Outside Directors Roundtable

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Supporting the Group's Rapid Growth

Outside directors reflect on the three years since the establishment of INFRONEER

INFRONEER's History and Prospects

Redefining Business Domains to Create Innovation

Hashimoto: Since its establishment in October 2021, INFRONEER has made steady progress toward becoming an integrated infrastructure service company. To take on challenges in uncharted territory, we chose to become the first firm in the construction industry to adopt the institutional design of a company with a nominating committee, etc., and we have worked to ensure appropriate risk management through a sophisticated governance structure. The clear separation between corporate management by directors and business execution by executive officers has led to faster decision-making in management. We outside directors along with other directors are able to concentrate on discussing important management decisions.

Delisting the three business companies and at the same time listing the holding company was aimed to create a structure that would enhance the holding company's centripetal force while allowing the business companies the freedom to exert centrifugal force. In addition to active dialogues between management and employees, personnel exchanges between the holding company and business companies were encouraged to generate synergies as a Group in improving our profitability and technological capabilities and expanding our customer base.

Yonekura: The INFRONEER Vision 2030 (Medium- to Long-term Business Plan) sets out management targets of ¥100 billion in business profit, ¥70 billion in net income, and 12% ROE for FY2030. These figures would be difficult to achieve if we were to focus on the conventional "construction" business. It is important to manage from a long-term perspective rather than let ourselves get caught up in short-term results. While many Japanese companies tend to narrowly define their business domains, the INFRONEER Group has boldly taken on the challenge of changing its business domain from "general contractor" to "integrated infrastructure service company" and has declared that we will make the leap to the global level. To achieve this, we will first need to develop human resources from a long-term perspective and expand our business with a sense of speed.

If the value created by the Group is positioned not within the conventional framework of a general contractor but instead within the context of infrastructure development encompassing both hardware and software, we can indeed become a savior in developing countries as well as in regions devastated by war and conflict.

Moriya: The speed with which we established a holding company—six months instead of the normal one or two years—was exceptional. Although there were some challenges at the beginning, we have spent three years putting in place a group management structure, and we are now at a critical point for growth.

To achieve our goal of ¥100 billion in business profit in FY2030, even outside directors must know what is happening on the front lines. I myself come from a manufacturing background, so whenever I have the opportunity, I try to get a better understanding of operations by listening to the views of frontline employees. Visiting the front lines in person lets me see what is lacking and what issues need to be addressed. I believe it is the role of directors to ascertain the issues troubling on-site personnel and then resolve them from a management perspective.

Pursuing Dialogue with the Market and Striving to Improve PBR

Murayama: I come from a financial background and have been watching the construction and real estate sectors as an analyst. Based on that experience, the past three and a half years since the decision to establish a holding company have produced a series of positive surprises. The construction sector is typically viewed as having a lockstep mentality and comprising conservative companies dependent on domestic demand, but the INFRONEER Group hopes to grow beyond the general contractor framework.

Our 2030 targets will be pipe dreams if we remain in the general contractor business. However, we are getting closer to realizing the targets by having taken up the challenge of changing our business domain with a sense of speed that we could not have imagined when we established the Company, extending our reach beyond civil engineering, building construction, road civil engineering, and machinery into infrastructure operation and even adding Japan Wind Development Co., Ltd. (JWD) to our Group. Our employees are taking on really tough challenges, and I would like to encourage them to believe that we are doing such a great job in terms of changing business domains in an old-fashioned industry that we may be featured as a case study in a future issue of a highly respected business magazine.

Takagi: Although we achieved record profits for FY2023 (ended March 31, 2024), a sense of crisis has crept into the minds of outside directors and the rest of the management team overseeing company operations. Our stock price, somewhere in the 900-yen range when the Company was founded, is now in the 1,200-yen range (as of the date of the roundtable), but the PBR is around 0.8, well below 1.0, meaning that INFRONEER's performance has not sufficiently met with the market's approval. We need to reach our numerical targets step by step to achieve our goals for FY2030 and increase our corporate value. We must seek out dialogue with the market through IR activities and other approaches and actively communicate the Group's initiatives.

Welcoming JWD into the Group

JWD Is an Important Piece in Our Future Growth

Hashimoto: JWD became a new addition to the INFRONEER Group in January 2024. We felt that JWD would play an important role in our Group's future growth. The acquisition cost of over ¥200 billion elicited a variety of opinions but, in the end, the directors unanimously approved the acquisition. It is no easy thing for a single business company to realize an M&A of this scale, which was only made possible by the entire Group's financial strength.

The addition of JWD has dramatically increased the options available in our quest to become an integrated infrastructure service company. I would like to see the Board of Directors discuss how best to allocate management resources for the Group's growth.

Takagi: Speaking from my experience as an analyst in the construction industry, what I want to convey to investors is that valuations in the construction business cannot be raised by pursuing design, procurement, and construction. The renewable energy business will be an important piece in raising long-term valuations, and we believe that the acquisition of JWD was an absolutely necessary investment for our quest to become an integrated infrastructure service company.

Yonekura: The 21st century is an era of SDGs in which companies are required to achieve both global environmental conservation and sustainable growth. Continuing to grow as a company while protecting the global environment and contributing to the growth of developing countries is an area where Japanese companies can demonstrate their strengths.

I didn't expect we would make a move to acquire JWD, but in view of the difficulty of creating a new business model for an infrastructure business from scratch, this M&A was truly about buying time (speed) and environmental technology. When carrying out M&A, it is important to integrate corporate cultures and climates after the acquisition. We feel that our Group, with its diverse lineup of companies, will be able to make this integration work.

Murayama: From the perspective of risk and return, I think there is, of course, some risk involved in this large-scale acquisition. However, as the saying goes, "No risk, no reward." In the big picture of integrated infrastructure services, JWD is an element that has never existed in our Group before, and I felt we should acquire the company even if it was a risky move.

The ability to minimize M&A risks and maximize integration benefits depends on post-merger integration. The scope of integration covers all processes related to integration, including management, operations, and mindset. I believe as a director that management must consciously consider with a strong sense of urgency how best to integrate JWD into the Group.

Listening to the views of its employees has made me realize that JWD is a very diverse company. The majority of its employees are mid-career hires with a variety of abilities and experiences. I look forward to JWD increasing our Group's diversity in the future.

Highlighting to the Market the Future Growth Potential of Our Expanded Business Domain

Moriya: The acquisition of JWD is not an end but a beginning.

The key to success lies in rolling up and improving the corporate value of not only JWD but of the INFRONEER Group as a whole. We must raise funds for new M&A and other growth strategies by enhancing corporate value and generating cash.

M&A will become increasingly important when breaking into the global market. In this sense, determining how best to grow JWD will be the first touchstone.

The current stock price shows me that we have not yet conveyed to investors the corporate value of JWD, and we need to prove that we were right by delivering robust results to achieve our goals for FY2030.

It is vital that we explain more concretely to investors that JWD is a key element in our growth as an integrated infrastructure service company and that it will ensure the generation of operating profit and cash, thereby increasing the corporate value of the entire Group. For example, we must show how long it will take to recover the ¥200 billion invested in the acquisition.

Takagi: I myself have a different take on the stock price. The Company's stock price slumped after it issued convertible bonds (CBs), but the stock price did not react negatively when we made JWD a wholly owned subsidiary. The stock price was probably affected by concerns about a dilution of earnings per share from future increases in the number of stocks to finance the acquisition through CBs. I believe the market has given a reasonable assessment of the M&A.

Institutional investors review their investments on a quarterly basis even when holding stocks for the long term, and they really cannot wait three or five years for an acquisition to pay off. Nevertheless, we are aiming to become an integrated infrastructure service company with a longer-term time frame. We need to communicate this message by engaging in dialogue with the market carefully and repeatedly while making steady profits.

Initiatives to Strengthen Governance

Strengthening Group Governance via an Internal Control System

Hashimoto: From my standpoint as Chairperson of the Board of Directors and concurrently Chairperson of the Audit Committee, I can say that monitoring through the internal control system is first and foremost of utmost importance for group management. For this reason, we conduct annual reviews of the internal control system itself and constantly strive to improve it.

While speedy management is crucial, it is also important not to delegate so much authority to the executive side that management cannot get an overall picture of the business. It is essential to monitor whether business operations are being managed strictly within the defined scope. From this perspective, we switched during FY2023 to a system in which the Corporate Audit Department double-checks the business execution reports of executive officers. I do not think many companies have adopted such a system.

Yonekura: At Nominating Committee meetings, the topic of how to develop human resources comes up before discussions of who will become the next management executive. I also think it is a good point that the Company is able to discuss return as well as risk in its strategy for the future rather than simply emphasizing and containing risk via auditing.

I believe that a spirit of company loyalty, in other words "the camaraderie of being in the same boat," is an extremely important factor in the growth of a company. The introduction of the Employee Stock Ownership Plan (J-ESOP) as a mechanism for employees to share in the fruits of their contributions as reflected in the stock price is thus a positive initiative for enhancing employee engagement.

Developing Core Talent Using the Succession Plan

Moriya: I serve as the Chairperson of the Nominating Committee. The committee's principal roles are to (1) deliberate and report on the selection and dismissal of directors, representative executive officers, and executive officers, and (2) prepare and implement a succession plan. A succession plan formulated over the past fiscal year was put into effect in April 2024.

A company's first priority is to develop its human resources. I try to attend as many in-house training sessions as possible to talk with potential candidates for the next Board of Directors. A company's growth depends on how many core personnel it can retain. I hope that the Company will make good use of the succession plan to nurture the next group of executive candidates and that these candidates will learn management skills while maintaining their sense of loyalty to the Company.

On the other hand, we are also opening up external routes to acquire human resources who are in short supply within the Company. We will continue pursuing human resource development and even explore the possibility of allowing new hires from outside to take on management responsibilities in the future.

Murayama: We are changing our compensation system to a performance-based system to incentivize outstanding human resources, and we will continue reforming the system to motivate employees. Young executive officers and general managers are emerging, and we are adopting a system that allows employees of the same age to receive different salaries based on their work performance. A plan for human resource development centered on the Nominating Committee has been put together, and the entire Company is working together to develop the next generation of executive candidates. We have put considerable effort into creating a system in which employees can take the initiative to change the Company.

Nevertheless, we feel that employee diversity is still lacking. The ratio of female managers is low at 8.3% (non-consolidated). The construction sector has always had few women but I expect this will change with more active external recruitment and intra-Group exchanges, and we will continue to focus on promoting diversity.

Takagi: The Compensation Committee that I chair recognizes that fostering a profit growth mindset among the management team is a key issue. To foster such a mindset, we have considerably reduced the ratio of fixed compensation and increased that of variable compensation.

Few companies in terms of company size and profit scale have total compensation packages featuring such a high proportion of variable compensation. The same holds true for the compensation of employees as well as management. I hope our committee will continue examining our compensation system in greater depth.

Initiatives Necessary for the Group to Ensure Perpetual Growth

Charging Ahead under the Banner of Creating the Future of Infrastructure

Hashimoto: Our Group has truly taken on numerous challenges. I see my role as an outside director as being to make sound judgments on whether to support or restrain management in what it seeks to do. Management is all about how to allocate people, goods, and money.

Auditing is an important anchor in corporate management. The Audit Committee is discussing the creation of a system that enables management audits as well as operational audits designed to improve operations. We need to strike a balance so that we can step on the accelerator as well as the brake.

A major change from the past relates to cybersecurity. If something goes wrong, the Company could suffer harm and the entire Board of Directors could even be charged with a breach of its duty of care. The time has come for audit organizations to bring on people familiar with computer systems.

Yonekura: Now that we have hoisted the banner for becoming Japan's first integrated infrastructure service company, we should commit to this goal and create the future of infrastructure. Entering the global market will also become a necessity. For example, Japan's world-class sewerage systems are the envy of many countries. The same is true of concession projects in countries where demand for funds is tight.

The human resources needed to compete globally and the ways we recruit them will change completely. For example, ChatGPT generative AI is more revolutionary for its wide range of applications than for its own functions. The construction and infrastructure industries also need a large number of people who can apply new knowledge, and companies that fail to continue being attractive to such people will find themselves unable to secure quality human resources. We must continue raising our banner in the direction we are seeking to advance so that we can attract human resources from all over the world who share INFRONEER's philosophy.

Moriya: As we aim to ensure permanent growth for our Group, what we as outside directors who have been with the company since its establishment can do is lay the foundations and make preparations for the next step in growth. Our next goal should be to make JWD's business a success and increase our value as a Group; if we invest the cash generated in M&A and other activities in Japan and overseas to further increase the Group's corporate value, we will be able to clear the path for our growth strategy. I believe it is our job to pass on such achievements to the next generation.

Murayama: We must undertake the transformation of business domains with an eye to growth and tie this effort to increased corporate value. This will necessitate having a diversity of people who can actively exchange opinions, making it important most of all to foster a corporate culture in which a diverse workforce can thrive.

Takagi: This year marks the 10th anniversary of the publication of the "ITO Review," a proposal by Professor Kunio Ito of Hitotsubashi University to improve the value of Japanese companies. Some companies were previously managed with no consideration for such indicators as PER, PBR, and ROE, and I feel that the approaches taken by corporate management have changed dramatically over the past 10 years.

I believe that the role of outside directors is to enhance corporate value. While each stakeholder has a different view of corporate value, we cannot overlook the fact that our PBR is well below 1.0. We need to engage more with investors so that our company can be evaluated as a completely new type of company offering integrated infrastructure services.