



## **CHUDENKO CORPORATION**

Q2 Financial Results Briefing for the Fiscal Year Ending March 2022

November 25, 2021

## Event Summary

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<b>[Company Name]</b>	CHUDENKO CORPORATION
<b>[Company ID]</b>	1941-QCODE
<b>[Event Language]</b>	JPN
<b>[Event Type]</b>	Earnings Announcement
<b>[Event Name]</b>	Q2 Financial Results Briefing for the Fiscal Year Ending March 2022
<b>[Fiscal Period]</b>	FY2021 Q2
<b>[Date]</b>	November 25, 2021
<b>[Number of Pages]</b>	31
<b>[Time]</b>	10:00 - 10:45 (Total: 45 minutes, Presentation: 25 minutes, Q&A: 20 minutes)
<b>[Venue]</b>	Webcast
<b>[Venue Size]</b>	
<b>[Participants]</b>	
<b>[Number of Speakers]</b>	1 Akira Sakotani                      Representative Director and President

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## Presentation

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**Sakotani:** Hello, everyone. I'm Sakotani, the president of CHUDENKO CORPORATION. Thank you very much for your participation in the briefing on the financial results for the 2nd quarter of FY2021. I'm looking forward to working with you.

Today, I would like to begin by explaining our business results for the 2nd quarter of FY2021 and our business forecast for FY2021, followed by the status of our mid-term management plan initiatives.

I'm looking forward to working with you.

As for the outline of the business forecast for the 2nd quarter and the full year, the 2nd quarter saw a decrease in sales and profit due to delays in the progress of large-scale construction projects, but the delays have been eliminated for the full year, and we are forecasting an increase in sales and operating profit.

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## 第2四半期業績および通期業績予想（事業環境と当社グループの概況）

### 建設業界

- 公共設備投資は底堅く推移
- 受注競争や労働者不足が継続
- 一方、コロナ禍の影響により、民間設備投資の縮小や先送りが懸念

### 当社グループの状況

- 中期経営計画2024がスタート
- 中国地域の基盤強化や都市圏の事業拡大、業務改革の推進などに取り組む

I will now explain our business results for the 2nd quarter of FY2021.

First, regarding the business environment and the Group's overview for FY2021, in the construction industry, although public capital investment was firm, there were concerns that private capital investment would shrink or be postponed due to the effects of COVID-19, as competition for orders and labor shortages continued.

Against this backdrop, the Group has formulated the Medium-Term Management Plan 2024, targeting the 80th anniversary of its founding in FY2024, and has been implementing various measures, such as strengthening the foundation in the Chugoku region, expanding business in urban areas, and promoting business reforms.

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## 第2四半期業績および通期業績予想【実績】(損益計算書:連結)

対前年度「減収・減益」

- 売上高は減少（中電工個別▲40億円減、連結子会社▲9億円減）
- 営業利益も減少（中電工個別▲7億円減、連結子会社▲1億円減）

連結業績	2020年度 第2四半期	2021年度 第2四半期	増減額	前年比
売上高	820億円	771	▲49	94%
売上原価	711億円	671	▲40	94%
売上総利益 (13.4%)	109億円	100 (13.0%)	▲9	92%
販管費	76億円	77	0	100%
営業利益 (4.0%)	32億円	23 (3.0%)	▲9	71%
経常利益 (5.4%)	44億円	33 (4.3%)	▲11	74%
親会社株主に帰属する 四半期純利益 (3.6%)	29億円	16 (2.1%)	▲13	56%

※( )内は売上高利益率

As a result, for the 2nd quarter of FY2021, non-consolidated net sales of CHUDENKO decreased by JPY4 billion due to delays in the progress of some large-scale projects and a decrease in outdoor electrical work.

Consolidated subsidiaries also decreased by JPY0.9 billion, resulting in a YoY decrease of JPY4.9 billion to JPY77.1 billion.

Next, operating income decreased by JPY0.9 billion to JPY2.3 billion due to a decrease in gross profit caused by a decline in sales.

Ordinary income decreased by JPY1.1 billion to JPY3.3 billion.

Net income decreased by JPY1.3 billion to JPY1.6 billion due to a loss on valuation of stocks in addition to the decrease in ordinary income.

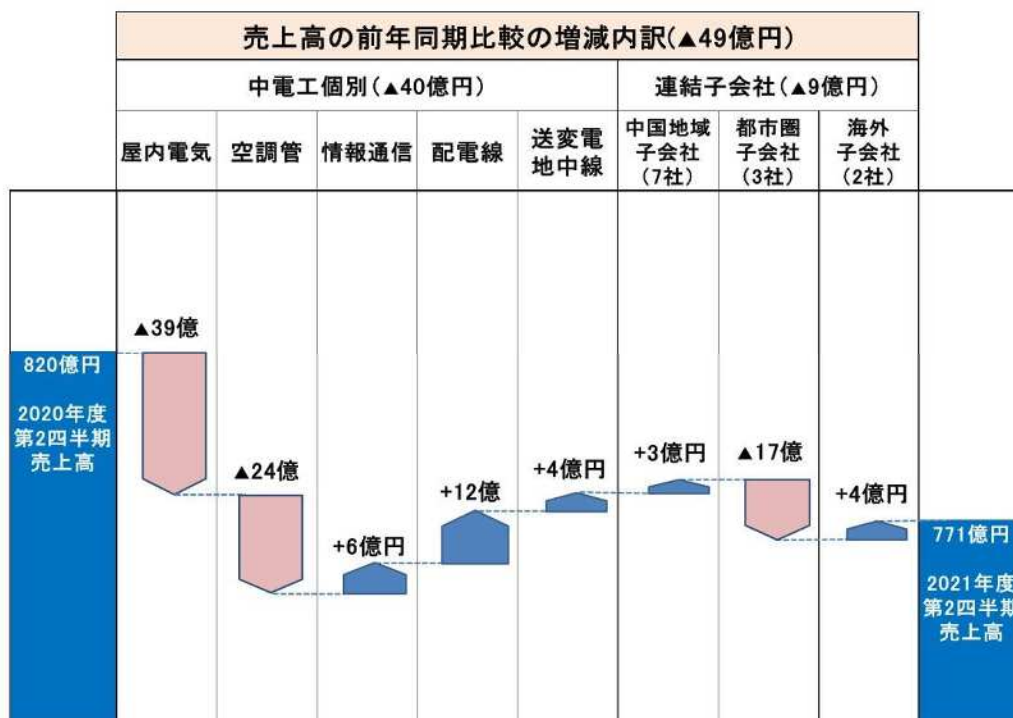
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## 第2四半期業績および通期業績予想 【実績】(売上高の増減要因:連結)



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Next, looking at the difference in sales compared to the same period of the previous year, non-consolidated sales of CHUDENKO decreased by JPY4.0 billion from the previous year due to a significant decrease in sales of indoor electric and air-conditioning pipes, despite an increase in sales of power distribution lines.

In addition, consolidated subsidiaries increased by JPY300 million in the Chugoku region and JPY400 million overseas but decreased by JPY1.7 billion due to delays in large-scale construction projects in urban areas, resulting in a YoY decrease of JPY900 million.

As a result, net sales decreased by JPY4.9 billion from JPY82.0 billion in the previous fiscal year to JPY77.1 billion in the current fiscal year.

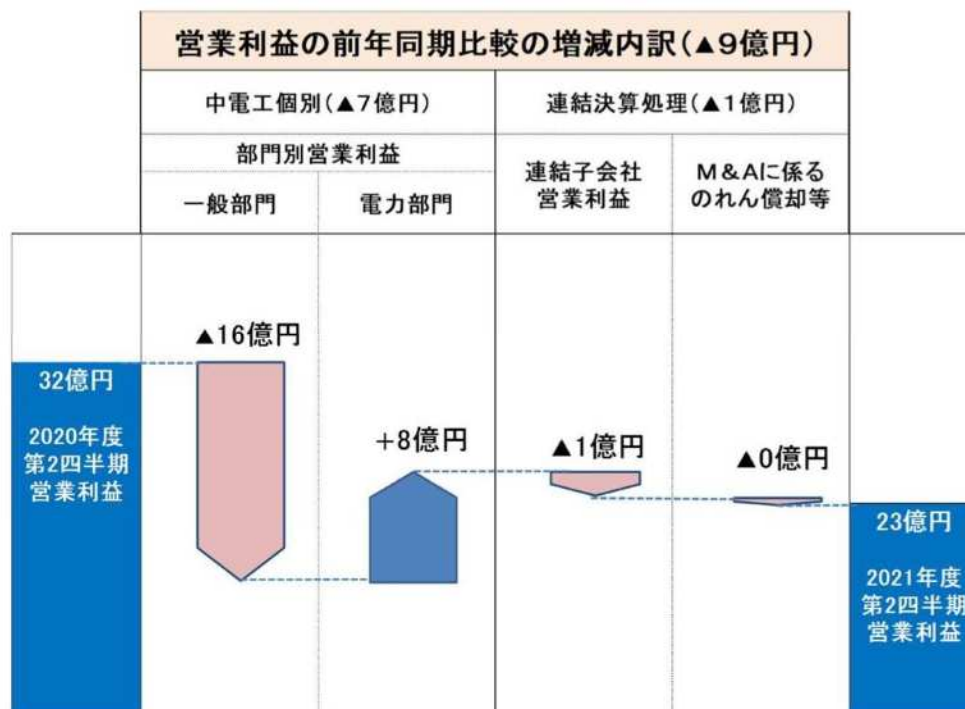
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## 第2四半期業績および通期業績予想 【実績】(営業利益の増減要因:連結)



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Looking at the difference in operating income compared to the same period of the previous year, on a non-consolidated basis, operating income in the electric power sector increased by JPY0.8 billion due to sales growth, but operating income in the general sector decreased by JPY1.6 billion, resulting in a decrease of JPY0.7 billion.

As for the consolidated financial processing, amortization of goodwill was almost the same amount as the previous year, and operating income of consolidated subsidiaries decreased slightly, resulting in a decrease of JPY100 million.

As a result of the above, operating income decreased by JPY0.9 billion to JPY2.3 billion from JPY3.2 billion in the previous fiscal year.

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## 第2四半期業績および通期業績予想【実績】(貸借対照表:連結)

	2021年3月末	2021年9月末	増 減	主な増減要因
流動資産	1,082億円	978	▲103	完成工事未収入金等 ▲169
固定資産	1,682億円	1,692	9	
資産合計	2,765億円	2,671	▲94	
流動負債	439億円	378	▲61	支払手形等 ▲58 未払法人税等 ▲7
固定負債	137億円	139	2	
負債合計	577億円	517	▲59	
純資産合計	2,187億円	2,153	▲34	利益剰余金 ▲12 自己株式 ▲10
負債純資産合計	2,765億円	2,671	▲94	
自己資本比率	77.6%	79.5	1.9	

Next is the balance sheet.

Total assets of JPY267.1 billion decreased by JPY9.4 billion, mainly due to a decrease in accounts receivable for completed construction contracts.

Total net assets were JPY215.3 billion, a decrease of JPY3.4 billion, mainly due to a decrease of JPY1.2 billion in retained earnings.

The equity ratio increased by 1.9 percentage points from 77.6% at the end of the previous fiscal year to 79.5%, due to a significant decrease in total assets, despite a decrease in shareholders' equity.

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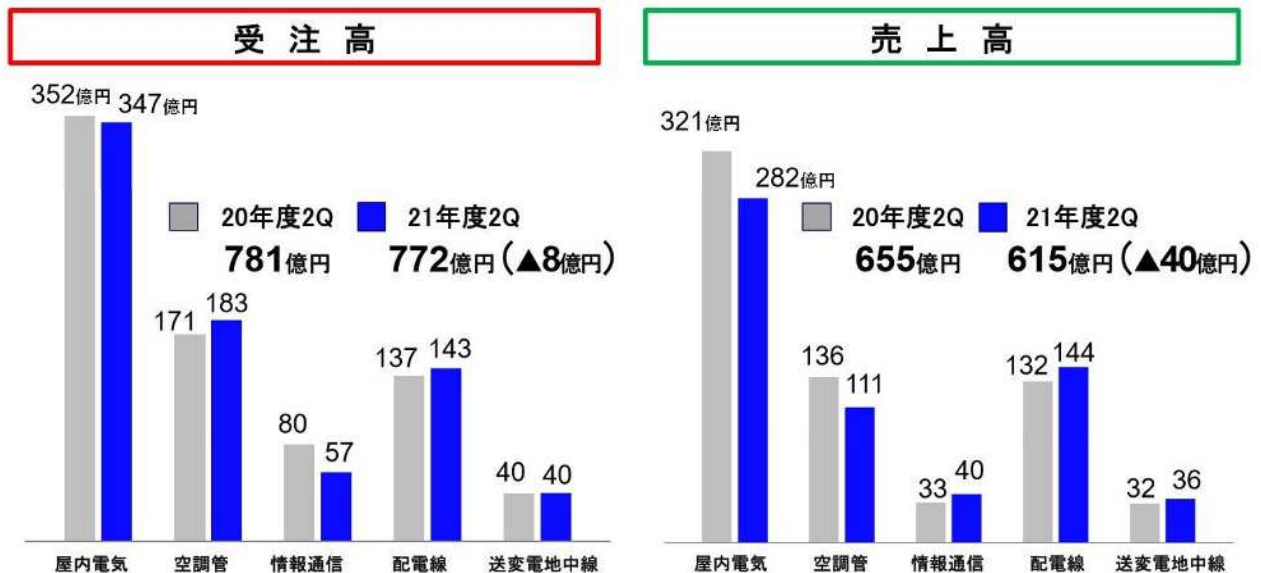
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## 第2四半期業績および通期業績予想【実績】(部門別受注高・売上高:個別)

- 受注高は、772億円と対前年度▲8億円減（主に情報通信が減少）
- 売上高は、615億円と対前年度▲40億円減（主に屋内電気と空調管が減少）



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Next is the amount of orders received and sales by division for each of the individual CHUDENKO companies.

Orders received on the left side totaled JPY77.2 billion, a decrease of JPY0.8 billion from the previous fiscal year.

Air-Conditioning and Refrigeration increased by JPY1.2 billion due to an increase in construction work for distribution warehouses, et cetera, while Information and Communication decreased by JPY2.2 billion due to a decrease in large-scale construction work for GIGA schools, et cetera.

Net sales on the right side were JPY61.5 billion, an overall decrease of JPY4.0 billion from the previous year, mainly due to a decrease in office construction in indoor electric, and a decrease in school air-conditioning construction in air-conditioning pipes, despite an increase in the electric power sector, such as power distribution lines and power transmission and transformation underground lines, and in information and telecommunications.

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## 第2四半期業績および通期業績予想【予想】(損益計算書:連結)

### 「増収・営業利益増益」の見込み

- 売上高は増加(中電工個別15億円増、連結子会社29億円増)
- 営業利益は、売上高増加に伴い売上総利益の増加を見込み増益

連結業績	2020年度実績		2021年度予想		増減額	前年比
売上高		1,844億円		1,890	45	102%
営業利益	(5.1%)	94億円	(5.1%)	97	2	102%
経常利益	(6.5%)	118億円	(6.2%)	117	▲1	98%
親会社株主に帰属する 当期純利益	(4.4%)	81億円	(3.6%)	68	▲13	84%

※( )内は売上高利益率

Next is the full-year earnings forecast.

As I mentioned at the beginning of this report, although sales and profits decreased in the 2nd quarter, we expect sales to increase and operating income to increase for the full year consolidated business results.

Net sales are expected to increase by JPY4.5 billion YoY to JPY189.0 billion, with an increase of JPY1.5 billion on a non-consolidated basis and JPY2.9 billion for consolidated subsidiaries, eliminating the delay until the 2nd quarter.

Operating income is also expected to increase by JPY200 million to JPY9.7 billion due to an increase in gross profit resulting from higher sales, ordinary income is expected to decrease by JPY100 million to JPY11.7 billion, and net income is expected to decrease by JPY1.3 billion to JPY6.8 billion due to the absence of the gain on sales of marketable securities that was recorded last year and the recording of a loss on valuation of stocks.

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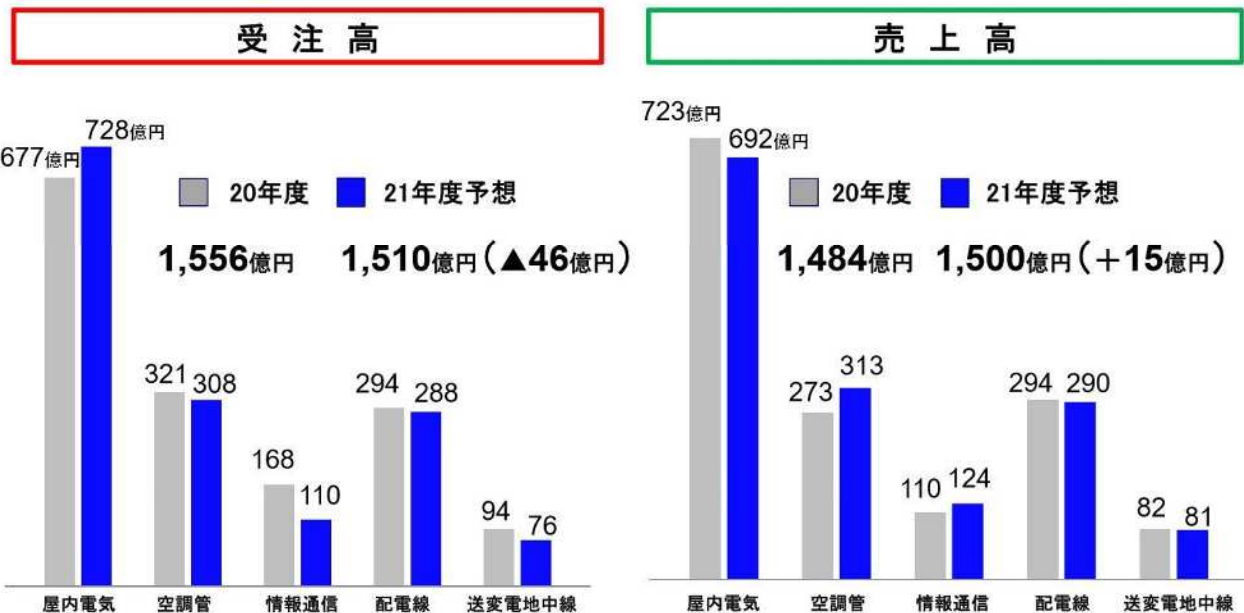
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## 第2四半期業績および通期業績予想【予想】(部門別受注高・売上高:個別)

- 受注高は、▲46億円減少の見込み（主に情報通信の減少）
- 売上高は、15億円増加の見込み（主に空調管の増加）



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Next is the amount of orders received and sales by individual division.

Orders on the left side are expected to be JPY151.0 billion, a decrease of JPY4.6 billion from the previous fiscal year.

This is mainly due to the fact that although indoor electric power is expected to increase, information and communication is expected to decrease in reaction to the large increase in the previous fiscal year.

On the other hand, sales on the right side are expected to be JPY150.0 billion, mainly due to an increase of JPY1.5 billion from the previous year as a result of the elimination of delays in air-conditioning pipes, despite a decrease in indoor electricity.

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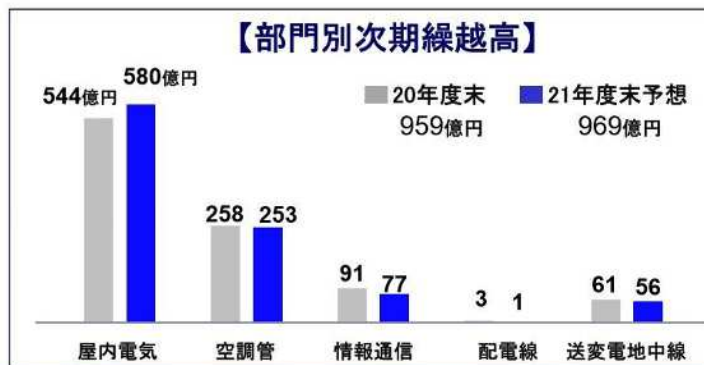
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## 第2四半期業績および通期業績予想 【予想】(受注高・売上高・繰越高:個別)

➤ 受注高は前年度を下回るものの、売上高は前年度を上回る予想

### 【受注高・売上高の推移】



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Next is the trend of orders and sales on a non-consolidated basis.

As shown in the line graph, orders received in FY2009 are expected to remain high at JPY151.0 billion, although they will not reach the level of the previous year.

Net sales are expected to exceed those of the previous fiscal year, reaching JPY150 billion, the highest level in the last 5 years.

The amount carried forward is expected to increase by JPY1.0 billion from the previous year to JPY96.9 billion due to significant growth in the urban areas, despite a decrease in the Chugoku region.

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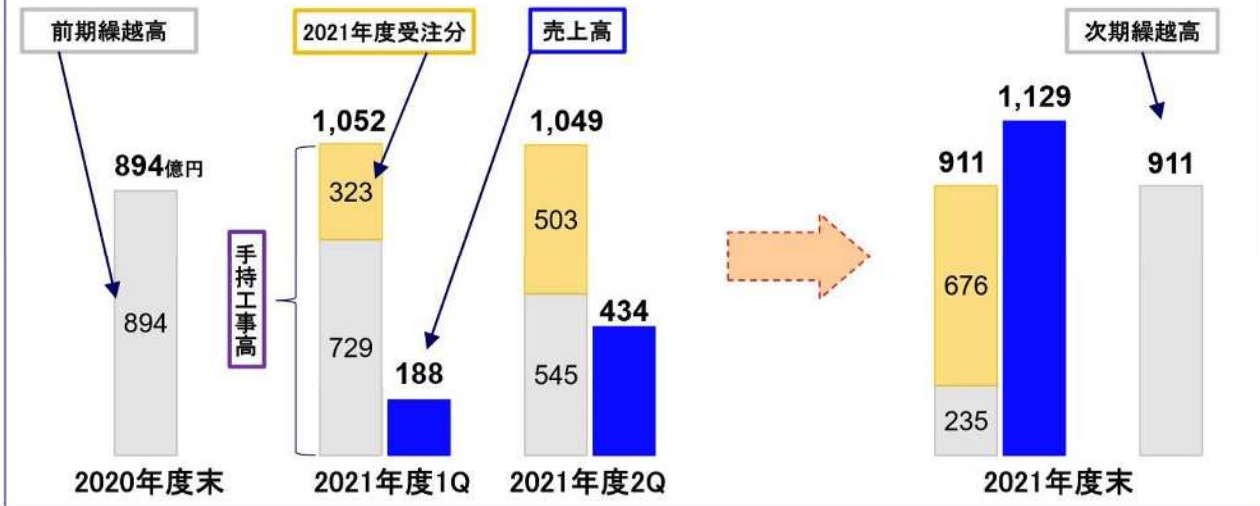
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## 第2四半期業績および通期業績予想【予想】(手持工事高・売上高:個別)

➤ 一般部門の繰越高は、17億円増加の見込み

### 【一般部門の手持工事高・売上高】



$$\text{手持工事高} = \text{前期繰越高} + \text{当年度新規受注高}$$

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Next, this chart shows the changes in the amount of work in hand, and net sales of the General Division from the beginning to the end of the current fiscal year.

The amount of work in hand consists of the amount carried over from the previous fiscal year and new orders received.

The amount of work in hand for the 2nd quarter was JPY104.9 billion and net sales were JPY43.4 billion.

Construction will be completed in the future, and at the end of the fiscal year, net sales are expected to be JPY112.9 billion, while the amount carried forward will decrease, but with new orders, the amount of construction work in hand is expected to be JPY91.1 billion.

As a result, the amount carried forward to the next fiscal year is expected to increase by JPY1.7 billion from JPY89.4 billion at the end of the previous fiscal year.

Unlike the Electric Power Division, which is mainly responsible for the receipt and completion of orders, the General Division will enter the next fiscal year with approximately 80% of its sales in hand.

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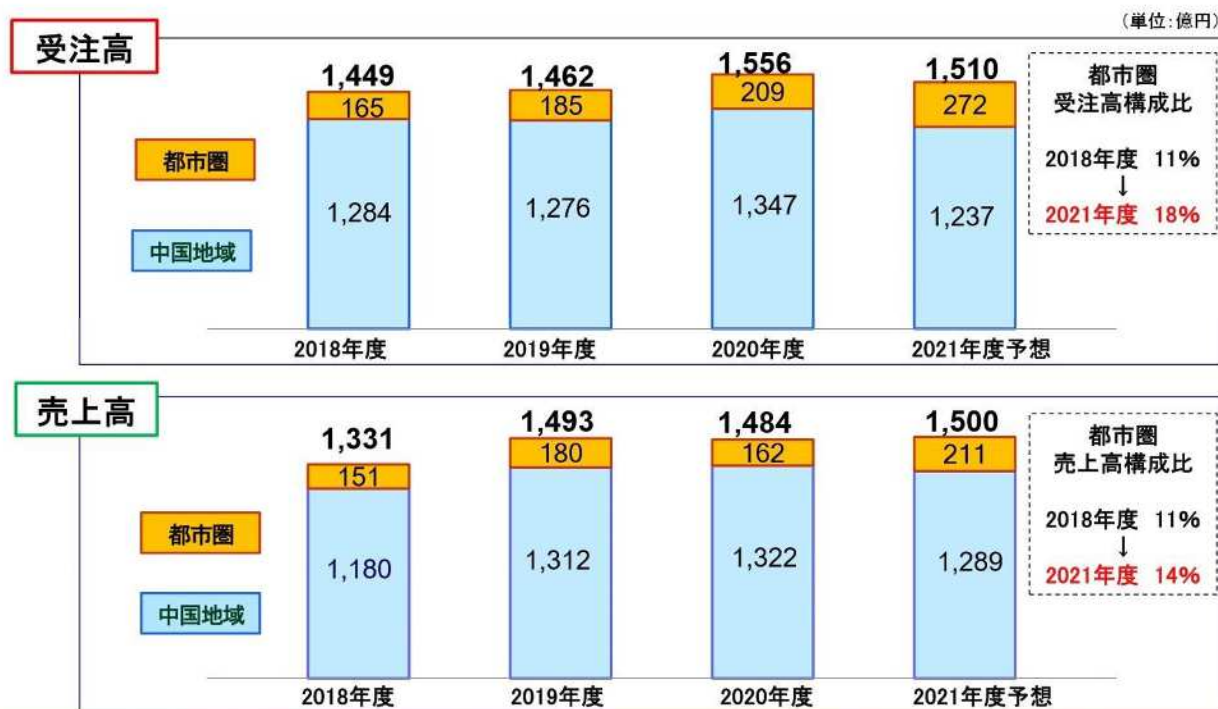
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## 第2四半期業績および通期業績予想【予想】(地域別受注高・売上高:個別)

➤ 中国地域の売上を維持しつつ、都市圏を拡大



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Next is the non-consolidated orders and sales by region.

As part of our growth strategy, we have been maintaining sales in the Chugoku region and expanding into urban areas.

Orders and sales in the Chugoku region, shown in blue, will remain firmly in the JPY120 billion to JPY130 billion range, while orders and sales in the metropolitan area are steadily increasing.

The percentage of total sales has steadily increased from 11%, 3 years ago, to 14%.

We will continue to expand our urban area while maintaining orders in the Chugoku region.

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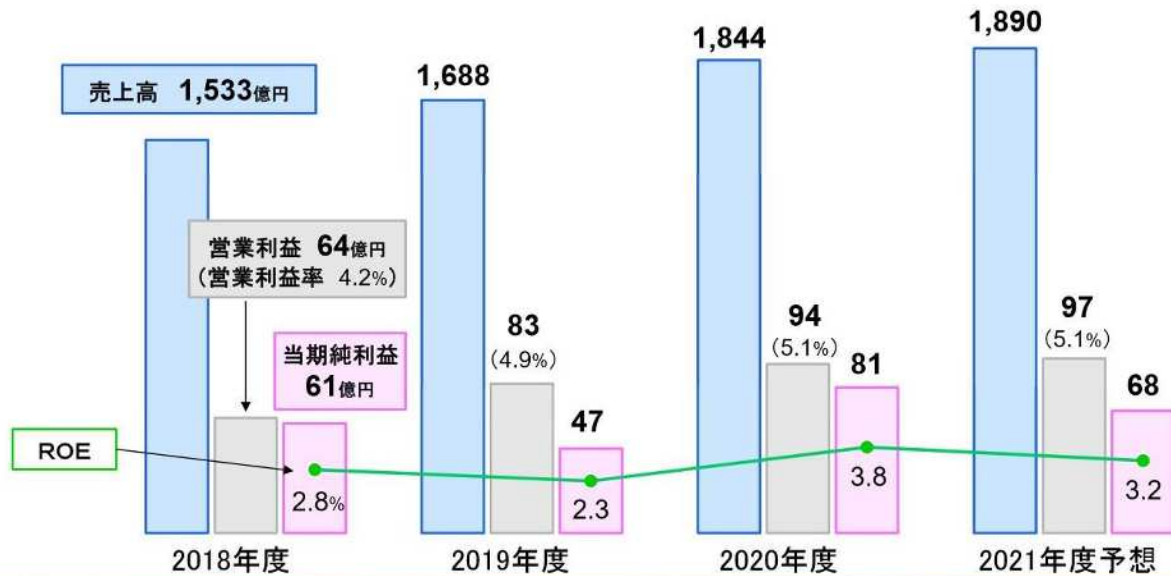
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## 第2四半期業績および通期業績予想 【予想】(主な経営指標の推移:連結)

- 売上高は10期連続の増収、営業利益は3期連続の増益の見込み
- 営業利益率は前年並み、ROEは低下の見込み



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Next are the main management indicators.

The blue bar graph, net sales, has been increasing since FY2012 and is expected to increase for the 10th consecutive year with JPY189 billion in the current fiscal year.

The gray bar graph, operating income, increased JPY300 million from the previous year to JPY9.7 billion, the 3rd consecutive year of growth.

In addition, the operating profit margin was secured at 5.1% through efforts to improve efficiency and reduce costs amidst severe competition.

Green ROE is expected to decrease by 0.6 percentage points to 3.2% due to the decrease in net income.

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## 中期経営計画2024（テーマ・サブテーマ）

### テーマ

#### 「変革と成長」

- 当社グループが引き続き成長を続けていくためには、これまで以上に環境変化に迅速に対応して変革を進めることが不可欠

### サブテーマ

#### 「営業・施工体制の強化と利益の拡大」

- 中国地域の基盤強化、都市圏の体制強化・事業拡大
- 厳しい環境にあっても利益を確保・拡大できる体制の強化・競争力強化

#### 「DXと脱炭素化の推進」

- DXIによる生産性向上を推進
- SDGsやカーボンニュートラルへの対応
  - ・自社の脱炭素化
  - ・お客様への脱炭素化支援事業の推進（自家消費型太陽光PPA事業など）

Next, I will explain the Medium-Term Management Plan 2024.

The Medium-Term Management Plan 2024 was discussed at the financial results briefing in May.

I would like to explain it based on the current status of our efforts.

The newly formulated Medium-Term Management Plan is a 4-year plan for further growth, targeting FY2024, the 80th anniversary of our founding, and was launched in April of this year.

The theme will continue to be Change and Growth and 2 new sub-themes have been set.

The first is to strengthen sales and construction systems and increase profits.

The second is to promote DX and decarbonization.

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## 中期経営計画2024（主要施策）

<b>受注の拡大・施工体制の強化</b>	<ul style="list-style-type: none"> <li>◆ 営業力の強化による受注拡大</li> <li>◆ 実績データの分析やBIM等を活用した設計力の強化・向上</li> <li>◆ 施工体制の強化・拡充</li> </ul>
<p>⇒営業本部・技術本部・購買部が連携し、大型物件の受注拡大を図る</p> <p>⇒地中線工事と送変電工事を送変電地中線工事に一本化し、施工体制を強化</p>	
<b>利益の確保・拡大と競争力強化</b>	<ul style="list-style-type: none"> <li>◆ 工事の平準化やフロントローディング等による施工の効率化</li> <li>◆ 全社およびグループ企業と連携したコスト低減</li> <li>◆ DXの推進による生産性向上</li> </ul>
<p>⇒フロントローディングによるリスクヘッジや工場加工品等を採用し原価低減</p> <p>⇒DX推進プロジェクトで各部門が取り組むタスクを抽出し、アクションプランを策定</p> <p>⇒DX推進プロジェクトの体制強化</p>	
<b>人材育成の強化と働き方改革の推進</b>	<ul style="list-style-type: none"> <li>◆ 施工管理の強化に向けた人材育成</li> <li>◆ グループ全体での技術・技能者の確保・育成</li> <li>◆ 働き方改革の継続および実践、働きがいのある職場の形成</li> </ul>
<p>⇒建設業に罰則付き時間外労働上限規制が適用となる2024年度を1年前倒し、2023年度での目標達成をめざした「働き方改革中期アクションプラン2024」を策定</p>	

Next, I would like to explain the 5 main measures of the Medium-Term Management Plan and the status of their implementation.

Regarding the first, expansion of orders and strengthening of the construction system, we are working to increase orders for large-scale projects by strengthening proposal-based sales, to strengthen the system for underground line construction, which is expected to expand in the future, and to strengthen cooperation with partner companies.

As to the 2nd point, securing and expanding profits and strengthening our competitiveness, in terms of construction, we are working to improve efficiency through front-loading and the use of IT equipment, and to reduce costs through the use of factory-processed products. In addition, we have established the DX Promotion Project and are making company-wide efforts to improve efficiency and productivity.

As for the 3rd issue, strengthening human resource development and promoting work style reforms, in addition to the business reforms we have been promoting, we have been working to clear the upper limit on overtime 1 year ahead of schedule by increasing productivity through DX promotion and other measures.

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## 中期経営計画2024（主要施策）

品質の向上	<ul style="list-style-type: none"> <li>◆ 電力安定供給への確実な貢献</li> <li>◆ お客様満足度の向上</li> </ul>
<p>⇒ 日々の高経年化工事に加え、自然災害や緊急工事への迅速な復旧対応</p> <p>⇒ 工程内検査や機能確認検査などの品質管理体制を充実・強化</p>	
成長投資（M&A・出資等）による事業拡大	<ul style="list-style-type: none"> <li>◆ 自社の脱炭素化</li> <li>◆ 脱炭素化支援として環境関連ビジネスの推進</li> <li>◆ 施工体制の強化等に向けたM&amp;Aの推進</li> </ul>
<p>⇒ 自社社屋への自家消費型太陽光発電の設置は、全体で56カ所を予定。2021年度は21カ所に設置予定</p> <p>⇒ 自家消費型太陽光PPA事業やZEB化およびESCO事業について、お客様に積極的に提案を実施</p>	

For the 4th point, improvement of quality, we are striving to ensure quality by strengthening our management system for in-process inspections and functional verification inspections.

In addition, in the area of electric power, we are working to strengthen our ties with the electric power network in order to respond quickly to emergencies.

With regard to the 5th point, business expansion through growth investment, we have set aside JPY40 billion for investment during the mid-term plan period and have been considering investments in M&A and renewable energy.

In addition, as part of our decarbonization efforts, we are installing solar power generation equipment at our business sites.

At the same time, we are promoting PPA business to our customers.

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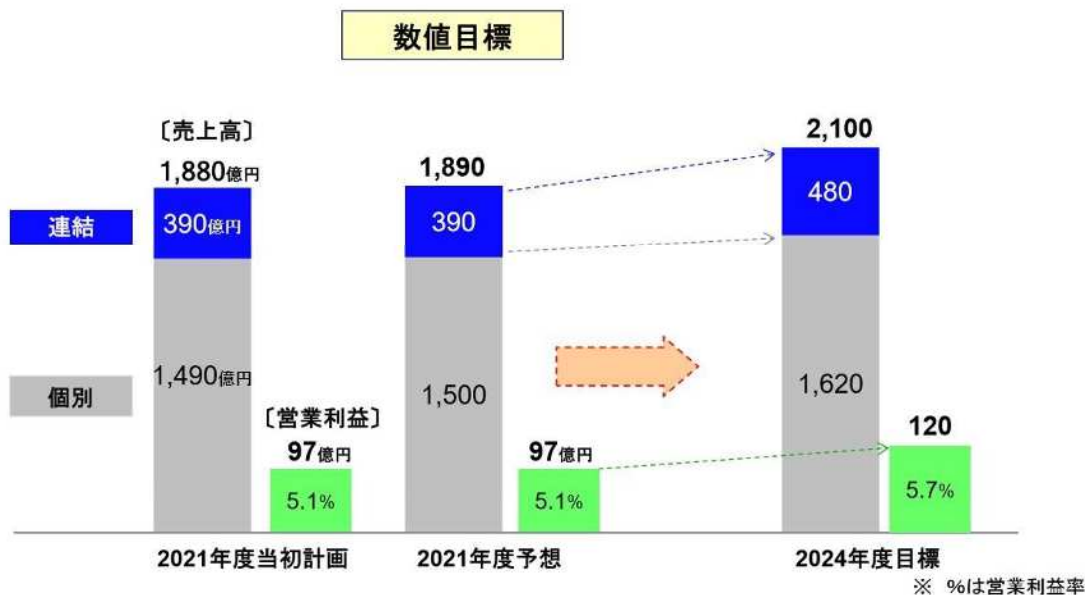
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## 中期経営計画2024（数値目標:連結）

- 「中期経営計画2024」を、グループ一体となって取り組み、目標達成  
⇒2024年度目標 売上高2,100億円、営業利益120億円



Next are the numerical targets of the Medium-Term Management Plan.

We are targeting consolidated net sales of JPY210 billion, consolidated operating income of JPY12 billion, and a consolidated operating margin of 5.7% in FY2024, the final year of the plan.

In FY2021, the 1st year of the project, we expect to clear the plan in terms of both net sales and operating income, and we believe that we have made a good start.

The CHUDENKO Group, as a whole, will continue to work on the measures of the Mid-term Management Plan 2024 and strive to achieve the targets.

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## 中期経営計画2024（人材の確保・育成）

### 定期採用者数

				2021.10.1現在
2017年度	2018年度	2019年度	2020年度	2021年度
132名	133	119	138	135

### 年齢別構成（個別）



### 有資格者数

資格名	取得者数		
	18年10月	21年10月	増減
電気工事施工管理技士(1.2級)	1,037名	1,123	86
管工事施工管理技士(1.2級)	278名	285	7
技術士	54名	62	8

※施工管理技士(電気工事・管工事)の複数取得者 59名

30歳未満が約3割

若年社員の成長

技術力・施工力UP

Next, I would like to explain about the securing and development of human resources, which are our most important assets, and essential for achieving our mid-term management plan.

In recent years, hiring activities have been difficult, due to the seller's market, but we have continued to hire around 130 employees, and we are regularly hiring 135 employees in FY2021.

As you can see from the pie chart, about 30% of our workforce is younger than 30 years old. We believe that our technical and construction capabilities will improve further by fostering this younger generation.

For this reason, we are making efforts to train young people as early as possible and make them capable, and we are promoting the acquisition of qualifications in electrical and plumbing work, which are particularly necessary.

As a result, the number of qualified employees has increased, which has been a driving force for the increase in sales as well as the improvement of our technical and construction capabilities.

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### 資本政策の具体策

#### 持続的な成長のための投資

事業の拡大や人材の確保・育成等、持続的成長に向け、400億円規模の投資を実施する。

- コアおよびコア周辺事業等のM&A
- 人材育成・働き方改革
- 自社の脱炭素化
- 脱炭素化支援として環境関連ビジネスの推進
  - 自家消費型太陽光PPA事業、ESCO等の省エネ提案
  - 再エネへの投資
- 将来有望事業等への投資

Next, I would like to talk about specific measures for capital policy.

As an investment for sustainable growth, we have set aside an investment limit of JPY40 billion.

Specifically, we are expanding our business through M&A and other means, investing in renewable energy, decarbonizing our own operations, and working on PPA projects to support the decarbonization of our customers.

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## 中期経営計画2024（株主還元）

### 株主還元

持続的・安定的な配当を行うことを重視し、DOE（連結株主資本配当率）2.7%を目処に配当を行う。  
また、経営環境等を総合的に勘案したうえで、必要に応じて自己株式取得を実施する。

### 配当

2021年度予想・・・DOE 2.75%，年間1株当たり配当金 104円

【参考】配当利回り 4.82%（2021年11月10日 終価 2,157円）  
連結配当性向（予想） 84.1%  
連結総還元性向（予想） 104.3%

### 自己株式

2021年度・・・取得株式数：60万株（取得価額 13億円）

【参考】（2021年9月末現在）  
発行済株式の総数 5,813万株（うち自己株式数299万株）

Next, I would like to talk about dividend policy.

In terms of shareholder returns, we place importance on providing sustainable and stable dividends, and will continue to pay dividends with a target of DOE and consolidated dividend on equity ratio of 2.7%.

In addition, the Company will acquire treasury stock as necessary, considering the overall business environment and other factors.

As for dividends, we forecast a DOE of 2.75%, an annual dividend of JPY104 per share, and a payout ratio of 84.1% for FY2021.

With regard to the repurchase of treasury stock, we repurchased 600,000 shares in August this year in order to enhance shareholder returns and improve capital efficiency, and the total return ratio is expected to be 104.3%.

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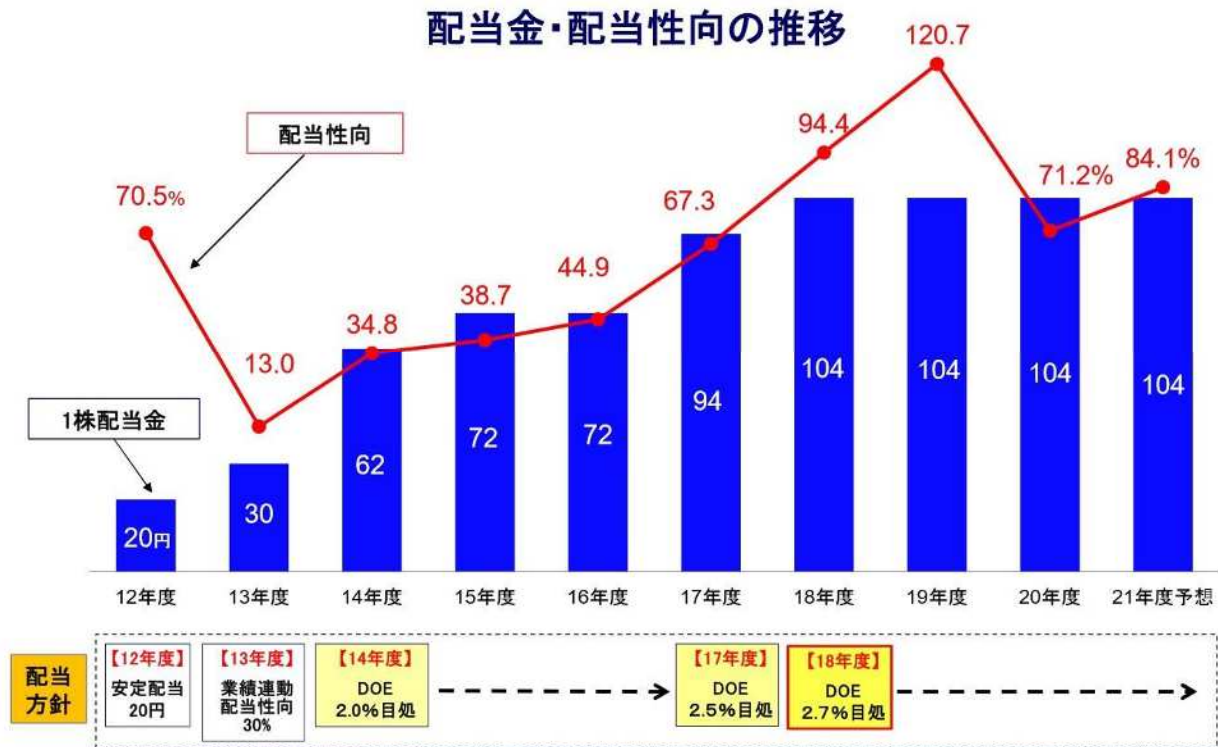
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## 中期経営計画2024（配当金・配当性向）

### 配当金・配当性向の推移



25

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Next is the trend of dividends and dividend payout ratio. The blue bar graph shows the dividend per share, and the red line shows the dividend payout ratio.

We adopted the DOE in FY2014 and have been increasing dividends while raising the rate from around 2% to 2.5% in FY2005 and to 2.7% in FY2006.

For FY 2021, we expect to pay a dividend of JPY104, the same amount as FY2021.

For the interim, we will pay half of that amount, JPY52.

Compared to other companies in the same industry, the Company has a high level of dividends and dividend payout ratio.

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## その他（ESGへの取り組み）

### 中電エレポート2021（統合報告書）の発行

- 本年9月30日に中電エレポート2021を発行，Webサイトに掲載。
- ESGへの取り組みなど，幅広く情報を提供。



Last but not least, in addition to our financial information, we publish an integrated report, the CHUDENKO Report, as a means of providing a wide range of information, including information on our ESG initiatives.

On September 30 of this year, we published the CHUDENKO Report 2021, which is available on our website for your perusal.

This concludes the explanation.

The remaining materials are for reference only and will not be explained.

Thank you for watching.

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## Question & Answer

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**Moderator:** We will now move on to the question-and-answer session.

First, I would like to read out the 1st question.

With regard to the current environment for orders, have you seen a decline in the profitability of private sector construction orders?

President, please respond.

**Sakotani:** First of all, I would like to explain the status of orders at this point in time.

At one time, there was a mood of reduced capital investment due to the impact of COVID-19, but at present, I believe that the manufacturing industry is steadily returning to the status before the outbreak of COVID-19. As a result, our feeling is that orders received during and after COVID-19 have been steady.

On the other hand, the peak of demand for the Olympic Games has passed, and there is a sense that demand as a whole has dropped a bit. As a result, I feel that competition in terms of orders is becoming very fierce.

In such a situation, we would like to achieve the profit target of the Medium-Term Management Plan by improving productivity and efficiency. That is all.

**Moderator:** Thank you very much.

Since there is still time for more questions, I would like to answer some of the questions that are frequently asked by investors. I will now read out the questions.

They have asked how much of an impact COVID-19 has had on your business performance.

President, please.

**Sakotani:** I feel that the impact of COVID-19 on our business has not been significant. In our company, we have had several cases of infected people, but we have continued our business in a stable manner.

In addition, there were delays in the delivery of some parts for air-conditioning pipe-related equipment, but overall, we have been able to do this without any major impact. We believe that the impact of COVID-19 was minimal.

We will continue to monitor the spread of COVID-19 infections and other factors as we move forward with our business.

**Moderator:** Moving on to the next question.

In order to achieve the mid-term plan of JPY210 billion, you need to increase the current sales by more than JPY20 billion. Do you have a concrete plan to achieve that?

Mr. President, if you will please.

**Sakotani:** We need to increase sales by about JPY20 billion from the current level to reach our target of JPY210 billion, but we expect an increase of about JPY12 billion at CHUDENKO and JPY9 billion at group companies.

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The number of qualified employees has been steadily increasing due to the improvement of productivity and the training of engineers that we have been continuously hiring, and we believe that the figure of JPY12 billion is fully achievable.

In addition, we have been working hard to strengthen systems, increase efficiency, and improve productivity in our group companies, and we believe that JPY9 billion for the group companies as a whole is an achievable figure.

**Moderator:** Next question.

You are planning to invest JPY40 billion in growth. What are the main initiatives you are considering?

**Sakotani:** We have set an investment limit of JPY40 billion for the next 4 years, and we are specifically considering M&A to strengthen our business structure and investment in renewable energy. In M&A, we would like to make a group if there are good companies, including those related to air-conditioning pipes.

In addition, if there are any promising businesses in the future, we would like to work on them without being bound by the framework of existing businesses.

As for investment in renewable energy, we are determined to take firm action, including large-scale projects in the mega-solar class.

That is all.

**Moderator:** Thank you very much. Next question.

The dividend payout target of 2.7% DOE is the same as in the previous Medium-Term Management Plan, but given the ample equity capital, is it possible to raise the DOE ratio a little more?

**Sakotani:** Regarding our dividend policy, we emphasize the payment of sustainable and stable dividends, and we currently use the DOE to pay a dividend of 2.7%, or JPY104 per share. This level and dividend payout ratio are quite high compared to other companies in the same industry.

For the time being, we will strive to firmly maintain this level. I would like to ask for your understanding in this matter. The Company also intends to proceed with the acquisition of treasury stock as necessary.

That's all.

**Moderator:** Next question.

What is the status of your policy equity holdings?

**Sakotani:** The Company holds shares on a policy basis when it judges that it will lead to the maintenance and improvement of the Group's corporate value over the medium to long term.

During the annual review, we check the economic rationality and appropriateness of the purpose of holding the shares, and if we determine that there is no rationality in continuing to hold the shares, we proceed with the sale of the shares and make other efforts to reduce the number of shares held for policy purposes.

In addition, some of our shareholders are dissolving their cross-shareholdings, and we have received offers to sell their shares, but we respond to these offers on a case-by-case basis.

That's all.

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**Moderator:** Next question.

How do you plan to decarbonize?

**Sakotani:** We would like to promote decarbonization related to our own business as well as decarbonization support projects for our customers.

As I mentioned earlier in the explanation of the Medium-Term Management Plan for our business, to decarbonize our company, we will be installing solar power generation systems to reenergize the electricity at our offices, and we will also be considering the conversion of our sales offices to EVs while monitoring the development trend of electric vehicles.

**Moderator:** Thank you very much. Next question.

What is the status of your DX initiatives?

**Sakotani:** I believe that DX is an extremely important initiative in terms of enhancing competitiveness through increased efficiency and productivity. To this end, we launched the DX Promotion Project in January of this year and have been working on it on a company-wide basis.

The first step was to improve the Internet environment for each business, including the head office. Next, we examined the current systems and the possibility of digitizing various operations as issues for promoting DX and compiled a list of issues and countermeasures.

From now on, in addition to these measures, we will systematically and steadily proceed with the various efficiency improvements using IT technology that we have been promoting, while sharing them throughout the company.

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## 参考情報（SDGsへの取り組み）

SDGsで掲げる17の目標等を参照し、4つの課題を選定。

当社の事業活動を通じ、ステークホルダーの期待に応えていくとともに、SDGsの実現を目指す。

課 題	中期経営計画における取り組み
<p>安全とコンプライアンスの徹底</p> 	<ul style="list-style-type: none"> <li>▶ 重大災害再発防止対策の実施状況の確認と基準ルールの徹底</li> <li>▶ 現場に即したリスク低減と不安全行動の排除</li> <li>▶ コンプライアンス意識の浸透に向けた教育の継続実施</li> <li>▶ 「心と体の健康管理」の充実</li> <li>▶ 新型コロナウイルス等の感染症予防対策の実施</li> </ul>
<p>安心・高品質な設備の提供</p> 	<ul style="list-style-type: none"> <li>▶ 高品質な電力設備工事および迅速な災害復旧対応</li> <li>▶ 地中線工事、自営線工事の取り組み強化</li> <li>▶ 工程内検査等の品質管理体制の充実・強化</li> <li>▶ お客さまとのコミュニケーションの充実による迅速できめ細やかな対応</li> <li>▶ DXの推進による生産性向上</li> <li>▶ 技術研究開発の促進</li> </ul>
<p>脱炭素社会の実現</p> 	<ul style="list-style-type: none"> <li>▶ 太陽光発電等の再エネ案件を中心とした環境関連ビジネスへの参画</li> <li>▶ 自家消費型太陽光PPA事業</li> <li>▶ ZEB・ESCO等、省エネ提案の取り組み強化</li> <li>▶ 自社での脱炭素の取り組み</li> </ul>
<p>人材育成と多様性社会の推進</p> 	<ul style="list-style-type: none"> <li>▶ グループ全体での技術・技能者の確保・人材育成の推進</li> <li>▶ 中電工協力会・グループ企業との連携強化</li> <li>▶ 中電工協力会会員への技術教育等のフォロー</li> <li>▶ 働き方改革の継続および実践、働きがいのある職場の形成</li> <li>▶ ワーク・ライフ・バランスおよびダイバーシティの推進</li> </ul>

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**Moderator:** Next question.

How do you plan to tackle the SDGs in concrete terms?

**Sakotani:** Our business is closely linked to the 17 goals of the SDGs. We believe that it is important for each and every employee to be aware of this connection in their work, so that we can achieve the goals of the SDGs.

From this perspective, we have linked the main measures of the Medium-Term Management Plan 2024 to the 17 goals of the SDGs and have selected 4 issues to tackle: thoroughgoing safety and compliance, provision of safe and high-quality facilities, realization of a decarbonized society, and human resource development and promotion of a diverse society.

These are the 4 issues we have decided to tackle.

**Moderator:** Next question.

What are your thoughts on how to respond to the new market segmentation of TSE?

**Sakotani:** We received a notice of judgment results from the TSE in July of this year. That is, we meet the criteria for both the prime and standard markets. We are currently considering which option to choose and hope to make a decision and announce our policy by the end of this year.

**Moderator:** Next question.

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Although sales and profits decreased in the 2nd quarter, do you expect sales to increase and operating income to rise for the full year?

**Sakotani:** In recent years, our construction projects have been getting larger and larger. Sales of large-scale construction projects are recorded in line with the progress of construction work. In the 2nd quarter, some large-scale construction projects were delayed due to the slow start of the process and progress was slow, resulting in lower sales and profits.

In the future, we expect to increase sales and operating income for the full year, as the delay in progress is resolved and the increase in the amount carried forward is recorded in sales.

**Moderator:** Next question.

What is the current status of Showa Corporation?

**Sakotani:** Showa Corporation was acquired the year before last, and we have formulated a growth strategy and have been working on it systematically.

Showa Corporation's sales decreased by about JPY1.2 billion from the previous year due to delays in major construction projects in the 2nd quarter. But for the full year, we expect sales to increase by JPY1.0 billion from the previous year to JPY21.0 billion by eliminating the delays in major construction projects and passing on the higher cost of raw materials to sales prices.

We believe that we will be able to meet the plan. Operating income is also expected to meet the planned level at JPY1.2 billion, almost the same amount as the previous year. As a result, Showa Corporation understands that the business is progressing smoothly as planned.

**Moderator:** Next question.

What is the status of your ESG initiatives?

**Sakotani:** In our business operations, we have traditionally emphasized environmental, social, and governance issues, such as reducing our environmental impact, promoting social contribution activities, and women's activities, and complying with the CG Code.

In recent years, more than ever before, companies are expected to generate profits and grow, while responding firmly to ESG issues.

In addition to placing the highest priority on safety and compliance, we will steadily address ESG issues by promoting decarbonization and strengthening human resource development, which are the foundations of our business operations and various measures in Midterm Corporate Strategy 2024.

**Moderator:** I have a question here that I would like to read out.

The gross profit margin is on a downward trend for general contractors, but is there any change in the order environment? Also, please tell us again about your stance on orders and whether you are aiming to expand in urban areas even under severe competition.

**Sakotani:** It is true, as I mentioned earlier, that the overall demand has dropped a little from the peak because the demand for the Olympics has disappeared.

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In such a situation, competition is getting tougher, and we are aware that it is difficult to make a profit. However, even in such a difficult situation, we need to overcome it by making efforts to improve efficiency and productivity.

As I mentioned earlier in my explanation of the project, we have a growth strategy to maintain growth by expanding the urban area while maintaining a strong presence in the Chugoku region, and we will continue to adhere to this direction.

To that end, we will continue to strengthen our system and improve efficiency in the Chugoku region and metropolitan areas as well.

That is all.

**Moderator:** Thank you very much.

This concludes the briefing on the financial results for the 2nd quarter of FY2021 of CHUDENKO Corporation.

**Sakotani:** Thank you very much for your time.

**Moderator:** Thank you very much for joining us today.

[END]

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#### **Document Notes**

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *This document has been translated by SCRIPTS Asia.*

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