

Financial Results Briefing for the Second Quarter (Q2) of the Fiscal Year Ending March 31, 2024 (FY2023)

December 6, 2023



株式会社 **中電工**

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Representative Director and President

Briefing Topics

- 1 FY2023 Q2 Performance
- 2 FY2023 Earnings Forecasts
- 3 Medium-Term Management Plan 2024 [FY2021-2024] Initiatives
- 4 CHUDENKO Group 2030 Vision
- 5 Reference (Company Profile, etc.)

1. FY2023 Q2 Performance

Construction industry

- Public capital investment remained firm and private capital investment is picking up.
- The price of energy and raw materials remains high due to the prolonged situation in Ukraine and exchange rate fluctuations.

Group Overview

- Transitioned to a company with an audit and supervisory committee with the aim of enabling swift and decisive decision-making and execution of business execution, as well as further enhancing corporate governance.
- Withdrew from Taiwan offshore wind power generation business, which posted a large loss at the end of the previous fiscal year.

FY2023 Q2 Performance (Income statement, consolidated)

Recorded a year-on-year increase in both sales and profit.

- Increase in net sales of ¥3.1 billion (up ¥1.9 billion for Chudenko parent and up ¥1.2 billion for consolidated subsidiaries).
- Increase in operating profit of ¥0.3 billion (up ¥0.7 billion for Chudenko parent and down ¥0.3 billion for consolidated subsidiaries).

(Billions of yen)

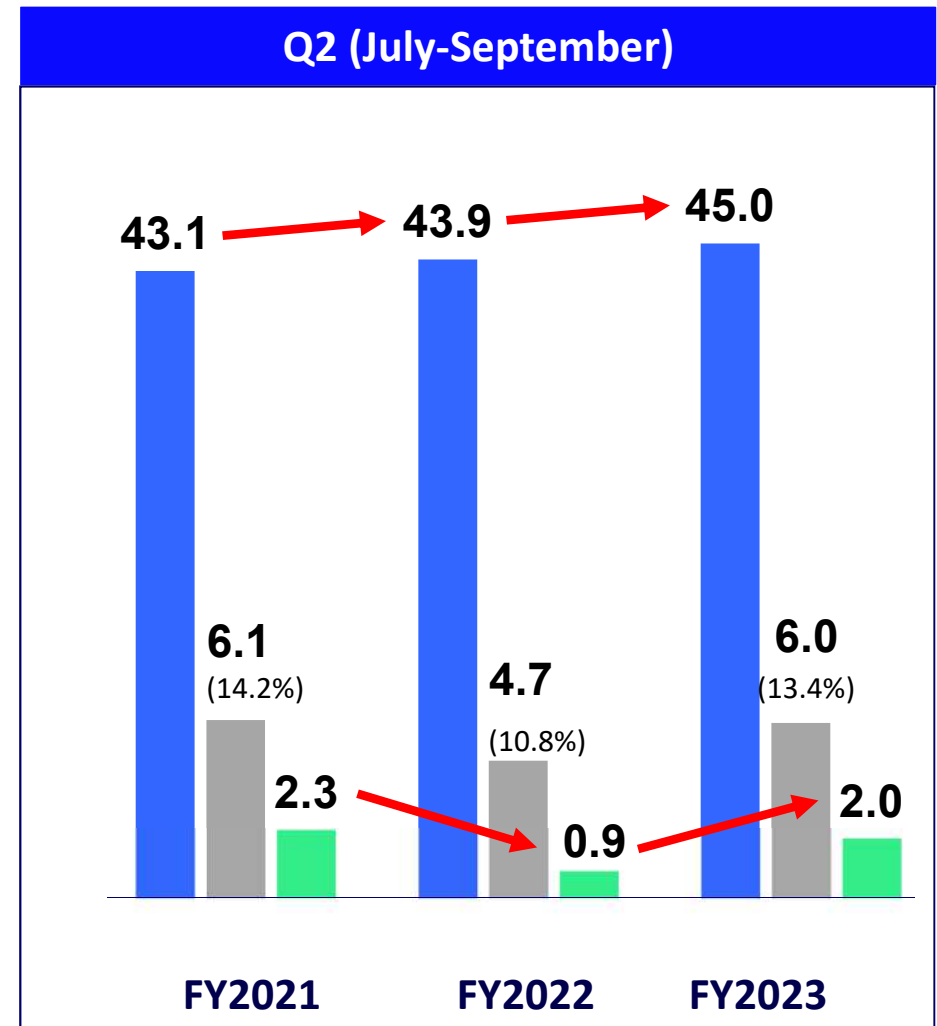
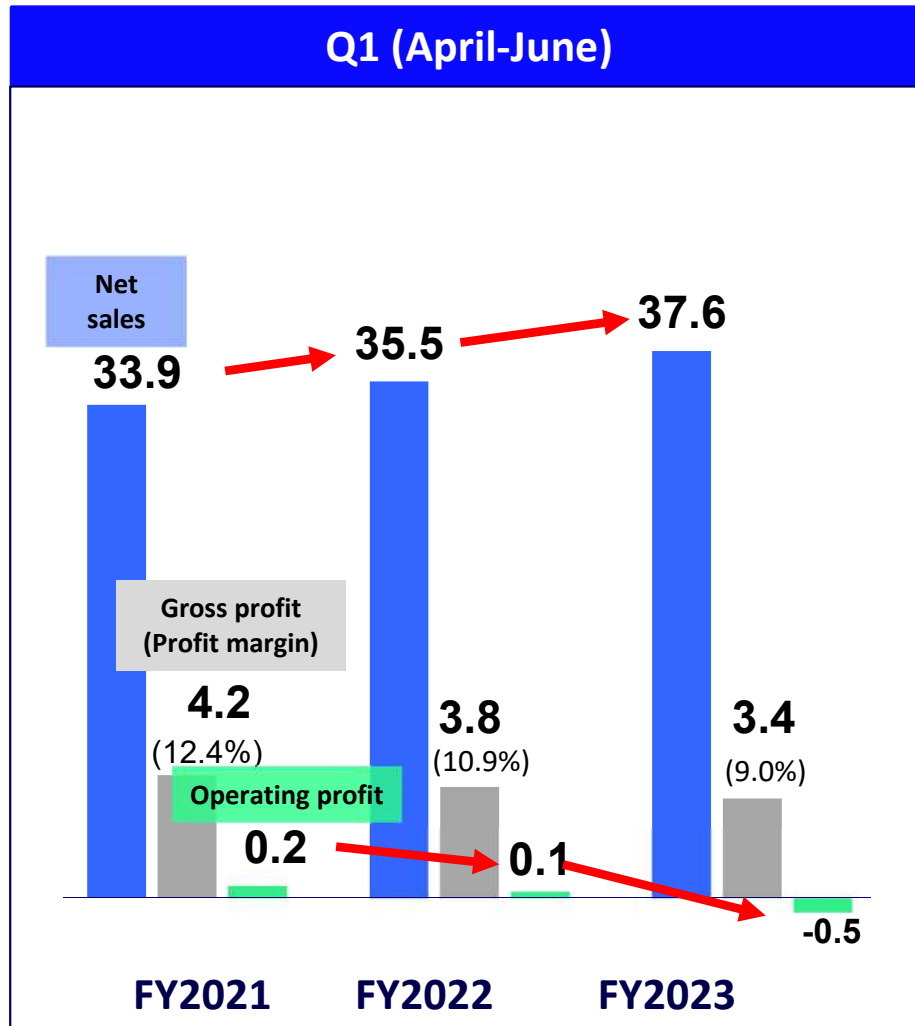
Consolidated Performance	FY2022 Q2		FY2023 Q2		Change	Year on year
Sales		79.5		82.6	3.1	104%
Cost of sales		70.8		73.2	2.4	103%
Gross profit	(10.9%)	8.6	(11.4%)	9.4	0.7	109%
Selling, general and administrative expenses		7.5		7.9	0.3	105%
Operating profit	(1.4%)	1.0	(1.8%)	1.4	0.3	136%
Ordinary profit	(3.0%)	2.4	(1.8%)	1.4	-0.9	60%
Profit attributable to owners of parent	(1.6%)	1.3	(0.7%)	0.5	-0.7	44%

* Figures in () are profit margins.

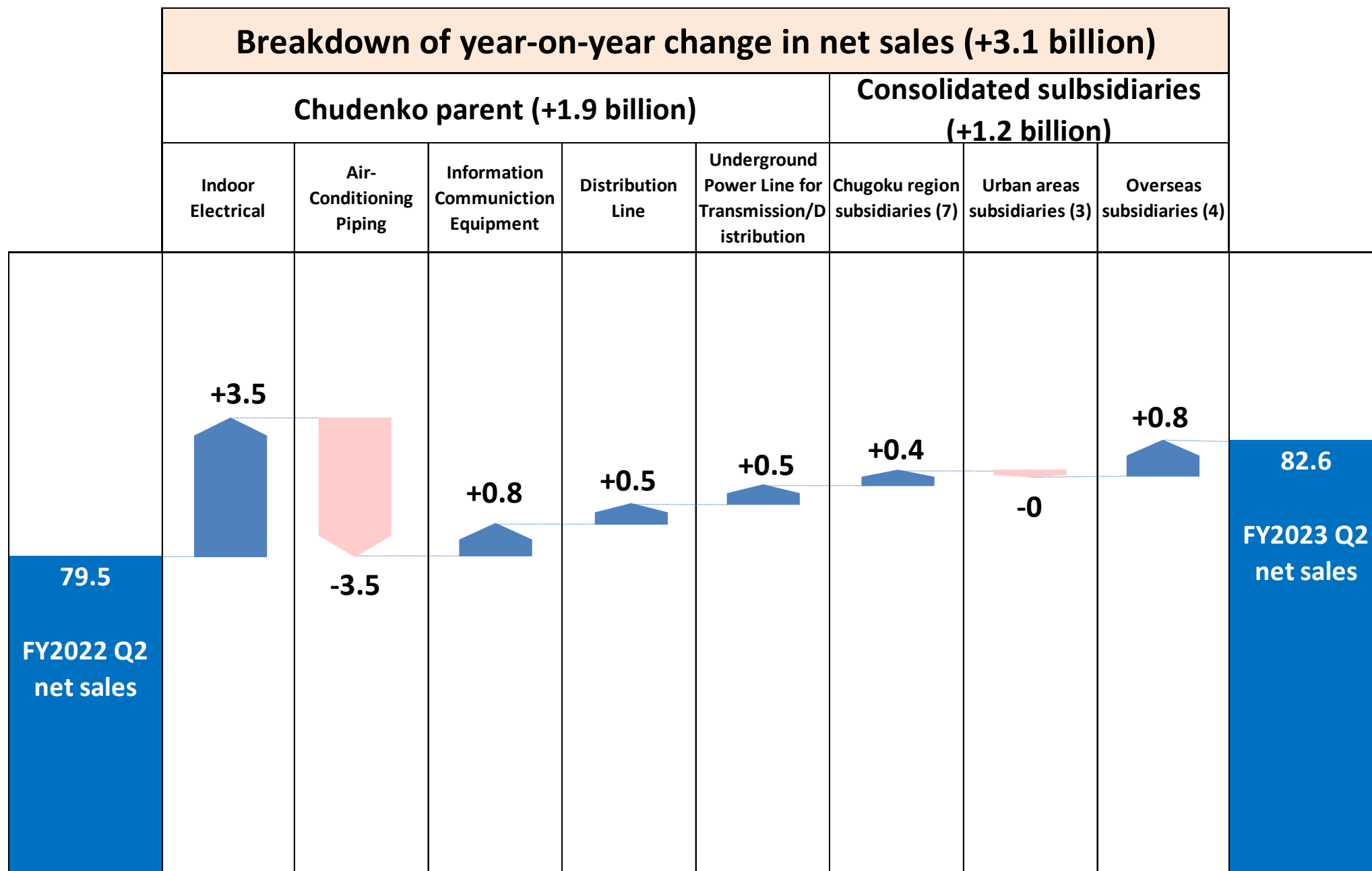
FY2023 Q2 Performance (Quarterly period: Consolidated)

- Business performance continued to decline in FY2023 Q1
- Improvement trend in Q2

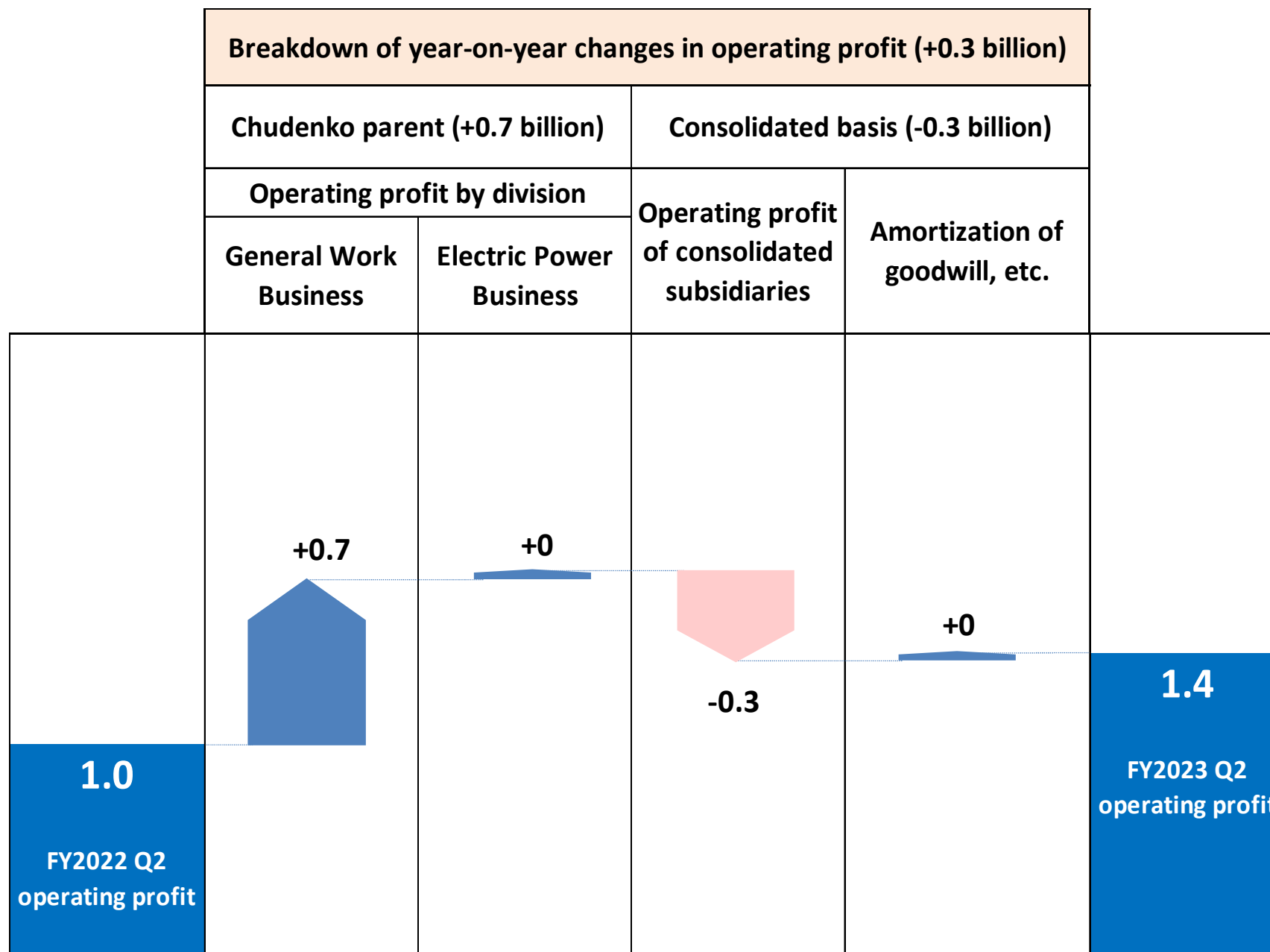
(Billions of yen)



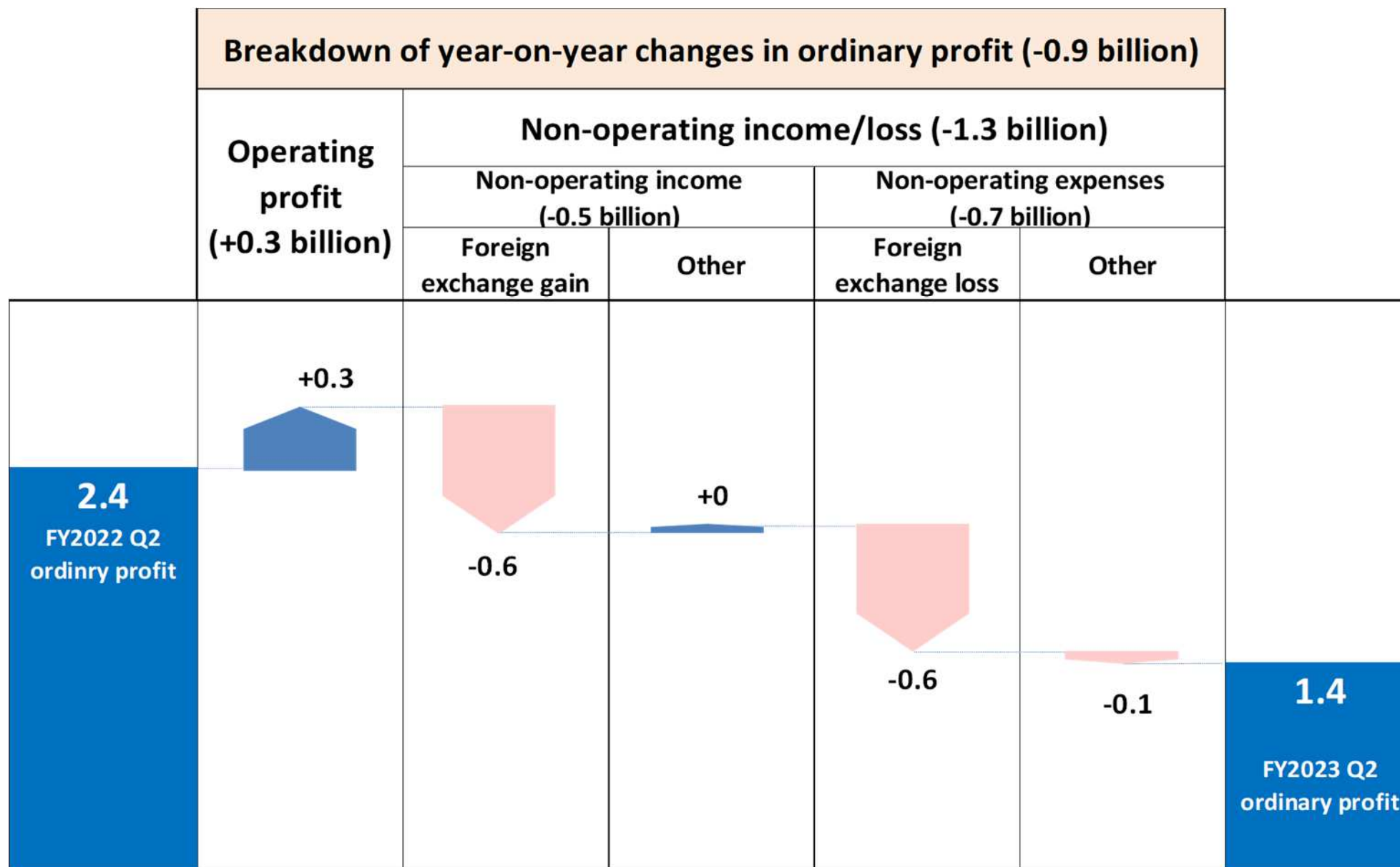
FY2023 Q2 Performance (Main factors for change in year-on-year net sales, consolidated)



FY2023 Q2 Performance (Breakd Main factors for change in year-on-year operating profit, consolidated)



FY2023 Q2 Performance (Main factors for change in year-on-year ordinary profit, consolidated)



FY2023 Q2 Performance (Balance sheet, consolidated)

(Billions of yen)

		As of March 31, 2023	As of September 2023	Change	Main factors for change
	Current assets	118.9	103.6	-15.3	Accounts receivable from completed construction contracts and other, -20.5
	Non-current assets	153.5	155.7	2.2	Investment securities 3.0
	Total assets	272.5	259.4	-13.1	

	Current liabilities	47.3	39.7	-7.6	Accounts payable for construction contracts and other, -7.0
	Non-current liabilities	23.0	15.7	-7.3	Liabilities associated with application of the equity method -6.8
	Total liabilities	70.4	55.4	-14.9	
	Total net assets	202.0	203.9	1.8	Retained earnings -2.2 Valuation difference on available-for-sale securities 4.0
	Total liabilities and net assets	272.5	259.4	-13.1	

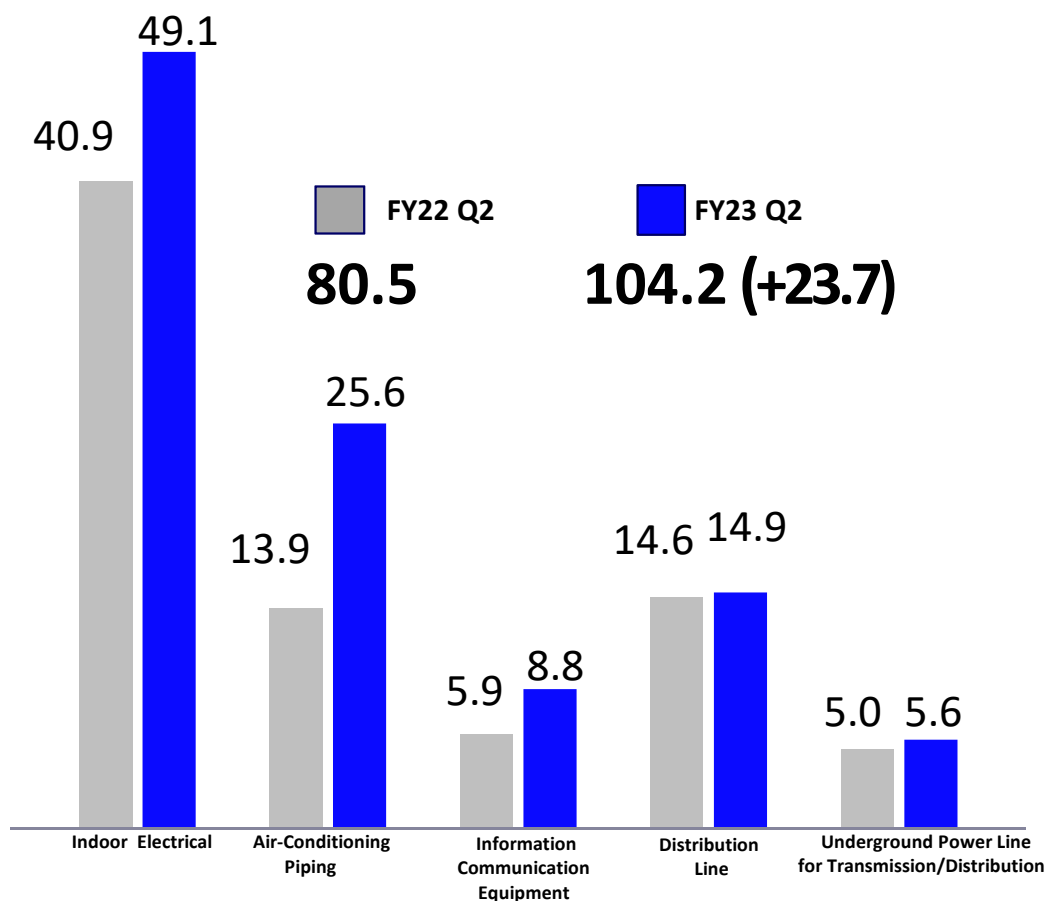
Equity ratio	73.2%	77.6	4.4	
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FY2023 Q2 Performance (Orders received and net sales by sector, parent)

- Orders received was ¥104.2 billion, a year-on-year increase of ¥ 23.7 billion (mainly for Indoor Electrical Work and Air-Conditioning Piping work)
- Net sales was ¥6.31 billion, a year-on-year increase of ¥1.9 billion (Air-Conditioning Piping was down while Indoor Electrical work increased)

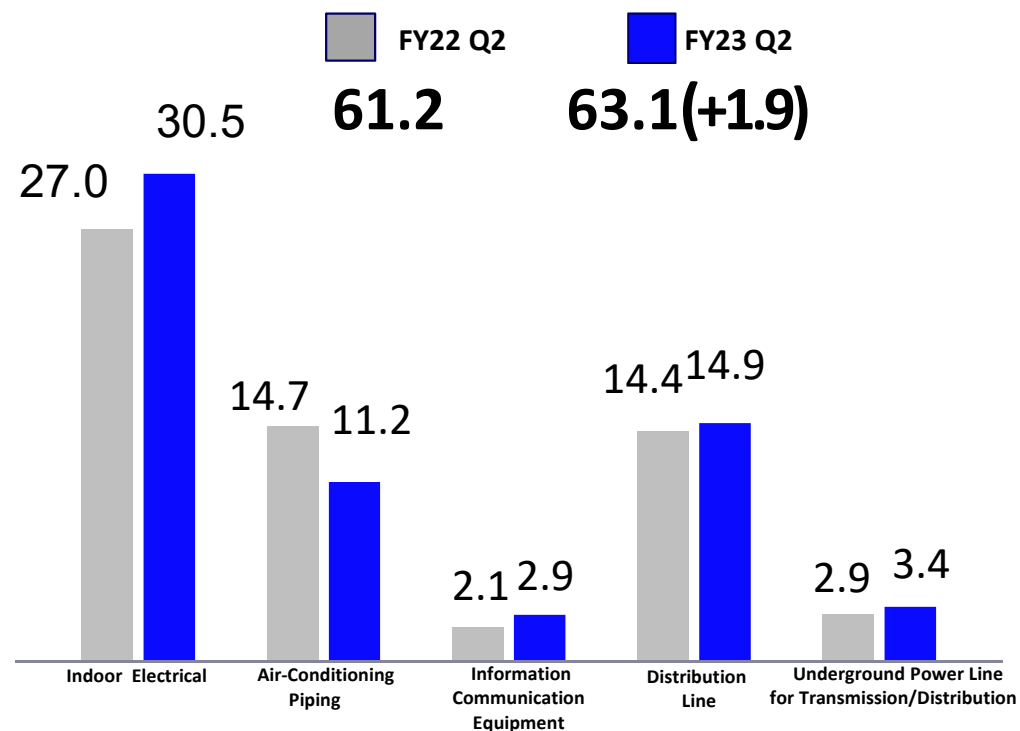
Orders received

(Billions of yen)



Net sales

(Billions of yen)

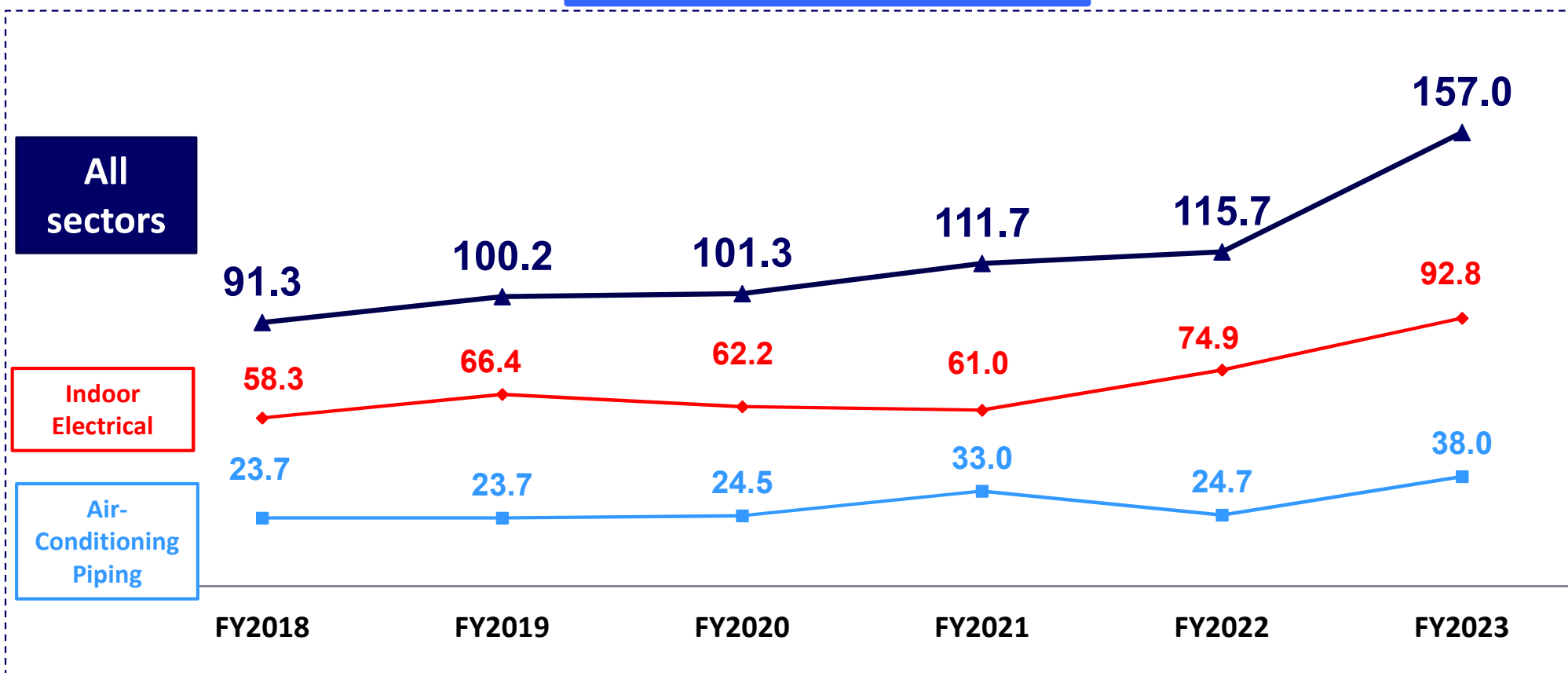


FY2023 Q2 Performance (Balance carried forward by sector, parent)

- Total balance carried forward was ¥157 billion, an increase of ¥41.3 billion from the previous year.
- Main factors of the increase: Indoor Electrical Work increased by ¥17.8 billion and Air-Conditioning Piping Work increased by ¥13.2 billion.

Balance carried forward

(Billions of yen)



2. FY2023 Earnings Forecasts

FY2023 Earnings Forecasts (Income statement, consolidated)

Expecting a year-on-year increase in sales and profits.

- Net sales expected to increase by ¥15.9 billion (¥10.7 billion increase for Chudenko parent, ¥5.2 billion increase for consolidated subsidiaries).
- Operating profit is expected to increase by ¥2.1 billion due mainly to increased gross profit due to higher sales.
- Ordinary income and ordinary profit expected to improve significantly due to an increase in operating income and a rebound from equity method investment losses recorded in the previous fiscal year.

(Billions of yen)

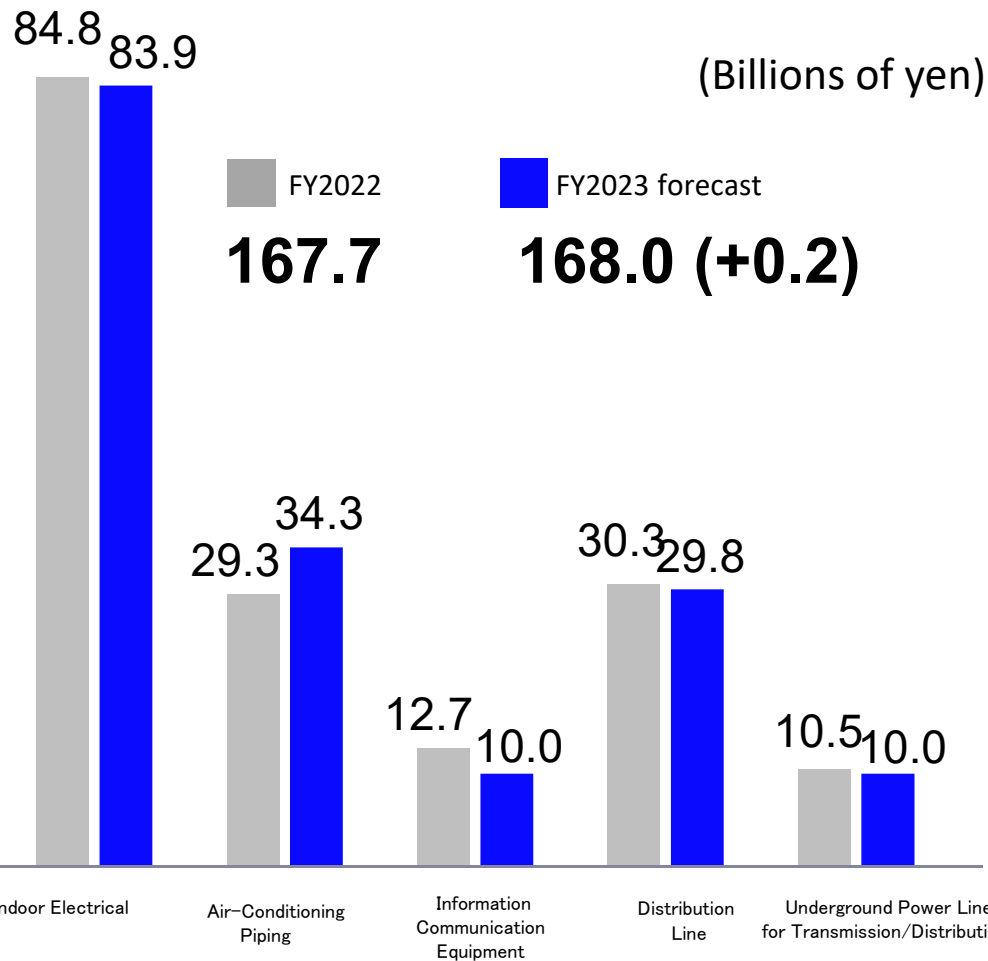
Consolidated Financial Results	FY2022		FY2023 forecast		Change	YoY percent change
Sales		189.0		205.0	15.9	108%
Operating profit	(4.4%)	8.3	(5.1%)	10.5	2.1	126%
Ordinary profit	(-1.0%)	-1.9	(5.9%)	12.1	14.0	—
Profit attributable to owners of parent	(-3.7%)	-6.9	(3.7%)	7.6	14.5	—

* Figures in () are profit margins.

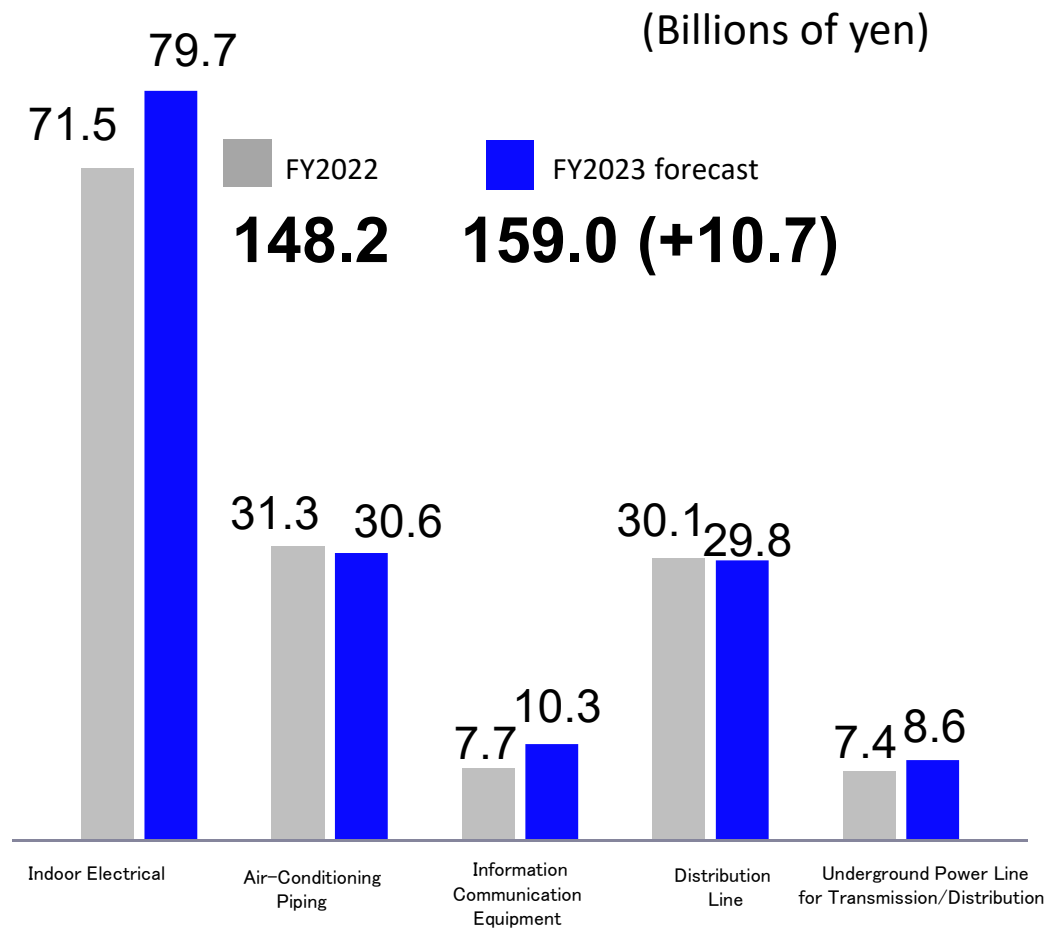
FY2023 Earnings Forecasts (Orders received and net sales by sector, parent)

- Orders received is expected to be ¥168.0 billion (mainly for Air-Conditioning Piping Work)
- Net sales is expected to be ¥159.0 billion (mainly due to increases in Indoor Electrical Work and Information Communication Work)

Orders received



Net sales

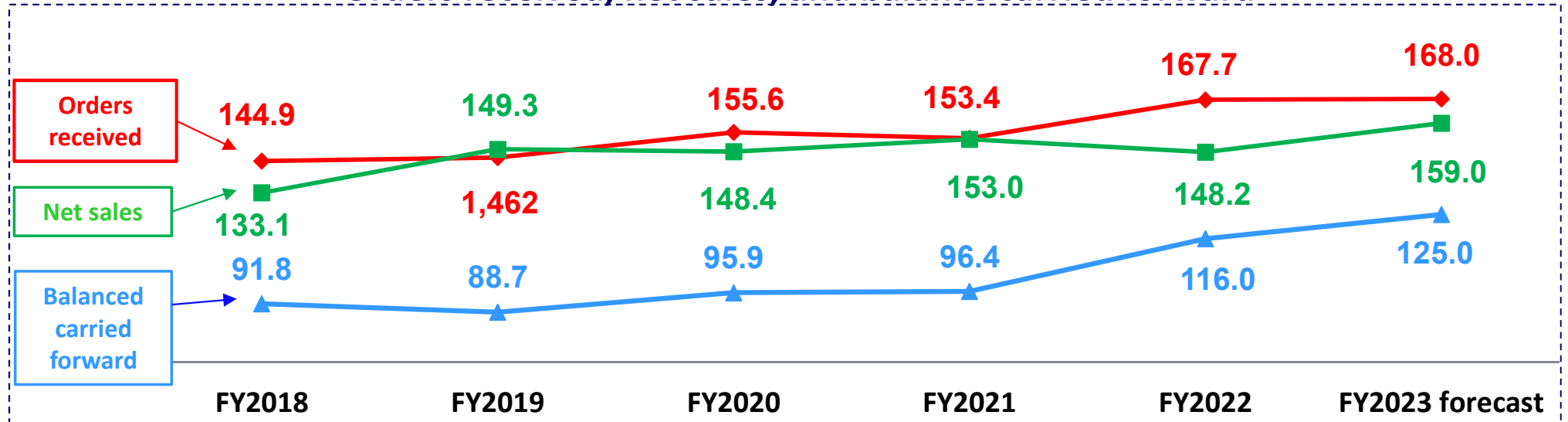


FY2023 Earnings Forecasts (Orders received, net sales, and balanced carried forward, parent)

- Both orders received and net sales exceeded the previous year, and the balanced carried forward is expected to be a record high

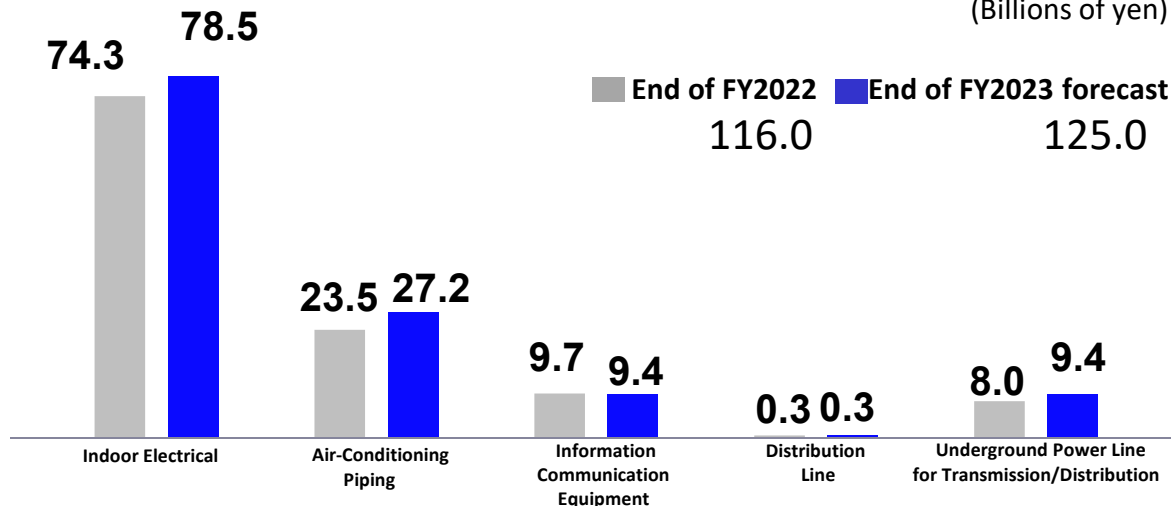
Orders received, net sales, and balance carried forward

(Billions of yen)



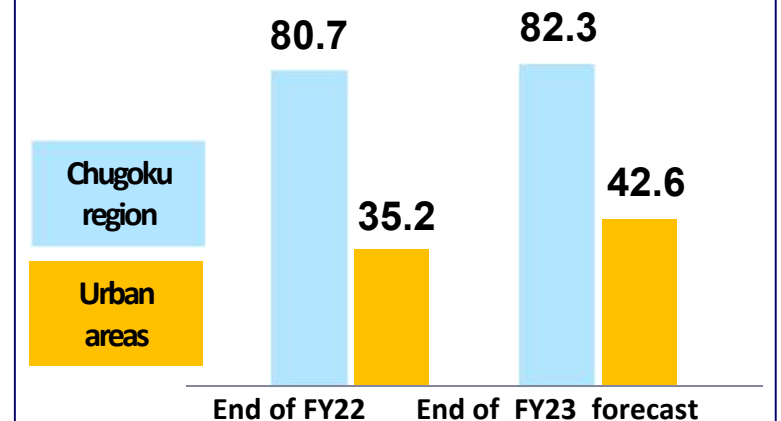
Balance carried forward to the next FY by sector

(Billions of yen)



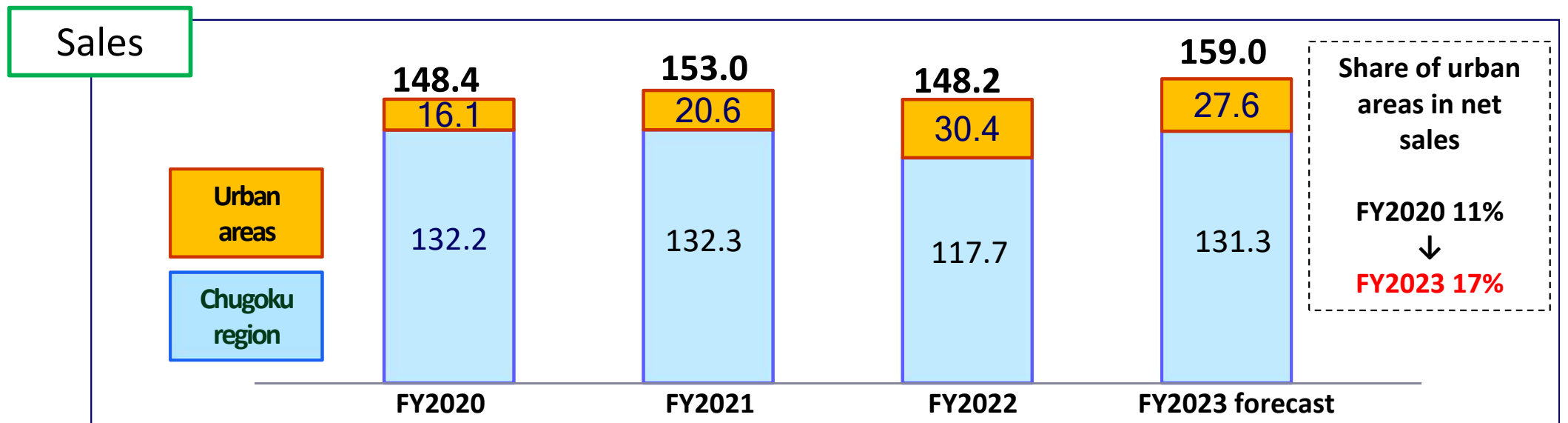
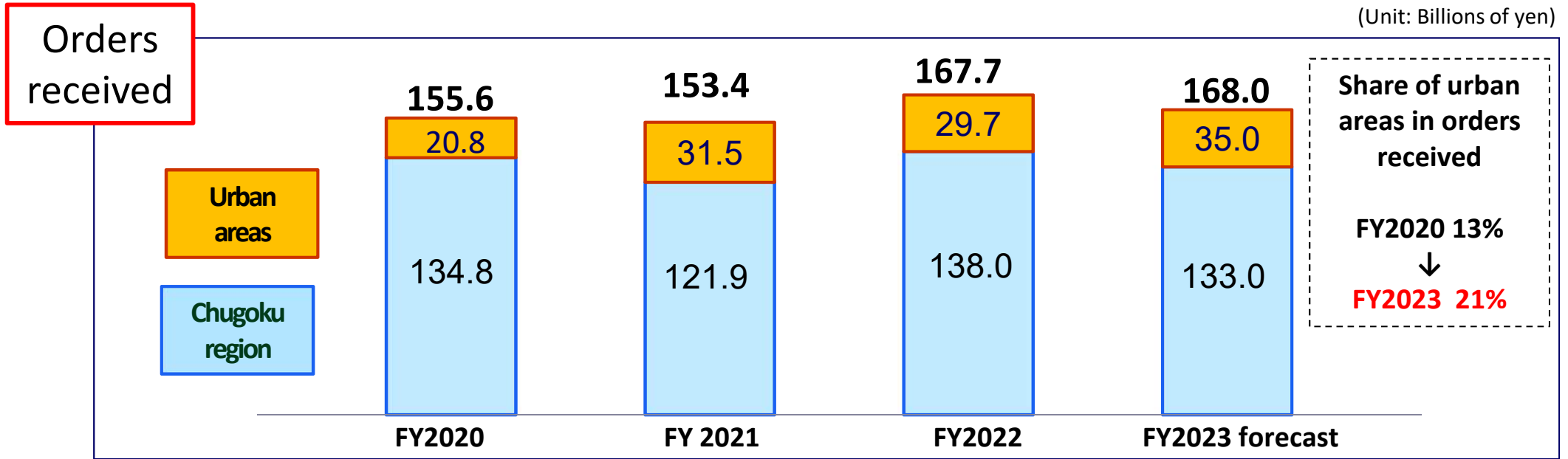
Balance carried forward to the next FY by region

(Billions of yen)



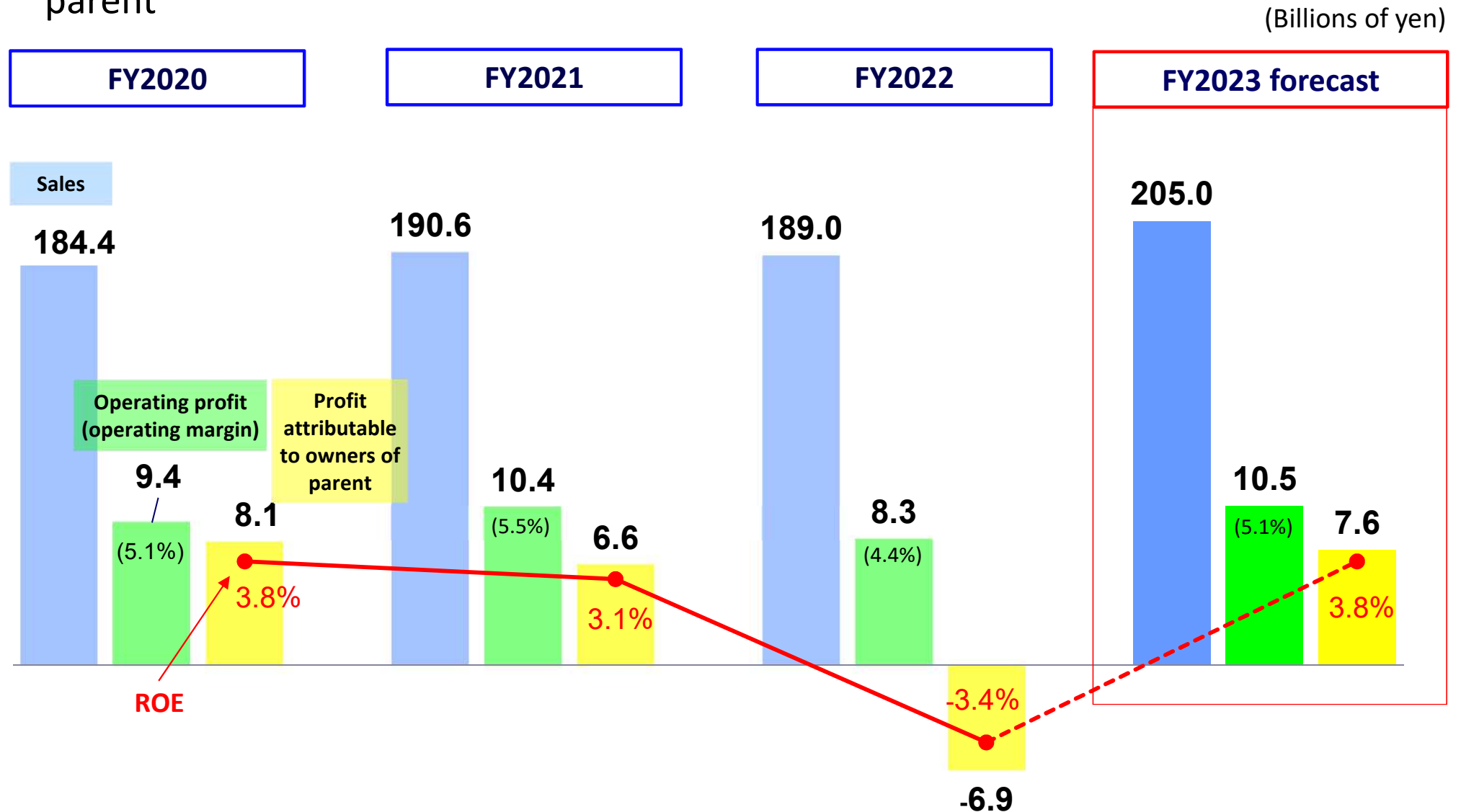
FY2023 Earnings Forecasts (Orders received and net sales by region, parent)

➤ Working to expand urban areas while maintaining sales in the Chugoku region.



FY2023 Earnings Forecasts (Changes in key management indicators, consolidated)

- Net sales are expected to grow, and each profit is expected to increase.
- ROE is expected to improve due to the posting of profit attributable to owners of parent



3. Medium-Term Management Plan 2024 [FY2021-2024]

Theme

“Change & Growth For All”

- In order for the Group to continue to grow, it is essential that we continue to transform ourselves responding more swiftly than ever to changes in the environment.

Sub-theme

Strengthening sales and construction systems, and expanding profits

- Continue to strengthen our foundation in the Chugoku region and expand business in urban areas, expanding orders and strengthening the construction systems
- Improve organization and strengthen competitiveness to ensure and expand profits even in difficult environments

Promoting DX and Decarbonization

- Promote the increase in productivity through DX
- Be responsive to SDGs and carbon neutrality
 - Work to decarbonize our own company
 - Support the decarbonization of our customers through our business (internal-consumption solar PPA business, etc.).

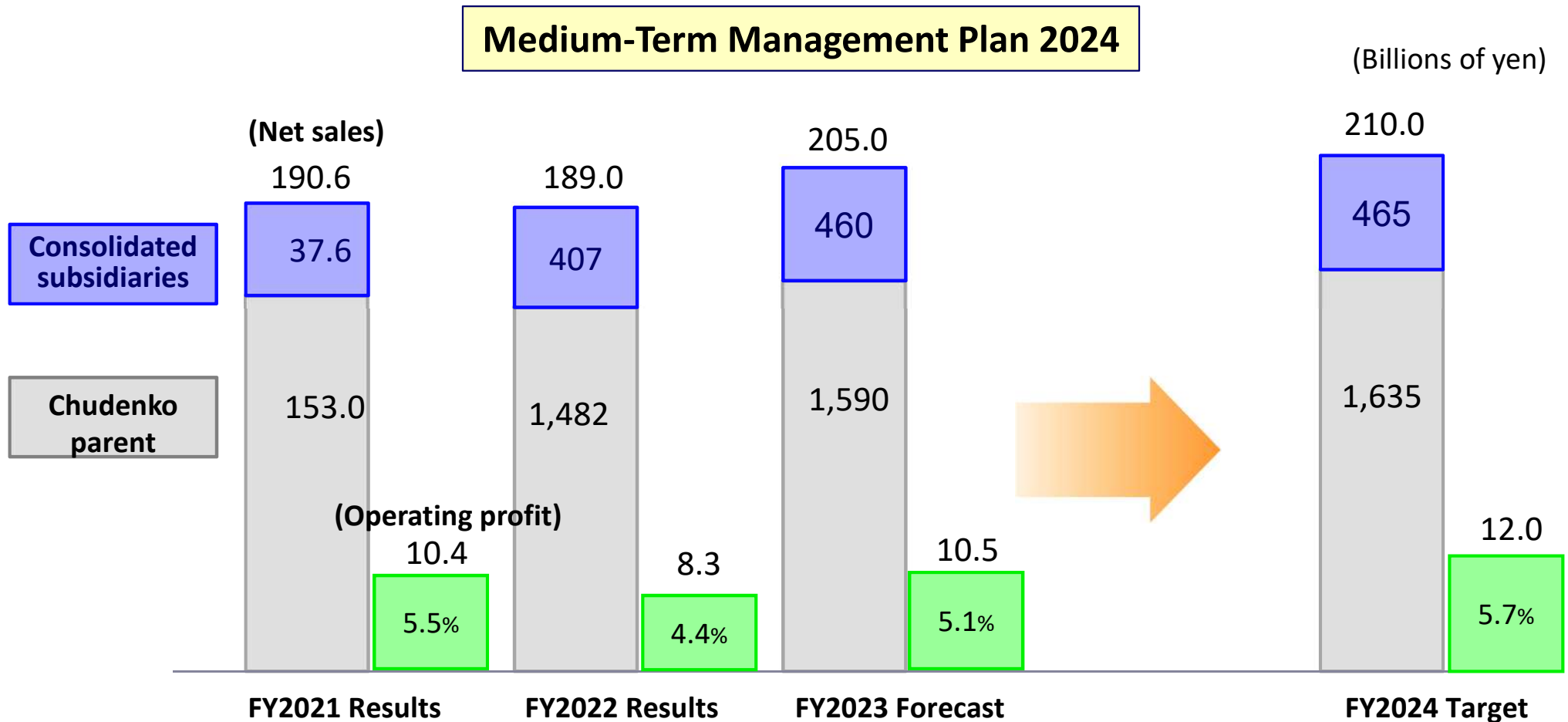
Medium-Term Management Plan 2024 (Core measures)

<p>Expand orders and strengthen construction systems</p>	<ul style="list-style-type: none"> ◆ Strengthen sales to expand orders ◆ Strengthen and enhance our design capability through the use of analysis of actual data and BIM, etc. ◆ Strengthen and enhancing construction system ◆ Cooperating more closely with group companies
<p>Secure and expand profits, and improve competitiveness</p>	<ul style="list-style-type: none"> ◆ Use equalization and frontloading of work to raise construction efficiency ◆ Cost reductions involving cooperation between the company as a whole and group companies ◆ Improving productivity through the promotion of DX
<p>Enhance human resources develop and promote work style reforms</p>	<ul style="list-style-type: none"> ◆ Nurture human resources with the aim of strengthening construction management ◆ Secure and nurture engineers/technicians across the Group as a whole ◆ Continue to practice work style reforms, and form fulfilling workplaces
<p>Improve quality</p>	<ul style="list-style-type: none"> ◆ Reliable contributions to the stable supply of electric power ◆ Increase customer satisfaction
<p>Expand the business by investing for growth (M&A, equity stakes, etc.)</p>	<ul style="list-style-type: none"> ◆ Decarbonize our own company <ul style="list-style-type: none"> ▪ install internal-consumption solar power facilities within our company buildings ◆ Promote environmental businesses to support decarbonization <ul style="list-style-type: none"> ▪ Internal-consumption solar power PPA projects, conversion to net zero energy buildings (ZEB), etc. ◆ Promote M&As with the aim of strengthening construction systems ◆ Promote technical research and development

Medium-Term Management Plan 2024 (Numerical targets, consolidated)

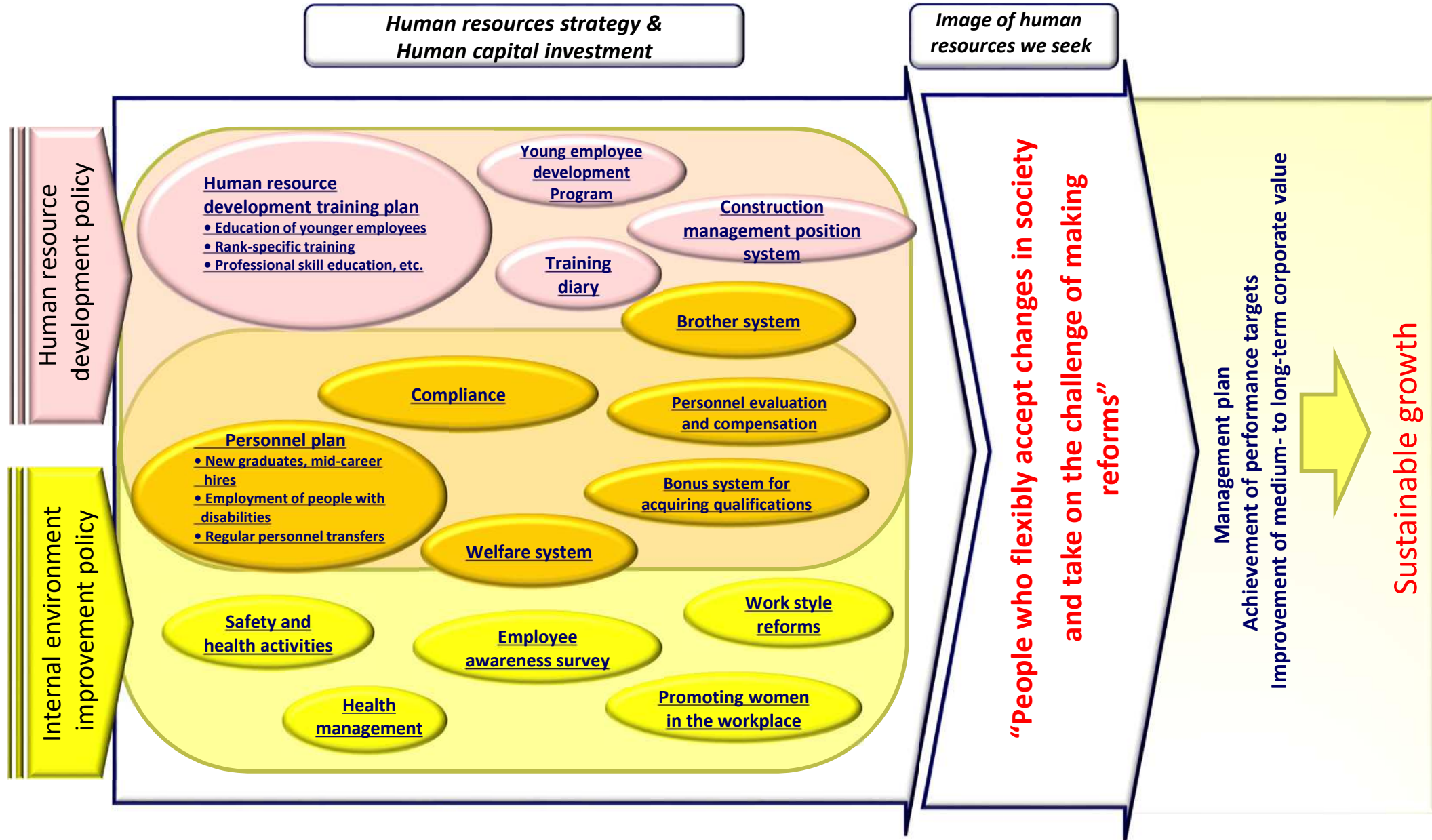
➤ The unified Group will work as one to achieve the targets of the “Medium-Term Management Plan 2024”

⇒ FY2024 target: ¥210.0 billion in net sales, ¥12.0 billion in operating profit



* Figures in percentage (%) are the ratio of operating margin.

Medium-Term Management Plan 2024 (Human resources strategy)



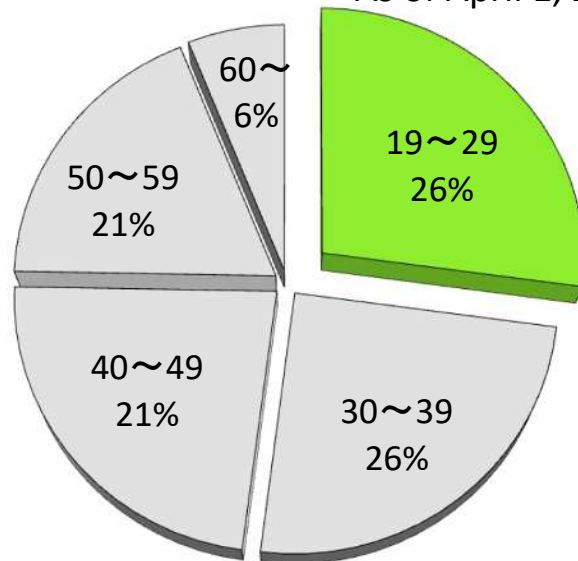
Medium-Term Management Plan 2024 (Secure and nurture human resources)

Number of new hires through periodic recruitment

FY2020	FY2021	FY2022	FY2023	FY2024 plan
138	135	116	135	140

Employee composition by age group (parent)

As of April 1, 2023



Number of persons with qualification

Qualification	Number of qualified personnel		
	October 2018	October 2023	Change
Electrical Construction Management Engineers (1st and 2nd grade)	1,037	1,212	175
Plumbing Construction Management Engineers (1st and 2nd grade)	278	306	28
Professional Engineers	54	67	13

- **Personnel with multiple qualifications as Construction Management Engineers (Electric Works, Piping Works): 66**

Just under 30% are under 30

Growth of younger employees

Improve technical and construction skills

Concrete measures for implementing capital policy

1. Investing for sustainable growth

We will invest around ¥40 billion for sustainable growth, including business expansion and securing and nurturing human resources.

- M&A in and around our core business
- Human resource development and work style reform
- Decarbonizing our own company
- Promotion of environmental business as a means to assist our customers in their decarbonization efforts
 - Internal-consumption solar power PPA projects and energy-saving proposals such as ESCO, etc.
 - Invest in renewable energies
- Invest in promising businesses, etc.

2. Shareholder returns

- Focus on paying sustainable and stable dividends, targeting DOE (consolidated dividend on equity) of 2.7%
- Comprehensively review the business environment, etc. and implement share buybacks as necessary.

Medium-Term Management Plan 2024 (Shareholder returns)

Shareholder returns

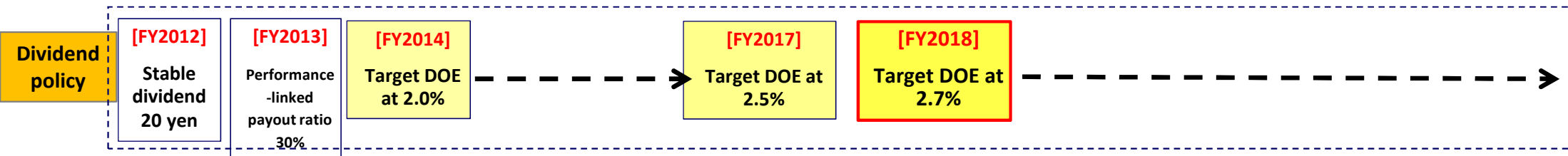
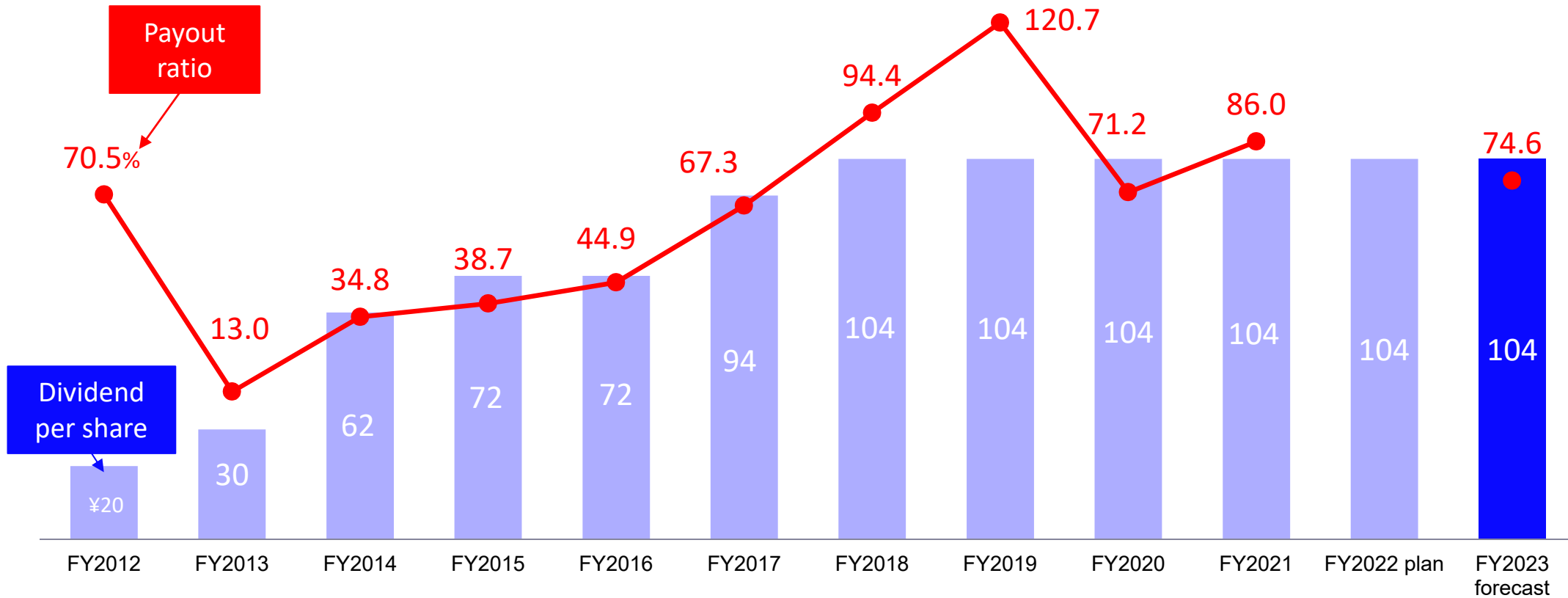
		FY2021	FY2022	FY2023 forecast
Dividend	Annual dividend per share	¥104	¥104	¥104
	DOE	2.75%	2.93%	2.89%
	Consolidated payout ratio	86.0%	—	74.6%
	Consolidated total return ratio	106.1%	—	93.7%
Share buyback	Number of shares	600,000	390,000	600,000
	Cost	¥1.3 billion	¥0.8 billion	¥1.4 billion

[Reference] Dividend yield: 4.28% (closing price on November 30, 2023 ¥2,431)

Medium-Term Management Plan 2024 (Dividends and payout ratio)

- We forecast annual dividends per share of ¥104 in FY2023, aiming to achieve the dividend on equity (DOE) ratio of 2.7% as in past years.

Dividends and Payout Ratio



4. CHUDENKO Group 2030 Vision

CHUDENKO Group 2030 Vision (Theme and Group ideal)

Theme

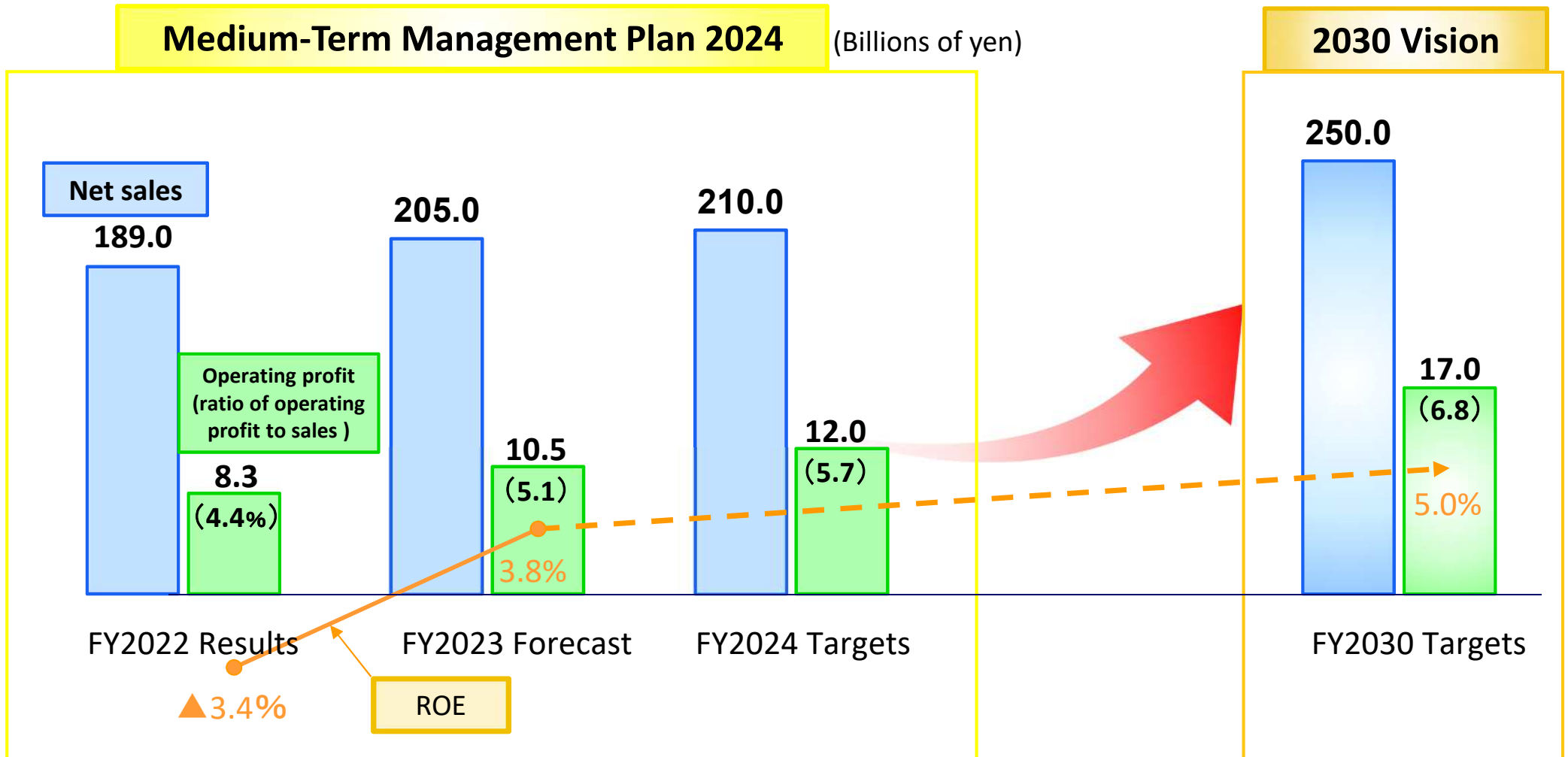
Change & Growth For All—Toward Sustainable Growth—

Group ideal



CHUDENKO Group 2030 Vision (Target)

- Consolidated performance Net sales: ¥250 billion Operating income: ¥17 billion ROE: 5.0% or more
- CO₂ emission reductions toward carbon neutrality: 46% or more (compared to FY2013)
- Creating an environment that supports diverse personnel to play active roles and diverse ways of working



5. Reference

Reference (Outline of CHUDENKO CORPORATION)

Company name	CHUDENKO CORPORATION		
Representative	Takafumi Shigeto Representative Director and President		
Established	September 1944 (as Chugoku Electrical Construction Co., Ltd.)		
Capital	¥3,481.9 million		
Stock exchange listing	Prime Market, Tokyo Stock Exchange		
Head Office location	Hiroshima City		
Consolidated subsidiaries	14		
Business activities	General equipment engineering services, sales of electrical materials, insurance agency, leasing		
Number of employees	4,556 (Consolidated)	3,364 (Chudenko parent)	(End of FY2022)
Sales	¥189 billion (Consolidated)	¥148.2 billion (Chudenko parent)	(FY2022)
Total assets	¥272.5 billion (Consolidated)	¥248.7 billion (Chudenko parent)	(End of FY2022)

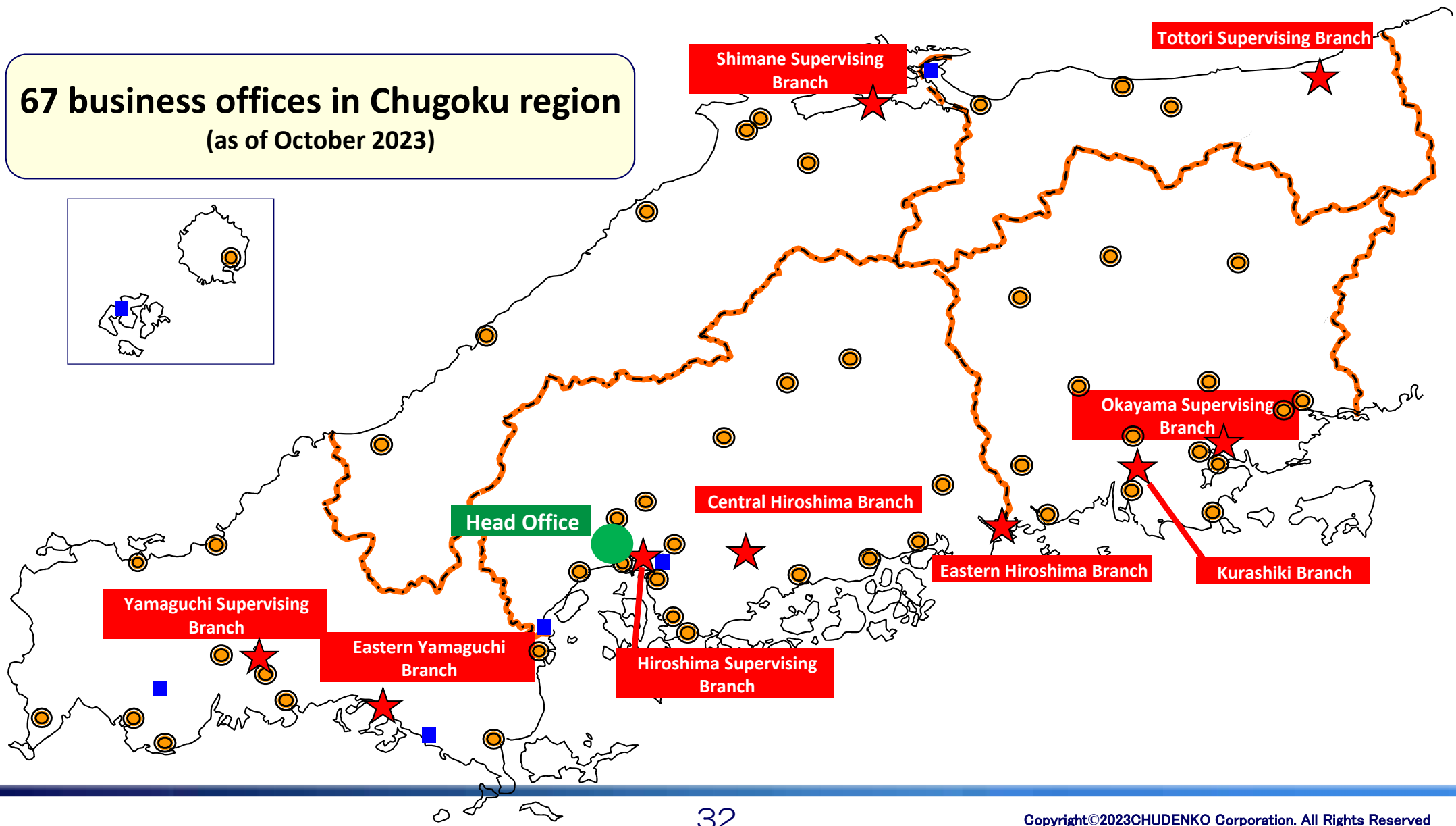
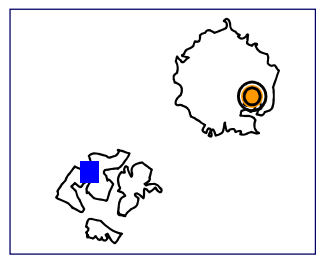


Head Office
(Chudenko Peace Boulevard Bldg.)

Reference (Network: Chugoku region)

- 67 offices, with the core consisting of nine branch companies in the Chugoku region
- Building an efficient construction system and improving emergency readiness

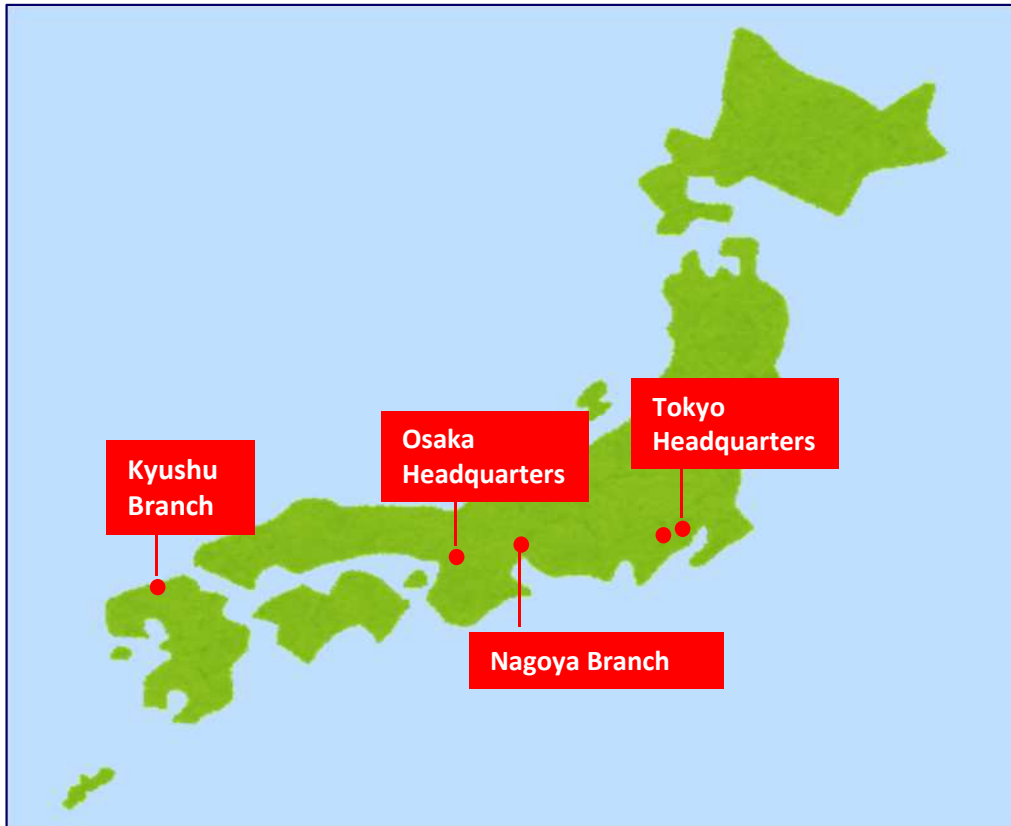
67 business offices in Chugoku region
(as of October 2023)



Reference (Business Bases: Urban areas and overseas)

➤ Expand business by establishing headquarters and branches in urban areas and overseas subsidiaries in Southeast Asia

[Urban areas]



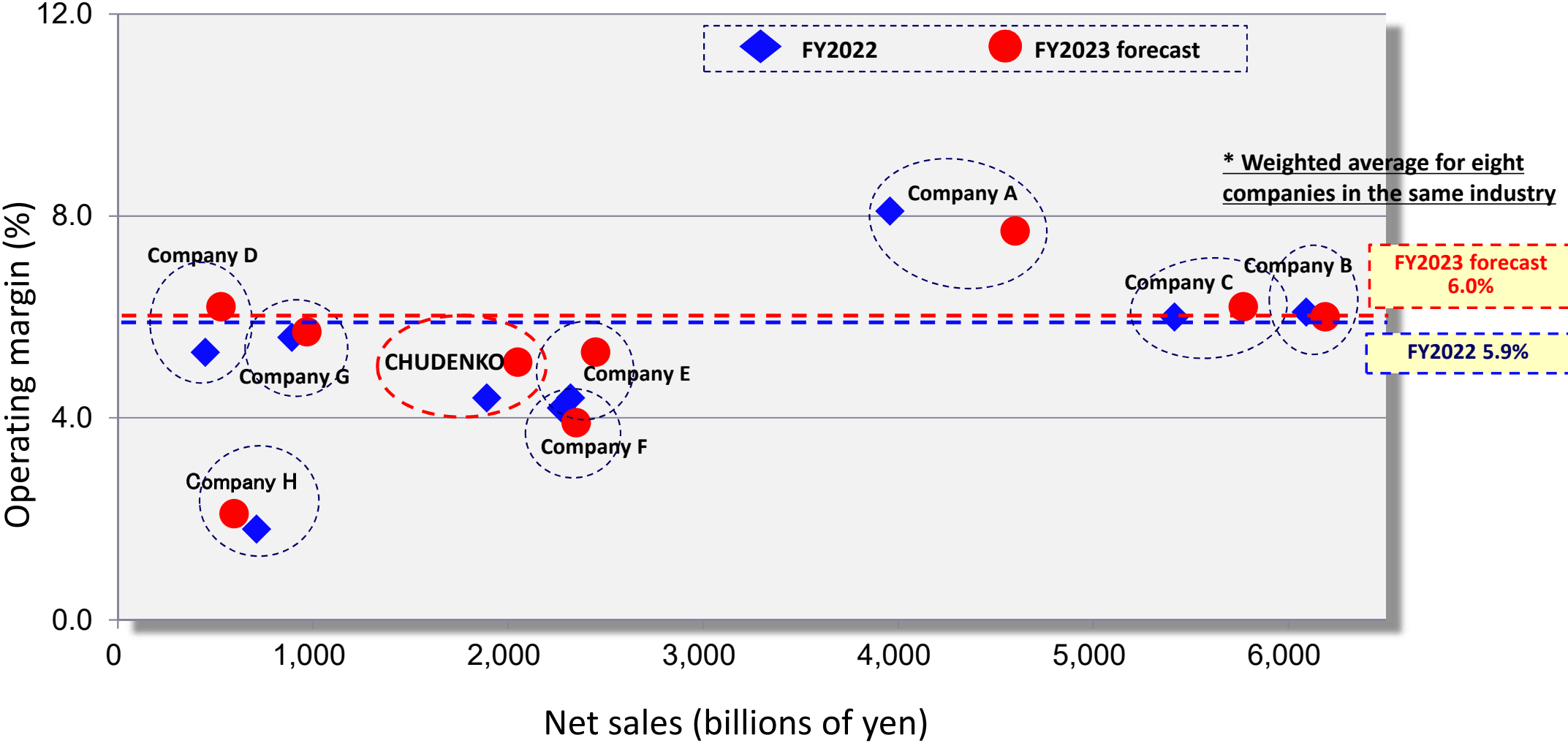
[Overseas]



Reference (Net sales and ratio of operating margin—comparison with other companies in the power industry, consolidated)

➤ Ratio of operating profit to sales is forecast to be 5.1% for FY2023, below the average of other firms in the same industry

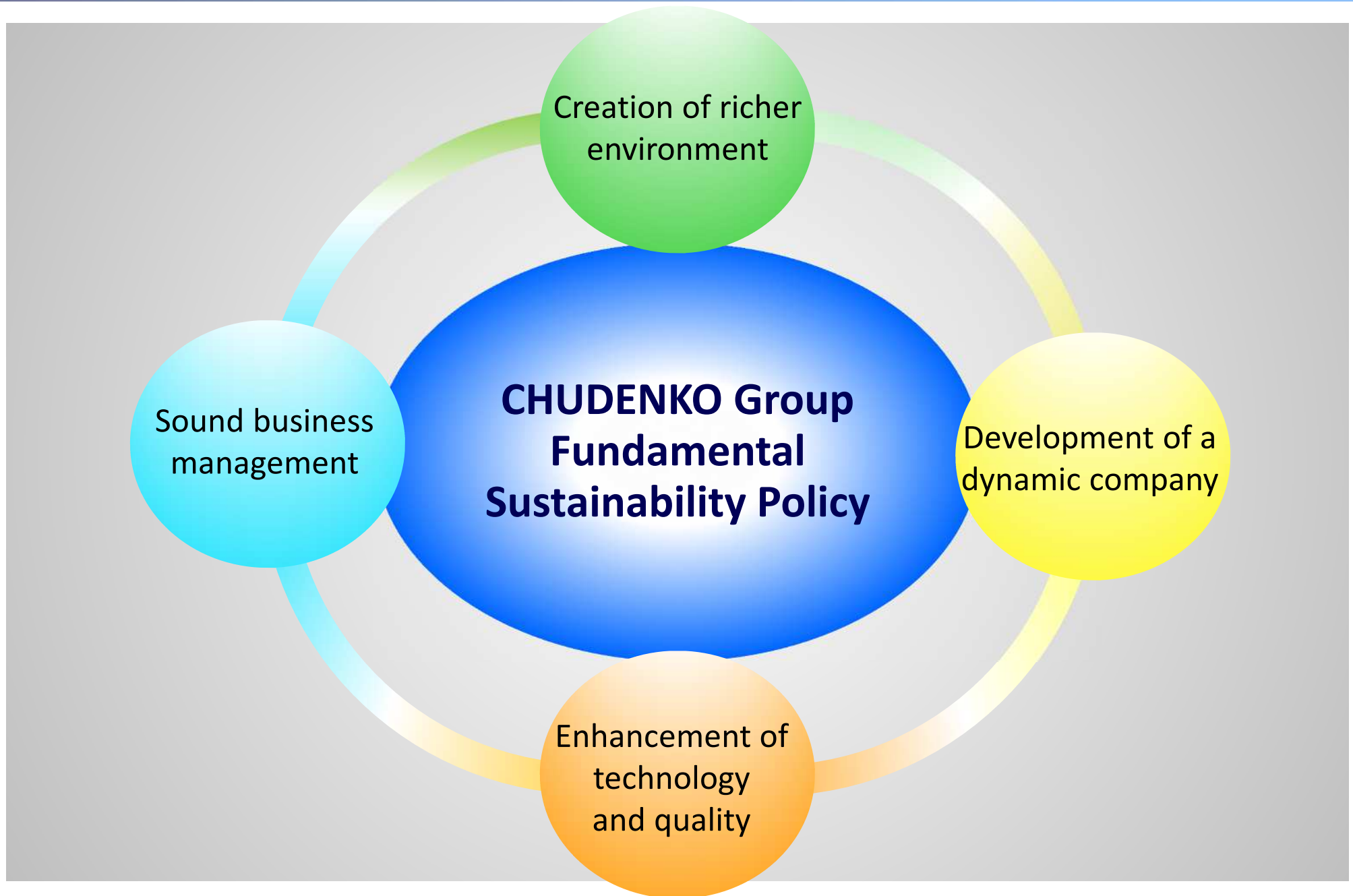
Net sales and ratio of operating margin (FY2022 & FY2023 forecast)



Reference (Overview of CHUDENKO Group)

<Consolidated subsidiaries>





Company name	Location	Voting rights held by Chudenko	Main business
Sanshin Electric Materials Co., Ltd.	Hiroshima City	50.03%	Sales of electrical equipment and electrical works materials, telecommunications equipment work
CHUKO KAIHATU Corporation	Hiroshima City	100.0%	Insurance agency, leasing
Eapec Hiroshima Co., Ltd.	Hiroshima City	100.0%	Design and estimation of electrical/air-conditioning piping works, etc.
Chudenko Techno Co., Ltd.	Hiroshima City	100.0%	Installation of distribution line work
Chudenko Eletech Hiroshima/Shimane Co., Ltd.	Hiroshima City	100.0%	Design and implementation of electrical works, etc.
Chudenko Eletech Okayama/Tottori Co., Ltd.	Okayama City	100.0%	Design and implementation of electrical works, etc.
Chudenko Eletech Yamaguchi Co., Ltd.	Yamaguchi City	100.0%	Design and implementation of electrical works, etc.
Sugiyamakankousetubi Co., Ltd.	Yokohama City	100.0%	Design and installation of air-conditioning piping works, etc.
Hayamizudenki Co., Ltd.	Kobe City	100.0%	Design and implementation of electrical works, etc.
Showa Corporation	Tokyo	100.0%	Design, installation and supervision of heat insulation works, manufacture and sales of heat insulated pipe supports
SHOWA VIETNAM CO., LTD.	Vietnam	100.0%	Import/export, wholesale and retail sales of air conditioning piping materials, design, construction and supervision of heat insulation work
CHUDENKO (Malaysia) Sdn. Bhd.	Malaysia	100.0%	Design and implementation of electrical works, etc.
CHUDENKO ASIA Pte. Ltd.	Singapore	100.0%	Administration of subsidiaries' operations
RYB Engineering Pte. Ltd.	Singapore	100.0%	Design and implementation of electrical works, etc.



Reference (Engagement in SDGs)

Established four challenges in reference to the 17 Sustainable Development Goals (SDGs)

Aiming to meet the expectations of our stakeholders through our business activities and also achieve SDGs.

Challenges	Efforts under the Medium-term Management Plan
<p>Thoroughly ensure safety and compliance</p> 	<ul style="list-style-type: none"> ▶ Check the state of implementation of measures to prevent the recurrence of serious accidents and ensure thorough observance of standards and rules ▶ Implement risk mitigation measures adapted to the site and eliminate unsafe behavior ▶ Conduct continuous training to enhance compliance consciousness ▶ Upgrade the “management of mental and physical well-being” ▶ Implement preventive measures against COVID-19 and other infectious diseases
<p>Provide safe and high-quality facilities</p> 	<ul style="list-style-type: none"> ▶ Conduct high-quality power facilities works and prompt response to disaster recovery ▶ Increase efforts in underground power line and private distribution line works ▶ Improve and strengthen quality control systems such as in-process inspections ▶ Prompt and thorough customer service enabled by enhancing communication with customers ▶ Improve productivity by executing digital transformation (DX) ▶ Promote technical research and development
<p>Realize decarbonized society</p> 	<ul style="list-style-type: none"> ▶ Engage in environmental business centering on solar power generation and other renewable energy projects ▶ Internal-consumption solar power purchase agreement (PPA) project ▶ Increase proposals for energy conservation, such as net-zero energy building (ZEB), energy service company (ESCO) ▶ Decarbonization efforts of our own company
<p>Nurture human resources and promote diversity in society</p> 	<ul style="list-style-type: none"> ▶ Secure and nurture engineers and technicians across the Group as a whole and promote human resources development ▶ Cooperate more closely with CHUDENKO Association (suppliers’ association) and Group companies ▶ Offer technical training and other assistance to Chudenko Association members ▶ Continue to practice work style reforms and form fulfilling workplaces ▶ Promote work-life balance and diversity in the workplace

Cautionary Note on Forward-looking Statements

Various data, forward-looking statements pertaining to earnings forecasts and other matters in this report are based on information available to and certain assumptions judged reasonable by the Company. As such, actual earnings and other outcomes may differ materially from the content of this report due to a variety of factors.

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