CTI Engineering Co., Ltd.

March 2, 2026

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

Date and time: February 26, 2026 (Thu) 14:00 - 15:00
Answered by:
Tatsuya Nishimura, Representative Director and President, CEO
Naoto Suzuki, Director, Senior Managing Executive Officer and Planning & Business Development Headquarters General Manager
Toshikazu Matsuoka： Director, Managing Executive Officer and Administration Headquarters General Manager

* The number of pages shown below in the question is the number of pages of" "FY 2025(63rd Term) Financial Results and Progress of Mid-Term Management Plan 2027" posted on the IR Library on our website.

In the Overseas Business, it was mentioned that the transferring higher costs to clients in the UK was one of the issues. What is the current status?
Also, what is the plan for the integration of Waterman's UK consulting business?

In the UK, we are currently negotiating to transfer increasing personnel and increased National Insurance contributions costs into consulting fee, and we have achieved this in some areas.
Regarding the integration in the UK, our strategy is to streamline Waterman’s various business segments, such as Structure, Building Service, Civil Engineering, into a single, unified organisation. We aim to reduce SG&A expenses by consolidating administrative departments.

In the Domestic Business, it is mentioned that Orders Received were being managed to prioritise securing a stable operation in 2024.
Now that Orders Received increased in 2025, could you explain your evaluation and current outlook on your engineering capacity?

Regarding the operation, we have successfully secured the necessary engineers as planned, and working hours have decreased compared to the previous period.
We are targeting Orders Received at a level that balances our objectives with manageable workloads, and we are no longer restraining Orders Received.

Operating Income was nearly 900 million yen behind the plan.
We assume that SG&A expenses are main factor.
Could you explain the reasons why SG&A expenses exceeded the plan by 900 million yen, as well as provide a breakdown of the one-time costs in detail?

The shortfall in Operating Income was due to both increased SG&A expenses and a delay in securing large-scale orders at CTII. This resulted in downtime for engineers, which pushed up the Cost of Sales ratio and impacted gross profit through the end of the period.
The increase in SG&A expenses was driven by one-time costs, including a decline in the utilisation rate for overseas business (approx. 150 million yen), M&A-related expenses (approx. 100 million yen), and PI insurance costs (approx. 100 million yen). Additionally, recurring costs such as system licensing fees increased following recent headcount growth.
The reason why the lower utilisation rate in overseas business affects SG&A expenses is that in Waterman's

secondment business, the downtime of engineers is recorded under SG&A expenses.

Working capital, especially accounts receivable, appears to account for a significant portion of total assets.
Given your business model is concentrated on public sector projects, these receivables can be viewed as temporary funding provided to national and local governments.
If your cost of capital is recognised at 8%, it implies that equity with an 8% cost is being utilised as working capital. Considering that bank loans could provide funding at interest rates lower than your cost of capital, what is the rationale for carrying this working capital on the balance sheet using equity rather than leveraging debt?
In addition, please explain your perspective on why ROE has not reached your target level.

We believe that the main reason for the decline in ROE is the decline in profitability and the impact of extraordinary losses, despite our efforts in increasing shareholder returns.
Our immediate focus is on securing profitability and investing in growth rather than just shifting our capital structure.
However, we recognise the need for better capital efficiency. We plan to address this by streamlining our net assets and ensuring our investment management is focused on capital returns.

The balance of Orders Received carried forward has increased compared to the previous period.
While we expect this backlog to drive growth in Sales and profitability in the next fiscal year, how do you evaluate the profitability of projects when securing new orders?

The accumulation of our order backlog is expected to contribute to both sales and profit growth.
We do not take on new projects that lack sufficient profitability unless they offer significant strategic potential for the future. To ensure this, we hold Risk Assessment Committee for new orders. In this meeting, we comprehensively evaluate various risks, including profitability, before deciding whether to participate in the bidding.

Is the reason for the strong Orders Received in the overseas business due to a recovery of orders in the UK as market conditions change?

The main reason for the strong performance of Orders Received in the overseas business was the award of a large project by CTII.

Regarding the decline in profitability of overseas business, what specific initiatives are you taking to improve the cost of sales ratio and increase utilisation ratio?

There are some initiatives at Waterman.
Minimising time from signing of the contract to the commencement of work for consulting business and timely recruit in accordance with client's requirement for secondment business are required.
As for CTII, we are improving the utilisation rate by having engineers work on domestic projects while they are not assigned to the project.

Information services in Growth Areas are performing well. Could you explain any specific factors?

In the Information service business, we provide ICT/DX-related services, such as flood risk prediction systems and AI-based dam operation support.
We believe that the R&D using AI at our in-house Research Center for Sustainable Societies, which we have been conducting for several years, has begun to match the needs of the market and begin to materialise.

Could you explain why Orders Received from local governments increased by 4 billion yen compared to the previous period?

Local governments include Orders Received from prefectural and municipal governments.
In prefectures, there is an increasing trend toward the comprehensive evaluation method, which is based on technical competition. This has created an environment in which our technical strengths allow us to participate and receive orders more effectively.
Regarding municipalities, we are proactively offering proposals that support the client's perspective, addressing the ongoing shortage of engineers.

Regarding the position in the industry by business sector in the supplemental material (page 61), the data is provided based on 2024 results. Could you provide your outlook for 2026?

The Sewerage sector was particularly strong in terms of Orders Received, and we expect our ranking is likely to improve.

The Road sector also has the potential to move up in the ranking, as we have ranked the second position in the past.

We don’t anticipate major shifts in our ranking for the other business segments.