



1<sup>st</sup> section of Tokyo stock exchange : 1959

# **KYUDENKO CORPORATION**

## **FY ending March 2018**

### **Results briefing**

May 11<sup>th</sup> ,2018

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# Overview of business results

## Orders

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**Electrical, HVAC, Solar plant construction each was steady.**

¥384,757 million

Year-on-year 101.8%

For last year, there was reaction decrease of the large wind-power plant. We piled up items in Kyushu and metropolitan area and exceeded last year results.

## Sales

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**Electrical and HVAC greatly increased. Solar plant construction decreased.**

¥360,872 million

Year-on-year 105.6%

Steady increase backed by the increase in orders and works on hand.

## Operating profit

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**By sales increase in electrical & HVAC and the improvement of the gross profit ratio, it absorbed sales decrease in solar plant construction and the increase in staff.**

¥34,726 million

Year-on-year 113.0%

Gross profit ratio was improved by the pursuit of the minimum cost formulation.

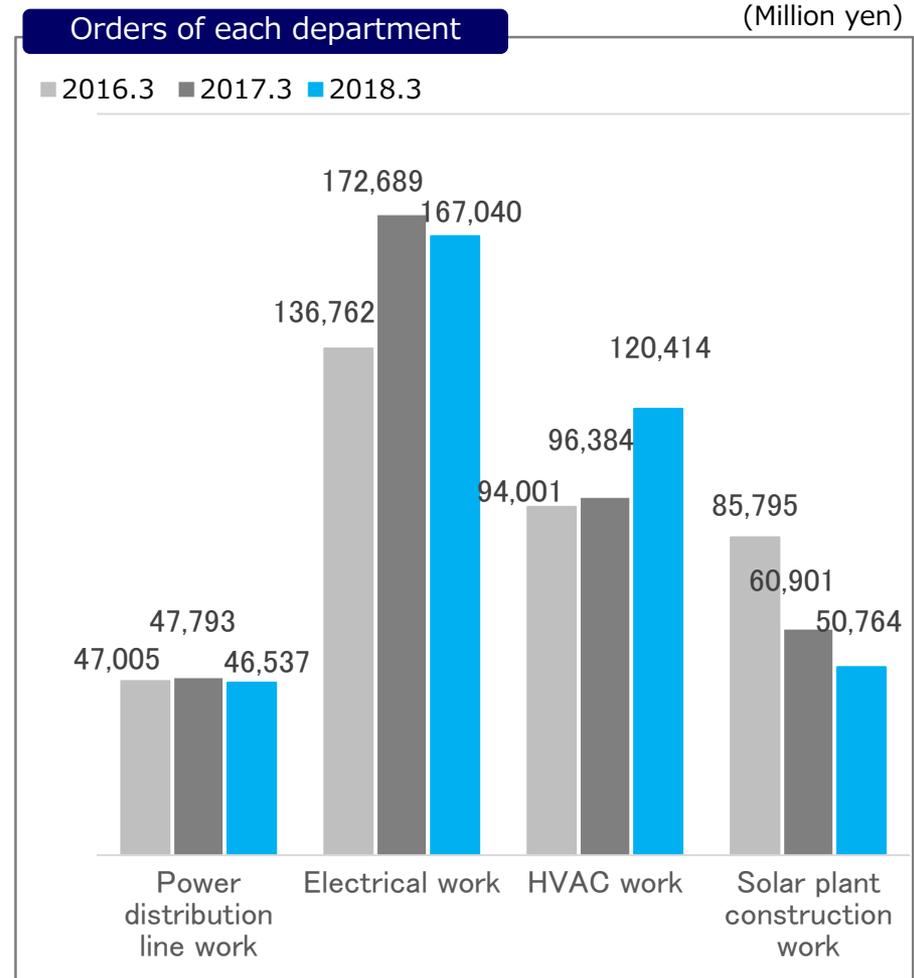
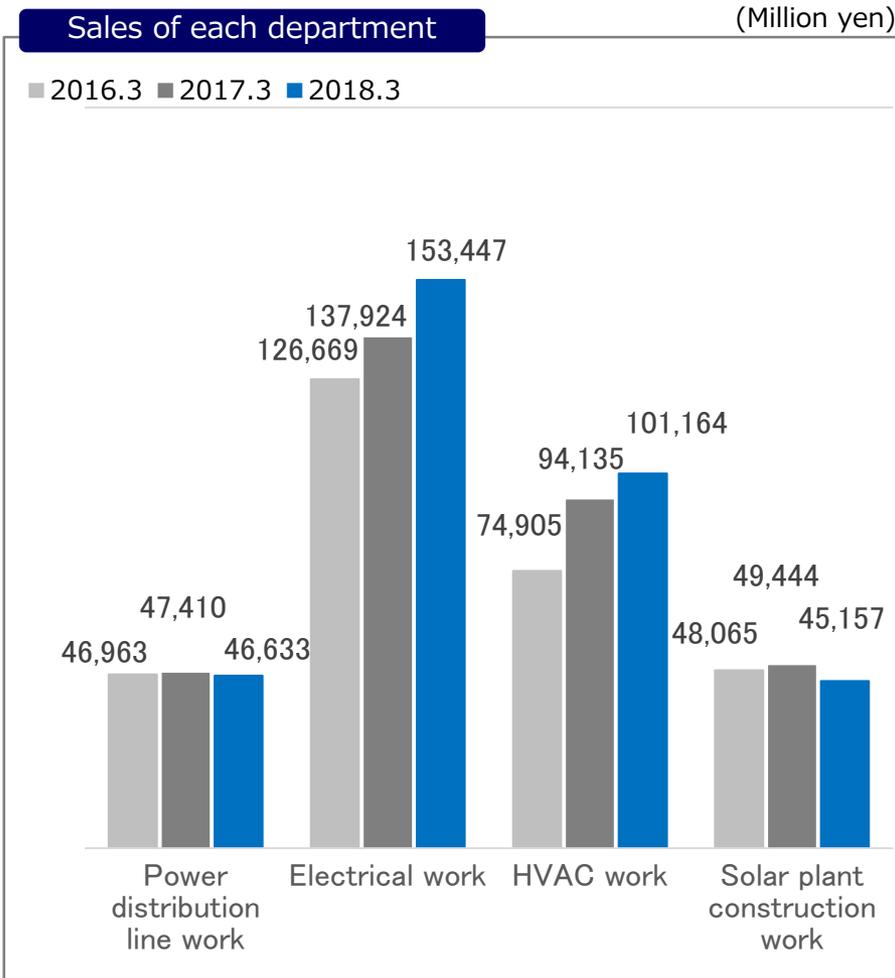
# Outline of P/L March 2018

(Million yen)

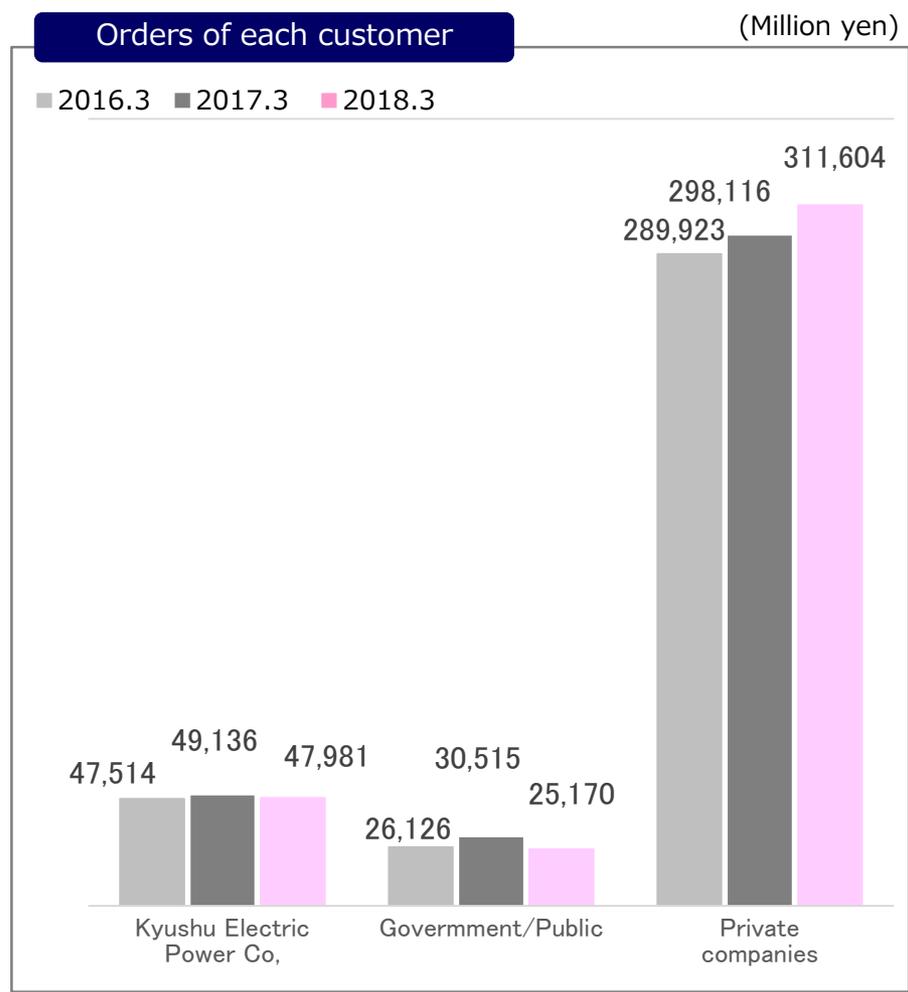
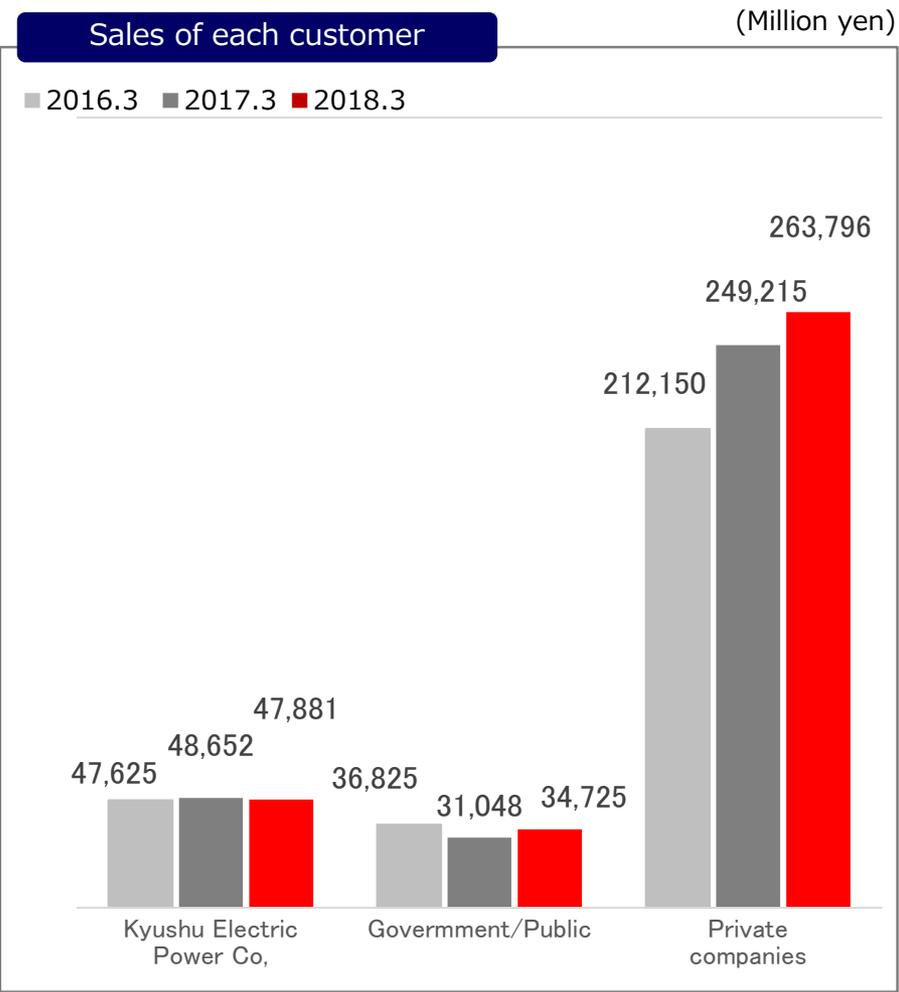
	March 2017 Result	March 2018			
		Result	Year-on-year	Plan (2017.4.28)	Progress
Sales	341,771 (100.0%)	360,872 (100.0%)	105.6%	370,000 (100.0%)	97.5%
Gross profit	51,951 (15.2%)	56,659 (15.7%)	109.1%	58,000 (15.7%)	97.7%
Operating profit	30,732 (9.0%)	34,726 (9.6%)	113.0%	36,000 (9.7%)	96.5%
Ordinary profit	32,187 (9.4%)	37,342 (10.3%)	116.0%	37,000 (10.0%)	100.9%
Net profit	22,297 (6.5%)	25,296 (7.0%)	113.4%	24,500 (6.6%)	103.2%
Net profit per share	¥327.22	¥356.89		¥345.66	

- Labor costs increased due to an increase in the number of employees, enhancement of remuneration etc.  
In addition to increased selling and general administrative expenses, indirect construction costs also increased.
- The increase in labor costs in SGA and indirect construction costs due to the increase in new employees gradually declined as new recruits were assigned to construction projects. Contributing to increase in sales amount.
- Sales of electrical and HVAC work greatly increased.  
A profit rate was improved by an increased income effect.
- We have been pursued to reduce the direct cost in every construction process, and we realized the improvement of the profit rate at the order reception by utilizing the result in the next estimate.
- In the solar plant construction, although the profit margin improved, the sales decreased.  
There was no impact on operating profit

Sales of electrical work greatly increased. Sales of HVAC steady increased and orders greatly increased. Orders of solar plant construction decreased but exceeded the assumption by 10 billion yen.



It was steady, and private sector increased.



# Order received / Sales by region March 2018

(Electrical & HVAC work excluding Solar plant construction work)

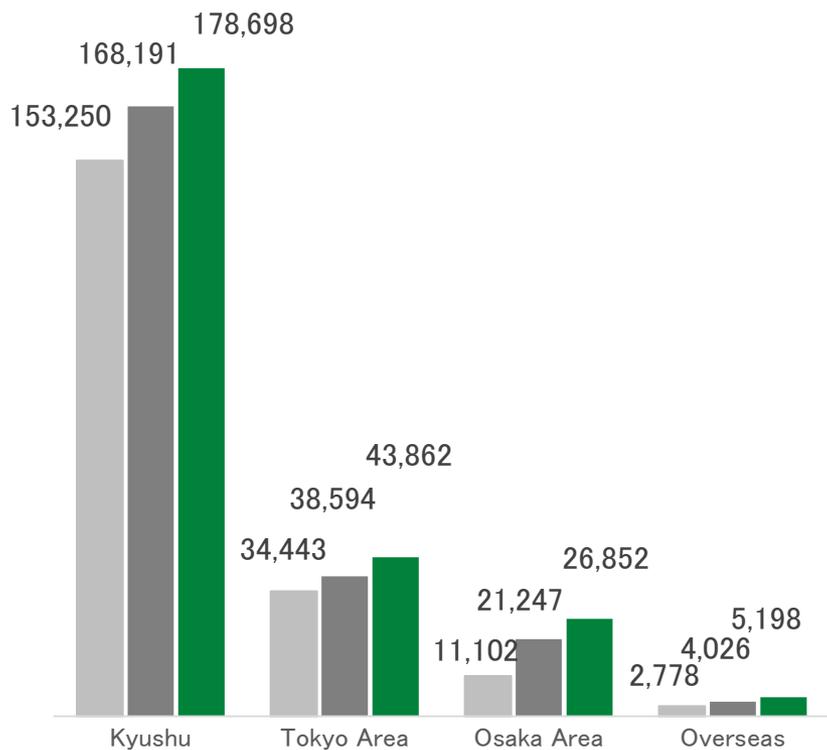


Although there was reaction decrease of the supersized items such as wind-power plant and Fukuoka airport of last year, the orders received in Kyushu region keeps sideways movement. Tokyo area grew up backed by business reinforcement.

(Million yen)

### Sales of each region

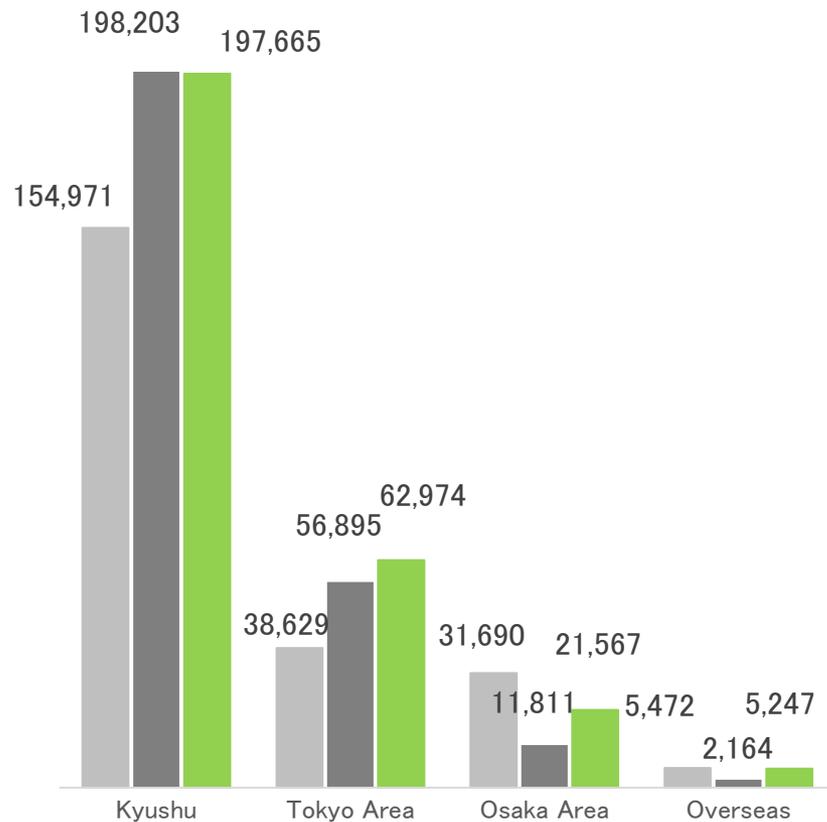
■ 2016.3 ■ 2017.3 ■ 2018.3



(Million yen)

### Orders of each region

■ 2016.3 ■ 2017.3 ■ 2018.3

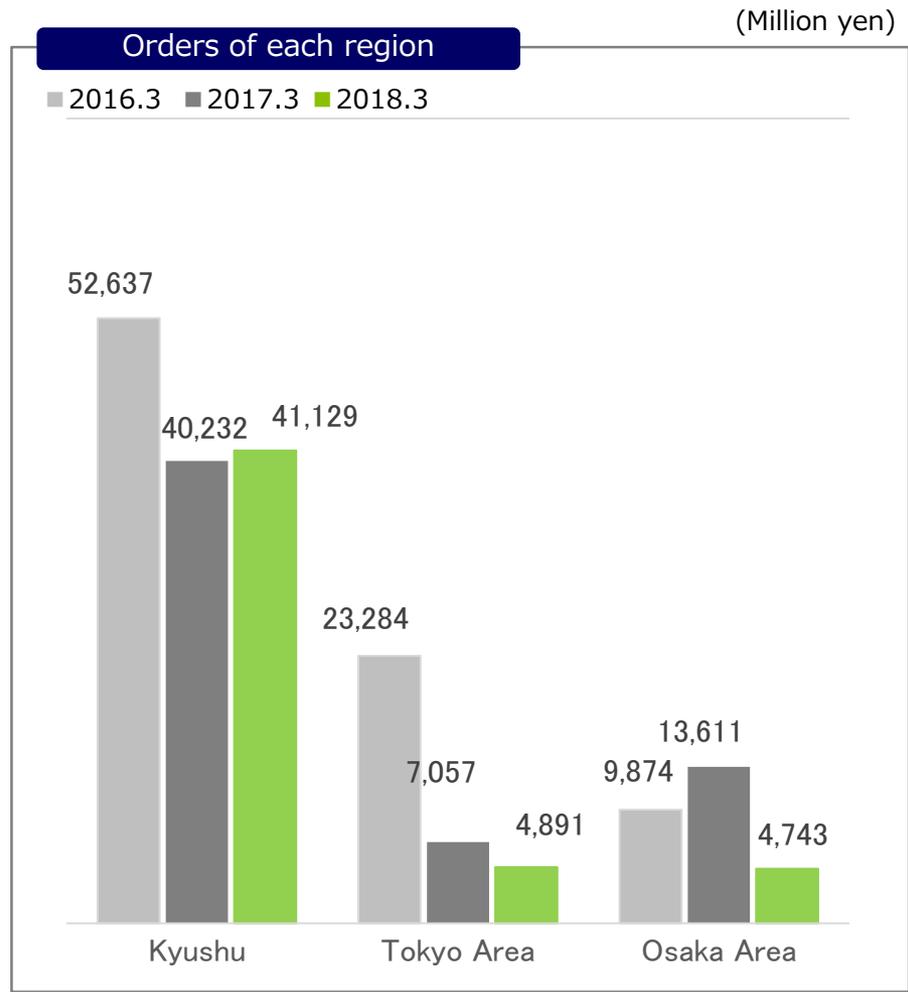
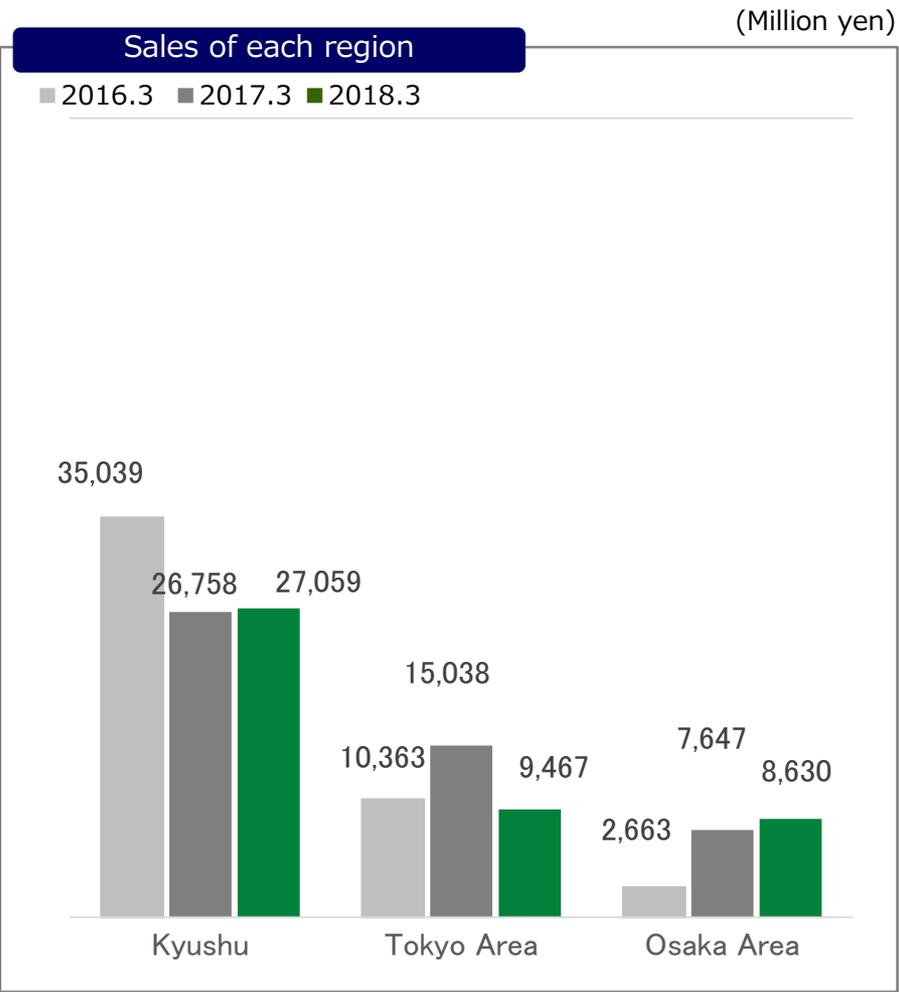


# Order received / Sales by region March 2018

(Solar plant construction work)



Sales in the Kyushu area remained flat due to delayed construction of large-scale projects as in the previous year. Orders exceeded the initial assumption by 10 billion yen, but the overall decreased.



# Year-end amount of works on hand

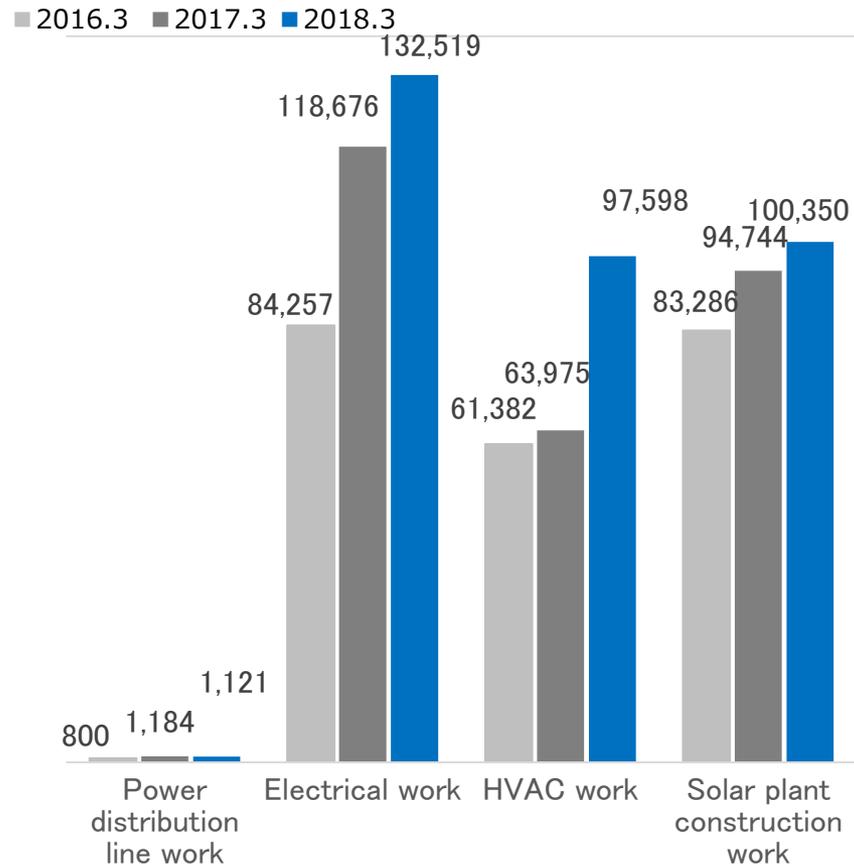
It was greatly extended with each department by the reinforcement of the management base including the increase of the construction staff.

The Solar plant construction exceeded 100 billion yen by the prolongation of the construction period with upsizing.

New orders in FY ended March 2018

Order stock of each department

(Million yen)



Image

Ken Corporation Ltd.  
(Kasyou) Yamashitacyou A gaiku  
Hoteru shinchikukeikaku

NIPPON SEINEN-KAN HALL



Saga ouchi solar plant



Kumamoto toshikeikaku sakuramachichiku  
dai1syu sigaichi saikaihatsu jigyou



# Outline of balance sheet

(百万円、下段は構成比)

	End of Mar. 2017	End of Mar. 2018	Increase /decrease	Main factors behind increase/decrease
Current assets	158,172 (52.6%)	182,640 (56.2%)	24,468	Trade notes and accounts receivable 21,406
Fixed assets	142,306 (47.4%)	142,513 (43.8%)	206	Investment securities 1,777 Differed tax asset ▲967 Goodwill ▲675
Total assets	300,478 (100.0%)	325,153 (100.0%)	24,674	
Current liabilities	124,745 (41.5%)	130,226 (40.0%)	5,481	Trade notes and accounts payable 18,102 Short-term debt ▲13,803
Fixed liabilities	34,230 (11.4%)	30,787 (9.5%)	▲3,442	Convertible bond ▲1,860 Liability for retirement benefits ▲1,725 Long-term debt ▲723
Total liabilities	158,975 (52.9%)	161,014 (49.5%)	2,038	
Total net assets	141,503 (47.1%)	164,139 (50.5%)	22,635	Common stock & capital surplus 1,868 Retained earnings 20,108
Total liabilities and net assets	300,478 (100.0%)	325,153 (100.0%)	24,674	

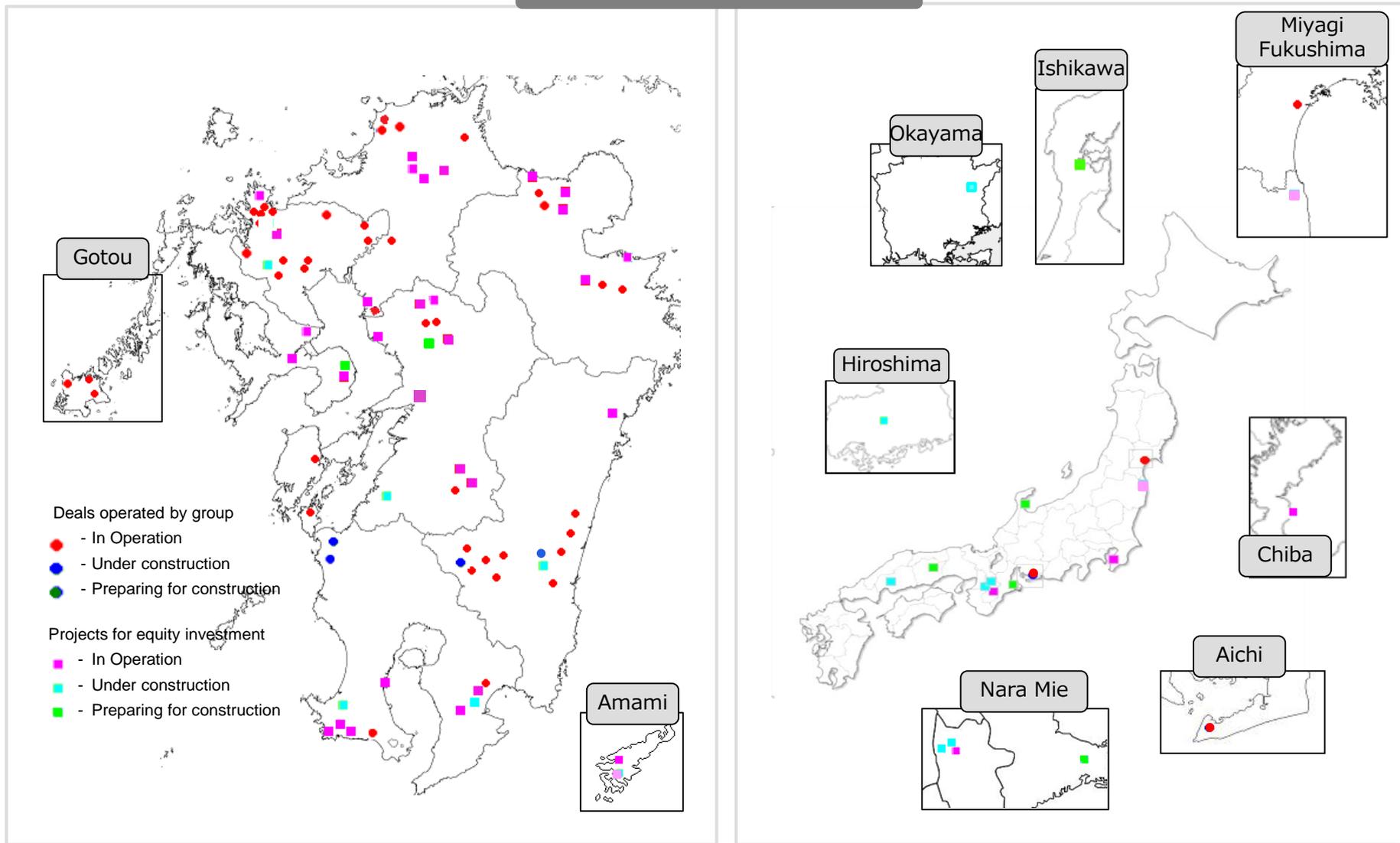
(Million Yen)

	March 2017	March 2018	Details of statement to Mar. 2018
Cash flow from operating activities	14,187	29,903	Income before income taxes and minority interests 37,148 Increase in trade notes and accounts receivable ▲17,939 Increase in trade notes and accounts payable 15,598
Cash flow from investment activities	▲17,951	▲3,717	Purchase of property, plant and equipment ▲4,092 Purchase of investment securities ▲3,278 Proceeds from sales of investment securities 3,140
Free cash flow	▲3,763	26,185	
Cash flow by financial activities	7,200	▲21,783	Net increase (decrease) in short-term borrowings ▲14,872 Cash dividends paid ▲5,635
Increase/decrease of cash and cash equivalents	3,295	4,477	
Cash and cash equivalents at the beginning of the period	26,732	30,027	
Cash and cash equivalents at the end of the period	30,027	34,505	

	FY2017 Mar.	FY2018 Mar.
Capital investment	7.4 billion yen	4.2 billion yen
Facility work	3.9 billion yen	1.7 billion yen
	Replacement of corporate dormitories' facilities and reconstruction of business offices of Kyudenko	Replacement of business offices of Kyudenko
	Machinery and equipment, etc. for constructions	EMS demonstration facilities in Sumba Island
Others	3.4 billion yen	2.4 billion yen
	Solar power plant facilities	Solar power plant facilities
	(3.2 billion yen)	(1.7 billion yen)
Depreciation	5.4 billion yen	5.5 billion yen

# Investment in Power Operations (Solar Power Plants)

## Mega solar power plant



## Deals operated by group

(make capital investment and record the entire operation to other operations sales)

Depreciated at the declining balance method

	Number of power plants	Generation capacity (the entire operation)	Generation capacity (that equal to the equity)
In operation	47	85MW	82MW
Under construction	3	8MW	6MW
Plan	-	-	-
<b>Total</b>	<b>50</b>	<b>93MW</b>	<b>88MW</b>

2.0 to 2.4 billion yen at its maximum

## Deals through investment in equity

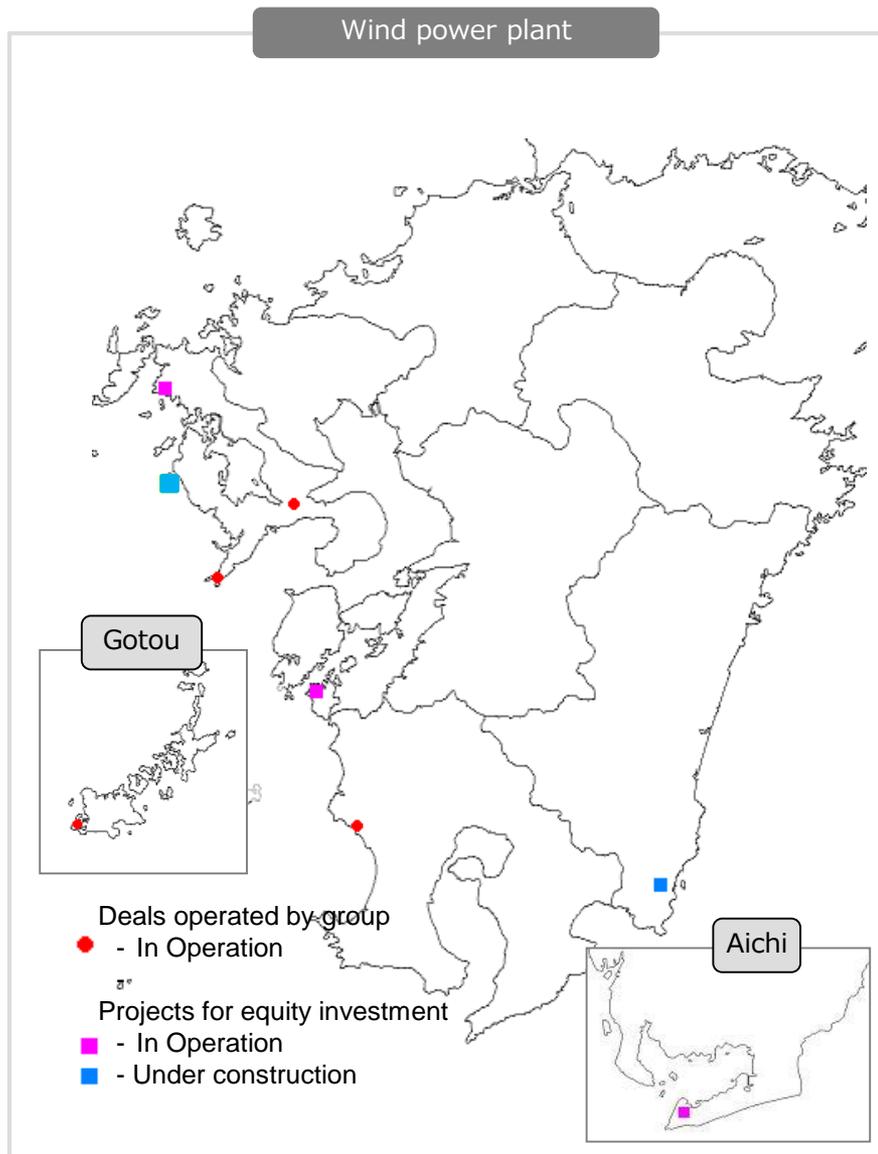
(acquire investment securities and record an amount equal to the equity to non-operating revenues)

Depreciated at the straight line method

	Number of power plants	Generation capacity (the entire operation)	Generation capacity (that equal to the equity)
In operation	39	306MW	95MW
Under construction	8	242MW	61MW
Plan	4	144MW	55MW
<b>Total</b>	<b>51</b>	<b>692MW</b>	<b>211MW</b>

1.8 to 2.0 billion yen at its maximum

# Investment in Power Operations (Wind Power Plants)



## Deals operated by group

(make capital investment and record the entire operation to other operations sales)

Depreciated at the Mainly declining balance method

	Number of power plants	Generation capacity (the entire operation)	Generation capacity (that equal to the equity)
In Operation	5	38MW	38MW
Under construction	-	-	-
Plan	-	-	-
Total	5	38MW	38MW

## Deals through investment in equity

(acquire investment securities and record an amount equal to the equity to non-operating revenues)

Depreciated at the Mainly declining balance method

	Number of power plants	Generation capacity (the entire operation)	Generation capacity (that equal to the equity)
In Operation	3	73MW	15MW
Under construction	2	72MW	34MW
Plan	-	-	-
Total	5	145MW	49MW

# Plan for fiscal year

(Million yen)

	March 2018 Result	Plan for March 2019			
		March 2019	Year-on-Year	2nd quarter total	2nd-on-2nd
Sales	360,872 (100.0%)	385,000 (100.0%)	106.7%	165,000 (100.0%)	103.5%
Gross profit	56,659 (15.7%)	63,000 (16.4%)	111.2%	26,000 (15.8%)	106.5%
Operating profit	34,726 (9.6%)	38,000 (9.9%)	109.4%	13,500 (8.2%)	101.7%
Ordinary profit	37,342 (10.3%)	41,000 (10.6%)	109.8%	15,000 (9.1%)	100.3%
Current (quarter) net profit	25,296 (7.0%)	28,000 (7.3%)	110.7%	9,800 (5.9%)	101.3%
Current net profit per stock	¥356.89	¥393.59		¥137.76	
Dividends	90円 Interim ¥40			¥100 Interim ¥50	

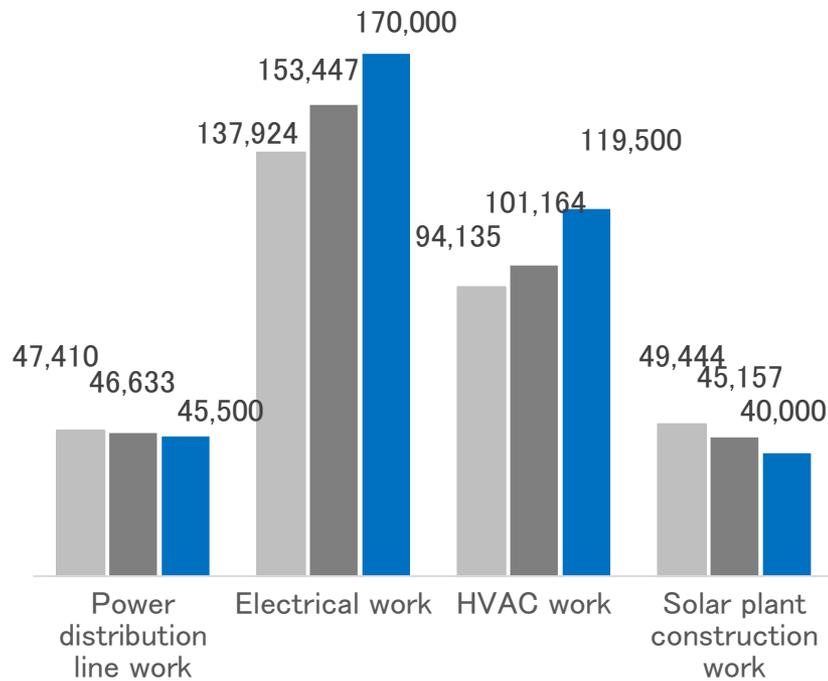
# Orders & Sales plan by department

The orders of the solar plant construction expects gradual decrease.  
The sales amount greatly spreads by the abundant amount of works on hand.

Sales of each department

(Million yen)

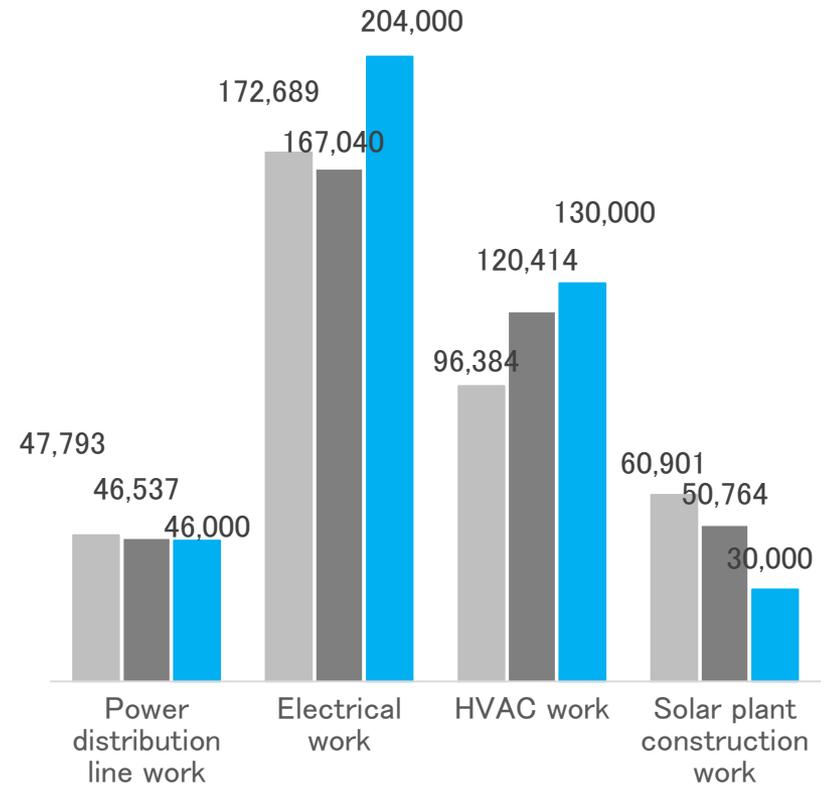
■ 2017.3 ■ 2018.3 ■ 2019.3 (plan)



Orders of each department

(Million yen)

■ 2017.3 ■ 2018.3 ■ 2019.3 (plan)



## Present condition

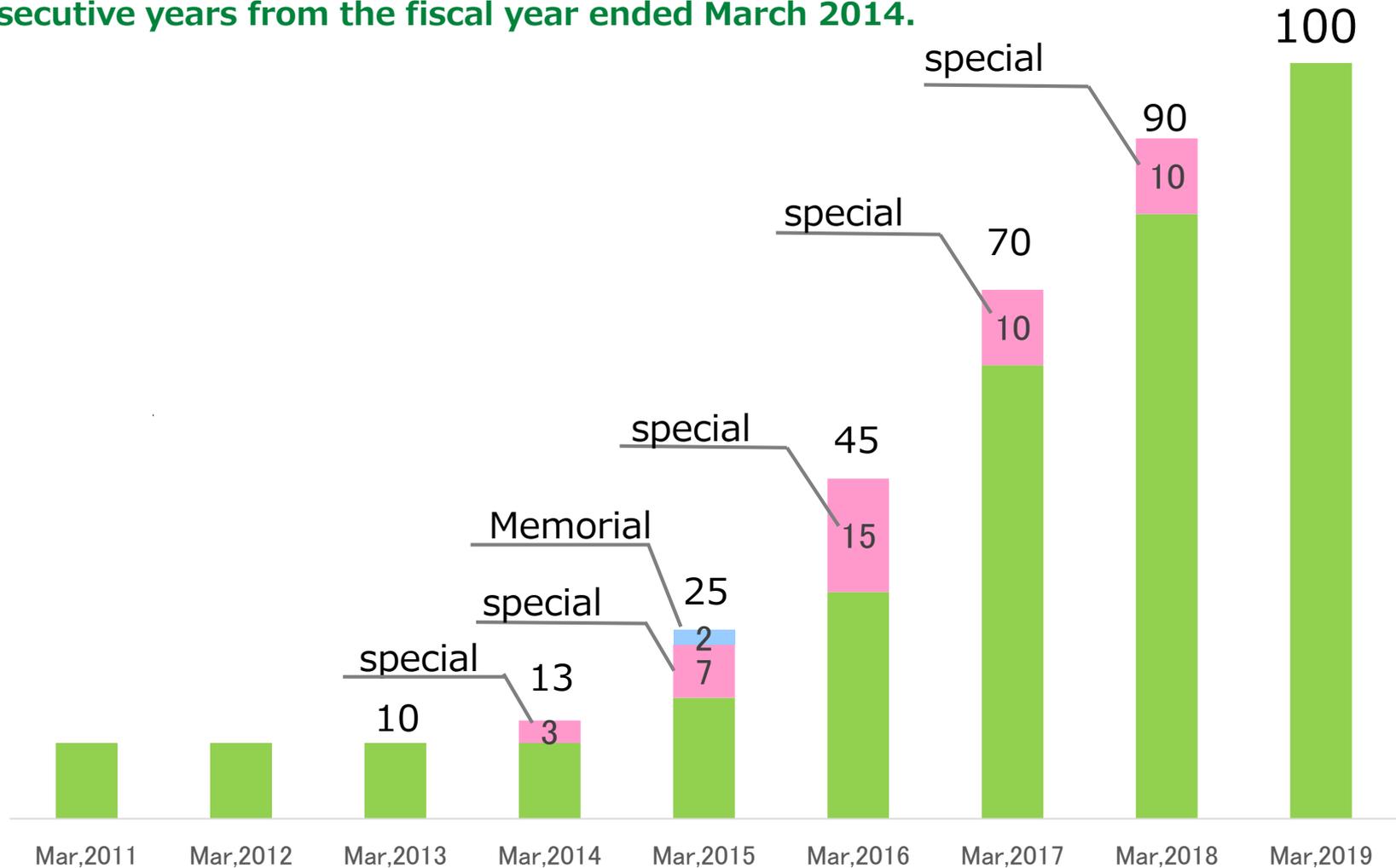
- Sendai nuclear power plant restart.
- Commercial operation of genkai nuclear power plant will start in near future.



## Tasks and actions

- A cost cut by our technology development and efficiency is important, for Electricity Systems Reform , we improve the profitability by cost competitiveness having high transparency.
- We pursuit an appropriate profit rate appropriate to the capital cost for the maintenance of the distribution network, the security of the personnel required who can cope at a peak, the investment that is necessary for correspondence in emergency.

Following expansion of business results, we plan to increase the dividends for six consecutive years from the fiscal year ended March 2014.



# Mid-term management plan growth strategy

« Main theme »

## Challenge to a Further Growth

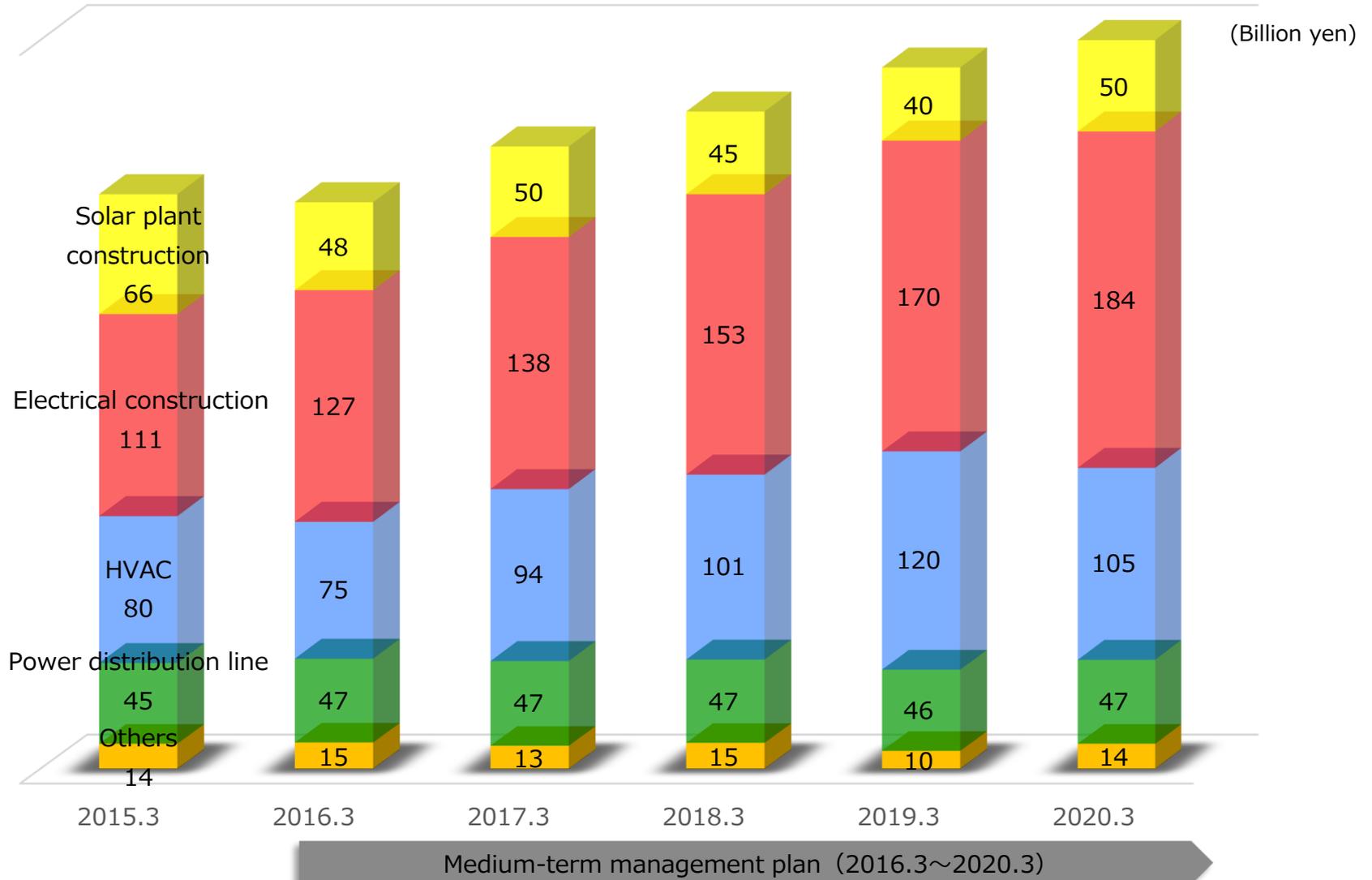
~To the next growth stage~

« Numerical target at March 31, 2020 »

(Results in March 2018)

<b>S a l e s</b>	<b>400</b> BillionYen	<b>360</b> BillionYen
<b>Gross Profit Ratio</b>	<b>Over 15</b> %	<b>15.7</b> %
<b>Operating Profit Ratio</b>	<b>Over 9</b> %	<b>9.6</b> %
<b>R O E</b>	<b>Over 14</b> %	<b>16.8</b> %

# Road map of sales plan



Total sales **400** Billion yen

## Each business lines

Solar plant construction **50** Billion yen

Electrical and HVAC **289** Billion yen

Power distribution line **47** Billion yen

Others **14** Billion yen

## By region (Electrical and HVAC)

Kyushu **176** Billion yen

Tokyo **73** Billion yen

Kansai/Okinawa **23** Billion yen

Over seas **17** Billion yen

Renewal & Renovation  
Services which is included  
in above figures **130** Billion yen

## Axes of the growth strategy

“Establish stable foundation in Kyushu”

“Strengthening business in the metropolitan area”

“The development of human resources”

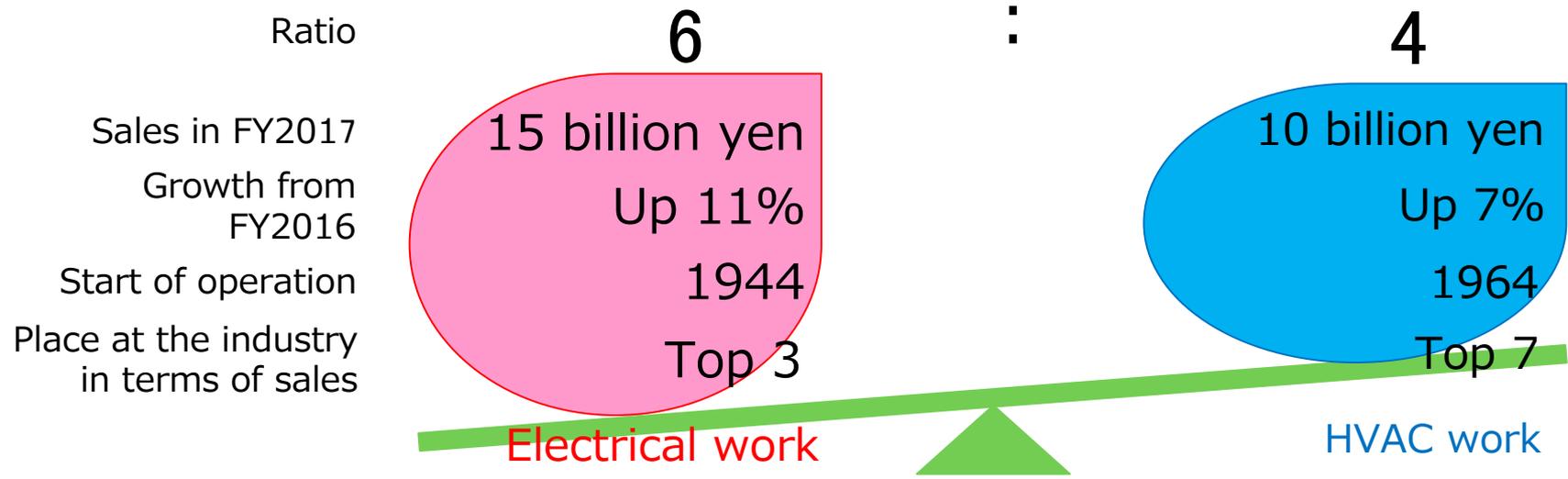
### « Kyudenko’s Four Strategic Policies »

- 1 “ **Sales force** ” to meet trusts and expectations of clients
- 2 “ **Technological force** ” to win the cost & quality competition
- 3 “ **On-site Capabilities** ” to obtain more projects and profit efficiency
- 4 “ **Growing Force** ” for future success



# <Differentiation Strategy of Kyudenko (1)>

Come to the top with the use of technology of integrated facility engineering service



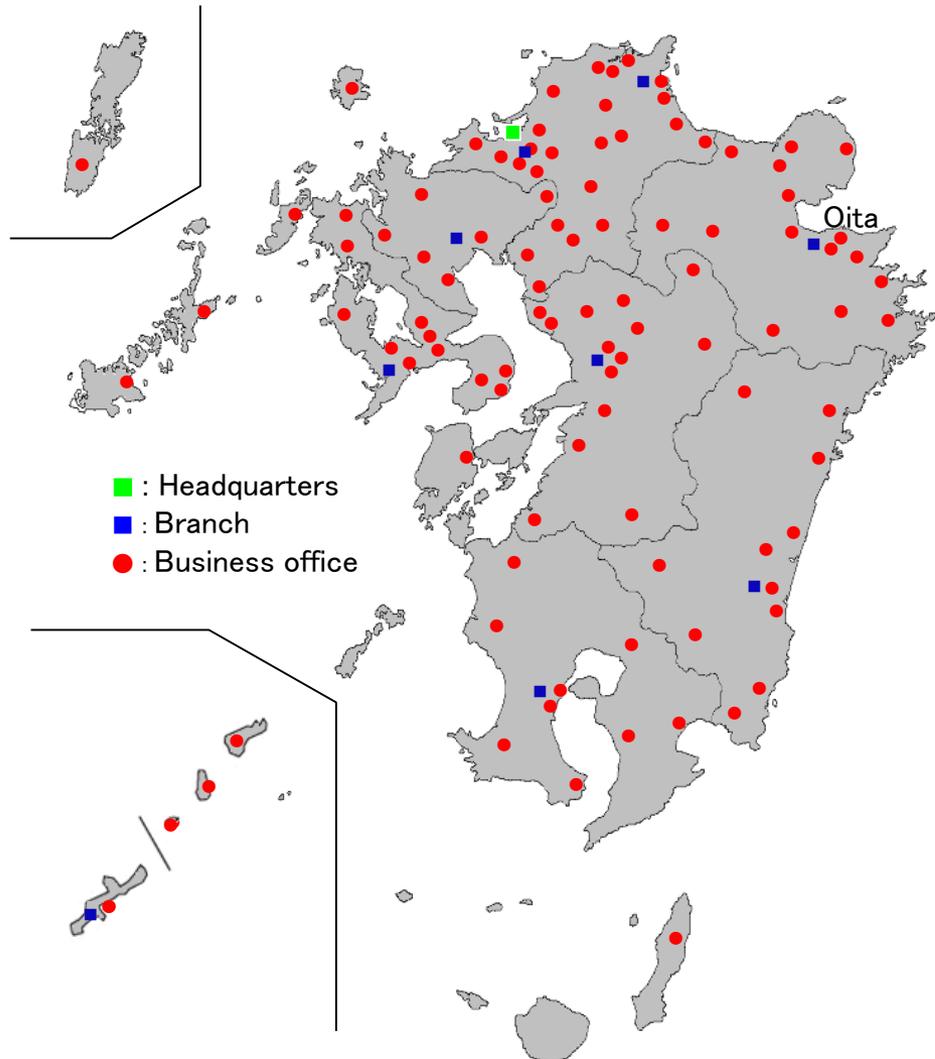
excluding solar plant construction

**One-stop construction of all facility works**  
 (Customers are not required to make arrangements with several companies. We conduct construction and renovation of energy facilities, which mainly consist of facilities, as an original contractor in place of a general constructor "builder".)

**Mix know-how on electrical work with that on HVAC**  
 (total solution realizing energy saving)

**Cut costs through process management of the entire facility**  
 (wiring and piping possible to cut construction time and use the space at maximum)





## 111 business bases across Kyushu and Okinawa

Deploy engineers and skilled workers of electrical facilities and air conditioning and sanitation facilities  
Conduct maintenance and sales of solution

A relied-on company immediately going to the site and securing a lifeline even in times of disaster

Aim at being the Kyudenko continuously selected by customers through local-based business and social contribution activities

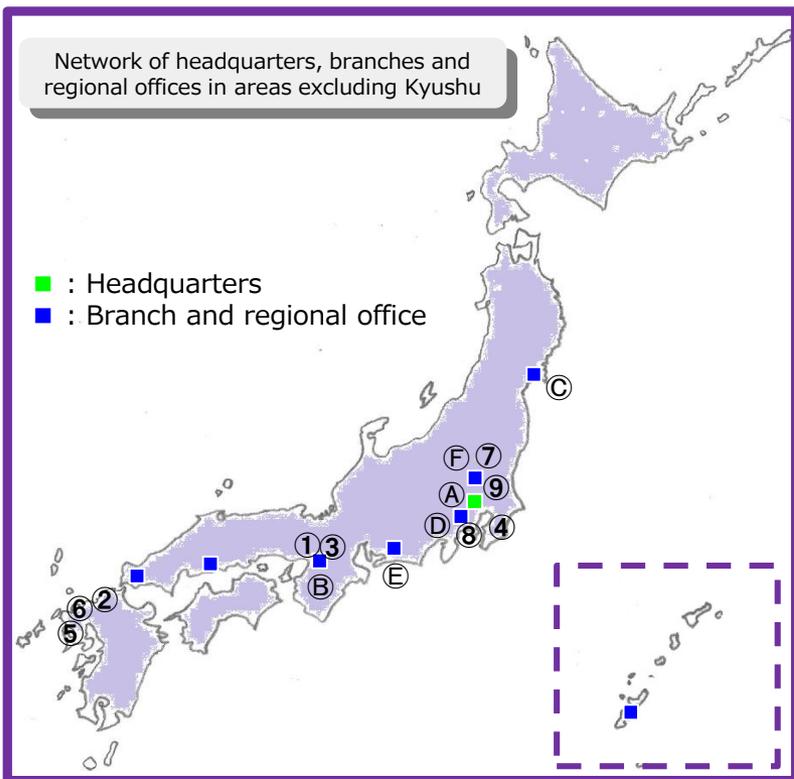
# <Differentiation Strategy of Kyudenko (3)>

## Expansion of business area and acceptance of brand



Promote expansion of business area and strengthening

Do capital ties with companies seeking such at local-based operational activities in the Tokyo Metropolitan Area and newly entering areas and companies that can technically supplement us



### « Strengthening of organizations in areas excluding Kyushu »

Ⓐ	2008	Reorganized Tokyo organization and established Tokyo Headquarters
Ⓑ	2012	Reorganized Osaka branch to Kansai branch to expand its business territory
Ⓒ	2012	Established Tohoku regional office
Ⓓ	2014	Reorganized Yokohama business office to Yokohama regional office
Ⓔ	2015	Established Nagoya regional office
Ⓕ	2017	Reorganized Saitama business office to Saitama branch

### « New participant companies of Kyudenko group »

	Year of participation	Name of Company	Location	Sales for FY2017	Employees
①	2014	Koderadengyo	Osaka	1,566 million yen	54
②	2012	Kakusokukeisou	Fukuoka	1,368 million yen	51
③	2015	Kawachikougyou	Osaka	718 million yen	15
④	2015	Syouseidensetu	Chiba	1,098 million yen	20
⑤	2016	Kyusetukougyou	Nagasaki	722 million yen	9
⑥	2017	Jinnouchikoumutenn	Saga	293 million yen	29
⑦	2018	Sanyudensetu	Fukushima	1,061 million yen	41
⑧	2018	Ergotech	Kanagawa	7,672 million yen	143
⑨	2018	Seiwakougyou	Ibaragi	1,429 million yen	33

# <Differentiation Strategy of Kyudenko (4)>



Actual results of recruitment of human resources (single Kyudenko) and workforce planning

We have steadily conducted recruitment even during hard times with the philosophy “Human resources are the most significant management resources”. Strengthening the pipeline with industrial high schools and universities now becomes a large differentiation factor during difficulty in recruitment. We internally train up construction managers as well as skilled workers and master workmen in preparation for a future shortage of skilled persons.

## « Actual results of periodic recruitment of engineers and skilled persons »

	2006	2007~2014	2015	2016	2017	2018
Total engineers and skilled persons	133	Around 200	241	262	344	383
High school graduates	111	Around 150	163	177	248	271
University graduates	22	Around 50	78	85	96	112

## « Comparison in actual results of recruitment for April 2018 with other companies »

	Kyudenko	Large electrical construction companies	Large HVAC companies	Super general constructors
Total in all professions	412	330~340	60~100	230~290
High school graduates	272	Around 200	Around 10	Around 10
University graduates	140	130~140	60~90	230~280

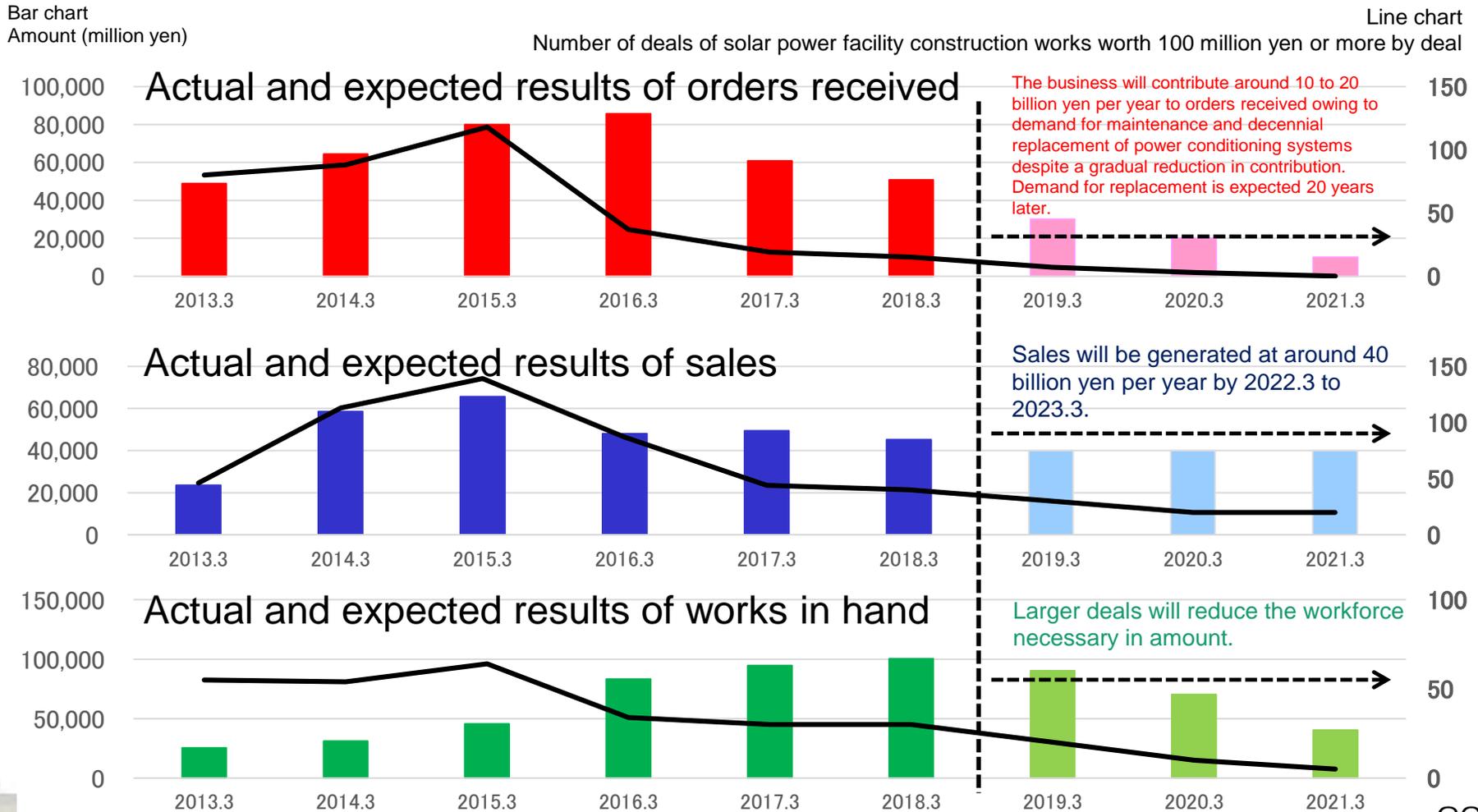
## « Planned year-end workforce until FY2020 March »

	Mach 2016	Mach 2017	Mach 2018	Mach 2019	Mach 2020	Increase or decrease in plan
Electrical work department	1,728	1,826	2,090	2,117	2,228	About +500
HVAC work department	921	990	1,052	1,100	1,160	About +240
Year-end workforce of electrical and HVAC	2,649	2,816	3,142	3,217	3,388	About +740
Power distribution line department	1,869	1,816	1,741	1,711	1,664	About ▲210
Other	1,394	1,408	1,418	1,423	1,433	About +40
Employees of single Kyudenko	5,912	6,040	6,301	6,351	6,485	About +570
Employees of group	8,976	9,287	9,843		10,000	About +1,000

## Photovoltaic power generation facility construction

We constructed a tight connection with partners in other industries as a result of appreciation of abilities to develop deals and judge investments. There is a huge volume of information on large deals requiring much time for development, and we now expect orders directly nominated from partners. (The following expectations exclude the Ukujima project)

We seek to gain demand for replacing power conditioning system 10 years later and replacement demand 20 years later as a previous constructor.



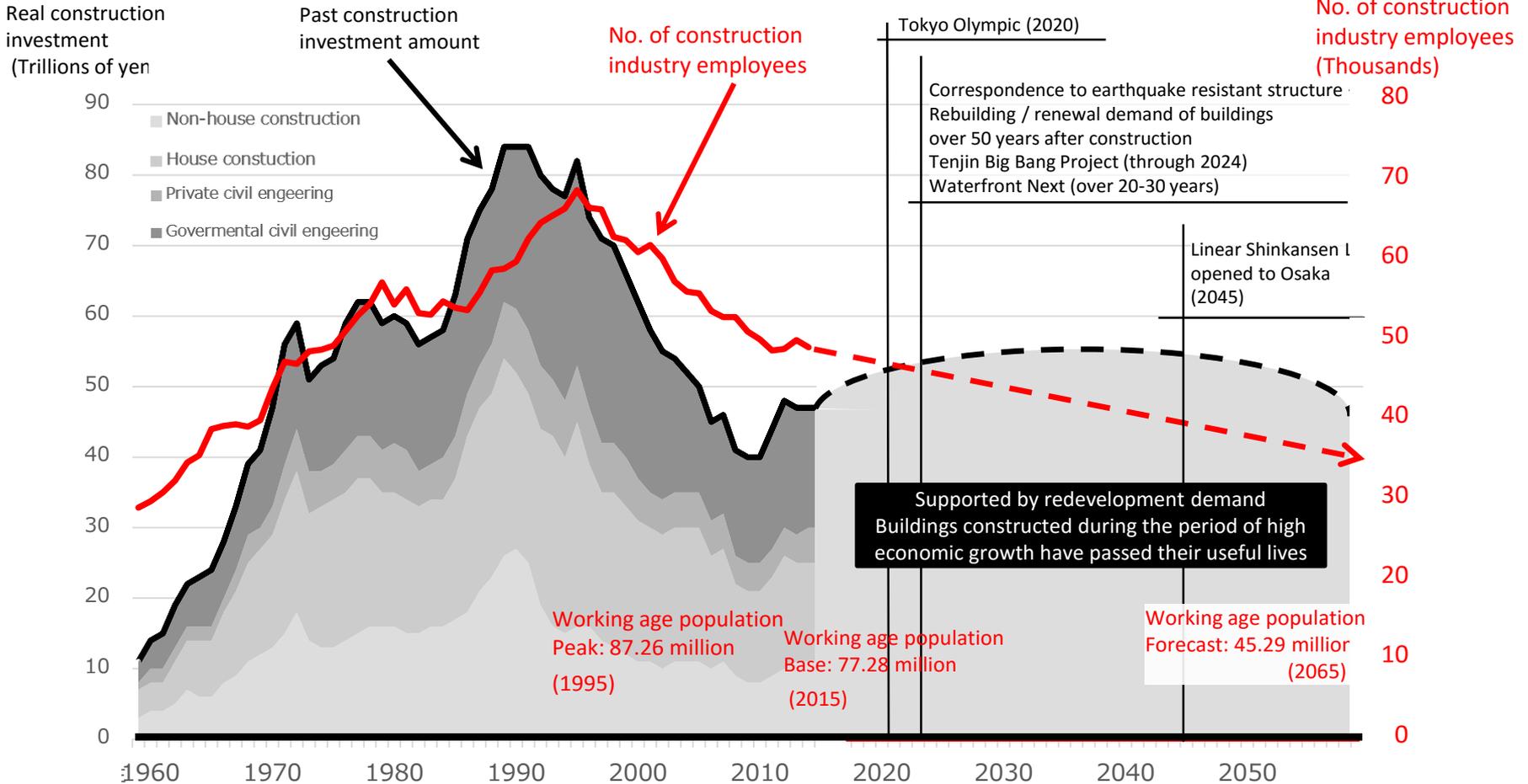
# <Differentiation Strategy of Kyudenko (6)>

## Details of diverse business models (facility work)

	Business model	Characteristics	Targets	Competitors	Strengths of Kyudenko
<b>A</b>	<b>Proposal and original contract type</b>  <b>Increasing market share while keeping a firm foothold such as in Kyushu and Okinawa</b>	<ul style="list-style-type: none"> <li>One-stop construction of electricity, air and water facilities</li> <li>Sales of solutions</li> <li>Aftersales services</li> <li>Local based- business offices</li> <li>Engineer=salesperson</li> <li>Mid- and small-sized deals with high margins</li> </ul>	Ordinary companies:  offices commercial facilities plants  hospitals and others	Regional mid- and small-sized facility work operators construction companies  <b>Differentiation from large facility work operators</b>	<b>Engineers' recommendation ability</b>  Network of business offices  Co-existence with communities
<b>B</b>	<b>Sub-contract type</b>  <b>Regionally expanding to Kansai, Tokai, Tohoku and Chugoku in addition to Tokyo Metropolitan Area</b>	<ul style="list-style-type: none"> <li>Subcontract from general contractors</li> <li>New construction =&gt; Maintenance</li> <li>Making suggestions for improvement during construction</li> <li>Large deals with low margins</li> </ul>	General contractors  Design offices	Major facility work operators across the country  <b>Differentiation from mid- and small-sized facility work operators</b>	Ability to collect workforce  Ability of direct construction  Cost competitiveness
<b>C</b>	<b>Capital participation type</b>  <b>Nationwide renewal energy development and energy service operations</b>  <b>P F I</b>	<ul style="list-style-type: none"> <li>Capital participation in operations</li> <li>Participation in contractees</li> <li>Securing profits of constructions</li> <li>Bearing development risk</li> <li>Securing investment income</li> </ul>	Public sector, land owners, trading companies, developers, energy companies  and others	<ul style="list-style-type: none"> <li>General contractors</li> <li>developers,</li> <li>energy companies</li> <li>and others</li> </ul> <b>Differentiation from facility work operators</b>	Experiences and know-how One-stop construction for electricity, air and water facilities Differentiation from competitors (possible to make independent judgments)  Credibility from regions  and existence

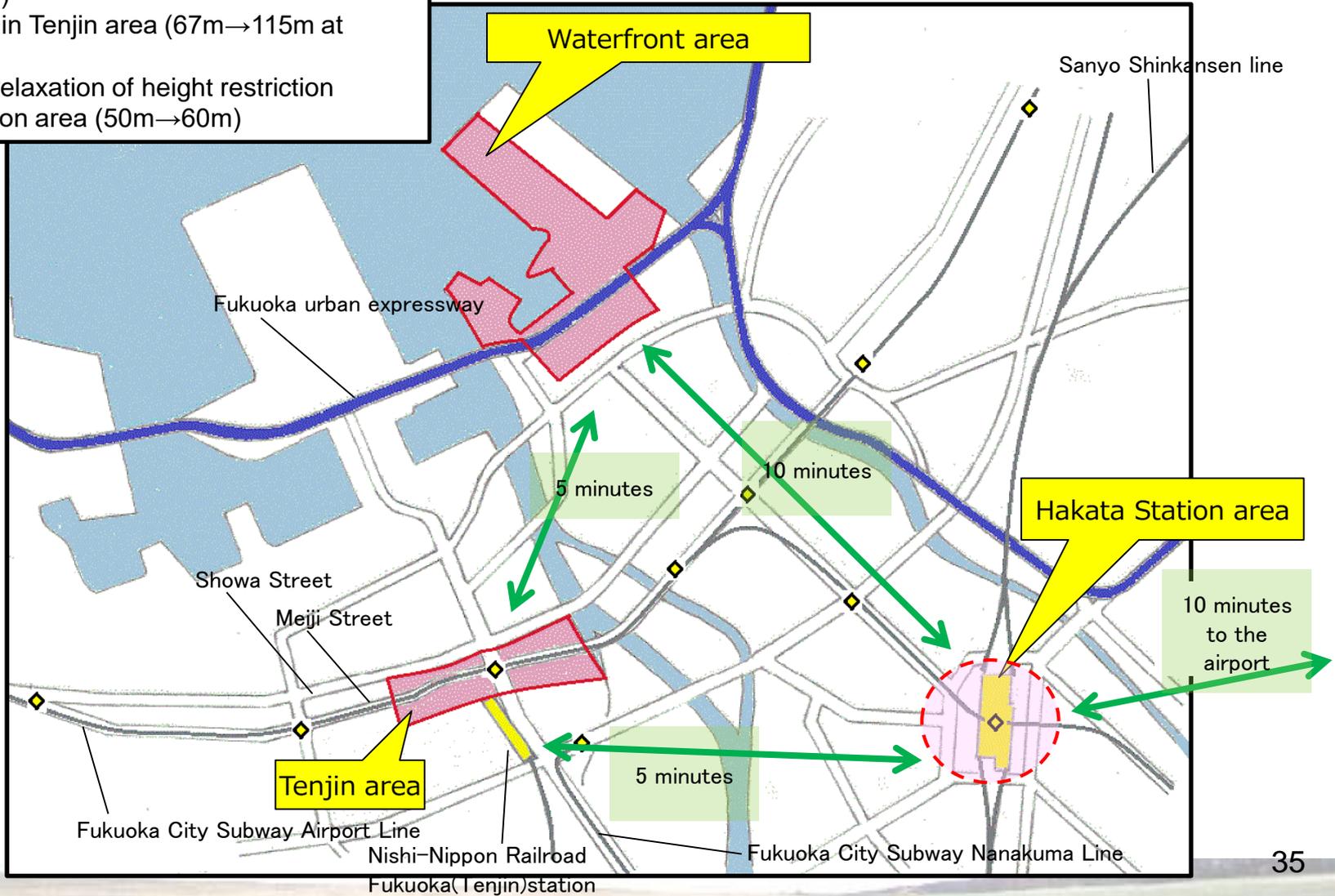
# Post-2020 Prediction about industry

Construction demand will be supported by large-scale projects and renovation of aging infrastructure built more than 50 years ago. The labor shortage will accelerate with the decline in the working age population, with a rapid falloff in supply capability.



# Fukuoka Waterfront Next, Tenjin Big Bang

Relaxation of height restriction  
38 hectares in the waterfront area  
(70m→100m)  
1.7 hectare in Tenjin area (67m→115m at maximum)  
Request for relaxation of height restriction  
Hakata Station area (50m→60m)



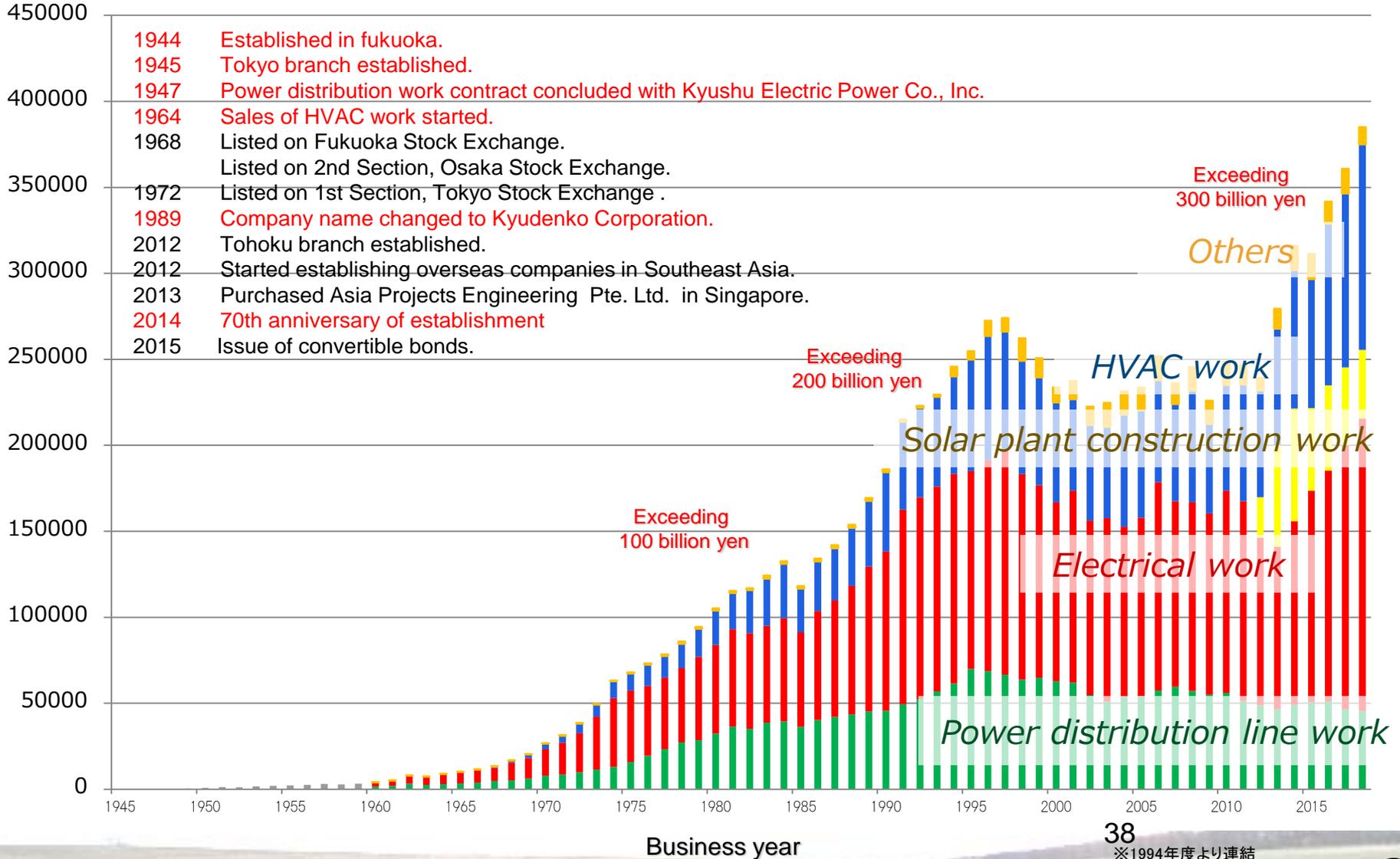
# KYUDENKO Group

Company name	Kyudenko Corporation
Established	December 1, 1944
Capital	¥ 12,550 million
Listed market Code	1st Section of Tokyo Stock Exchange, Fukuoka Stock Exchange 1959
Head office	1-23-35 Nanokawa, Minamiku, Fukuoka city
Tokyo head office	Sunshine 60 3-1-1 Higashi-Ikebukuro, Toshima-ku, Tokyo
Bases	Head office, Tokyo head office, 10 branches in Japan, 120 sales offices, / 5 overseas subsidiaries
Approval for construction	Approved by Minister of Land, Infrastructure, Transport and Tourism (Sp. 24) No. 1659
Number of employees	Consolidated: 9,843 persons (March 31, 2018)

# History of our group

## Sales

Million yen



## KYUDENKO Group

### Facility engineering

- Power distribution line construction
- Electrical, Information Communication facilities design and construction
- Heating, Ventilation, Air Conditioning, Water supply, Sewer, Waste water treatment design and construction
- Plant facility, Renewable energy plant
- Maintenance
- Energy saving planning, Energy management service

### Other businesses

- Materials, machinery and tools sale
- Renewable energy generation
- Real-estate development, management
- Software development
- Environmental inspection such as the quality of the water, air
- Others

## Customers

Kyushu Electric Power Company, Incorporated  
(About 15% of sales)

Other customers  
(About 85% of sales)

The prediction based on a premise about the future of the present and the prospect is included in this presentation. The real achievements may be changed by the occasional situation and a variety of factors. When there is a change, We are not obligated to revise this material.

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