

# [ Kibe-log ]

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# 2

## The reason to establish INFRONEER Holdings Inc.

My name is Kazunari Kibe, the president and CEO of INFRONEER Holdings Inc.

One and half months have passed since the establishment of our company, and I have been very busy listing our company, taking media interviews, meeting with investors and so on.

Various people have told me that the responsibilities of a President are much different than those of regular employees or even those of a Vice President. During these past few weeks, I have come to fully realize the weight of this responsibility. Going forward I promise I will do my best to manage the company for our employees, customers, shareholders, and all of the stakeholders.

As I had mentioned before, I would like to use this blog to share what INFRONEER Holding has planned and what kind of society we aim to build through our new structure. In this second post, Kibe-log 2, I would like to explain our intention behind the transition from a group company structure to that of a holding company.

There are, in short, two reasons behind the transition to the holding company structure.

The first reason is to accelerate the “de-contracting” behind our growth strategy. The second is to respond to the needs of the stock market as well as the demand of the times.

In Kibe-log 1 ([https://www.infroneer.com/topics/blog\\_assets/entries/15/PDF\\_FILE/kibelog\\_en.pdf](https://www.infroneer.com/topics/blog_assets/entries/15/PDF_FILE/kibelog_en.pdf)) I recounted my first encounter with the European construction industry when I was assigned to the Business Planning Department in the late 1990s.

To summarize, I had learned that after the birth of the EU, in order to survive in fierce competition, large European construction companies started to shift their business model from the traditional contracting business to the construction

service business. This included services such as concessions\* for social and public infrastructure. I felt the same shift would surely and eventually come to Japan. As a member of the Business Planning Department, I had begun to seriously consider our new direction toward “de-contracting”. And now, I am pursuing the idea of transitioning our company to a holding company structure. I believe that this is the most appropriate organizational structure to adapt to an era of “de-contracting” business.

\*Selling the rights to operate and maintain social and public infrastructure to a private consortium for a certain period. It is one of the approaches of Public Private Partnership.

## The challenges of the holding company structure

There has been an increasing the number of Japanese companies which have adopted the holding company structure since the pure holding company structure was first approved in 1997.

Even into the mid 2000s, the majority of diversified Japanese companies adopted this standard group company structure. These companies with multiple subsidiaries usually adopted a scheme of cross-shareholdings between their core companies. All the while, we had been developing our “de-contracting” model.

When I first thought about going into the concession business tied to social and public infrastructure projects, such as airports, toll roads, water services and sanitations. I had wondered whether the Maeda Corporation should proceed or not. Completely different from the ordinary contracting business Maeda Corporation had been handling until then, concession business required operating, maintaining, and managing public infrastructure.

In addition to our organic growth, it is indispensable for the Maeda Corporation to expand our business domain through M&As to further enhance our corporate value. This is especially so because the construction industry struggled with shrinking budgets for public works, bid rigging issues, and the disposal of non-performing claims. While the global financial crisis and the Great East Japan Earthquake increased the demand for recovery and construction, I believe that a restructuring of the industry is inevitable and there must also be a pursuit of growth through M&A.

At the time, I was very busy thinking how “de-contracting” should be promoted and how to approach the government to establish the new system for Public-Private Partnership including concessions. The concept of holding company had been always in my head but I decided it was not the right time yet.

It would not be until the mid 2010s that the situation would begin to change.

## The changing of voices of foreign investors

I periodically visited foreign investors as I was also in charge of IR (Investor Relations). Both before and after the global financial crisis, they always asked me for my definitive growth strategy. They would ask me repeatedly “How do you increase the profit per share in Japanese old-fashioned construction industry?” “How do you make profit?”

But I noticed their voices started to gradually change during my visits.

Specifically, they came to ask more about our initiatives in corporate governance, ESG and SDGs. I was always asked about the relationship with our listed subsidiaries, Maeda Road Construction Company and Maeda Seisakusho Co., Ltd.

In the past, it was frequent among Japanese companies that the parent company procured the funds for investing by selling a share of its subsidiary when it listed. This allowed for the investment into other businesses. Parent-Child Listings were welcomed by subsidiaries as they could have greater flexibility in their business decisions.

However, parent companies usually hold more than half of the share of its subsidiary and maintains power to control the business decisions of the subsidiary. It is possible the minority shareholders of subsidiary might suffer a disadvantage when the parent company prioritizes the interest of the group over the subsidiary.

The parent company may also risk having difficulties implement the group’s strategy or to pay unnecessarily high dividends as the influence of external shareholders becoming stronger (this is a situation we later encountered).

Since the establishment of the Corporate Governance Code (CG Code) in Japan, the Japanese stock market has been getting

closer to the global standard. But foreign investors cannot understand the situation in which some companies still have listed subsidiaries without any synergy and allow funds to flow out continuously.

Whenever I visited investors, all of them advised me to own 100% of Maeda Road Construction and Maeda Seisakusho. They said it could increase our corporate value.

Of course, our management recognized the problems of Parent-Child Listings and understood that the best way is to delist subsidiaries and make them wholly owned subsidiaries under the holding company structure.

Behind the scenes of the Take Over Bid (TOB) on Maeda Road Construction in 2020, we have gathered momentum shifting towards the holding company structure through dialogue with our shareholders.

## The future beyond Public-Private Partnership

There is no doubt that we will be asked to raise our corporate value more than before by deciding to shift to the holding company structure. It is necessary not only for the investors but also for our employees, customers, communities and all the stakeholders.

People can see the aging of public infrastructure in Japan. It is impossible to renew all of the infrastructure by simply using the budget of national or local government. It is necessary to involve the private company like us and to work with the government together to build, maintain, manage and renew infrastructure through Public-Private Partnerships.

The INFRONEER group has just made the first step into infrastructure business. I would like to accumulate experience in this field and grow over the years so that the government and people in the community can safely and comfortably let us take care of their infrastructure. I believe that it will lead us to the solution of the social problems in Japan.