TCG Takamatsu Construction Group

Takamatsu Construction Group Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2020

November 29, 2019

Event Summary

[Company Name]	Takamatsu Construction Group Co., Ltd.
[Event Type]	Earnings Announcement
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2020
[Fiscal Period]	Q2, FY ending March 2020
[Date]	November 29, 2019
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[Time]	14:00 – 14:40 (Total: 40 minutes, Presentation: 24 minutes, Q&A: 16 minutes)
[Venue]	Sumitomo Shoji Mitoshiro Building, 6F 1-1 Kanda Mitoshiro-cho, Chiyoda-ku, Tokyo 101-0053
[Venue Size]	90 m^2
[Participants]	40

[Number of Speakers]	2	
	Nobuhiko Yoshitake	President, Representative Director of the Board
	Hiroyuki Izutsu	Senior Director, Group Integration Division
[Analyst Names]*	Hideaki Teraoka	Daiwa Securities Co.,Ltd.
	Kouki Ozawa	Mitsubishi UFJ Morgan Stanley Securities Co.,Ltd.

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

Presentation

Moderator: Thank you for attending today despite your busy schedule. Now we will hold the Q2 financial results briefing for the fiscal year ending March 2020 of Takamatsu Construction Group Co., Ltd.

After the briefing, we are planning to introduce the Takamatsu Construction's showroom "Yume Kobo." We would like to ask for your participation if you have time.

Now, I would like to introduce the attendees of Takamatsu Construction Group Co., Ltd. Mr. Nobuhiko Yoshitake, President & Representative Director of the Board.

Yoshitake: I am Yoshitake. Thank you.

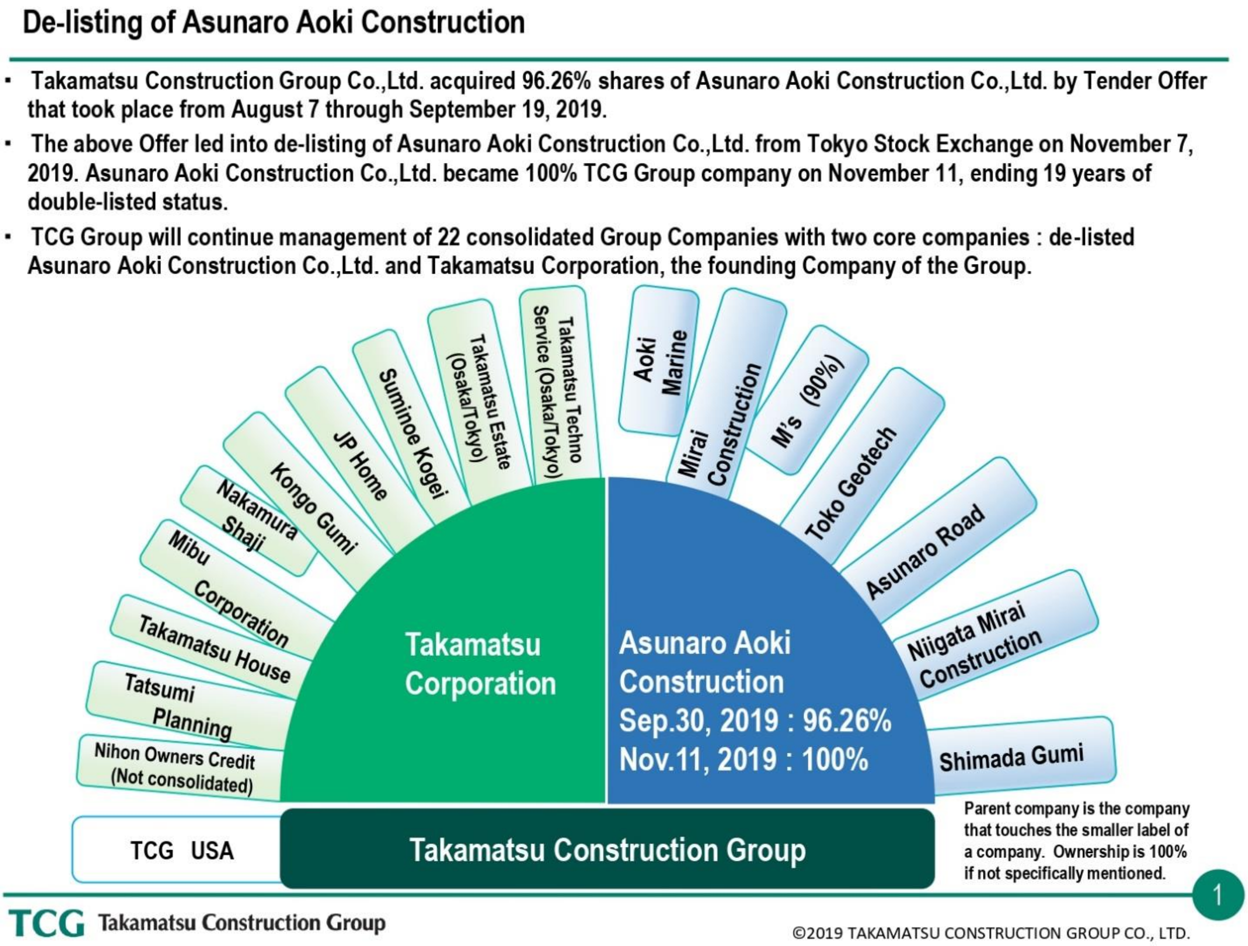
Moderator: Mr. Hiroyuki Izutsu, Senior Director, Group Integration Division.

Izutsu: I am Izutsu. Thank you.

Moderator: We have these two speakers. Thank you.

First, the President, Mr. Yoshitake will explain the financial results for the second quarter. We will accept questions from you after the explanation is completed. Please do not hesitate to ask questions.

So, President Mr. Yoshitake, please start.



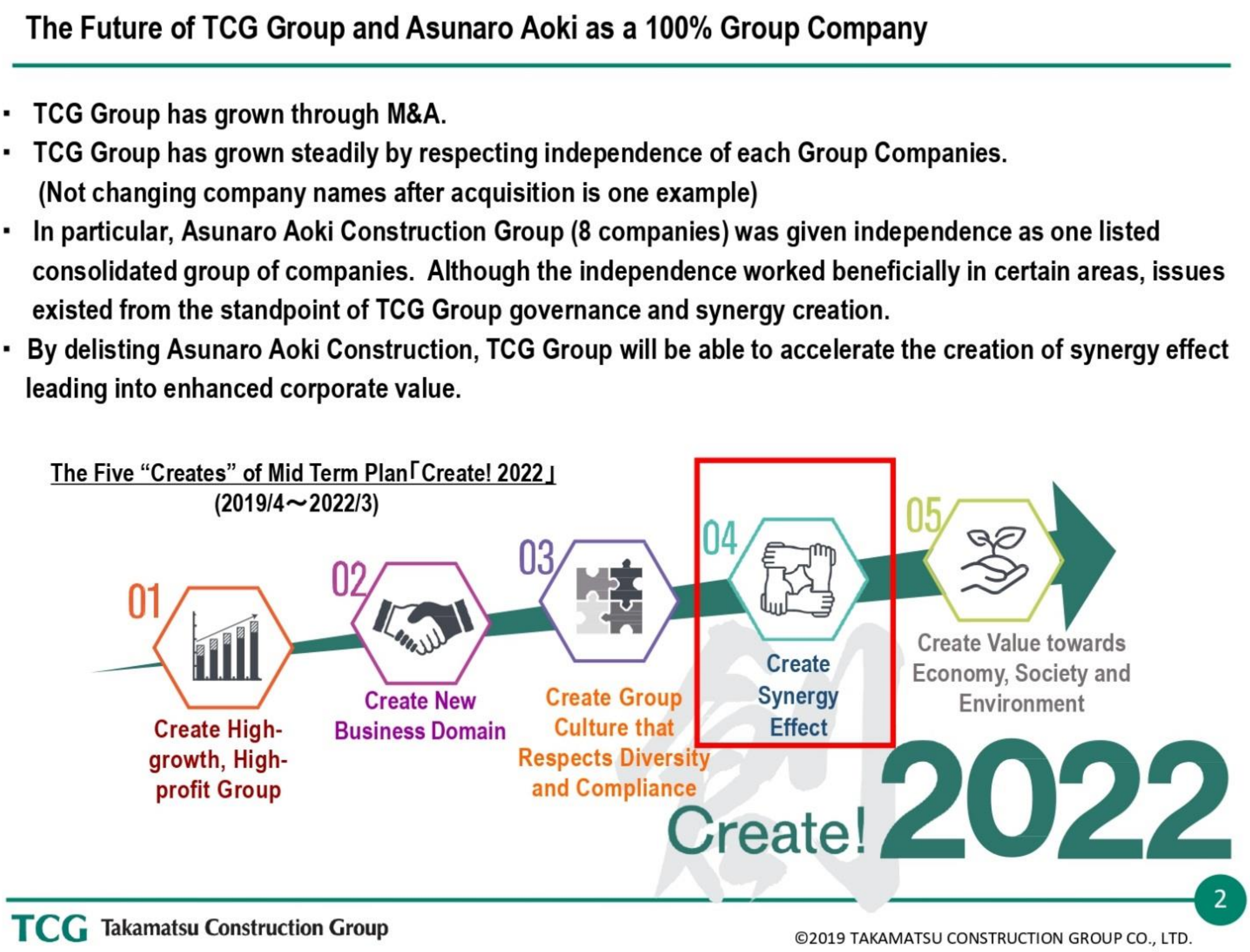
Yoshitake: My name is Yoshitake of the Takamatsu Construction Group. We would like to thank you for participating in the Takamatsu Construction Group's financial results briefing for the first half of the fiscal year ending March 31, 2020.

First, please see the material on hand, page one. Prior to the explanation of the first half results, I would like to report on the TOB for Asunaro Aoki Construction Co., Ltd., which was announced on August 6 of this year.

Looking at the future of the construction industry, the environment surrounding the construction industry is expected to become increasingly challenging due to the contraction of the whole construction market and the decline in the number of construction workers. We are also concerned about conflicts of interest from the perspective of minority shareholders of Asunaro Aoki Construction Co., Ltd. within the Group, and the problem of declining capital efficiency due to the outflow of profits from the perspective of shareholders of the Takamatsu Construction Group. Furthermore, as the regulations surrounding parent-subsidiary listings are strengthened, it is expected that management of the Group will become increasingly difficult, while at the same time maintaining its parent-subsidiary listing. Therefore, we have decided to make a TOB this time.

Against this background, as of September 19, we acquired 96.26% of the voting rights of Asunaro Aoki Construction Co., Ltd., through a tender offer for shares that was made on or after August 7. On November 7, Asunaro Aoki Construction Co., Ltd. was delisted from the stock market. In 2000, through an M&A undertaken by Komatsu Construction Co., Ltd. the parent-subsidiary listing ended, which had continued for 19 years. On November 11, Asunaro Aoki Construction Co., Ltd. became a wholly owned subsidiary of the Takamatsu Construction Group.

From the following explanation, we would like to refer to the Takamatsu Construction Group as TCG, so we appreciate your understanding.



We would like to see on page two of the materials on hand. TCG has been pursuing M&As as its growth strategy since 2000, and is said to be one of the few companies in the Japanese construction industry that have achieved growth through M&As.

We believe that this growth is attributable to the autonomous management while valuing the autonomy and independence of each Group company and leveraging the strengths of each company. We will not change this basic idea in the future.

Considering these changes in the business environment, for the Group to further expand its business scope, we believe it is important to strengthen the Group governance and generate synergies by maximizing the use of its management resources.

In addition, under our Mid Term Plan, Create! 2022, announced in May of this year, we have set five "Creates" for the TCG's strategy, one of which is the creation of synergies. Currently, three companies, TCG, Asunaro Aoki Construction Co., Ltd. and Takamatsu Corporation Co., Ltd., have established a synergy creation project and are considering specific measures.

Specific areas of synergy include further sales cooperation between the two groups, sharing of construction know-how through further promotion of joint construction, strengthening of technical capabilities including BIM and CIM through joint research, and improvement of productivity, as well as personnel exchanges between the various divisions. We will strive to generate synergies and achieve quantitative results as quickly as possible.

In addition, as a quantitative effect, the Group will be able to include minority interests in earnings, in which approximately 1 billion yen annually on a net income basis had flowed out until the previous fiscal year. However, this fiscal year, it will take effect only in the second half of the fiscal year, and due to factors such as the cost of a tender offer, ultimately the recovery is expected to be limited to around 500 million yen.

In any event, we have established a foundation that will enable each Group company to move flexibly through this TOB, and in the future we will accelerate the creation of further synergies and lead to further increases in corporate value.

Results for Q2, FY 2020 March (Consolidated)

1. Orders : +0.9% vs last year. Record high for 2 consecutive years as Q2.

2. Revenue : +13.2% vs last year. Grew 8 consecutive years, record high for 6 consecutive years as Q2.

3. Income : Gross profit, operating income and ordinary income increased significantly. In spite of Non-operating loss of △0.3BJPY（Tender Offer Cost, etc）and Extraordinary loss of △0.4BJPY（Loss on inventory valuation, etc）, net earnings attributable to controlling interest increased by 27.8% vs last year to 2.4 BJPY.

Unit : BJPY

Item	FY2019/Mar 2Q	FY2020/Mar 2Q	+/- （%）
Orders	144.6	**145.9**	＋0.9%
Revenue	114.3	**129.3**	＋13.2%
Gross Profit （% vs Revenue）	14.6 (12.8%)	**18.0 (14.0%)**	＋23.4%
Operating Income （% vs Revenue）	3.5 (3.1%)	**5.6 (4.4%)**	＋59.4%
Ordinary Income （% vs Revenue）	3.5 (3.1%)	**5.3 (4.2%)**	＋49.9%
Net earnings attributable to controlling interest （% vs Revenue）	1.9 (1.7%)	**2.4 (1.9%)**	＋27.8%

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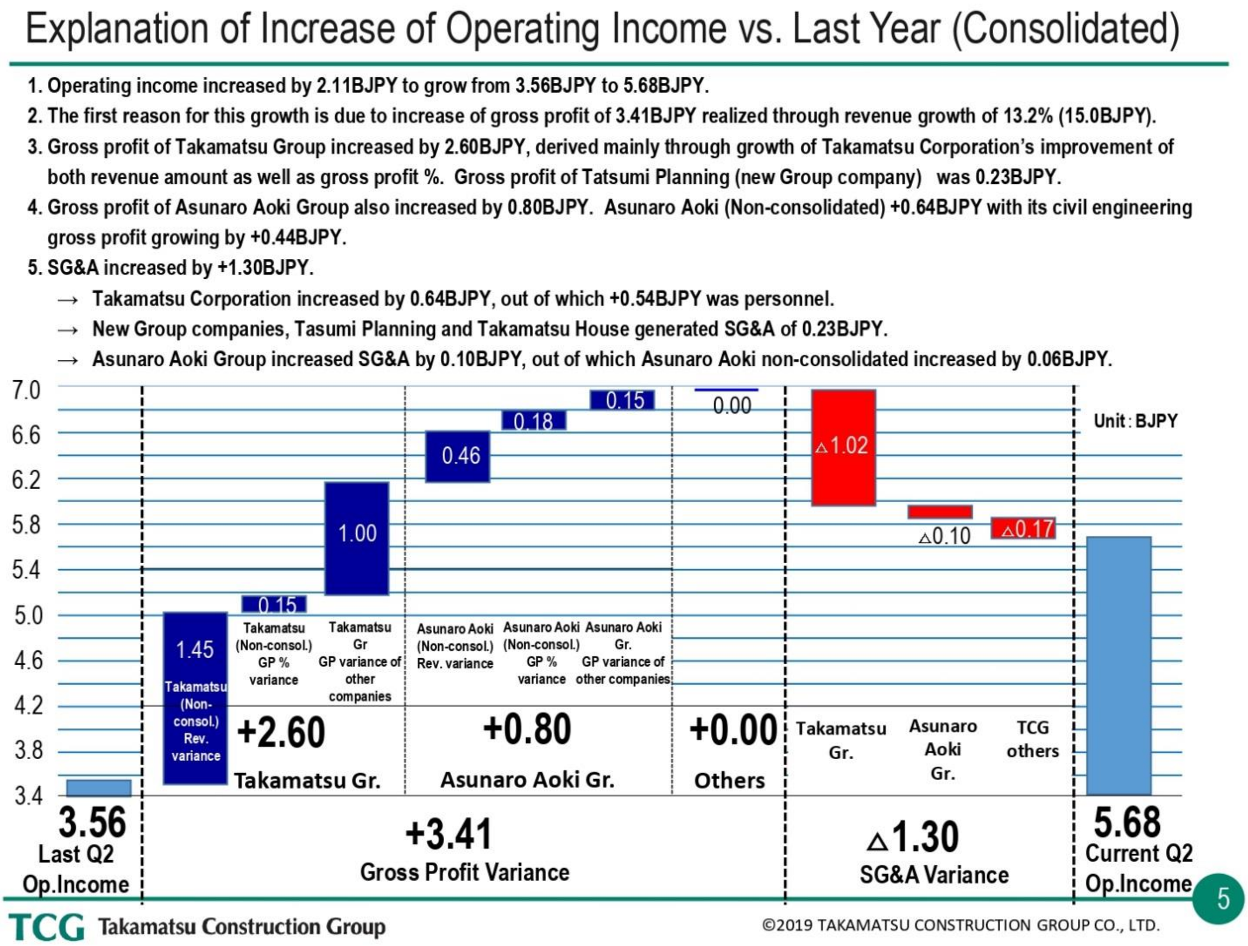
We will continue to explain our financial results for the first half of the fiscal year ending March 31, 2020. Please refer to page four of the materials at hand. Orders, revenues, and profits all exceeded the previous year’s level.

Regarding profits, gross profit, operating income, ordinary income, and net income all increased substantially compared with the previous fiscal year, partly due to growth in net sales of completed construction contracts owing to steady progress in construction.

Net income increased 27.8% year-on-year to 2.4 billion yen, despite the recording of non-operating loss of approximately 0.3 billion yen due to expenses related to the TOB of Asunaro Aoki Construction Co., Ltd., and extraordinary loss of 0.4 billion yen due to inventory valuation and other factors.

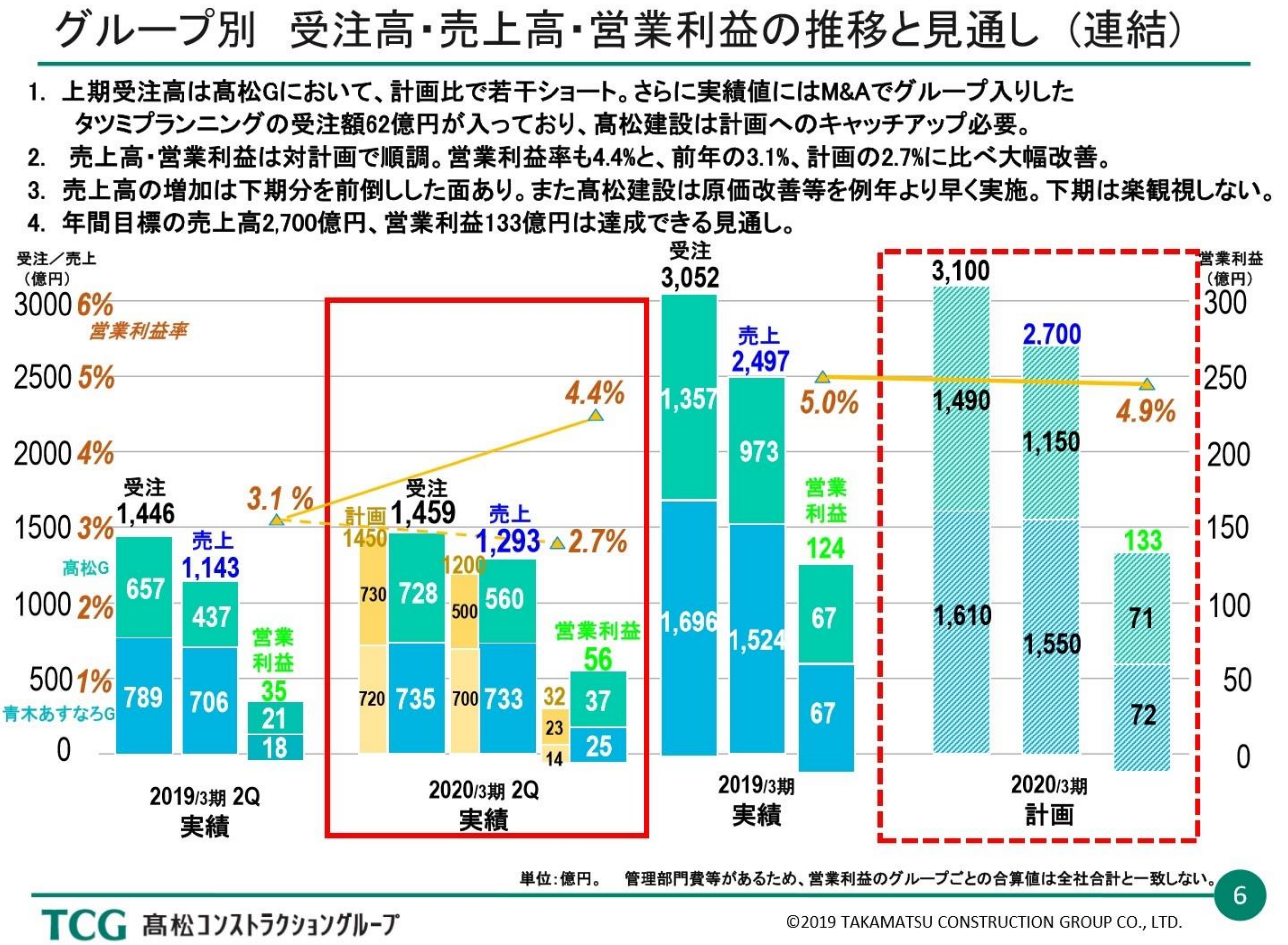


The following page five shows diagrams that explain the difference between operating income and operating income in the previous fiscal year. The left-hand side of this table shows operating income of 3.56 billion yen for the previous fiscal year. On the right is operating income of 5.68 billion yen for the current fiscal year. The factors causing the difference are stated.

The main reason for the significant increase in operating income for the current fiscal year compared to the previous fiscal year was a 15 billion yen increase in revenues, a 13.2% increase leading into a 23.4% increase in gross profit, to 3.41 billion yen. Looking at Takamatsu Construction Co., Ltd. on a non-consolidated basis, gross profit increased by 1.45 billion yen due to the steady progress of construction.

In addition, gross profit of the highly profitable Takamatsu Construction Group increased among the two groups, which led to an improvement in the gross profit margin and operating profit margin.

On the other hand, selling, general and administrative expenses (SG&A) rose 1.3 billion yen year-on-year, of which Takamatsu Construction Co., Ltd. increased 640 million yen on a non-consolidated basis. Of this amount, the increase in personnel expenses was approximately 540 million yen. In addition, SG&A of TATSUMI PLANNING Co., Ltd., which joined the Group, and Takamatsu House Co., Ltd., which was established in April of this year, account for 230 million yen.



In the next page six, I will explain the progress for the first half of the fiscal year by group and the outlook for the full fiscal year.

The figures in red frame are the actual values for the second quarter of the current fiscal year, and inside the red frame, three pillars show the orders, revenues, and operating income. In addition, there are three figures for each pillar, with consolidated figures for TCG at the top, consolidated figures for the Takamatsu Group at the middle, and consolidated figures for the Asunaro Aoki Group at the bottom. Yellow bars on the left side of each pillar are planned values announced to the public.

Orders in the second quarter of the fiscal year under review totaled 145.9 billion yen, an all-time high for the second consecutive year, surpassing the 145.0 billion yen planned, as well as surpassing 144.6 billion yen of the previous fiscal year. However, the Takamatsu Group was slightly below plan, partly due to the tightening of the criteria for recording orders.

In addition, with regards to this slight shortfall, as the actual includes orders of 6.2 billion yen coming from TATSUMI PLANNING Co., Ltd., which joined the Group through M&A in the current fiscal year, Takamatsu Corporation will need to catch up in the second half of the fiscal year.

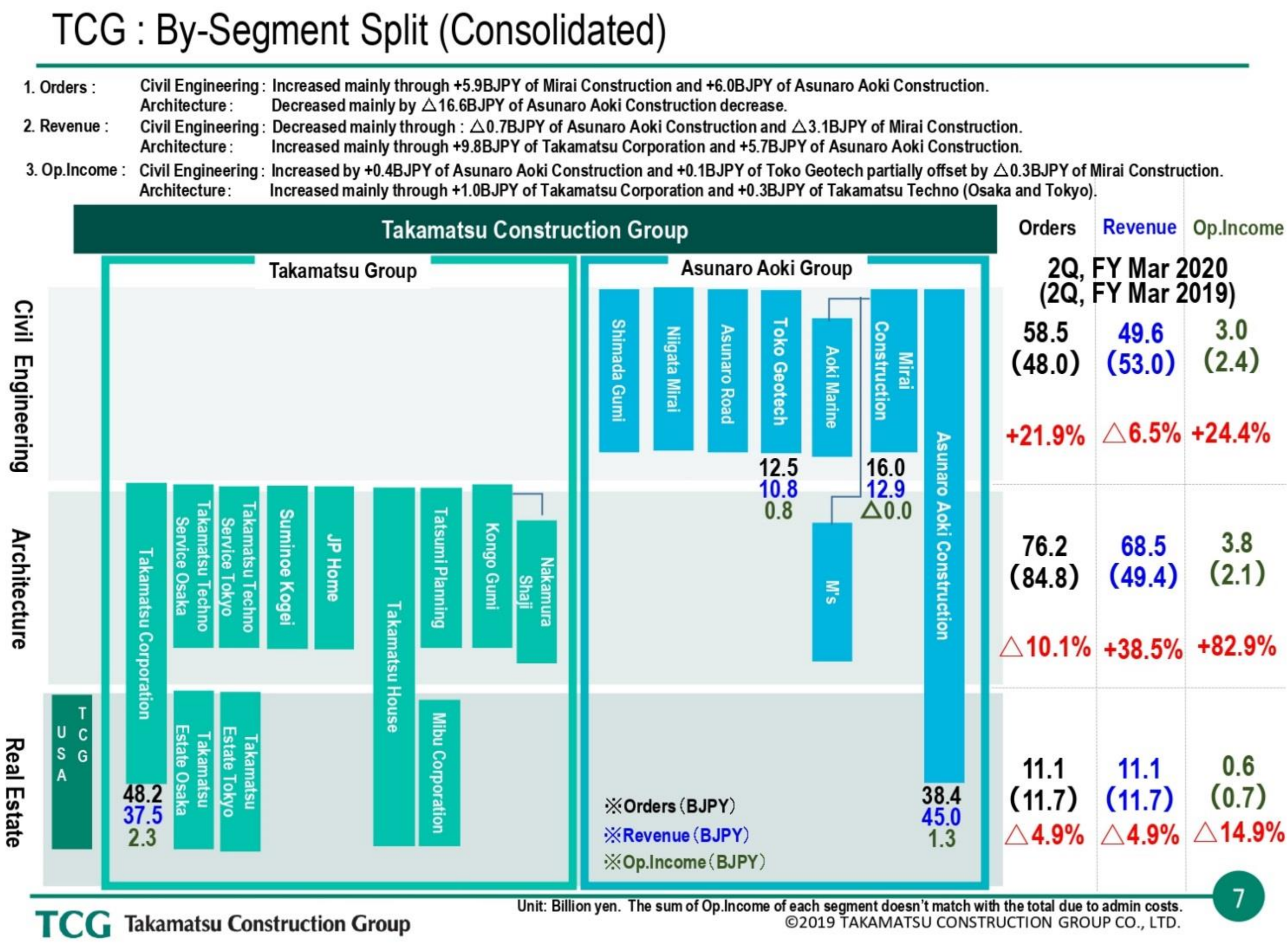
Consolidated revenues for the second quarter of the fiscal year ending March 31, 2020 were 129.3 billion yen, exceeding the 114.3 billion yen recorded in the previous fiscal year and the 120-billion-yen target. This was the eighth consecutive year of revenue growth and the sixth consecutive year of record high.

Looking at the results by group, we are making steady progress both compared to the previous fiscal year and to the plan. Operating income rose sharply to 5.6 billion yen, and the operating income margin was 4.4%, significantly higher than the previous year's 2.7% and the target of 3.1%.

In this way, both revenues and operating income are progressing steadily in line with the plan. As we explained in the previous fiscal year's presentation, the start of construction had been delayed and the construction period had become longer. However, we have factored in those issues when developing the plan, and worked on stricter management, so the same issues are not occurring in the current fiscal year

However, we are not optimistic about the second half of the fiscal year. This is because we made steady progress in the first half of the fiscal year, partly due to a slight advance in the second half of the fiscal year. And, we revised the gross profit margin of Takamatsu Corporation (non-consolidated) on project by project basis during the second quarter of the fiscal year, which had been carried out in the fourth quarter of the previous years.

For the full year, we expect to achieve the projected revenues of 270 billion yen and operating income of 13.3 billion yen.



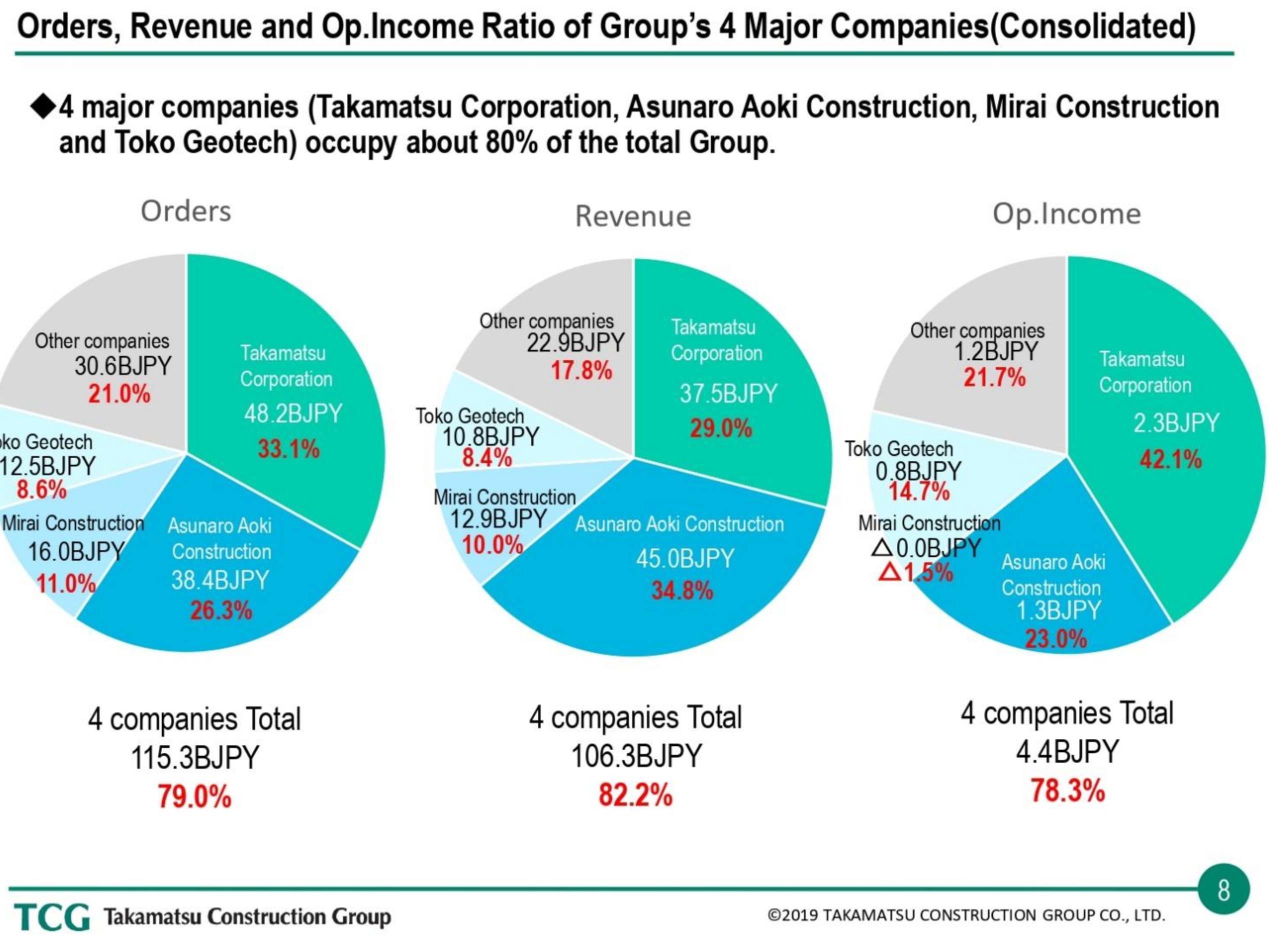
Next is page seven. The following is an explanation of orders, revenues, and operating income by segment in the Civil Engineering, Architecture, and Real Estate segments.

In terms of orders, Asunaro Aoki Construction Co., Ltd. and Mirai Construction Co., Ltd. received orders for the New Meishin Highway, and Mirai Construction Co., Ltd. increased by 5.9 billion yen from the previous fiscal year, and Asunaro Aoki Construction Co., Ltd (non-consolidated) increased by 21.9% from 48.0 billion yen to 58.5 billion yen in total, reflecting a positive contribution of 6 billion yen from the previous fiscal year.

In the architecture segment, Asunaro Aoki Construction Co., Ltd. (non-consolidated) declined 10.1% year-on-year, from 84.8 billion yen to 76.2 billion yen. This was due in part to a reaction to the front-loaded increase in orders related to the consumption tax hike in the previous fiscal year.

Revenues declined 6.5% from the previous fiscal year, partly due to a decrease in the number of projects carried over from the previous fiscal year at Mirai Construction Co., Ltd. On the other hand, construction of both the Takamatsu Construction Co., Ltd. and Asunaro Aoki Construction Co., Ltd. progressed steadily, resulting in an increase of 38.5% over the previous fiscal year.

Operating income increased 24.4% from 2.4 billion yen in the previous fiscal year to 3 billion yen in the current fiscal year, due partly to the redesign of large-scale projects in the Asunaro Aoki Construction Co., Ltd.'s Civil Engineering segment, despite a decline in sales in civil engineering. Construction increased 82.9% year-on-year to 3.8 billion yen, compared with 2.1 billion yen in the previous fiscal year. The largest factor behind the significant improvement in operating income for construction was a significant increase in revenues for both Takamatsu Construction Co., Ltd. and Asunaro Aoki Construction Co., Ltd.



Please see page eight. Orders, revenues, and operating income are shown by company.

The TCG Group consists of 22 consolidated subsidiaries. The core companies are Takamatsu Construction Co., Ltd., Asunaro Aoki Construction Co., Ltd., Mirai Construction Co., Ltd., which is engaged with marine and civil engineering for Asunaro Aoki Group, and Toko Geotech Co., Ltd., which specializes in slope construction. These four major companies account for approximately 80% of the total orders, revenues, and operating income.

Balance Sheet (Consolidated)

Unit : BJPY

Title of account	2019/3	2019/9	Change
Current assets	154.1	147.8	△6.3
Cash and deposits	62.0	59.7	△2.3
Notes and accounts receivable	72.2	67.1	△5.0
Real estate for sale	10.1	10.5	+0.4
Costs on uncompleted construction contracts	1.5	2.9	+1.3
Costs on real estate business	0.6	0.7	+0.0
Accounts receivable	6.2	4.5	△1.7
Other	1.3	2.1	+0.8
Allowance for doubtful accounts	△0.1	△0.1	△0.0
Noncurrent assets	36.3	46.8	+10.4
Tangible assets	22.5	32.3	+9.8
Intangible assets	2.0	2.7	+0.7
Investments and other assets	11.8	11.6	△0.1
Investment securities	5.2	5.1	△0.1
Deferred tax assets	3.8	4.0	+0.2
Other	3.0	2.7	△0.2
Allowance for doubtful accounts	△0.2	△0.2	+0.0
Total assets	190.5	194.6	+4.0

Title of account	2019/3	2019/9	Change
Current liabilities	59.7	73.8	+14.0
Accounts payable for construction contracts	30.9	30.5	△0.4
Short Term Borrowings	-	11.2	+11.2
Advances received	15.3	19.2	+3.8
Other	13.4	12.9	△0.5
Long-term liabilities	12.7	12.8	+0.1
Retirement allowances	10.9	10.9	+0.0
Deferred tax liabilities	0.0	0.0	+0.0
Other	1.7	1.8	+0.1
Total liabilities	72.4	86.7	+14.2
Shareholders' equity	105.1	106.5	+1.4
Capital stock	5.0	5.0	-
Capital surplus	0.5	0.7	+0.2
Retained Earnings	107.0	108.2	+1.1
Treasury shares	△7.4	△7.4	-
Accumulated other comprehensive income	△1.1	△1.1	△0.0
Non-controlling interests	14.1	2.5	△11.5
Total net assets	118.1	107.9	△10.1
Total liabilities and net assets	190.5	194.6	+4.0

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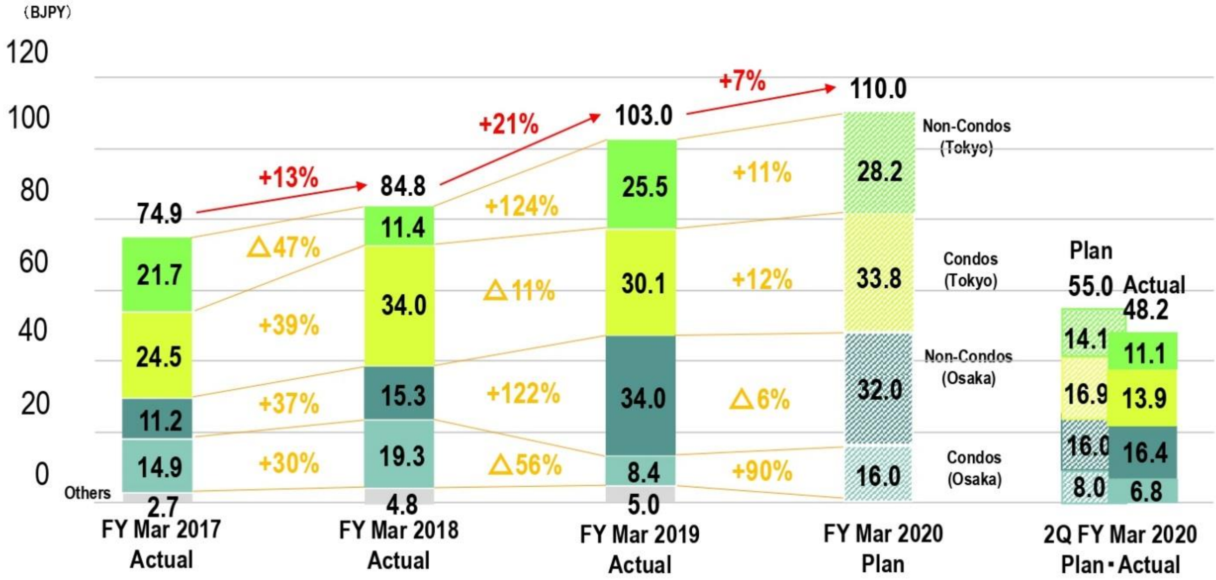
Page nine is the consolidated balance sheets.

I would like to explain what is framed in red. Regarding an increase in tangible assets of 9.8 billion yen from the previous fiscal year, we are currently rebuilding the Tokyo Head Office building in Shiba, Minato Ward. Construction of a new company's building with 18 stories above ground is scheduled to be completed in September 2022. The increase of tangible asset is due to the acquisition of land of the building.

Next, short term borrowings in liabilities increased by 11.2 billion yen from the previous fiscal year, as well as the negative effect of non-controlling interests of 11.5 billion yen compared with the previous fiscal year was attributable to the TOB of Asunaro Aoki Construction Co., Ltd. At the end of the interim period, net cash was 48.5 billion yen.

Takamatsu Corporation : Orders and Its Outlook (Non-consolidated)

1. Orders for Q2 was 48.2BJPY vs. Plan of 55.0BJPY, 87.6% vs Plan.
2. However, due to abundant carryover orders, its impact towards revenue remains little.
3. Orders of Kanto Area was 25.0BJPY, in line with last year results.
   However, the figure was short vs. Plan (80.6%). Need to catch-up in second half.
4. Orders of Kansai Area are inclined towards non-condominiums, a continued trend from last fiscal year.
   Need to enhance proposal, designing and construction capabilities towards non-condos.



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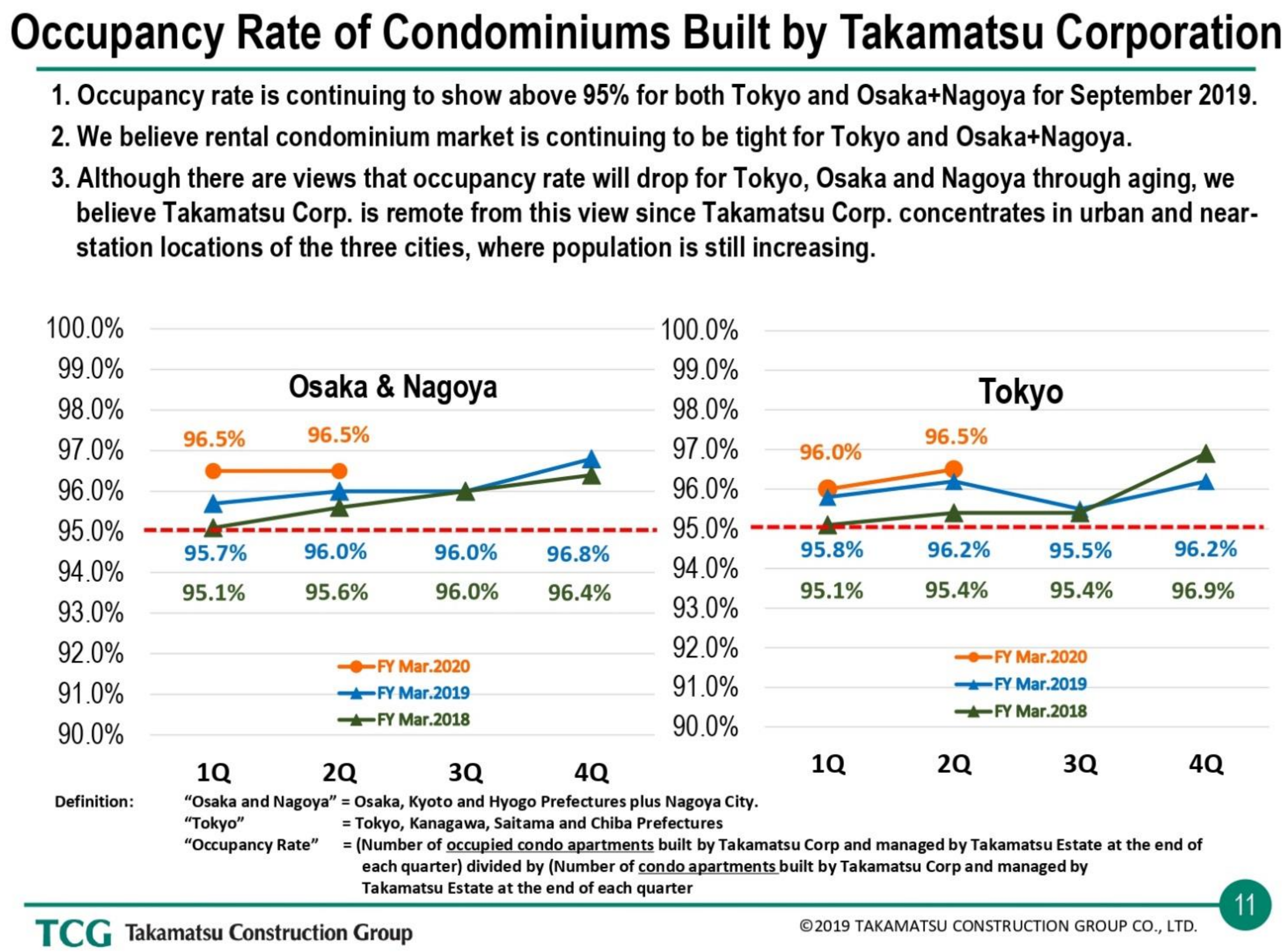
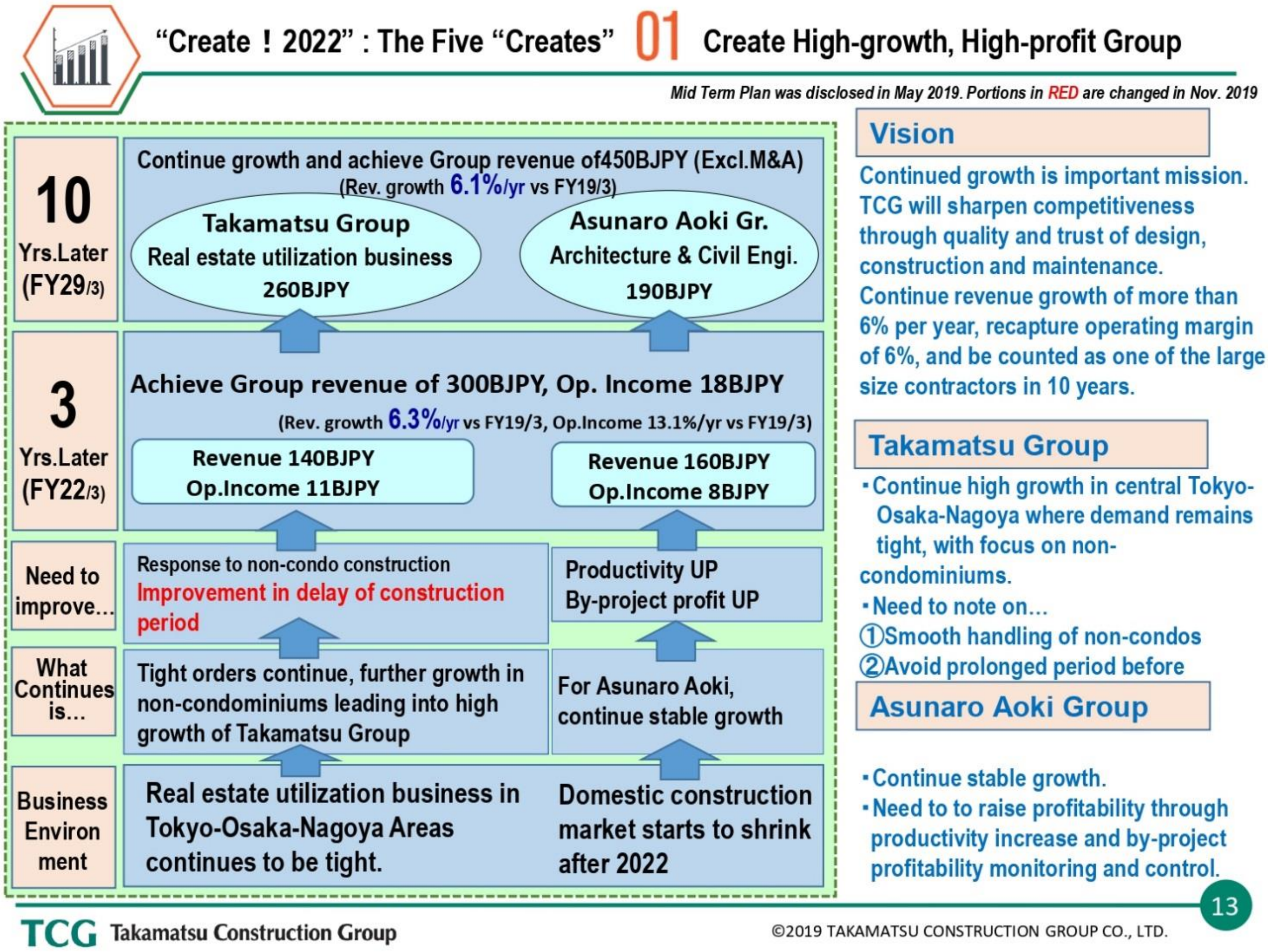
Next is page 10. Orders of Takamatsu Construction Corporation is separated into Tokyo and Osaka as well as condominiums and non-condominiums.

Orders received in the first half of the fiscal year fell short of the target by 12.4%. One of the factors behind this shortfall was the tightening of the criteria for recording orders, reflecting the delayed start of construction in the previous fiscal year. As a result, Tokyo fell short of the target by 19.4%. We will work to recover in the second half of the fiscal year under review. However, as we have ample work to be carried over from this fiscal year, we believe that the impact for the next fiscal year will be minimal at this stage.

On the other hand, Osaka achieved 96.7% of the target, which was basically in line with the plan. As in the previous fiscal year, non-condominiums accounted for a high proportion of Osaka's sales, with approximately 70% of sales coming from non-condominiums. For this reason, we are working to further strengthen our ability to offer proposals, design capabilities, and construction capabilities for non-condominium buildings.



On page 11, the occupancy rate for the condominiums built by Takamatsu Corporation, which is disclosed every quarter, is shown. Tokyo, Nagoya, and Osaka continued to perform well. Looking at these figures, we have judged that Takamatsu Corporation Co., Ltd.'s solid performance will not slow down for the foreseeable future.



From page 12 and beyond, we will explain our future directions considering our first half financial results, as well as follow-up to our Mid Term Plan, Create! 2022, announced in May 2019.

First, we have developed the five "Creates" as the key strategies under our mid-term management plan. The first is to create a high-growth, high-profitable company.

The red part was added this time. In the previous fiscal year, at Takamatsu Corporation, the delay of the construction period for the plan became an issue. Delays in the construction period from the receipt of an order to the commencement of construction were sometimes caused due to delays in tenants moving away from the condominium reconstruction project or the removal of underground structures. However, in the current fiscal year, we estimate the number of months from the receipt of an order to the commencement of construction in accordance with the actual results, and strictly check the status of each project, and we believe that the issues are significantly improved.

Even after April 2022, we will continue to grow at a rate slightly below the annual growth rate of 6.3% recorded in the current medium-term management plan up to the fiscal year ending March 31, 2022 and keep targeting revenues of 450 billion yen in the existing businesses in 10 years.

Create ! 2022 : Create New Business Domain

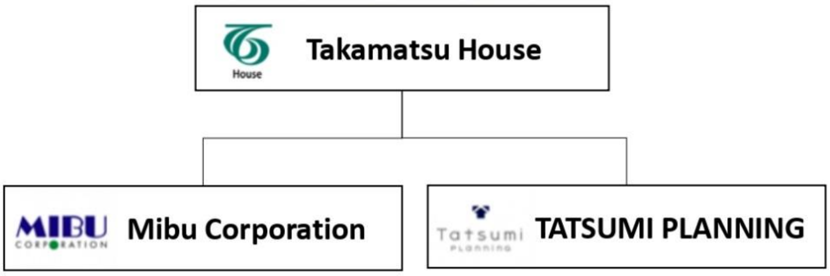
Status of Wooden Independent Residence Business

1. TCG will develop wooden independent small-size residence business with the following three companies as the core:
   - Mibu Corporation (Joined TCG in April 2018, strength in real estate trading of Southern Tokyo Area)
   - Tatsumi Planning (Joined TCG in May 2019, strength in construction of wooden independent residence in Southern Kanto)
   - Takamatsu House (Founded April 2019, plans to conduct planning, sales and administration)

3. Plans to establish presence in Southern Tokyo Area where both Takamatsu Corp. and Mibu Corp. have strong market share.
4. Plans to develop business platform before March 2022 and grow the business to become the "Third Core" of TCG.

Tatsumi Planning Headquarter

■ Takamatsu House Group



Residence designed and constructed by Tatsumi Planning

TCG 髙松コンストラクショングループ

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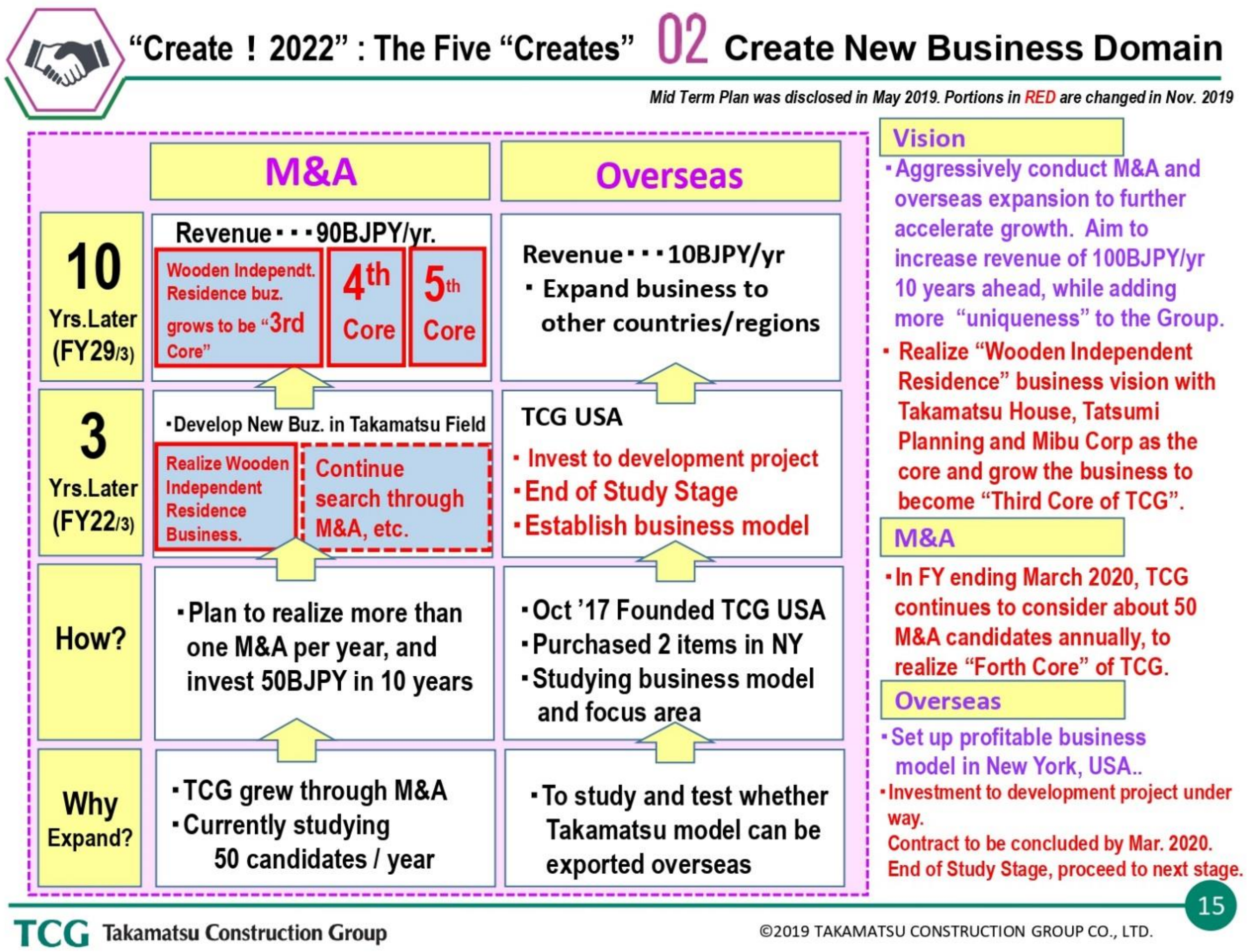
On page 14, we will explain the current state of the wooden independent residence business, which is a new business of TCG.

For this business, we conducted M&A with Mibu Corporation Co., Ltd. and TATSUMI PLANNING Co., Ltd., and established Takamatsu House Co., Ltd. in April of this year with the aim of developing a business of selling wooden independent residence.

We are currently in the process of developing a plan to establish a business in the Southern area of Tokyo, where Takamatsu Corporation Co., Ltd. and the two companies that joined the Group through M&A have strengths. Currently, we have decided on a rough plan for the business development, and we intend to firmly establish this business as a period for establishing a foundation by the fiscal year ending March 2022, three years from now.



These ideas are reflected on page 15. This page explains about the Group's new business domains, which is the second pillar of the five "Creates" outlined in the medium-term management plan.

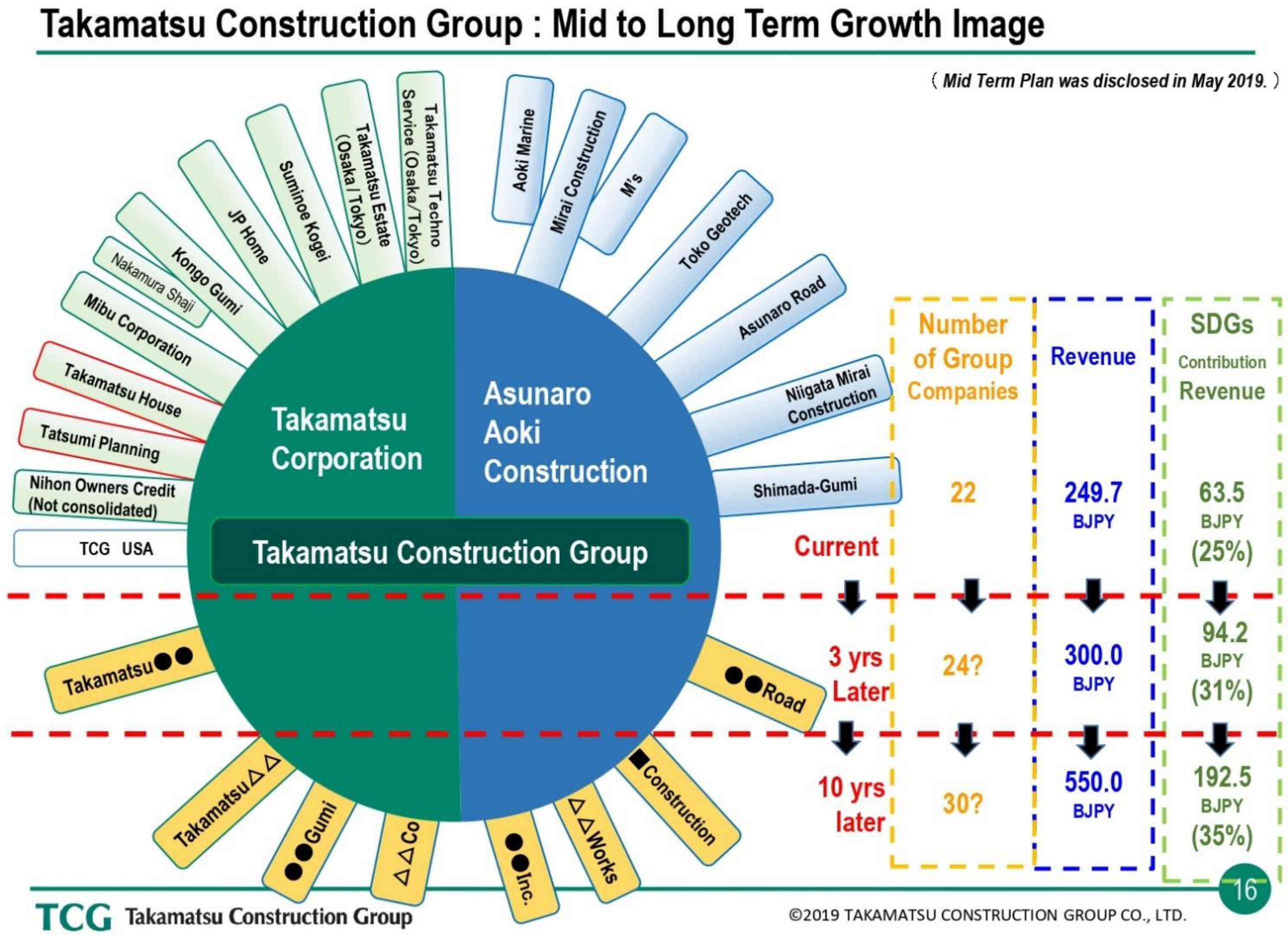
In May of this year, we announced that we will realize an M&A deal annually, and invest 50 billion yen to M&A in 10 years and cultivate new businesses to generate annual revenue of 90 billion yen in 10 years. I would like to grow the wooden independent residence business to fill this 90 billion yen to make it a third core business after Takamatsu Construction Group and Asunaro Aoki Group in 10 years from now.

Going forward, we will continue to consider M&A deals. In the last few years, we have seriously considered about 50 candidates per year, and we expect to continue this pace in the future years as well. We will continue to consider and realize the fourth and fifth pillars separate from the wooden independent residence business.

As a result of these efforts, we plan to realize a business that will generate a total annual income of 90 billion yen in 10 years, including the wooden independent residence business. TCG intends to continue its roll-up strategy of accumulating M&A deals in line with its business scenario and building them as a core business.

In the overseas business, in addition to the two investment projects already being implemented, we are currently considering joint investment in a development project by a local developer as the third project. We are aiming to conclude a contract by the end of this fiscal year. Upon completion of this investment, a review stage ends, and in the future, we establish a business model, and then aim for the next stage.

At the time of the announcement of the medium-term management plan, there were issues that had not been addressed or materialized in both existing and new businesses. However, as I explained earlier, we are making some progress for those.



The Takamatsu Construction Group's medium-to long-term growth image is shown on page 16, and we will continue to make steady progress toward our growth image 10 years from now.

As for pages 18 to 21 of the materials on hand, we post the orders received in the first half of this fiscal year and the completed projects by Takamatsu Group and Asunaro Aoki Group. You can see it later.

This is all, and I will conclude the explanation. Thank you.

Question & Answer

Moderator: From now on, we will move on to the question and answer session. I will carry a microphone, so if you have any questions, please raise your hand.

Teraoka: Thanks for your explanation. I am Teraoka from Daiwa Securities Co., Ltd. I have two questions.

First, I would like to talk about Takamatsu's trend in orders for rental condominium construction. In the rental apartment industry, financial institutions have tightened their lending standards, and the effects of the consumption tax hike have kept the situation considerably severe. Please tell us about your company's order trends for rental condominiums in Tokyo and Osaka.

Yoshitake: The question from Mr. Teraoka is about the trends in orders received for rental condominiums. As you mentioned, I have heard that in general this is affected by the shrunk lending portfolio towards construction and real estate business by the financial institutions, as well as the strengthened guidance by the Financial Services Agency.

Regarding the consumption tax, as I explained earlier in general construction of Asunaro Aoki Construction Co., Ltd., we received more than 10 billion yen in contracts up to March of this year, right before the consumption tax hike. This resulted in a decline of Asunaro Aoki Construction Co., Ltd. Orders of the current fiscal year.

The consumption tax was raised from 3% to 5%, and from 5% to 8% this time. Compared with the previous hike, the tax hike this time didn't lead to last-minute demand or orders related to rental condominiums at Takamatsu Corporation Co., Ltd. I feel that the owners were not as motivated to rush this time.

Another is the problem of various apartment issues, which generally occured two years ago. This is a problem in the construction of local apartments. Since we are focusing our sales activities on central areas of Tokyo, Osaka and Nagoya, we did not feel much impact.

First, there is a difference between apartments and rental condominiums, so there is not much impact to rental condominiums. Second, since we are focusing our activity in Tokyo, we did not feel much impact. I understand that the high demand means that there is a need for rental condominiums to be occupied upon construction, so it will not have an impact on Takamatsu Corporation Co., Ltd. Or even if there is some impact, it should be slight. This is all.

Teraoka: Thanks.

Second question. It hasn't been much long since you have launched a TOB for Asunaro Aoki Construction Co., Ltd. At the beginning of the meeting, you talked about the creation of synergies as an issue for the future. I think Takamatsu Corporation is also expanding the non-condominium business. Could you please confirm whether there is any change in the current status with Asunaro Aoki Construction Co., Ltd., as part of your efforts to achieve specific synergies in this area?

Yoshitake: Regarding the question, at this time, there is no concrete project that can be explained as the result of synergy efforts. However, two years ago in Nagareyama in Chiba we received a large distribution center order. It was constructed as a joint venture between Takamatsu Corporation and Asunaro Aoki Construction Co., Ltd. with the split of 50:50. This is an order received by Takamatsu Corporation, thus there were no conflicts of interest from Asunaro Aoki aspect.

Since it was Takamatsu Corporation's first large-scale non-condominium building, with little experience in logistics center, they needed technical support from Asunaro Aoki Construction Co., Ltd. This collaboration resulted in an extremely large accumulation of technological capabilities within the Group.

Last year Takamatsu Corporation received an order of a logistics center from NIPPON EXPRESS CO., LTD. in Wakayama which they successfully accomplished the construction by themselves. Although there are such success stories, we still believe Asunaro Aoki Construction Co., Ltd. is a step ahead of Takamatsu Corporation in terms of construction technologies of general architecture.

Takamatsu Corporation specializes in rental condominiums thus the genre is slightly different from general architecture. In this sense, engineers' skills will be further enhanced through the cooperation and sharing of technologies within the Group.

In the past, Takamatsu Corporation was a bit hesitant to tackle large-scale architecture projects, but in the future, we will be able to actively tackle them, thanks to this TOB. Currently, we have achieved a good track record in logistics center, we expect positive effects to emerge for both parties, and in the future, we will strive to win orders for large-scale projects from such a viewpoint in conjunction with sales cooperation.

Teraoka: Thank you.

Moderator: Does anybody have questions?

Ozawa: My name is Ozawa of Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. I have two questions.

The first point is about the tightening of accepting orders by Takamatsu Corporation caused by delayed start of construction last year. Is this tightening realized by tough scrutiny? Or, do you work on proactive measures such as those for rebuilding, or is there something that essentially led into the promotion of construction starts?

Yoshitake: Regarding the tightening of orders, last year's results were behind the plan, despite the previous pride that the plan we once formulated had always been met. However, for the first time in years, we fell short of the target.

We have been conducting a close examination mainly by TCG to find out the reason since the end of the first half of last year and identified the cause during the fiscal year. Takamatsu Corporation Co., Ltd.'s sales force is somewhat strong, and they have strong desire to accept the orders they received, although checking is conducted thoroughly and rigorously.

Osaka's orders for rental condominiums had been larger, but for these two years, Tokyo has surpassed Osaka. This means Tokyo market is larger than Osaka.

However, unlike Osaka, owners in Tokyo tend to already manage rental condominiums before giving orders to us, and therefore, there is a demand for re-building condominiums, but almost no demand to build on a vacant lot.

For re-building projects, of course, there tend to be existing residents. Upon receipt of an order to build a condominium with 30 units, there may be 15 units that are occupied in an old condominium at the time of order receipt. Then, negotiation will start to have them move out. However, at this time, the salesperson would like to have the orders booked, which was a little lax from governance perspective.

Even if the order is received from the owner, the evacuation period until construction commencement may be very long. Unless all the tenants vacate, we will naturally not be able to start the construction. Therefore, construction work significantly is delayed compared to the initial estimate. Thus, we tightened our our rule so if there are 15 remaining units, we will not be able to record the order. However, if that's just five units, we will accept that as an order, ask them to move out within six months, and finish demolition by month eight. We made it more rigorous.

Such waiting orders amount to 6 billion yen to 8 billion yen. If we record this amount in the same way as last year, it may lead to losing our trust, or another shortfall from our plan. In this sense, we are becoming more rigorous.

While at the same time, we are asking our corporate attorney for legal advice of the tenants' smooth withdrawal as well as continued strict examination by our checking department.

We will not let the tenants move out in such a way that they see us as a harsh company which may result in damaging our reputations.

In this respect, it was revealed last year that Tokyo's approach to rebuilding condominiums was a little different from that of Osaka, and I hope that you will understand that we have taken measures to deal with this.

Ozawa: The second question may be very detailed. You have been engaged in overseas business for some time and have purchased second and third buildings in the US in a steady manner. This week, I read a bit of bad news in the Nikkei Shimbun, saying about the Japanese Tax Authority strengthening taxes on foreign real estate investments.

Yoshitake: Tax issues, right?

Ozawa: The stock price of Open House Co., Ltd. plummeted, and I was obsessed with it.

There seems a variety of depreciation schemes such as four year accelerated depreciation, or nine years depreciation for a solid building. But is it a scheme that is somewhat involved in Takamatsu? Or is it a different type?

I think the Company will study a variety of things and is steadily moving forward. So far, what do you think about it?

Yoshitake: We established the TCG USA two years ago. We have decided to start a pilot project in the US, including various legal aspects, and for that reason, we backed away from going to Southeast Asia.

Takamatsu business model in Japan is basically focused on tax saving and inheritance countermeasures. However, for our business in the US, we quickly noticed that the US tax system is very different from Japanese, so we cannot use Japan's tax saving models.

In addition, we also set up a limit to our investment in the US. Our first and second investments are a renovation an apartment, and buying and running an apartment. Now, the third project we are thinking is to jointly invest with a regional developer, a local US company, in which we are naturally a minority investor. At this stage, we are trying to learn and raise the level of knowledge through trial and error.

We currently own two buildings, but in terms of monetary value, the total of these two buildings is about 3 billion yen. Therefore, I think there will be little impact even if the hurdles are raised or tax systems are changed.

However, other companies seem to sell US properties to Japanese investors with its focus on tax merits. In that case, the changes of tax system, including depreciation periods, will have a serious impact on such companies' sales styles. Currently, I believe that there will be little impact on what we are working on.

Ozawa: Thanks.

Moderator: We're afraid, but the next will be the last question. Does anybody have questions? No more question?

Now, we will end the question and answer session. If you wish to exchange business cards after this, please come forward.

We will conclude the Takamatsu Construction Group Co., Ltd. will close the Q2 financial results briefing for the fiscal year ending March 2020 of Takamatsu Construction Group Co., Ltd. Thank you for your participation today.

Yoshitake: Thank you.

Izutsu: Thank you.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked as follows: [Inaudible].*
2. *This document has been translated by SCRIPTS Asia.*

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