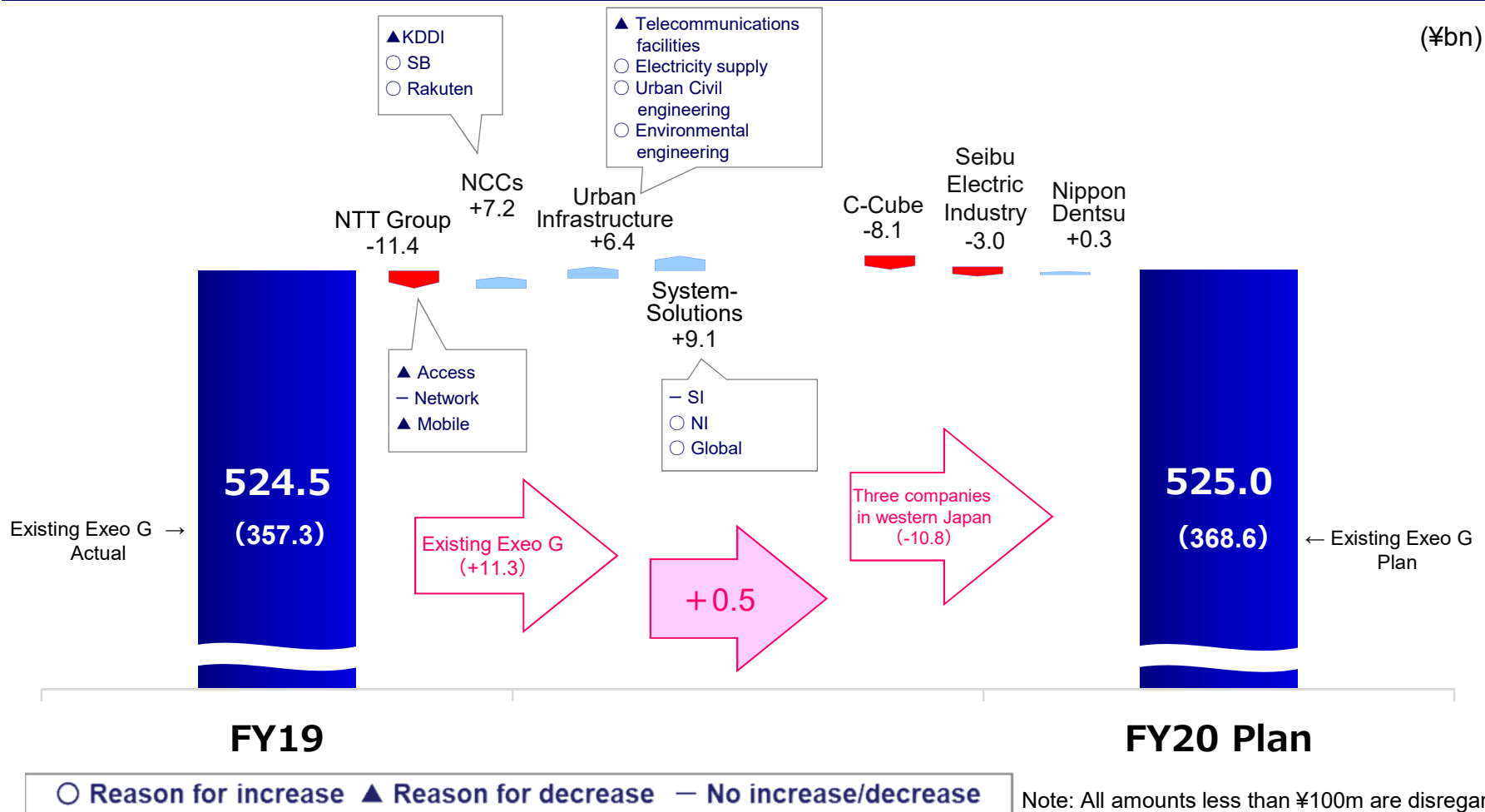
Note: All amounts less than ¥100m are disregarded.

2. Plans for FY20



(3) Net Sales

◆ Although the impact of limited construction and other constraints is somewhat unclear, we focus on completing a large amount of carried-over construction work, aiming to increase sales.



2. Plans for FY20

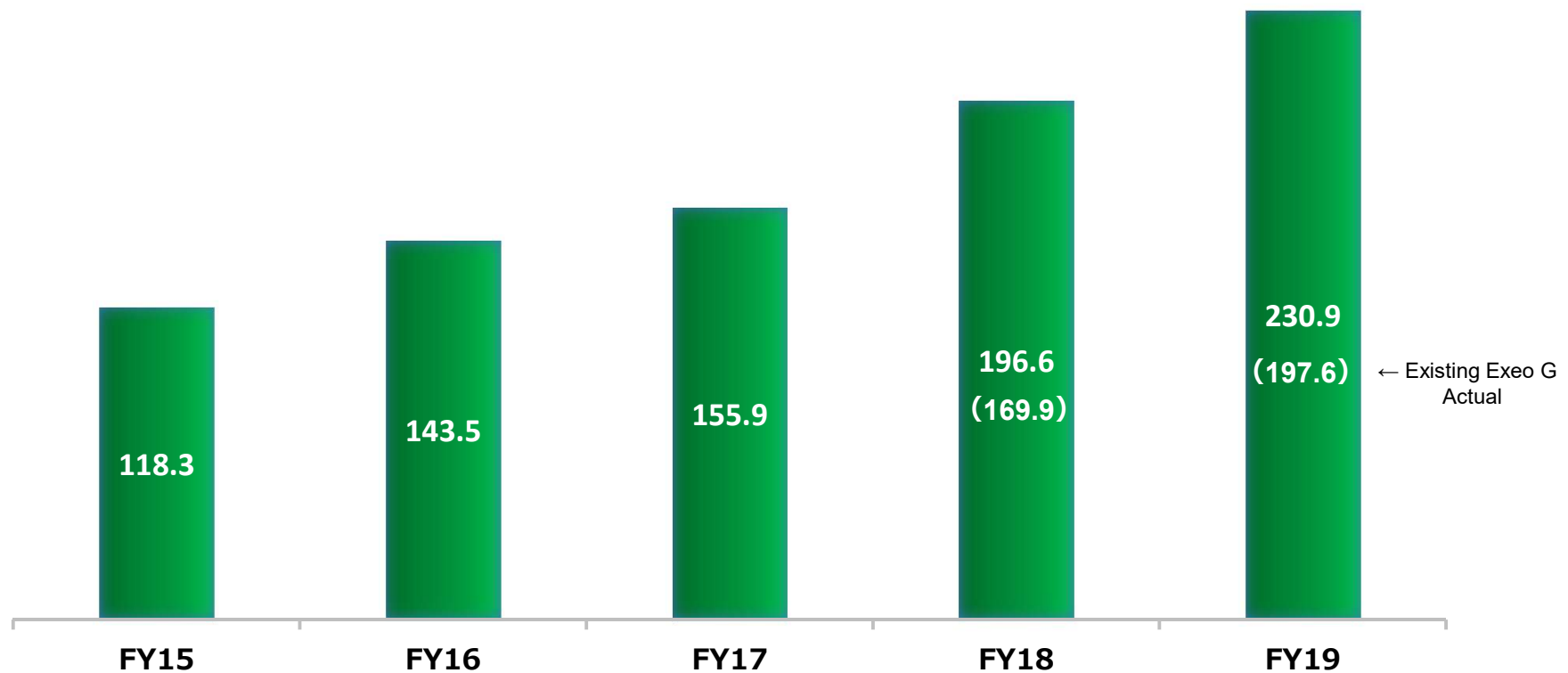


Reference: Status of projects carried over

- ◆ Work carried over will continue to increase because of the increased number of orders for large construction projects for urban Infrastructure with longer construction periods.

■ Transition of amount of work carried over (consolidated)

(¥bn)



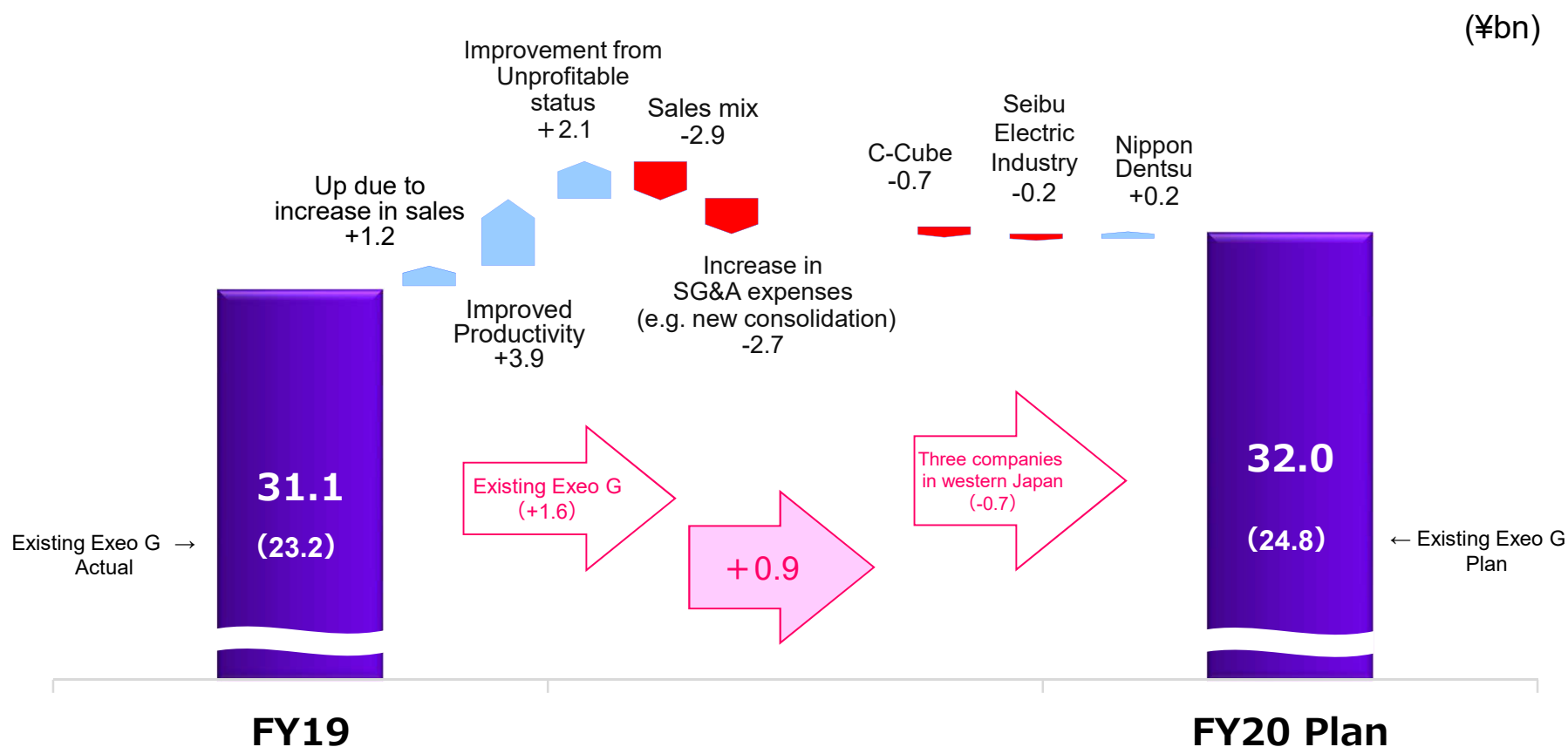
Note: All amounts less than ¥100m are disregarded.

2. Plans for FY20



(4) Operating Income

◆ Although the worsening of the mix and the increase in SG&A expenses are expected, we aim to achieve record-high income, while improving productivity.



Note: All amounts less than ¥100m are disregarded.

2. Plans for FY20

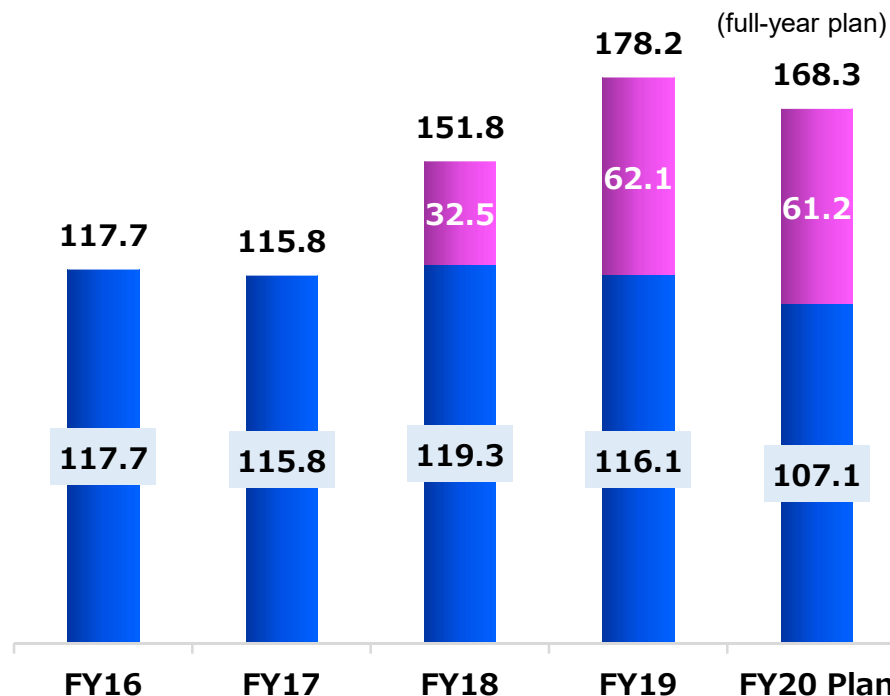
(5) NTT Group (Access/Network)

- ◆ Access construction is expected to decline, but maintenance and construction for disaster countermeasures have been increasing gradually in recent years.
- ◆ In line with the launch of 5G, network construction for mobile backhaul is expected to increase.

■ Net sales of NTT Group (fixed-line network, consolidated)

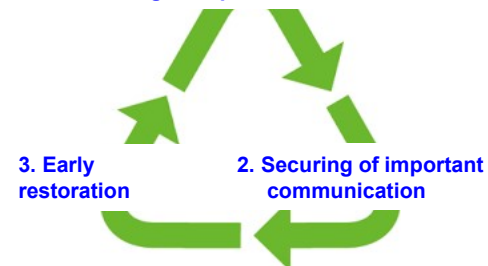
(¥bn)

■ Existing Exeo G ■ Three companies in western Japan



■ NTT Group's disaster countermeasures

1. Improvement of reliability of communication networks (including multiple transmission routes)
2. Securing of important communication
3. Early restoration

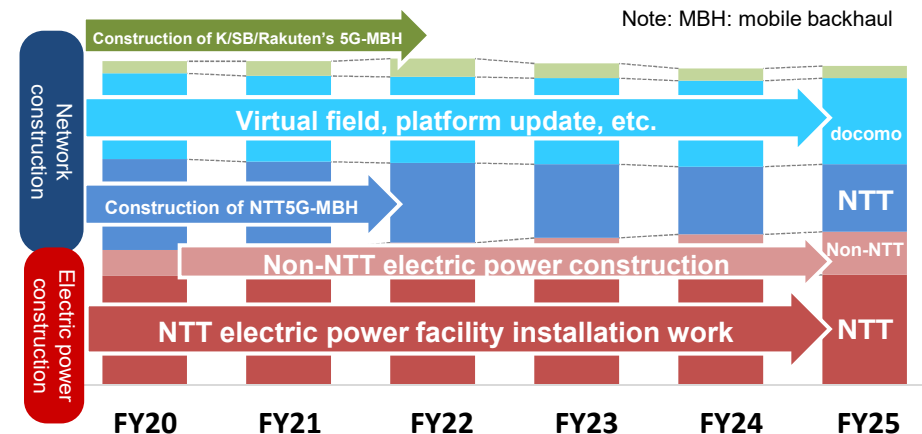


- Reinforcement of facilities, underground cable installation, etc.
- Acceleration of restoration response, estimation of damages using AI, etc.

(Source: Created by Kyowa Exeo based on NTT presentation material)

■ Illustration of network construction transition

Note: MBH: mobile backhaul



2. Plans for FY20

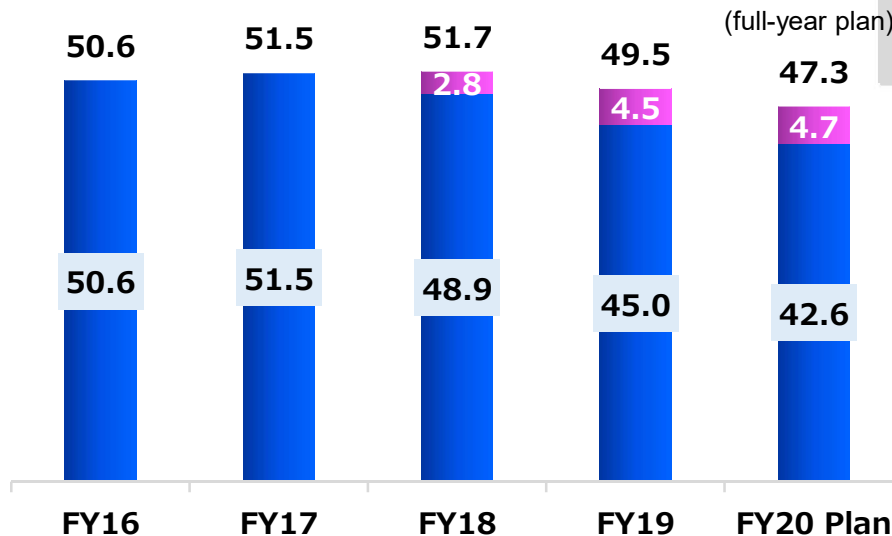
(6) NTT Group (Mobile)

- ◆ 5G construction has begun, but it is assumed that full-scale investment in the base stations should start in or after the next fiscal year.
- ◆ As the construction of small base stations increases, we will cooperate with Access and undertake construction effectively.

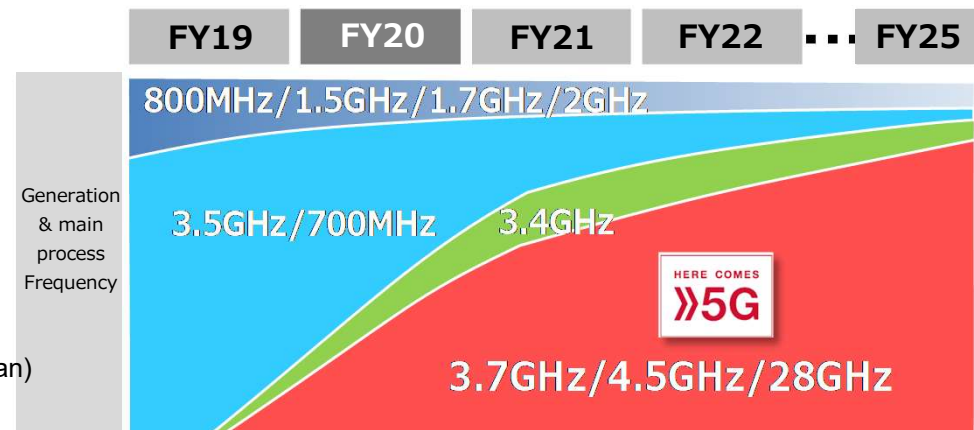
■ Net sales of NTT Group (mobile network, consolidated)

(¥bn)

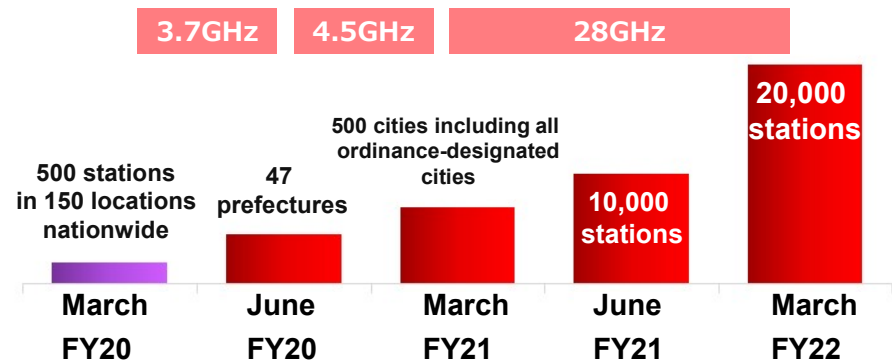
- Existing Exeo G
- Three companies in western Japan



■ Image of NTT DOCOMO Main Processes (our company's assumption)



■ Illustration of NTT DOCOMO's 5G area development



(Source: Created by us based on NTT DoCoMo presentation material.)

2. Plans for FY20



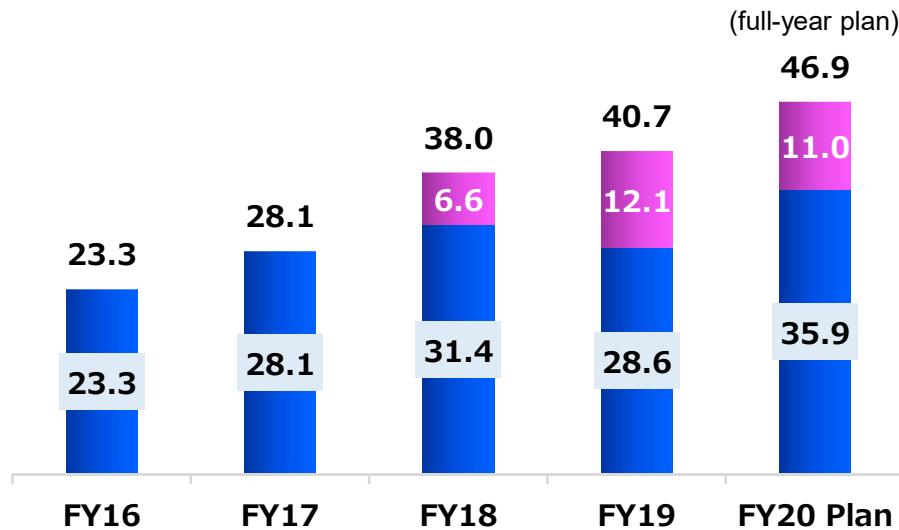
(7) NCCs

- ◆ Orders from KDDI are expected to recover slightly. We will continue to work actively on SB and Rakuten construction.
- ◆ Rakuten wireless base station construction has started nationwide, and we are working with the three companies in western Japan to respond.

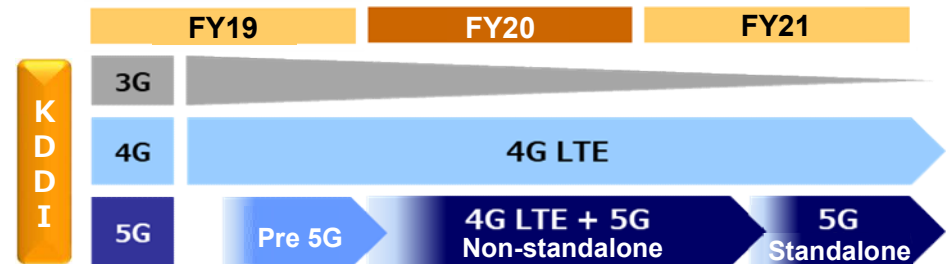
Net sales of NCCs (consolidated)

(¥bn)

■ Existing Exeo G ■ Three companies in western Japan

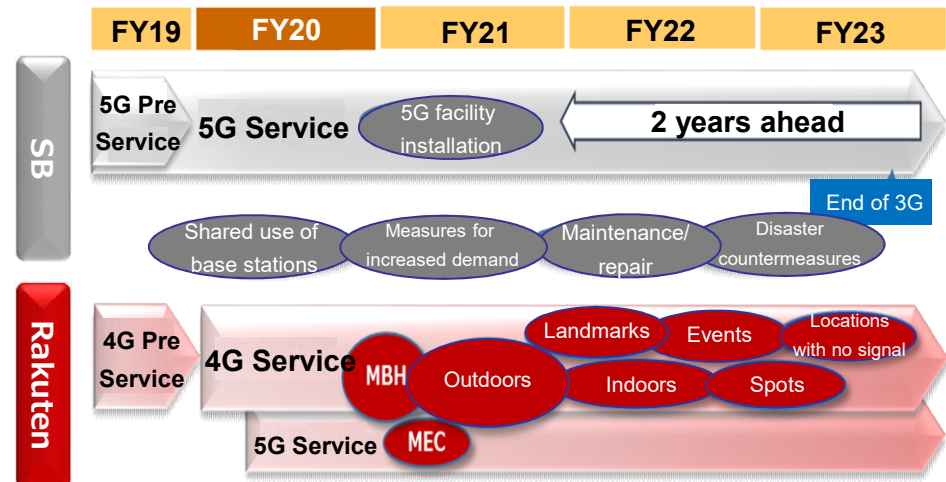


Estimate of KDDI's network construction



(Source: Created by us based on KDDI presentation material.)

Estimate of Softbank's and Rakuten's network construction

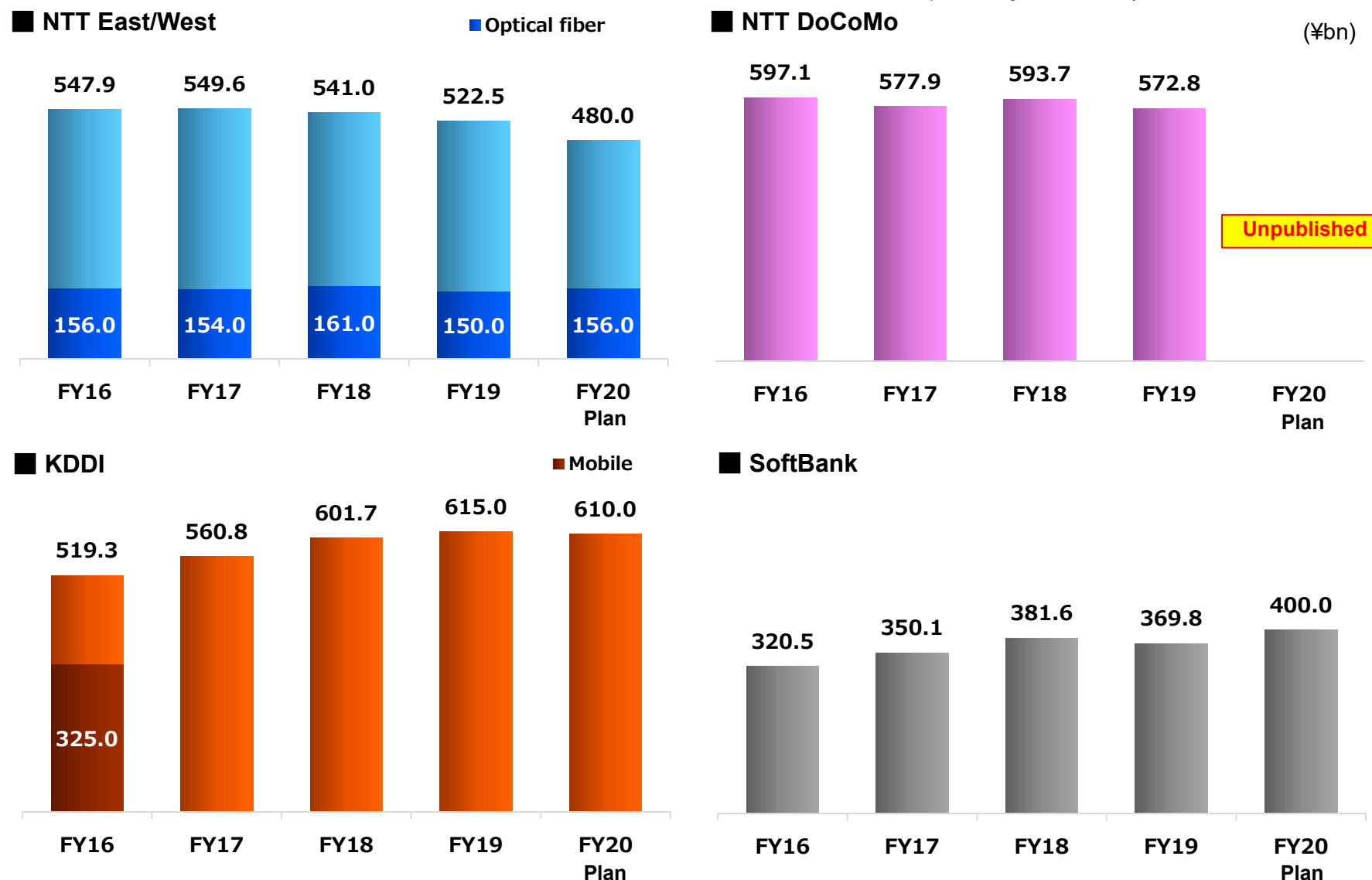


2. Plans for FY20



Reference: Investment Trends of Major Telecom Carriers

(Source: Figures released by the telecommunications carriers)



2. Plans for FY20



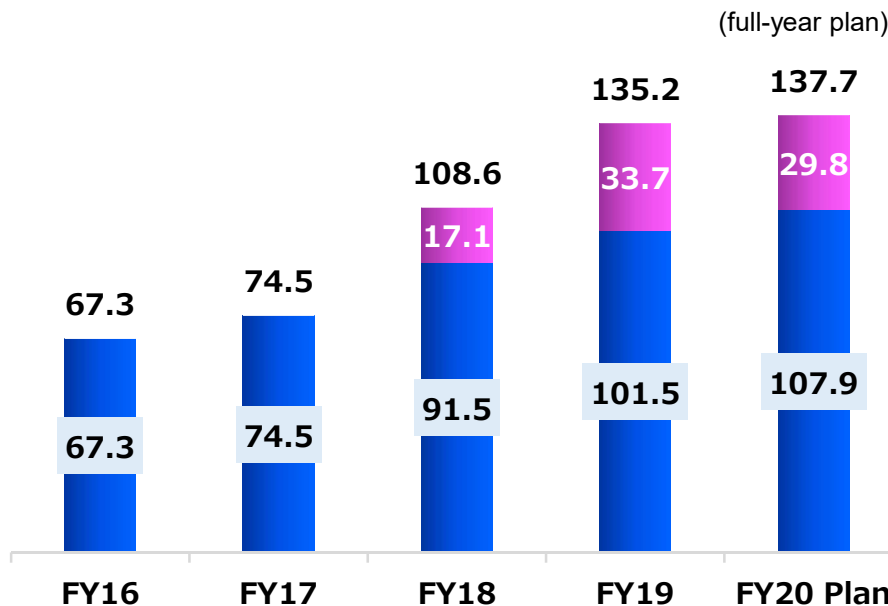
(8) Urban Infrastructure

- ◆ Construction for 700MHz Band TV reception measures is declining, but sales are expected to remain strong until this fiscal year.
- ◆ We aim to continue to win large orders for electrical work in places such as data centers.

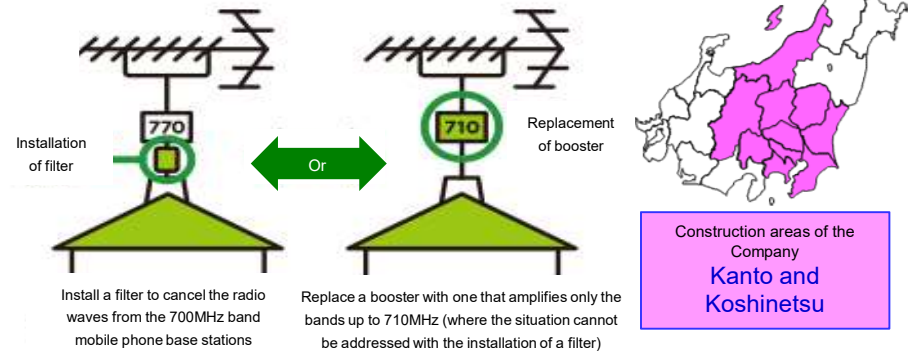
Urban Infrastructure net sales (consolidated)

(¥bn)

■ Existing Exeo G ■ Three companies in western Japan

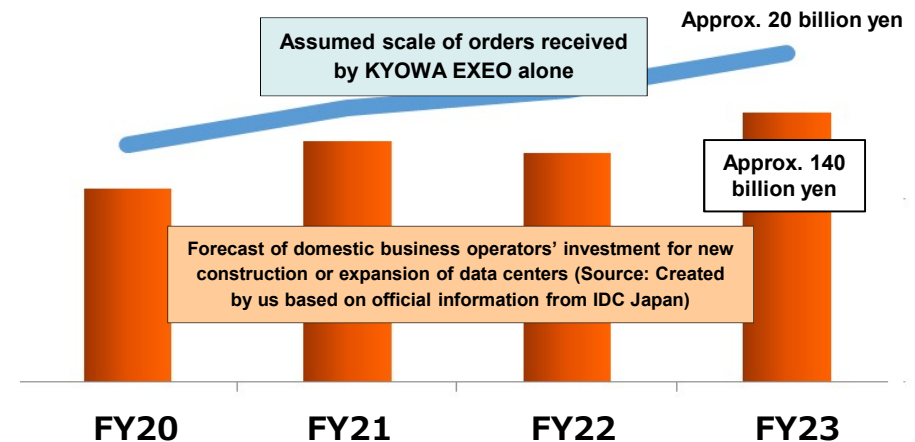


700 MHz Band TV reception measures



(Source: Created by us based on the HP of Association of 700MHz Frequency Promotion)

Data center work



2. Plans for FY20



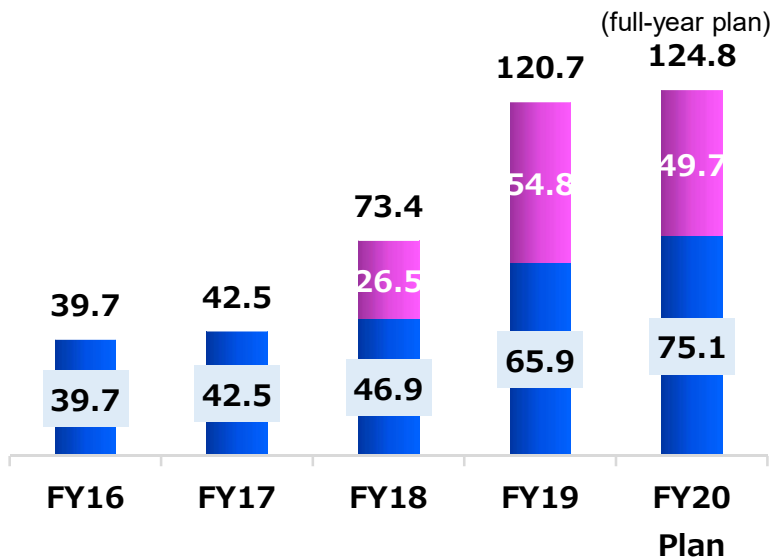
(9) System-Solutions

- ◆ We will focus on expanding new solutions such as GIGA School and ServiceNow.
- ◆ We will establish a foundation for global growth mainly in the APAC region.

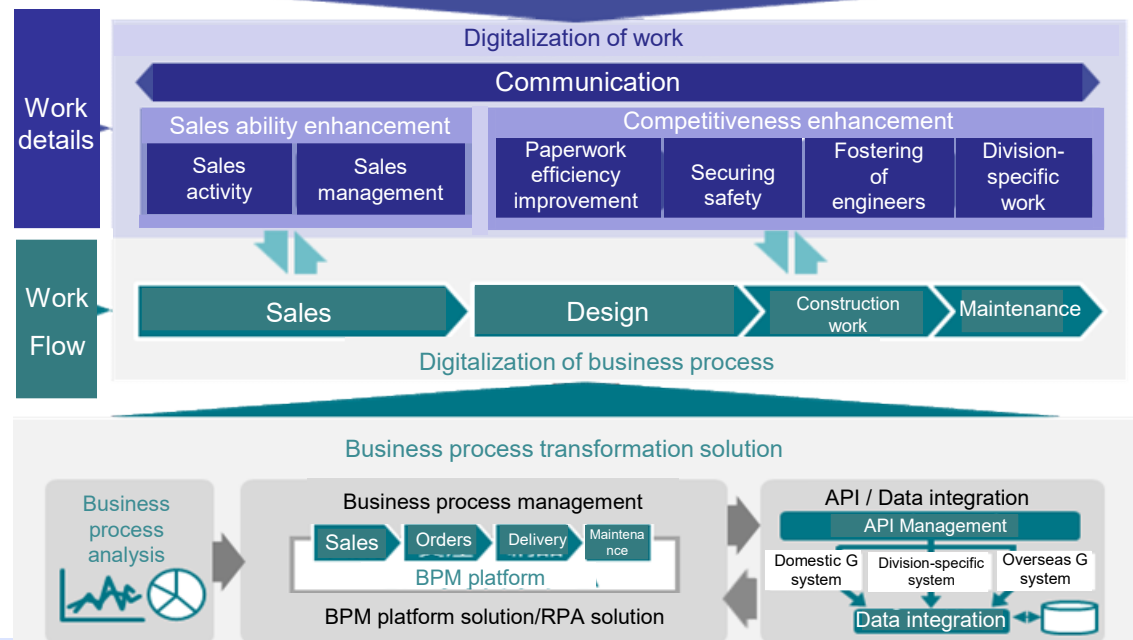
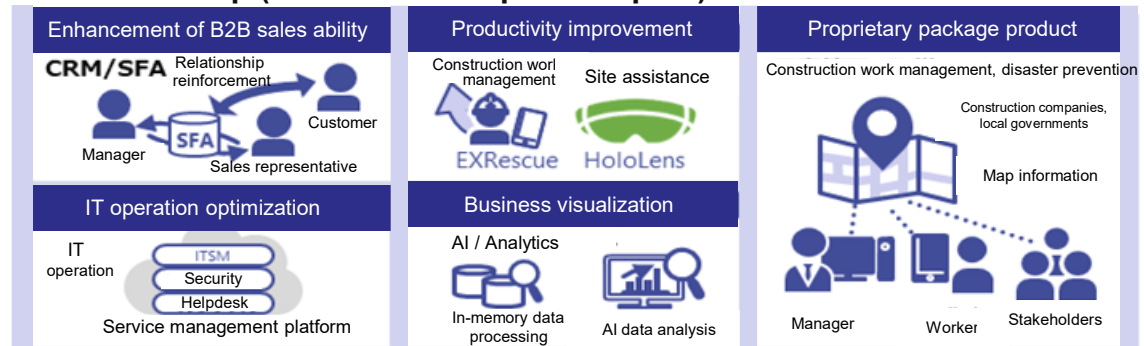
System-Solutions net sales (consolidated)

(¥bn)

■ Existing Exeo G ■ Three companies in western Japan



Solution Map (added value expansion plan)



2. Plans for FY20

(10) Efforts for Mid- to Long-Term Growth

◆ We will further advance activities for the expansion of the existing solution business, and provide our products in combination with partner products to help customers move forward with DX.

DX: digital transformation

Provide one-stop full layer solutions in collaboration with group companies.



Challenges are:

IT-related

- Improvement of IT operation efficiency
- Implementation of COVID-19 countermeasures
- Expanded use of cloud

...

Work-related

- Update of key systems under the 2025 Digital Cliff
- Sophistication of factories
- Energy saving and environmental measures for buildings
- Urgent disaster countermeasures

The solutions are:

- Automated operation using ServiceNow
- Implementation of telework using Microsoft Teams
- Optimization of IT infrastructure and security enhancement
- Visualization and transformation of business processes using iGrafx
- Construction of optimal network using local 5G, EX beacon, and others
- Efficient power supply and eco-friendly measures using DC power supplies
- Installation of disaster-prevention IoT to monitor water levels and portable storage batteries



2. Plans for FY20

(10) Efforts for Mid- to Long-Term Growth

◆ Efforts for new technologies and areas (examples of new products that we are working on)

GIGA School



The GIGA School Concept, which is led by the Japanese Ministry of Education, Culture, Sports, Science and Technology (MEXT), is a 5-year plan to provide students in compulsory education with personal computers for studying (one per student), a high-speed network environment, and other measures.

◆ Government's supplementary budget ◆ 461 billion yen (FY19+FY20)
 => Installation of in-school network 129.6 billion yen
 Provision of PCs and other terminals 331.4 billion yen

In collaboration with companies in the market and related organizations, we aim to offer engineering, solutions, maintenance, and other services.

Service Now

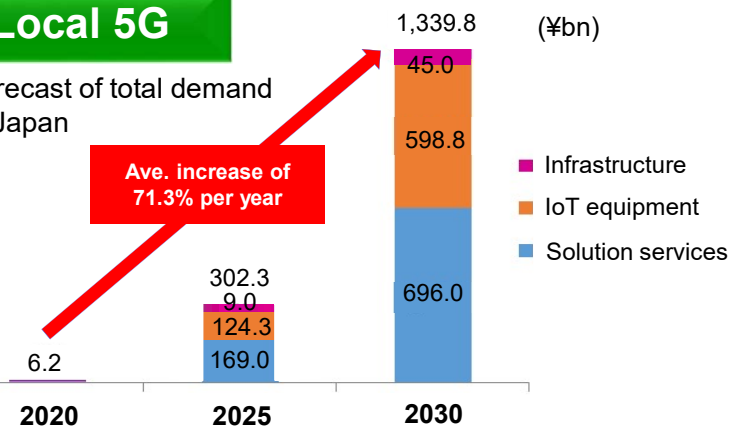
ServiceNow is a U.S. cloud service company that offers workflow platforms to enhance corporate productivity with the objective of reforming people's workstyles.

Develop the contracted installation business for clients, and increase certified engineers to expand businesses.



Local 5G

Forecast of total demand in Japan



(Source: Created by us based on information from the Japan Electronics and Information Technology Industries Association (JEITA))

2. Plans for FY20

(10) Efforts for Mid- to Long-Term Growth

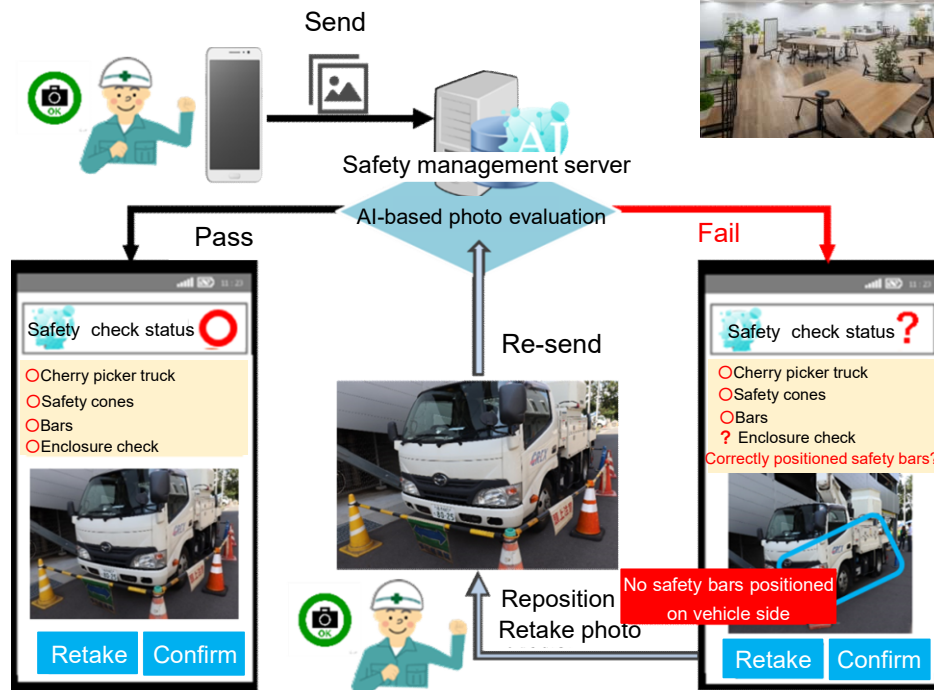
◆ Work on the improvement of productivity through the digitalization of business processes

Promotion of work innovation

- Improvement of desk work and on-site work processes
- Business process transformation through the digitalization of analog operations
- Improvement of workplace environments, and others

Improvement of expense calculation process
=> Automatic entry of travel and other expense payments from transportation IC cards and the digitalization of receipts

Creation of smart offices
=> Creation of a smart office at our DX Strategy Department in the Shinagawa office to promote work-style reform



Promotion of system innovation

- Review and group sharing of common and business systems
- Use of new technologies such as AI and IoT
- Building of data analysis platforms, and others

Installation of AI-based photo evaluation system for on-site operations

3. Our M&A Strategy



(1) Development Direction by Business Segment

**Engineering Solutions
(Urban infrastructure)**

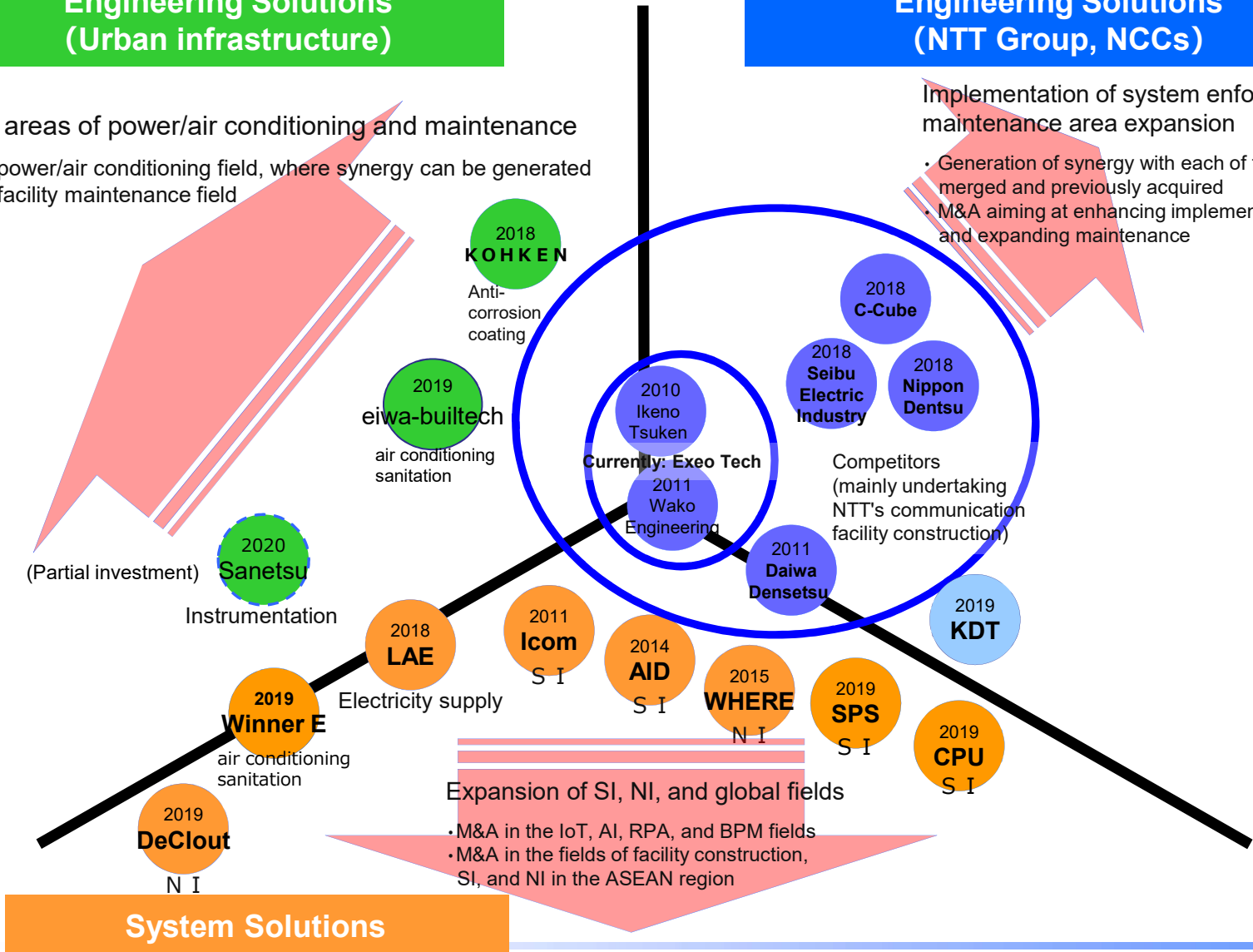
**Engineering Solutions
(NTT Group, NCCs)**

Expanding areas of power/air conditioning and maintenance

- M&A in the power/air conditioning field, where synergy can be generated
- M&A in the facility maintenance field

Implementation of system enforcement, maintenance area expansion

- Generation of synergy with each of the companies merged and previously acquired
- M&A aiming at enhancing implementation system and expanding maintenance



Expansion of SI, NI, and global fields

- M&A in the IoT, AI, RPA, and BPM fields
- M&A in the fields of facility construction, SI, and NI in the ASEAN region

System Solutions

4. Raising Shareholders' Value



(1) Shareholder Return Policy

- ◆ Our fundamental policy is to make active and stable dividend payments to all shareholders.
- ◆ From the FY2018 dividend, DOE was raised to around 3.5% to strengthen shareholder returns

■ FY2020 planned annual dividend: 82 yen

Item	FY17	FY18	FY19	FY20 Forecast
	DOE 3%	DOE 3.5% (integrated from 2H)	DOE 3.5%	DOE 3.5%
Annual dividends per share	¥50	¥70	¥80	¥82
Total annual dividends	¥4.78 billion	¥7.31 billion	¥8.97billion	¥9.21billion
Payout ratio	26.4%	※32.9 %	57.2%	43.4%

*Calculated by subtracting the extraordinary profit (negative goodwill) arising from the management integration.

■ Basic concept of treasury stock repurchase

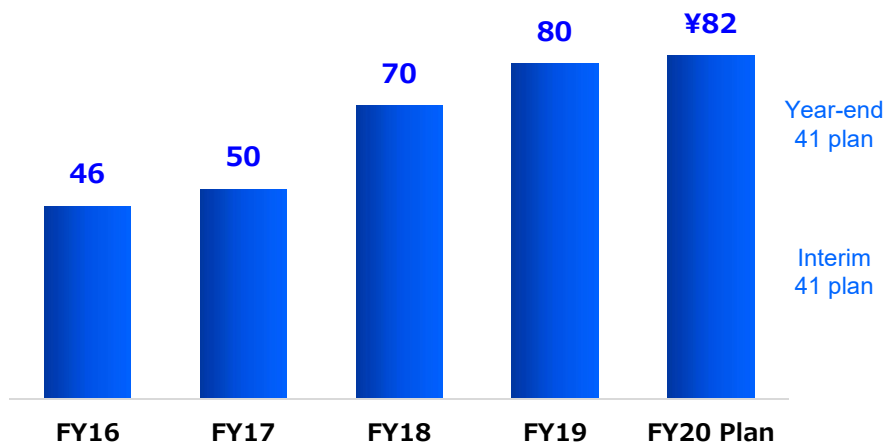
Comprehensively consider cash flow and other items while watching market trends and share price level, and flexibly repurchase stock.

4. Raising Shareholders' Value



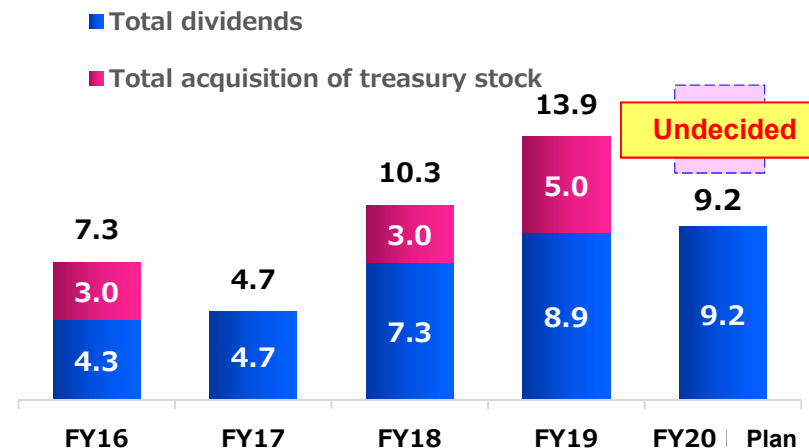
(2) Plan for shareholder returns for FY20, etc.

■ Dividend history (per share)

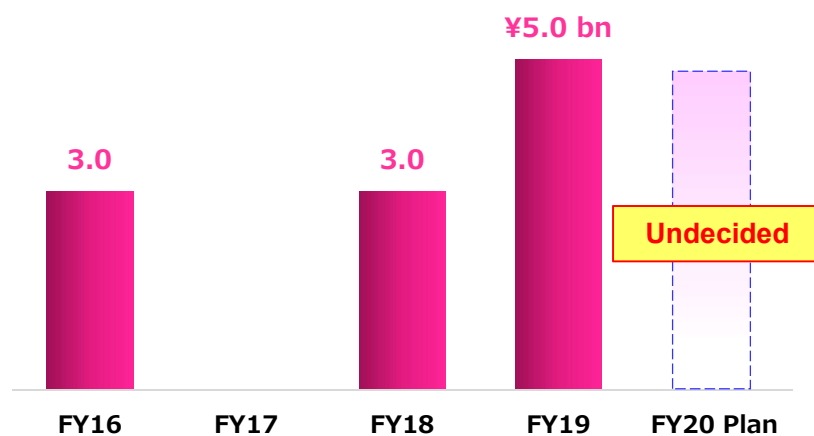


■ Total shareholder return

(Total dividends + total acquisition of treasury stock)

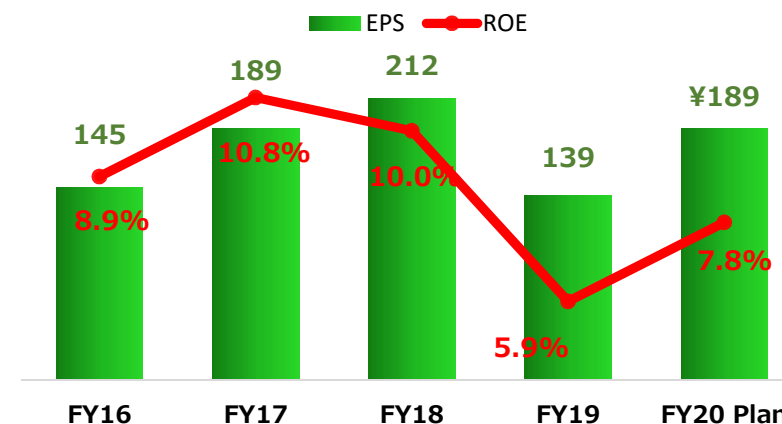


■ Acquisition of treasury stock



■ EPS/ROE

Note)EPS and ROE are calculated by subtracting the special profit (negative goodwill) from the management integration.



5. Topix

(1) Our company Employee Wins Gold Medal at Skills Competition

◆ Employees of Ebihara in our company successfully won the gold medal in the information-network construction category at the "The 57 National Skills Competition" held in Aichi-Prefecture for 4 days from November 15, 2019.

- Our company Employees Win 7th Gold Medal at National Skills Competition for the First Time in 3 Games In addition, our company employees have participated in international competitions held every other year 5 times in the past as representatives of Japan, and have won gold medals in all competitions.



Note: The National Skills Competition is a competition in which young technicians under the age of 23 compete in skills by event. This competition has 1,239 athletes participating in 42 job categories. Employees of Ebihara participated in the "information network construction" race, in which they competed in speed competitions of fiber-optic fusion splicing and wiring tasks for buildings during a fixed time of approximately 8 hours in 2 days.

5. Topix

(2) Our company selected as "Nadeshiko Brand"

◆ In fiscal 2019, the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange jointly selected listed companies that excel in promoting women's participation and career advancement "Nadeshiko Brand", and our company selected as it's brand (Announced March 3, 2020).

As part of its management strategy, our company is actively promoting diversity. Based on the commitment of top management, we have announced quantitative targets for the promotion of women's participation in the workplace, and are working to improve the awareness of management, male employees, and female employees, as well as implementing various training programs and review of the system. We are also actively working to improve productivity in conjunction with DX (digital transformation) initiatives.



Note: The "Nadeshiko Brand" is a program launched jointly by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange in fiscal 2012 to promote investment in companies and accelerate the efforts of listed companies by introducing companies that excel in "Promotion of Women's Activities " as stocks attractive to investors who place importance on medium- to long-term corporate value improvement. In fiscal 2019, 46 companies in each industry were selected.

Disclaimer Regarding Forward-Looking Statements

Management of the Company has made estimates and assumptions relating to financial forecasts based on information available as of the reporting date. Actual results could differ from those estimates.

KYOWA EXEO CORPORATION

3-29-20 Shibuya, Shibuya-ku,
Tokyo 150-0002 JAPAN

URL: <https://www.exeo.co.jp/en/ir/>
TEL: (81)3-5778-1073

A variety of IR materials is available for
consultation on our company website.