

Obayashi Group

**Addendum to
Medium-Term Business Plan 2022**

**“Strengthening the Business Foundation and
Accelerating Company-wide Transformation”
(2022-2026)**



MAKE BEYOND
TRANSCENDING THE ART AND SCIENCE OF MAKING OF THINGS

In the Medium-Term Business Plan 2022 “Strengthening the Business Foundation and Accelerating Company-wide Transformation” announced in March 2022, we had set FY2022 and FY2023 as the period for implementing the measures for strengthening the foundation of construction business and ensuring stability of earnings with a consolidated operating income of 100.0 billion yen as the bottom line, while establishing a path to medium- to long-term growth with measures for accelerating transformation through FY2026.

However, in the situations that more-than-anticipated changes in the business environment such as soaring construction material prices, continued growth in construction demand to levels exceeding production capacity enhancement, and changes in monetary policies overseas, profitability has been underperforming the initial plan. Moreover, in terms of safety and quality, which are essential for the survival of our business, we have been unable to eradicate serious accidents. Given this current situation, we believe that it is necessary to **continue implementing thorough measures to strengthen the foundation of the construction business**.

On the other hand, we have adopted ROIC as a performance indicator target under the Medium-Term Business Plan 2022, implementing management that emphasizes capital efficiency. To further promote the management, we set a strategic capital policy that sets forth the necessary equity at around one trillion yen and sets forth an ROE performance indicator target of 10% or more by FY2026, as announced on March 4, 2024. In conjunction with this, we judged **a partial review of the performance indicator targets including cash allocation and investment plan under the Medium-Term Business Plan 2022 is necessary** considering current anticipated performance forecast, taking into account the fact that there is a certain level of success from efforts focusing on cost reduction through productivity improvement and utilization of new technology as well as its initiatives based on order strategies emphasizing profitability, and also given the increasing trend in society as a whole to appropriately pass costs onto prices.

In order to achieve sustainable growth of the Group, we aim to **establish a group-wide business structure in the future centered on domestic construction business and other businesses generate performance equal to or greater than that of the domestic construction business** and will execute the measures for accelerating transformation for platform development such as organizational and governance structure within the period of the Medium-Term Business Plan 2022.

For these reasons, we will announce the below addendum to the Medium-Term Business Plan 2022 “Strengthening the Business Foundation and Accelerating Company-wide Transformation.”

- Continue thorough measures to strengthen the foundations of the construction business
- Partial revision of the performance indicator targets
- Add measures for accelerating transformation for sustainable growth

1 Vision and Social Issues of the Obayashi Group

2 Basic Policy of the Medium-Term Business Plan 2022

3 Addendum to the Medium-Term Business Plan 2022

- (1) Continuation of thorough measures to strengthen the foundations of the construction business
- (2) Partial revision of performance indicator targets
- (3) Additional measures for accelerating transformation for sustainable growth

1 Vision and Social Issues of the Obayashi Group

(Repost)

Obayashi Group Medium-Term Business Plan 2022

“Strengthening the Business Foundation and Accelerating Company-wide Transformation”

Obayashi Philosophy	Contribute to realizing a sustainable society
Obayashi Code of Conduct	“Fulfill our social mission” “Ensure strict adherence to corporate ethics”
Obayashi Three Pledges	“Quality, Value, and Efficiency”

Basic
Principles

Social Vision	Realization of sustainability of "the Planet, Society, and People"
Obayashi Group's Three Targets	“Decarbonization,” “Provide valuable spaces and services” “Co-creation of sustainable supply chain”

Obayashi
Sustainability
Vision 2050

- Uncertain, complex era in which existing values are changing significantly
- Globally growing concern, such as carbon neutrality and well-being

In the light of these social changes, the Obayashi Group's vision for 2050 is defined as follows:

“ The Obayashi Group will continue to take on the challenge of ceaseless transformation driven by talent and innovation to keep providing a variety of solutions for the sustainability of places where we reside: spaces, cities, and the environment. ”

Obayashi Group in 2050

Our brand vision, “MAKE BEYOND Transcending the art and science of making of things,” supports the achievement of our basic principles and vision.

Obayashi Sustainability Vision 2050 : <https://www.obayashi.co.jp/en/sustainability/vision.html>
brand vision “MAKE BEYOND” : https://www.obayashi.co.jp/en/company/corporate_message.html

“ Strengthening the Business Foundation and Accelerating Company-wide Transformation ”

<Three Pillars of Fundamental Strategy>

(1) Strengthen and Expand the foundation of the Construction Business

Reaffirm not only within the Group, but across all the people involved in the construction business including the supply chain, that safety and quality are top management priorities

Enhance productivity and the ability to provide added value for customers by “re-engineering business processes of the domestic construction business,” “expanding the construction value chain” and “Implementing innovative construction production systems”

(2) Innovate Technologies and Businesses

Capture growth opportunities generated from social demand for carbon neutrality and well-being by creating new value with in-depth integration of innovative technology and our business model.

(3) Expand Business Portfolio for Sustainable Growth

Continuously acquire new profit opportunities through open innovation and active investments, leveraging strengths in technologies and networks cultivated in a variety of global business fields centered on construction

<Platform Development Strategy>

(1) HR

(2) Organization

(3) DX

(4) Technologies

(5) Supply chain

(6) Finance and Capital

(7) Sustainability Management System

<Business Strategy>

Diversified global business portfolio centered on domestic construction



Seeds to create new business opportunities

Obayashi Group Medium-Term Business Plan 2022

FY 2022

FY 2023

FY 2024

FY 2025

FY 2026

Measures for Strengthening the Foundation of Construction Business

Measures for Accelerating Transformation

Strengthen the Foundation

To secure safety and quality, thoroughly implement measures to strengthen foundation of the business and continue other necessary measures by keeping in mind that the business environment changes constantly

Fundamental Strategy (i)

Strengthen and Expand the Foundation of the Construction Business

- Strategize work portfolio focusing on securing stable earnings and passing on technology
- Suppress material price fluctuation risk, including the revision of terms and conditions of the contract with the client
- BPR (business process re-engineering)
- Retain and develop human resources and maintain, strengthen, and expand supply chain
- Respond to the application of overtime cap regulation under the revised Labor Standards Act of Japan

Fundamental Strategy (ii)

Innovate Technologies and Businesses

- Early transition in the implementation phase of new technologies that contribute to production capacity enhancement
- Develop innovative construction production systems

Fundamental Strategy (iii)

Expand Business Portfolio for Sustainable Growth

- Adopt ROIC and ROE as key performance indicators to make management decisions with a focus on capital efficiency

Accelerate Transformation

Establish a path to medium- to long-term growth through Company-wide transformation and achieve a stable consolidated operating income of 100 billion yen or more

Fundamental Strategy (i)

Strengthen and Expand the Foundation of the Construction Business

- Value-added proposals and development of differentiated technologies to meet social needs
- Strengthen the construction value chain and expand construction service domains
- Improve productivity through implementing innovative construction production systems

Fundamental Strategy (ii)

Innovate Technologies and Businesses

- Generate new value for customers in new business domains
- Develop business models and technologies that will lead to resolving social issues, such as carbon neutrality and well-being
- Promote Circular Timber Construction

Fundamental Strategy (iii)

Expand Business Portfolio for Sustainable Growth

- Establish solid and resilient sources of growth and reorganize the five business domains enhanced by continuous investment

Business Strategy: Domestic Construction Business

Implement measures prioritizing to secure safety and quality

- Strengthened commitment to safety goals (adopted Total Recordable Incident Rate "TRIR" as a quantitative KPI in addition to sales and profit)
- Appointment of external personnel to the Safety Division as "Safety Inspector (a newly established position). Guidance to head office and branch managers regarding safety management that does not conform to conventional practices.
- Supervisors from the building construction and civil engineering divisions provide advice to construction offices on quality, process, budget and cost management, as well as safety (passing on technologies).
- Established organization guideline for large-scale projects to further facilitate instructions, orders, reporting, and consultation within the organization.
- Clarify the roles and responsibilities of the company and suppliers and subcontractors with regard to safety and quality management and strengthen the supply chain by fundamentally reviewing the construction plan and construction process while cooperating and sharing knowledge with each other.

Maximize value to be delivered, collaborating with supply chains

- Increase the construction capacity through next-generation production technologies, the use of production processes and digital technologies, and the transformation of business operations including BPR
- Strategize work portfolio by focusing on securing stable earnings and passing on technology, in line with construction capacity
- Secure and develop the human resources needed to strengthen the foundation of the construction business in response to the decline in the number of engineers and workers
- Develop a procurement platform for maintaining, strengthening and expanding supply chains
- Work with suppliers/subcontractors to develop successors and secure skilled workers, strengthening and revitalizing Obayashi Rin-yu-kai

Building construction

- Secure stable earnings by solidifying risk management process and by improving cost competitiveness, gathering the effort of all the construction business process including business development, design, procurement, and production
- Further promote initiatives in growing sectors including data centers, semiconductor plants, pharmaceutical plants, wooden structure, and environmentally responsible building construction such as ZEB (Zero Energy Building)

Civil engineering

- Secure steady awards and profits by flexibly responding to changes in customer needs, such as Early Contractor Involvement and Design Build, as well as social and environmental changes
- Capitalize know-how as a pioneer in infrastructure renewals such as major expressway upgrades, and maintain/strengthen competitive advantage

Building/Civil Common

- Develop a roadmap to promote substantial reductions in CO2 emissions and implement investment
- Utilize networks to solve social issues such as carbon neutrality

Total Recordable Incident Rate (TRIR) : A measure of safety related to workplace accidents by the U.S. Occupational Safety and Health Administration, showing the frequency of workplace accidents per 200,000 hours.

Performance Indicator Targets

- Recover profitability and achieve 100 billion yen in consolidated operating income, expecting the consolidated operating income by the end of FY2024 to be below 100 billion yen due to the substantial impact of unprofitable construction projects caused by soaring construction material prices and other factors.
- Aim to achieve ROE of 10% by FY2026 through strategic capital policy by setting the necessary equity at around 1 trillion yen after considering the capital structure that further emphasizes capital efficiency.
- New targets for equity, ROE, and DOE as performance indicators are disclosed on March 4, 2024. New targets are also set for consolidated net sales, profit attributable to owners of parent, and EPS.

	FY 2022 Results	FY 2023 Results	FY 2024 Forecasts	Original Targets	Targets after the change
Consolidated net sales	1,983.8 billion yen	2,325.1 billion yen	2,510.0 billion yen	Around 2 trillion yen	Mid 2 trillion yen
Consolidated operating income	93.8 billion yen	79.3 billion yen	93.0 billion yen	100.0 billion yen or more	100.0 billion yen or more
Profit attributable to owners of parent	77.6 billion yen	75.0 billion yen	87.0 billion yen	-	Around 100.0 billion yen
Profit attributable to owners of parent per share (EPS)	108.34 yen	104.69 yen	121.34 yen	100 yen or more	Around 140 yen
Invested capital at the end of period	1,373.8 billion yen	1,518.6 billion yen	1,590.0 billion yen	-	-
Equity at the end of period	997.1 billion yen	1,151.6 billion yen	1,147.0 billion yen	Equity ratio of around 40%	1 trillion yen level
Interest-bearing debt at the end of period	337.9 billion yen	323.8 billion yen	400.0 billion yen	-	-
Return on Invested capital (ROIC)	4.9%	3.8%	4.2%	5% or more in the medium term	5% or more in the medium term
Return on equity (ROE)	8.0%	7.0%	7.6%	Reference) 8% or more in the medium term	10% or more by FY2026
Dividend on equity ratio (DOE)	3.1%	5.0%	5.0%	Around 3%	Around 5%

Investment Plan

	Original Plan		Plan after the change
	2022-2026	2022-2023 Actual	
■ Intangible asset investment for platform development			
Human resource-related investments	25.0 billion yen	10.6 billion yen	30.0 billion yen
DX-related investments	70.0 billion yen	31.9 billion yen	90.0 billion yen
Technology-related investments	80.0 billion yen	33.2 billion yen	100.0 billion yen
■ Continuous tangible asset investment with a focus on strengthening the foundation of the construction business			
Construction machinery and business facilities	50.0 billion yen	33.5 billion yen	75.0 billion yen
■ Growth investment toward expanding business portfolio			
Real estate development business	300.0 billion yen	175.9 billion yen	300.0 billion yen
Green energy business	50.0 billion yen	6.0 billion yen	60.0 billion yen
M&A, capital tie-ups, VC, etc. (including open innovation investments)	25.0 billion yen	44.8 billion yen	95.0 billion yen
Total investment amount for five years	600.0 billion yen	336.0 billion yen	750.0 billion yen

* Potential investments for growth such as large-scale M&A projects are not included in the plan above

Investment Plan

* Amount is increased

After the change

Breakdown of the investment plan from an ESG perspective

E: Environmental	S: Human capital	S: Productivity, Safety & Quality	S: New businesses	Other business investment
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■ Intangible asset investment for platform development

Human resource-related investments	30.0 billion yen	30.0 billion yen			
DX-related investments	90.0 billion yen		90.0 billion yen		
Technology-related investments	100.0 billion yen	20.0 billion yen	70.0 billion yen	10.0 billion yen	

■ Continuous tangible asset investment with a focus on strengthening the foundation of the construction business

Construction machinery and business facilities	75.0 billion yen	5.0 billion yen	70.0 billion yen		
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■ Growth investment toward expanding business portfolio

Real estate development business	300.0 billion yen	100.0 billion yen			200.0 billion yen
Green energy business	60.0 billion yen	60.0 billion yen			
M&A, capital tie-ups, VC, etc. (including open innovation investments)	95.0 billion yen			95.0 billion yen	

Total investment amount for five years

750.0 billion yen	180.0 billion yen	35.0 billion yen	230.0 billion yen	105.0 billion yen	200.0 billion yen
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Investment Plan

Original plan

Plan after the change

■ Investment in growth to expand business portfolio

Real Estate Development Business

300.0 billion yen

300.0 billion yen

- Diversify asset types and secure steady income gains by investing in growing sectors including environmentally responsible buildings such as ZEB (Zero Energy Building) and value-added logistics facilities
- Flexibly secure capital gains by utilizing private funds under management
- Acquire competitive assets such as in Thailand and the U.K. by utilizing networks in the global market
- Utilize finance leverage to improve capital efficiency

Green Energy Business

50.0 billion yen

60.0 billion yen

- Increase power generation capacity and diversify energy source to lower total risk
(i) initiate renewable energy related business in Asia and Oceania (expansion of renewable energy business through acquisition of shares in Eastland Generation), (ii) promote efforts for non-FIT power supply, etc.
- Strengthen efforts for progress in hydrogen-related technologies and commercialization
(i) Promote decarbonization by using hydrogen in the Construction Business (construction machinery using hydrogen mixed combustion engines, etc.), (ii) promote businesses in the light of experience in hydrogen pilot projects both in Japan and abroad, etc. (construction of a hydrogen value chain in New Zealand)

M&A, capital tie-ups, VC, etc. (including open innovation investments)

25.0 billion yen

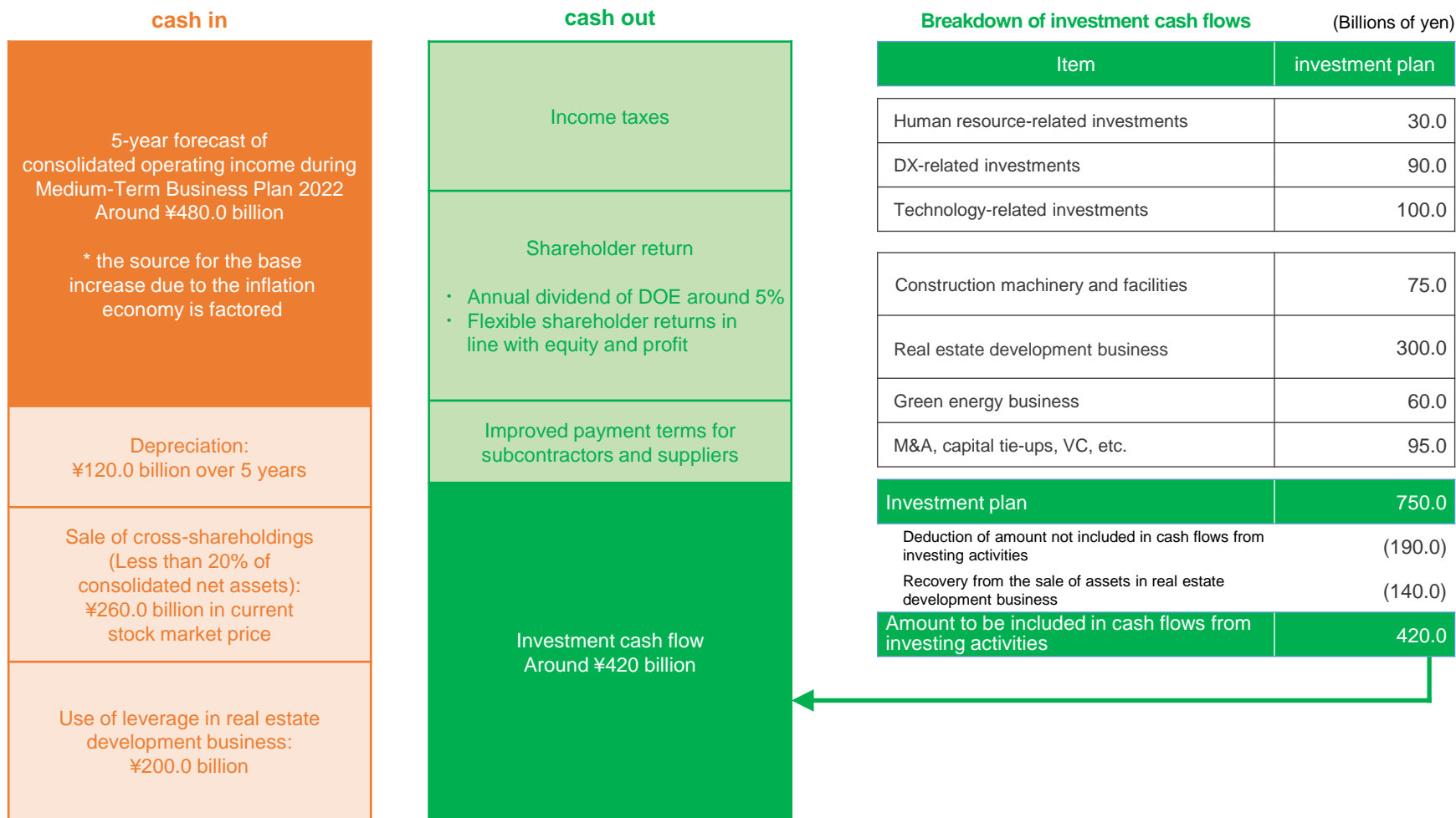
95.0 billion yen

- M&A of companies with strengths in domestic wooden field, construction-related or specific fields
(Capital alliance with Cypress Sunadaya, acquisition of shares in Shinko Kaihatsu by Obayashi Road)
- Expansion of business areas in strategic overseas markets (acquisition of U.S. construction company "MWH" as a subsidiary)
- Strategic investments in open innovation (establishment of Oprizon and PLiBOT)

Investment Plan

■ Cash allocation during the period of the Medium-term Business Plan 2022

(Reflecting the forecast for business performance, changes in investment plans, and revisions to capital policies)



Capital policy

Medium-Term Business Plan 2022: Performance indicator target of return on invested capital (ROIC) of 5% or more in the medium term to promote management that emphasizes capital efficiency

Addendum

Performance indicator target of “return on equity (ROE) of 10% or more by FY2026” by setting the level of necessary equity at around 1 trillion yen and implementing a strategic capital policy

Sustained profit growth
executing growth strategies

**Target of profit attributable
to owners of parent:
100 billion yen**

Set the necessary equity
level and strategic
shareholder returns

**Necessary equity level:
1 trillion yen**

**ROE target
10% or more**

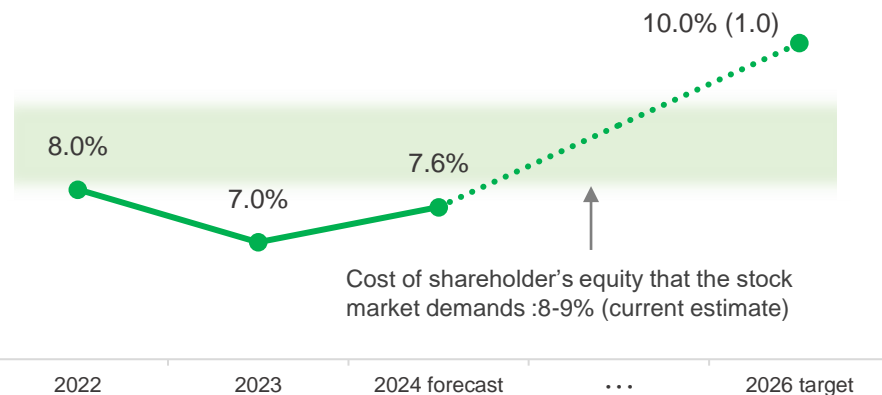
**Cost of shareholder's
equity that the stock
market demands:
8-9%
(Our estimate as of 2023)**

Positive equity spread* by achieving ROE target

Equity spread = ROE – equity cost

- For annual dividends, the dividend on equity ratio (DOE) is raised from around 3% to around 5%
- In addition to the above, flexibly return profits to shareholders by means of special dividends, share buybacks, etc., depending on the amount of necessary equity and profit (based on a comprehensive assessment of the Group's profitability, financial condition, price-to-book ratio, and other factors). DOE in line with the medium- to long-term improvement trend in profit levels
- Review the DOE level in line with the medium- to long-term trend of improvement in profit levels

Trend in ROE



3 Addendum to the Medium-Term Business Plan 2022

(3) Additional measures for accelerating transformation for sustainable growth

- To achieve sustainable growth of the Group, the Company will execute the measures for accelerating transformation for platform development such as organizational and governance structure within the period of the Medium-Term Business Plan 2022.

Main items	Measures	Present	FY2025	FY2026
Organizational structure	Consider in-house company system, pure holding company (HD), and transition to IFRS (International Financial Reporting Standards)	<div></div>		
Governance structure	Shift to a structure in which outside directors make up the majority of the Board of Directors (4 inside and 5 outside)	Completed		
	Adopt ROE as the basis for calculating performance-linked remuneration for internal directors	Completed		
	Consider to appoint CxOs such as COO, CFO, CTO, etc. to the executive officer to clarify responsibilities	<div></div>		
M&A's implementation	<div><div>- Establish Strategic Business Development Department in the Corporate Strategy Division (April 2024)</div><div>- Develop and execute M&A strategies from a company-wide perspective</div></div>	<div>Strategy development</div>	<div>Execute M&A strategy</div>	
Investment in business platform	Establish a personnel system to secure and develop human resources for the core construction business and acquire human resources to realize our growth strategy	<div><div></div><div>Start operation in phases</div></div>		
	Develop a quantitative time-based method of evaluating economic returns on investments in human capital, DX, and technology	<div></div>		

- As a direction of sustainable growth, the Group aims to establish a group-wide business structure in the future centered on domestic construction business and other businesses generate performance equal to or greater than that of the domestic construction business
- Achieve profitable growth through opportunistic growth investments and expansion of human capital investments
 - **Growth Investment**
Identify in areas that contribute to solving social issues such as carbon neutrality and wellbeing, where the Group can establish a competitive advantage, in each business and focus on growth investment to seize opportunities and expand profits
 - **Human Capital Investment**
Invest in human capital to develop and secure human resources according to the respective needs of human resources to support the core domestic construction business and human resources to realize the growth strategy



ROIC

- Adopted as a performance indicator
- Improve the ROIC across the Group by controlling the resource allocation and coordination among businesses

ROIC reverse tree

- Improve capital efficiency by using ROIC inverse tree to ensure that each business achieves ROIC above the assumed WACC for each business

ROE

- Control equity based on the necessary amount for each business
- Review the amount of necessary equity in line with business growth

MAKE BEYOND

TRANSCENDING THE ART AND SCIENCE OF MAKING OF THINGS

We make things.

And in the process, we go beyond.

Our experience and technology empower us
to break new ground, to do what has never been done.

With the Power of Vision we see beyond tomorrow.

Through the Power of Creation we transform ideas
into tangible innovations.

But it is the Power of People that makes everything possible.

Our shared history and collective expertise constitute our strengths,
allowing us to go beyond construction
and into new realms, for this is where our future lies.

As the world becomes more unpredictable and complex,
our unique approach to making things defines a new horizon,
and we lay a foundation that will enrich lives and ensure sustainability.
This is our mission, our truth.

Now, we take the next step,
and go beyond making,
to the next Obayashi.