FY2019 Consolidated Results (Year Ended March 31, 2020)

RAIZNEXT Corporation

RAIZNEXT

Security code: 6379

Contents

1. Business Environment for FY2019

- The Japanese economy continued to improve in terms of the employment/income environment, with the overall economy showing a gradual recovery.
- The breakout and spread of COVID-19 at the end of the financial year caused an extensive downturn in economic conditions.
- There are concerns over a wide-ranging contraction in economic activities in overseas economies, due to the global spread of COVID-19 along with other factors including trade friction between the US and China, the UK's withdrawal from the EU, and geopolitical risks in the Middle East.
- In the petroleum industry, the demand for petroleum in Japan declined as a result of structural factors including improvements to fuel efficiency. In response to this, refining capacity was cut, and the rate of operation of refineries was adjusted.
- In the petrochemical industry, the high rate of operation of ethylene production facilities was maintained.
- In both the petroleum and petrochemical industries, there are concerns over a rapid decline in demand for products due to the impact of COVID-19, which broke out during the 4th quarter.
- In the non-ferrous metal industry, the effects were felt of a drop in the price of copper and inventory adjustments for smartphone-related demand.
- In the term under review (term ended March 2020), turnaround maintenance continued to remain strong. We worked on securing orders for plant fortification works, modification and improvement works to update aging facilities and enable stable plant operation, new plant construction works for the production of highly functional products, etc.
- Amid rising material costs, labor costs and subcontract processing costs, we endeavored to improve profitability in individual works by reducing direct construction costs, cutting expenditure, etc.
- Our performance in the term under review was almost unaffected by COVID-19.

2. Earnings Summary for FY2019 (Consolidated)

(Unit: Millions of yen)

	Announced Figures (As of Feb. 6, 2020)	FY2019 Results	Comparison with Announced Figures	Percent Change (%)
New Contracts	166,000	165,404	-595	-0.4%
Net Sales	140,000	140,578	+578	+0.4%
Gross Profit	16,300	16,840	+540	+3.3%
Percentage (%)	11.6%	12.0%	+0.4%	-
SG&A	6,500	6,800	+300	+4.6%
Percentage (%)	4.6%	4.8%	+0.2%	-
Operating Income	9,800	10,040	+240	+2.4%
Percentage (%)	7.0%	7.1%	+0.1%	-
Ordinary Profit	9,950	10,239	+289	+2.9%
Percentage (%)	7.1%	7.3%	+0.2%	-
Profit Attributable to Owners of Parent	11,850	12,258	+408	+3.4%
Percentage (%)	8.5%	8.7%	+0.2%	-
EPS	218.76 yen	234.86 yen	+16.10 yen	+7.4%
Outstanding Contracts	56,193	54,946	-1,247	-2.2%

(Reference)

(Unit: Millions of yen)

	FY2018 Results	Difference	Percent Change (%)
New Contracts	104,588	+60,815	+58.1%
Net Sales	97,331	+43,247	+44.4%
Gross Profit	11,984	+4,856	+40.5%
Percentage (%)	12.3%	-0.3%	-
SG&A	4,300	+2,499	+58.1%
Percentage (%)	4.4%	+0.4%	-
Operating Income	7,683	+2,356	+30.7%
Percentage (%)	7.9%	-0.8%	-
Ordinary Profit	7,939	+2,299	+29.0%
Percentage (%)	8.2%	-0.9%	-
Profit Attributable to Owners of Parent	5,225	+7,032	+134.6%
Percentage (%)	5.4%	+3.3%	-

Note: The above percentage changes are values compared with the actual FY2019 results.

Remarks

(1) As a result of a merger which took place on July 1, 2019, the results for FY2019 include 1 year for the former SHINKO PLANTECH and 9 months for the former JX Engineering.

(2) The large increase in new contracts compared with the previous term was due to the receipt of the former JX Engineering's outstanding contracts as of the end of June as RAIZNEXT's new contracts on July 1.

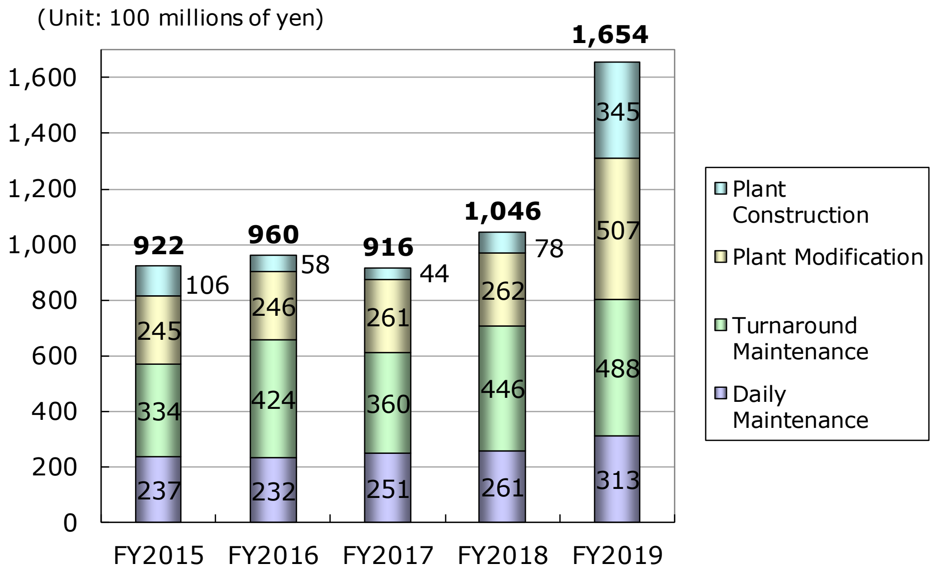
(3) The large increase in profit attributable to owners of parent was due to the recording of gain on bargain purchase resulting from the merger as extraordinary profit.

3. Breakdown of New Contracts by Segment (Consolidated)

(Unit: Millions of yen)

New Contracts	Forecast Figures (As of Feb. 6, 2020)	FY2019 Results	Comparison with Forecast Figures	Percent Change (%)	FY2018 Results	Difference	Percent Change (%)
Daily Maintenance	30,000	31,281	+1,281	+4.3%	26,050	+5,230	+20.1%
Turnaround Maintenance	48,900	48,840	-59	-0.1%	44,567	+4,273	+9.6%
Plant Modification	45,400	50,747	+5,347	+11.8%	26,178	+24,569	+93.9%
Plant Construction	41,700	34,533	-7,166	-17.2%	7,791	+26,742	+343.2%
Engineering	166,000	165,404	-595	-0.4%	104,588	+60,815	+58.1%

5-Year Summary of New Contracts



- A decrease of 500 million yen compared with the forecast figure as of February 6, 2020.
- An increase of 60.8 billion yen YOY due to merger with JX Engineering.

【Daily Maintenance】
(1) Overall increase in work volumes

【Turnaround Maintenance】
(1) Work volumes increased overall, but new contracts for some works were shifted to FY2020, and new contracts were largely as set out in the forecast figures.

【Plant Modification】
(1) Increased due to acquisition of contracts for unanticipated works.

【Plant Construction】
(1) Decreased due to postponement, cancellation etc. of anticipated works.

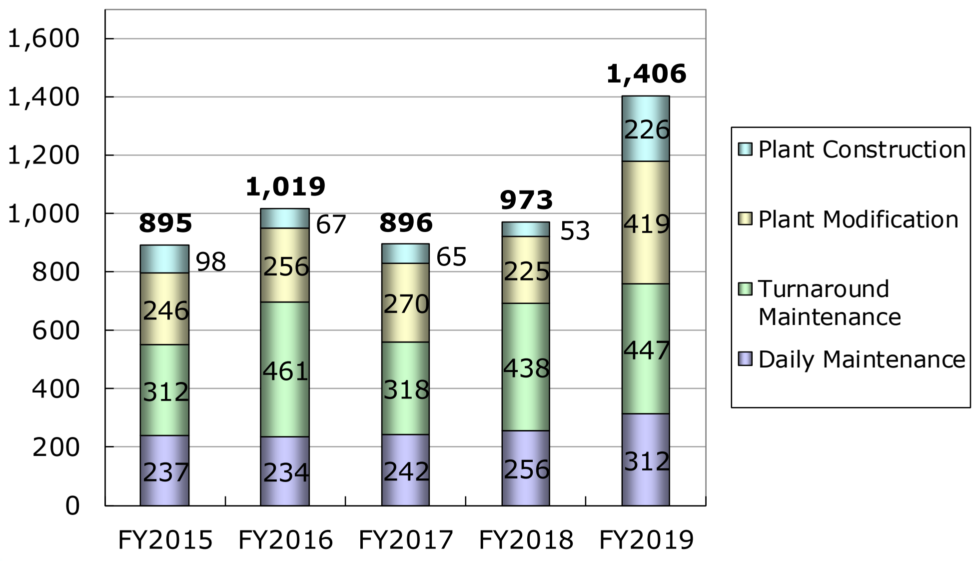
4. Breakdown of Net Sales by Segment (Consolidated)

(Unit: Millions of yen)

Net Sales	Announced Figures (As of Feb. 6, 2020)	FY2019 Results	Comparison with Announced Figures	Percent Change (%)	FY2018 Results	Difference	Percent Change (%)
Daily Maintenance	29,100	31,228	+2,128	+7.3%	25,571	+5,657	+22.1%
Turnaround Maintenance	40,200	44,684	+4,484	+11.2%	43,813	+870	+2.0%
Plant Modification	43,500	41,947	-1,552	-3.6%	22,476	+19,470	+86.6%
Plant Construction	27,000	22,598	-4,401	-16.3%	5,333	+17,264	+323.7%
Engineering	139,800	140,458	+658	+0.5%	97,195	+43,263	+44.5%
Other Businesses	200	120	-79	-40.0%	136	-16	-12.0%
Total	140,000	140,578	+578	+0.4%	97,331	+43,247	+44.4%

5-Year Summary of Net Sales

(Unit: 100 millions of yen)



- Net sales increased 500 million yen compared with the announced figures.
- An increase of 43.2 billion yen YOY due to merger with JX Engineering.

【Daily Maintenance】
(1) Overall increase in work volumes

【Turnaround Maintenance】
(1) Overall increase in work volumes
(2) Some works scheduled for completion in FY2020 completed in FY2019.

【Plant Modification】
(1) Decreased due to recorded sales for works being shifted to FY2020.

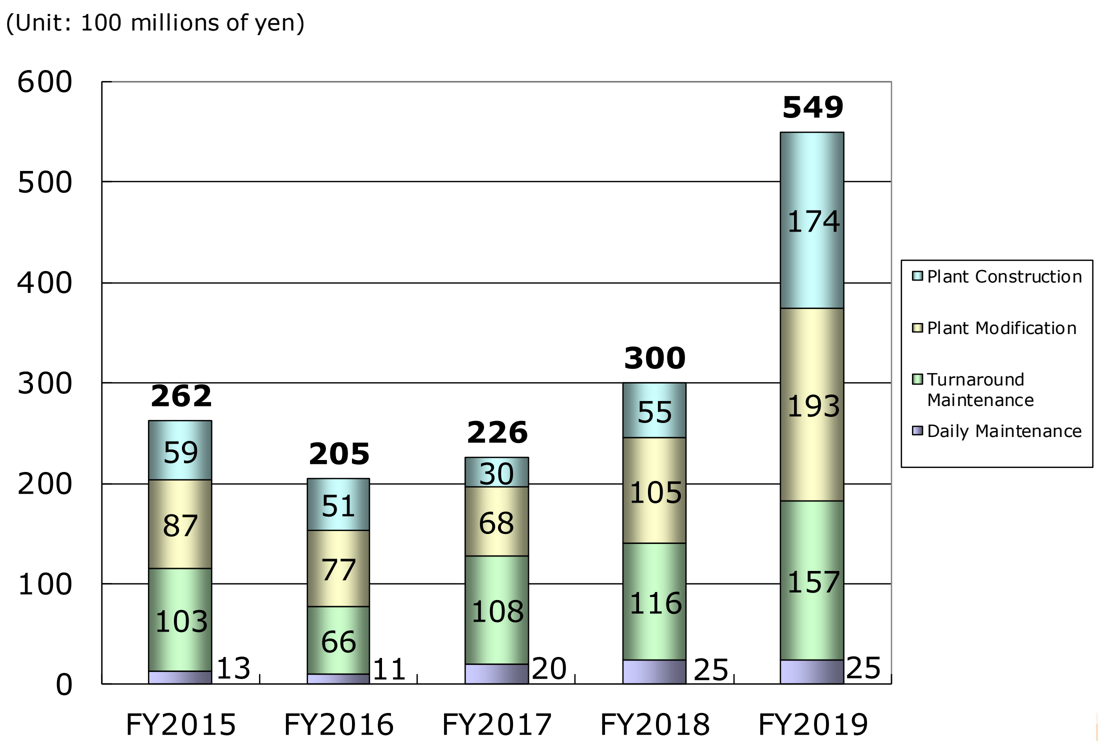
【Plant Construction】
(1) Decreased due to recorded sales for works being shifted to FY2020.

5. Outstanding Contracts (Consolidated)

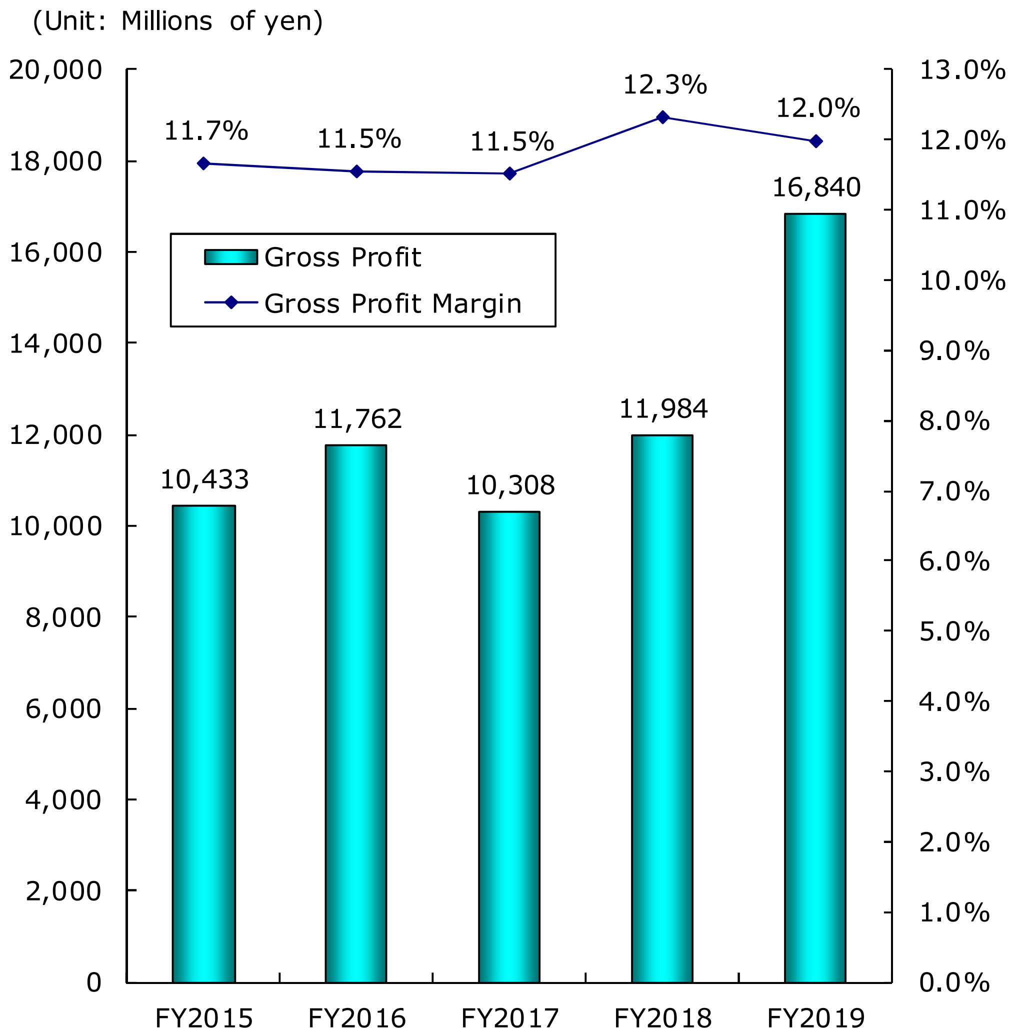
【5-Year Summary of Outstanding Contracts】

(Unit: Millions of yen)

	FY2015	FY2016	FY2017	FY2018	FY2019
Daily Maintenance	1,298	1,102	2,008	2,463	2,493
Turnaround Maintenance	10,277	6,597	10,798	11,552	15,715
Plant Modification	8,716	7,690	6,793	10,487	19,288
Plant Construction	5,916	5,078	3,006	5,490	17,448
Total	26,209	20,469	22,607	29,993	54,946



6. Gross Profit (Consolidated)

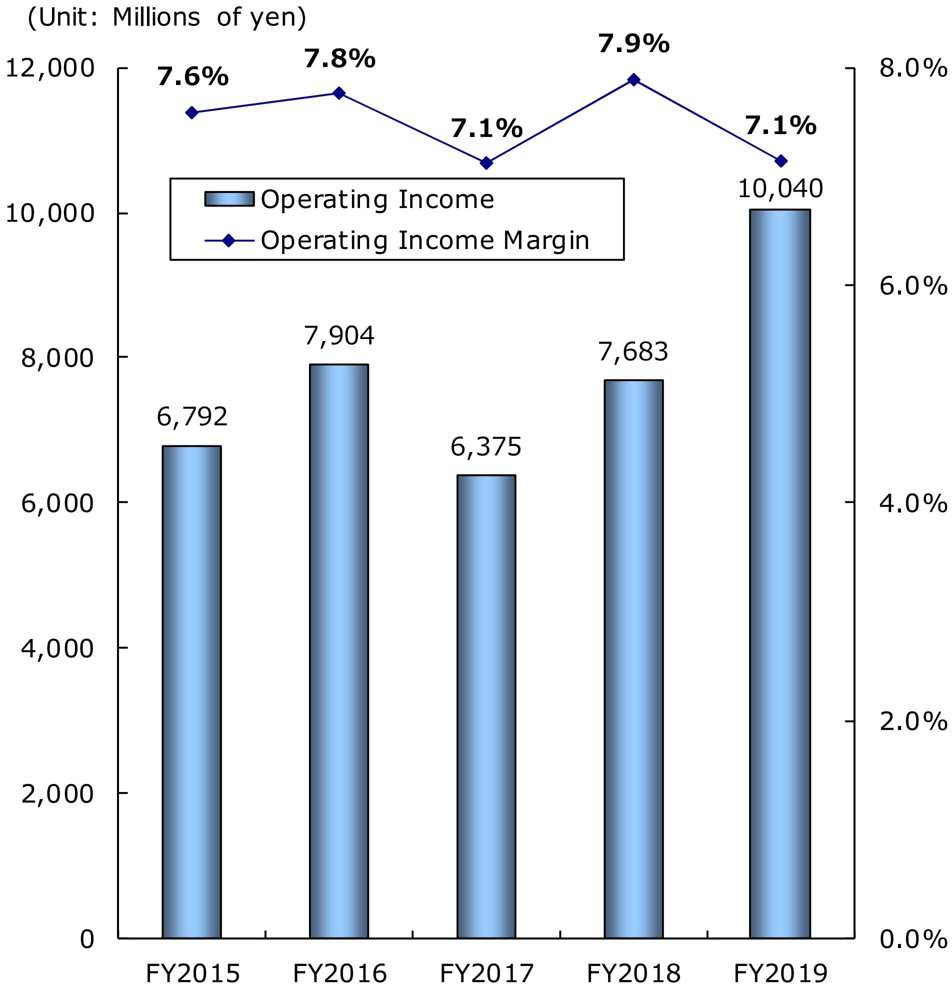


- Gross profit was 16.84 billion yen, an increase of 40.5% YOY.
- An increase of 3.3% over 16.3 billion yen, an announced figure as of February 6, 2020.
- Gross profit margin dropped 0.3 points to 12.0% from 12.3% YOY, and increased 0.4 points from 11.6% profit margin figure announced on February 6, 2020.

Factors:

- Significant increase YOY due to boost in gross profit resulting from merger.
- Despite recording sales in large low-profit projects during the second half, we aimed for continuous cost-reduction and secured revenue by improving operation efficiency due to an overall increase in work volumes, reducing indirect costs, etc.
- Contributed to profits at subsidiaries.

7. Operating Income (Consolidated)



- SG&A increased to 6.8 billion yen due to special costs expended as a result of the merger (approx. 670 million yen), the consolidation of the new subsidiary companies, etc.
- Operating income was 10.04 billion yen, an increase of 30.7% YOY.
- An increase of 2.4% over 9.8 billion yen, an announced figure as of February 6, 2020.
- Operating income margin fell 0.8 points to 7.1% from 7.9% YOY.

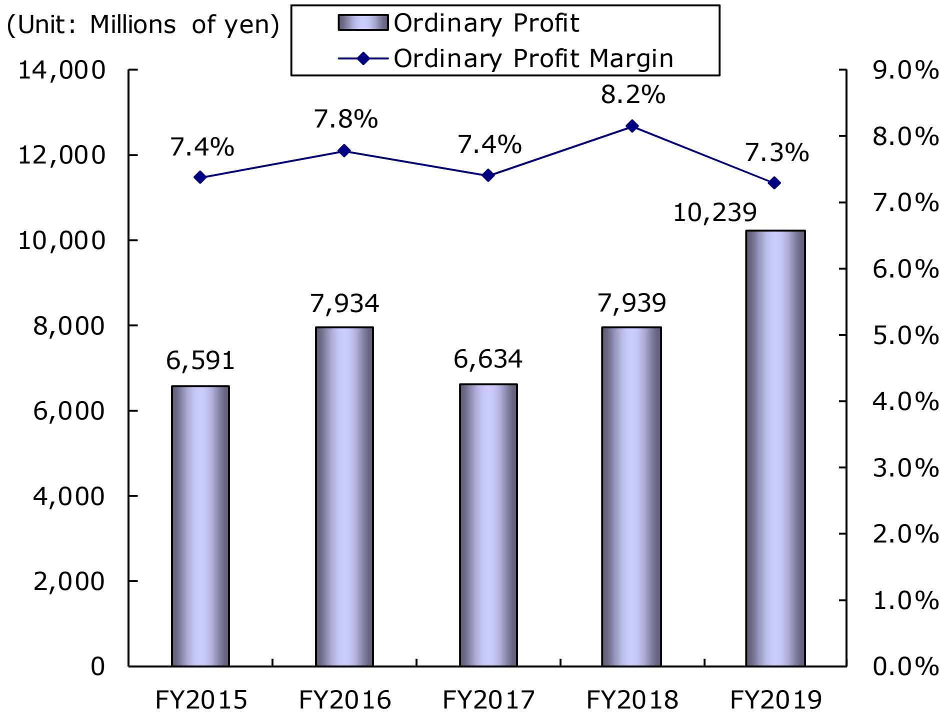
8. Non-Operating Income and Expenses / Ordinary Profit (Consolidated)

【Non-Operating Income and Expenses】

(Unit: Millions of yen)

	FY2018	FY2019	YOY
【Non-Operating Income】			
Interest Income	3	5	+1
Dividends Received	130	141	+11
Discount Revenue	41	5	-35
Rents Received	91	93	+2
Other	42	154	+112
Total	309	401	+92
【Non-Operating Expenses】			
Interest Expenses	4	44	+40
Rents Expenses	10	11	+0
Foreign Exchange Losses	8	76	+67
Other	29	69	+39
Total	53	202	+148
【Non-Operating Income and Expenses】	+255	+199	-56

【Ordinary Profit】



- Ordinary profit was 10.23 billion yen, an increase of 29.0% YOY.
- An increase of 2.9% over 9.95 billion yen, an announced figure as of February 6, 2020.
- Ordinary profit margin fell 0.9 points to 7.3% from 8.2% YOY.

9. Extraordinary Profit and Loss / Profit Attributable to Owners of Parent (Consolidated)

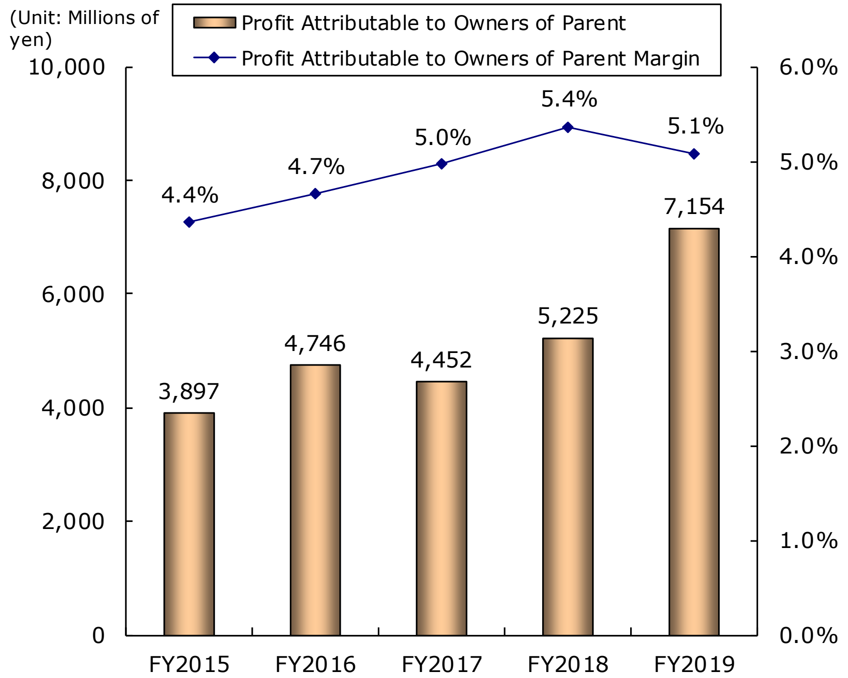
【Extraordinary Profit and Loss】

(Unit: Millions of yen)

	FY2018	FY2019	YOY
【Extraordinary Profit】			
Gain from Sale of Fixed Assets	1	4	3
Gain from Sale of Investment Securities		555	+555
Gain on Bargain Purchase		5,103	+5,103
Total	1	5,663	+5,661
【Extraordinary Loss】			
Loss from Sale of Fixed Assets	0	0	+0
Loss on Retirement of Fixed Assets	1	14	+12
Loss on Valuation of Investment Securities	89	14	-75
Loss on Valuation of Golf Club Membership		4	+4
Total	91	33	-58
【Extraordinary Profit and Loss】	-90	+5,629	+5,719

- Gain on bargain purchase of 5.1 billion yen was recorded as extraordinary profit resulting from the merger.
- Decreased 420 million yen from the 5.53 billion yen recorded in H1 FY2019 Consolidated Results due to the insufficient portion of provisions having been cut from gain on bargain purchase as a result of recalculating retirement benefit expenses.
- Recorded gain from sale of investment securities of 550 million yen.

【Profit Attributable to Owners of Parent】



Note: The figures for FY2019 in the above graph indicate profit attributable to owners of parent excluding gain on bargain purchase.

- Profit attributable to owners of parent was 12.25 billion yen, an increase of 134.6% YOY (profit attributable to owners of parent margin was 8.7%).
- Profit attributable to owners of parent, excluding gain on bargain purchase, was 7.15 billion yen (increase of 36.9% YOY).
- An increase of 3.4% over 11.85 billion yen, an announced figure as of February 6, 2020.

10. Consolidated Balance Sheet (Consolidated)

(Unit: Millions of yen)

	FY2018 Results	FY2018 Percentage	FY2019 Results	FY2019 Percentage	Change
【Current Assets】	63,007	78.6%	76,951	77.5%	+13,943
Cash Deposit	16,954	21.2%	6,456	6.5%	-10,498
Trade Receivable	39,850	49.7%	55,293	55.7%	+15,443
Disbursement of Uncompleted Works	6,020	7.5%	12,120	12.2%	+6,099
Other	182	0.2%	3,081	3.1%	+2,898
【Fixed Assets】	17,147	21.4%	22,397	22.5%	+5,249
Tangible Fixed Assets	11,069	13.8%	12,888	13.0%	+1,819
Intangible Fixed Assets	271	0.3%	1,186	1.2%	+915
Investments and other asssets	5,807	7.2%	8,322	8.4%	+2,514
【Total Assets】	80,155	100.0%	99,348	100.0%	+19,193

	FY2018 Results	FY2018 Percentage	FY2019 Results	FY2019 Percentage	Change
【Current Liabilities】	29,845	37.2%	26,661	26.8%	-3,184
Trade Payables	23,719	29.6%	12,876	13.0%	-10,843
Short-Term Debt	205	0.3%	4,251	4.3%	+4,046
Advances Received on Uncompleted Contracts	535	0.7%	179	0.2%	-356
Other	5,385	6.7%	9,354	9.4%	+3,968
【Fixed Liabilities】	2,321	2.9%	4,867	4.9%	+2,546
Long-Term Debt	53	0.1%	30		-22
Net Defined Benefit Liability	1,984	2.5%	4,390	4.4%	+2,405
Other	283	0.4%	446	0.4%	+163
【Total Liabilities】	32,167	40.1%	31,529	31.7%	-637
【Total Net Assets】	47,988	59.9%	67,819	68.3%	+19,831
"Non-controlling interests"	(865)	(1.1%)	(1,004)	(1.0%)	(+139)
【Total Liabilities and Assets】	80,155	100.0%	99,348	100.0%	+19,193

Shareholders' Equity Ratio (Consolidated) 67.3%

Return on Eqity (ROE/consolidated) 12.6%

Note: Return on equity (ROE/consolidated) was calculated excluding gain on bargain purchase.

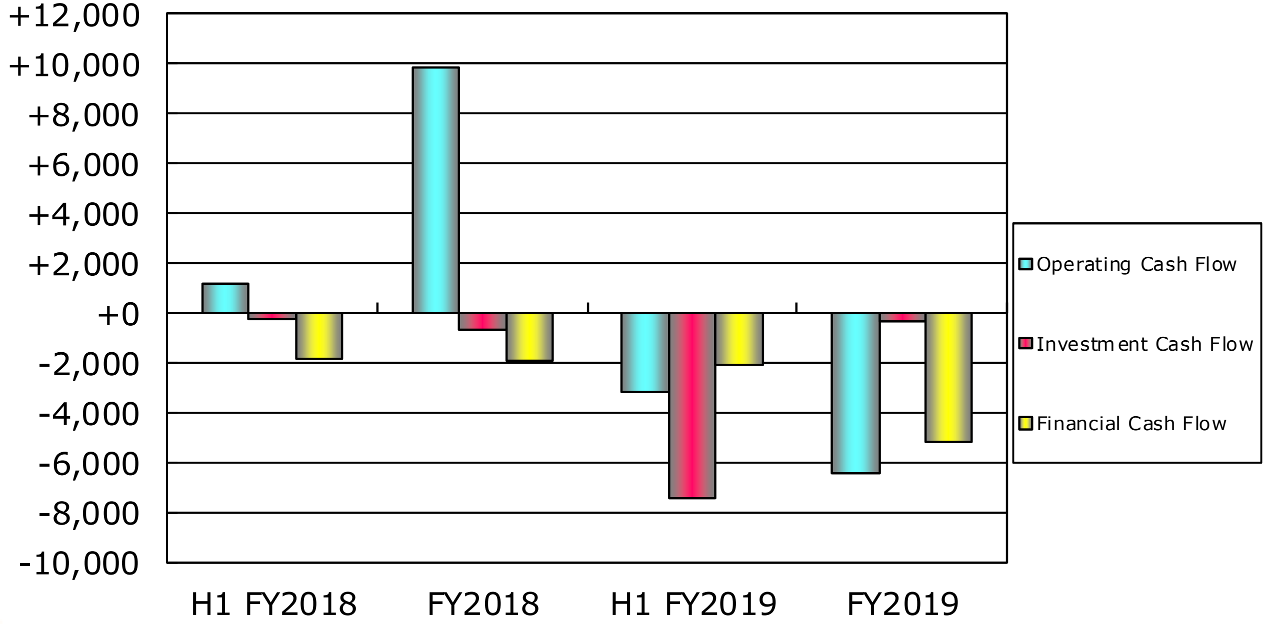
11. Cash Flow (Consolidated)

(Unit: Millions of yen)

	H1 FY2018	FY2018	H1 FY2019	FY2019
Operating Cash Flow	+1,198	+9,842	-3,202	-6,384
Investment Cash Flow	-227	-681	-7,463	-360
Financial Cash Flow	-1,842	-1,893	-2,121	-5,142
Effect of Exchange Rate Changes on Cash and Cash Equivalents	-17	-23	-3	-6
Change in Cash and Cash Equivalents	-888	+7,243	-12,790	-11,893

Remarks
There was an increase in cash and cash equivalents resulting from changes to the scope of consolidation and the merger of 1.44 billion yen.

(Unit: Millions of yen)



12. Outlook for the Business Environment in FY2020

- **Global economic impact of COVID-19 expected to be immense.**
- **With the spread of the virus showing no signs of abating, our group's businesses face risks including the cancellation or postponement of works, difficulties in securing workers, etc.**
- **In the field of plant maintenance, as we reach the peak for turnaround maintenance in the petroleum and petrochemical industries, our top-priority issue will be to complete these works while facing such risks.**
- **We will seek to bolster not only on-site work such as inspections and repairs to facilities but also our total support systems, from the formulation of plans relating to overall maintenance works to their management and implementation.**
- **In the field of plant construction, we also plan to make investments for the production of highly functional products in the field of general chemistry, etc.**
- **We will aim at forming contracts for these investment projects through the provision of solution-type services to customers, such as by participating from the business planning stage and improving support systems.**
- **Based on "1st Medium-Term Business Plan: RAIZNEXT SYNERGY POWER," we have earmarked the 2 years from FY2019 to FY2020 as a period of cohesion for creating synergy through the merger, and will make steady efforts to implement each plan.**

13. Earnings Forecast for FY2020 (Consolidated)

(Unit: Millions of yen)

	Interim				Full-Year			
	H1 FY2019 Results	H1 FY2020 Forecast	Change	Percent Change (%)	FY2019 Results	FY2020 Forecast	Change	Percent Change (%)
New Contracts	101,090	75,000	-26,090	-25.8%	165,404	145,000	-20,404	-12.3%
Net Sales	58,216	75,000	+16,783	+28.8%	140,578	145,000	+4,421	+3.1%
Gross Profit	7,569	7,500	-69	-0.9%	16,840	15,750	-1,090	-6.5%
Percentage (%)	13.0%	10.0%	-3.0%	-	12.0%	10.9%	-1.1%	-
SG&A	3,367	3,300	-67	-2.0%	6,800	6,350	-450	-6.6%
Percentage (%)	5.8%	4.4%	-1.4%	-	4.8%	4.4%	-0.4%	-
Operating Income	4,202	4,200	-2	-0.1%	10,040	9,400	-640	-6.4%
Percentage (%)	7.2%	5.6%	-1.6%	-	7.1%	6.5%	-0.6%	-
Ordinary Profit	4,332	4,300	-32	-0.7%	10,239	9,600	-639	-6.2%
Percentage (%)	7.4%	5.7%	-1.7%	-	7.3%	6.6%	-0.7%	-
Profit Attributable to Owners of Parent	8,327	2,800	-5,527	-66.4%	12,258	6,300	-5,958	-48.6%
Percentage (%)	14.3%	3.7%	-10.6%	-	8.7%	4.3%	-4.4%	-
EPS	165.83 yen	51.69 yen	-114.14 yen	-68.8%	234.86 yen	116.31 yen	-118.56 yen	-50.5%
Outstanding Contracts	72,942	55,046	-17,895	-24.5%	54,946	55,146	+200	+0.4%

(Unit: Millions of yen)

	Targets for Final FY of 1st Medium-Term Business Plan		
	FY2020 Targets	Difference	Percent Change (%)
New Contracts	145,000	-	-
Net Sales	145,000	-	-
Gross Profit			
Percentage (%)			
SG&A			
Percentage (%)			
Operating Income	9,400	-	-
Percentage (%)	6.5%	-	-
Ordinary Profit	9,600	-	-
Percentage (%)	6.6%	-	-
Profit Attributable to Owners of Parent	6,300	-	-
Percentage (%)	4.3%	-	-

Note: The differences and percentage changes set out in the targets for the final fiscal year of the 1st Medium-Term Business Plan are differences and percentage changes compared with the forecast for FY2020.

Note: It is not possible to make rational calculations of the impacts of COVID-19, which is why these have been excluded from the forecast.

14. New Contracts and Net Sales by Segment (Consolidated)

New Contracts

(Unit: Millions of yen)

	FY2019	FY2020			Change	Percent Change (%)
	Full-Year	1st Half	2nd Half	Full-Year		
Daily Maintenance	31,281	13,900	13,700	27,600	-3,681	-11.8%
Turnaround Maintenance	48,840	21,500	17,200	38,700	-10,140	-20.8%
Plant Modification	50,747	26,900	20,200	47,100	-3,647	-7.2%
Plant Construction	34,533	12,700	18,900	31,600	-2,933	-8.5%
Engineering	165,404	75,000	70,000	145,000	-20,404	-12.3%

Net Sales

(Unit: Millions of yen)

	FY2019	FY2020			Change	Percent Change (%)
	Full-Year	1st Half	2nd Half	Full-Year		
Daily Maintenance	31,228	13,500	14,300	27,800	-3,428	-11.0%
Turnaround Maintenance	44,684	29,300	19,400	48,700	+4,016	+9.0%
Plant Modification	41,947	19,500	25,900	45,400	+3,453	+8.2%
Plant Construction	22,598	12,600	10,300	22,900	+302	+1.3%
Engineering	140,458	74,900	69,900	144,800	+4,342	+3.1%
Other Businesses	120	100	100	200	+80	+66.7%
Total	140,578	75,000	70,000	145,000	+4,422	+3.1%

15. About Dividend

Basic Understanding Regarding Dividend

Our group provides maintenance and engineering services for plants in the petroleum, petrochemical, and non-ferrous metal industries. As such, we belong to a sector that is easily affected by changes in private sector capital expenditure. We believe we can increase our corporate value by strengthening our business structure to adapt to changes in the business environment and future business expansion, and by building a stable business base. This will help ensure future profits for our shareholders, clients, business partners, employees, and other related parties, which shall be our basic policy.

Dividend Policy

Based on our dividend policy, we consider profit sharing with shareholders via dividends to be of the highest priority. We vow to implement a dividend policy that corresponds with our earnings, giving consideration to a constant and stable dividend payout. Therefore, having secured internal reserves required for strong business foundations and future business expansion, we have set a target dividend payout ratio (consolidated) of above 40%.

Planned Dividend Payout for FY2019

- **Year-end dividend: 53 yen (Consolidated dividend payout ratio: 40.1%)**

Note that the dividend forecast is calculated excluding gain on bargain purchase, which is profit and loss pertaining to the merger. The consolidated dividend payout ratio was calculated as 40.1% as follows:

Consolidated dividend payout ratio = {Total dividend amount ÷ forecasted consolidated profit attributable to owners of parent (excluding gain on bargain purchase) } × 100

Planned Dividend Payout for FY2020

- **Year-end dividend: 47 yen (Consolidated dividend payout ratio: 40.4%)**

Regarding the State of Progress of the 1st Medium-Term Business Plan (FY2019)

Theme/Period/Basic Policies

Theme and Period

RAIZNEXT SYNERGY POWER

First Medium-Term Business Plan (FY2019 to FY2020)
Integration for generating synergistic effects
Second Medium-Term Business Plan (FY2021 to FY2024)
Generation of synergistic effects

Basic Policies

- **Strengthen our management foundation**
- **Strengthen our engineering business**
- **Strengthen our maintenance business**
- **Strengthen our tank business**

Effects of Synergy

The following are targets as integration synergies, with the goal to achieve at least 20 billion yen in net sales and 2 billion yen in ordinary profit cumulatively up to the fiscal year ending March 2025.

	Synergy	Target
(1)	Integration of maintenance and engineering	Increased orders for modification and repair work of large equipment, providing one-stop services from planning to execution
(2)	Strengthened EPC system and specialty functions as well as strengthened collaboration with execution functions of divisions	Increased orders of major EPC projects
(3)	Make proposals to fulfill customer needs	Build relationships as an engineering partner starting from the planning stage of equipment
(4)	Fusion of engineering technologies for the construction of large tanks and specialty tanks (low-temp and spherical) and advanced work management technologies	Increased orders for tank projects in not only the petroleum and chemicals industries, but other industries as well
(5)	Expansion and effective utilization of proprietary technologies and specialty maintenance equipment	Reduction of project lead time and cost
(6)	Appropriate allocation and effective deployment of human resources, and introduction and maintenance of IT and various systems	Improvement of productivity

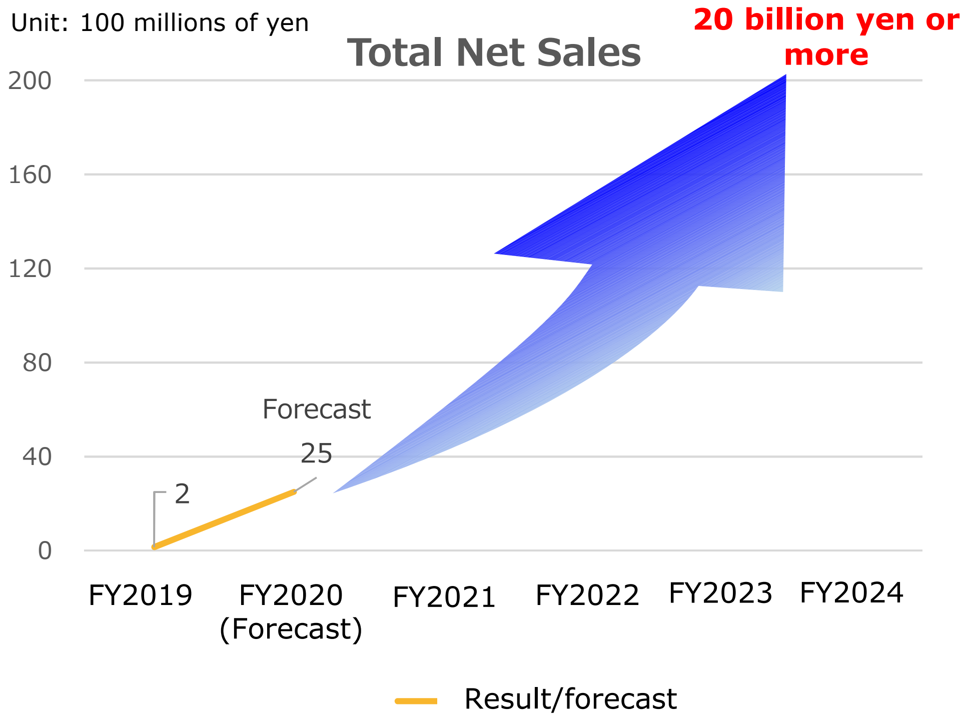
RAIZNEXT

Total Net Sales (Effects of Synergy)

(Unit: 100 millions of yen)

Net sales	Total up until FY2019	Total up until FY2020 (forecast)	Total up until FY2021	Total up until FY2022	Total up until FY2023	Total up until FY2024
Result/ forecast	2	25	–	–	–	–

Note: The value for FY2019 is the actual value. The value for FY2020 is the calculated forecast value.



(1) FY2019 was a period of "integration for generating synergistic effects," and we did not set target amounts for net sales. However, we achieved synergies by acquiring contracts through synergies.

(2) We have calculated net sales for FY2020 based on predicted net sales stemming from synergies from projects for which we have acquired contracts or have the prospect of acquiring contracts.

(3) Projects for which we have acquired contracts/have the prospect of acquiring contracts through synergies comprise largely of tank and EPC projects.
Many of the contracts (prospects) were for projects neither of the companies could have acquired if working alone.

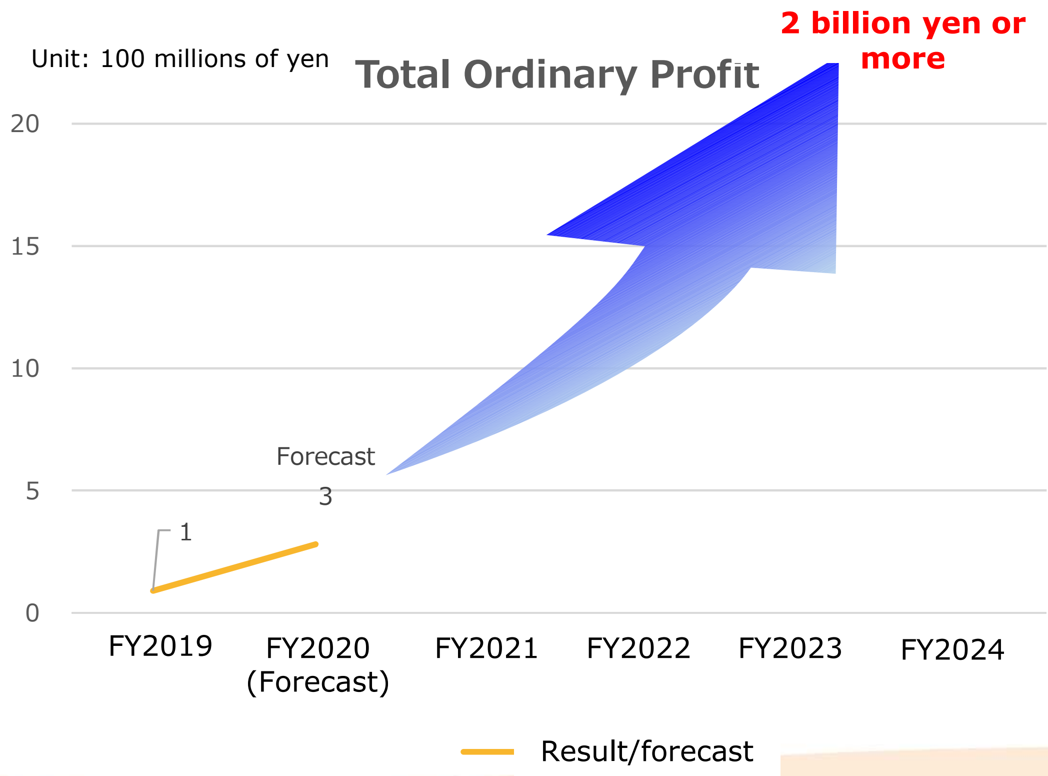
(4) We aim to improve net sales by acquiring/expanding contracts through synergies from a long-term standpoint so as to achieve our targets by the final fiscal year of the 2nd Medium-Term Business Plan.

Total Ordinary Profit (Effects of Synergy)

(Unit: 100 millions of yen)

Ordinary profit	Total up until FY2019	Total up until FY2020 (forecast)	Total up until FY2021	Total up until FY2022	Total up until FY2023	Total up until FY2024
Result/ forecast	1	3	–	–	–	–

Note: The value for FY2019 is the actual value. The value for FY2020 is the calculated forecast value.



(1) FY2019 was a period of "integration for generating synergistic effects," and we did not set target amounts for ordinary profit. However, we achieved synergies through the effects of sales from synergy projects, cutting expenditure, and diversifying procurement methods.

(2) We have calculated ordinary profit for FY2020 based on predicted profits from projects for which we have acquired contracts or have the prospect of acquiring contracts, and reduced costs resulting from improved productivity, etc.

(3) We aim to improve ordinary profit by increasing the amount of profit resulting from synergy projects, reducing costs, and further improving productivity so as to achieve our targets by the final fiscal year of the 2nd Medium-Term Business Plan.

This material includes projections based on future forecast and plans that was available on May 27, 2020.

There is a possibility that these projections may be different from actual results, affected by risks such as fluctuations in economic conditions and other uncertain factors.

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