

[Kibe-log]

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#15

Our ‘de-construction’ as read from Derrida's ‘deconstruction.’

Dear Stakeholders, I am Kazunari Kibe, President and CEO of INFRONEER Holdings Inc.
Thank you so much for reading the "Kibe-log" again.

In this issue, I would like to reiterate INFRONEER's commitment to “de-construction”.

Every year I travel to New York, London, Singapore, etc. for Investor Relations (IR). I have visited these cities almost every year for the past 20 years, and I could say that it has become my routine.

Management has a wide range of tasks, but communicating with shareholders and investors is one of its most important roles.

Through such communication, we provide existing shareholders with detailed explanations of our current business situation, financial condition, and performance outlook so that they can continue to have a good understanding of INFRONEER. For potential investors it is important to inform them of our business, competitive advantages and future growth strategy when they become new shareholders.

While it is a major role of management to create a vision and strategy for sustainable growth and to take the initiative in implementing them, I believe that communication with investors by explaining the above in a simple and clear manner in my own words is an indispensable process for enhancing corporate value.

It is even more essential for companies like INFRONEER that are trying to build a new business model being different from other traditional general construction companies. I started this “Kibe-log” for this purpose.

I have been conducting investor relations for many years with this in mind, but each time I have encountered great difficulty in explaining to foreign investors the “de-contracting” that INFRONEER is promoting.

How should “de-contracting” be translated in English?

As explained in a previous issue of Kibe-log, MAEDA CORPORATION, the predecessor of INFRONEER, has made “de-contracting” a pillar of its management strategy since January 2011.

In the construction industry, the contracting agreement in which a construction company promises to complete a project and the client pays for the results. This means that the client places an order of construction work, and the construction company that receives the order, so called “the prime contractor,” acts as the construction business operator, uniting specialized sub-contractors while guaranteeing the completion of the construction work to the client.

Undoubtedly, this form of contract, in which the construction company is responsible for the completion of the construction project is certainly reassuring to clients who do not have expertise in construction or civil engineering. It is also beneficial for construction companies to be able to receive fees for construction work without taking any business risk. For this reason, most of the construction work in Japan, both public and private, is still performed under the contracting agreement.

In contrast, the term “de-contracting,” or “getting out of the contracting business,” implies the intention to not only conduct the traditional fee-based contracting business but also to take business risks in the project as a construction company.

The concessions that INFRONEER focuses on symbolize this new business model. Let me explain how it works.

The company acquires the right to operate public and social infrastructure such as airports, water and sewage facilities, toll roads, and renewable energy power plants for a certain period through concessions. It engages in construction, operation, and maintenance of such infrastructure. Since middle-risk/middle-return infrastructure projects are ideal for pension funds as they prefer long-term stable investments, we will sell the operating rights to pension funds and others at the appropriate time in the future and promote our capital recycling. This means that we will be aggressively involved in the entire business moving away from the fee-based contracting business.

By utilizing the engineering capabilities and financial know-how of INFRONEER in infrastructure businesses with investments, it is possible to generate more returns than in the contracting business. This is where we envision the future of the INFRONEER Group and why we presented the concept of “de-contracting.”

I had been thinking about the concept of “de-contracting” since around the mid-2000s. In January 2011, I persuaded the then president to use the term of “de-contracting” in his New Year's address. Since then, I have been taking the lead of “de-contracting” for more than a decade.

However, a certain level of prerequisite knowledge of the contracting business in Japan is necessary for investors to grasp the concept of “de-contracting.” As they don't have such knowledge, it has been difficult to let them understand our new business model in our overseas IR meetings.

One of the most difficult things we struggled with was how to translate the word “de-contracting” into English.

“De-contracting” not understood by foreign investors.

Actually, there were times when “de-contracting” was translated as “de-construction.”

We called it “de-construction” in the sense of breaking away from traditional practice in construction industry.

However, when we said that we were aiming for “de-construction,” the investor's response is always, “Is your company quitting construction?” Even if I explained, “No, no, we are not going to stop construction work, but we are going to transform our business from current contracting business.” However, it was difficult for overseas investors to understand our business transformation because there is no Japanese-style contracting framework in foreign countries. I always ended up most of the meeting on that explanation.

We thought “de-construction” did not convey the message, so we next began using the term “de-contract.” Contracting is one of the forms of construction contracts. The idea is to stop doing that. However, “de-contract” also seemed to be difficult to understand. I was often asked, “Why are we talking about a contract?”

European and U.S. construction companies used to mainly engage in contract work as well. However, with the EU integration, some construction companies, believing that fee businesses such as contracting would gradually become less profitable due to fierce price competition, began to offer concessions for airports and other projects in the early 1990s. In the 2000s, concessions for airports, highways, solar power generation, wind power generation, and other projects became mainstays of the construction giants' business.

They are major global construction companies such as Bouygues and Vinci in France, Hochtief AG in Germany, and Ferrovial in Spain.

Everyone understand when I talk about the transformation of business models in Europe and the U.S. and explain that we are taking proactive measures because we believe the same trend will eventually come Japan. But the next question is, “Why don't other major general construction companies do the same thing?”

Investors do not understand why major Japanese general construction companies, which are larger than INFRONEER, have not entered concessions even though this is a common business model in Europe and the U.S. I think investors are certainly right to be concerned that the INFRONEER strategy may fall apart if the major general construction companies get involved in concessions.

Frankly, I do not want to comment on other companies. But since I was asked, I felt I had to answer and explained background information in many ways.

Knowledge and expertise in advanced finance and various types of contracts are indispensable for successful concessions. But existing general construction companies focus mainly on contracting and lack such knowledge and expertise. Japanese financial institutions focus only on corporate finance and lack experience and support of project finance needed for concessions.

Therefore, we have been working with the Australian investment bank Macquarie since around 2012 to accumulate knowledge and experience on how to raise the best financing for concessions. That is why INFRONEER is the first general construction company in Japan to be able to focus on concessions.

After explaining the background, most investors understood the uniqueness and competitive advantage of INFRONEER. Still, it was difficult to get them understand the history of the Japanese construction industry and our company in just a one-hour meeting.

Four or five years ago, when I was fed up with dealing with such investors, I read a book on “deconstruction” by the French philosopher Jacques Derrida and knew this was it!

Copernican shift in “de-construction”

Derrida*'s “deconstruction” is a concept that describes breaking up traditional practices, orders, and structures and reinterpreting their meaning.

*Jacques Derrida: Jewish-French philosopher who focused on the qualities and differences of écriture (writing, writing method, the act of writing) and created concepts such as deconstruction, difference, and dissemination representing post-structuralism. (1930-2004)

Philosophically, it is to dismantle the dichotomous structure that has been in place since Greek philosophy, and to formulate a new concept. When “de-contracting” is redefined in the context of “deconstruction,” it means dismantling the structure of the construction industry, which has traditionally specialized in the “building” part, and constructing a new business model for the industry.

Specifically speaking, since the Edo period (1603-1868) the Japanese construction industry has viewed construction as the building of roads, bridges, and buildings under fee-based business contracts. However, I believe that the true nature of the construction industry is to be involved in all aspects of a project, from project origination, investment, financing, design, construction, operation, maintenance, and subsequent sale. This means that the main business of the construction industry is to construct and operate, not to build. That is exactly what “de-construction” is all about.

So, I started talking to investors about “de-construction,” meaning from the concept of “deconstruction” in Derrida. I explained them that “de-construction” which I am talking about is to deconstruct the construction industry.

I still have to explain what it's all about, but many investors are familiar with Derrida's concept of “deconstruction”, and I am getting more positive reactions when I talk about “de-construction” in this context. I think that they now understand the concept of “de-construction” more clearly.

As I mentioned above, it was quite a challenge to get foreign investors to understand what is “de-construction” that INFRONEER is promoting. In fact, the same was true within the company as well.

After announcing the term “de-construction” in the company's New Year's address, it raised many questions. “Are we going to stop construction?” “No, we are not going to stop doing construction work. We are talking about stopping thinking of construction alone as the work of a construction company,” I repeatedly explained, but this did not dispel the misconception that “de-construction = stopping construction.” Their response was like that of foreign investors.

From the perspective of the employees at that time, I think it was a Copernican shift. In addition to the fact that the construction industry has been contracting-oriented since the Edo period (1603-1868), people who enter the construction industry after graduating from civil engineering or architecture majors want to build structures that will contribute to society.

It will only confuse such manufacturing-oriented people to tell them that building structures is not our goal and there is value not only in manufacturing, but also before and after building. I understand that.

But if we continue with the traditional concept of construction, it will inevitably hit a dead end sooner or

later. Without presenting a new business model, the company cannot survive.

It was difficult to change the mindset of employees, but with the actual examples of concessions such as Sendai Airport and the Aichi Toll Road, I feel that they are now much more able to visualize the concept.

In this issue I talked about Derrida's "deconstruction" in the construction industry and our vision "deconstruction." I would be happy if you agree with the future we envision.