

Mitsui E&S Group Business Revival Plan



2019.05.10




Mitsui E&S Holdings Co., Ltd.

• Background

- Due to losses in several large-scaled overseas EPC ※ projects, the consolidated financial foundation has been seriously damaged.
Recovery of equity capital and securing of funds are urgently required.
- Under the deterioration of profits in the existing business, it is necessary to exit from the unprofitable businesses and foster the new promising businesses that will be the pillars of the profits.

• Outline of “Mitsui E&S Group Business Revival Plan”

1. Reinforcement of Financial Structure
 - ❑ Disposal of the inefficient assets
 - ❑ Reduction of the fixed cost
2. Reform of Business Structure 
 - ❑ Exit from unprofitable businesses
 - ❑ Focus on the growing businesses

Targets in FY 2022 (consolidated)

- Interest-bearing debt EBITDA multiples <5.0x
- Ordinary income ratio > 4.0%
- Total asset turnover > 0.8 x

FY20XX : Fiscal year lasting from April 1, 20XX to March 31 of the next year (The same applies thereafter)

- Shift to a balance-sheet-oriented management (aiming to reduce interest-bearing debt & effective use of the assets)
- Breaking from the sales-first principle

※EPC : “Engineering, Prourement & Construction” works in a series of process of a plant contract

1. Reinforcement of Financial Structure

1-①. Financial & Profitability Status (Consolidated)

◆ Decrease in Net Assets

→ Decrease in retained earnings

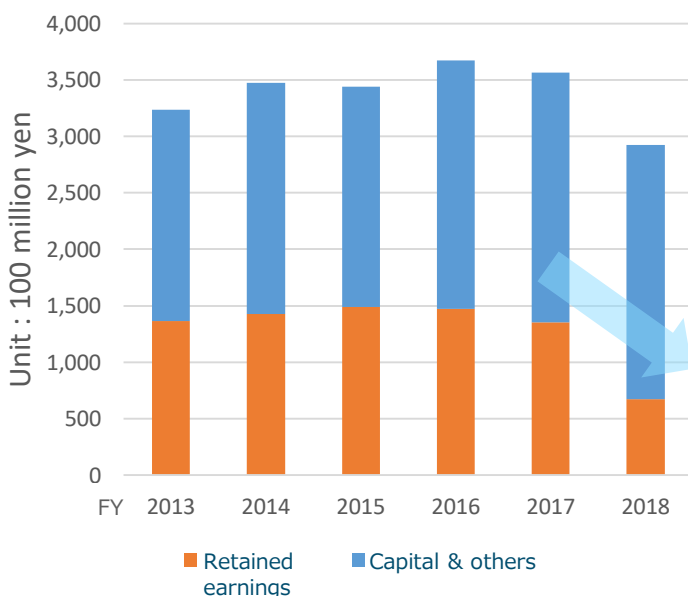
◆ Decrease in Total Asset Turnover

→ Decrease in sales
→ Total assets are flat

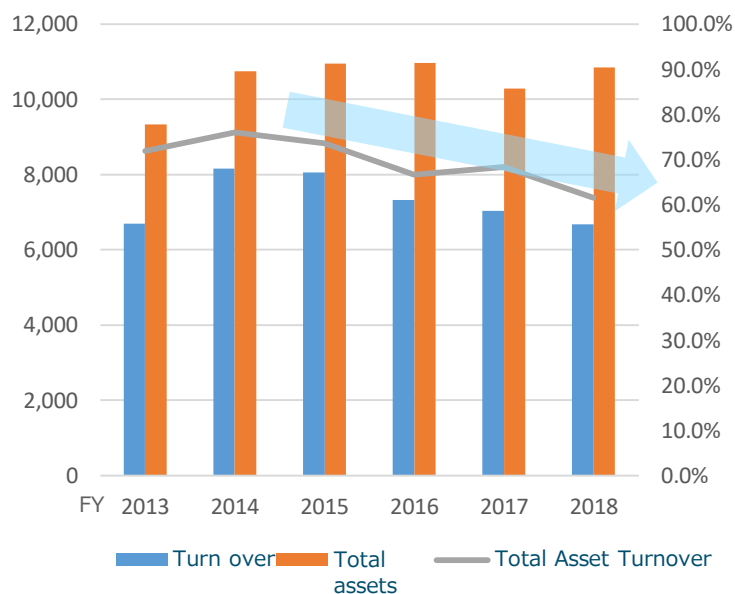
◆ Elevation of Interest-bearing Debt EBITDA Multiple

→ Increasing tendency in interest-bearing debt
→ Decrease in EBITDA

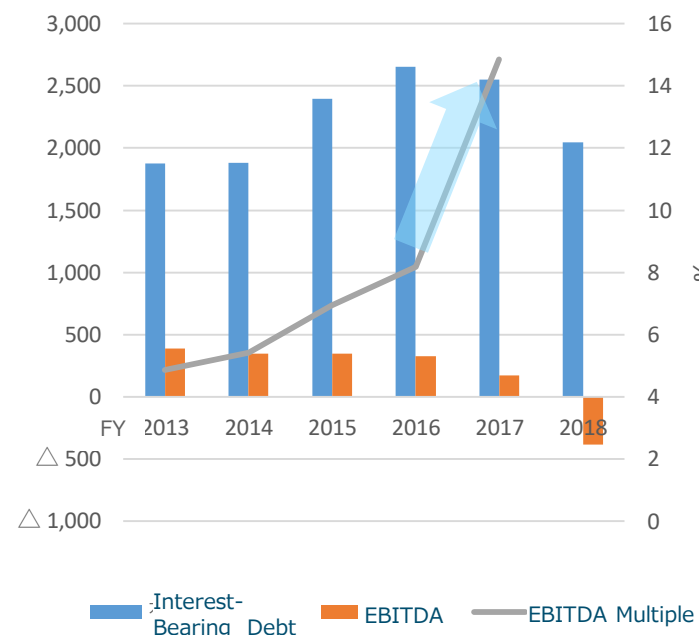
Net Assets



Total Asset Turnover



Interest-bearing Debt / EBITDA



Recovery of the financial and profitability status is the urgent issue.

Short-term Measures (Target for FY2019)

- Further asset disposal and capital measures are under consideration for recovery of damaged net assets

Mid-term Strategy (Target for FY2022)

- Improvement of Return on Total Asset
⇒ Sales ordinary income ratio 4.0% × Total asset turnover ratio 0.8x
- Improvement of Ratio of Debt / Profitability
⇒ Interest-bearing debt EBITDA Multiples < 5.0x

Long-term Strategy (Target for FY2025)

- Improvement of Return on Total Asset
⇒ Sales ordinary income ratio 6.0% × Total asset turnover ratio 1.0x

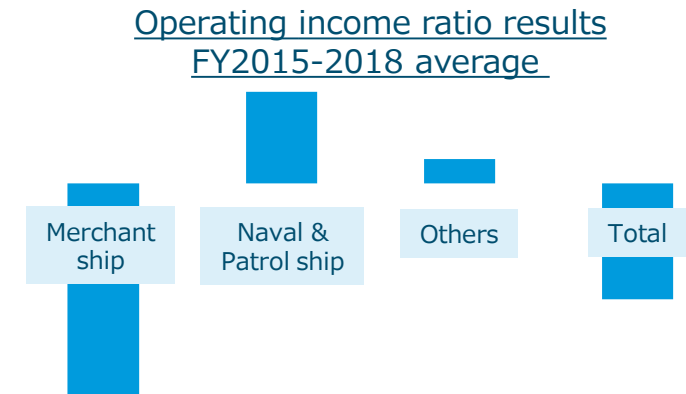
Financial and Profitability Measures

- Disposal of the fixed assets (Head office building etc.)
- Disposal of the owned securities (Listed shares, Shares of subsidiaries etc.)
- Reduction of the fixed cost (Personnel and other expenses etc.)

2. Reform of Business Structure

Shipbuilding Business

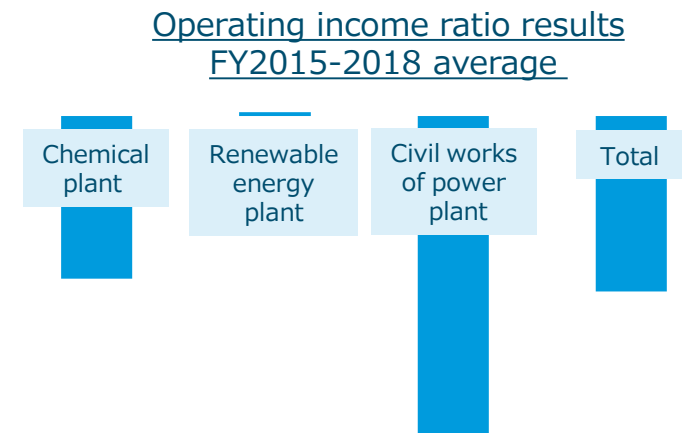
- Continuing the status of oversupply and price decline in the merchant ship market.
- Profitability of merchant ship business has been deteriorated. Operating income ratio of naval & patrol ship etc. are appropriate.



As the fixed cost burden of the naval & patrol ship business is heavy, the merchant ship business is also necessary for continuation of both businesses.

Engineering Business

- EPC and O&M ※ businesses in the renewable energy field can be further developed.
- In the businesses of chemical plant and civil engineering of power plant, several large losses have been continuously recorded.



In the current internal and external environment, it is difficult to continue the business of overseas EPC project.

※O&M : "Operation & Maintenance" works on behalf of a plant owner

Reorganization of the engineering business

- Consolidate the resources dispersed among Mitsui E&S Engineering Co., Ltd.(MES-E) and its subsidiaries, and integrate and enhance the technological capabilities.
 - Consolidate the resources related to chemical plant into Mitsui E&S Plant Engineering Co, Ltd.(MPE).
 - Consolidate the resources related to environmental recycling and biogas into Mitsui E&S Environment Engineering Co, Ltd.(MKE).
- Dispatch engineers from MPE to MODEC, Inc. to focus on the ocean development business.

Completion of the existing civil works of power plant

- Under the direct control of MES-E president, complete with full force.
- After completion, exit from the civil engineering business of power plant.

Change of the business portfolio at Chiba Shipyard

- After delivery of the ships ordered so far, the building business of the merchant ship at Chiba Shipyard will shrink.
- By stages, shift to an organization that focuses on the businesses of energy engineering and construction of large steel structures.

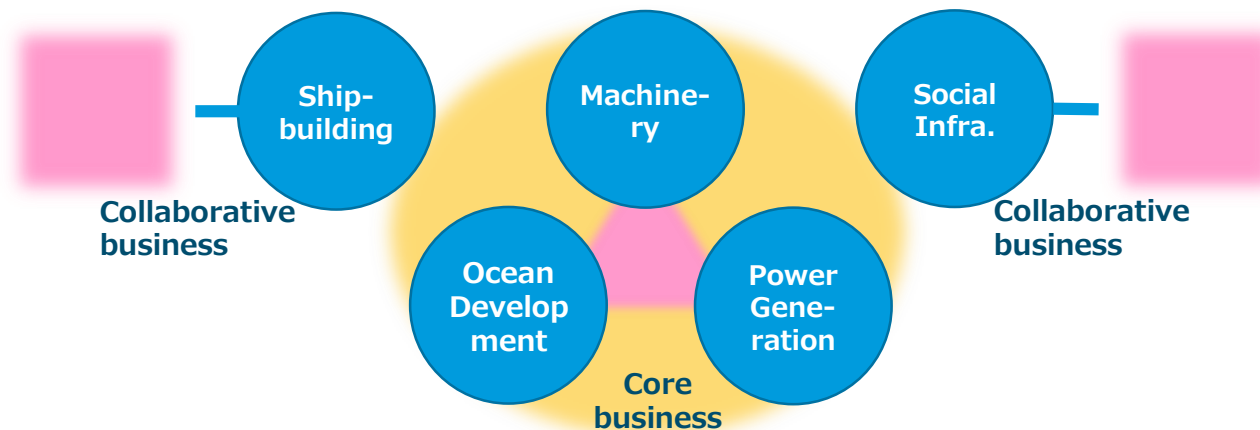
【Policy】

➤ Keep with “3-domain” concept of 2025Vision

- Expands 5 businesses of Machinery, Ocean Development, Power Generation, Shipbuilding and Social Infra. in 3 domains: “Environment & Energy”, “Marine Logistics & Transportation”, and “Social & Industrial Infrastructure”.
- Enhance LSS(Lifecycle Solution Service) business according to the product life cycle.

➤ Pursuing the synergies among inside and outside of Mitsui E&S Group

- Machinery, Ocean Development, and Power Generation business shall be positioned as core business to enhance through the collaborations within the group.
- Shipbuilding and Social Infra. business is positioned as a collaborative business, aiming for the growth through collaboration and alliances with companies outside the group.



Aim to establish a new business structure by FY2022

Expand the product lineup of Machinery Business

- Expand product lineup centered on marine & industrial machinery with the strong points of quality, price competitiveness and networks, and develop LSS business.

Reorganization of Power Generation Business

- The biomass power generation business of MES-E should be integrated into BURMEISTER & WAIN SCANDINAVIAN CONTRACTOR A/S (BWSC).
- BWSC Japan should expand the markets to Southeast Asia in the future, after the Japanese market.
※BWSC Japan : BWSC's subsidiary in Japan

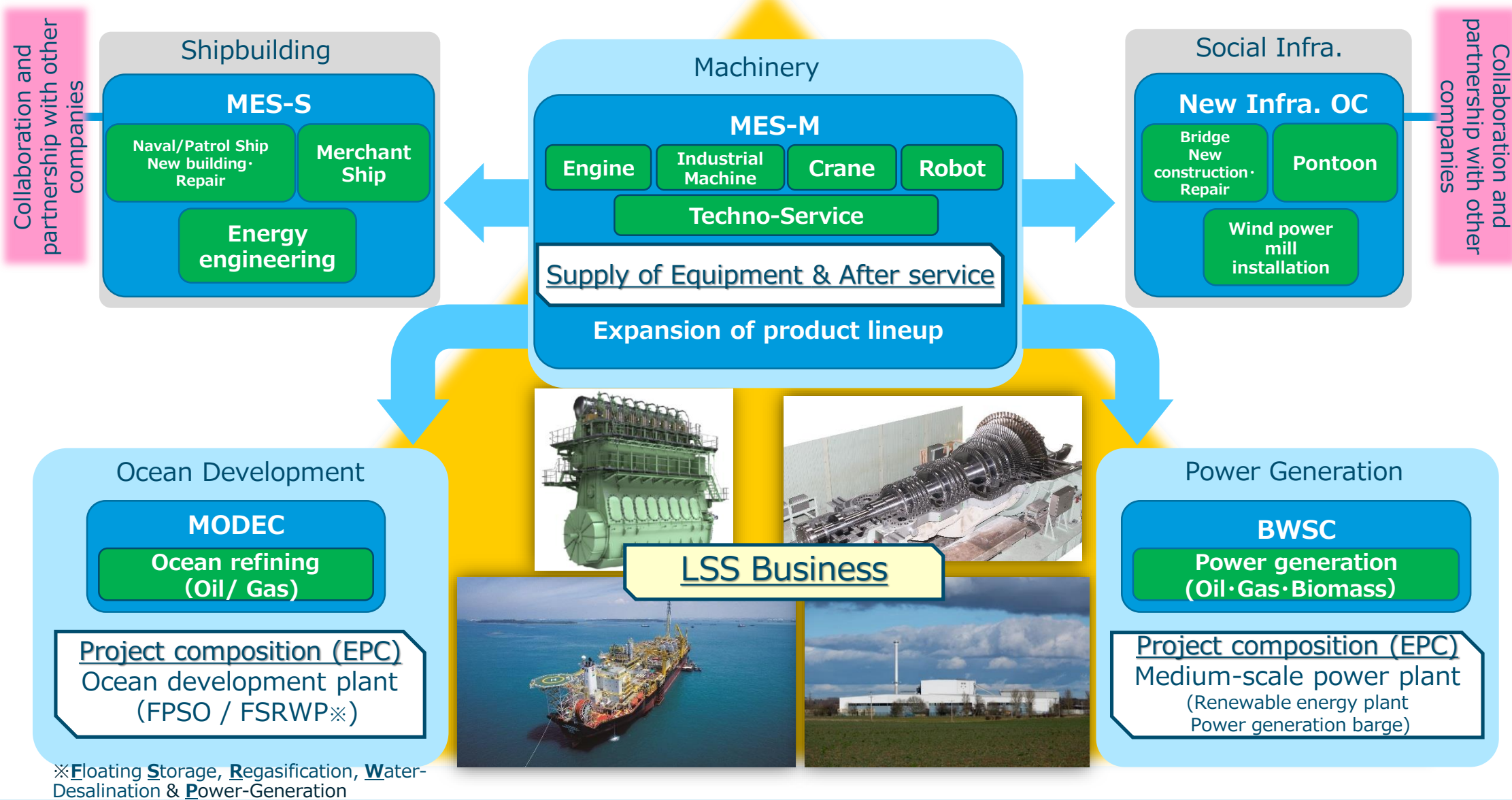
Reorganization of Shipbuilding Business

- Establish a new organization to promote energy engineering business field(offshore FPSO, gas business, etc.).
- Cooperate with companies outside the group to enhance the competitiveness.

Reorganization of Social Infrastructure Business

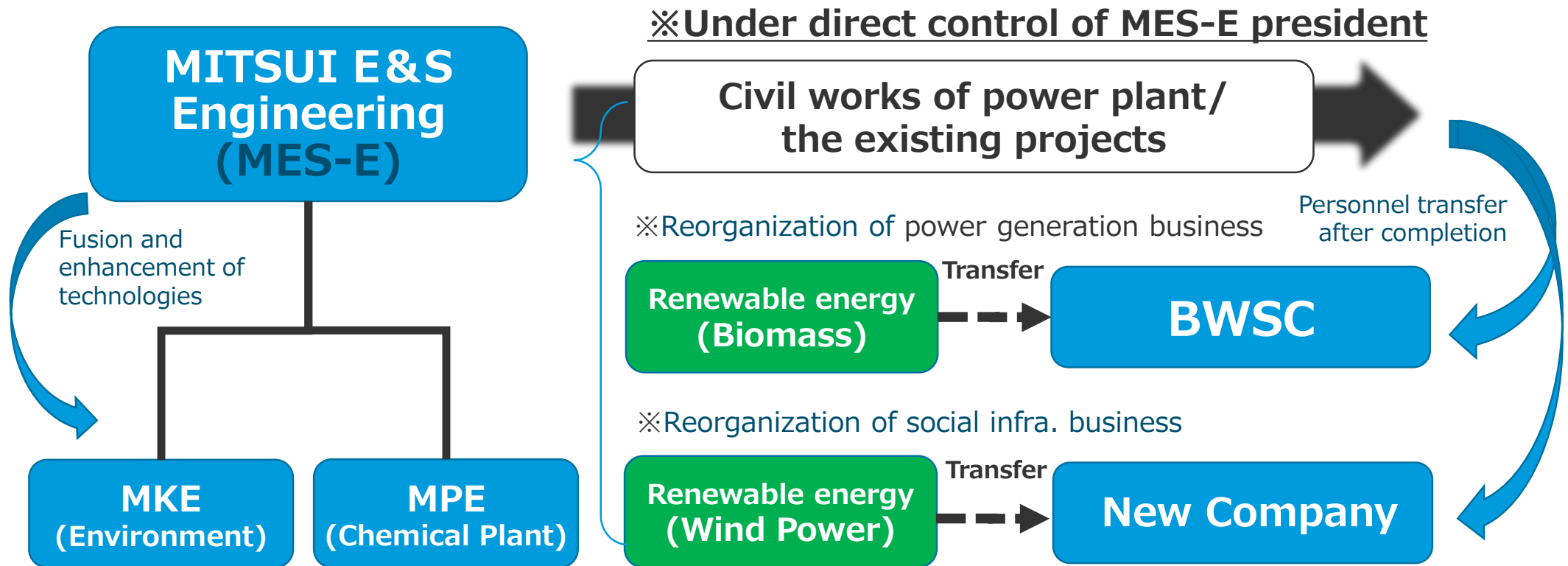
- Consolidate the resources related to social infrastructure should be integrated to Mitsui E&S Steel Structures Engineering Co., Ltd.(MSE) in order to launch a new company for the social infrastructure businesses .
- As the large-scaled structure construction business, the wind power mill installation business of MES-E should be integrated to the new company.
- Considering collaboration with companies outside the group to enhance the competitiveness and expand the business.

2-⑤. Organization after Reformation (at FY2022)



※Floating Storage, Regasification, Water-Desalination & Power-Generation

Focus on equipment and services related to oil, gas and renewable energy



- ◆ MES-E will focus on the operation of MKE / MPE and the completion of the existing projects for the civil works of power plant.
- ◆ After completion of the projects, we will shift such resources to the renewable energy business.

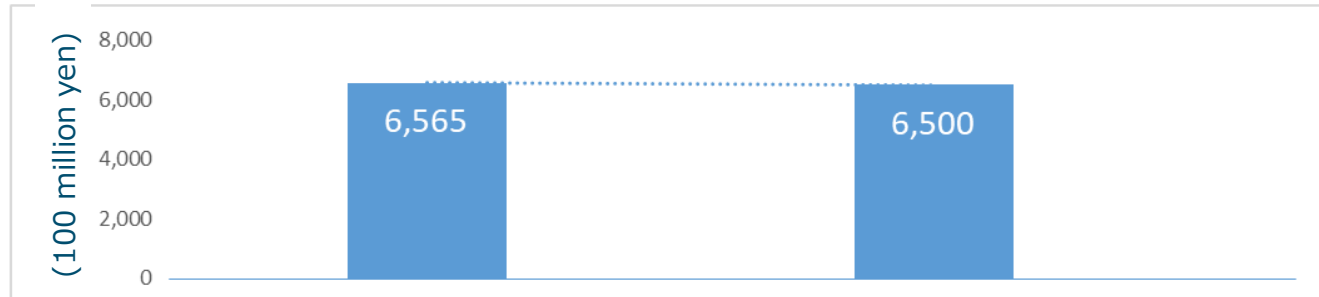
3. Business Outlook

3-①.Financial Forecast

FY2018
(result)

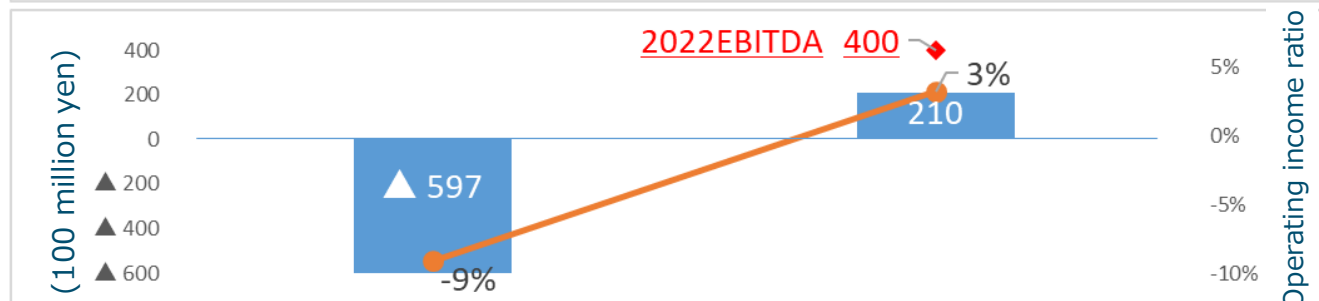
FY2022
(forecast)

Sales



✓ Emphasize on probability, not a wishful thinking, but a solid plan

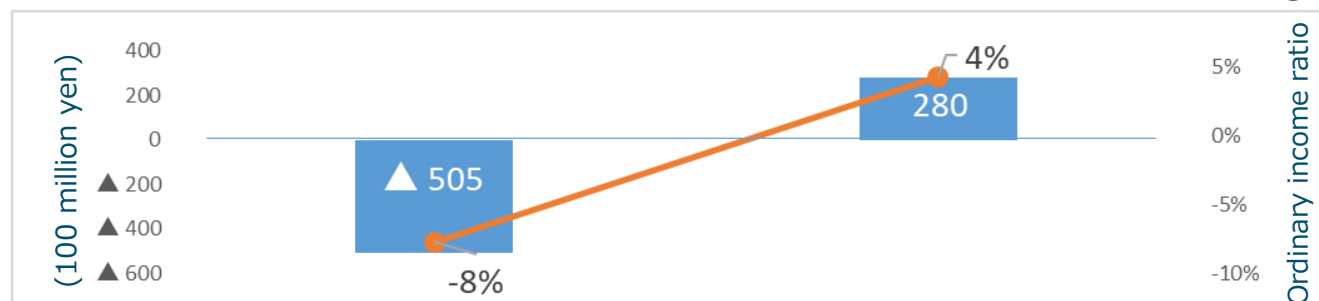
Operating income



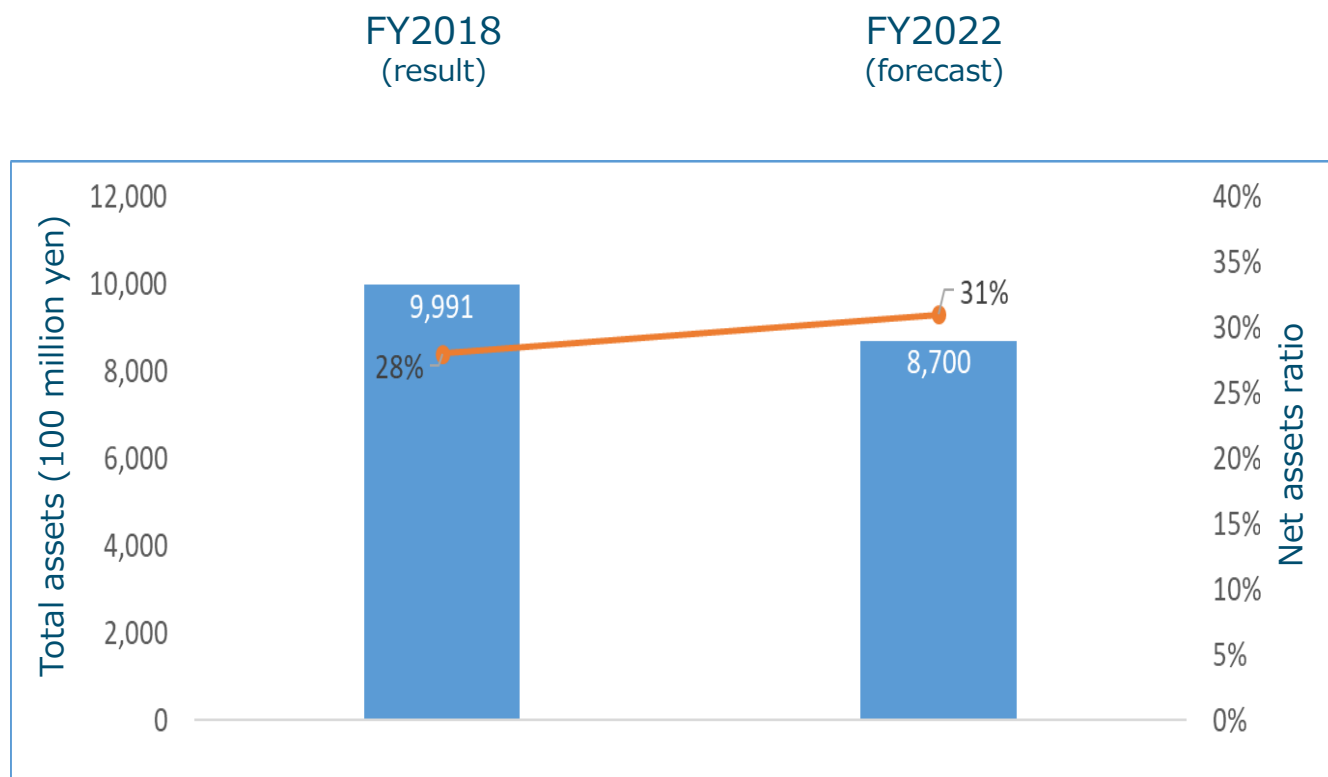
✓ Focus on securing profits while sales decreased by exit from unprofitable business

✓ **FY2022**
Ordinary income ratio about 4%

Ordinary income



Paradigm change from Sales-first principle to Profit-oriented policy



✓ Aiming to compress assets and to improve Total asset turnover ratio

✓ **FY2022**
Total asset turnover ratio
about 0.8x

✓ Aiming to reduce interest-bearing debt to approximately 80% of FY2018 level by FY2022, and to reduce EBITDA multiple of interest-bearing debt

✓ **FY2022**
Interest-bearing debt EBITDA multiple
about 5.0x

The management based on BS will replace the PL-oriented management.

MBP14 Basis Development

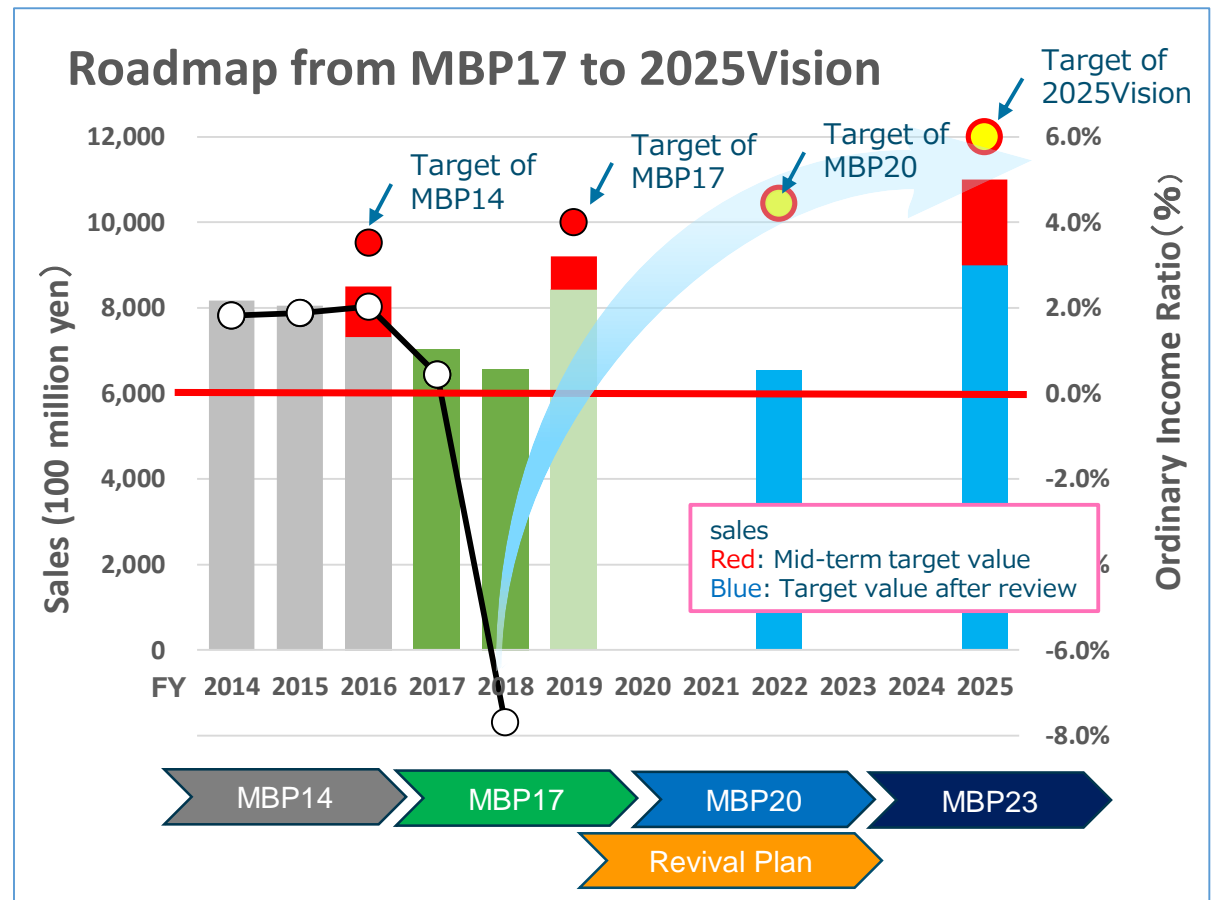
- Net sales: approx. 800 billion yen
- Ordinary Income Ratio: About 2% (below each target)

MBP17 Revolutionary Change

- Sequent large losses of projects occurred
- Shipbuilding market staying sluggish
- Shifted to “Holding Company” system
- Reinforcing the financial structure

MBP20 Significant Advance

- To exit from unprofitable business
- To focus on growth businesses
- To break from sales-first principle



Definitely target: 4% of Ordinary Income Ratio for dividends
 After then, aim to achieve 6% in FY2025.

In FY2025, the profitability will achieve the target of 2025 Vision, though the sales amount is forecasted as less than its original target.

4. Schedule

4. Schedule

	MBP17		MBP20		
	FY2018	FY2019	FY2020	FY2021	FY2022
	Business Revival Plan				
◆ Reinforcement of Financial Structure	Short-term measure		Mid-term strategy		
□ Disposal of assets	Disposal of assets		Continuation		
□ Reduction of fixed cost	Reduction of costs		Continuation		
◆ Reform of Business Structure	Reorganization / Exit from unprofitable business				
□ Enhancement of the core businesses	Expansion of machinery product lineup				
□ Reorganization of Shipbuilding Business	Collaboration / Reform of portfolio				
□ Reorganization of Social Infrastructure Business	New OC		Building of a new production system		
□ Reorganization of Engineering Business	Organization specialized to complete the existing civil works in power plants				

We will enhance our management foundation by executing this Revival Plan.



MITSUMI E&S

社会に人に信頼されるものづくり企業であり続けます

To continue working as a company trusted by society and individual through products and services we offer

Disclaimer:

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Accordingly, there is a possibility that actual results or developments of our company in the future may differ significantly from such forecasts.