

# Results for the Six Months Ended September 30, 2020 (Telephone Conference)

A thick, solid pink diagonal line that tapers at both ends, positioned centrally behind the text.

*Engineering for Fusion*

**November 2020**

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

We renewed our website.

株式会社 協和エクシオ

## 1. Overview of FY20 Interim Results

(1) Performance Figures	...	2
(2) Orders Received	...	3
(3) Net Sales	...	4
(4) Operating Income	...	5
(5) Cash Flow	...	7

## 2. Expectations for the Rest of FY20

(1) Performance Figures	...	8
(2) NTT Group (Access/Network)	...	9
(3) NTT Group (Mobile)	...	10
(4) NCCs	...	11
(5) Urban Infrastructure	...	13
(6) System-Solutions	...	15
(7) Efforts for Mid- to Long-Term Growth	...	17
(8) Efforts on Work Style Reform under Pandemic	...	19

## 3. Our M&A Strategy

(1) Development Direction by Business Segment	...	20
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## 4. Raising Shareholders' Value

(1) Shareholder Return Policy	...	21
(2) Plan for shareholder returns for FY20, etc.	...	22

## 5. Topics

(1) Minami Kanto Branch recognized under ZEB introduction program	...	23
(2) Kyowa Exeo's credit ratings revised to A+	...	24

# 1. Overview of FY20 Interim Results

## (1) Performance Figures

- ◆ Sales rose thanks to brisk orders and the completion of a large volume of carried-over construction work. COVID-19 had limited impacts.
- ◆ Income grew in line with the growth of net sales, despite soaring SG&A expenses due chiefly to newly consolidated companies.

### ■ Overview of FY20 interim results (consolidated) (¥bn)

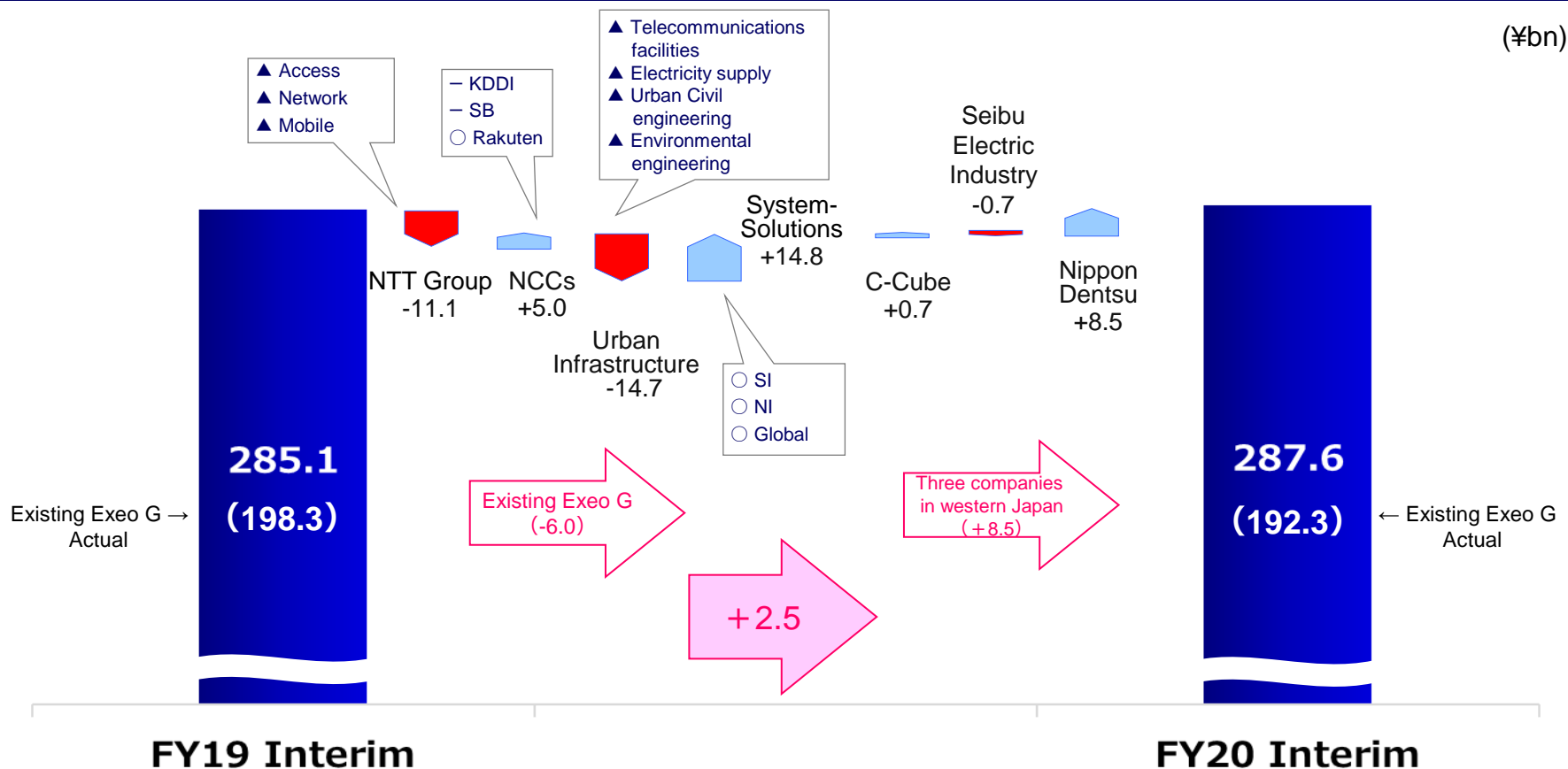
	FY 2019		FY2020	
	Interim	Full year	Interim	
	A	B	Actual C	YOY C/A
Orders received	285.1	556.3	287.6	101%
Net sales	212.3	524.5	224.8	106%
Gross profit	13.3% 28.1	13.0% 68.3	13.3% 30.0	107%
SG&A expenses	8.2% 17.4	7.1% 37.2	8.4% 18.8	108%
Operating income	5.1% 10.7	5.9% 31.1	5.0% 11.2	104%
Ordinary income	5.0% 10.6	5.8% 30.6	5.4% 12.2	115%
Net income attributable to owners of parent	3.0% 6.2	3.0% 15.6	3.3% 7.4	119%

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

# 1. Overview of FY20 Interim Results

## (2) Orders Received

◆ Urban Infrastructure remained strong despite a temporary decline against large orders in the previous fiscal year. Favorable orders were also achieved in system solutions.



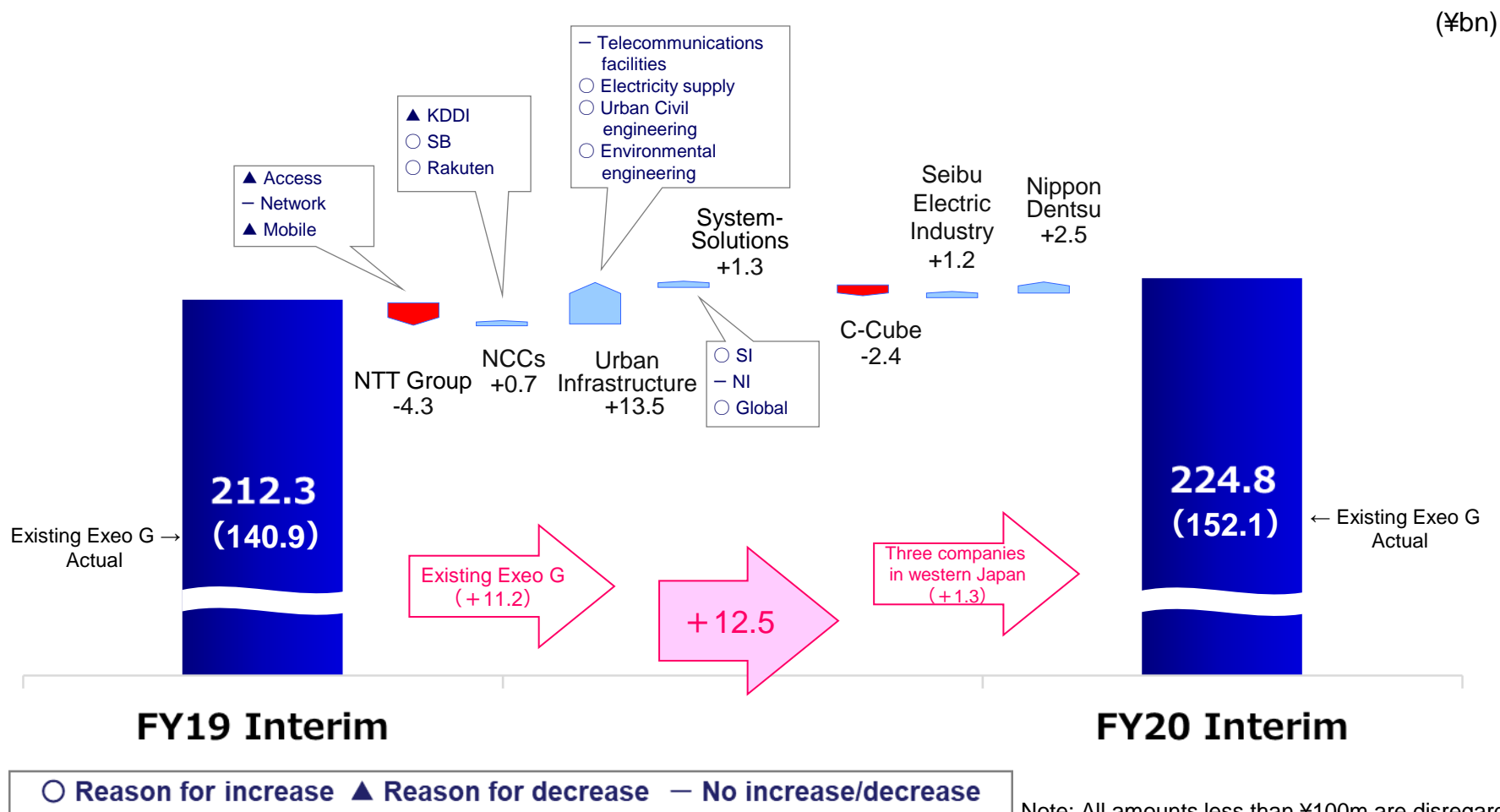
○ Reason for increase ▲ Reason for decrease – No increase/decrease

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

# 1. Overview of FY20 Interim Results

## (3) Net Sales

◆ While mobile construction and other work was delayed due to COVID-19, the sales performance in urban infrastructure was strong.



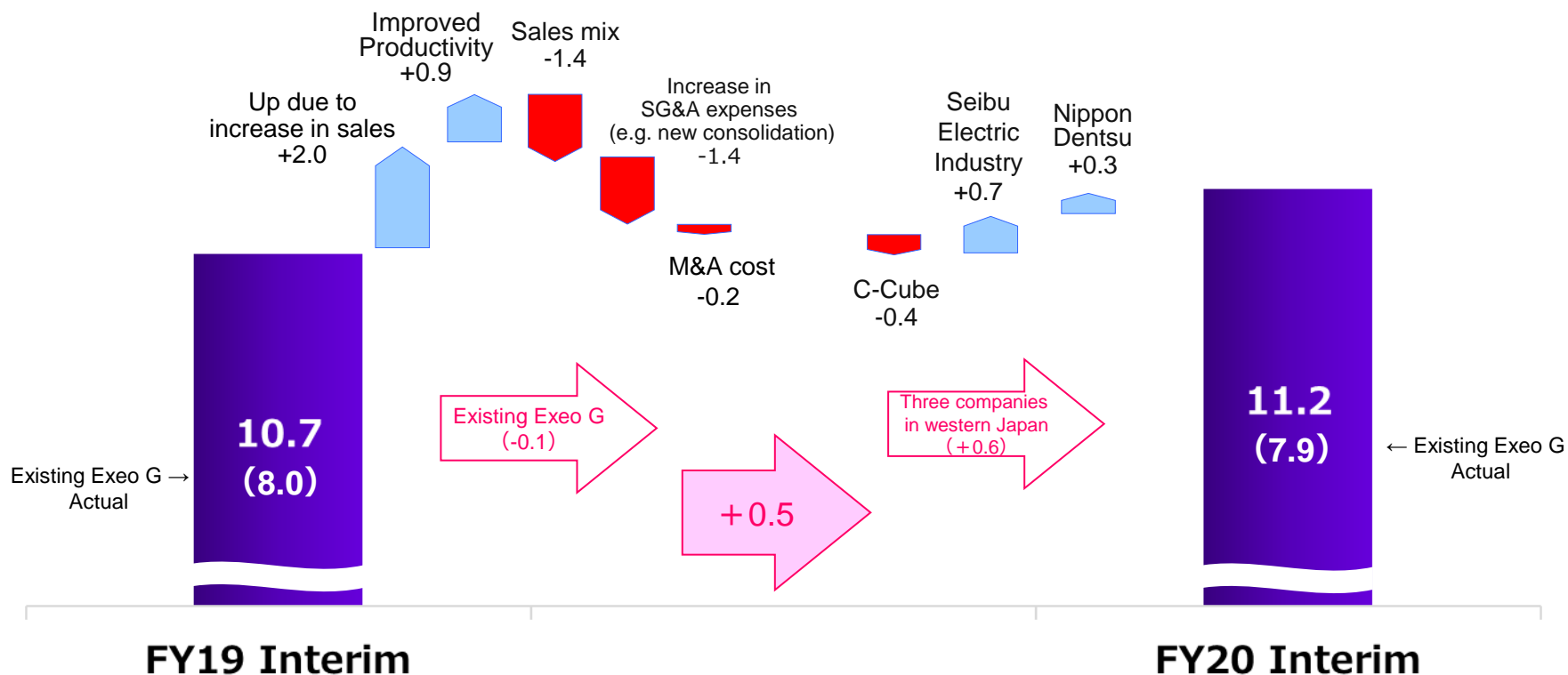
Note: All amounts less than ¥100m are disregarded.

# 1. Overview of FY20 Interim Results

## (4) Operating Income

◆ Despite a rise in SG&A expenses due chiefly to newly consolidated companies, the steady sales rise led to income growth.

(¥bn)



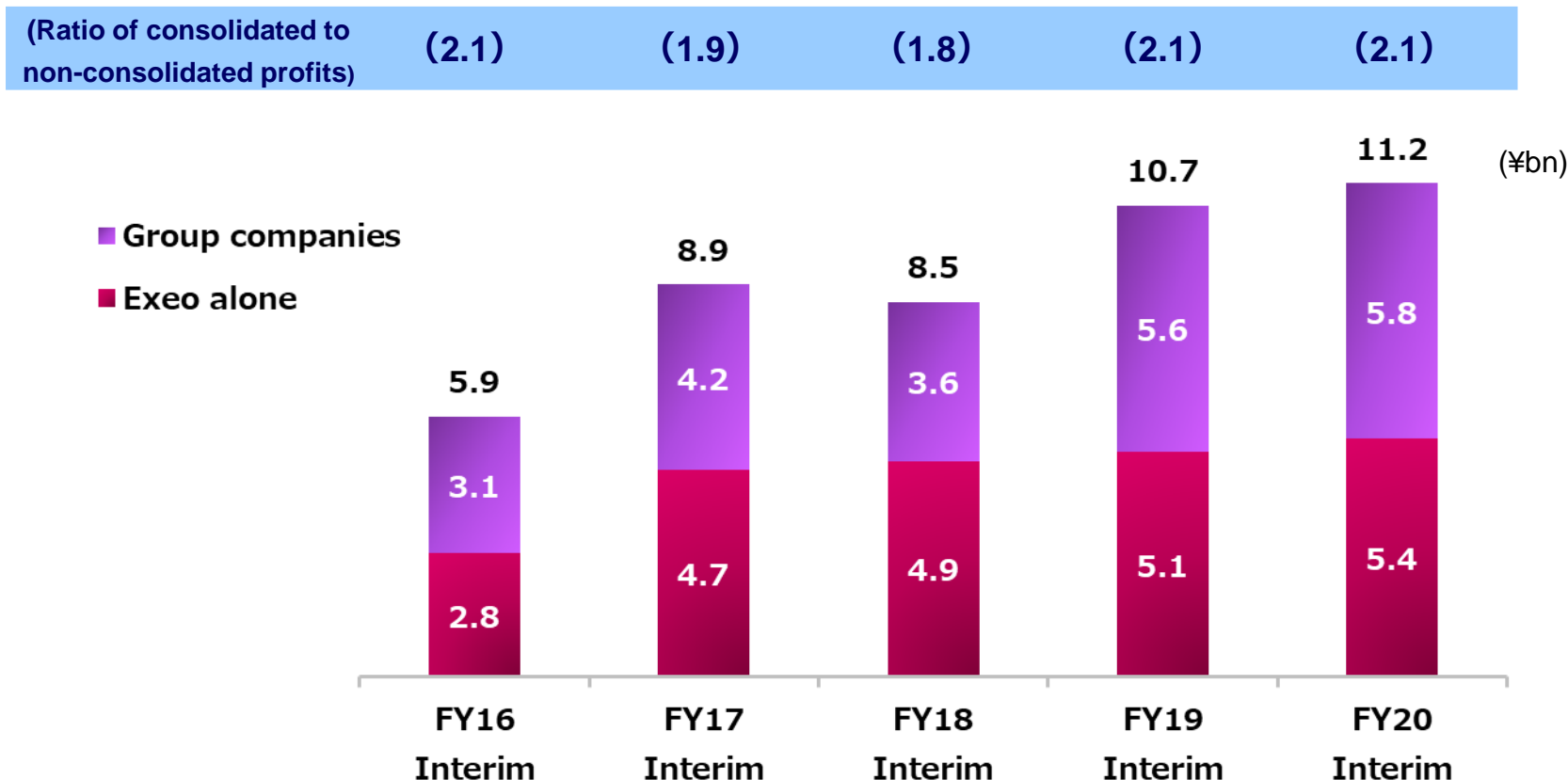
Note: All amounts less than ¥100m are disregarded.

# 1. Overview of FY20 Interim Results

## <Reference> Trends in Group company profitability

◆ Group companies achieved good results. The overall EXEO Group worked together to generate profits.

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



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 FY20 Interim Results



## (5) Cash Flow

◆ Cash flow is stable. We determine the assignment of financial resources in consideration of the balance between investment in growth and return to shareholders.

### ■ Cash flow (consolidated)

(¥bn)

	FY17	FY18	FY19		FY20
			Interim	Full year	Interim
Cash at beginning of FY	15.2	30.3	41.4	41.4	46.0
Operating activities	24.8	12.7	11.4	17.2	23.1
Investing activities	-4.5	-17.6	-5.2	-17.0	-5.5
Financial activities	-5.1	-4.9	-5.2	4.2	-5.7
Increase/decrease of cash due to share exchange		21.0		0.1	-0.1
Cash at end of period	30.3	41.4	42.4	46.0	57.7

Note: All amounts less than ¥100m are disregarded.  
 Note 2: Cash at the beginning of the interim period of FY20 represents the amount as of April 1, 2020.



## 2. Expectations for the Rest of FY20

### (1) Performance Figures

- ◆ The highest-ever top line figure is expected through organic growth in urban infrastructure and other segments.
- ◆ SG&A expenses are expected to rise after an investment in growth. However, we will work to produce group synergy as we seek to achieve a new record high income.

#### Overview of FY20 interim results (consolidated)

(¥bn)

	FY 2019		FY2020				
	Interim A	Full year B	Interim			Full year	
			Actual C	YOY C/A	Progress rate C/D	Plan D	YOY D/B
Orders received	285.1	556.3	287.6	101%	55%	525.0	94%
Net sales	212.3	524.5	224.8	106%	43%	525.0	100%
Gross profit	13.3% 28.1	13.0% 68.3	13.3% 30.0	107%	41%	13.8% 72.5	106%
SG&A expenses	8.2% 17.4	7.1% 37.2	8.4% 18.8	108%	46%	7.7% 40.5	109%
Operating income	5.1% 10.7	5.9% 31.1	5.0% 11.2	104%	35%	6.1% 32.0	103%
Ordinary income	5.0% 10.6	5.8% 30.6	5.4% 12.2	115%	37%	6.3% 33.0	108%
Net income attributable to owners of parent	3.0% 6.2	3.0% 15.6	3.3% 7.4	119%	35%	4.0% 21.1	135%

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

# 2. Expectations for the Rest of FY20

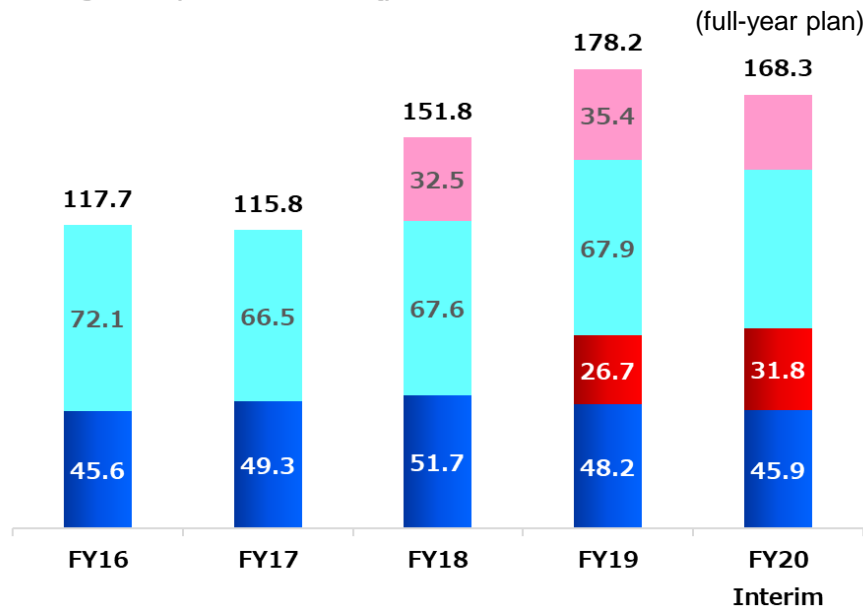
## (2) NTT Group (Access/Network)

- ◆ Optical fiber installation works will increase in provincial areas given the Project on Promoting Advanced Radio Environment Improvements.
- ◆ An increase in 5G mobile backhaul projects is expected on the core network side.

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

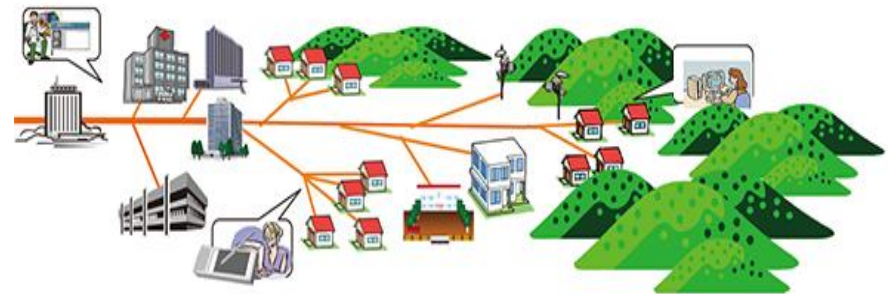
(¥bn)

- Three companies in western (Results of the former Company for the second half period)
- Existing Exeo G (Results of the former Company for the second half period)
- Three companies in western Japan (Actual results for 2Q)
- Existing Exeo G (Actual results for 2Q)

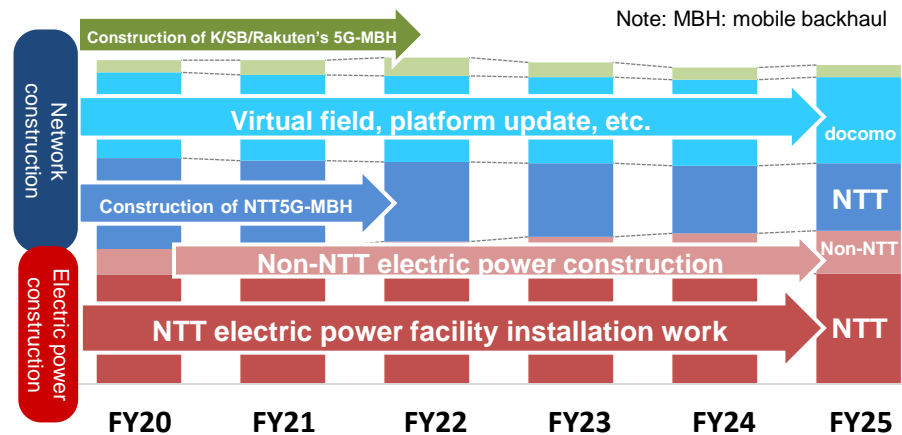


### Project on Promoting Advanced Radio Environment Improvements (a national governmental policy)

The national government subsidizes the construction of optical fiber networks in provincial areas. They are required for high speed wireless stations.



### Illustration of network construction transition



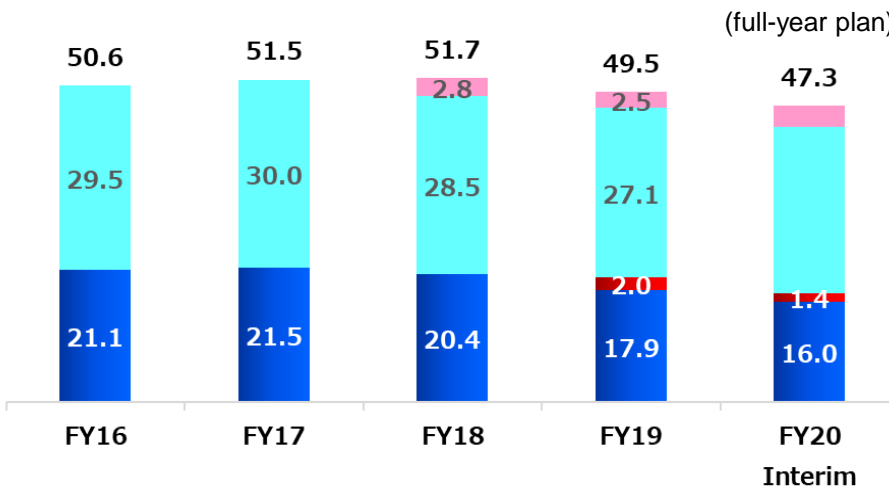
# 2. Expectations for the Rest of FY20

## (3) NTT Group (Mobile)

- ◆ Construction of wireless base stations will gradually gather momentum with the expansion of 5G coverage areas.
- ◆ Collaboration in construction with access operations and ongoing redevelopment of construction teams for all mobile carriers including NCCs

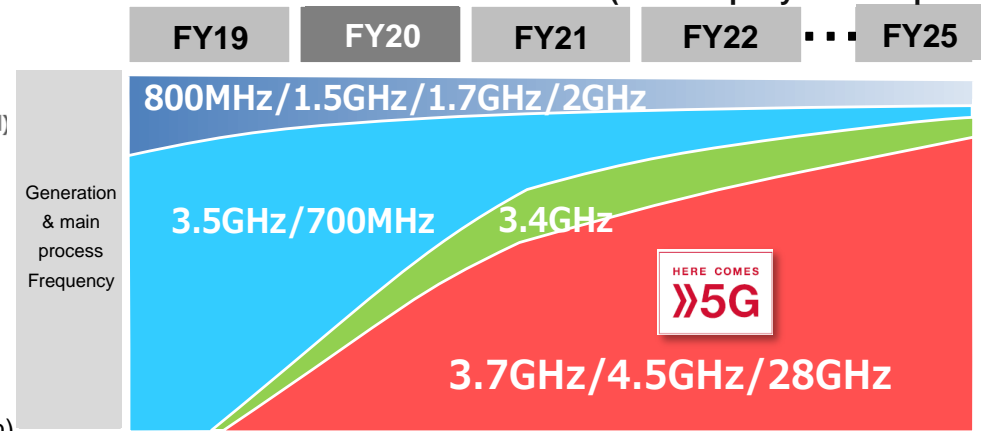
### ■ Net sales of NTT Group (mobile network, consolidated)

- (¥bn)
- Three companies in western (Results of the former Company for the second half period)
  - Existing Exeo G (Results of the former Company for the second half period)
  - Three companies in western Japan (Actual results for 2Q)
  - Existing Exeo G (Actual results for 2Q)

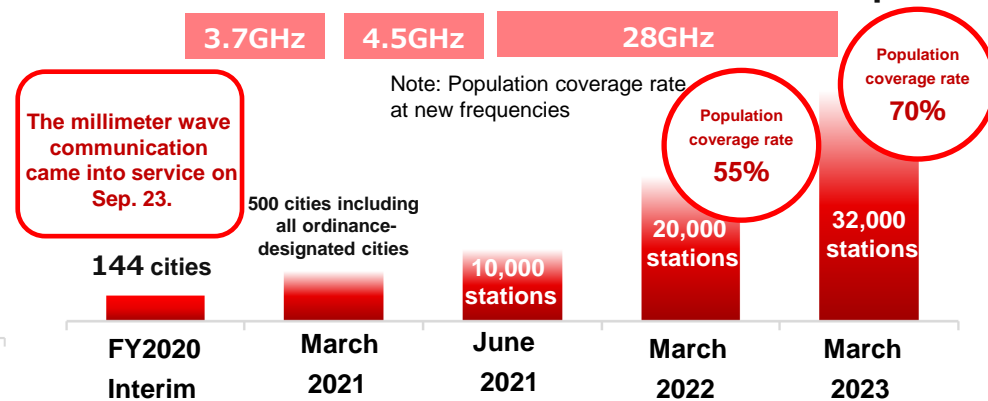


### ■ Image of NTT DOCOMO Main Processes

(our company's assumption)



### ■ Illustration of NTT DOCOMO's 5G area development



# 2. Expectations for the Rest of FY20

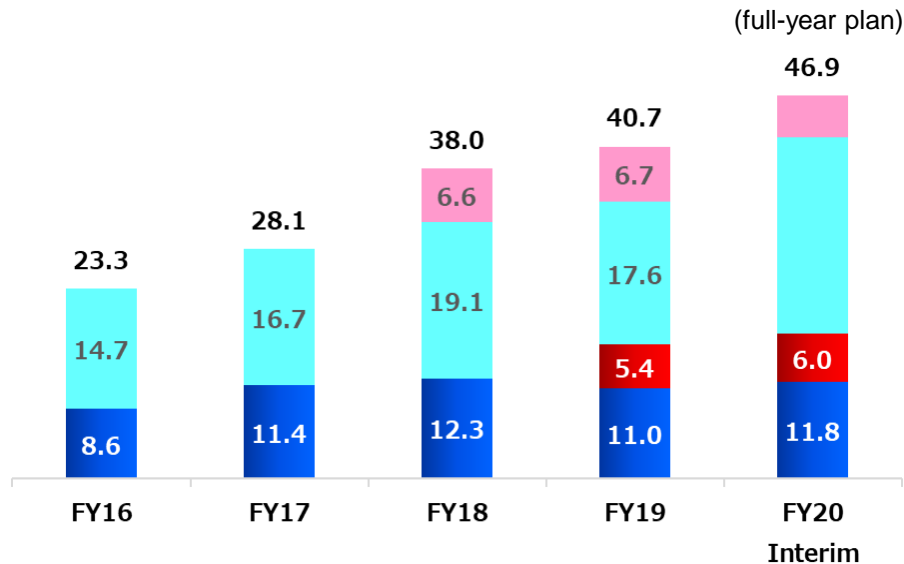
## (4) NCCs

- ◆ Orders from SoftBank and Rakuten remain very high from the previous fiscal year. Sales growth is thus projected.
- ◆ We work with major subsidiaries to vigorously carry out work for Rakuten all over the country.

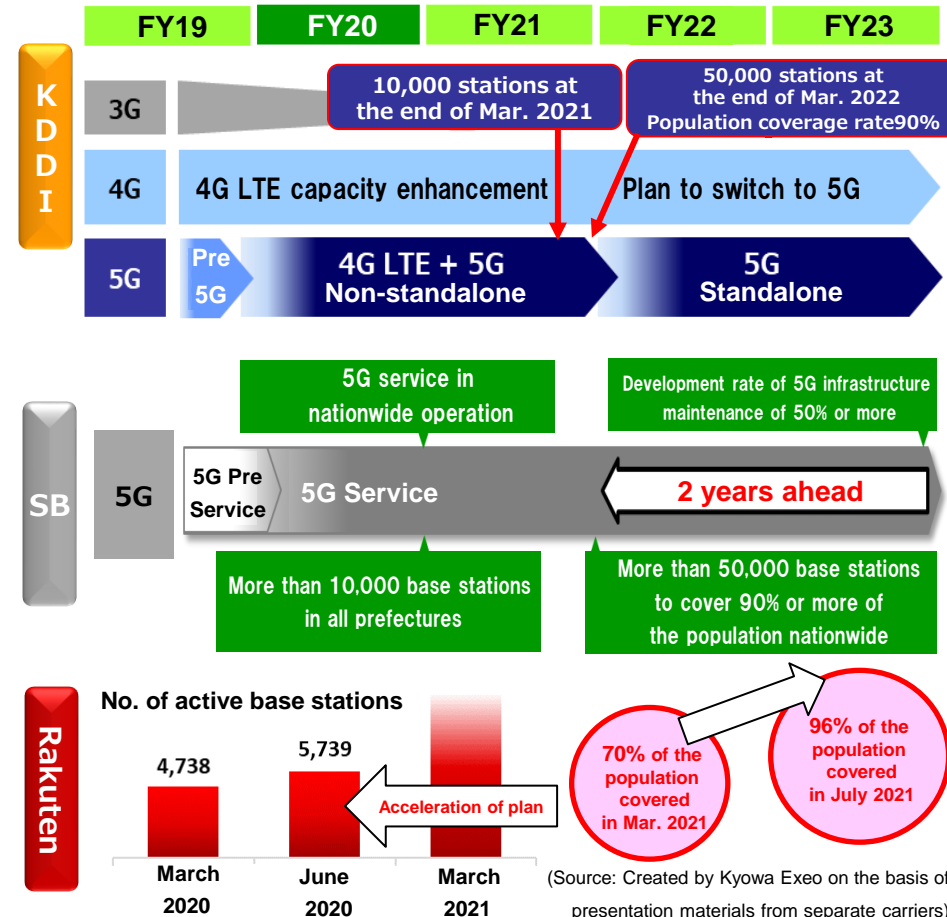
### Net sales of NCCs (consolidated)

(¥bn)

- Three companies in western (Results of the former Company for the second half period)
- Existing Exeo G (Results of the former Company for the second half period)
- Three companies in western Japan (Actual results for 2Q)
- Existing Exeo G (Actual results for 2Q)



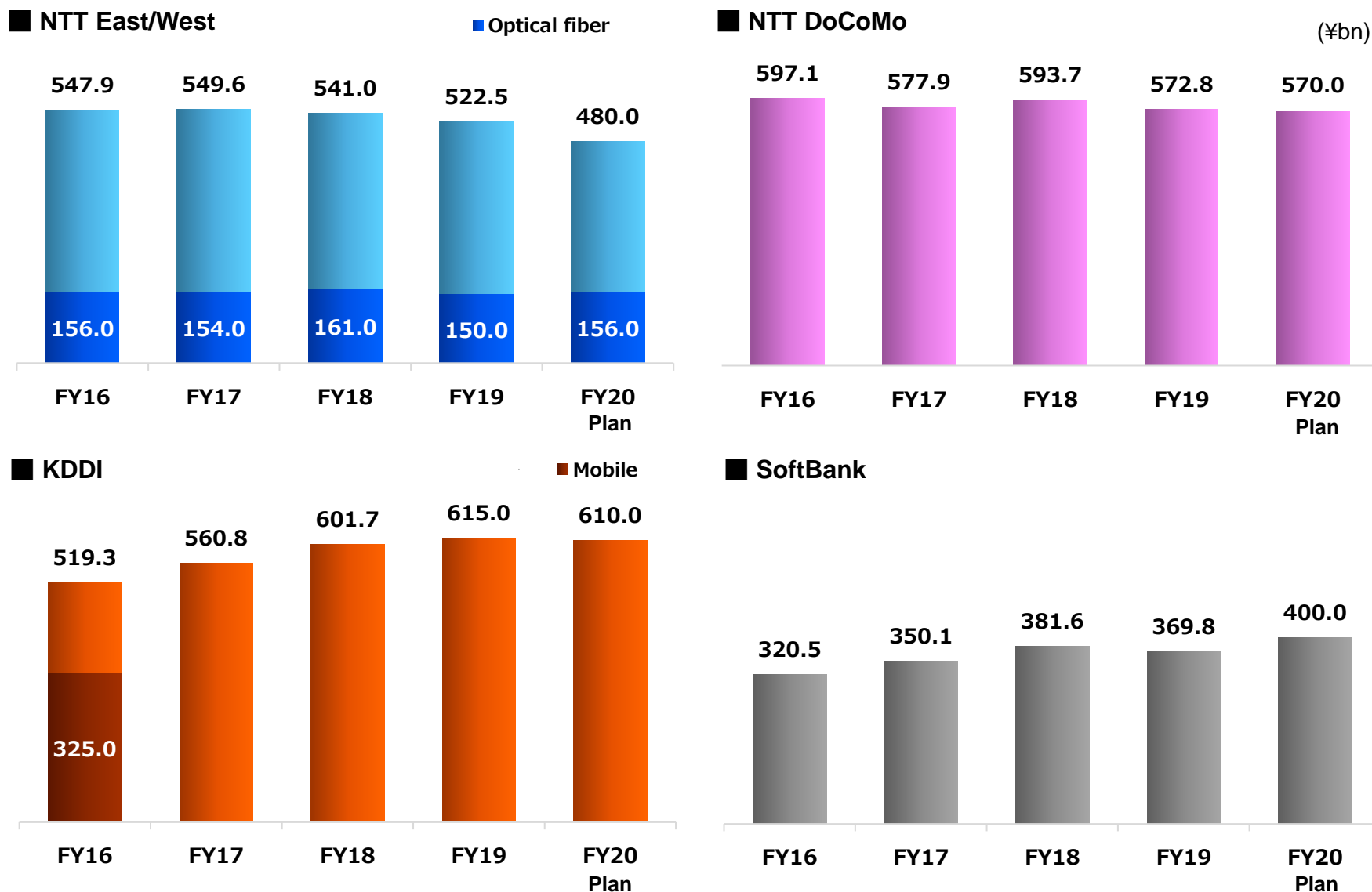
### Trend in network construction by carrier



## 2. Expectations for the Rest of FY20

### <Reference> Investment Trends of Major Telecom Carriers

(Source: Figures released by the telecommunications carriers)



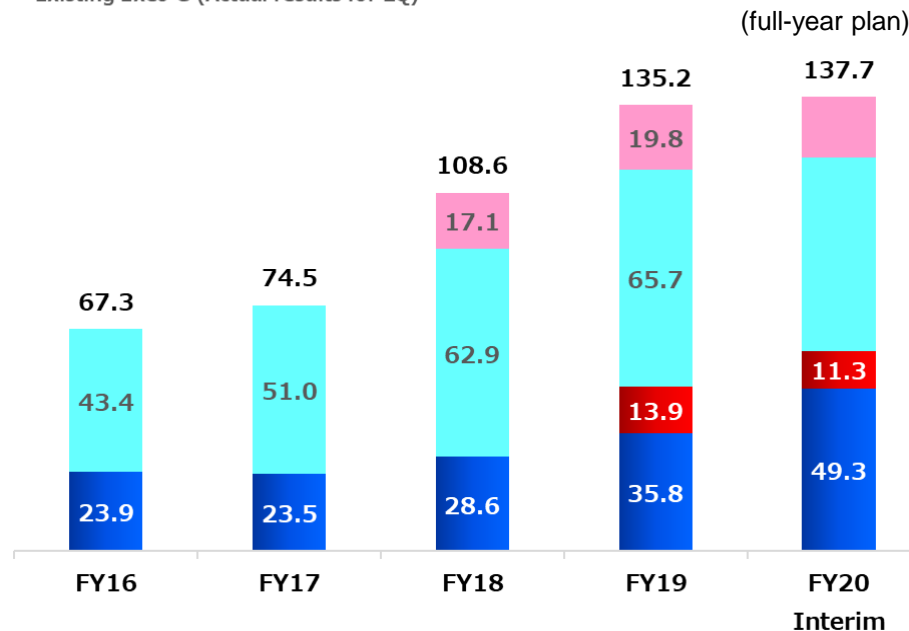
# 2. Expectations for the Rest of FY20

## (5) Urban Infrastructure

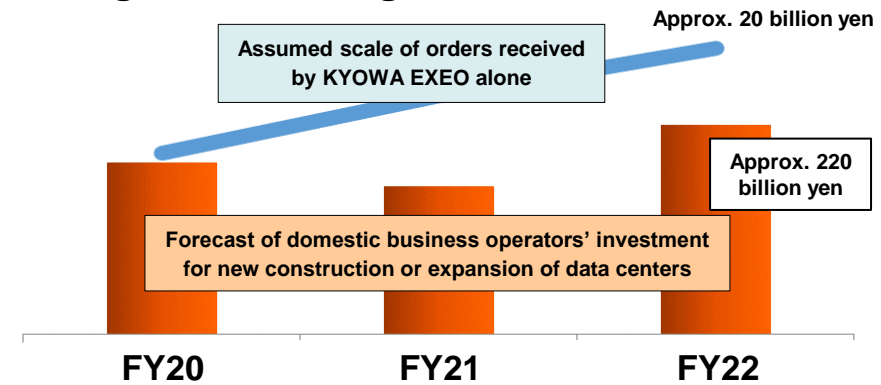
- ◆ We receive a good deal of orders for large electrical works for data centers and other facilities. We will aim to continuously win orders.
- ◆ We will expand business in cable unloading, utility pole elimination and other areas where we have superior technological capabilities.

### Urban Infrastructure net sales (consolidated)

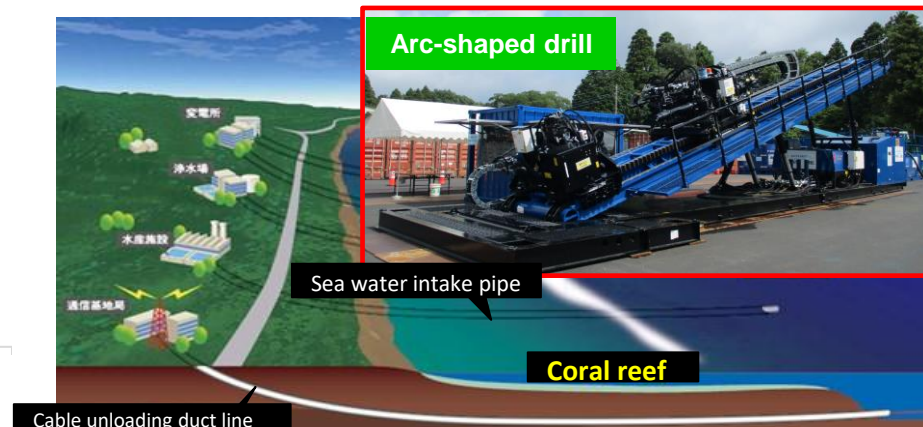
- (¥bn)
- Three companies in western (Results of the former Company for the second half period)
  - Existing Exeo G (Results of the former Company for the second half period)
  - Three companies in western Japan (Actual results for 2Q)
  - Existing Exeo G (Actual results for 2Q)



### Strong orders for large data center works



### Our earth shuttle method (arc-shaped drilling)



## 2. Expectations for the Rest of FY20

### <Reference> Other priority projects in urban infrastructure

◆ Continuously expand business fields to help newly construct, maintain, replace key infrastructure across the country

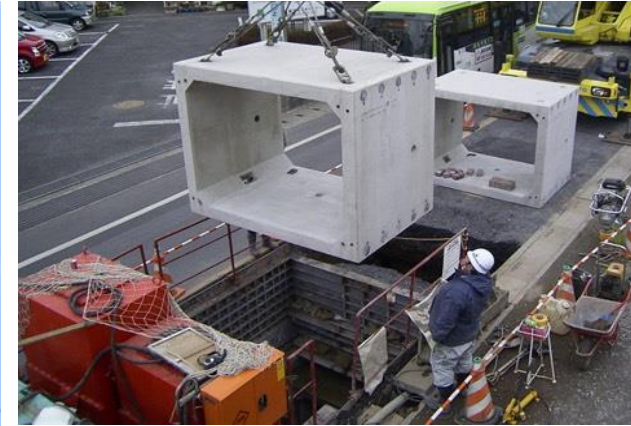
■ Railroad communication facilities works



■ Electrical works for large buildings



■ Urban civil engineering works



■ Road communication facilities works



■ Construction of large-scale solar power generation facilities



■ Construction of environmental plants



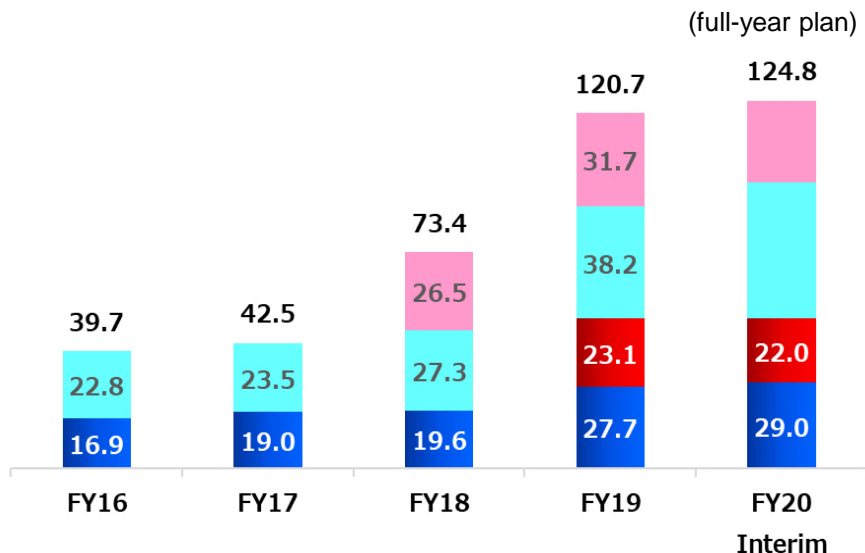
# 2. Expectations for the Rest of FY20

## (6) System-Solutions

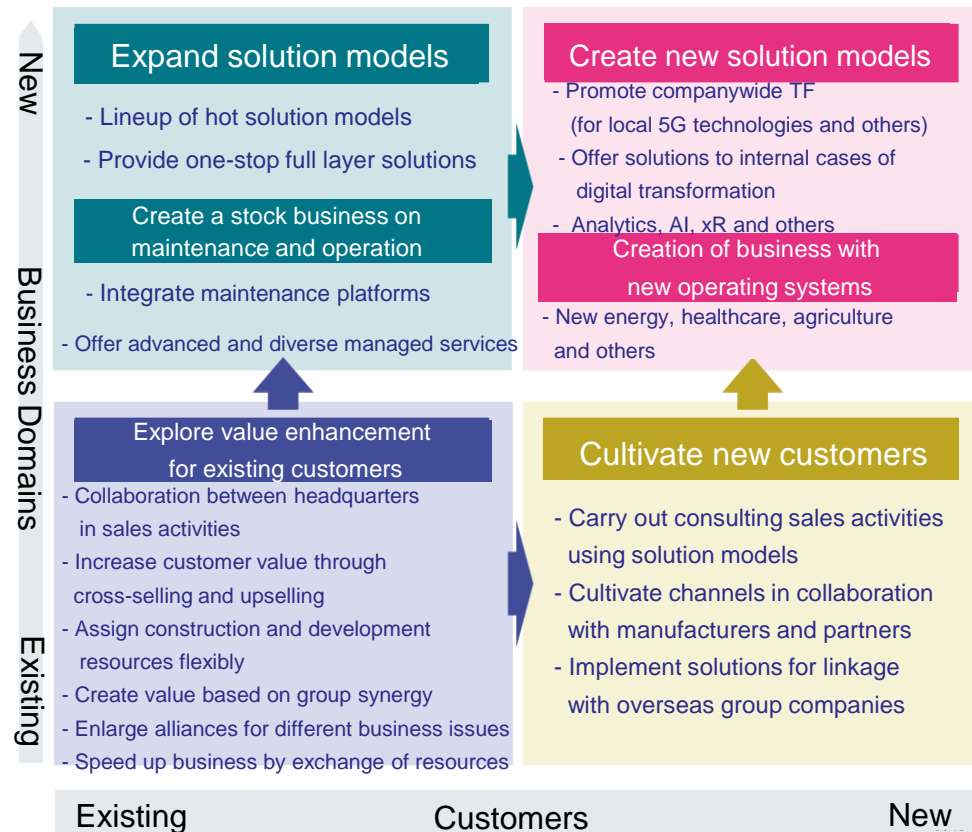
- ◆ Continue focusing on the expansion of new solutions such as the cloud
- ◆ Strive to establish business foundations for global operations despite the impact of lockdowns in several countries

■ System-Solutions net sales (consolidated)  
(¥bn)

- Three companies in western (Results of the former Company for the second half period)
- Existing Exeo G (Results of the former Company for the second half period)
- Three companies in western Japan (Actual results for 2Q)
- Existing Exeo G (Actual results for 2Q)



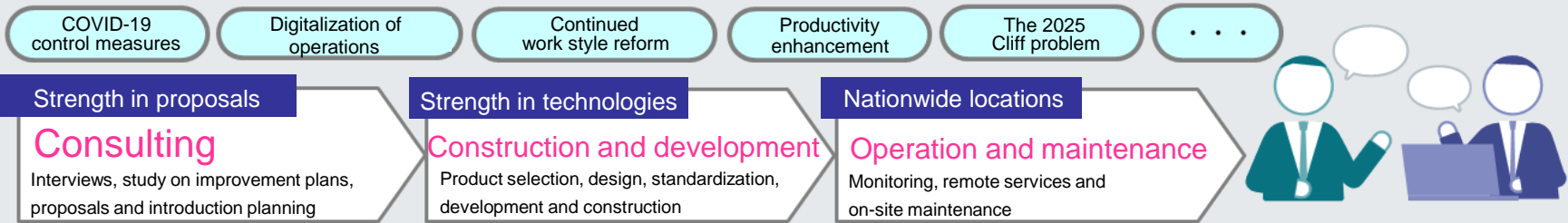
■ Solution business strategy





# 2. Expectations for the Rest of FY20

## <Reference> Our solution model map



### Actions during COVID-19 pandemic

#### COVID-19 pandemic

- (1) Discovery of suspected infections
- (2) Construction of remote working environment
- (3) Remote conferencing and training



### Business process reform

- (1) Visualization of existing processes
- (2) Design of desirable forms
- (3) Formulation of digitalization policy



### Automation of business processes and IT operations

- (1) Paper- and seal-free processes
- (2) Introduction of RPA and AI
- (3) Introduction of work flow systems



### Business process outsourcing

- (1) Monitoring, maintenance and operation
- (2) Managed services
- (3) A uniform system across the country



### Communication reform

- (1) Integration of voice and other tools
- (2) Introduction of cloud PBX
- (3) Reuse of used smartphones



### Optimization of IT infrastructure

- (1) Wi-Fi and position sensors
- (2) Local 5G networks
- (3) Shift to cloud



### Disaster control measures

- (1) Monitoring of water levels in reservoirs
- (2) Multiple rechargers
- (3) Emergency power sources



### Security measures

- (1) End point security
- (2) Zero trust security
- (3) SOC operations



## 2. Expectations for the Rest of FY20

### (7) 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 plan to provide students in compulsory education with personal computers for studying (one per student), a high-speed network environment, and other measures.



Strong orders following nationwide actions in collaboration with major subsidiaries

#### Service Now

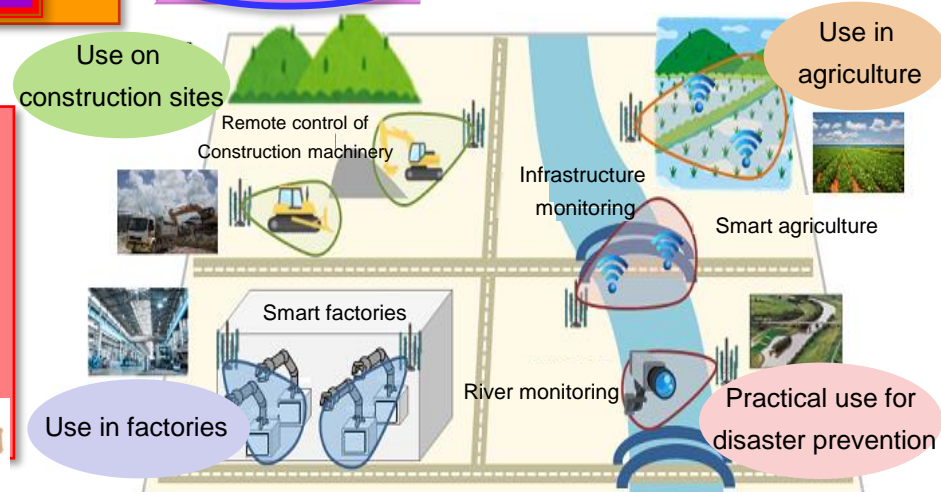
We develop certified engineers and gradually build up the track record of receiving orders to achieve promotion to the Premier business partner rank. We are thus making steady progress. In the future, we will increase sales channels in a bid to obtain more orders.



#### Local 5G

We will take part in demonstration trials of remote medicine and others organized by the Ministry of Internal Affairs and Communications.

Agriculture	Fishery	Factories
Mobility	Infrastructure	Tourism and e-sports
Disaster control	Crime prevention	Work styles
Medical care and health care		



(Source: Ministry of Internal Affairs and Communications: The Radio Use Website)

## 2. Expectations for the Rest of FY20

### (7) Efforts for Mid- to Long-Term Growth

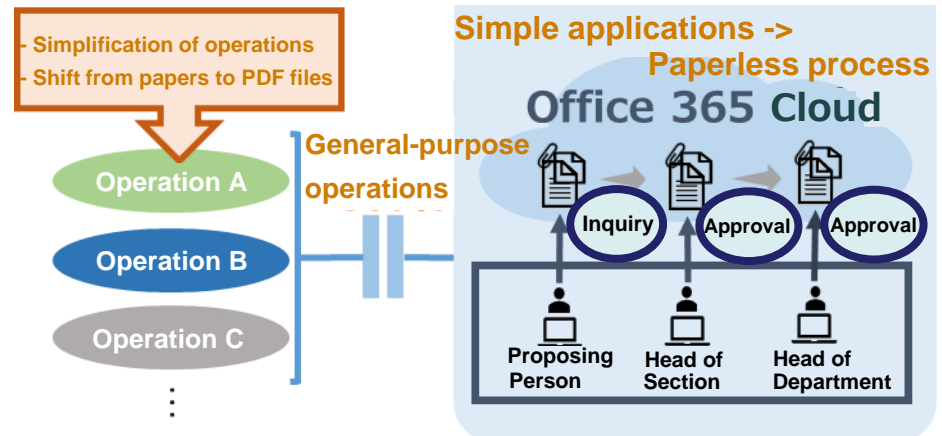
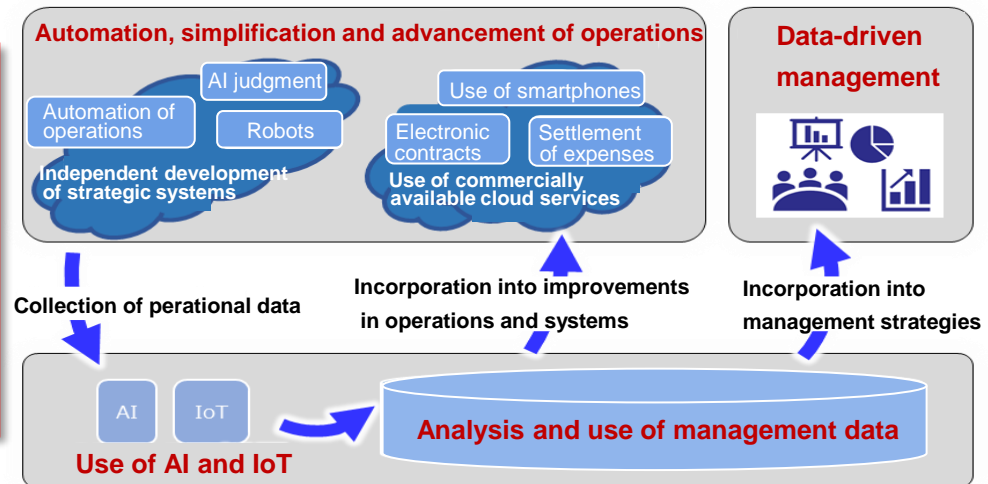
◆ Push ahead with the business reform through digital transformation (DX) efforts

#### Digitalization of operations

- Reconsideration of common systems and business systems and sharing in the group
- Use of AI, IoT and other new technologies
- Construction of data analysis foundations and others

#### Digitalization of back office operations

- Improvement in desk work processes
- Elimination of papers and seals
- Intensive use of smartphones and others

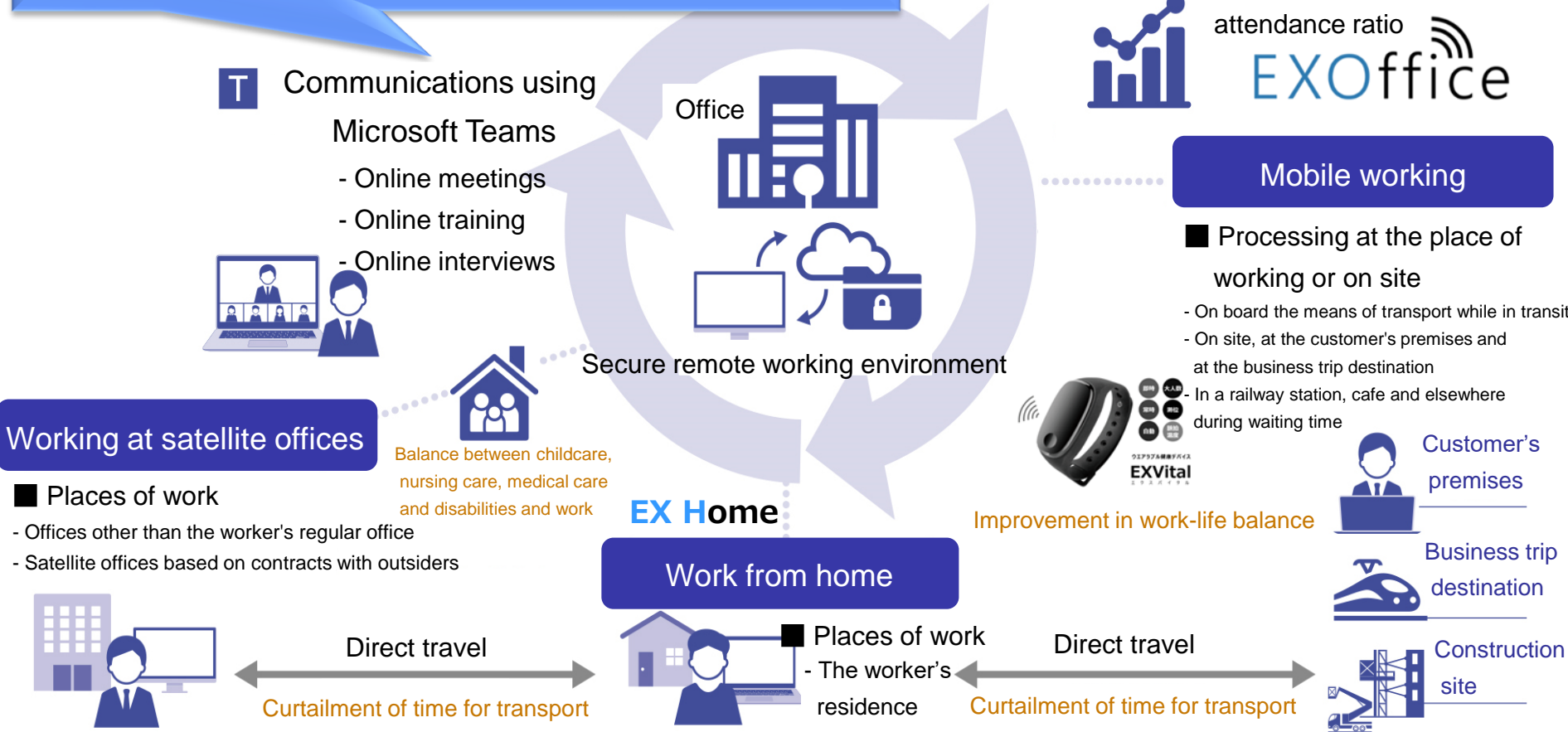


# 2. Expectations for the Rest of FY20

## (8) Efforts on Work Style Reform under Pandemic

◆ Pursue new work styles internally and offer related solutions to customers

Provide remote working solutions matched with problems and needs of customers



# 3. Our M&A Strategy

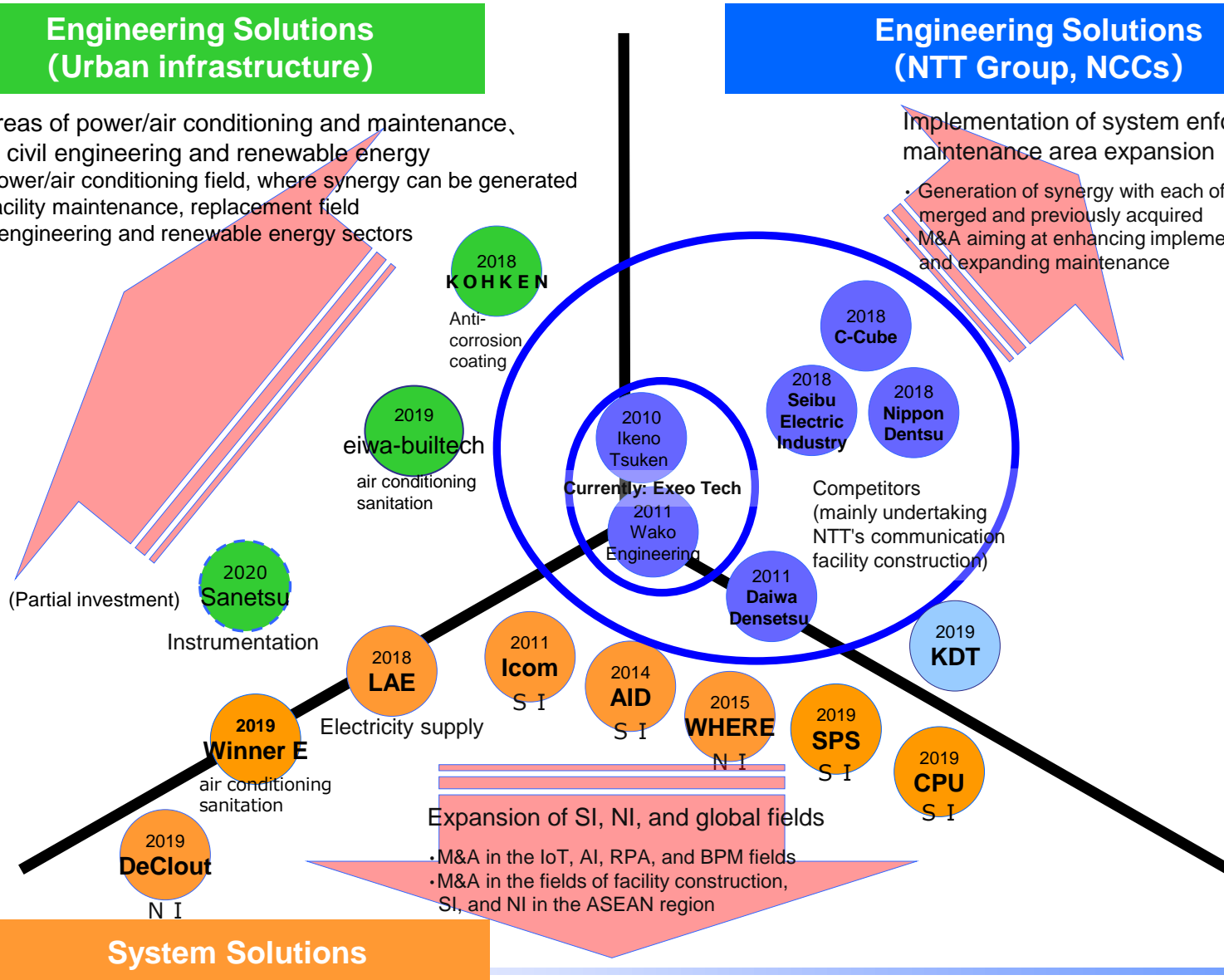
## (1) Development Direction by Business Segment

### Engineering Solutions (Urban infrastructure)

- Expanding areas of power/air conditioning and maintenance, replacement, civil engineering and renewable energy
- M&A in the power/air conditioning field, where synergy can be generated
  - M&A in the facility maintenance, replacement field
  - M&A in civil engineering and renewable energy sectors

### Engineering Solutions (NTT Group, NCCs)

- 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



# 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.

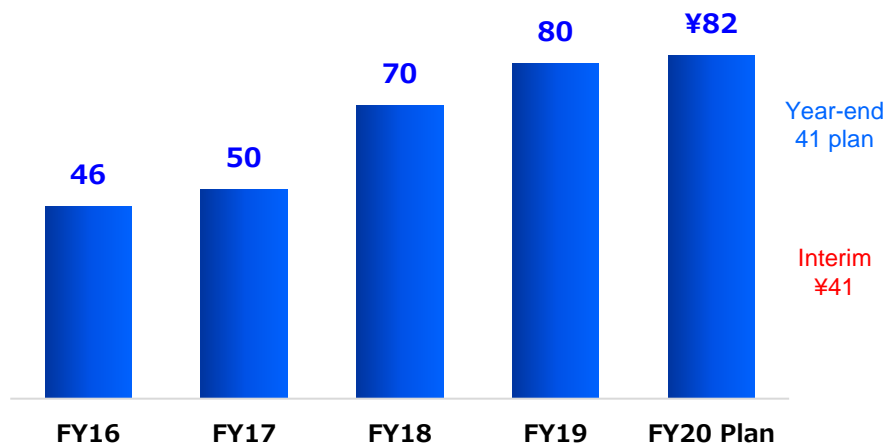
### ■ Acquisition of treasury stock

Treasury stock acquisition worth 3 billion yen was carried out to implement flexible capital policies for increasing shareholder value.

# 4. Raising Shareholders' Value

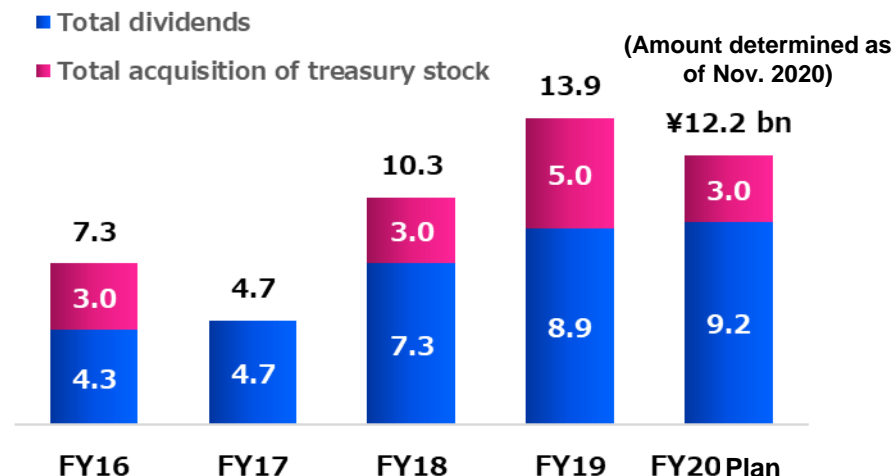
## (2) Plan for shareholder returns for FY20, etc.

### Dividend history (per share)

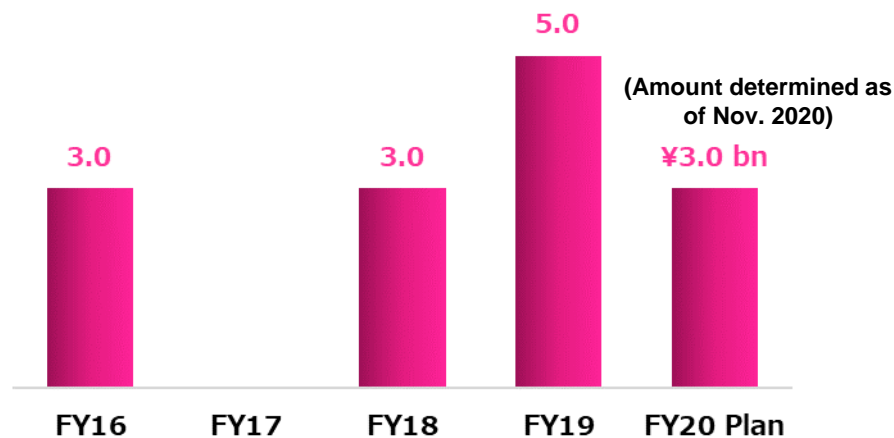


### Total shareholder return

(Total dividends + total acquisition of treasury stock)

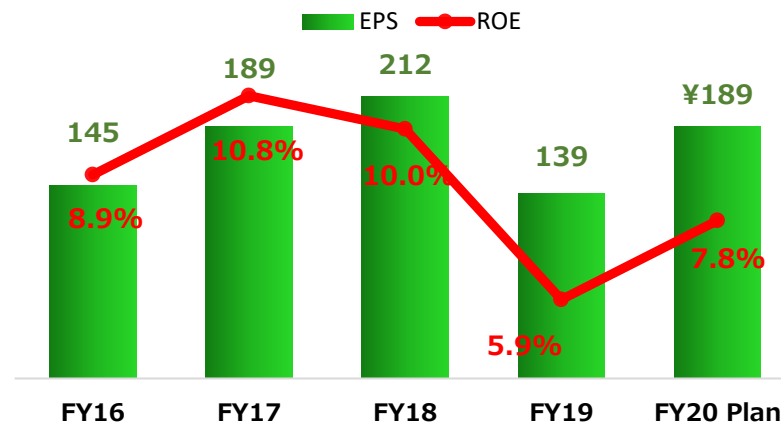


### Acquisition of treasury stock



### EPS/ROE

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



## (1) Minami Kanto Branch recognized under ZEB introduction program

- ◆ Ongoing reconstruction of the Minami Kanto Branch was recognized under the net Zero Energy Building (ZEB) introduction program as part of the Kanagawa Smart Energy Initiative implemented by the Kanagawa Prefectural Government.

The new building will introduce windows that reduce solar radiation heat, materials with high heat insulation performance, high efficiency air conditioning control using motion sensors and an energy management system to achieve a 51% reduction in energy consumption compared with that of standard buildings of the same size. It is also equipped with a photovoltaic power generation system with an output of 50 kW to achieve a real energy reduction rate of 75%. This means that the building satisfies the criteria for ZEB, precisely for Nearly ZEB.





## (2) Kyowa Exeo's credit ratings revised to A+

◆ Our company's credit rating , which has been acquired from the Japan Credit Rating Agency (JCR) , has been upgraded to "A +"

### 1. Revision details

	Before revision	After revision
Long-term issuer rating	A	A +
Rating outlook	Positive	Stable
Bond rating	A	A +

### 2. Date of revision

August 31, 2020

Note: For details about reasons for rating, refer to the website of Japan Credit Rating Agency, Ltd. at <https://www.jcr.co.jp/>.

## 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.

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