



# FYE June 2020 (62nd Term) First Half Financial Results

February 28, 2020

- 1. Overview of Financial Results**
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- 3. Forecast for Fiscal Year Ending June 30, 2020 (62nd term)**
- 4. Towards Sustainable 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.
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# 1

## Overview of Financial Results

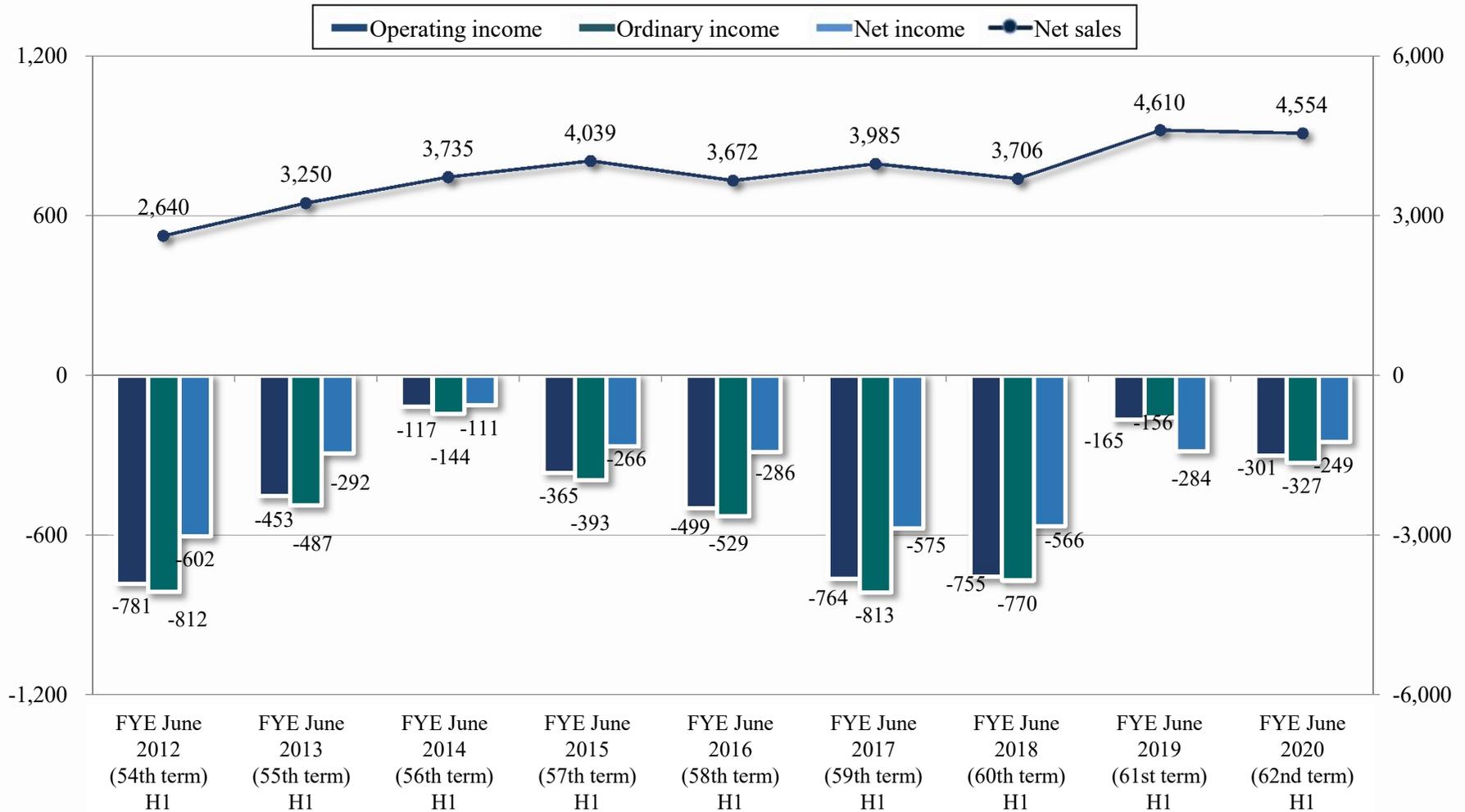
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# Income Statement Highlights

(Million yen)	FYE June 2019 (61st term) H1	FYE June 2020 (62nd term) H1	Change from previous FY	Rate of change from previous FY
Net sales	4,610	4,554	-55	-1.2%
Cost of sales	2,176	2,153	-22	-1.0%
Gross profit (Gross profit rate)	2,433 (52.8%)	2,400 (52.7%)	-33	-1.4%
SGA expenses	2,598	2,701	103	4.0%
Operating income (loss) (Operating income rate)	-165 (-3.6%)	-301 (-6.6%)	-136	—
Non-operating profit & loss	8	-26	-34	—
Ordinary income (loss) (Ordinary income rate)	-156 (-3.4%)	-327 (-7.2%)	-170	—
Extraordinary profit & loss	-241	-13	228	—
Net income (loss) before taxes	-398	-340	58	—
Income taxes	-113	-90	23	—
Net income (loss) (Net income rate)	-284 (-6.2%)	-249 (-5.5%)	34	—

# Trends in Results

(Million yen)



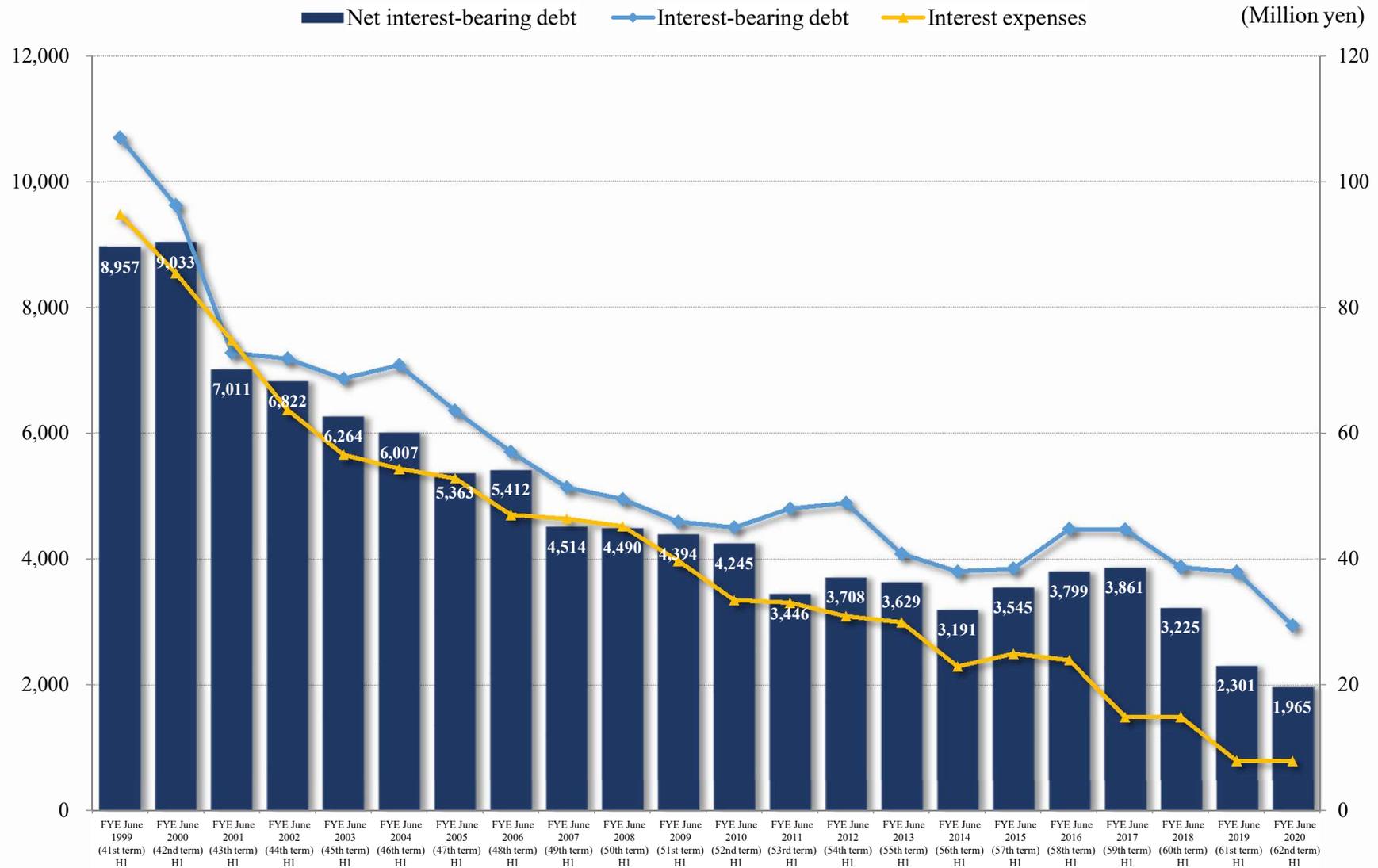
# Highlights of Balance Sheet

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

(Million yen)

Item	FYE June 2019 (61st term)	FYE June 2020 (62nd term) H1	Change	Item	FYE June 2019 (61st term)	FYE June 2020 (62nd term) H1	Change
Cash and Deposits	1,351	988	-362	Short-term borrowings	10	1,210	1,200
Notes /accounts receivable - trade	1,415	917	-498	Current portion of long-term borrowings / corporate bonds	641	876	235
Work in process	702	1,480	778	Advances received	884	1,574	689
Other	726	938	212	Accounts payable - accrued expenses	861	178	-682
				Other	1,238	1,315	76
<b>[Current assets]</b>	<b>4,195</b>	<b>4,325</b>	<b>129</b>	<b>[Current liabilities]</b>	<b>3,636</b>	<b>5,154</b>	<b>1,518</b>
Property, plant and equipment	5,053	5,019	-34	Long-term borrowings / corporate bonds	1,736	867	-868
Intangible assets	439	421	-17	Provision for retirement benefits	2,004	2,061	56
Investments and other assets	3,309	3,615	305	Other	194	194	-0
Investment securities	1,654	1,675	21	<b>[Long-term liabilities]</b>	<b>3,935</b>	<b>3,122</b>	<b>-812</b>
Shares of subsidiaries and associates	378	378	-	<b>[Liabilities]</b>	<b>7,572</b>	<b>8,277</b>	<b>705</b>
Investments in capital of subsidiaries and associates	43	43	0	Capital stock	1,010	1,010	-
Deferred tax assets	928	1,020	92	Capital surplus	1,159	1,159	-
Other	305	497	192	Retained earnings	4,117	3,519	-597
<b>[Fixed assets]</b>	<b>8,803</b>	<b>9,057</b>	<b>253</b>	Treasury shares	-851	-581	270
				Valuation difference on available-for-sale securities	-9	-3	5
				<b>[Net assets]</b>	<b>5,426</b>	<b>5,104</b>	<b>-321</b>
<b>[Assets]</b>	<b>12,998</b>	<b>13,382</b>	<b>383</b>	<b>[Liabilities and net assets]</b>	<b>12,998</b>	<b>13,382</b>	<b>383</b>
<b>Total borrowings</b>	<b>2,388</b>	<b>2,954</b>	<b>566</b>	<b>Capital ratio</b>	<b>41.7%</b>	<b>38.1%</b>	
<b>Net interest-bearing debt</b>	<b>1,036</b>	<b>1,965</b>	<b>928</b>	<b>Capital ratio (same period of previous year)</b>		<b>34.6%</b>	

# Changes in Net Interest-Bearing Debt



# Cash Flow Statement Highlights

(Million yen)

	FYE June 2019 H1 (61st term)	FYE June 2020 H1 (62nd term)	Change
Balance at the beginning of FY	1,059	1,351	291
CF from operations	-237	-553	-315
CF from investments	-740	-320	419
Free CF	-977	-873	104
CF from financing	1,417	510	-906
Balance at the end of FY	1,499	988	-510

Highlights of CF from operations	FYE June 2019 H1	FYE June 2020 H1	Change
Net income before taxes	-398	-340	58
Decrease in accounts receivable	867	1,188	320
Increase in inventories	-614	-780	-165

Highlights of CF from investments	FYE June 2019 H1	FYE June 2020 H1	Change
Purchase of property, plant and equipment	-32	-16	16
Purchase of intangible assets	-19	-48	-29
Purchase of investment securities	-666	-50	616

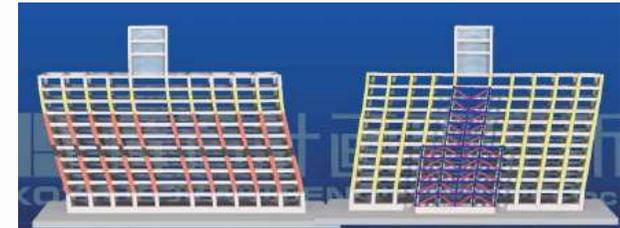
Highlights of CF from financing	FYE June 2019 H1	FYE June 2020 H1	Change
Net increase in short-term borrowings	810	1,200	390
Net increase/decrease in long-term borrowings	201	-583	-785
Dividend payments	-345	-348	-2

# 2

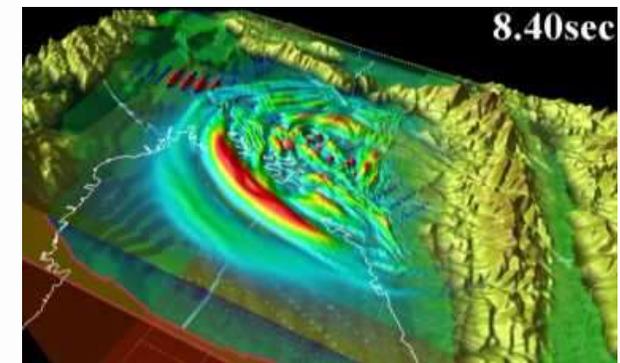
## Results by Segment

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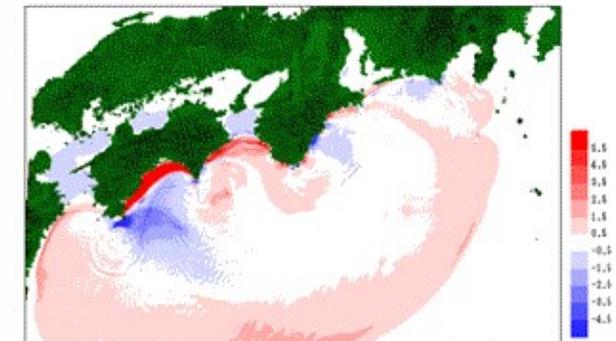
- Structural design and structural analysis consulting
  - Structural design of high-rise buildings and structural analysis of large buildings
- Environment assessment and disaster risk reduction consulting
  - Ground motion assessment, wind condition analysis and disaster risk assessment
- IT system development for housing and construction
  - System development including CAD, BIM and structural calculation
- Decision-making support consulting
  - Social simulation and optimization
- Information and communication technology consulting
  - Network, radio wave propagation, and electromagnetic field simulation



Seismic analysis of structures



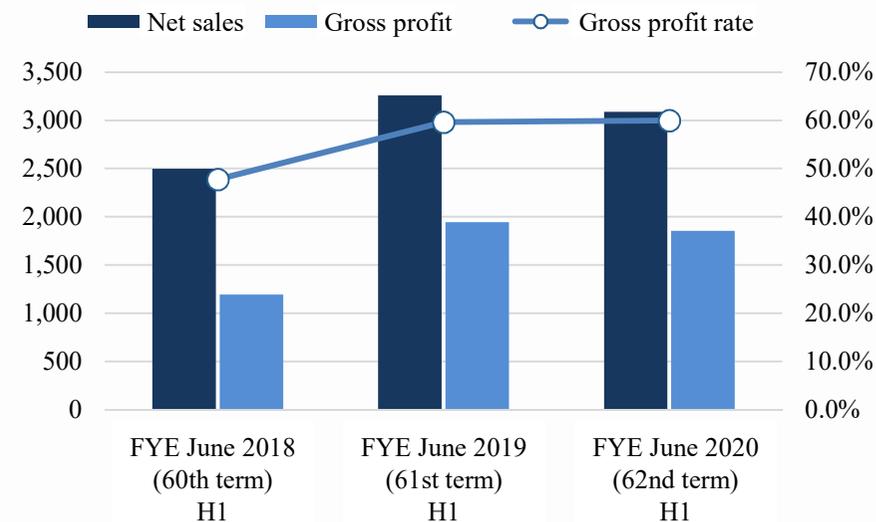
Simulation of ground motion



Assessment of tsunami risk

(Million yen)

	FYE June 2018 (60th term) H1	FYE June 2019 (61st term) H1	FYE June 2020 (62nd term) H1	Year-on-year
Orders	4,104	4,845	5,414	568
Net sales	2,498	3,259	3,090	-169
Gross profit	1,194	1,943	1,854	-89
(Gross profit rate)	(47.8%)	(59.6%)	(60.0%)	
Backlog of orders	5,833	5,943	7,518	1,575



## Analysis of results

- ▣ Structural design consulting business, system development business for home builders and construction and manufacturing industries remained firm.
- ▣ A large number of orders have been received; however this includes sales that are expected to be posted in or after the third quarter.

# Product Service

## Business themes

### Manufacturing industry

CAE, thermal flow analysis, particle-based simulation, granular simulation, sales support solutions, etc.

### Structural and seismic analysis

Architectural building analysis, ground analysis, etc.

### Decision-making support

Social simulation, risk assessment, optimization, etc.

### Information and communications/IoT

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

## Examples of package-sales type



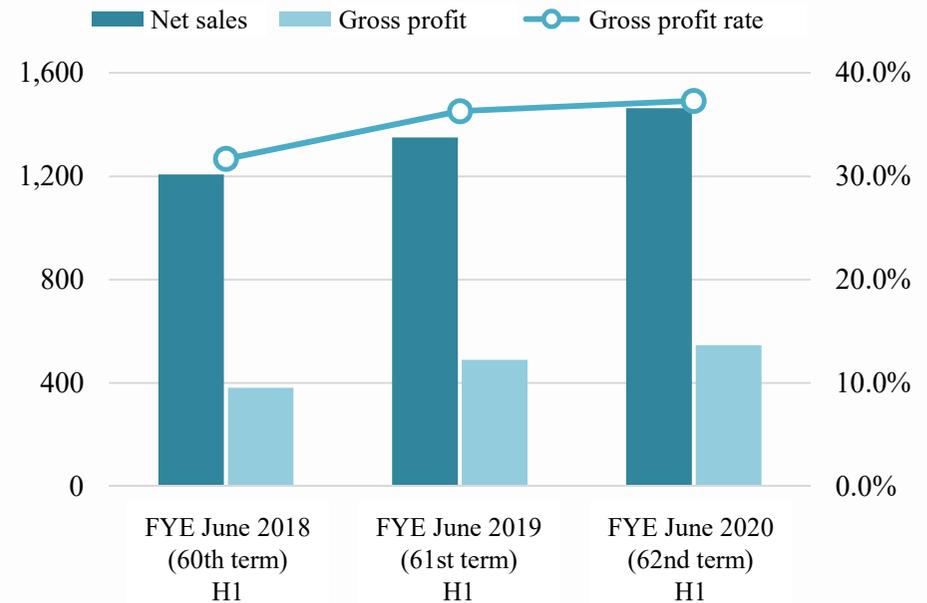
## Examples of cloud service-provision type



# Product Service

(Million yen)

	FYE June 2018 (60th term) H1	FYE June 2019 (61st term) H1	FYE June 2020 (62nd term) H1	Year-on-year change
Orders	986	1,173	<b>1,398</b>	225
Net sales	1,207	1,350	<b>1,464</b>	113
Gross profit	382	490	<b>546</b>	56
(Gross profit rate)	(31.7%)	(36.3%)	<b>(37.3%)</b>	
Backlog of orders	771	886	<b>1,017</b>	130



## Analysis of results

- Sales of a cloud-based e-mail delivery service from SendGrid, Inc. in the U.S. and a cloud service for room entry and exit management from U.S.-based LockState, Inc. increased steadily.
- Sales of CAE software for architects, particle-based simulation software, and the risk management platform remained strong, and the segment achieved steady growth.

# 3

## **Forecast for Fiscal Year Ending June 30, 2020 (62nd term)**

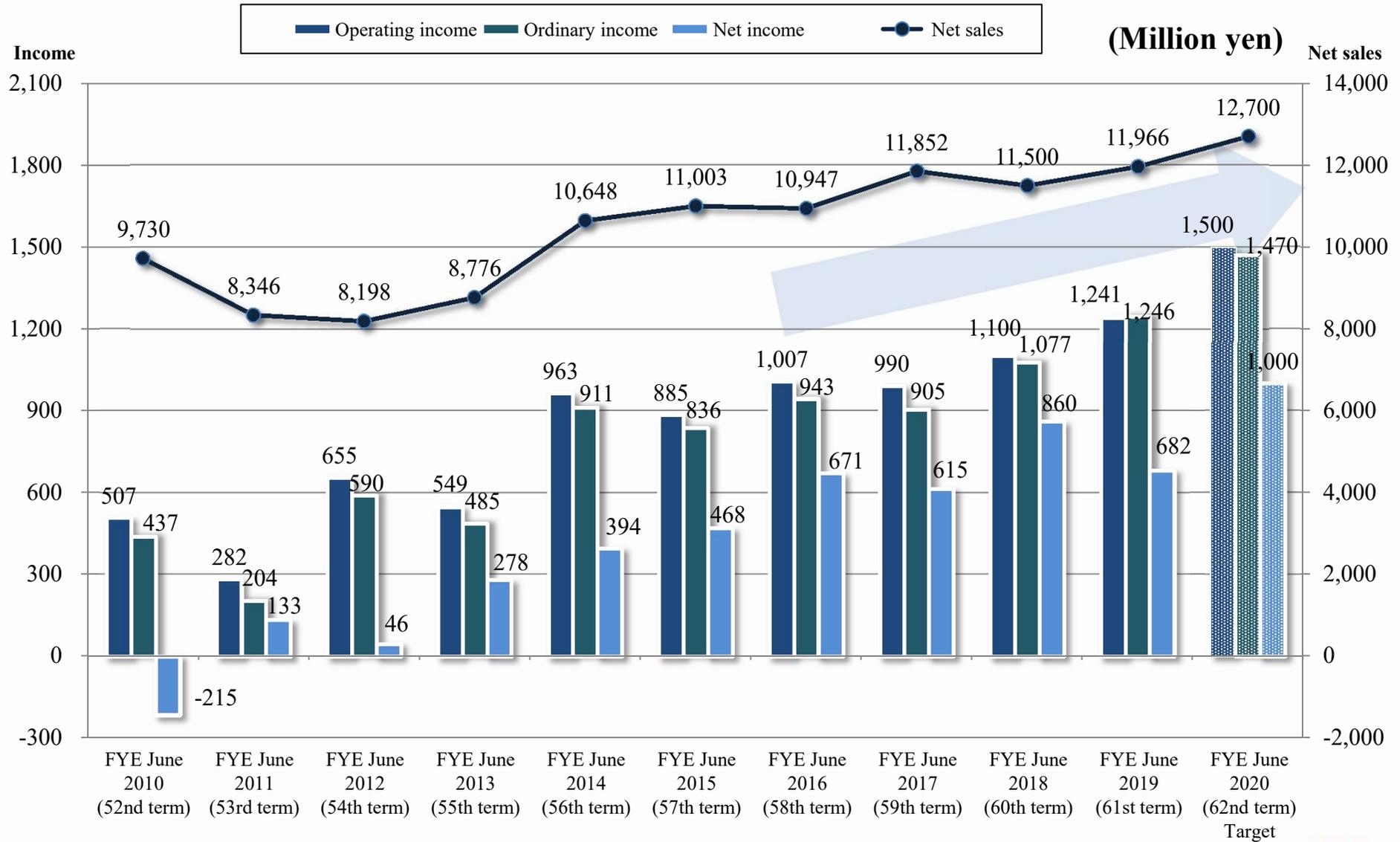
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# Estimates for Fiscal Year Ending June 2020 (62nd Term)

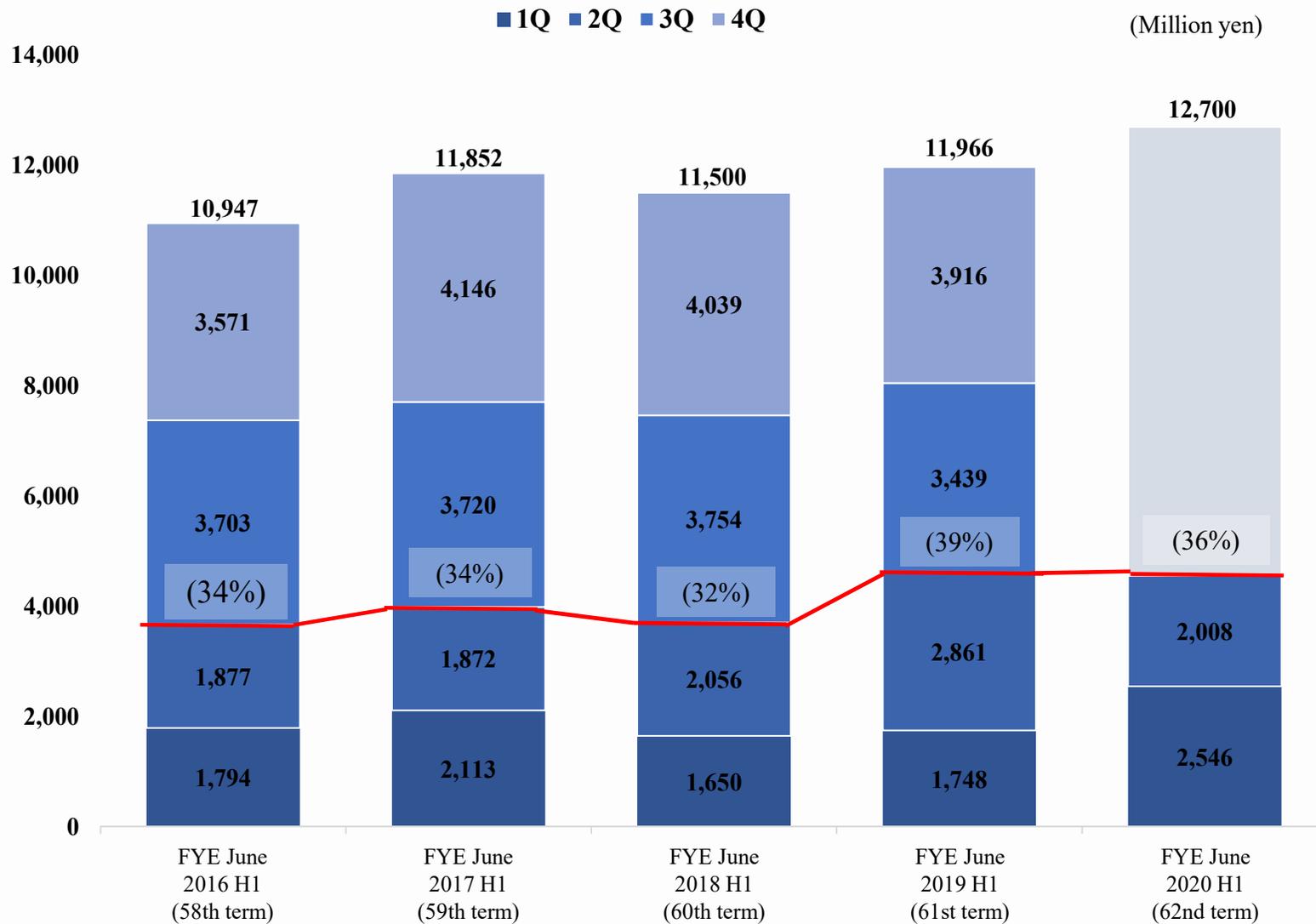
(Million yen)

	FYE June 2019 (61st term) Results	FYE June 2020 (62nd term) Target	Change	% change
Net sales	11,966	<b>12,700</b>	733	6.1%
Operating income	1,241	<b>1,500</b>	258	20.8%
Ordinary income	1,246	<b>1,470</b>	223	17.9%
Net income	682	<b>1,000</b>	317	46.5%
		(Yen)		
Year-end dividend	90	<b>100</b>		

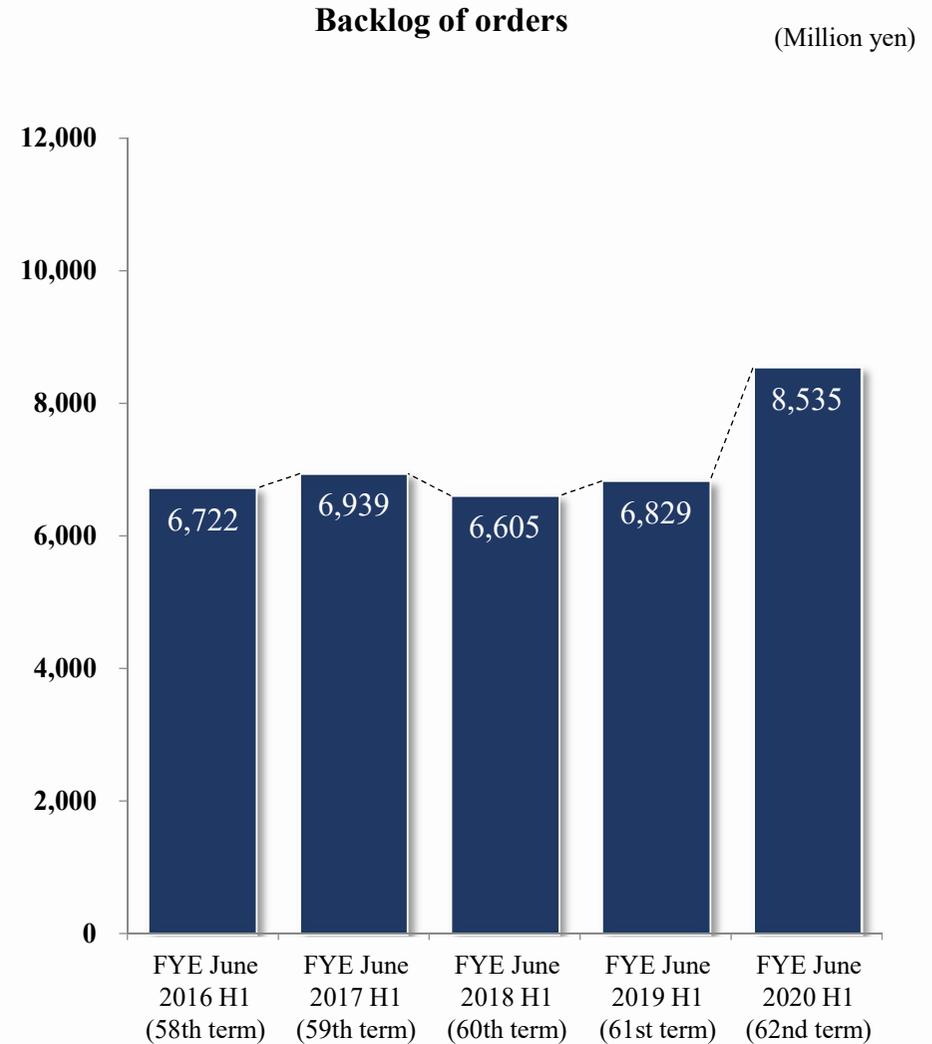
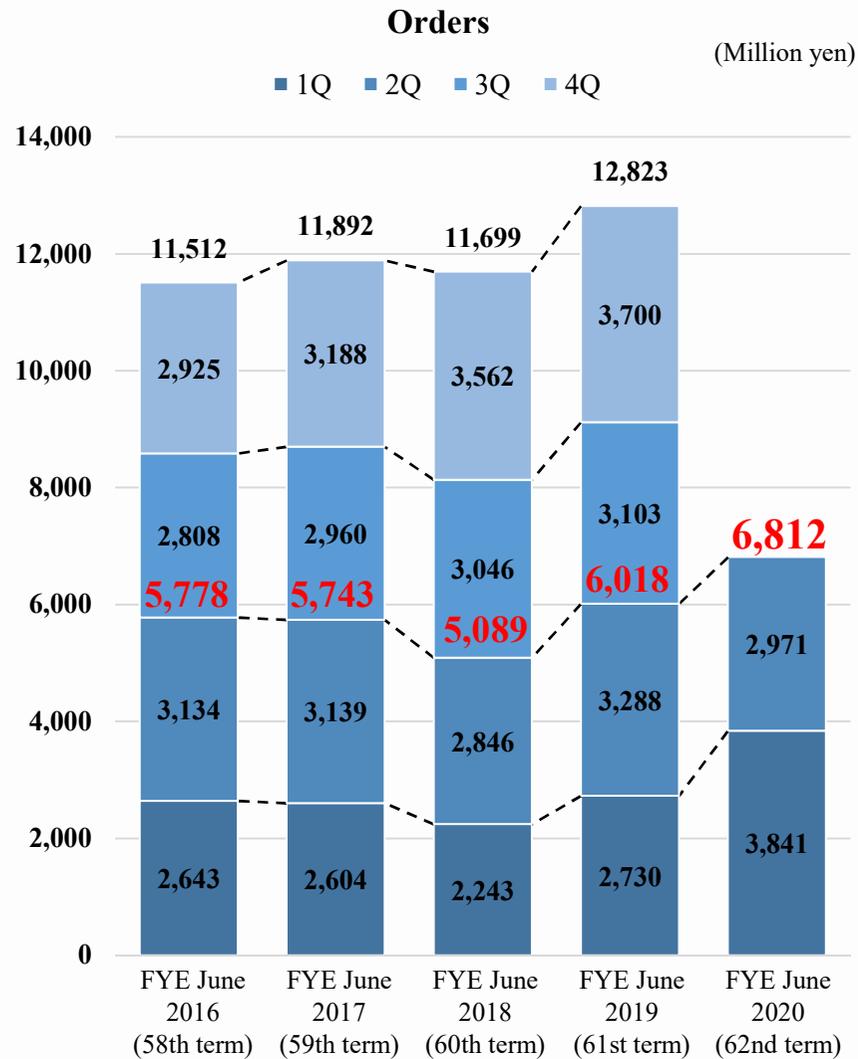
# Trends in Results and Results Forecasts



# Changes in Sales by Quarter

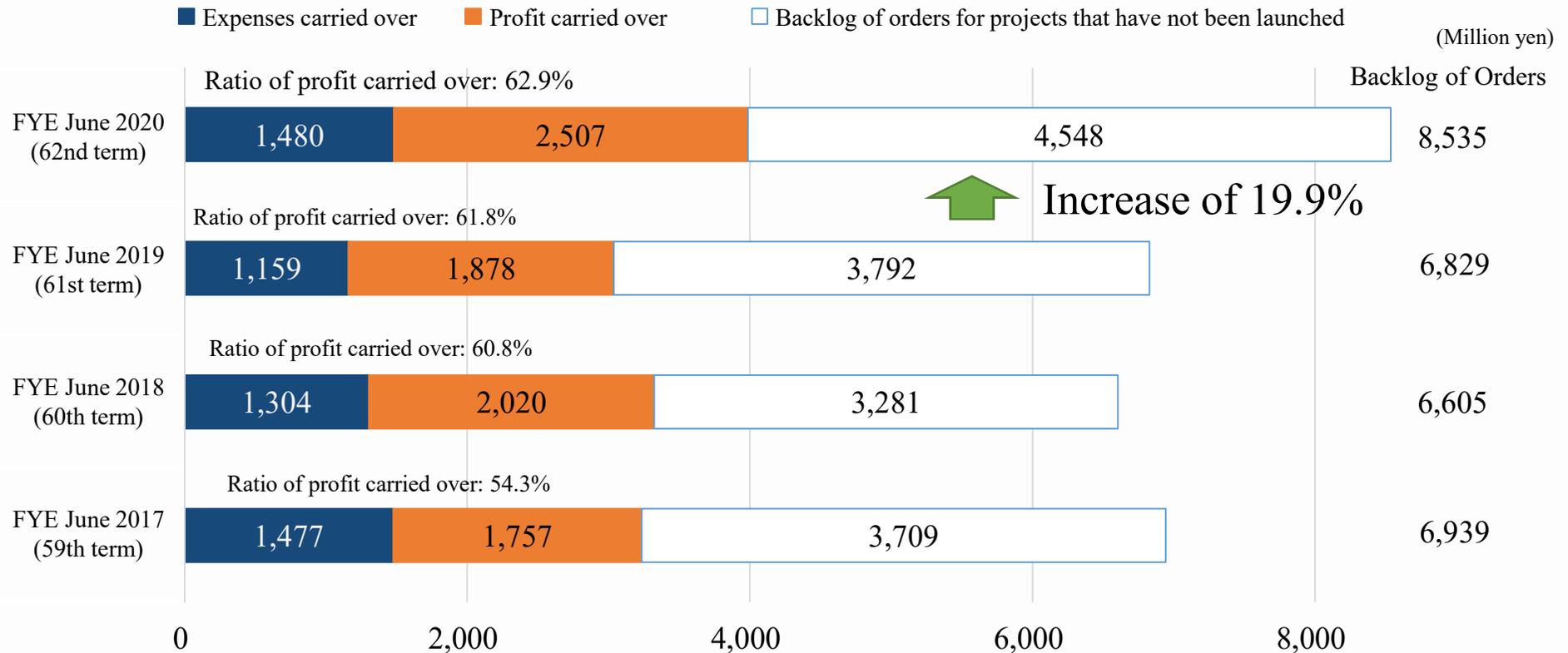


# Changes in Orders Received and Quarter-End Backlogs of Carried-Over Orders



# Status of FY Ending June 2020

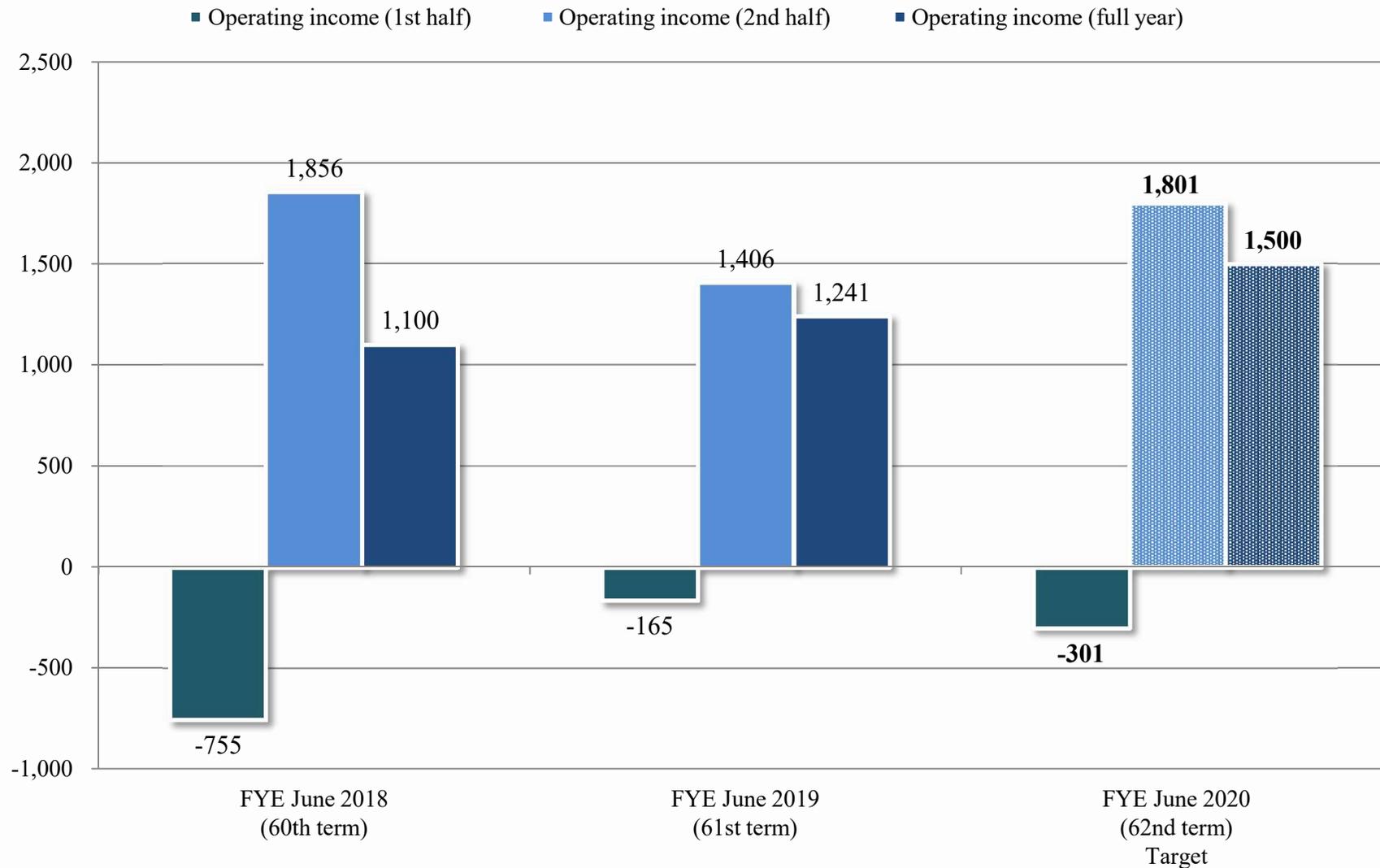
- Profit carried over to FY ending June 2020 exceeds the level of the previous year.
  - Backlogs increased 1,706 million yen from the previous fiscal year, including orders valued at 756 million yen that have not yet started.
  - The amount of profit carried over was 2,507 million yen and the ratio of profit carried over was 62.9%, securing a level above that of the previous fiscal year.



\* Values are presented based on the management accounting

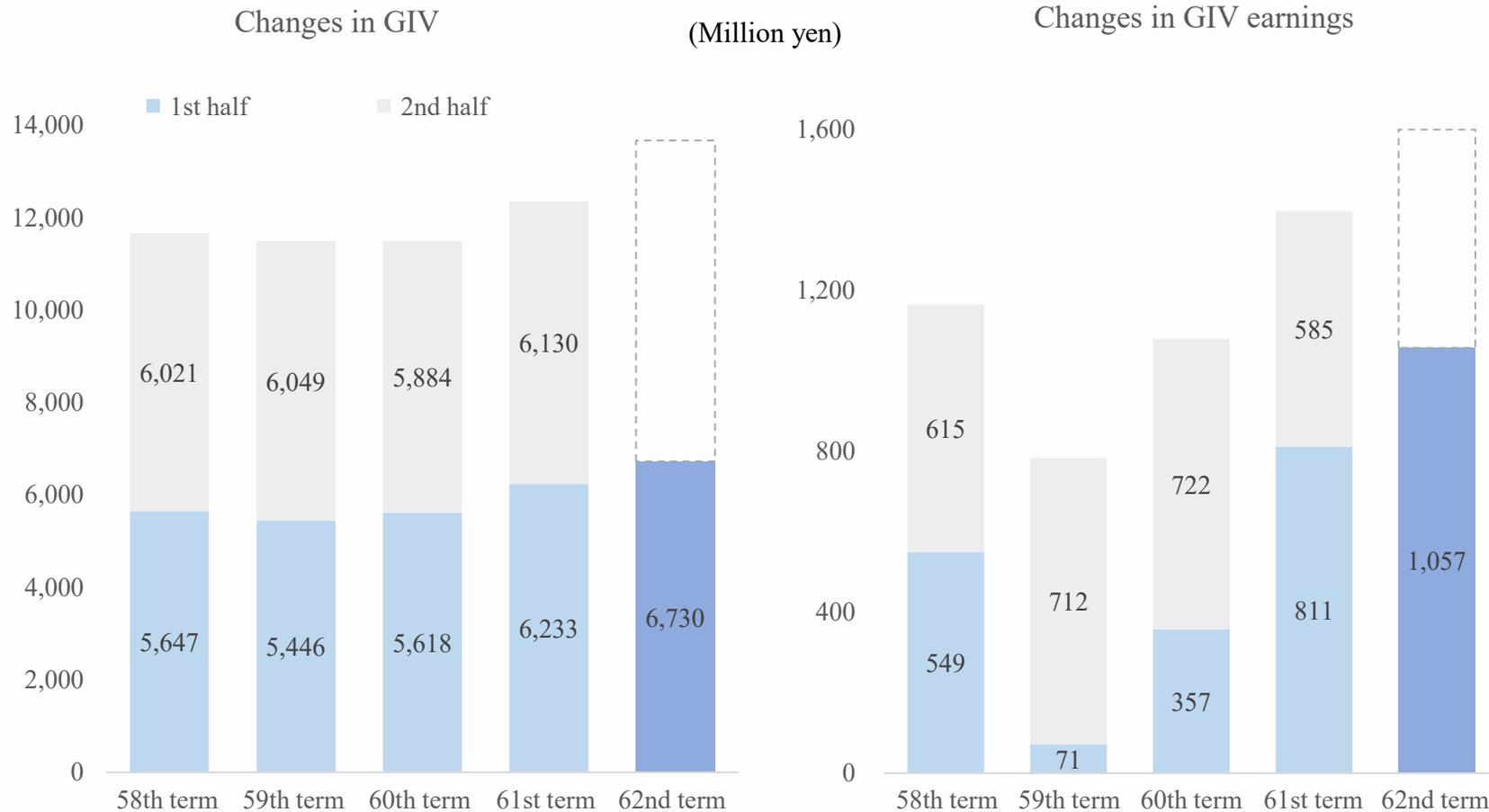
# Yearly Comparison of Operating Income

(Million yen)



- **Order management: status of orders received**
- **Managerial accounting: status of project progress**
- **Financial accounting: status of sales**
- **Incoming payment management: status of incoming payments**
  
- **Managerial accounting: indicators for status of project progress**
  - Convert the progress of a project into a monetary value and quantify the result of progress during the process of the project
  - Monthly performance management, trace plans and results
  - “**GIV**”: the value of an order multiplied by the progress ratio of the project
  - “**GIV earnings**”: GIV less project expenses

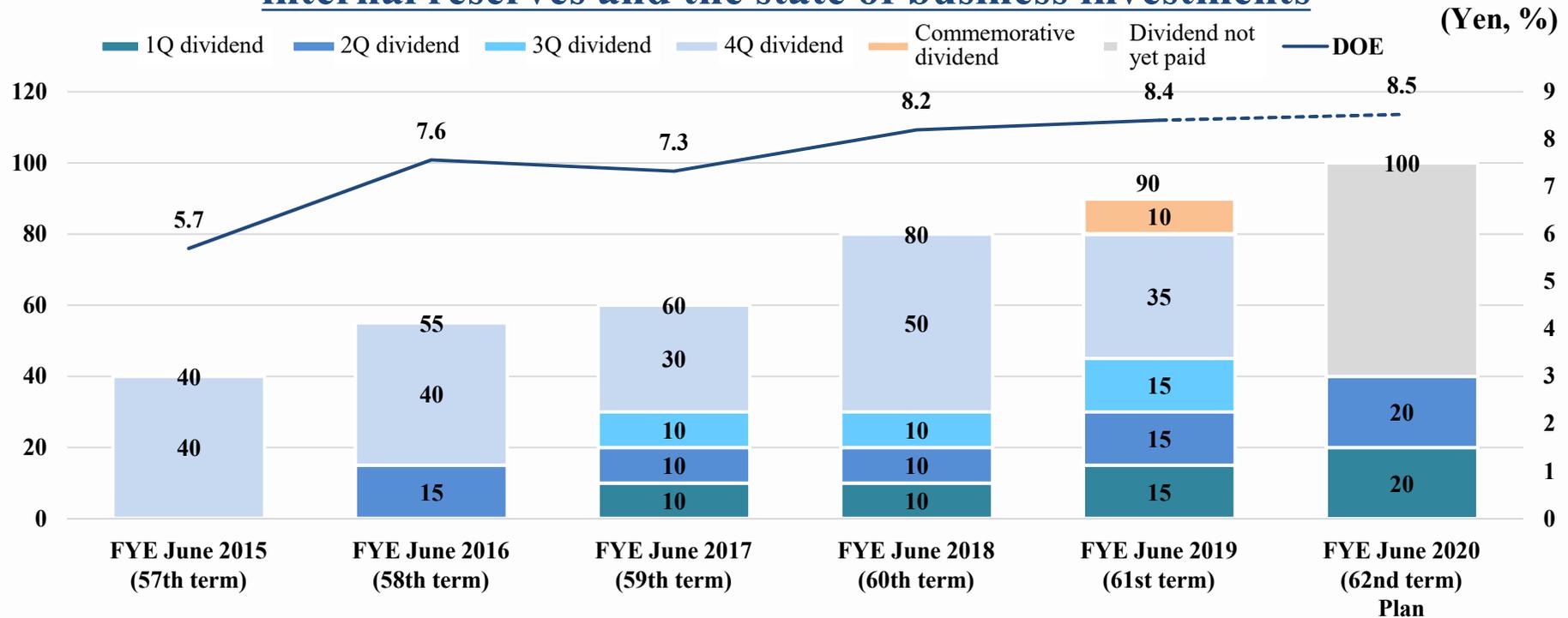
# [Managerial Accounting] GIV and GIV earnings



\* The current GIV earnings are calculated based on planned personnel expenses. Because the Company introduced a pay-for-performance system in the fiscal year under review, however, expenses and profit may fluctuate.

# Plan of Dividends

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



- 58th term: Interim dividend started to be paid
- 59th term: Switched to quarterly dividends
- 61st term: Special 60th commemorative dividend paid
- \* DOE = dividend per share divided by net assets per share multiplied by 100
- \* DOE for the 62nd term was calculated based on the financial forecasts announced on August 8, 2019.

# 4

## Towards Sustainable Growth

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# *Innovating for a Wise Future*

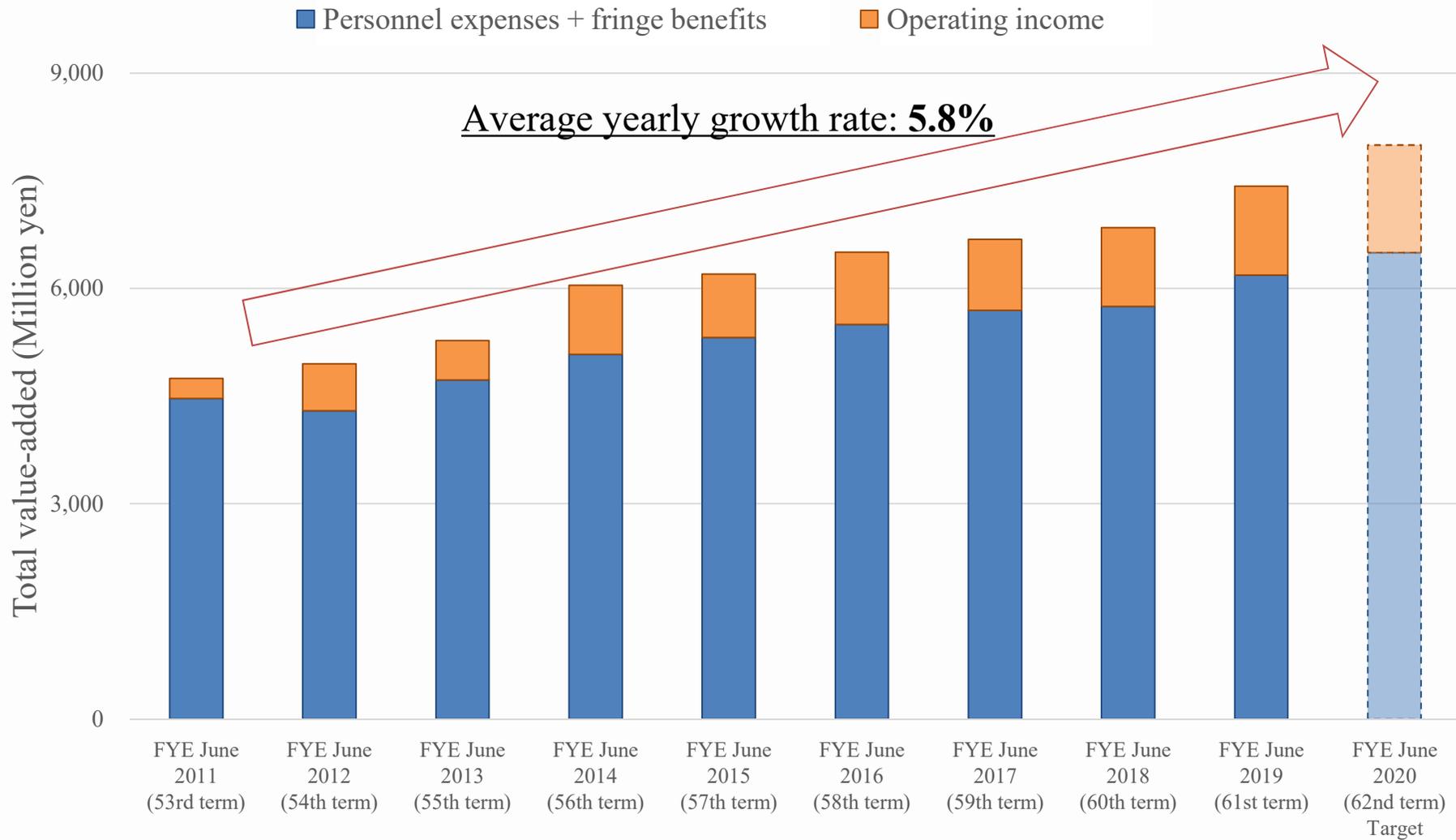
***A Wise Future:*** With the aim of creating a future society full of human wisdom

***Innovating:*** Take the leadership and continue to take on challenges

## **Aspiring to become an organization that keeps taking on challenges**

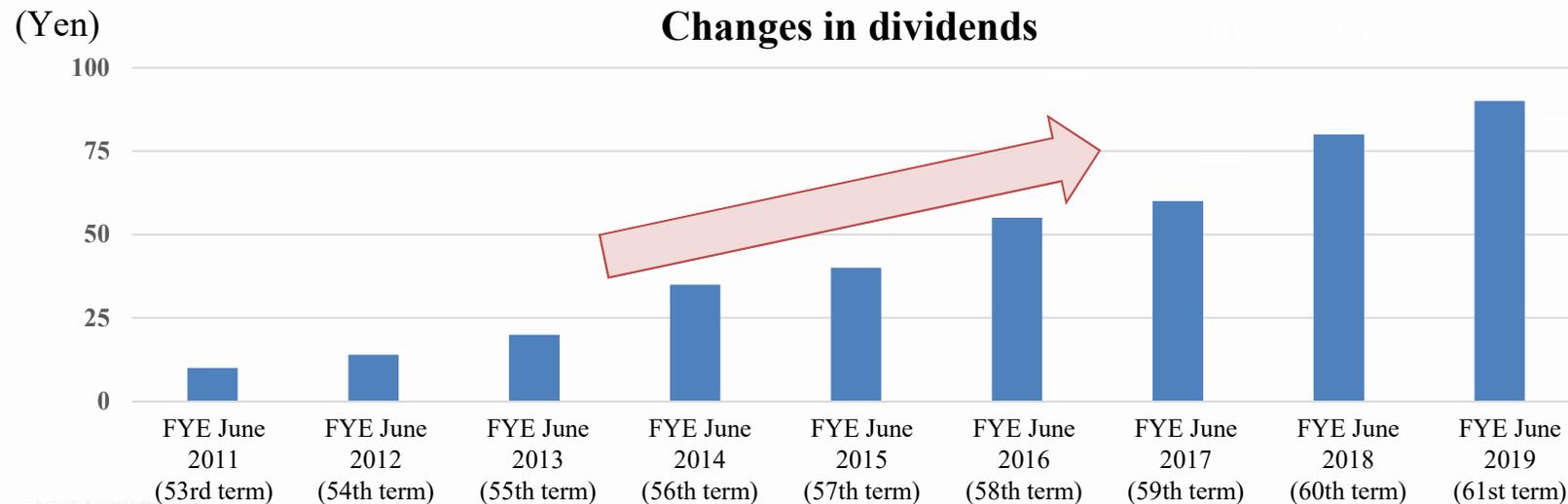
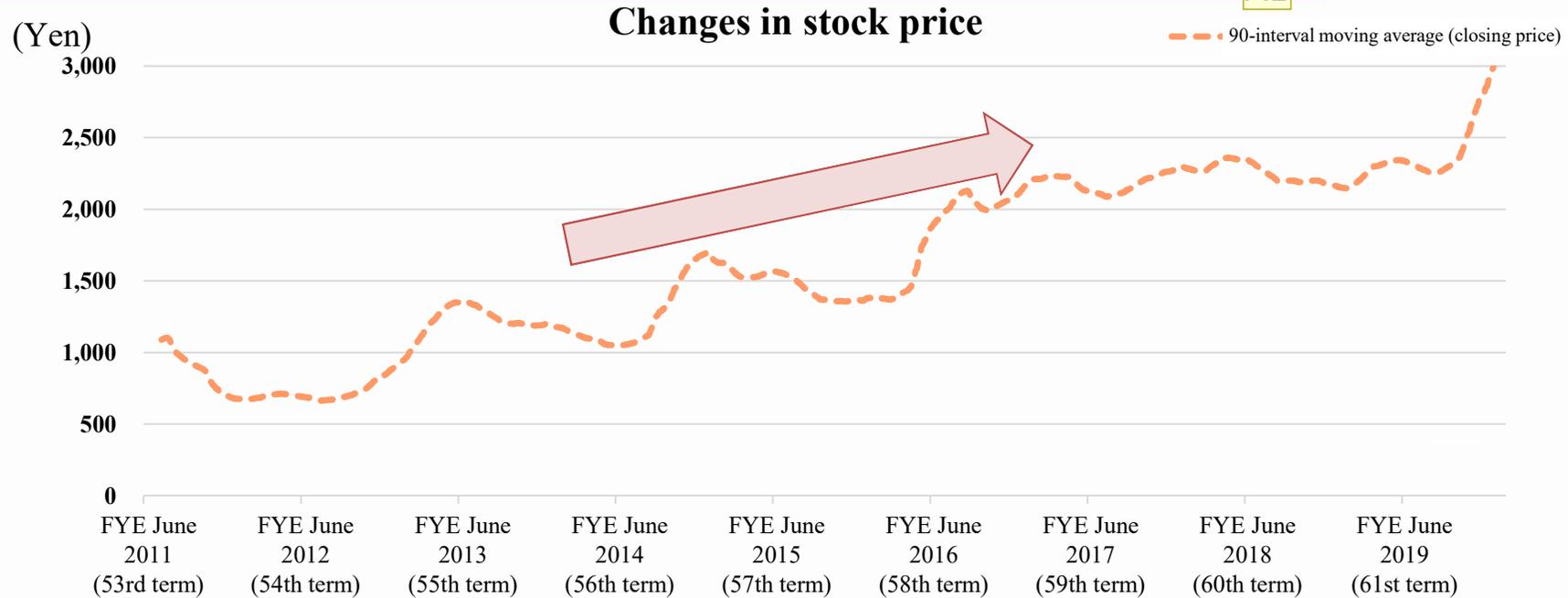
Each member of the company will keep taking on challenges, having his/her own thoughts about what is wise to do rather than accepting a future designed and provided by someone else.

# Towards Sustainable Growth



# Towards Sustainable Growth

A1



# Quality Assurance in Business

The assurance of high quality and high customer satisfaction are pivotal to business profit.

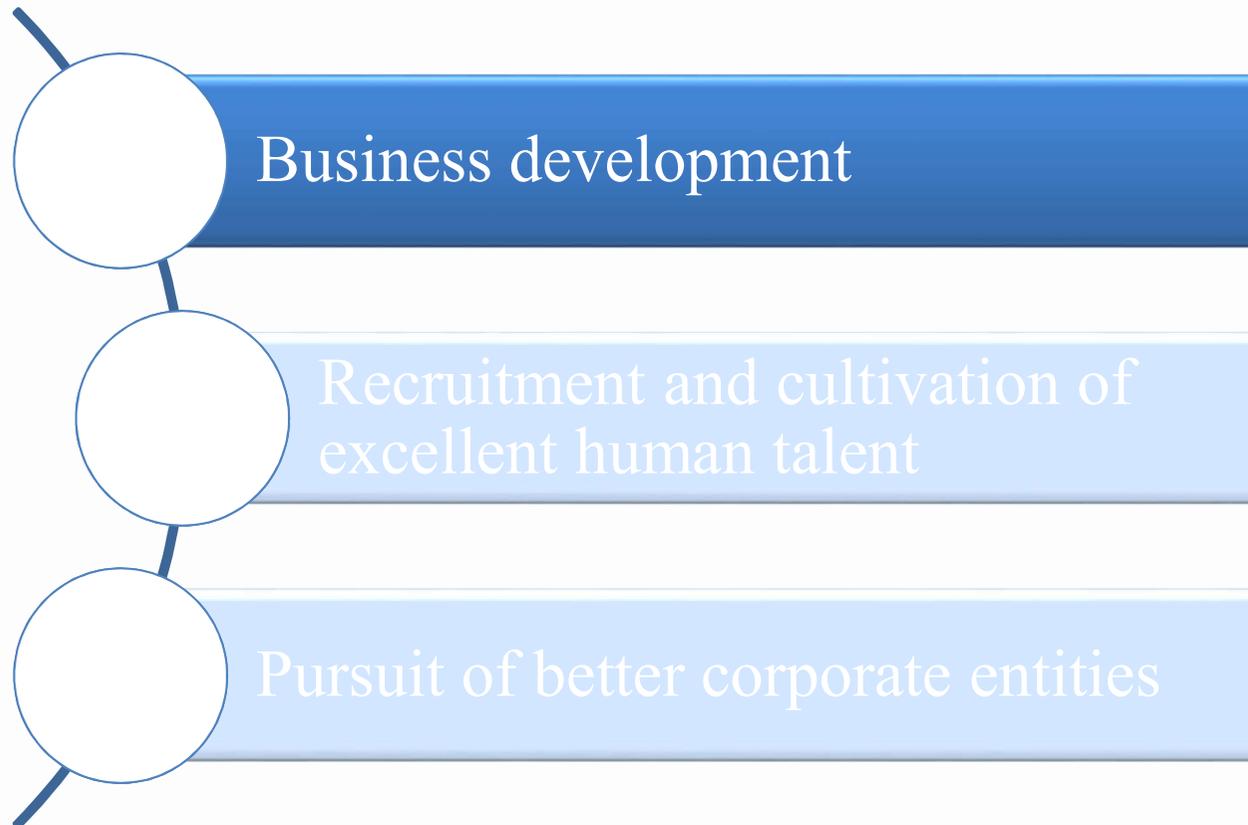
- Accumulation and utilization of empirical knowledge including past failures
- Risk management before receiving an order for a project and during the execution phase
- Continuation of two wheels for the steady operation of developed in-house systems and fostering a culture of not compromising in terms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

- A full-time quality assurance team assigned to both the consulting business and the system development business
- Risk management from the stage of receiving orders, such as limiting the monetary amount of orders for projects with high risk
- Identification of issues through a constant internal business audit and countermeasures

## Efforts to achieve sustainable growth



# Management Strategies for Sustainable Growth

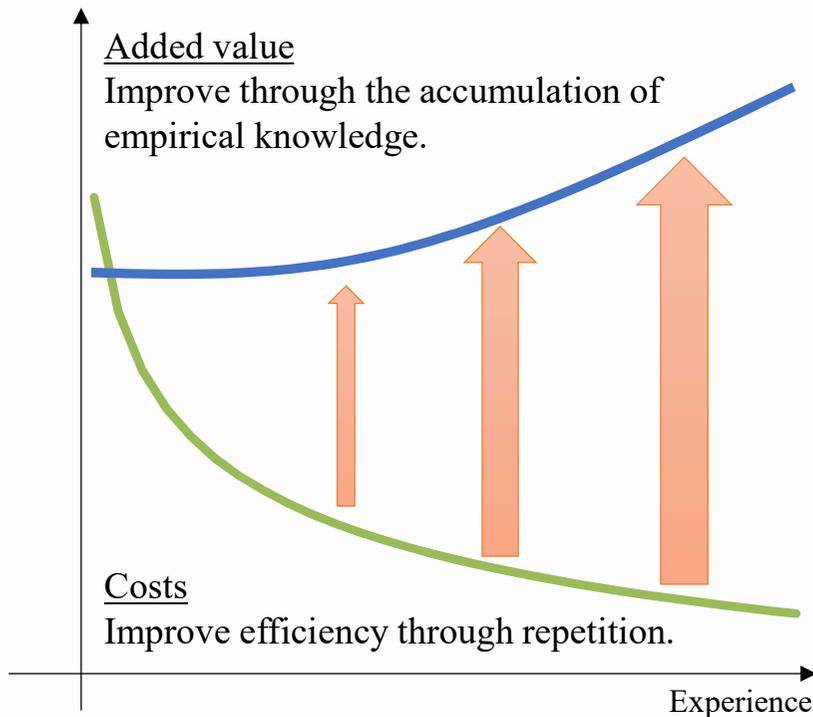


# Segment Characteristics

	Engineering Consulting	Product Service
Competitiveness	Provides consulting services by accumulating and combining technologies.	Takes products and services from within and outside the company and provides them after adding value.
Business model	Consulting services under contract	Package sale Subscription-based (provides cloud computing service)
Project period	Several days to several months	Instant sales and fixed-term sales
Number of customers	1 to 100	100 to many more
Stability and growth potential	Needs quality control, but relatively stable and will gradually grow.	Growth potential is high despite uncertainties such as a large amount of products to be introduced.
Mobility	Mobility in the selection of technical themes is relatively high.	Continuity is required for constantly operated large-scale services.

# Growth of Engineering Consulting Business

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



- Structural design and analysis consulting
- Environment assessment and disaster risk reduction consulting
- IT system development for housing and construction
- Decision-making support consulting
- Information and communication technology consulting

Promotion of high-quality and high added value businesses  
Creation of value through the combination of multiple existing segments

# Mutually Expansive Business Segments

Engineering Consulting  
(share of sales: 75%)

Problems of customers

Engineering knowledge

Product Service  
(share of sales: 25%)

Advanced technologies in Japan and overseas

Building of software  
Consulting reports

Use them as a tool

Software packages  
Cloud services

Create solutions

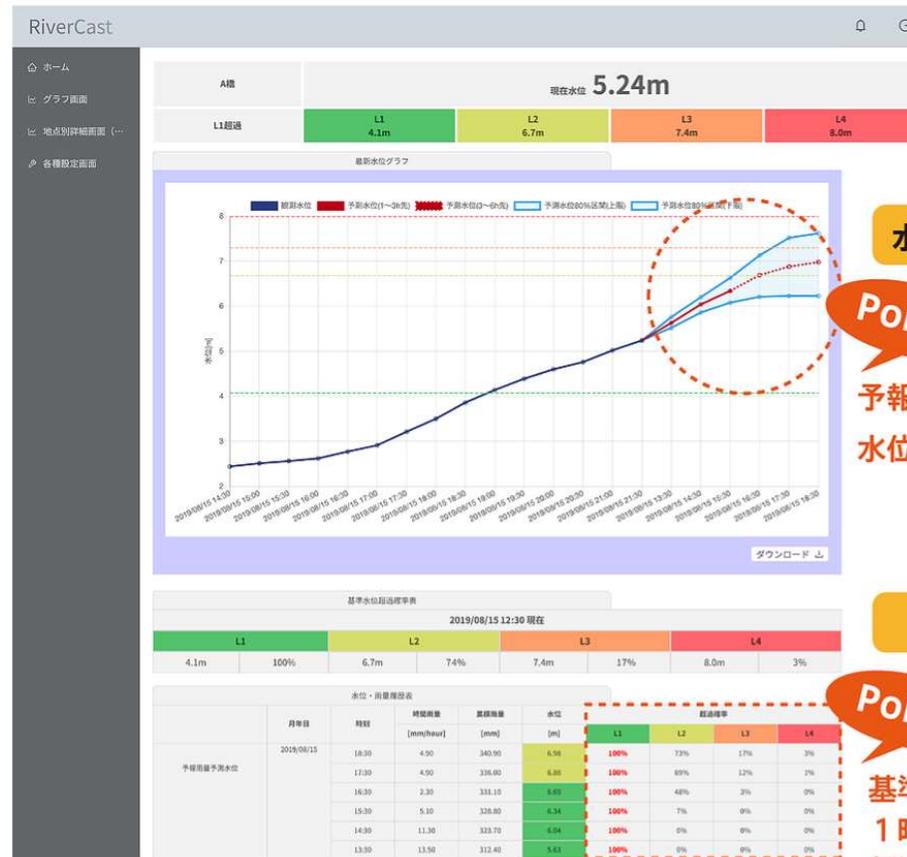
Feedback

# Weather Disaster Prevention Consulting

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

- 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

リアルタイム洪水予測システム  
**RiverCast**



水位・雨量グラフ

Point!

予報雨量の誤差を考慮し、  
水位予測結果を確率表示

超過確率表

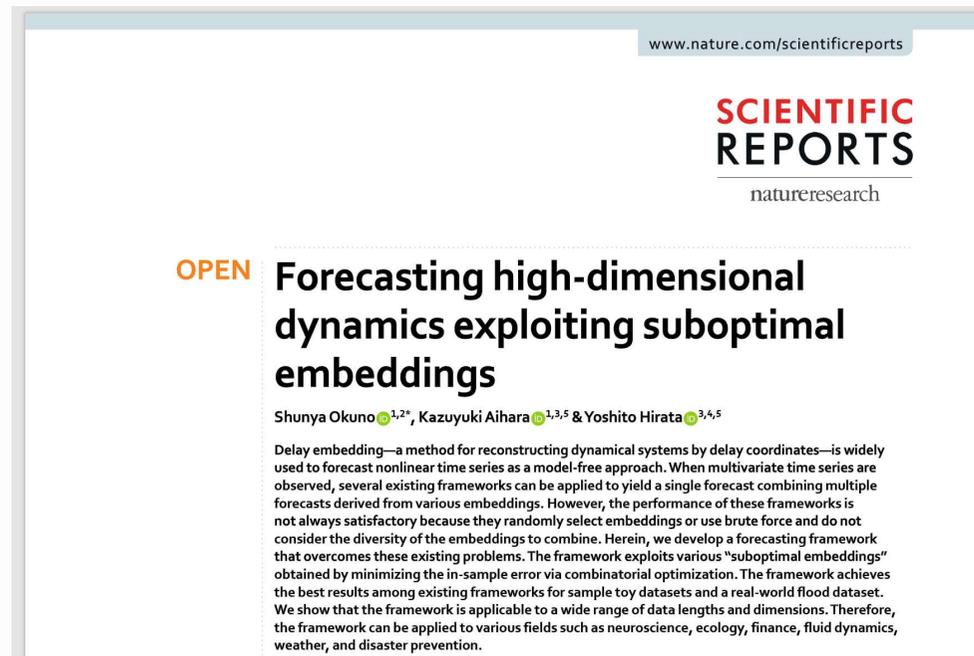
Point!

基準水位に対して、  
1時間～6時間先までの  
超過確率を算出

- Established a corporate sponsored research program called “**Mathematical Engineering for Complex Social Systems in the Future**” in 2016 jointly with Professor Kazuyuki Aihara at the Institute of Industrial Science of the University of Tokyo
- Developed a flood forecast solution using the jointly developed chaos time-series analysis technology



Shunya Okuno, Section Manager of  
Weather Disaster Prevention Section,  
Business Development Dept.



Achievement: The paper was published in *Scientific Reports*, a general science magazine from Nature Publishing Group.

Source: Scientific Reports

# Development of Product Service Business

Expand as a growth engine with an emphasis on flexibility and spreading power.

## Open and fair alliances with first-class partners

- External sales of advanced technologies developed with specific customers
- Cooperation with partners that have cutting-edge techniques globally

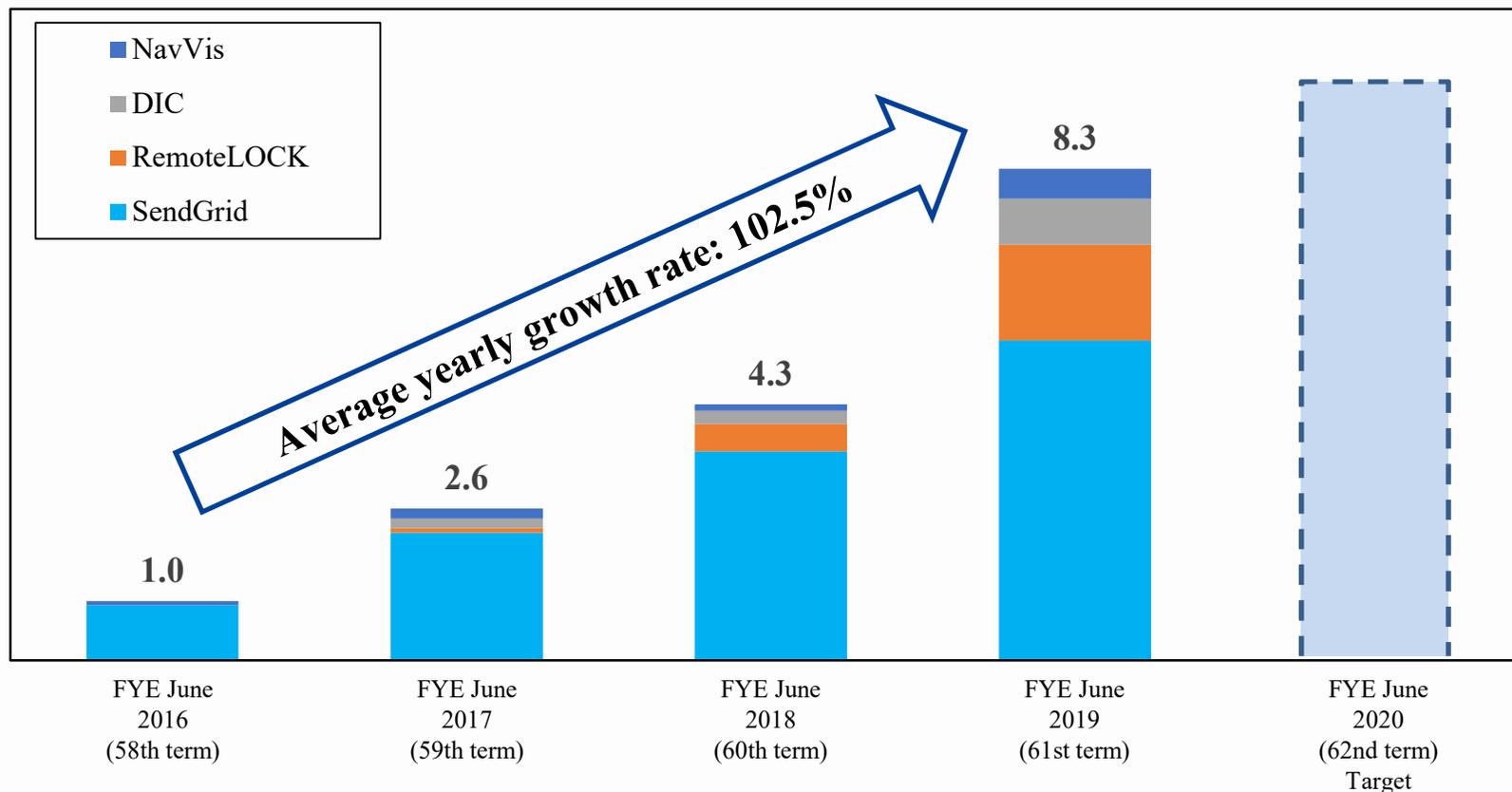
## Business development by introducing flexible business models

- Increase in users based on the cloud service in addition to PKG sales
- Continuous delivery of value through a subscription model

# Growth of Startups

## Trend of Net Sales

\* Relative values based on FYE June 2016



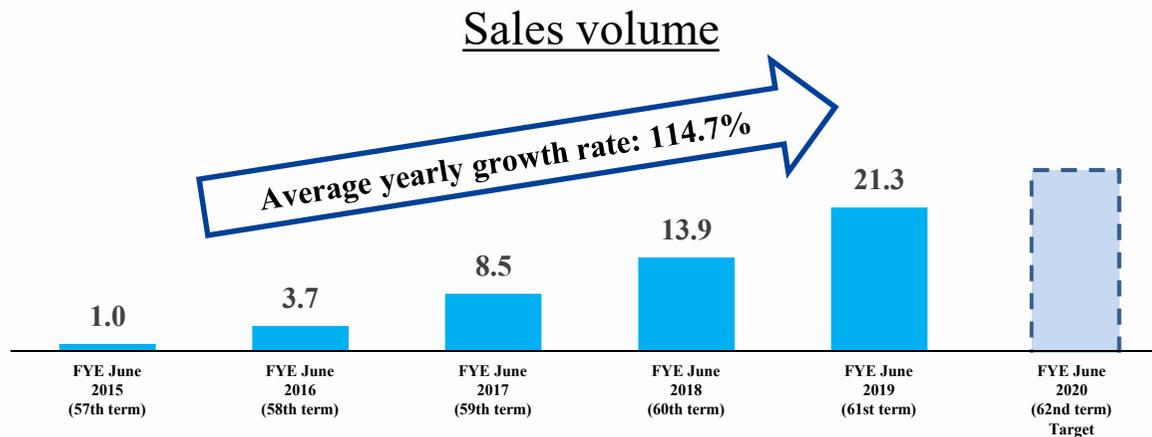
- The total net sales of the four themes in the 61st term grew more than eight times in four years.
- Sales of SendGrid and other cloud services are strong.

# Growth of SendGrid Business



- Listed shares on the New York Stock Exchange in November 2017
- Participated in Twilio Inc. in February 2019

We became their partner in Japan and have continuously expanded business since the start of services at the end of 2013.



Achieves high customer satisfaction and recognition



Received the status of “Leader” in two categories on ITreview, an IT review website for businesses

- Transaction Email category
- Email Marketing category

\* Relative values based on FYE June 2015

# Development of RemoteLOCK

## LockState, Inc.

- Provides cloud services for access control at RemoteLOCK and other facilities.
- Designated as a global partner of Airbnb, a leading private-home stay operator, and provides services to Love's, a gas station operator, and Target, a leading retailer.
- Raised funds totaling 5.8 million dollars in 2018 (1.5 million dollars from the Company).

## RemoteLOCK™

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



### Case of an operator of hotels for private home

#### lodging

- Solved the hassle of key delivery and security issues such as key loss, and profit increased.
- Guests can check in alone by receiving a passcode via email.



### For collaboration with local governments

- The convenience of facilities is increased and management costs are reduced through unified management on a cloud platform.
- Facilities can be unlocked remotely and simultaneously in an emergency such as a natural disaster.

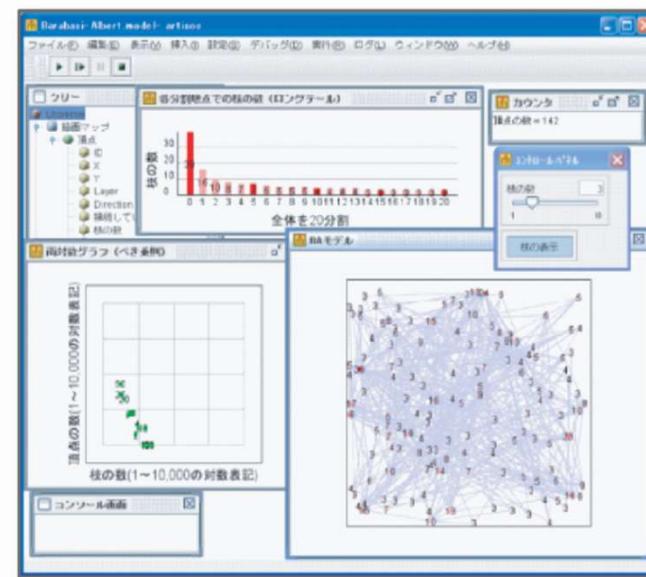
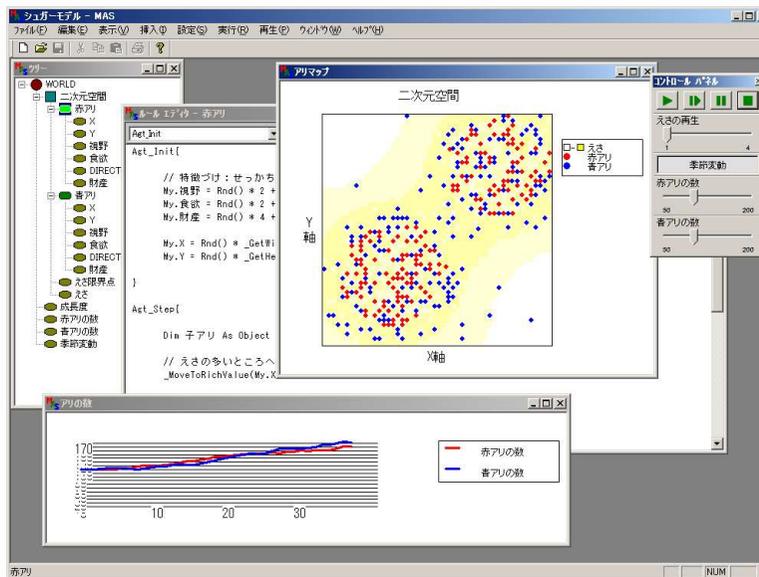


# Simulation of Social Phenomena

- Since the 1990s, KKE has been working to improve decision-making, develop information technology, and assess the rules for individual decision-making and actions, as well as providing services that are useful in corporate decision-making and simulating social phenomena.
- Challenges in social phenomena simulation
  - ⇒ A set of parts is not a whole: evaluation of interactions, understanding emergence

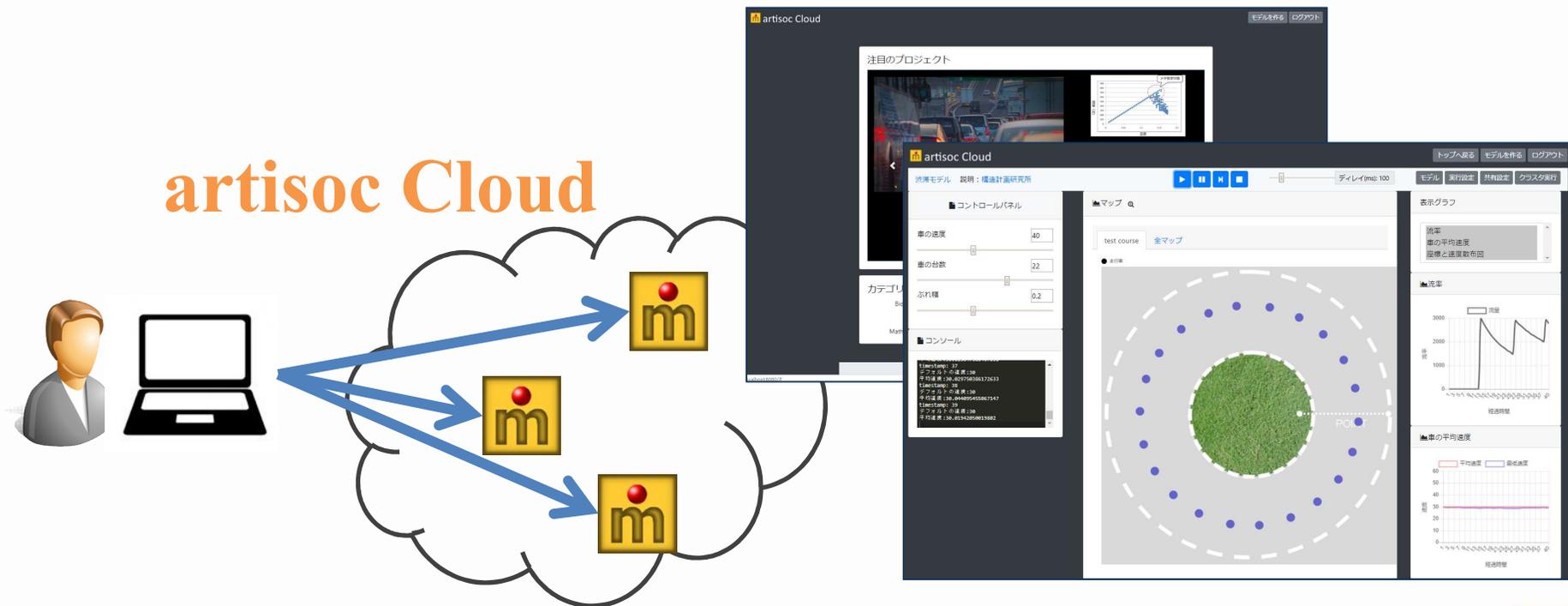


Thought experiment tools for social phenomena, development of multi-agent simulations



# Simulation of Social Phenomena: Cloud-Based artisoc

- A platform that allows the easy development and delivery of the social simulation service through **cloud computing**
- Allows users to **easily** perform social simulation **on a website** and **share and discuss** the results with others.
- The beta version is scheduled for release in the spring of 2020.



# Growth Cycle Through Business Investments

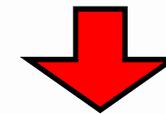
**Business  
expansion**



Investments in partners in  
Japan and overseas



Investments in in-house  
business development



**Securing of  
profits**

**Reinvestment  
of profits**

**Excavation of new  
business themes**

# Management Strategies for Sustainable Growth



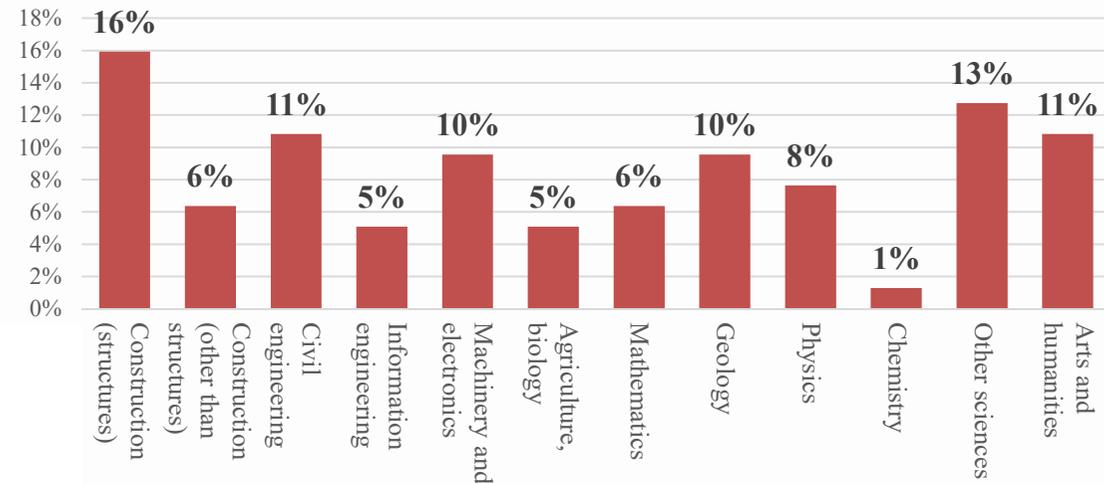
# Recruiting Excellent Human Resources, Irrespective of Nationality and Field

Total new employees  
(including prospective employees)  
in the last five years **157**

Universities they graduated from	Number of staff members	%
University of Tokyo	20	13%
Tokyo Institute of Technology	11	7%
Kyoto University	10	6%
University of Tsukuba	9	6%
(Singapore) Nanyang Technological University	9	6%
Chiba University	8	5%
(Singapore) National University of Singapore	6	4%
Kumamoto University	5	3%
Nara Women's University	5	3%
Osaka University	4	3%
Tokyo University of Science	4	3%
(Thailand) Asian Institute of Technology	3	2%
Nihon University	3	2%
Kagoshima University	3	2%
Nagoya University	3	2%
(Indonesia) Institut Teknologi Bandung	3	2%

\* Foreign universities

## University or college majors



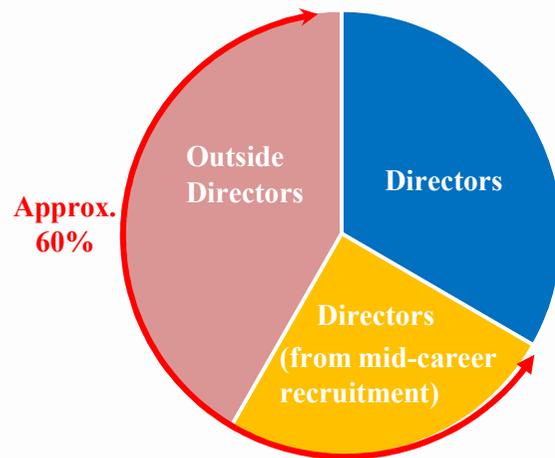
## Breakdown by academic degree



# Contribution of Various Talent

## Participation of human resources with diverse backgrounds

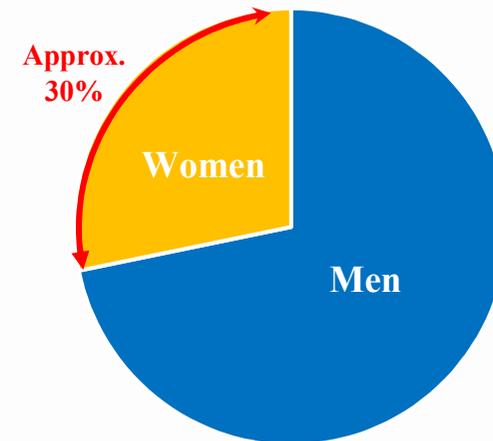
Composition of 12 Directors



Composition of 18 Executive Officers



Ratio of Men and Women

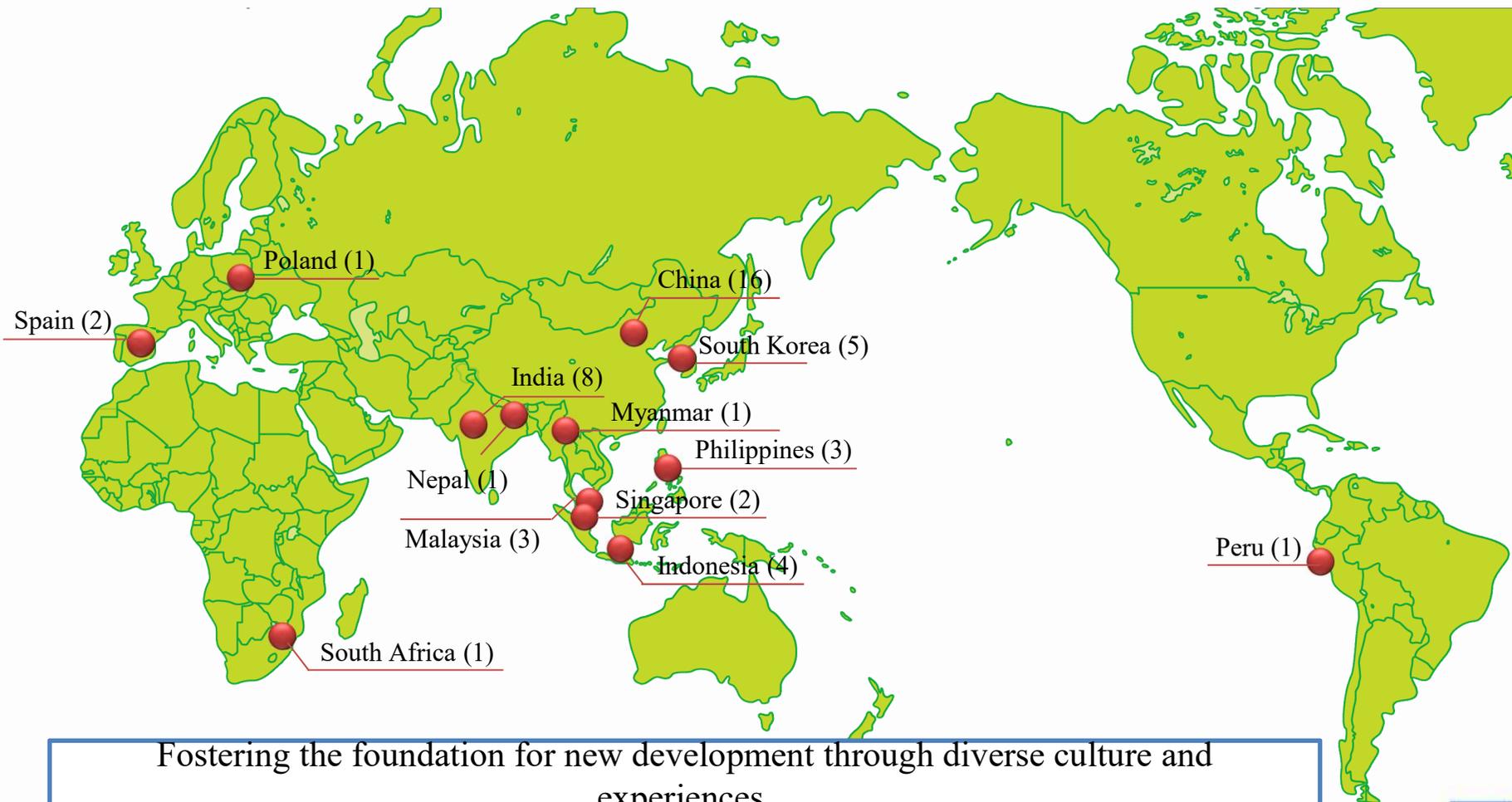


## Contribution of members from mid-career recruitment:

- |  |                                    |                                    |
|--|------------------------------------|------------------------------------|
| • Manager of Recruitment Section   | Joined the company in June 2019    | Previous job: Automobile industry  |
| • Manager of Legal & Intellectual Property Strategy Section                | Joined the company in May 2019     | Previous job: Distribution         |
| • Sales Unit   | Joined the company in April 2019   | Previous job: Financial services   |
| • Section Manager of Kumamoto Office, ICT Center                           | Joined the company in March 2019   | Previous job: Software development |
| • Section Manager of Corporate Communications & Investor Relations Section | Joined the company in October 2018 | Previous job: Freight forwarding   |

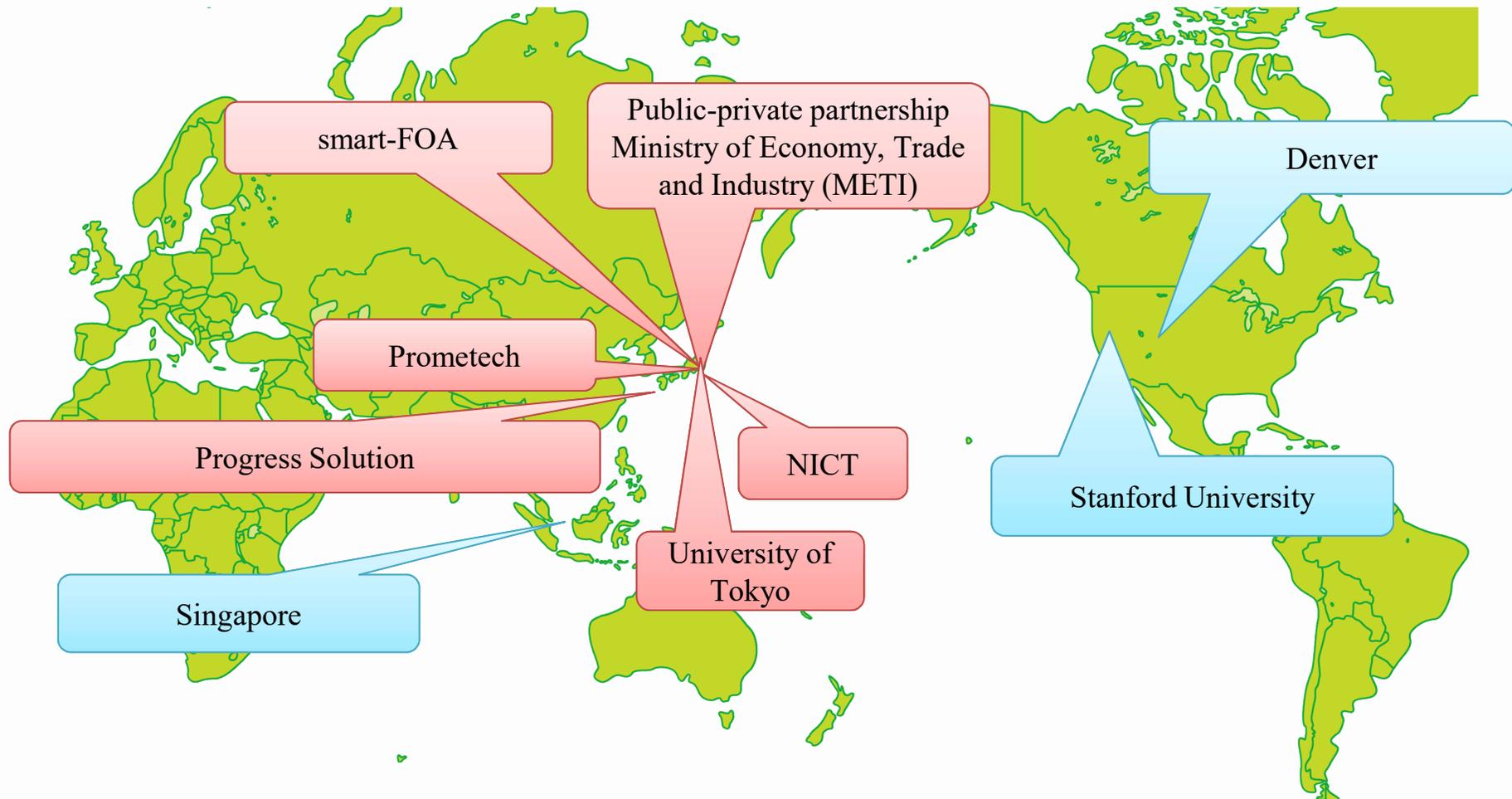
# Participation of Diverse Human Resources from Around the World

Began overseas recruitment in earnest in 2014, and 48 foreign national staff members account for 8.0% of all the staff members as of the end of December 2019.



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

# Providing a Range of Growth Opportunities



Developing human resources through experience in a range of locations  
both in and outside Japan

# History of **Kumamoto Kozo Keikaku Engineering**

Established in Ozu, Kumamoto based on the technopolis scheme of the then Ministry of International Trade and Industry.

1982 Purchased land at the foot of Mt. Aso to build the company's own building.

“The first thing you need in raising the productivity of software development is an environment that allows you to concentrate on your work and refresh your mind.” (Dr. Makoto Hattori)

1983 The Technopolis Act was established.

1984 An office was opened.

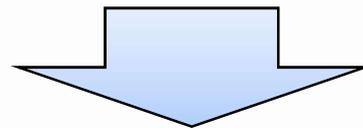
1986 A company building was completed in Ozu.



# Future of Kumamoto Kozo Keikaku Engineering

Accelerate the regrowth of **Kumamoto Kozo Keikaku Engineering** by working in cooperation with a partner company, Progress Solution Co., Ltd.

- Place of software development (1984 -)
- Back office operations (2018 -)
  - ✓ Engineer consulting services
    - Planning the placement of cargo containers loaded on cargo ships
    - Testing in system development
  - ✓ Supporting product and service operations
    - Supporting customer service and other operations



**Make more effective use of locations in Kumamoto**

## Hattori Makoto Scholarship Fund (Hattori Award)

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

### Winners of the 37th award



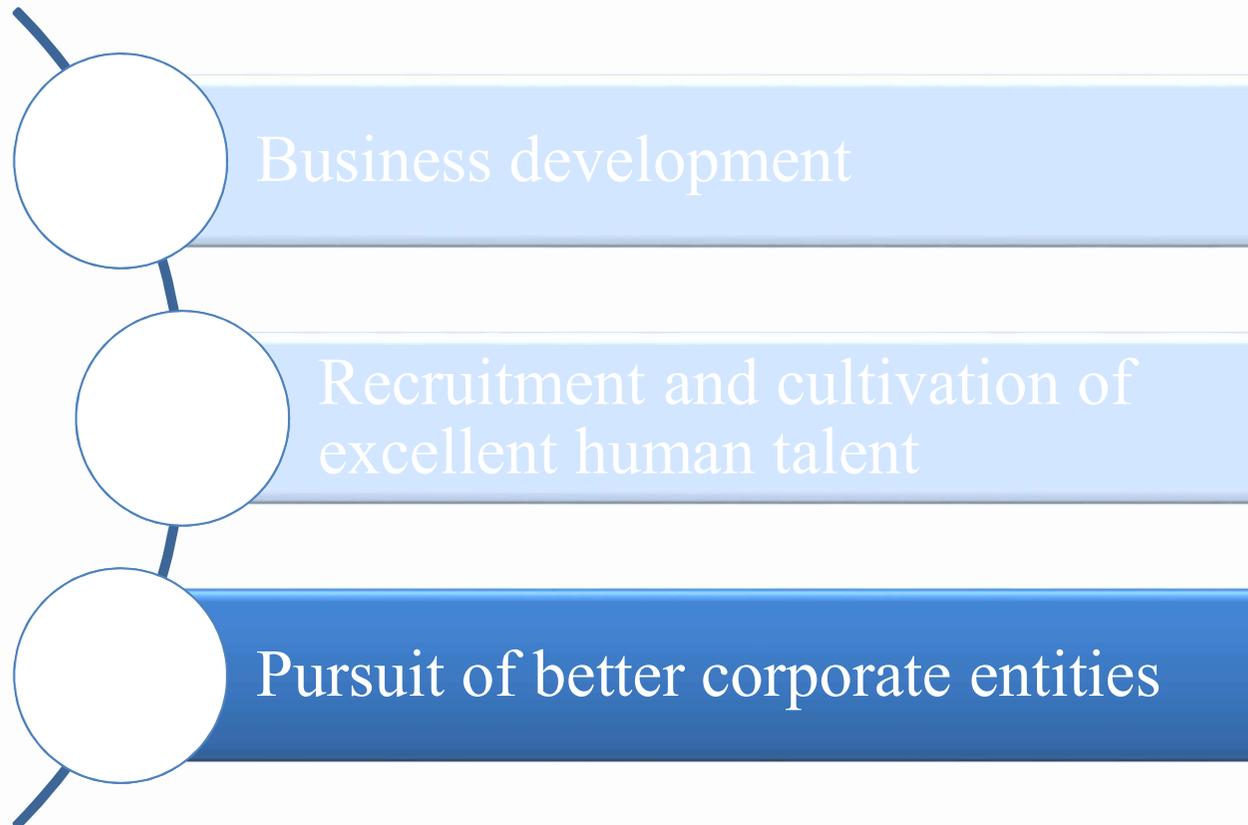
Special award for distinguished service: Masayoshi Abe,  
Director, Chairman (right)

Hattori Award: Hirokazu Ishizuka, Manager of the Structural  
Design Dept. II (left)

### Reasons for the granting of the award

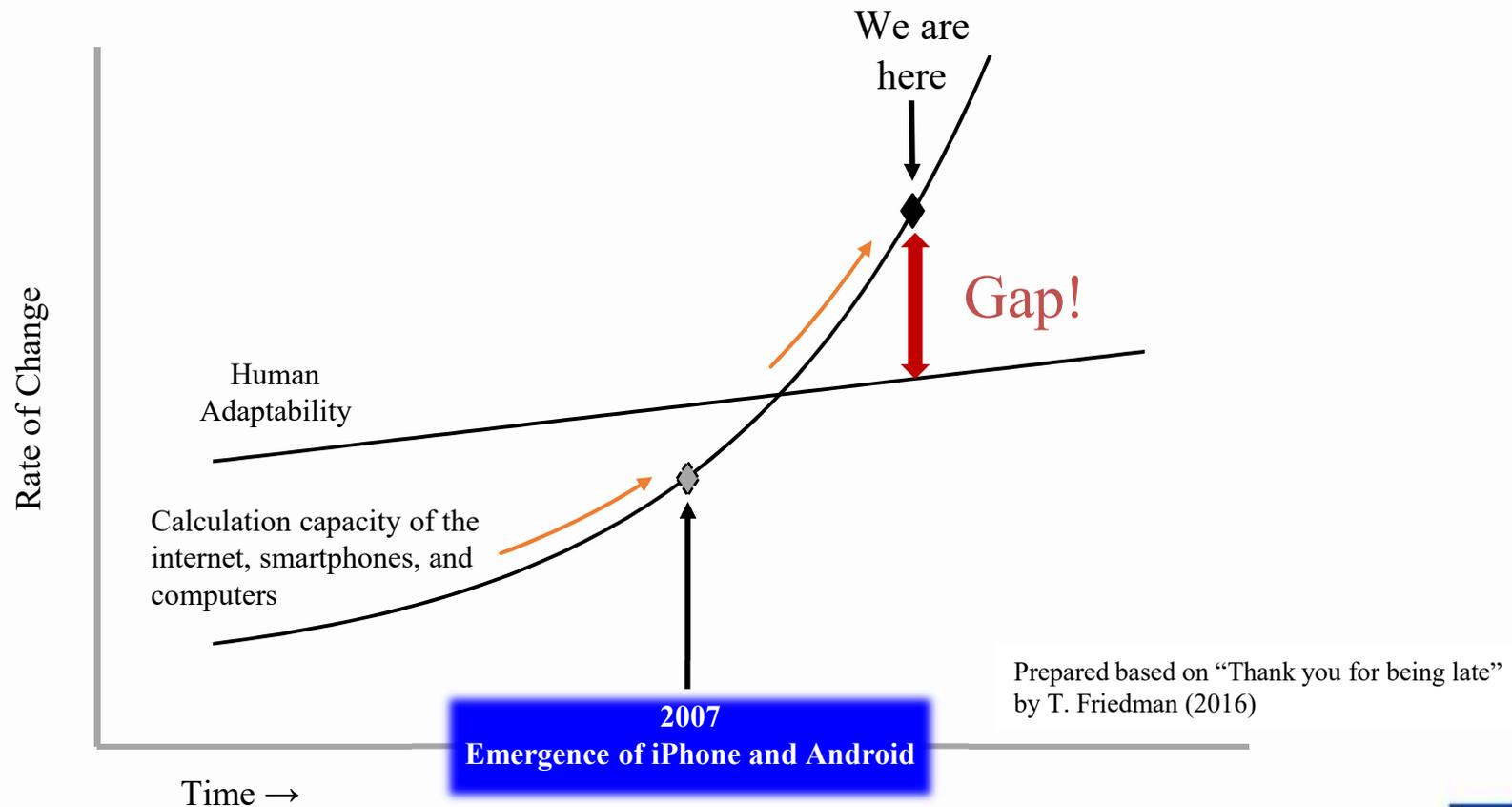
- Contributed significantly to the delivery of the structural design service using computers, established the business based on a structural design support system for large housing manufacturers, participated in corporate management as a Director, and has supported the Company's development for many years (Abe).
- Took charge of and implemented a number of structural design projects including seismic isolation and vibration damping projects, contributed to the progress of industry-academia collaboration activities, and contributed to the expansion of new business fields using numerous new technologies (Ishizuka).

# Management Strategies for Sustainable Growth

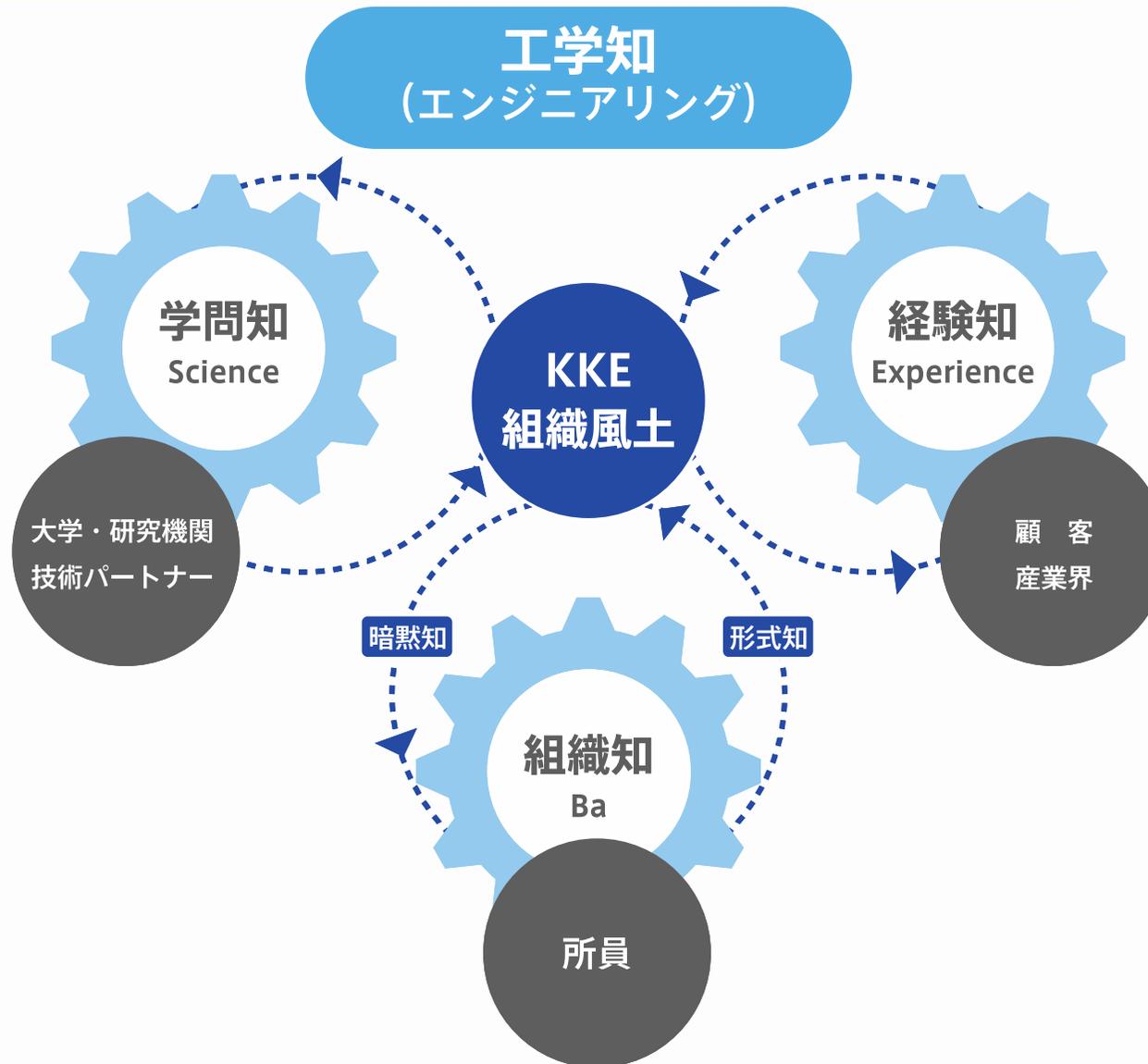


## Engineering consulting

that fills the gap between technical advancement and individual skills (companies, communities and social systems).



# Foundation as a Knowledge-Intensive Company



# Opening of Nakano Sakaue Office



Central Office



Head Office



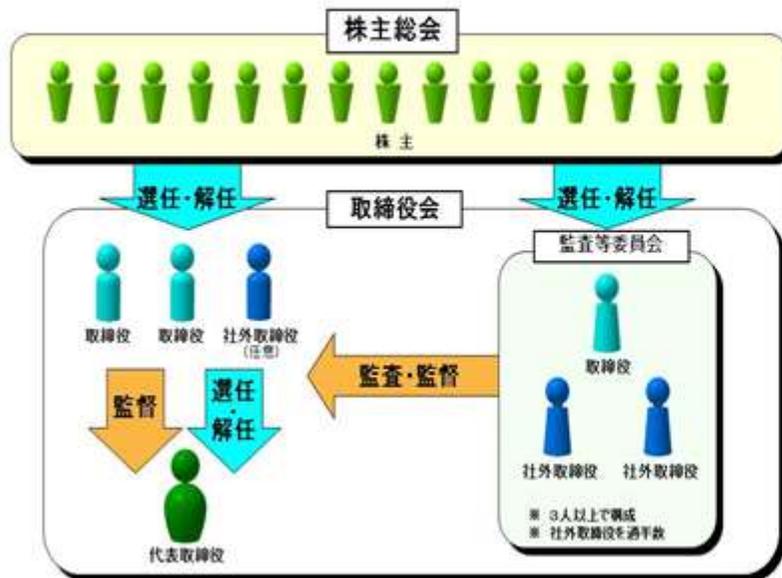
Sumitomo Nakano Sakaue  
Building

- Four offices in Nakano, Tokyo are concentrated into three
- **13% increase** in the floor area in the Nakano district

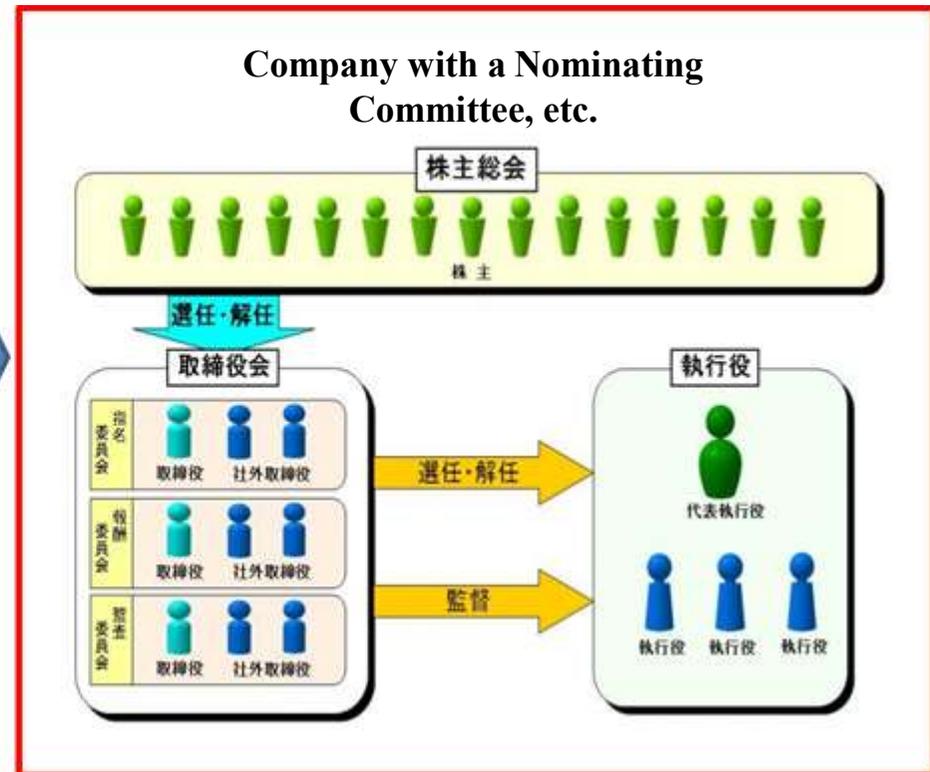
# Shift to a Company with a Nominating Committee, etc.

- ❑ Improve the function of management and supervision through the separation of operation and supervision and the flexible performance of duties
- ❑ Increase the transparency and objectivity of management by creating a committee in which the majority of members are outside directors
- ❑ Only **approx. 80 companies** among approx. 3,700 listed companies have adopted the system (Source: the Japan Association of Corporate Directors)

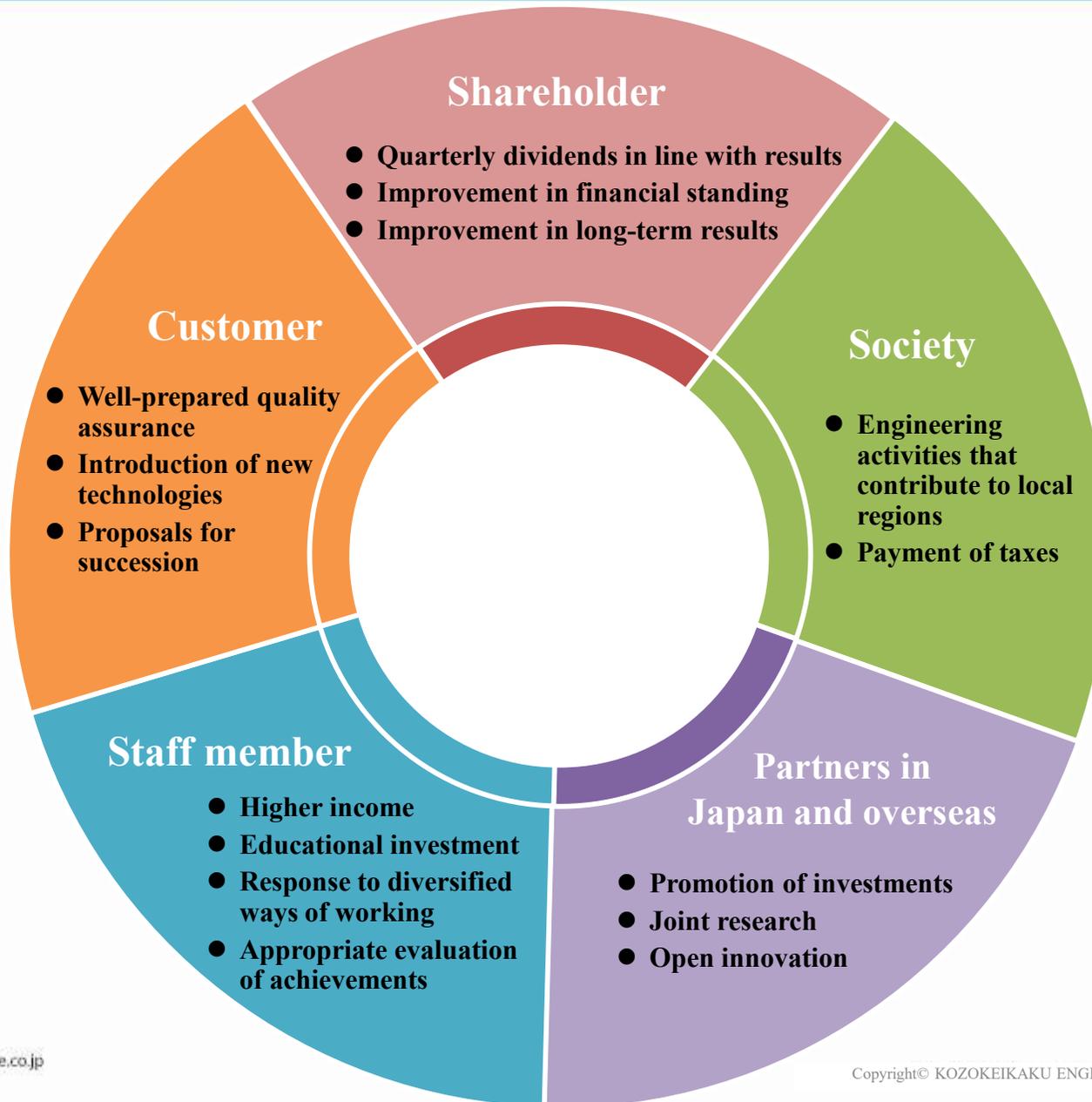
Company with an Audit and Supervisory Committee



Company with a Nominating Committee, etc.



# Response to Stakeholders



# Value Standards that KOZO KEIKAKU ENGINEERING Continues to Value

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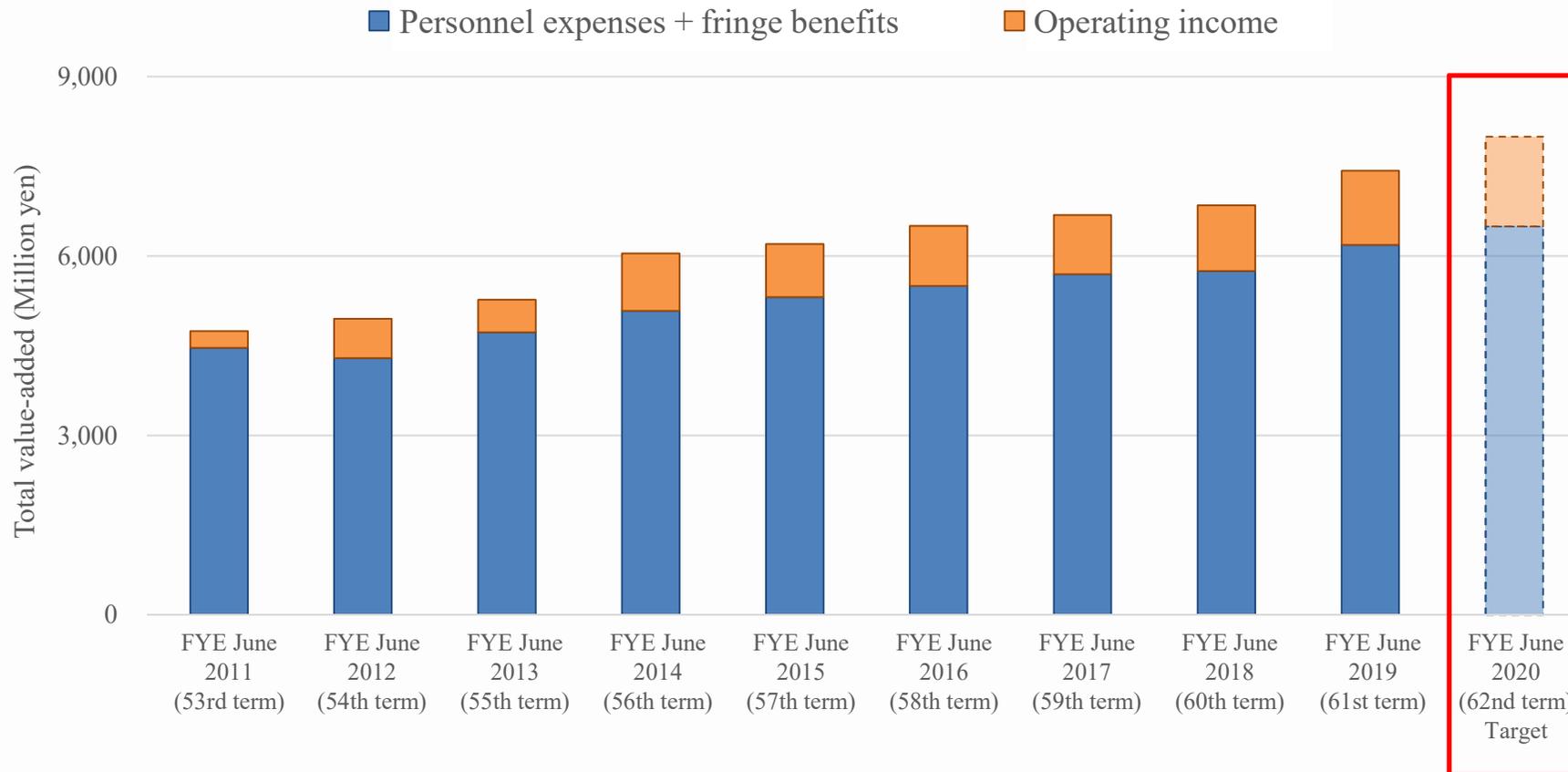
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- Respect for learning, learned ignorance
- People's connections, value of networks
- Working hard together with partners, colleagues, and teammates

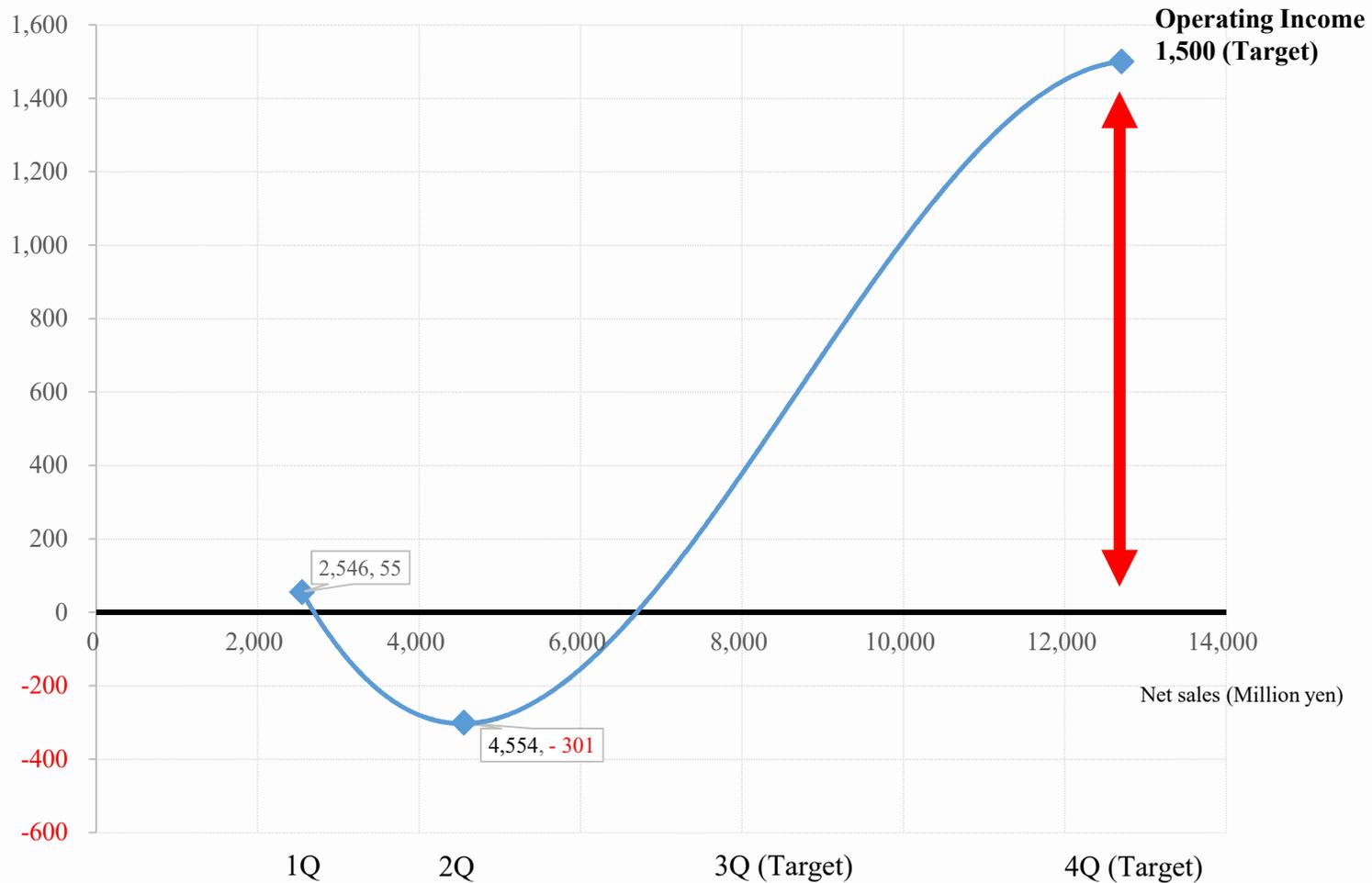
# Achievement of Plans for Fiscal Year Ending June 30, 2020



The Company will continue to make steady efforts to achieve the planned targets  
in the second half of the fiscal year.

# Changes in Quarterly Operating Income

Operating Income (Million yen)



We look forward to your continued support and guidance.

*Innovating for a* **Wise Future**

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