



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

# **KYUDENKO CORPORATION**

## **FY ending March 2019 2<sup>nd</sup> Quarter**

### **Results briefing**

Nov. 1st ,2018

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# Overview of business results

## Orders

**HVAC, Solar plant construction increased. Electrical, expecting large project in 2<sup>nd</sup> half.**

¥216,986million    Exceeded 2017' 1<sup>st</sup> half result by order increased in Kyushu.  
2nd-on-2nd 103.2%

## Sales

**By newly consolidated subsidiaries, HVAC increased.**

¥165,111million    Steady increase backed by increase of human resource  
and in works on hand (¥331billion).  
2nd-on-2nd 103.6%

## Operating profit

**Decreased by depression of gross profit ratio and increase of bonus.**

¥10,886million    Gross profit ratio was depressed by decrease of Kyudenko  
(parent company individual) construction sales.  
2nd-on-2nd 82.0%

# Outline of P/L March 2019, 2<sup>nd</sup> quarter

(Million yen)

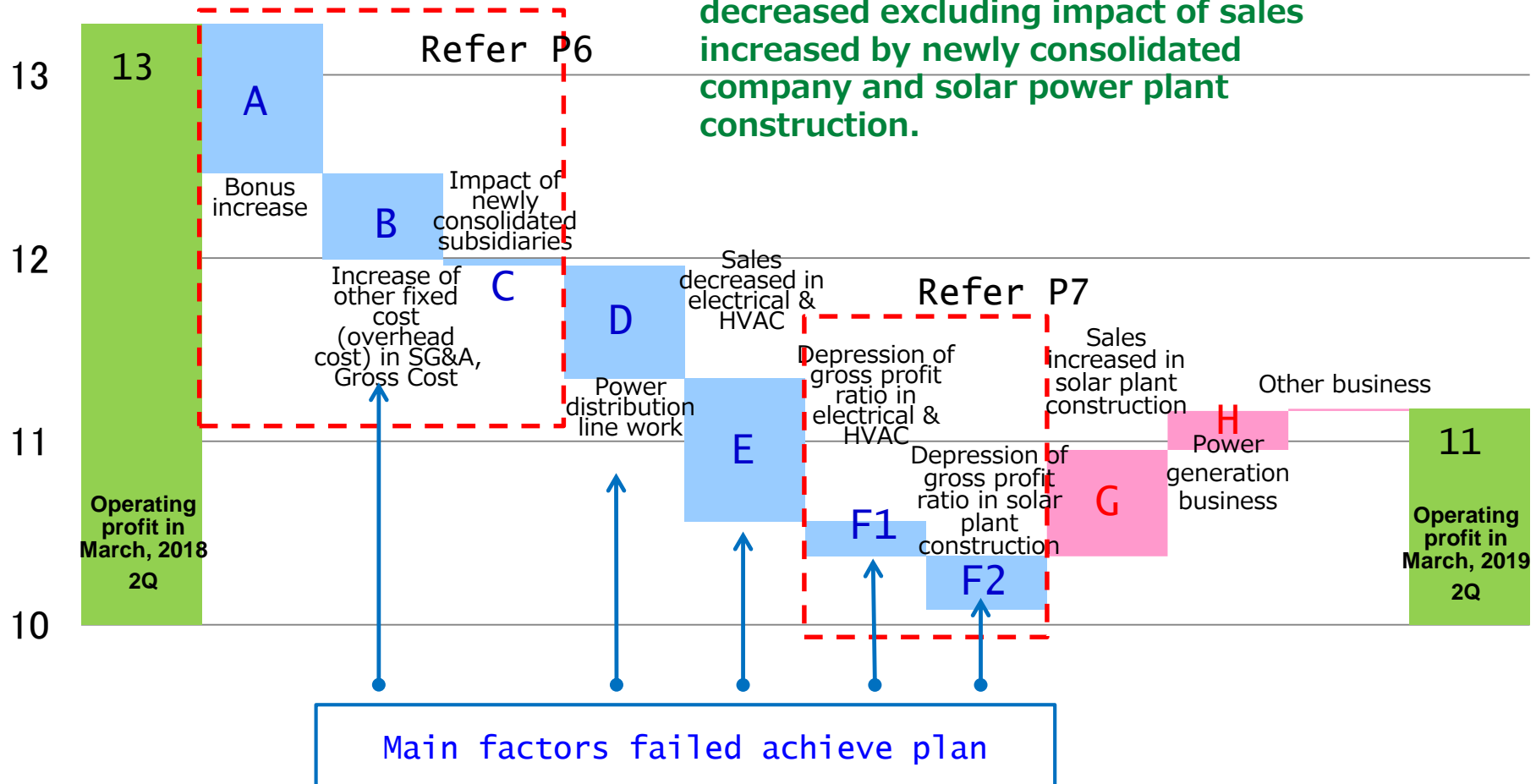
	March 2018, 2Q Result	March 2019, 2Q			
		Result	2nd-on-2nd	Plan (2018.4.27)	Progress
Sales	159,378 (100.0%)	165,111 (100.0%)	103.6%	165,000 (100.0%)	100.1%
Gross profit	24,410 (15.3%)	23,033 (14.0%)	94.4%	26,000 (15.8%)	88.6%
Operating profit	13,274 (8.3%)	10,886 (6.6%)	82.0%	13,500 (8.2%)	80.6%
Ordinary profit	14,959 (9.4%)	12,428 (7.5%)	83.1%	15,000 (9.1%)	82.9%
Net profit	9,677 (6.1%)	8,013 (4.9%)	82.8%	9,800 (5.9%)	81.8%
Net profit per share	¥136.91	¥112.64		¥137.76	

# Factors of change in OP

14

： Increase  
： Decrease

(Billion Yen)



# Increase of Fixed cost (Over head cost) and factor of gross profit ratio depression

(Million Yen, composition ratio)

		Increase of Bonus <b>A</b>	Increase of other fixed cost (overhead cost) in SG&A and Gross Cost <b>B</b>	Impact of newly consolidated subsidiaries <b>C</b>
Sales	Sales of construction work			5,099
	Sales of other business			140
	Sales			5,239
Gross profit	Profit of construction work	△682	△252	566 (11.1%)
	Profit of other business			64
	Gross profit	△682	△252	631 (12.0%)
SG&A		128	217	665 (Including depreciation of goodwill 31)
Operating profit		△811	△469	△34 (△0.7%)

Severance benefit UP in Kyudenko +118  
Rent +74  
Travel expenses +43 etc.  
Associated with strengthen outside Kyushu region

Salary +245  
Severance benefit UP in Kyudenko +18  
etc.

# Factor of gross profit ratio depression

## Breakdown of construction sales

(Kyudenko individual : excluding power distribution line work)

Whole construction sales decreased 3.0billion yen.

Sales from projects delivered decreased 7.8billion yen.

Sales from projects Not delivered increased 4.8billion yen.

Construction sales (Million yen)

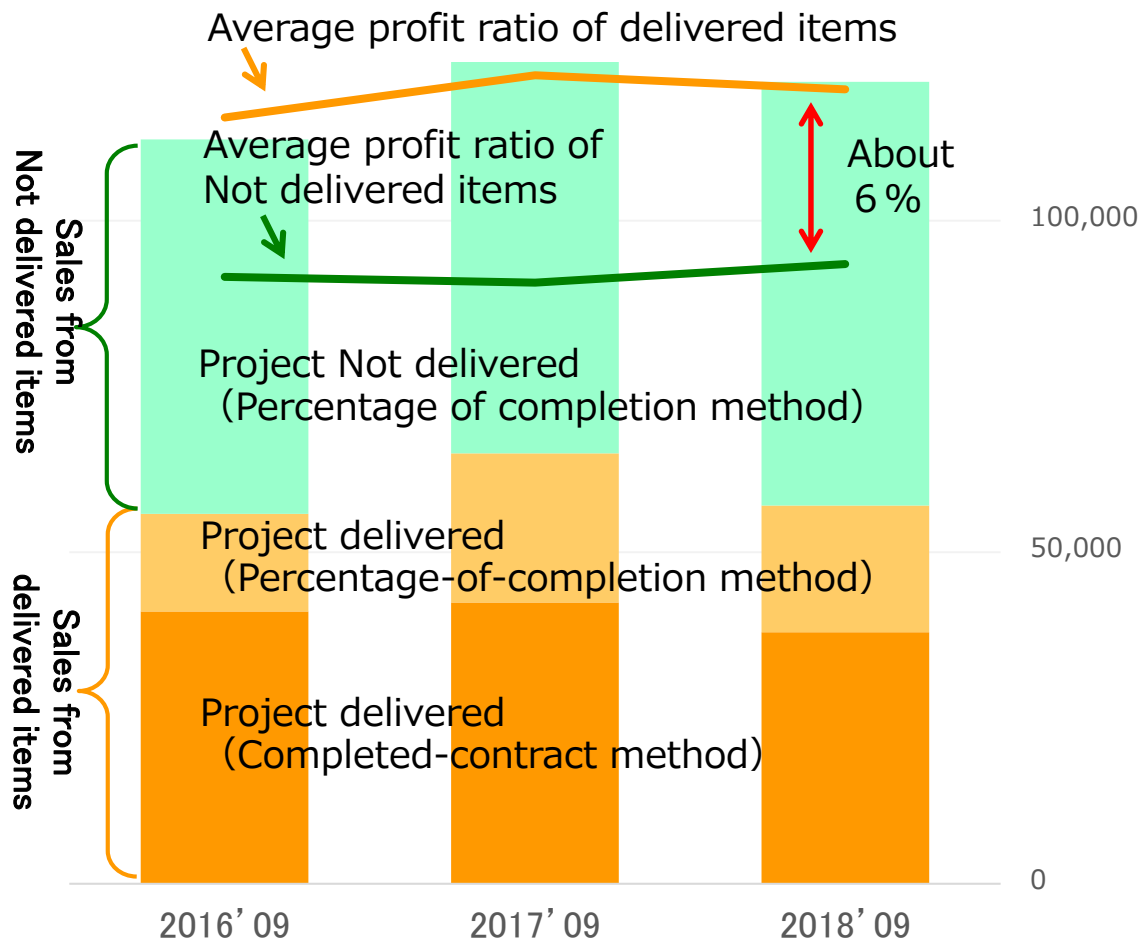
150,000

Difference of Project profit ratio between delivered items and Not delivered items is about 6%.

4.8billion yen  $\times$  6% = About 0.3billion yen F

(Composition of construction sales)

	2016' 09	2017' 09	2018' 09
Not delivered	50%	47%	53%
Delivered	50%	53%	47%

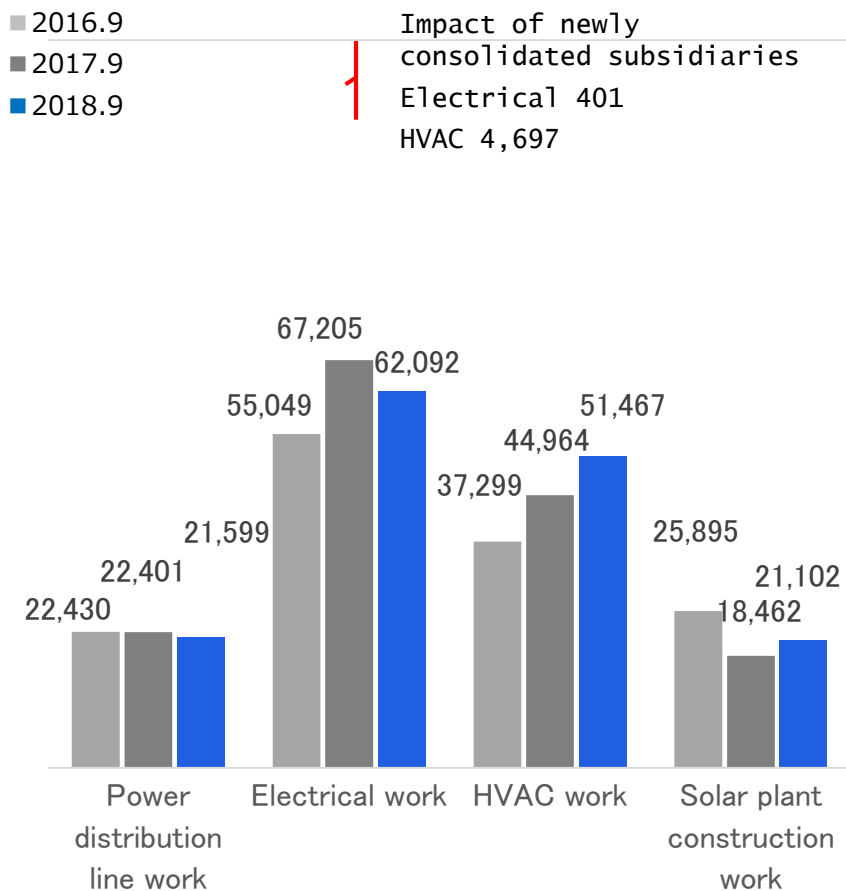




The decrease in parent company's sales of Electrical resulted in a decline as a whole.  
Sales of HVAC & Solar plant construction increased steadily.

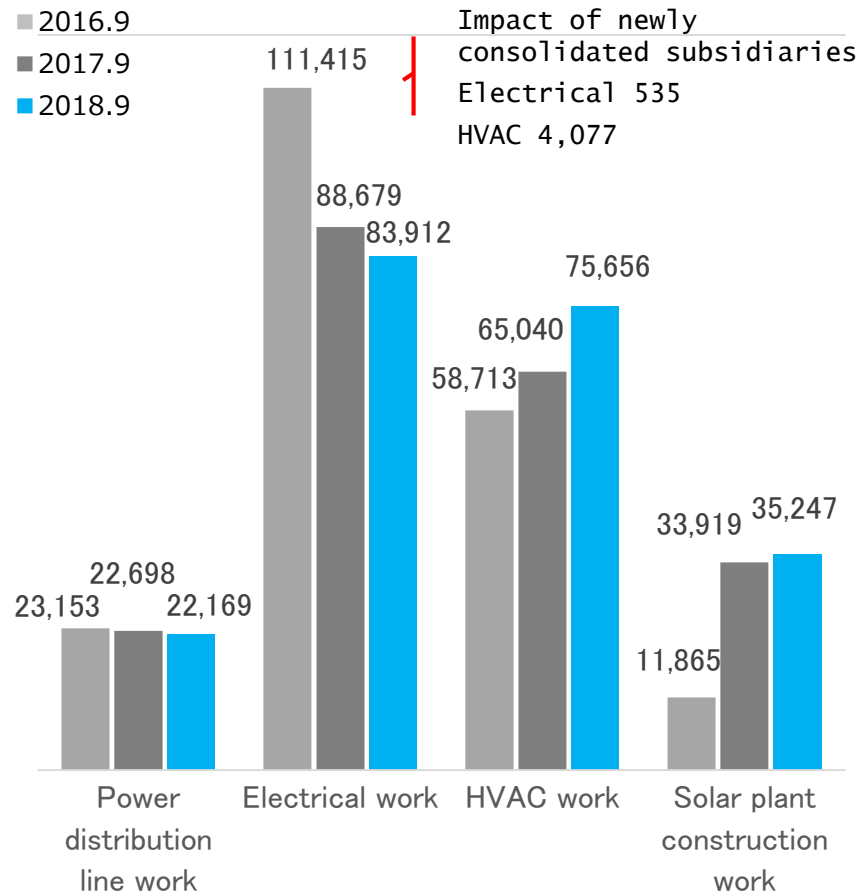
## Sales of each department

(Million Yen)

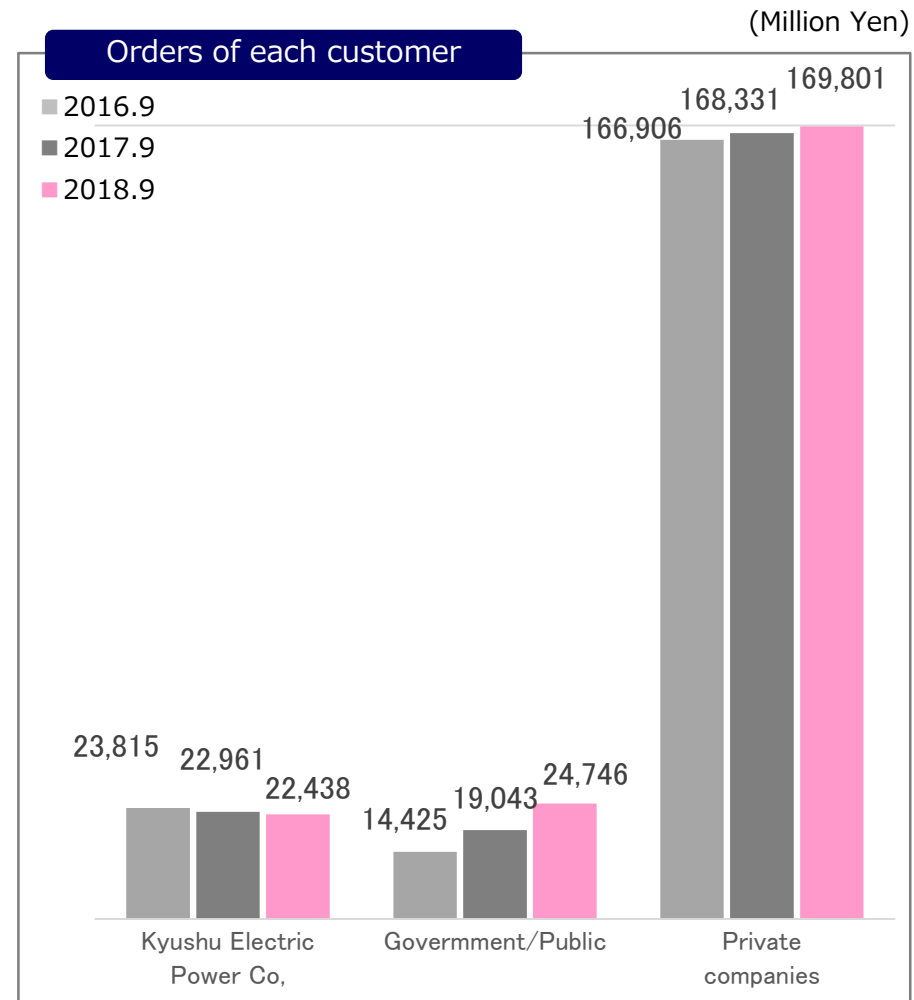
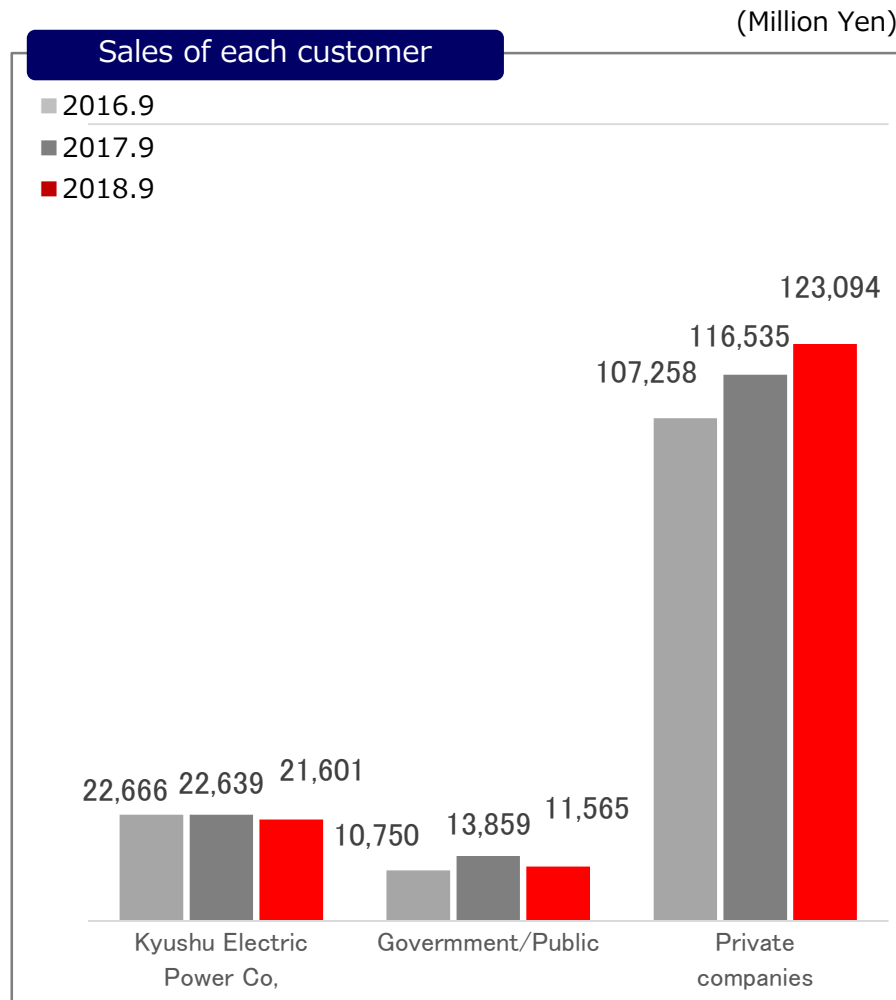


## Orders of each department

(Million Yen)



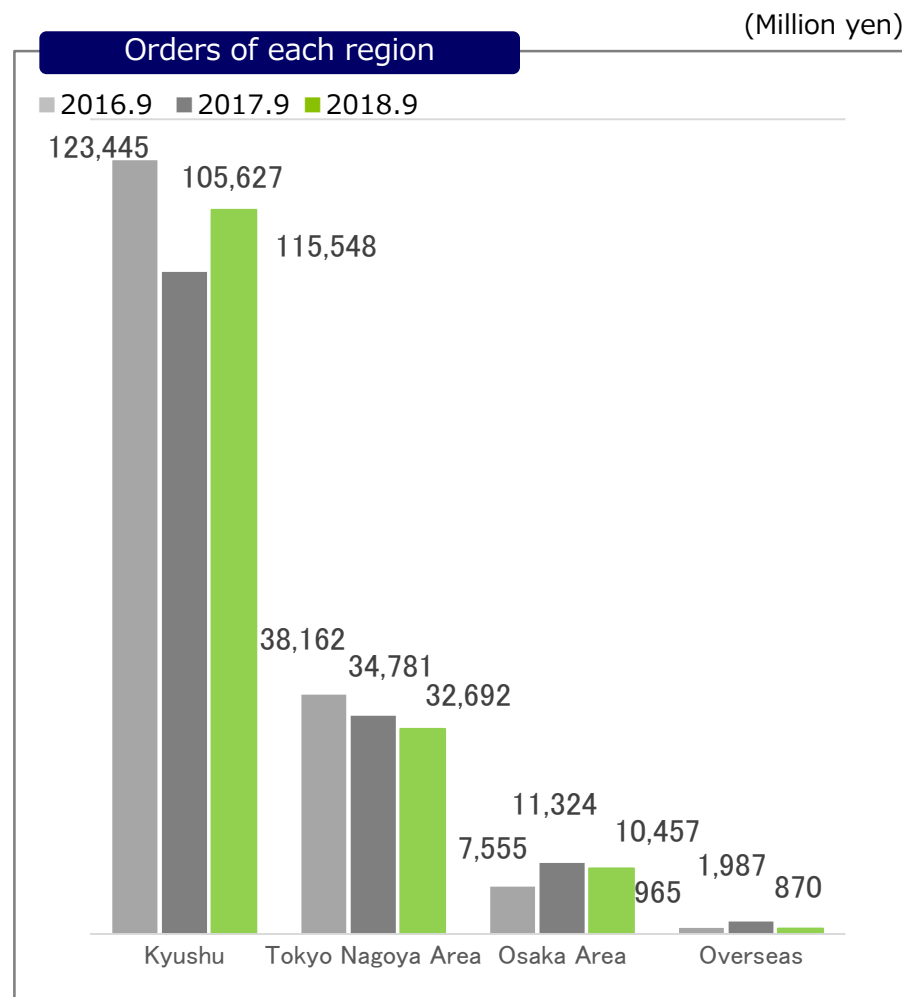
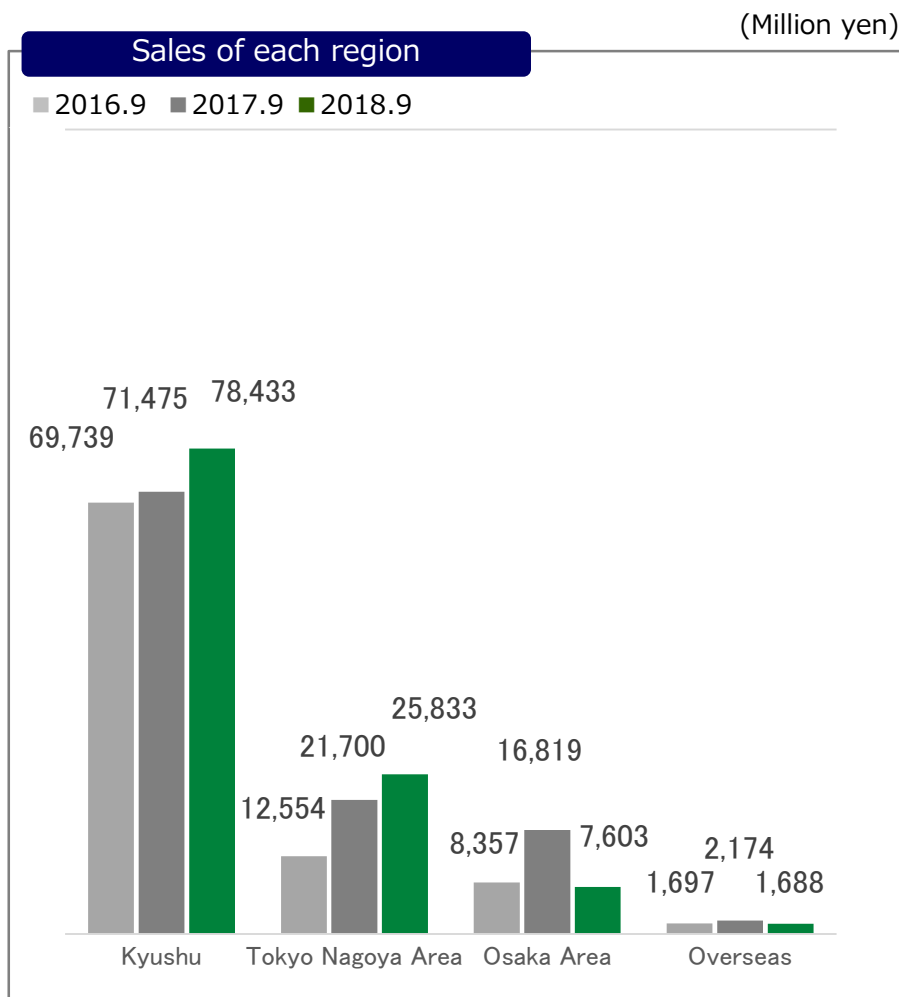
## Both Private and Public increased, and Keeping high level.



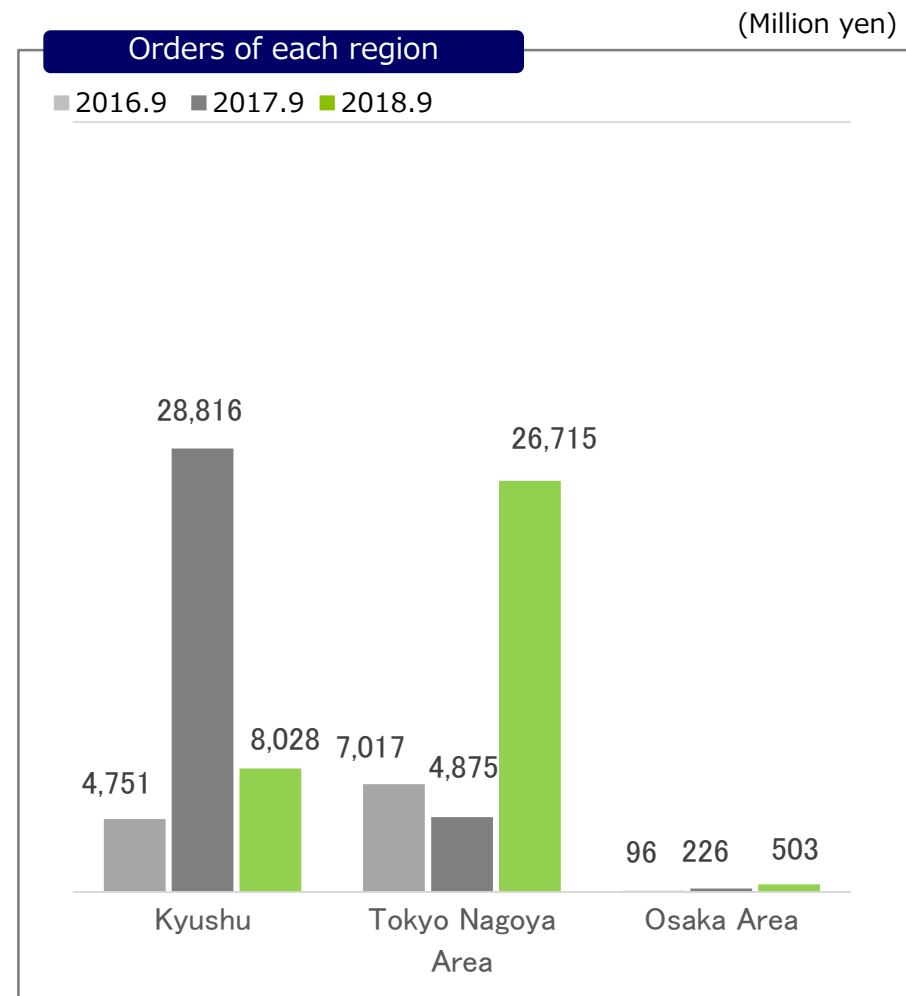
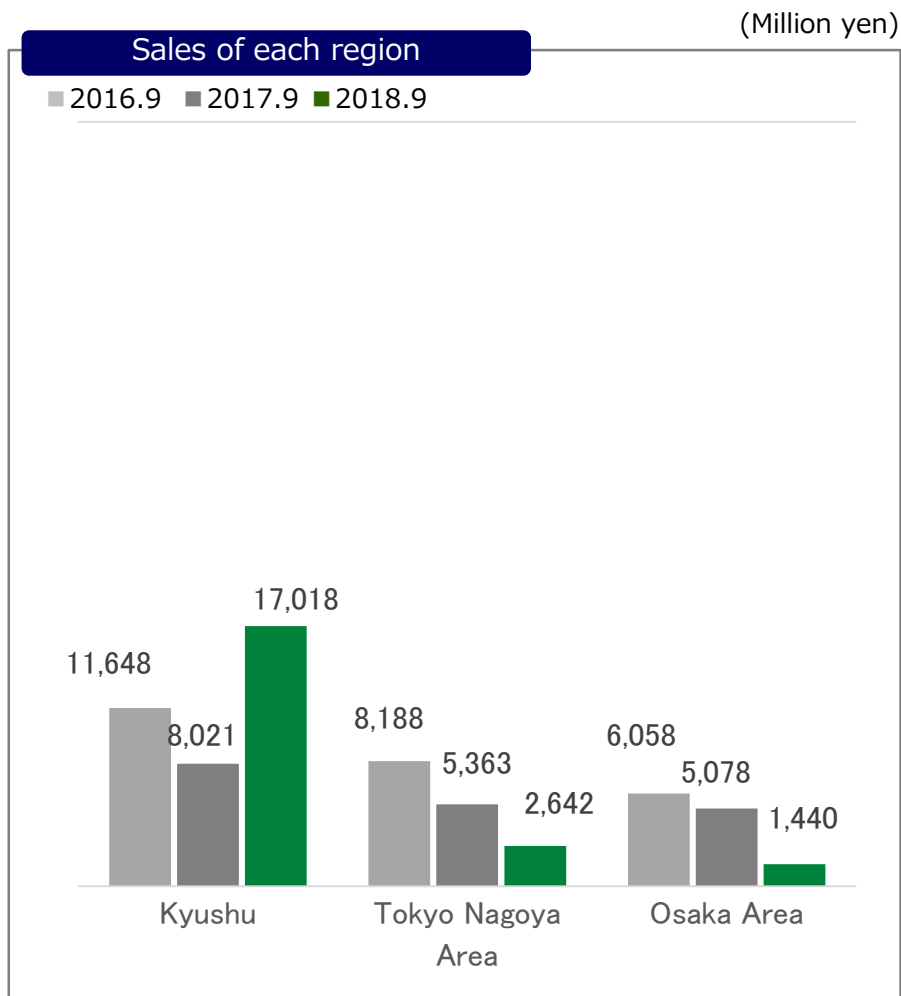
# Order received / Sales by region Sep. 2018

(Electrical & HVAC work excluding Solar plant construction work)

Orders in Kyushu region increased, especially HVAC. Steadily share up.



## Order from huge project in Nagoya Area.



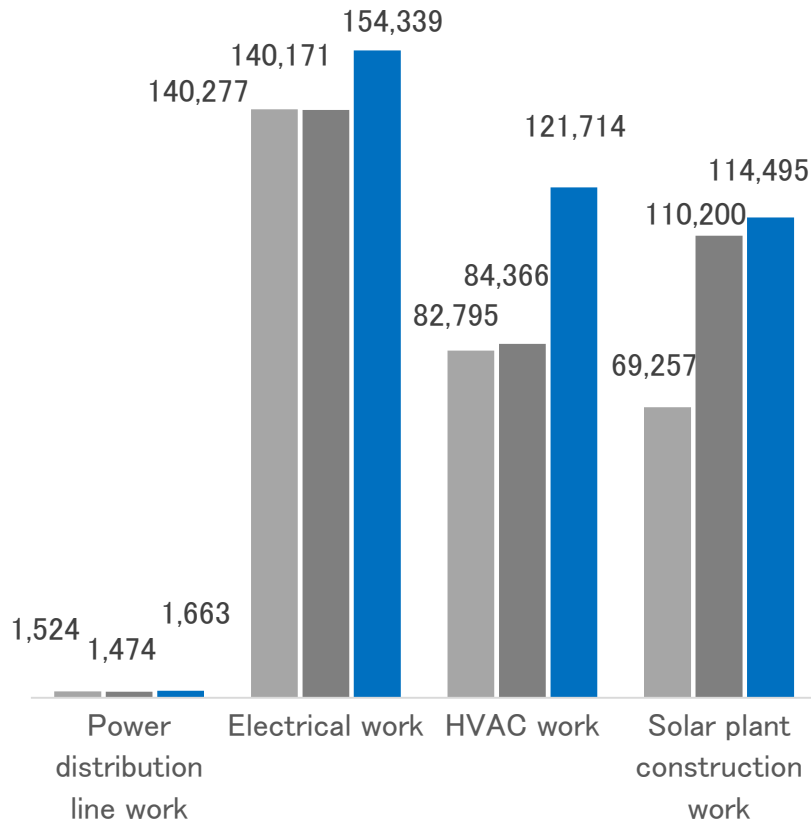
# Situation of works on hand Sep. 2018

**Order stock increase due to steady order.  
Solar construction, Tokyo area and Kyushu area.**

Order stock of each department

(Million yen)

■ 2016.9 ■ 2017.9 ■ 2018.9



New orders in FY ended Sep. 2018



# Actual results of works Sep. 2018





# Outline of balance sheet

(百万円、下段は構成比)

		End of Mar. 2018	End of Sep. 2018	Increase /decrease	Main factors behind increase/decrease
	Current assets	178,884 (55.1%)	154,465 (50.5%)	▲24,419	Trade notes and accounts receivable ▲24,488
	Fixed assets	146,034 (44.9%)	151,441 (49.5%)	5,407	Investment securities +6,851
	Total assets	324,919 (100.0%)	305,907 (100.0%)	▲19,012	
	Current liabilities	130,222 (40.1%)	102,082 (33.4%)	▲28,140	Trade notes and accounts payable ▲25,168
	Fixed liabilities	30,557 (9.4%)	34,278 (11.2%)	3,721	Long-term debt +5,605
	Total liabilities	160,780 (49.5%)	136,360 (44.6%)	▲24,419	
Total net assets		164,139 (50.5%)	169,546 (55.4%)	5,407	Retained earnings +4,472
Total liabilities and net assets		324,919 (100.0%)	305,907 (100.0%)	▲19,012	

# Outline of C/F

(Million Yen)

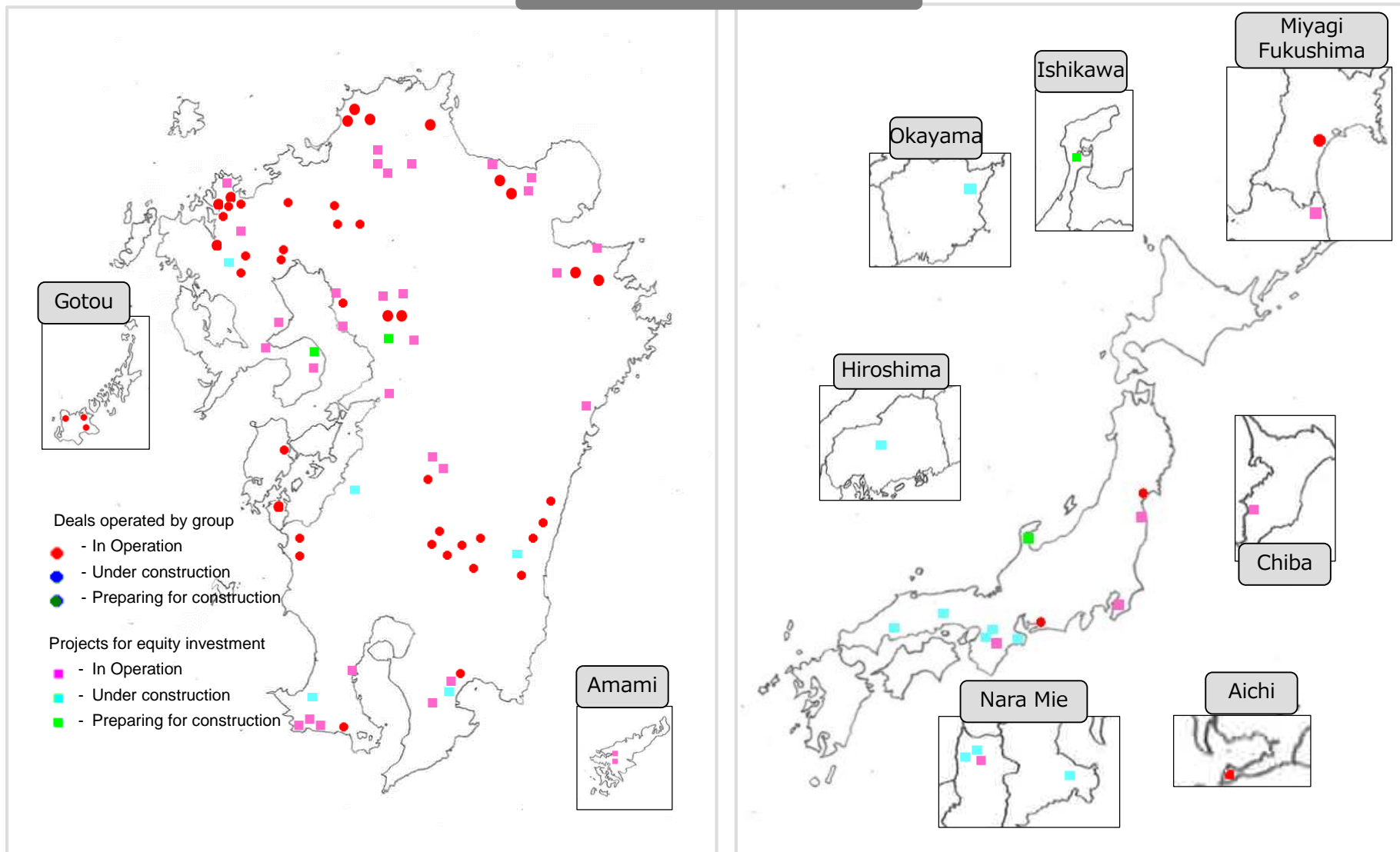
	Sep. 2017	Sep. 2018	Details of statement to Sep. 2018
Cash flow from operating activities	18,464	8,771	Income before income taxes and minority interests +11,977 Decrease in trade notes and accounts receivable +24,479 Decrease in trade notes and accounts payable ▲25,133
Cash flow from investment activities	▲717	▲7,812	Purchase of investment securities ▲6,629 Purchase of property, plant and equipment ▲1,106
Free cash flow	17,747	958	
Cash flow by financial activities	▲17,720	▲3,942	Cash dividends paid ▲3,552
Increase/decrease of cash and cash equivalents	105	▲3,035	
Cash and cash equivalents at the beginning of the period	30,027	34,505	
Cash and cash equivalents at the end of the period	30,133	31,469	



	FY2018 Mar.	FY2019 Sep.
Capital investment	4.2 billion yen	1.6 billion yen
Facility work	1.7 billion yen	1.1 billion yen
	Replacement of business offices of Kyudenko  EMS demonstration facilities in Sumba Island  Machinery and equipment, etc. for constructions  Lease contracts on specialized vehicles for construction	Replacement of corporate dormitories' facilities and reconstruction of business offices of Kyudenko   Machinery and equipment, etc. for constructions   Lease contracts on specialized vehicles for construction
Others	2.4 billion yen	0.5 billion yen
	Solar power plant facilities	Solar power plant facilities
Depreciation	5.5 billion yen	2.9 billion yen

# Investment in Power Operations (Solar Power Plants)

Mega solar power plant



# Investment in Power Operations (Solar Power Plants)

## 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	49	92MW	87MW
Under construction	1	1MW	1MW
Plan	-	-	-
Total	50	93MW	88MW

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	41	332MW	105MW
Under construction	8	311MW	86MW
Plan	2	51MW	20MW
Total	51	694MW	211MW

1.8 to 2.0 billion yen at its maximum

The suppression of solar power's output was first implemented by KEP on 13<sup>th</sup> and 14<sup>th</sup> Oct in Kyushu main land.

Details 9:00~16:00 13th Oct. 320MW (Suppression ratio 5.3%)

9:00~16:00 14th Oct. 540MW (Suppression ratio 9.8%)

Impacts 13<sup>th</sup> Oct. No instruction to stop power generation (No impact)

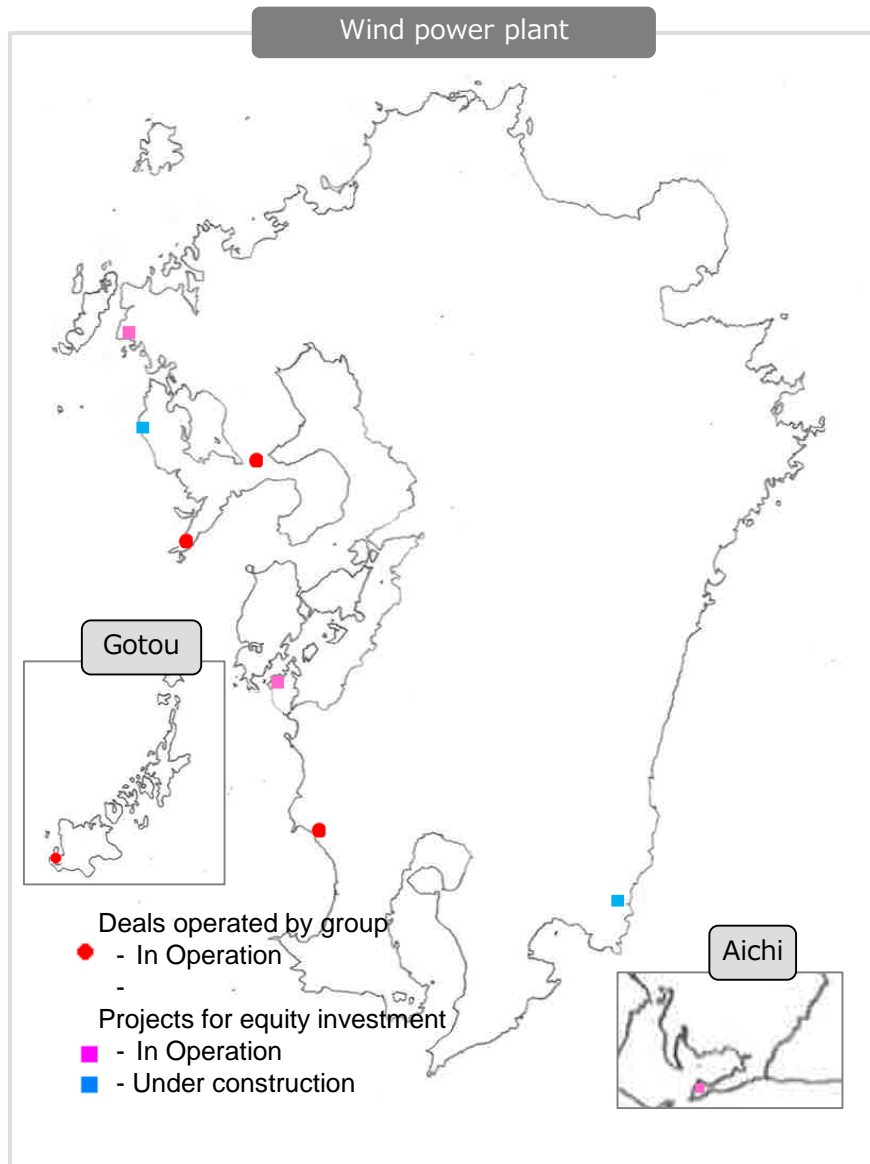
14<sup>th</sup> Oct. Instruction to stop 8 power station 24.5MW(Ownership percentage)  
out of 79 power station 134MW in a whole

Loss of profit might be 3 million yen.(assumption)

Projects in above table are old regulation (suppression is up to 30 days rule).

Business plans with 8% suppression instructions incorporated

# 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

# Plan for March 2019

(Million yen)

	March 2018 Result	Plan for March 2019			
		March 2019	Year-on-Year	2Q Result	Progress
Sales	360,872 (100.0%)	385,000 (100.0%)	106.7%	165,111 (100.0%)	42.9%
Gross profit	56,659 (15.7%)	63,000 (16.4%)	111.2%	23,033 (14.0%)	36.6%
Operating profit	34,726 (9.6%)	38,000 (9.9%)	109.4%	10,886 (6.6%)	28.6%
Ordinary profit	37,342 (10.3%)	41,000 (10.6%)	109.8%	12,428 (7.5%)	30.3%
Current (quarter) net profit	25,296 (7.0%)	28,000 (7.3%)	110.7%	8,013 (4.9%)	28.6%
Current net profit per stock	¥356.89	¥393.57		¥112.64	
Dividends	90円 Interim ¥40	¥100 Interim ¥50			

# Background of full year plan

(Million Yen)

		Mar.2018 Result	Mar.2019 Plan	備 考
Sales	Sales of construction work	346,403	375,000	Assume progress of abundant works on hand. (next page) 2 <sup>nd</sup> half plan 220 billion yen. 1 <sup>st</sup> half result 151 billion yen. (exclude newly subsidiaries' sales result 5 billion yen)
	Sales of other business	14,468	10,000	
	Sales	360,872	385,000	
Gross profit	Profits from each project	73,595 (21.3%)	80,000 (21.3%)	Aim to offset increase of fixed cost due to bonus up by margin up.
	Fixed cost (overhead cost)	19,856	20,000	1 <sup>st</sup> half result 10,343. (increase 712) (including 1 <sup>st</sup> half bonus up 682)
	profit of construction work	53,738	60,000	
	Profit of other business	2,921	3,000	
	Gross profit	56,659 (15.7%)	63,000 (16.4%)	
SG&A		21,932	25,000	1 <sup>st</sup> half result 12,147. Not assume big increase in 2 <sup>nd</sup> half. (increase 1,011) (newly subsidiaries 664, bonus up 128)
Operating profit		34,726 (9.6%)	38,000 (9.9%)	



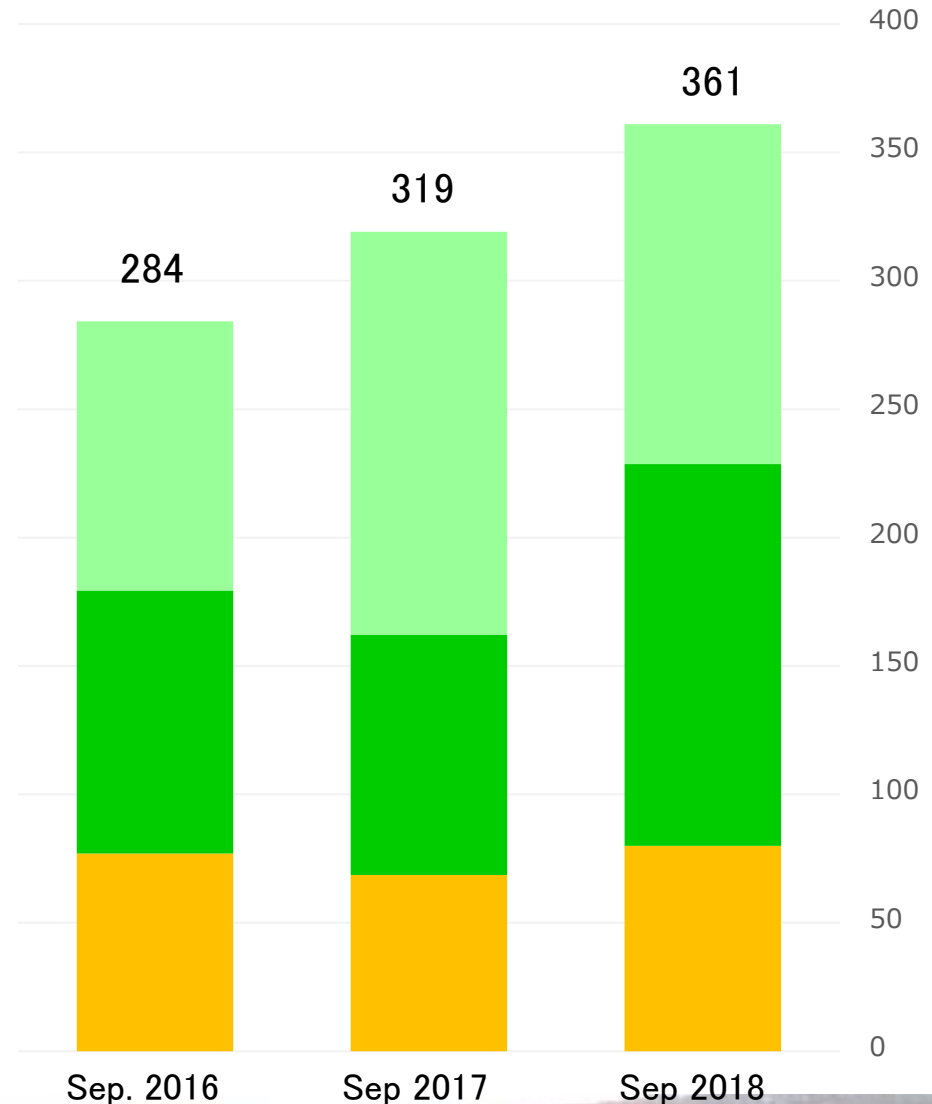
# Basis of sales plan

## Analysis of works on hand (Kyudenko individual)

(Amount of construction works on hand by delivery schedule timing) (Billion yen)

	Sep. 2016	Sep. 2017	Sep. 2018	Increase/ Decrease
Deliver on after next FY	105	157	132	$\triangle 25$
Deliver on next FY	102	93	149	$+ 55$ $\times 1.6$
Deliver on 2 <sup>nd</sup> half	77	69	80	$+ 11$ $\times 1.2$

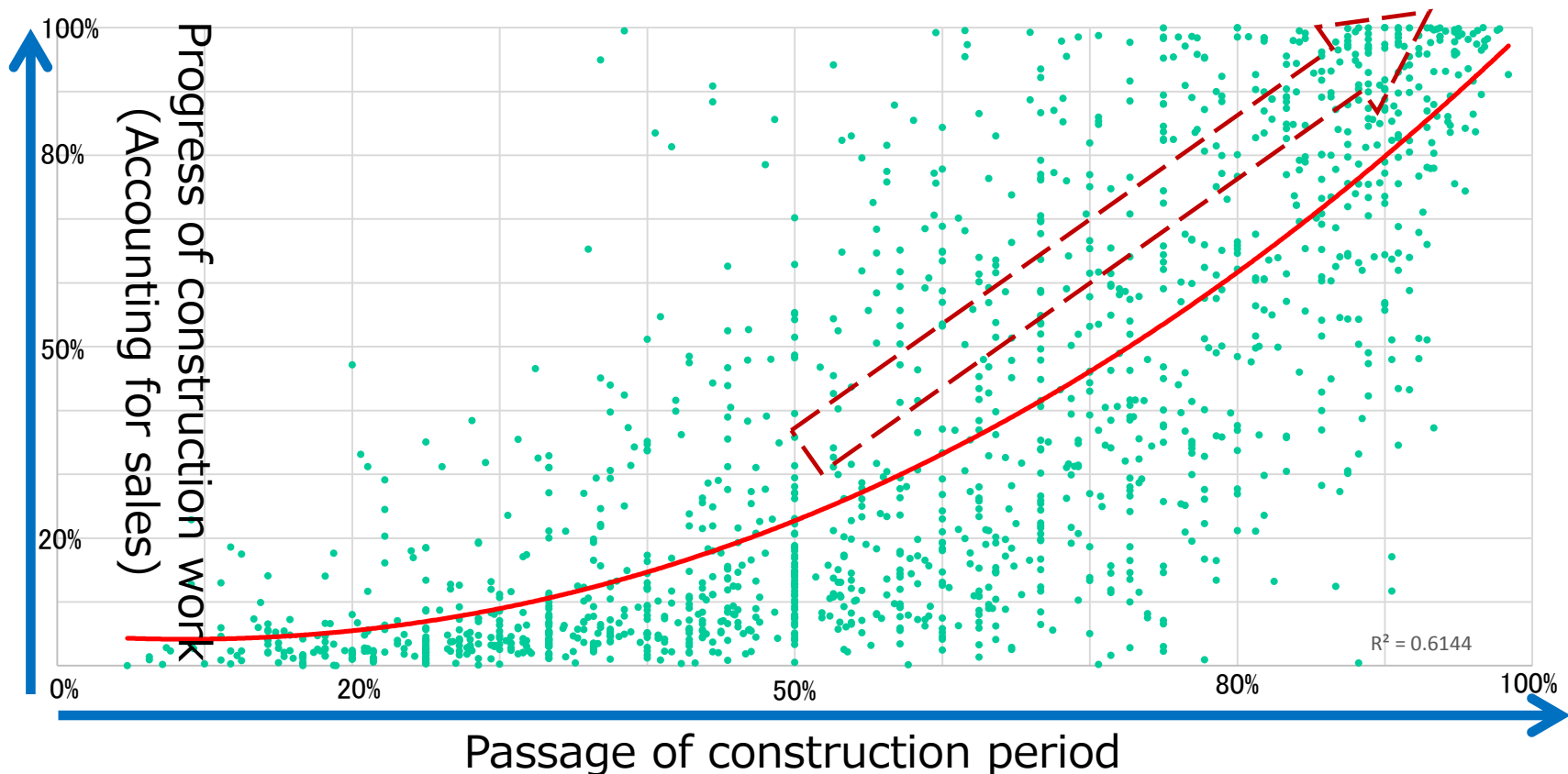
Works on hand (Billion yen)





**In percentage of completion method, construction work progress rapidly after half of the construction period has passed.**

( Standard progress curve of construction in percentage of completion method )



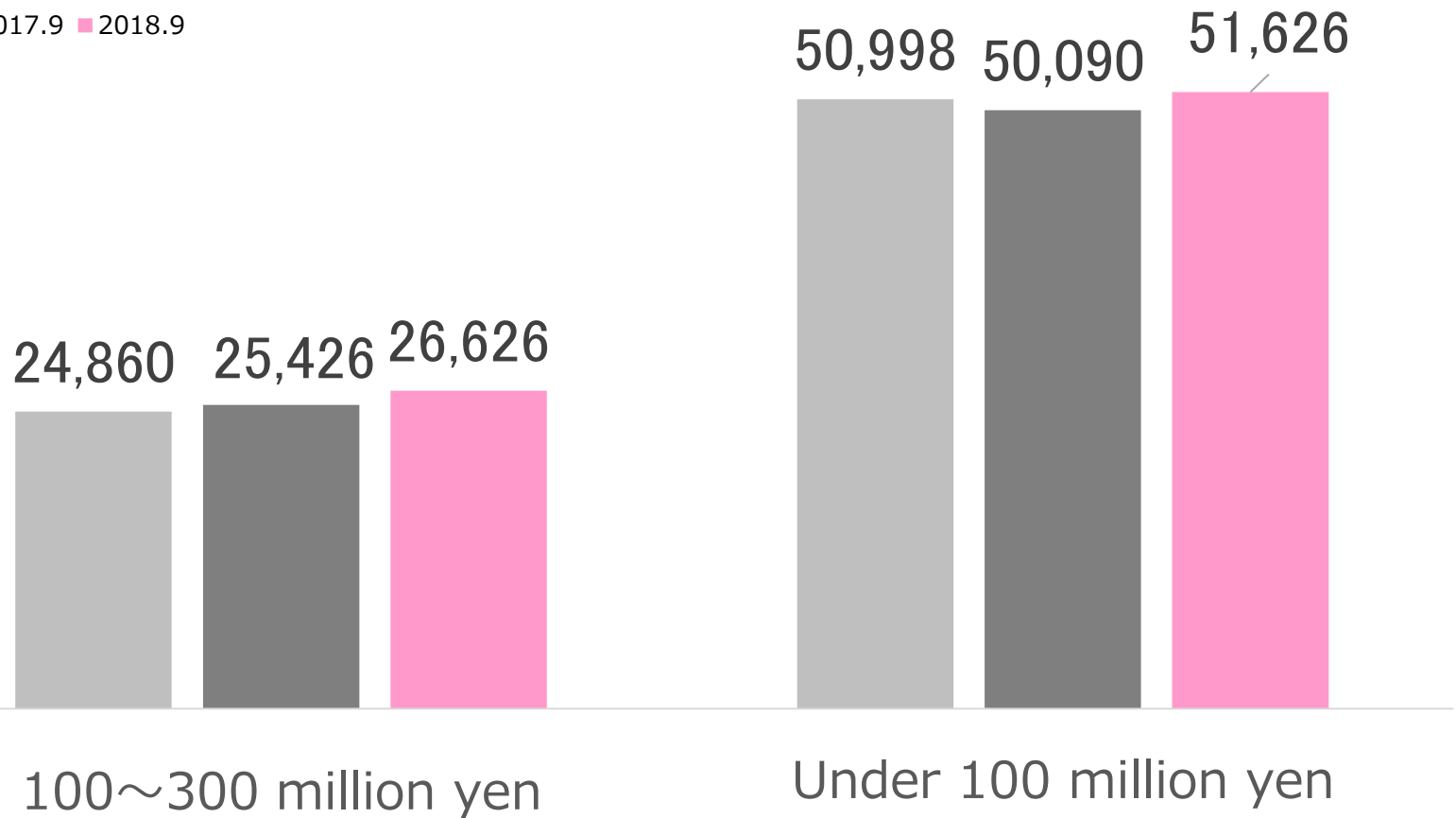
# Analysis by scale of order

(Kyudenko individual : excluding power distribution work)

Orders from small-scale projects less than 300 million yen for one project contract which are short construction period and relatively high profit margin.  
Orders from small size projects were steady in 1<sup>st</sup> half.

(Million yen)

■ 2016.9 ■ 2017.9 ■ 2018.9



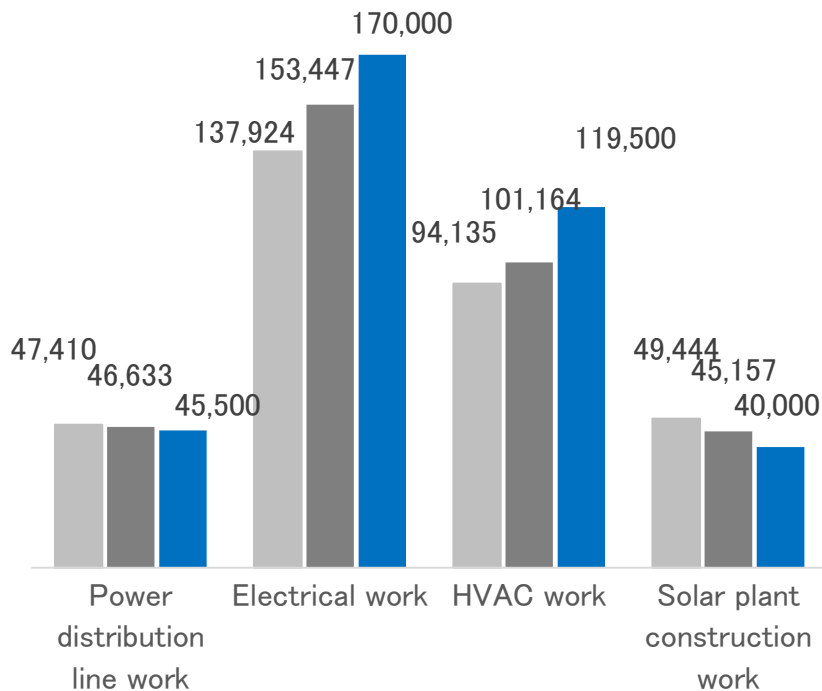
# Orders & Sales plan by department

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)

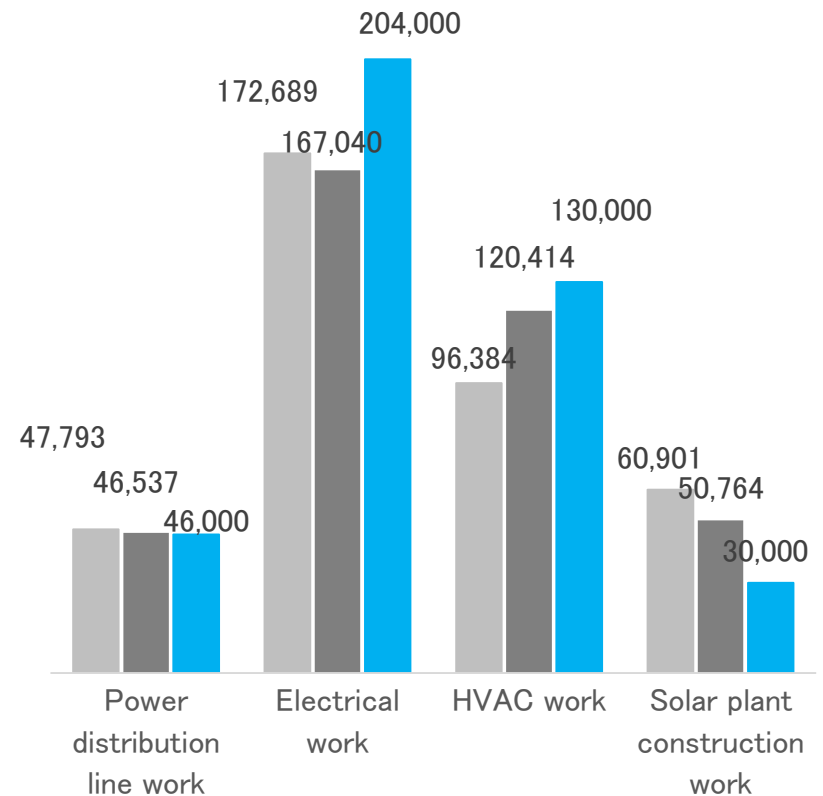
■ 2017.3 ■ 2018.3 ■ 2019.3 (plan)



Orders of each department

(Million yen)

■ 2017.3 ■ 2018.3 ■ 2019.3 (plan)



## Present condition

- In addition to the two Sendai nuclear power plants, two of the Genkai that had been delayed finally restarted.
- In the first half, orders decreased sharply. In the second half, expect for order volume increase and unit price revision.

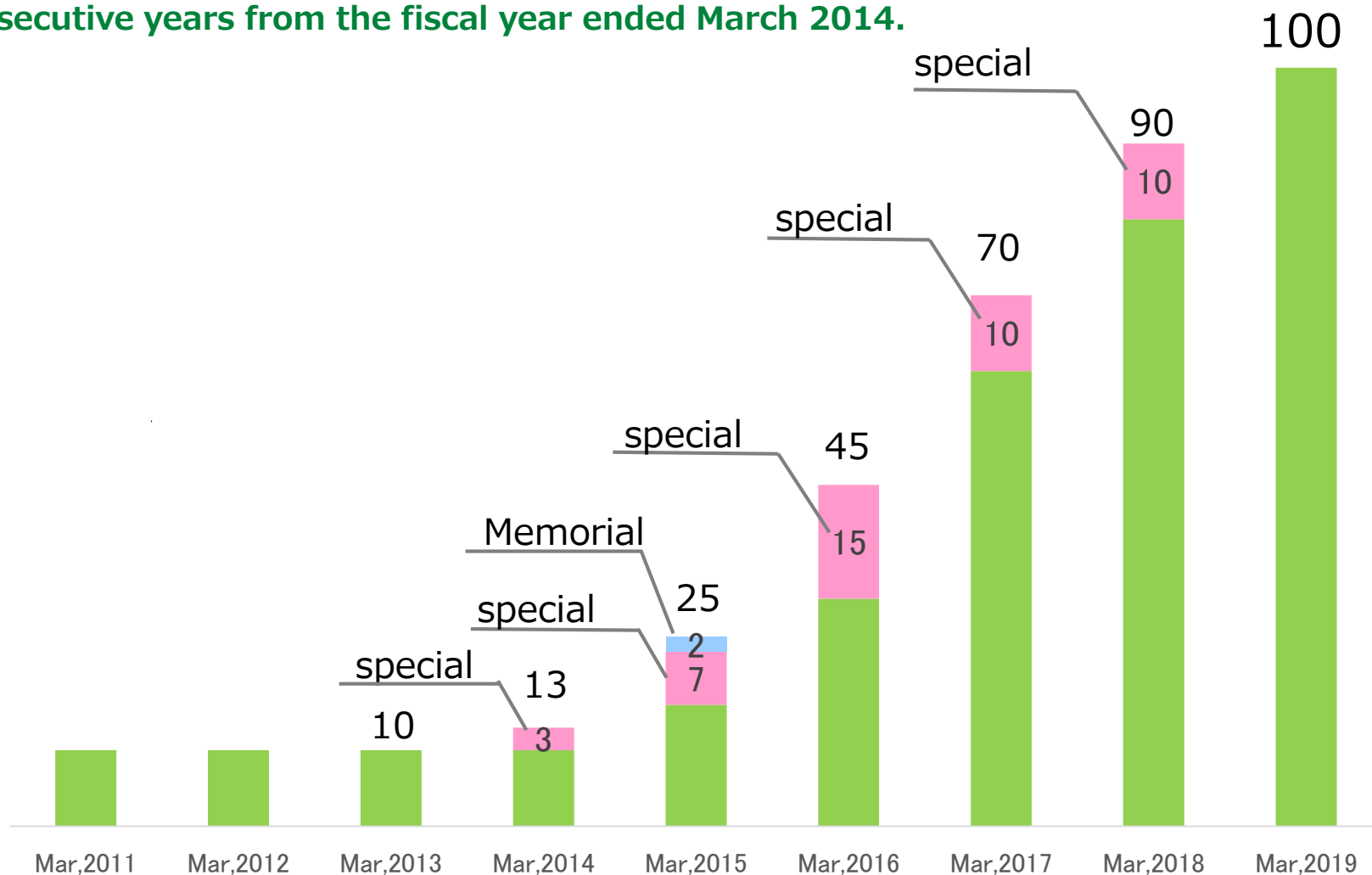


## Tasks and actions

- 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.

# Trend of dividends

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

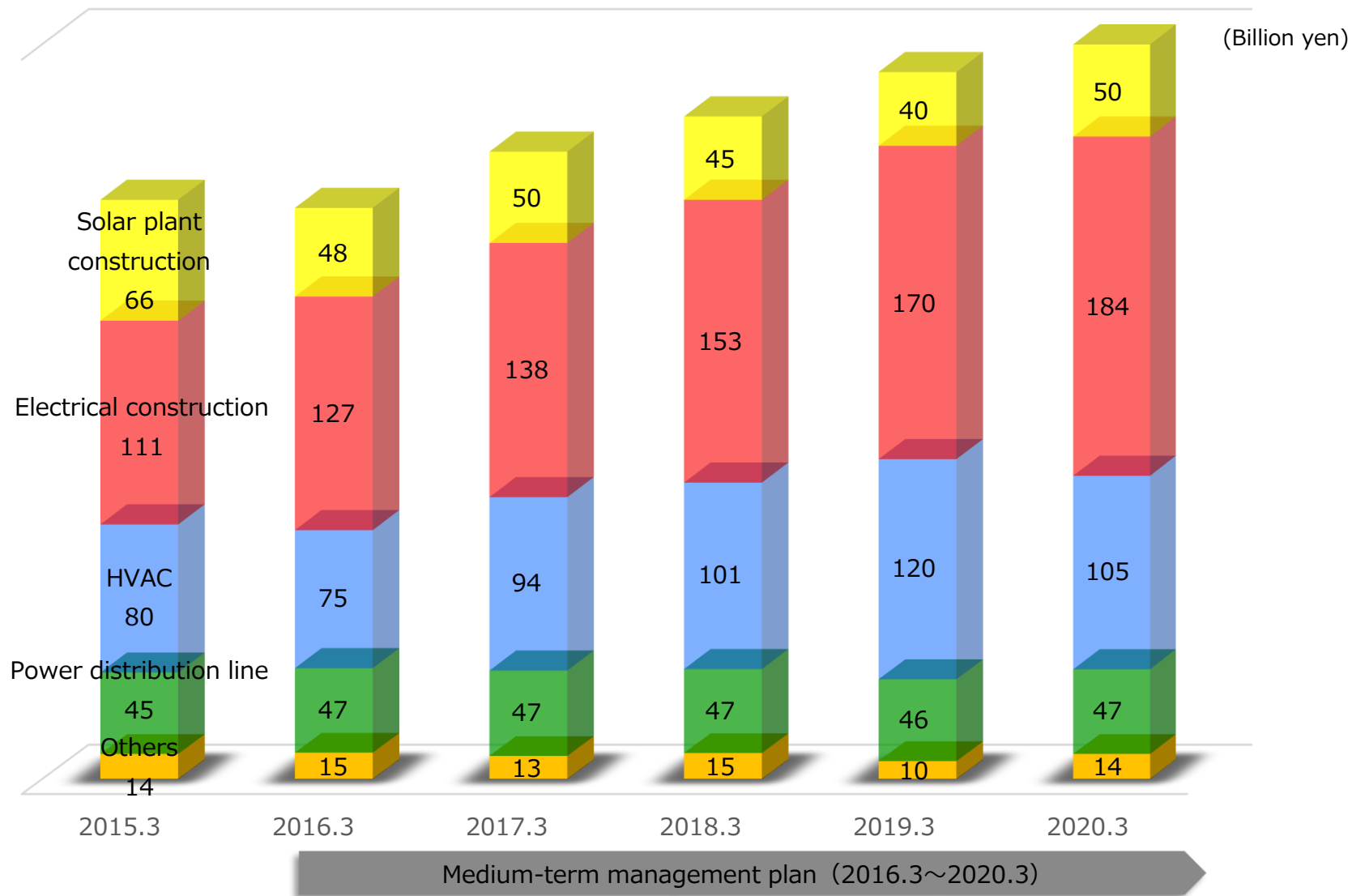
～To the next growth stage～

« Numerical target at March 31, 2020 »

(Results in March 2018)

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

# Road map of sales plan





# Breakdown of sales plan (March 2020)

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

# Strengthening of overseas management base in South-East Asia

Example of construction(Singapore)  
TUAS Power plant



Asia Projects Engineering Pte. Ltd. (Singapore)



Kyulien Environment Improving Co.,Ltd. (Taiwan)



•By March 2020,

Overseas sales ratio will be 5.0%

Overseas personnel will be 600 employees



## 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



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

## 《 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

Total 8,000 employees in technical field of total 9,800.

	(Kyudenko)		(Subsidiaries)		
Number of site technicians	About 2,000	+	About 2,100	=	About 4,100
Number of construction managers	About 2,900	+	About 1,000	=	About 3,900



# Details of diverse business models (facility work)

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Business model	Characteristics	Targets	Competitors	Strengths of Kyudenko
<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

Ⓑ

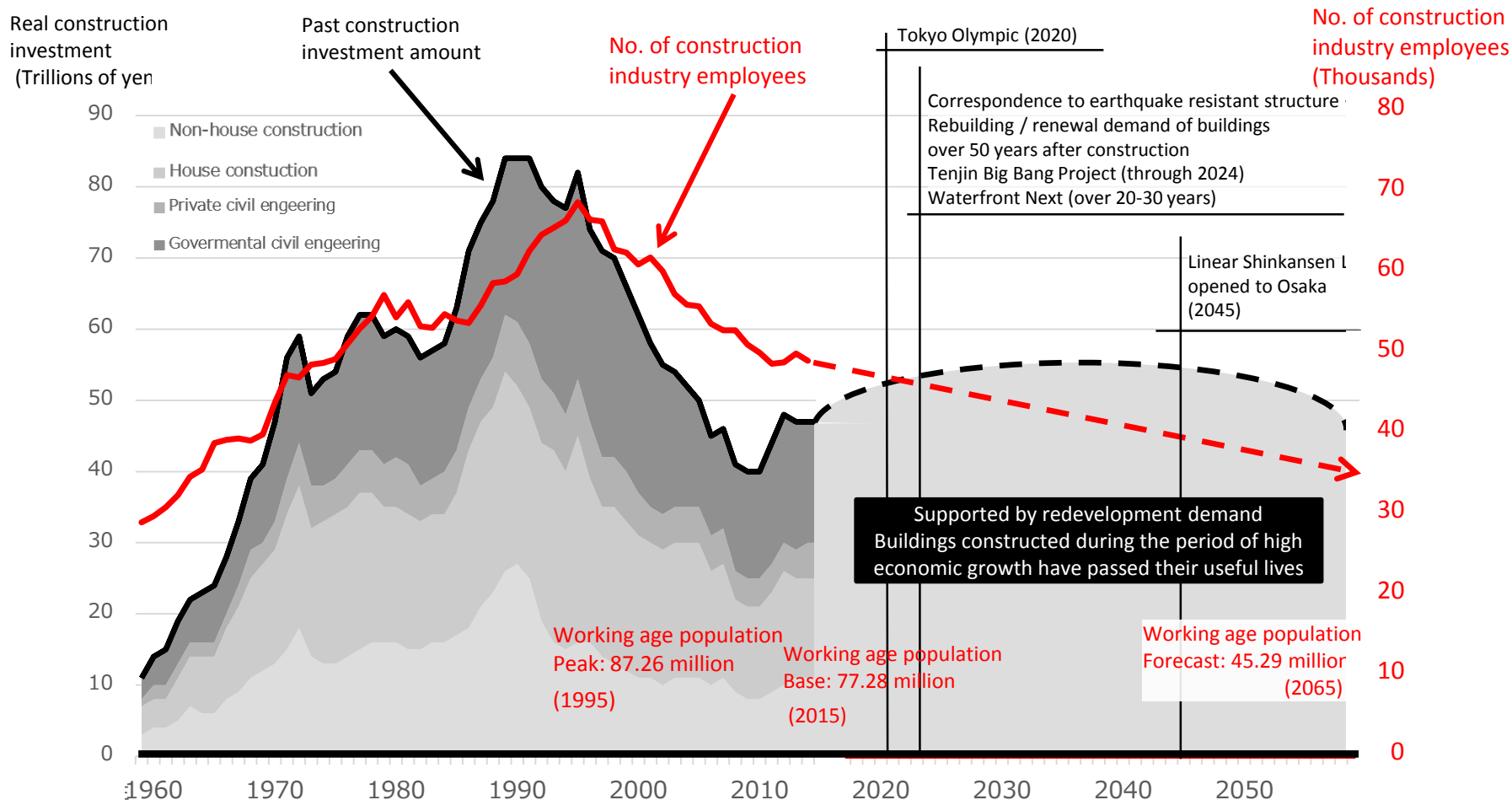
<b>Sub-contract type</b>  <b>Regionally expanding to Kansai, Tokai, Tohoku and Chugoku in addition to Tokyo Metropolitan Area</b>	<ul style="list-style-type: none"> <li>Subcontract from general contractors</li> <li>New construction ⇒ Maintenance</li> <li>Making suggestions for improvement during construction</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
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Ⓒ

<b>Capital participation type</b>  <b>Nationwide renewable energy development and energy service operations 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
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# 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.



# "Kyudenko EMS" can distribute renewable energy stably

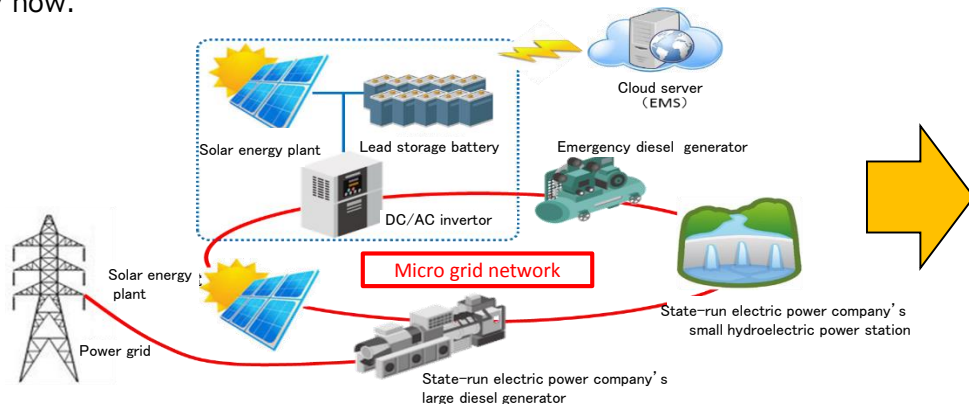
Energy management system



○ Movement of the spread of renewable energy accelerates globally, but there are many electricity instability areas including a remote island and the distant place in the developing country and exists.

The Kyudenko EMS is the system which can raise efficiency of the renewable energy generation to the maximum.

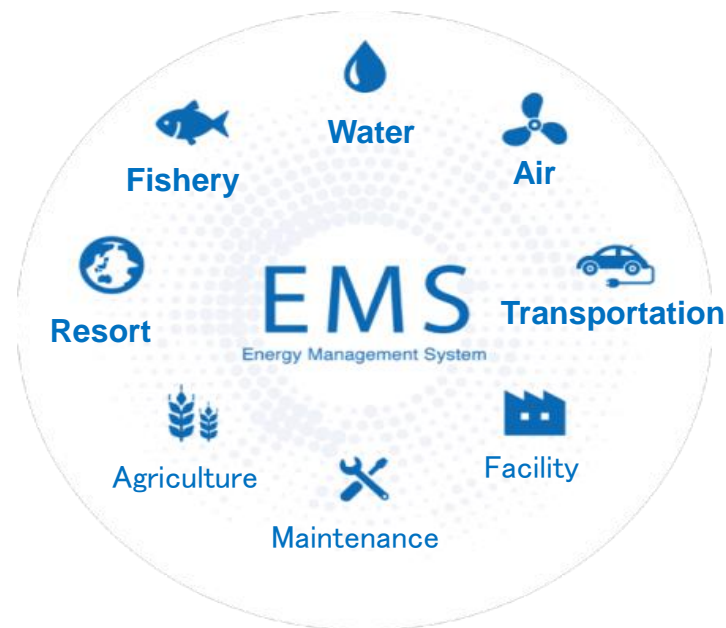
○ In 2016, the Kyudenko EMS was adopted as "low-carbon innovation creation business for developing countries" from Ministry of the Environment and installed ENS proof facilities in the Indonesian eastern part, SUMBA Island, population is approximately 650,000. It supplies electricity to a local micro grid stably now.



Constitution of the proof system of SUMBA island model

- The Kyudenko EMS can output in a stable wave pattern electricity, without leaving, over the intense electricity of the change derived from renewable energy. In addition, we succeeded in increasing battery life more than ten years by our charge-discharge control technology of the lead storage battery.
- The Kyudenko EMS can improve the ratio of the renewable energy generation drastically, in micro-grid depending on diesel generation.

By stable electricity distribution in Kyudenko EMS, We enlarge an opportunity to create local industry and contribute to carbon footprint reduction.



In March, 2018, Kyudenko EMS was adopted by "private technical spread promotion business" of the Japan International Cooperation Agency(JICA). We will aim at the spread of the Kyudenko EMS in future in Indonesia.

Company name	Kyudenko Corporation
Established	December 1, 1944
Capital	¥ 12,561 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)