



KUMAGAI

KUMAGAI GUMI

Initiatives to Enhance Corporate Value

Management that is conscious of cost of capital and stock price



Initiatives to Enhance Corporate Value -1

Basic approach

- The Company recognizes that our most important management mission is to achieve sustainable growth and enhance corporate value over the medium to long term.
- We are working to achieve a good balance between financial soundness and capital efficiency.
- In business investment, we make optimal business decisions based on the cost of capital as a hurdle rate.
- We pay appropriate and stable dividends and purchase and retire treasury stock to increase shareholder returns and improve capital efficiency, while being conscious of the stock price.

Strengthening profitability

Profitability estimated at the time of **receiving orders will improve significantly** from FY2023 onward. **The positive impact on business performance will be seen by FY26.** The negative impact of unprofitable construction works is expected to be mostly resolved by the end of FY2024.

Basic Policy-1



Strengthening construction business
Strengthen the core construction business and increase profitability.

Basic Policy-2



Accelerating peripheral businesses
Accelerate construction peripheral businesses positioned as a growth area and create solid revenue sources.

Basic Policy-3



Enhancing management base
Further strengthen the foundation that supports management and enhance the effectiveness of business development.

Thoroughly strengthen profitability and customer appeal while accelerating peripheral businesses. Aim for management with multiple revenue streams.

Efforts to engage in positive dialogue with shareholders and investors

- We will **allocate internal resources** appropriately to establish a system that further strengthens our IR activities. We **Strengthening department dedicated to IR.**
- **Management** will proactively participate in dialogue with **shareholders and investors** and will communicate directly with them.
- **Outside Directors**, who are responsible for overseeing management, will engage in **dialogue with shareholders and investors** regarding the current state of governance and related issues.
- To enhance the disclosure of our dialogue status, we will disclose **the themes of dialogue in our integrated report and on the corporate website**, which will encourage further engagement. (We have been disclosing the number of dialogues, participants, and feedback on the corporate website and in corporate governance reports.)
- **Opinions, requests, and other information from shareholders and investors** obtained through dialogue **will be fed back to members of the Board of Directors and relevant divisions.** (We consulted opinions gathered from our dialogue when considering the shareholder return policy, capital policy, and investment strategies in the Medium-term Management Plan [FY2024-FY2026]).
- The Company will actively engage in **dialogue with investors** as part of its **ESG and SDGs strategies** revised in FY2024. We will proactively exchange opinions with them on business performance trends, management strategies, and shareholder returns, as well as environmental and social issues and corporate governance initiatives.
- We will create **a disclosure policy, including an IR policy**, and promote the Group's proactive approach to **information disclosure and IR.**
- We will provide financial information and **timely disclosures in both Japanese and English** simultaneously for **fair disclosure.**

Initiatives to Enhance Corporate Value -2

Statues of Dialogue with Shareholders and Institutional Investors

As in the previous fiscal year, the Company took steps to expand the opportunities for dialogue, such as holding individual meetings and conference calls with shareholders and investors in Japan and other countries using online tools, arranging small meetings, financial results briefings, and participating in investor conferences.

Additionally, as part of our efforts to enhance systems and initiatives for promoting constructive dialogue with shareholders and investors, we have appropriately allocated internal resources by strengthening the dedicated IR department. The status of these implementations has been disclosed on our corporate website and in the corporate governance report.

3-Year (FY2024-FY2026)Targets and Performance

Rate of increase in number of participants in financial briefings
(compared to previous FY)
10%

Performance in FY2024
Rate of increase
34.4%

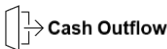
FY2024	Number of times	Main communicators
Small meetings	6 times	President, and departments in charge
Individual meetings	107 times	President, officers in charge, and departments in charge
Shareholder relations meetings	16 times	Officers in charge, and departments in charge
Financial results briefing	2 times	President, officers in charge, and departments in charge
Conference hosted by a securities company	1 times	President, officers in charge, and departments in charge



A dialogue between the President and Representative Director and institutional investors

Item	Main themes of the dialogue
Construction business environment	<ul style="list-style-type: none"> •Orders received and profitability of the orders •Factors for improving the profit margin of domestic Civil Engineering business and its sustainability •Factors for a decline in the profit ratio of domestic Building Construction business and improvement measures •Background of the earnings revision and accuracy of the revised disclosed values •Provision for loss on construction contracts that has been recorded •Causes of loss in construction work and completion timing •Current picture and outlook of construction costs such as material cost and labor cost •The situation regarding the passing on of increased cost and the incorporation of escalation clauses into contracts •Status of Securing Partner Companies and Supply-Demand Balance •Current picture and outlook of the business environment
Construction -related peripheral businesses	<ul style="list-style-type: none"> •Statuses of the Iidabashi Redevelopment Project and real estate investment •Prospects for purchase of SEP vessels and offshore wind power generation projects •Investment plans and progress, efforts to improve investment execution capabilities
Business and capital tie-up	<ul style="list-style-type: none"> •Initiatives taken on medium- and large-scale wooden construction projects •Measures to increase synergy with Sumitomo Forestry Co., Ltd. •Approach to cross-shareholdings
Capital policy and returns to shareholders	<ul style="list-style-type: none"> •About Medium-Term Management Plan (FY2024-FY2026) •Approach to optimal debt capital structure •Approach to the level of equity ratio and additional return •Background of the dividend policy and the introduction of the interim dividend system
Sustainability and governance	<ul style="list-style-type: none"> •Human capital management •Measures taken against the 2024 problems (application of upper limit on overtime work) and their impact •ZEB, GX market, and Black Bark Pellet, a decarbonized biomass fuel •Background for transitioning to a company with an audit and supervisory committee •The status of the reduction of policy-held stocks and the policy for further reduction

Initiatives to Enhance Corporate Value -3



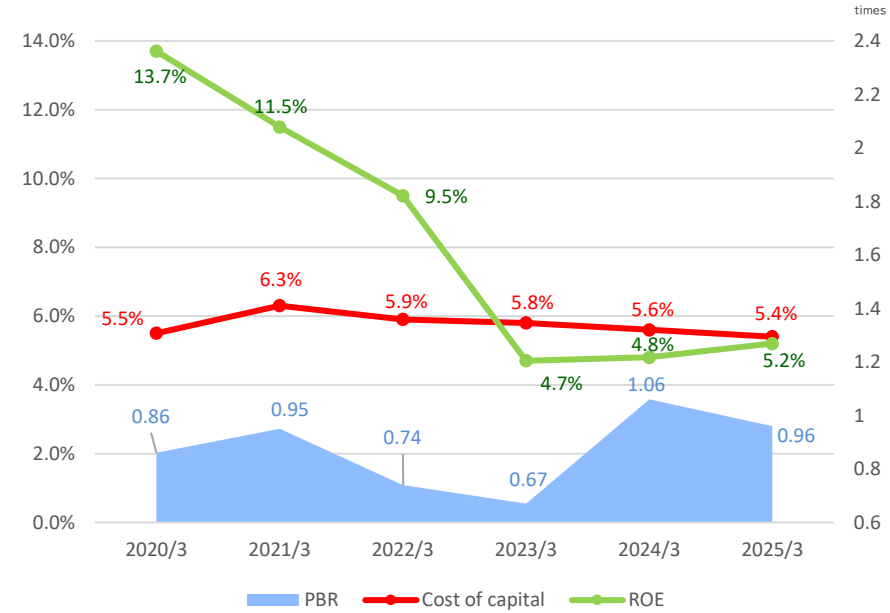
Current status of cost of capital and measures to enhance capital efficiency

- **Cost of capital**: Recognized as **around 5%** (CAPM)
- **Capital efficiency**: **ROE10% or more**(FY2026)
Equity ratio of approx. 45%
(Striving to balance financial soundness and capital efficiency.)
The Board of Directors has adopted a resolution on initiatives to further **reduce cross-shareholdings.**
- **Profit allocation**: **Dividend payout ratio of approx. 40%**
(Our basic policy is to return profits in a reasonable and stable manner.)
- **Purchase of treasury shares**: We will flexibly consider additional returns, including the purchase of treasury shares, depending upon changes in the business environment and the progress of individual business strategies and investments.
(JPY10 billion worth of treasury shares were retired during the previous Mid-Term Management Plan period.)

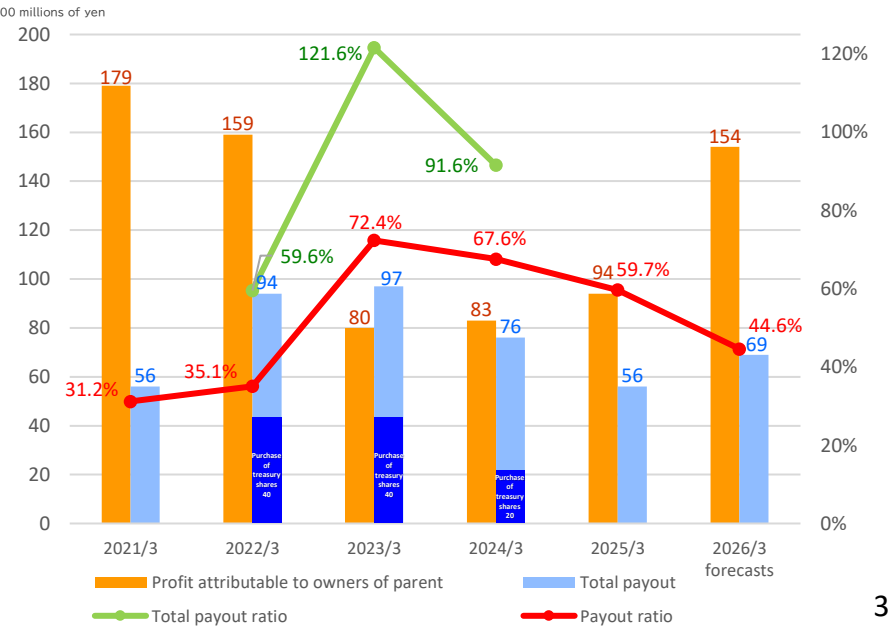
In business investment, we make optimal business decisions based on the cost of capital as a hurdle rate, and we also pay appropriate and stable dividends and purchase and retire treasury stock to increase shareholder returns and improve capital efficiency, while being conscious of the stock price.

*Dividend amount based on financial results from 2023 through 2025. Dividends for the last year of the plan (FY2026) are not included.

Changes in Cost of capital, ROE and PBR



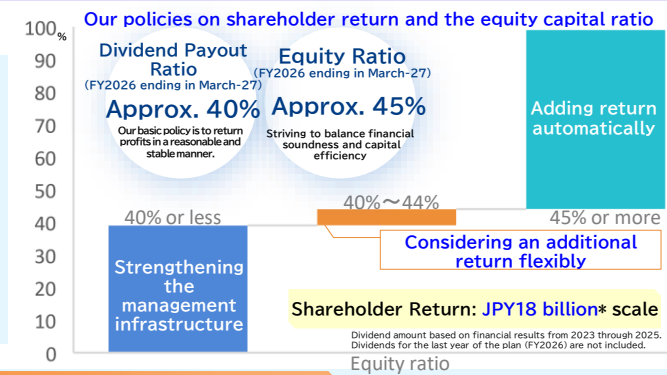
Changes in Returning Profit



Initiatives to Enhance Corporate Value -4

Shareholder Return

- In order to enhance corporate value, we strive to optimize capital efficiency while maintaining financial integrity with an equity ratio of approximately 45%. Our basic policy is to consistently and reliably return profits to shareholders.
- We are targeting a payout ratio of 40%, but will flexibly consider additional returns, including the purchase of treasury shares, depending upon changes in the business environment and the progress of individual business strategies and investments.



Investment Portfolio

- We plan to invest JPY40 billion in peripheral businesses and JPY9 billion in capital expenditures during the plan period.
- Returns from the previous investment will be partially realized during the period.
- An Investment Strategy Committee chaired by the Kumagai Gumi president will be set up as a management council starting in FY2024 to study, formulate, and monitor company-wide investment strategies, while inviting outside advisors as committee members who can provide guidance.
- Investments will also be expanded in order to enhance the management infrastructure.

External Advisor

Nobuo Sayama

Partner and Representative Director, Integral Corporation
Chairman and Representative Director, Skymark Inc.
Professor, School of Business Administration, Hitotsubashi
Specially Appointed Professor, Graduate School of Advanced Integrated Studies in Human Survivability, Kyoto University etc.

March, 2024/Partner of Integral Corporation (current position)
Apr. 2024/Specially Appointed Professor, Graduate School of Management, Kyoto University (present post)



FY2024 ending in Mar-25 - FY2026 ending in Mar-27

Investment Amount JPY40 Billion

Recognized Income* JPY40 Billion

* Income recognized during the period for cumulative investments

FY2027 ending in Mar-28 - FY2035 ending in Mar-36

Investment in Peripheral Businesses: JPY40 Billion

Real Estate Development: JPY25 Billion	Renewable Energy: JPY10 Billion	Other Businesses: JPY5 Billion
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- Real Estate Development: JPY3 Billion
- Other Businesses: JPY1 Billion

◆ Investments in other management infrastructure R&D, human capital, digital transformation: **JPY21 Billion**

Capital Expenditures

JPY9 Billion

To realize our long-term vision, we will continue to invest even beyond the plan period, and will aim for an annual income of JPY13 Billion by FY2035.

Initiatives to Enhance Corporate Value -5

Since July 2022, we have been enhancing corporate advertisements to raise awareness of Kumagai Gumi.

Expected effects	(1) Recruitment support (2) Sales support (3) Increasing motivation
Main advertisements	(1) TV commercials (2) Web advertising (Yahoo!, Google, social media) (3) Transportation advertising (digital signage at stations, video ads in train cars) (4) Radio commercials (5) Newspaper advertisements

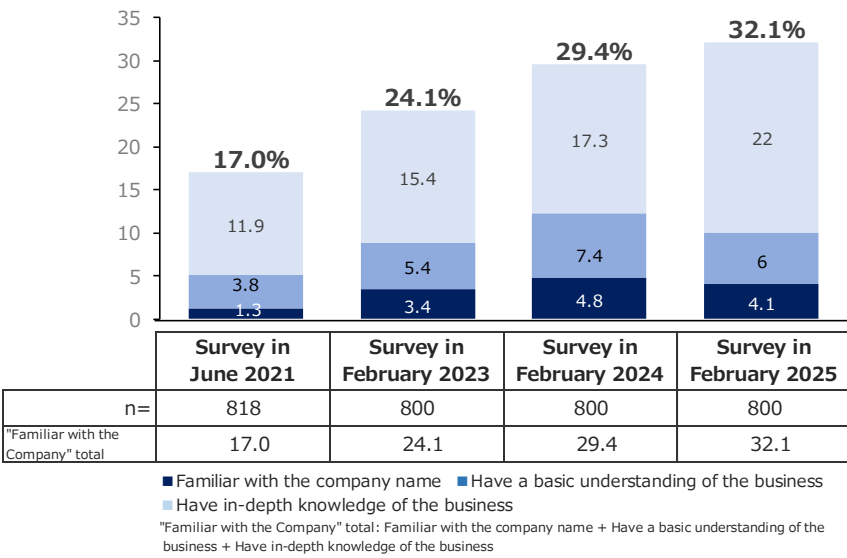
Recognition of Kumagai Gumi among the younger generation*:
The level of recognition rose from 17% (before the corporate advertisements) to 32.1%.
*Younger generation: College students and graduate students aged between 18 and 29 who are considering job hunting

"Episode 'Making Smiles Come True'"



大きな夢が立ち上がった時。
道は遠く、進むか、引き返すかの、
二つに一つじゃない。
夢を叶えてどう頑張れるかを考えるんだ。
夢が叶ったと言え「夢を叶えた」にだっておそれないんだ。
つくんだ。
誰かの今日と、明日を支えるために。
**信じるんだ、
自分を、仲間を、
叶える力を。**

熊谷組
Believe.



Survey method: The survey was conducted by the Company using an online survey panel provided by a research firm.
Scope of survey: Nationwide



【Cautionary Statement Regarding Forward-Looking Statements】

This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between the English translation and the Japanese original, the original version shall prevail.