

# **Takamatsu Construction Group**

## **Takamatsu Construction Group Co., Ltd.**

Financial Results Briefing for the Fiscal Year Ended March 2023

May 17, 2023

## Event Summary

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<b>[Company Name]</b>	Takamatsu Construction Group Co., Ltd.	
<b>[Company ID]</b>	1762-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Financial Results Briefing for the Fiscal Year Ended March 2023	
<b>[Fiscal Period]</b>	FY2023 Annual	
<b>[Date]</b>	May 17, 2023	
<b>[Number of Pages]</b>	24	
<b>[Time]</b>	15:30 – 16:10 (Total: 40 minutes, Presentation: 18 minutes, Q&A: 22 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Venue Size]</b>		
<b>[Participants]</b>		
<b>[Number of Speakers]</b>	3	
	Hiroataka Takamatsu	President & Representative Director of the Board
	Takuya Oda	Officer, General Manager of Group Business Promotion Department
	Katsumi Kashiwai	Manager of Group Business Promotion Department
<b>[Analyst Names]*</b>	Hideaki Teraoka	Daiwa Securities
	Ryo Yagi	Mitsubishi UFJ Morgan Stanley Securities
	Yoshihiro Nakagawa	Mizuho Securities

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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## Presentation

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**Moderator:** Hello everyone. Thank you for taking time out of your busy schedule today to participate in the financial results briefing for the fiscal year ended March 31, 2023, of Takamatsu Construction Group Co., Ltd. In attendance today are Hiroataka Takamatsu, President & Representative Director of the Board; Takuya Oda, Officer, General Manager of the Group Business Promotion Department; and Katsumi Kashiwai, Manager of the Group Business Promotion Department.

Mr. Kashiwai, our department manager, will give an overview of our financial results for the fiscal year ended March 31, 2023, and Mr. Takamatsu, the President, will give a 20-minute presentation on business restructuring, topics, and financial results summary, followed by a 15-minute Q&A session. The time allotted for this meeting is approximately 40 minutes.

If you have any questions, please enter them in the Q&A tab on the left center of the screen and submit. When responding, we will read out the name of the company, the name of the person who asked the question, and the question to be answered.

Today's presentation materials are also available on our website, but some of them have been replaced and will be uploaded after tomorrow.

Now, we will start the explanation. First, Mr. Kashiwai will speak.

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## Performance for FY ended March 2023

(100 million yen)

Item	FY ended March 2020	FY ended March 2021	FY ended March 2022	FY ended March 2023	+ / -
Orders received	2,967	2,564	3,128	3,376	+7.9%
Net sales	2,823	2,830	2,639	2,824	+7.0%
Gross profit	399	383	385	420	+9.0%
Gross profit %	14.2%	13.5%	14.6%	14.9%	+0.3pt
Operating profit	147	121	112	120	+7.2%
Operating profit %	5.2%	4.3%	4.3%	4.3%	0pt
Ordinary profit	143	121	114	117	+2.4%
Ordinary profit %	5.1%	4.3%	4.4%	4.2%	(0.2pt)
Profit attributable to owners of parent	86	74	67	75	+12.0%
Profit attributable to owners of parent %	3.1%	2.6%	2.5%	2.7%	+0.2pt

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**Kashiwai:** Although this is not in the order of the pages of the financial results presentation, I will first provide an overview of the financial results for the fiscal year ended March 31, 2023. President Hirotaka Takamatsu will then talk about business restructuring, topics, and financial summary.

Now, please see page eight. Orders received increased 7.9% to JPY337.6 billion, sales increased 7% to JPY282.4 billion, and the gross profit margin increased 0.3 percentage points to 14.9%, with gross profit up 9% to JPY42 billion.

The operating profit margin was 4.3%, unchanged from the previous year, and operating income increased 7.2% to JPY12 billion, both of which were as we planned.

Net income attributable to shareholders of the parent company was JPY7.5 billion, up 12% from the previous year and exceeding the planned JPY6.8 billion.

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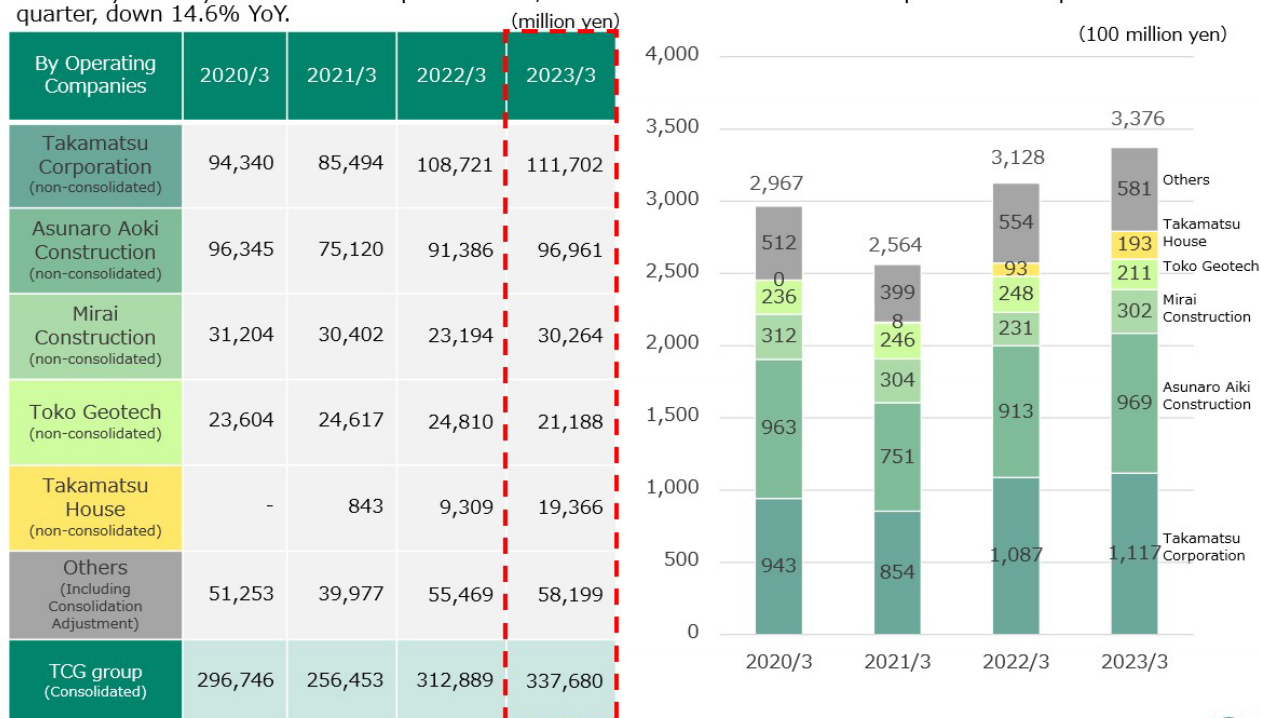
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## Orders Received by core operating companies

- ◆ Takamatsu Corporation increased slightly by 2.7% YoY, Asunaro Aoki Construction increased by 6.1% YoY, and Mirai Construction increased by 30.5% YoY due to a lower performance in the previous year. Takamatsu House also continued to perform well, with orders approximately 2 times higher than the previous year. Toko Geotech saw an increase year-on-year in the fourth quarter alone, but could not recover from lower performance up to the third quarter, down 14.6% YoY.



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Next, I would like to discuss orders received by core operating companies. Please turn to page 10.

Takamatsu Corporation increased 2.7% YoY; Asunaro Aoki Construction also performed well, up 6.1% YoY; and Mirai Construction increased 30.5% YoY, partly as a reaction to weak orders in the previous year.

Although the Q4 non-consolidated orders increased YoY, Toko Geotech was the only one of the five core operating companies to post a negative result, down 14.6% YoY, as it was unable to offset the weak orders received from Q1 through Q3.

Takamatsu House, our wood-frame detached housing business, continued to perform well, with orders approximately doubling from the previous year.

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## Takamatsu Corporation : Orders by Rental Apartments and non-Residentials

- ◆ In Tokyo, orders for both Rental Apartments and non-Residentials decreased YoY. But in Osaka, orders for non-Residentials increased due to large-scale orders received in the 2Q and 3Q, as well as large-scale orders for logistics facilities in 4Q. Overall order of Takamatsu Corporation exceeded the results of the previous year.

Orders by Rental Apartments and non-Residentials (million yen)

	Osaka				Tokyo			
	2022/3	%	2023/3	%	2022/3	%	2023/3	%
Rental Apartments	18,125	37.6%	15,422	24.9%	43,538	72.0%	37,157	74.7%
non-Residentials	30,095	62.4%	46,521	75.1%	16,964	28.0%	12,603	25.3%
Total	48,220	100%	61,943	100%	60,502	100%	49,759	100%

※Figures including transactions between group companies.

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Next, I would like to discuss Takamatsu Corporation's orders for rental apartments and non-residentials. Please turn to page 13.

The ratio of rental apartments to non-residentials was roughly 3:7 in Osaka and 7:3 in Tokyo, similar to the previous year.

By segment, orders received for a garbage treatment facility in Takarazuka City in Q2 through a joint venture with Asunaro Aoki Construction. and for a redevelopment project on the former Yodogawa Ward Office site in Osaka City in Q3 had a significant impact, resulting in significant YoY growth in orders for non-residentials in Osaka. On the other hand, orders for rental apartments in Osaka, rental apartments in Tokyo, and non-residentials in Tokyo were down year on year. This was due to the fact that we have been avoiding taking orders for unprofitable projects as we have strengthened our stance of emphasizing profitability at the time of order receipt, which resulted in a YoY decrease in orders received.

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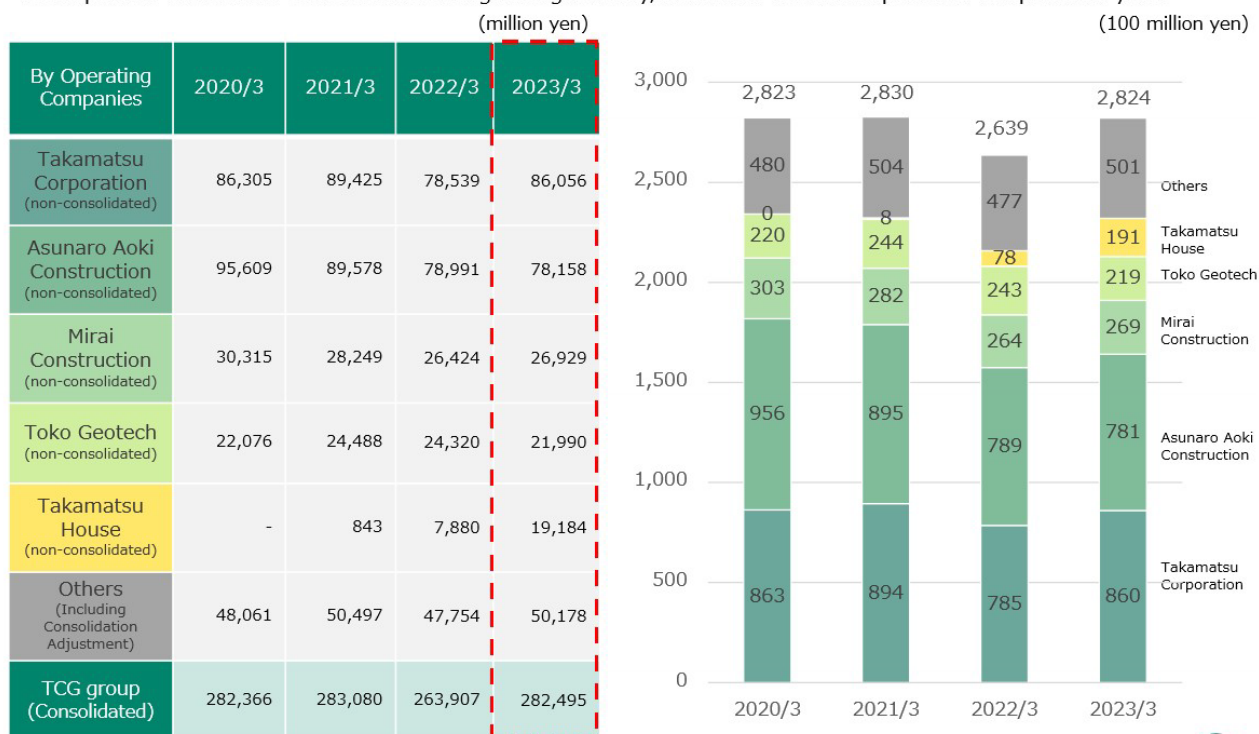
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## Net sales by core operating companies

- Takamatsu Corporation was +9.6% YoY. Asunaro Aoki Construction slightly decreased by 1.1% YoY. Mirai Construction was +1.9% YoY. Toko Geotech decreased by 9.6% due to continued to be sluggish in orders until the third quarter. Takamatsu House sales were growing steadily, about 2.4 times compared to the previous year.



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Next, I will explain sales by core operating companies. Please turn to page 15.

Takamatsu Corporation increased sales by 9.6% YoY, Asunaro Aoki Construction declined slightly by 1.1% YoY, and Mirai Construction increased slightly by 1.9% YoY.

Toko Geotech, which receives a high percentage of its sales from orders received in a given fiscal year that are completed and booked as sales during the fiscal year, saw a 9.6% YoY decline due to sluggish orders received in the current fiscal year. Takamatsu House sales were JPY19.1 billion, 2.4 times higher than the previous year.

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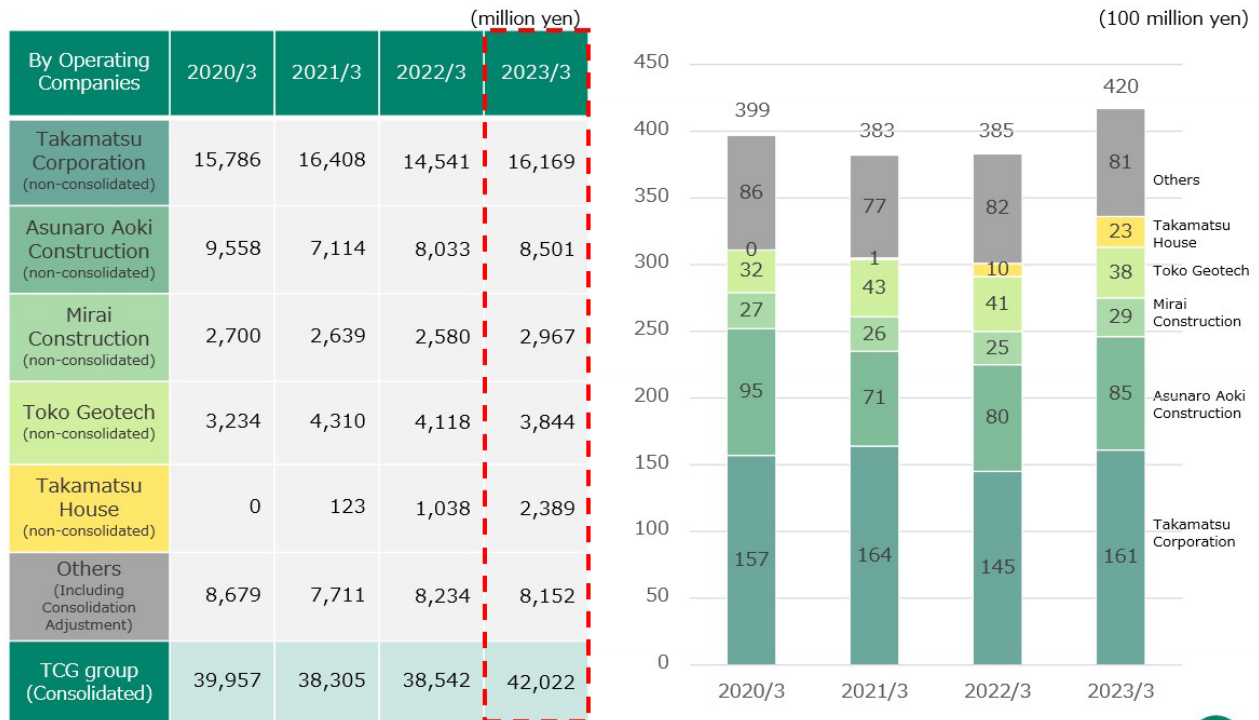
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## Gross profit by core operating companies

- ◆ Takamatsu Corporation was +11.2% YoY, Asunaro Aoki Construction was +5.8% YoY and Mirai construction was +15.0% YoY due to increased sales. Toko Geotech's gross profit decreased by 6.7% due to a decrease in sales. Takamatsu House continues to perform well, about 2.3 times the previous year.



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Next, I will explain gross profit by core operating companies. Please turn to page 17.

Takamatsu Corporation increased gross profit by 11.2% YoY due to higher sales; Asunaro Aoki Construction increased by 5.8% YoY on a 0.7-point improvement in the gross profit margin, despite a slight decline in sales; and Mirai Construction increased 1.9% YoY on a 0.6-point improvement in the gross profit margin, resulting in a 15% increase in gross profit from the previous year.

Despite an improvement in gross profit margin, Toko Geotech's gross profit declined 6.7% YoY due to lower sales. Takamatsu House has increased approximately 2.3 times YoY.

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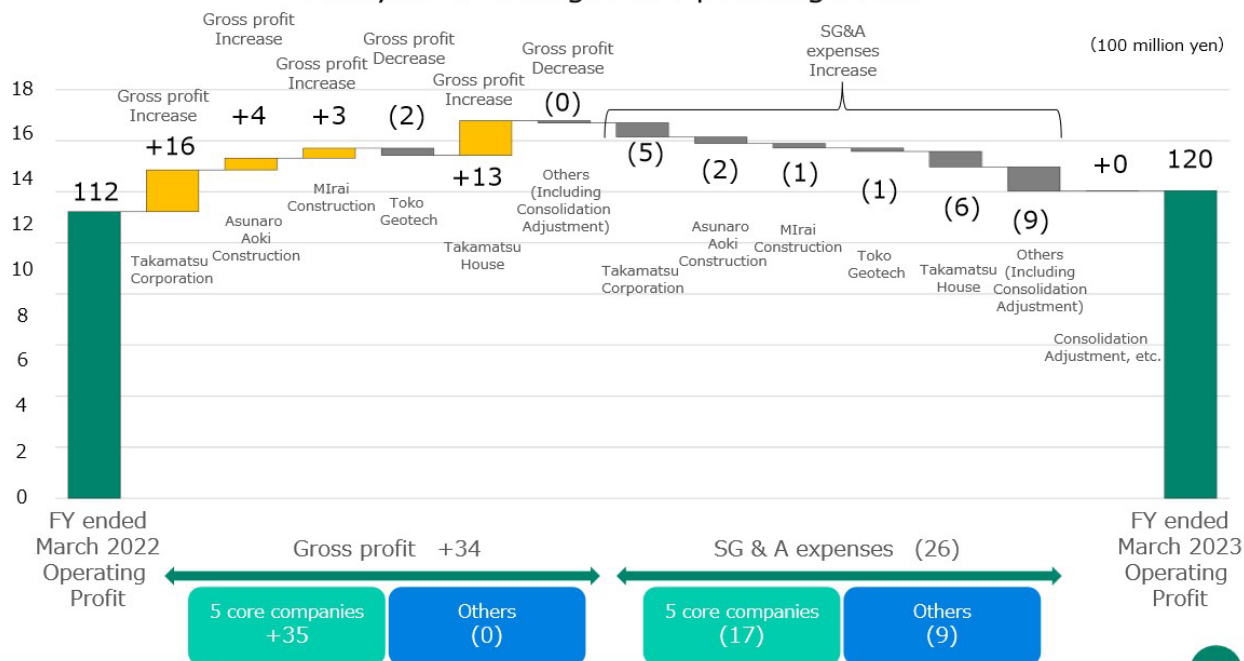


# Analysis of Changes in Operating Profit

■ Increase ■ Decrease ■ Total

- ◆ The decrease in gross profit at Toko Geotech and companies other than the five core companies were mainly compensated for by the increase in gross profit at Others, resulting in an overall increase of approximately 3.4 billion yen. As for SG&A expenses, personnel expenses increased mainly at Takamatsu Corporation and Takamatsu House, and personnel expenses also increased at companies other than the five core companies, resulting in an overall increase of approximately 2.6 billion yen.

## Analysis of Changes in Operating Profit



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Next, I will explain the analysis of changes in operating profit. Please turn to page 20.

Among the five core companies, all but Toko Geotech reported an increase in gross profit, with two companies, Takamatsu Corporation, and Takamatsu House, leading the way, resulting in a JPY3.4 billion increase in gross profit.

SG&A expenses, on the other hand, increased by JPY2.6 billion YoY, partly due to higher personnel expenses at Takamatsu Corporation and Takamatsu House. As a result, operating profit increased 7.2% from JPY11.2 billion in the previous year to reach the planned JPY12 billion.

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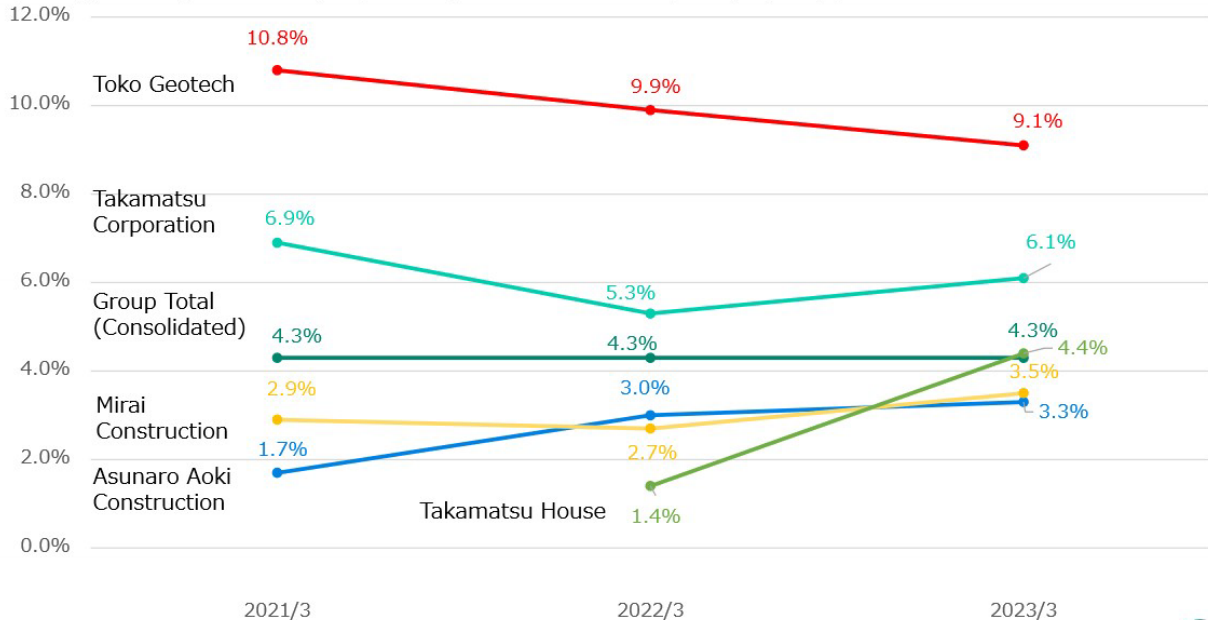
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## Operating profit ratio by Group Total (Consolidated) and the 5 core companies

- ◆ Takamatsu Corporation's gross profit margin increased by 0.3pt YoY, and operating profit margin increased by 0.8pt YoY despite an increase in SG&A expenses, especially personnel expenses. Asunaro Aoki Construction posted a gross profit margin increased by 0.7pt YoY, but operating profit margin slight increased 0.3pt YoY due to an overall increase in SG&A expenses.
- ◆ Takamatsu House gross profit margin was down 0.7pt YoY due to labor costs increased, but the large increase in sales led to a significant increase in operating profit margin +3pt YoY.
- ◆ Toko Geotech gross profit margin increased by 0.6pt YoY, but the operating profit margin decreased by 0.8pt YoY due to a decline in sales and an increase SG&A expenses, especially personnel expenses. Mirai Construction gross profit margin increased by 0.6pt YoY, and operating profit margin increased by 0.8pt YoY despite an increase SG&A expenses, especially personnel.



※We described Takamatsu House's operating profit ratio from FY ended March 2022 because their actual start-up FY was FY ended March 2021.

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Next, I will explain the consolidated total and the operating profit margin of the five core companies. Please turn to page 21.

Among the five core companies, only Toko Geotech's operating profit margin declined. Takamatsu Corporation, Asunaro Aoki Construction, Mirai Construction, and Takamatsu House all increased their operating profit margins.

However, Toko Geotech's operating margin remained the highest in the Group, at 9.1%.

For Toko Geotech, the gross profit margin improved by 0.6 percentage points YoY, but the operating profit margin declined by 0.8 percentage points YoY due to the significant impact of the 9.6% YoY decline in sales. We will aim for recovery from this fiscal year onward.

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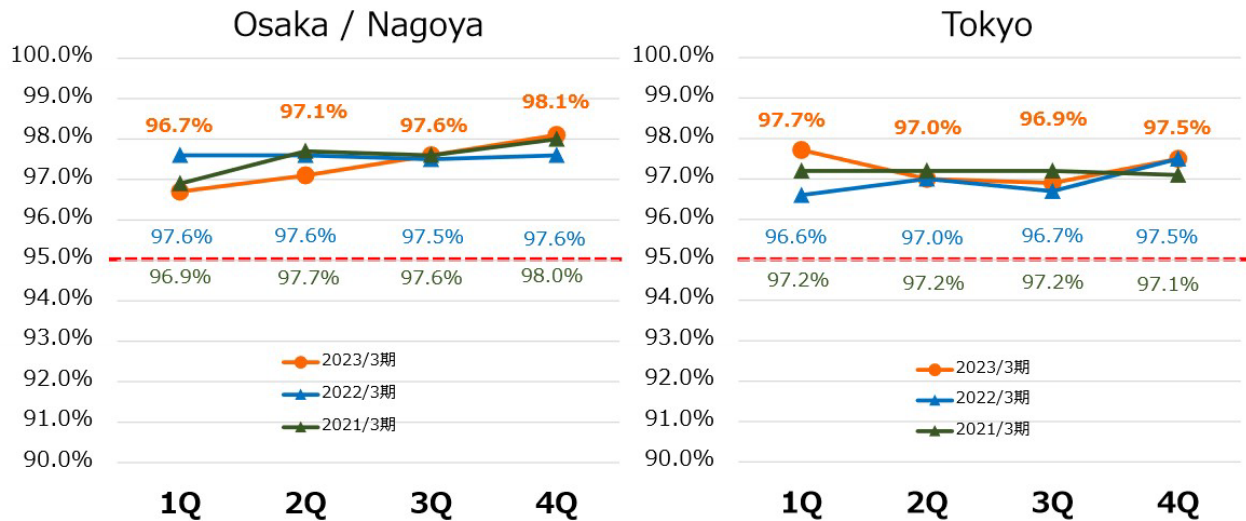
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## Occupancy Rate of Properties Constructed by Takamatsu Corporation at Takamatsu Estate

- ◆ Occupancy rates of 95% or higher have been maintained for FY ended March 2023 in both Tokyo and Osaka.



### Definitions

"Osaka/Nagoya": Osaka, Kyoto, Hyogo, and Nagoya

"Tokyo": Tokyo, Kanagawa, Saitama, and Chiba

"Occupancy rate": Number of properties constructed by Takamatsu Corporation managed by Takamatsu Estate that are occupied at the end of each quarter ÷ total number of properties constructed by Takamatsu Corporation managed by Takamatsu Estate at the end of each quarter

The following is the occupancy rate of the properties constructed by Takamatsu Corporation at Takamatsu Estate. Please turn to page 22.

In the fiscal year ended March 31, 2023, both in Osaka and Tokyo areas maintained strong levels of 95% or more.

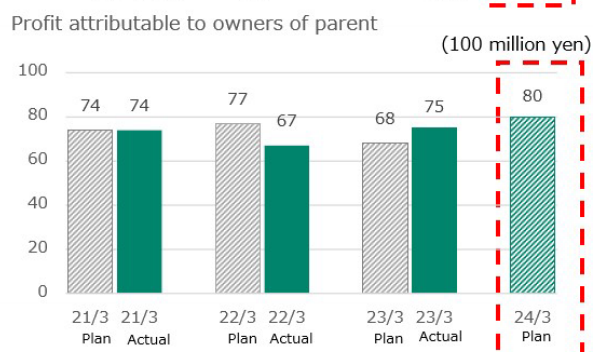
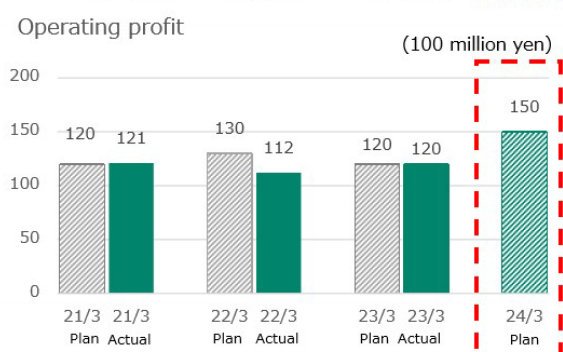
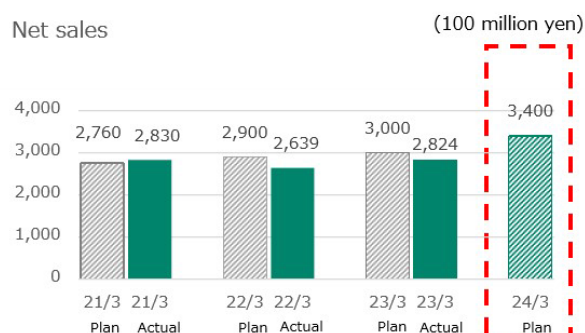
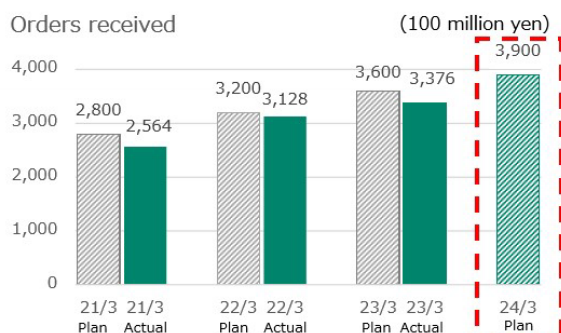
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## Earnings Forecast for FY ending March 2024

- ◆ For the fiscal year ending March 2024 will be in line with the medium-term management plan. Orders are expected to increase significantly for Takamatsu House and slightly increase for civil engineering. In Architecture, Takamatsu Corporation is also expected to grow steadily, and sales and operating profit will increase accordingly.



Next, I would like to discuss our forecast for the full year ending March 2024. Please turn to page 24.

In line with the planned figures for the fiscal year ending March 31, 2024, set forth in our medium-term management plan, Co-Creation x 2025, which was disclosed in May 2022, we plan orders of JPY390 billion, sales of JPY340 billion, and operating profit of JPY15 billion.

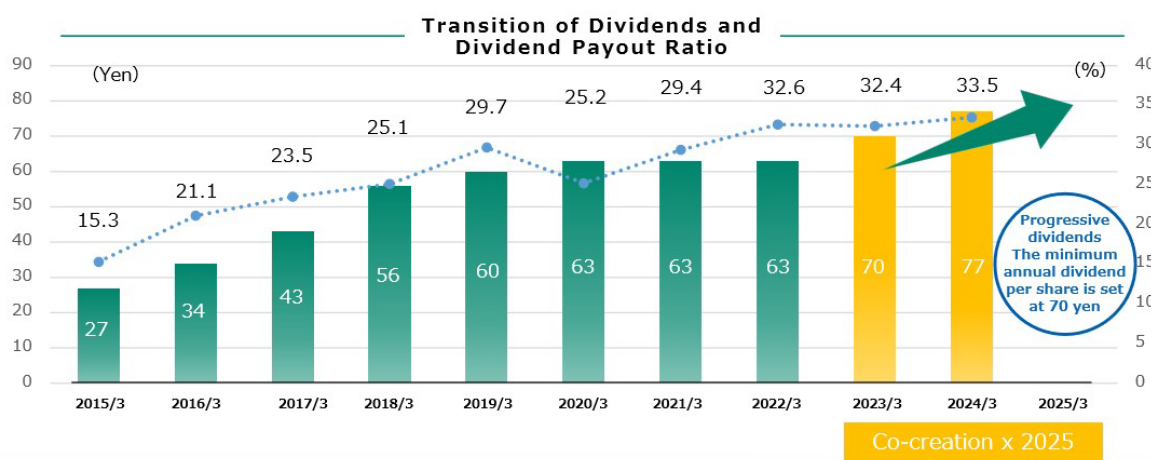
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## Earnings Forecast & Dividend Forecast for FY ended March 2024

- ◆ The basic policy is to pay progressive dividends during the target years of the medium-term management plan “Co-creation x 2025” (fiscal year ended March 2023 to fiscal year ending March 2025). The minimum annual dividend per share is set at 70 yen. Profit returns will be linked to business performance.
- ◆ We have decided to increase the dividend by 7 yen from the forecast of 63 yen per share to 70 yen per share for the fiscal year ended March 31, 2023.
- ◆ The dividend for the fiscal year ending March 2024 is planned to be 77 yen per share, an increase of 7 yen from the dividend for the fiscal year ending March 2023.



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Next, I would like to discuss our forecast for the full year ending March 2024. Please turn to page 25.

We have now clarified our dividend policy and set the minimum dividend per share at JPY70 for the period of the current medium-term management plan from the fiscal year ended March 2023 to the fiscal year ending March 2025, based on the basic policy of progressive dividends.

For the fiscal year ended March 31, 2023, we have decided to pay a dividend of JPY70 per share, an increase of JPY7 per share from the JPY63 per share dividend declared at the beginning of the fiscal year.

For the current fiscal year ending March 31, 2024, we plan to increase the dividend by another JPY7 from the planned JPY70 to JPY77 per share. We intend to continue to return profits to shareholders in line with our business performance.

Mr. Hiroataka Takamatsu will now present his explanation.

**Takamatsu:** My name is Hiroataka Takamatsu from Takamatsu Construction Group. Thank you very much for joining us today for our financial results briefing for the fiscal year ended March 2023. First of all, I would like to talk about the reorganization of the Group, which we have been working on continuously for the past two fiscal years.

The Group has been expanding its operations through M&A as one of its means and is continuously reviewing its business portfolio in order to achieve higher profitability for the Group as a whole. We aim to reduce administrative costs and increase production efficiency through selection and concentration by business segment, as well as to increase the profit margin of the Group as a whole.

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## Group Reorganization

### 1) Established Takamatsu House Kansai



Expanding the rapidly growing wooden detached housing business in the Kinki region. Conducts sales, planning and marketing of wooden detached house-related business.

Company Name	Takamatsu House Kansai
Location	Yodogawa-ku, Osaka
Name and position of Representative	Kenji Yagi, Representative Director & President
Capital	100 million yen
Date of Establishment	November 1, 2022
Shareholders and Stockholding ratio	Takamatsu Construction Group owns 100% of the shares
Number of Employees	19 (As of March 31, 2023)

First, let me talk about the establishment of the new company. Please turn to page three.

Takamatsu House currently operates a wooden detached house business in the Tokyo metropolitan area, and in November last year, we established a new company, Takamatsu House Kansai, separately from Takamatsu House.

Takamatsu House Kansai plans to develop the wooden detached house business mainly in Osaka City and the Hokusetsu area by utilizing Takamatsu's strong brand power and abundant information in the Kansai region. In the current and next fiscal years, we will focus on building an organizational structure, and since this will be the phase of upfront investment in structuring the building sales business, we expect to contribute to profits in FY2025 or later.

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## Group Reorganization

### 2) Merge of Takamatsu Techno Service (Osaka) and Takamatsu Techno Service (Tokyo) (Effective April 1, 2023)

Absorption-type merger with Takamatsu Techno Service (Osaka) as the surviving company and Takamatsu Techno Service (Tokyo) as the absorbed company.

#### ◆ Summary of companies involved in the merger

	Surviving Company	Absorbed Company
CompanyName	Takamatsu Techno Service (Osaka)	Takamatsu Techno Service (Tokyo)
Location	Yodogawa-ku, Osaka	Chiyoda-ku, Tokyo
Date of Establishment	March 2, 1993	April 1, 1997
Name and position of Representative	Kenichi Kurihara, Representative Director & President	Kohei Matsui, Representative Director & President
Capital	300 million yen	300 million yen

#### ◆ Situation after the merger

Company Name	Takamatsu Techno Service
Location	Yodogawa-ku, Osaka
Date of Establishment	March 2, 1993
Name and position of representative	Kohei Matsui, Representative Director & President
Capital	300 million yen

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Next, I would like to discuss the reorganization of the Group. Please turn to page four.

On April 1 of this year, Takamatsu Techno Service Osaka and Takamatsu Techno Service Tokyo, which are engaged in large-scale renovation and remodeling of condominiums and other buildings, were merged into Takamatsu Techno Service.

The purpose of the merger is to expand the scope of our business by providing higher quality services through the placement of the right technical personnel in the right positions and the integration of management systems to enhance our technical proposal capabilities in the field of large-scale building renovations and maintenance.

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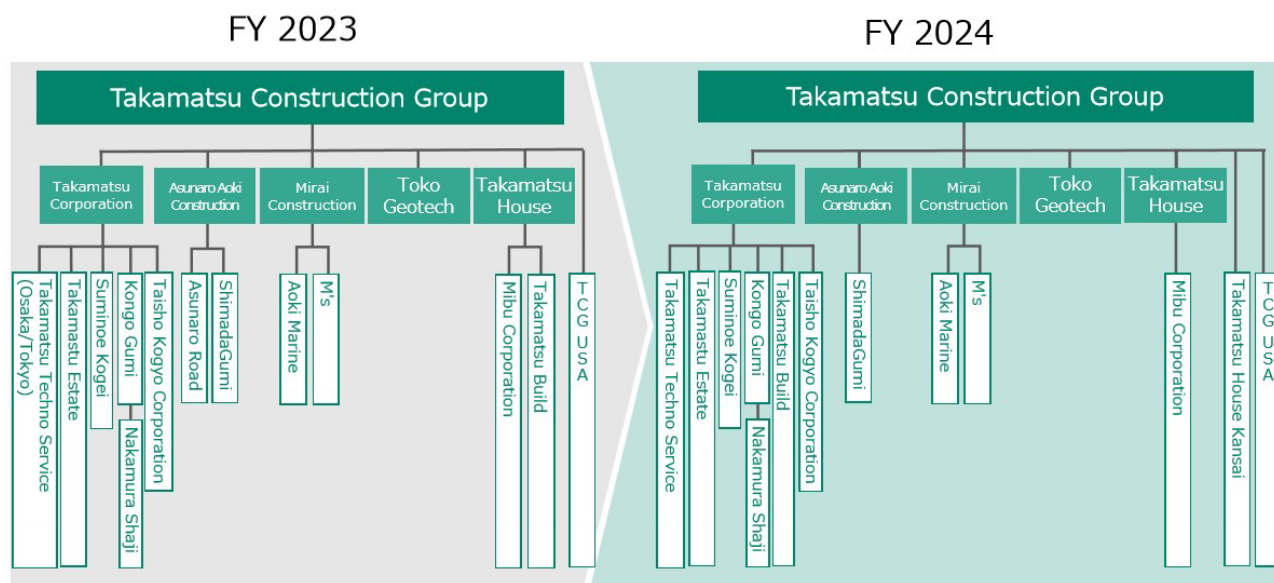
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## Group Reorganization

- 3) Sale of Asunaro Road Co., Ltd. (effective March 31, 2023)  
Asunaro Aoki Construction Co., Ltd., a consolidated subsidiary of our Company, transferred its subsidiary, Asunaro Road, to Watanabe Sato Co., Ltd.
- 4) Changed of Takamatsu Build into a subsidiary of Takamatsu Corporation (as of April 3, 2023)  
Takamatsu Build (former name: Tatsumi Planning) was reorganized from a subsidiary of Takamatsu House to a subsidiary of Takamatsu Corporation.



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Please turn to page five. As of March 31, of this year, Asunaro Road was transferred to a major road industry company, Watanabe Sato Co., Ltd.

Asunaro Road was established in 1973 as a spin-off of the road paving division of Komatsu Construction Industry Hokkaido Branch, the predecessor of Asunaro Aoki Construction, and after joining our group, the company operated a road paving business specializing in Hokkaido and recorded stable earnings.

However, after considering sustainable growth in the future, we decided that it would be better to join a company that has a strong management base as a listed paving company and can share synergies in the paving field, and we decided to transfer the company to Watanabe Sato Co., Ltd.

Next, Takamatsu Build, which changed its name from Tatsumi Planning in January of this year, was reorganized from a subsidiary of Takamatsu House to a subsidiary of Takamatsu Corporation.

Takamatsu Build is currently responsible for the construction works of Takamatsu House's wooden detached house business, as well as the wooden apartment business, which proposes to build wooden apartments on land owned by owners.

The wooden apartment construction business is expected to generate synergy effects as an effective land utilization option for land owners targeted by Takamatsu Corporation, and the business is expected to expand.

As Mr. Kashiwai explained earlier, Takamatsu Corporation and Takamatsu House, in particular, contributed to the increase in operating profit in the fiscal year ended March 31, 2023, and although other group companies

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were impacted by the decline in sales, they were able to meet the consolidated operating profit target of JPY12 billion thanks to efforts to improve the gross profit margin of each property.

The operating income target of JPY15 billion set in the current medium-term management plan will be driven by the construction and detached house sales segments of Takamatsu Corporation and Takamatsu House, which continue to show growth potential. The five core companies, including those two; Asunaro Aoki Construction, which is engaged in renewal work with high-profit margins and new-energy-related work; Toko Geotech, which is composed of construction specialists and has high construction profit margins; and Mirai Construction, which has large defense-related construction projects, will lead the Group to achieve its goals through the combined strengths of the entire Group.

We will continue to work to ensure stable returns to shareholders as the Group grows.

In addition, as the industry as a whole faces a chronic shortage of human resources, especially in securing young talent, the maximum working hour limit will be applied to the construction industry from April 2024.

In this business environment, we are promoting our human resource strategy from the four perspectives of human resource development, work style reform, diversity, and engagement, based on the challenge to become a top-class company with a good reputation, as stated in our medium-term management plan.

## Topics

### ◆ Takamatsu Construction Group

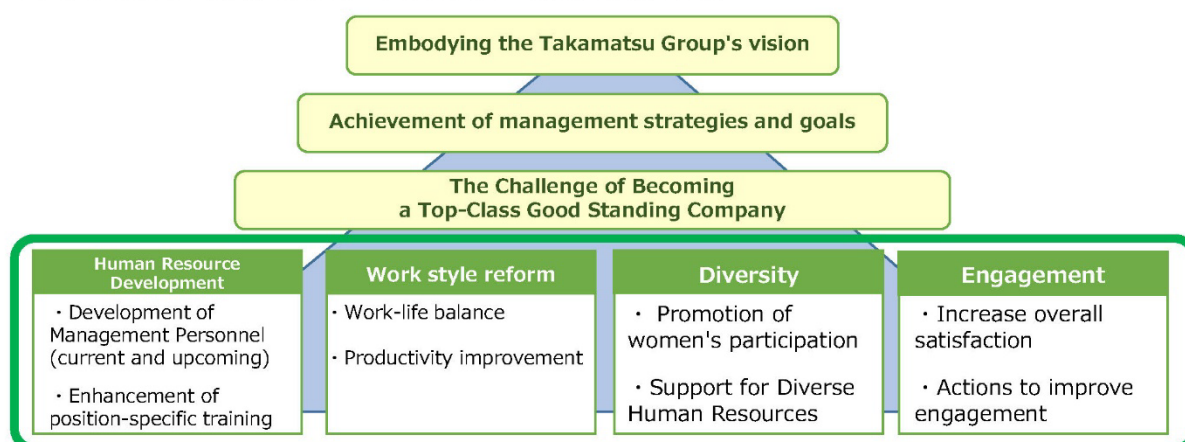
○ Raise starting wages for new graduate hires at five core companies

The starting wages for new graduates, which has been left unchanged since the 2020 revision, will be raised at five core group companies. The starting wages has been raised throughout the construction industry, and this time we will revise it to the same level as the construction industry. In order to maintain and correct the wage curve associated with the increase in starting wages, we intend to make it the Group's policy to raise wages by 5%.

■ Joined in April 2023, five core companies, starting wages for university graduates

• Takamatsu Corporation: 245,000 yen (YoY increase of 5,000 yen), Asunaro Aoki Construction: 245,000 yen (YoY increase of 5,000 yen), Mirai Construction: 245,000 yen (YoY increase of 5,000 yen), Toko Geotech: 240,000 yen (YoY increase of 11,000 yen), Takamatsu House: 245,000 yen to 251,000 yen (YoY increase of 3,500 yen)

< Human Resources Strategy for Realization of Human Capital Management >



~ Takamatsu group will work together based on four main perspectives ~

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As part of our human capital management, we will raise the starting salary of new graduates at Takamatsu Corporation, Asunaro Aoki Construction, and Mirai Construction to JPY245,000 for those who join the company in April 2023, and we will also raise wages by 5% as part of our group policy.

One of our greatest strengths is the diversity of personnel in each of the Group's distinctive operating companies. In order to maximize the power of these human resources, it is necessary to promote the exchange of human resources, share information, and create best practices for improving productivity and creating new businesses out of diversity.

The Company has initiated projects for DX promotion, monetization of proprietary technologies, review of business processes, and restructuring of the human resource system, and will do so to stimulate human capital investment across the Group.

This concludes the financial results briefing for the fiscal year ended March 31, 2023.

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## Question & Answer

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**Moderator [M]:** We will now begin the question-and-answer session. We are currently reviewing your questions. Please wait a moment. Now, let's start with the first question.

**Kashiwai [Q]:** First, a question from Mr. Teraoka from Daiwa Securities. "Orders for rental apartments at Takamatsu Corporation are declining. I have heard that this is the result of selective order receipt with an emphasis on profitability, but how will you balance the profit margin with the volume of orders in the future? I would like to know your current thoughts on this."

President Takamatsu will explain this.

**Takamatsu [A]:** I will answer the question.

As you pointed out last year, orders for rental apartments for Takamatsu Corporation were sluggish in H2 last year, and the Company had a very difficult time. However, the percentage of rental apartments in Tokyo did not change that much compared to last year.

Since last year, we have been making a strategic shift to larger project orders. After one year, this strategic system is now permeating the field. During the previous year, the sales approach and proposal methods differed between small apartments and large projects exceeding JPY1 billion, so it took some time to adjust the organization associated with the shift in strategy.

However, there are many competitors for condominiums worth JPY300 to JPY400 million, and the sales effort required is the same as for large-scale projects. We also have a production capacity problem, so we are planning to increase our profit margin by differentiating ourselves from other companies in terms of planning by targeting large-scale projects, given the limited number of buildings we can work on.

Although we are in the process of enhancing our ability to propose plans and proposals in order to win large projects, we view this fiscal year's target as a fairly solid number.

While we are targeting these large-scale projects, we cannot neglect small and medium-sized apartment projects in order to increase the dominance of our rental apartments.

Since cooperation with group companies will be important in this area, we will strive to build an internal structure to cover the entire area so that we can focus on areas other than large projects.

That concludes my answer.

**Kashiwai [Q]:** Next, we have a question from Mr. Teraoka, also from Daiwa Securities. "Orders for your built-to-order detached housing business are steadily expanding. I would like to know what differentiates you from your competitors and what aspects of your business are valued by your customers.

I would also like to know about your growth strategy, including future area expansion."

President Takamatsu will answer this question, too.

**Takamatsu [A]:** I will answer the question.

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As I mentioned in the financial results presentation, Takamatsu Corporation and Takamatsu House are currently driving the growth of the entire group.

How did this wooden detached house business do so well? There are two differentiating factors in this business. One is the location of the houses, and the other is the price range.

Takamatsu House has been targeting the central Tokyo area, particularly the Jonan and Josai areas, or Setagaya, Meguro, Suginami, and Ota wards, and has been successful in its strategy of developing detached houses of 25 to 30 tsubo in size. In this respect, we believe that our strategy to date has not been mistaken.

This strategy was successful in that it targeted a zone that major housebuilders and power builders were not targeting and aimed for a middle zone of approximately JPY600,000 per tsubo, which was a strategy that no other company had.

However, in order to achieve further growth in the future, it is essential to expand our business area, and we are planning to expand the number of employees at our Saitama office, which has been in operation for one year. In Kanagawa, we are planning to establish new sales offices targeting the Kawasaki area and the Funabashi to Ichikawa area in Chiba.

In terms of product planning, we have a brand named MIRAKURAS based on the concept of "Better Quality, Value Price" to reflect the expansion in this area. With this area expansion in mind, we have been conducting consumer surveys since last year, and we plan to incorporate the results into marketing strategies for products, sales processes, and sales promotion activities to determine what kind of value we can offer in the future.

That's all from me.

**Kashiwai [Q]:** Next, we have a question from Mr. Yagi of Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. "What measures are you considering to achieve the P/B ratio of 1?"

President Takamatsu will also answer this question,

**Takamatsu [A]:** I will now answer your question about what measures we are considering to achieve a P/B ratio of 1.

Our stock price has been on an upward trend since the beginning of this fiscal year and has reached its highest level since the beginning of the year five times since the beginning of May, probably due in part to the announcement of the dividend increase at the time of the earnings announcement on May 10.

However, a P/B ratio of 1 means that the stock price must aim for JPY3,600 or more, and we are still far from this level.

This is true not only for our company but also for the construction industry in general, but compared to other industries, the construction industry is mainly engaged in subcontracting work, so there is a lot of competition when it comes to large-scale bidding projects and profitability is low.

In addition, long-term contracts that extend over three to five years are subject to fluctuations in earnings depending on the progress of construction, and I believe this is one of the reasons why they are not easily evaluated in the stock market.

In order to improve the P/B ratio, we need to improve both the P/B ratio and ROE. In other words, we need to raise our stock price and increase our earning power. As for the improvement of the P/B ratio, we have

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been concerned about the extremely low liquidity of our shares, and as we announced in March of this year, we have completed the reduction of policy shareholdings and improved the liquid share ratio.

Other measures to improve P/B ratios include strengthening investor relations, and, as I explained earlier, we have promised to pay a minimum dividend of JPY70 per share and a progressive dividend during the period of the medium-term management plan.

But, the most important thing for us is to improve ROE, which is an important factor in increasing the share price. In its medium-term management plan, the Company has set an ROE of 8.1% in the final year of the plan, FY2025, and a long-term target of 10% or more.

However, in order to reach this 8% or higher level, we need to work on two things: one is to concentrate on profitable businesses, and the other is to reduce costs and improve efficiency.

As I mentioned earlier, the construction industry is a contracting industry, but it also has a highly profitable niche. In our group, Toko Geotech, a specialized construction company, prides itself on high profitability in niche segments such as slope and ground improvement work and is currently strengthening its personnel structure.

In the existing business segments, Takamatsu Corporation also intends to further increase earnings by reducing costs and improving efficiency. That concludes my answer.

**Kashiwai[Q]:** Next, we have a question from Mr. Yagi of Mitsubishi UFJ Morgan Stanley Securities. Please excuse me. "What is the demand environment for rental apartments?"

Mr. Takamatsu will answer this question as well.

**Takamatsu [A]:** I would like to answer the question about the demand environment for rental apartments.

We believe that the need for the construction of rental apartments is firm. As I mentioned earlier, even though there are some internal system-building issues, we believe that there is an extremely high need for new clients as well as for the reconstruction of aging buildings, especially in the Kanto region.

Although some owners are concerned about rebuilding or constructing new buildings due to soaring material and labor costs, the impact is not that great, and the need for rental condominium construction itself is very strong, given the motivation of inheritance tax measures. However, the need for the construction of rental condominiums itself is very strong, as the motivation is inheritance tax planning. That's all from me.

**Kashiwai [Q]:** Next, we have a question from Mr. Nakagawa of Mizuho Securities. "You are planning orders of JPY390 billion for the fiscal year ending March 31, 2024, and I would like to know the risk factors in each of civil engineering, construction, and real estate in order to achieve the plan."

Mr. Takamatsu will explain this as well.

**Takamatsu [A]:** I would like to give a brief answer to the question about risk factors.

Although there is a risk of material price hikes due to the sharp rise in prices, we do not expect a major change in the environment for civil engineering work compared to the previous fiscal year since our main civil engineering work is for government agencies.

Although the price indexing clause is applied to government construction projects, the full amount is not guaranteed, so there is some risk factor in terms of profit, but the greater risk is in the private sector.

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For private-sector construction, we adjust the estimated cost of major construction materials, such as steel and ready-mixed concrete, with our clients on a case-by-case basis, and because of the time difference between the start of construction and the start of the project, the risk is particularly high for large design-build projects.

Since last spring, we have been monitoring the situation of order loss due to the significant price increase of materials, and we are making efforts to improve profits through corporate efforts by proposing design changes.

As for customer sentiment, as I mentioned earlier, we feel that the private sector is highly motivated to invest, but we will continue to monitor trends in material prices.

In addition, as Takamatsu Corporation is in the business of building rental apartments on land owned by owners, we believe that there is a possibility that some owners may not be able to construct the required amount of self-financing, which would make financing conditions more difficult in terms of business profitability.

Also, in the real estate segment, a large portion of our business is, as I mentioned earlier, a wooden detached house business of Takamatsu House.

Although sales for the fiscal year ended March 2023 totaled JPY19.1 billion and are growing rapidly, we will continue to monitor the impact of soaring material prices and rising interest rates, which may lead to a decline in the desire to acquire houses. That's all from me.

**Kashiwai [Q]:** It is almost time, and I am afraid that this is going to be the last question. We have received other questions as well, but as the time is getting close, this will be the last question, and we hope you will understand that we will answer the rest of the questions later.

The last question is from Mr. Nakagawa of Mizuho Securities. "The Company announced the introduction of a progressive dividend with a lower limit of JPY70, which we consider a positive move. I would like to know the background behind the introduction of progressive dividends."

President Takamatsu will explain this as well.

**Takamatsu [A]:** I will answer then. We have always maintained a policy of stable dividend payments and have always strongly believed in avoiding dividend reductions unless there is a serious problem with the dividend.

In this regard, if we commit to a dividend payout ratio, there is a risk of a decline in profits. So, while we aim for a higher dividend payout ratio, we consider the amount only as a guideline.

As for dividends for the fiscal year ended March 31, 2023, net profit increased from the planned JPY6.8 billion to JPY7.5 billion, as I mentioned earlier, and we have set our sights on returning JPY8 billion to shareholders over the three years as indicated in the medium-term plan. So, we divided this JPY8 billion by three years and then by the number of shares issued, which shows that the average of the dividend in the three years will be JPY77. Thus, the dividend for March 2023 was JPY70, and for March 2024, it will be JPY77, while the dividend for March 2025 has not yet been decided. The content of the announcement takes into account the shareholder return targets in the mid-term management plan, the dividend payout ratio mentioned earlier, and then the actual net income from last year. That is all for the explanation.

**Kashiwai [M]:** Now, since the time has come, we will conclude the question-and-answer session.

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**Moderator [M]:** That concludes the presentation of the financial results of Takamatsu Construction Group Co., Ltd. for the fiscal year ended March 31, 2023. Thank you all for your participation.

[END]

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### **Document Notes**

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