



President Akitatsu Yoshino

BESTERRA CO., LTD (1433)



Company Information

Market	TSE Prime Market
Industry	Construction business
President	Akitatsu Yoshino
HQ Address	Kiba Park Bldg, 3-2-6 Hirano, Koto-ku, Tokyo, Japan
Year-end	End of January
Homepage	https://www.besterra.co.jp/

Stock Information

Share Price	Share Outstanding (End of the term)	Market Cap.	ROE (Act.)	Trading Unit	
¥1,005	8,990,200 shares	¥9,035 million	42.4%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥20.00	2.0%	¥54.40	18.5x	¥502.81	2.0x

*The share price is the closing price on September 21. Share Outstanding, DPS and EPS are from the second quarter of the financial results for the FY23/1. ROE and BPS are actual results for the previous term.

Consolidated Earnings

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Jan. 2019 (Actual)	4,927	497	495	621	75.25	15.00
Jan. 2020 (Actual)	3,436	93	97	59	7.29	16.00
Jan. 2021 (Actual)	3,682	124	212	142	17.33	16.00
Jan. 2022 (Actual)	5,966	607	840	1,467	174.54	16.00
Jan. 2023 (Forecast)	6,700	620	666	469	54.40	20.00

* The forecasted values were provided by the company. Unit: million yen.

This Bridge Report introduces the earning results for the second quarter of the fiscal year ending January 2023 and other information of BESTERRA CO., LTD's.

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Key Points

- The sales in the second quarter of the term ending January 2023 stood at 2,533 million yen, up 8.5% year on year. Large-scale dismantlement projects, which were started in the previous term, are steadily progressing and the orders for environment-related work and the start thereof on redevelopment projects of Yazawa Co., Ltd., which became a group company, have also been favorable. Operating income declined 53.4% year on year to 75 million yen. While sales increased, some of the orders had a low profit ratio and gross profit remained at the same level as in the previous year, insufficient to offset the growth of SGA expenses brought about by continuous investments in the recruitment of human resources, research and development, marketing and advertising, etc. In terms of quarterly performance, sales and profit decreased for the second consecutive term from the previous term.
- The earnings forecast remains unchanged. For the term ending January 2023, the company forecasts a 12.3% year on year increase in sales to 6.7 billion yen and a 2.0% year on year increase in operating income to 620 million yen. The company expects the number of orders to remain firm. Due to the absence of equity in earnings of affiliates and exchange gains from business combinations recorded in the previous fiscal year, ordinary income and net income are expected to decrease. The company plans to pay an interim dividend of 10 yen/share, up 4 yen/share, and a term-end dividend of 10 yen/share, unchanged from the previous year, for a total of 20 yen/share. The payout ratio is expected to be 36.8%.
- Sales increased and profit decreased in the second quarter of the term ending January 2023. The number of completed work reached a peak in the fourth quarter of the previous term (November to January) and declined in the first quarter (February to April) and the second quarter (May to July). However, there has been a growing trend in the amount of completed works in the second half of each term and the company is planning an increase in the second half of this term as well. Furthermore, as the company receives more orders for recurring works (receiving orders for work in a stable and continuous manner) as a result of their marketing strategy, profit ratio tends to drop as well. In the second quarter (May to July), it has been said that primary contract orders are favorable, although they have not been recorded in sales, and attention will be paid to results of the third quarter as the company works towards the achievement of the forecast for the whole term.

1. Company Overview

As a specialist in plant dismantlement, BESTERRA manages the dismantlement of plants (metal structures) for iron-making, power generation, gas, petroleum, etc. Its core competence is “the method and technology for dismantling plants,” and it has many patented methods including international patents. The company concentrates its managerial resources on engineering (proposal, design, and work planning) and management (supervision and work management), and outsources actual dismantlement work to its affiliates, and so it does not own heavy machinery or construction teams (the risk of owning assets can be avoided), and it is unnecessary to procure materials, etc. and make transactions for material production (the inventory risk can be avoided). The Group also has three consolidated subsidiaries, Hiro Engineering, which provides human resource services for design work, etc. and 3D Visual KK, which handles 3D scan modeling and design work, Yazawa Co., Ltd., which owns advanced technologies for removing asbestos. The corporate name “BESTERRA” was coined by combining the English word “Best (the superlative of ‘good’)” and the Latin word “Terra (the earth),” and, infused with the ambition to “create the best earth.” By developing an integrated system for dismantling and recycling, the company aims to actualize an advanced recycling society and contribute to the earth environment.

Corporate ethos and the code of conduct

Under the corporate ethos “We will contribute to the earth environment with our flexible way of thinking, creativity, and technologies using these concepts,” the company enacted the following code of conduct.

The company has also established a "Basic Sustainability Policy" to contribute to the realization of a sustainable society.

© Basic Sustainability Policy

We, Besterra, are committed to both "realization of an advanced recycling-oriented society" and "sustainable corporate growth" based on our corporate philosophy of "We will contribute to the earth environment with our flexible way of thinking, creativity, and technologies using these concepts."

Long-term vision (Ideal state of the company)

- Plant Demolition Leader in Japan
- Proposing Plant Disassembly Technologies to the World

1-1 Characteristics of the business

The company has a single segment consisting of the plant demolition business. For others, it engages in the human resource service business and the 3D scan, modeling, and design business. In the term ended January 2022, the plant dismantling business accounted for 96.1% of total sales.

Plant dismantlement business

In the plant dismantlement business, the company works on all types of plants in the fields of ironmaking, electric power, gas, petroleum, and petrochemicals, etc. The company offers services on overall engineering processes including proposals, designing, work planning, outsourcing/arrangement of equipment and materials, supervision, safety management, cost management, financial management, and handling of governmental procedures. It focuses on designing its unique demolition technologies and supervising demolition works based on demolition plans and uses specialized subcontractors for demolition works.

The clients for plant dismantlement are leading companies that own plants for ironmaking, electric power, gas, petroleum, etc. In most cases, the equipment installation companies of the corporate groups of clients or leading general contractors are entrusted with dismantlement, and then BESTERRA serves as the primary or second-tier subcontractor.

Also, in the plant dismantlement business, BESTERRA receives valuable materials generated through dismantlement, such as scrap, and sells them to scrap handlers. Accordingly, the company estimates the value of valuable materials while comprehensively considering the material, quantity, price (market price of each material, such as iron, stainless steel, and copper), etc. and negotiates with clients about the fee for dismantlement work. In accounting, the gain from sale of valuable materials is included in revenue from dismantlement work and posted as part of sales from completed dismantlement work. In some cases, contractors (clients) dispose of (sell) scrap, etc. by themselves.

[*Two standards for posting revenue and seasonality of revenue posting of the company](#)

The standards for posting revenue from contracts can be classified into the completed contract method, in which revenue is posted when works are completed, and the percentage-of-completion method, in which revenue is posted according to the progress of works. The company basically applies the percentage-of-completion method to large-scale projects whose period exceeds 3 months from the term ending January 2023 due to the application of the standard for revenue recognition (the completed contract method is applied to projects that do not meet the aforementioned criteria). The timing of posting revenue (the completion of demolition work) from works for which the completed contract method is used is often affected by the capital investment plans of clients. In the case of BESTERRA, revenue tends to be posted in the first quarter (February to April) and the fourth quarter (November to January) (the seasonality of revenue posting). However, the variation in quarterly performance may mislead investors, so the company is expanding the scope of application of the percentage-of-completion method step by step, to equalize the timings of revenue posting.

Others

In response to the chronic shortage of skilled construction workers, the company began providing human resource services in January 2013, and in March 2018, it made Hiro Engineering, which handles human resource services such as design work, a subsidiary. In January 2015, the company began offering a 3D measurement service as well. It established 3D Visual KK in December 2019, and 3D scan modeling and design business was transferred from INTER ACTION Corporation (securities code: 7725) in February 2020.

1-2 Strengths: an excellent client base, efficient dismantlement management based on plenty of experience, and intellectual property, such as patented methods

The strengths of the company are excellent client assets, efficient dismantlement management based on plenty of experience, and intellectual property, such as patented methods. Because the clients are basically engineering subsidiary companies of leading companies in ironmaking, electric, gas, coal oil fields, and major general contractors, which are easily trustable excellent clients, and it is predicted that they will receive orders continuously. The clients of the leading companies highly evaluate the company's total management (low cost and high efficiency) of plant dismantlement that it cultivated experiences for over 40 years, and it elect a barrier to entry.

Furthermore, a variety of technologies and know-how the company possesses, which have been accumulated through environmental work, etc. is also the strength of the company, including the recycling of waste materials which is a manifest and potential intellectual property.

Patented methods, etc.

[“Apple peeling demolition method” and fusing robot “Ringo☆Star”](#)

The “apple peeling demolition method” is a method of dismantling a large spherical tank, such as gas holders and oil tanks, by cutting it in spirals from the center of the ceiling of the enclosure part. The cut part spirals down to the ground gradually under the force of the earth's gravity (natural energy). The method enjoys superiority in a work period, cost, and safety, and has considerable competitive advantages, realizing “greater promptness, higher cost efficiency, and added safety.” Furthermore, the company offers a robot for the fusing process, “Ringo☆Star,” which automates the “apple peeling demolition method.” (The company is also working to expand the range of applications for “Ringo☆Star” by developing a new attachment).

Environment-related methods

The company has cultivated experiences and business results of a multitude of environment-related demolition works, using the “fireless methods” which do not require the use of fire. For example, although polychlorinated biphenyls (PCBs) are considered as a toxic substance and therefore totally abolished today, it had been used for many years in transformers and condensers because of its excellent thermal stability and chemical stability (electric insulation characteristics). In many cases, transformers and condensers are disposed of in conjunction with plant demolition works; however, because PCBs gasify when they are treated at the high temperature, posing a risk of inhaling the gas so generated, any firearms (such as gas cutting machines) cannot be used in demolition and withdrawal involving PCBs. The company is skillful at fireless and quasi-fireless methods using saber saws (which cut off objects with their saw blades moving in a reciprocating manner) that can cut off objects thicker than the thickness, which, in the industry, had been considered impossible to cut, through numerous devices, including measures against seizure of motors and recycling of blades. BESTERRA has applied for joint patents with Hitachi Plant Construction, Ltd. for a transformer dismantling method, a transformer dismantling jig, and a cutting device for dismantling a transformer.

Windmill demolition works

The number of power-generating wind turbines continues to increase by about 20% annually worldwide, but the demand for dismantling is expected to increase in the future due to wear and tear and economic obsolescence. According to the material presented by the company, the wind power generation volume worldwide is 486,790 MW (by about 340,000 onshore power generation plants and about 4,000 offshore ones) with an annual growth rate of about 20%. In Japan, the number of wind power generation plants stood at 2,225 as of the end of 2017, expanding by about 90 every year. Meanwhile, as the useful life is approximately 15 to 20 years, and the windmills for power generation established in the early stage are reaching the application limit. Moreover, not a few plants need to be dismantled due to damage or fatal failure caused by thunderbolts or typhoons.

How to knock down a power-generating wind turbine (international patent application)

As some windmills have been built in mountain districts and on the sea, demolition of them is highly difficult. The company has devised a method for dismantling wind turbines that does not require scaffolds and has already acquired a domestic patent for “Method of knocking down a power-generating wind turbine.” International patents are pending for “Method of knocking down towering structures using their bases” and “Method for dismantling tower-shaped equipment for wind power generation.” Safety of workers can be improved dramatically, and the work period can be shortened by using these patent-based methods.

Pursuit of the value of the 3D business

Using services such as layout simulation, strain/bending/torsion measurement, comparison of structures before and after improvement, and video walkthroughs, the company converts physical data taken when plants were established (more than 30 years ago) into the latest 3D data and uses that to provide detailed information about the dismantling process. They also provide unique 3D measurement services for dismantling work using the latest measuring technology and simulation systems that are capable of drawing data as 2D diagrams, handling BIM/CIM modeling, Perfect 3D, and 3D printing, etc.

“Visualize” the dismantling process

Layout simulation	The equipment models produced with 3D CAD are placed in 3D data, and the replacement of equipment can be simulated. By moving the equipment models, it is possible to check how they interfere and collide with one another.
Strain, bending, and torsion measurements	It is possible to measure changes in shapes. This is useful for diagnosing frameworks tentatively, to check whether a building got distorted due to an earthquake, deterioration, etc.
Comparison of structures before and after installation	The shapes of equipment that changes due to heat and vibration, such as pipes, conveyors, and furnaces, at the time of installation and after operation are compared. With 3D data, it is possible to grasp overall changes intuitively.
Video walkthroughs	Walk-through videos are produced by using synthesized point cloud data. These videos can be utilized for presentations and publicity videos regarding dismantlement plans and real estate information.

Unique 3D measurement service

Draws a two-dimensional diagram	The 3D CAD models based on point cloud data are converted into drawings. It is also possible to produce drawings directly from point cloud data in a simple manner.
Handles BIM/CIM modeling	Modeling is conducted with 3D CAD based on point cloud data. It is possible to produce models of the parts that require construction or renovation as BIM (building information modeling) data.
Perfect 3D	This is a large-scale 3D data measurement service combining automobile-based MMS (mobile mapping system), airborne laser measurement, water area measurement, etc.
3D printing	After modeling with point cloud data, data are processed and deformed so that they can be shaped with a 3D printer. It can produce fine structures with a lamination pitch of 15 μm.

1-3 ROE analysis

	FY 1/18	FY 1/19	FY 1/20	FY 1/21	FY 1/22
ROE (%)	11.7	23.8	2.3	5.6	42.4
Net Income to Sales Ratio (%)	5.87	12.62	1.75	3.87	24.60
Asset Turnover Ratio(Times)	1.11	1.08	0.72	0.67	0.79
Leverage(Times)	1.80	1.75	1.85	2.14	2.17

The 42.4% in FY 1/22 was due to the recording of a 1.2 billion yen gain on exchange in the business combination. The company aims to achieve “an ROE of 13% in the term ending January 2026” in its “mid-term management plan 2025” (which will be described later).

2. Second quarter of the Fiscal Year Ending January 2023 Earnings Results

2-1 Consolidated results

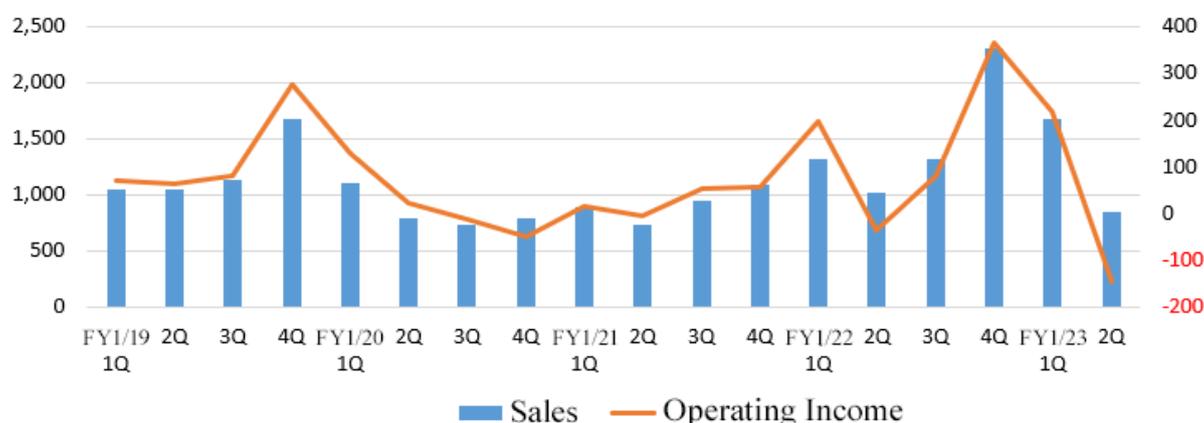
	FY 1/22 2Q	Ratio to sales	FY 1/23 2Q	Ratio to sales	YoY
Sales	2,335	100.0%	2,533	100.0%	+8.5%
Gross profit	505	21.7%	512	20.2%	+1.4%
SG&A expenses	344	14.7%	437	17.3%	+27.0%
Operating income	161	6.9%	75	3.0%	-53.4%
Ordinary income	273	11.7%	144	5.7%	-47.1%
Quarterly Net income	220	9.4%	67	2.7%	-69.3%

*Unit: million yen. Quarterly Net income is quarterly net income attributable to owners of the parent company.

Increase in income and profit

The sales in the second quarter of the term ending January 2023 stood at 2,533 million yen, up 8.5% year on year. Large-scale dismantlement projects, which were started in the previous term, are steadily progressing and the orders for environment-related work and the start thereof on redevelopment projects of Yazawa Co., Ltd., which became a group company, have also been favorable. Operating income declined 53.4% year on year to 75 million yen. While sales increased, some of the orders had a low profit ratio and gross profit remained at the same level as in the previous year, insufficient to offset the growth of SGA expenses brought about by continuous investments in recruitment of human resources, research and development, marketing and advertising, etc. In terms of quarterly performance, sales and profit decreased for the second consecutive term from the previous term.

Transition of Sales and Operating Income (Unit: million yen)



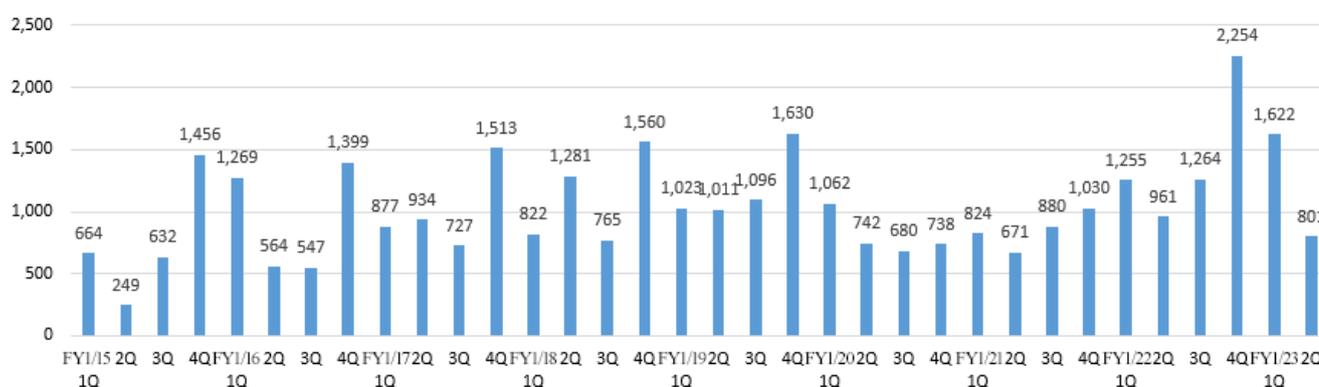
The number of completed works (rough estimates)

	FY 1/22 2Q	Ratio to sales	FY 1/23 2Q	Ratio to sales	YoY
Electric power	421	19%	291	12%	-31%
Steelmaking	488	22%	703	29%	+44%
Petroleum/petrochemical	909	41%	703	29%	-23%
Gas	67	3%	73	3%	+9%
3D	67	3%	48	2%	-28%
Environment	222	10%	388	16%	+75%
Others	44	2%	218	9%	+395%
Total	2,217	100%	2,423	100%	+9%

*Unit: million yen. Prepared by Investment Bridge Co., Ltd. based on company data.

The ratio of environment-oriented works to completed works has grown due to the expansion of demand for environment-related works such as the removal of asbestos and due to Yazawa Co., Ltd. becoming a group company.

Transition of completed works (Unit: million yen)



There has been a growing trend in the number of completed works in the second half of the term and increase is planned in the second half of this term as well.

Furthermore, as the company receives more orders for recurring works (receiving orders for stable and continuous work) as a result of their marketing strategy, profit ratio tends to drop as well. Regarding the second quarter (May to July), the number of primary contract orders is favorable, although they have not been recorded in sales.

BRIDGE REPORT

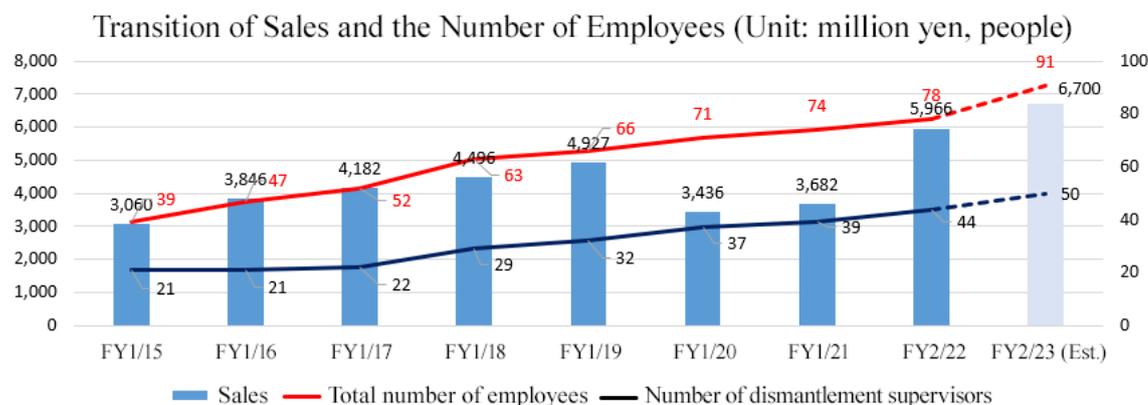


Breakdown of SG&A

	FY 1/22 2Q	Ratio to sales	FY 1/23 2Q	Ratio to sales	YoY	Major change factors
Personnel cost	215	9.2%	235	9.3%	+9.1%	Increase in headcount of main employee
R&D cost	8	0.3%	9	0.4%	+12.3%	The development of robot
Commissions and remunerations paid	29	1.2%	38	1.5%	+30.0%	Sales cooperation, system improvement
Recruitment cost	8	0.3%	9	0.4%	+4.1%	Advertising media, referral commissions
Advertisement	1	0.0%	17	0.7%	+1151.3%	Branding, exhibition
Others	79	3.4%	126	5.0%	+58.4%	-
Total SG&A expenses	344	14.7%	437	17.3%	+27.0%	-

*Unit: million yen

While proactively using funds for marketing and advertisement in order to acquire prime contracts, the company promoted investment in the development of robots for crane rail inspection, etc., based on the mid-term management plan.



As a result of aggressive hiring activities based on the personnel strategy in the mid-term management plan, the number of demolition supervisors reached 48, up 4 from the beginning of the term.

2-2 Orders received and the backlog of orders

	FY 1/22 2Q	FY 1/23 2Q	YoY
The backlog of orders at the beginning of the term	2,545	1,594	-37.4%
The amount of works received	2,128	2,691	+26.4%
The amount of completed works	2,217	2,423	+9.3%
The backlog of orders at the end of the term	2,456	1,862	-24.2%

*Unit: million yen

Orders for recurring works (orders for stable and continuous work) increased as a result of strategies such as the expansion of local offices, and the number of orders received increased 26.4% year on year. Inquiries regarding orders for expected projects from the third quarter are favorable.

Orders received by sector (Amounts are approximate.)

	FY 1/22 2Q	Ratio	FY 1/23 2Q	Ratio	YoY
Electric power	688	28%	410	22%	-40%
Steelmaking	516	21%	261	14%	-49%
Petroleum/petrochemical	860	35%	521	28%	-39%
Gas	-	0%	242	13%	-
Environment	221	9%	242	13%	+10%
Other	172	7%	186	10%	+8%
Total order received	2,456	100%	1,862	100%	-24%

*Unit: million yen

The company has received orders for large-scale projects in the electric power and chemical industries as a result of the increase of continuous orders received for recurring works and proactive marketing activities.

The composition ratio of orders does not incline toward any particular industry.

2-3 Financial condition and cash flow (CF)**Financial condition**

	January 2022	July 2022		January 2022	July 2022
Cash	2,122	2,096	Payables	1,199	376
Trade receivables	2,212	1,329	Borrowings and Bonds	2,389	2,256
Current Assets	4,561	3,602	Liabilities	4,665	3,447
Investments, Others	3,905	4,207	Net Assets	4,354	4,894
Noncurrent Assets	4,458	4,739	Total Liabilities, Net Assets	9,020	8,341

*Unit: million yen. Trade receivables include notes and accounts receivable, accounts receivable from completed construction contracts, and contract assets.

Total assets stood at 8,341 million yen, down 678 million yen from the end of the previous term, due to a decrease in trade receivables. Total liabilities decreased 1,218 million yen from the end of the previous term to 3,447 million yen, due to a decrease in trade payables.

Net assets grew 539 million yen from the end of the previous term to 4,894 million yen, due to increases in capital, capital surplus, etc. caused by exercising share acquisition rights.

Capital-to-asset ratio increased 10.4 points from the end of the previous term to 58.5%.

Cash Flow (CF)

	FY 1/22 2Q	FY 1/23 2Q	YoY
Operating Cash Flow(A)	365	-41	-406
Investing Cash Flow(B)	-12	-8	+3
Free Cash Flows (A + B)	353	-50	-403
Financing Cash Flow	60	24	-35
Cash and Equivalents at Term End	1,780	2,096	+315

*Unit: million yen

Operating cash flow and free cash flow turned negative, due to a decrease in accounts payable, etc.

The cash position improved.

2-4 Topics

(1) Conclusion of a license agreement with Hitachi Power Solutions Co., Ltd. regarding the patented technology for dismantling onshore wind power generation facilities in Japan

In July 2022, an agreement was concluded with Hitachi Power Solutions Co., Ltd. for licensing BESTERRA's patented technology of "dismantlement" used in dismantling onshore wind power generation facilities in Japan.

While reinforcing the system for cooperation in the business of dismantling wind power generation equipment, BESTERRA will provide safe, appropriate and efficient demolition work for the smooth replacement of wind power generation equipment by combining the technologies for dismantling equipment which they own and a variety of know-how on the construction and maintenance of wind power generation equipment which Hitachi Power Solutions has.

The company will work toward realizing carbon-free dismantlement and capturing the market for dismantling wind power generation equipment, with the advantages of work period shortening, reduction of CO₂ emissions and a high level of safety.

(2) Conclusion of a capital and business alliance with Crassone Co., Ltd. regarding technologies for the DX (digital transformation) of dismantlement

In September 2022, the company concluded a basic agreement regarding capital and business alliance regarding technologies for the DX (digital transformation) of dismantlement with Crassone.

(Outline of Crassone Co., Ltd.)

Founded in April 2011. It operates "Crassone," an online service for obtaining quotes from companies at the same time, matching about 1,600 specialized companies in Japan and their clients in the dismantlement work field.

The so-called "vacant home issue," where private housing built in the period of high economic growth has deteriorated and been left unattended, has become apparent in the market for private housing dismantlement on which the company is focused. The number of such homes is rapidly growing and it is expected that this situation will go on to become even more serious as a social issue.

On the other hand, the asymmetry of information has been surfacing in the Japanese housing industry, as focus is placed only on construction and it is not known whom to contact for demolition. Crassone sets "bringing smiles to people through prosperous lifestyles" as its mission and develops a business of operating a digital platform for "solving the asymmetry of information through the digital transformation of the market for dismantling houses" and "solving characteristic challenges of the construction industry, which is said to be lacking in digitalization" to address social issues such as the vacant home issue, which is expected to grow more serious, with the vision of "cultivating a culture of restoring the cycle of each town."

Concretely, they aim to contribute to solving the vacant home issue and "restoring the cycle of each town" set as its vision by directly connecting each client and company responsible for the work as well as supporting them so that the client can feel reassured in having the house dismantled, by offering digital matching platforms, represented by "Crassone" to address social issues such as the vacant home issue. Their business has garnered favorable reviews and they have formed partnership agreements for promoting the removal of vacant homes with 34 municipalities in Japan as of September 9, 2022.

(Background of the alliance)

By developing a system for mutual provision of their respective different strengths – the know-how for actual work and recycling waste BESTERRA has fostered in the long years of their dismantlement business, and IT and online expertise accumulated by Crassone in their matching platform business, it will be possible to cooperate to provide safe, appropriate and efficient services to the market for dismantling plants which have quite deteriorated and reached the time for demolition and renewal in Japan's industrial structure as well as the market for dismantling private housing.

Moreover, the company has judged that aiming for the "best terra," which also lies behind BESTERRA's company name, and jointly promoting the management policy contributing to the achievement of sustainable development goals (SDGs) in the plant dismantlement business and Crassone's management vision of "cultivating a culture of restoring the cycle of each town," they will allow for the development of sustainable business and make a contribution to business expansion of both companies.

(Overview of the business alliance)

(1) Promotion of digital transformation

They aim to solve the asymmetry of information and characteristic challenges of the construction industry which is said to be lacking in digitalization and establish a competitive advantage by building a business model utilizing data and digital technologies in the market for dismantling plants and private housing and thus causing a reform in the business.

(2) Effects of the alliance in the dismantling works

The company aims to maximize value provided to clients by offering safe, appropriate and efficient quality dismantlement technologies to the market for dismantling plants and private housing, where expansion is forecasted.

(3) Recycling of buildings and resources as the industry standard

By combining BESTERRA's carbon-free dismantlement and Crassone's IT technologies, they will recycle scrap, etc. to the maximum and pursue dismantling work which significantly contributes to the environment with CO₂ emissions kept as low as possible, and aim for making the recycling of buildings and resources the industry standard.

(Overview of the capital alliance)

BESTERRA will accept Crassone's third-party allotment of shares and acquire about 670,000 Class-C preferred shares (it will own 12.50% of the total number of issued shares, acquired for about 500 million yen).

It is planned for BESTERRA to qualify as Crassone's major shareholder as it will hold over 10% of Crassone's voting rights.

(3) Investment for growth utilizing procured funds

The period for exercising the 9th share acquisition rights expired on August 5. The procured funds of about 850 million yen were used for acquiring the shares of Yazawa Co., Ltd. and in expenses for the research and development of the method for dismantling wind power generation equipment.

The company assumes that it will procure about 1 billion yen through the 10th share acquisition rights, which can be exercised until February 6, 2026.

The company will promote securing funds for growth and reinforcing its financial foundations for achieving the mid-term management plan.

(4) Change in the shareholder benefit system

The company changed (expanded) shareholder benefits in the term ending January 2023 and newly established a "BESTERRA Premium Benefit Club."

Exchange for any product out of about 5,000 benefit products such as food products, high quality alcohol, electrical appliances or general goods, or exchange for shared shareholder benefit coins where benefit adding up points of other companies which have premium benefit clubs is possible on the "BESTERRA Premium Benefit Club" site.

Shareholders holding more than 5 lots (500 shares) listed in the shareholder register as of January 31 every year are eligible.

3. Fiscal Year Ending January 2023 Earnings Forecasts

3-1 Full-year consolidated earnings forecast

	FY 1/22 Act.	Ratio to sales	FY 1/23 Est.	Ratio to sales	YoY
Sales	5,966	100.0%	6,700	100.0%	+12.3%
Operating income	607	10.2%	620	9.3%	+2.0%
Ordinary income	840	14.1%	666	9.9%	-20.8%
Net income	1,467	24.6%	469	7.0%	-68.1%

*Unit: million yen

The earnings forecast remains unchanged. Sales and operating income are predicted to increase

The earnings forecast remains unchanged. For the term ending January 2023, the company forecasts a 12.3% year on year increase in sales to 6.7 billion yen and a 2.0% year on year increase in operating income to 620 million yen. The company expects the number of orders to remain firm. Due to the absence of equity in earnings of affiliates and exchange gains from business combination recorded in the previous fiscal year, ordinary income and net income are expected to decrease. The company plans to pay an interim dividend of 10 yen/share, up 4 yen/share, and a term-end dividend of 10 yen/share, unchanged from the previous year, for a total of 20 yen/share. The payout ratio is expected to be 36.8%.

4. Conclusions

Sales increased and profit decreased in the second quarter of the term ending January 2023. The number of completed work reached a peak in the fourth quarter of the previous term (November to January) and declined in the first quarter (February to April) and the second quarter (May to July). However, there has been a growing trend in the amount of completed works in the second half of each term and the company is planning an increase in the second half of this term as well. Furthermore, as the company receives more orders for recurring works (receiving orders for work in a stable and continuous manner) as a result of their marketing strategy, profit ratio tends to drop as well. In the second quarter (May to July), it has been said that primary contract orders are favorable, although they have not been recorded in sales, and attention will be paid to results of the third quarter as the company works towards the achievement of the forecast for the whole term.

<Reference1: Medium-term Management Plan 2025>

① Ideal state and long-term vision

Besterra aims to flourish in the global market as the “plant demolition leader in Japan” and the “enterprise that proposes the plant dismantling technology to the world” based on its technologies and know-how.

To attain this goal, the company pursues “Besterra ESG management.” In detail, it will implement the five strategies: the “technological patent strategy,” “sales strategy,” “strengthening of the dismantlement management system,” “digital transformation (DX),” and “management strategy.”

② Besterra ESG management and SDGs

◎ Besterra ESG management

Under the corporate ethos: “to contribute to the earth environment with flexible thinking and creativity and technological capacity based on them,” the company aims to contribute to social sustainability and achieve beneficial growth. This is “Besterra ESG management,” and its unique business model for gaining competitive advantages.

The company will concentrate on the following five items, with the measures or policies of “SDGs of Besterra,” “enhancement of non-financial strategies and initiatives,” and “establishment of a growth model from the long-term viewpoint.”

Personnel	Pursuit of worthwhile jobs and individual growth
Safety	Creation of a safety culture with its unique technologies
R&D	Development of innovative demolition methods friendly to the earth
Recycling	Realization of advanced environmental cycling through the strengthening of the venous industry
Governance	Thorough transparency and risk control

◎ SDGs of Besterra

For contributing to the earth environment, the company set a total of 17 goals related to SDGs and aims to attain them.

1	To contribute to the earth environment by offering innovative dismantling technologies	<ul style="list-style-type: none"> ① To offer innovative dismantling technologies for deteriorated infrastructure ② To offer reliable, safe dismantling technologies for a low-carbon society and contribute to the earth environment ③ To offer advanced dismantling technologies as a professional in dismantlement by utilizing 3D technologies 	
2	To develop a working environment in which employees can feel that their jobs are worthwhile	<ul style="list-style-type: none"> ① To become a company in which every employee can feel that their job is worthwhile and be proud of the future ② To respect diversity and enrich the fair environment ③ To develop a fair educational environment where it is possible to exert abilities to the maximum 	

3-1	To realize an advanced recycling-oriented society and contribute to the establishment of a sustainable society	① To dispose harmful materials and pollutants appropriately and offer technologies for making them harmless ② To develop a recycling business with high added value and improve productivity ③ To coexist with local communities and contribute to the improvement of local environments	
3-2	To foster partnership for establishing a sustainable (advanced recycling) society	① To foster future-oriented partnership with lofty goals beyond all kinds of boundaries ② To promote fair and equitable partnership between enterprises ③ To offer new technologies, knowledge, and findings to the advanced recycling society, to attain goals	

③ Strategies

The outline of the five strategies: “technological patent strategy,” “sales strategy,” “strengthening of the dismantlement management system,” “digital transformation (DX),” and “management strategy” is as follows.

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③-1 Technological patent strategy

The company has obtained a lot of patents regarding tanks, boilers, chimneys, etc., and will keep acquiring competitive patents for dismantlement methods in the fields of windmills, wind power generation, etc., where demand is expected to grow, and propose original demolition methods and put them into practice.

While the global demand for windmills for power generation is growing at an annual growth rate of about 20%, the demand for dismantlement is projected to rise, due to the expiration for use and economic obsolescence.

In order to meet the growing demand for dismantlement of wind power generation equipment, the company has applied for a patent for the dismantlement method “Matryoshka Method” and “Tower crane method” and “tipping method” ahead of competitors.

The technological development division is in charge of development of dismantlement methods for obtaining patents and has a system for developing methods based on ideas collected from on-site staff. Demonstration tests of the tipping method were conducted in Akita Prefecture and the Goto Islands in Nagasaki Prefecture.

Reference: Patent construction method video

<https://www.besterra.co.jp/technology/movie.html>

① Matryoshka Method



② Tower Crane Method



③ Tipping Method



(Source: The company)

Since harmful substances are used at each plant equipment, soil pollution is an issue. Through the amendment into the Soil Contamination Countermeasures Act, it became necessary to conduct a soil survey when developing land with an area of 900 m² or larger (before the amendment: 3,000 m² or larger) in April 2019.

They will respond to the growth of such needs.

③-2 Sales strategy

In detail, the company will work on the “increase of orders received as a main contractor,” “enhancement of corporate brand development,” “cementing of cooperation,” and “upgrade of business bases.”

◎ Increase of orders received as a main contractor

The company aims to boost earnings ratio by increasing direct orders and the ratio of directly commissioned works and public works. Since Besterra proposes plans based on each client’s plan, it possesses the knowledge of how directly commissioned works are carried out, but in order to fortify the system, it will adopt the system for obtaining qualifications, including those for supervising engineers, increase marketing support staff, and reform the personnel system.

◎ Enhancement of corporate brand development

In order to effectively enhance its brand power, the company will enrich advertising tools and distribute unified messages to stakeholders via the media, etc.

◎ Cementing of cooperation

The company will cement corporation in various ways.

* Cementing of cooperation with group companies

The company offers human resources services and 3D measurement services via subsidiaries. It will pursue business synergy by cementing cooperation among group companies and offering services through group marketing.

* Cementing of cooperation with alliance partners

The company will cement cooperation for decommissioning nuclear power plants.

Besterra will serve as a platform, and alliance partners, such as Hitachi Plant Construction, Ltd. (business alliance formed in July 2018), Daiichi Cutter Kogyo K.K. (business alliance formed in September 2018), and Rever Holdings Corporation (business alliance formed in September 2019), will conduct cooperative activities while utilizing each other’s strengths, to establish a system for decommissioning business.

In Japan, there are 60 nuclear reactors at 19 locations, but 24 reactors out of them are to be decommissioned. The examination on the compliance with the new standards will progress, and the decommissioning business is expected to grow. Actually, business inquiries are reportedly increasing.

* Cementing of cooperation with TRE HOLDINGS CORPORATION

While the core business of Besterra is the dismantlement of plants, which is positioned between the arterial industries including “electric power, iron-making, and petroleum/petrochemical ones” and the venous industries including “scraps and industrial waste,” the core business of the TRE Holdings Group is the intermediate processing in the venous industries including “scraps and industrial waste.”

While responding to the deterioration of infrastructure, whose market is expected to grow, the two companies will fulfill the role of linking the arterial and venous industries and establish an indispensable position in the advanced recycling society.

◎ Upgrade of business bases

In order to increase orders for recurring-revenue projects (such as continuous orders from clients, works that require supervisors always staying, the apple peeling dismantlement method, and PCB treatment works), the company will consider the establishment of new business bases in Kurashiki, where the amount of dismantlement projects is large, industrial complexes in Kashima, etc., Sendai, etc.

③-3 Strengthening of the dismantlement management system

* Improvement of the procurement system

The company used to outsource works at each site for swift management, but seeing the expansion of the corporate scale, the newly established procurement division of the headquarters has adopted a cost control system. It aims to optimize procurement costs by outsourcing works all at once.

* Staffing plans

As the company specializes in dismantlement management, it needs to deploy a supervisor for all works. For sustainable growth, it is indispensable to increase dismantlement supervisors, so it will engage in company-wide recruitment activities.

* Development of a personnel training system

In order to cope with the chronic shortage of manpower, the company will develop “a program for producing advanced dismantlement engineers” to increase the number of employees who will drive business growth and make them useful early.

“Program for producing advanced dismantlement engineers”

The company will implement the “training program” for realizing the transfer of techniques from experienced engineers to inexperienced ones.

In addition, it will “introduce a course for specialists in dismantlement and a course for managers” and “enrich the system for promoting the acquisition of qualifications” for producing dismantlement supervisors, and formulate and operate a personnel system, which is focused on the workstyles of individuals.

* Cementing of cooperation with subcontractors

Actual dismantlement works are conducted by subcontractors, and Besterra supervises and manages on-site work. Subcontractors are groups of engineers who take central roles in dismantlement works. Accordingly, Besterra aims to improve the quality of works by cementing the cooperation with them.

Besterra makes transactions with a hundred and several tens of subcontractors per year. They are composed of a broad range of companies, including dismantling firms, companies that lease or rent heavy machinery, equipment, etc., and companies that process scraps and industrial waste. Among subcontractors around Japan, only about 30 companies possess the technology required for Besterra’s works, so Besterra entrust them even if the site is distant.

With the dismantlement plan designed by Besterra, the dismantlement process is optimized, and a high profit margin is actualized. Besterra pays to subcontractors within about 35 days after the closing date of a transaction, while clients pay within about 105 days after the closing date of a transaction. This is a merit in cash management for subcontractors undertaking the works of Besterra.

* Acquisition of essential technologies through M&A, etc.

The company will encourage enterprises that possess essential technologies for the processes such as preliminary surveys, planning, dismantlement, disposal of waste, and ground leveling to join the Besterra Group through M&A or the like and acquire advanced technologies.

③-4 Promotion of DX

By utilizing data and digital technologies, the company will upgrade products, services, and business models, and reform its business operations, organizations, processes, corporate culture, and climate, to establish a competitive advantage.

* Crane rail inspection robots and revision to inspection methods

In order to efficiently conduct regular inspection of overhead cranes, which are installed at plants and factories to convey heavy objects and parts, the company has developed a self-propelled inspection robot that runs on a crane rail in cooperation with iXs Co., Ltd.

A distortion of an overhead crane caused by deterioration due to aging would lead to a serious accident if it were not dealt with, so the regulations on safety of cranes, etc. in the Industrial Safety and Health Act stipulates that an enterprise that has installed a crane shall inspect it voluntarily once a month and once a year.

In the conventional manual inspection, workers had to go to the ceiling. Accordingly, there was a risk of an accident, visual inspection led to inconsistency, and the loss of opportunities occurred due to the suspension of factory operation.

Meanwhile, inspection robots can reduce the risk of accidents among workers, always obtain accurate, meticulous data, and complete inspection in a short period of time or in a spare time.

Besterra estimates that the market scale is about 30 billion yen.

* Reform of design and dismantlement processes

By converting paper data at the time of construction (over 30 years ago) into cutting-edge 3D data, the company will conduct dismantlement whose processes are “visualized.”

* Streamlining of on-site work based on the collaboration between people and robots

The company will use people and robots together at dismantlement sites while combining technologies for 3D measurement, dismantlement, and robot control.

③-5 Management strategy

*Environment

The company will contribute to the environment-oriented business administration of each client, by actualizing environment-oriented business administration itself and providing dismantlement technologies for revamping plant equipment that would produce high environmental burdens.

* Reform of workstyles and development of a system for working without worry

The company has adopted various systems so that employees can work with peace in mind for a long period of time. It will make efforts to increase the retention rate of employees and utilize the systems for recruitment.

(Concrete examples)

- Income insurance: The company will fully bear the insurance premiums. 50% of monthly payments will be covered until the age of retirement (60 years old). It is one of the best income insurances in Japan.

- Retirement benefit system

- Employee shareholding association: The company bears 15% of the reserve for members.

- Retainable annual paid holidays: Paid holidays can be generally retained for 40 days as set forth in the Labor Standards Act, but in the company, it can be retained for up to 80 days in case an employee needs to recover from an injury or a disease.

*Governance

In order to actualize a system for achieving profitable growth and sustainable society, the company will tighten its corporate governance.

④ Fundraising

As mentioned above, the company has procured funds by issuing share acquisition rights for the purposes of securing funds for growth and fortifying its financial foundation for completing the Mid-term Management Plan.

⑤ Distribution of profits and return to shareholders

With regard to the distribution of net income, the company set the policies: (1) “investment for future growth,” (2) “internal reserve for strengthening the business base,” and (3) “return of profit to shareholders targeting a payout ratio of 40%.”

For growth, the company allocates funds rationally according to situations to the investment in human resources (recruitment and education), the investment in technological development (dismantlement methods and robots), the investment in systems (3D systems, BIM and CIM), and the investment in the strategic business (M&A).

<Reference2: Regarding Corporate Governance>

◎ Organization type and the composition of directors and auditors

Organization type	Company with a board of company auditors
Directors	6 directors, including 3 outside ones
Auditors	3 auditors, including 3 outside ones

◎ Corporate Governance Report Update date: April 27, 2022

Basic policy

In order to promote sound business administration and win social trust sufficiently, our company recognizes corporate governance as the most important issue, puts importance on the improvement of the soundness, transparency, and fairness of business administration, and complies with laws and regulations thoroughly, and all executives operate business while keeping in mind that “the violation of laws or regulations would lead to management responsibility.” In detail, our company disseminates and executes business pursuant to laws, regulations, and in-company rules thoroughly, by developing appropriate systems for making decisions about business administration, fulfilling duties, supervising work, conducting internal control, etc.

It is also important to reform management systems for “achieving appropriate share price” and “increasing share price sustainably” to emphasize shareholders and strengthen the function to check business administration, to establish global-level corporate governance. The results of such efforts would win the trust of society, increase corporate value, and satisfy shareholders.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

The stated information is based on the Code revised in June 2021.

【Supplementary Principle 4-3-3】

We do not have a concrete plan regarding the successor of the CEO. As for the Board of Directors, the policy regarding the selection of successors is to take into consideration the personality, insight and accomplishments of each candidate and select a suitable person. In case of formulating and conducting a plan regarding the successor, we shall ensure the fairness, transparency and objectivity of the decision process and appropriately proceed with the selection by involving the Nomination and Compensation Committee, an advisory institution to the Board of Directors where outside directors account for the majority, alongside proactive involvement of the Board of Directors.

【Supplementary Principle 4-3-3】

While we have not clearly established objective, timely and transparent proceedings for the dismissal of the President or CEO, we assess the effectiveness of the Board of Directors every year and shall progress with objective, timely and transparent proceedings through the involvement of the Nomination and Compensation Committee, where outside directors account for the majority, in regard to the nomination and compensation of directors.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>**【Principle 1-4 Strategically held shares】**

From the viewpoint of business expansion based on maintaining and strengthening long-term, stable partnerships with business partners, etc., we will acquire and hold the shares of business partners, etc., if we judge that this will contribute to the improvement of our mid/long-term corporate value. For equity investments premised on forming business alliances, the management meets with and receives explanations of the operating environment, business strategy, and purposes of the capital alliance from representatives of the other party. Based on this, the Board of Directors comprehensively evaluates the appropriateness of the stock valuation report and judges whether the deal should take place. For strategically held shares, the Board of Directors constantly checks whether the holding of such shares will contribute to the improvement of our corporate value and confirms the purpose and rationality of said holding based on that check. Our company will appropriately buy/sell shares and exercise voting rights in accordance with relevant regulations, based on a comprehensive evaluation from the viewpoint of improving our corporate value.

【Supplementary Principle 2-4-1 Ensuring in-house diversity of core human resources and measurable goals】

Our company shall continue with its proactive recruitment activities not affected by sex, nationality, religion, social status, etc. and proactively promote excellent human resources including mid-career recruits, regardless of sex and age. Difficulties in ensuring excellent human resources are continuing in the construction industry, to which we belong, due to a chronic lack of personnel and the aging population. We are striving to enrich the mid-term management plan and disclosures on our website regarding the situation of the personnel recruitment plan, training policy and arrangement of our in-house environment.

【Supplementary Principle 3-1-2 Information disclosure in English】

Our company has been disclosing information in English since the brief financial report at the end of the term ended January 2022. Moreover, we have been disclosing the notice of the convocation of general shareholder meetings translated in English on the company website since the 49th regular shareholder meeting held in late April 2022. Having said that, we shall take into consideration the ratio of international investors and forge ahead with enriching the disclosure in regard to disclosure and provision of necessary information stated in other disclosure documents in English.

【Supplementary Principle 3-1-3】

Our company discloses initiatives concerning sustainability in the mid-term management plan and on our website. Moreover, in order to clarify initiatives for sustainability, we shall set up a Sustainability Committee as an advisory institution of the Board of Directors to control and manage the initiatives in addition to establishing the basic sustainability policy. Furthermore, we view the recruitment and education of human resources as an important challenge for improving our corporate value in the mid- to long-term and we shall create a system which will allow for independent building of career and build a free and lively corporate culture based on diversity to seek the reinforcement of human capital.

As for risks and opportunities for gaining income related to climate changes, we shall respond to the proposal by TCFD in expressing the endorsement of TCFD and participating in TCFD Consortium, and we shall proactively engage in enriching the quality and quantity of disclosures based on TCFD and equivalent frameworks and forge ahead with the enrichment of disclosure on our company website, etc.

【Supplementary Principle 4-11-1 Stance on the balance, diversity and scale of the Board of Directors and visualization of skills thereof】

The Board of Directors bears in mind the balance of the knowledge, experience, ability, etc. in regard to each business and strives to include members thought to be suitable with the number of directors at 9 or less and the number of auditors at 3 set out in the Articles of Incorporation. Our stance regarding the overall balance, diversity and scale lies in the consideration of knowledge, experience, ability, etc. necessary to promote the policies of the management philosophy, etc. when selecting director candidates. In order to further improve the effectiveness of the Board of Directors and visualize the composition balance, we shall consider skills necessary for members comprising the Board of Directors and create and disclose the skill matrix of all directors including independent outside directors in addition to evaluating the effectiveness of the Board of Directors every year and elevating the effectiveness of the Board of Directors. Moreover, we shall progress with appropriate selection of independent outside directors, including members who have management experience in other companies.

【Principle 5-1 Policy on constructive dialogue with shareholders】

Regarding requests from shareholders for dialogue (interviews), our company believes that we should express a positive attitude within a reasonable scope in order to contribute to sustainable growth and medium- and long-term improvement of the corporate value of our company. Aiming to promote constructive dialogue with shareholders, with the planning department designated as a department in charge of IR activities, our company holds financial results briefings targeted at financial institutions and investors semiannually and discloses corporate information as needed on our website and through the system of optional disclosure offered by Tokyo Stock Exchange.

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