

OBAYASHI CORPORATION
3rd Quarter: Main Questions and Answers from the Financial Results Briefing
for Fiscal Year Ending March 31, 2020 (Teleconference)

Date/Time: Wednesday, February 12, 2020, 1:30 to 2:10 p.m.

Q: What is the reason for the improvement in the gross profit margin on completed construction in building construction and civil engineering? How long will the current highly profitable construction projects continue to contribute?

A: It resulted from multiple factors in both building construction and civil engineering such as progress on highly profitable projects in hand, design changes, and cost reduction. Many construction projects that are contributing to profits this fiscal year are nearing completion. While the level of profit from next fiscal year onward will depend on orders received this fiscal year, profitability at the time of ordering has not changed much at present.

Q: Regarding progress on orders received, construction companies are all saying that they will achieve their full year forecasts in the civil engineering business because public project tender offers are concentrated in the fourth quarter and there will be plenty orders. Isn't there a risk that you will not reach your forecast for orders received for the full year if you are competing against them?

A: We also have overseas projects for which we are highly likely to receive orders during the fourth quarter, and think that we will be able to achieve our full year forecast for total civil engineering orders received in Japan and overseas at the non-consolidated level.

Q: Are there any signs of changes in the order environment amid the uncertainty over the spread of COVID-19, the new type of respiratory illness?

A: We have abundant information on construction plans and the order environment remains firm with no changes of note at present. There is the potential for changes in economic trends due to impact from COVID-19 and other factors over the medium and long-term, and we are keeping an eye on it.

Q: How are subsidiaries performing?

A: Our subsidiaries in both Japan and overseas are performing well and we have no particular concerns.

Q: Net sales for building construction at the non-consolidated level have trended around one trillion yen thus far, and are nearing 1.1 trillion yen this fiscal year. Should we anticipate the same level of volume next fiscal year as well, and what is your medium-term forecast?

A: It is difficult to provide an accurate forecast at present, but we do not foresee any major changes next fiscal year and thereafter.

Q: Do you anticipate acquiring large projects in the fourth quarter and in fiscal year 2020?

A: We expect to receive many project orders in the future as well.

Q: What are the trends in order competition and profitability at the time of ordering?

A: Competition remains stiff on large projects such as those that will be regional landmarks, but there are currently no changes in profitability at the time of ordering in general.

Q: What is the reason for the improvement in the gross profit margin on civil engineering projects compared to a few years ago?

A: It is due to profits and losses on the construction projects in hand at the time. There haven't been any significant changes in conditions from the past. It is at a high level for the current third quarter due to the revision of profits and losses on several construction projects.

Q: What are the underlying factors for the strong performance in building construction and civil engineering overseas and is it sustainable in fiscal year 2020 and beyond?

A: The strong performance in overseas building construction was due to highly profitable projects in hand at building construction subsidiaries in Asia. There were also multiple projects in overseas civil engineering that saw improvement in profitability at the non-consolidated level in Asia: We cannot forecast fiscal 2020 and beyond at present due in part to the uncertainties, but foresee no significant changes in the business environment.