



**TOKYU CONSTRUCTION**

FY03/19 Financial Results Briefing

May 17, 2019

## FY03/19 Financial Results Briefing

1. Overview of FY03/19 Financial Results
2. Full-Year Outlook for FY03/20
3. Toward Our Ideal Vision of Ourselves



This briefing material includes our earnings forecasts and projections.

Please note that these reflect forecasts and estimates based on information available to the Company as of the date of release of this document, and contain uncertainties.

## Financial Results Briefing

# 1. Overview of FY03/19 financial results

- ✓ Consolidated net sales exceeded the year-earlier level, reaching a record high
- ✓ Operating income and ordinary income also reached record highs supported by an increase in completed construction gross profit and other factors
- ✓ Orders received increased to ¥263.0 billion, surpassing the initial forecast by ¥23.0 billion

# 1 Business Environment

## Business environment in FY03/19

1. The Japanese economy remained on a gradual recovery path supported by improvements in corporate earnings and the employment and income environment despite some weakness in exports and production.
2. The construction market was strong thanks to robust construction investment fueled by improvement in corporate earnings.
3. Construction costs remained within the expected range despite higher construction materials/equipment and labor costs .

## Prospects

1. The Japanese economy is expected to gradually recover as corporate earnings and employment and income environments continue to improve although an impact from the next consumption tax hike is a concern.
2. The construction market is projected to hold strong on an increase in government spending on construction, but we still need to be aware of capital spending trends in the private sector in light of overseas environment.
3. There are concerns over sharp rise in construction costs driven by tightening supply/demand condition attributable to large-scale redevelopment projects (mainly in metropolitan areas). The construction industry also faces a range of supply side challenges presented by an escalating labor force shortage, reduction of long working hours, and work-style reform.

# 1 FY03/19 Full-Year Results (Consolidated)

Consolidated net sales exceeded the year-earlier level, reaching a record high. Regarding profit and loss, profit attributable to owners of parent fell below the year-earlier level due to increases in tax expenses and other costs, but operating income and ordinary income reached record highs.

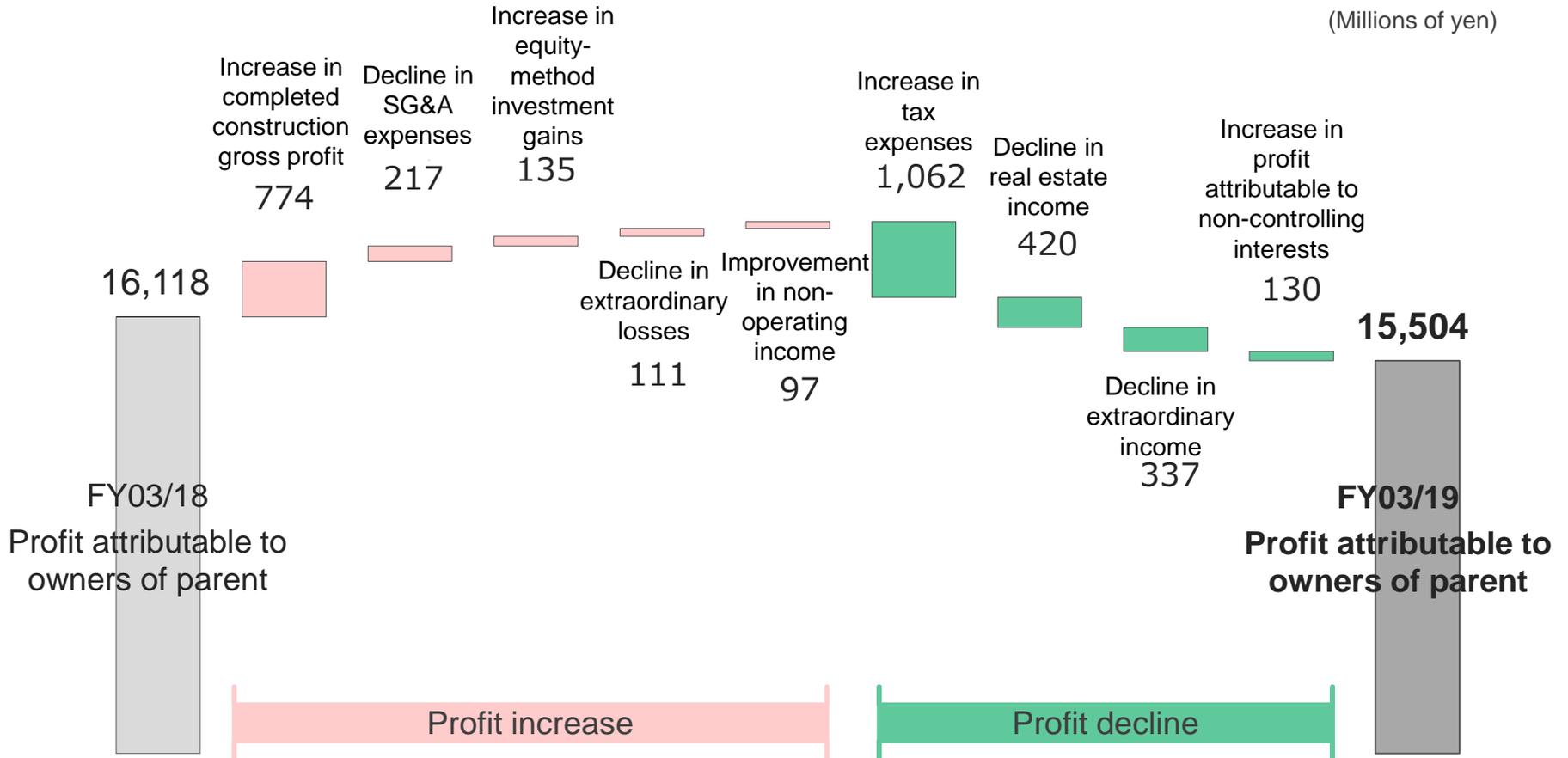
(Millions of yen)

Items	FY03/18	FY03/19			Difference compared to previous year	Rate of change
		Tokyu Construction	Subsidiaries	Consolidated		
<b>Net sales</b>	320,711	309,946	23,810	<b>331,437</b>	10,725	3.3%
Gross profit	35,720	33,370	2,960	<b>36,073</b>	353	1.0%
Selling, general and administrative expenses	14,303	13,571	876	<b>14,086</b>	(217)	(1.5%)
Operating income	21,416	19,798	2,084	<b>21,987</b>	570	2.7%
Ordinary income	22,128	20,084	2,057	<b>22,932</b>	804	3.6%
<b>Profit (losses) attributable to owners of parent</b>	16,118	—	—	<b>15,504</b>	(614)	(3.8%)

Consolidated subsidiaries	Profit (losses) attributable to owners of parent	Equity-method affiliates	Equity-method profit (losses)
Token Industry	22	Seikitokyu Kogyo	697
Tokyu Renewal	1,330	Tokyu Green System	3
Tokyu Construction Indonesia	3	Ch. Karnchang-Tokyu Construction	(13)
Golden Tokyu Construction	13	Asuka Soken	102
Plantaardig farm (formerly Purantaru farm)	(69)	<b>Equity-method affiliates total</b>	<b>790</b>
Osaka Firefighting Private Financial Initiative (PFI)	6		
<b>Consolidated subsidiaries total</b>	<b>1,307</b>		

# 1 Factors Affecting Net Income (Consolidated)

**Although completed construction gross profit grew, SG&A expenses declined, and equity-method income increased, profit attributable to owners of parent fell below the year-earlier level on an increase in tax expenses**



# 1 FY03/19 Full-Year Results (Non-Consolidated)

Net sales declined 0.8% year on year, and net income declined 9.8% due to a drop in gross profit. The year-on-year decline in net sales reflected a consolidation of building renovation business in the metropolitan area into a subsidiary.

(Millions of yen)

Items	FY03/18	FY03/19		Difference compared to previous year	Rate of change
		Results	Ratio (%)		
Completed construction sales	310,761	308,623	[100]	(2,138)	(0.7%)
Civil engineering	73,863	70,381	22.8	(3,481)	(4.7%)
Building construction	236,898	238,241	77.2	1,343	0.6%
Completed construction gross profit	34,767	33,316	10.8	(1,450)	(4.2%)
Civil engineering	7,198	9,892	14.1	2,694	37.4%
Building construction	27,568	23,423	9.8	(4,145)	(15.0%)
Real estate sales	1,725	1,323	[100]	(402)	(23.3%)
Real estate gross profit	534	54	4.1	(480)	(89.8%)
<b>Net sales</b>	<b>312,487</b>	<b>309,946</b>	<b>100</b>	<b>(2,540)</b>	<b>(0.8%)</b>
<b>Gross profit</b>	<b>35,301</b>	<b>33,370</b>	<b>10.8</b>	<b>(1,931)</b>	<b>(5.5%)</b>
Selling, general and administrative expenses	13,851	13,571	4.4	(279)	(2.0%)
Operating income	21,450	19,798	6.4	(1,651)	(7.7%)
Ordinary income	21,514	20,084	6.5	(1,429)	(6.6%)
<b>Net income</b>	<b>15,555</b>	<b>14,025</b>	<b>4.5</b>	<b>(1,530)</b>	<b>(9.8%)</b>

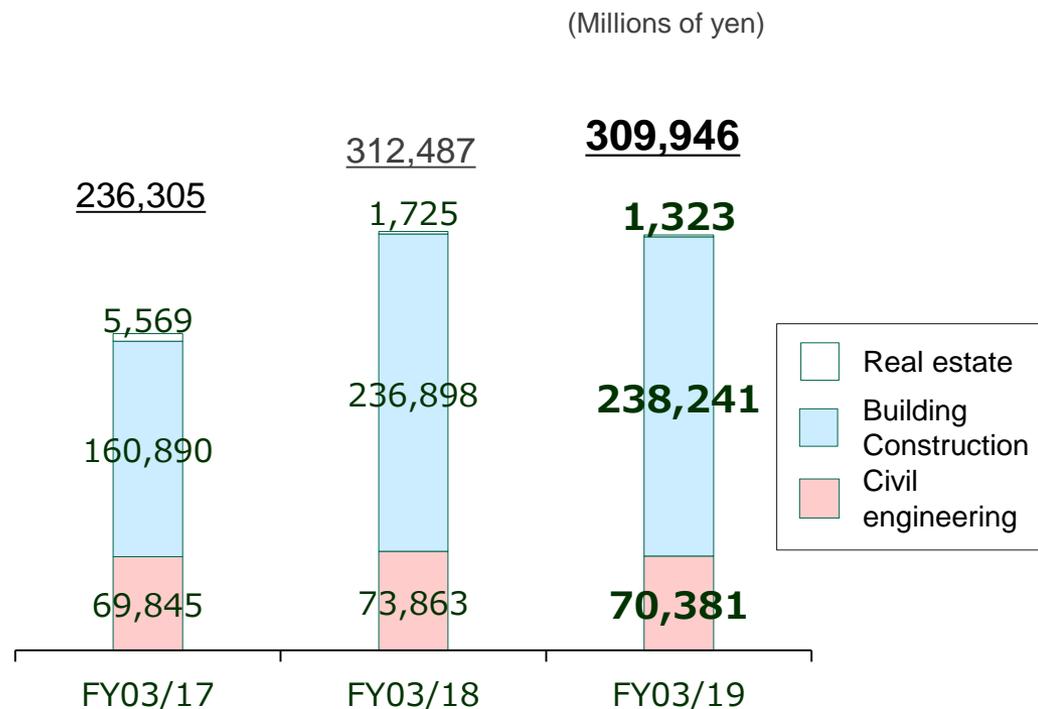
# 1 Net Sales (Non-Consolidated)

FY03/19

Completed construction sales fell year on year due to consolidation of the building renovation business in the Tokyo metropolitan area into a subsidiary, amid continuing robust demand for large-scale construction.

**Net sales**      **¥309.9 billion**  
 (-0.8% YoY)

- Completed construction sales
  - Civil engineering      **¥70.3 billion**  
 (-4.7% YoY)
  - Building construction **¥238.2 billion**  
 (+0.6% YoY)
- Real estate sales      **¥1.3 billion**  
 (-23.3% YoY)



# 1 FY03/19 Gross Profit (Non-Consolidated)

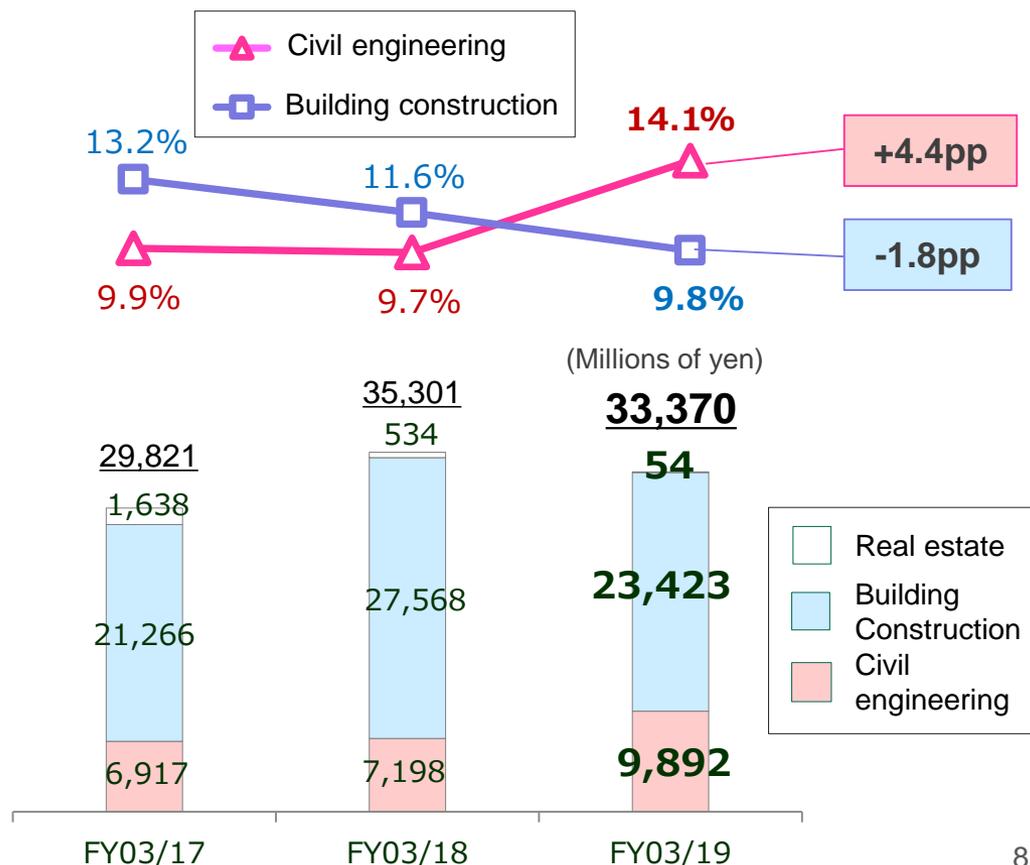
Gross profit surpassed the original forecast of ¥32.4 billion.

The profit margin of civil engineering sharply exceeded historical levels, increasing 4.4pp driven by an unexpectedly high number of design change and addition projects in Japan and improved margins of completed overseas projects.

The profit margin of building construction fell 1.8pp due to a sharp rise in construction costs and an impact from margin erosion of some construction projects.

**Gross profit**      **¥33.3 billion**  
 (-5.5% YoY)

- Completed construction gross profit
  - Civil engineering      **¥9.8 billion**  
 (+37.4% YoY)
  - Building construction      **¥23.4 billion**  
 (-15.0% YoY)
- Real estate gross profit      **¥0.05 billion**  
 (-89.8% YoY)



# 1 Financial Position and Cash Flow (Consolidated)

**Net assets increased ¥13.8 billion to ¥92.9 billion on an increase in retained earnings, and the equity ratio rose to 35.0%. Cash flow was positive thanks to a drop in trade receivables.**

## [Consolidated Financial Position]

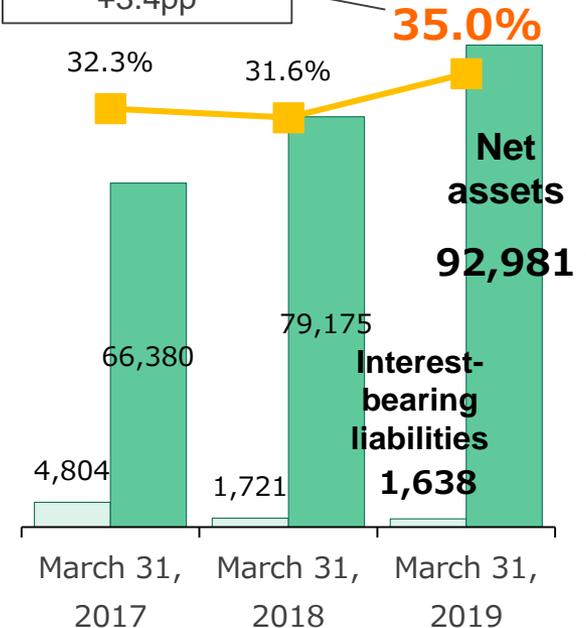
(Millions of yen)

Items	March 31, 2017	March 31, 2018	March 31, 2019	Rate of change
Total assets	204,813	249,756	<b>264,996</b>	6.1%
Total liabilities	138,433	170,581	<b>172,014</b>	0.8%
Interest-bearing debt	4,804	1,721	<b>1,638</b>	(4.9%)
(Short-term debt)	3,082	83	<b>80</b>	(3.5%)
(Long-term debt)	1,721	1,638	<b>1,557</b>	(4.9%)
Net assets	66,380	79,175	<b>92,981</b>	17.4%
Equity ratio	32.3%	31.6%	<b>35.0%</b>	3.4pp

### YoY change +13,806

- Dividends of surplus -3,307
- Profit attributable to owners of the parent +15,504
- Valuation difference on available-for-sale securities +1,854, etc.

Equity ratio  
+3.4pp



## [Consolidated Cash Flow]

(Millions of yen)

Items	FY03/17	FY03/18	FY03/19
Cash flows from operating activities	(23,545)	16,226	<b>29,694</b>
Cash flows from investing activities	(1,717)	(3,383)	<b>(5,786)</b>
Cash flows from financing activities	(2,788)	(6,457)	<b>(3,575)</b>
Effect of exchange rate change on cash and cash equivalents	(40)	(102)	<b>(52)</b>
Net increase (decrease) in cash and cash equivalents	(28,091)	6,283	<b>20,279</b>
Cash and cash equivalents at end of year	22,582	28,865	<b>49,145</b>

# 1 Orders (Non-Consolidated, Company-Wide)

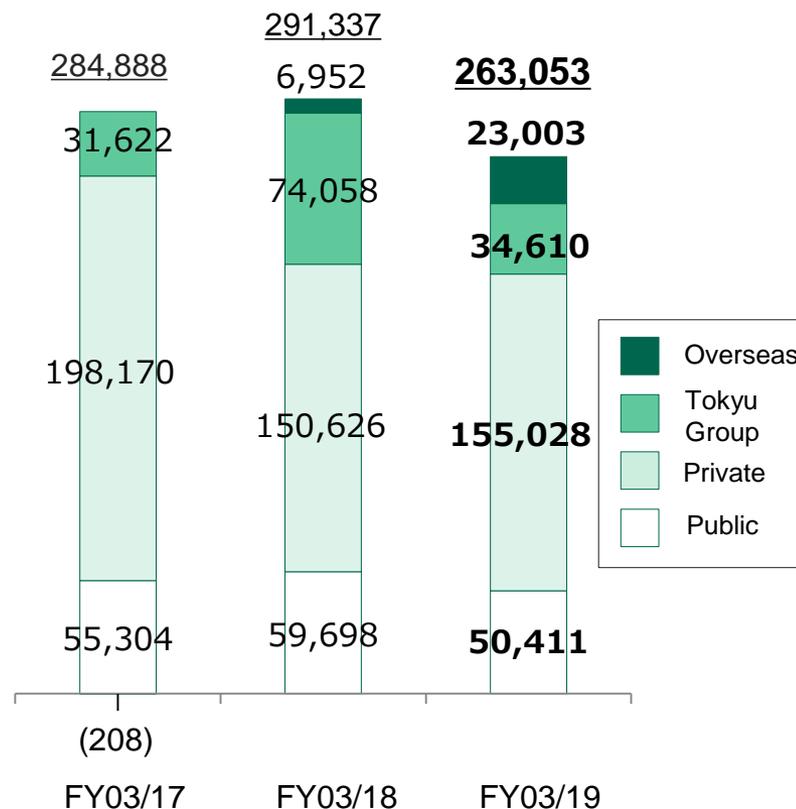
FY03/19

Orders exceeded the initial forecast of ¥240.0 billion (which was based on construction capacity) by ¥23.0 billion.

Despite an increase in overseas orders driven by large-scale ODA projects, the Tokyu Group posted 9.7% year-on-year drop in orders, reflecting a difficult comparison with the previous fiscal year that saw large-scale projects.

(Millions of yen)

		FY03/19	Difference compared to previous year	Rate of change
Company-wide	Domestic public	50,411	(9,287)	(15.6%)
	Domestic private	189,638	(35,047)	(15.6%)
	General private	155,028	4,401	2.9%
	Tokyu Group companies	34,610	(39,448)	(53.3%)
	Overseas	23,003	16,050	230.9%
<b>Total</b>		<b>263,053</b>	<b>(28,283)</b>	<b>(9.7%)</b>



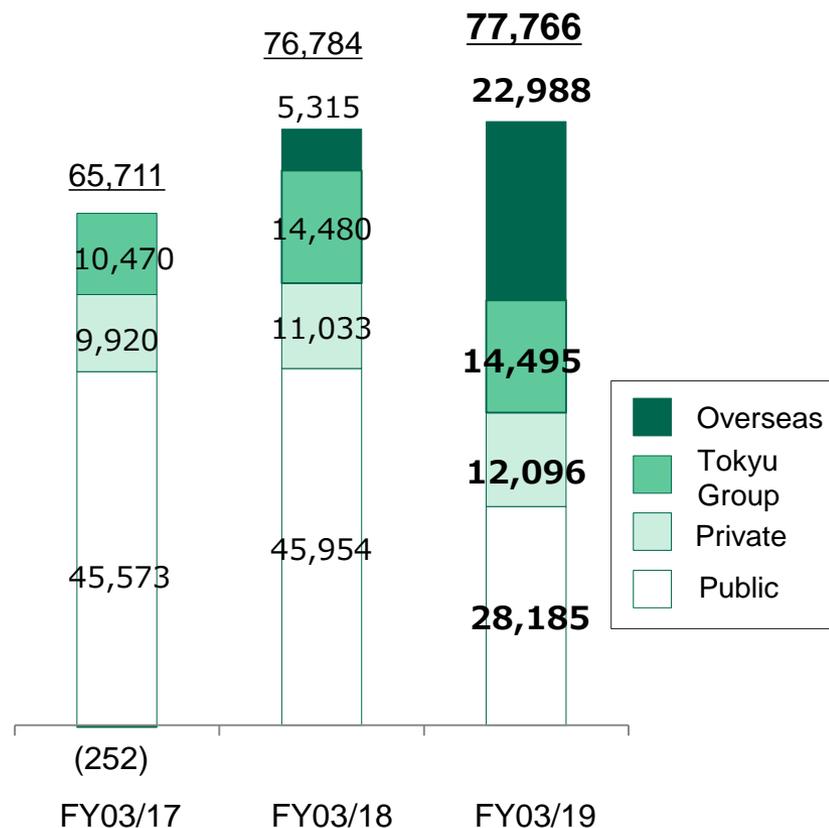
# 1 Orders (Non-Consolidated, Civil Engineering)



**Orders rose modestly year on year to ¥77.7 billion.  
Overseas orders grew on large-scale ODA projects in Myanmar.**

(Millions of yen)

		FY03/19	Difference compared to previous year	Rate of change
Civil engineering	Domestic public	28,185	(17,768)	(38.7%)
	Domestic private	26,592	1,077	4.2%
	General private	12,096	1,062	9.6%
	Tokyu Group companies	14,495	15	0.1%
	Overseas	22,988	17,672	332.4%
	<b>Total</b>	<b>77,766</b>	<b>982</b>	<b>1.3%</b>



Note: Ratio of domestic orders received as a joint venture subcontractor was 24.7%.

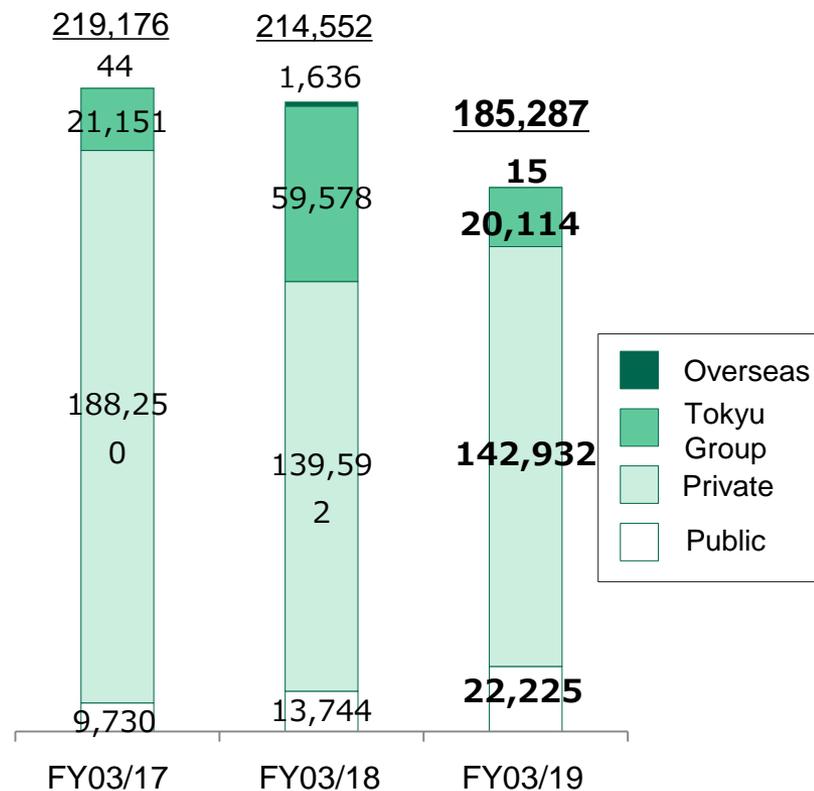
# 1 Orders (Non-Consolidated, Building Construction)

FY03/19

The order volume was deliberately held down by considering construction capacity. The Tokyu Group posted a drop in orders reflecting the comparison with the high level of large-scale projects recorded in the previous fiscal year. In the domestic public sector, local government projects increased.

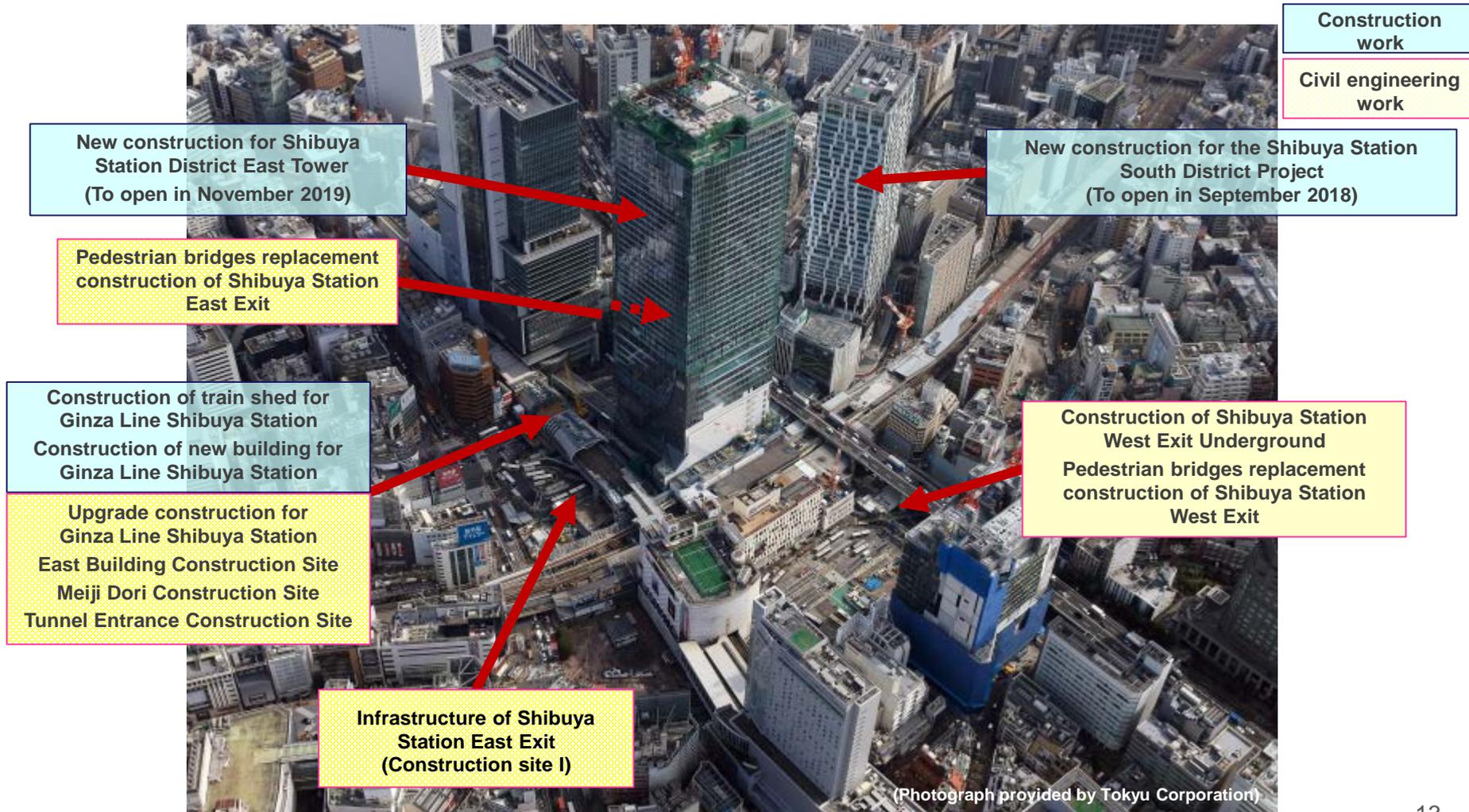
(Millions of yen)

		FY03/19	Difference compared to previous year	Rate of change
Building construction	Domestic public	22,225	8,481	61.7%
	Domestic private	163,046	(36,125)	(18.1%)
	General private	142,932	3,339	2.4%
	Tokyu Group companies	20,114	(39,464)	(66.2%)
	Overseas	15	(1,621)	(99.1%)
		<b>185,287</b>	<b>(29,265)</b>	<b>(13.6%)</b>



# 1 Shibuya Redevelopment Project Initiatives

Construction activity for the large-scale redevelopment of Shibuya Station area is approaching its peak. Going forward, Tokyu Construction will gear up to handle the increase in office demand for IT companies in the broader Shibuya region centered on the area around Shibuya Station.



# 1 KPIs in Mid-Term Management Plan

Tokyu Construction is making steady progress to achieve its mid-term management plan 2018–2020 “Shinka 2020,” and toward its ideal vision for the future. The Company introduced “employee engagement” index as a new indicator from FY2018.

		KPI			
Basic policy	KPI	FY2017  (Introduced from FY2018)	FY2018 actual  B B	FY2020  B B B	FY2026  A
Transform human resources and the organization	• Employee Engagement Survey (*1)				
	• No. of days work sites are closed (*2)	Closed for 4 to 5 days / 4 weeks	Closed for 5 to 6 days / 4 weeks	Closed for 7 to 8 days / 4 weeks	Closed for 8 days / 4 weeks
Enhance domestic construction business	• Customer satisfaction (*3)	95%	95%	100%	100%
	• Safety index (*4)	0.20	0.43	0.10 or less	0.10 or less
	• Emission of CO <sub>2</sub> (*5)	23.9 ton-CO <sub>2</sub> / ¥0.1 billion (19% down) (in FY2016)	17.2 ton-CO <sub>2</sub> / ¥0.1 billion (42% down) (in FY2017)	23.2 ton-CO <sub>2</sub> / ¥0.1 billion (22% down)	20.0 ton-CO <sub>2</sub> / ¥0.1 billion (32% down)
Diversify revenue sources	• Consolidated operating income margin	6.7%	6.6%	6.3%	7.0% or more
	• Consolidated sales	¥320.7 billion	¥331.4 billion	¥312.0 billion	¥350.0 billion or more
Enhance management and financial foundations	• ROE	22.2%	18.1%	13% or more	10% or more
	• Consolidated core capital	¥78.9 billion	¥92.6 billion	¥110.0 billion or more	¥150.0 billion or more

\*1: “Motivation Cloud” engagement rating by Link and Motivation Inc. The survey covers all employees of the entire Tokyu Construction group, including subsidiaries. “BB” is the fifth highest level on a scale of 11 levels.

\*2: Our target covers new work sites of Tokyu Construction (parent company) starting from FY 2018 (excluding the offices in which application is difficult).

\*3: Rate of customer satisfaction for Tokyu (parent company) in private sectors (answering “Yes, we are definitely happy to order / Yes, we can also order.”): Average 95% during FY 2014-16.

\*4: Safety index of Tokyu (parent company): √ (Frequency rate x Strength rate)

\*5: Specific energy consumption (base unit) per construction sales of our parent company Tokyu (ton-CO<sub>2</sub> / ¥0.1 billion) (The reduction rate is compared to that of our FY 1990.) The standard value of Tokyu (parent company) in FY 1990 is calculated based on the figures recorded in FY 1990 in the “CO<sub>2</sub> Emission Survey Report” issued by Nikkenren (Japan Federation of Construction Contractors). 14

## Financial Results Briefing

# 2. Full-Year Outlook for FY03/20

- ✓ Consolidated net sales expected to decline 5.0% year on year to ¥315.0 billion
- ✓ Profit expected to fall sharply below the year-earlier level due to one-time factors
- ✓ Forecast dividend of ¥30, unchanged from the year-earlier level as medium to long-term earnings outlook remains unchanged



## [Consolidated profit/loss]

- Net sales **¥315.0 billion**  
(-5.0% YoY)
- Profit or loss attributable to owners of parent **¥8.7 billion**  
(-43.9% YoY)

## [Non-consolidated profit/loss]

- Net sales **¥293.0 billion**
- Operating income **¥10.4 billion**
- Profit attributable to owners of parent **¥7.0 billion**

## [Dividend forecast]

- **¥30** (interim ¥10, year-end ¥20)

**Consolidated net sales expected to decline 5.0% year on year to ¥315.0 billion**

**Profit attributable to owners of parent expected to fall 43.9% year on year to ¥8.7 billion**

## [Breakdown of non-consolidated sales and gross profit] (YoY change)

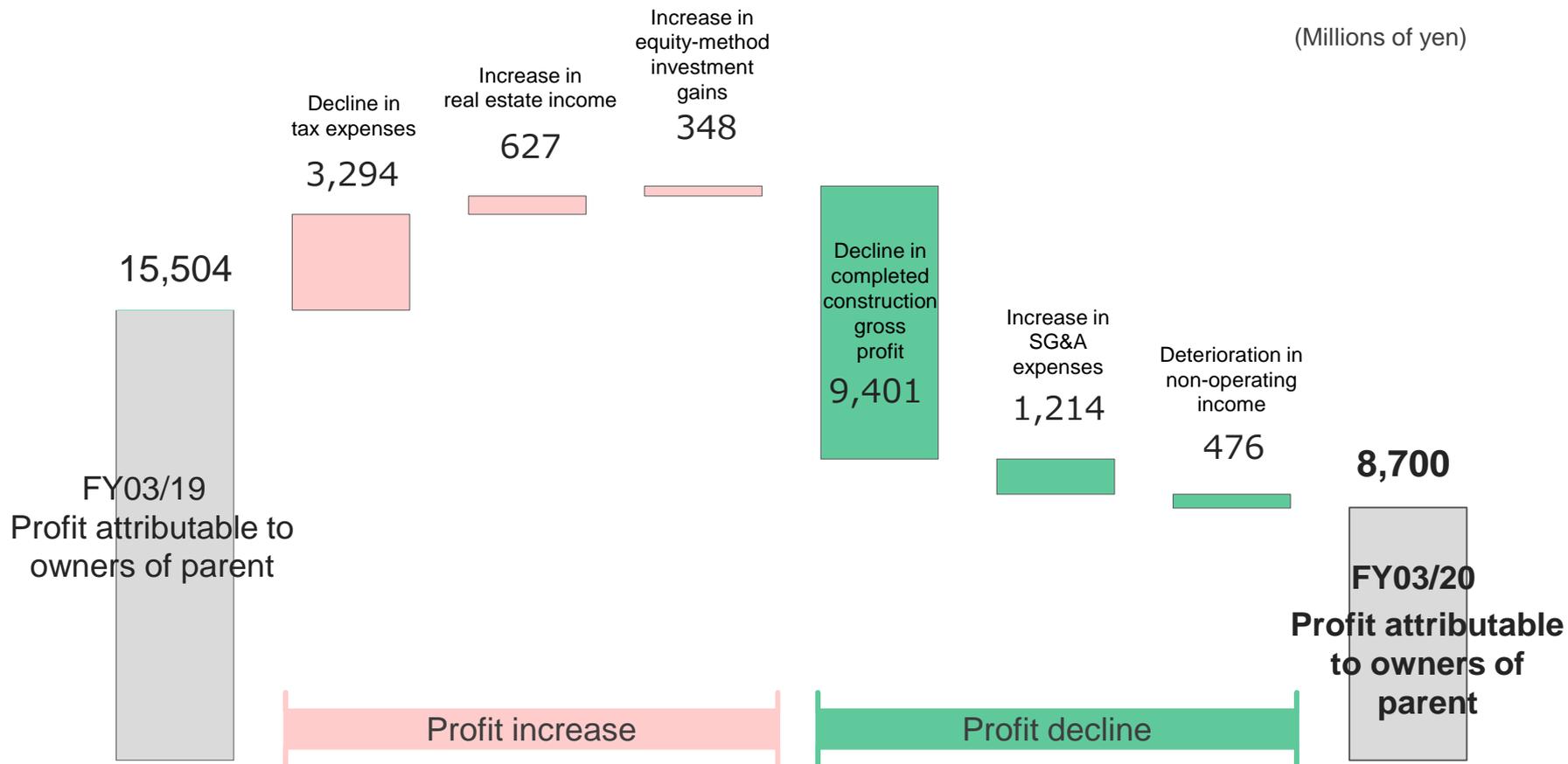
<b>Net sales</b>	<b>¥293.0 billion (-5.5%)</b>
Completed construction sales	¥291.8 billion (-5.5%)
Civil engineering	¥77.4 billion (+10.0%)
Building construction	¥214.4 billion (-10.0%)
Real estate sales	¥1.2 billion (-9.3%)
<b>Gross profit</b>	<b>¥24.9 billion (-25.4%)</b>
Completed construction gross profit	¥24.2 billion (-27.4%)
Civil engineering	¥6.0 billion (-39.3%)
Building construction	¥18.2 billion (-22.3%)
Real estate gross profit	¥700 million (-)

# 2

## Factors Expected to Affect Net Income (Consolidated)



**Profit attributable to owners of parent expected to fall sharply below the year-earlier level due to a temporary yet significant drop in completed construction gross profit**



# 2 Full-Year Outlook for FY03/20

## Completed Construction Sales and Gross Profit

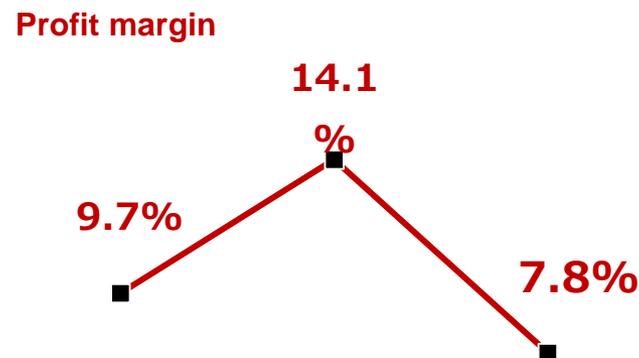
(Non-Consolidated, Civil Engineering)



Initial forecasts call for gross margin of 7.8%, reflecting the dropout of temporary factors (such as an unexpectedly high number of design change and addition projects) and progress with many low-margin work (work as a joint venture subcontractor, etc.). Tokyu Construction looks to improve orders going forward by securing additional construction work, and although it does not anticipate overseas projects, it will aim to secure domestic projects in connection with the “creation of a resilient national land” government policy and other initiatives.

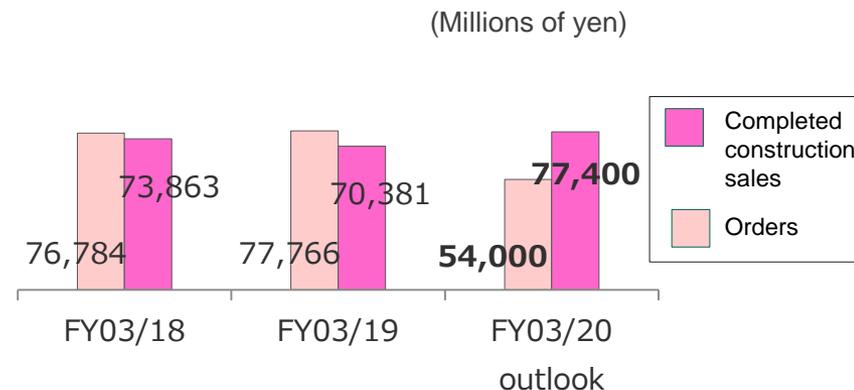
### [Civil Engineering]

- Completed construction sales           **¥77.4 billion**  
(+10% YoY)
- Completed construction gross profit   **¥6.0 billion**  
(-39.3% YoY)
- Completed construction profit margin   **7.8%**



### (Reference) Construction work carried forward

	FY03/18	FY03/19	FY03/20 (outlook)
Orders	76,784	77,766	54,000
Completed construction sales	73,863	70,381	77,400
Construction carried forward to next fiscal year	134,620	142,004	118,604



# 2 Full-Year Outlook for FY03/20

## Completed Construction Sales and Gross Profit

(Non-Consolidated, Building Construction)



Completed construction sales are expected to decline due to near-completion large-scale projects and controlled orders received by considering construction capacity. Gross profit is expected to fall due to the decline in completed construction sales, cost hike, and lower profit margin for construction work carried forward from the previous fiscal year attributable to a focus on strategic orders. Tokyu Construction aims to tap solid market demand this fiscal year by leveraging construction resources that have become available now that construction activity for large-scale projects has peaked out. It will aim to reduce costs and improve profit by enhancing its production systems through further increased orders and construction efficiency.

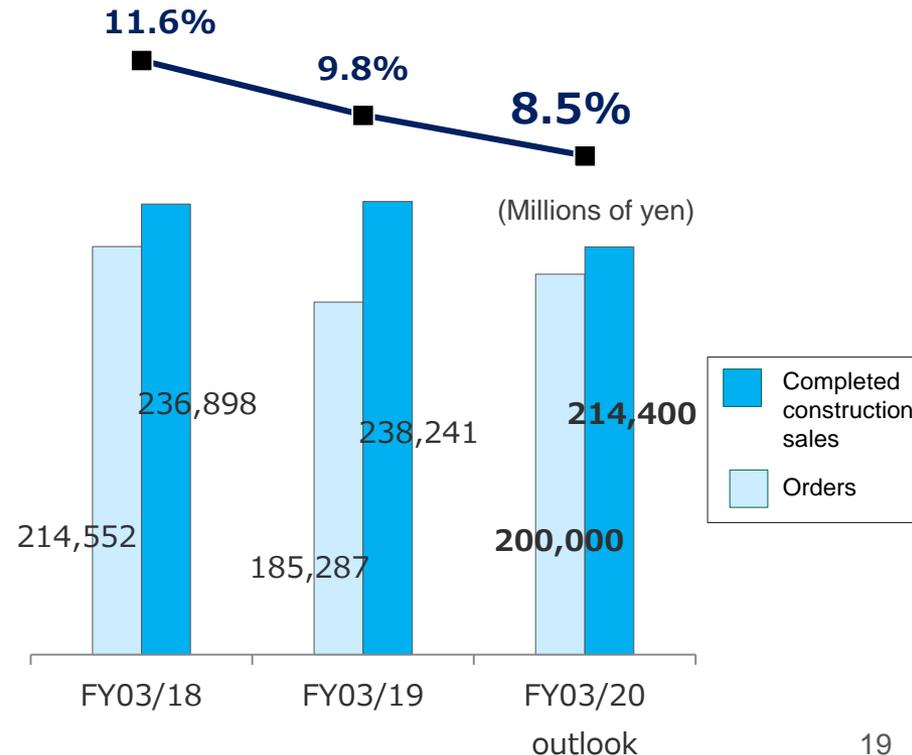
### [Building construction]

- Completed construction sales      **¥214.4 billion**  
(-10.0% YoY)
- Completed construction gross profit      **¥18.2 billion**  
(-22.3% YoY)
- Completed construction profit margin      **8.5%**

### (Reference) Construction work carried forward

	FY03/18	FY03/19	FY03/20 (outlook)
Orders	214,552	185,287	200,000
Completed construction sales	236,898	238,241	214,400
Construction carried forward to next fiscal year	264,206	211,253	196,853

### Profit margin



# 2 Full-Year Outlook for FY03/20

## Non-Consolidated Orders

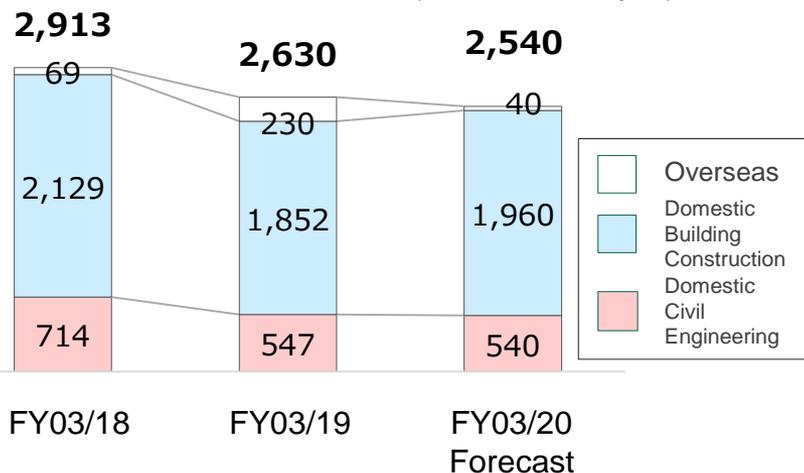
Orders are expected to decline overseas but exceed the year-earlier level in Japan. Tokyu Construction will continue to tap demand in the robust markets for civil engineering and building construction by leveraging construction resources that become available as construction activity on large-scale projects winds down.

**Orders** **¥254.0 billion**  
 (-3.4% YoY)

Civil Engineering **¥54.0 billion**  
 (-30.6% YoY)

Building Construction **¥200.0 billion**  
 (+7.9% YoY)

**Orders** (100 millions of yen)



		(Millions of yen)	
		FY03/20 (Outlook)	Rate of change
Engineering	Civil		
	Domestic public	33,000	17.1%
	Domestic private	21,000	(21.0%)
	General private	11,000	(9.1%)
	Tokyu Group companies	10,000	(31.0%)
Overseas	—	(100.0%)	
		54,000	(30.6%)
Building Construction	Domestic public	20,000	(10.0%)
	Domestic private	176,000	7.9%
	General private	146,000	2.1%
	Tokyu Group companies	30,000	49.1%
	Overseas	4,000	—
		200,000	7.9%
<b>Total</b>		<b>254,000</b>	<b>(3.4%)</b>

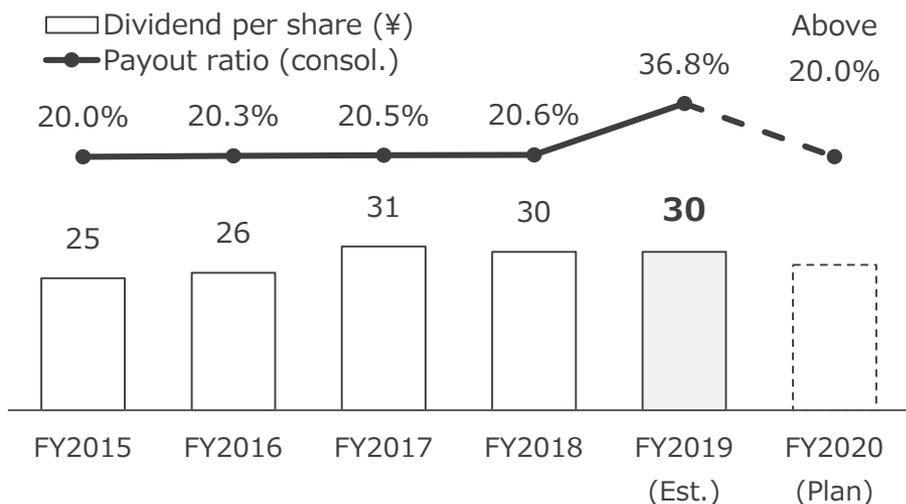
# 2 Dividend Forecast for FY03/20

**Project dividend of ¥30 in FY03/20 (interim ¥10, year-end ¥20), unchanged from the previous fiscal year**

Earnings are expected to decline sharply in FY03/20, but Tokyu Construction regards the downturn as temporary, and believes it will not have a major impact on its medium to long-term earnings outlook in the next fiscal year and beyond or on its goal of establishing healthy financial foundations. The Company is committed to ensuring stable and continuous profit returns to shareholders, and plans to maintain the FY03/20 dividend at the year-earlier level of ¥30.

In addition, the Company remains convinced of the importance of building healthy financial foundations that will enable it to adapt to changes in the business environment, and therefore makes no changes to its existing stance on capital policy, including its dividend policy for the next fiscal year and beyond.

[Annual dividend per share and consolidated payout ratio]



**[Reference] Basic policy on profit distribution**  
 (Mid-term management plan 2018-2020  
 “Shinka2020”)

Tokyu Construction believes it is important to enhance retained profits for investment aimed at increasing corporate value and further improvement of the financial structure in preparation for mid-to-long term risks. It also regards the stable and continuous return of profit to shareholders as an important measure, and is committed to perform flexible profit returns based on performance, including the continuous **dividend payment with the target of the consolidated dividend payout ratio of more than 20%** and share buyback.

Financial Results Briefing

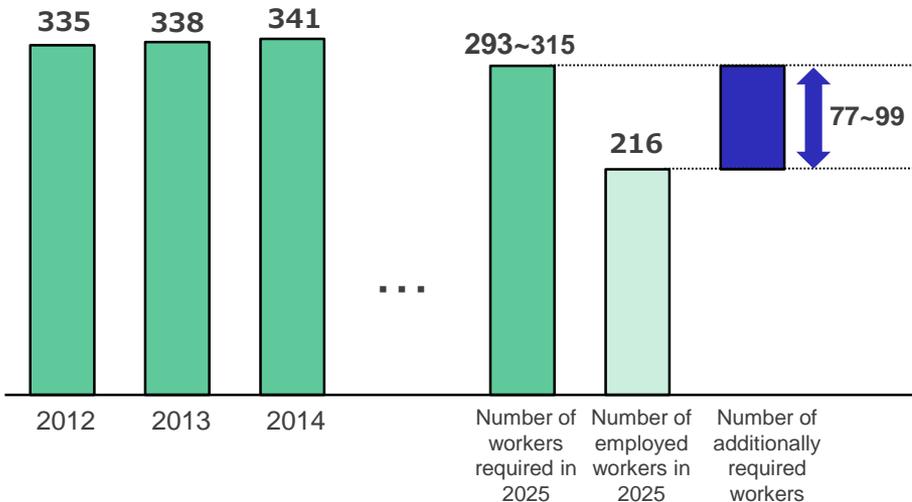
## **3. Toward Our Ideal Vision of Ourselves**

# 3 Intensifying Labor Shortages in Construction Industry Town Value-up Management TOKYU CONSTRUCTION

The impact of the aging population in Japan is particularly pronounced in the construction industry, where the departure of the baby-boomer generation from the workforce is intensifying labor shortage.

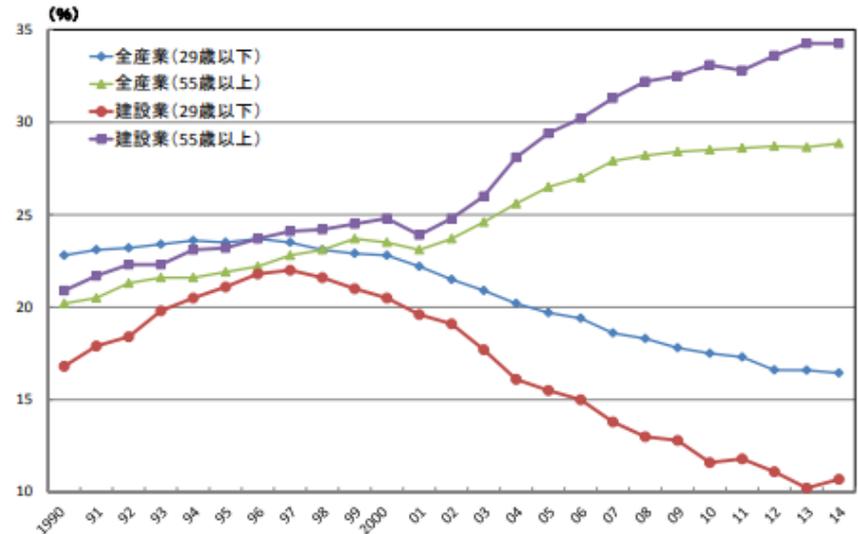
## Growth projection for skilled construction workers

Even after factoring in productivity improvements, it is projected the domestic construction industry will require 2.93–3.15 million skilled workers in FY2025. At the same time, the workforce is expected to decline by roughly 1.3 million workers over the same period as many baby boomers exit the workforce and due to other factors, raising the **possibility of a shortage of 770,000–990,000 workers.**



## Breakdown of construction industry worker by age group

**Compared with other industries, the aging population is having a more pronounced impact on the construction industry**, where workers aged up to 29 comprise roughly 10% of the total workforce and workers aged 55 and above over 30%.



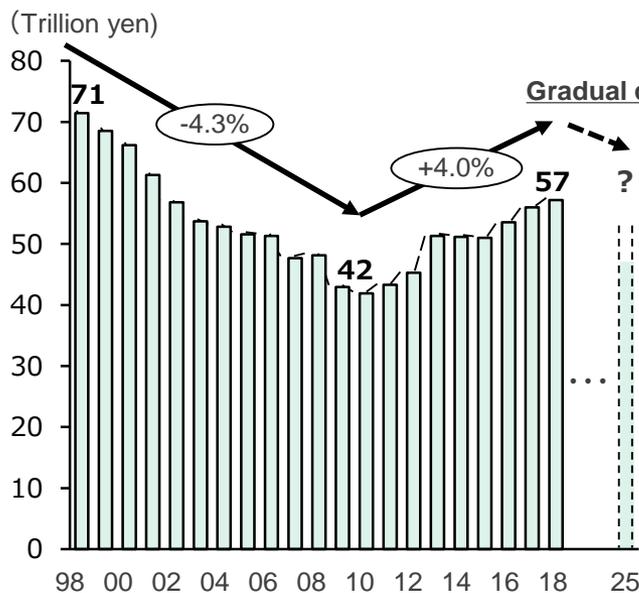
**Labor shortage and the aging population will prompt companies to strengthen hiring of foreign and young workers, but may also trigger industry realignment aimed at securing human resources**

# 3 Growing Renovation Demand

The overall construction market is projected to contract modestly over the medium to long term, but growth in renovation and maintenance demand is accelerating

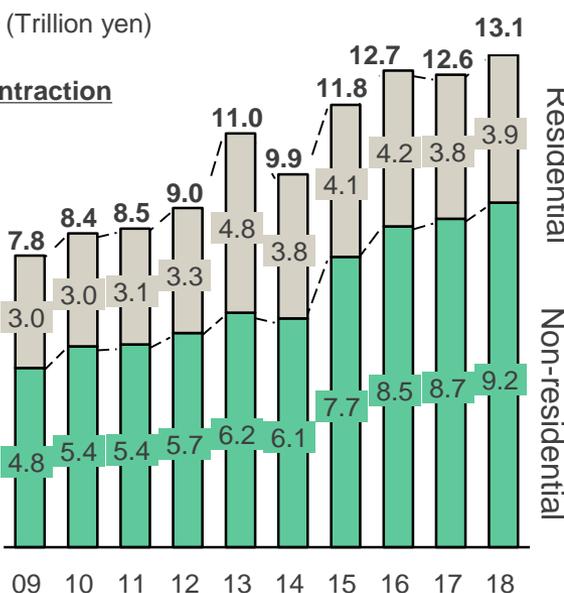
## Domestic construction investment

Demand for new construction is expected to peak out over the medium to long term; however this **does not mean new construction will enter a sharp downtrend but rather enter a gradual decline**



## Building renovation demand

**Renovation demand is expected to continue expanding going forward** centered on non-residential construction, with seismic and environmental factors acting as a tailwind



## Breakdown of infrastructure more than 50-years old

The proportion of aging company infrastructure that was originally established after Japan's period of rapid economic growth is growing at a rapid pace, and this is expected to **further expand demand for maintenance and repairs**

	FY03/13	FY03/23	FY03/33
Roads and bridges	Roughly 18%	Roughly 43%	Roughly 67%
Tunnels	Roughly 20%	Roughly 34%	Roughly 50%
River management facilities	Roughly 25%	Roughly 43%	Roughly 64%
Sewer pipes	Roughly 2%	Roughly 9%	Roughly 24%
Wharf walls	Roughly 8%	Roughly 32%	Roughly 58%

**Against the backdrop of a market contraction and an accelerated expansion in renovation demand, reforms are required that entail a shift to recurring-revenue businesses and to a more flexible order approach**

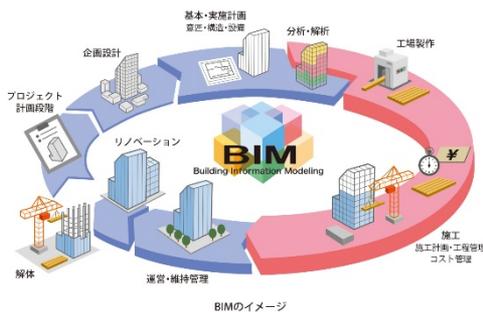
# 3 Growing Need for Productivity Improvements

The adoption of digital solutions and the modularization of building materials are gaining traction as a way to dramatically improve productivity in the face of labor shortages. In the next five to 10 years, investment in systems and factory-based construction is poised to increase substantially, and this development may drive stronger capital consolidation.

## Adoption of digital solutions

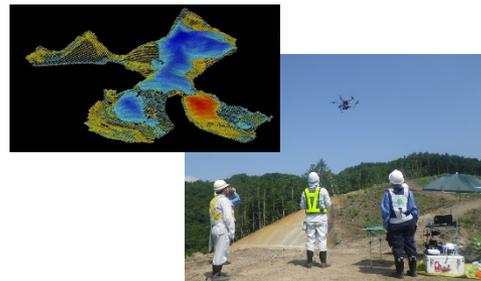
### BIM・CIM

- Centralization of three-dimensional information on building shapes and attributes
- Facilitates consensus building between construction-related players, and contributes to **efficiency improvement of design and construction work**



### i-Construction

- Ministry of Land, Infrastructure, Transport and Tourism promotes utilization of ICT in construction production processes ranging from surveying and measurements to design, construction, and inspections
- **Improve productivity on construction sites** by leveraging technology such as drones for measurements and ICT for construction



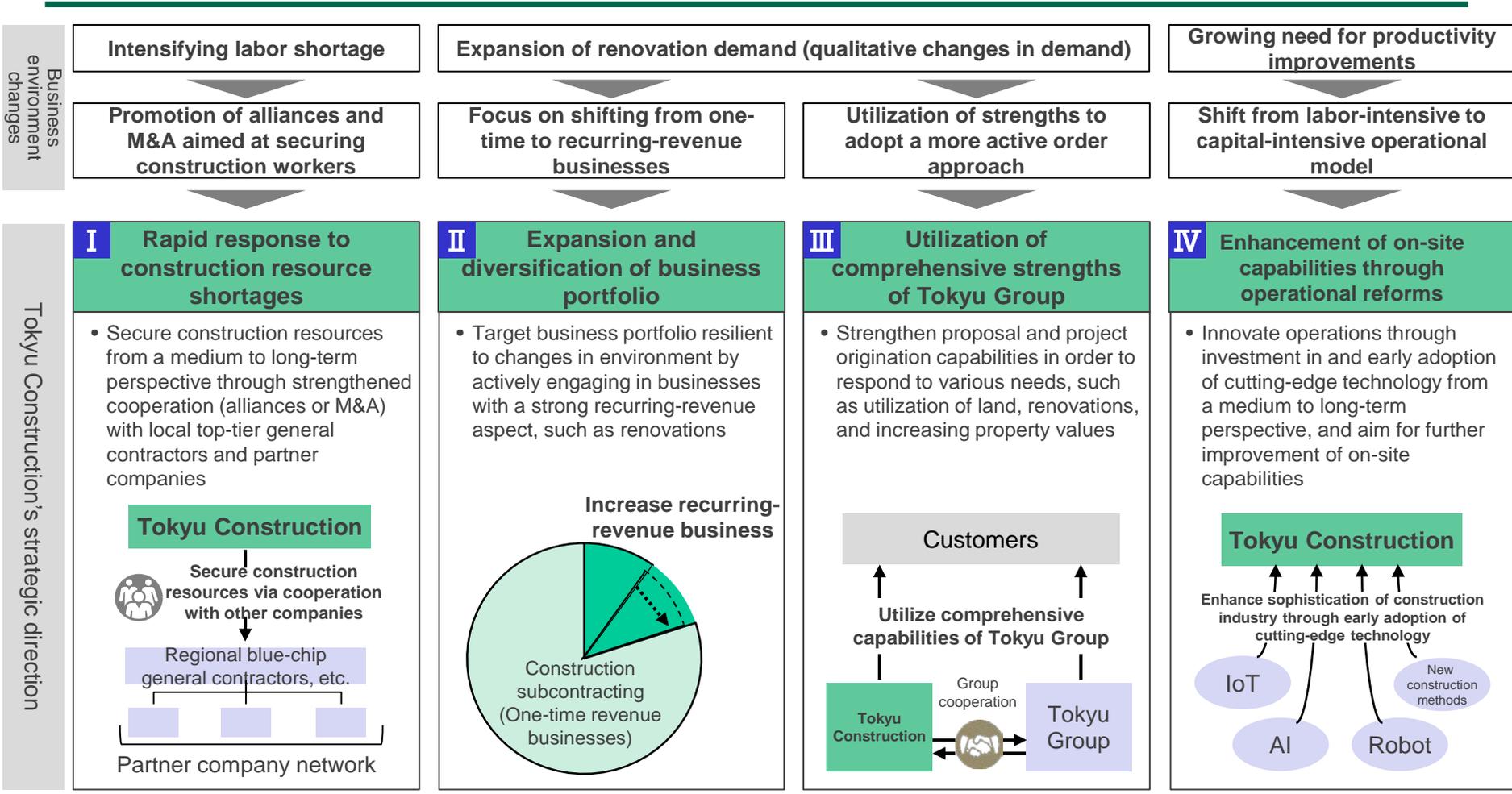
## Modularization of construction materials

### Precast concrete construction method

- Manufacture reinforced concrete construction parts in a factory, and join various parts together on construction sites
- Enable **reduction of necessary on-site workers**, reduction of costs, and **stable supply of high-quality concrete building parts**



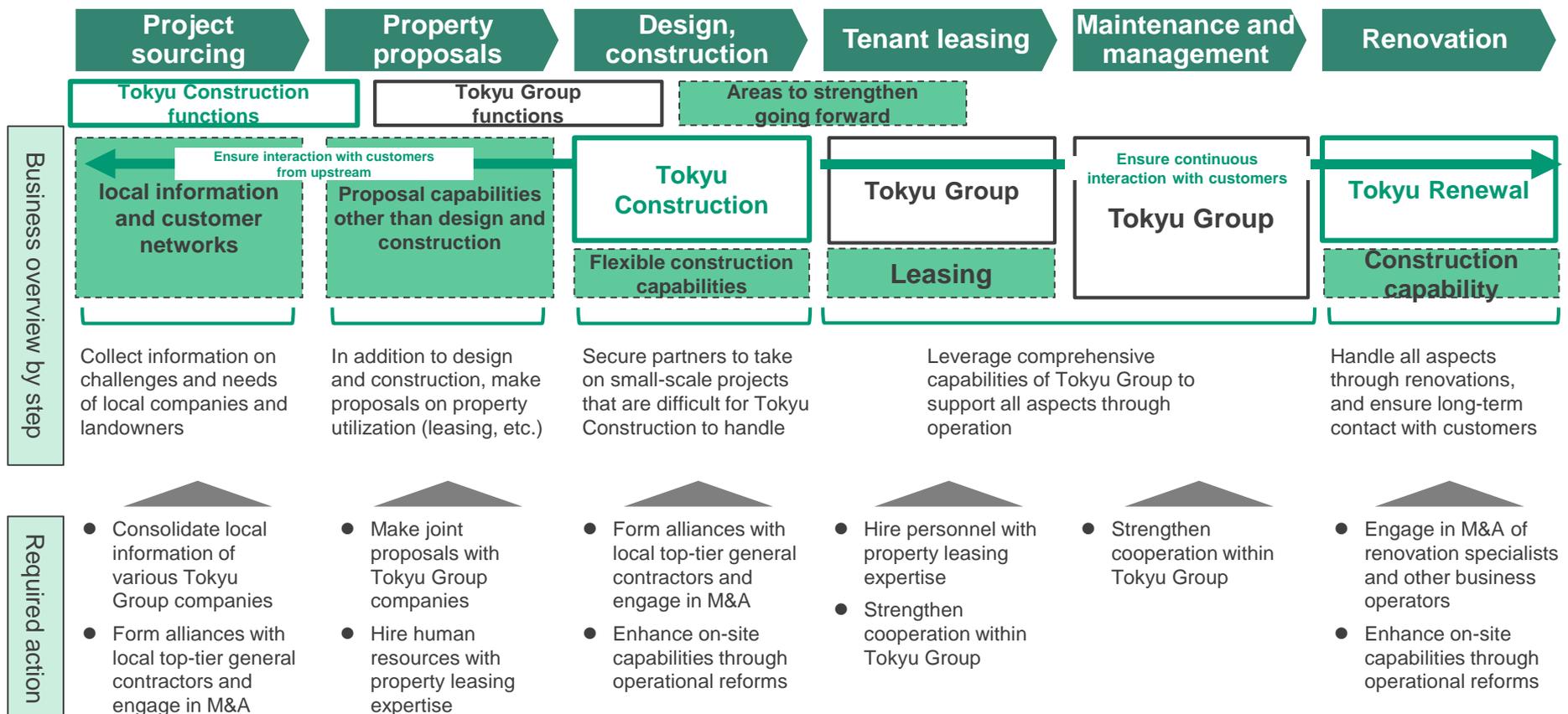
**Stronger capital consolidation facilitates the advantages of scale, and this may drive M&A deals**



# 3 Fleshing out Urban Solutions Business

In addition to enhancing cooperation within the Tokyu Group, which is a strength for Tokyu Construction, shore up the earnings power of the Group by reinforcing necessary solutions and building a comprehensive value chain through active personnel hiring, the formation of alliances, and M&A

General picture of the urban solutions business and necessary action





# TOKYU CONSTRUCTION

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