

[Kibe-log]

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#19

“Four reasons why I can confidently say that the acquisition of SUMITOMO MITSUI CONSTRUCTION was the best management decision.”

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

I sincerely apologize for not updating Kibe-log at all this past year. Several critical management decisions came one after another, leaving me with neither the time nor the mental bandwidth to update the blog. Things have finally settled down, from now on, I'd like to start sharing my thoughts again.

Now, I'd like to discuss Sumitomo Mitsui Construction Co., Ltd., which we made a subsidiary through a TOB in September 2025 (fully consolidated in December 2025 and will be renamed Arsocia Construction Co., Ltd. starting this October). Earlier, I mentioned facing critical management decisions, and this TOB for Sumitomo Mitsui Construction Co., Ltd. was precisely one of them. While it's already been discussed in various channels including the media, I would like to take this opportunity to explain, in my own words, the objectives of this TOB.

To start with the basic point, INFRONEER has positioned “de-construction” as a pillar of its management strategy. Rather than relying solely on the traditional contract-based business that has been the mainstream in the construction industry, the strategy is to acquire operating rights for infrastructure such as airports, water and sewer systems, and toll roads, and to handle every aspect of the infrastructure business—from new construction (including renewals) to operation and maintenance management. This system, in which private companies obtain the operating rights to infrastructure and run it over a long period, is called a “concession” within the framework of PPP/PFI. In other words, INFRONEER’s concept of “de-construction” is almost synonymous with increasing the number of concessions acquired.

With growing concerns over rising public debt and interest rates in Japan, it is no longer realistic to develop and maintain infrastructure nationwide solely at the expense of the national and local government. The same applies to public and cultural facilities such as schools, hospitals, arenas, and museums. Given this situation, it is no exaggeration to say the time has come to leverage private capital and expertise for infrastructure development and renewal. I believe the concession market will undoubtedly expand from here on.

Furthermore, while traditional contracting work ends once construction is complete, infrastructure business allows for long-term revenue through operation and maintenance after construction is completed. Moreover, since it involves participation as a business investment, leveraging engineering and financial expertise can generate additional returns exceeding those of contracting work. With this in mind, we positioned “de-construction – moving away from contracting work” as a key bold move for growth at the core of our management strategy.

Resource shortage looming ahead

Then, having made “de-construction” a pillar of our management strategy, we established INFRONEER Holdings in October 2021. We made MAEDA CONSTRUCTION, MAEDA ROAD CONSTRUCTION, and MAEDA SEISAKUSHO, three wholly owned subsidiaries. We chose the holding company structure because we believed MAEDA CONSTRUCTION and MAEDA ROAD CONSTRUCTION alone lacked sufficient resources. Therefore, we adopted the holding company structure to make it easier for other companies to join us later.

At that time, there were mainly two key capabilities that I felt were missing in INFRONEER. The first was to develop renewable energy projects which we addressed through the acquisition of Japan Wind Development. Japan Wind Development is a company that handles everything from wind power research and development to power generation and maintenance (Reference: Reasons for Acquiring Japan Wind Development: https://www.infroneer.com/pdf/en/company/topblog/kibelog_en_vol13.pdf).

The second was to accelerate concessions and strengthen the operation of infrastructure - in other words, to enhance our operational capabilities.

Currently, in the concession sector, we see more PPP (Public-Private Partnership) projects for arenas and stadiums. Under this PPP business model, we participate in projects promoted by the local

governments from the design and construction stages of arenas and stadiums and continue to handle their operation afterward. MAEDA CONSTRUCTION, which is a subsidiary of INFRONEER, is involved in several projects such as IG Arena in Nagoya City, the New National Stadium in Tokyo and projects in Shizuoka City, Toyohashi City, and Toyama City.

While current orders remain solid, considering upcoming projects, we anticipate securing construction contracts alone well exceeding ¥100 billion in scale. If that happens, our EPC (Engineering, Procurement, and Construction) and operational capabilities for building infrastructure and facilities will undoubtedly become insufficient. Particularly, if EPC resources are lacking, even when projects arise, we cannot contribute to enhancing operational value through design and construction innovations. Since INFRONEER was founded, we have been searching for companies that could help compensate for the shortage of EPC resources.

However, not just any company will do. As I mentioned earlier, engineering capability is key to enhancing the profitability of concessions. Therefore, during the process of narrowing down our search to construction companies with strong technical expertise, Sumitomo Mitsui Construction emerged as a potential candidate to enhance our capabilities.

Despite its strong talent and technological capabilities, the company is undervalued.

Except the top five super-general contractors, Sumitomo Mitsui Construction's technical research institute ranks at a very high level which I know very well since MAEDA CONSTRUCTION also has the ICI Center (New Technology Research Institute). They also have strong overseas capabilities, building a robust network of local engineers primarily across Asia. They operate a training center in the Philippines to develop global executives among foreign employees—no other construction company has such a facility.

As you may know, Sumitomo Mitsui Construction has a strong track record in high-rise residential developments, and together with MAEDA CONSTRUCTION, they command a market share in the upper 30% of Tokyo metropolitan high-rise condominiums. They are particularly renowned for their speed in high-rise construction. Sumitomo Mitsui Construction is the only company capable of completing one

floor of structural work in just three days. Since MAEDA CONSTRUCTION and Sumitomo Mitsui Construction employ different construction methods, combining their respective strengths is expected to enable more efficient high-rise condominium development.

Furthermore, their construction issues at the “Azabudai Hills” redevelopment project in Tokyo's Minato Ward significantly hurt management and led to the company being undervalued by the market, which was one of the key factors in our acquisition decision. When the company has strong talent and advanced technology yet remains undervalued, it suggests significant potential for future growth. Moreover, after the construction troubles, the company had been cautious about taking on new orders, meaning it retained resource capacity even in the current tight market conditions which made it particularly attractive.

Thus, we decided to acquire Sumitomo Mitsui Construction based on an evaluation of four main points: its fundamental technological capabilities, its strength in overseas business, synergies with our high-rise condominiums, and the decline in valuation multiples due to its deteriorating performance. We were confident in our management decision when acquiring Japan Wind Development, and we are similarly highly confident in the success of Sumitomo Mitsui Construction acquisition.

Some online critics claim we made another expensive purchase, but we believe this was a fully justified TOB at a reasonable price. It is natural that there is a gap between the information visible from outside the construction industry and the insider analysis. Sumitomo Mitsui Construction is stronger than it appears from the outside. In any case, the results of the management integration can only be demonstrated through the stock price.

Concession as a Growth Model

There were concerns regarding the TOB, given that a previous attempt with Toyo Construction had failed. However, the acquisition of Sumitomo Mitsui Construction was successfully completed in September 2025. With the squeeze-out of the remaining shares finalized in December, Sumitomo Mitsui Construction officially became INFRONEER'S wholly owned subsidiary. The delay in the actual start date from May, when the TOB was announced, to August was due to reviews by overseas antitrust authorities.

As previously announced in the second and third quarter earnings reports, the year-end forecast ending

March 2026 has been revised due to the Sumitomo Mitsui Construction TOB. Revenue is now projected to increase 33% year-on-year to ¥1.131 trillion, with operating profit at ¥77.3 billion and operating income rising 48% year-on-year to ¥69.6 billion. For the fiscal year ending March 2027, when all of Sumitomo Mitsui Construction's figures will be fully consolidated, revenue is projected to exceed ¥1.3 trillion.

When meeting with investors during IR activities, I often sense that Japanese institutional investors, in particular, view asset businesses such as infrastructure operations as stable but having no precedents and not being so-called growth stocks. Of course, since INFRONEER is not a startup, it won't experience rapid growth. However, infrastructure is a medium-risk, medium-return asset. Considering that construction costs are rising due to inflation, it is possible to pursue two goals simultaneously: growth through new construction and stable income through concessions.

Additionally, excluding highly public concession rights such as roads and water/sewer systems, projects like renewable energy can be sold to external investors on a per-asset basis. In fact, they are ideal assets for long-term investors such as pension funds that favor low volatility, and I believe such sale cases will increase going forward.

I refer to the cycle of project structuring, operation, and sale as a “capital recycling”. Since we initiate these projects in-house as business investments, the profit margins are naturally higher than those of conventional construction projects. In other words, concessions contribute not only to stability but also to growth.

As I've explained so far, the TOB for Sumitomo Mitsui Construction was a significant management decision for INFRONEER. Honestly, I'm relieved we were able to complete the TOB successfully. However, unlike our previous acquisition of Japan Wind Development, this was a takeover of a peer company and one with ties to a former Zaibatsu conglomerate. The post-acquisition PMI (Post-Merger Integration) was quite challenging. Next time, I'd like to share what I learned and experienced through the PMI process.