

Possibility of achieving the target share price of JPY 1,782 within one year based on GCC Management™ analysis

Refine urban civil engineering and propose comprehensive urban design in combination with non-urban civil engineering, which is NITTOC's strength.

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J. Phoenix Research Corporation ("JPR") that emphasizes three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Corporate value analysis from the perspective of GCC Management™, which emphasizes the three elements of Confidence (improved trust = lower business risk).*

Contributing to the creation of a safe and secure national land by strengthening it and reducing the environmental burden

NITTOC CONSTRUCTION CO.,LTD. (hereafter, NITTOC) was founded on the foundation treatment of dams and is now a leading company in slope and dam foundation construction. In Japan, where earthquakes, typhoons, torrential rains, and other disasters occur frequently, there is a need to strengthen the national land and reduce disasters. There is also a mountain of issues to be addressed, including energy conversion and CO2 reduction to combat global warming, industrial waste reduction to combat environmental pollution, and de-plastics. The construction market continues to grow steadily as a result of government spending on public works projects, and the maintenance and repair work market in particular is attracting attention as a growth market, except in areas where infrastructure needs to be rebuilt due to the arrival of the infrastructure renewal period and the need to strengthen the national land. In this environment, NITTOC will contribute to the creation of a safe and secure national land through the development and application of disaster-resistant civil engineering in non-urban and urban areas, as well as technologies that reduce environmental impact.

Improve profitability by reducing costs specific to civil engineering and construction through investment in IT and people.

In the growing market for repair work, companies that possess their own materials have an advantage, and with the exception of a few companies, all companies are in the same situation. On the other hand, in all types of construction work, the three elements that lead to the creation of repeat customers are technical proposal capability, sales liaison capability, and construction realization capability, and it is important to strengthen these elements. Compared to construction projects, civil engineering construction is labor-intensive, and on-site work is a prerequisite. NITTOC will reduce costs and improve profitability by investing in IT and people, and by strengthening its comprehensive capabilities in non-urban civil engineering + urban civil engineering and establishing a brand and reinforcing its trading company function through the development of original materials by leveraging its strengths such as technical capabilities derived from dam projects and its nationwide sales network. NITTOC has set a target ROIC in its medium-term management plan 2023 and is expected to disclose it in the future.

An evaluation within one year of the high profitability of 15% ROIC is a condition for achieving the target stock price.

The shareholder value was estimated using the "excess profit method" (see Appendix 2) based on the GCC Management™ framework, and the share price that can be achieved in one year was estimated based on the relationship between ROIC, WACC, corporate value, and PBR (see 6. Reference Materials). As a result, the shareholder value was estimated to be JPY 850 billion, approximately 2.0 times the current market capitalization, and the target share price was estimated to be JPY1,782 based on the relationship between ROIC/WACC, PBR, and corporate value based on JPR estimates for the fiscal year ending March 2024. The importance of ROIC and WACC has been increasingly recognized by the TSE in its March 31, 2009 press release titled "Request for Measures to Achieve Management Conscious of Cost of Capital and Stock Prices." If NITTOC's high ROIC of around 15% is recognized as a result of its enhanced IR activities, a share price of JPY 1,782 (2.0x upside over the current share price) could be achieved within a year (see "Investment Summary" in the main text)."

Estimated target stock price

Target stock price	Current stock price	Upside from 6/13 closing price
JPY 1,782	JPY 1,003	1.78 times

Basic Report

Written and Edited by
J-Phoenix Research Inc.
Taizo Honda

Company Profile

Location of Head Office	Chuo-ku, Tokyo
Representative	Yasuo Wada
Date of Establishment	December 17, 1947
Paid-in Capital	JPY 6,052 million
Date of Listing	December 19, 1983
URL	https://www.nittoc.co.jp/
Type of Business	Construction

Key Indicators As of June 13, 2023

Stock Price	JPY 1,003
52-week high	JPY 1,035
52-Week Low	JPY 774
Number of Shares Outstanding	41,708,367 stocks
Trading Unit	100 stocks
Market Capitalization	JPY 41,833 million
Company Projected Dividend	JPY 47
Estimated Net Income	JPY 80.33
Forecast PER	12.49 times
Actual BPS (March 31, 2023)	JPY 763.67
Actual PBR	1.31 times

For more information on the "Conceptual Design" and "Implementation Design" and the evaluation system, please refer to Reference 1. For those new to JPR reports at the end of this document.

Performance Trends	Sales (JPY 1 mil.)	YoY %	Operating income (JPY 1 mil.)	YoY %	Ordinary income (JPY 1 mil.)	YoY %	net income (JPY 1 mil.)	YoY %	EPS (JPY)	Stock price	
										High price (JPY)	Low price (JPY)
Results for FY 3 2021	67,955	3.7%	5,358	9.3%	5,419	11.1%	3,500	7.4%	83.93	872	669
Results for FY 3 2022	66,076	-2.8%	4,523	-15.6%	4,626	-14.6%	3,329	-4.9%	79.83	836	634
Results for FY 3 2023	72,918	10.4%	5,451	20.5%	5,462	18.1%	3,526	5.9%	84.56	1,014	683
Plans for FY 3 2024	71,200	-2.4%	5,030	-7.7%	5,050	-7.6%	3,350	-5.0%	80.33	-	-

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1. Investment Summary

Shareholder value analysis

**Maximum Upside
2.0x in Market
Capitalization
Estimated**

Estimation using the excess profit method

Maximum upside 2.0x depending on realization of growth scenario

JPR estimated shareholder value using the "excess profit method" (see "Appendix 2") based on the GCC Management™ framework, taking into account the future potential of NITTOC's business development. The following chart visualizes the framework of the qualitative and quantitative stories and the results of the estimation. Assumptions are explained on the following pages. Assumptions are explained on the next page and beyond. The target stock price within one year was estimated to be JPY 1,782 (see details below). However, this is conditional on investors recognizing NITTOC's high ROIC.

Shareholder Value Analysis (Unit: JPY 100 million)

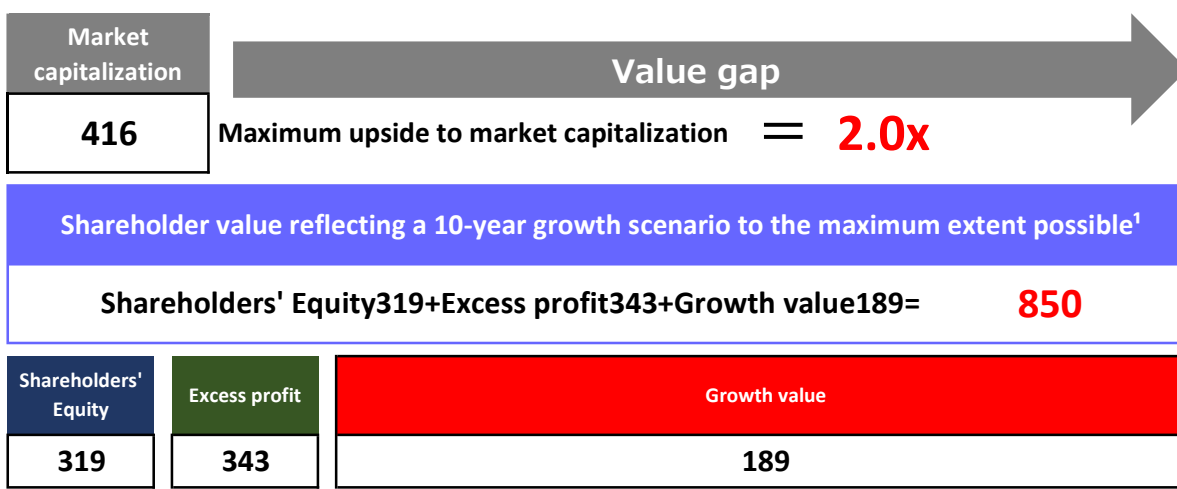
Qualitative Story Outline

Growth: Proposal for Urban Design by Non-Urban and Urban Civil Engineering

Connection: Strengthening the connection between the three elements to maximize advantage

Confidence: High financial stability and social contribution through green civil works

Quantitative Story Outline

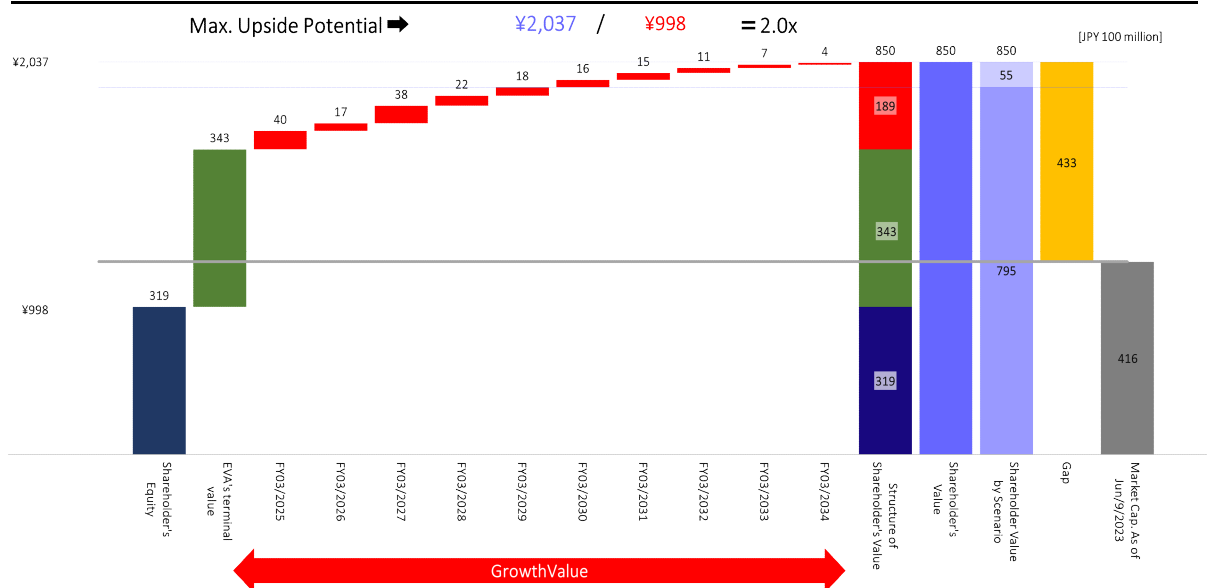


Source: JPR

1: Fractions do not match due to rounding.

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Shareholder Value Structure and Value Gap Analysis Using the Excess Profit Method



Shareholder Value Structure and Value Gap Analysis Using the Excess Profit Method (details)

[JPY 100 million]	Current Year 2024.03	1 year later 2025.03	2 years later 2026.03	3 years later 2027.03	4 years later 2028.03	5 years later 2029.03	6 years later 2030.03	7 years later 2031.03	8 years later 2032.03	9 years later 2033.03	10 years later 2034.03
Sales	712	728	747	788	835	877	916	953	981	1,001	1,011
Operating income	50	54	56	62	65	68	72	74	77	78	79
Operating margin	7.1%	7.5%	7.6%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Sales growth rate	-2.4%	2.3%	2.5%	5.5%	6.0%	5.0%	4.5%	4.0%	3.0%	2.0%	1.0%
NOPAT margin	4.9%	5.2%	5.2%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%
Invested capital turnover ratio	34.6%	34.5%	34.6%	34.6%	34.5%	34.5%	34.4%	34.3%	34.2%	34.1%	34.0%
WACC	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%
ROIC = NOPAT margin ÷ invested capital net sales ratio	14.1%	15.0%	15.1%	15.6%	15.7%	15.7%	15.7%	15.7%	15.8%	15.8%	15.9%
ROIC / WACC (value created with the original hand of 1 yen)	¥2.4	¥2.5	¥2.6	¥2.6	¥2.7	¥2.7	¥2.7	¥2.7	¥2.7	¥2.7	¥2.7
NOPAT	34.78	37.53	39.06	42.53	45.08	47.34	49.47	51.45	52.99	54.05	54.59
Invested capital × WACC	14.55	14.83	15.25	16.08	17.01	17.84	18.62	19.30	19.82	20.16	20.32
EVA	20.23	22.71	23.8083	26.45	28.07	29.50	30.85	32.15	33.18	33.89	34.27
EVA = NOPAT - invested capital × WACC	20.23	22.71	23.81	26.45	28.07	29.50	30.85	32.15	33.18	33.89	34.27
Value created in each year	343	42	19	45	27	24	23	22	17	12	6
Discount Rate	100%	94%	89%	84%	79%	75%	71%	67%	63%	60%	56%
Present value of EVA	343	40	17	38	22	18	16	15	11	7	4
Invested capital ① Origin	246										
Over profit value (Permanent value of EVA of this term) ②	343										
Growth value (Present value of increase in EVA) ③	189										
Non-business asset value ④	116										
Corporate value = ① + ② + ③ + ④	894										
Interest-bearing debt, etc.	-44										
Shareholder value	850										

Source: JPR

*For NOPAT, since it is difficult to estimate the corporate tax rate, a conservative effective corporate tax rate of 30.9% is applied.

Points of Interest in Investing in NITTOC

Upside due to ROIC of 14.1%*1 not recognized

As mentioned in the previous section, JPR estimated NITTOC's ROIC to be 14.1%, WACC to be 5.84%, etc., and thus estimated the shareholder value to be created over the next 10 years to be JPY 85.0 billion. This is 2.0 times the current market capitalization of JPY 41.6 billion. The current valuation of JPY 66.2 billion, which is composed of shareholder value excluding growth value and excess profit value, is also expected to have an upside of 1.6 times, and is therefore considered to be extremely undervalued at present.

High dividend yield with a median of 5.21% over the past 4 years

NITTOC's dividend yield has been extremely high, ranging from 4.13% to 6.81% over the past four years from FY03/2020 to FY03/2023. NITTOC has continued to increase its dividend per share from a minimum of JPY 36 per share in FY03/2021 to JPY 47 per share in FY03/2024, and in its medium-term management plan 2023, NITTOC aims to pay a dividend that is no less than the previous year's actual dividend. NITTOC's dividend yield is expected to remain stable and high in the future.

Focus on the combination of clear upside and high dividend yield

In general, companies with high dividend yields are often judged to have low upside. However, NITTOC has an upside of 2.0x based on an analysis using the excess profit method, and an upside of 1.78x based on a target stock price estimate using ROIC/WACC, which will be discussed later. The appeal of investing in NITTOC can be attributed to the fact that it offers both such upside and a consistently high dividend yield.

ROIC 14.1%
Upside 2.0 times

Plans dividend of
47 yen for next
fiscal year

NITTOC's Dividend Yield Trends



Source: JPR

ROIC Difference between NITTOC's and JPR's

Differences in ROIC are due to differences in invested capital

In its Mid-term Management Plan 2023, NITTOC has set a target ROIC of 10% or more for the fiscal year ending March 31, 2026. The method used to calculate invested capital here is NIBD plus net assets. Using this method, JPR estimated that (1) NITTOC's invested capital would be JPY 36.2 billion and ROIC would be 9.7%. On the other hand, JPR calculated invested capital as total assets - non-business assets - current liabilities other than NIBD, and estimated (2) invested capital at JPY 24.6 billion and ROIC at 14.2%.

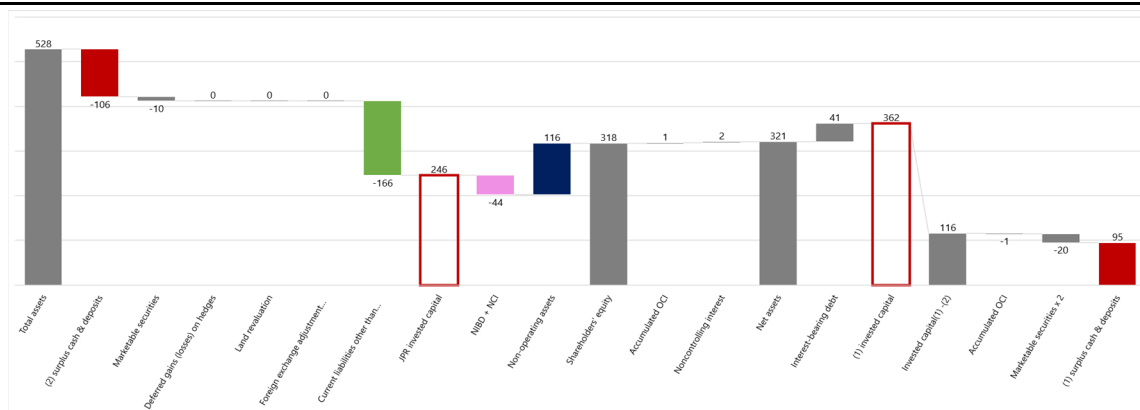
Differences are due to differences in excess cash and deposits

Invested capital (1)	=	Net assets + interest-bearing debt
Invested capital (2)	=	Total assets - non-business assets - current liabilities other than NIBD
Net assets	=	Shareholders' equity + accumulated OCI + NCI
	=	(JPR invested capital - NIBD - NCI + non-business assets) + accumulated OCI + NCI
	=	JPR invested capital - NIBD + non-business assets + accumulated OCI
Therefor		
NITTOC invested capital	=	JPR invested capital + non-operating assets + accumulated OCI
	=	(JPR invested capital + accumulated OCI + marketable securities) + Surplus cash and deposits

NITTOC's invested capital can be broken down as shown above. Since the figures in parentheses are taken from the financial data, there may be a difference in the method used to calculate the surplus cash and deposits; since (1) the surplus cash and deposits in the NITTOC calculation is JPY 9.5 billion, it was estimated that NITTOC conservatively set its liquidity-on-hand ratio 5 days higher, and (2) the surplus cash and deposits in the JPR estimate is JPY 10.6 billion.

(1) Surplus Cash and Deposits	=	Cash and cash equivalents - (50/365)*Net sales
	=	95
(2) Surplus Cash and Deposits	=	Cash and cash equivalents - (45/365)*Net sales
	=	194 - (45/365)*712
	=	106

NITTOC's estimate of surplus cash and cash equivalents



[Source] JPR

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Estimation of target stock price by ROIC/WACC

Input data required for NITTO's target stock price estimation

Source	Data Name	Data Value	Unit	Source	Data Name	Data Value	Unit
JPR Estimates	Invested capital ^{① 1}	24,636	JPY 1 mil.	JPR Estimates	ROIC	14.1	%
JPR Estimates	Non-operating assets ^{② 2}	11,614	JPY 1 mil.	JPR Estimates	WACC	5.9	%
Actual	Book value of shareholders' equity ^③	31,849	JPY 1 mil.	JPR Estimates	ROIC/WACC	2.39	times
Actual	Market value book value ^④	41,833	JPY 1 mil.	JPR Estimates	Enterprise Value Market Value / Book value of enterprise value	1.27	times
JPR Estimates	Book value of enterprise value = (1) + (2)	36,250	JPY 1 mil.	JPR Estimates	PBR	1.31	times
JPR Estimates	Enterprise value market value = Market value of enterprise value = (1) + (2) - (3) + (4)	46,026	JPY 1 mil.	JPR Estimates	ROE/COE ³	1.78	times

Estimation from listed company data: Relationship between ROIC/WACC and PBR of firm value

<Result A> of statistical estimation

Enterprise Value Market Value / Book value of enterprise value = $0.96 + (\text{ROIC/WACC} - 0.96) \times 0.89$
(Coefficient of determination of statistical explanatory power 0.80)

<Result B> of statistical estimation

PBR = $1.17 + (\text{ROE/COE} - 1.17) \times 1.78$
(Coefficient of determination of statistical explanatory power 0.75)

Relevant data on estimated target shareholder value

Estimated values from <Result A>

Enterprise Value Market Value / Book value of enterprise value	Market capitalization	Stock price
2.23 times	JPY 76,529 million	JPY 1,835

Estimated values from <Result B>

PBR	Market capitalization	Stock price
2.26 times	JPY 71,848 million	JPY 1,723

Estimated target stock price

Target stock price	Current stock price	Upside from 6/13 closing price
JPY 1,782	JPY 1,003	1.78 times

[Source] JPR

Definitions of 1 and 2 are in 6. Reference data; COE of 3 is cost of equity.

Target stock price estimates are weighted averages based on the coefficients of determination of <Result A> and <Result B>.

Three qualitative and quantitative information assumptions set for estimating shareholder v

Growth: Proposal for Urban Design by Non-Urban and Urban Civil Engineering

Values and Worldviews	Value provided and Growth Potential	Sales
A Company Contributing to the Creation of a Safe and Secure National Land	Expanding in the Growing Maintenance and Repair Market	CAGR 4.0% is expected
In Japan, where disasters occur frequently, there is a need to strengthen the national land and reduce disasters, and there is a mountain of issues to be addressed to combat global warming. NITTOC will contribute to the creation of a safe and secure national land through the development and application of technologies that will make the country more disaster-resistant through civil engineering in non-urban and urban areas and reduce the burden on the environment.	NITTOC has been actively participating in disaster restoration projects through disaster agreements. In addition, as a leading company in slope and dam foundation construction, NITTOC is contributing to the creation of a safe and secure national land. The construction market is growing steadily for public works projects. In particular, the maintenance and repair work market is a growing market, except in areas where infrastructure reconstruction is required due to the arrival of the infrastructure renewal period and the need to strengthen the national land.	<div>2024.3</div> <div>2034.3</div> <div>712 ▶ 1,011</div>
		Expanding market share through urban design with non-urban civil engineering + urban civil engineering.
		Growth value
		189

Connection: Strengthening the connection between the three elements to maximize advantage

Strategy	Business Model	ROIC
Strengthening Technology, Sales, and Construction	On-site + labor-intensive cost reduction	Expected to improve by 1.8 points
In the repair work market, companies that possess their own materials have an advantage, and with the exception of a few companies, the situation is flat. On the other hand, in all types of construction work, the three elements that lead to the creation of repeat customers are technical proposal capability, sales liaison capability, and construction realization capability, and strengthening these elements will be important.	Civil engineering construction is labor-intensive, and on-site work is a prerequisite. NITTOC will reduce costs and improve profitability by investing in IT and people, strengthening its comprehensive capabilities in non-urban civil engineering and urban civil engineering by leveraging its strengths such as technical capabilities derived from dam projects and its nationwide sales network, and establishing brands and strengthening its trading company functions by developing original materials.	<div>2024.3</div> <div>2034.3</div> <div>14.1 % ▶ 15.9 %</div>
		Improve ROIC by investing in IT and people to comprehensively strengthen technical proposal, sales liaison, and construction realization capabilities.
		Excess profit
		343

Confidence: High financial stability and social contribution through green civil works

Financial Sustainability	+	Contribution to Social Sustainability	=	WACC
Stable civil construction with high barriers to entry		Contributing to national land resilience while taking the environment into consideration		Maintenance of the status quo
Among civil engineering and construction companies, NITTOC's earnings are stable, especially since its main business is stable public engineering projects. In addition, as a leading company in slope and dam foundation construction, NITTOC is in a position to pass on its technologies without losing its bearers. Currently, the barriers to entry are very high, and the realization of the strategy is expected to further strengthen these barriers to entry.		The business itself directly contributes to the creation of a safe and secure national land, and the adoption of environmentally friendly construction methods such as the KAERUDO-Green Method, Geofiber Method, and New Sleeve Grouting Method has made a significant contribution to the sustainability of society.		<div>5.84</div> <div>%</div>
				Both financial stability and social contribution are high, and there are few factors that increase business risk and cost of capital.
				Shareholders' Equity
				319

*Compiled by JPR based on its own projections of post-company plan estimates based on company hearings.

2. Overview

Company overview

Company Name	NITTOC CONSTRUCTION CO.,LTD. (In Japanese : 日特建設株式会社)
Establishment	December-17-1947
Representative	Yasuo Wada
Head Office Location	Daiwa Higashi-nihonbashi Building 4F 5F 6F,10-6, 3-Chome, Higashi-nihonbashi, Chuo-ku, Tokyo
Capital	JPY 6,000millions
Number of Employees	1,049 (consolidated, as of March 31, 2023)
Fiscal Year End	March
Business	General construction (civil engineering, foundation, environmental and geological consulting)
Date of Listing	December 19, 1983
Stock Exchange Listing	Tokyo Stock Exchange Prime Market [Securities code: 1929]

Source: Compiled by JPR based on company data.

History

Year	Month	Contents
1953	4	Yachiyo Chika Kogyo Co., Ltd. established in Sapporo, Hokkaido, mainly for geological surveys and foundation work.
1959	12	Trade name changed to Nippon Tokushu Doboku Kogyo K.K
1962	12	For the purpose of changing the par value of Nippon Tokushu Doboku Kogyo's shares, Nippon Tokushu Doboku Kogyo K.K. merged Hikari Shokai K.K., which was established in December 1947, by changing the latter's trade name and business.
1972	5	Renamed NITTOC CONSTRUCTION CO., LTD.
1979	12	Established Midori Industries Co., Ltd.(currently a consolidated subsidiary)
1983	12	Listed on the Second Section of the Tokyo Stock Exchange
1985	9	Listed on the First Section of the Tokyo Stock Exchange
2004	10	Established Shimane Earth Engineering Co., Ltd.(currently a consolidated subsidiary)
2013	12	Established Yamaguchi Earth Engineering Co., Ltd. (currently a consolidated subsidiary).
2016	3	Established PT. NITTOC CONSTRUCTION INDONESIA (currently a consolidated subsidiary).
2019	1	Established Ehime Earth Engineering Co., Ltd. (currently a consolidated subsidiary).
2021	10	Established Fukui Earth Engineering Co., Ltd. (currently a consolidated subsidiary).
2022	4	Tokyo Stock Exchange Listed on the Prime Market

Source: Compiled by JPR based on company data.

Major Consolidated Subsidiaries and Group Companies(unit: JPY million)

Business Line	Company Name	Business Outline	Capital	Shareholding Ratio
Construction Other Businesses	Midori Industries Co., Ltd	Sales of materials and supplies, insurance agency (non-life and life insurance), construction	31	100%
Construction	Yamaguchi Earth Engineering Co., Ltd.	Civil engineering, scaffolding and earthwork, pavement construction, water supply facilities construction	20	100%
Construction	Shimane Earth Engineering Co., Ltd.	Civil engineering, scaffolding and earthwork, masonry, steel structure, pavement, drenching, painting, and water facilities	10	100%
Construction	Ehime Earth Engineering Co., Ltd.	Civil engineering, scaffolding and earthwork, masonry, steel structure, pavement, drenching, painting, and water facilities	40	100%
Construction	Fukui Earth Engineering Co., Ltd.	Civil engineering, scaffolding and earthwork, masonry, steel structure, pavement, dredging, painting, well drilling, and water supply facilities	40	100%
Construction	PT NITTO CONSTRUCTION INDONESIA	Civil engineering works	IDR 51 billion	65%

Source: Compiled by JPR based on company data

Affiliated companies (figures in parentheses represent indirect ownership percentages and are included in the total)

Business Line	Company Name	Business Outline	Capital	Shareholding Ratio
Acquisition and holding of shares and equity	AN Holdings Corp	Acquisition of NITTO CONSTRUCTION shares	100	58.12%
Medical business, Construction-related business	ASO CORPORATION	Medical-related business, construction consulting business, environment-related business, real estate business	3580	(58.12%)

Source: Compiled by JPR based on company data

3. Growth Story and Assessment through the GCC Management™ Framework

Growth

The company that contributes to the creation of a safe and secure national land

Conceptual Design: Proposal for urban design by non-urban civil engineering and urban civil engineering

Conceptual Design

Progress: 90%.

In Japan, earthquakes, typhoons, torrential rains, and other disasters have occurred frequently, and the construction industry is required to respond to the need for national land resilience and disaster mitigation. In addition, on a global scale, there are many pressing issues such as energy conversion and CO2 reduction to counter global warming, which is considered a cause of climate change, and industrial waste reduction and de-plasticization to prevent environmental pollution.

To address these issues, NITTOC contributes to the creation of a safe and secure national land where human lives and property are not lost by building a disaster-resistant national land through civil engineering in non-urban areas and urban civil engineering, and by evaluating the environmental impact of conventional technologies and construction methods and developing and applying technologies that can reduce such impact even further.

Construction Market Trends

The construction market is growing steadily, mainly due to public works projects financed by government spending. Among these, the maintenance and repair work market is attracting attention as a growing market due to the arrival of the infrastructure renewal period and the need to respond to natural disasters. However, in light of the declining population, there is a possibility that some regions may require infrastructure reconstruction rather than maintenance and repair. Therefore, further market share gains are possible through investments in peripheral businesses, including M&A, to strengthen overall urban design capabilities, including natural restoration capabilities.

Implementation design: Developing technology cultivated in the dam project as the starting point

Implementation Design

Progress: 50%.

NITTOC will develop underground construction services based on the technology it has cultivated in the dam business since its founding. Although the volume of its mainstay public works civil engineering business is expected to remain stable for the foreseeable future, it is likely to shrink over the long term in light of the government's fiscal situation, so NITTOC will seek to expand its urban civil engineering business, which still has significant room for growth. By utilizing the cash generated from the dam business, which is almost a monopoly, it should be possible to acquire the equipment and engineers needed for construction in urban areas, where, unlike construction in mountainous areas, there are many buried structures and vehicles. In terms of specific growth potential, business volume is expected to grow by 5-7% per 3-year medium-term management plan due to the limited construction system of engineers and

Results: TOP market share in slope construction and dam foundation construction

Reflection of results

Progress: 30%.

NITTOC has been actively participating in disaster restoration projects by concluding disaster agreements with related companies. Among specialized construction projects, NITTOC has secured the top share in slope work and dam foundation work, and has a good chance to beat its rivals. However, it has a head start on its competitors in highly productive ground improvement work, and is focusing on future growth.

Connection

Conceptual Design

Progress: 90%.

Implementation Design

Progress: 70%.

Reflection of results

Progress: 50%.

Strengthening the connection between the three elements that maximize advantage

Conceptual design: Strengthening technical proposal, sales liaison, and construction realization capabilities

In the repair work market, where the market will expand in the future, companies that possess their own materials have an advantage, and with the exception of a few, each company's competitiveness in this regard is on a par with the others. On the other hand, in all types of construction work, if technical proposal, sales liaison, and construction realization capabilities can mesh well with each other, it will lead to the creation of repeat customers and the continuation of business. Therefore, while overcoming existing weaknesses and strengthening existing strengths, NITTOC will work to strengthen these three areas in particular in parallel.

Implementation Design: Improving Profitability by Investing in IT and People

Civil engineering and construction is labor-intensive, and work onsite is a major prerequisite; we are reforming the way work is done by building a system that enables work to be performed offsite using ICT and XR technologies, developing automation and labor-saving technologies to address the shortage of workers, and strengthening communication among employees by organizing work through the introduction of a system, the company is also promoting labor reform by organizing operations through the introduction of a system. Through these efforts, the company will comprehensively train young technicians and retain the motivation of veteran technicians, and achieve cost compression by increasing sales at each site nationwide.

Strengths to be leveraged

"Digging" and "pumping" technologies cultivated in the dam business enable us to respond to customers' needs.

A flexible customer response system based on a nationwide sales network.

High level of technical services by adding geological know-how to civil engineering technologies.

A system that can respond quickly to disasters (disaster agreements).

The honest disposition of our employees, who work steadily and diligently to achieve our goals.

NITTOC has a customer base of more than 1,000 companies, mainly construction companies with strong local roots.

Matters to be addressed in the future

Expand urban civil engineering by investing in equipment and capabilities of equipment centers and engineers

Strengthening the comprehensive capabilities of non-urban and urban civil engineering with a view to global expansion

Establish a brand and strengthen trading company functions through the development of original materials.

Improvement of age structure with fewer mid-career engineers and more young and elderly engineers.

Results: Achievement of Medium-Term Management Plan 2020

The Medium-Term Management Plan 2020 includes the priority measures "Secure workers and improve productivity, centered on the realization of work style reforms, while securing customer trust and expanding business in response to market expectations. At the same time, with an eye on long-term changes in the construction market, NITTOC will strengthen its technological and sales capabilities in the maintenance and repair field, and aim to increase our market share through the development of superior technologies. NITTOC has been working on the following tasks. Through these efforts, NITTOC sought to solve the issues of "securing and fostering human resources," "improving productivity," "developing slope repair technology," and "taking on the challenge of new business fields. As a result, various management targets and indicators were achieved.

Confidence

Current stability is 90%.

It could be said to be about 90% as a social contribution.

High Financial Stability and Social Contribution through Green Civil Engineering

Financial Stability: Stable civil engineering and construction business provides stronger barriers to entry

NITTOC's earnings are stable due to its main focus on public works projects, which are particularly stable in the civil engineering and construction industry, where there is a constant need. In addition, NITTOC has the top market share in slope construction and dam foundation construction, and is in a position to pass on its technologies to the next generation without losing any bearers in both fields. As a result, the current barriers to entry are very high. As urban civil engineering expands and the company acquires urban design capabilities, including the restoration of nature, these barriers to entry are expected to become even stronger.

Social Contribution: Projects that contribute to national land resilience while taking the environment into consideration

Contribution to the creation of a safe and secure national land

NITTOC has been involved in disaster restoration work for the 2011 off the Pacific coast of Tohoku Earthquake, Kumamoto Earthquake, and the Hokkaido Bold Earthquake East Japan Earthquake, as well as disaster prevention and mitigation work, and on these occasions has provided support through donations and other means for evacuees in times of disaster.

As an expert in foundation construction with a focus on environmental and disaster prevention work, NITTOC's business contributes to the creation of a safe and secure national land that protects the country from earthquakes, typhoons, torrential rains, and other natural disasters. In the long term, as NITTOC is responding to the full-scale maintenance and repair era coming to the construction market, it is expected to contribute not only to the creation of national land, but also to the construction of infrastructural town infrastructure resistant to disasters, and to the maintenance and repair of such infrastructure.

In addition, NITTOC is also contributing to the future development of culture by providing disaster prevention measures on the slopes around cultural properties.

Adoption of Environmentally Conscious Construction Methods

NITTOC contributes to the reduction of CO2 emissions by directly reducing CO2 emissions, reducing materials, and promoting greening through the use of the KAERUDO-Green Method, Geofiber Method, and New Sleeve Grouting Method for various construction projects. In particular, the KAERUDO-Green Method was adopted for a construction project on Yonaguni Island in Okinawa Prefecture to address the issue of preserving the precious ecosystem and natural environment, and is expected to spread to other regions.

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4. Summary of Business Results for FY3/2023

Financial Summary

Sales growth of 12.3%
due to increased
orders and promotion
of construction

Profit margin
improvement through
SG&A ratio reduction
and cost reduction due
to sales increase

Overall Overview

Orders Received, Sales

Orders received totaled JPY 75.0 billion (+4.7% YoY), reflecting strong orders for foundation and ground improvement work at JPY 31.2 billion (+27.8% YoY) and a slight decrease in orders for slope work at JPY 33.4 billion (-5.9% YoY), which remained high due to a focus on ground improvement work. Sales were JPY 72.9 billion (+10.4% YoY) due to an increase in orders received, an increase in major construction projects in the domestic private sector and overseas business, and efforts to promote construction.

Profit and Loss

SG&A expenses increased by JPY 621 million YoY due to the introduction of a new sales management system, renewal of the construction management system, amortization expenses for the new core system, and the resumption of activities that had been suspended due to the COVID-19 pandemic, but the increase in sales and cost reductions led to operating profit of JPY 5,451 million (+20.5% YoY) and recurring profit of JPY 5,462 million (+18.1% YoY). Net income attributable to owners of the parent was JPY 3.5 billion (+5.9% YoY).

Medium-Term Management Plan 2023

Business Strategies

NITTO aims to achieve consolidated operating income of JPY 16.1 billion, which represents 5% growth over the previous medium-term management plan, by "securing and developing human capital," "improving productivity," "strengthening health, safety, and quality management," "promoting sustainability management," and "taking on challenges in new business fields," and to use the profits generated to make ongoing investments to achieve sustainable growth in corporate value. NITTO aims to achieve sustainable growth in corporate value through continuous investment in the profits generated.

Major Consolidated Subsidiaries and Group Companies

Sales FY03/2026	Expansion of improvement work	High stakes and completion	JPY 23 billion
	Expansion of private sector orders	Stake high	JPY 23 billion
	Expansion of structural work	Stake high	JPY 10 billion
	Leveling off of construction work	First Half Enforcement Amount	Composition ratio 50%
Results	Operating income	Three-year average	More than JPY 5.4 billion
	Operating margin	Three-year average	More than 7.4%
Financial FY03/2026	PBR		More than 1.3 times
	ROIC		More than 10%
	EBITDA	Three-year average	JPY 6.1 billion
Returns	Aiming to pay a dividend that is no less than the previous fiscal year's actual dividend		

Source: Compiled by JPR based on company data

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Appendix: Details of the financial model

Detailed financial model of actual results, company plan and JPR forecast 10-year forecast

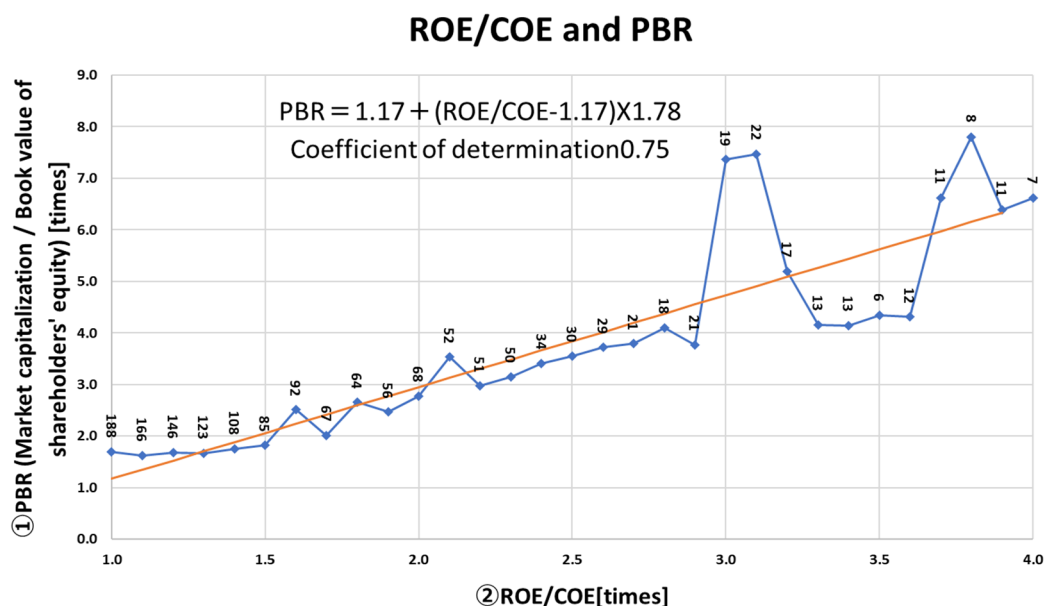
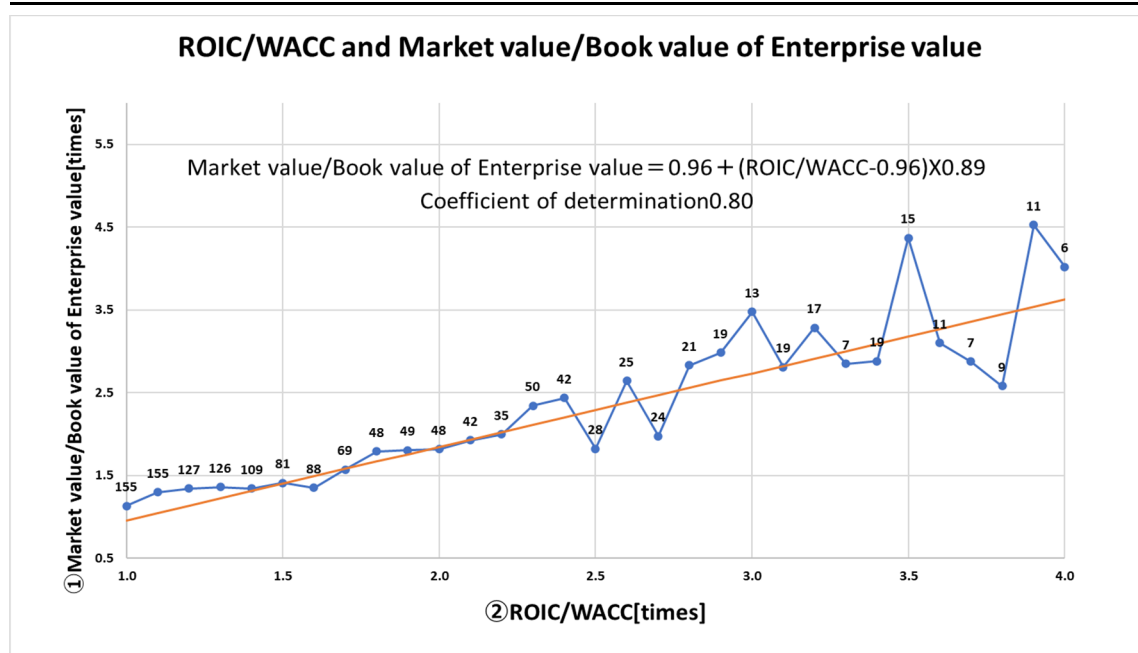
[JPY million]		Corporate Plan		JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	
		JPR Forecast												
FY		2024.03	2025.03	2026.03	2027.03	2028.03	2029.03	2030.03	2031.03	2032.03	2033.03	2034.03		
PL	Net sales	71,200	72,838	74,659	78,765	83,491	87,665	91,610	95,275	98,133	100,095	101,096		
	Cost of sales	57,837	58,962	60,436	63,760	67,586	70,965	74,158	77,125	79,438	81,027	81,838		
	Selling, general and administrative expenses	8,333	8,447	8,573	8,853	9,168	9,440	9,693	9,924	10,101	10,222	10,283		
	EBITDA	5,733	6,151	6,429	6,981	7,397	7,769	8,114	8,424	8,665	8,830	8,914		
	Total Depreciation and Amortization	703	723	780	829	876	922	959	983	1,000	1,013	1,018		
	Operating income	5,030	5,429	5,649	6,152	6,521	6,847	7,155	7,441	7,664	7,818	7,896		
	Interest expenses	0	0	0	0	0	0	0	0	0	0	0		
	Other non-operating income	20	10	10	10	10	10	10	10	10	10	10		
	Ordinary income	5,050	5,419	5,639	6,152	6,521	6,847	7,155	7,441	7,664	7,818	7,896		
	Extraordinary gains/losses	70	350	350	0	0	0	0	0	0	0	0		
	Income taxes	1,770	1,782	1,851	1,901	2,015	2,116	2,211	2,299	2,368	2,416	2,440		
	Comprehensive income attributable to owners of the parent	3,350	3,636	3,789	4,251	4,506	4,731	4,944	5,142	5,296	5,402	5,456		
	Number of shares issued at beginning of period (thousand shares)	41,708	41,708	41,708	41,708	41,708	41,708	41,708	41,708	41,708	41,708	41,708		
	Number of shares issued (thousand shares)	0	0	0	0	0	0	0	0	0	0	0		
	Number of shares issued at end of period (thousand shares)	41,708	41,708	41,708	41,708	41,708	41,708	41,708	41,708	41,708	41,708	41,708		
EPS (yen)	80.32	87.18	90.84	101.92	108.03	113.43	118.54	123.28	126.98	129.52	130.81			
Dividends	47	51	53	60	63	66	69	72	74	76	77			
Dividends paid	1,960	2,127	2,211	2,503	2,628	2,753	2,878	3,003	3,086	3,170	3,212			
Retained earnings	1,390	1,509	1,578	1,748	1,878	1,978	2,066	2,139	2,210	2,232	2,244			
BS	Liquidity on hand	9,105	9,332	9,846	10,436	10,958	11,451	11,909	12,267	12,512	12,637	12,637		
	Working capital	23,502	24,090	25,415	26,940	28,287	29,560	30,742	31,664	32,298	32,621	32,621		
	Property, plant and equipment subject to depreciation	3,178	3,400	3,621	3,838	4,050	4,252	4,380	4,467	4,534	4,580	4,580		
	Investment securities	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040		
	Other assets	6,260	6,367	6,665	7,010	7,303	7,571	7,811	7,980	8,074	8,088	8,088		
	Total assets	54,580	56,512	59,045	61,892	64,742	67,637	70,556	73,359	76,026	78,491	80,735		
	Current liabilities other than interest-bearing debt	16,940	17,363	18,318	19,417	20,388	21,306	22,158	22,823	23,279	23,512	23,512		
	Short-term debt	0	0	0	0	0	0	0	0	0	0	0		
	Long-term debt	0	0	0	0	0	0	0	0	0	0	0		
	Other long-term liabilities	4,123	4,123	4,123	4,123	4,123	4,123	4,123	4,123	4,123	4,123	4,123		
	Capital stock, etc.	7,805	7,805	7,805	7,805	7,805	7,805	7,805	7,805	7,805	7,805	7,805		
	Retained earnings, etc.	25,712	27,221	28,799	30,547	32,425	34,404	36,470	38,609	40,818	43,051	45,295		
	Net Assets and Liabilities	54,580	56,512	59,045	61,892	64,742	67,637	70,556	73,359	76,026	78,491	80,735		
	CF	Liquidity on hand	▲ 205	▲ 228	▲ 513	▲ 591	▲ 522	▲ 493	▲ 458	▲ 357	▲ 245	▲ 125	0	
		Working capital	▲ 528	▲ 588	▲ 1,325	▲ 1,525	▲ 1,347	▲ 1,273	▲ 1,182	▲ 922	▲ 633	▲ 323	0	
Current liabilities other than interest-bearing debt		381	423	955	1,099	971	917	852	665	456	233	0		
Investment in tangible fixed assets		▲ 662	▲ 945	▲ 1,001	▲ 1,046	▲ 1,088	▲ 1,125	▲ 1,087	▲ 1,071	▲ 1,067	▲ 1,058	▲ 1,018		
Depreciation of property, plant and equipment		703	723	780	829	876	922	959	983	1,000	1,013	1,018		
Short-term marketable securities		0	0	0	0	0	0	0	0	0	0	0		
Investment securities		0	0	0	0	0	0	0	0	0	0	0		
Other assets		▲ 141	▲ 107	▲ 298	▲ 345	▲ 293	▲ 268	▲ 240	▲ 170	▲ 94	▲ 14	0		
Retained earnings, etc.		1,390	1,509	1,578	1,748	1,878	1,978	2,066	2,139	2,210	2,232	2,244		
Operating CF		938	788	176	170	477	659	910	1,267	1,627	1,957	2,244		
Short-term debt		0	0	0	0	0	0	0	0	0	0	0		
Long-term debt		0	0	0	0	0	0	0	0	0	0	0		
Other Long-term Liabilities		0	0	0	0	0	0	0	0	0	0	0		
Equity financing		0	0	0	0	0	0	0	0	0	0	0		
Financing CF		0	0	0	0	0	0	0	0	0	0	0		
Surplus Cash and Deposits	938	788	176	170	477	659	910	1,267	1,627	1,957	2,244			
KPI	Ratio of invested capital to sales at the beginning of the period	34.6%	34.5%	34.6%	34.6%	34.5%	34.5%	34.4%	34.3%	34.2%	34.1%	34.0%		
	Invested capital at the beginning of the period	24,653	25,105	25,826	27,228	28,807	30,209	31,528	32,684	33,556	34,138	34,413		
	Sales Growth Rate	-2.4%	2.3%	2.5%	5.5%	6.0%	5.0%	4.5%	4.0%	3.0%	2.0%	1.0%		
	NOPAT	3,476	3,751	3,904	4,251	4,506	4,731	4,944	5,142	5,296	5,402	5,456		
	ROIC	14.1%	14.9%	15.1%	15.6%	15.6%	15.7%	15.7%	15.7%	15.8%	15.8%	15.9%		
	Ratio of working capital to daily sales (days)	118	118	118	118	118	118	118	118	118	118	118		
	Cost of Sales Ratio	81.23%	80.95%	80.95%	80.95%	80.95%	80.95%	80.95%	80.95%	80.95%	80.95%	80.95%		
	SG&A to sales ratio	11.70%	11.60%	11.48%	11.24%	11.24%	11.24%	11.24%	11.24%	11.24%	11.24%	11.24%		
	Operating Income Ratio (%)	7.06%	7.45%	7.57%	7.81%	7.81%	7.81%	7.81%	7.81%	7.81%	7.81%	7.81%		
	Current liabilities other than interest-bearing debt to daily sales (days)	85	85	85	85	85	85	85	85	85	85	85		
	Liquidity on hand monthly ratio (months)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5		
	Short-term debt interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
	Long-term debt interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
	Effective tax rate	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%		
	Dividend payout ratio	58.5%	58.5%	58.5%	58.5%	58.5%	58.5%	58.5%	58.5%	58.5%	58.5%	58.5%		
Gross DE ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
Net DE ratio	-61.5%	-61.7%	-60.9%	-60.1%	-59.8%	-59.7%	-60.0%	-60.8%	-61.9%	-63.2%	-64.8%			
Property, plant and equipment depreciation ratio	19.8%	19.8%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%			
WACC	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%			
ROIC-WACC	8.3%	9.1%	9.3%	9.8%	9.8%	9.8%	9.8%	9.9%	9.9%	10.0%	10.0%			
Excess profit = (ROIC-WACC) x beginning invested capital	2,036	2,285	2,395	2,661	2,824	2,967	3,103	3,233	3,336	3,408	3,446			
Permanent value of excess profit	34,863	39,127	41,018	45,560	48,348	50,804	53,131	55,361	57,131	58,362	59,012			
Estimated value of growth value at the end of each year		4,264	1,891	4,542	2,789	2,456	2,326	2,231	1,769	1,231	650			
Present Value Factor	94%	89%	84%	80%	75%	71%	67%	64%	60%	57%	54%			

Source: JPR

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Appendix: Details of the financial model

Relationship between ROIC/WACC and corporate value



[Source]JPR, based on FactSet June 9, 2023 closing price. Based on the definitions at the end of this report, enterprise value book value is calculated as invested capital + non-operating assets + shareholders' equity book value, and enterprise value market value is calculated as invested capital + non-operating assets + market capitalization of equity. For each of these categories, we calculated the average value of market value/book value of enterprise value and PBR, and performed a regression analysis to determine the relationship with the median ROIC/WACC. The number of companies covered was 1,492. Finance, securities, and insurance were excluded.

Reference 1. For those new to JPR reports

GCC Management™ Analysis

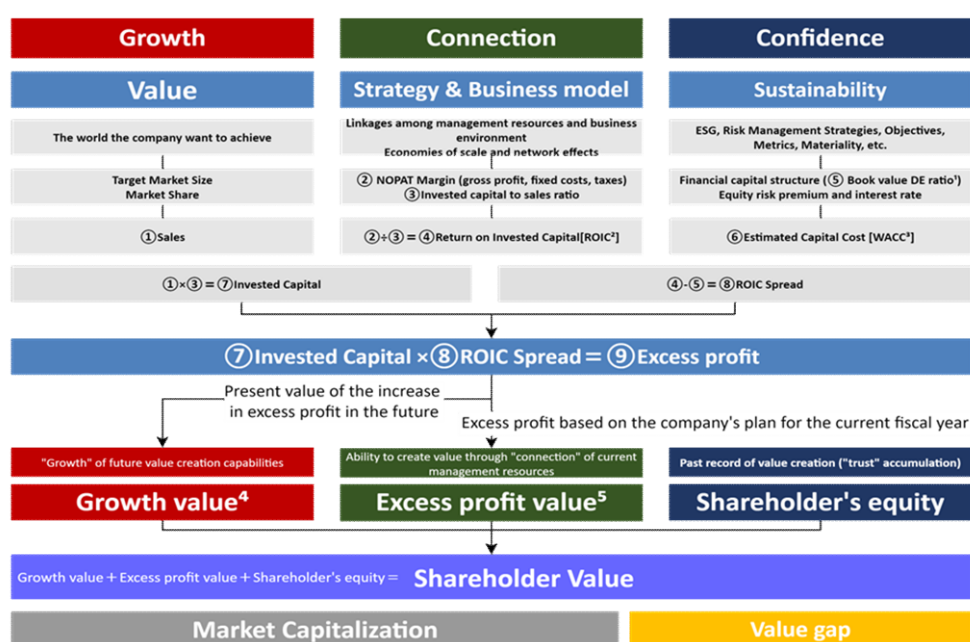
Visualize the value gap between theoretical shareholder value and market capitalization

Analyze by the three elements of Growth, Connection, and Confidence.

A framework for directly linking qualitative stories to shareholder value

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J-Phoenix Research Corporation ("JPR"), emphasizing three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Confidence (improved trust = lower business risk). The following chart shows the overall picture of the GCC Management™ framework. The following diagram shows the overall picture. The qualitative future story is linked to financial indicators, which are finally integrated to estimate shareholder value. Using the excess profit method (see "Appendix 3. Basis of Calculation" at the end of this report), JPR estimates the final theoretical shareholder value and visualizes the value gap by comparing it with the market capitalization.

GCC Management™ Analysis Framework



[Source: JPR] [Notes] 1. Book value DE ratio: Ratio of interest-bearing debt to shareholders' equity.
 2. ROIC: Return on Invested Capital, See "Appendix 3." at the end of this document. 3. WACC: Weighted Cost of Capital, see "Appendix 3." at the end of this document. 4. growth value = cumulative present value of the perpetuity value of the excess profit increment through year X. The perpetuity value is calculated as the excess profit increment divided by WACC. The present value of that amount is discounted by the WACC. Cumulative future value up to year X as assumed by the growth scenario. 5. Excess profit value = the perpetual value of excess profit based on the current year's company plan. The excess profit value is estimated by dividing the excess profit calculated from the current year's company plan and the invested capital at the beginning of the period by the WACC.

Source: JPR

GCC Management™ Evaluation System

Evaluate the
feasibility of the
Growth and
Connection story of
the value creation
process from three
perspectives

Evaluation of Growth and Connection

Evaluate the feasibility of qualitative stories from three perspectives

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: conceptual design, implementation design, and actual performance. "Conceptual design" is defined as "conceptualizing the concept of the value creation process" and "implementation design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process. Value creation becomes an "achievement" only when "conceptual design" becomes "implementation design. JPR conducts subjective evaluations of "conceptual design," "implementation design," and "performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

Conceptual Design," "Implementation Design," and "Performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
"Conceptual design"	Conceptual design is very logically organized	Conceptual design is approximately logically organized	Conceptual design is about halfway organized	Conceptual design is organized to a certain degree	Conceptual design is organized to a certain degree
"Implementation design"	Conceptual design is almost implemented	Conceptual design is almost implemented	Conceptual design is about half implemented	Conceptual design is implemented to a certain degree	Conceptual design has been implemented, albeit marginally.
"Performance"	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results as intended by the conceptual design about half way through	Targeted outcomes are observed as actual results to a certain degree, as intended by the design	Targeted outcomes are observed as achievements, albeit slight, as intended by the conceptual design

Source: JPR

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Evaluation of Confidence

Evaluation of financial stability and social contribution

Credibility of the value creation process

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: "Conceptual Design", "Implementation Design", and "Actual Performance." "Conceptual Design" is defined as "conceptualizing the concept of the value creation process" and "Implementation Design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process." Value creation becomes an "Actual Performance" only when "Conceptual Design" becomes "Implementation Design." JPR conducts subjective evaluations of "Conceptual Design," "Implementation Design," and "Actual Performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

"Conceptual Design," "Implementation Design," and "Actual performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
Financial Stability The evaluation is based on a five-point scale from the viewpoint of sufficient experience in the value creation process, differentiated value creation capabilities that are difficult to imitate, low risk of fluctuations such as economic and seasonal fluctuations due to stockholding, and an optimized capital-liability structure.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable
Social Contribution The social issues addressed are generally of great importance to society, the path to their solution is not yet clear, and they are tackling a challenging task that requires both the creation of a new concept and the systematic creation of the optimal governance structure for its implementation.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable

Source: JPR

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Visualization of value gap through 10-year growth scenario analysis

Comparison of increase in shareholder value and market capitalization by year

Visualize how many years of future stories are reflected in the market capitalization

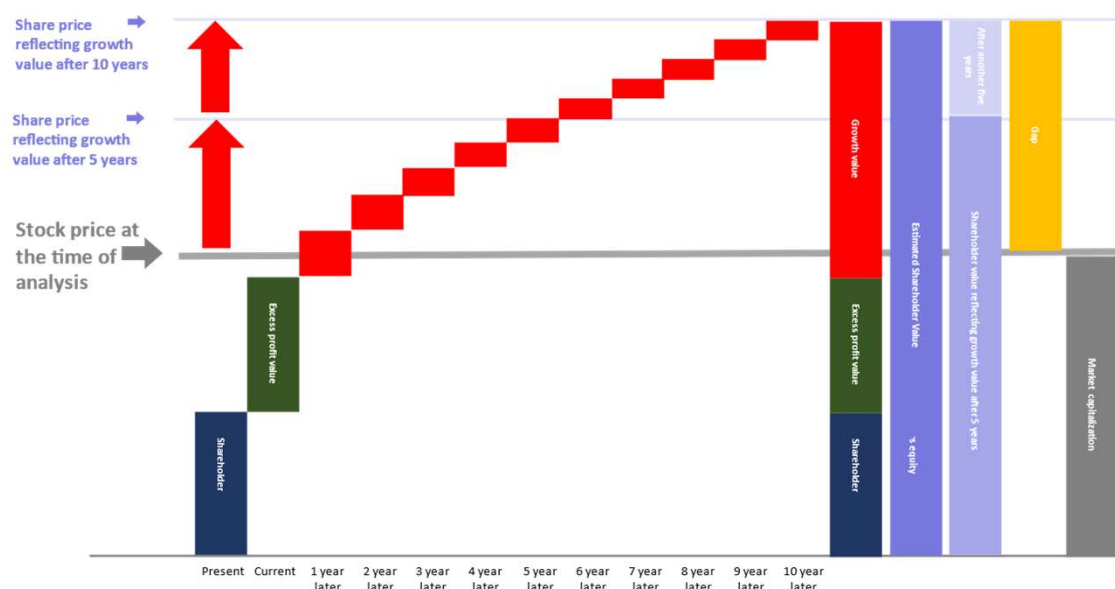
The potential increase in shareholder value generated by a 10-year growth scenario based on the future story is visualized for each year and compared to the market capitalization. This allows us to visualize how many years of the future story are reflected in the market capitalization. 10 years of shareholder value is expected to be reflected in the market capitalization as the expectations for the achievability of the 10-year future story increase. The difference between the market capitalization and the estimated shareholder value reflecting up to 10 years of future story is the estimated upside potential. As investors' expectations of the feasibility of the future story are raised by the specific current performance, the likelihood of the realization of that value gap increases.

Conservative Growth Scenarios and Scenarios Reflecting Change in Future Stories

Visualization of various scenario analysis

This analysis is useful when the firm's strategy undergoes significant change. As shown in the figure below, it is also possible to visualize separately the growth potential under the conservative scenario and the growth potential under the change. Shareholder value without incorporating change represents a conservative amount.

Visualizing the Value Gap



Source: JPR

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Reference 2. Basis of Calculation

Corporate value
estimated by use of
ROIC and excess
return

Excess return analysis framework

Excess profit or economic value added is globally used as an indicator to estimate corporate value, evidenced by its adoption by Kao Corporation, a Grand Prix winner of the Tokyo Stock Exchange Fifth Corporate Value Improvement Award (FY2016). In the calculation of excess return, corporate value can be broken down into four elements: invested capital, excess return value, growth value, and non-business assets. This facilitates a better understanding of the structure that creates corporate value. A company might be overvalued or undervalued when its market cap is higher or is lower than its theoretical corporate value, respectively. The contribution of each year's corporate value can be visualized in the following figure, wherein shareholders' equity is simply represented as a sum of invested capital and non-business asset, subtracting interest-bearing debts. The figure below allows us to estimate how many years of growth might be incorporated into the stock price.

Breakdown of corporate value using excess return



[source] JPR

Estimated excess return is profit that exceeds investors' return expectations against invested capital. Its present value is "excess return value," while a potentially growing portion of excess return is "growth value." Moreover, assets not used in business are added as non-business asset value in estimating a theoretical corporate value. Theoretically, the estimated corporate value using excess return should be the same as the value estimated using the discount cash flow (DCF) model. This report calculates excess return by using the following figures in a simplified manner.

② Excess return = NOPAT – Invested capital X WACC

② Net Operating Profit After Tax (NOPAT) = Operating profit X (1 - Effective tax rate)

② Invested capital = Total assets – Non-business assets – Current liabilities excluding interest-bearing debt

② Non-business assets = Cash and deposits exceeding 10% of sales + Short-term investment securities + Investment securities + Deferred gains or losses on hedges + Land revaluation difference + Foreign currency translation adjustments

② Weighted average cost of capital (WACC) = After-tax interest rate of interest-bearing debt X (D / (E+D)) + Cost of shareholders' equity X (E / (D+E))

② Cost of shareholders' equity = 0.5% + 5% X β

② β = Slope of a linear regression line of five-year daily returns of TOPIX and the stock price of the target company

② E = Market cap at the time of calculation

② D = Short-term interest-bearing debt + Long-term liabilities + Minority interests in the latest financial statements at the time of calculation

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