

# Results for Q2, FY March 2018

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

**Securities Code :1762**

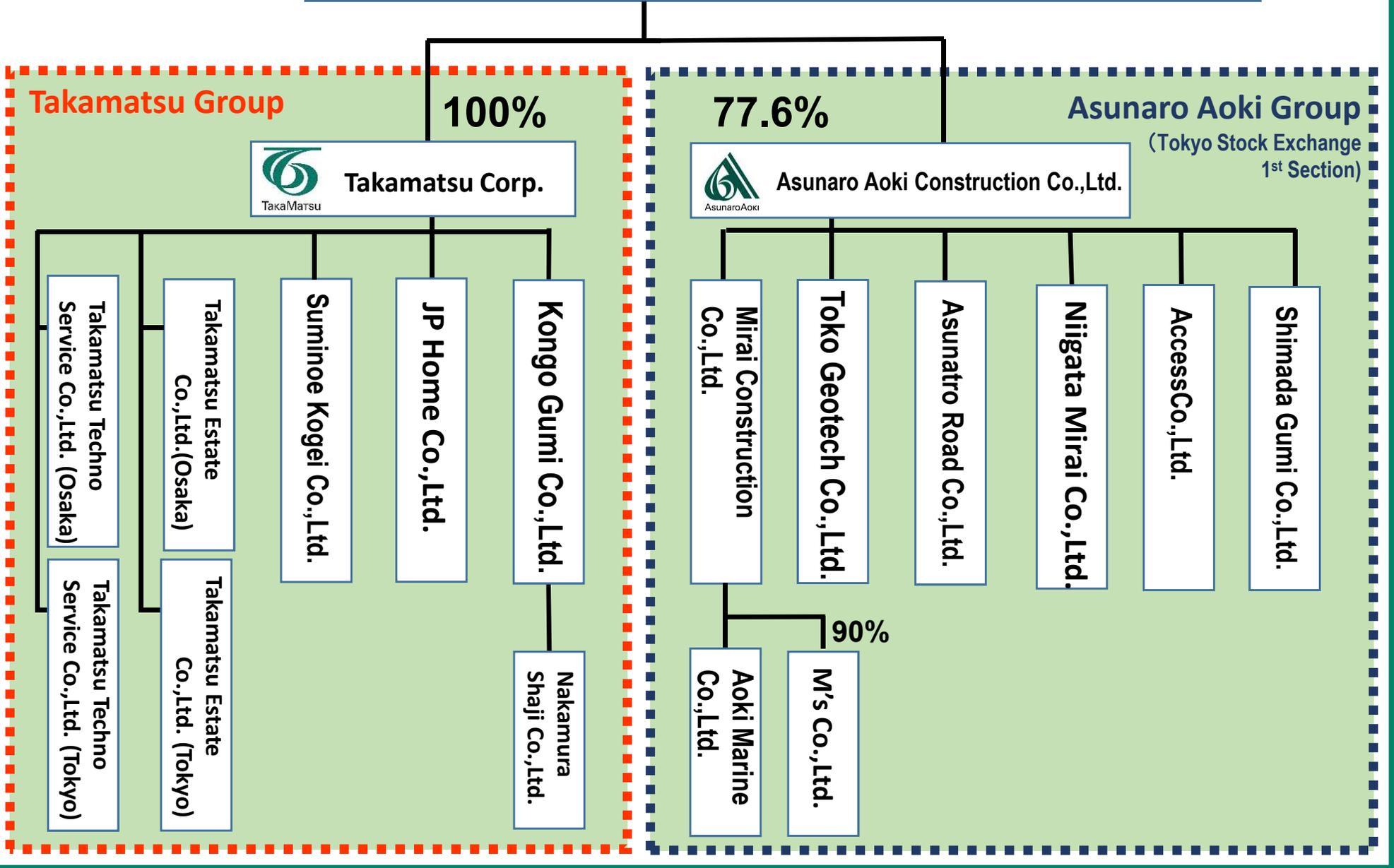
**November 27, 2017**

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 this statement for number of reasons. In addition, this document is prepared as an information providing material to be used as a reference for investment decisions, and is not intended to ask nor to request to purchase / sell our shares.

# Takamatsu Construction Group (Tokyo Stock Exchange 1<sup>st</sup> Section)



## Takamatsu Construction Group Co.,Ltd.



Ownership is 100% if not specifically mentioned.

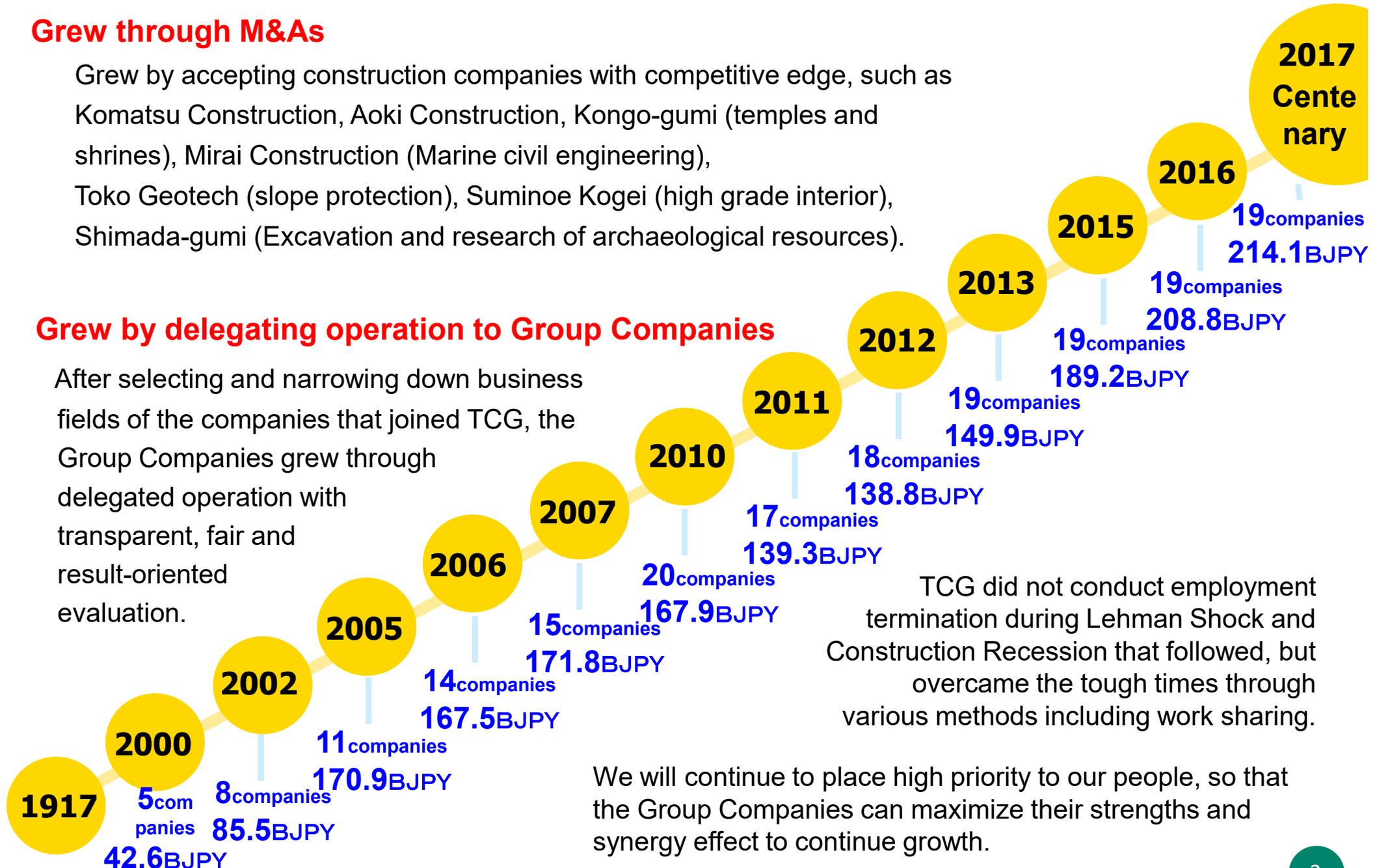
# How Takamatsu Construction Group (TCG) Grew

## Grew through M&As

Grew by accepting construction companies with competitive edge, such as Komatsu Construction, Aoki Construction, Kongo-gumi (temples and shrines), Mirai Construction (Marine civil engineering), Toko Geotech (slope protection), Suminoe Kogei (high grade interior), Shimada-gumi (Excavation and research of archaeological resources).

## Grew by delegating operation to Group Companies

After selecting and narrowing down business fields of the companies that joined TCG, the Group Companies grew through delegated operation with transparent, fair and result-oriented evaluation.



TCG did not conduct employment termination during Lehman Shock and Construction Recession that followed, but overcame the tough times through various methods including work sharing.

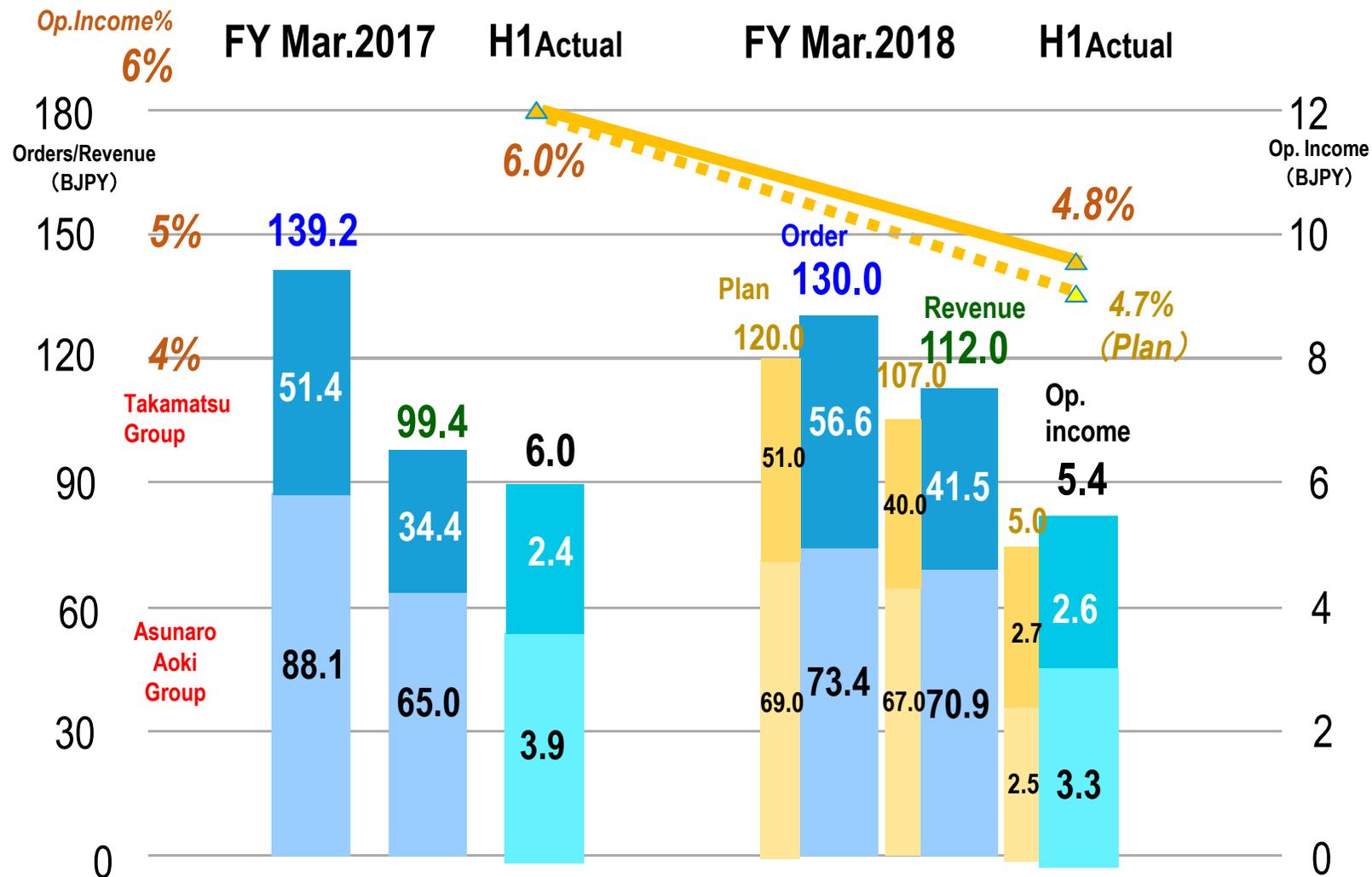
We will continue to place high priority to our people, so that the Group Companies can maximize their strengths and synergy effect to continue growth.

# Q2 Results, FY March 2018

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# By-Group Orders, Revenue and Operating Income (vs.PY, Consolidated)

- Orders** : On track with Plan for both Groups.  $\Delta 6.7\%$  vs PY. Asunaro Aoki Group had multiple large size orders in PY thus behind PY.
- Revenue** : On track with plan for both Groups.  $+12.6\%$  vs PY, increased revenue for 6 consecutive years as well as record high for 4 consecutive years. Both Groups grew.
- Op. Income** : 5.4BJPY op. income was above Plan of 5.0BJPY by 0.4BJPY, but was short vs.PY by 0.6BJPY ( $\Delta 9.9\%$ ). Asunaro Aoki Group was short vs.PY by 0.6BJPY.
- Operating Income %** : Actual was 4.8%, exceeding plan of 4.7%, but was short by 1.2pt vs. PY actual of 6.0%.



Op.Income #s inside bars doesn't match with the total due to admin (TCG unconsolidated) costs.

# H1 of FY March 2018 : Summary

1. Orders :  $\Delta 6.7\%$  vs. PY.
2. Revenue :  $+12.6\%$  vs PY, increased revenue for 6 consecutive years as well as record high for 4 consecutive years.
3. Profits : Due to multiple highly profitable projects of PY, our operating income, ordinary income and net earnings attributable to controlling interest were short vs. PY by  $\Delta 9.9\%$  ,  $\Delta 10.2\%$  and  $\Delta 10.6\%$  vs. PY, respectively.

Items (In Billion JPY)	Q2 of FY Mar.2017	Q2 of FY Mar. 2018	Increase / Decrease			
			Amount			%
			Ttl	TKG	AAG	
Orders	139.2	130.0	$\Delta 9.2$	5.2	$\Delta 14.6$	$\Delta 6.7\%$
Revenue	99.4 	112.0	12.5	7.0	5.8	12.6%
Gross Profit (%)	14.7  (14.8%)	14.9 (13.4%)	0.2	0.9	$\Delta 0.7$	1.7%
Operating Income (%)	6.0 (6.0%)	5.4 (4.8%)	$\Delta 0.6$	0.1	$\Delta 0.6$	$\Delta 9.9\%$
Ordinary Income (%)	6.0 (6.1%)	5.4 (4.8%)	$\Delta 0.6$	0.1	$\Delta 0.6$	$\Delta 10.2\%$
Net earnings attributable to controlling interest (%)	3.1 (3.2%)	2.8 (2.5%)	$\Delta 0.3$	0.1	$\Delta 0.3$	$\Delta 10.6\%$

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# By-Segment・By-Group Split (Consolidated)

- Orders decreased by 6.7% to 130.0BJPY, decrease in both civil engineering and architecture.
- Revenue increased by 12.6% to 112.0BJPY. Civil engineering increased by 18% due to strong Asunaro Aoki revenue, while architecture also grew by 9% due to strong Takamatsu Group results.
- 9.9% decrease in Op. Income. While architecture fell short vs. PY due to PY's highly profitable projects, civil engineering increased by 43% due to increased revenue.

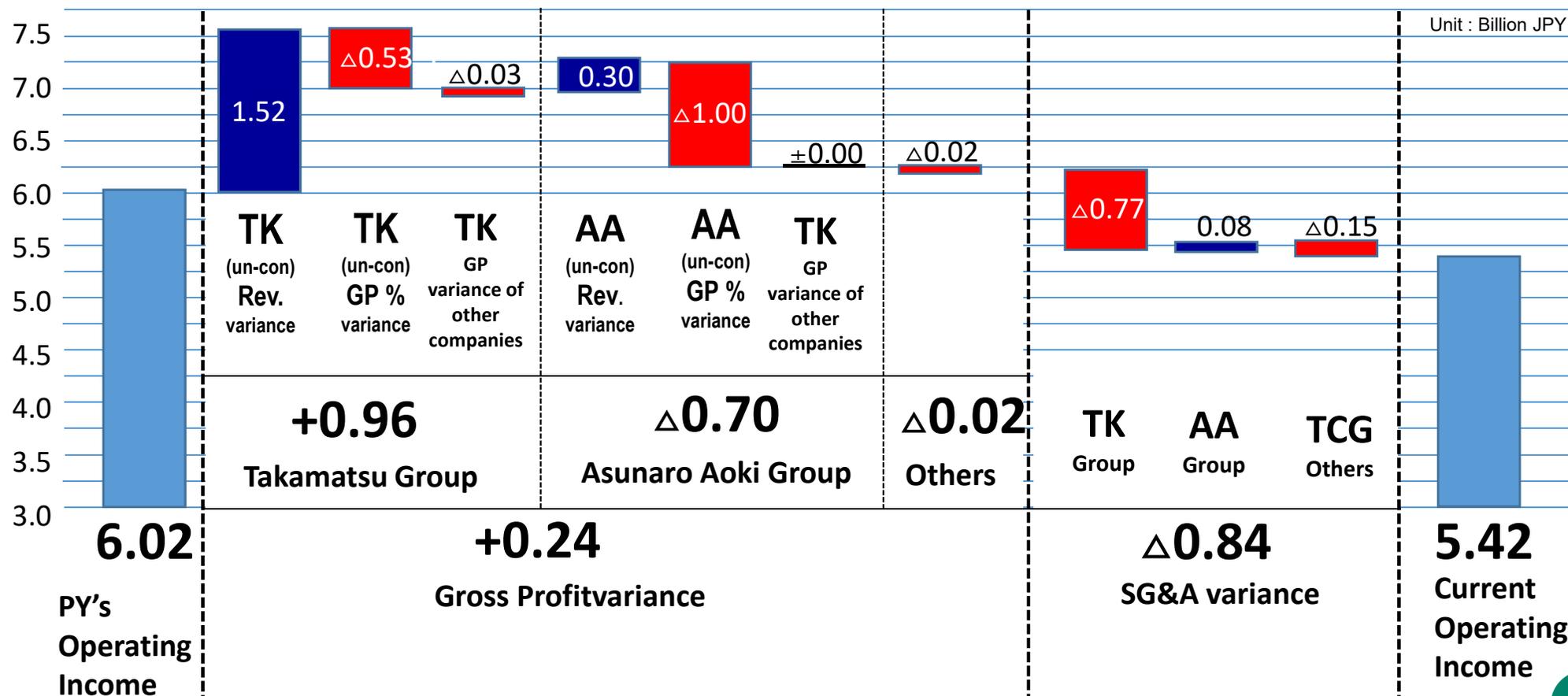
Takamatsu Construction Group				Orders	Revenue	Op.Income
<b>Takamatsu Group</b>		<b>Asunaro Aoki Group</b>		17/9	17/9	17/9
				(16/9)	(16/9)	(16/9)
				58.7	50.2	2.8
				(62.1)	(42.5)	(1.9)
				△5%	+18%	+43%
				64.7	55.2	3.7
				(71.0)	(50.8)	(5.0)
				△9%	+9%	△25%
				6.5	6.5	0.3
				(6.0)	(6.0)	(0.5)
				+8%	+8%	△39%
Orders	56.6	73.4	130.0	△6.7%		
17/9	(51.4)	(88.1)	(139.2)			
(16/9)	+10%	△17%				
Revenue	41.5	70.9	112.0		+12.6%	
17/9	(34.4)	(65.0)	(99.4)			
(16/9)	+20%	+9%				
Op.Income	2.6	3.3	5.4		△9.9%	
17/9	(2.4)	(3.9)	(6.0)			
(16/9)	+8%	△16%				

Unit : Billion JPY

Op.Income #s inside bars doesn't match with the total due to admin (TCG unconsolidated) costs.  
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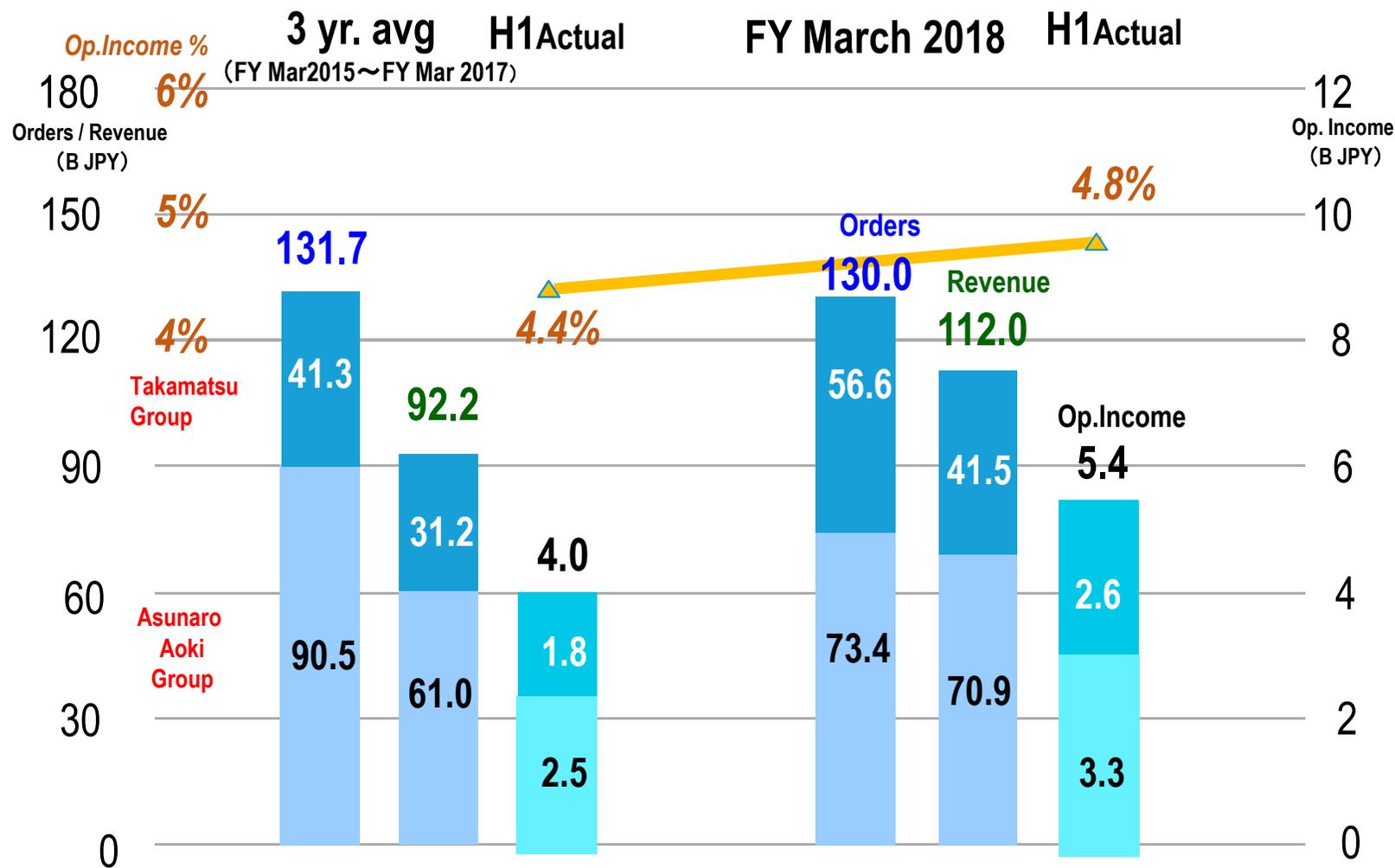
# Explanation of Shortfall of Operating Income vs. PY (Consolidated)

- Reason No.1 of shortfall of operating income from 6.02BJPY (PY) to 5.42BJPY (Current) is stagnant growth of gross profit of only 1.7% (0.24BJPY) despite revenue growth of 12.6%. Our SG&A increase was 9.6% (0.84BJPY), showing smaller % increase vs. revenue.
- Takamatsu Group's gross profit grew by 0.96BJPY vs. PY. Within this 0.96BJPY, Takamatsu Corp's gross profit % variance was  $\Delta 0.53$ BJPY.  
→ This is due to increase of less profitable non-condominium architecture, carry over of high profitable projects to H2, etc.
- Asunaro Aoki's gross profit fell by 0.70BJPY. Within this 0.70BJPY, Asunaro Aoki (non-consolidated)'s GP% variance was  $\Delta 1.00$ BJPY.
- Almost all of this negative GP% variance was due to Asunaro Aoki (unconsolidated)'s architecture gross profit % shortfall vs. PY.  
This is due to extraordinarily profitable projects of PY.
- Op. Income of Asunaro Aoki Gr significantly overachieved vs. H1 Plan. Although Takamatsu Gr. slightly fell short vs. Plan, plans to recover in H2.



# By-Group Orders, Revenue and Operating Income (vs. 3 year average, Consolidated)

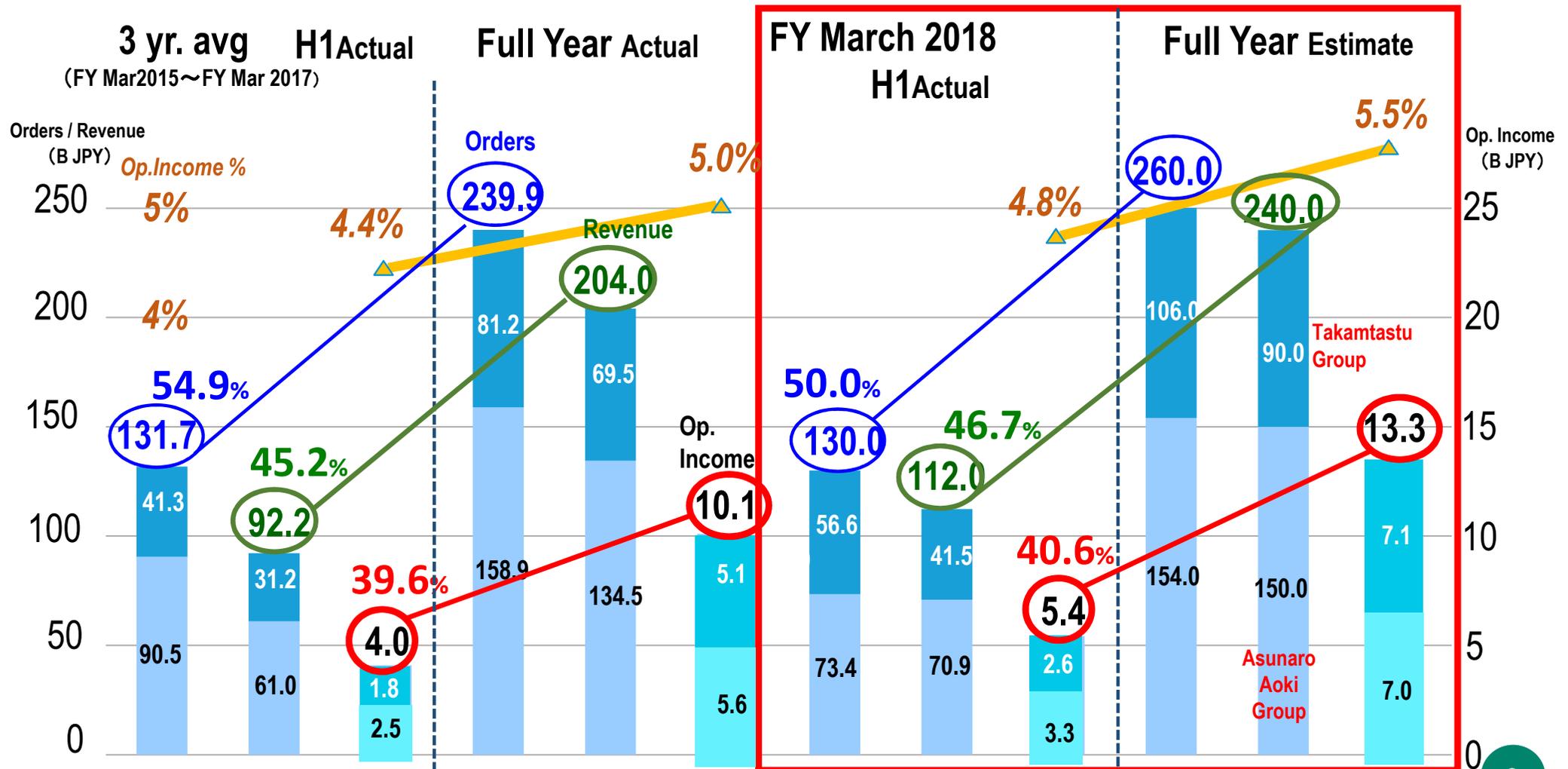
1. Since previous year had extraordinary items for orders and gross profit, it makes sense as well as fair to see relationships between H1 and FY results of 3 year average to look into this year's H1 results and how they elate with full year estimate.
2. Concerning orders, significant growth for Takamatsu Group, but Asunaro Aoki fell short vs. three year average.
3. Concerning revenue and operating profit, both Groups are growing and are on track.
4. Operating income % of 4.8% is 0.4pt above three year average of 4.4%.



Op. Income #s inside bars doesn't match with the total due to admin (TCG unconsolidated) costs.

# Outlook of Orders, Revenue and Operating Income (vs. 3 year average, Consolidated)

1. Operating income progress rate of H1 vs. full year (3 year average) is 39.6%.
2. If we divide H1 Operating income of 5.4BJPY by this 39.6%, our full year estimate operating income will be 13.6BJPY.  
We foresee no major issue to achieve operating income of 13.3BJPY.
3. The same thing can be said for revenue. No major issues to achieve 240BJPY.
4. Concerning orders, although achievement of 260BJPY may seem difficult on calculation, our monthly order results are surpassing that of plan, thus we believe achievement of 260BJPY is not difficult as well.



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# Future Outlook

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# Our Market Environment Recognition towards March 2020 and Growth Image of Takamatsu Construction Group

## Environment Recognition

### Positive Factors

- We foresee three consecutive years of domestic construction investment exceeding 50TJPY. (FY Mar 2018 thru FY Mar 2020)
- We foresee high level of household #s to be maintained in Tokyo-Nagoya-Osaka Areas as well as continued high level of new residence construction start-ups.
- We foresee continued tight market for Tokyo Metro Area's construction of condominiums for rental purposes.

### Negative Factors

- Domestic construction investment will start to shrink after 2020, which is our final year of Mid-Term Plan. Population decrease will also accelerate.
- Construction labor cost will increase as # of workers decrease.
- There is risk of rapid decline of market for condominiums for rental purpose due to interest rate hike and / or decrease of occupancy rate.
- Decrease of overall construction start-ups.

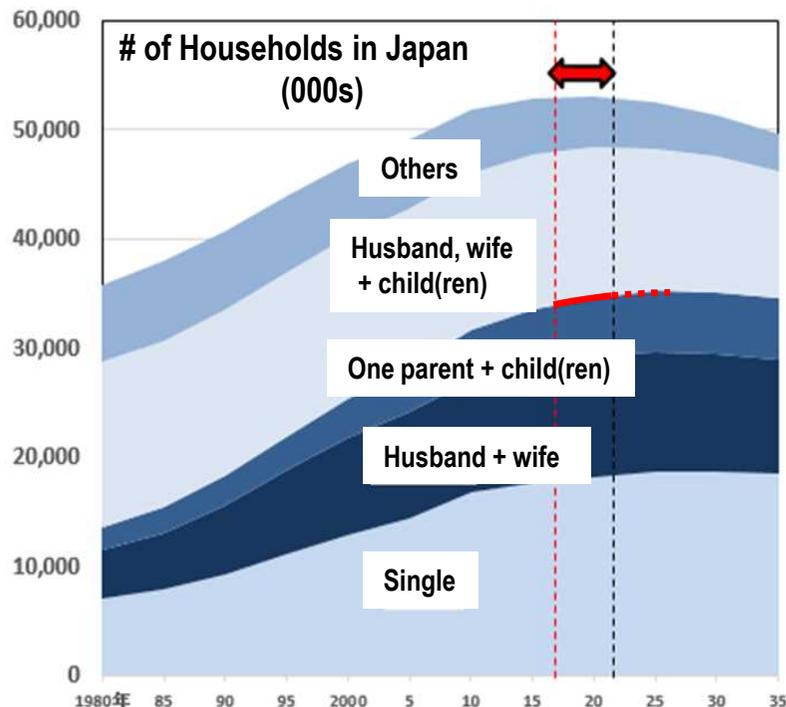


## Growth Image of Takamatsu Construction Group Towards FY Mar. 2020

1. We will create an organization which realizes expansion of orders and continued growth for construction of Tokyo Metropolitan condominiums for rental purpose as our core growth segment.
2. On the other hand, for civil engineering and government related businesses where we foresee flat or negative growth for future years, we will aim to realize steady growth of market share as well as to maintain high profit margins.
3. We will create management basis that enables realization of both of the above.

# Group Vision and Mid-Term Plan: Takamatsu Group (1)

1. Takamatsu Corp is the foundation company as well as one of the two core companies of our Group.
2. Takamatsu Corp Grew by building condominiums for rental purpose by thoroughly responding to the needs of the clients (Consultation and Construction)
  - ① One of the first companies to create real estate utilization business model (back in mid 1960s).
  - ② Conducted consultation and proposal activities to wealthy real estate owners (Proposals include taxation, legal, inheritance, construction, real estate and management)
  - ③ Focused in three big cities of Japan (Tokyo, Osaka and Nagoya), built landmark condominiums in front of stations, resulting in high rental fee and occupancy rate
3. We will record increased orders, revenue and profit for 3 consecutive years in FY Mar '18.
4. Completed building totals 4,500, with 1,320 in Tokyo Metro Area and



5. Concerning outlook of # of households in Japan, during Mid-Term Plan years, peak is expected to continue. In addition, # of households for single, husband+wife, one parent and child(ren) are expected to still increase.
6. This increasing trend is obviously stronger in Tokyo, Nagoya and Osaka Areas, especially for Tokyo.
7. It is this “Toh-Mei-Han, smaller number families” that are still expected to increase, and are the main residents of rental condominiums built by Takamatsu Corp.

# Group Vision and Mid-Term Plan: Takamatsu Group (2)

8. In accordance with the Mid-Term Plan to significantly grow Takamatsu Corp., we decided to change the corporate names of the following four companies that have high synergy potential with Takamatsu Corp. as of April, 2017. Cooperation among the five companies will be strengthened, and this will further strengthen the growth of Takamatsu Group.

**Real Estate Management**

  
Nippon Kensho Co.,Ltd.  
Revenue: 10.7BJPY  
(FY17/3, Osaka+Tokyo)

➔

  
Estate

**Takamatsu Estate Co.,Ltd.**  
Revenue : 14.0BJPY  
(20/3FY, Osaka+Tokyo)

**Reforms and large scale repairs**

  
Yamato Construction Co.,Ltd.  
Revenue: 4.3BJPY  
(FY17/3, Osaka+Tokyo)

➔

  
Techno

**Takamatsu Techno Service Co.,Ltd.**  
Revenue : 6.7BJPY  
(20/3FY, Osaka+Tokyo)

9. In recent years, large scale architecture orders such as logistic centers, hospitals and factories are on the increase. Orders of this new segment will be further strengthened by conducting JV with Asunaro Aoki Construction.
10. With Takamatsu Corp. as the core, Takamatsu Group will strive to achieve revenue of 108.0BJPY in FY March 2020, which is 42% growth vs FY March 2017.



DPL Nagareyama I (Logistics Center, JV with Asunaro Aoki Construction Co.,Ltd.)

# Group Vision and Mid-Term Plan: Asunaro Aoki Group

1. Asunaro Aoki Group is a listed company in Tokyo Stock Exchange 1<sup>st</sup> Section, with Asunaro Aoki Construction Co.,Ltd. as the core company of the Group and the 8 other Group Companies.
2. The ratio of civil engineering vs architecture for both orders and revenue is 50 : 50 for Asunaro Aoki UNconsolidated.
3. For Asunaro Aoki Consolidated, the ratio changes to 70 : 30 for civil engineering vs architecture due to Group Companies such as Mirai Construction and Aoki Marine majoring in marine engineering, Toko Geotech, Asunaro Road and Niigata Mirai majoring in slope protection and pavement, Shimada Gumi and Access majoring in excavation / research of archaeological resources, and M's majoring in renovation.
4. R&D is one of the Group's focused activities, with research themes such as studies of anti-seismic technologies to existing bridges, multi-exposure column base, folded brace, work guidance on unmanned remote construction.
5. Asunaro Aoki Group contributed significantly to record high fiscal year results of March 2017 of Takamatsu Construction Group. Asunaro Aoki Group will aim to realize revenue of 160BJPY in FY March 2020.
6. Asunaro Aoki Group will expand its business areas and improve productivity by tackling with i-construction.

## FY17/3 Major Projects (1)

Shoreline maintenance project by using remote controlled amphibious construction machine



## FY17/3 Major Projects (2)

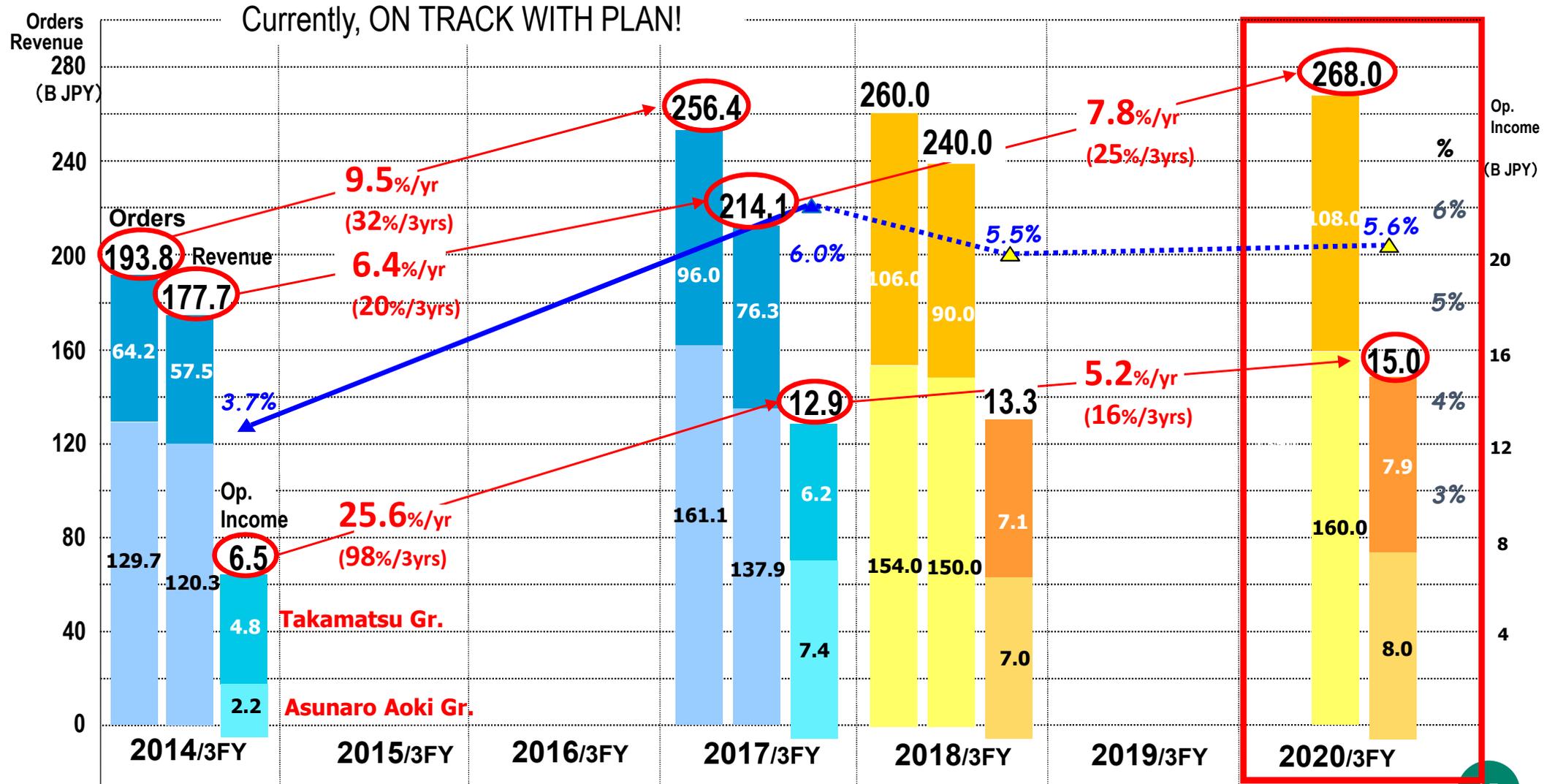
Fukushima Prefecture Police Headquarter  
An exclusive 7.0BJPY order.



# Summary of New Mid term Plan “TRY! NEXT CENTURY 2020”

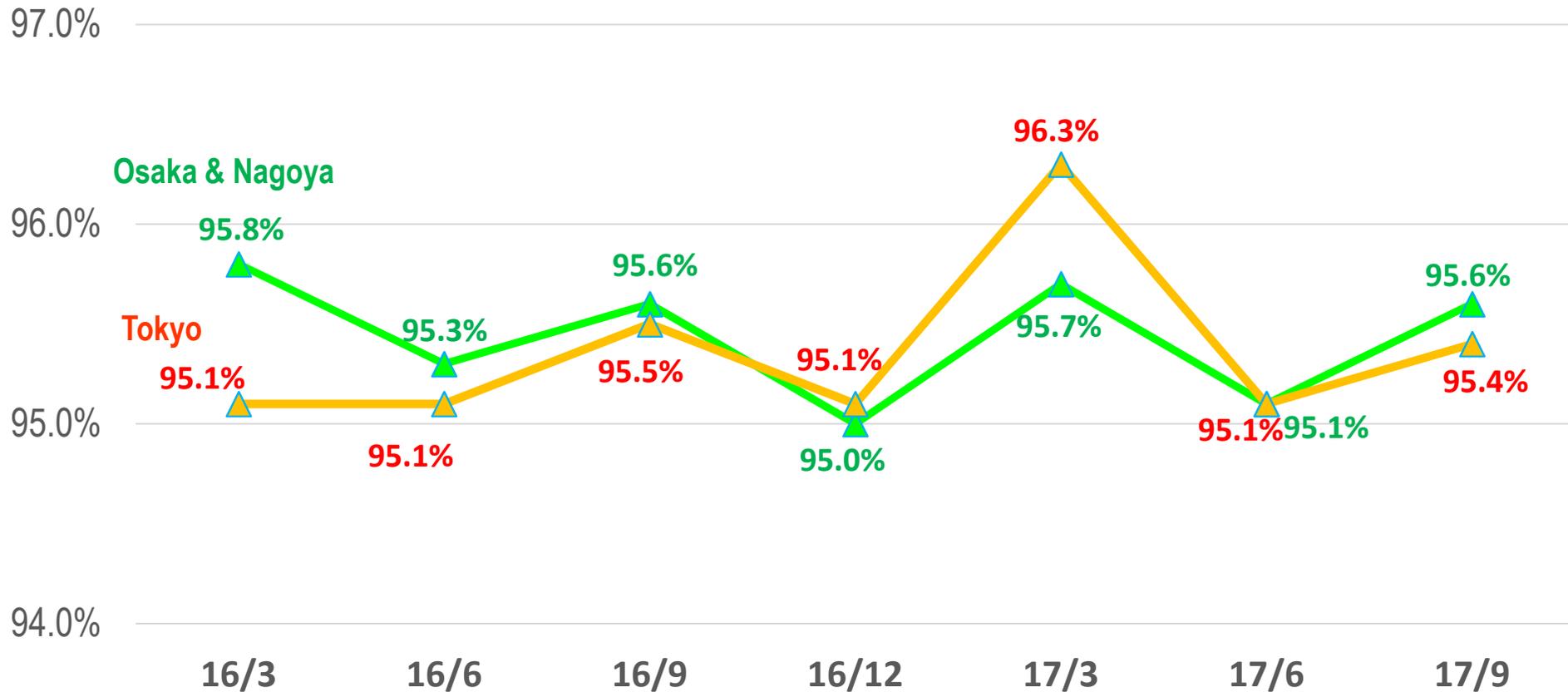
Takamatsu Construction Group will realize the following targets:

- CHALLENGE 268** : 268BJPY yen of revenue to be achieved in FY March 2020, which is 7.8% growth/year (CAGR).
- SPECIALTY 18 α** : Realize further growth of current 18 business affiliates as well as additional growth through M&A.
- QUALITY 15** : We will realize 15BJPY of operating income in FY March 2020 by maintaining and improving our high quality and highly efficient operations.



# Occupancy Rate of Condos for Rental Purpose built by Takamatsu Corp and Managed by Takamatsu Estate

1. Both Tokyo and Osaka Areas maintaining more than 95% occupancy rate.



Definition: "Osaka and Nagoya" = Osaka, Kyoto and Hyogo Prefectures plus Nagoya City.  
 "Tokyo" = Tokyo, Kanagawa, Saitama and Chiba Prefectures  
 "Occupancy Rate" = (Number of occupied condo apartments built by Takamatsu Corp and managed by Takamatsu Estate at the end of each quarter) divided by (Number of condo apartments built by Takamatsu Corp and managed by Takamatsu Estate at the end of each quarter)

# Status of Operations and Projects

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## 1. Takamatsu Corporation

- Strong current orders, slowdown not observed.
- Mid term plan expects one large-scale project per year, likely to realize with progress in business discussions.

## 2. New Business Fields of Asunaro Aoki Group

- Strong order status for recyclable energy related constructions, with focus on replacement of wind power plants.
- Acquired orders for biomass related projects (Mitrai Construction and Toko Geotech).  
Participated in feasibility experiment of ocean current power plant (Mirai Construction).
- Focusing on acquiring replacement orders of large scale environment related facilities.

## 3. M&A: Continuing massive studies

- Most cases are business succession related, while rescue type cases are close to none.
- Increasing information sources to further increase candidates.

## 4. A Step Forward for Global Expansion: Founded subsidiary in the U.S.A.

- Opened office of 2 employees and started various researches.

## 5. Continuing high-paced new hiring

- Announcement on May 2017 for # of hiring of new graduates : 15/4=201, 16/4=161, 17/4=176, 18/4=240, 19/4=220)
- Concerning 240 to be hired in April 2018, almost 100% are secured!

## 6. Conducted Centenary Ceremony in October 2017

- Launched Group Brand Slogan and Group Brand Logo

## 7. Conducted Share Buyback

- Conducted TCG share buyback of 600.3K shares (1.54%).
- Asunaro Aoki continued to buy back its share, resulting in 77.6% TCG ownership.