

Summary of Consolidated Financial Results For the Third Quarter of Fiscal Year Ending March 31, 2019 [Japan GAAP]

Company: Takamatsu Construction Group Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange (First Section)

Stock code: 1762

URL: <https://www.takamatsu-cg.co.jp/>

Representative: Nobuhiko Yoshitake, President and Representative Director of the Board

Contact: Hiroyuki Izutsu, Senior Director of Group Integration Division

Contact: 06-6303-8101, ir@takamatsu-const.co.jp

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Date of commencement of dividend payment: —

Supplementary explanatory documents: Yes

Earnings presentation meeting: No

(Yen in millions, rounded down, figures in parentheses indicate negative amounts or percentages)

1. Financial results for the third quarter of the fiscal year ending March 2019 (April 1, 2018 – December 31, 2018)

(1) Consolidated result of operations (year-to-date) (Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Net earnings attributable to controlling interest	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Third quarter ended December 2018	174,893	(0.9)	5,963	(33.3)	5,992	(33.1)	3,209	(33.0)
Third quarter ended December 2017	176,561	15.6	8,941	(7.2)	8,962	(7.2)	4,787	(7.0)

Note: Comprehensive income: Third quarter of FYMar.2019: 3,447million yen (44.1 %) , Third quarter of FYMar.2018: 6,171million yen (1.0%)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
Third quarter ended December 2018	92.16	—
Third quarter ended December 2017	133.91	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2018	174,538	114,594	57.7
As of March 31, 2018	184,895	113,992	53.9

(Reference) Shareholders' equity

As of December 31, 2018:100,684 million yen

As of March 31, 2018: 99,625 million yen

2. Dividends

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
FY3/18	—	20.00	—	36.00	56.00
FY3/19	—	22.00	—		
FY3/19 (Est.)				38.00	60.00

Note: Change in the estimation of divided from the latest announcement: No

3. Consolidated forecast for the fiscal year ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Percentage figures represent year on year changes)

	Orders received		Net sales		Operating income		Ordinary income		Net earnings attributable to controlling interest		Net earnings per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	
Full year	300,000	17.7	260,000	6.1	13,000	(4.6)	13,000	(5.1)	7,200	(9.5)	206.79	

Note: Change in the forecast from the latest announcement: Yes

* **Notes**

- (1) Changes in significant subsidiaries (Changes of specific subsidiaries that accompanies scope change of consolidation): Yes
Included 1 (company name) Takamatsu Construction Group USA, Inc.
Excluded — (company name)
- (2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements: No
- (3) Changes in accounting principles and estimates, and retrospective restatement
(a) Changes due to revision of accounting standards: No
(b) Changes other than (a): No
(c) Changes in accounting estimates: No
(d) Retrospective restatement: No
- (4) Number of shares outstanding (common stock)
(a) Shares outstanding (including treasury shares)
As of December 31, 2018: 38,880,000 As of March 31, 2018: 38,880,000
(b) Treasury shares
As of December 31, 2018: 4,061,303 As of March 31, 2018: 4,061,303
(c) Average number of shares (quarterly consolidated cumulative period)
Period ended December 31, 2018: 34,818,697 Period ended December 31, 2017: 35,752,197

* Auditing of financial statements by CPA and/or CPA firm is not conducted to this summary of financial results.

* Cautionary statement regarding forecasts and special notes

(Note on forward looking statements)

Forward-looking statements in this material is based on the information available to management at the time this report was prepared. Actual results may differ significantly from these statements for number of reasons.

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1. Results of Operations

(1) Overview of business performance

During the three quarters of the fiscal year that will end in March 2019, the overall Japanese economy continued to show moderate recovery trend. However, there are signs of sluggishness such as downturn overseas demand as well as slowdown of corporate earnings. During the same period, the Japanese construction market continued negative growth for the private sector, in addition to public sector shrinking versus last year due to backrush of large project orders a year ago. These resulted in -6.7 % vs. April through December of 2017 for overall Japanese domestic construction market. However, although small ups and downs exist, the overall domestic construction market is estimated to show continued tight market trend for the next two to three years.

Under these circumstances, Takamatsu Construction Group celebrated its centenary in October 2017. With this commemorative fiscal year of 2017 as the starting year, we kicked off our new Mid Term Plan "TRY! NEXT CENTURY 2020".

In the new Mid Term Plan, Takamatsu Corporation, one of our core companies, plans to be the main engine for the growth of the TCG Group by focusing on winning orders to construct condominiums for rental purpose in the Tokyo Metropolitan area, while Asunaro Aoki Construction, the other core company of the Group as well as mid-sized general contractor, will work hard to realize a moderate but steady growth to maintain its high level of profit achieved in the last fiscal year.

However, after considering our strong results of the last fiscal year as well as our aggressive hiring status to secure future growth, for the fiscal year ending March 2019, which is our 101st fiscal year after foundation, we decided our theme for this fiscal year to be "NEXT CENTURY 101! Let's Achieve our Mid Term Plan Goals One Year Ahead!" to achieve our Mid Term Plan revenue and profit goals one year in advance. In addition, we plan to change one of our key words of the Plan, "Specialty 18 alpha" to "Specialty 20 alpha" by taking into account that Mibu Corporation Co.,Ltd. and TCG USA Inc. joined our consolidated Group from this fiscal year through M&A and new foundation, respectively, through which, we expect further expansion of our business.

With the abovementioned strategies, our Q3 (accumulated) orders soared to record high of 218,055 million yen (+17.3% vs previous Q3(accumulated)). However, due to partial delay of construction, our net sales of 174,893 million yen showed slight shortage versus previous year (-0.9% vs previous Q3 (accumulated)).

Regarding profit, operating income was 5,963 million yen (-33.3% vs. previous Q3 (accumulated)), ordinary income was 5,992 million yen (-33.1% vs. previous Q3 (accumulated)), and net earnings attributable to controlling interest was 3,209 million yen, a decrease of 33.0 % vs. previous Q3 (accumulated) due to backrush of last year's Q3 in which we had numbers of high margin constructions, partial delay of construction, as well as increase of selling, general and administrative expenses due to increased numbers of employees and new Group companies joining our Group.

By-segment performance were as described below, however concerning by-segment earnings, the numbers do not include 2,665 million yen of headquarter expenses and other adjustments to match with consolidated operating income.

(Architecture)

Orders received increased by 31.1% to 116,810 million yen, net sales decreased by 7.7 % to 78,539 million yen and the segment operating profit decreased by 34.7 % to 3,640 million yen.

(Civil engineering)

Orders received decreased by 0.0% to 84,411 million yen, net sales increased by 0.6% to 79,520 million yen and the segment operating profit decreased by 21.1 % to 3,914 million yen.

(Real estate)

Sales from real estate transactions, leasing and other operations increased by 35.5 % to 16,833 million yen and the segment operating profit increased by 31.2 % to 1,074 million yen.

(2) Overview of financial condition

(Assets)

Assets totaled 174,538 million yen at the end of the third quarter, 10,357 million yen less than the end of the previous fiscal year. This is due mainly to decreases of cash and deposits of 18,078 million yen as well as notes and accounts receivable of 2,423 million yen, partially offset by increase of real estate for sale of 2,647 million yen and noncurrent assets of 3,164 million yen (mainly goodwill), both caused by new Group companies that joined our Group as well as increase of accounts receivable of 1,480 million yen.

(Liabilities)

Liabilities decreased by 10,959 million yen to 59,944 million yen. The main reasons were decrease of 8,981 million yen of accounts payable and decrease of 1,936 million yen of income taxes payable.

(Net assets)

Net assets increased by 601 million yen to 114,594 million yen.

The primary reason was increase of retained earnings of 1,183 million yen by combination of Q3 net earnings (accumulated) of 3,209 million yen and 2,019 million yen of dividend payout, plus decrease of valuation differences on available-for-sales securities of 361 million yen. As the result, net assets after deducting non-controlling interests was 100,684 million yen with the equity ratio of 57.7 %, 3.8 percentage point higher than the end of the previous fiscal year.

(3) Forecast

Based on the forecast that our progress of construction will be behind schedule, our current forecast for net sales, operating income, ordinary income and net earnings will be short versus our previous forecast of May 11. 2018. Therefore, we revised our earnings forecast for the fiscal year ending March 31, 2019 as follows:

Revision for the consolidated forecast of fiscal year ending March 31. 2019 (April 1, 2018 through March 31, 2019)

	Orders received	Net sales	Operating income	Ordinary income	Net earnings attributable to controlling interest	Net earnings per share
	Million yen	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecast (A) (May 11,2018)	280,000	268,000	15,000	15,000	8,300	238.38
Revised forecast(B)	300,000	260,000	13,000	13,000	7,200	206.79
Change(B-A)	20,000	(8,000)	(2,000)	(2,000)	(1,100)	
Change%	7.1	(3.0)	(13.3)	(13.3)	(13.3)	
(Reference) Results for fiscal year ended March 2018	254,857	245,107	13,630	13,702	7,957	223.39

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

	Fiscal year ended March 2018 (As of March 31, 2018)	Third quarter ended December 2018 (As of December 31, 2018)	(Million yen)
ASSETS			
Current assets			
Cash and deposits	68,571	50,492	
Notes receivable, accounts receivable from completed construction contracts and other	68,146	65,723	
Real estate for sale	7,592	10,240	
Costs on uncompleted construction contracts	781	1,610	
Costs on real estate business	764	1,547	
Accounts receivable	5,263	6,743	
Other	1,275	2,501	
Allowance for doubtful accounts	(270)	(256)	
Total current assets	152,125	138,603	
Noncurrent assets			
Tangible Assets			
Buildings and structures, net	4,016	5,532	
Machinery, vehicles, tools, furniture and fixtures, net	1,199	1,168	
Vessels, net	1,595	1,467	
Land	12,916	13,066	
Lease assets, net	152	151	
Construction in progress	58	1,101	
Total Tangible assets	19,938	22,487	
Intangible assets	473	2,078	
Investments and other assets			
Investment securities	6,436	5,719	
Deferred tax assets	3,653	2,935	
Other	2,563	3,000	
Allowance for doubtful accounts	(295)	(286)	
Total investments and other assets	12,357	11,369	
Total noncurrent assets	32,770	35,934	
Total assets	184,895	174,538	

	Fiscal year ended March 2018 (As of March 31, 2018)	Third quarter ended December 2018 (As of December 31, 2018)	(Million yen)
LIABILITIES			
Current liabilities			
Accounts payable for construction contracts	32,565	23,584	
Income taxes payable	2,373	436	
Advances received on uncompleted construction contracts	11,055	14,326	
Provision for warranties for completed construction	690	672	
Provision for loss on construction contracts	175	106	
Provision for bonuses	2,797	1,550	
Provision for directors retirement benefits	50	—	
Provision for loss by disaster	240	—	
Other	8,326	6,825	
Total current liabilities	58,274	47,502	
Noncurrent liabilities			
Deferred tax liabilities for land revaluation	256	256	
Deferred tax liabilities	253	113	
Provision for special repairs of vessels	52	67	
Retirement allowances	10,660	10,587	
Other	1,405	1,416	
Total noncurrent liabilities	12,628	12,441	
Total liabilities	70,903	59,944	
NET ASSETS			
Shareholders' equity			
Capital stock	5,000	5,000	
Capital surplus	391	488	
Retained earnings	102,100	103,283	
Treasury shares	(7,483)	(7,483)	
Total shareholders' equity	100,008	101,288	
Accumulated other comprehensive income			
Valuation differences on available-for-sales securities	1,129	768	
Revaluation reserve for land	(1,266)	(1,266)	
Foreign currency translation adjustment	—	57	
Remeasurements of retirement allowance plans	(245)	(162)	
Total accumulated other comprehensive income	(382)	(603)	
Non-controlling interests	14,367	13,909	
Total net assets	113,992	114,594	
Total liabilities and net assets	184,895	174,538	

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income

Quarterly consolidated statements of income

For the third quarter of fiscal year ending March 31, 2019 (April 1, 2018 – December 31, 2018)

(Million yen)

	Third quarter ended December 2017 (April 1, 2017- December 31, 2017)	Third quarter ended December 2018 (April 1, 2018- December 31, 2018)
Net sales		
Net sales of completed construction contracts	164,139	158,059
Sales on real estate business	12,422	16,833
Total net sales	176,561	174,893
Cost of sales		
Cost of sales of completed construction contracts	141,686	138,032
Cost of sales on real estate business	11,273	14,360
Total cost of sales	152,960	152,393
Gross profit		
Gross profit on completed construction contracts	22,452	20,027
Gross profit-real estate business	1,148	2,472
Total gross profit	23,601	22,499
Selling, general and administrative expenses		
Operating income	8,941	5,963
Non-operating income		
Interest income	1	0
Dividend income	100	108
Rent income	36	43
Other	33	46
Total non-operating income	171	198
Non-operating expense		
Interest expense	128	130
Other	21	38
Total non-operating expense	150	169
Ordinary income		
Extraordinary income		
Gain on sales of fixed assets	18	41
Gain on sales of investment securities	5	126
Total extraordinary income	23	167
Extraordinary loss		
Loss on litigation	52	32
Loss on disaster	126	137
Other	9	50
Total extraordinary loss	189	221
Income before income tax	8,796	5,939
Income tax-current	2,513	1,549
Income tax-deferred	662	737
Total income tax	3,176	2,286
Net earnings	5,619	3,652
Net earnings attributable to non-controlling interests	831	443
Net earnings attributable to controlling interest	4,787	3,209

Quarterly consolidated statements of comprehensive income
 For the third quarter of fiscal year ending March 31, 2019 (April 1, 2018– December 31, 2018)

(Million yen)

	Third quarter ended December 2017 (April 1, 2017– December 31, 2017)	Third quarter ended December 2018 (April 1, 2018– December 31, 2018)
Net earnings	5,619	3,652
Other comprehensive income		
Valuation difference on available-for-sale securities	366	(364)
Foreign currency translation adjustment	—	57
Remeasurements of retirement allowance plans	184	102
Total other comprehensive income	551	(205)
Comprehensive income	6,171	3,447
(This splits into···)		
Comprehensive income attributable to controlling interest	5,252	2,988
Comprehensive income attributable to non-controlling interests	918	459

(3) Notes to consolidated financial statements

(Going concern assumptions)

None

(Significant change in shareholders' equity)

None

(Additional information)

(Application of "Partial Amendment to 'Accounting Standard for Tax Effect Accounting', etc.")

"Partial Amendment to 'Accounting Standard for Tax Effect Accounting' (ASBJ Statement No. 28, February 16, 2018), etc." were applied from the first quarter of this fiscal year.

Under this application, deferred tax assets are shown in "Investments and other assets" classification, while deferred tax liabilities are shown in Noncurrent Liabilities.

3. Additional Information

Orders received and net sales (consolidated)

(Million yen, %)

		Third quarter FY3/18		Third quarter FY3/19		Changes	
		(Apr. 1, 2017-Dec. 31, 2017)	(Apr. 1, 2018-Dec. 31, 2018)	Amount	Share		
Orders received	Architecture	89,077	47.9	116,810	53.6	27,733	31.1
	Civil engineering	84,447	45.4	84,411	38.7	(35)	(0.0)
	Total construction	173,524	93.3	201,222	92.3	27,697	16.0
	Real estate	12,422	6.7	16,833	7.7	4,411	35.5
	Total	185,946	100.0	218,055	100.0	32,108	17.3
Net sales	Architeture	85,131	48.2	78,539	44.9	(6,592)	(7.7)
	Civil engineering	79,007	44.8	79,520	45.5	512	0.6
	Total construction	164,139	93.0	158,059	90.4	(6,079)	(3.7)
	Real estate	12,422	7.0	16,833	9.6	4,411	35.5
	Total	176,561	100.0	174,893	100.0	(1,668)	(0.9)