



FYE June 2019 (61st Term) Financial Results

August 8, 2019

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- 5. New Governance System**

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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Overview of Financial Results

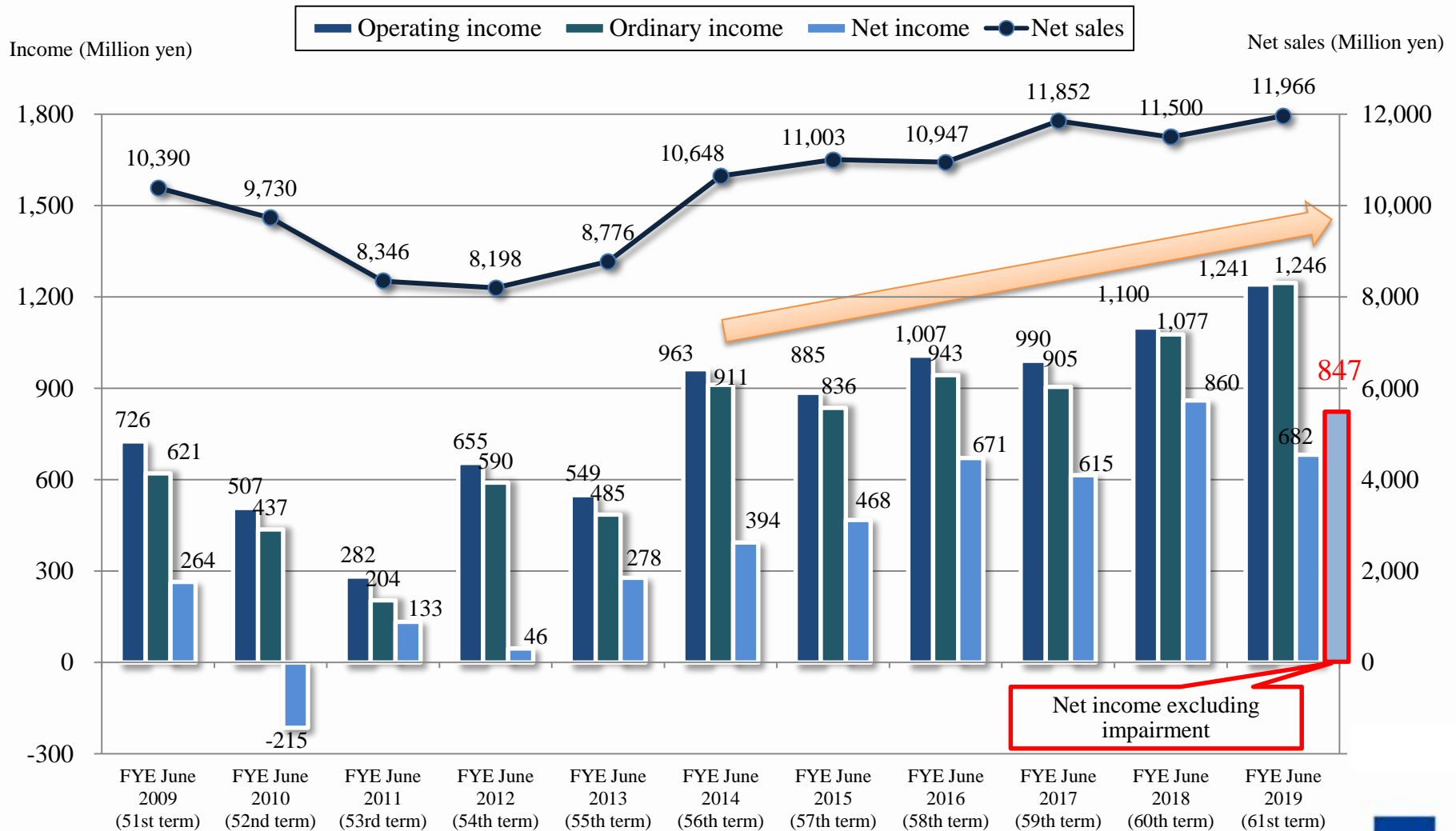


Income Statement Highlights

(Million yen)	FYE June 2018 (60th term)	FYE June 2019 (61st term)	Change from previous FY	Rate of change from previous FY
Net sales	11,500	11,966	465	4.1%
Cost of sales	5,832	5,508	-324	-5.6%
Gross profit (Gross profit rate)	5,667 (49.3%)	6,457 (54.0%)	790	13.9%
SGA expenses	4,566	5,216	649	14.2%
Operating income (Operating income rate)	1,100 (9.6%)	1,241 (10.4%)	140	12.8%
Non-operating profit & loss	-23	5	28	—
Ordinary income (Ordinary income rate)	1,077 (9.4%)	1,246 (10.4%)	169	15.7%
Extraordinary profit & loss	-22	-242	-220	—
Net income before taxes (Net income before taxes rate)	1,054 (9.2%)	1,003 (8.4%)	-51	-4.9%
Income taxes	194	321	126	64.8%
Net income (Net income rate)	860 (7.5%)	682 (5.7%)	-177	-20.6%

Trends in Results

Steady progress in financial results through sustainable growth.



Highlights of Balance Sheet

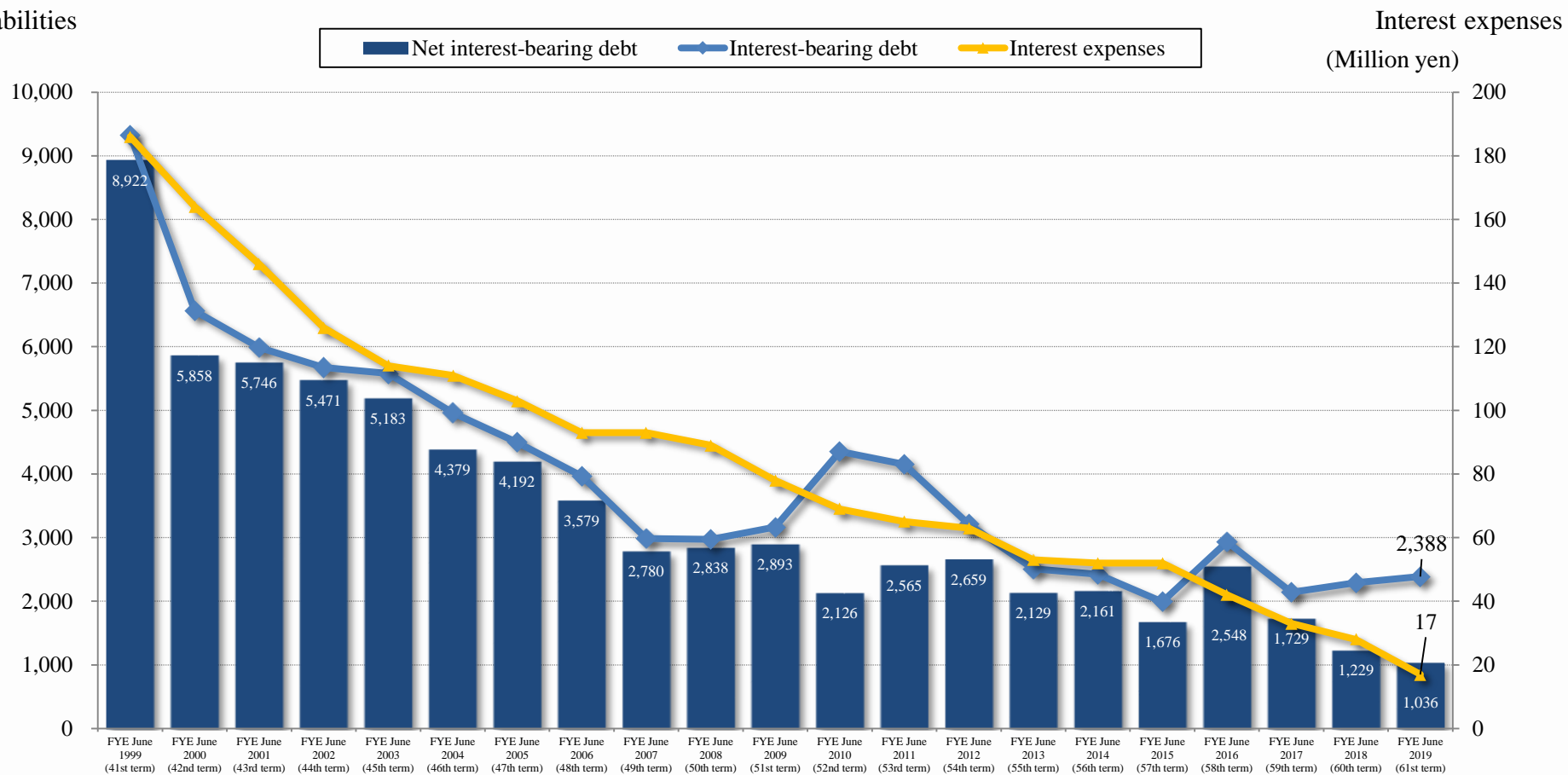
(Million yen)

Item	FYE June 2018 (60th term)	FYE June 2019 (61st term)	Change	Item	FYE June 2018 (60th term)	FYE June 2019 (61st term)	Change
Cash and Deposits	1,059	1,351	291	Short-term borrowings	—	10	10
Notes /accounts receivable - trade	1,654	1,415	-238	Current portion of long-term borrowings / corporate bonds	396	641	245
Work in process	542	702	159	Advances received	855	884	28
Other	1,172	726	-446	Accounts payable - accrued expenses	872	861	-10
				Other	1,448	1,238	-209
[Current assets]	4,429	4,195	-233	[Current liabilities]	3,571	3,636	65
Property, plant and equipment	5,116	5,053	-63	Long-term borrowings / corporate bonds	1,893	1,736	-156
Intangible assets	476	439	-36	Provision for retirement benefits	1,924	2,004	79
Investments and other assets	2,235	3,309	1,073	Other	177	194	17
Investment securities	319	1,654	1,334	[Long-term liabilities]	3,995	3,935	-59
Shares of subsidiaries and associates	721	378	-343	[Liabilities]	7,566	7,572	5
Investments in capital of subsidiaries and associates	36	43	7	Capital stock	1,010	1,010	—
Deferred tax assets	873	928	55	Capital surplus	1,897	1,159	-737
Other	284	305	20	Retained earnings	3,943	4,117	173
[Fixed assets]	7,828	8,803	974	Treasury shares	-2,177	-851	1,325
				Valuation difference on available-for-sale securities	17	-9	-27
				[Net assets]	4,690	5,426	735
[Assets]	12,257	12,998	741	[Liabilities and net assets]	12,257	12,998	741
Total borrowings	2,289	2,388	98	Capital ratio	38.3%	41.7%	
Net interest-bearing debt	1,229	1,036	-193				

Changes in Net Interest-Bearing Debt

Maintain an appropriate level of net interest-bearing debt while considering the balance with business investments.

Liabilities



* Net interest-bearing debt includes borrowings of ESOP trust of 295 million yen in FYE June 2012, 196 million yen in FYE June 2013, 62 million yen in FYE June 2014, 582 million yen in FYE June 2016, 282 million yen in FYE June 2017, 1,194 million yen in FYE June 2018, and 554 million yen in FYE June 2019.

Cash Flow Statement Highlights

(Million yen)

	FYE June 2018 (60th term)	FYE June 2019 (61st term)	Change
Balance at the beginning of FY	411	1,059	648
CF from operations	598	1,633	1,034
CF from investments	-530	-1,453	-922
Free CF	68	180	112
CF from financing	580	111	-469
Balance at the end of FY	1,059	1,351	291

Highlights of CF from operations	FYE June 2018	FYE June 2019	Change
Net income before taxes	1,054	1,003	-51
Increase/decrease in accounts receivable	-162	267	430
Increase/decrease in inventories	9	-218	-227

Highlights of CF from investments	FYE June 2018	FYE June 2019	Change
Purchase of property, plant and equipment	-112	-60	51
Purchase of intangible assets	-143	-104	38
Purchase of investment securities	-86	-1,266	-1,180

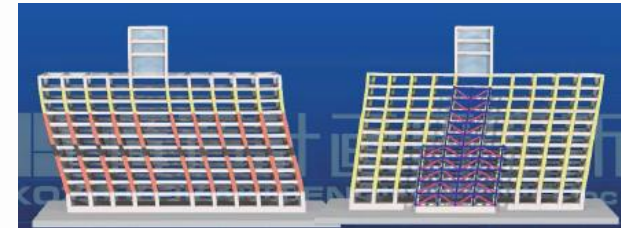
Highlights of CF from financing	FYE June 2018	FYE June 2019	Change
Net increase/decrease in short-term borrowings	-320	10	330
Net increase/decrease in long-term borrowings	468	-361	-830
Dividend payments	-286	-506	-219

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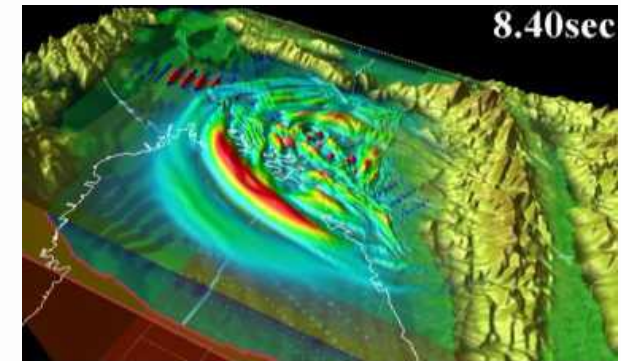
Results by Segment



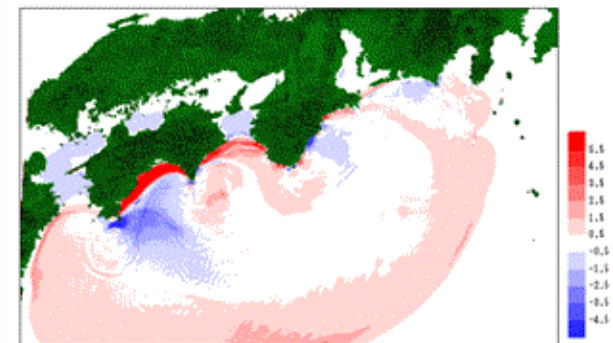
- Structural design and structural analysis consulting
 - Structural design of high-rise buildings and structural analysis of large buildings
- Environment assessment and disaster risk reduction consulting
 - Ground motion assessment, wind condition analysis and disaster risk assessment
- System development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



Seismic analysis of structures



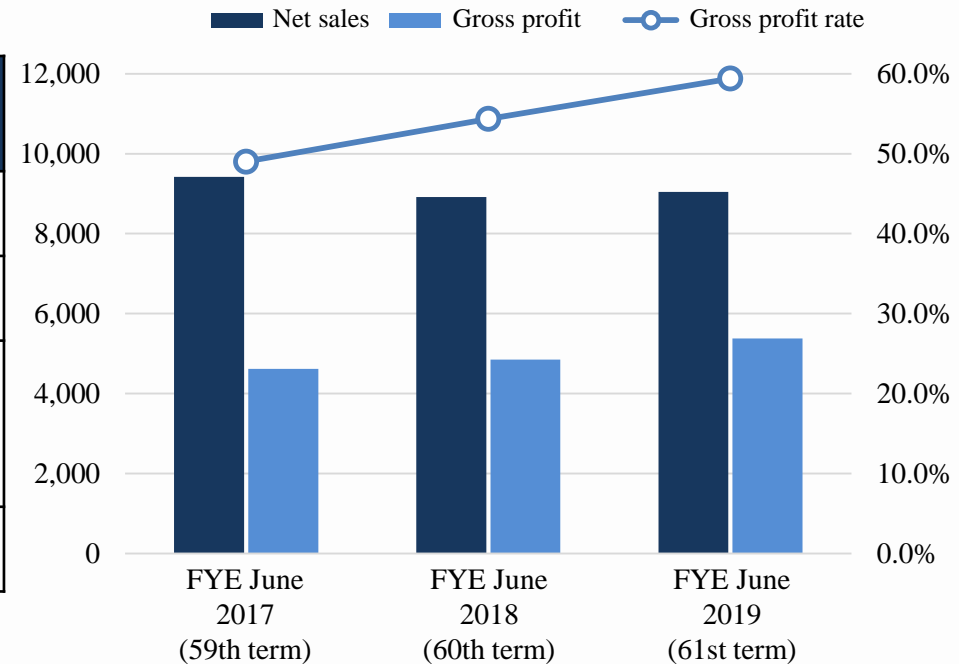
Simulation of ground motion



Assessment of tsunami risk

(Million yen)

	FYE June 2017 (59th term)	FYE June 2018 (60th term)	FYE June 2019 (61st term)	Year-on-year
Orders	9,434	9,045	9,884	838
Net sales	9,419	8,916	9,046	129
Gross profit	4,617	4,846	5,374	527
(Gross profit rate)	(49.0%)	(54.4%)	(59.4%)	
Backlog of orders	4,227	4,357	5,195	837



Analysis of results

- Structural design consulting business, system development business for home builders and construction and manufacturing industries remained firm.
- Profit was secured by providing high value-added services and managing large unprofitable projects.

Business themes

Examples of package-sales type

Examples of cloud service-provision type

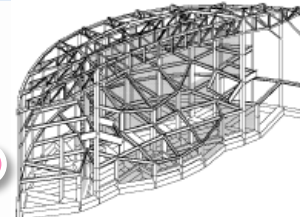
Manufacturing industry



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

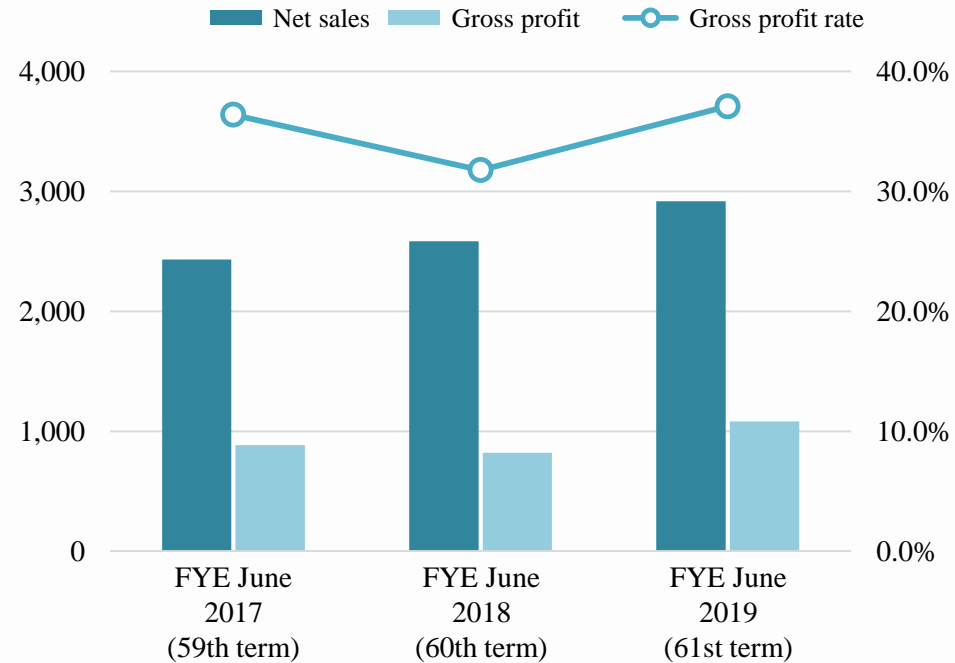


Radio propagation analysis, indoor navigation, email delivery, remote lock, etc.



(Million yen)

	FYE June 2017 (59th term)	FYE June 2018 (60th term)	FYE June 2019 (61st term)	Year-on-year change
Orders	2,458	2,653	2,939	285
Net sales	2,433	2,583	2,919	336
Gross profit	885	820	1,083	262
(Gross profit rate)	(36.4%)	(31.8%)	(37.1%)	
Backlog of orders	993	1,063	1,082	19



Analysis of results

- ▣ Sales of CAE software for architects and sales support solutions for manufacturing industry remained firm.
- ▣ Cloud-based e-mail delivery service of SendGrid, Inc. in the U.S. steadily expanded.
- ▣ Sales of RemoteLOCK, a cloud service for room entry and exit management from the U.S.-based LockState, Inc., for the IoT/IoE era also increased.

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

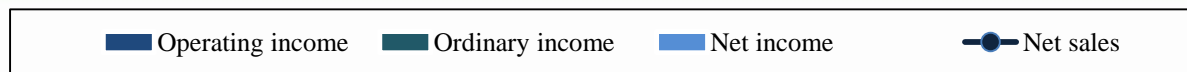


Estimates for Fiscal Year Ending June 2020 (62nd Term)

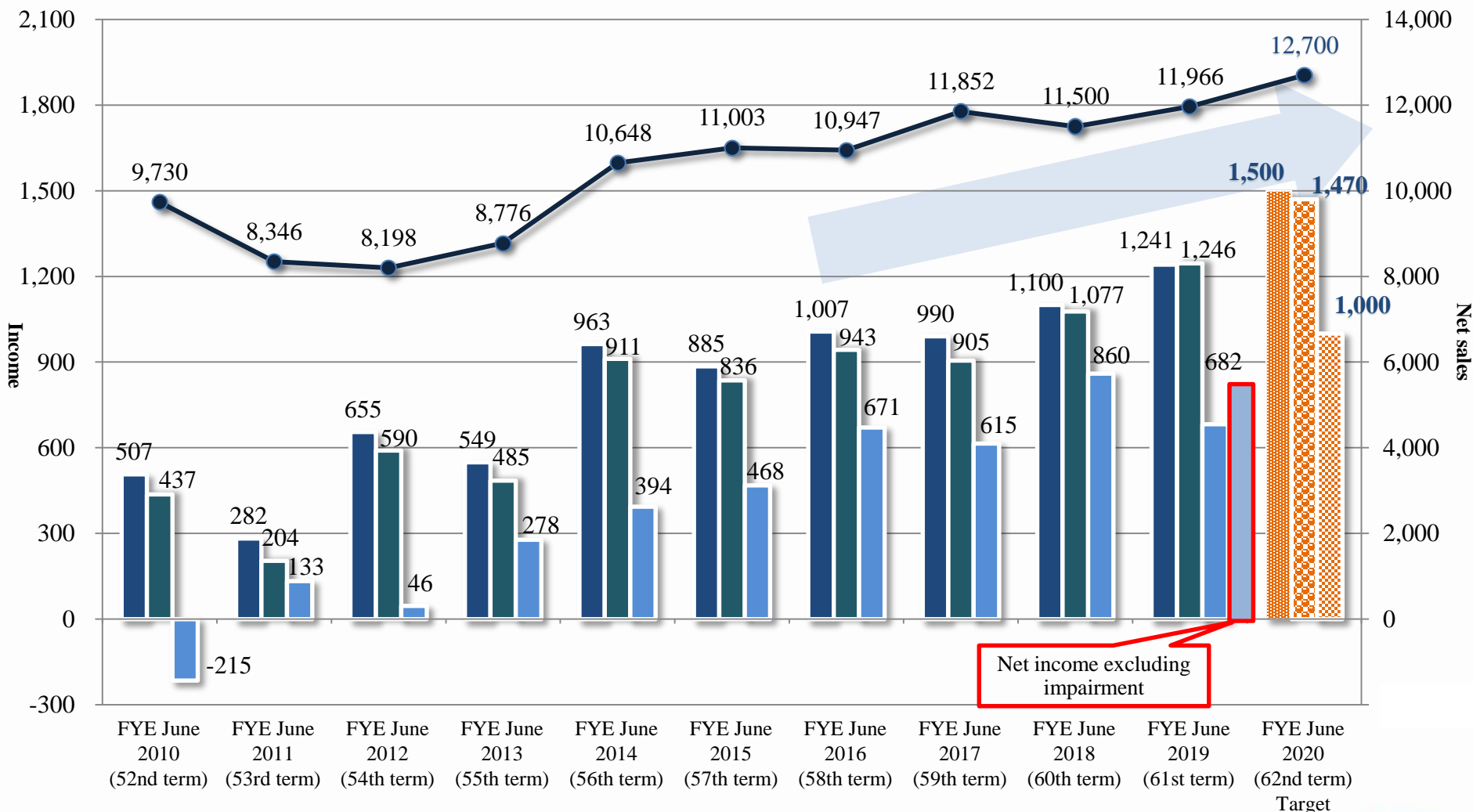
(Million yen)

	FYE June 2019 (61st term) Results	FYE June 2020 (62nd term) Target	Change	% change
Net sales	11,966	12,700	733	6.1%
Operating income	1,241	1,500	258	20.8%
Ordinary income	1,246	1,470	223	17.9%
Net income	682	1,000	317	46.5%
* Net income excluding impairment	*847	1,000	*153	*18.1%
		(Yen)		
Year-end dividend	90	100		

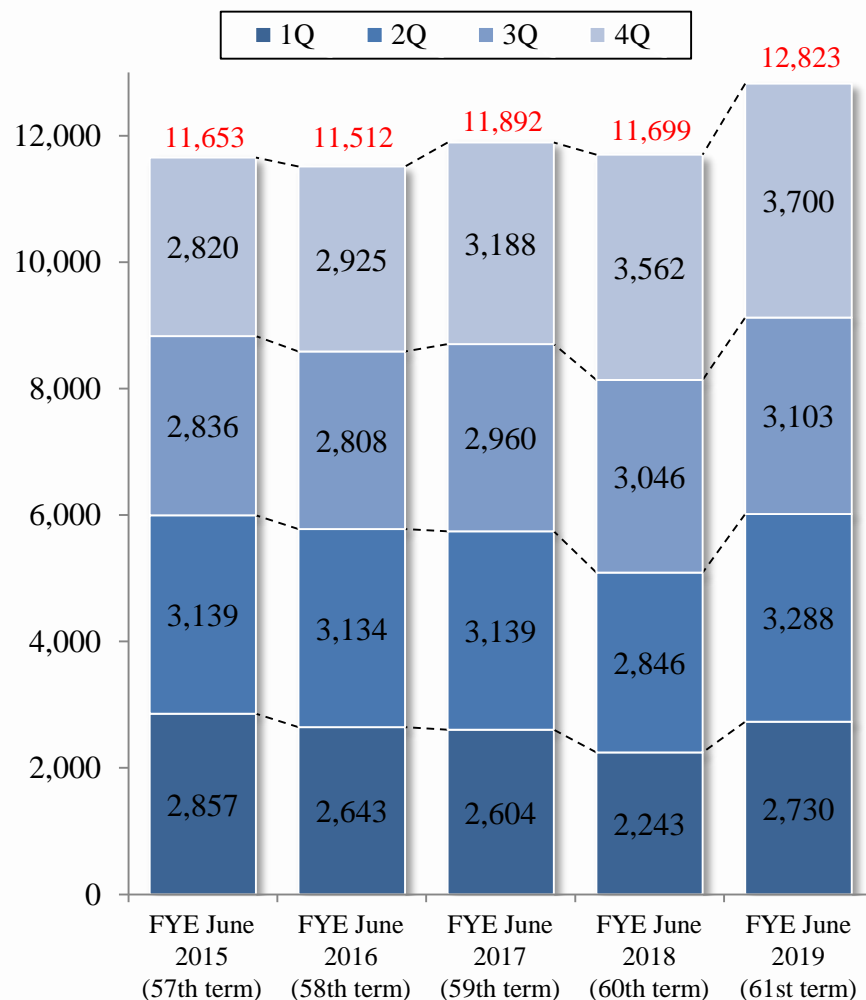
Trends in Results and Target for FY Ending June 2020



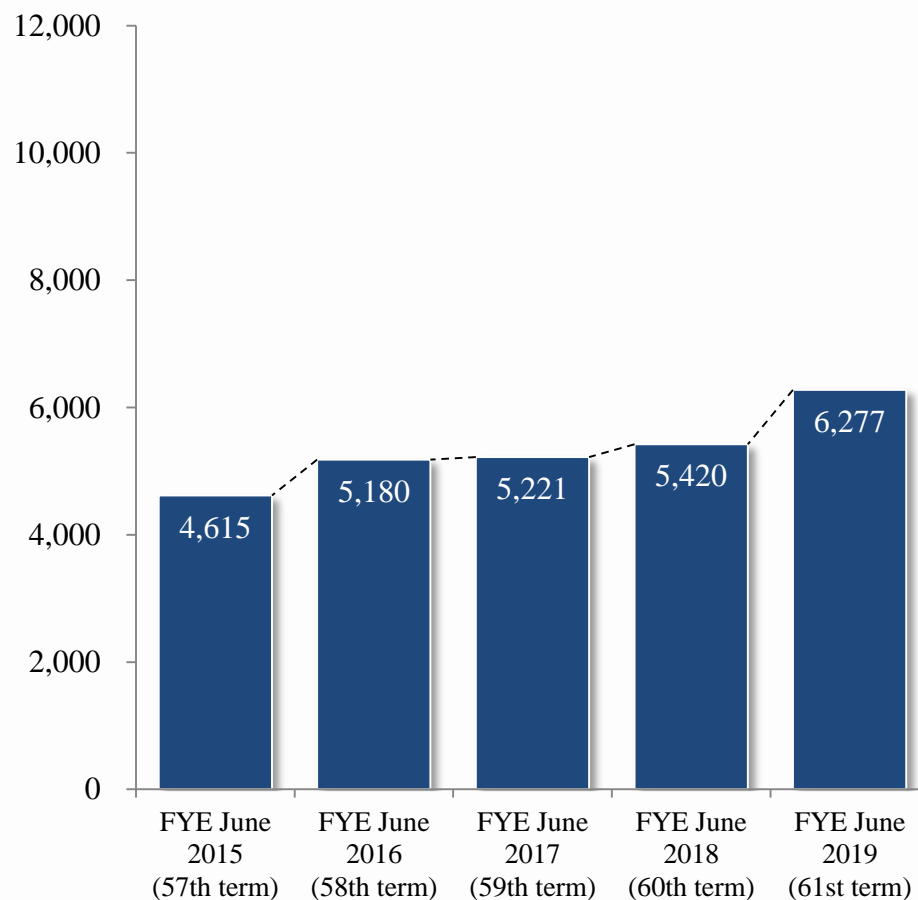
(Million yen)



Accumulated orders during FY ended June 2019 and secured a high level of backlogs.

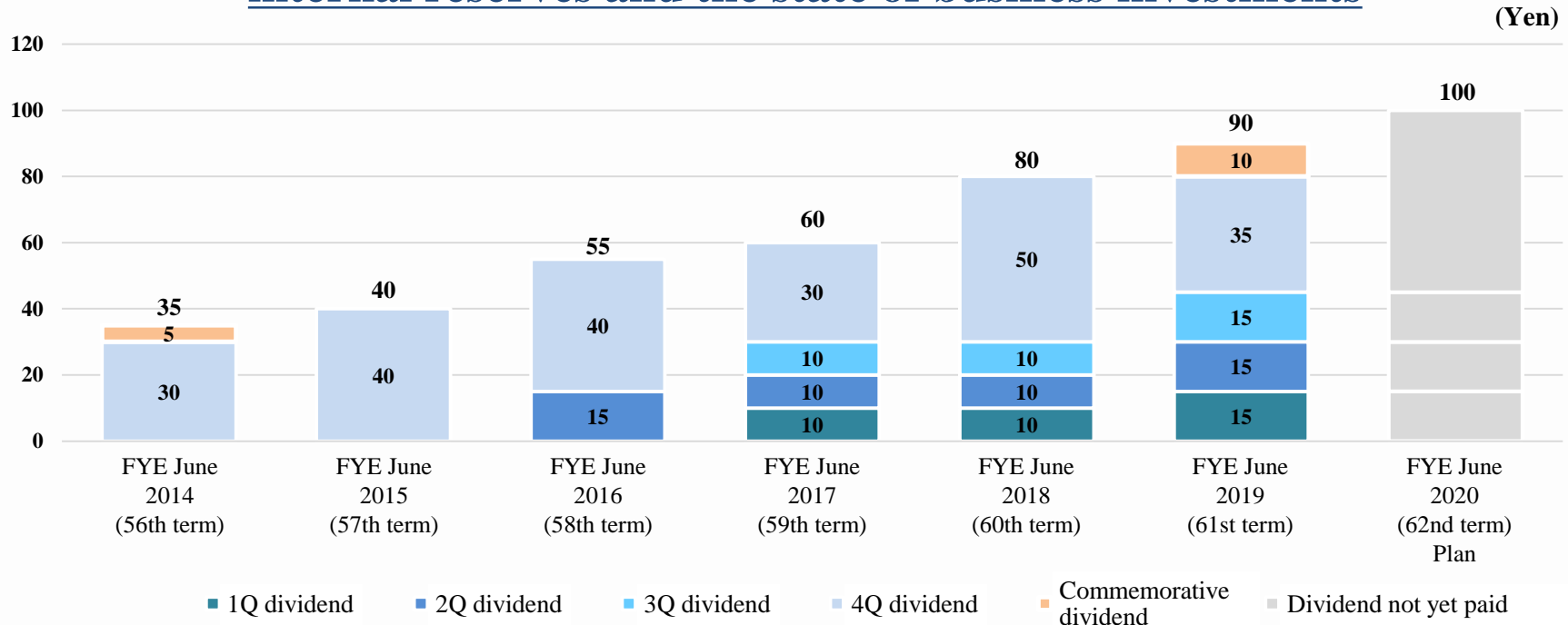


Orders (Million yen)

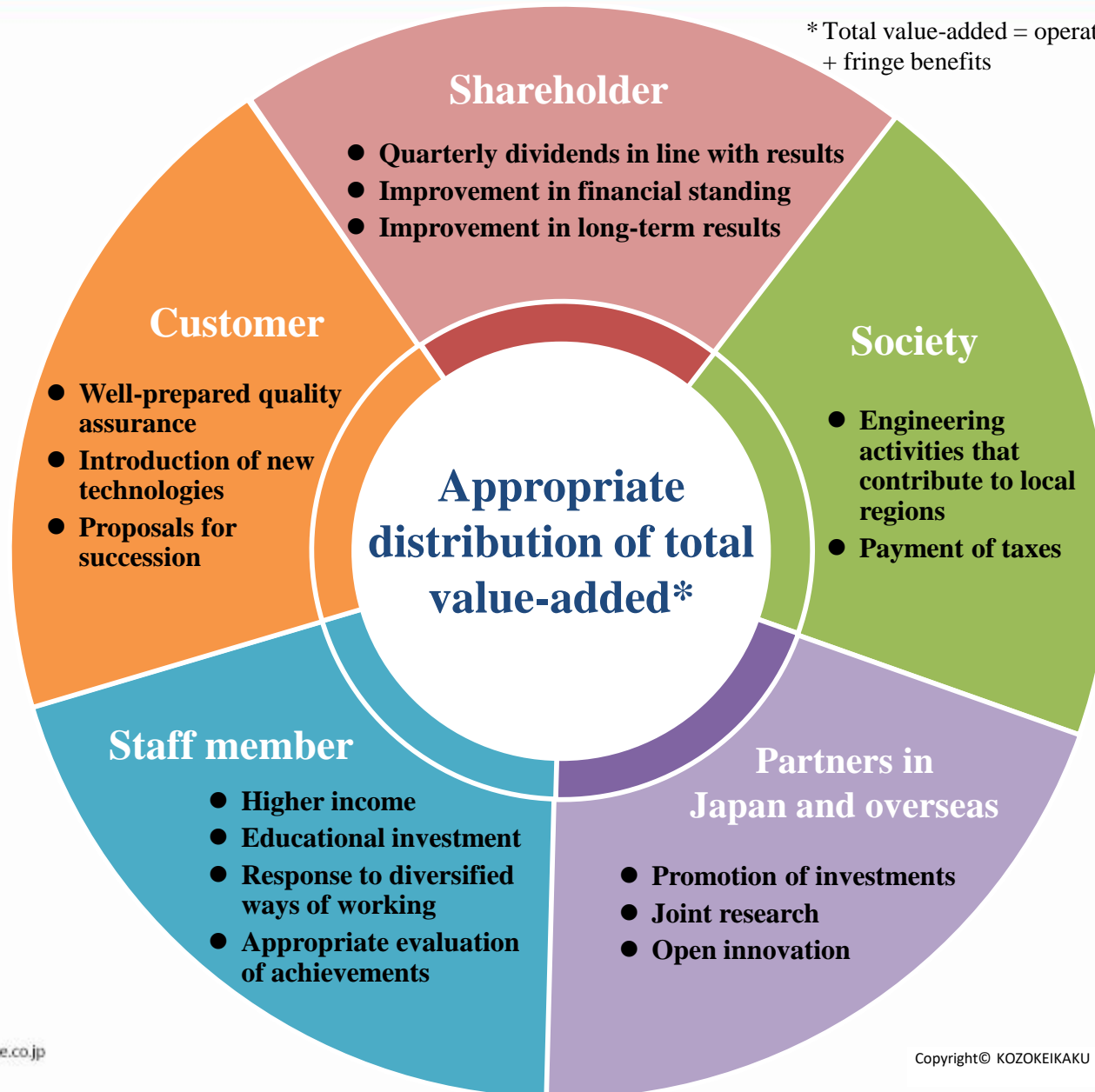


Backlog of orders (Million yen)

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



- 56th term: Special 55th commemorative dividend paid
- 58th term: Interim dividend started to be paid
- 59th term: Switched to quarterly dividends
- 61st term: Special 60th commemorative dividend paid



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Towards Sustainable Growth

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.

Focusing on continuous evolution: Innovating



Our 60-year History

1960s

1970s

1980s

1990s

2000s

2010s

Historical background

■ Skyscraper construction boom

■ Emergence of mini-computers

■ Emergence of personal computers

■ Release of Windows
■ Diffusion of the Internet and mobile phones

■ Release of iPhones and Android smartphones

■ Diffusion of cloud computing, IoT and AI technology

Business transition

1959
Established as **Kozo Sekkei Jimusho**

Launched software business

1984
Established **Kumamoto Kozo Keikaku Engineering**

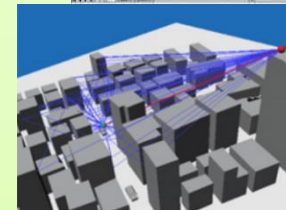
Decision-making support Consulting

Multi-agent social simulation

2011
World's first three-dimensional base-isolated house



1961
Introduced a computer ahead of other companies



2017
Wi-Fi-based Smart Locks



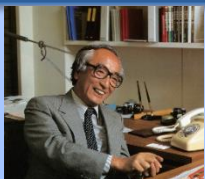
Building vibration analysis

Radio propagation analysis



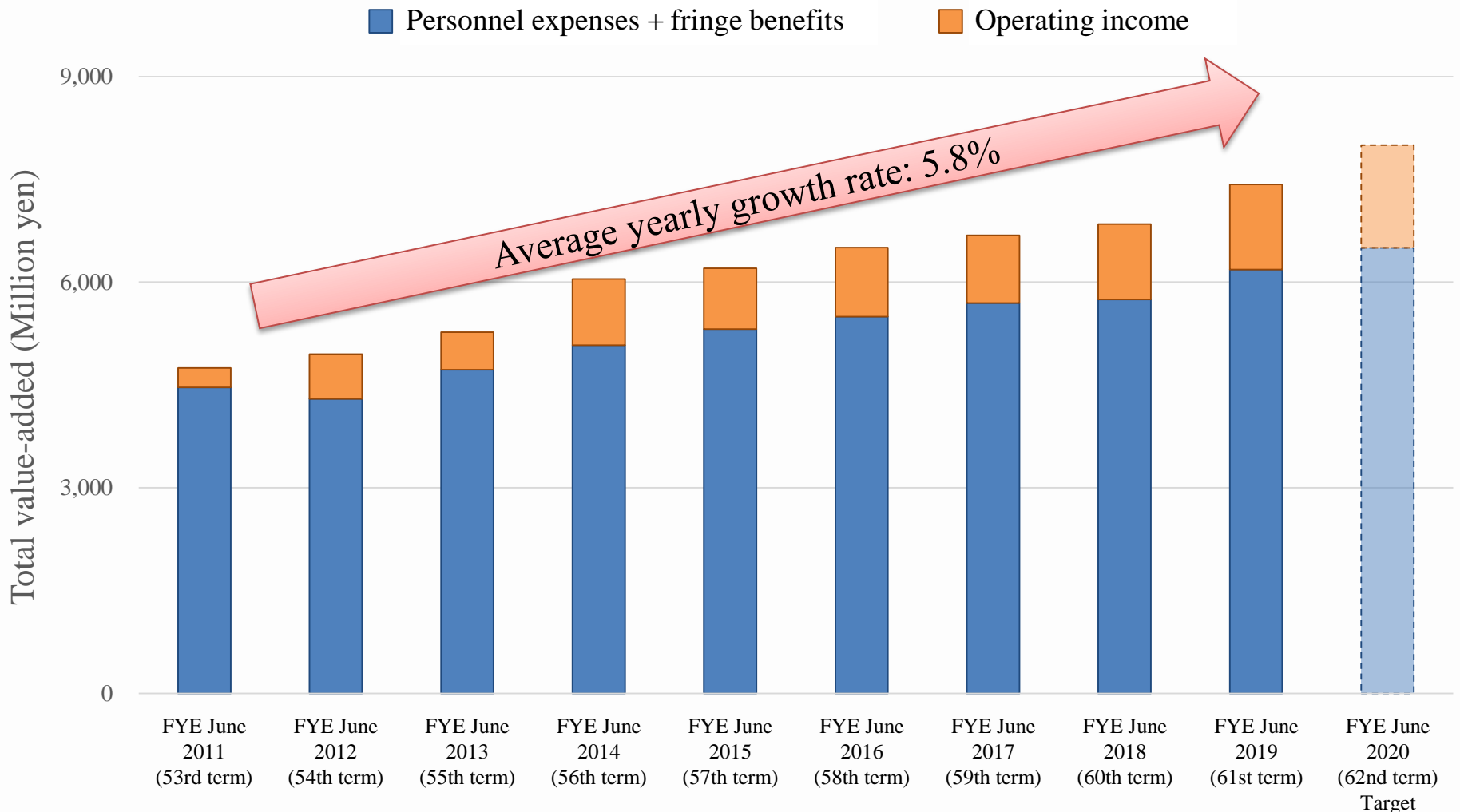
Enduring heritage

“The best luxury in the world is to do all you can do for others and enjoy secretly watching their happiness.” – Makoto Hattori, founder

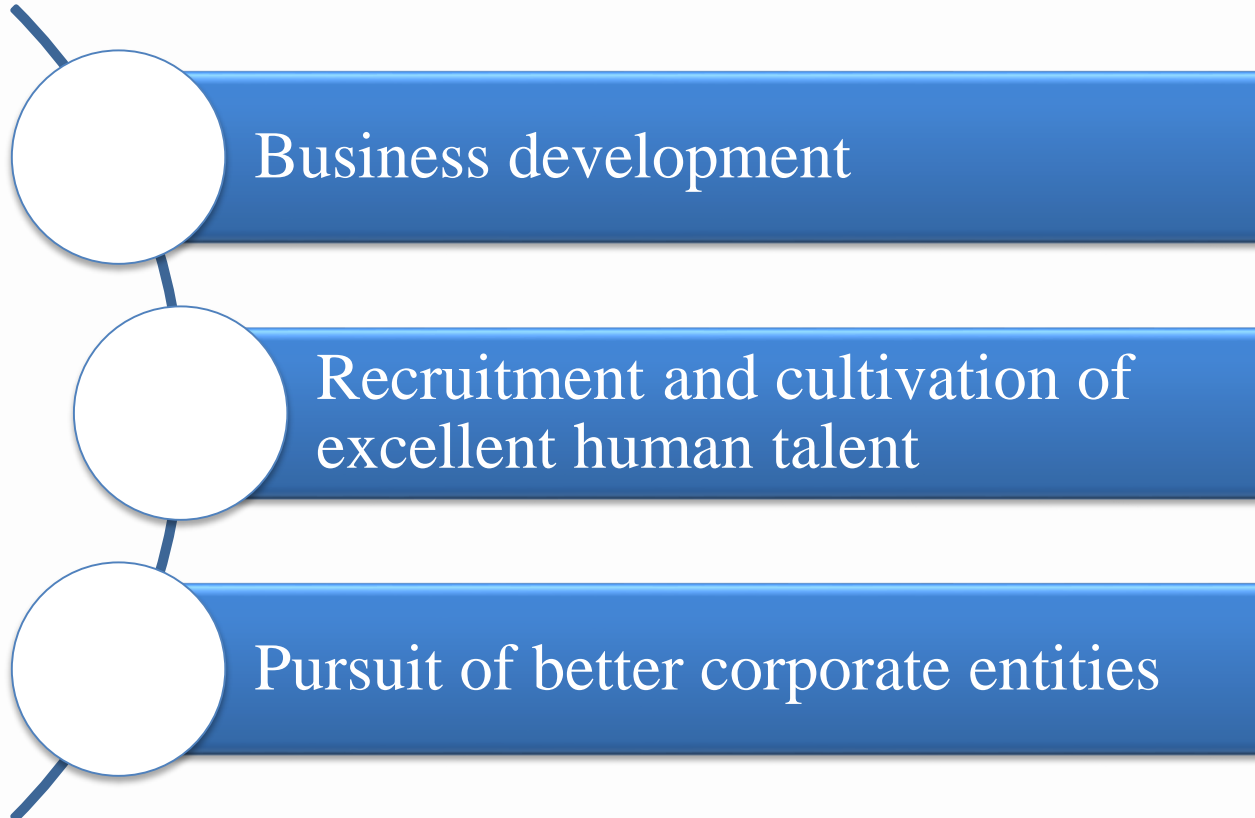


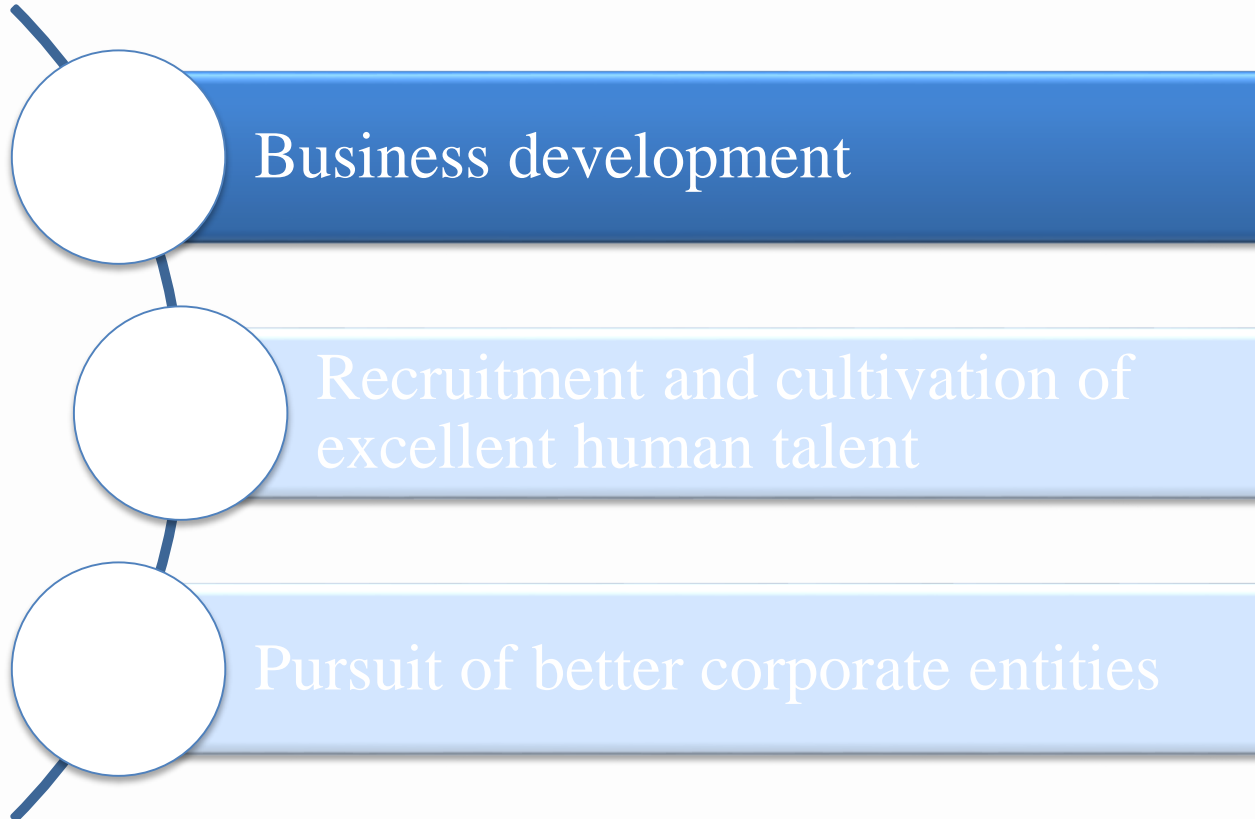
Towards Sustainable Growth

* Total value-added = operating income + personnel expenses + fringe benefits



Efforts to achieve sustainable growth





Assurance of high quality and high customer satisfaction are at the core of business profit.

- 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
- Risk management from the stage of receiving orders, such as a limited monetary amount of orders for projects with high novelty
- Identification of issues through a constant internal business audit and countermeasures

Engineering Consulting (share of sales: 75%)

Create solutions

Problems of customers

Engineering
knowledge

Building of software
Consulting reports

Use them
as a tool

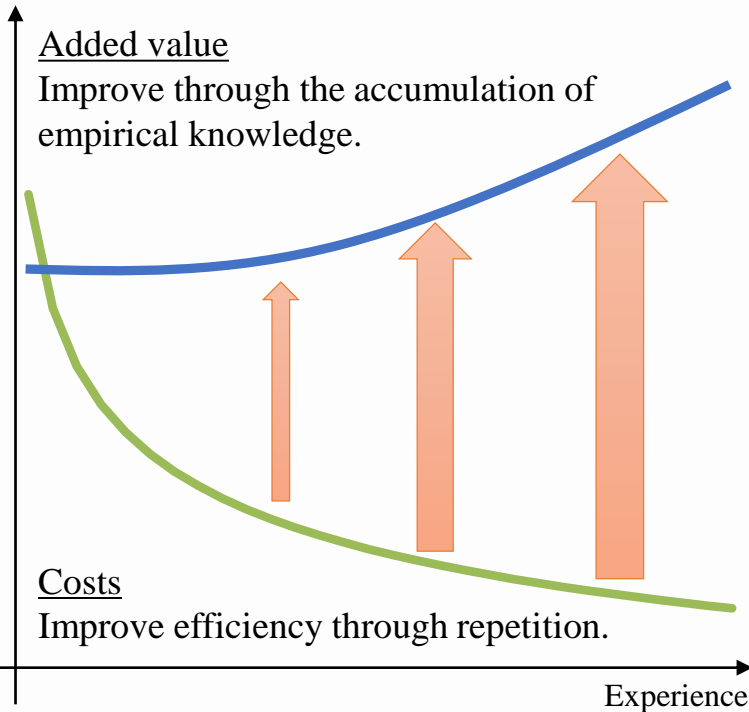
Product Service (share of sales: 25%)

Advanced technologies
in Japan and overseas

Software packages
Cloud services

Feedback

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 businesses
Creation of value through the combination of multiple existing segments

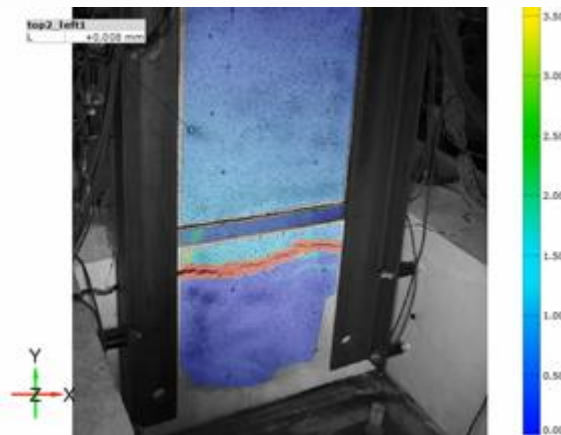
Example of activities in the DIC business

*Digital Image Correlation:

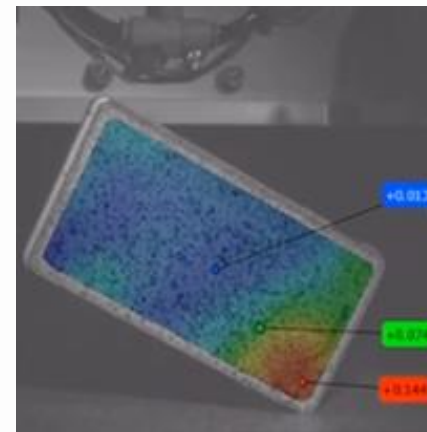
Capable of widely and three-dimensionally measuring phenomena involving large deformations, cracks or destruction that cannot be measured using a contact sensor.

DIC + engineering knowledge of structural analysis

➔ Develop a new consulting business that evaluates phenomena more accurately and provides comprehensive support, from experiments to analysis



Concrete cracks
(maximum principal strain distribution)



Dropped mobile phone
(arbitrary-point strain measurement)

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

Pursuit of high quality based on extensive expertise

- Improvement of experience not only by providing PKG but through the formation of user communities
- Increase added value and competitiveness by providing careful support

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

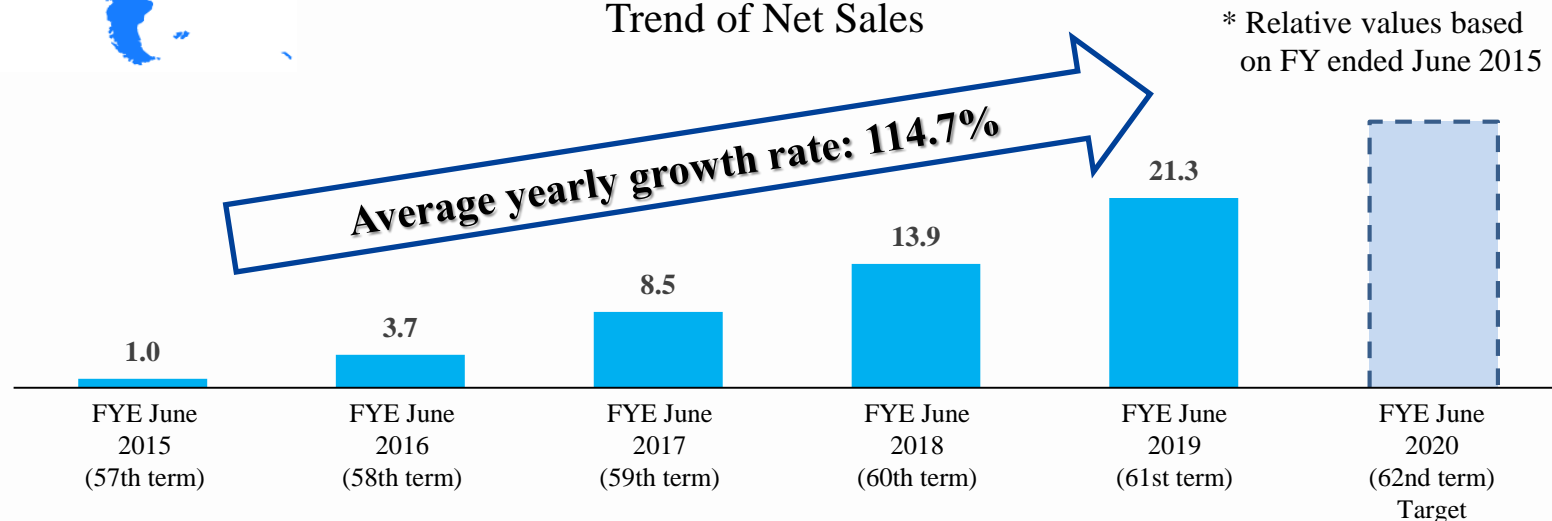


Head office: Denver, Colorado, the U.S.

- Listed shares on the New York Stock Exchange in November 2017
- Used by Uber, Airbnb, etc. with steady growth
- 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.

Trend of Net Sales



- LockState, Inc.

- Provides cloud services for access control at facilities centered on RemoteLOCK.
- Designated as a global partner of Airbnb, a leading private residence service, and provides services to Love's, a gas station provider, 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.



- NavVis GmbH

- Provides indoor 3D digitalization services using university-launched technologies
- Expanded into 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 euro in December 2018

NAVVIS

Head office: Munich, Germany



Universalization of new access control (2022-)

- Development of ecosystem of access control
 - Service menu through partnerships
 - Business development from accumulated data
- Business development in overseas markets

Present: diversification of markets and applications as well as business expansion (2019-2021)

■ Three areas of expansion

Market

Take on the challenge of new applications and customer segments (data servers, base stations, etc.)

Technology

Alliance with Japanese lock manufacturers and consideration of devices other than locks

Business model

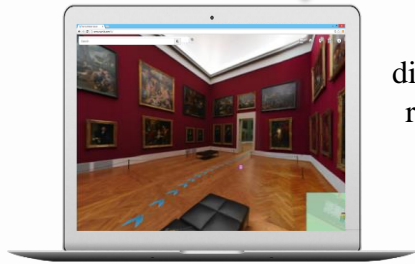
Shift to a subscription-based model

Business startup phase (2017-2018)

- Launch of our first full-fledged IoT business
- Development of marketing and relationships particularly in promising lodging market

Issues in the indoor environment and solutions using NAVVIS

Accurate information does not necessarily exist.



Develop accurate digital data with laser ranging and a high-resolution camera

Indoor information cannot be acquired and shared efficiently.



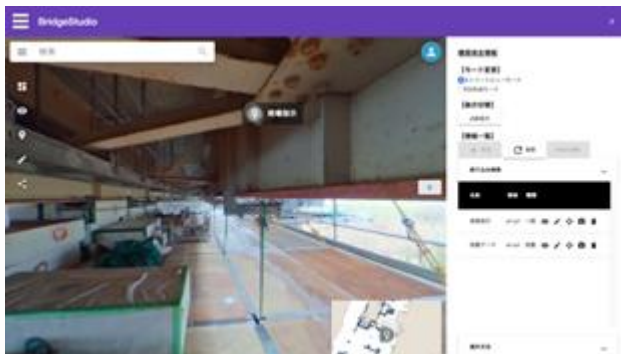
Accumulate data of a large facility in several days and share via a web application

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



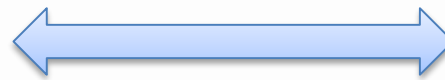
Intuitive navigation that operates on smartphone

Example of application: Bridge Studio, a bridge preservation solution



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

Architects can check worksite information from the office



On-site managers can check the latest design information at the worksite



Prometech Software, Inc.

- Established as a University of Tokyo venture in 2004
 - Applies the particle-based simulation of Dr. Noboru Koshizuka, a professor at the School of Engineering
- Concluded a business alliance in 2008, which shifted to a capital and business alliance in 2012
 - Sold Particleworks developed by Prometech Software
- We provided management personnel (directors, etc.)
 - Developed a relationship of mutual development because of high compatibility with our business for the manufacturing industry

PROMETECH.



**Business
expansion**



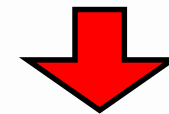
**Securing of
profits**

**Reinvestment
of profits**

Investments in partners in
Japan and overseas



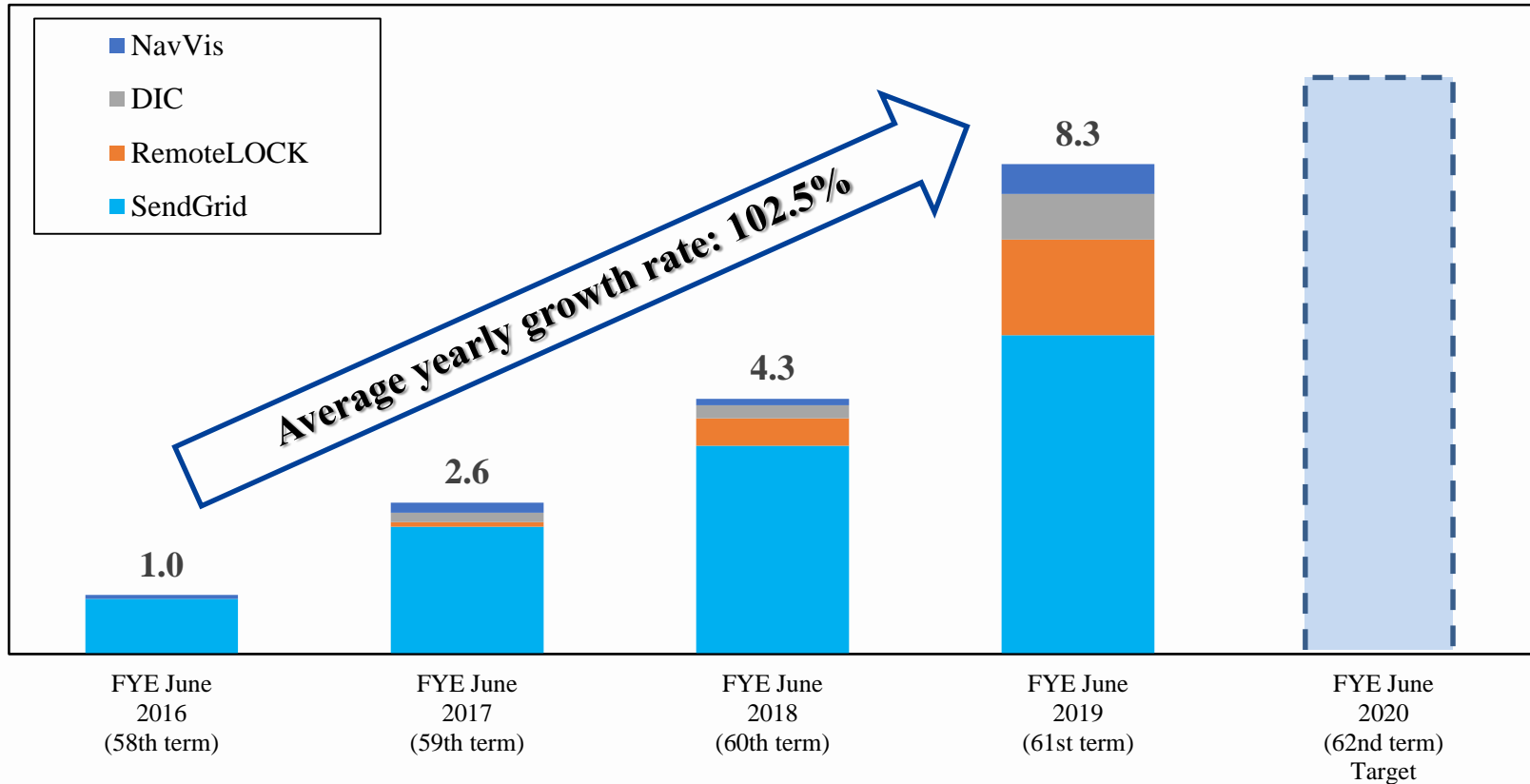
Investments in in-house
business development



**Excavation of new
business themes**

Trend of net sales

* Relative values based on
FY ended June 2016



- 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.
- DIC, the new consulting business, is also growing steadily.



Recruiting Excellent Human Resources, Irrespective of Nationality and Field

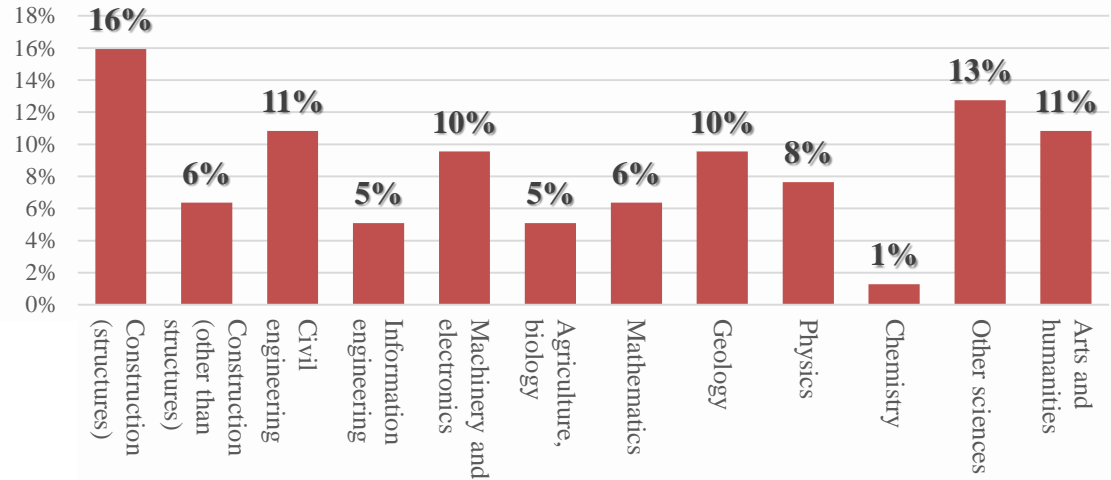
Total new employees
(including prospective employees)
in the last five years

157

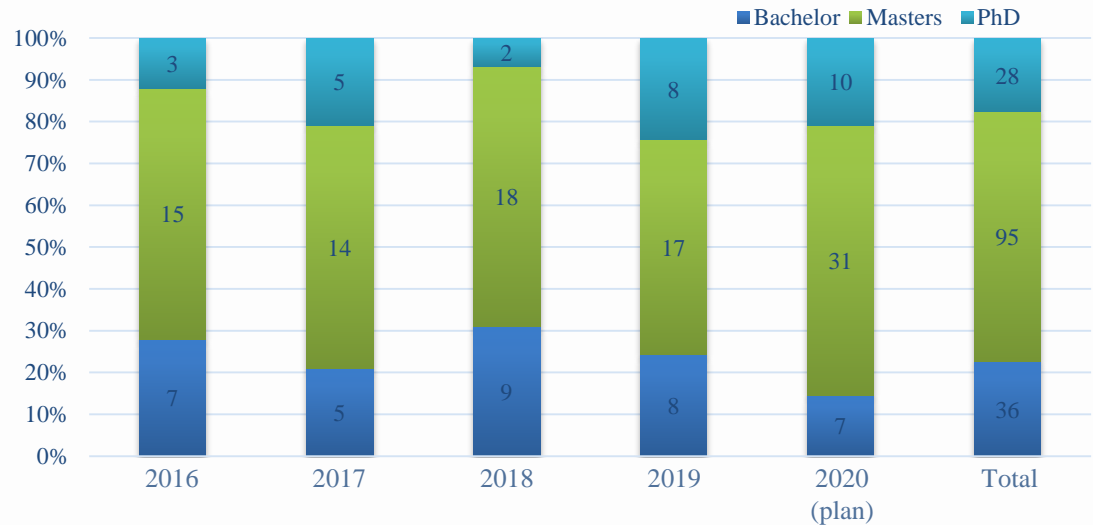
Universities they graduated from	Number of staff members	%
University of Tokyo	20	13%
Tokyo Institute of Technology	11	7%
Kyoto University	10	6%
University of Tsukuba	9	6%
(Singapore) Nanyang Technological University	9	6%
Chiba University	8	5%
(Singapore) National University of Singapore	6	4%
Kumamoto 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

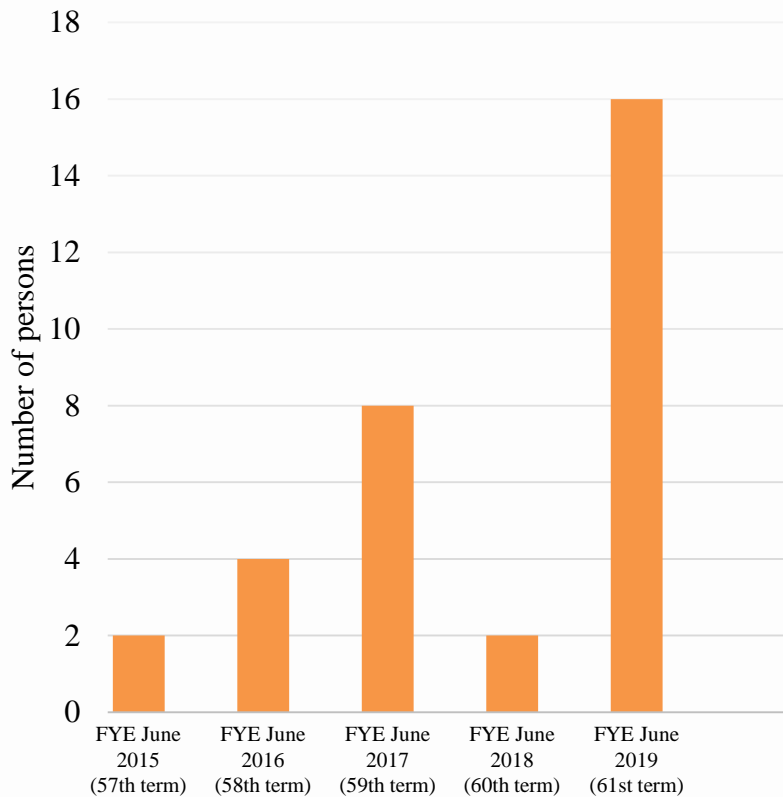


Breakdown by academic degree

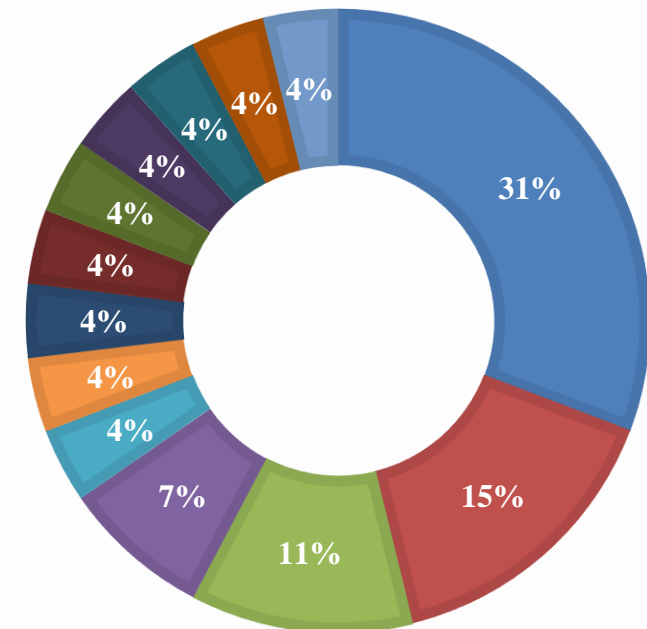


Recruited human resources with diverse backgrounds as work-ready personnel

Personnel recruited

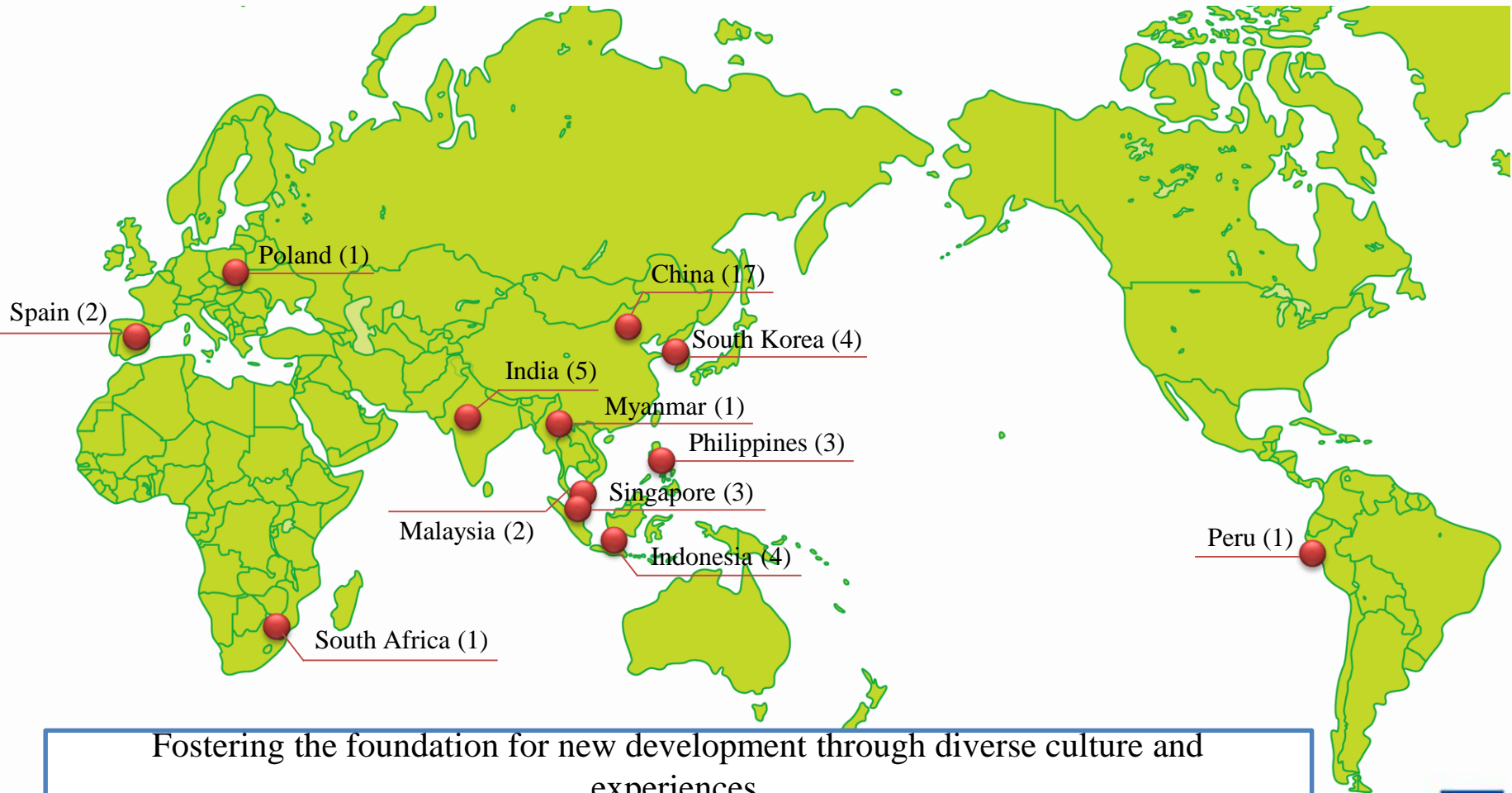


- Telecommunications
- Manufacturing
- Plumbing
- Real estate
- National public service
- Transportation
- Technical service
- Retail
- Education
- Construction
- Specialized services
- Financial services
- Medical services



Participation of Diverse Human Resources from Around the World

Began overseas recruitment in earnest in 2014, and 44 foreign national staff members account for 7.3% of all the staff members as of the end of June 2019.



Use of IT allows for **cooperation with regional human resources**

Progress Solution Co., Ltd.
Partner **based in Kumamoto**

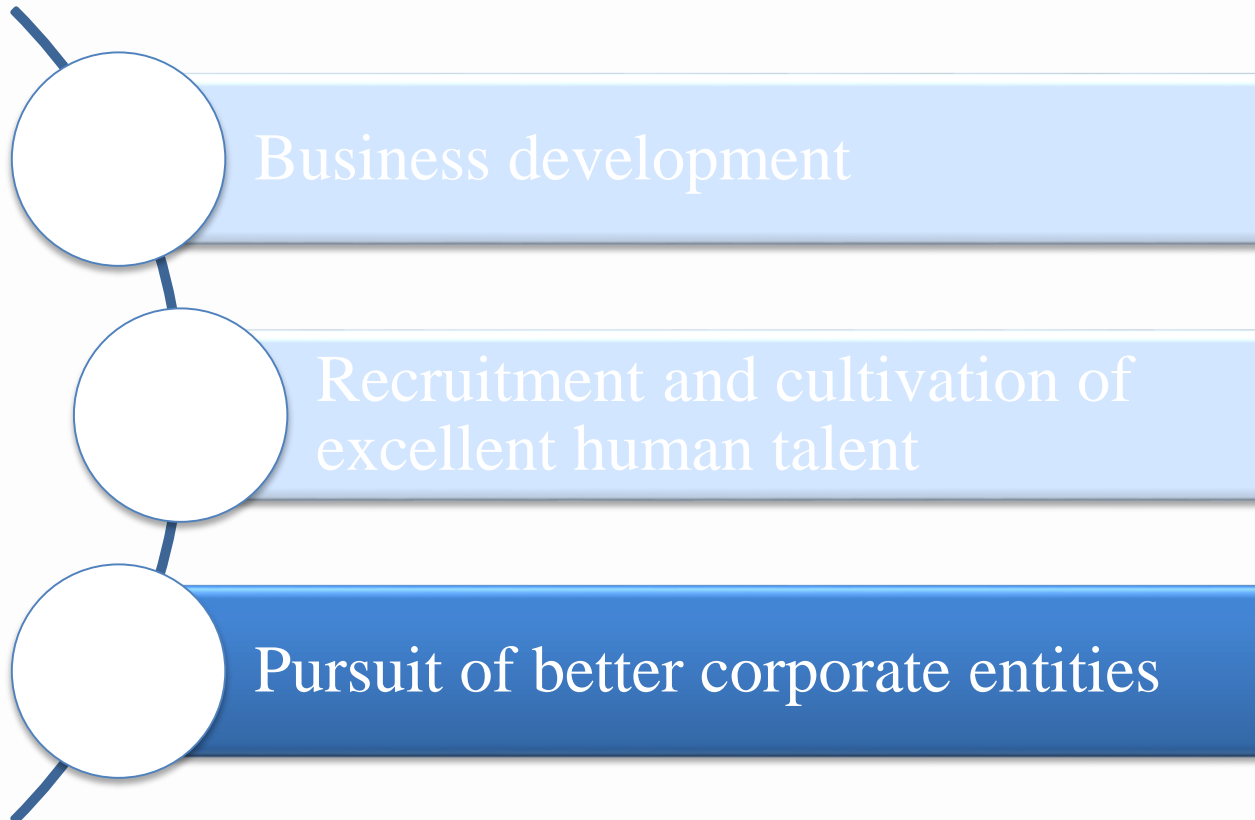


Partnership

- Engineer consulting (2018-)
 - Planning the arrangement of containers loaded on cargo ships
 - System development testing
- Product service (2018-)
 - Support for customer service, etc.

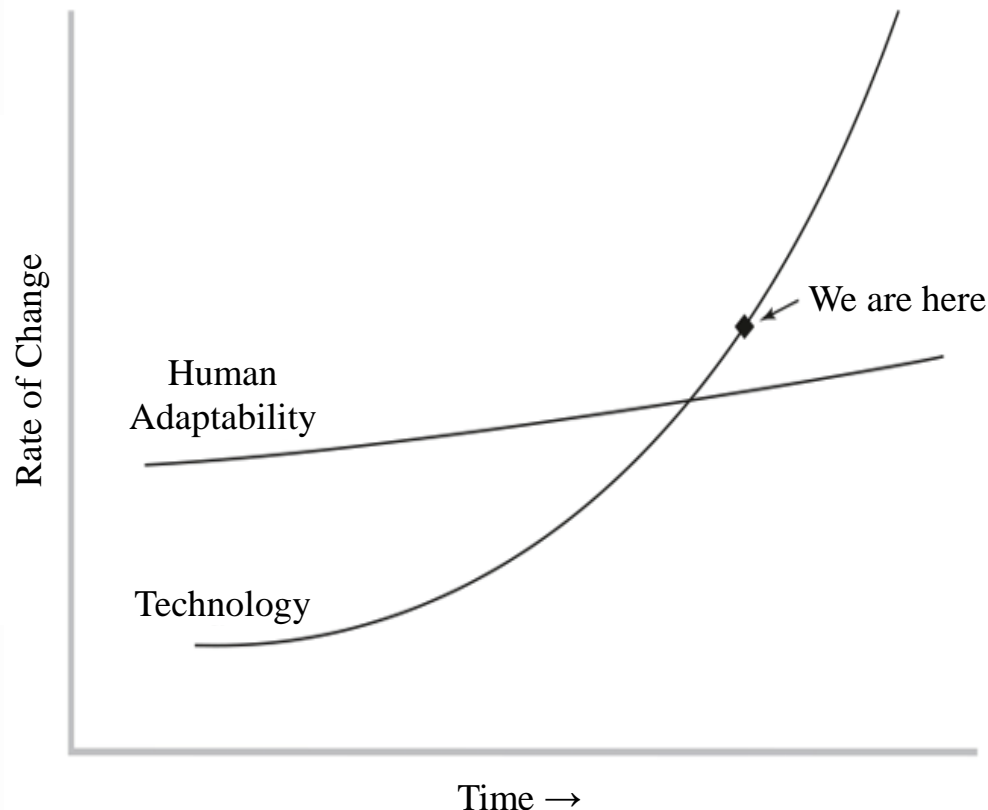


Expansion of cooperation as reliable partners



Engineering consulting

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



- Conventional heavy industries (20th century)
 - Ownership (shareholders): corporation
 - Management: management team and employees
 - Maximization of business profit

- Kozo Keikaku Engineering Inc.
 - Ownership (shareholders): individuals
 - Management: employee representatives
 - Appropriate compensation and social contribution of outcomes

- Efforts for social missions in addition to ensuring business revenues
- Pioneering new workstyles
- Mission as a Japanese knowledge-intensive company of the 21st century

KKE Vision 2019

Date | Thursday, October 31
Venue | Toranomom Hills Forum

Linking the digital and physical worlds

Linking the manufacturing workplace and digitization technology

Dr. Takahiro Fujimoto

Professor at the Graduate School of the University of Tokyo
Executive Director of Manufacturing Management Research Center at the University of Tokyo



Artificial intelligence today and its business potential

Dr. Seiji Yamada

Professor at National Institute of Informatics
Professor at the Graduate University for Advanced Studies
Visiting Professor at Tokyo Institute of Technology

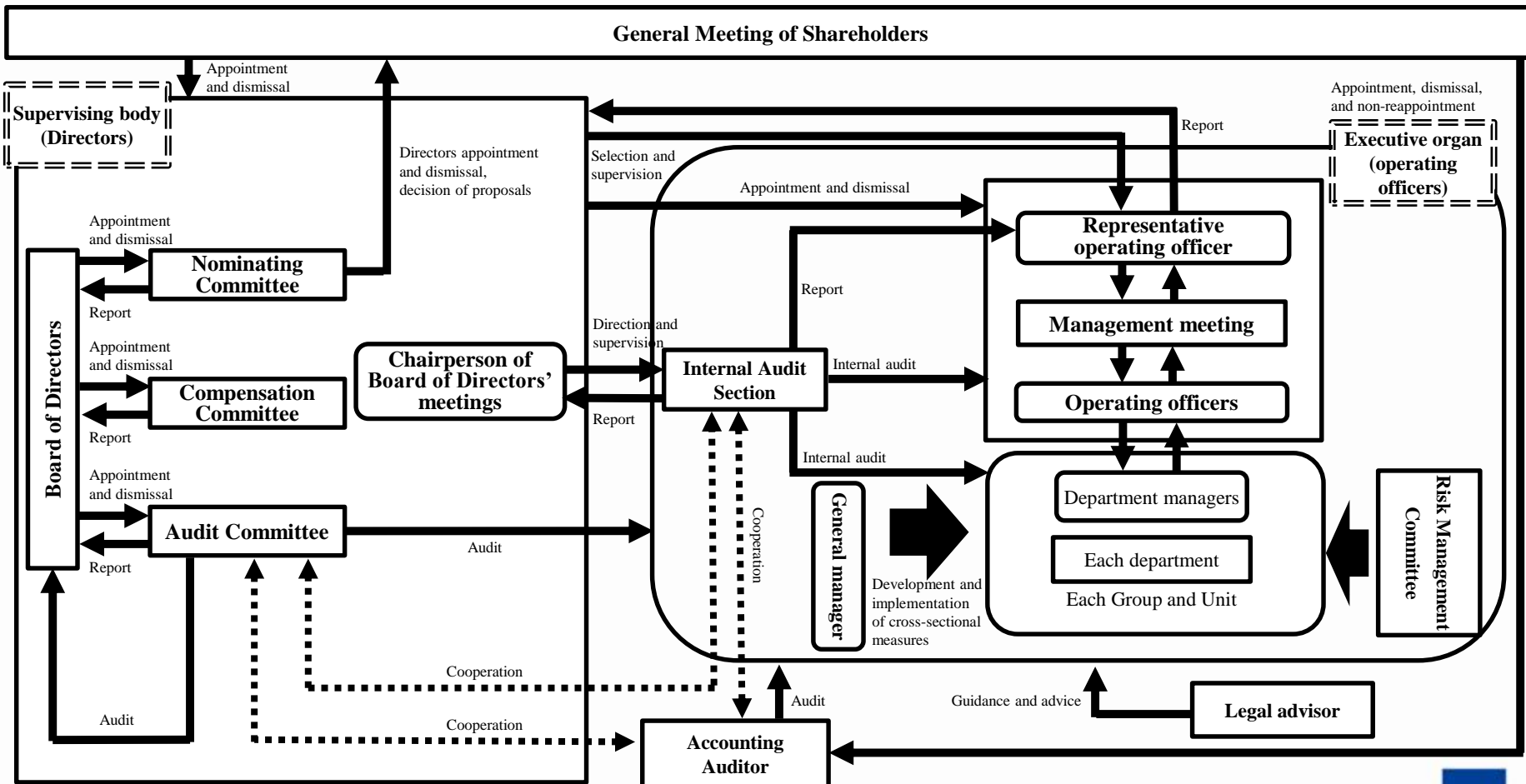


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New Governance System

Shift to a Company with a Nominating Committee

- Improve the function of management and supervision through the separation of operation and supervision and flexible performance of duties
- Increase transparency and objectivity of management by creating a committee in which majority members are outside directors
- Establish a governance system that can easily gain common understanding internationally



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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