



FYE June 2023 (65th Term) First Half Financial Results

2023.02.22

- 1. Overview of Financial Results**
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Note pertaining to this data:

- In principle, monetary amounts included in this document are rounded down to the nearest million yen.
- The forward-looking statements included in this document are based on information currently available to the Company and on certain preconditions that the Company deems reasonable. The Company provides no guarantee that what is stated will actually be realized.
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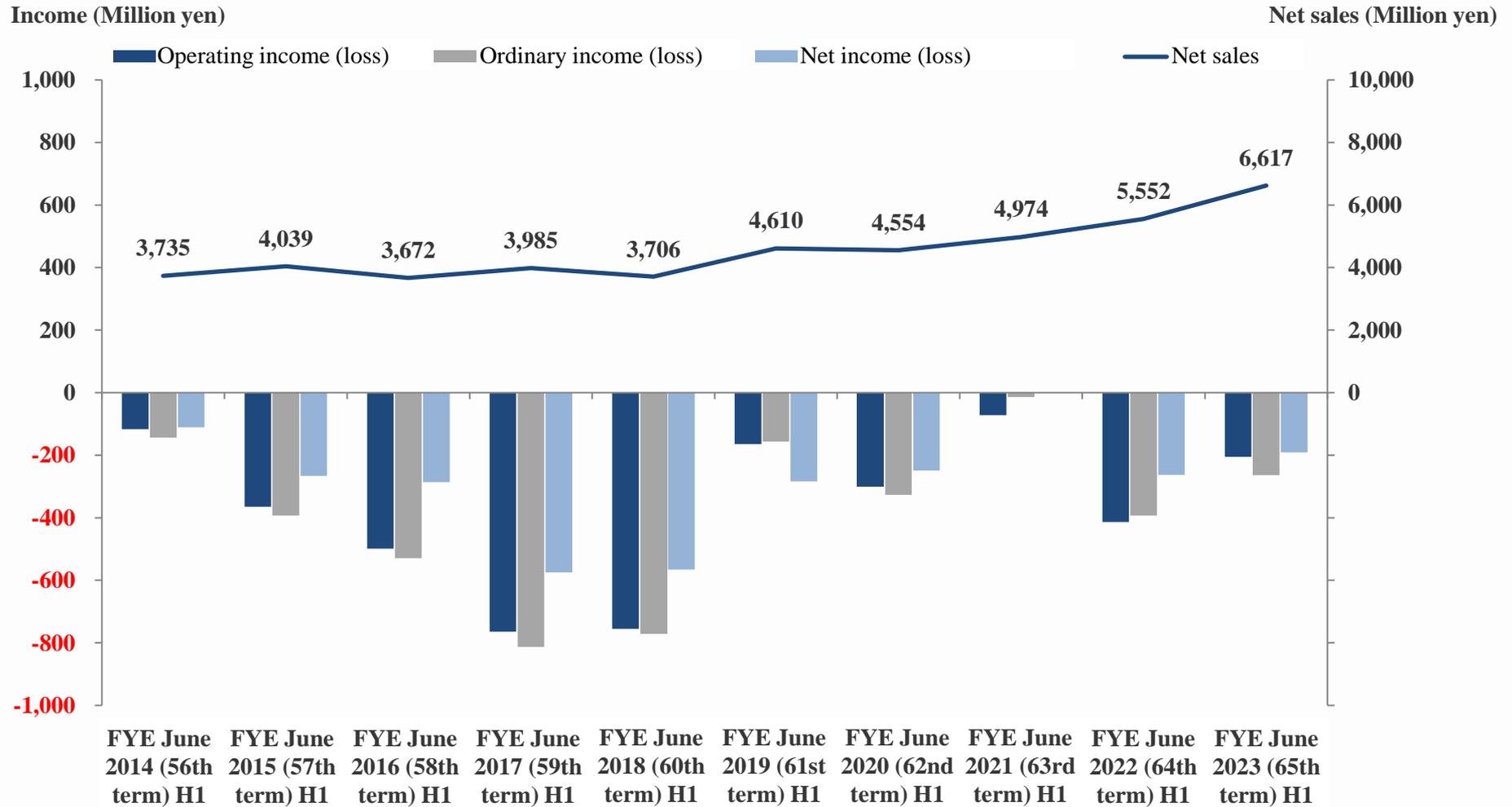
Overview of Financial Results



Income Statement

(Million yen)

	FYE June 2022 (64th term) H1	FYE June 2023 (65th term) H1	Change from previous FY	Rate of change from previous FY
Net sales	5,552	6,617	1,065	19.2%
Cost of sales	3,263	3,811	548	16.8%
Gross profit	2,288	2,805	517	22.6%
(Gross margin)	(41.2%)	(42.4%)		
SGA expenses	2,703	3,004	301	11.1%
Operating income (loss)	-414	-198	215	—
(Operating margin)	(-7.5%)	(-3.0%)		
Non-operating profit & loss	20	-59	-79	—
Ordinary income (loss)	-393	-257	135	—
(Ordinary margin)	(-7.1%)	(-3.9%)		
Extraordinary profit & loss	-19	—	19	—
Net income (loss) before taxes	-413	-257	155	—
Income taxes	-149	-70	78	—
Net income (loss)	-263	-186	77	—
(Net margin)	(-4.7%)	(-2.8%)		



Balance Sheet (Comparison with the End of the Previous Fiscal Year)

(Million yen)

Item	FYE June 2022 (64th term)	FYE June 2023 (65th term) H1	Change	Item	FYE June 2022 (64th term)	FYE June 2023 (65th term) H1	Change
Cash and deposits	2,560	746	-1,814	Short-term borrowings	—	400	400
Notes / accounts receivable - trade and contract assets	2,689	2,606	-83	Current portion of long-term borrowings / corporate bonds	896	690	-206
Work in process	22	79	57	Advances received	1,056	1,225	168
Other	1,486	1,904	417	Accounts payable - accrued expenses	1,434	219	-1,214
				Other	2,047	1,799	-247
[Current assets]	6,759	5,336	-1,422	[Current liabilities]	5,434	4,334	-1,100
Property, plant and equipment	5,538	5,495	-43	Long-term borrowings/corporate bonds	1,215	1,568	353
Intangible assets	361	360	-0	Provision for retirement benefits	2,252	2,339	87
Investments and other assets	4,562	4,838	275	Other	289	315	26
Investment securities	2,097	2,218	121	[Long-term liabilities]	3,756	4,222	466
Shares of subsidiaries and associates	836	967	131	[Liabilities]	9,191	8,557	-633
Investments in capital of subsidiaries and associates	55	55	0	Capital stock	1,010	1,010	—
Deferred tax assets	1,156	1,175	19	Capital surplus	1,325	1,350	25
Other	416	420	4	Retained earnings	6,154	5,539	-614
[Fixed assets]	10,462	10,693	231	Treasury shares	-623	-716	-92
				Valuation difference on available-for-sale securities	164	288	124
				[Net assets]	8,030	7,473	-557
[Assets]	17,221	16,030	-1,190	[Liabilities and net assets]	17,221	16,030	-1,190

*1 Capital ratio FYE June 2022: 46.6%; FYE June 2023 H1: 46.6%

*2 Impact of introducing ESOP: FYE June 2022: 83 million yen is included in Other of current assets, 203 million yen in treasury shares, and 206 million yen in current portion of long-term borrowings.
FYE June 2023 H1: 247 million yen is included in Other of current assets, 494 million yen in treasury shares, and 698 million yen in long-term borrowings.

[Reference] Balance Sheet

(Comparison with the End of the Previous H1)

(Million yen)

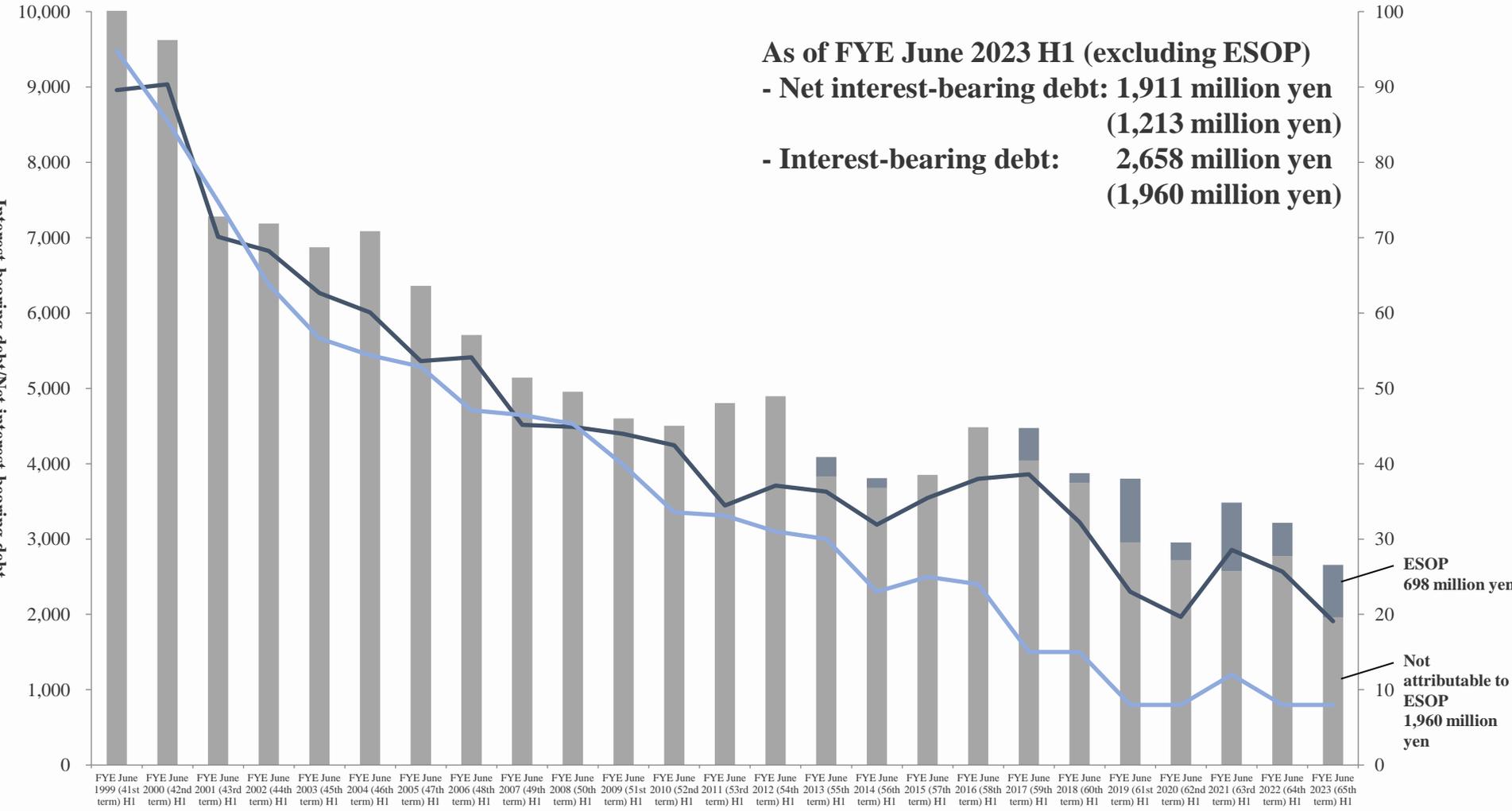
Item	FYE June 2022 (64th term) H1	FYE June 2023 (65th term) H1	Change	Item	FYE June 2022 (64th term) H1	FYE June 2023 (65th term) H1	Change
Cash and deposits	649	746	97	Short-term borrowings	500	400	-100
Notes / accounts receivable - trade and contract assets	2,386	2,606	219	Current portion of long-term borrowings / corporate bonds	1,149	690	-459
Work in process	62	79	17	Advances received	1,011	1,225	213
Other	1,568	1,904	335	Accounts payable - accrued expenses	197	219	21
				Other	1,445	1,799	353
[Current assets]	4,666	5,336	670	[Current liabilities]	4,304	4,334	30
Property, plant and equipment	5,641	5,495	-146	Long-term borrowings/corporate bonds	1,567	1,568	1
Intangible assets	325	360	34	Provision for retirement benefits	2,262	2,339	77
Investments and other assets	4,409	4,838	429	Other	286	315	28
Investment securities	1,976	2,218	242	[Long-term liabilities]	4,115	4,222	107
Shares of subsidiaries and associates	836	967	131	[Liabilities]	8,420	8,557	137
Investments in capital of subsidiaries and associates	54	55	0	Capital stock	1,010	1,010	—
Deferred tax assets	1,053	1,175	122	Capital surplus	1,325	1,350	25
Other	488	420	-67	Retained earnings	4,750	5,539	789
[Fixed assets]	10,376	10,693	317	Treasury shares	-514	-716	-201
				Valuation difference on available- for-sale securities	52	288	236
				[Net assets]	6,623	7,473	850
[Assets]	15,043	16,030	987	[Liabilities and net assets]	15,043	16,030	987

*1 Capital ratio FYE June 2022 H1: 44.0%; FYE June 2023 H1: 46.6%

*2 Impact of introducing ESOP: FYE June 2022 H1: 78 million yen is included in Other of current assets, 436 million yen in treasury shares, and 443 million yen in current portion of long-term borrowings.
FYE June 2023 H1: 247 million yen is included in Other of current assets, 494 million yen in treasury shares, and 698 million yen in long-term borrowings.

Changes in Net Interest-Bearing Debt

Interest-bearing debt unrelated to the ESOP trust Interest-bearing debt related to the ESOP trust Net interest-bearing debt Interest expenses (Million yen)



[Reference] Cash Flow Statement Highlights

(Million yen)

	FYE June 2022 H1 (64th term)	FYE June 2023 H1 (65th term)	Change
Balance at the beginning of FY	2,120	2,560	440
CF from operations	-1,277	-1,640	-362
CF from investments	-659	-248	410
Free CF	-1,936	-1,888	47
CF from financing	465	74	-391
Balance at the end of FY	649	746	97

Highlights of CF from operations	FYE June 2022 H1	FYE June 2023 H1	Change
Net income before taxes	-413	-257	155
Increase/decrease in accounts receivable	-614	83	697
Increase/decrease in inventories	558	-76	-635
Highlights of CF from investments	FYE June 2022 H1	FYE June 2023 H1	Change
Purchase of property, plant and equipment	-280	-58	221
Purchase of intangible assets	-28	-40	-11
Purchase of shares of subsidiaries and associates	—	-135	-135
Highlights of CF from financing	FYE June 2022 H1	FYE June 2023 H1	Change
Net increase/decrease in short-term borrowings	500	400	-100
Net increase/decrease in long-term borrowings	200	196	-3
Proceeds from disposal of treasury shares	263	671	408
Dividend payments	-440	-430	10

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Overview of Results by Segment

□ Structural design and structural analysis consulting

Structural design of high-rise buildings and structural analysis of large buildings and windmills, etc.

□ Environment assessment and disaster risk reduction consulting

Ground motion assessment, wind condition analysis and disaster risk assessment

□ IT system development for housing and construction

System development including CAD, BIM and structural calculation

□ Decision-making support consulting

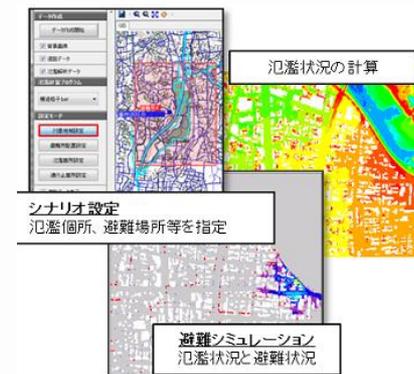
Social simulation and optimization

□ Information and communication technology consulting

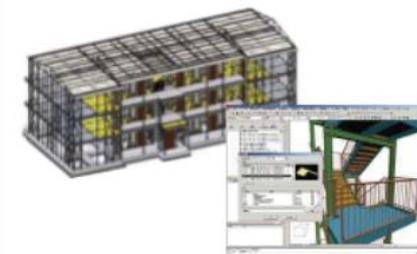
Communication network, radio wave propagation, and electromagnetic field simulation



Wind power generation business



Evacuation simulation



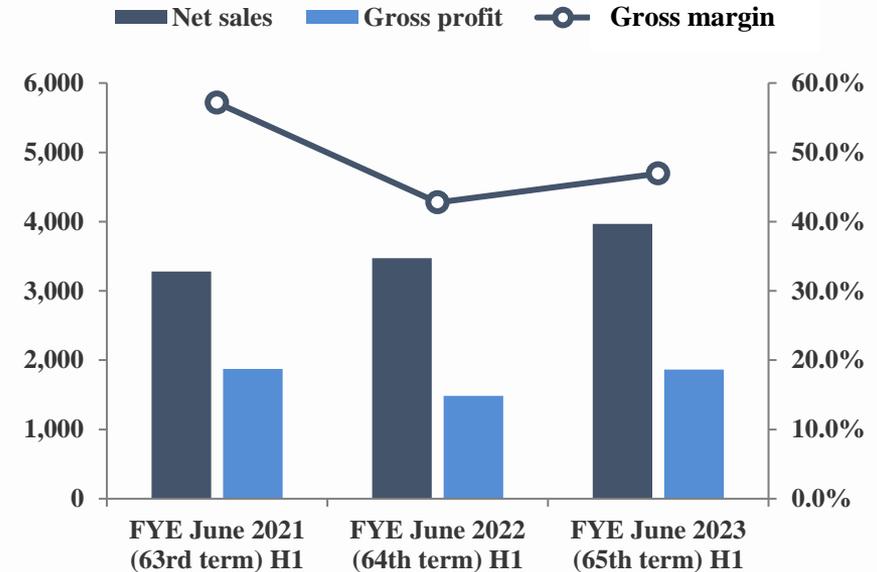
System development for housing

Overview by Segment

(Engineering Consulting: Changes over the past two terms)

(Million yen)

	FYE June 2021 (63rd term) H1	FYE June 2022 (64th term) H1	FYE June 2023 (65th term) H1	Year-on-year Change
Orders	4,784	5,270	5,564	293
Net sales	3,278	3,470	3,968	498
Gross profit	1,873	1,483	1,862	379
(Gross margin)	(57.2%)	(42.7%)	(46.9%)	
Backlog of orders	6,813	6,838	6,807	- 31



Analysis of results

- Net sales and profit exceeded their levels in the same period of the previous year following the steady implementation of projects carried over from the end of the previous fiscal year and new orders received during the term under review.
- Carry out sales activities to receive more orders and continue thorough quality management.

Business themes

Manufacturing industry

CAE, thermal flow analysis, particle-based simulation, granular simulation, sales support solutions, etc.

Structural and seismic analysis

Architectural building analysis, ground analysis, etc.

Decision-making support

Social simulation, risk assessment, optimization, etc.

Information and communications/IoT

Radio propagation analysis, indoor navigation

Examples of package-sales type



Examples of cloud service-provision type

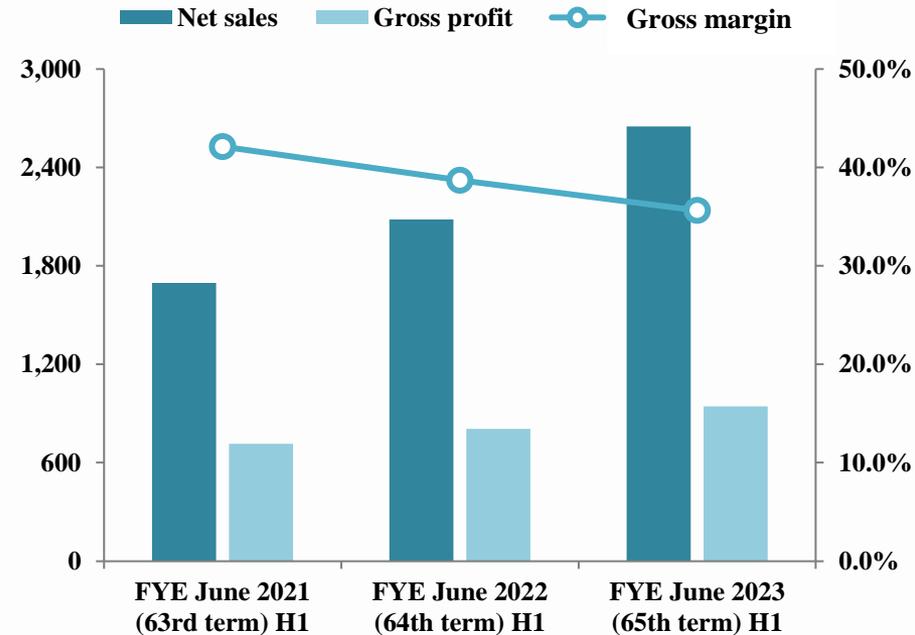


Overview by Segment

(Product Service: Changes over the Past Two Terms)

(Million yen)

	FYE June 2021 (63rd term) H1	FYE June 2022 (64th term) H1	FYE June 2023 (65th term) H1	Year-on-year Change
Orders	1,534	2,117	2,460	342
Net sales	1,696	2,082	2,649	566
Gross profit	714	805	943	138
(Gross margin)	(42.1%)	(38.7%)	(35.6%)	
Backlog of orders	958	1,257	1,470	213



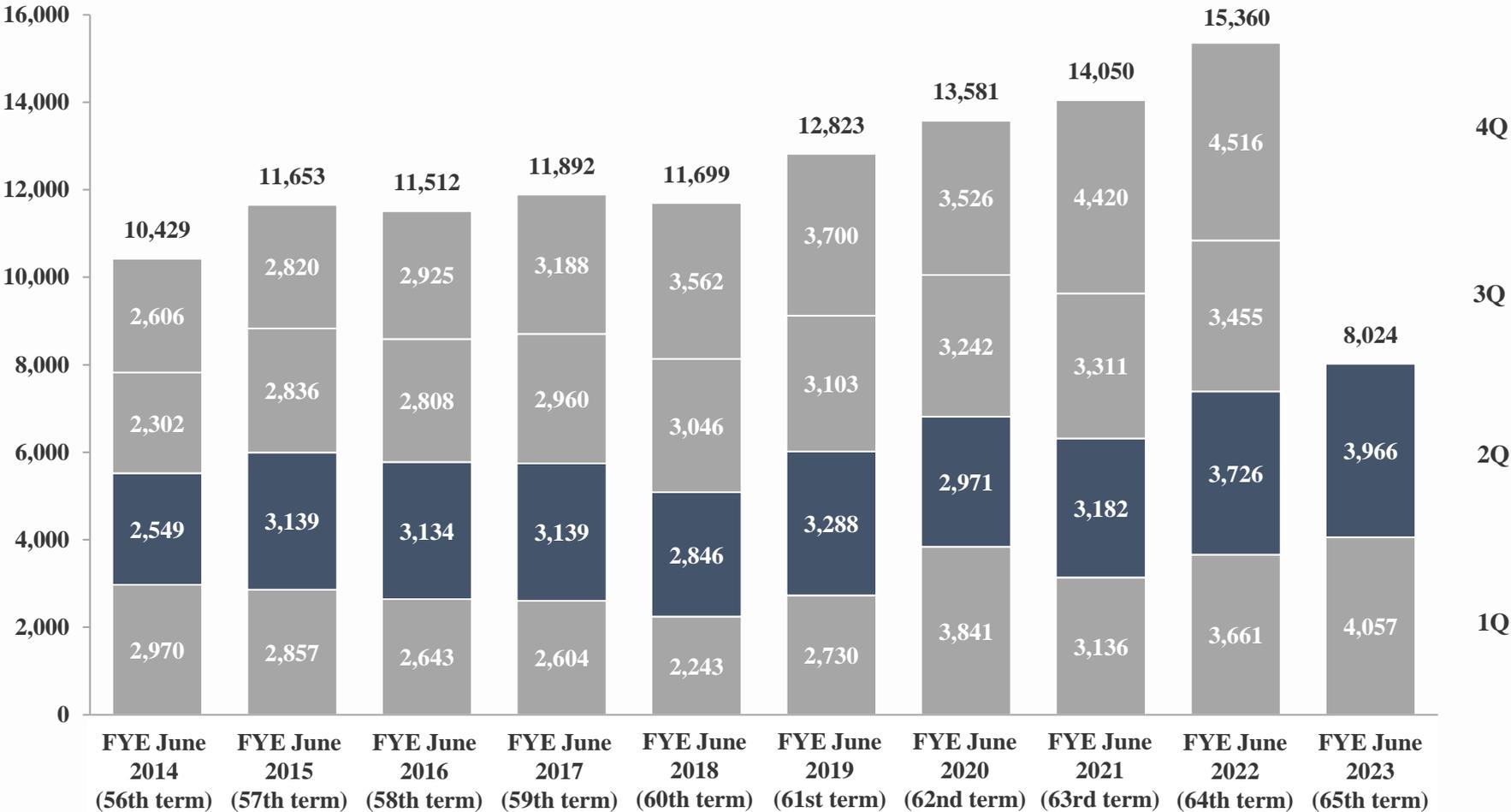
Analysis of results

- Net sales grew amid the continued briskness of the cloud-based email distribution service (Twilio SendGrid), the cloud-based room entry and exit management service (RemoteLOCK) and the indoor digitalization platform (NavVis) in the cloud service provision- type business.
- Continue proactive investment towards the future expansion of business.

Changes in Orders by Quarter

Orders by quarter

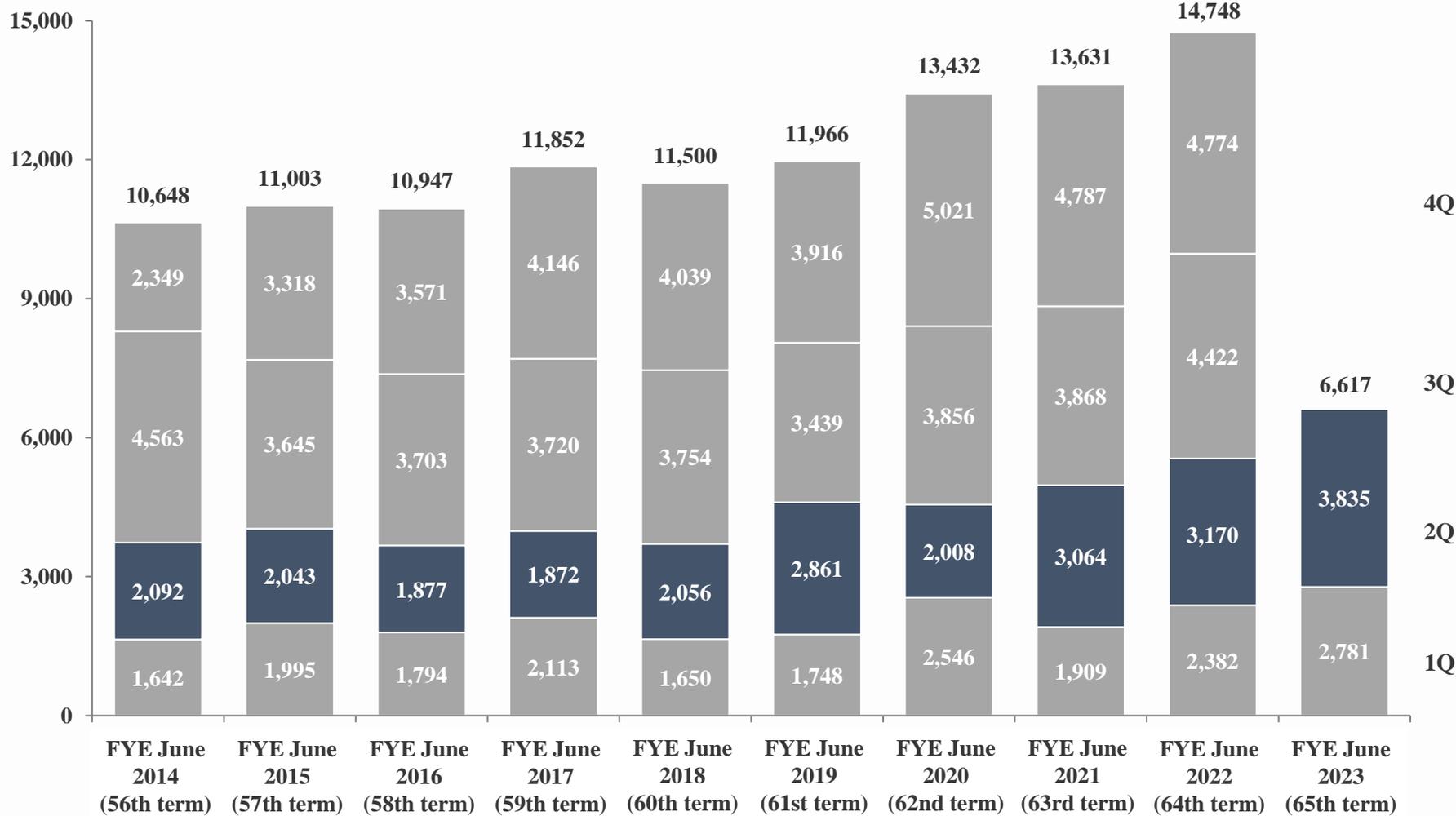
(Million yen)



Changes in Sales by Quarter

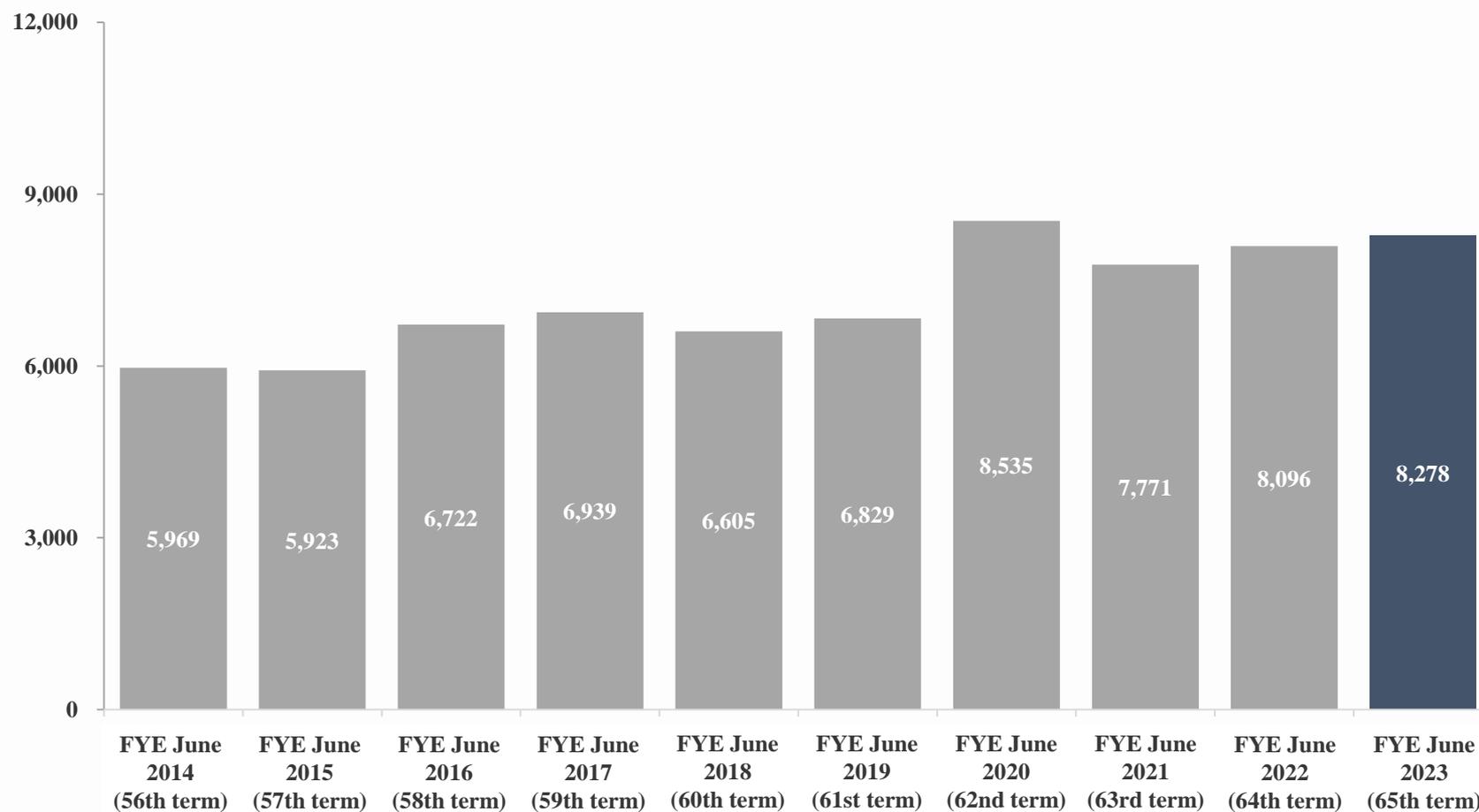
Net sales by quarter

(Million yen)



Backlog of orders

(Million yen)

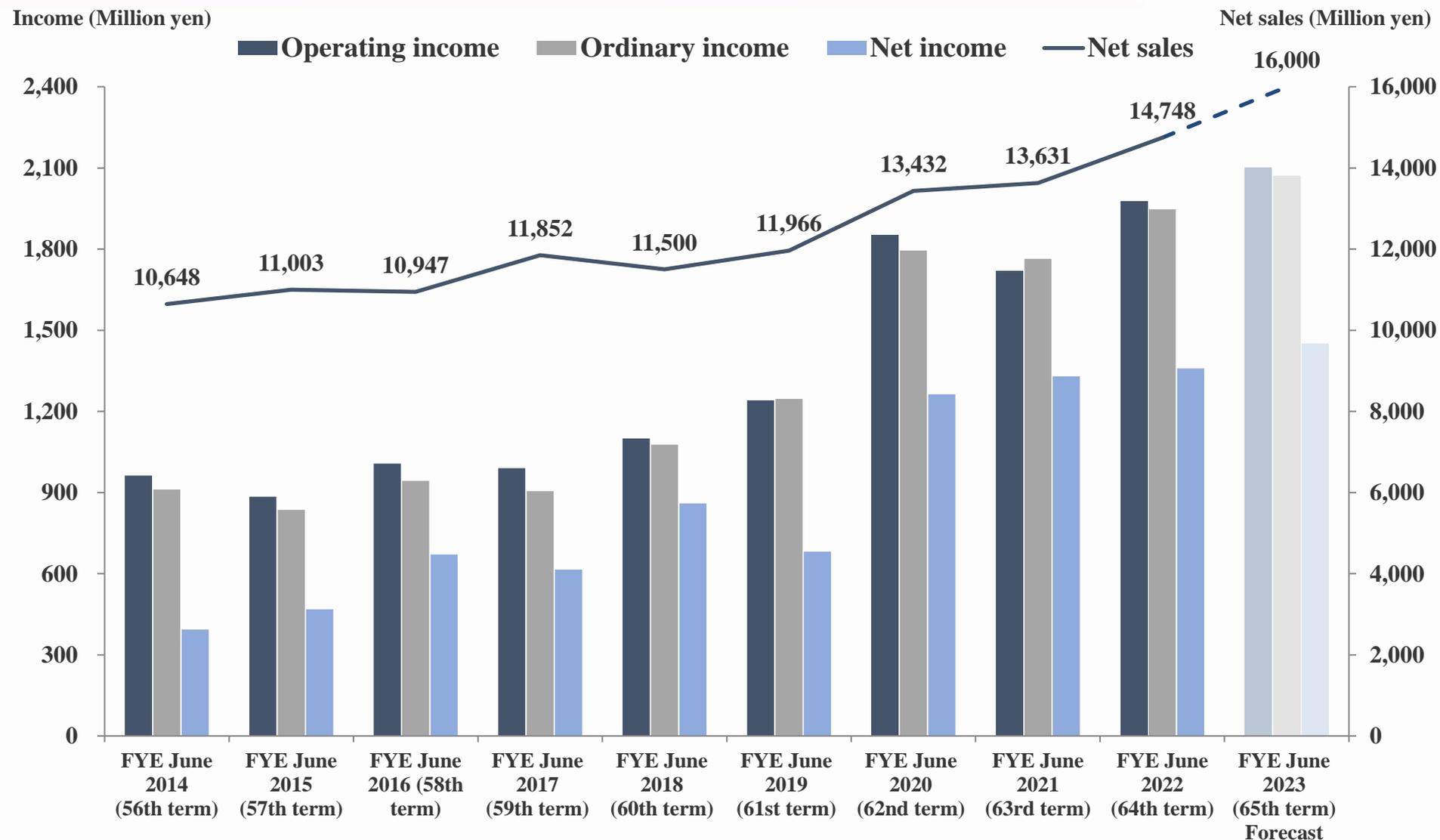


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Forecast for Fiscal Year Ending June 30, 2023 (65th term)



Trends in Results and Results Forecasts



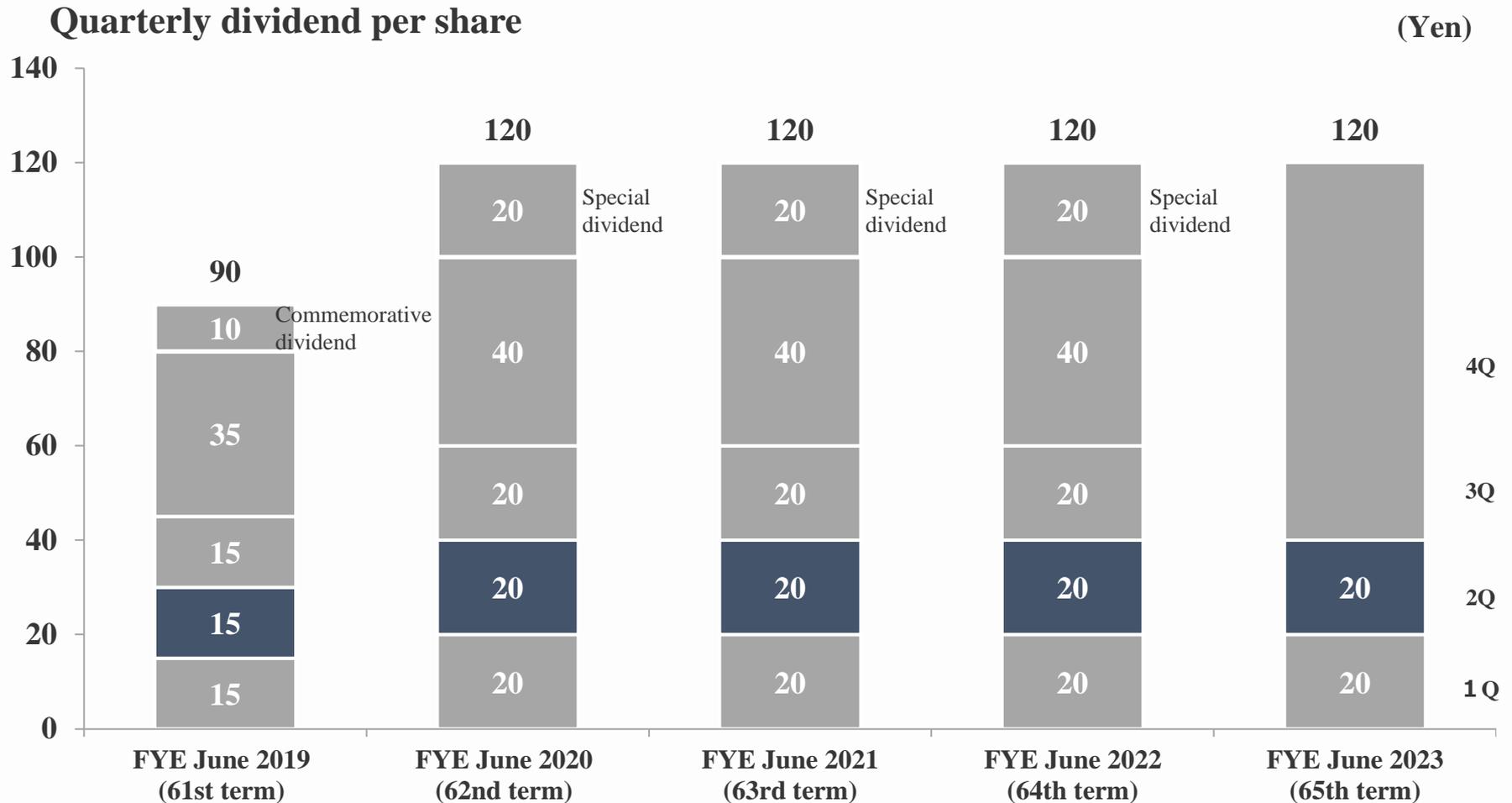
Forecast for Fiscal Year Ending June 2023 (65th Term)

(Million yen)

	FYE June 2022 (64th term)	FYE June 2023 (65th term) Forecast	Change	Rate of Change from Previous FY
Net Sales	14,748	16,000	1,251	8.50%
Operating income	1,976	2,100	123	6.20%
Ordinary income	1,947	2,070	122	6.30%
Net income	1,359	1,450	90	6.70%
		(Yen)		
Year-end dividend	120 (Common dividend: 100) (Special dividend: 20)	120		

Actual Dividends in the Past and Dividends for the Second Quarter of FYE June 2023 (65th term)

Pay stable dividends continuously according to the dividend policy.



Factors that may impact the forecasts

Quality risk

An increase in person-hours and the deterioration of quality due to **deficiencies in contract details and project management** may result in a **significant decrease in profitability** or have other impacts.



Carry out companywide quality management for each process from before the reception of an order for a project to the final deliverables.

Foreign exchange risk

Surges in purchases of overseas products and in loyalties amid the sharp depreciation of the yen may lead to a fall in income and a loss of customers following the incorporation of the cost increase into selling prices.



Carefully explain matters to customers before implementing price revisions and develop standards for price revisions.

4

To Continue to Provide Value That Is Useful to Society



*The Future Vision We Aim to Share and Achieve with Society
("Thought")*

*Innovating for a **Wise Future***

“We want to create a wise future society with our stakeholders by **disseminating useful technologies based on our engineering knowledge.**”

Our vision

**A knowledge-intensive company that
represents Japan in the 21st century**

Combine two different technology systems to provide value that is useful to society

An accumulation of
knowledge rooted in
engineering knowledge
since the Industrial
Revolution

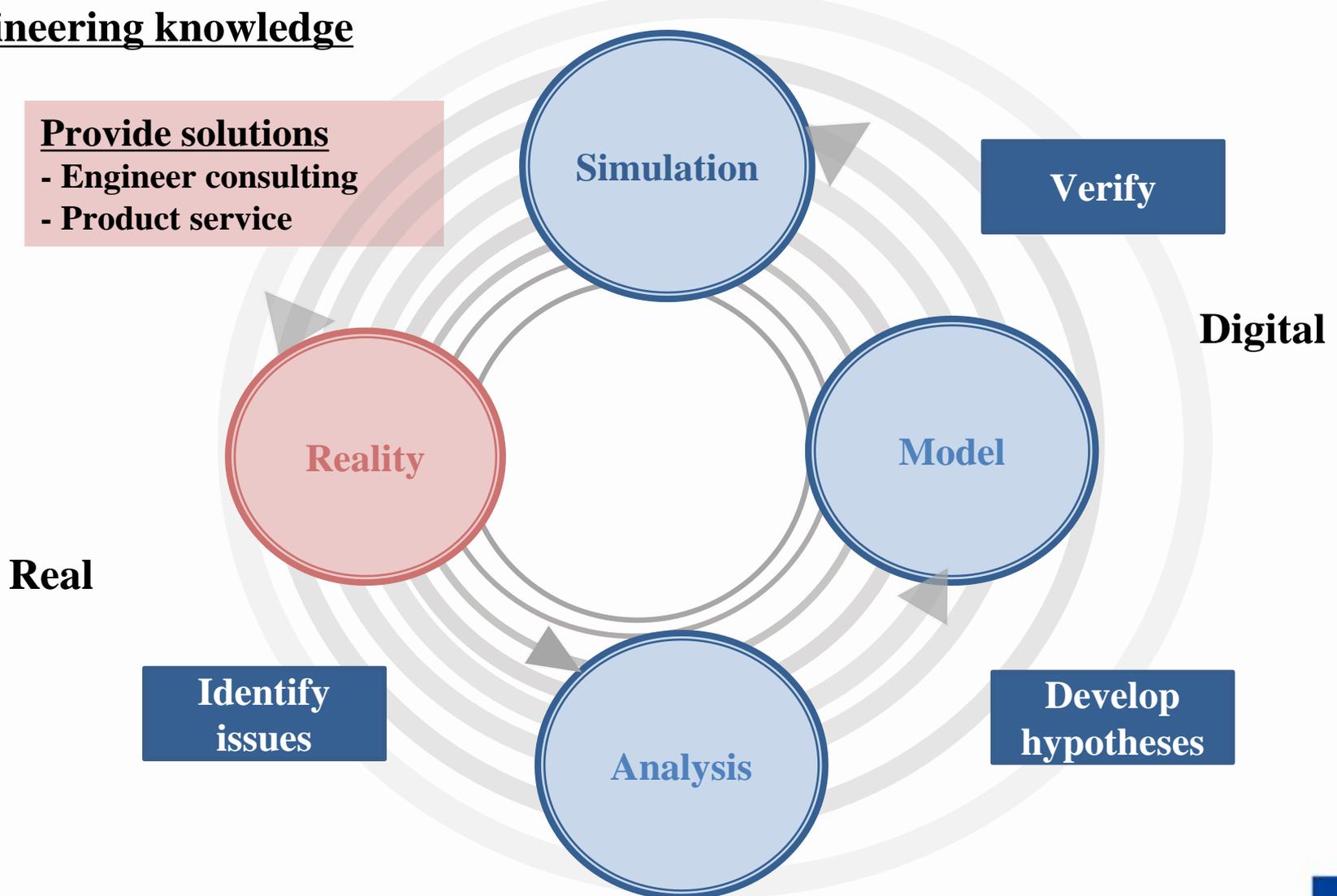


Information
technologies including
computers and the
Internet since the second
half of the 20th century

Support for the introduction and
utilization of engineering

Helping realize a safe and comfortable society

An engineering approach that continues to create diverse and advanced engineering knowledge



Historical Context

An era when it was said that without software computers are just boxes.

Objective

Giving engineers more time to think



IBM 1620 (introduced in 1961)

The Company introduced the first digital computer in Japan's construction and architectural design industry.

The Company developed software independently to make effective use of the computer.

The foundation for the use of information technologies was constructed based on engineering knowledge through a collaboration of hardware and software.

Founding spirit

Create an organization of a wide variety of experts in all domains to operate an engineering business handling all kinds of problems in society

Engineering approach and utilization of information technologies

Business, society and communities

Decision-making support
Disaster evacuation simulation
Human flow measurement and behavior analysis
Radio wave propagation and electromagnetic field analysis
Optimization planning
Supporting business continuity management (BCM)
Cloud email distribution

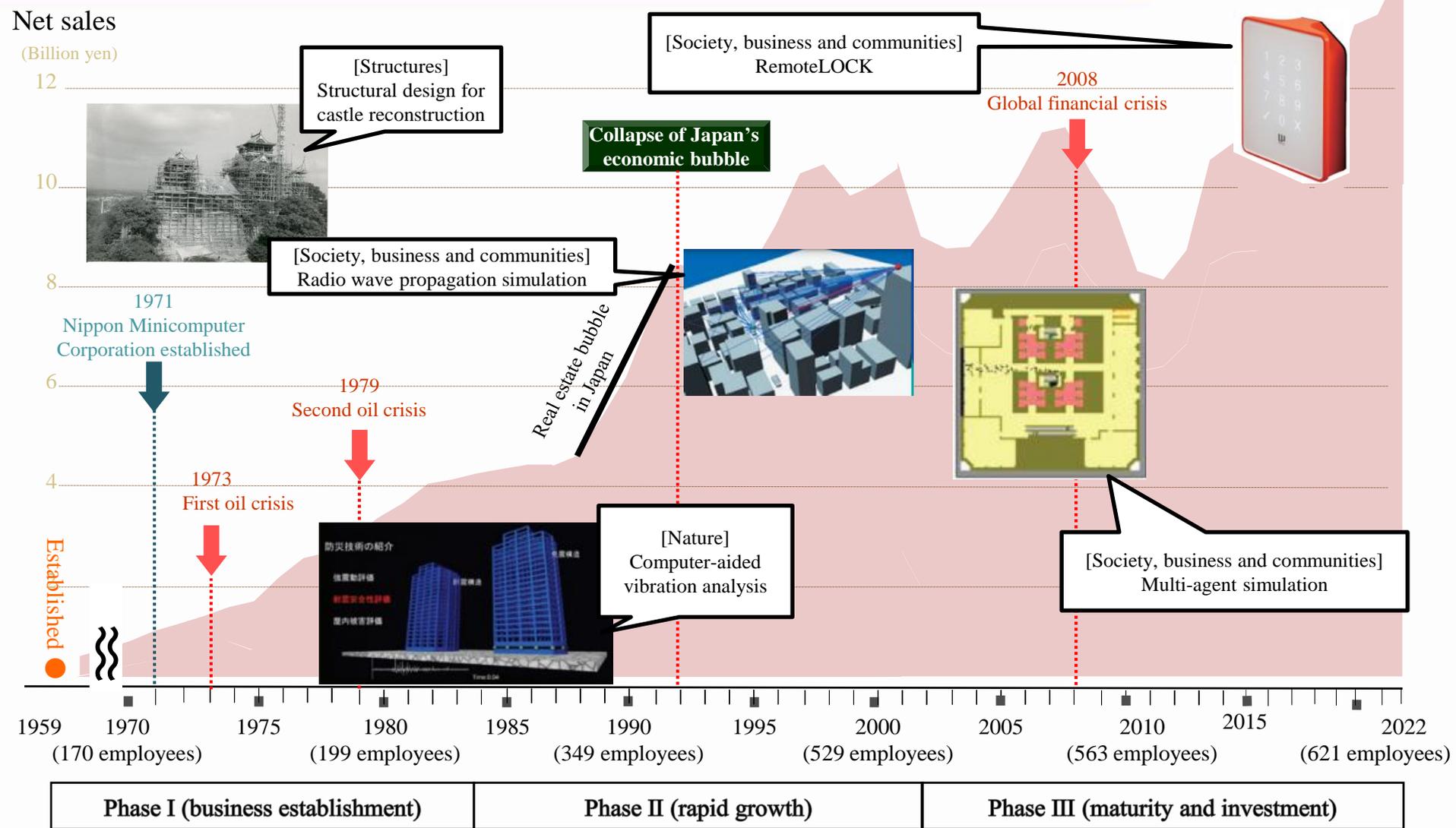
Nature

Wind environment assessment
Earthquake mechanisms
Analysis of the propagation of seismic vibrations
Ocean and river current assessment
Flood and tsunami simulation

Structures

Structural design
Design of seismic isolation and damping systems
Disaster control facility design
Structural design of bridges and viaducts

Business Expansion in Connection with the Expansion of Domains



Collaborative professionals provide value that is useful to society using engineering.

For the company's continuous growth, it is vital to gather and develop competent collaborative professionals.

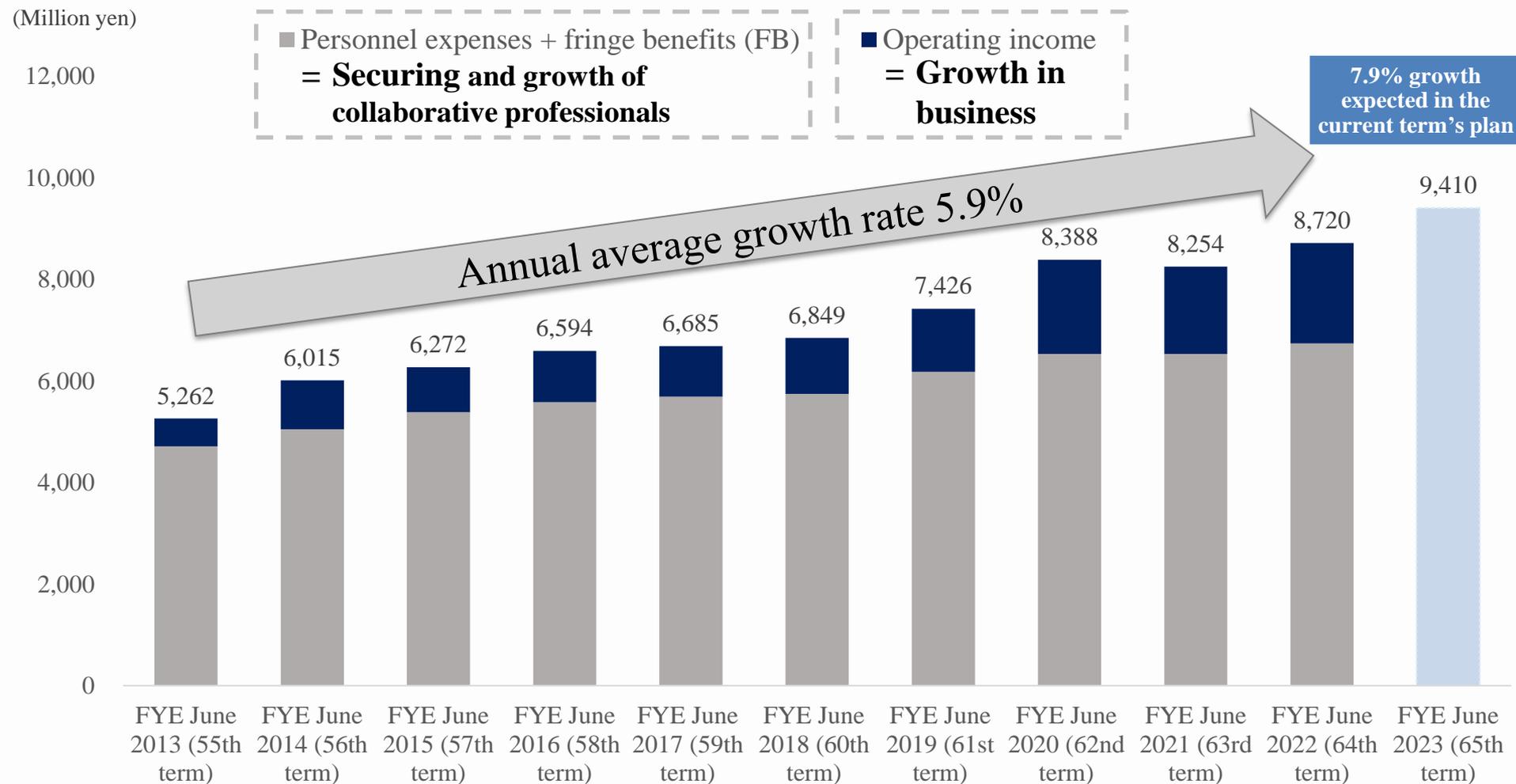
Our management indicators

Total added value = **Operating income** + **Personnel expenses** + **Fringe benefits (FB*)**



We have adopted a management goal of achieving annual growth of 5% to 7% on a medium- to long-term basis.

Changes in the Total Added Value over the Past 10 Years



Investment and business cultivation

Business investment,
new businesses,
existing businesses, etc.



Increase in total added value

Foundations

Development of KKE members

Self-development,
work experience,
shadow work,
investment in
education, etc.



Increase in KKE members (colleagues)

New graduate recruitment
Mid-career recruitment
Recruitment of foreign
nationals, etc.



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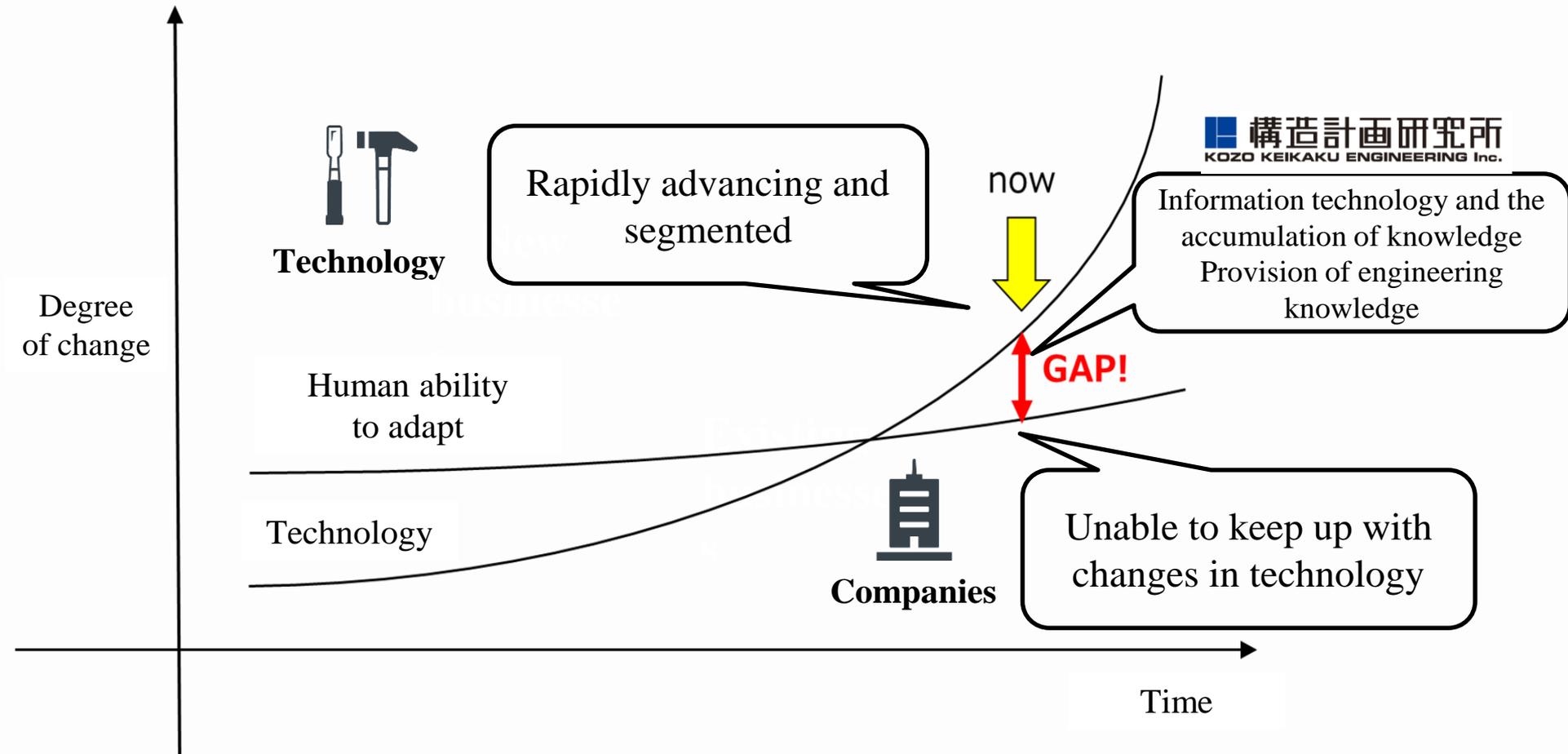


Invest in business to continue to take on new challenges looking five to ten years into the future by leveraging steady income from existing businesses and the major growth of new businesses



Invest in business to continue to take on new challenges looking five to ten years into the future by leveraging steady income from existing businesses and the major growth of new businesses

Gap between Technological Advancement and Human Ability to Adapt



Reference: Thomas L. Friedman: *Thank You for Being Late: An Optimist's Guide to Thriving in the Age of Accelerations*

Problems facing society and customers

Natural disasters

Actions for disaster prevention and mitigation and for the development of national resilience

Decarbonization

Zero GHG emissions

Manufacturing DX

Change operation processes and products in the manufacturing industry

Construction DX

Reform the construction industry by introducing digital technologies

Help improve the ability of corporations to respond to natural disasters

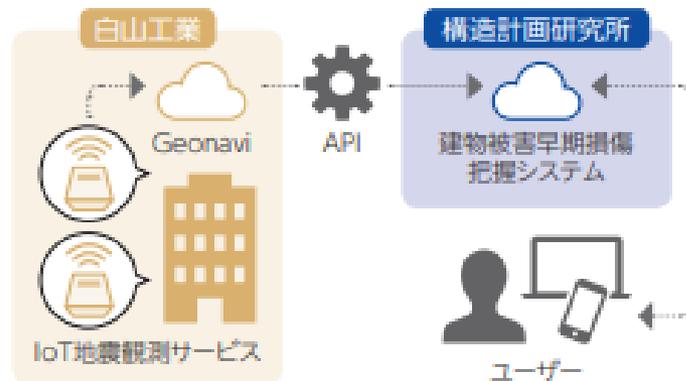
Social environment

- Factories designed in compliance with previous quake-resistance standards are operating.
- The need to take measures to address the intensification and increasing frequency of weather disasters is increasing.

KKE's actions

- Propose risk assessment and measures based on the identification of problems
- Provide services that aid the initial response to disasters

建物立入可否判断支援サービス



Provide services analyzing data from sensors installed in buildings to determine whether or not entries into the buildings are authorized.

Accelerate the ubiquitization of wooden buildings using KKE's information and communication technologies

Social environment

- The Japanese government declared that the country would achieve carbon neutrality in 2050.
- Interest in the use of wood in the construction sector is increasing.

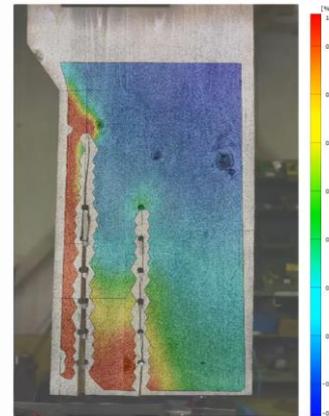
KKE's actions

- Participate in institutional design to accelerate the use of wood from 2010 onwards.
- Acquire patents for quake-resisting wood-panel walls, develop wooden structure design support systems and implement practical design work.



An example design of a nursery school using wood produced in Japan

<https://www.kke.co.jp/>



Use digital image correlation (DIC) technologies to develop metal fittings for joining wood.

[Manufacturing DX] Granular Simulation with iGRAF

Using simulation to support the improvement of productivity and quality in manufacturing

Social
environment

- Society demands that manufacturing consider the environment.
- It is necessary to improve productivity amid the labor shortage and other factors.

KKE's
actions

- Develop simulation software through joint research with a university
- Provide technological support aiding the reduction of fuel consumption and waste and the improvement in productivity



KKE conducted joint research with the University of Tokyo and developed proprietary simulation software.

An example analysis using iGRAF

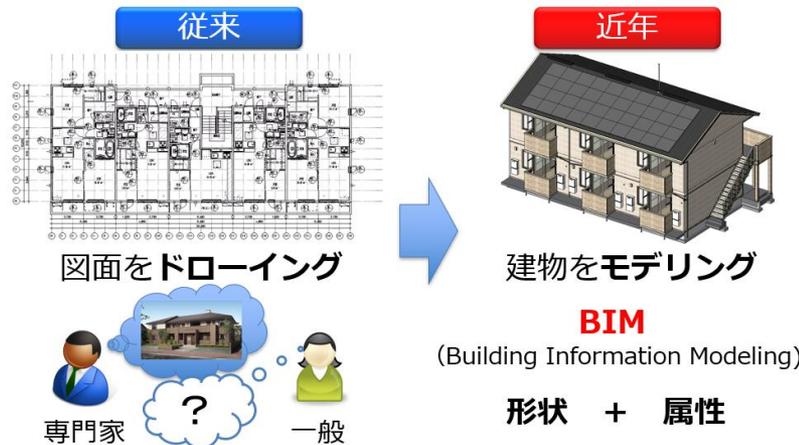
Help accelerate DX in the construction industry through building information modeling (BIM)*

Social environment

- It is necessary to reduce CO₂ emissions and address other environmental issues.
- In the construction industry there are problems impacting the working environment, such as long working hours.

KKE's actions

- Digitalize building information using the knowledge in architectural and information technologies
- Provide consulting services centering on BIM to support the acceleration of DX using digital information



BIM

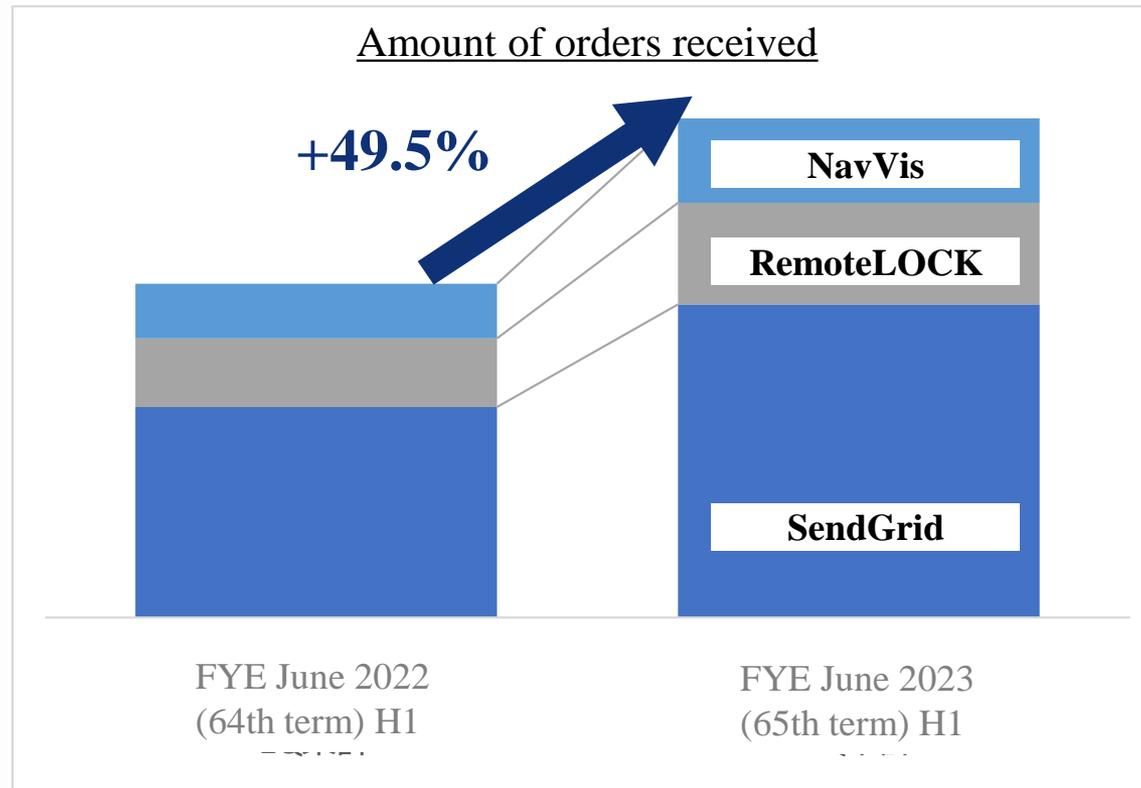
A method of centrally managing building information in a 3D-based model.



Invest in business to continue to take on new challenges looking five to ten years into the future by leveraging steady income from existing businesses and the major growth of new businesses

- Orders received in new businesses grew **49.5%** year on year.
- Orders for SendGrid, RemoteLOCK and NavVis all increased steadily.

New businesses:  **SendGrid** +  **RemoteLOCK** +  **NavVis**



Cloud-based e-mail delivery service

- Subscription model
- Email distribution service used around the world
- In Japan, the Company became a partner and launched the service in 2013.
- Since then, the scale of the service has constantly expanded.



Highly regarded by users

ITreview, a word-of-mouth website focused on IT services for businesses, suggests that SendGrid customers are highly satisfied and it has earned a good reputation.

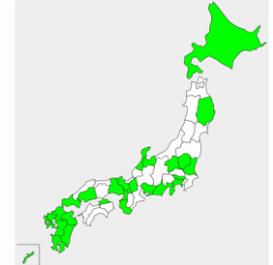
SendGrid has won the Leader award in two ITreview Grid Award categories for the fourth consecutive year.

- Email Marketing category
- Transaction Email category



A smart lock equipped with Wi-Fi cloud management functions

- In Japan, the Company became a partner and launched the service in 2017.
- The service has since expanded to serve mainly lodging facilities and local governments.
- To date it has been **introduced by more than 50 local governments**.



Collaborative creation with many different partners through open innovation.

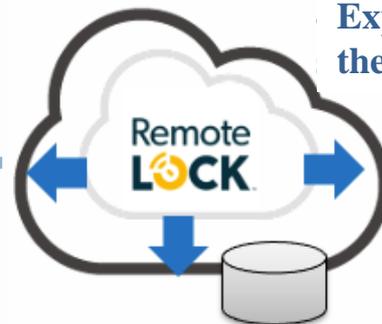
Any Brands, Any credential, Any Software

Hardware collaboration

- Our lock system
- Other companies' lock systems
- Gate into the facility
- Gate into the parking place
- Lockers, etc.



**Managing at least
100,000 entries per day**



Expanding
the area

System collaboration with different types of services

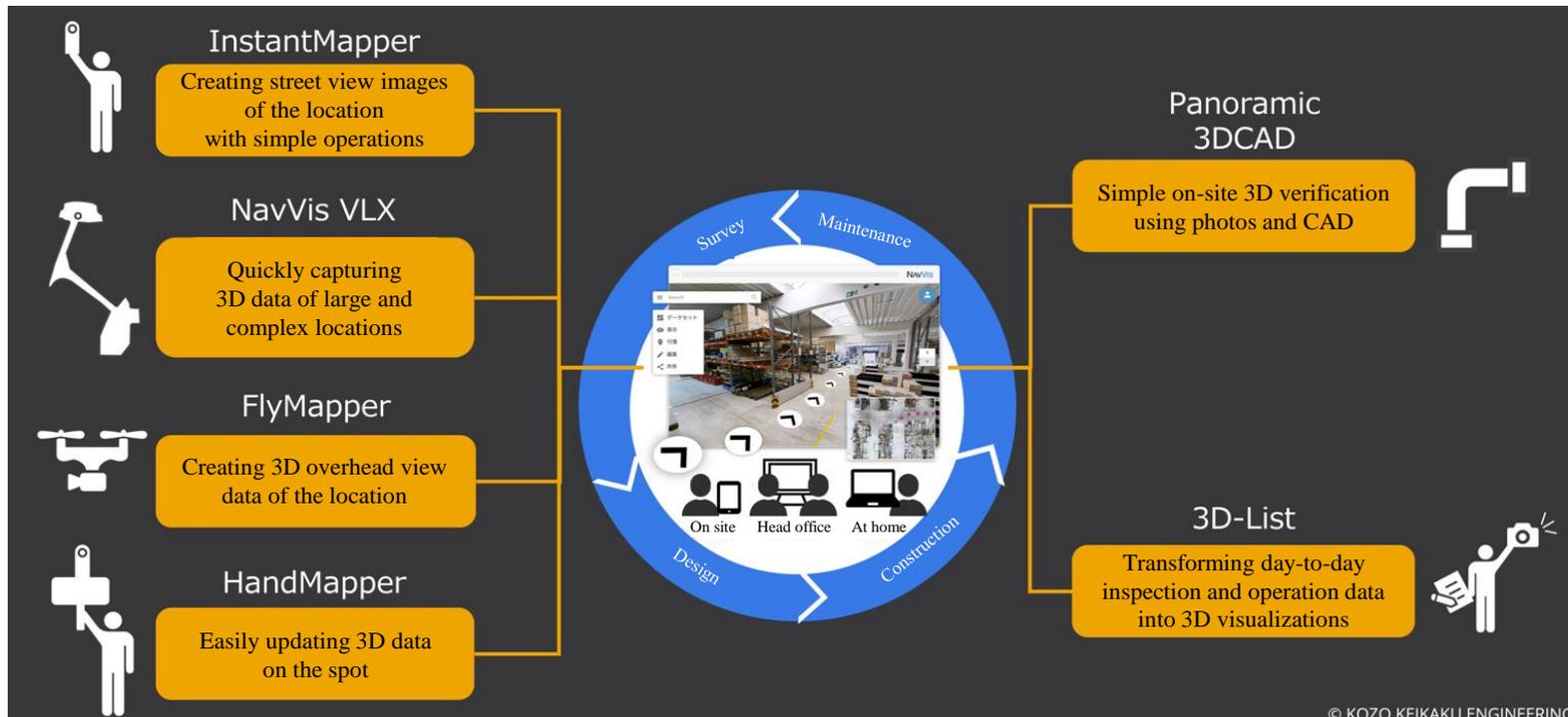
- Reservation system
 - Settlement system
 - Hotel system, etc.
- In collaboration
with more than
50 open services**



Platform for the digitization of indoor spaces

- In Japan, the Company became a partner and launched the service in 2015.
- The wearable NavVis VLX was released in 2020.
- The service has been introduced in manufacturing plants and infrastructure facilities requiring inspections.

Steady progress in the development of technology to improve convenience and expand applications





Invest in business to continue to take on new challenges looking five to ten years into the future by leveraging steady income from existing businesses and the major growth of new businesses

Business competition

- Proposals for new businesses are continuously being solicited internally.

Shadow work

- Activities that do not directly result in short-term income but will help develop engineers' skills are actively implemented.

External activities with universities and other organizations

- Participation in committees and study groups, etc. outside KKE: a total of 172 registrations, a total of 66 people
- Activities as lecturers at universities and other institutions: a total of 37 lectures and 29 people
- Academic papers and publications outside the company: 96

KKE Best Project

- The Company provides an annual opportunity to honor projects and share them across the organization for peer recognition and learning.



Work to cultivate the seeds of new businesses looking five to ten years into the future

Seeds

- Initial research
- Prototype development
- Pre-marketing

Startup

- Business model setting

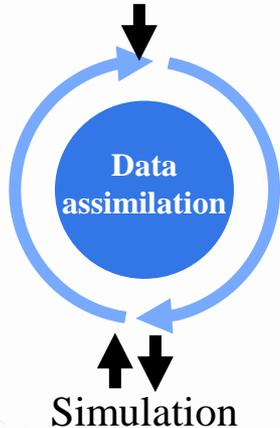
Early

- Business model establishment
- Increased sales

Examples

Initiative using data assimilation

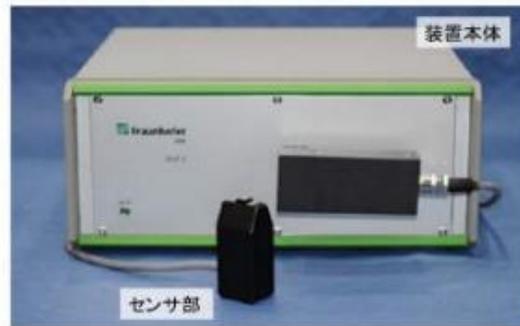
Observation data



Simulation

<https://www.kke.co.jp>

3MA



3MAの装置外観



RiverCast



リアルタイム洪水予測システム

RiverCast

Investment and business cultivation

Business investment,
new businesses,
existing businesses, etc.



Increase in total added value

Foundations

Development of KKE members

Self-development,
work experience,
shadow work,
investment in
education, etc.



Increase in KKE members (colleagues)

New graduate recruitment
Mid-career recruitment
Recruitment of foreign
nationals, etc.



Provide places and opportunities for external training to support the development of collaborative professionals

Hattori Award

An internal commendation program in which academic or business achievements are awarded once a year



Dispatch KKE members to domestic and overseas locations



Overseas	Barcelona	Temporary assignment to an overseas office
	Munich	Temporary assignment to NavVis
	Singapore	Temporary assignment to SCS
	Denver	Temporary assignment to RemoteLOCK
Domestic	Japan	Public-private exchange (with the Japan Fair Trade Commission)
		Mori Building
		Kyushu TLO Company, Limited

Systems respecting the diverse workstyles of individuals



- **KKE Smile Support Inc.** (established in August 2022)

Realizing flexible workstyles without time or location constraints

- **Multiple career paths**

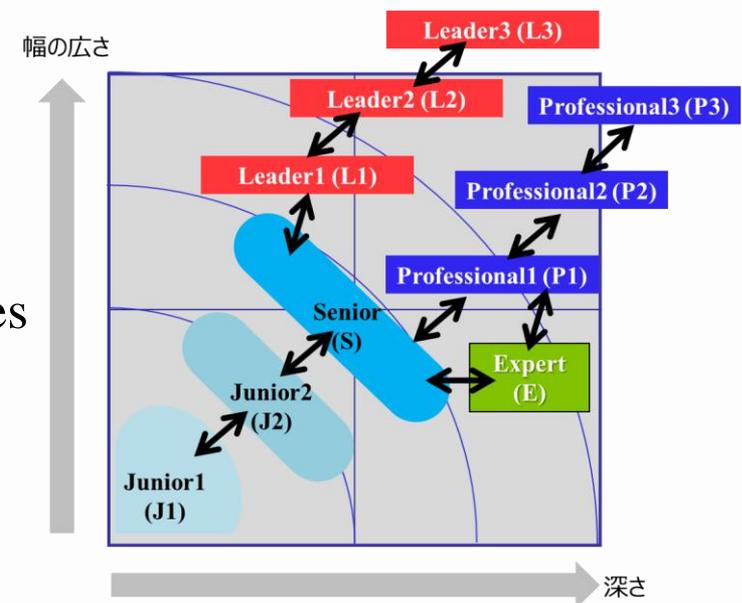
Allowing employees to design their careers independently

- **Abolition of the retirement age system**

The future workstyles and service of employees are confirmed and assessed at the age of 60.

- **Transfer requests**

Annual survey of transfer requests

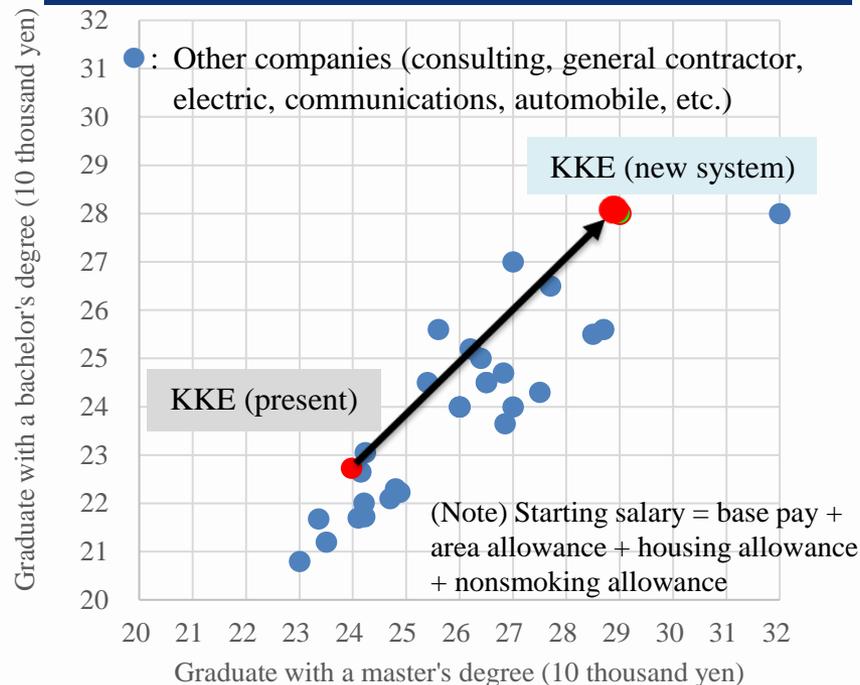


Actions to Increase the Participation and Acquisition of Collaborative Professionals

Acquire competent collaborative professionals and increase competitiveness in the job market

– Increase starting salaries

Comparison of starting salaries for graduates with a bachelor's degree and graduates with a master's degree



Starting salary (Tokyo)

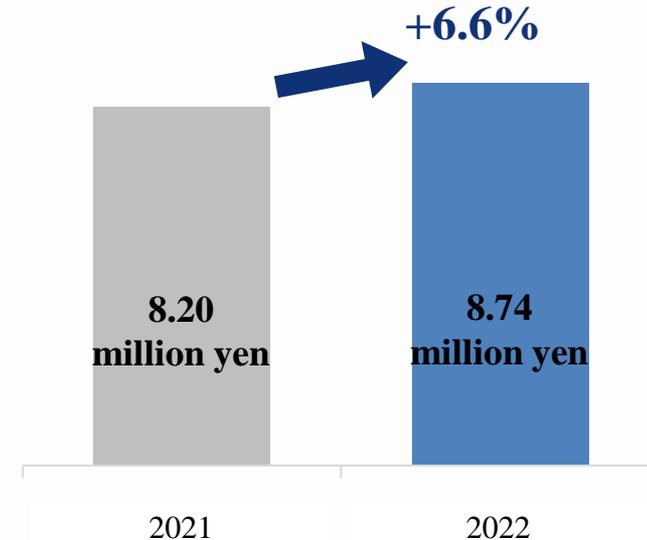
Bachelor's: 280,000 yen (**up approx. 53,000 yen**)

Master's: 290,000 yen (**up approx. 50,000 yen**)

PhD: 300,000 yen (**up approx. 55,000 yen**)

– Increase the total annual income of all KKE members

Total annual income



(Comparison of actual annual income for January to December)

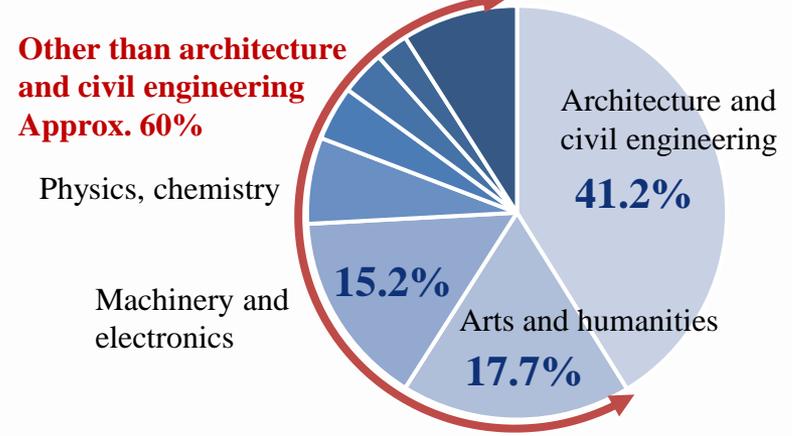
Up 3.6% on a real basis

Diverse Collaborative Professionals Supporting Diverse Business Domains

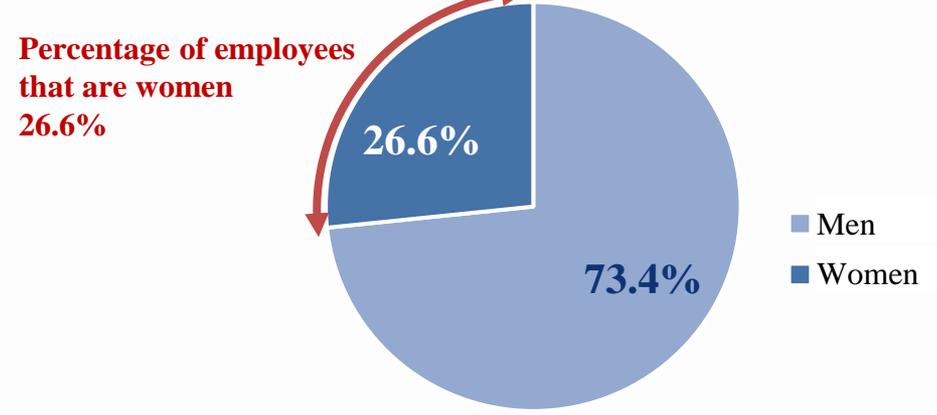
Scope: Existing KKE members at the end of the 64th term

Value the diversity of collaborative professionals to secure the capabilities to address any problem in society

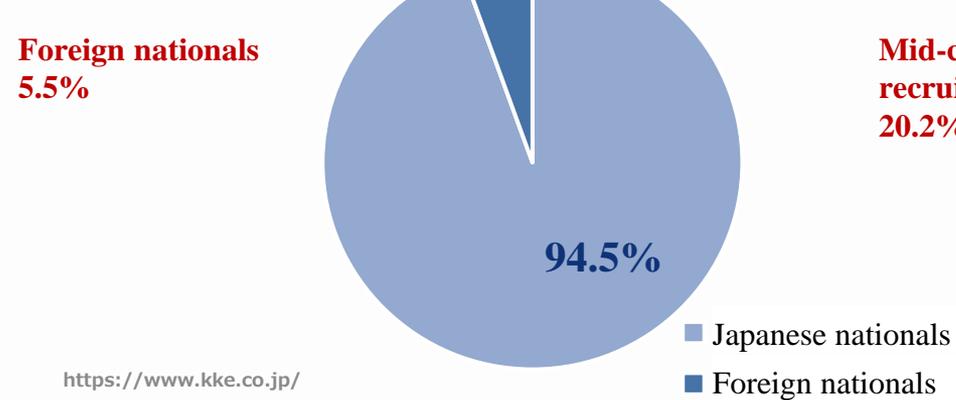
Academic background



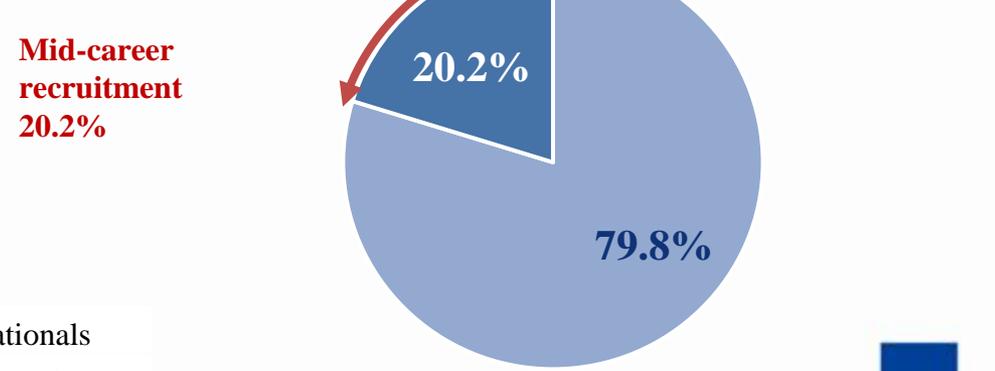
Sex



Nationality



Type of recruitment



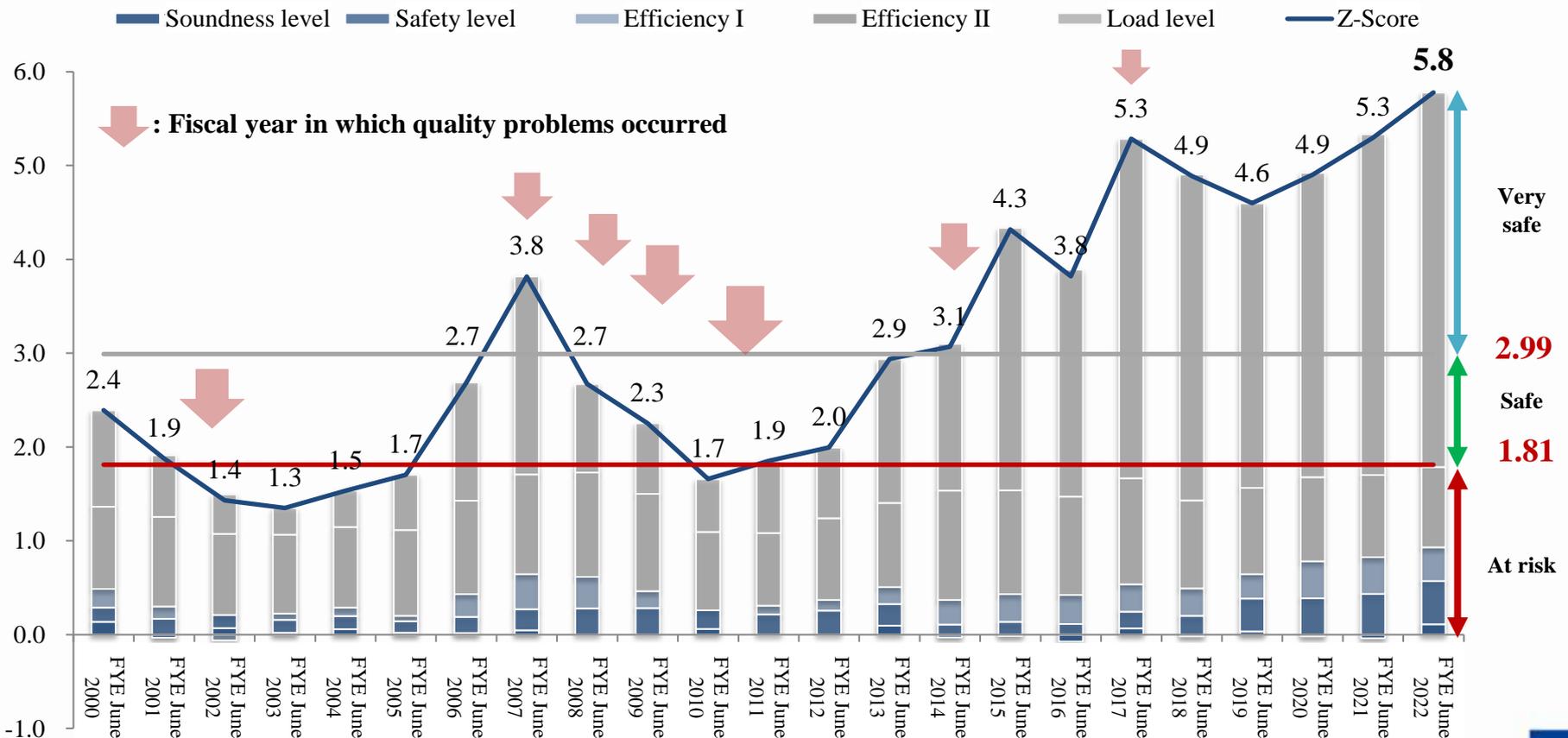
Accumulation and Utilization of Empirical Knowledge Including Past Quality Issues

The present quality assurance system and scheme are **lessons** learned from the past.

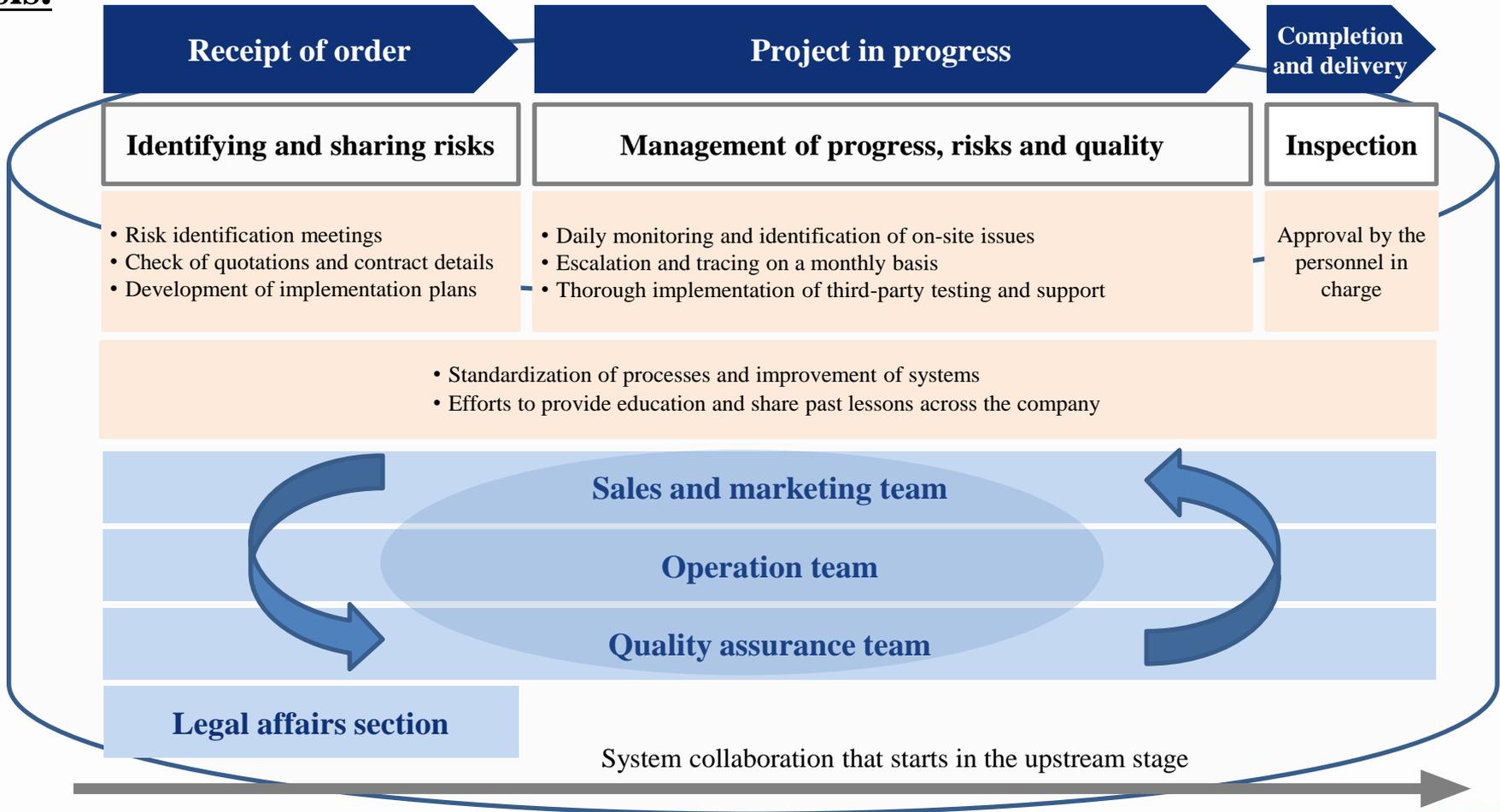
Change in Z-scores (bankruptcy risk levels)

Quality issue has a significant impact on organizational growth in the medium to long term.

Past quality issues and changes in Z-scores



We will prevent the occurrence of issues by identifying and sharing risks and countermeasures through company-wide collaboration on a process-by-process basis.



Innovating for a **Wise Future**

Wise Future: With the aim of creating a future society full of human wisdom

Innovating: We will keep innovating to provide value to society in a sustainable way.

“We want to create a wise future society with our stakeholders by disseminating useful technologies based on our engineering knowledge.”

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*Innovating for a **Wise Future***