

TRANSLATION - FOR REFERENCE ONLY

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Notice Regarding the Formulation of Mid-Term Business Plan 2027

The METAWATER Group (the “Group”) has formulated Mid-Term Business Plan 2027 for the period spanning the four fiscal years in which the last is FYE March 2028. The details are shown below.

1. Background and Purpose of the Formulation of Mid-Term Business Plan 2027

The domestic water and sewage market comprises the Group’s main business. In addition to the fact that local municipalities are experiencing financial difficulties and seeing shortages of engineers due to population decline, that market is facing the urgent issues of the aging of facilities and equipment developed during Japan’s period of high economic growth along with the implementation of countermeasures against natural disasters, such as large earthquakes, typhoons, and torrential rain.

Amid these circumstances, initiatives such as public-private partnerships which leverage private-sector funds, technologies, and expertise, and which are undertaken in accordance with elements such as the enforcement of the Private Finance Initiative Act and the amendment of the Water Supply Act, as well as initiatives such those undertaken based on Japan’s National Resilience Plan, have seen steady progress. The Public-Private Partnership (PPP) & Private Finance Initiative (PFI) Promotion Action Plan [FY 2023 Version] in particular is promoting the introduction of Public-Private Partnerships Involving Water, which is a new Public-Private Partnership method purposed with facilitating the enhancement of Private Finance Initiatives in terms of both quality and quantity. New business opportunities and business models are also being generated against the backdrop of technological innovations such as AI and IoT.

Meanwhile, in water and sewage markets found overseas, there are important issues being faced in addition to aging facilities and equipment in developed countries such as those in the West. In the US, such issues include the leveraging of reclaimed sewage aimed at securing water resources, and in Europe, such issues include stricter environmental regulations. Moreover, in countries such as the emerging economies of Asia, the demand for water and sewage infrastructure is increasing due to the increases in population numbers being experienced in the region. It is expected that business opportunities will continue to grow in response to the challenges and needs of the water and sewage markets in each respective country.

Amid such a market environment, the Group formulated Mid-Term Business Plan 2023 in April 2021, with FYE March 2024 serving as the final year thereof. The Group has been working to strengthen its domestic EPC*¹ business and O&M*² business, which are considered to be its core business fields, while simultaneously working to expand upon its domestic PPP*³ business and international business, which are considered to be growth fields. Under Mid-Term Business Plan 2023, expenses increased due to investments made into elements such as human capital and IT facilities. The Group was, however, able to achieve its numerical targets largely due to elements such as favorable figures in terms of orders received and favorable business performance seen at overseas subsidiaries, as well as due to the rationalization undertaken through engineering reforms leveraging means such as IT.

The main achievements are as follows.

1) Strengthening of infrastructure and expansion of growth areas

(1) Reinforcement of fundamental fields

- Introduction of engineering tools
- Enhancement of business through an absorption-type merger involving Toriden-Shoji Co.

(2) Expansion of growth fields

- Commencement of operation of business for Mizumusubi Management Miyagi
- Opening of the Operation Support Center (OSC)
- Commissioning of the “Project for Construction and Operation of Municipal Sludge Treatment Facilities in Osaka City” (via the BTO*⁴ method)
- Strong business performance at Aqua-Aerobic Systems, Inc. (overseas subsidiary)

2) Expansion of R&D investment

- Guidelines for an “advanced treatment system involving the control of the single tank nitrification denitrification process via ICT and AI”

*When it comes to development themes, development will continue within Mid-Term Business Plan 2027.

3) Sustainable ESG initiatives

- Establishment of a Basic Policy on Sustainability
- Introduction of a restricted stock compensation system for officers, etc.
- Issuance of bonds (Blue Bonds)

Based on a business environment such as this, the Group has formulated Mid-Term Business Plan 2027, the final year of which is FYE March 2028. This plan has been formulated with the goal of achieving the Group’s long-term vision of producing consolidated net sales in the amount of 200 billion by FYE March 2028.

2. Overview of Mid-Term Business Plan 2027

The Group’s management targets for the FYE March 2028 are orders received of 200 billion yen or more, sales of 200 billion yen, and operating income of 13 billion yen. The Group will have everyone across its organizations tackle the following three priority measures with the aim of facilitating the achievement of those targets.

(1) Priority Measures for Mid-Term Business Plan 2027

1) Growth strategies in each business field

Effective April 1, 2024, the Group will be reviewing its organizational structure and reclassifying its reporting segments into four categories. These categories consist of Environmental Engineering (EE) Business, System Solution (SS) Business, Operation Business, and International Business.

(1) Environmental Engineering (EE) Business

Environmental Engineering (EE) Business consists of the Water Environmental Business and the Resource and Environment Business. In the Water Environmental Business, the Company is working to develop and introduce products and systems that contribute to the reduction of greenhouse gas emissions at water and sewage facilities in an effort to address the current environmental challenges being faced. Moreover, when it comes to addressing the increasing demand for rehabilitation in the future, the Group will go about acquiring new opportunities by strengthening its competitiveness by pursuing proposals starting with operation and maintenance (O&M) as well as by the most appropriate LCC. In the Resource and Environment Business, the Group will go about acquiring new facilities by strengthening its ability to respond as an organization throughout the entire process spanning from proposal to design, construction and operation and maintenance (O&M), as well as by strengthening cooperation with partner companies as the number of DBO*⁵ projects increases in association with the demand seen in terms of the rehabilitation of resource recycling facilities.

(2) System Solution (SS) Business

The System Solution (SS) Business consists of the System Engineering Business and the Customer Engineering Business. In the System Engineering Business, the Group will actively promote the migration of monitoring systems and investment in development to address the demand for the rehabilitation of electric equipment in the future. The Group will also reform engineering methods across business divisions to improve quality through data collaboration and reduce costs by further improving operational efficiency through the use of ICT. In the Customer Engineering Business, the Company will leverage its past achievements and expertise, strengthen its ability to offer proposals to customers, and undertake the continuous acquisition of projects such as those having to do with maintenance and inspections for electric equipment and those involving point repair work. The Group will also be aiming to acquire new customers and businesses through means such as expanding sales for and utilizing WBC*⁶.

(3) Operation Business

In Japan, as the population declines further, the country is seeing a shortage of engineers and municipalities are experiencing financial difficulties. As that takes place, the Group will look at a newly introduced Public-Private Partnership system called “Public-Private Partnerships for Water” as an opportunity to solve these problems. Doing that, the Group will leverage its achievements and expertise to create and give shape to new business models. Moreover, at facilities operated by the Group, OSCs will be utilized in order to reduce the number of operational personnel on site, to implement automation, as well as to bring to fruition the achievement of elements such as the accumulation and increase in sophistication of operational expertise. Doing this, the Group will be strengthening competitiveness and expanding operation projects.

(4) International Business

When it comes to countries in the West, the Group will continue to position the West as a strategic area in the face of elements such as concerns about water shortages and the strengthening of environmental regulations. Doing that, the Group will be focusing on addressing areas such as the reclaimed sewage market and advanced treatment processes such as those for the treatment of trace amounts of contamination. The Group will also be strengthening coordination within the Company and between Group companies in the West with the aim of generating further synergy. Meanwhile, in markets in Asia, the Group will strengthen coordination with local partners to expand sales of the Group’s differentiation technologies and systems.

2) Loan and investment strategies to improve corporate value

The Group will actively work on the following initiatives, which include loans and investments in order to meet the expectations of its stakeholders and improve its corporate value.

(1) Loans and investments for growth and aimed at the expansion of business

In order to expand of the Group’s businesses, the Group will actively promote R&D investment, loans and investments when it comes to special-purpose vehicles (SPC) issued through domestic and overseas alliances, Public-Private Partnerships for Water, and other such initiatives with the aim of further enhancing new technologies and fields of strength.

(2) Basic investments for stable growth in the future

The Group regards people as its greatest assets and is committed to actively recruiting both new graduates and those who are ready to hit the ground running when it comes to working toward stable growth in the future. On April 1, 2024, the Company established the Digital Transformation Office within the Corporate Strategy Planning Division to actively promote investment in systems and tools such as AI and ICT with the aim of reforming business processes across the entire company.

3) Initiatives for sustainability

On April 27, 2022, the Group established its Basic Policy on Sustainability with the goal of realizing a sustainable environment and society and enhancing corporate value. In particular, the Group identified important issues (materiality) as issues which are deeply connected to the Group’s businesses and stakeholders. Having done that, the Group will proactively work to address those issues through its business activities.

(2) Management Objectives of Mid-Term Business Plan 2027

	Results for FYE March 2024	Forecast for FYE March 2025 (Announced on April 24)	Targets for FYE March 2028
Orders received	211.9 billion yen	190 billion yen	200 billion yen or more
Sales	165.6 billion yen	170 billion yen	200 billion yen
Operating income	9.9 billion yen	9 billion yen	13 billion yen
Net income	6.9 billion yen	6.1 billion yen	8.5 billion yen
ROE	10%	8% or more	10% or more

3. Basic Policy on Dividends

The Company had been paying out dividends in consideration of stable growth, securing necessary retained earnings, and returning profits to shareholders. The Company has decided to change its dividend policy in a manner which entails the introduction of progressive dividends involving the maintenance or increase of dividends with no dividend decreases taking place. The Company has also decided to establish specific levels in terms of dividend payout ratios. The goal of this move is to further clarify the Company's stance on the return of profits to shareholders and enhance that stance. The change in the dividend policy will be disclosed in the "Notice Regarding the Change in the Dividend Policy" issued today.

[Annotation]

*¹ EPC: Engineering, Procurement and Construction

*² O&M: Operation and Maintenance

*³ PPP: Public-Private Partnership (a method for private participation in the provision of public services)

*⁴ BTO: Build, Transfer and Operate (a method in which a private company builds a facility and then transfers ownership of the facility to the government before operating the facility)

*⁵ DBO: Design, Build and Operate (a method involving public funding with design, construction and operation being entrusted to entities in the private sector)

*⁶ WBC: Water Business Cloud (ICT service which serves to support water and sewage business using a cloud-based platform)

Future Outlook

Statements on future outlooks found among the information provided concerning elements such as earnings forecasts, strategies and targets disclosed by the Group, are all based on information available to the Group at the time in which disclosure takes place and are based on certain assumptions which are deemed to be reasonable. Please note that the actual results and other elements may differ from the content of these forecasts due to various factors.