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April 9, 2024

Q & A on the 61st (2023) Financial Results Presentation

Date and time: April 8, 2024 (Mon) 13:00 - 14:00

Answered by:

Tatsuya Nishimura, Representative Director and President, CEO

Naoto Suzuki, Director, Senior Managing Executive Officer, General Manager, serving as the Chief of Planning & Business Development Headquarters

Are there any changes in the environment for overseas business compared to last year?

The overseas business environment is largely uncertain. Our overseas business is conducted mainly by Waterman Group Plc, which operates mainly in the UK, and CTI Engineering International Co., Ltd., which is based in Southeast Asia. We think the UK has been particularly affected by environmental changes compared to last year.

How do you see the priority of the promotion budget for national resilience in national finance over the next 5-10 years?

In the "Five-Year Road Program (until fiscal 2025) for Disaster Prevention, Mitigation and National Resilience", we think that the budget can be secured to some extent, but we are not optimistic about the future, and we are considering the possibility of reduction in the budget for public works. Even though, we are planning to increase competitiveness through business structure reform, expand the scope of business to local governments and private markets, and secure sales and profits.

As a result of the delay in the announcement of the 2023 financial results, You (CTI Engineering Co., Ltd.,) disclosed the Consolidated Financial Results for the Fiscal Year Ended December 31, 2023 on March 26. When did you make the 2024 Management plan prepared? Did you consider about the increasing unit costs for engineers, as the Ministry of Land, Infrastructure, Transport and Tourism announced on February 16, 2024?

We made up the 2024 Management plan at the end of 2023, and we considered about increasing unit costs to some extent.

How do you think about the path to the next leap forward, regard to the ideal image for the next 5 years, as set forth in the vision for the year 2030?

Will the 2030 target be revised?

We are planning to review our Med-term Management Plan this fiscal year. In formulating the Med-term Management Plan, we might also review the 2030 Vision including possible additions, considering the business situation.

Based on the announced increasing unit costs for engineers in 2024, how do you see the competitive environment in the market? Do you expect the number of works will decrease?

Since the budget for public works for this fiscal year has been secured almost unchanged, it is possible that the number of works will decrease. However, at present, there is no prospect of how the order unit price and the number of ordered services will change in response to the increase in the engineer unit price within the upper limit of the budget.

In the initial Management Plan for the previous fiscal year, you also announced for a suppression in orders received, but the plan was revised upward during the fiscal year, resulting in a strong performance.

How did you consider about order amount in making the 2024 Management plan?

As for the 2024 plan, we placed the most priority on the reduction of the load per engineer, and then aimed to control both orders received amount and sales amounts. However, if the productivity can be secured, orders received might be exceeded the plan.

What do you think the specific cause for the incident of inappropriate cost management was?

The current responses are as described in the Interim Report published on March 26, 2024. As we will disclose the results of the investigation by the internal investigation committee member meeting, please refer to the results of this investigation.

In the 2024 Management Plan, you announced for a reduction in both orders received amounts and Sales Amounts. What factors are causing bottlenecks in orders received and Sales Amounts?

Productivity per engineer is main bottleneck factor. The 2024 plan aims to reduce the workload of engineer. If we could increase the number of engineers by mid-career recruitment, etc., it will be possible to increase orders received by improving production capacity. Therefore, we would like to make secure workers for the future.

In the 2024 Management Plan, you increased in the amount of R & D investment. Was it affected by the incidents ?

The 2024 Management Plan was completed at the end of 2023, and the increase in R & D investment for this fiscal year is not related to the fraud.

In the 2024 Management Plan, orders received are controlled to reduce the burden on engineers. How large is the gap between potential production capacity and the target for orders received?

Since the final orders received amount depends on the progress of the business, the gap with the potential production capacity cannot be clearly answered.

In the 2024 management plan, R & D investment increased by 100 million yen from the previous year. Please tell us if there are any specific investments that are increasing.

Strengthen investment in human capital such as recruitment and human resource development.

Please break down the factors behind the decline in operating income in the 2024 Business Plan.

The decline in non-consolidated operating profit, mainly in the domestic market, is due to an increase in the cost of sales ratio to reduce labor load and ensure quality. On the other hand, we will continue to make efforts to improve productivity and reduce the cost ratio by utilizing AI, etc.

That in consolidated operating profit, which is largely attributable to overseas market factors, is largely attributable to the rise in the cost of sales ratio due to an increase in personnel expenses, particularly in the United Kingdom. Another factor behind the decline in operating profits is that it is more difficult to pass on higher unit prices for engineers to order value in the UK than in Japan.

How will be the prospect of the personnel increase in the future.

About CTI Engineering Co., Ltd., , more than 100 new employees joined in April 2024, and the same number is expected for the next fiscal year. We are expecting to hire about 60 mid-career employees, the same as last year.