



CHUDENKO CORPORATION

Financial Results Briefing for the Fiscal Year Ended March 2022

May 31, 2022

Event Summary

| | |
|-----------------------------|---|
| [Company Name] | CHUDENKO CORPORATION |
| [Company ID] | 1941-QCODE |
| [Event Language] | JPN |
| [Event Type] | Earnings Announcement |
| [Event Name] | Financial Results Briefing for the Fiscal Year Ended March 2022 |
| [Fiscal Period] | FY2021 Annual |
| [Date] | May 31, 2022 |
| [Number of Pages] | 28 |
| [Time] | 10:00 – 10:50 (Total: 50 minutes, Presentation: 26 minutes, Q&A: 24 minutes) |
| [Venue] | Webcast |
| [Venue Size] | |
| [Participants] | |
| [Number of Speakers] | 1 Akira Sakotani Representative Director and President |

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2021年度業績（事業環境と当社グループの概況）

建設業界

- 公共設備投資は高水準にあり、民間設備投資に持ち直しの動き
- 厳しい受注競争や労働者不足、原材料価格の高騰に加え、コロナ禍による影響が懸念

当社グループの概況

- 中期経営計画2024をスタート
- 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

Sakotani: Hello, everyone. I am Mr. Sakotani, President of CHUDENKO. Thank you very much for your participation in the FY2021 Financial Results Meeting. Today, I would like to begin by explaining our business results for FY2021, followed by our forecast for FY2022, and the status of our mid-term management plan initiatives. Thank you very much for your time today. Now, here are the results for FY2021.

First, I would like to explain our business environment in FY2021 and the general situation of our group. In the construction industry, public capital investment remained at a high level and private capital investment showed signs of picking up, but there were still concerns about the impact of the pandemic, in addition to severe competition for orders, labor shortages, and soaring raw material prices.

Under these circumstances, the Group has launched its Medium-Term Management Plan 2024, targeting FY2024, the 80th anniversary of founding, and has been pursuing various measures, such as strengthening foundation in the Chugoku region, expanding business in urban areas, and promoting business reforms.

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2021年度業績（損益計算書：連結）

対前年度「増収・営業利益増益」

- 売上高は10期連続増収（中電工個別45億円増、連結子会社16億円増）
- 営業利益は3期連続増益（中電工個別前年並み、連結子会社3億円増）

| 連結業績 | 2020年度 | 2021年度 | 増減額 | 前年比 |
|-------------------------------|---------|-------------|-----|------|
| 売上高 | 1,844億円 | 1,906 | 62 | 103% |
| 売上原価 | 1,590億円 | 1,651 | 60 | 104% |
| 売上総利益 (13.8%) | 254億円 | (13.4%) 255 | 1 | 101% |
| 販管費 | 159億円 | 158 | ▲1 | 99% |
| 営業利益 (5.1%) | 94億円 | (5.1%) 97 | 2 | 103% |
| 経常利益 (6.5%) | 118億円 | (6.3%) 119 | 0 | 101% |
| 親会社株主に帰属する 当期純利益 (4.4%) | 81億円 | (3.5%) 66 | ▲14 | 82% |

※()内は売上高利益率

As a result, for FY2021, net sales increased for the 10th consecutive year, rising JPY6.2 billion from the previous year to JPY190.6 billion, as sales increased JPY4.5 billion on a non-consolidated basis at CHUDENKO, due to increases in air conditioning piping and information communications; and consolidated subsidiaries also saw an increase of JPY1.6 billion.

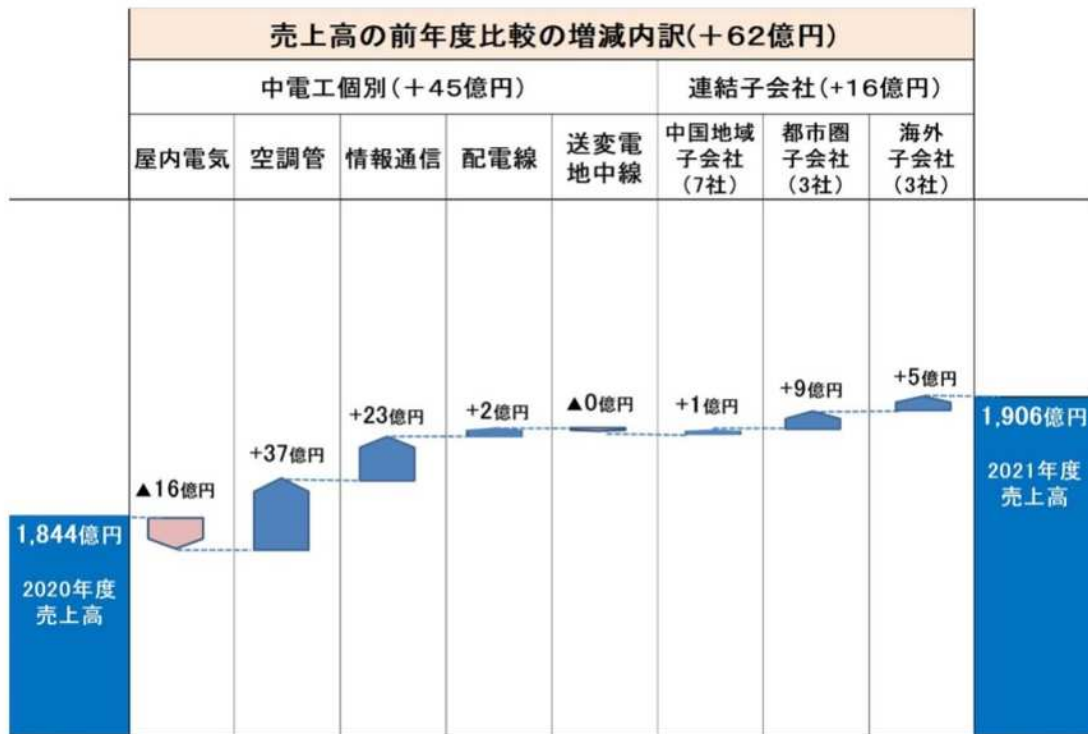
Next, operating income increased JPY200 million to JPY9.7 billion, the third consecutive year of growth, due to increased sales and thorough cost control efforts. Ordinary income increased slightly to JPY11.9 billion. Net income decreased JPY1.4 billion to JPY6.6 billion, due to decrease in gain on sales of investment securities and loss on valuation of stocks of subsidiaries and affiliates.

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2021年度業績（売上高の前年度比較の増減内訳:連結）



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Next, looking at the difference in sales from the same period of the previous year, CHUDENKO's non-consolidated sales increased by JPYJPY4.5 billion from the previous year, with an increase in air conditioning piping and information communication, despite decrease in indoor electric work.

Consolidated net sales for the current fiscal year increased JPY6.2 billion to JPY190.6 billion, compared to JPY184.4 billion in the previous fiscal year. Consolidated subsidiaries also increased by JPY1.6 billion YoY, mainly due to JPY900 million increase in metropolitan areas and JPY500 million increase overseas.

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2021年度業績（営業利益の前年度比較の増減内訳：連結）



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Next, looking at the difference in operating income from the previous year, on a non-consolidated basis, operating income of CHUDENKO decreased by JPY1.1 billion in the general division, due to a decline in profit margin caused by competition for orders, but increased by JPY1.1 billion in the electric power division, partly due to the leveling off of construction, resulting in an overall increase of almost the same amount as in the previous year.

As for the consolidated financial processing, operating income of consolidated subsidiaries increased by JPY200 million and amortization of goodwill decreased from the previous year, resulting in increase of JPY300 million. As a result, consolidated operating income for the current fiscal year increased by JPY200 million to JPY9.7 billion compared to JPY9.4 billion in the previous year.

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2021年度業績（貸借対照表：連結）

| | 2021年3月末 | 2022年3月末 | 増 減 | 主な増減要因 |
|---------|----------|----------|------|-----------------------------|
| 流動資産 | 1,082億円 | 1,149 | 66 | 完成工事未収入金等 86 |
| 固定資産 | 1,682億円 | 1,647 | ▲34 | 投資有価証券 ▲30 |
| 資産合計 | 2,765億円 | 2,797 | 32 | |
| 流動負債 | 439億円 | 488 | 48 | 支払手形等 46 |
| 固定負債 | 137億円 | 145 | 7 | |
| 負債合計 | 577億円 | 633 | 56 | |
| 純資産合計 | 2,187億円 | 2,163 | ▲24 | その他有価証券評価差額金 ▲16 自己株式 ▲8 |
| 負債純資産合計 | 2,765億円 | 2,797 | 32 | |
| 自己資本比率 | 77.6% | 76.2 | ▲1.4 | |

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Next is the balance sheet.

Total assets increased JPY3.2 billion to JPY279.7 billion, mainly due to an increase in accounts receivable from completed construction contracts. Total net assets decreased JPY2.4 billion to JPY216.3 billion, mainly due to JPY1.6 billion decrease in unrealized gains on securities.

The equity ratio decreased 1.4 percentage points from 77.6% in the previous year to 76.2%, mainly due to a decrease in shareholders' equity and an increase in total assets.

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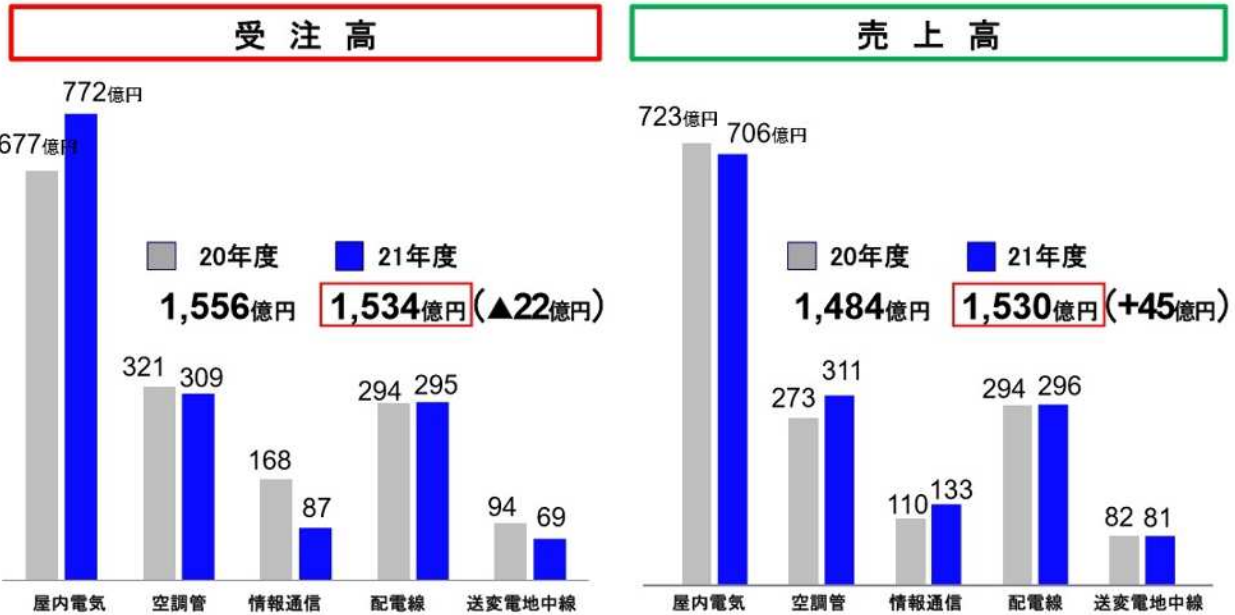
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2021年度業績（部門別受注高・売上高:個別）

- 受注高は、1,534億円と対前年度22億円減（主に情報通信が減少）
- 売上高は、1,530億円と対前年度45億円増（主に空調管と情報通信が増加）



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Next, I would like to show you CHUDENKO's non-consolidated orders and sales by division.

Orders received on the left side totaled JPY153.4 billion, decrease of JPY2.2 billion from the previous year, due to an increase in office construction for indoor electrical work, but decrease in hospitals and other facilities construction for air conditioning piping, and decrease in work for high-speed networks and GIGA schools for information communications.

On the right side, overall sales were JPY153 billion, increase of JPY4.5 billion from the previous year, mainly due to an increase in factory work for air conditioning piping and high-speed network work in information communications, despite decrease in office work in indoor electrical work.

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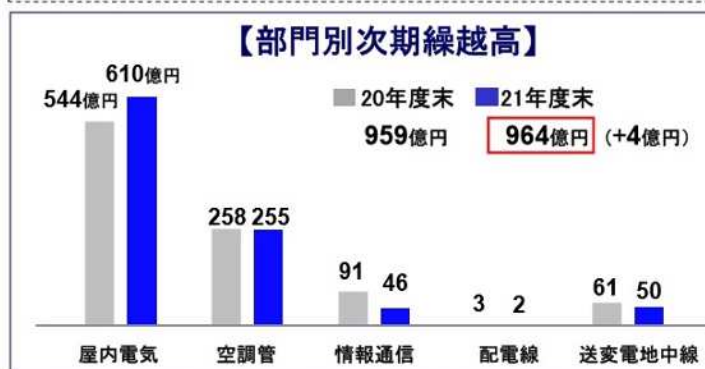
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2021年度業績（部門別受注高・売上高:個別）

➤ 受注高・売上高ともに1,500億円超

【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, although orders received did not reach the level of the previous fiscal year, they remained high, exceeding JPY150 billion, and net sales exceeded the previous fiscal year, reaching the highest level in the last five years.

Next, carryover volume increased by JPY0.4 billion from the previous year to a record high of JPY96.4 billion overall, with an increase in indoor electrical work by sector, and a decrease in the Chugoku region by region, but with a large increase in the metropolitan area.

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2022年度業績予想（連結）

「増収・増益」の見込み

- 売上高は増加（中電工個別9億円増、連結子会社43億円増）
- 営業利益は売上総利益の増加などにより、増益の見込み

| 連 結 業 績 | 2021年度 | | 2022年度予想 | | | |
|---------------------|--------|---------|----------|------|---|------|
| | | | 増減額 | 前年比 | | |
| 売 上 高 | | 1,906億円 | 1,960 | 103% | | |
| 営 業 利 益 | (5.1%) | 97億円 | (5.1%) | 100 | 2 | 102% |
| 経 常 利 益 | (6.3%) | 119億円 | (6.2%) | 122 | 2 | 102% |
| 親会社株主に帰属する 当期純利益 | (3.5%) | 66億円 | (3.8%) | 75 | 8 | 112% |

※（ ）内は売上高利益率

Next, I would like to explain our forecast for FY2022.

The Company expects to increase both sales and profits on a consolidated basis in FY2022. Net sales are expected to increase by JPY5.3 billion from the previous year to JPY196 billion, with an increase of JPY0.9 billion at CHUDENKO on a non-consolidated basis and JPY4.3 billion on consolidated subsidiaries.

Operating income is expected to increase by JPY200 million to JPY10 billion, due to an increase in gross profit from higher sales. Ordinary income also increased JPY200 million to JPY12.2 billion. Net income is expected to increase by JPY800 million to JPY7.5 billion, due to the absence of extraordinary losses, such as the loss on valuation of stocks of subsidiaries and affiliates that was recorded in FY2021.

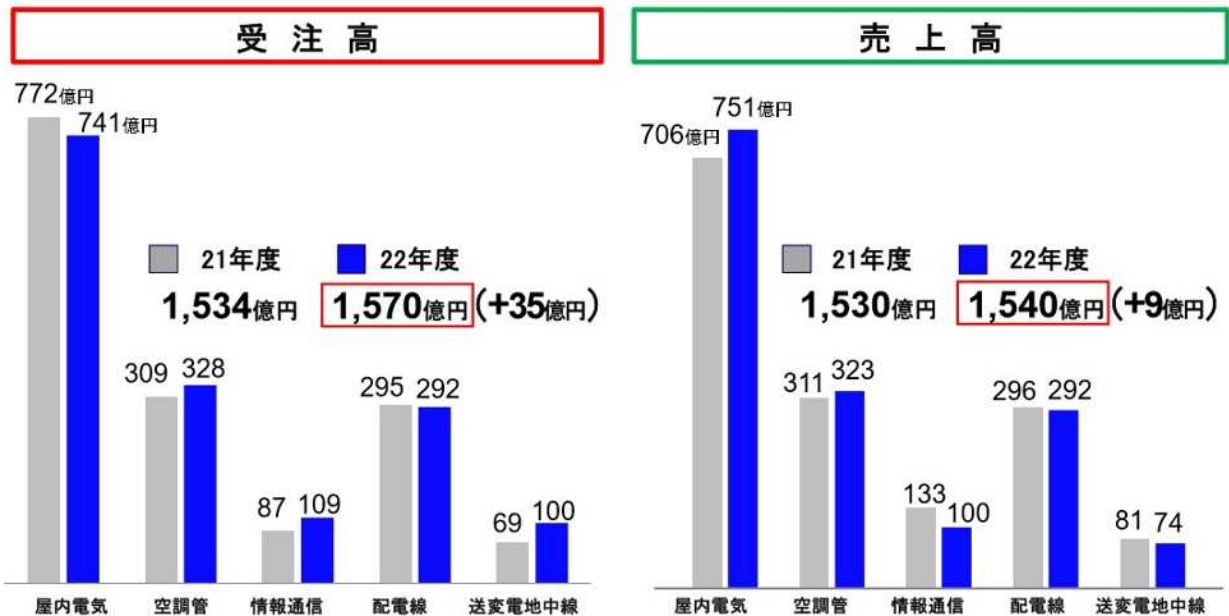
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2022年度業績予想（部門別受注高・売上高:個別）

- 受注高は、35億円増加の見込み（主に空調管などが増加）
- 売上高は、9億円増加の見込み（主に屋内電気などが増加）



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Next are orders received and sales by individual sector.

Orders on the left are expected to increase to JPY157 billion, up JPY3.5 billion from the previous year, due to expected increases in air conditioning piping, information communications, and power transmission and substation underground lines, although decrease is expected in indoor electrical work.

Net sales, on the right side, are expected to be JPY154 billion, increase of JPY0.9 billion from the previous year, mainly due to an increase in indoor electrical work, which has a higher carryover at the end of FY2021, despite a decrease in information communication.

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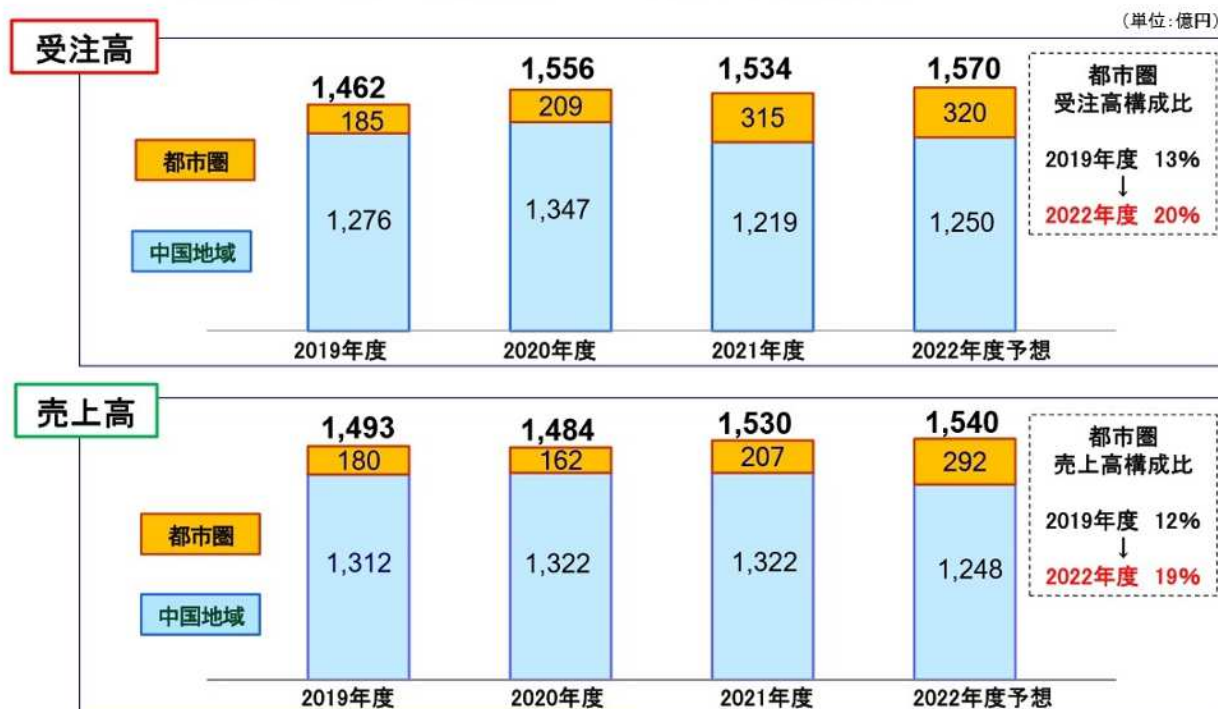
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2022年度業績予想（地域別受注高・売上高:個別）

➤ 中国地域の売上を維持しつつ、都市圏を拡大



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Next are orders and sales by individual region.

As a growth strategy, we have been maintaining sales in the Chugoku region and expanding in the metropolitan area. Orders and sales in the Chugoku region, shown in blue, will remain firmly between JPY120 billion and JPY130 billion, while orders and sales in the metropolitan area have been steadily increasing, with sales up JPY8.4 billion from the previous year to JPY29.2 billion in FY2022.

As a percentage of sales, we expect a steady increase from 12% three years ago to 19%.

We will continue to maintain orders in the Chugoku region and expand in the metropolitan area.

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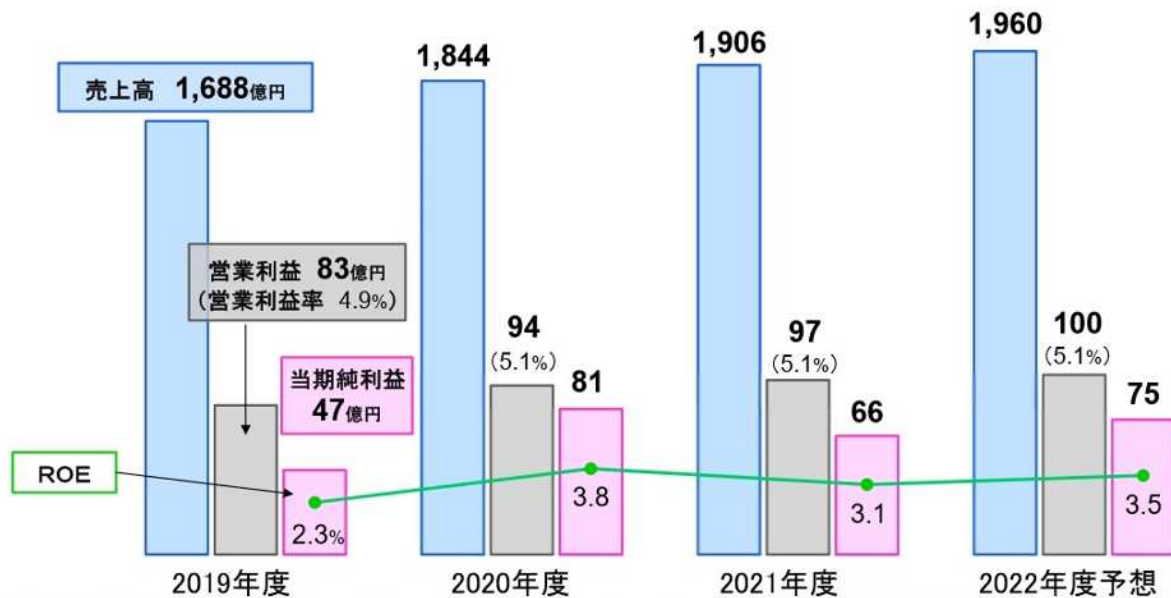
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2022年度業績予想（主な経営指標の推移:連結）

- 売上高は11期連続の増収、営業利益は4期連続の増益の見込み
- 営業利益率は前年並み



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Next are the main management indicators.

Blue bar graph, net sales have continued to increase since FY2012, and are expected to increase for 11 consecutive fiscal years, reaching JPY196 billion in FY2022.

Operating income in gray color increased JPY200 million YoY to JPY10 billion, the fourth consecutive year of growth. The operating income margin is expected to be 5.1% as a result of efforts to improve construction efficiency and reduce costs.

Green ROE is expected to increase by 0.4 percentage points to 3.5%, due to the increase 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、都市圏の事業拡大に引き続き取り組み、受注拡大と施工体制を強化
- 施工の効率化、コスト低減等による利益の確保・拡大と競争力強化

「DXと脱炭素化の推進」

- DXによる生産性向上を推進
- カーボンニュートラルに向けて自社の脱炭素化とともに、自家消費型太陽光PPA事業などお客様の脱炭素化をサポート

I will continue by explaining the Medium-Term Management Plan 2024.

We have previously discussed our Mid-Term Management Plan 2024, and I would like to explain it to you based on the current status of our efforts.

The Medium-Term Management Plan which started in FY2021, is a four-year plan for further growth, targeting FY2024, the 80th anniversary of our founding.

The theme is Change and Growth, following the previous Medium-Term Management Plan, with two sub-themes. The first is to strengthen sales and construction systems and increase profits, and the second is to promote DX and decarbonization.

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中期経営計画2024（主要施策）

| | |
|--|--|
| 受注の拡大・施工体制の強化 | <ul style="list-style-type: none"> ◆ 営業力の強化による受注拡大 ◆ 実績データの分析やBIM等を活用した設計力の強化・向上 ◆ 施工体制の強化・拡充 ◆ グループ企業との連携強化 |
| ⇒情報通信工事部門の事業拡大 ⇒空調管工事部門の体制強化 | |
| 利益の確保・拡大と競争力強化 | <ul style="list-style-type: none"> ◆ 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 ◆ 全社およびグループ企業と連携したコスト低減 ◆ DXの推進による生産性向上 |
| ⇒大型工事での利益の確保・拡大のための検討会の強化 ⇒中型工事および追加工事の確保による利益率の向上 | |
| 人材育成の強化と働き方改革の推進 | <ul style="list-style-type: none"> ◆ 施工管理の強化に向けた人材育成 ◆ グループ全体での技術・技能者の確保・育成 ◆ 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 |
| ⇒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 | |

Next, we are working on five major measures to achieve our Mid-Term Plan.

Based on the results of FY2021, we will add some additional measures in FY2022.

First, to increase orders and strengthen the construction system, we will strengthen proposal-based sales, utilize digital technology, and strengthen cooperation with Group companies as well as engage in M&A.

In the second area of securing and expanding profits and strengthening competitiveness, we will work to secure and expand profits, especially in large-scale construction projects, through efficient construction using DX and strengthening cost management. In addition, we will work to improve profit margins by securing medium-sized and additional construction projects.

Third, in terms of strengthening human resource development and promoting work style reforms, we will continue to work within the Group to secure and develop human resources, and we will also promote work style reforms by reforming operations, promoting DX, and otherwise raising productivity.

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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"> ◆ 電力安定供給への確実な貢献 ◆ お客様満足度の向上 |
| <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 ⇒工事全体にわたる品質向上の推進</p> | |
| 成長投資(M&A・出資等)による事業拡大 | <ul style="list-style-type: none"> ◆ 自社の脱炭素化 <ul style="list-style-type: none"> ・自社社屋への自家消費型太陽光発電の設備など ◆ 脱炭素化支援として環境関連ビジネスの推進 <ul style="list-style-type: none"> ・自家消費型太陽光PPA事業など ◆ 施工体制の強化等に向けたM&Aの推進 ◆ 技術研究開発 |
| <p>⇒自社社屋への自家消費型太陽光発電の設置を14カ所でスタート、ZEB化は2カ所 ⇒自家消費型太陽光PPA事業では12件の事業化が決定、ZEB化について4件受注</p> | |

Fourth, in terms of quality improvement, we will strive to improve quality not only in the workmanship of the installed facilities, but also in the satisfaction of our customers by strengthening the checking function for each construction process.

In addition, in the area of electric power, we are working to strengthen cooperation with the Chugoku Electric Power network in order to respond promptly in the event of an emergency.

Fifth, in terms of business expansion through growth investment, we are considering investments in M&A, renewable energy, and other areas.

Along with our decarbonization, we will also promote environment-related businesses to support our customers' decarbonization, such as our own solar PPA business and ZEB conversion.

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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む
⇒2024年度目標 売上高2,100億円、営業利益120億円



Next, the numerical targets of the Medium-Term Management Plan are consolidated net sales of JPY210 billion, operating income of JPY12 billion, and operating margin of 5.7% for the final year of the plan, FY2024.

In FY2021, our first year of operations, we got off to a good start, achieving both net sales and operating income as planned.

Although the situation remains uncertain, due to the recent severe competition for orders and the pandemic, as well as the impact of the situation in Ukraine, the Group will continue to make concerted efforts to implement various measures and strive to achieve our goals.

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中期経営計画2024（人材の確保・育成）

定期採用者数

| 2019年度 | 2020年度 | 2021年度 | 2022年度 | 2023年度 予定 |
|--------|--------|--------|--------|--------------|
| 119名 | 138 | 135 | 116 | 150 |

年齢別構成(個別)



有資格者数

| 資格名 | 取得者数 | | |
|------------------|--------|-------|-----|
| | 18年10月 | 22年4月 | 増減 |
| 電気工事施工管理技士(1.2級) | 1,037名 | 1,153 | 116 |
| 管工事施工管理技士(1.2級) | 278名 | 291 | 13 |
| 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3割弱

若年社員の成長

技術力・施工力UP

Next, I would like to discuss the securing and development of human resources, which are our most valuable asset and essential to the achievement of our Medium-Term Management Plan.

Although recruiting has been challenging in recent years, the Company continues to hire 120 to 130 employees and plans to hire regularly at fixed time for total of 150 in FY2023 in order to increase the number of power-related employees.

As you can see from the pie chart, young workers under the age of 30 account for nearly 30% of the total, and we are making efforts to quickly train and empower the younger workers by, for example, acquiring electrical and plumbing qualifications.

As a result, the number of qualified personnel has increased with the improvement of our technical and construction capabilities, it is the driving force behind the increase in sales.

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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

再生可能エネルギーへの投資に取り組む

- 2022年3月 サマイデン社の株式等取得および事業連携覚書の締結

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

We have established an investment framework of JPY40 billion to invest for sustainable growth.

Specifically, we are expanding our business through M&A, investing in renewable energy, decarbonizing our own operations, and engaging in PPA projects to help our customers decarbonize their operations.

As for results for FY2021, we acquired shares of Samaiden Group Berhad in Malaysia in March of this year and concluded a memorandum of understanding for business collaboration.

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中期経営計画2024（サマイデンへ社の出資）

▶ 2022年3月 サマイデン社の株式等取得・事業連携覚書締結

会社の概要（当社出資比率:15.15%）

| | |
|------------------|---|
| 会社名 | Samaiden Group Berhad（サマイデン社） |
| 所在地 | マレーシア |
| 事業内容 | 太陽光発電設備の設計、施工、O&M(運転・保守)および環境コンサルティング事業 |
| 営業拠点 | マレーシア |
| 業績 (2021年6月期) | 売上高 約15億円, 税引後当期純利益 約2億円 |
| 資本金 | 約9.6億円 |
| 会社設立 | 2013年設立 |

サマイデン社との事業連携によって、現地での再エネ事業への共同投資や太陽光発電工場の共同受注などを実現し、今後成長が見込まれる東南アジアの再生可能エネルギー市場の成長を取込む

Let me explain a little about the Samaiden Group.

Samaiden is engaged in the design, construction, operation, and maintenance of photovoltaic power generation facilities, and construction of biomass gas power generation facilities.

Although sales for the fiscal year ended June 2021 were approximately JPY1.5 billion, partly due to COVID-19, the Company has an order backlog of over JPY5 billion and expects sales to grow in the future.

Through business collaboration with the Company, we intend to make joint investments in renewable energy projects in Southeast Asia, particularly Malaysia, where expansion of renewable energy is expected, or collaborate with our Malaysian subsidiary.

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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年度予定・・・DOE 2.75%，年間1株当たり配当金 104円

【参考】配当利回り 4.92%（2022年5月10日 終価 2,115円）
連結配当性向 86.0%，総還元性向 106.1%

自己株式

2021年度・・・取得株式数：60万株（取得価額 13億円）

【参考】（2022年3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 discuss the dividend policy.

With respect to shareholder returns, the Company places emphasis on providing sustainable and stable dividends and will continue to target a DOE ratio of 2.7%.

In addition, the Company will repurchase its own shares as necessary, taking into consideration the overall business environment and other factors.

Regarding dividends, we expect DOE of 2.75% for FY2021, annual dividend per share of JPY104, and payout ratio of 86%.

In addition, 600,000 shares of treasury stock were repurchased last August, and the total return ratio is expected to be 106.1%.

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2022年度配当予想（配当金・配当性向）

➤ 22年度もDOE2.7%を目処に年間1株当たり104円を予想



Continuing on, here are the dividend rates and payout ratios.

The blue bar graph shows the dividend per share and the red line graph shows the dividend payout ratio.

We adopted DOE in FY2014 and have increased the rate from around 2% to around 2.7% since FY2018, and we expect DOE of 2.7% for FY2022, or JPY104 per share per year.

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その他（ESGへの取り組み）

環境

- ◆ カーボンニュートラルへの挑戦に向けたロードマップの公表
- ◆ TCFD提言への賛同を表明

社会

- ◆ パートナーシップ構築宣言の公表
- ◆ 障がい者雇用の推進（子会社のベリーネが特例子会社に認定）

ガバナンス

- ◆ プライム市場を選択し高いガバナンス水準を保持

Next, as part of our ESG initiatives, on the environmental front, we announced our endorsement of the TCFD recommendations, as well as our roadmap as part of our challenge to become carbon neutral by 2050 in April of this year.

Next, with regard to society, we regularly conduct activities that contribute to the local community, such as cleanups, and we have announced a declaration of partnership with our partner companies.

With regard to employment of people with disabilities, our agricultural subsidiary was certified as a special-purpose subsidiary in January of this year, and we will work to maintain and expand employment of people with disabilities.

In addition, we are committed to maintaining high standards of governance as a prime market company, while striving for sustainable growth and medium- to long-term enhancement of corporate value.

This concludes the explanation. The following is for reference materials and is omitted from the explanation.

Thank you for watching.

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Question & Answer

Moderator [Q]: We will now move on to the question-and-answer session. Let me read the first question.

How do you factor in the current rise in material prices, and to what extent do you plan to cover this with cost reductions and other measures? Regarding the new project, I assume that the cost increase is beyond the range that can be absorbed by the Company's efforts and that it is necessary to pass on the price to the customer. Mr. President, please respond.

Sakotani [A]: Regarding the question of how to factor in price increases and how to cover them with cost reductions, first of all, it is difficult at this point to estimate how much the price increase will go up. However, as things stand now, for example, the price of cables, which are a major material in our so-called facility construction industry, has risen 1.5 times that of the year before last and the year before last. It is naturally very difficult to construct at the same cost as before due to rising prices.

In addition to our internal efforts to improve efficiency and reduce costs, we are also working to reduce procurement costs as much as possible in response to extreme rises in the cost of materials and equipment, such as by arranging for materials early or placing bulk orders.

It is possible that costs will increase further in the future. From that perspective, as you mentioned in your question today, we believe that the negotiations with customers will become a very important. In this sense, one of the first things to do is to make sure that the soaring material prices are factored into the estimate at the time of receiving orders, and then to make a contract on that basis.

Another point is that there are some projects with very long construction periods, and for such projects and properties, we will take measures to deal with the case of procurement price increases, such as a sliding scale clause at the time of contracting, or other items to hedge such risks, which will be thoroughly discussed in the contract. At present, our major clients, general contractors, and super general contractors, are in the same position as we are, and we are aware that they recognize us to a certain extent.

In the meantime, we have had various opportunities to exchange opinions with the Ministry of Land, Infrastructure, Transport and Tourism about the recent price hikes in government construction projects. We had discussions about allocating a budget that takes into account the rising cost of such materials and equipment at the budget stage from the construction work ordered by the government. We also have asked them to provide guidance to local governments on how to respond to such price hikes in the budget stage. I have explained the current situation.

Moderator [Q]: Thank you very much. This is all for questions from Q&A function, but here we would like to answer some of the questions we receive from investors on a daily basis.

First of all, what are you doing to promote DX? Mr. President, please answer.

Sakotani [A]: As I explained earlier, we receive questions from investors at IR meetings and in other situations. I would like to share some of those points with you.

First of all, we are often asked what specific efforts we are making as a construction company to promote DX. We believe that DX is an extremely important initiative to enhance competitiveness by improving efficiency and productivity. We launched the DX Promotion Project to oversee the entire Company in January 2021.

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We have also been developing various DX projects throughout the Company, while communicating the status of its activities to the entire Company. As a specific measure, we have been working on the introduction of various IT technologies, such as smartphones and RPA, since before the DX stage.

In addition to these efforts, we have examined whether the core systems for accounting and construction management are up-to-date and what kind of problems they have. We discussed how we can reform these based on the examinations we took.

In addition to these considerations, the actual work has done last year included reorganizing the entire business communication infrastructure to facilitate various remote meetings. As part of the review of the system, we have also changed the paper-based expense reimbursement system to an electronic approval system to speed up the process and make it paperless and efficient. These are our current measures we are taking.

Based on the results of the verification, we are planning to make firm efforts to improve efficiency and productivity by repeating the PDCA cycle throughout the Company, which may take from three years to a few more years for some longer projects.

Moderator [Q]: Thank you very much. Next question. ROE is stagnant, how do you intend to improve it? Mr. President, please answer.

Sakotani [A]: This is another question that is always asked. Our ROE was about 3.5% in FY2021, and it was 3.1% before that. We have been asked questions such as, "We are only at the 3% level. Where do you intend to take this to and how do you intend to improve this level?"

If we achieve the goals of the Medium-Term Management Plan 2024, which I explained earlier, we believe that we will be able to achieve ROE of 4%, which is currently only at the 3% level. We will achieve the goals of this Medium-Term Business Plan by firmly promoting the five major measures I have just explained, in particular, raising productivity through DX, etc., and firmly strengthening our sales and construction systems. By doing so, we will achieve the goals of this Medium-Term Management Plan and raise ROE to the 4% level.

In addition to our efforts in the facility construction business and the growth we intend to achieve through these efforts, we have also set aside JPY40 billion for investment in growth, as I mentioned earlier. We have been working on with wind energy power, M&A and etc., and engaged in PPA projects since the previous fiscal year. The profits from many of these businesses have so far been offset by amortization of goodwill and other factors, but as the amortization progresses, the profits will become more apparent. With these, we hope to achieve the 5% level in the medium to long term.

Moderator [Q]: Thank you very much. Next question.

A question about if there are any plans to change the dividend policy. Mr. President, please answer.

Sakotani [A]: As I explained earlier, our basic policy regarding dividends is to pay sustainable and stable dividends, and we have adopted the DOE. Specifically, we will make decisions while carefully monitoring the balance between investment for growth and dividends. In consideration of the earnings forecast and financial situation during the period of the Medium-Term Management Plan, we would like to continue to maintain DOE of 2.7%, or JPY104 per share.

Moderator [Q]: Thank you very much. I have received a question and would like to read it out.

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Under the rising cost of materials, have there been any synergies such as bulk orders with the Chugoku Electric Power Group? Also let us know if there are any areas where cooperation with them will strengthen or weaken your business in the future. Mr. President, please answer.

Sakotani[A]: As for the synergy with the Chugoku Electric Power Group, in terms of bulk orders, there is a part of the construction work that we received from the Chugoku Electric Power Group. For this part, Chugoku Electric Power Company placed the order for the total construction work, including the other parts of the project on the merit of scale, and handed over the materials to us for the construction work.

Another thing is that we do not have any specific cases of joint procurement among our partner companies or Group companies, but we have been procuring materials on a large scale to take advantage of economies of scale.

About the area where this cooperation strengthens or weakens in the future in the business. The Chugoku Electric Power Group basically consists of many energy-related businesses of Chugoku Electric Power, but there is one company that is involved in the so-called ESCO business, and etc. We are still cooperating with such companies in some areas like solar power, ZEB business, and other businesses that promote efficiency.

We believe that there will be more and more opportunities to expand our business together as the need for carbon neutrality and various other aspects will increase in the future.

Moderator [Q]: Thank you very much. We will now return to questions from our investors that we receive on a daily basis.

On business expansion in the metropolitan area. I believe competition is stiff as other companies in the same industry are expanding into the metropolitan area. The questioner is asking about the declining gross profit margins of general contractors. What is the profit margin on orders received especially in the metropolitan area? Mr. President, please answer.

Sakotani[A]: This is another question we get often. I think this question is also based on the question of whether the Company based in the Chugoku region can really secure profits by expanding into the Kanto and Kinki regions, even though the conditions are quite unfavorable.

To answer to this question, compared to the Chugoku region, demand for redevelopment projects is very strong in the metropolitan area. As you mentioned, competition for orders is very fierce, but we are able to secure a certain level of profit.

We experienced a lot of difficulties when we first started our business in Tokyo, Osaka, Nagoya, and Kyushu, but as we have gradually built up our track record, our relationships with our customers have gradually become stronger and more solid. Our construction techniques, construction efficiency, and material procurement have improved considerably, and our profits are gradually increasing. We feel that our performance is slightly outpacing, rather than progressing a tougher situation. Considering these points, we would like to continue to try and expand our business in the metropolitan area.

Another thing is that we are now hiring in the metropolitan area, albeit gradually. From this point of view, we believe that achieving solid results in the metropolitan area will help us secure human resources through synergies and lead to our company's development in the long run. We would like to continue to work firmly on the metropolitan area.

Moderator [Q]: Thank you very much.

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The next question was whether there is any plan to expand the market share of the local Chugoku region. Mr. President, please answer.

Sakotani [A]: Conversely, we sometimes hear questions and opinions from investors in the Chugoku region like, "You should make more efforts to expand your business in the Chugoku region rather than engage in tough competition in the urban areas." Naturally, CHUDENKO is based in the Chugoku region, and we have been responding to the needs of our customers in factories, hospitals, offices, and so on.

As a community-based company, we are determined to continue to respond to the needs of our customers and to actively capture demand and expand our business in the Chugoku region while improving efficiency and meeting customer needs.

Moderator [Q]: Thank you very much. Okay, the next question will be the last one.

How is the JPY40 billion investment progressing? Mr. President, please answer.

Sakotani [A]: In this Medium-Term Plan 2024, we have set a four-year investment limit of JPY40 billion until FY2024, and we have made various investments during the previous Medium-Term Plan period.

We have three companies in Japan that do electrical, air conditioning, and thermal insulation work, as well as one overseas M&A. We have also invested in offshore wind power and other projects overseas. And in FY2021, the first year of the current Medium-Term Plan, we invested in Samaiden, which is engaged in the solar power generation construction in Malaysia, as I explained a little earlier. And now, we are in the process of discussing with Samaiden what we can do in Malaysia, and in what areas we can collaborate and expand our business.

As for what we will do in FY2022 and beyond, we will continue to make investments in renewable energy and respond to good projects as they arise. In addition, if there are any good M&A opportunities, especially those related to HVAC pipe work, that would lead to the expansion of our current business as a facility construction company, we would like to group with them steadily. We would like to work toward the current mid-term plan and beyond by firmly fulfilling the expansion of our business as a facility construction business. In addition, we would like to consider M&A opportunities in fields other than the facility construction business, if there are any good companies that we think would be suitable for our business.

Moderator [M]: Now that the time has come, we would like to end the presentation of the financial results of CHUDENKO CORPORATION for FY2021.

Sakotani [M]: Thank you very much.

Moderator [M]: Thank you very much for joining us today.

[END]

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].*
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