

Main Contents of Q&A from the “INFRONEER Medium-term Vision 2027” Briefing

Date : Friday, April 11, 2025, 14:30–15:40

Speakers : President and CEO Kazunari Kibe

Executive Officers: Takao Nakanishi , Yuji Hatakama , Masashi Shimojo

Q. I would like to confirm details regarding the infrastructure management segment. For FY27, the business profit for PPP (Public-Private Partnership) projects is presented as 2.3 billion yen, but the detailed breakdown of EBITDA indicates a significant decrease due to the allocation of SG&A at headquarters. Could you provide supplementary explanations regarding the background of the significant profit expected in FY27?

A. Let me explain why the profits in the PPP projects appear to rise suddenly. In Greenfield projects like stadiums and arenas, as well as Brownfield projects like the Japan National Stadium, substantial capital investments have been made, including the installation of 70 VIP rooms. Consequently, PL statement reflects a deficit for the initial 2–3 years. However, once the opening expenses and initial investments are amortized, cash flow increases sharply. While the PL improves, the growth in cash flow surpasses these improvements.

Additionally, in June, the first Japanese project under Water PPP 4.0 was announced and entered the bidding process. This project also involves initial investments on the scale of tens of billions of yen, and it is anticipated that it will take several years before turning a profit on an accounting basis.

Q. I would like to request a supplementary explanation to your previous answer. Can I understand that in FY27, profits will be recorded due to the reduction of fixed cost burdens resulting from the amortization of initial investments? Additionally, should I interpret the presented figures as being based on the current pipeline of projects and achievable even if no new orders are received in the future?

A. We have included certain expected orders, but please understand that this is a very conservative estimate.

Q. I would like to confirm details regarding the wind power generation business. I recall that it was previously explained that approximately 100 million yen in business profit would remain after excluding amortization following the sale. However, in the current forecast, it is calculated that business profits excluding amortization will still remain to a certain extent, with 1.2 billion yen in FY25, 1.2 billion yen in FY26, and 2.3 billion yen in FY27. Could you clarify what differs from the previous explanation in this regard?

A. Business profit refers to the profit after deducting post-sale costs, which may fluctuate slightly due to goodwill allocation. Annual revisions to business plans and adjustments to goodwill allocation for each project contribute to these profit fluctuations.

Additionally, alongside sales activities, we have been advancing electricity sales activities. Particularly for wind power plants set to commence operations in the 2020s, there has been an increasing demand from companies aiming to achieve RE100 by 2030. Amid the current stagnation in offshore wind power development, the possibility of higher electricity selling prices also serves as a factor for profit growth.

Regarding electricity prices and the price structure of renewable energy, we estimate that the wholesale price of renewable energy beyond 2030 will be at least 18 yen/kWh. This assumes wholesale/retail transactions conducted directly rather than through JEPX (Japan Electric Power Exchange). Direct transactions typically involve fixed prices, offering the advantage of no daily price fluctuations, unlike the wholesale market. In the current market environment, such prices often result in being higher than market prices.

The final retail price includes the wholesale price, renewable energy surcharge, transmission fees, retail business costs, and margins. For typical corporate contracts, the retail price is approximately 10 yen higher than the wholesale price.

Furthermore, the value of renewable energy combines the electricity price with non-fossil value. With the increasing number of companies aiming to achieve RE100, the non-fossil value is also trending upward. As a result, there is significant upside potential for the wholesale price of 18 yen/kWh that we have projected, which we believe will contribute to future profit expansion.

Q. In the road civil engineering segment, a profit increase of 5 billion yen is expected in three years. Could you provide a more detailed breakdown of the growth strategy and explain the background behind this profit growth?

A. In the road civil engineering segment, we aim to expand market share by strengthening our sales strategy and reducing manufacturing costs. In the construction business, we anticipate an increase in orders by enhancing our efforts in public works, particularly with an increase in orders centered around NEXCO. Furthermore, by enforcing order discipline, strengthening the sales capabilities of low-carbon mixtures, reassessing the locations of offices and mixing factories, and grouping nearby bases, we believe achieving the target is fully possible by improving value-added productivity.

Q. Regarding the grid energy storage business, I understand that having Japan Wind Development as part of the group demonstrates INFRONEER Holdings' competitive advantage over other real estate companies, energy companies, and construction companies in terms of land acquisition and construction. Could you clarify the strengths of the group as a whole in the grid energy storage business? While land acquisition is a key area, I would also like to hear about other specific strengths.

A. The grid energy storage business has two main objectives. The first is leveraging the strength of having Japan Wind Development as part of the group. While we previously adopted a capital recycle model, considering the current rise in renewable energy electricity selling prices, we believe it is more advantageous to retain power plants rather than sell them. Accordingly, we are promoting a model in which batteries are installed near developed wind farms to optimize power management and enable flexible electricity sales, thereby pursuing higher profitability.

The second objective focuses on the overall renewable energy market. In Japan today, renewable energy sources such as solar power often generate electricity only during limited hours of the day, leading to surplus electricity during the daytime that goes to waste. Similarly, wind power generation is affected by variations in wind strength and seasonal fluctuations. To address these challenges, we aim to utilize batteries to store electricity not only from our own generation facilities but also from other sources, providing renewable energy tailored to customer needs and ensuring sustained high profitability in the future.

In particular, we are paying close attention to the growing demand for renewable energy-powered electricity, driven by the increase in data centers and companies like GAFA that seek electricity derived from renewable sources. Leveraging our extensive experience in renewable energy transactions accumulated during the MAEDA CORP. era, we are developing the grid energy storage business. This business encompasses securing land, planning development, obtaining project financing from banks, constructing batteries, and selling electricity to the market and software manufacturers as part of a comprehensive system.

For example, if companies like GAFA wish to own batteries, they often lack the expertise to secure land or build facilities. Our approach involves taking on development risks and eventually selling the batteries with the risk factored into the return, making the capital recycle model highly suitable.

Currently, subsidies can be utilized for the grid energy storage business. However, given the potential saturation of the battery market in the near future, speed is critical. We view the next three years as a crucial period and are focusing on securing land and procuring at low costs through our renewable energy team. Additionally, the inclusion of group companies like MAEDA ROAD, which have extensive knowledge of land across Japan, has significantly improved the efficiency of land acquisition under the holdings structure.

Q. From the explanation provided, I feel that in the grid energy storage business, having a wind development company under your umbrella puts you one or two steps ahead of other construction companies. I would like to know if the advantage over other construction companies lies in the ability to quickly identify land, plan development projects, and commence construction work promptly.

A. While we do not have detailed information about other companies, we believe that the grid energy storage business is highly aligned with our “De-construction” business model, which does not focus solely on construction work, and is therefore very well-suited to our strategy.

Q. Regarding the growth strategy for the road civil engineering segment, I understand that the positive factor of 3.3 billion yen mentioned in the INFRONEER Medium-term Vision stems from various initiatives. As a specific effort to achieve growth of 5 billion yen, the M&A strategy involving leading regional companies has been highlighted. Could you provide an update on whether negotiations with specific companies are currently underway or if discussions have yet to begin?

A. Due to the possibility of insider trading implications, we cannot disclose specific company names. However, as this strategy is outlined in the INFRONEER Medium-term Vision, we hope you can infer the details from the content provided.

Q. What impact do you think the current inflationary trend will have on your contracting business? Additionally, how do you foresee your business model evolving in response? While this may diverge slightly from the content of your Medium-term Vision, could you also share your perspective on future industry trends, such as the introduction of cost disclosure methods? Furthermore, I would like to hear your thoughts on challenges such as the issue of price cap constraints in public sector project budgets, and the potential reduction in project volumes due to inflation, even if budgets are secured, making maintenance difficult. Lastly, under these circumstances, how do you predict changes in the attitudes and conditions of clients compared to the past 20–30 years, and how are you preparing for them?

A. The current inflationary trend is difficult to predict in terms of its duration. Excluding issues like reciprocal tariffs and the impact of imported materials, we believe construction costs may have already peaked. However, factors such as tariffs, import dynamics, yen appreciation, fluctuations in crude oil prices, and interest rate movements are intricately interconnected, making the outlook for continued inflation uncertain.

Meanwhile, there are signs that rising construction costs are causing redevelopment projects to stagnate and that many clients, including manufacturers, are postponing project starts. This trend is becoming evident in Tokyo and other major regional cities, and some of our own projects are beginning to experience similar impacts. However, if construction costs start to decline, there is a possibility that currently stalled projects will resume.

While the total floor area of new building starts is on a downward trend, the increase in construction industry order volumes is driven by rising unit prices. As a result, while overall production volume in the industry, particularly for private projects, is decreasing, the rise in prices is offsetting the decline in production volume, thereby boosting order values. If construction costs were to decrease in the future, it could serve as a catalyst for stalled projects to move forward.

Under these circumstances, the cost disclosure method we have been promoting for over 20 years has become a tailwind for us. Initially, we thought it would only be adopted as a special measure during the Great East Japan Earthquake, but now, situations where project owners cannot plan without clear cost data are becoming more common. In an era when lump-sum contracts were the norm, changes in design or price increases were not accommodated, but today, transparent cost structures that reflect price increases appropriately and return savings during price decreases are seen as contributing to trust-building with project owners.

The issue of price cap constraints in public works is a topic that requires in-depth discussion. We have heard of cases where such constraints are applied even in PPP or concession-based projects, despite the fact that these limitations are not explicitly mentioned in accounting laws dating back to the Meiji era. While such constraints may not be appropriate for pure contracting projects, applying them uniformly to projects based on life-cycle cost competition or design-build contracts is unreasonable. We have been raising these concerns for over 20 years, and recently, we recognize that institutions like the Ministry of Finance are beginning to pay attention to these issues.

Q. Regarding your capital strategy, I understand that the real estate sale amount is over 10 billion yen, with an anticipated reduction of about 8% overall. Could you clarify whether this sales strategy involves simply organizing and reducing the real estate you currently hold, or if you plan to add value through real estate development before selling? Additionally, regarding the overall volume of your real estate holdings, are you planning to maintain the current level, or are you aiming for further reduction in the long term?

A. We adopt a flexible approach depending on the situation, considering each property individually. This includes cases where we sell properties with development plans in place, add value through development before selling, or sell as-is. Rather than setting a uniform policy, we aim to make optimal decisions on a project-by-project basis. Generally speaking, we believe there are few cases where continuing to hold properties has a clear benefit. We plan to actively proceed with sales where profit can be realized, based on a comprehensive assessment of book value, actual sale price, and added value. However, since selling is not our primary objective, we do not proceed with development if profitability is not anticipated.

Q. Regarding the grid energy storage business, while the number of planned projects has been disclosed, could you clarify how many specific developments are currently visible? Additionally, could you provide details on acquired development sites and their selection status, as well as whether coordination with power companies concerning grid interconnection has already been finalized? Furthermore, in areas where your company has limited control, what risks might lead to project delays?

A. At this stage, we cannot disclose specific details about the projects. However, in addition to the projects we are pursuing independently, we are involved in multiple joint ventures. Some of these joint ventures are led by us, while others are led by partner companies, reflecting a variety of forms. The number of projects presented is only a portion, and the actual number of developments underway is several times higher than what has been disclosed.

Regarding revenue forecasts, cost management, including foreign exchange hedging, is crucial as all batteries are imported. While some stakeholders may avoid Chinese-made products, the reality is that many projects use batteries manufactured in China. For example, Tesla's batteries are entirely made in China, highlighting the need to consider the potential challenges of avoiding Chinese products and the impact this could have on project progress.

The project numbers presented in the materials include only high-voltage projects, but we are also progressing multiple extra-high-voltage projects. Just yesterday, we approved a project with a capacity of several hundred megawatts and received new proposals from various sources. These projects have high profitability and include reliable cases where buyers have already been identified. You can consider this as the minimum scale of our operations.

Regarding risks, we have not currently received any specific concerns or challenges from power companies akin to those associated with wind or solar power projects.

Q. Regarding the profit targets for the building construction segment outlined in the INFRONEER Medium-term Vision, the figures appear somewhat conservative compared to other segments. Given the potential for profit growth and margin improvement, there seems to be room for upside. Could you explain the background and methodology behind setting these targets?

A. Currently, we have set relatively conservative profit targets. The primary reason for this is that sales from 2024 to 2027 have not yet fully materialized. However, we anticipate a high probability of securing projects in the future, with expectations for increased sales by 2027.

Specifically, the growth in demand for Large refrigerated and frozen warehouse and logistics warehouses, coupled with the expansion of our temporary construction business, is expected to significantly contribute to profit growth. The temporary construction business is poised to benefit from large-scale events such as the Olympics and Expo, as well as from arenas, the new Japan National Stadium, and various sports festivals.

While the current targets are conservative, we foresee exceeding these goals in the future.

Q. Regarding the D/E ratio, while the wind farm and grid energy storage businesses are being developed through project financing, the cash allocation suggests that the amount raised through interest-bearing debt appears relatively modest. Could you elaborate on the utilization of project financing and the rationale behind setting the D/E ratio at 1.0x, along with the overall balance?

A. For project financing, we plan to introduce non-recourse project financing for the wind farm business. Depending on the project, we anticipate utilizing project financing for approximately 70–80% of the costs, and we are currently negotiating terms for projects scheduled to commence construction in the first half of this fiscal year.

In terms of cash allocation, we plan growth investments of 220–250 billion yen, while operating cash flow is projected at approximately 300 billion yen based on EBITDA. Additionally, we aim to generate funds through the capital recycle of cross-shareholdings and certain renewable energy projects, as well as the sale of owned real estate assets (amounting to over 10 billion yen). Collectively, these measures allow us to pursue aggressive investments while keeping interest-bearing debt from significantly increasing.

The current D/E ratio stands at approximately 0.8x, and we forecast it to remain around 0.9x by FY27. While the previous INFRONEER Medium-term Vision targeted a D/E ratio of below 0.6x, the current plan of maintaining a ratio below 1.0x reflects the anticipated increase in investment needs. This approach ensures financial discipline while efficiently leveraging debt to minimize funding costs and secure necessary resources.

Q. Based on your previous response, could the accumulation of cash over the next three years create room for additional shareholder returns? Also, how do you view the balance between debt and shareholder returns?

A. We are maintaining a dividend of at least 60 yen, demonstrating our commitment to shareholder returns. We hope this reflects our careful consideration toward shareholder interests.

Q. Regarding the civil engineering segment, while profits are projected to grow steadily during this medium-term management plan period, the current profit margin is already at a very high level. Are there any downside risks to consider?

A. As for potential downside risks, we recognize that the current profit margins remain at a very high level. Additionally, we are further advancing cost management and reform initiatives within the civil engineering business, which we believe still has room for growth. Therefore, we view the downside risk to profit margins as limited and are instead aiming for upside potential.

In terms of order intake, we achieved approximately 165 billion yen in the previous fiscal year, exceeding the target of 163 billion yen. We have strong capabilities in the energy sector and are optimistic about future order growth, driven by tailwinds such as increasing demand for data centers. Furthermore, we are strengthening our sales efforts by reorganizing our structure to capture new private-sector demand. Through these initiatives, we aim not only to achieve our minimum targets but also to pursue further growth.

Q. Based on your previous response, regarding the strengthening of private-sector initiatives, should we consider areas like power and railways?

A. In terms of power and railways, we have already secured a certain level of market share, and our policy is to at least maintain this position. Additionally, driven by the promotion of carbon neutrality and increasing demand, particularly in coastal areas, we are actively working to acquire new clients. We have already secured several unprecedented projects and plan to further expand into new private-sector demand moving forward.

Q. Regarding stadiums and arenas, developers, trading companies, and various enterprises are entering the market, intensifying competition. Should we consider the competitive landscape as not significantly affecting your goals, given sufficient demand?

A. To achieve more globally competitive operations, we are proposing concession-based models to municipalities. The Ministry of Finance and the Cabinet Office have indicated their policy to provide subsidies in the tens of billions of yen for BT+concession-based operations managed by private entities.

Meanwhile, in the B.League, arena development is a prerequisite for promotion to the Premier League by 2028. While promotion opportunities remain open thereafter, some municipalities are prioritizing Premier League promotion by collaborating with professional basketball teams for the 2028 season. In certain cases, these

municipalities have opted to expedite arena construction rather than adopting the BT+concession model, resulting in delays or non-adoption of our proposals. For instance, in Akita, a major contractor is advancing arena construction under a direct contracting model, aiming for completion by 2028.

Nonetheless, many municipalities are currently inclined toward adopting the BT+concession model, leveraging subsidies while entrusting operations to us. While this model involves competition and does not guarantee contracts, we have accumulated extensive operational expertise and established partnerships with global companies. With these strengths, we anticipate maintaining a favorable position in the market for the foreseeable future.

Q. Which areas are you focusing on for infrastructure management?

A. First, our focus is on the stadium/arena business. Incentives for municipalities to transition to PPP are highly significant in this area. Currently, driven by challenges in the B.League and the promotion of regional revitalization, municipalities are moving projects through their councils to secure subsidies. As a result, we expect a surge in stadium and arena projects over the next few years, making this a key focus area. However, it remains unclear whether this trend will persist long-term.

At facilities like Japan National Stadium and other arenas, we aim to deliver operations that exceed expectations. If successful, the market could expand further. In the future, we hope to see the emergence of privately-led, world-class arenas like those in the U.S., surpassing traditional PPP models.

Second, we are focusing on water and sewage systems. Incidents like the one in Yashio city have highlighted these as critical societal challenges in Japan. Due to the underground nature of much of this infrastructure, it has traditionally been overlooked in elections and council discussions, with limited public attention. However, increasing incidents have brought these issues to light, rapidly enhancing understanding.

The Ministry of Finance and the Cabinet Office have recognized this situation and introduced policies in last year's Basic Policy to provide full subsidies for Level 4.0 concession projects under the Water PPP framework. This has led to growing awareness of the financial challenges faced by water and sewage systems across Japan.

Additionally, road infrastructure issues are becoming more apparent in the medium term, particularly regarding funding for general roads. Gasoline taxes, which fund road maintenance, are declining due to the shift to EVs and PHVs, leading to a sharp reduction in maintenance budgets. This issue is not unique to Japan but is a global challenge. For example, the U.S. is increasingly tolling general roads, and Europe has implemented congestion charges in cities like London, shifting maintenance costs to users.

Technological advancements have enabled efficient systems where cameras capture license plates and tolls are collected post-use. However, Japan primarily relies on costly systems like ETC for toll roads. Globally, there is a shift toward tolling general roads using camera-based systems, necessitating PPP concessions for municipalities.

After addressing water and sewage systems, roads will become a significant area of focus. Based on our projections, Japan is likely to move in this direction. Water and sewage systems, along with roads, are expected to be major areas of focus in the future.