

# Taikisha Group Mid-Term Business Plan

FY2019 - FY2021



I am Koji Kato. I assumed office as President of Taikisha, Ltd. this April.

Thank you very much for attending Taikisha's earnings briefing today.

I will explain the outline of the new Mid-Term Business Plan we launched in April this year.

## Taikisha Philosophy Scheme



### Mission Statement "Customers First"

Customers are defined as Overall Society in a broad sense.

The spirit of "Customers First" is to win persistent trust from the customer.

To achieve this goal, we have to follow our conscience and make the utmost efforts in every doing based on the belief that the behavior of individuals or the company will bring benefit and happiness to one's counterpart.

### Corporate Philosophy

1. Establish a company which can continuously grow and contribute to the society

2. Establish an attractive company

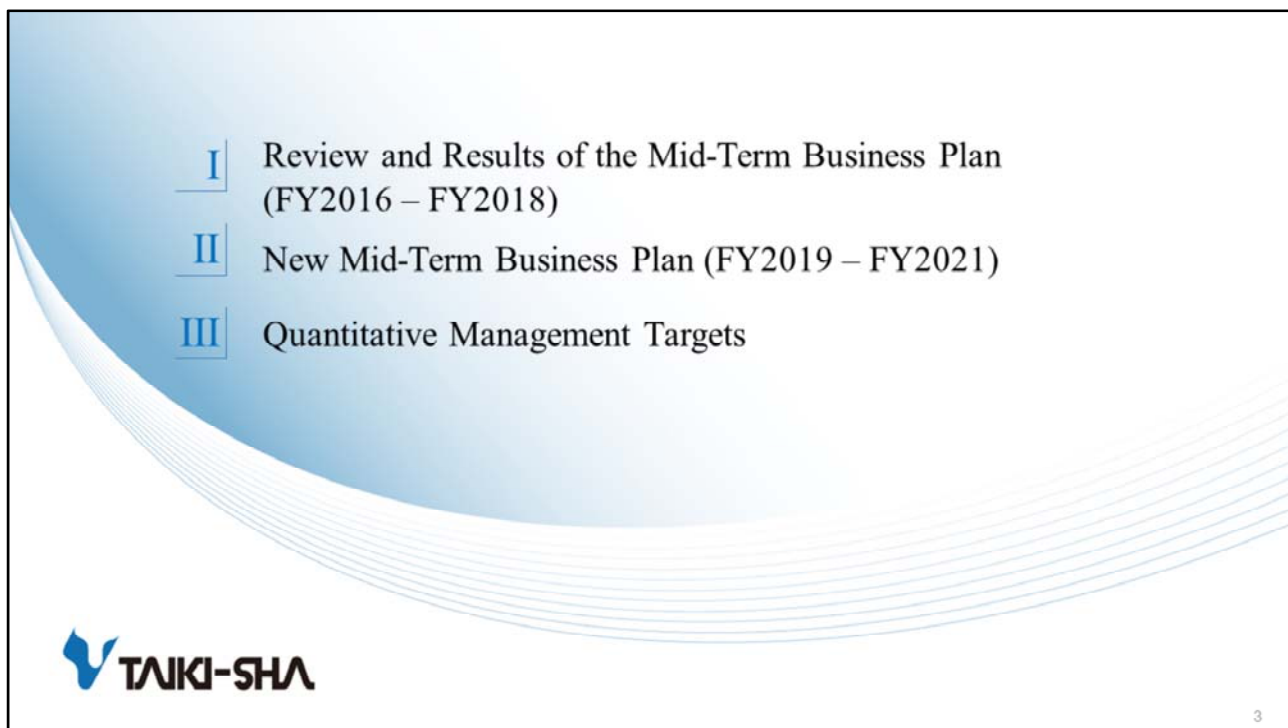
1. We strive to grow continuously by enhancing our added values; thereby, bringing prosperity to our customers and business partners as well as to our employees.

2. We strive to create rich environment and evolve the industrial society through our engineering expertise that meets the needs of the society, in order to achieve our ultimate objective to contribute to the society.

1. We aim to be a motivation-oriented company where the employees can demonstrate creativity and vitality through their work responsibilities.

2. We aim to be a company having the corporate culture in which all employees work in close cooperation to achieve the goals of the company, with the spirits of mutual trust, collaboration and rationality.

3. Through the expansion of our expertise in "Energy, Air, and Water", we aim to become a unique company in all aspects of corporate management, including engineering, marketing, and human resource development.



Please see page 3 of the material at hand for the table of contents.

The first part of the material is the Review and Results of the previous Mid-Term Business Plan (FY2016-FY2018), followed by an explanation of the New Mid-Term Business Plan (FY2019-FY2021) and Quantitative Management Targets.

## I Review and Results of the Mid-Term Business Plan (FY2016 – FY2018)

- 1 Results of Initiatives
- 2 Business Performance



Let me start by briefly describing the results of initiatives and business performance of the previous Mid-Term Business Plan.

**1** Results of Initiatives (1)

Theme	Outcome of measures
Improve business in Japan	<ul style="list-style-type: none"> <li>● Capture of abundant demand accompanying the growing investments in the electronic parts industry and office buildings in the Tokyo metropolitan area: Results (enhancement of productivity, flexible allocation of human resources between divisions, increase in mid-career hires, etc.) achieved by ensuring construction capabilities</li> </ul>
Improve overseas business	<ul style="list-style-type: none"> <li>● Expansion of orders received from non-Japanese customers in Southeast Asia: Departure from dependence on Japanese customers</li> <li>● Expansion of orders received from European automobile manufactures: Result of coordination with Group companies</li> </ul>
Enhance productivity	<ul style="list-style-type: none"> <li>● Promotion of IT: Enhancement of efficiency and simplification of onsite operations</li> <li>● Establishment of Field Support Office: Sharing of expertise of experienced engineers and reduction of the onsite work burden</li> </ul>

5

Regarding the initiative under the theme of “improve business in Japan,” which is the first theme of the initiatives, we made efforts, as described on page 5, to ensure construction capabilities by taking measures such as flexible allocation of engineering employees between divisions, accompanying the growing investments in the electronic parts industry and office buildings in the Tokyo metropolitan area. As a result, we succeeded in capturing the abundant demand and boosting business performance.

Regarding the initiative under the theme of “improve overseas business,” in the meantime, we expanded orders-received from non-Japanese customers, particularly in Southeast Asia, allowing for departure from dependence on Japanese customers, albeit slowly.

**1** Results of Initiatives (2)

Theme	Outcome of measures
<b>Develop new businesses and improve businesses of related areas</b>	<p><b>Plant factory business</b></p> <ul style="list-style-type: none"> <li>● Establishment of a Plant Factory Demonstration and Development Center in Itabashi-ku, Tokyo: Enhancement of capabilities to respond to customer needs</li> <li>● Establishment of a showroom in Ayutthaya, Thailand: Promotion of overseas expansion</li> </ul> <p><b>Paint finishing system business other than for automobiles, including railway and aircraft</b></p> <ul style="list-style-type: none"> <li>● Establishment of a Technical Center in Zama City, Kanagawa: Acceleration of R&amp;D</li> </ul> <p><b>Exhaust-gas treatment system business</b></p> <ul style="list-style-type: none"> <li>● Expansion of orders received of exhaust-gas treatment systems in China: Reinforcement of proposal activities to reduce the environmental impact, in conjunction with the tightening of environmental regulations by the Chinese government</li> </ul>
<b>Enhance corporate governance system</b>	<ul style="list-style-type: none"> <li>● Proactive compliance with the Corporate Governance Code (Introduced in 2015, revised in 2018)</li> </ul>

6

Regarding the initiative under the theme of “develop new businesses and improve businesses of related areas,” we, as described on page 6, made aggressive capital investments both inside and outside Japan, including launching the plant factory business in Ayutthaya, Thailand, and establishing a Technical Center for paint finishing system business other than for automobiles, including railway and aircraft.

**1** Results of Initiatives (3)

Theme	Outcome of measures
Enhance global compliance system	<ul style="list-style-type: none"> <li>● Implementation of regular monitoring and training at Japan and overseas sites: Promotion of risk identification and improvement</li> </ul>
Enhance human resource development	<ul style="list-style-type: none"> <li>● Update of personnel system: Promotion of flexible hiring and appropriate personnel evaluations</li> <li>● Adoption of Career Plan Scheme and establishment of a new department dedicated to employee education: Upgrade of the knowledge- and skill-levels and enhancement of the capabilities of engineering employees</li> </ul>
Reinforce the business base	<ul style="list-style-type: none"> <li>● Establishment of a BCP (Business Continuity Plan) environment and reduction of maintenance costs through the introduction of a new core system</li> </ul>

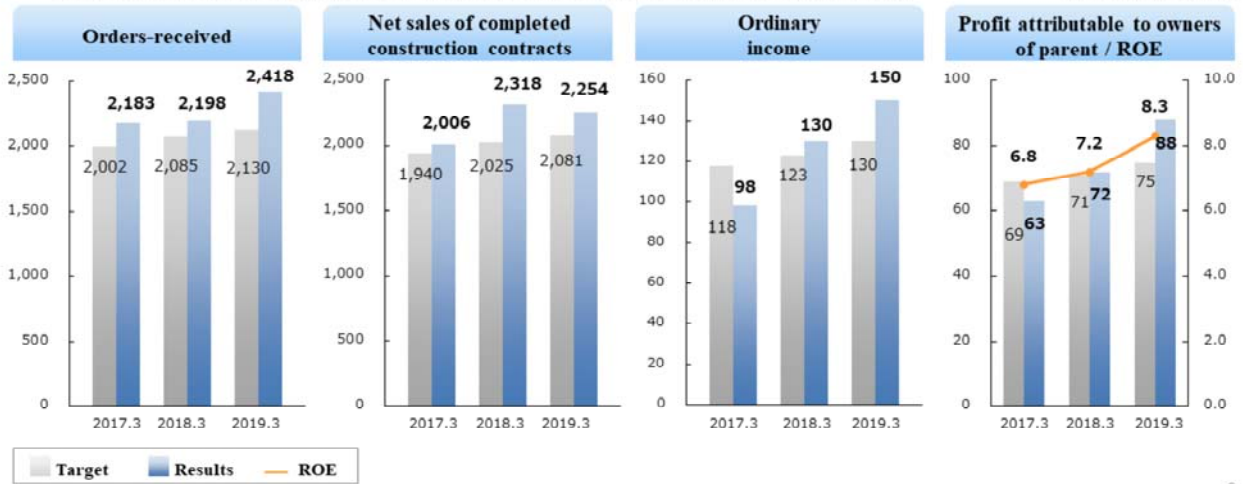
7

Regarding the initiative under the theme of “enhance human resource development” listed on page 7, we updated the personnel system last year to promote flexible hiring and appropriate personnel evaluations. In addition, we adopted Career Plan Scheme and established a new department dedicated to employee education, in an effort to upgrade the knowledge- and skill-levels and enhance the capabilities of engineering employees.

2 Business Performance

In terms of results for the final year of the plan, we achieved our targets for orders-received, net sales of completed construction contracts as well as all profit items. Moreover, with the exception of net sales of completed construction contracts, we achieved record levels in orders-received and all profit items.

Unit: Hundred million yen



Our business performance in each fiscal year of the Mid-Term Business Plan period is as summarized on page 8. In terms of the results for the fiscal year ended March 31, 2019, the final year of the plan, we achieved our targets for orders-received and net sales of completed construction contracts, as well as all profit items.

Moreover, with the exception of net sales of completed construction contracts, we achieved record levels in orders-received and all profit items.

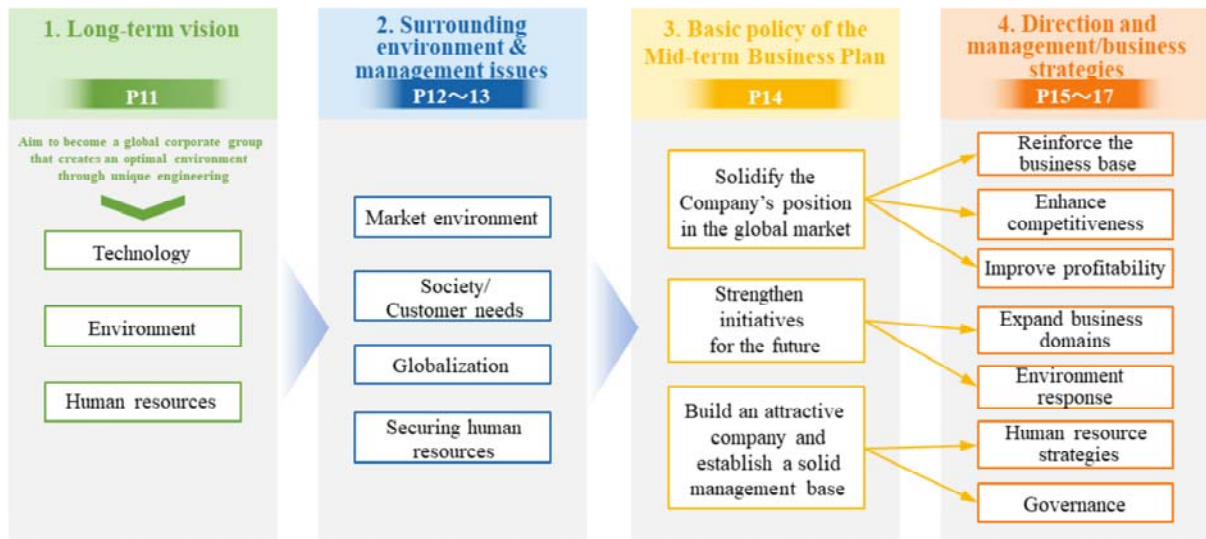


## II New Mid-Term Business Plan (FY2019 – FY2021)

- 1 Long-term Vision
- 2 Surrounding Environment and Management Issues
- 3 Basic Policy and Direction of the Mid-Term Business Plan
- 4 Management and Business Strategies

Now let me explain the New Mid-Term Business Plan.

Overall structure of the new Mid-Term Business Plan



1 Long-term Vision



“Aim to become a global corporate group that creates an optimal environment  
Through unique engineering”

Technology	Aim to become an engineering group that meets the diverse needs of clients through energy-, air- and water-based technology.
Environment	Solve the clients' environmental issues with innovative solution technology and contribute to passing on the rich global environment to future generations.
Human Resources	Respect the individual's creativity and diversity, and value the corporate culture which allows employees to experience one's growth and the joy of working.

Please see page 11. In the New Mid-Term Business Plan, we have set out a long-term vision to “aim to become a global corporate group that creates an optimal environment through unique engineering.”

With an eye to achieving this vision, each employee of the Taikisha Group will pursue the achievement of the New Mid-Term Business Plan from the perspective of “technology,” “environment,” and “human resources.”

2 Surrounding Environment and Management Issues (1)



<p><b>Outlook for the market environment</b></p>	<ul style="list-style-type: none"> <li>● Market for HVAC systems for office buildings (in Japan):</li> </ul>	<p>Expectations for the market to remain steady in the long-term, due to the continuing need to rebuild/renew buildings constructed under the old earthquake-proof standards and to redevelop, despite the moderate decline in demand for office buildings</p>
	<ul style="list-style-type: none"> <li>● Market for industrial HVAC systems (in Japan):</li> </ul>	<p>Expectations for continued further investments by electronic-parts manufacturers, the driving force of the manufacturing industry, in line with the advance of 5G (5th Generation Mobile Telecommunications System), as well as the use of electronics in automobiles, despite the decline in Japan's industrial production</p>
	<ul style="list-style-type: none"> <li>● Overseas HVAC systems market:</li> </ul>	<p>New potential investments in anticipation of a re-examination of the supply chain in the manufacturing industry due to the US-China trade friction</p>
	<ul style="list-style-type: none"> <li>● Paint finishing systems market:</li> </ul>	<p>Expectations of changes in the investment trends of manufacturers in the major market of passenger vehicles due to the spread of electric vehicles, the advances in self-driving technology and the use of AI in automobiles</p>

Pages 12 and 13 show our view of the “surrounding environment and management issues” that should be addressed in implementing the New Mid-Term Business Plan.

Regarding the “outlook for the market environment,” we expect that capital investment by customers will generally remain firm in the domestic HVAC systems market.

In the overseas HVAC systems market, in the meantime, we expect that uncertainties arising from factors such as the US-China trade friction will continue to weigh on the market. However, we expect new potential investments in anticipation of a re-examination of the supply chain in the manufacturing industry.

In the paint finishing systems market, we expect changes in the investment trends of manufacturers in the major market of passenger vehicles in the long-term due to the spread of electric vehicles, the advances in self-driving

technology and the use of AI in automobiles.

2 Surrounding Environment and Management Issues (2)



<b>Society and Customer needs</b>	<ul style="list-style-type: none"> <li>● Growth in demand for new solutions with sophistication of client needs toward energy-saving, cost-saving, environment-responsiveness, automation, the utilization of IoT/AI, etc.</li> <li>● Growth of the renovation/renewal market due to the increasing sophistication and diversification of corporate demand toward offices</li> <li>● Increase in demand to reduce environmental impact rising out of an awareness of the SDGs</li> <li>● Increasing interest by society and investors in ESG</li> </ul>
<b>Globalization</b>	<ul style="list-style-type: none"> <li>● Increasingly harsh business environment of clients on the global market due to the rise of manufacturers of emerging countries</li> <li>● Increasingly fluid and uncertain investment targets and destinations of Japanese corporate clients</li> <li>● Intensified competition with local enterprises in the emerging countries</li> </ul>
<b>Securing human resources</b>	<ul style="list-style-type: none"> <li>● Crucial task of securing human resources to support the future, as the working population shrinks</li> <li>● Necessity of improving the work-life balance of employees to aim to create an attractive company</li> <li>● Emerging issues of enhancing productivity by leveraging technological innovations</li> <li>● Necessity of human resource strategies to secure outstanding national staff overseas</li> </ul>

Regarding “society and customer needs” on page 13, we expect that trends toward the growing sophistication and diversification of corporate demand toward offices will bring about new potential investments. In particular, we believe that increasing interest by society in SDGs and ESG will lead to an increase in demand to reduce environmental impact.

Regarding “globalization,” clients on the global market are currently facing an increasingly harsh business environment due to factors such as the rise of manufacturers of emerging countries, causing increasingly fluid and uncertain investment targets and destinations of Japanese corporate clients. Also, we are facing intensifying competition with local enterprises in the emerging countries.

Regarding “securing human resources,” our emerging issue in Japan is to enhance productivity by leveraging technological innovations to respond to the shrinking working population and improve the work-life balance of

employees. Overseas, in the meantime, we see a necessity for human resource strategies to secure outstanding national staff.

## II New Mid-Term Business Plan (FY2019 – FY2021)



### 3 Basic Policy and Direction of the Mid-Term Business Plan



Basic Policy		Direction
<b>Solidify the Company's position in the global market</b>	Increase competitiveness and profitability and aim to solidify the Company's position in Japan and overseas facility construction industry.	Reinforce the business base Enhance competitiveness Improve profitability
<b>Strengthen initiatives for the future</b>	Look ahead to future changes in the market environment and promote the development of systems and structures that will turn those changes into business opportunities.	Expand business domains Environment response
<b>Build an attractive company and establish a solid management base</b>	Reinforce human resource strategies that will make the Company more attractive and the corporate governance structure which will raise the society's trust in the Company.	Human resource strategies Governance

14

To address the issues I have just mentioned, we have set out three Basic Policies under the new Mid-Term Business Plan described on page 14. The three goals are: “Solidify the Company’s position in the global market,” “Strengthen initiatives for the future” and “Build an attractive company and establish a solid management base.”

Regarding the policy to “solidify the Company’s position in the global market,” we will work to increase competitiveness and profitability and aim to solidify the Company’s position in Japan and the overseas facility construction industry.

Regarding the policy to “strengthen initiatives for the future,” we will look ahead to future changes in the market environment and promote the development of systems and structures that will turn those changes into business opportunities.

Regarding the policy to “build an attractive company and establish a solid management base,” Taikisha will reinforce human resource strategies that will make the Company more attractive and the corporate governance structure which will raise the society’s trust in the Company.



The direction of each of the three basic policies are provided in the right column.

4 Management and Business Strategies (1)



Direction	Strategy
<b>Reinforce the business base</b>	<ul style="list-style-type: none"> <li>● Build a well-balanced business portfolio: Respond to changes in the environment and economic fluctuations</li> <li>● Secure stable suppliers and business partners</li> <li>● Maintain a sound financial base</li> </ul>
<b>Enhance competitiveness</b>	<ul style="list-style-type: none"> <li>● Enhance added value: Energy-saving-, cost-saving- and environment-responsive technology and automation technology, etc.</li> <li>● Upgrade and utilize laboratories: Reinforce technological development capabilities and strengthen proposal capabilities through the visualization of technology</li> <li>● Utilize IoT/AI: Promote the development of new solutions</li> <li>● Enhance the company's presence through stepped-up PR</li> </ul>
<b>Improve profitability</b>	<ul style="list-style-type: none"> <li>● Make priority allocations of management resources into the growth markets.</li> <li>● Enhance productivity: Improve and propagate onsite construction methods and business processes and utilize IT, etc.</li> <li>● Reinforce the project management structure</li> </ul>

Pages 15 to 17 explain our management and business strategies linked to the direction of the basic policies I mentioned on page 14.

Regarding efforts to “reinforce the business base,” we will build a well-balanced business portfolio to respond to changes in the environment and economic fluctuations, that are expected in the future.

Regarding efforts to “enhance competitiveness,” we will work to enhance added value by strengthening energy-saving, cost-saving and environment-responsive technology and automation technology, etc. We will also upgrade and utilize laboratories to reinforce technological development capabilities and strengthen proposal capabilities through the visualization of technology.

Regarding efforts to “improve profitability,” we will continue to make timely priority allocations of management resources into growth markets, enhance productivity by fully leveraging IT, and reinforce the project management structure by drawing on lessons from our past failures.

4 Management and Business Strategies (2)



Direction	Strategy
<b>Expand business domains</b>	<ul style="list-style-type: none"> <li>● Deepen the existing major business domains</li> <li>● Expand new businesses: The plant factory business and the paint finishing system business for large vehicles other than automobiles</li> <li>● Expand business areas into new countries</li> <li>● Promote alliance with overseas Group companies: Reinforce capabilities to respond to the needs of overseas clients</li> </ul>
<b>Environment response</b>	<ul style="list-style-type: none"> <li>● Reinforce capabilities to solve clients' environmental issues: Reduction of greenhouse gas emissions and environmentally hazardous substances by leveraging the technological expertise cultivated in the HVAC business</li> <li>● Respond to social needs such as SDGs- and ESG-related needs through business operations: Pursue these areas as new business opportunities</li> </ul>

Regarding efforts to “expand business domains” listed on page 16, Taikisha will continue to promote the expansion of new businesses, as well as aggressively expand business areas into new countries in response to changes in the investment destinations of corporate clients.

Regarding efforts for “environment response,” Taikisha will reinforce capabilities to solve clients’ environmental issues and work to capture new business opportunities arising from the growing social needs such as SDGs- and ESG-related needs.

4 Management and Business Strategies (3)



Direction	Strategy
<b>Human resource strategies</b>	<ul style="list-style-type: none"> <li>● Secure human resources: Measures to make the Company more attractive including the enhancement of systems to enable flexible work styles, improvement of benefits and reduction of working hours</li> <li>● Firmly establish the Career Plan Scheme: Raise the capabilities and enhance the motivation of employees</li> <li>● Reinforce human capital and organizational capabilities through the utilization of diverse human resources</li> <li>● Secure employees in line with the situation of each overseas group company</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>● Reinforce corporate governance: Reinforcement of the management oversight functions of the Board of Directors and capital cost-conscious management</li> <li>● Reinforce the internal control system both in Japan and overseas</li> <li>● Improve the global risk management system: Legal risks, information security, compliance, etc.</li> </ul>

Regarding efforts for “human resource strategies” listed on page 17, Taikisha will implement various measures to secure human resources and firmly establish the Career Plan Scheme to raise the capabilities and enhance the motivation of employees.

Regarding efforts for “governance,” we will reinforce the management oversight functions of the Board of Directors and implement capital cost-conscious management with the aim to reinforce corporate governance. We will also continue to make efforts to reinforce the internal control system both in Japan and overseas and improve the global risk management system.

### III Quantitative Management Targets

- 1 Quantitative Targets
- 2 Investment Plan
- 3 Shareholder Return



From page 18 onward, the Taikisha Group's quantitative management targets are shown.

### III Quantitative Management Targets



#### 1 Quantitative targets for the FY 2021

Item	Target	Results for FY 2018
Orders-received	2,650 hundred million yen	2,418 hundred million yen
Net sales of completed construction contracts	2,600 hundred million yen	2,254 hundred million yen
Ordinary income	160 hundred million yen	150 hundred million yen
Profit attributable to owners of parent	100 hundred million yen	88 hundred million yen
Return on equity (ROE)	8% or higher	8.3%

(assumed exchange rate: 1US\$=108.00JPY, 1Euro=121.38JPY, 1Baht=3.39JPY)

(average exchange rate for FY2018 : 1US\$=110.58JPY, 1Euro=130.38JPY, 1Baht=3.42JPY)

We will aim for **return on equity (ROE)** exceeding capital costs and strive to increase corporate value.

19

Page 19 shows the quantitative targets for the fiscal year ending March 31, 2022, the final year of this Mid-Term Business Plan.

The quantitative targets of the Plan are to achieve orders-received of 2,650 hundred million yen, net sales of completed construction contracts of 2,600 hundred million yen, ordinary income of 160 hundred million yen, and profit attributable to owners of parent of 100 hundred million yen. In addition, Taikisha will aim to achieve record levels in all profit items.

As for the return on equity (ROE) target, Taikisha will aim to achieve ROE of 8% or higher through capital cost-conscious management.

② Investment Plan

Aiming for the sustained growth of the Company and the enhancement of corporate value in the medium- to long-term, we plan to make 200 hundred million yen in investments over the 3-year period from FY2019 to FY2021 under the following themes.

Investment theme	Investment amount (Planned)
Reinforcement of technological development and proposal capabilities / Promotion of initiatives into new businesses (e.g. improvement of R&D facilities)	
Enhancement of productivity (e.g. utilization of IT) / Human resource development	<b>200 hundred million yen</b>
Capital investments such as M&As	

I will now explain our investment plan on page 20.

Under this Mid-Term Business Plan, aiming for the sustained growth of the Company and the enhancement of corporate value in the medium- to long-term, we plan to make 200 hundred million yen in investments over the 3-year period from FY2019 to FY2021 under the above-listed themes.

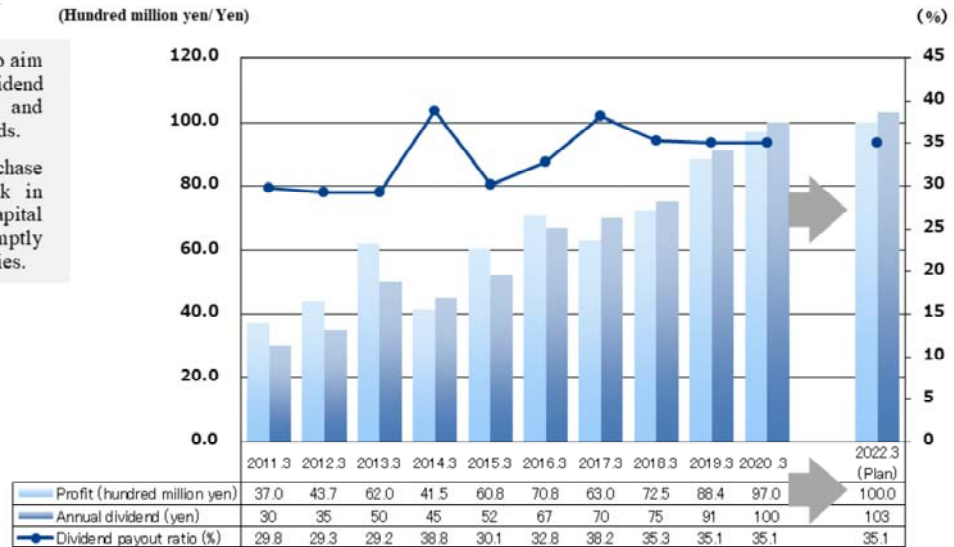
We have set three principal investment themes. Firstly, “reinforcement of technological development and promotion of initiatives into new businesses”; secondly, “Enhancement of productivity through utilization of IT and human resource development”; and thirdly, “Capital investments such as M&As.”

### III Quantitative Management Targets



#### 3 Shareholder Return

- The basic policy will be to aim for a consolidated dividend payout ratio of 35% and implement steady dividends.
- We will also flexibly purchase and retire treasury stock in order to improve capital efficiency and promptly implement financial policies.



21

Finally, please see page 21.

Regarding our dividend policy, Taikisha will maintain the basic policy to aim for a consolidated dividend payout ratio of 35% and implement steady dividends.

Assuming that Taikisha will achieve the 97 hundred million yen target for profit attributable to owners of parent in the fiscal year ending March 31, 2020, the annual dividend per share for the said fiscal year is expected to exceed 100 yen per share.

We will also flexibly purchase and retire treasury stock in order to improve capital efficiency and promptly implement financial policies.

This concludes my briefing on Taikisha's new Mid-Term Business Plan. We would like to ask our stakeholders for their continued support and encouragement of Taikisha's



management.