



**FYE June 2019 First Half**

# **Financial Results**

February 27, 2019

- 1. Overview of Financial Results**
- 2. Results by Segment**
- 3. Forecast for Fiscal Year Ending June 30, 2019**
- 4. Toward New Growth**

Note pertaining to this data:

- In principle, monetary amounts included in this document are rounded down to the nearest million yen.
- The forward-looking statements included in this document are based on information currently available to the Company and on certain preconditions that the Company deems reasonable. The Company provides no guarantee that what is stated will actually be realized.
- The names of companies, systems, and products included in this document are, as a general rule, trademarks or registered trademarks of companies, including KOZO KEIKAKU ENGINEERING Inc.

# 1

## Overview of Financial Results

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# Income Statement Highlights

(Million yen)	FYE June 2018 (60th term) H1	FYE June 2019 (61st term) H1	Change from previous FY	Rate of change from previous FY
Net sales	3,706	4,610	903	24.4%
Cost of sales	2,129	2,176	46	2.2%
Gross profit (Gross profit rate)	1,576 (42.5%)	2,433 (52.8%)	856	54.4%
SGA expenses	2,332	2,598	266	11.4%
Operating income (loss) (Operating income rate)	-755 (-20.4%)	-165 (-3.6%)	590	—
Non-operating profit & loss	- 15	8	23	—
Ordinary income (loss) (Ordinary income rate)	-770 (-20.8%)	-156 (-3.4%)	614	—
Extraordinary profit & loss	-0	-241	-241	—
Net income (loss) before taxes	-771	-398	372	—
Income taxes	-204	-113	90	—
Net income (loss) (Net income rate)	-566 (-15.3%)	-284 (-6.2%)	281	—

- Investment in NavVis GmbH in Germany

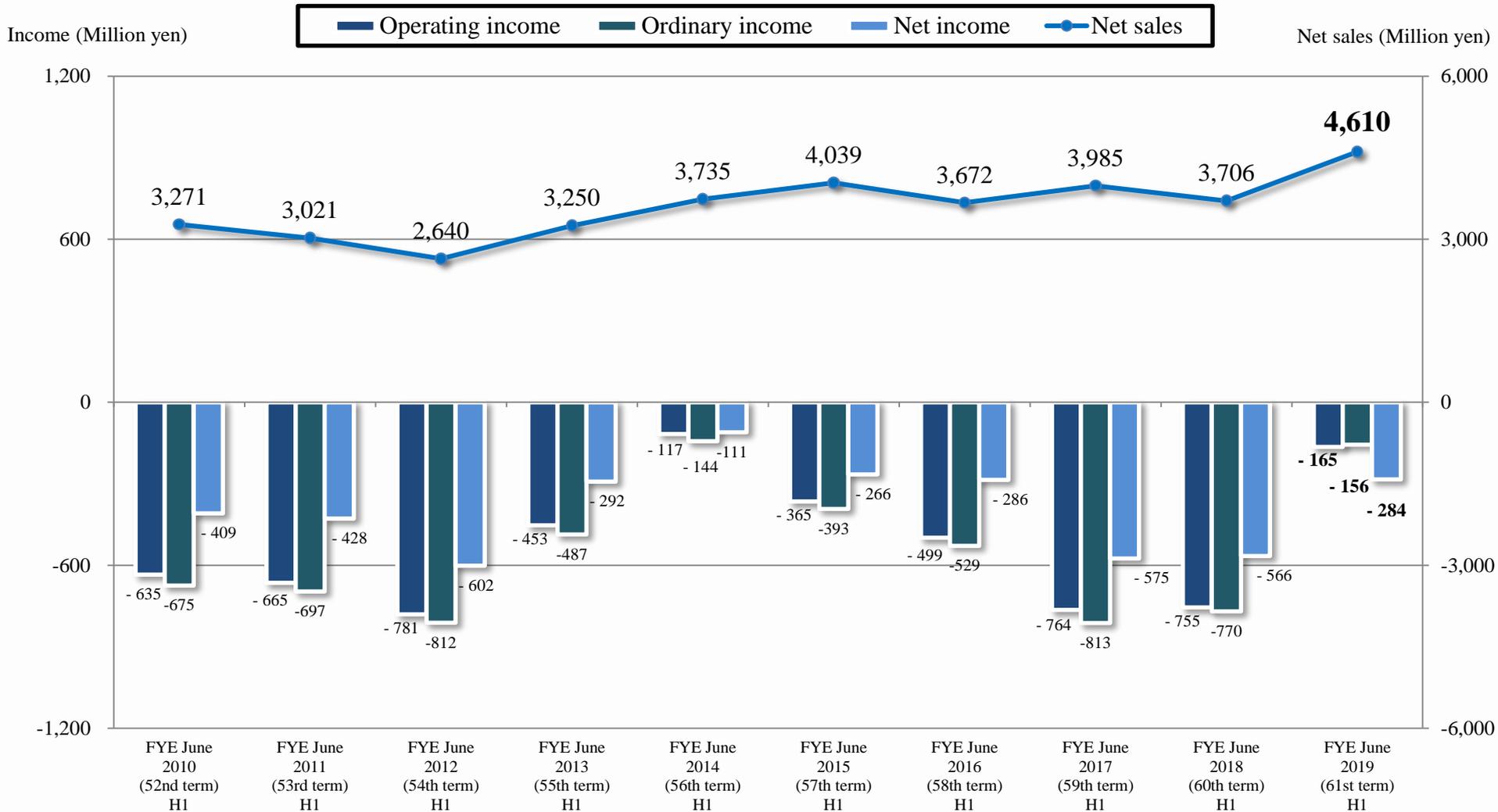
- Concluded an agreement to invest approximately nine million euros (Series C-2\*) in NavVis GmbH (Munich, Germany), a business alliance partner.

\* Total of 20 million euros including other investors.

- Impairment loss regarding LockState, Inc. in the United States

- Recorded a loss on valuation of shares for subsidiaries and associates of 241 million yen in the first half under review as a result of examining progress in the business of LockState, Inc. (Colorado, the United States), an investee of the Company.

# Trends in Results



# Highlights of Balance Sheet

## (Comparison with the End of the Previous Fiscal Year)

(Million yen)

Item	FYE June 2018 (60th term)	FYE June 2019 (61st term) H1	Change	Item	FYE June 2018 (60th term)	FYE June 2019 (61st term) H1	Change
Cash and Deposits	1,059	1,499	439	Short-term borrowings	—	810	810
Notes /accounts receivable - trade	1,654	930	-723	Current portion of long-term borrowings / corporate bonds	396	634	238
Work in process	542	1,159	616	Advances received	855	999	144
Other	1,172	649	-523	Accounts payable - accrued expenses	872	162	-709
				Other	1,448	1,074	-373
<b>[Current assets]</b>	<b>4,429</b>	<b>4,239</b>	<b>-189</b>	<b>[Current liabilities]</b>	<b>3,571</b>	<b>3,681</b>	<b>110</b>
Property, plant and equipment	5,116	5,087	-29	Long-term borrowings / corporate bonds	1,893	2,356	463
Intangible assets	476	428	-47	Provision for retirement benefits	1,924	2,003	78
Investments and other assets	2,235	2,819	583	Other	177	185	8
Deffered tax assets	873	994	120	<b>[Long-term liabilities]</b>	<b>3,995</b>	<b>4,545</b>	<b>550</b>
<b>[Fixed assets]</b>	<b>7,828</b>	<b>8,335</b>	<b>507</b>	<b>[Liabilities]</b>	<b>7,566</b>	<b>8,227</b>	<b>660</b>
				Capital stock	1,010	1,010	—
				Capital surplus	1,897	1,159	-737
				Retained earnings	3,943	3,310	-632
				Treasury shares	-2,177	-1,143	1,034
				Valuation difference on available-for-sale securities	17	10	-7
				<b>[Net assets]</b>	<b>4,690</b>	<b>4,347</b>	<b>-343</b>
<b>[Assets]</b>	<b>12,257</b>	<b>12,575</b>	<b>317</b>	<b>[Liabilities and net assets]</b>	<b>12,257</b>	<b>12,575</b>	<b>317</b>
<b>Total borrowings (including corporate bonds)</b>	<b>2,289</b>	<b>3,801</b>	<b>1,511</b>	<b>Capital Ratio</b>	<b>38.3%</b>	<b>34.6%</b>	
<b>Net interest-bearing debt</b>	<b>1,229</b>	<b>2,301</b>	<b>1,071</b>				

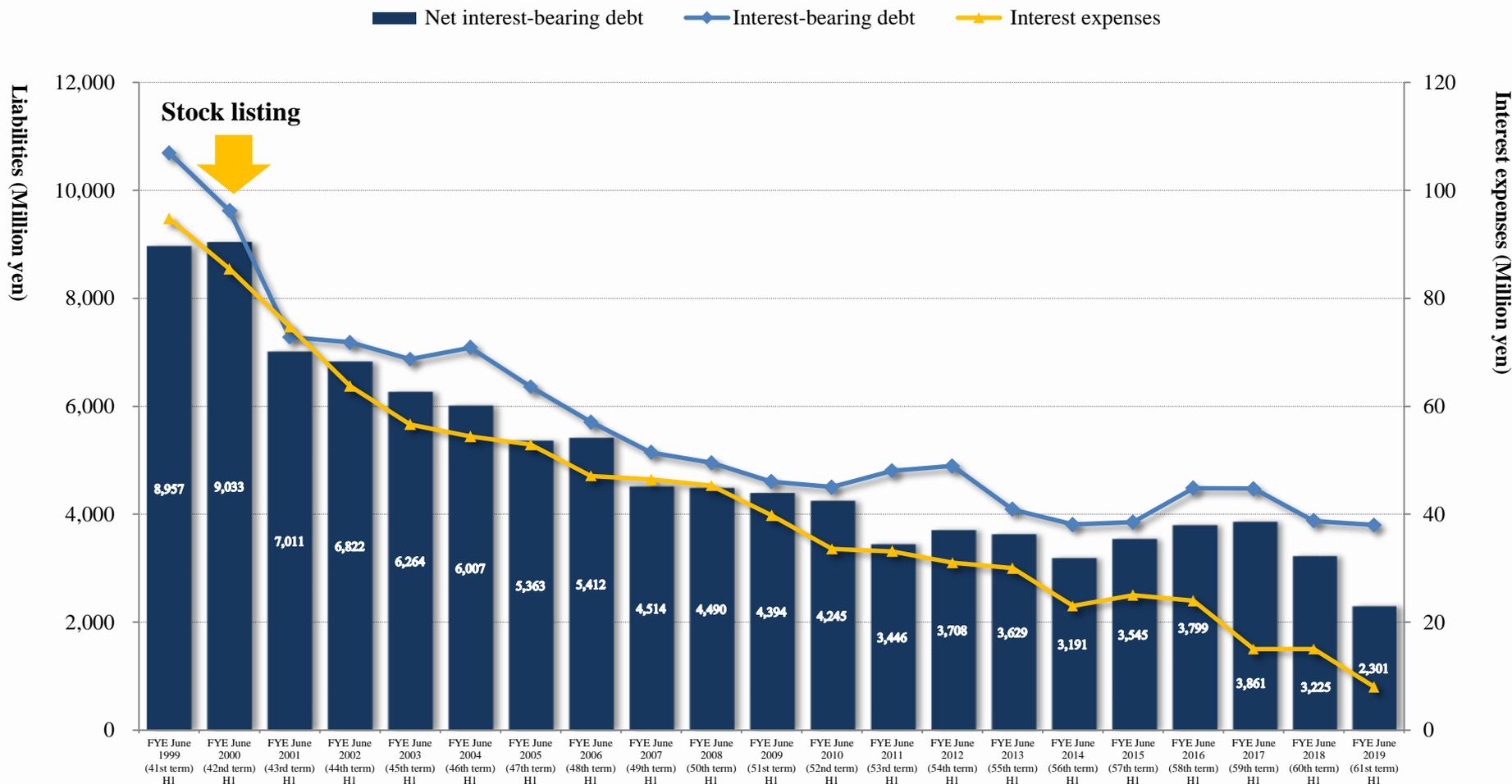
# Highlights of Balance Sheet

## (Comparison with H1 of the Previous Fiscal Year)

(Million yen)

Item	FYE June 2018 (60th term) H1	FYE June 2019 (61st term) H1	Change	Item	FYE June 2018 (60th term) H1	FYE June 2019 (61st term) H1	Change
Cash and Deposits	651	1,499	848	Short-term borrowings	2,450	810	-1,640
Notes /accounts receivable - trade	810	930	120	Current portion of long-term borrowings / corporate bonds	533	634	101
Work in process	1,303	1,159	-144	Advances received	909	999	89
Other	672	649	-23	Accounts payable - accrued expenses	148	162	14
				Other	1,255	1,074	-180
<b>[Current assets]</b>	<b>3,437</b>	<b>4,239</b>	<b>801</b>	<b>[Current liabilities]</b>	<b>5,296</b>	<b>3,681</b>	<b>-1,614</b>
Property, plant and equipment	5,140	5,087	-53	Long-term borrowings / corporate bonds	893	2,356	1,463
Intangible assets	459	428	-30	Provision for retirement benefits	1,870	2,003	133
Investments and other assets	2,209	2,819	609	Other	174	185	11
Deffered tax assets	972	994	21	<b>[Long-term liabilities]</b>	<b>2,938</b>	<b>4,545</b>	<b>1,607</b>
<b>[Fixed assets]</b>	<b>7,809</b>	<b>8,335</b>	<b>526</b>	<b>[Liabilities]</b>	<b>8,234</b>	<b>8,227</b>	<b>-7</b>
				Capital stock	1,010	1,010	-
				Capital surplus	1,335	1,159	-175
				Retained earnings	2,613	3,310	697
				Treasury shares	-1,969	-1,143	826
				Valuation difference on available-for-sale securities	24	10	-13
				<b>[Net assets]</b>	<b>3,012</b>	<b>4,347</b>	<b>1,335</b>
<b>[Assets]</b>	<b>11,247</b>	<b>12,575</b>	<b>1,327</b>	<b>[Liabilities and net assets]</b>	<b>11,247</b>	<b>12,575</b>	<b>1,327</b>
<b>Total borrowings (including corporate bonds)</b>	<b>3,876</b>	<b>3,801</b>	<b>-75</b>	<b>Capital Ratio</b>	<b>26.8%</b>	<b>34.6%</b>	
<b>Net interest-bearing debt</b>	<b>3,225</b>	<b>2,301</b>	<b>-923</b>				

# Changes in Net Interest-Bearing Debt



\* Calculations include corporate bonds of 500 million yen in interest-bearing debt.

# Cash Flow Statement Highlights

(Million yen)

	FYE June 2018 H1 (60th term)	FYE June 2019 H1 (61st term)	Change
Balance at the beginning of FY	411	1,059	648
CF from operations	-1,232	-237	994
CF from investments	-226	-740	-513
Free CF	-1,458	-977	481
CF from financing	1,698	1,417	-281
Balance at the end of FY	651	1,499	848

## CF highlights for operations

Highlights of CF from operations	FYE June 2018 H1	FYE June 2019 H1	Change
Net income before taxes	-771	-398	372
Decrease in accounts receivable	736	867	130
Increase in inventories	-755	-614	140

## CF highlights for investments

Highlights of CF from investments	FYE June 2018 H1	FYE June 2019 H1	Change
Purchase of property, plant and equipment	-75	-32	42
Purchase of intangible assets	-50	-19	30
Purchase of investment securities	-74	-666	-591

## CF highlights for financing

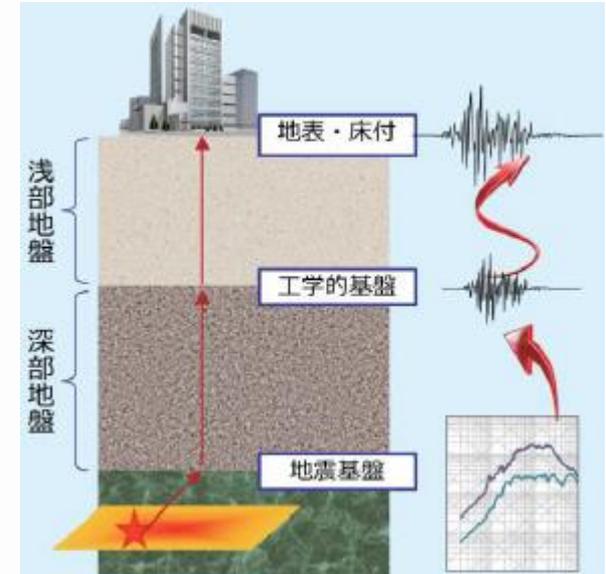
Highlights of CF from financing	FYE June 2018 H1	FYE June 2019 H1	Change
Net increase/decrease in short-term borrowings	2,130	810	-1,320
Net increase/decrease in long-term borrowings	-393	201	595
Dividend payments	-190	-345	-154

# 2

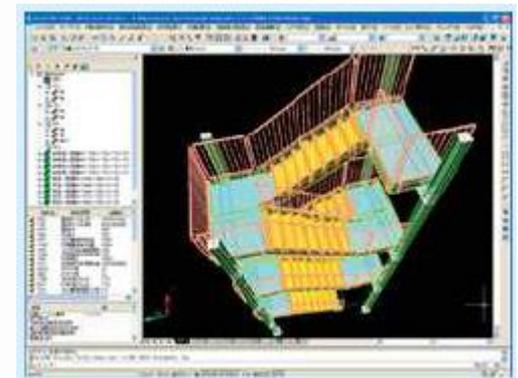
## Results by Segment

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- Structural design and structural analysis consulting
  - Structural design of high-rise buildings and structural analysis of large buildings
- Environment assessment and disaster risk reduction consulting
  - Ground motion assessment, wind condition analysis and disaster risk assessment
- System development in the housing and construction fields
  - System development including CAD, BIM and structural calculation
- Decision-making support consulting
  - Social simulation and optimization



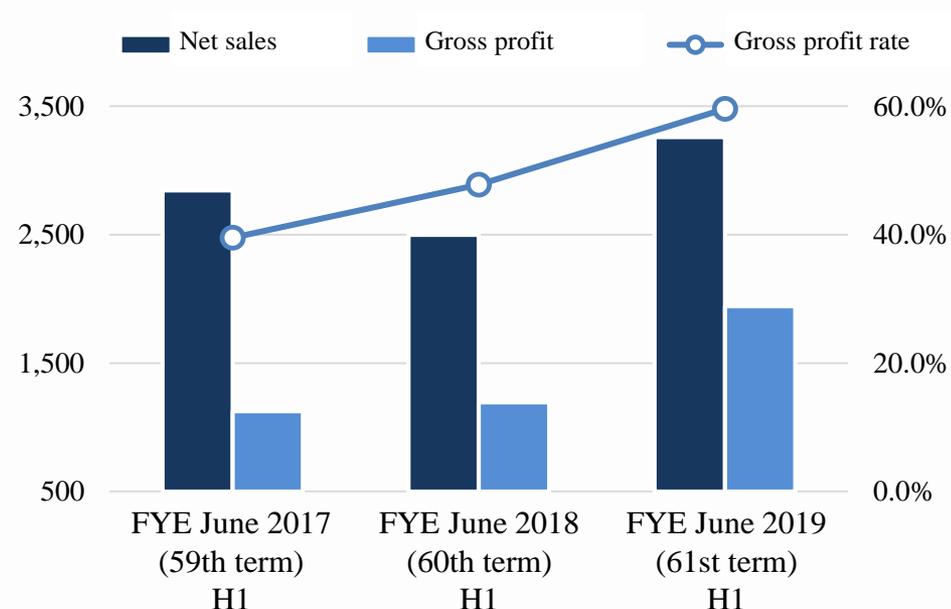
Ground motion analysis consulting



Development of operation systems including CAD and BIM

(Million yen)

	FYE June 2017 H1 (59th term)	FYE June 2018 H1 (60th term)	FYE June 2019 H1 (61st term)	Year-on- year
Orders	4,759	4,104	4,845	741
Net sales	2,844	2,498	3,259	761
Gross profit	1,124	1,194	1,943	749
(Gross profit rate)	(39.5%)	(47.8%)	(59.6%)	
Backlog of orders	6,128	5,833	5,943	109



## Analysis of results

- Analysis business for disaster preparedness, structural design consulting business, system development business for housing makers, construction and manufacturing industries, as well as decision-making support consulting business remained firm.

## Business Themes

### Manufacturing industry

CAE, thermal flow analysis, particle-method simulation, granular simulation, supply chain management, etc.

### Structural and seismic analysis

Structural analysis of buildings, ground analysis, etc.

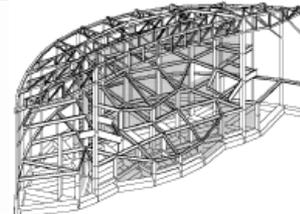
### Decision-making support

Social simulation, risk assessment, optimization, etc.

### Information and communications/IoT

Radio propagation analysis, indoor navigation, email delivery, smart lock, etc.

## Package Software

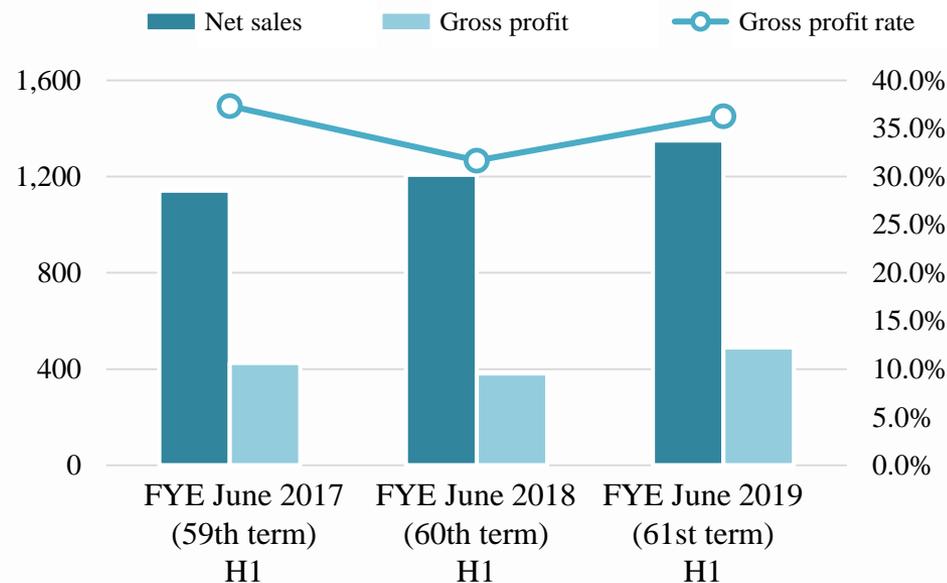


## Cloud Service



(Million yen)

	FYE June 2017 H1 (59th term)	FYE June 2018 H1 (60th term)	FYE June 2019 H1 (61st term)	Year-on- year
Orders	984	986	1,173	187
Net sales	1,141	1,207	1,350	142
Gross profit (Gross profit rate)	425 (37.3%)	382 (31.7%)	490 (36.3%)	107
Backlog of orders	811	771	886	115



## Analysis of results

- Sales of CAE software and particle-method simulation software remained firm.
- Cloud-based email delivery service developed by SendGrid, Inc. (US) steadily expanded.
- RemoteLOCK, cloud service for room entry and exit management, for the IoT/IoE era also experienced gradual penetration.

# 3

## Forecast for Fiscal Year Ending June 30, 2019

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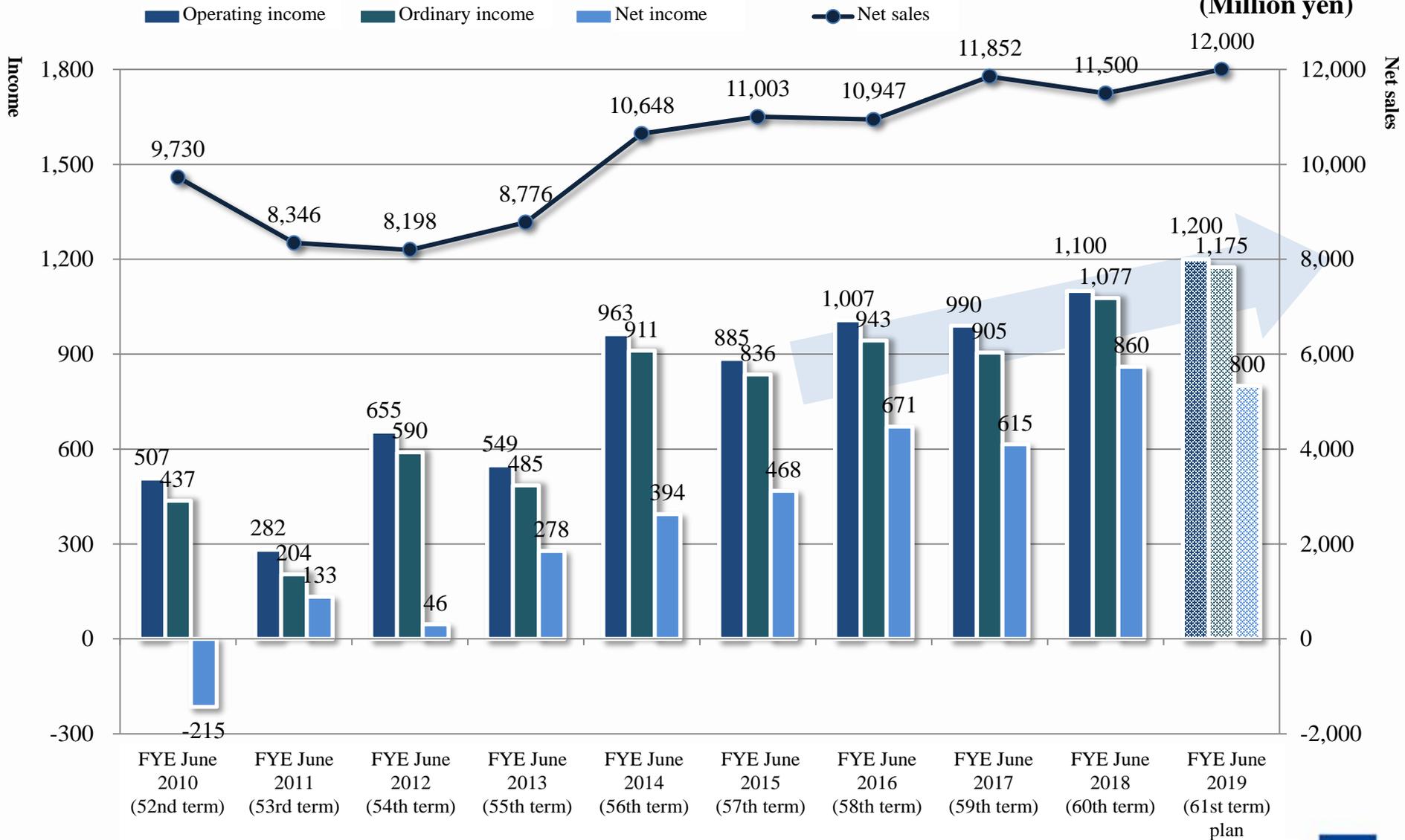
# Estimates for Fiscal Year Ending June 2019

(Million yen)

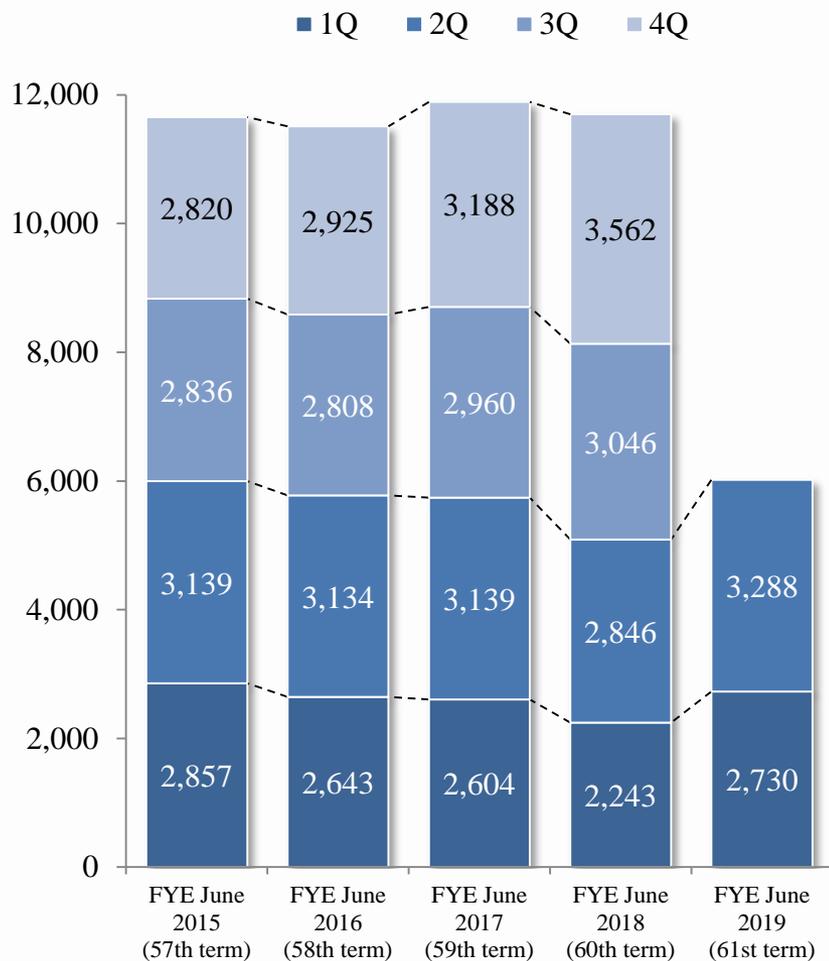
	FYE June 2018 (60th term) Results	FYE June 2019 (61st term) Plan	Change	% change
Net sales	11,500	<b>12,000</b>	499	4.3%
Operating income	1,100	<b>1,200</b>	99	9.0%
Ordinary income	1,077	<b>1,175</b>	97	9.1%
Net income	860	<b>800</b>	-60	-7.0%
		(Yen)		
Year-end dividend	80	<b>80</b>		

# Trends in Results and Results Forecasts

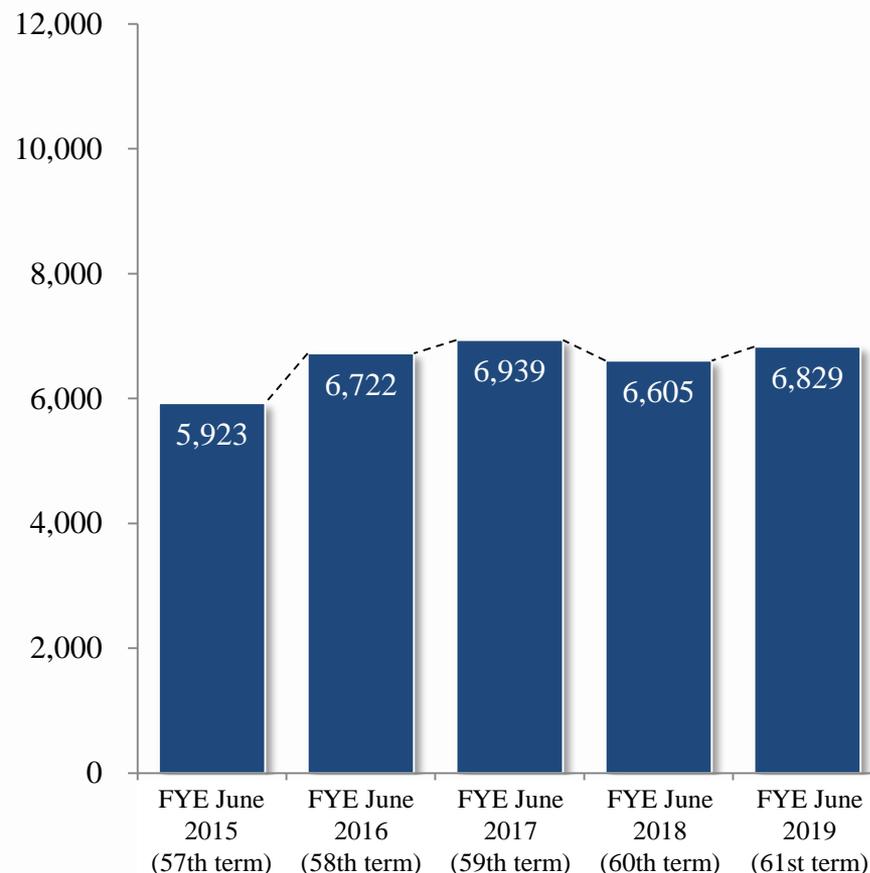
(Million yen)



# Orders and Backlogs of Orders

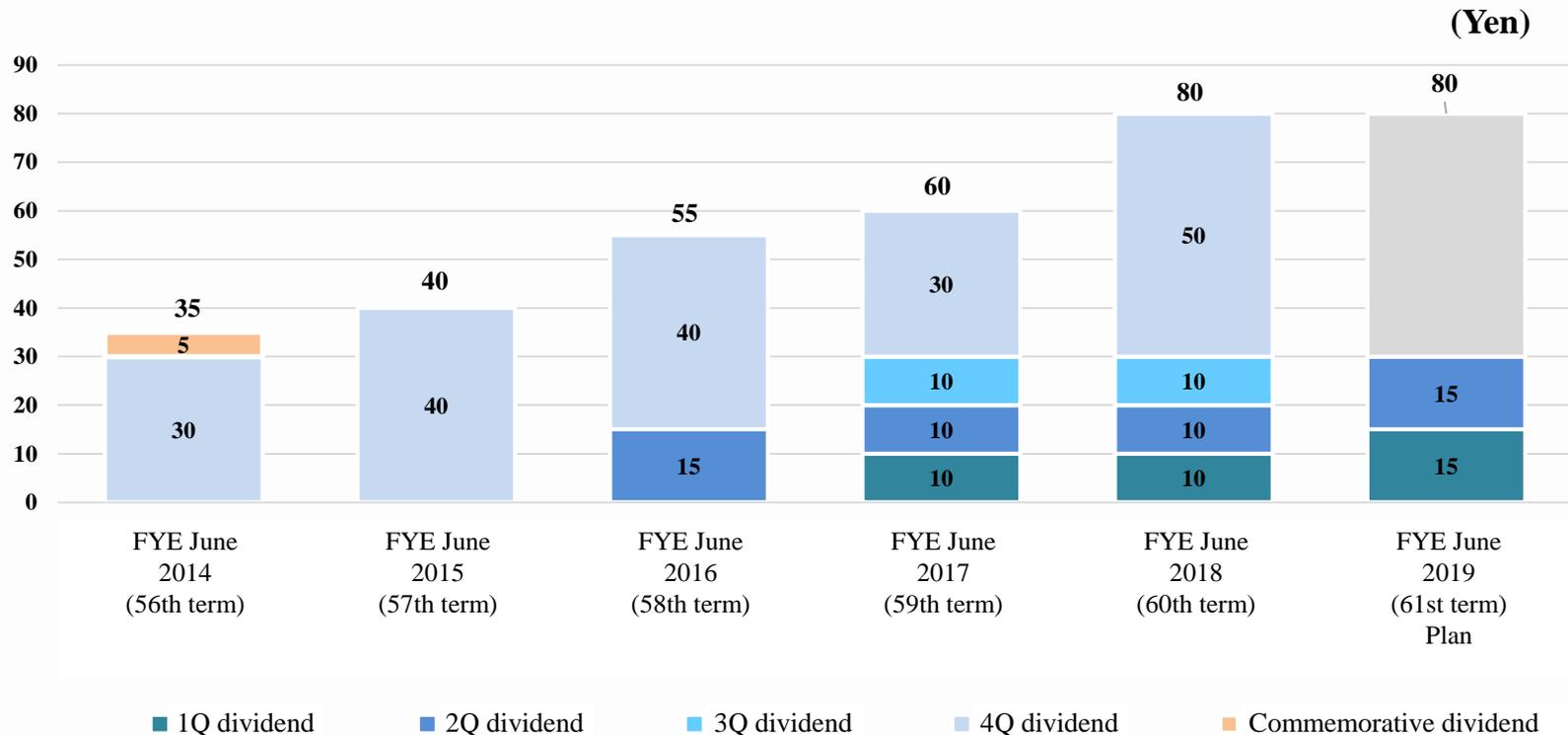


**Orders (Million yen)**

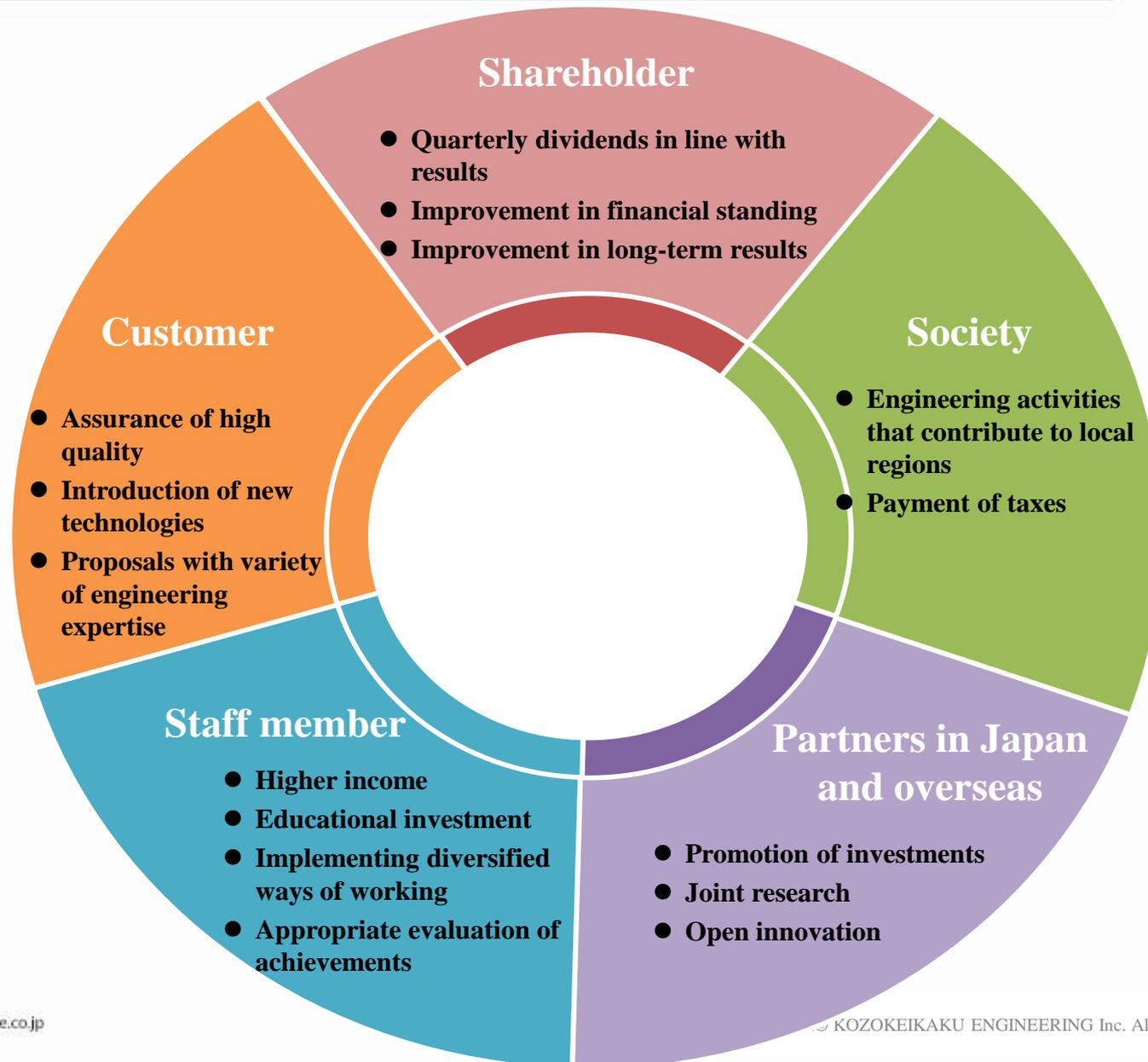


**Backlog of orders (Million yen)**

Focusing on returning profits to medium- and long-term shareholders, while taking into account the appropriate level of internal reserves and the business investment status



- FYE June 2014: Special 55th commemorative dividend paid
- FYE June 2016: Introduced the interim dividend
- FYE June 2017: Switched to quarterly dividends



# 4

## Toward New Growth

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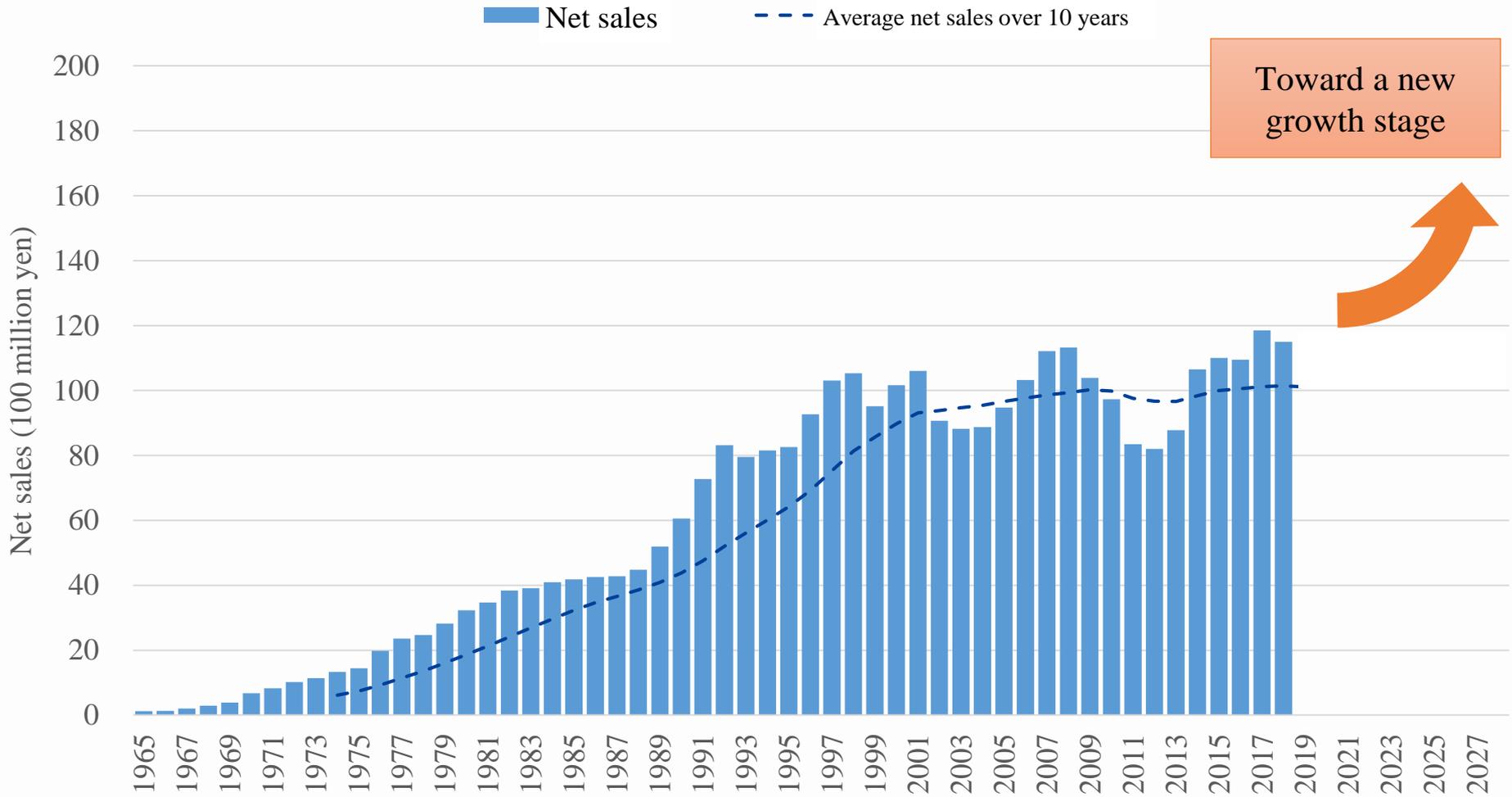
## *Innovating for a Wise Future*

Utilizing the company’s technology built based on engineering knowledge, we aim to create a bright future society with full of human wisdom together with our stakeholders.

We use the word “**innovating**” to express the process of creating society.

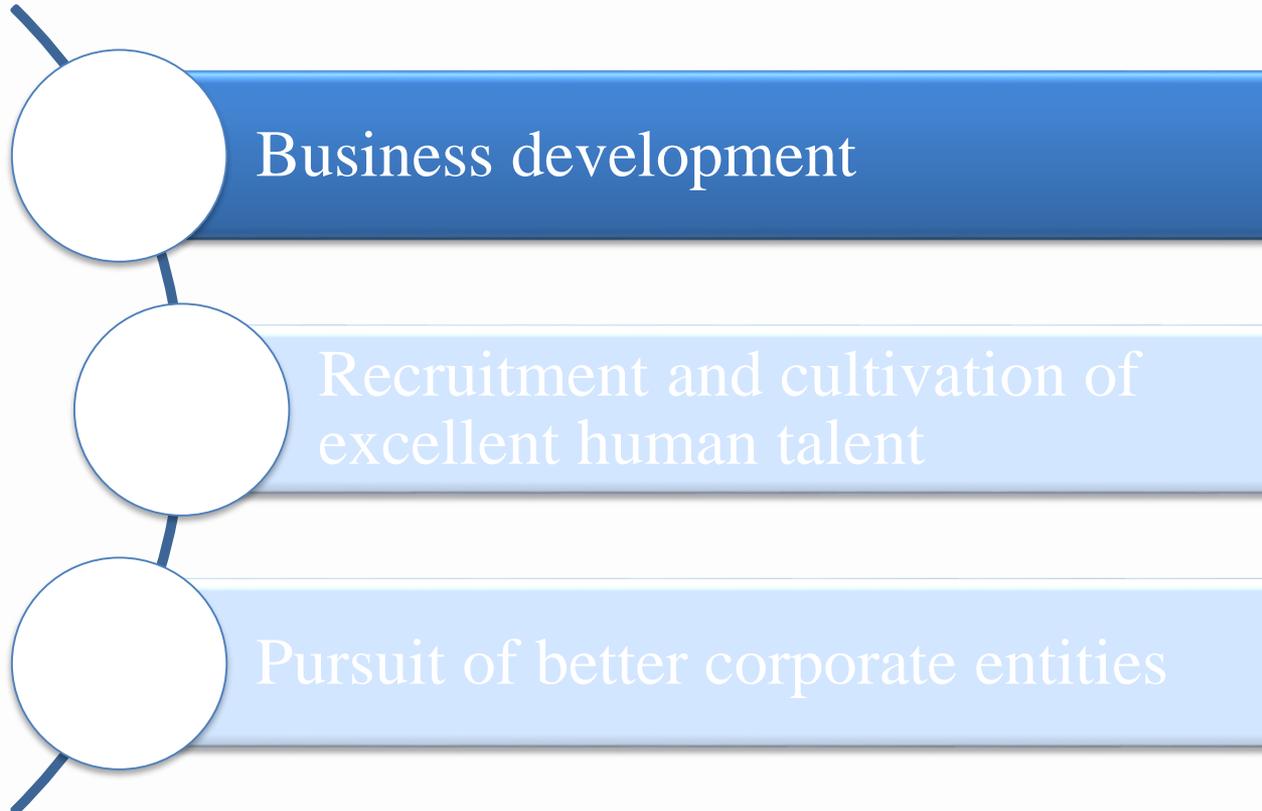


# Toward Future Growth



## Initiatives to advance to a new stage





## Engineering Consulting

Contract  
Consulting-type

Identification of problems  
of customers  
Proposal of projects

Provision of solutions  
Software development  
Consulting reports

Engineering  
knowledge

Feedback of knowledge

## Product Service

Package/  
Cloud service-type

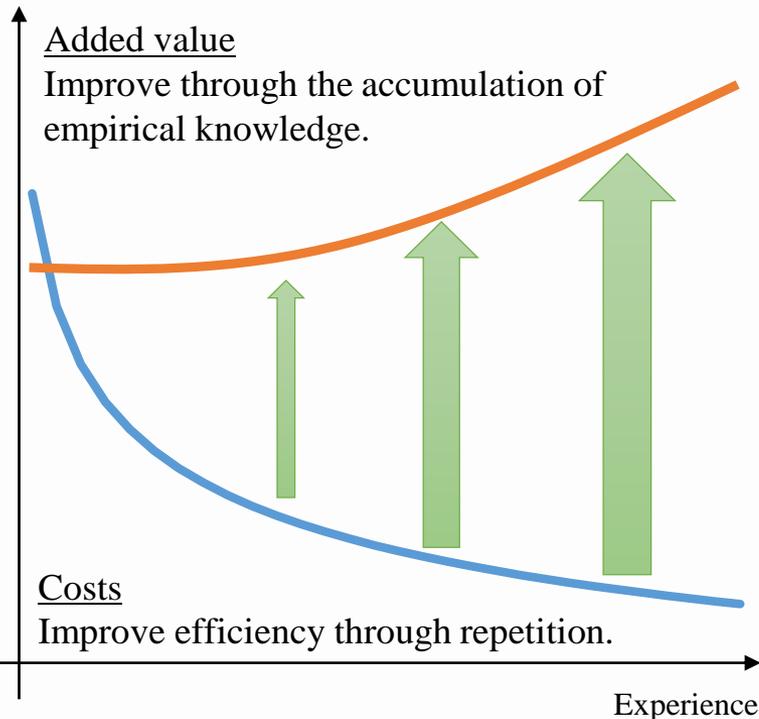
Advanced technologies in  
Japan and overseas

Commercialization  
Marketing

Provision of software packages  
and cloud services

Systemization

Steadily expand in the areas of specialty while focusing on the experience curve effect.



- Structural design consulting
- Structural and environment analysis consulting
- Housing and architectural IT system development
- Decision-making support consulting
- Information and communications technology consulting

Promotion of high-quality and high added value business

## Assurance of high quality in business

- Risk management before receiving an order for a project and during the execution phase
- Accumulation and utilization of empirical knowledge including past failures
- Continuation of two wheels for the steady operation of developed in-house systems and fostering a culture of not compromising in terms of quality

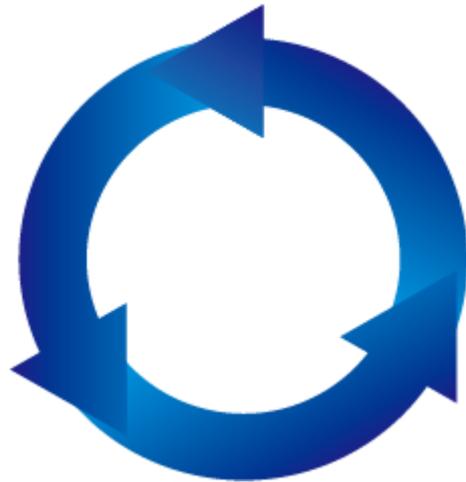
- Framework for full-time directors in the consulting business and the system development business and the quality assurance team
- Limit on the amount of orders for projects with high novelty
- Identification of issues and countermeasures through a constant internal business audit

Expand as a growth engine with an emphasis on flexibility and dissemination

- Provision of value by converting engineering knowledge into explicit knowledge
  - Externally sell advanced technologies cultivated with certain customers as software products
  - Introduce technologies of partners in Japan and overseas and provide them through careful marketing from the user perspective
  - Build a long-term relationship (user groups) including support after providing PKG
- Introduction of flexible business models
  - Provision by cloud service-type, in addition to package sales-type
  - Continuous provision of value based on the subscription model in addition to the sellout model
  - Initiatives for dissemination with an emphasis on community-building in addition to advertising

Growth cycle through business investments

**Business  
expansion**



**Securing of  
profits**

**Reinvestment  
of profits**

Investments in partners in  
Japan and overseas



Investments in in-house  
business development



**Excavation of new  
business themes**

Use strengths of technology consulting beyond simple VC.

- Provision of value as a technology consulting company
  - Collaboration with other technologies of the Company
  - Exclusive distributorship in the Japanese market (regional specialization)
  - Reduction of time cost and mitigation of the technology development risk
  - Medium- to long-term perspective to cultivate intellectual property
- Management stance of the Company
  - Minor investments aiming for collaboration and cooperation
  - Having common company DNA
  - Maintaining an equal and good relationship in the long term

## ● NavVis GmbH

- Provides indoor 3D digitalization services using university-launched technologies
- Penetrating several leading German automakers, the construction industry and the FM field through the trend of Industrie 4.0.
- Many in management and VC are from McKinsey and Company, Inc.
- Founded in May 2013; currently has 175 employees
- Conducted Series C-2 funding of 20 million euros in December 2018 (concluding an investment agreement of about 9 million euro with the Company)



Head office: Munich, Germany



## Relationship with the Company

- Began business alliance in October 2015, and subsequently provided services for virtual showrooms, indoor navigation and facility maintenance and management in the Japanese market.

# Provision of Value Through Digitalization of Indoor Spaces

Impact of Google Maps/Street View: Digitalized map information around the world.  
However, 90% of human activities are performed indoors, which is not digitalized.

## Issues in the indoor environment and solutions using **NAVVIS**

Accurate information does not necessarily exist.



Prepare highly-accurate spatial information with laser ranging and a high-resolution camera

Indoor information cannot be acquired and shared efficiently.



Prepare a 3D model by scanning the inside of a large facility in several days

Indoor maps are difficult to see and trace, unlike outdoor.



Intuitive navigation that operates on smartphone

# Service Examples by Indoor Digitalization

## Support of labor saving for inspection work of buildings



Automatically detect abnormal parts such as cracks and rust

## Promotion of digital factory



Elucidate issues through visualization of production line

## Information support for repair work plans



Figure out specific places and conditions inside at a glance

## Navigation inside traffic facilities



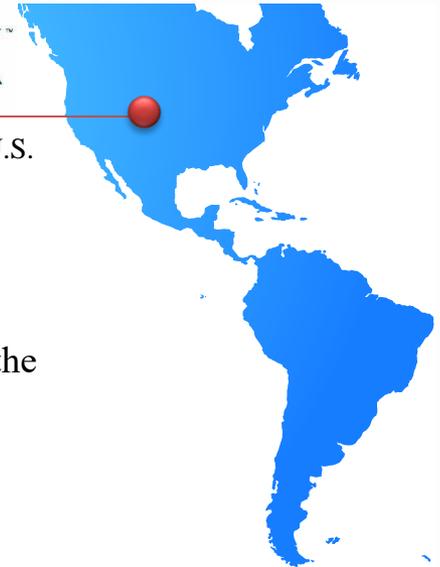
Provide navigation inside a huge international airport

## ● LockState, Inc.

- Provides a general-purpose cloud service for room entry and exit management with “RemoteLOCK”
- Certified as a global partner of Airbnb, the leading online hospitality service, and provides services for the management of gas stations and to leading retailers
- Selected as one of the rapidly growing five start-ups (“2018 Gazelle”) in Colorado, the United States, in September 2018
- Conducted Series A funding of about 5.8 million dollars in 2018 (1.5 million dollars from the Company)

RemoteLOCK™

Head office: Denver, Colorado, the U.S.



## ● Vitracom GmbH

- Provides solutions, with moving image recognition technology able to detect the age and gender of walkers as the core
- Works to re-expand business with Crosscan, a leading customer behavior analytics company, as a major shareholder
- Aims to increase customers by consulting that utilizes “People Counter”

vitracom®

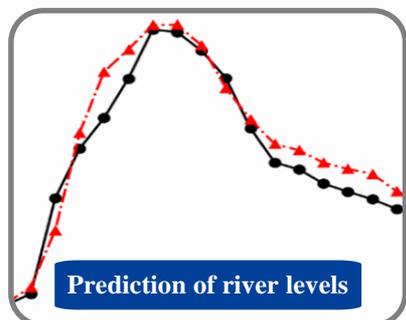
Head office: Karlsruhe, Germany



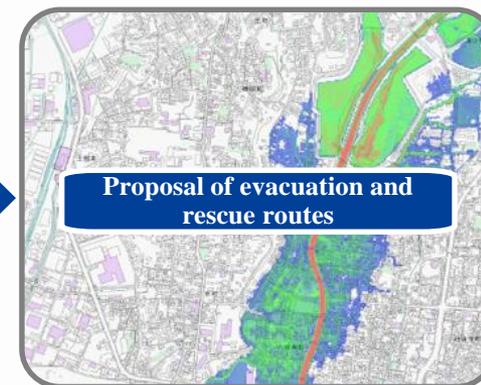
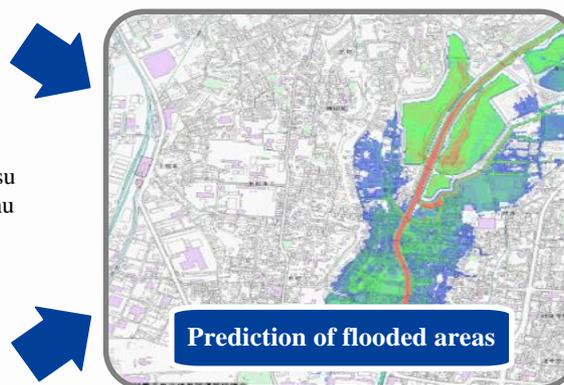
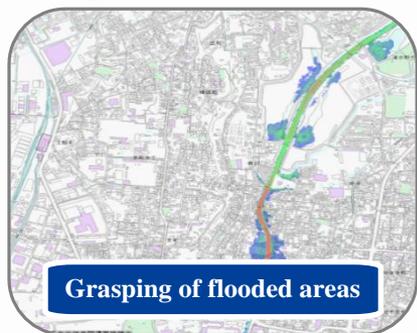
- Investments in venture funds
  - ATR venture fund at Keihanna Science City  
(committed amount: 200 million yen)
  - MIC Innovation No. 4 Investment Fund  
(committed amount: 200 million yen)
- Investments in business-academia collaboration
  - Invested in and dispatched an officer to Prometech Software, Inc., a venture launched by the University of Tokyo
  - Operating a corporate sponsored research programs “Mathematical Engineering for Complex Social Systems in the Future” jointly with Professor Kazuyuki Aihara at the Institute of Industrial Science of the University of Tokyo

## Joint development of river level prediction technology through industry-academia collaboration

- Predict river levels in real time, using the chaos time series analysis technology jointly developed at the corporate sponsored research program under Prof. Kazuyuki Aihara of the University of Tokyo
- Predict river levels up to six hours in advance, using only the past and present water levels at prediction spots and rainfall data prepared by the Company

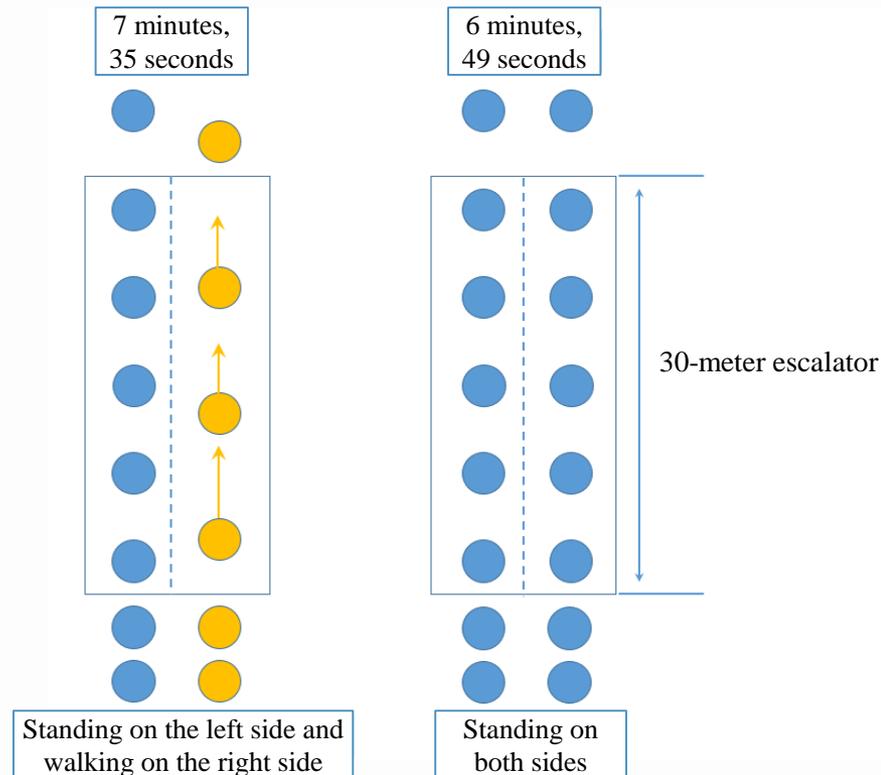


Example of water level prediction in the Kagetsu River during intense rainfall in Northern Kyushu



Example of information transmission using results of multi-agent simulation

NHK News Web: Special Features “Second Olympic and Paralympic Games, ‘I want to tell you’”  
“I want to get on an escalator without walking”



The result of the simulation shows that lining up on both sides by standing is faster than walking on one side overall.



## (1) Visionary Leader

Resolves to make the business successful with the company, implements it by thinking deeply and dedicating all of their energy.

## (2) Collaborative Professional

Fully believes that the development of the company will be directly linked to their own development.

Able to carry out work by thinking logically and clearly with a sense of responsibility.

## (3) Worker

Moves like a robot (moves only with direction; does not think voluntarily).

## (4) Labor Force

Moves like a goldbricker (does the least amount of work possible).

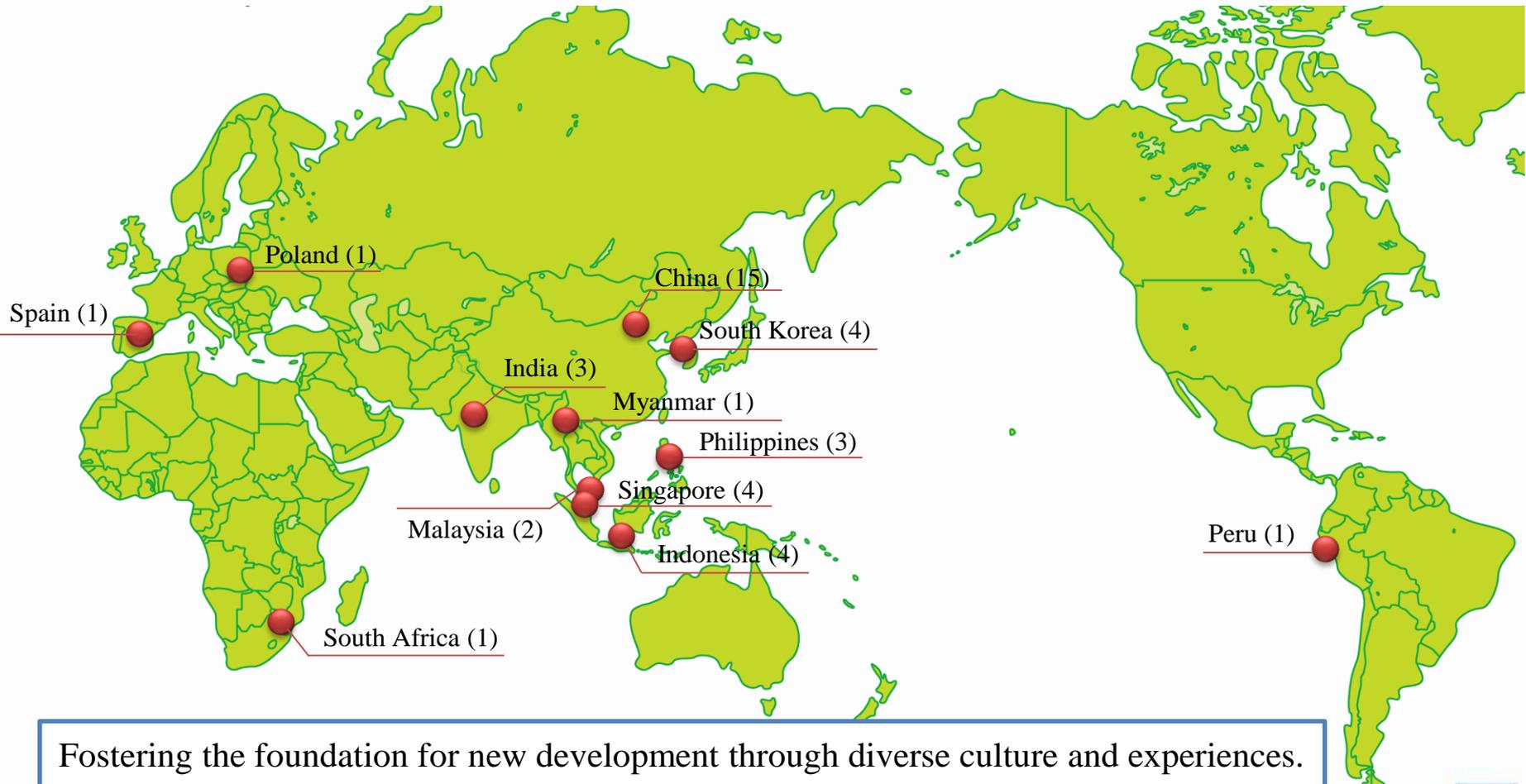
## (5) Slave

Complains a lot and upsets the team.



# Participation of Diverse Human Talents from Around the World

Began overseas recruitment in earnest in 2014, and 40 foreign national staff members account for 6.8% of all the staff members as of the end of 2018.



Fostering the foundation for new development through diverse culture and experiences.

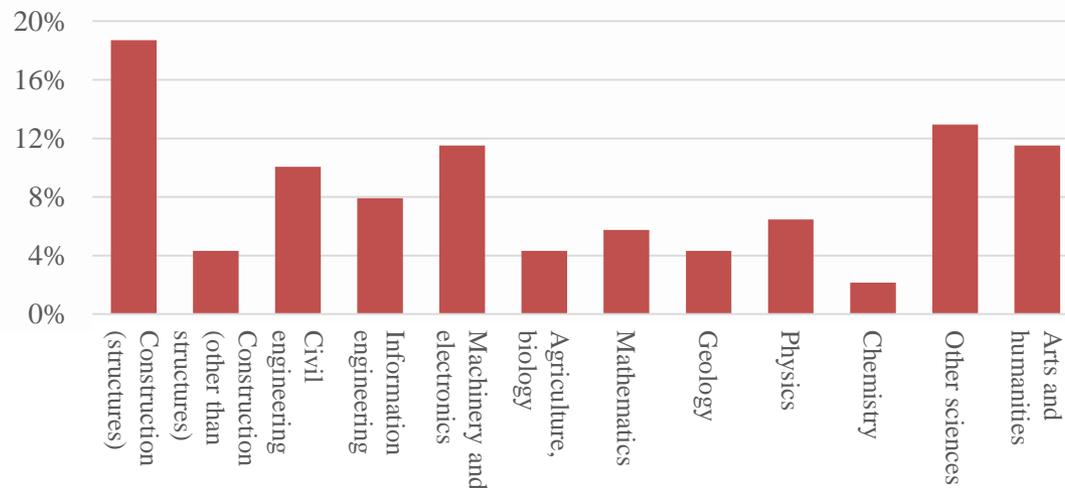
# Recruiting Excellent Human Talents, Regardless of Nationality and Academic Field

Newly-added KKE members (including prospective ones) in the last five years		139
Universities they graduated from	Number of KKE members	%
University of Tokyo	16	11.5%
University of Tsukuba	9	6.5%
Nanyang Technological University	9	6.5%
Tokyo Institute of Technology	8	5.8%
Kyoto University	8	5.8%
National University of Singapore	7	5.0%
Chiba University	6	4.3%
Nara Women's University	5	3.6%
Osaka University	4	2.9%
Institut Teknologi Bandung	4	2.9%
Kyushu University	4	2.9%
Nihon University	4	2.9%
Tokyo University of Science	4	2.9%
Nagoya University	3	2.2%
Kagoshima University	3	2.2%
Kumamoto University	3	2.2%

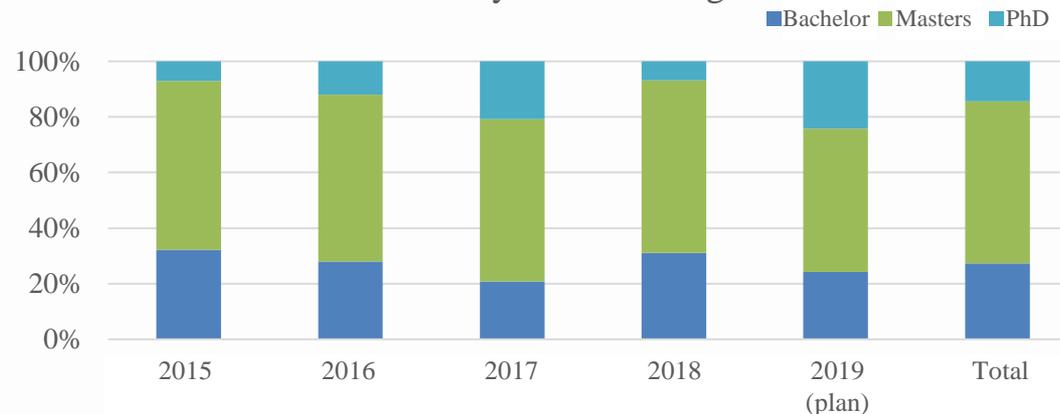
\* Foreign universities

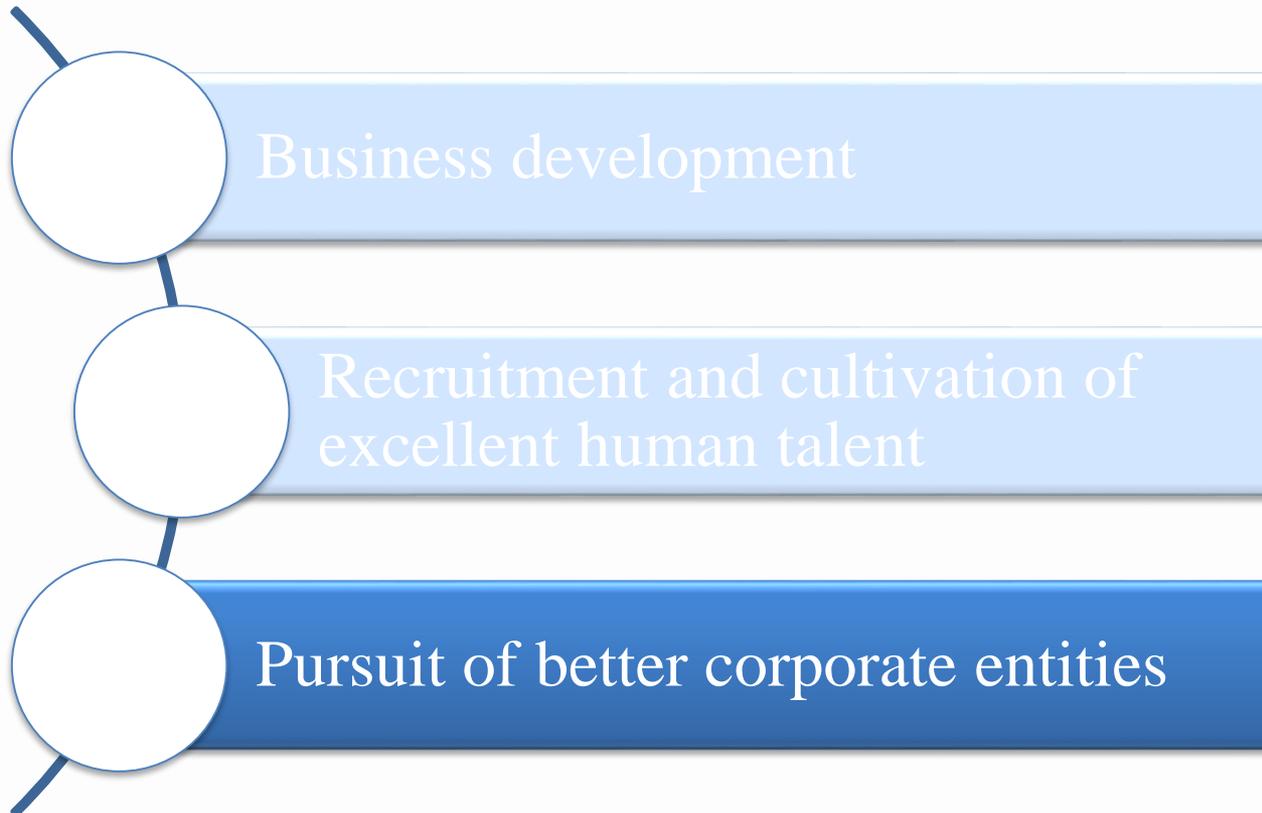
<https://www.kke.co.jp>

University or college majors



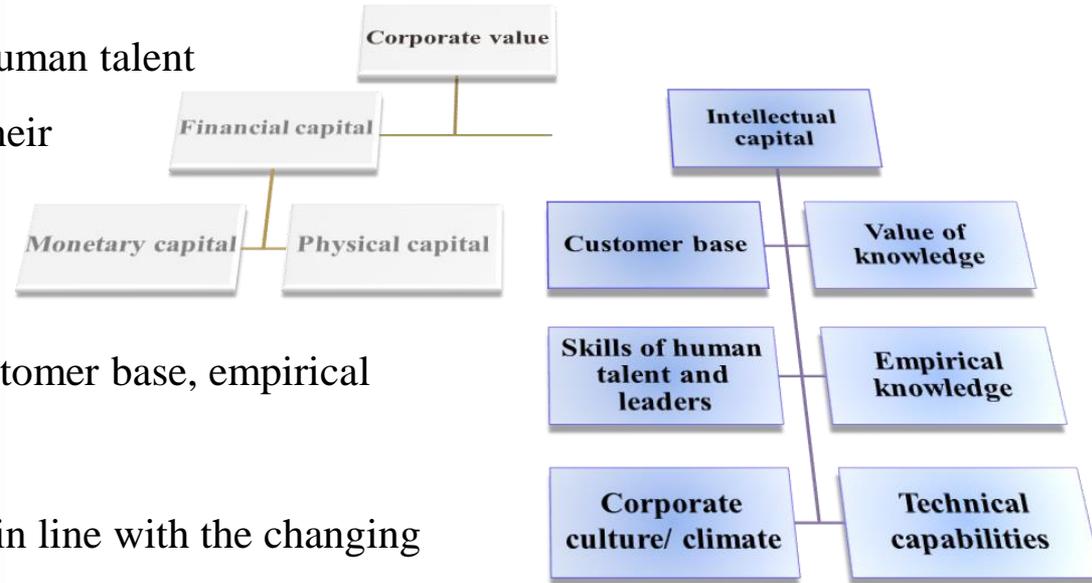
Breakdown by academic degree





# Corporate Value that Does Not Appear in Financial Statements

- Participation of excellent and diverse human talent from Japan and around the world and their growth through active domestic and international exchange
- Accumulation and expansion of the customer base, empirical knowledge and technical capabilities
- Provision of an attractive environment in line with the changing times
- Flexible and open-minded corporate culture



**Support growth by continuously creating new value.**

## Job search site, “Vorkers” Evaluation by young people

Ranked 28th among 2,407 companies

Companies you don't regret joining as a newly-graduate			VORKERS		
	企業名	評価点		企業名	評価点
1	サントリーホールディングス株式会社	8.207	16	中外製薬株式会社	7.465
2	三井不動産株式会社	8.154	17	株式会社ガイアックス	7.455
3	マッキンゼー・アンド・カンパニー日本支社	8.143	18	プロクター・アンド・ギャンブル・ジャパン株式会社 (P&G)	7.427
4	ゴールドマン・サックス証券株式会社	8.087	19	株式会社コスモスイニシア	7.421
5	浜松ホトニクス株式会社	8.071	20	株式会社リクルートホールディングス	7.400
6	シスコシステムズ合同会社	7.923	21	株式会社リクルート住まいカンパニー	7.391
7	エミレーツ航空会社	7.846	22	特許庁	7.375
8	株式会社VOYAGE GROUP	7.833	23	旭化成株式会社	7.338
9	野村アセットマネジメント株式会社	7.813	24	株式会社アシスト	7.333
10	株式会社ポストンコンサルティンググループ	7.769	25	キッコーマン株式会社	7.286
11	三菱地所株式会社	7.727	26	伊藤忠商事株式会社	7.277
12	東急不動産株式会社	7.714	27	株式会社電通国際情報サービス	7.262
13	日産化学株式会社	7.692	28	株式会社構造計画研究所	7.200
14	株式会社リンクアンドモチベーション	7.603	29	NTTファイナンス株式会社	7.185
15	三菱商事株式会社	7.504	30	株式会社シグマックス	7.174

※小数点第5位までの集計結果です。(集計期間:2016年10月~2019年2月)

※新卒入社社員からのアンケート回答106661件のうち回答が10件以上ある2407社のスコアが対象

\* Source: Research report on Hatarakigai Laboratory by Vorkers



▲ Keynote lecture at venue in Tokyo  
(Prof. Jiro Kokuryo, Keio University)

## Tokyo

- October 23, Cerulean Tower Tokyu Hotel
- Number of guests: 826

## Osaka

- November 30, Congres Convention Center
- Number of guests : 260



▲ Diorama projection mapping of simulation result

Implemented to disseminate social simulation and promote its utilization and application in the field of education.

- Friday, March 1, 2019  
Nakano Central Park Conference
- Lectures (16:00-)
  - (1) Prof. Kiyoshi Izumi, Department of Systems Innovation, School of Engineering, the University of Tokyo  
“Design of Future Society by Simulation: MAS as Post-AI”
  - (2) Dr. Kazuo Miyashita, Senior Research Scientist of the National Institute of Advanced Industrial Science and Technology (AIST)  
“Utilization of Simulation in Mechanism Design”



▲ Scene of the 18th MAS Competition

MAS (Multi Agent Simulator) developed by the Company



- Reproduction of various social phenomena on a computer
- Used at more than 500 universities/research institutes

Supporting consensus building among people to solve complex problems in the real world.

## Hattori Makoto Scholarship Fund (Hattori Award)

Staff members who made a significant contribution or who are expected to make a contribution in the near future to the enhancement of the value of the Company are commended every year on the anniversary of the death of founder Makoto Hattori.

### Winner of the 36th award



Kansuke Nakai

Manager of the Cloud Business Department

### Reasons for the granting of the award

- Created new business by adopting a subscription model (monthly charging business model) for the email delivery service, which the Company did not handle in the past.
- Laid the foundation for the development of cloud services by gaining significant credibility from users and overseas partners while actively expanding the human network and raising our profile in the industry.

# Arrangement of Attractive Working Environment and In-house Systems

- Arrangement of an environment to promote creation and growth
  - Establishment of workplaces for business development departments at the enclave
  - Expansion of the in-house cafe to promote communication
  - Recommendation of shadow work and the operation of a library for learning and intensive work



- Improvement of an environment to realize healthy and diverse ways of working
  - Abolishment of the retirement age system and introduction of an area- and time-limited employment system
  - Introduction of a discretionary work system for job positions at a certain level (understand work conditions at the same time)
  - Provision of acupuncture and massage in-house to promote health (employment of national qualification holders)
  - Collaboration with Progress Solution Co., Ltd. (Kumamoto)

Thank you very much for taking the time  
to attend today's briefing.

We look forward to your continued support and guidance.

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*Innovating for a **Wise Future***