

26 August, 2025

Q & A on Q2 FY2025(63rd Term) Financial Results Presentation

Date and time: 22 August 2025 (Fri) 14:00 - 15:00

Answered by:

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What is the specific reason why the Operating Income decreased by 12% YoY?

The main factor is an increase in SG&A expenses. The details of the SG&A increase include an increase in national insurance employer contributions and the provision for professional liability insurance at Waterman Group Plc and an increase in labor costs in the administration and marketing departments, outsourcing fees related to DX, and system usage fees at CTI Engineering. Additionally, the deterioration of the cost of sales ratio in some projects is another factor. In multi-year projects, the deterioration of the cost of sales ratio due to extension of the project period and rework caused by operational errors had a temporary impact.

Over the past year or two, it seems that the gap in the performance between Q1 and Q2 has been significantly wider. After the accounting standard was changed from the completed-contract method to the percentage-of-completion method, the performance fluctuations stabilized, however, are there any changes recently?

The overall trend has not changed. Many public sector projects are scheduled to be completed in March, but recently, there has been an increase in the projects with earlier completion.

In addition, the Japan Civil Engineering Consultants Association has requested that the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) to balance workloads by reducing the number of projects scheduled for completion between January and March in order to establish two peak periods: one from September to October and the other from January to March.

Orders Received were intentionally reduced in the previous fiscal year due to issues relating to the working environment and quality. However, in the current fiscal year, Orders Received have recovered through Q2. Looking ahead, will Orders Received be reduced again in consideration of the working environment and other factors?

Currently, we are not considering reducing Orders Received. We think Orders Received should be reduced when sufficient resources cannot be secured, as this may lead to errors and an increase of workload. However, if resources are available, we will receive orders according to the Business Portfolio Transformation.

As working hours are gradually decreasing and productivity is gradually improving through DX, we will accept Orders Received in consideration of securing the resources and the concentration of workloads.

You mentioned that there have been delays in multi-year projects. If the project period of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) is extended, what is the impact to the profitability? Does this lead to a decline in profitability?

The number of projects with long period has been increasing, and we accept Orders Received in consideration of the remaining internal costs and the resources required, to ensure that profitability does not deteriorate. We are discussing that longer project period would create more capacity, enabling us to accept more Orders Received. However, there are some multi-year projects in which rework has occurred, resulting in a deterioration of the cost of sales ratio.

Are Orders Received from local government in the domestic consulting business received by CTI Engineering alone or by its subsidiaries?

With the prospect of allocating budgets to local governments, do you have capability to expand into more local government projects?

Many orders are received directly by CTI Engineering. Water & Sewerage Division received orders from local governments increased by 150% YoY, and Urban Planning and Disaster Mitigation Division receive many orders as well. On the other hand, we are working with regional subsidiaries for the projects which require human resources on site, such as the case of Noto earthquake disaster, flood disaster and comprehensive management, and will continue to do the same in the future.

In the Overseas Business, Waterman Group Plc has a lot of multi-year projects with fixed price at the time of the contract, and it seems that profits will decrease if personnel costs rise. Based on current situation, is it possible to negotiate price revisions in the future?

It is possible to negotiate with clients if prices rise.

One of the reasons for the decline in the profitability of overseas business is that the transfer of the personnel costs at the engineer secondment business of Waterman Group Plc has not been successful due to the economic environment in the UK. In addition, it is necessary to secure a certain number of engineers regardless of whether there is a secondment contract or not, which leads to a deterioration in profitability. We are currently working on improving these issues. We assume that orders from public sector may resume and will secure human resources in consideration of the change policies of Labour government.

As for the private sector, we think it is necessary to increase profitability, so we will promote streamlining to reduce costs.

In order to promote the Business Portfolio Transformation, what kind of meetings and members are involved, and what kind of analysis and discussions are taking place?

What is the position of overseas business in the business portfolio? Do you monitor by each subsidiary or others?

In terms of Business Portfolio Transformation, we categorise business into three stages: early, grow, and mature. We will actively invest in CM/PM and Information Services, which we have positioned at a growing stage in order to make them our next core business due to high profitability. We are also discussing how we promote the business in early stage, such as Water PPP Business, into growing stage over 10-year span. These discussions are held approximately every two months at the Mid-Term Management Plan Promotion Committee meetings. The meeting members consist of the President, the Executive Officers in charge of business sector, and business unit managers. Discussions are focused on capital efficiency, such as profitability and Human Capital ROI (*).

In Overseas business, we have monthly regular meetings to monitor business status of Waterman Group Plc and CTI Engineering International. Since the growing opportunity of Consulting Engineer is limited in domestic business, we believe it is necessary to expand our business to overseas market. Profitability is an important indicator, and we evaluate businesses in each country. For example, Ireland is more profitable than the UK. Also, we are considering M&A opportunities. For example, Australia is highly profitable from an industry-wide perspective.

(*) Human Capital ROI: Return on investment in human capital. An indicator that shows how much investment in human capital has contributed to increased revenue and value.

What is the cause of the deterioration of the cost of sales ratio in the domestic business? Can we expect the cost of sales to improve including the issue of rework and to grow steadily by 2027 as the final year of the Mid-Term Management Plan?

The deterioration in the cost of sales ratio was due to excess personnel costs resulting from rework caused by errors. According to the Mid-Term Management Plan, we aim to achieve steady growth in domestic business.

We understand that your investment in the venture fund was to gather information that could be leveraged in your business, such as acquiring new technologies. What benefits have you gained from this investment? Was the purpose of this investment to generate ideas for future proposals or to propose new technologies to public sector clients?

The objective of our investment in the venture fund is to acquire synergies and new technologies from a long-term perspective of 10 years.

Past achievements include the commercialisation of the Laser Hammering System and the system that uses AI technology to detect sewer infiltration/inflow during rainy weather. Currently, profitability is not good, but we are actively developing technologies that aim for synergy with technologies from other companies.

AI team at Institute of Research Center for Sustainable Societies is also in charge of developing new technologies to the public sector. The results of the venture investments will be proposed to a wide range of clients including private sector as new businesses.

Please provide details of the burden of national insurance employer contributions at Waterman Group Plc and the prospect of their transfer to prices.

It is difficult to provide specific numbers for the national insurance employer contributions as it is a complicated calculation based on individual compensation.

In the engineer secondment business, we will transfer the costs to clients when the contract is newly made or renewed. In the consulting business, it is difficult to transfer the costs for existing projects, but they will be reflected in the prices for new orders.

As transferring is being made gradually, it will take time, but profitability is expected to improve. As this is a UK government policy, this is not the only case for Waterman Group Plc.