

# [ Kibe-log ]

Director  
Representative Executive Officer  
President and CEO  
Kazunari Kibe

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## “PMI of SUMITOMO MITSUI CONSTRUCTION - The biggest hurdle in PMI is the mental barrier.”

Dear Stakeholders, this is Kazunari Kibe, President and CEO of INFRONEER Holdings Inc.  
Thank you so much, as always, for reading “Kibe-log.”

In the previous Kibe-log, I discussed the reasons behind our decision to proceed with the acquisition of Sumitomo Mitsui Construction Co., Ltd.. Looking ahead, it is certain that the domestic concession market will continue to expand. Of course, INFRONEER intends to aggressively win new projects; however, our engineering resources—including EPC (engineering, procurement, and construction) capabilities across the group—are not sufficient, and as things stand, we will not be able to fully capture the growing demand by ourselves. That is why we decided to acquire Sumitomo Mitsui Construction to supplement our engineering capabilities. We announced the TOB (tender offer) in May 2025, and it was successfully completed in September.

As for why we chose Sumitomo Mitsui Construction over other companies, I covered that in detail in my previous Kibe-log, so please refer to that.

However, an acquisition does not end with the completion of a TOB. A TOB is only the beginning, and what follows is the critical process of post-merger integration (PMI), which ultimately determines the success or failure of the deal. Even if the acquired company is highly complementary to our own business, if the PMI fails, the expected synergies and increase in corporate value cannot be achieved.

We began PMI with Sumitomo Mitsui Construction after the TOB was completed in September 2025. Although the TOB was announced in May, we were not able to engage in detailed discussions about financial performance or other sensitive information before the deal was finalized, due to insider trading regulations and confidentiality constraints. As a result, we moved forward with PMI in earnest immediately after the completion of the TOB.

## The integration effect reflected in increased dividends

During the PMI process, we established various working groups under the integration committee and engaged in intense discussions. These discussions were wide-ranging from sales activities and engineering and construction operations to branch operations, as well as corporate functions such as human resources, general affairs, and finance.

For example, in sales activities, we thoroughly discussed how to streamline the different sales practices used by each company and what could be done to generate synergies. There were also differences between the two companies in areas such as cost management and risk management. We have been working to integrate these by adopting the more effective approaches. In addition, we have been discussing the consolidation of regional branches, as well as collaboration in bidding activities and client negotiations.

In this context, client negotiations also include supporting Sumitomo Mitsui Construction in discussions with project owners regarding design changes and price adjustments, leveraging the know-how of the entire INFRONEER group. For example, MAEDA CORPORATION has developed strong expertise in concluding well-structured contracts with clients covering matters such as inflation and design changes since experiencing a loss in the fiscal year ended March 2008. We have been persistently negotiating based on those terms of contract through to handover a completed project.

As you all know, there are two ways to create synergy. One is aiming to capture the upside by growing profits through increasing sales. The other is improving efficiency by cutting unnecessary costs. For both, we are having discussions in four divisions: civil engineering, building construction, technical, and corporate, and are putting them into action wherever possible.

This work is still ongoing, and going forward, we plan to gradually advance PMI in overseas business and “de-construction” businesses as well.

For example, in overseas business, Sumitomo Mitsui Construction has many strengths and expertise. Therefore, we would like to learn from their approach and drive reforms in our business accordingly. This is an important point as I mentioned in my previous Kibe-log.

In the “de-construction” business, both companies will work together to expand the concession business that INFRONEER has been promoting and to advance the adoption of the cost disclosure method. The cost disclosure method is a cost-plus-fee contract structure in which the contractor discloses to the client all relevant costs, including its fees and labor costs, as well as payments to subcontractors and specialized construction firms. This method is a key element in resolving the conflicts of interest between investors

and contractors in “de-construction” business that we are promoting.

Now that we are one group, neither is above the other. We need to objectively assess each other’s strength and leverage them to expand synergies and strengthen competitiveness.

These results have already begun to materialize. INFRONEER raised its forecast for the annual dividend per share for the fiscal year ending March 2026 from ¥78 at the end of the second quarter to ¥92 at the end of the third quarter. This was largely driven by the company’s ability to generate profits exceeding initial expectations through PMI. While the dividend increase is a clear and tangible sign of integration benefits, continued progress in PMI initiatives—such as order intake and cost management—is expected to further strengthen INFRONEER’s overall business foundation.

## Underlying reasons why employees resisted the office integration

In this way, the TOB of Sumitomo Mitsui Construction has been progressing well so far; at the same time, however, I strongly feel the difficulties involved in PMI. In particular, there is a psychological barrier within the company being acquired.

Even before the TOB was completed, the management teams of both companies had been actively exchanging information. However, once the TOB was finalized and we moved into the PMI phase, there were moments of friction. Even when there was broad agreement at the management level, we were often asked to revisit certain decisions after they were taken back to Sumitomo Mitsui Construction, with feedback such as “There is resistance from employees.” or “It would be difficult to gain internal buy-in.”

Now that the management teams of both companies have built a relationship in which we can speak candidly with one another, I will mention such friction openly. One example was the integration of a branch office.

We believe that consolidating technical research centers and branches is a first step toward improving management efficiency. However, Sumitomo Mitsui Construction showed reluctance to consolidation noting that employees were strongly opposed to relocating to our building. One of the reasons for this resistance was that the building is owned by MAEDA CORPORATION, and that its name and signage prominently reflect the Maeda brand.

In other words, rather than INFRONEER, it likely felt as though they were being absorbed by MAEDA CORPORATION—a company in the same industry—which made them uncomfortable.

Of course, I fully understand those sentiments. Personally, I do not believe in the slightest that MAEDA CORPORATION is superior to Sumitomo Mitsui Construction. Maeda is still in the midst of management reforms. There remain many challenges to address. Moreover, there are not a few areas—such as high-rise residential construction and overseas operations—where Sumitomo Mitsui Construction is clearly better than us. That is precisely why we chose Sumitomo Mitsui Construction as our partner for the business integration. However, it is clear to anyone that the ownership or name of the building is not the real reason behind their reluctance to proceed with the office integration.

Once the management teams of both companies have reached an agreement and the TOB has been completed, it is essential to set aside pride and ego and become fully unified as a single group. In order to reach a higher level, both companies should think creatively and work together to find the best way to climb the mountain ahead of us.

Regarding office integration, we were able to proceed in that direction, as consolidating operations was the more rational way. However, similar situations arose in various other areas beyond office integration as well.

## Uncertainty and pride as psychological barriers

Ultimately these psychological barriers stem from uncertainty and pride. Uncertainty refers to concerns about what the future holds, while pride reflects a resistance to bow down to others.

Therefore, we undertook various initiatives.

From the perspective of alleviating uncertainty, we visited branches and project sites across Japan and overseas and held town hall meetings, covering not only Sumitomo Mitsui Construction but all group companies within the INFRONEER Group. We held 2–3 hour lunch meetings with younger employees, and in the afternoon we conducted 4–5 hour sessions with mid-level employees and senior managers. In these sessions, we shared INFRONEER’s management strategy and my own thinking frankly and engaged in open, two-way discussions.

During the lunch meetings, I try to spend at least 15 minutes in conversation with each employee individually. In the afternoon session, we hold approximately three hours of discussion, followed by a standing reception where I also directly respond to employees’ questions. In fiscal year 2025, we held town hall meetings in 17 locations, including overseas sites (the 18th session is scheduled to take place in the Philippines at the end of this month).

At the town hall meetings, a wide range of questions were raised by employees. From employees of Sumitomo Mitsui Construction, we received candid questions such as, “How can I increase my salary?” and “Will there eventually be a merger?” Questions that can be answered on the spot are addressed immediately. If there is not enough time, I provide responses later along with Q&A publicly.

I try to make a point of answering such questions as specifically as possible, without vague or evasive language.

For example, in response to the question, “How can I raise my salary level?”, I explain clearly: “At INFRONEER, compensation is linked to each company’s profit per employee (more precisely, value added based on our internal metrics). Therefore, if you generate profits beyond what you have committed to, your compensation will increase regardless of the overall company’s scale of revenue or net profit. In the end, it is determined by the numbers—specifically, value added per employee.”

In response to the question, “Will there be a merger?”, I answered as follows: “The holding company structure has its own advantages, and at this point, we are not considering a merger. For now, we would like each company to fully pursue the benefits of having multiple businesses in the same industry under a holding company structure. We will evaluate the results of its holding company structure over the next two to three years.”

Of course, there are matters we cannot discuss due to insider regulations, but within those constraints, I make a point of addressing their questions directly and responding sincerely. I believe that there is no way to alleviate uncertainty other than by continuing this kind of dialogue.

Other initiatives can help alleviate concerns such as by making board meeting minutes accessible to all employees across the group, livestreaming decision-making meetings involving executives from both the holding company and operating companies via the web, responding to media interviews, and discussing management strategy on YouTube.

Pride, another “psychological barrier” is somewhat difficult to handle but, I believe the only way to address it is to consistently show respect to the other person.

As I mentioned earlier, I do not think that MAEDA CORPORATION is superior or that Sumitomo Mitsui Construction is inferior. Each company has its own strengths and weaknesses, and by complementing each other, I think we can achieve results greater than “1 + 1 = 2.” As I truly believe this, I will communicate it accordingly.

I have also repeatedly told MAEDA CORPORATION that they should avoid any remarks or behavior that could be perceived as condescending, and that they should listen carefully and sincerely to what Sumitomo Mitsui Construction has to say.

I do not think it is a bad thing for group companies to compete with one another, as long as they do so with mutual respect. The key is to compete fairly and be evaluated fairly. Internally, we may compete, but externally we must present a united front. I believe this constructive tension is what creates a stronger group.

I myself have listened sincerely to the management team of Sumitomo Mitsui Construction and have respected their views. At the same time, however, I have clearly said no when something could not be accepted or when it did not make sense from a rational standpoint. As a result of continuing this approach, I feel that many of the psychological barriers between us have gradually been reduced.

Above all, I believe the most effective remedy for removing psychological barriers is to deliver results.

It happened at the reception following a recent town hall meeting. An experienced male employee came up to me and said, "Thank you. Thanks to you, my salary has increased, and my whole family is very happy."

I thought I recognized him from somewhere, so I asked his name. It turned out that he had been one of the leading voices opposing Maeda Road Construction's transition from an equity-method affiliate to a wholly owned subsidiary when MAEDA CORPORATION conducted its tender offer for Maeda Road Construction. I jokingly said, "You were against it at the time, weren't you?" He laughed and replied, "Yes, I really wasn't happy about it at the time. I'm sorry about that."

Of course, it is not as simple as saying that criticism disappears when salaries go up. However, if the direction we are pursuing is the right one, uncertainty and unproductive pride will naturally fade away. To achieve this, it is essential to clearly communicate the vision and strategy to employees, and to put commitments into concrete actions.

I was the General Manager of the Corporate Planning Department in the Corporate Management Division when MAEDA CORPORATION fell into the red in the fiscal year ending March 2008. At that time, the company did not have a sufficiently strong sense of accountability for the figures it had committed to in its plans, and this was one of the factors that led to the loss. Since then, we have been working on various initiatives to transform the company into one that takes full responsibility for its commitments.

With regard to this integration as well, we will make sure that everything we commit to is delivered.

I hope you will look forward to the new INFRONEER.