



# FYE June 2017 Financial Results

August 29, 2017

- 1. Overview of Financial Results**
- 2. Results by Segment**
- 3. Forecast for Fiscal Year Ending June 30, 2018 (60th term)**
- 4. Management Policies for the Medium and Long Term**

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 2016 (58th term)	FYE June 2017 (59th term)		Change from previous FY	Rate of change from previous FY
		Plan	Results		
Net sales	10,947	11,500	11,852	905	8.3%
Cost of sales	5,568	–	6,349	780	14.0%
Gross profit (Gross profit rate)	5,378 (49.1%)	–	5,502 (46.4%)	124	2.3%
SGA expenses	4,370	–	4,512	141	3.2%
Operating income (Operating income rate)	1,007 (9.2%)	1,100	990 (8.4%)	-17	-1.7%
Non-operating profit & loss	-64	–	-85	-21	–
Ordinary income (Ordinary income rate)	943 (8.6%)	1,040	905 (7.6%)	-38	-4.0%
Extraordinary profit & loss	-1	–	-12	-11	–
Net income before taxes	941	–	892	-49	-5.2%
Income taxes	270	–	276	6	2.3%
Net income (Net income rate)	671 (6.1%)	690	615 (5.2%)	-55	-8.3%
Dividends	Interim: 15 yen Year-end: 40 yen	Year-end: 60 yen	1Q: 10 yen 2Q: 10 yen 3Q: 10 yen Interim: 30 yen		

## [Net sales]

Net sales were up 8.3% year on year to 11,852 million yen.

Sales increased in both the engineering consulting and product service segments, up 7.3% to 9,419 million yen, and 12.3% to 2,433 million yen, respectively.

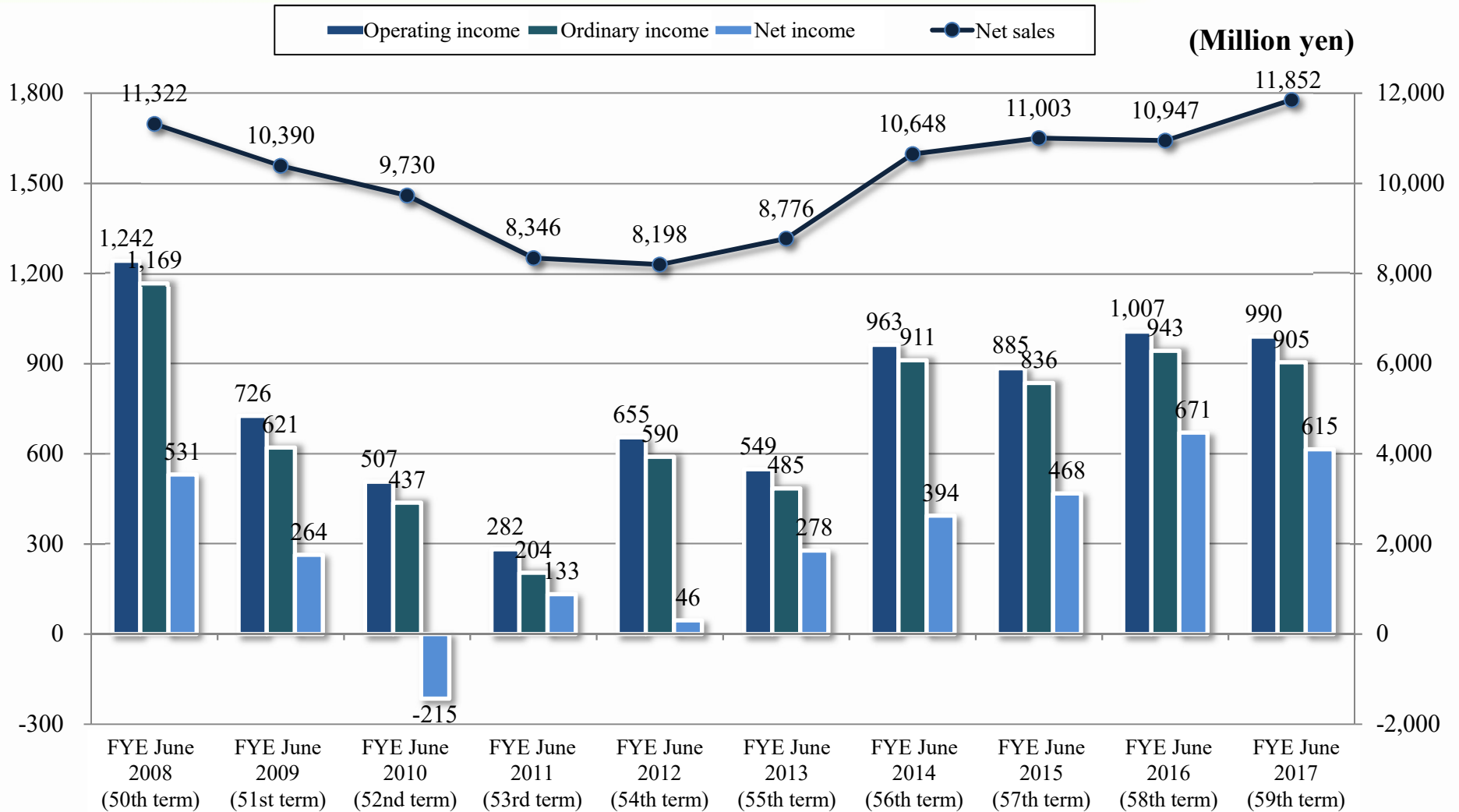
## [Income]

Compared to the previous fiscal year, revenue was up but income went down, due to the impact of large-scale unprofitable projects.

## [Dividends]

Dividends have been switched to quarterly payments starting from the 59<sup>th</sup> term. The year-end dividend was 60 yen, an increase of 5 yen on the previous fiscal year.

# Trends in Results



# Highlights of Balance Sheet

(Million yen)

	FYE June 2016 (58th term)	FYE June 2017 (59th term)	Change		FYE June 2016 (58th term)	FYE June 2017 (59th term)	Change
<b>Current assets</b>	3,532	3,177	-355	<b>Total liabilities</b>	7,321	6,819	-501
Cash and deposits	385	411	25	<b>Current liabilities</b>	3,713	3,763	49
Accounts receivable-trade	1,402	1,388	-13	Short-term borrowings*	1,193	1,045	-147
Work in process	990	549	-440	Accounts payable	292	489	197
<b>Fixed assets</b>	6,927	7,305	377	<b>Long-term liabilities</b>	3,607	3,056	-551
Property, plant and equipment	5,077	5,156	78	Long-term borrowings	1,740	1,095	-645
Intangible assets	313	455	141	<b>Total net assets</b>	3,139	3,662	523
Investments and other assets	1,536	1,692	156	Retained earnings	3,078	3,371	292
<b>Total assets</b>	10,460	10,482	21	<b>Total liabilities and net assets</b>	10,460	10,482	21

\* Long-term borrowings due within one year are included in short-term borrowings

<b>Capital Ratio</b>	FYE June 2016 (58th term)	30.0%	FYE June 2017 (59th term)	34.9%
<b>Return on Equity (ROE)</b>	FYE June 2016 (58th term)	21.3%	FYE June 2017 (59th term)	18.1%

## Change in assets (21)

- **Decrease in current assets (-355)**
  - Increase in cash and deposits (25)
  - Decrease in accounts receivable (-13)
  - Decrease in work in process (-440)
- **Increase in fixed assets (377)**
  - Increase in intangible assets (141)
  - Increase in investments and other assets (156)

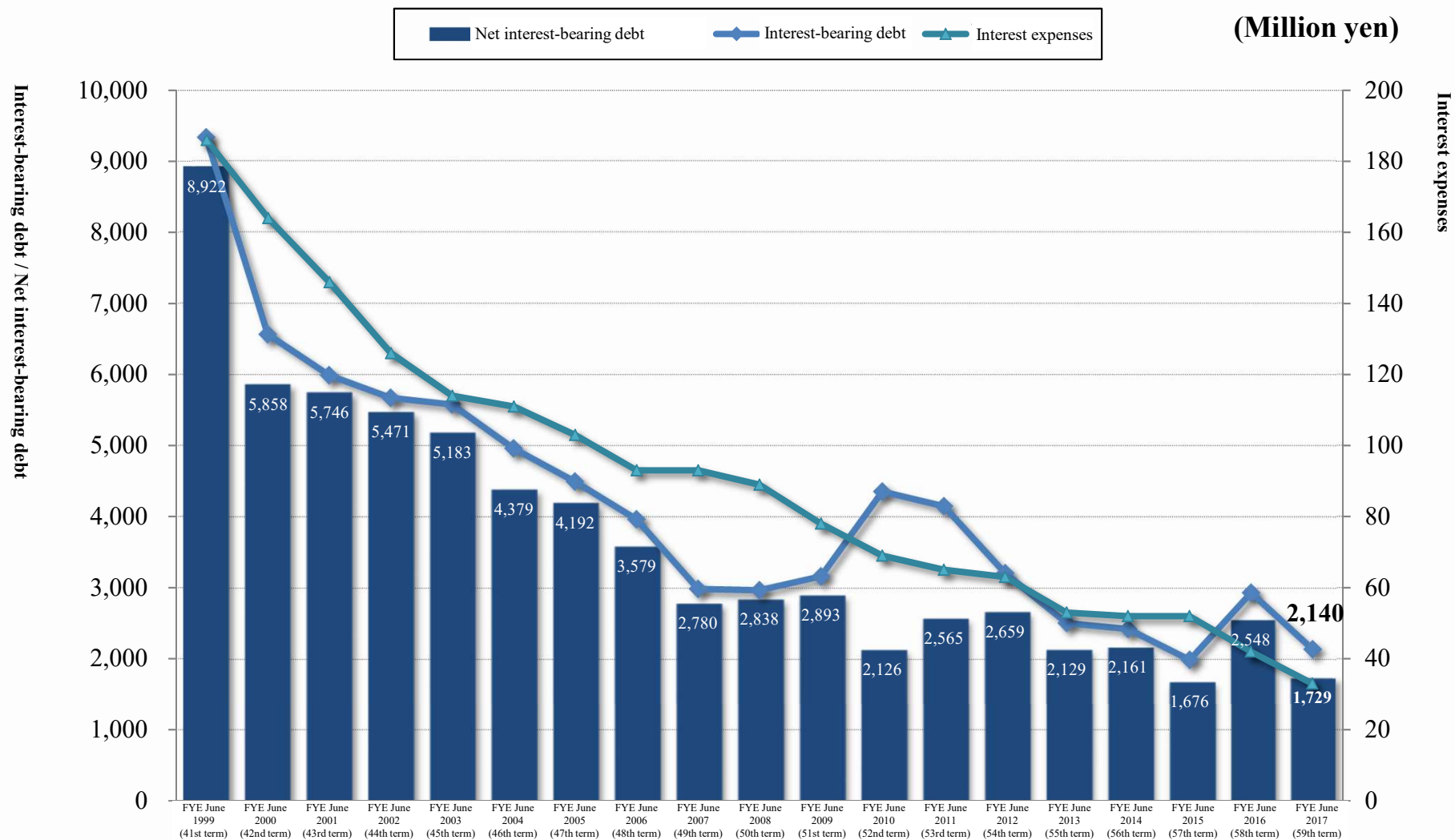
## Change in liabilities (-501)

- **Increase in current liabilities (49)**
  - Decrease in short-term borrowings (-147)
  - Increase in accounts payable (197)
- **Decrease in long-term liabilities (-551)**
  - Decrease in long-term borrowings (-645)

## Change in net assets (523)

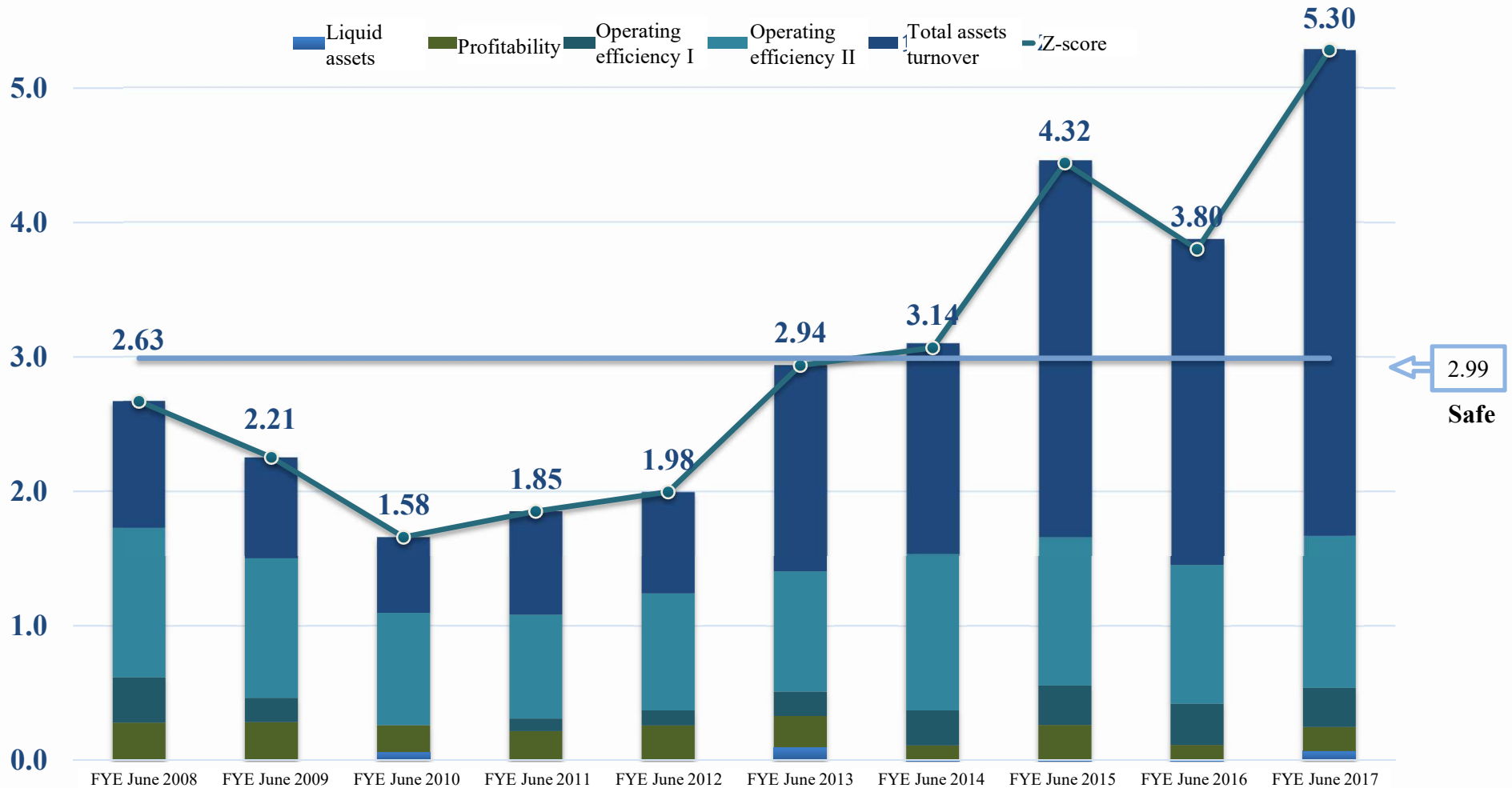
- **Increase in retained earnings (292)**
- **Decrease in treasury stocks (213)**

# Net Interest-Bearing Debt



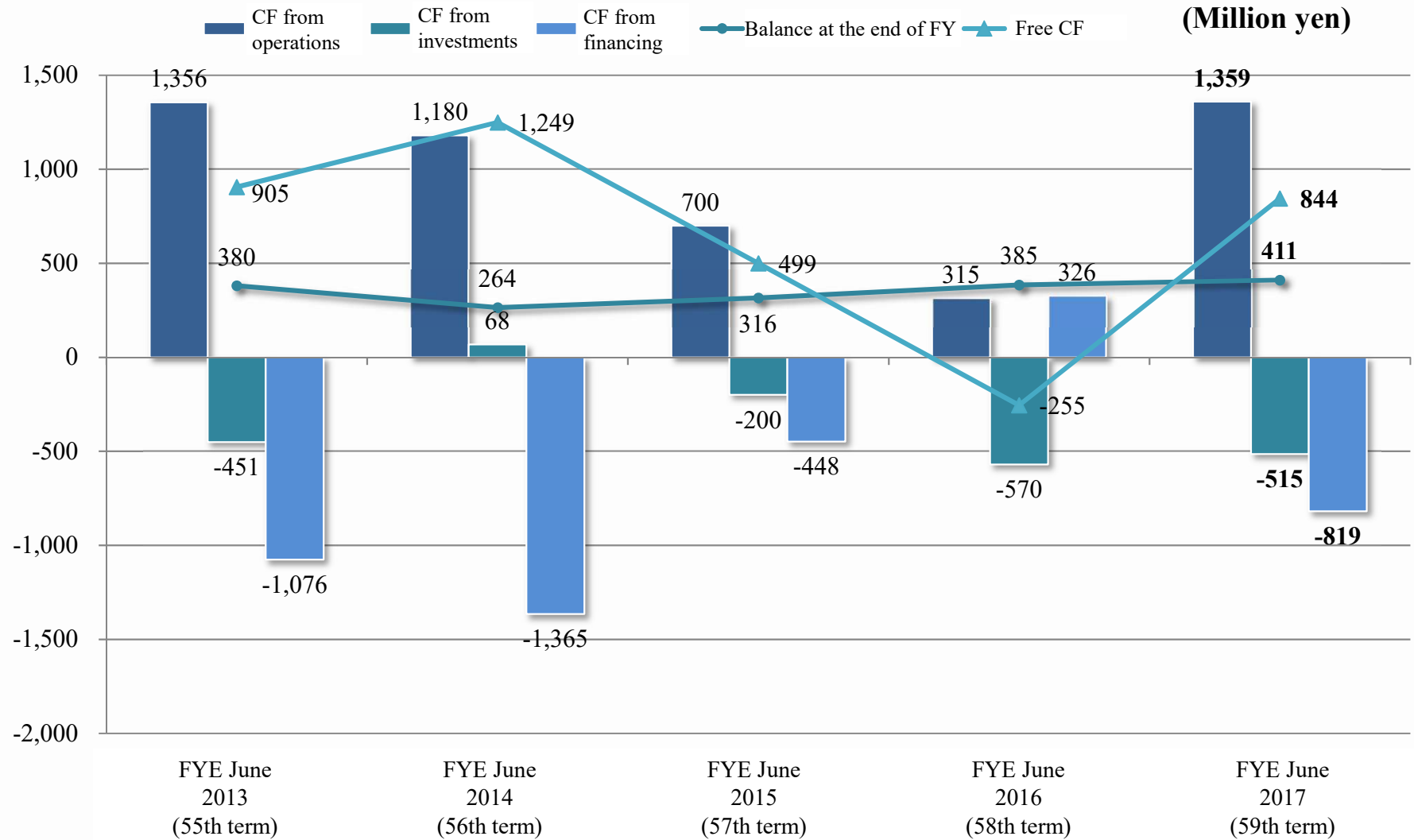
# Z-Score

## Trends in Z-Score (FYE June 2008 to FYE June 2017)





# Cash Flows



# Cash Flow Statement Highlights

(Million yen)

	FYE June 2016 (58th term)	FYE June 2017 (59th term)	Change
Balance at the beginning of FY	316	385	69
CF from operations	315	1,359	1,044
CF from investments	-570	-515	55
Free CF	-255	844	1,099
CF from financing	326	-819	-1,145
Balance at the end of FY	385	411	25

## CF highlights for operations

Net income before taxes	892
Decrease in inventories	416
Decrease in work in process	
Corporation and other taxes paid	-249

## CF highlights for investments

Purchase of investment securities	-69	Acquisition from Mobile Internet Capital, Keihanna ATR Fund
Purchase of investments in capital of subsidiaries and associates	-59	Additional investment in Rocky Mountain Ventures, etc.
Purchase of intangible assets	-261	Distribution rights to LockState, etc.

## CF highlights for financing

Net decrease in short-term borrowings	-430	Working capital
Net decrease in long-term borrowings	-363	Net repayments
Dividend payments	-329	Quarterly dividends

# 2

## Results by Segment

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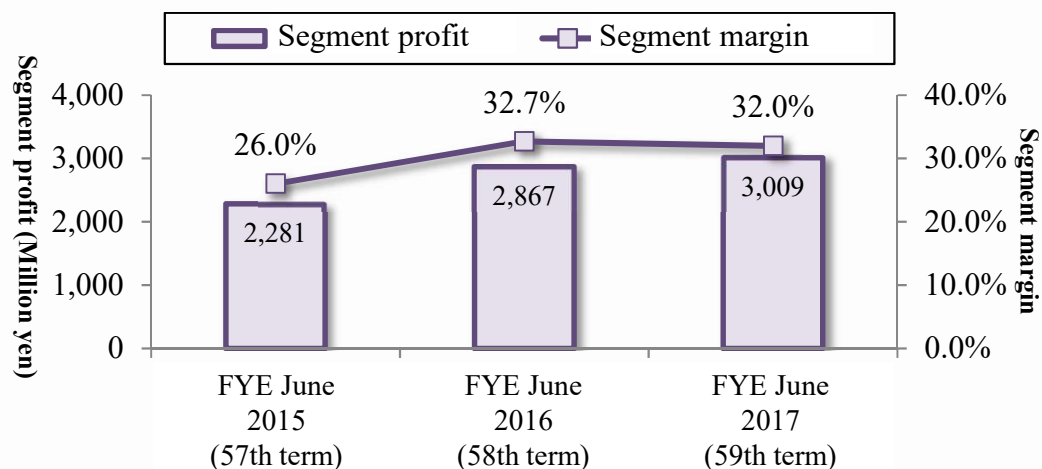
(Million yen)

	FYE June 2015 (57th term)	FYE June 2016 (58th term)	FYE June 2017 (59th term)	Year-on-year
Orders	9,367	9,255	<b>9,434</b>	<b>179 (1.9%)</b>
Net sales	8,768	8,780	<b>9,419</b>	<b>638 (7.3%)</b>
Segment profit (margin)	2,281 (26.0%)	2,867 (32.7%)	<b>3,009 (32.0%)</b>	<b>142 (5.0%)</b>
Backlog of orders	3,738	4,212	<b>4,227</b>	<b>15 (0.4%)</b>

- ◆ Consultation on disaster risk reduction, earthquake resistance, and environment assessment analysis
- ◆ Development of structural design supporting system
- ◆ Structural design of buildings
- ◆ Mobile communication and mobile network communication systems
- ◆ Sales and design support systems for the manufacturing industry
- ◆ Marketing consulting
- ◆ Optimization and logistics systems

## Analysis of results

- Strong results in systems development, structural design consulting, and analysis for disaster prevention and risk reduction due to leading house manufacturing companies that invested to differentiate its service.
- Despite large-scale unprofitable projects affecting the segment margin, profit remained healthy thanks to other highly profitable projects.

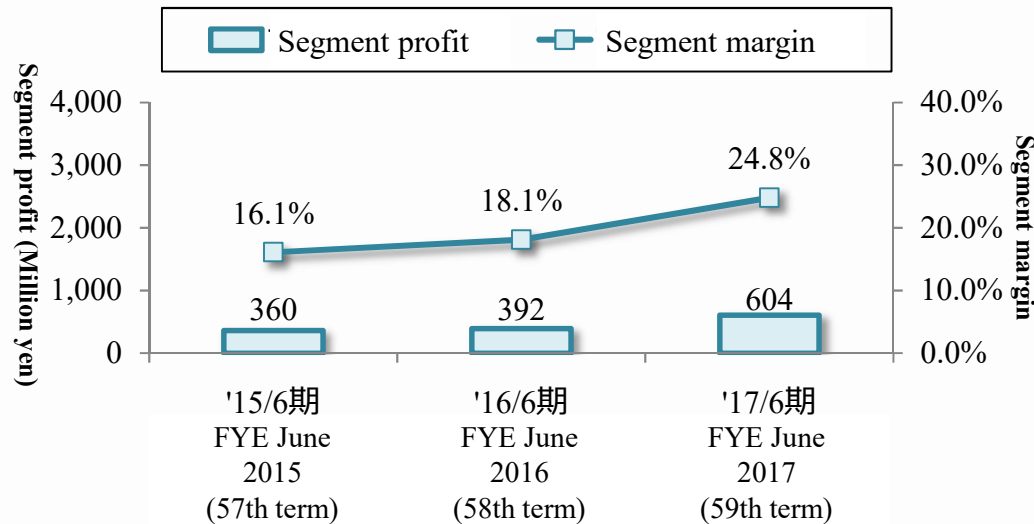


# Product Service

(Million yen)

	FYE June 2015 (57th term)	FYE June 2016 (58th term)	FYE June 2017 (59th term)	Year-on-year
Orders	2,285	2,257	2,458	201 (8.9%)
Net sales	2,234	2,166	2,433	266 (12.3%)
Segment profit (margin)	360 (16.1%)	392 (18.1%)	604 (24.8%)	211 (54.0%)
Backlog of orders	877	968	993	25 (2.6%)

- ◆ Structural analysis and seismic performance analysis software
- ◆ Network simulation software
- ◆ Radio wave propagation and electromagnetic wave analysis software
- ◆ CAE software for designers in the manufacturing industry
- ◆ Software for supporting marketing and decision-making
- ◆ Statistical analysis software
- ◆ Image processing software
- ◆ Cloud based service
- ◆ Consulting and education training



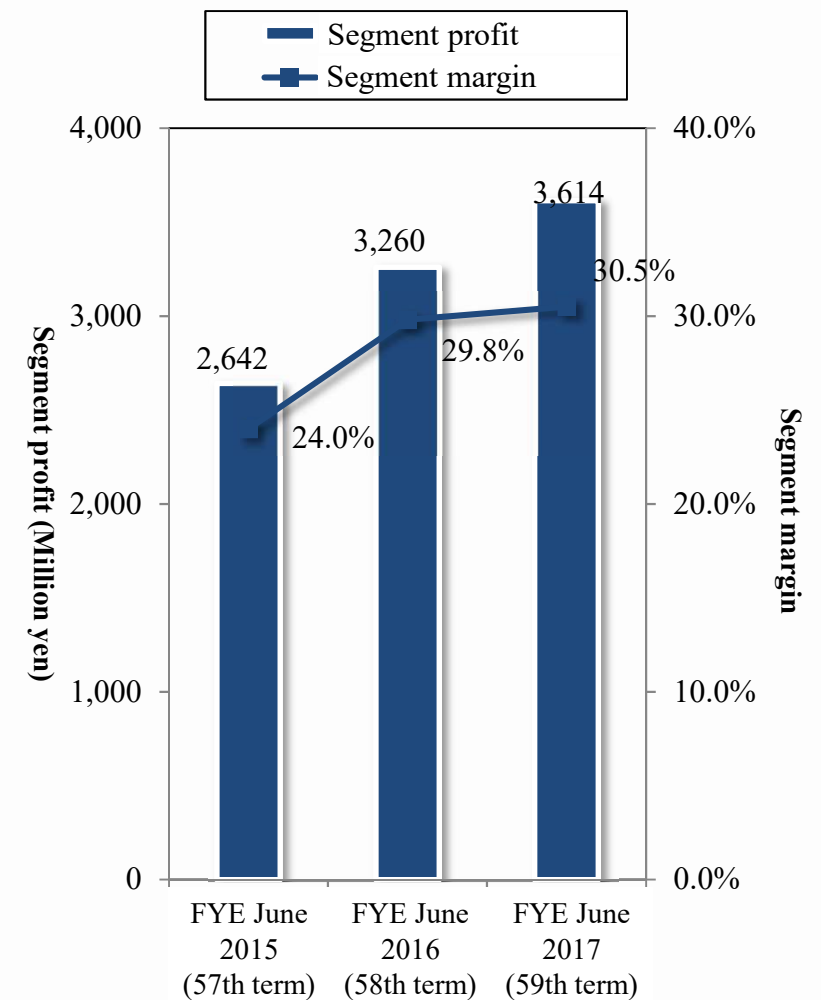
## Analysis of results

- Sales remained healthy for products such as CAE software for designers, computational fluid dynamic software, cloud-based email distribution services, and statistical analysis software.

# Total of the Business Segments

(Million yen)

	FYE June 2015 (57th term)	FYE June 2016 (58th term)	FYE June 2017 (59th term)	Year-on-year
Orders	11,653	11,512	11,892	380 (3.3%)
Net sales	11,003	10,947	11,852	905 (8.3%)
Segment profit (margin)	2,642 (24.0%)	3,260 (29.8%)	3,614 (30.5%)	354 (10.9%)
Backlog of orders	4,615	5,180	5,221	40 (0.8%)



# 3

## **Forecast for Fiscal Year Ending June 30, 2018 (60th term)**

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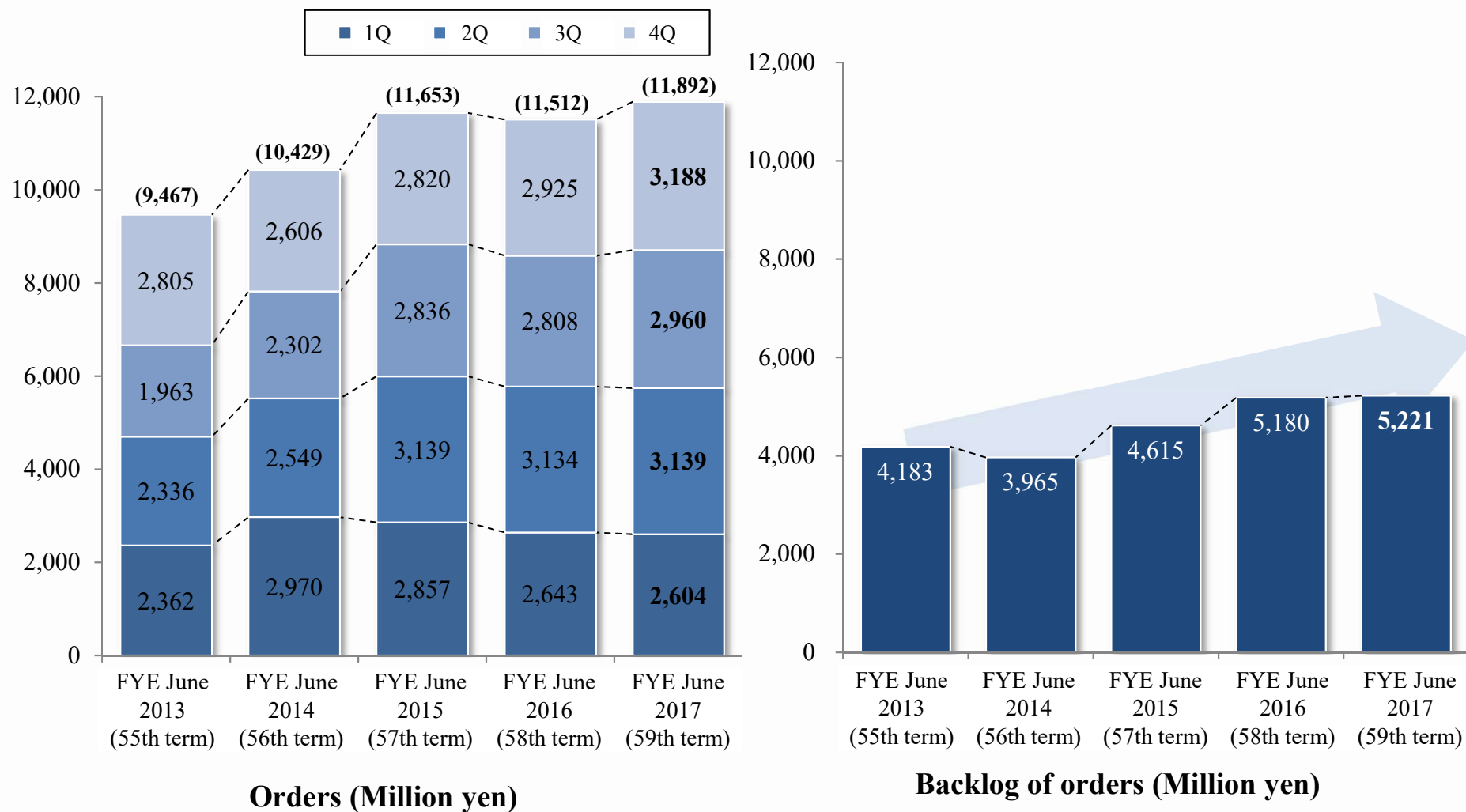


# Management Indicators Sets as the Targets

- Focus on operating income that shows the true earning power of a business  
+  
Personnel and welfare costs to secure talented human resources to drive growth  
  
= Total added value
- Reduce year-end net interest-bearing debts to maintain a balance with business investments.
- Increase ROE through high profit margins and efficient investments.
- Promote a dividend policy of continuing to distribute stable dividends to shareholders who have held KKE shares for the medium and long term.



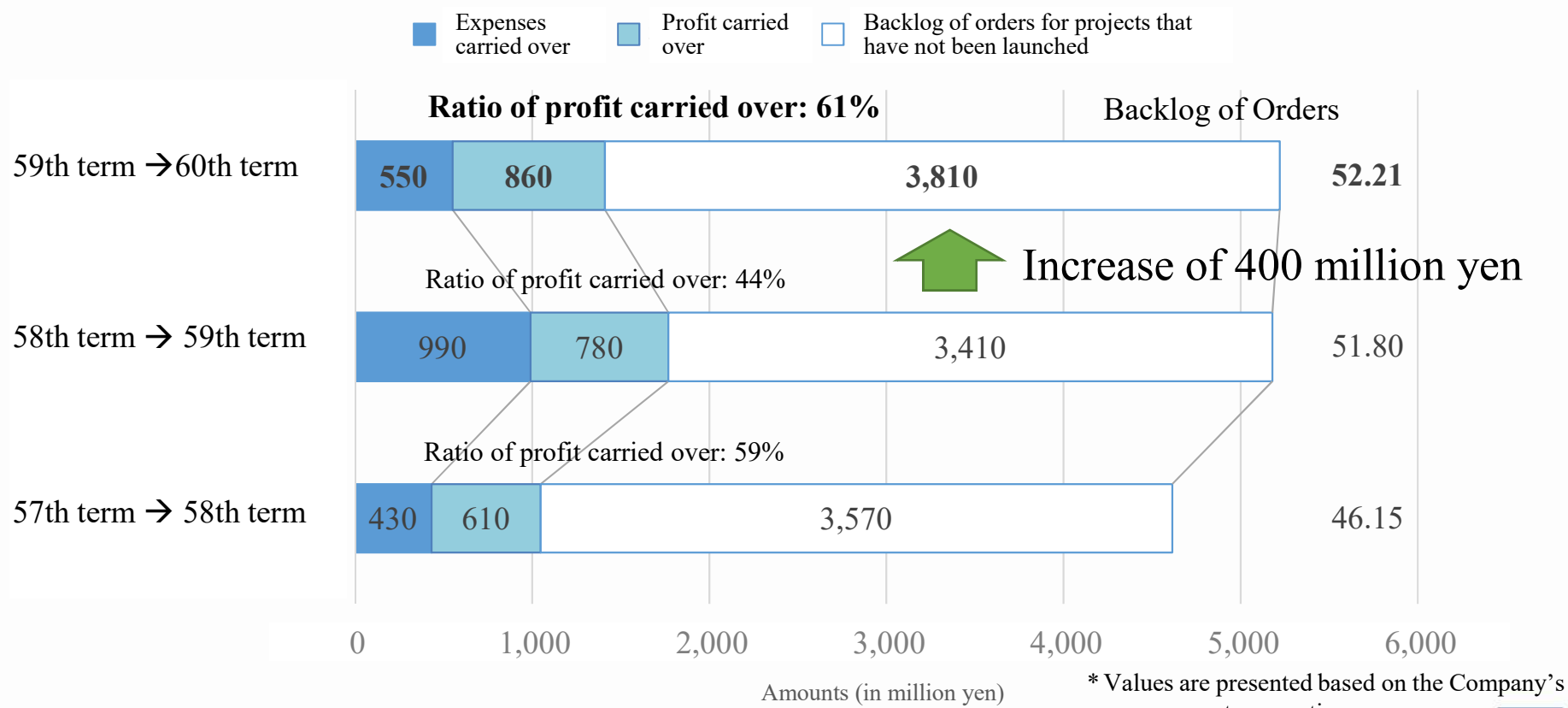
# Orders and Backlogs of Orders at the Fiscal Year End



# Status of the Backlog of Orders Carried Over from the Fiscal Year End

As at the beginning of the fiscal year, situations improved from the previous fiscal year

- The ratio of profit carried over improved significantly from the previous fiscal year for projects that had been launched.
- In addition, the backlog of orders increased 400 million yen (12%) from the previous fiscal year for projects that had not been launched yet.

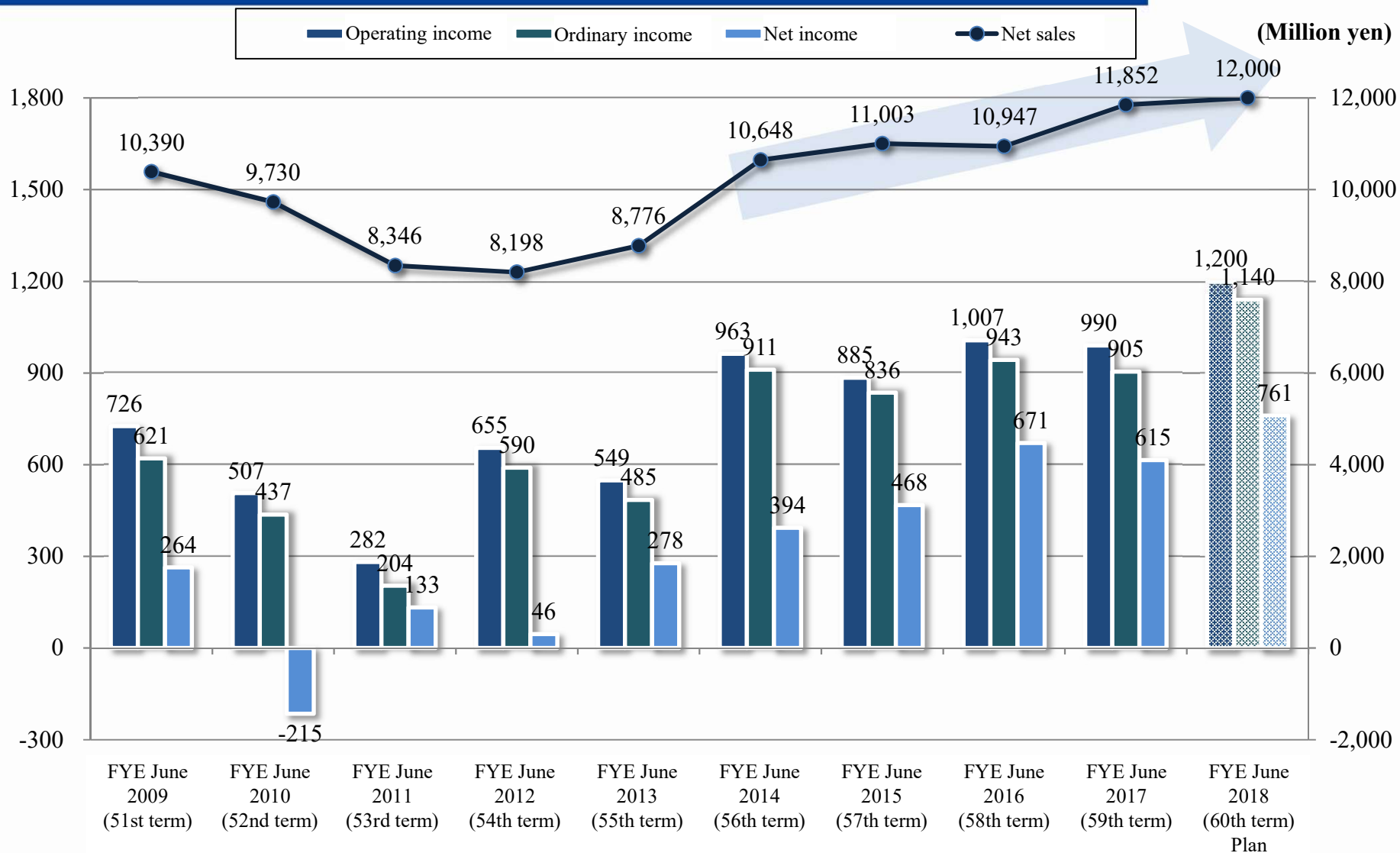


# Estimates for Fiscal Year Ending June 2018 (60th Term)

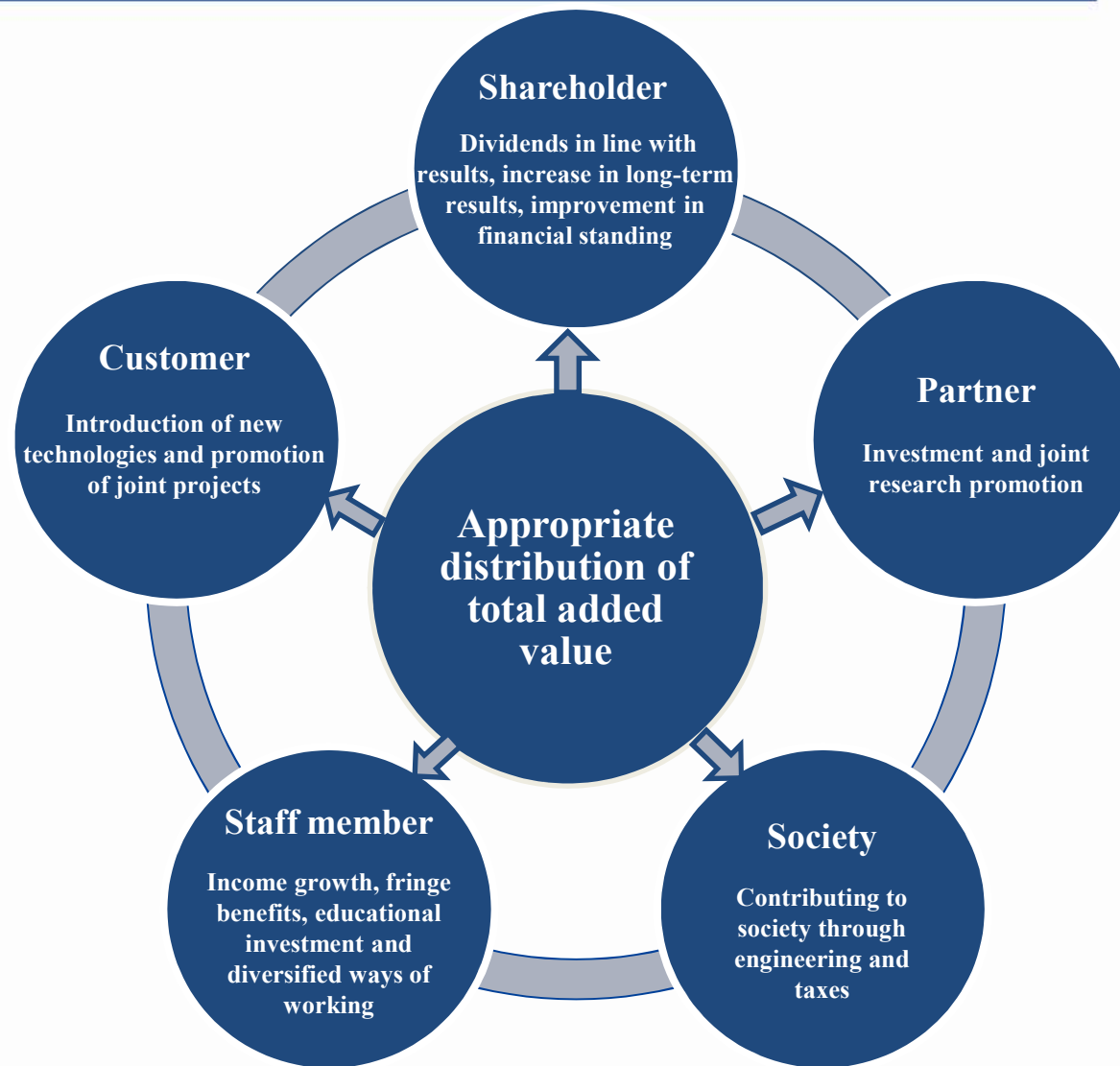
(Million yen)

	FYE June 2017 (59th term)	FYE June 2018 (60th term) Plan	Increase	% increase
Net sales	11,852	12,000	147	1.2%
Operating income	990	1,200	209	21.1%
Ordinary income	905	1,140	234	26.0%
Net income	615	761	145	23.7%
Year-end dividend	60 yen per share	70 yen per share		

# Trends in Results and Results Forecasts

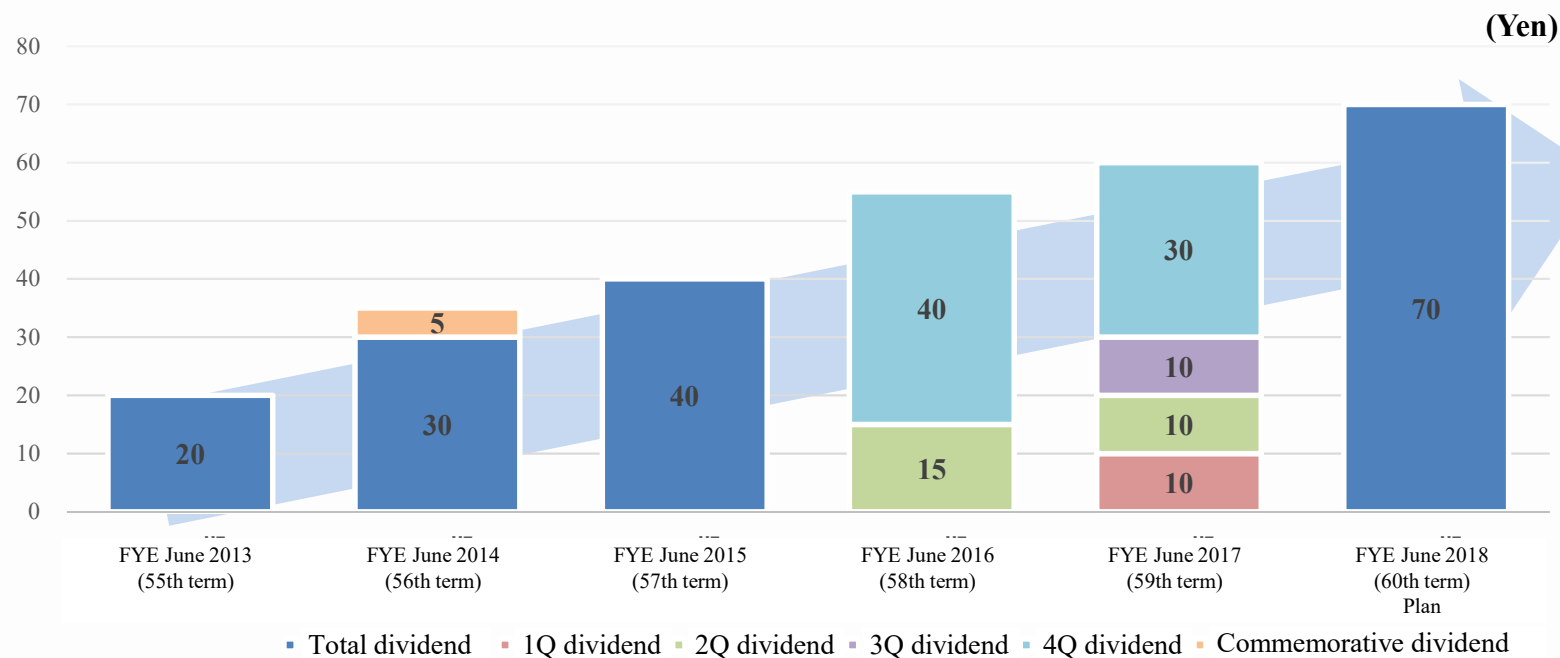


# Response to Stakeholders



# 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



<b>Payout ratio</b>	<b>40.3%</b>	<b>46.6%</b>	<b>37.7%</b>	<b>36.9%</b>	<b>42.7%</b>	<b>38.1%</b>
<b>Yield</b>	<b>1.9%</b>	<b>3.4%</b>	<b>2.6%</b>	<b>2.8%</b>	<b>2.8%</b>	<b>3.3%</b>

\*56<sup>th</sup> term: Special 55<sup>th</sup> commemorative dividend paid

\*58<sup>th</sup> term: Interim dividend paid

\*59<sup>th</sup> term: Switched to quarterly dividends

# 4

## Management Policies for the Medium and Long Term

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# The Future Vision We Aim to Share and Achieve with Society (“Thought”)

## *Innovating for a Wise Future*

We are an engineering consulting organization that aims to empower all its stakeholders through developing efficient, modern and sustainable engineering-based solutions.

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





# Medium- and Long-Term Management Strategies

## Improving corporate value through sustained business expansion and human resource development

### Business growth strategy

- ❑ Providing high quality engineering consulting
- ❑ Expanding product services that offer increased added value
- ❑ Expanding business through investment in partners, funds, etc.

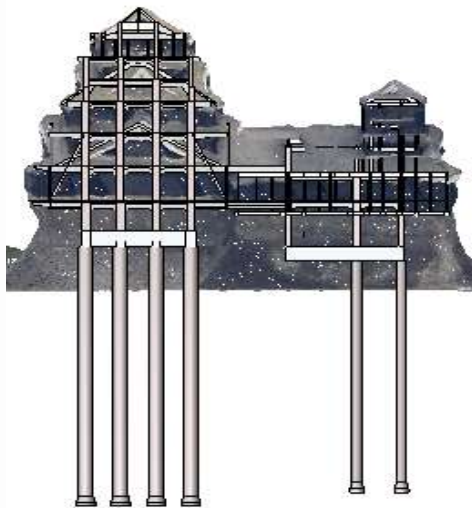
### Human resource development strategy

- ❑ Establishing a varied perspective by assigning staff members to external organizations
- ❑ Bringing on board a diverse range of human resources, including overseas
- ❑ Providing opportunities for self-development

# Origins of Engineering Consulting

## Restoration of Kumamoto Castle Keep Tower (1960)

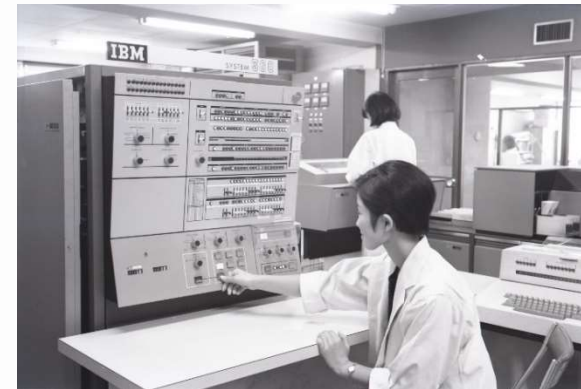
- ❑ Secured structural strength by setting a safety factor that is stricter than the standard code
- ❑ Confirmed the conditions of bearing ground by the designer himself, going down to 40m below ground



We also had a hand in restoration efforts following the earthquake in Kumamoto in April 2016

## Introduction of digital computers (1961)

- ❑ Made simple tasks more efficient
- ❑ Gave engineers more time to think, which improved hypothesis testing cycles and paved the way for optimized structural design



Now that we cover a wider range of business, we focus on ensuring operational quality, particularly in terms of structural analysis and software development, in order to provide technologies and services that offer better value.

# Engineering Consulting Initiatives

## Wind Power Generation Business

Working to resolve issues such as increasing turbine size, maintenance and management, and striving to contribute to society through our energy business

- 2013 Electricity Business Act safety review unification (Ministry of Economy, Trade and Industry)
- Designing System to meet the demands of society for renewable energy
  - Business results and knowledge of the Company
  - Connections in Japan and abroad

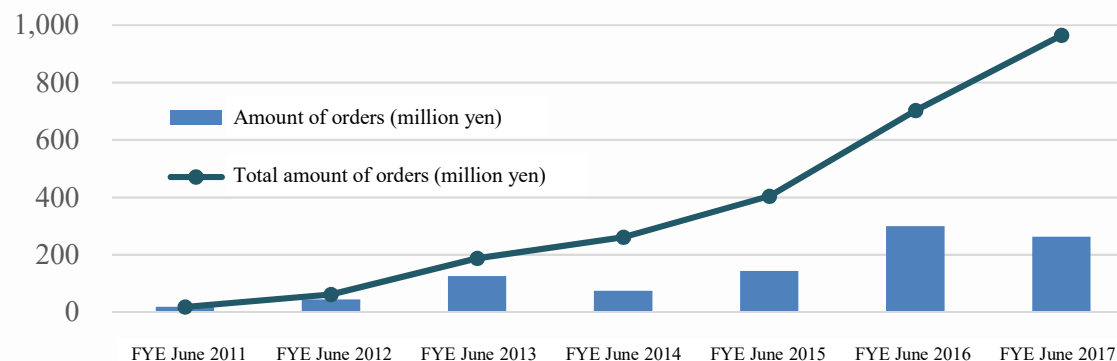
Industry: Business operators, overseas manufacturers, general contractors, etc.  
Government: Ministry of Economy, Trade and Industry, independent organizations, etc.  
Academia: University of Tokyo, Ashikaga Institute of Technology, etc.

An excellent example of establishing cooperation among industry, government and academia



Continuing to accumulate experience and knowledge, as we steadily expand our business

Change in amount of orders for windmill business

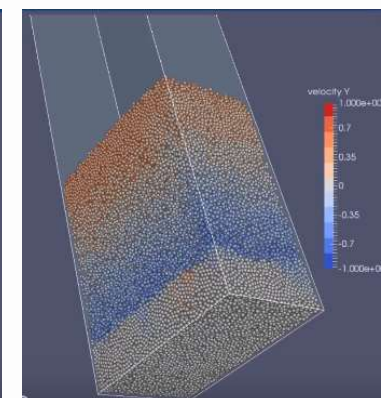
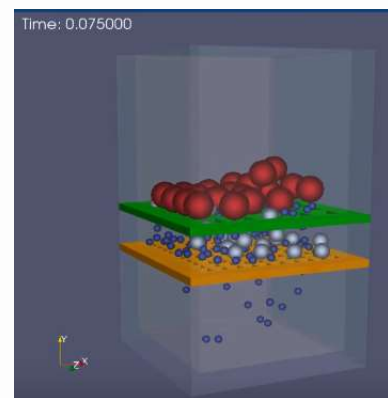
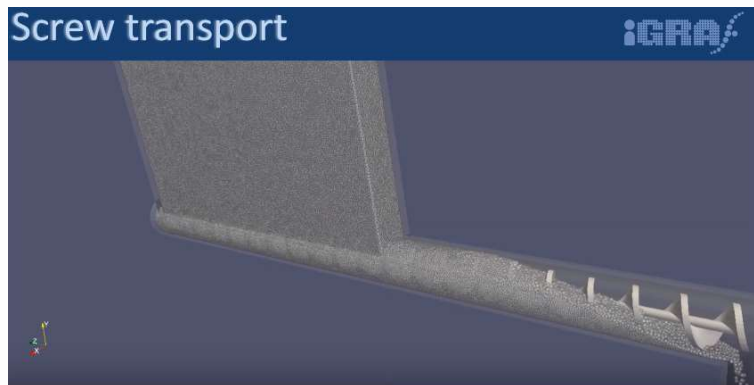


# Product Service Initiatives

## (1) Developing Granular Simulation Software



- Enabling simulation of granular flow, in addition to conventional gas and liquid simulations
  - Allow to simulate the flow of granules through machinery with complex shapes
  - Allow to carry out mixed simulations on powders, liquids and gases using one work station, which used to require supercomputer to simulate
- Providing engineering knowledge and bridging industry-academic world
  - Adopting a physical model developed by Professor Mikio Sakai (University of Tokyo)



# Product Service Initiatives

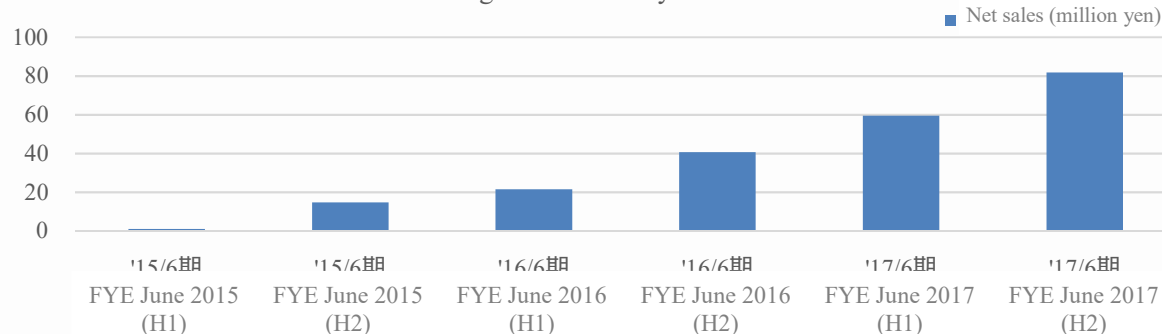
## (2) Email Distribution Services

### SendGrid

- Cloud-based email distribution service developed by SendGrid (USA)
- Ample support for Japanese users for corporate sales promotion, marketing, use in CRM, etc.
  - Improvement in deliverability and security, anti-spam measure
  - No initial cost: Providing the advantages of the cloud service
  - Actual results of more than 30 billion e-mails distributed per month around the world  
Used by UBER, Airbnb, ChatWork, CrowdWorks, Misoca, PIXTA, etc.

Highly acclaimed for tool functionality and the quality of our tailored services, enabling steady business expansion

Change in net sales by half term



# Product Service Initiatives

## (3) IoT Business

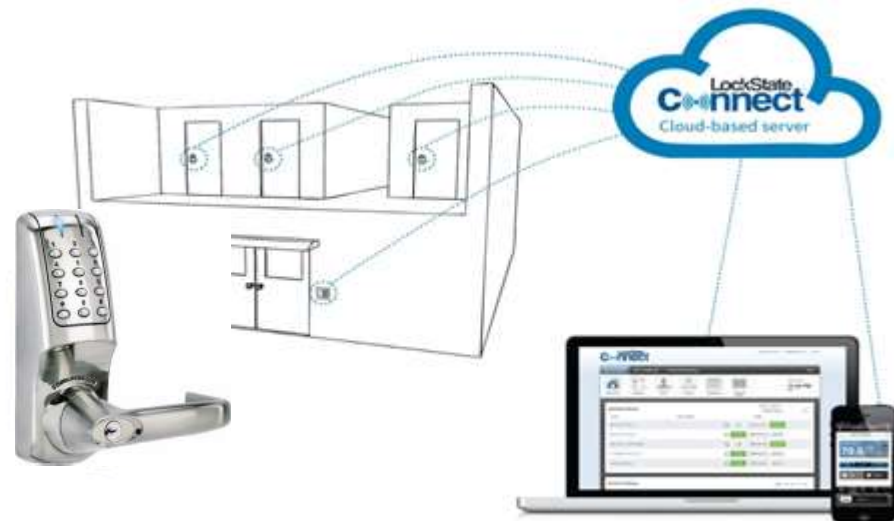
### NavVis Indoor 3D mapping



**Full launch of virtual showroom for Otsuka Kagu, Ltd.**

<https://www.navvis-kke.jp/idc-shinjyuku/iv.html>

### RemoteLock Wi-Fi type smart lock



**Controlling multiple access codes remotely via cloud-based system**

- Freeing users from handing over keys directly
- Integrated control of the authority to access multiple facilities
- Recording the history of unlocking

**Aiming to achieve synergy with our housing and structural field businesses we have built up to date**

# Product Service Initiatives

## (3) IoT Business (cont'd)

### EVER Relief

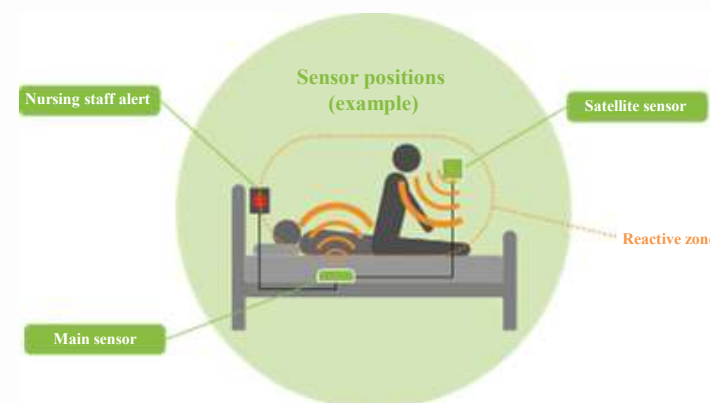
Monitoring sensors for beds in nursing home for the elderly

The Company's proposal "Vital sensor-based facility monitoring system" was selected as an official project by the Ministry of Economy, Trade and Industry

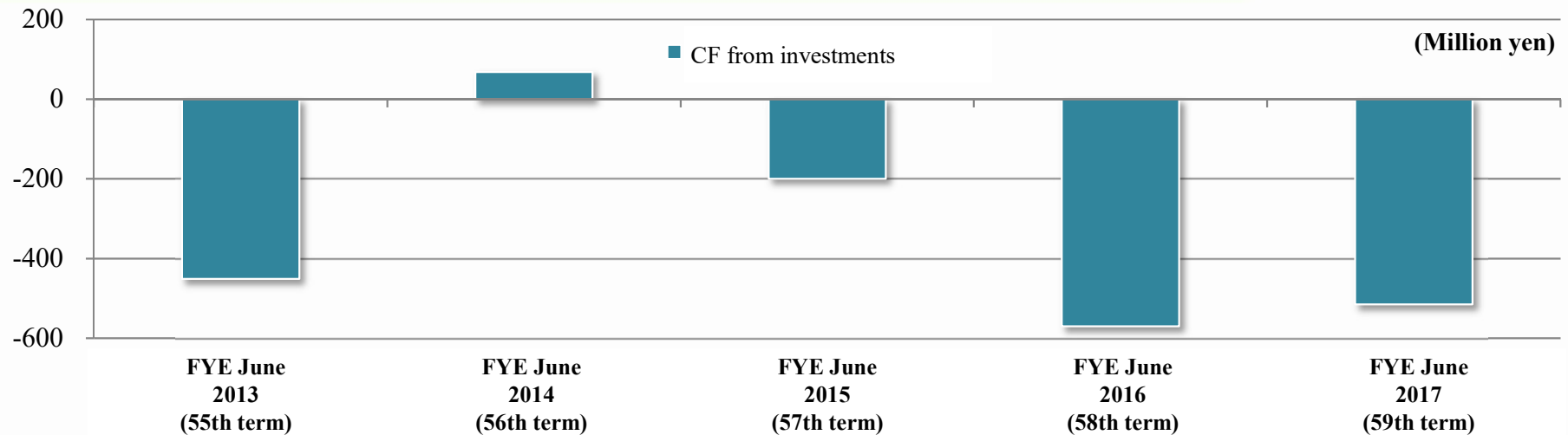


**Commercial development of "EVER Relief", highly accurate monitoring sensors to detect patients' movements in bed**

- Installing sensors to nursing beds
- Detecting if patients get out of bed and alert nursing staff
- Using multiple sensors to accurately detect movement in the bed, to keep falls alarm or reports missing to a minimum



# Recent Investments in Business Development



2012 Oct.  
Capital and business alliance with Prometech Software, Inc.

2015 Mar.  
Investment in ATR venture NVCC investment fund at Keihanna Science City

2016 Jan.  
Participated in fourth round of investment in Mobile Internet Capital, Inc.

2017 Jan.  
Commenced sales of Wi-Fi smart lock "Remote Lock" in Japan

2016 Mar.  
Established Symphony Creative Solutions Pte. Ltd. in Singapore, in conjunction with the NYK Group, Weathernews Inc., etc.

2016 Mar.  
Set up Social Cooperation Program with the University of Tokyo Institute of Industrial Science

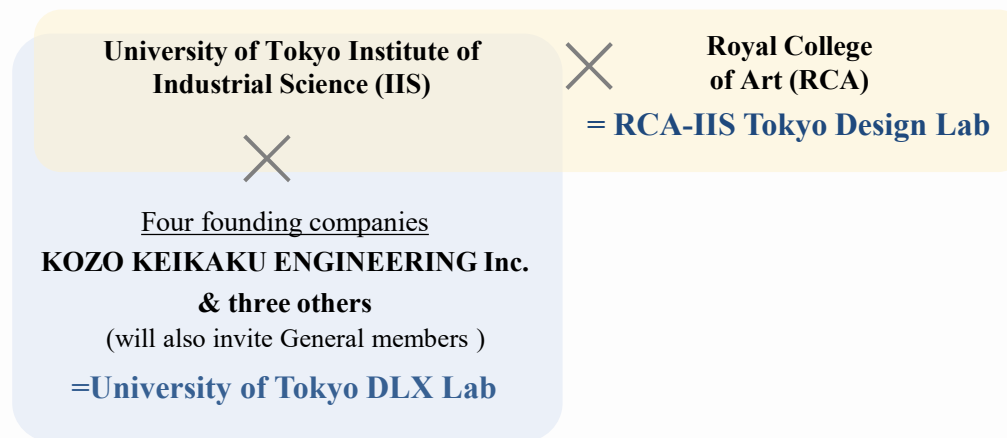


# Academic Collaboration

## University of Tokyo Design-Led X Lab

Joining as a founding member involved in the University of Tokyo Design-Led X (DLX) Lab

- New initiative based on relationship with Professor Tomonari Yashiro from the University of Tokyo Institute of Industrial Science (IIS)
- Activities and projects based on a joint lab run by the Royal College of Art (UK) and IIS



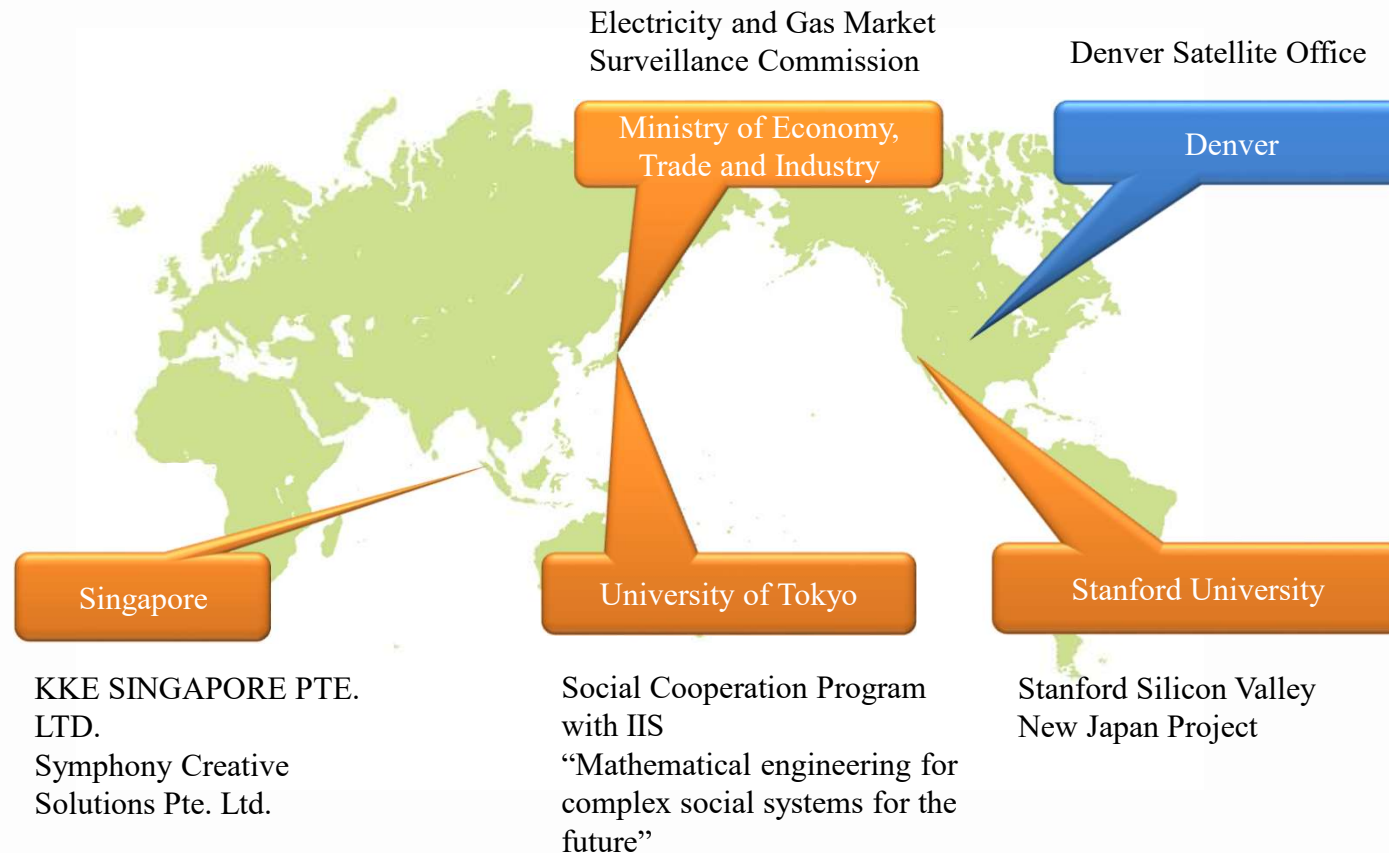
### Aiming to create innovation through the fusion of design and engineering

- Human resource development: Enhancing capability and raising awareness
- Prototyping: Working on projects to help develop technologies of IIS and founding companies to its full potential

Source: IIS website:  
<http://www.iis.u-tokyo.ac.jp/ja/news/2747/>

# Human Resource Development

## Assigning Staff to External Organizations

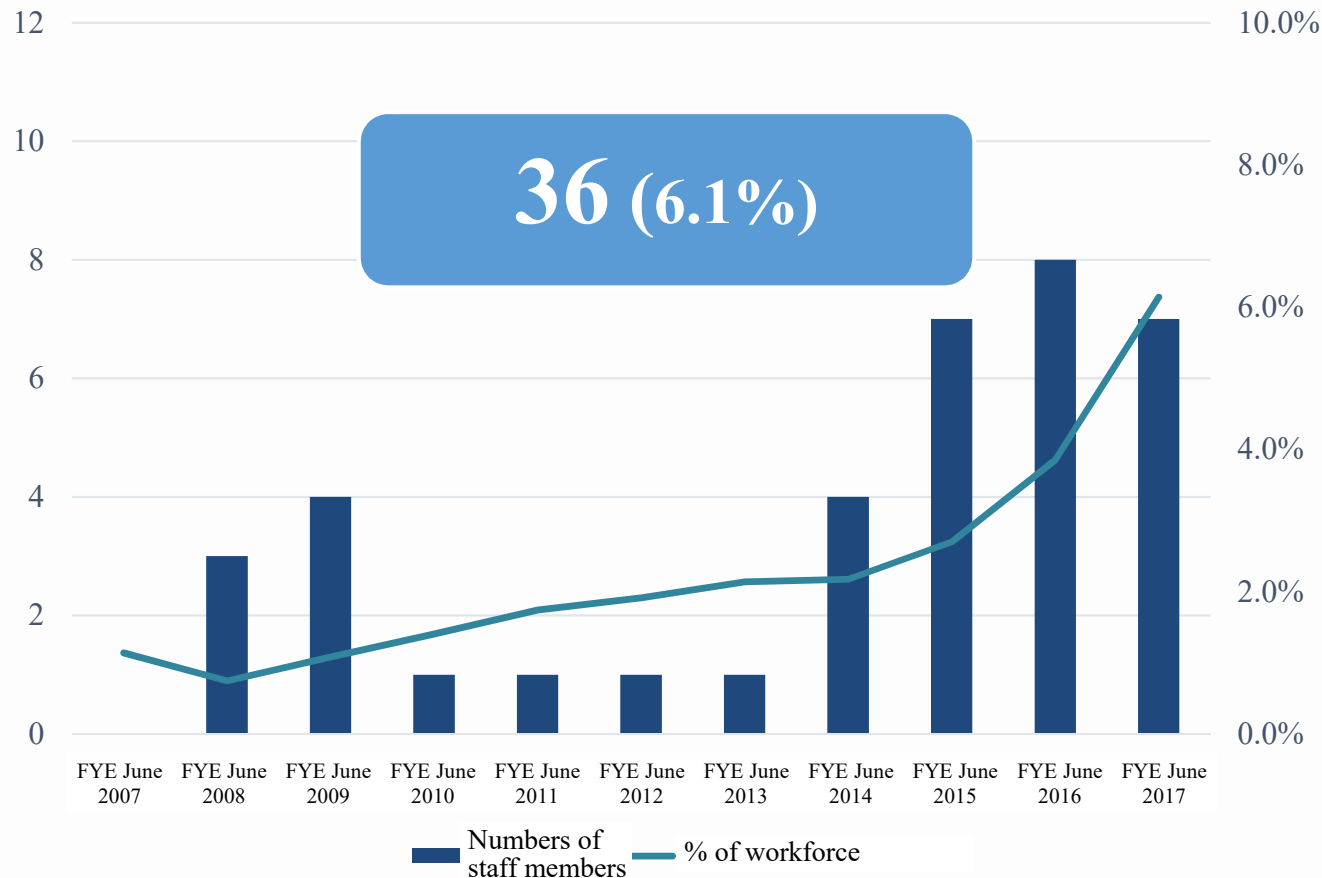


Developing human resources through experiences across a wide range of fields, domestic and international

# Human Resource Development

## A Diverse Range of Human Resources

### Staff members of other nationalities



Nationalities
Chinese
Singaporean
South Korean
Indonesian
Philippine
Malaysian
Iranian
Indian
Spanish
Vietnamese
Peruvian
Polish
Myanmarese

# Human Resource Development Recruitment Results

Total new staff members  
(including prospective staff  
members) from 2014 to 2018

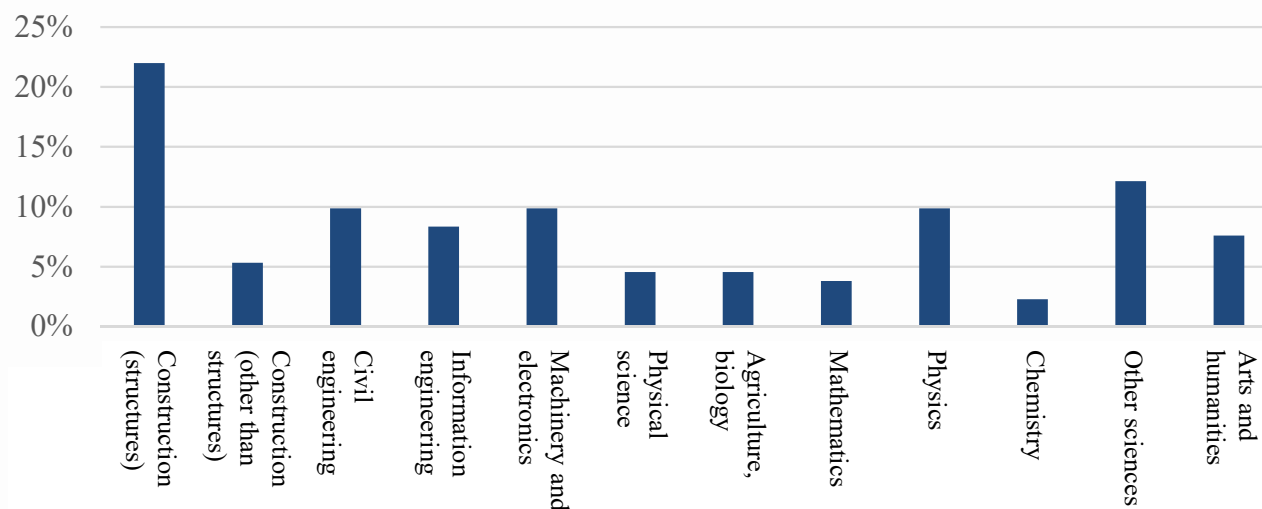
**114**

Universities they graduated from  
(breakdown of those  
who joined the Company  
from April 2014 to April 2018)

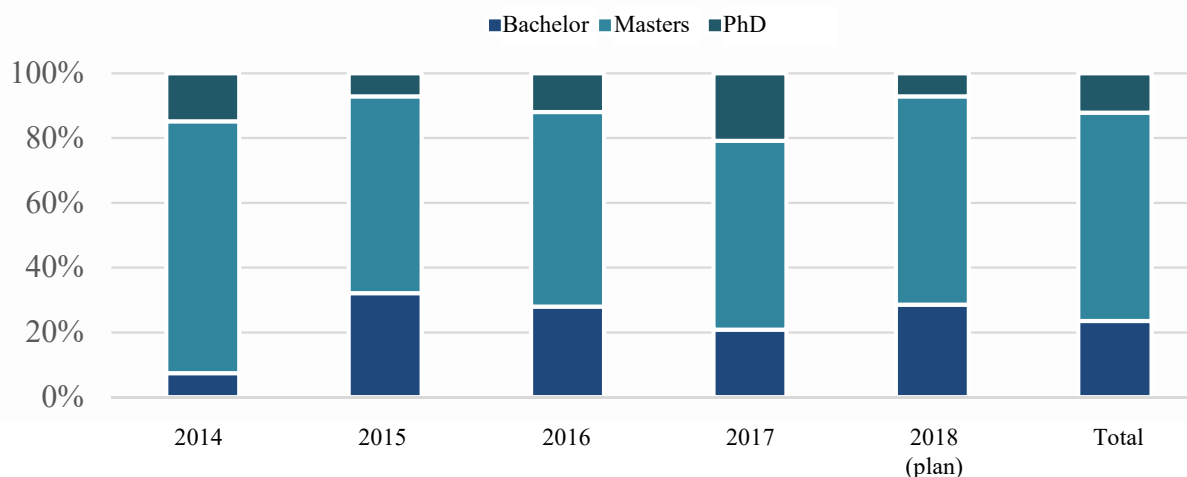
%

University of Tokyo	11%
Kyoto University	8%
Tokyo Institute of Technology	7%
National University of Singapore	5%
University of Tsukuba	5%
Kyushu University	5%
Chiba University	5%
Tokyo University of Science	5%
Nanyang Technological University	4%
Osaka University	4%
Institut Teknologi Bandung	3%
Nihon University	3%
Kumamoto University	2%
Waseda University	2%
Nara Women's University	2%

University or college majors



Breakdown by academic degree



# Human Resource Development Providing Opportunities for Self-Development

## Encouraging self-development through external activities with universities, academic societies, etc.

- Actively encouraging outside activities
  - Membership: 15 academic societies, 29 organizations
  - Committee/research group activities with outside organizations: 66 members, 125 organizations
  - Issuing papers and publications: 97
  
- Newly Opened *Corporate Library Office*
  - Creating opportunities for “shadow work”
  - Offering library facilities, available at all times  
Providing reference materials, space for quiet study, etc.



[Reference]

Patents obtained as of August 2017: 62 (+ 24 pending)

FY2016 Scale of patent assets in the telecoms sector in emerging markets: 2<sup>nd</sup>

Number of patents: 1<sup>st</sup> (Source: Patent Result Co., Ltd.)

## KKE Vision

- Inviting new and existing stakeholders to bond and build good relationships through sharing our “Thought” and future vision
- Serving as an opportunity to connect various stakeholders as a bridge
- Showcasing a specific future vision as a technology consulting company, based on its philosophy “Professional Design & Engineering Firm”

## ◆ KKE Vision 2017

- Tuesday October 24: Hyatt Regency (Shinjuku)
- Keynote speech: Soichiro Tahara  
“Taking a closer look at Japan as a digital society  
– From the early days of the Japanese computer industry to the present day, and beyond”

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***