TOKYU CONSTRUCTION

The First Half FY03/20 Financial Results Briefing

Nov. 15, 2019

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Town Value-up Management
TOKYU CONSTRUCTION

The First Half FY03/20 Financial Results Briefing

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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 the First Half FY03/20 Financial Results (2019/4-9)

1 Business Environment

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Business environment in 1H FY03/20

1. Despite lingering weakness, particularly in exports, the Japanese economy maintained its gradual recovery track, supported by robust corporate earnings and sustained improvements in the employment and income environments.

2. The construction market showed strength, thanks to firm public investment and private-sector capital spending amid an ongoing improvement in corporate earnings.

3. Construction costs remained within the range of expectations thanks to subsiding material/equipment costs, despite higher labor expenses.

Prospects

1. The Japanese economy is expected to gradually recover, benefitting from government policies as well as improvements in corporate earnings and in the employment and income environments. However, the outlook is still uncertain as we still need to be aware of the effects from the consumption tax hike and the direction of overseas economies.

2. The construction market looks to retain its strength thanks to private-sector capital spending and government investment aimed at disaster prevention and mitigations, as well as the “creation of a resilient national land.”

3. Amid large-scale redevelopment projects, largely in the major metropolitan areas, there is some concern tightening supply/demand conditions could lead to a sharp rise in construction costs. Among the numerous supply-side issues are work-style reforms, a reduction in long working hours, and a shortage of labor as older workers retire in mass.

1 1H FY03/20 Results (Consolidated)

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Consolidated net sales (including at the parent and subsidiary levels) exceeded the previous-year level to reach a record high.
Profit attributable to owners of parent also reached a record high thanks to improved profit at the parent and an earnings recovery at the subsidiaries.

(Millions of yen)

Items	1H FY03/19	1H FY03/20			Difference compared to previous year	Rate of change
		Tokyu Construction	Subsidiaries	Consolidated		
Net sales	154,697	170,452	13,934	**183,415**	28,717	18.6%
Gross profit	17,568	22,353	1,683	**23,928**	6,359	36.2%
Selling, general and administrative expenses	6,671	7,352	420	**7,608**	936	14.0%
Operating income	10,897	15,001	1,263	**16,320**	5,423	49.8%
Ordinary income	11,369	15,305	1,254	**16,972**	5,602	49.3%
Profit (losses) attributable to owners of parent	7,659	–	–	**11,516**	3,857	50.4%

Consolidated subsidiaries	Profit (losses) attributable to owners of parent
Token Industry	(2)
Tokyu Renewal	824
Tokyu Construction Indonesia	(205)
Golden Tokyu Construction	(3)
Plantaardig farm (formerly Purantaru farm)	(14)
Osaka Firefighting Private Financial Initiative (PFI)	9
Consolidated subsidiaries total	**607**

Equity-method affiliates	Equity-method profit (losses)
Seikitokyu Kogyo	560
Tokyu Green System	4
Ch. Karnchang-Tokyu Construction	11
Asuka Soken	51
Equity-method affiliates total	**629**

1 1H FY03/20 Factors Affecting Net Income (Consolidated)

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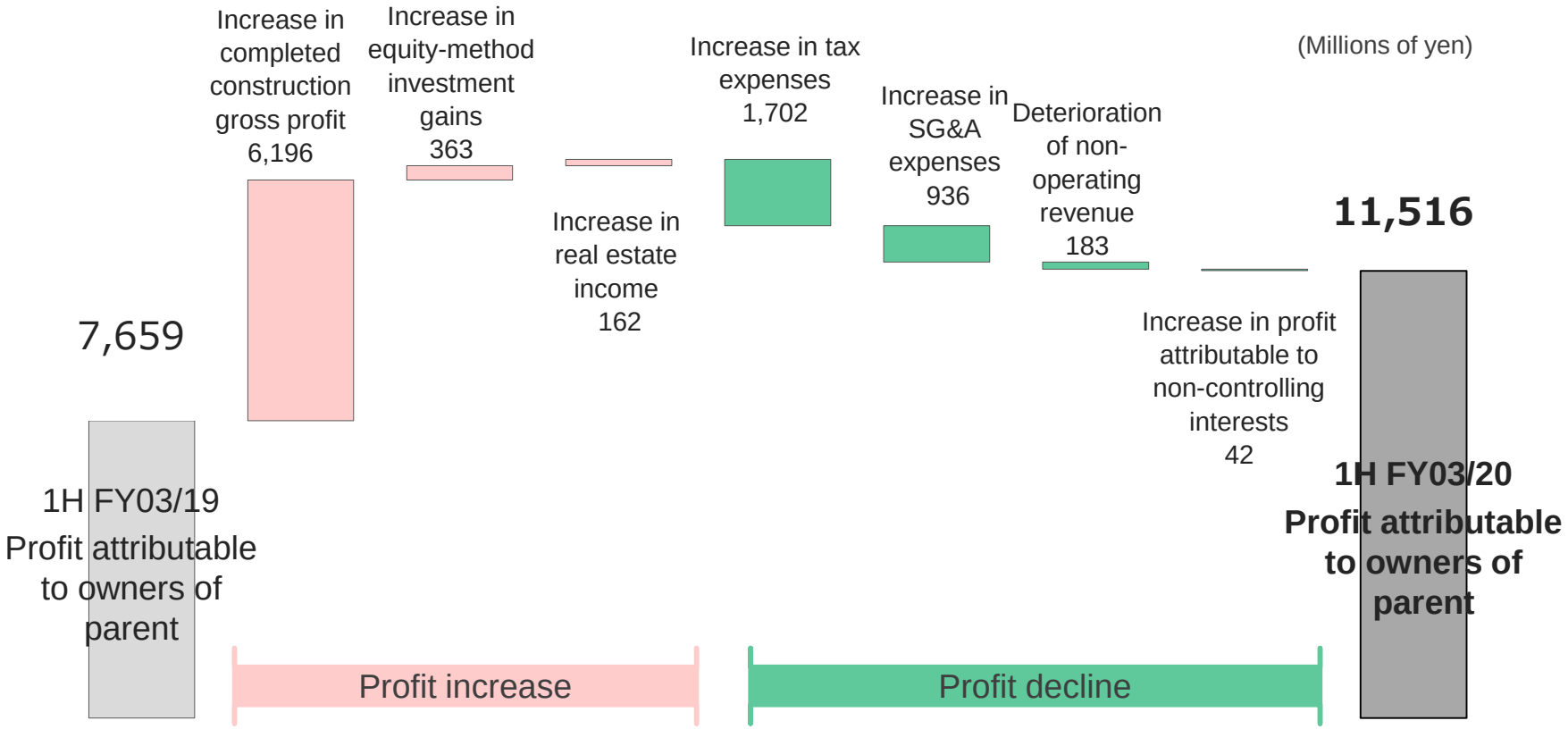
Profit attributable to owners of parent reached a record high thanks to a substantial increase in gross profit on completed construction, despite year-on-year increases in tax expenses and General and Administrative (SG&A) expenses.



1 1H FY03/20 Results (Non-Consolidated)

Net sales increased 15.3% year on year amid progress in large-scale construction and civil engineering joint-venture subcontracting work.
Net income grew 35.6% year on year amid a strong improvement in gross profit on completed construction projects.

(Millions of yen)

Items	1H FY03/19	1H FY03/20		Difference compared to previous year	Rate of change
		Results	Ratio (%)		
Completed construction sales	147,247	169,777	(100)	22,530	15.3%
Civil engineering	28,105	43,226	25.5	15,120	53.8%
Building construction	119,141	126,551	74.5	7,409	6.2%
Completed construction gross profit	16,609	21,976	12.9	5,367	32.3%
Civil engineering	3,546	4,113	9.5	567	16.0%
Building construction	13,062	17,862	14.1	4,799	36.7%
Real estate sales	558	674	(100)	115	20.8%
Real estate gross profit	216	377	55.9	160	73.9%
Net sales	147,806	**170,452**	100	22,645	15.3%
Gross profit	16,825	**22,353**	13.1	5,527	32.8%
Selling, general and administrative expenses	6,412	7,352	4.3	939	14.7%
Operating income	10,413	**15,001**	8.8	4,587	44.1%
Ordinary income	10,802	15,305	9.0	4,502	41.7%
Net income	7,776	**10,548**	6.2	2,771	35.6%

1 1H FY03/20 Net Sales (Non-Consolidated)

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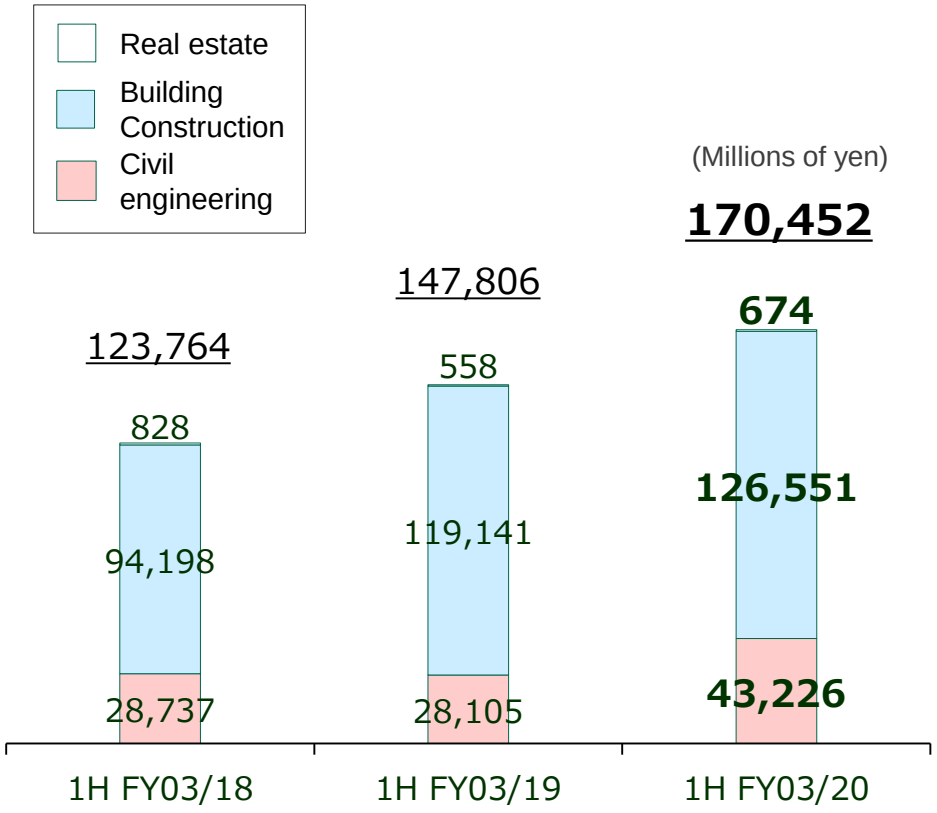
Completed civil engineering construction sales benefitted from progress in large-scale joint-venture subcontracting work. Large-scale projects, including in Shibuya, contributed to building construction sales growth.
Net sales including real estate sales, expanded 15.3% year on year to ¥170.4 billion.

Net sales **¥170.4 billion**
(+15.3% YoY)

- Completed construction sales
  - Civil engineering ¥43.2 billion (+53.8% YoY)
  - Building construction ¥126.5 billion (+6.2% YoY)
- Real estate sales ¥0.6 billion (+20.8% YoY)



1 1H FY03/20 Gross Profit (Non-Consolidated)

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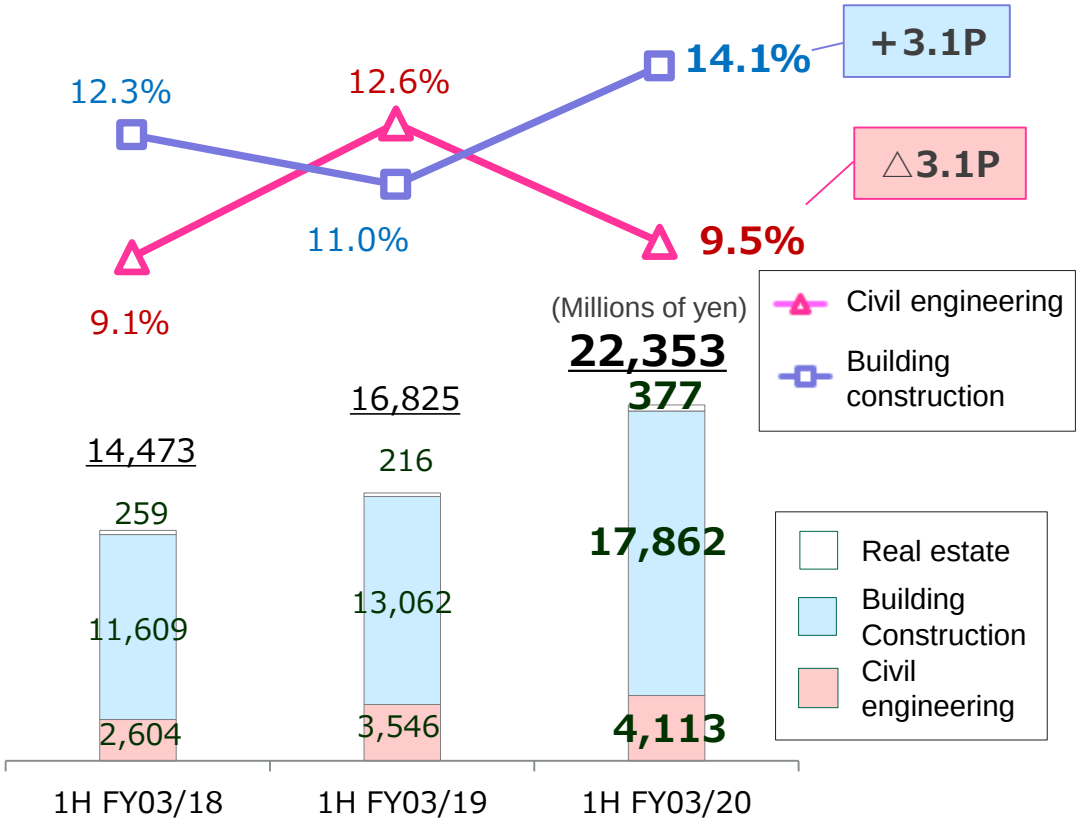
The civil engineering profit margin dropped 3.1pp year on year due to a high ratio of relatively low margin joint-venture subcontracting work and an unexpectedly high number of design change/addition projects received in the previous year.
The building construction profit margin exceeded expectations on improved profitability, mainly in large-scale projects, and higher completed construction sales.
Real estate profit showed a steady increase as profitable property acquisitions exceeded expectations in the previous year.

Gross profit ¥22.3 billion (+32.8% YoY)

- Completed construction gross profit
  - Civil engineering ¥4.1 billion (+16.0% YoY)
  - Building construction ¥17.8 billion (+36.7% YoY)
- Real estate gross profit ¥0.3billion (+73.9% YoY)



1 1H FY03/20 Financial Position and Cash Flow (Consolidated)

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Net assets increased to ¥101.0 billion due to the accumulation of retained earnings. The equity ratio was 39.7%. Operating cash flow was negative owing to such factors as relaxing payment conditions for partner companies.

[Consolidated Financial Position]

(Millions of yen)

Items	March 31, 2018	March 31, 2019	**Sep.30, 2019**	**Rate of change**
Total assets	249,756	264,996	**253,876**	(4.2%)
Total liabilities	170,581	172,014	**152,802**	(11.2%)
Interest-bearing debt	1,721	1,638	**19,597**	– %
(Short-term debt)	83	80	**18,081**	– %
(Long-term debt)	1,638	1,557	**1,516**	(2.6%)
Net assets	79,175	92,981	**101,073**	8.7%
Equity ratio	31.6%	35.0%	**39.7%**	+4.7pp

[Consolidated Cash Flow]

(Millions of yen)

Items	1H FY03/18	1H FY03/19	**1H FY03/20**
Cash flows from operating activities	(362)	18,849	**(46,093)**
Cash flows from investing activities	(679)	(1,487)	**(2,529)**
Cash flows from financing activities	(4,312)	(2,191)	**15,776**
Effect of exchange rate change on cash and cash equivalents	(17)	(9)	**(197)**
Net increase (decrease) in cash and cash equivalents	(5,372)	15,161	**(33,043)**
Cash and cash equivalents at end of year	17,210	44,027	**16,101**

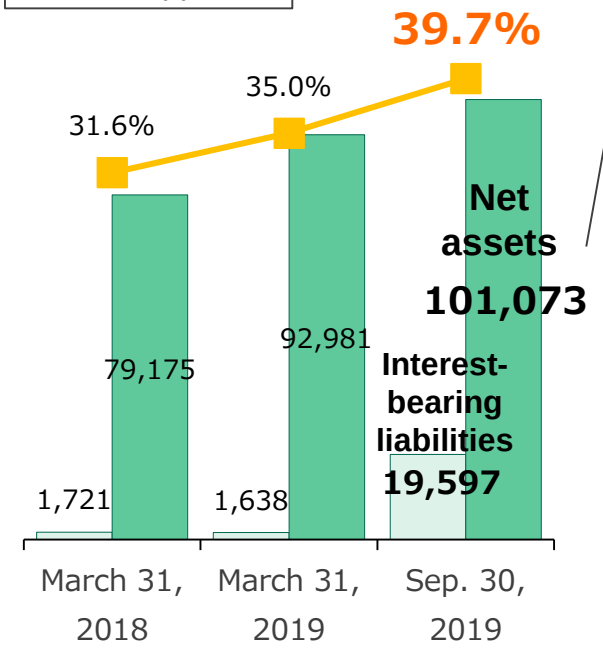
YoY change ＋8,091

・Dividends of surplus -2,134

・Profit attributable to owners of the parent ＋11,516

・Valuation difference on available-for-sale securities - 1,636, etc.

Equity ratio +4.7pp

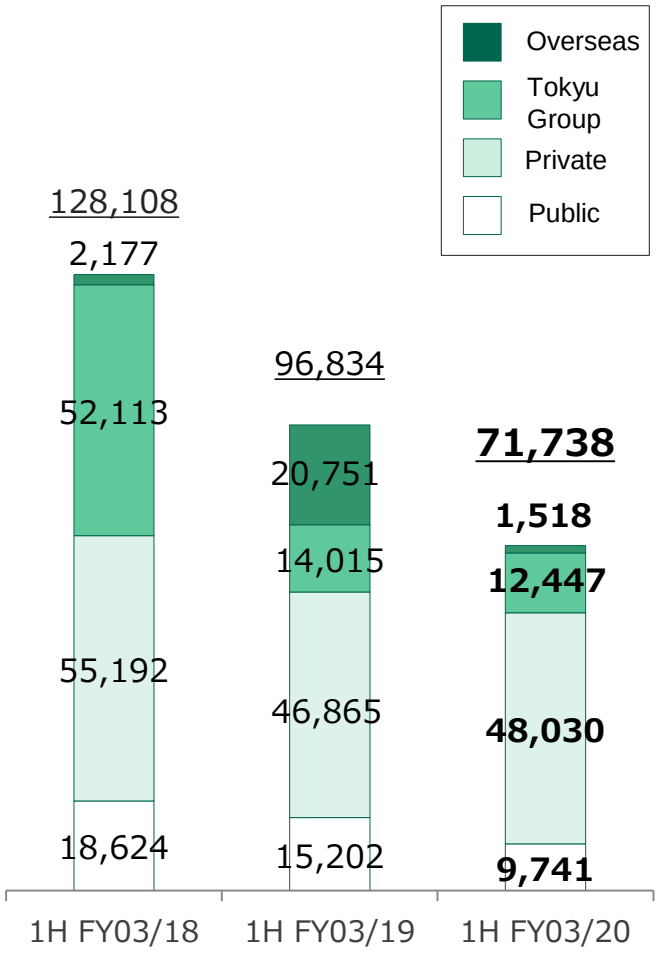


1 Orders (Non-Consolidated, Company-Wide)

Company-wide orders fell 25.9% year on year in reaction to large-scale overseas orders received in the previous year.

(Millions of yen)

		1H FY03/20	Difference compared to previous year	Rate of change
Company-wide	Domestic public	**9,741**	(5,460)	(35.9%)
	Domestic private	**60,477**	(403)	(0.7%)
	General private	**48,030**	1,165	2.5%
	Tokyu Group companies	**12,447**	(1,568)	(11.2%)
	Overseas	**1,518**	(19,233)	(92.7%)
		71,738	(25,096)	(25.9%)



1 1H FY03/20 Orders (Non-Consolidated, Civil Engineering)

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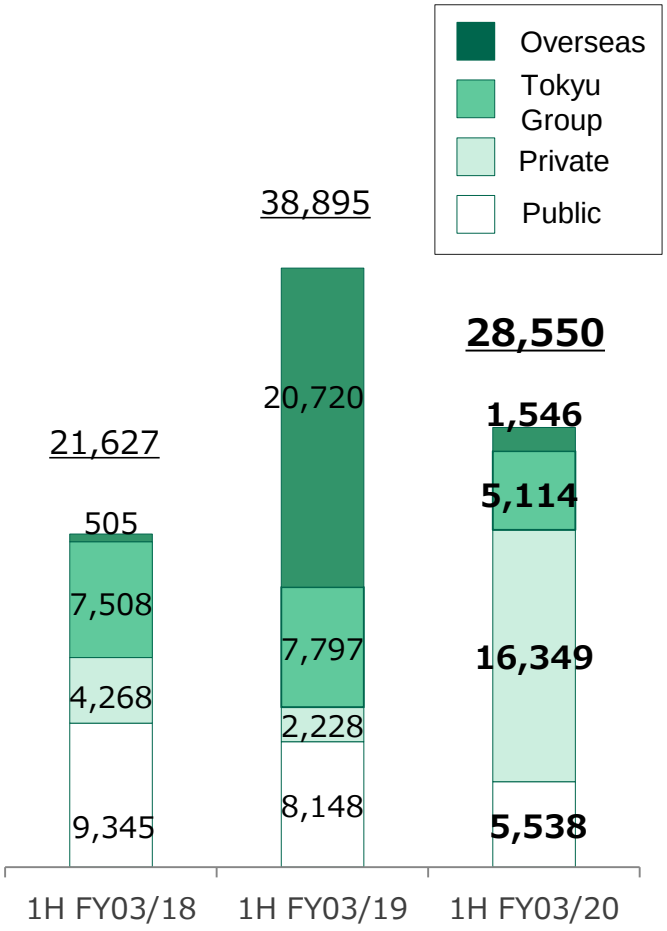
Overseas orders dropped sharply in reaction to large-scale orders in Myanmar in the previous year.
The overall downturn at 26.6% with domestic private-sector construction orders expanded.

(Millions of yen)

		1H FY03/20	Difference compared to previous year	Rate of change
Civil engineering	Domestic public	5,538	(2,609)	(32.0%)
	Domestic private	21,464	11,437	114.1%
	General private	16,349	14,120	633.6%
	Tokyu Group companies	5,114	(2,683)	(34.4%)
	Overseas	1,546	(19,173)	(92.5%)
		28,550	(10,344)	(26.6%)



1 1H FY03/20 Orders (Non-Consolidated, Building Construction)

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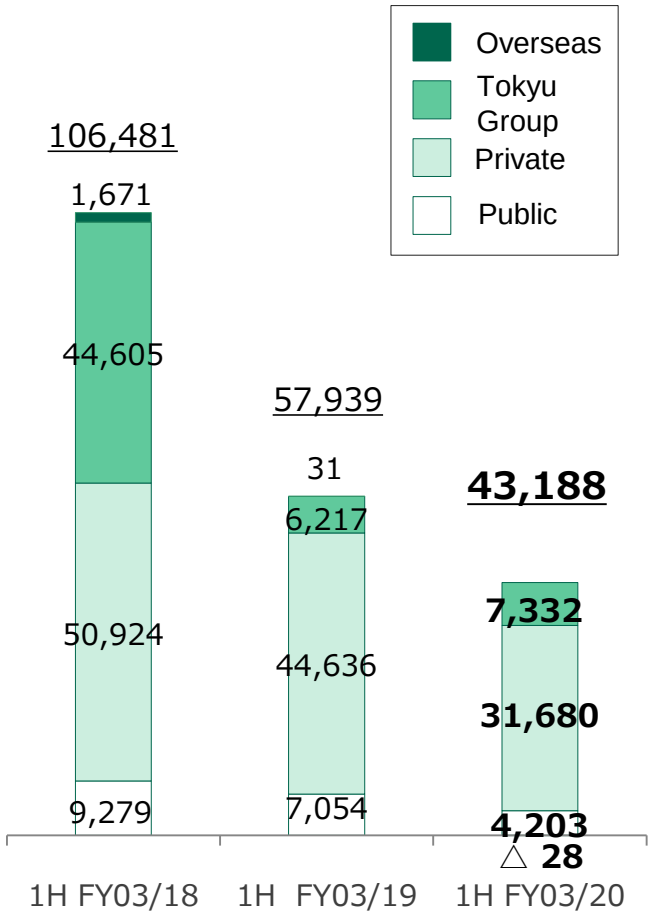
Domestic private-sector orders declined year on year.
Orders were down 25.5% on an overall basis, without any large-scale orders received through the end of the first half of FY03/20.

(Millions of yen)

		1H FY03/20	Difference compared to previous year	Rate of change
Building construction	Domestic public	**4,203**	(2,850)	(40.4%)
	Domestic private	**39,013**	(11,841)	(23.3%)
	General private	**31,680**	(12,955)	(29.0%)
	Tokyu Group companies	**7,332**	1,114	17.9%
	Overseas	**(28)**	(59)	(190.3 %)
		43,188	(14,751)	(25.5%)

*The negative figure for overseas orders reflects the impact from changes to previous-period contracts.



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2. Full-Year Forecast for FY03/20

2 Full-Year Forecast for FY03/20 (Consolidated)

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[Consolidated profit/loss]

- Net sales ¥320.0 billion (-3.5% YoY)
- Profit or loss attributable to owners of parent ¥12.7 billion (-18.1% YoY)

[Non-consolidated profit/loss]

- Net sales ¥297.0 billion
- Operating income ¥15.9 billion
- Profit attributable to owners of parent ¥10.9 billion

[Dividend forecast]

- ¥30 (interim ¥10, year-end ¥20)

Revising up our consolidated net sales estimate from our initial forecast by ¥5.0 billion and our net profit attributable to owners of parent forecast by ¥4.0 billion.

[Reason for revising our profit forecast]
Upward revision to gross profit on completed construction thanks to improved project profitability, largely at the non-consolidated level.

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

Net sales	**¥297.0 billion**	**(-4.2%)**
Completed construction sales	¥295.7 billion	(-4.2%)
Civil engineering	¥84.5 billion	(+20.1%)
Building construction	¥211.2 billion	(-11.4%)
Real estate sales	¥1.3 billion	(-1.8%)
Gross profit	**¥31.8 billion**	**(-4.7%)**
Completed construction gross profit	¥31.1 billion	(-6.7%)
Civil engineering	¥7.6 billion	(-23.2%)
Building construction	¥23.5 billion	(+0.3%)
Real estate gross profit	¥0.7 billion	(—%)

Completed Construction Sales and Gross Profit
(Non-Consolidated, Civil Engineering)

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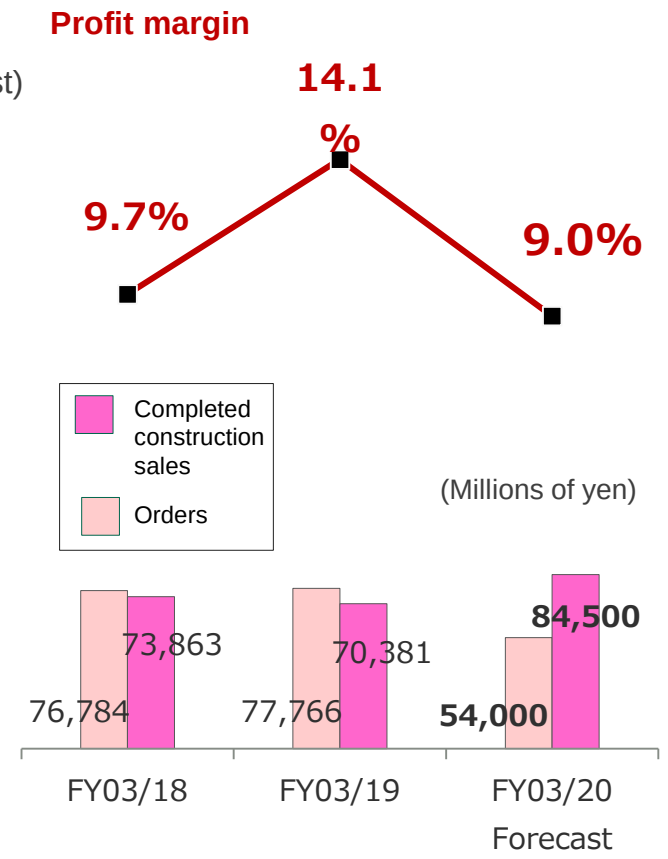
We initially expected a gross margin of 7.8%, reflecting the dropout of temporary factors (such as an unexpectedly high number of design change/addition projects) and progress in a number of low-margin projects, including joint-venture subcontracting work, but now expect a gross margin of 9.0% on acquisition of additional projects.

[Civil Engineering]

		(Initial forecast)
● Completed construction sales	**¥84.5 billion** (+20.1% YoY)	¥77.4 billion
● Completed construction gross profit	**¥7.6 billion** (-23.2% YoY)	¥6.0 billion
● Completed construction profit margin	**9.0%**	7.8%

(Reference) Construction work carried forward

	FY03/18	FY03/19	FY03/20 (Forecast)
Orders	76,784	77,766	54,000
Completed construction sales	73,863	70,381	84,500
Construction carried forward to next fiscal year	**134,620**	**142,004**	**111,504**



2 Full-Year Forecast for FY03/20
Completed Construction Sales and Gross Profit
(Non-Consolidated, Building Construction)

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Large-scale construction orders received in the previous fiscal year were generally completed in the first half of FY03/20, with the completed construction sales expected to decline in the second half.
Strategic acceptance of some projects and sharp rise in costs is expected to reduce profitability on projects in progress in the second half, but we revised up our initial profit margin forecast by 2.6pp on the contribution from unexpectedly strong profit improvements in the first half of the fiscal year. We will continue to reduce costs and improve profitability through revisions to production systems and improving efficiency in construction.

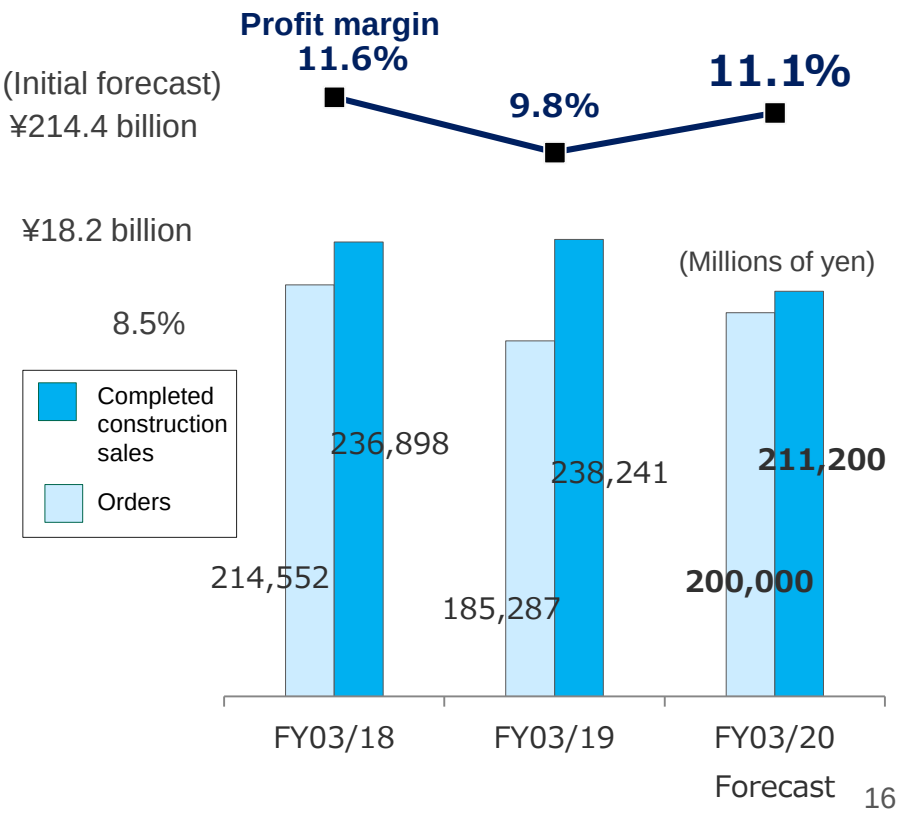
[Building construction]

- Completed construction sales **¥211.2 billion** (-11.4% YoY)
- Completed construction gross profit **¥23.5 billion** (+0.3% YoY)
- Completed construction profit margin **11.1%**

(Initial forecast)
¥214.4 billion

¥18.2 billion

8.5%



(Reference) Construction work carried forward

	FY03/18	FY03/19	FY03/20 (Forecast)
Orders	214,552	185,287	200,000
Completed construction sales	236,898	238,241	211,200
Construction carried forward to next fiscal year	**264,206**	**211,253**	**200,053**

2 Non-Consolidated Orders

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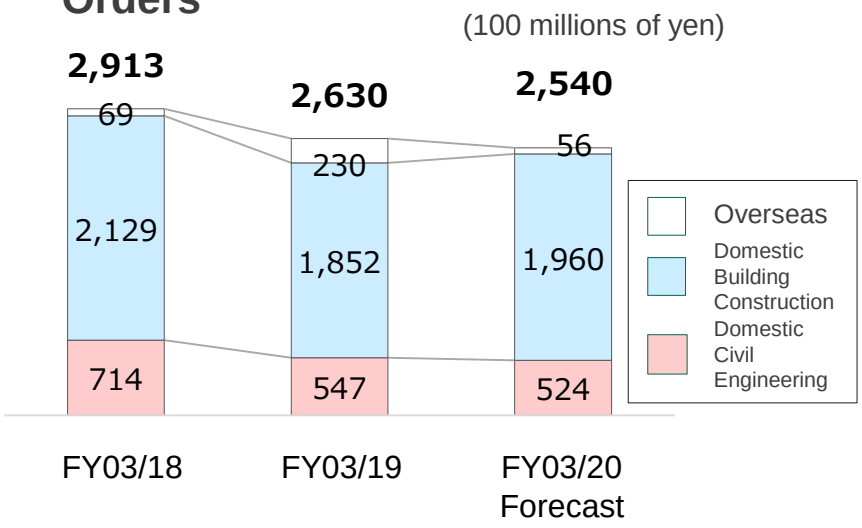
Orders **¥254.0 billion** (-3.4% YoY)

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

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

Despite expecting a decline in orders overseas, we expect a year-on-year improvement in orders in Japan.Competition appears fierce in some areas, but we expect to secure orders in line with our initial forecast of ¥254 billion as we continue to tap into robust demand in the market.

Orders



(Millions of yen)

		FY03/20 (Forecast)	Rate of change
Civil Engineering	Domestic public	**27,000**	(4.2%)
	Domestic private	**25,400**	(4.5%)
	General private	**17,400**	43.8%
	Tokyu Group companies	**8,000**	(44.8%)
	Overseas	**1,600**	(93.0%)
		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%
Total		**254,000**	(3.4%)

2 Topics ①

Shinka×ICT

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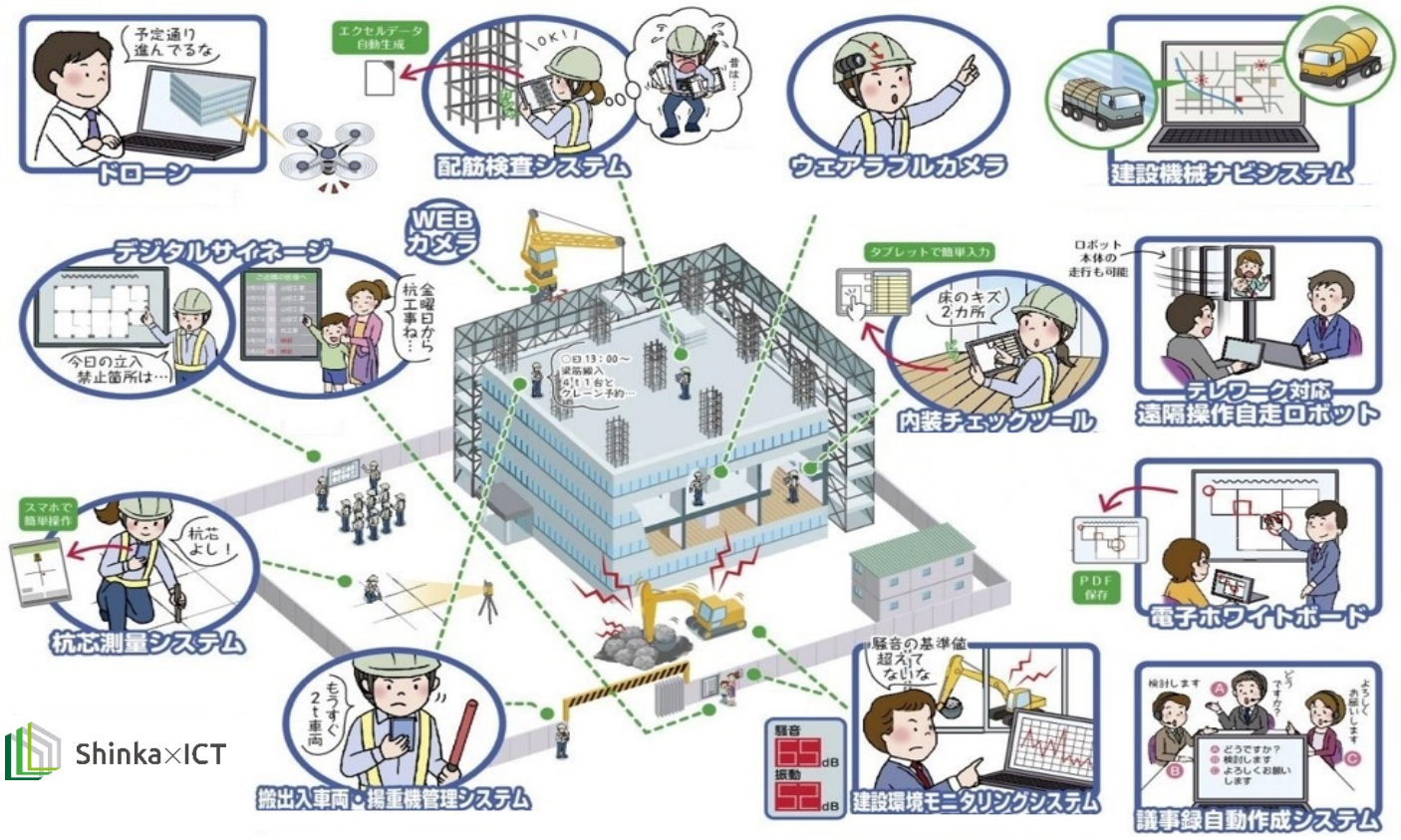
[Advancing on-site capabilities though operational innovation]

We aim to adopt the various ICT/IoT technologies thus far introduced and verified on an individual basis, on a work site on a comprehensive basis, with effects apparent not only from the application of an individual technology, but also evident on a grand scale from their combi



We are putting construction site management into practice using a variety of ICT/IoT technologies, and showing the results, at the ICT model site, tentatively named the Funabashi City No. 2 Elementary School After-School Room New Construction Project.

[Environmental efforts]

Renovating to a Zero-Energy Building (ZEB)

We carried out ZEB renovation on a 25-year old technical institute rather than rebuilding it, achieving the highest level of energy reduction in Japan.

Amid growing calls to achieve a decarbonized society, we aim to further improve our technical capabilities in order to create zero-energy buildings that meet growing demand for ZEB renovation of older buildings.



Green Infrastructure Demonstration Facility

We established a green infrastructure demonstration facility in March 2018 and through the collection and analysis of data will further improve element technologies.

The facility focuses on using the functions of the natural environment to promote the preservation of biodiversity and to devise prevention and mitigation measures, including in regard to localized torrential rain, which has become more frequent in urban areas.



Financial Results Briefing

3. Medium- to Long-Term Growth Strategy

3 Recognizing changes in the business environment in accordance with SDGs

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Management Policy

We will help each person realize his or her dream through creating comfortable living environments that allow peace of mind

In response to diversifying values, we will continue to provide products and services seen as valuable to consumers, nurture the dreams of each of our customers, and pass on to the next generation a beautiful environment as well as the values and technology to support it.



Our Goals



Changes in the Business Environment

Intensifying labor shortage	Increase of demand for renovation		Increased necessity to enhance productivity
Promotion of M&A and alliances aimed at securing construction capabilities	Focus on shifting from one-time to recurring-revenue businesses	Utilization of strengths to adopt a more active order approach	Shift from labor-intensive to capital-intensive operational model

3 Strategic Direction Based

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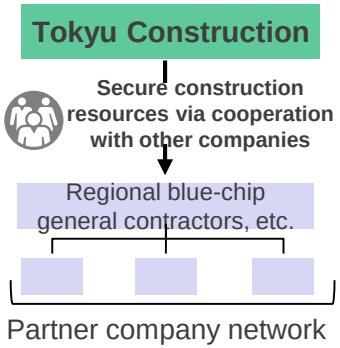
Business environment changes

Intensifying labor shortage	Expansion of renovation demand (qualitative changes in demand)		Growing need for productivity improvements
Promotion of alliances and M&A aimed at securing construction workers	Focus on shifting from one-time to recurring-revenue businesses	Utilization of strengths to adopt a more active order approach	Shift from labor-intensive to capital-intensive operational model

Tokyu Construction's strategic direction

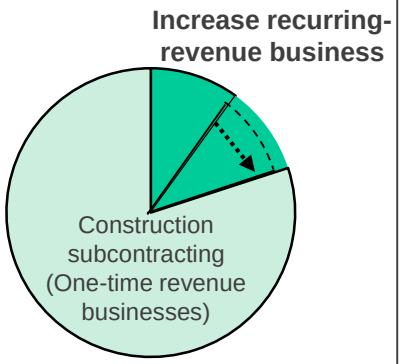
Ⅰ Rapid response to construction resource shortages

- Secure construction resources from a medium to long-term perspective through strengthened cooperation (alliances or M&A) with local top-tier general contractors and partner companies



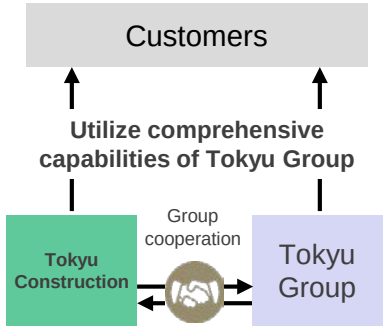
Ⅱ Expansion and diversification of business portfolio

- Target business portfolio resilient to changes in environment by actively engaging in businesses with a strong recurring-revenue aspect, such as renovations



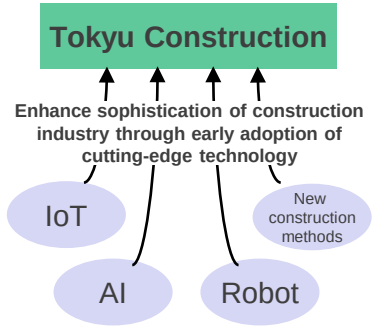
Ⅲ Utilization of comprehensive strengths of Tokyu Group

- Strengthen proposal and project origination capabilities in order to respond to various needs, such as utilization of land, renovations, and increasing property values



Ⅳ Enhancement of on-site capabilities through operational reforms

- Innovate operations through investment in and early adoption of cutting-edge technology from a medium to long-term perspective, and aim for further improvement of on-site capabilities



Problem solving

Solving social issues through realizing and advancing the "urban solutions business"

3 Fleshing out Urban Solutions Business

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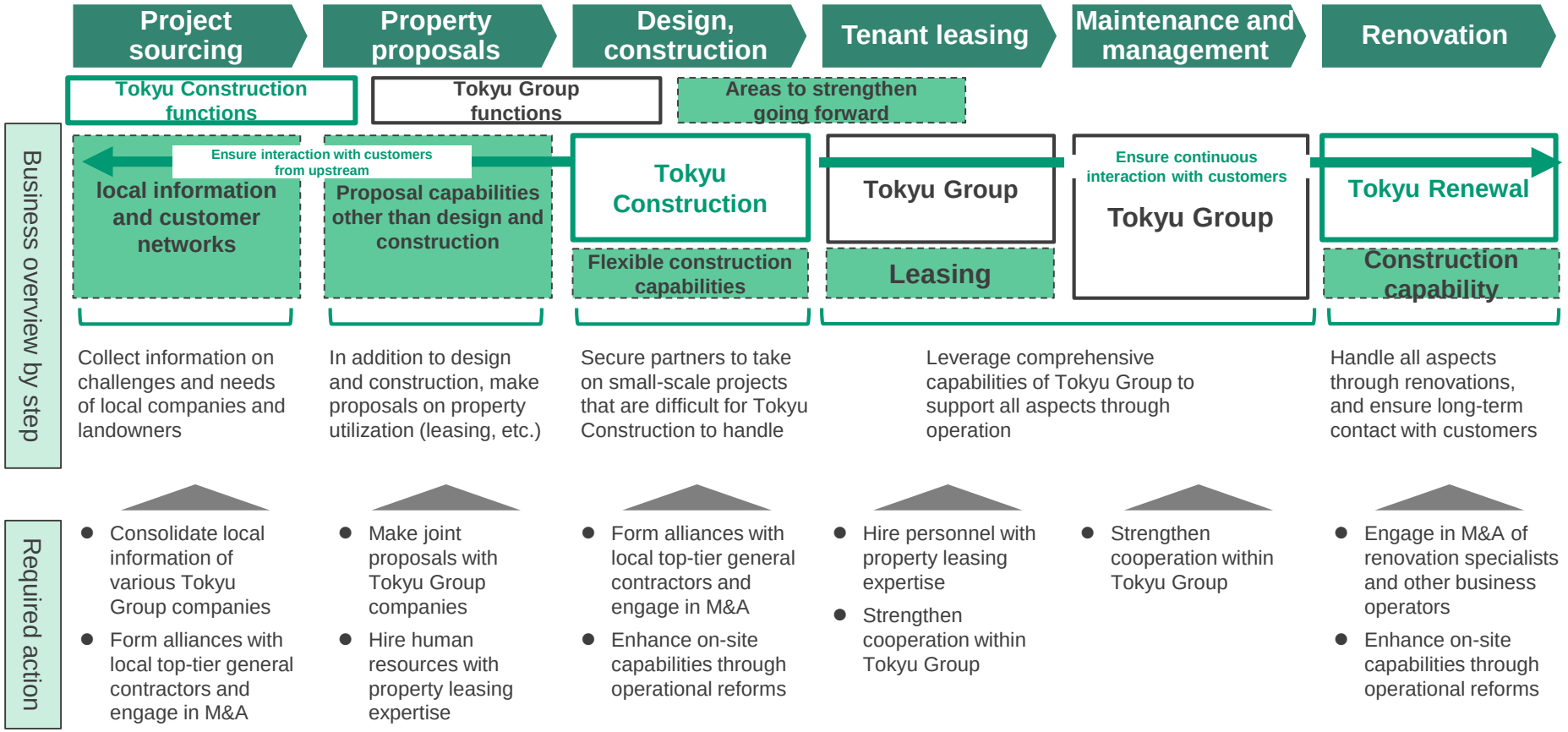
In addition to strengthening cooperation with the Tokyu Group, a key source of strength for the Company, we will build and strengthen a comprehensive value chain and expand solutions through the pursuit of M&A and alliances, as well as the active recruitment of employees, including for the digital shift.

General picture of the urban solutions business and necessary action



3 Efforts to realize the urban solutions business by region

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After assessing the potential for business in each region, we select focus areas. In addition to collecting information on major projects in the area, we conducts activities aimed at capturing demand in peripheral regions.

Focus Areas

Tenjin Big Bang
Hakata Connected
Waterfront Next

Urban development and redevelopment plan being promoted by City of Fukuoka

Osaka Expo

Osaka Expo to take place in Yumeshima



Urban redevelopment

Redevelopment plans, in the Shibuya area and mainly for after the Tokyo Olympics

Hotel Development

Resort hotel development plans, mainly on outlying islands

Activities aimed at capturing demand in the areas mentioned on the left

Securing information sources	✓ Ensuring information sources with deep roots in the area, including through collaboration with regional banks and by connecting to human networks such as local economic groups
Securing construction capacity	✓ Considering M&A/alliances in line with the building of relationships with local companies through efforts such as business succession support ✓ Considering M&A/alliances with agile construction companies in order to gain a chance at winning orders in areas peripheral to redevelopment projects
Strengthening cooperation with the Tokyu Group	✓ Bolstering ties with Tokyu Group companies to strengthen ability to offer proposals in areas outside tenant leasing and design/construction

3 Initiatives in the Greater Shibuya Area

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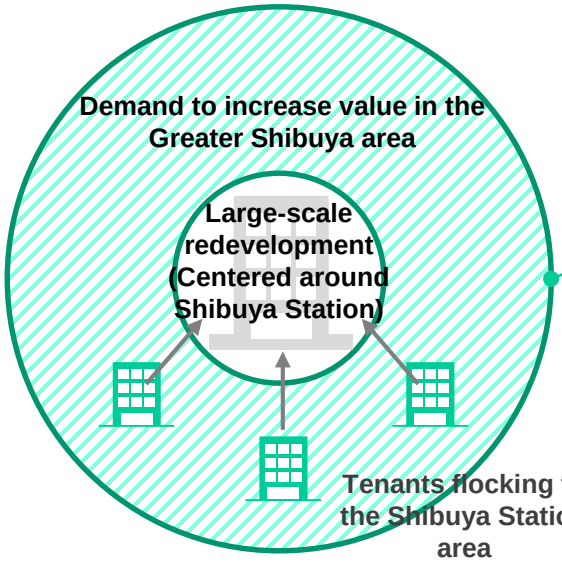
There are a great number of aging small and medium-sized buildings in the Greater Shibuya area, defined as the Shibuya Station area and surrounding areas. Given the concentrated flow of tenants to buildings in large-scale redevelopment projects, we are building an urban solutions business that cultivates growing demand to increase value in existing buildings in the peripheral areas.

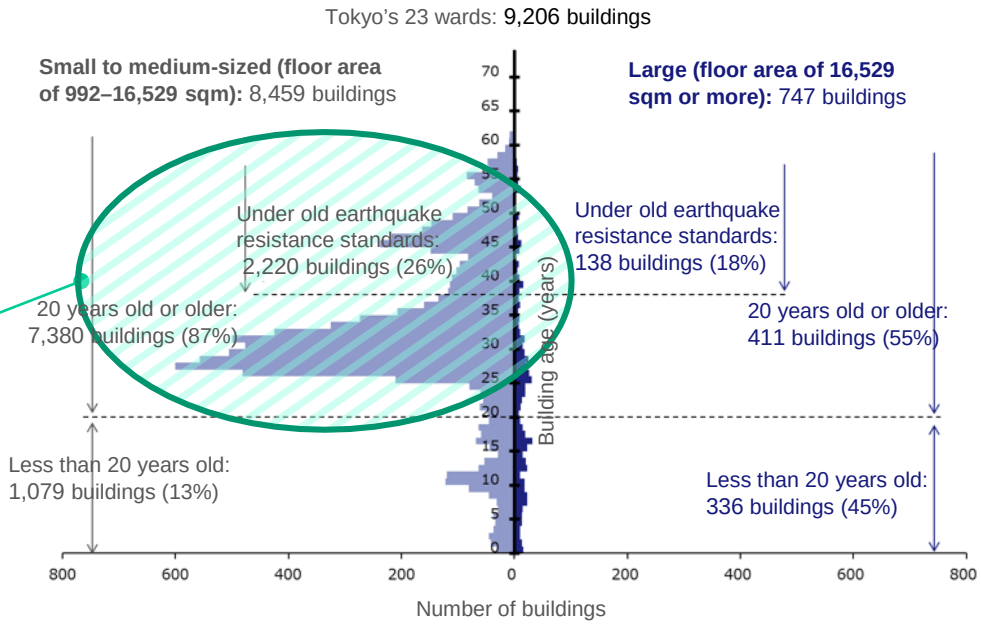
Target market

Redevelopment centered around Shibuya Station

Surrounding areas where the company is focusing (Greater Shibuya area)



Office building age pyramid (Building count, Tokyo's 23 wards)



Source: Xymax Real Estate Institute Corporation

3 Our role in the Greater Shibuya area

Town Value-up Management
TOKYU CONSTRUCTION

Our ample record of achievements around Shibuya has been instrumental in building a solid relationship of trust with local neighborhood associations and shopping districts. Leveraging this strength, we will act as a point of contact and liaison in building communities in the Greater Shibuya area.

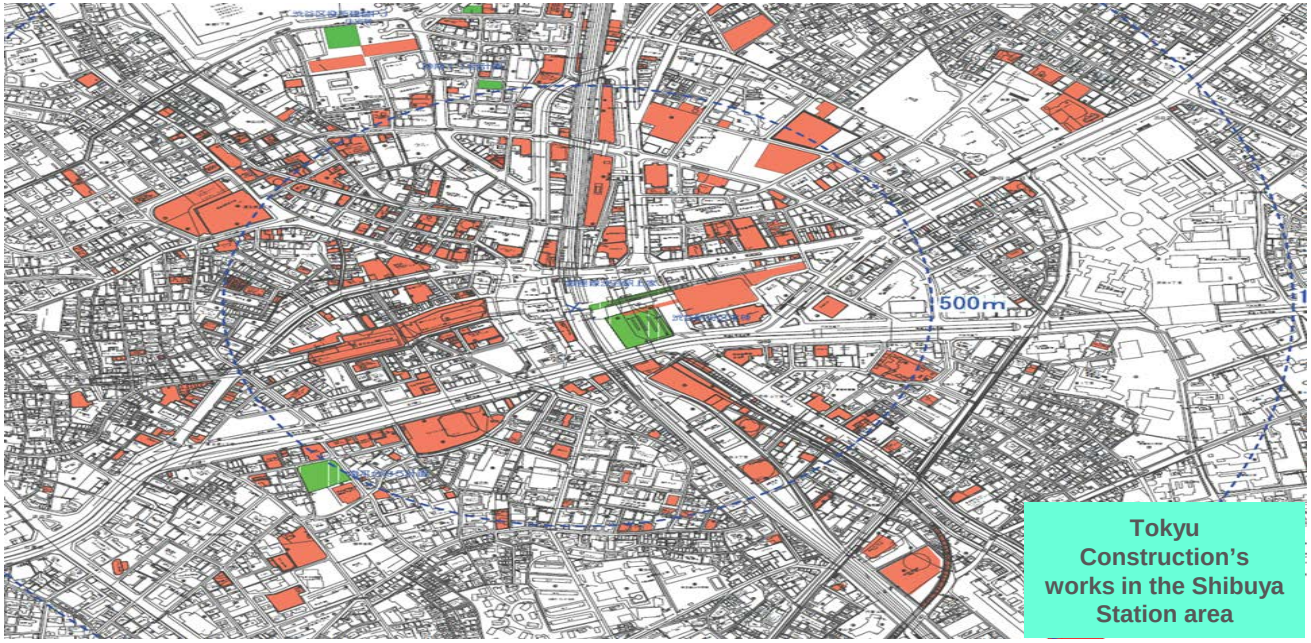
Shibuya neighborhood associations and shopping districts

Consultation →

← **Point of contact / initial response**

Town Value-up Management
TOKYU CONSTRUCTION

60 years of construction experience in Shibuya and friendly relationships with neighborhood associations and shopping districts.



Tokyu Construction's works in the Shibuya Station area

3 Digital Shift of The Tokyu Construction

Shinka×ICT

Town Value-up Management
TOKYU CONSTRUCTION

With the aim of preparing for digitalization and the changing needs of customers and the market, Tokyu Construction is leading the industry by actively pursuing M&A and alliances with partner companies for the coming digital shift.

Conventional efforts

- Building a digital platform
- Utilizing BIM, CIM
- Using sensing, IoT, big data, AI, robots

Goals from conventional efforts

Construction process innovations

Developing the upstream and downstream value chains

(1) Dramatic production, safety improvements

(2) Improved reliability through quality visualization

(3) Improved efficiency in building/structure maintenance

(4) Value chain achieved through building of a platform for construction process data and building/structure maintenance data

Digital shift acceleration

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Speed & open innovation

Pursuit of alliances with Tokyu Group and partner companies as well as aggressive M&A and investment in start-ups

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An industry pioneer

Ahead of peripheral industry trends and industry rivals

TOKYU CONSTRUCTION

Shinka×ICT

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