

OBYASHI CORPORATION
4th Quarter: Summary of the Financial Results Briefing
for Fiscal Year Ended March 31, 2020 (Teleconference)
and Main Questions and Answers

- Date/Time: Friday, May 15, 2020, 4:30 to 5:30 p.m.
 - Company attendees: Kenji Hasuwa, President
Shingo Ura, Executive Vice President
(General Manager of Building Construction Division & Marketing Division)
Yasuo Kotera, Executive Vice President
(Responsible for overall administration)
Akinobu Nohira, Senior Managing Executive Officer
(General Manager of Civil Engineering Construction Division)
Yoshiaki Takata, General Manager of Accounting Department
 - External attendees: 67 attendees in total, including institutional investors, securities analysts, and others
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1. Company Response to the Novel Coronavirus and Consolidated Forecast for Fiscal Year Ending March 31, 2021 (Hasuwa)

I would first like to extend my sympathy to those who are suffering from the novel coronavirus and my condolences to the families of those who have regrettably lost their lives. I would also like to extend my heartfelt appreciation to all those around the world who are working hard on treatments and prevention.

(1) Response to the novel coronavirus

The Obayashi Group established the Task Force on The Emergence of the Novel Coronavirus on February 17, 2020 and took voluntary action to curb business travel and cancel large meetings, among other response measures. On March 25, we moved to telecommuting as the general practice for all office functions in the Greater Tokyo Area, at the request of the governor of Tokyo. On April 7, the Japanese government issued the Declaration of a State of Emergency. When the areas covered by this were expanded on April 16, we implemented telecommuting as a general practice for all office functions in all areas nationwide.

For construction sites, on April 15 we made the decision to carefully examine each construction project in regard to processes and response to the novel coronavirus, discuss these projects with the customers who placed the orders, and suspend construction during the emergency declaration period on those projects for which consent was obtained from the customer. Since that time, we have proceeded to examine measures to prevent the spread of the virus and determined that the implementation of preventive measures for avoiding the three crowded conditions of “close contacts, crowded places and closed spaces” could secure a greater degree of safety at many construction sites. We, therefore, have resumed construction at such sites.

Overseas, restrictions were also eased substantially on the type of construction work permitted in the areas surrounding San Francisco on May 4. While we resumed most construction work, construction is still suspended for some projects, mainly for private sector projects.

We will continue to protect the safety of Obayashi Group employees and the employees of suppliers while gathering information and making well-considered decisions appropriately and in a timely manner to fulfill our social mission as a member of the construction industry to support the construction of safe, secure social infrastructure.

(2) Consolidated Forecast for Fiscal Year Ending March 31, 2021

Some construction projects in Japan are still suspended and some projects overseas also remain suspended. The effect this could have on net sales and profits on sales is a concern.

While there have not been any project suspensions of note that would lead to a decline in orders received, information on the new construction plans indicates that projects may be delayed until the next period or plans may be postponed due to circumstances on the customer's side arising from the Declaration of a State of Emergency.

If it takes a long time to bring the novel coronavirus under control, the pace of global economic growth will decline further and a contraction in private-sector capital investment will also be unavoidable. We, therefore, must consider the scenarios in which Obayashi Group performance will be affected.

We have consequently determined that it is difficult to provide a reasonable forecast of consolidated performance at present, and have not yet determined the consolidated performance forecast for the fiscal year ending March 31, 2021. We will promptly disclose our forecast once we are reasonably able to assess the impact of the novel coronavirus on performance.

The Obayashi Group has worked to build a strong management foundation capable of responding to unforeseen changes in the business environment. We will continue to strengthen the technological capabilities that are the source of our competitiveness and work to create diverse revenue sources to evolve into a corporate group that is capable of sustaining unshakeable growth no matter how severe the environment.

2. Consolidated Results for Fiscal Year Ended March 31, 2020 (Takata)

(explanation based on the 4th Quarter Financial Results)

- Consolidated performance for fiscal year ended March 31, 2020 saw record-high net sales for the sixth consecutive year. Profit slightly underperformed the previous year at each level, producing the next to highest performance ever.
- Annual dividends of 32 yen per share were declared for the fiscal year ended March 31, 2020, on par with last fiscal year.
- Non-consolidated gross profit on completed construction contracts was 179.3 billion yen (a decrease of 5.9 billion yen YoY). Gross profit on building construction was 124.0 billion yen (a decrease of 8.5 billion yen YoY), for a profit margin of 11.2%. New provisions for loss on construction contracts were recorded for multiple projects this fiscal year and these factors

resulted in a decline in profit.

Profit from civil engineering was 55.2 billion yen (an increase of 2.5 billion yen YoY), for a profit margin of 19.7%, and a revision in costs on construction projects in hand led to profit growth.

- Consolidated net sales for overseas building construction amounted to 398.5 billion yen (a decrease of 10.1 billion yen YoY). This decline was mainly due to the U.S. subsidiary Webcor, L.P., and resulted from the YoY comparison to the previous fiscal year in which substantial progress on construction was recognized.
- Consolidated operating income on overseas building construction was 10.7 billion yen (an increase of 4 billion yen YoY). This increase was mainly due to improved profitability on construction in hand at a subsidiary in Asia.
- In the real estate business, operating income was 13.2 billion yen (an increase of 2.6 billion yen YoY). The increase mainly resulted from growth in condominium sales by Obayashi-Shinseiwa Real Estate Corporation and growth in rental income from newly owned buildings.
- Selling, general and administrative expenses increased by 4.1 billion yen YoY. This was mainly due to an increase in R&D-related expenses at the non-consolidated level.
- Extraordinary income of 7.9 billion yen were generated. This breaks down into a 5.1-billion-yen gain on the sale of investment securities and a 2-billion-yen reversal of provision for loss on the Antimonopoly Act for Obayashi Road Corporation . Extraordinary losses were 4.4 billion yen, which included 3.1 billion yen in valuation losses on investment securities.
- Orders received in the construction business totaled 1,532.4 billion yen (an increase of 226.4 billion yen YoY). This breaks down into orders received for building construction of 1,205.6 billion yen (an increase of 161.2 billion yen YoY) and orders received for civil engineering of 326.8 billion yen (an increase of 65.2 billion yen YoY).
- Total consolidated interest-bearing debt was reduced from 272.2 billion yen at the beginning of the fiscal year to 248.5 billion yen at the end of the fiscal year, a reduction of 23.6 billion yen.

3. Main Questions and Answers

(1) Questions related to the impact of the spread of the novel coronavirus

Q: What is the impact from the spread of the novel coronavirus on the suspension of construction and the scale of the impact?

When will the construction that is currently suspended resume? Whether it is after the Declaration of a State of Emergency is rescinded or results from negotiation with each customer, am I correct in assuming that this will occur by summer?

A: Regarding the scale of construction suspension, just under 50% of construction projects were suspended from late April through just before the end of the Golden Week holidays (early May). From May 7 onward, around 10% of projects were suspended. I cannot tell you the quantitative impact on performance because we are still in the process of calculating it, but we expect the impact in Japan to be limited to the levels mentioned above, at the present time.

In resuming construction, our first priority is securing the safety and security of Obayashi

Group employees and the skilled workers of our suppliers, and we will need to obtain the consent of the customer and halt construction if we cannot ensure avoidance of the three crowded conditions. The areas covered by the Declaration of a State of Emergency have currently shrunk, and our efforts to solve the problems with the three crowded conditions have been successful at nearly all construction sites. While I cannot state the specific timing, we want to be able to secure safety and resume construction with the consent of the customer, and to fulfill our responsibilities as well.

Q: What is the impact of the novel coronavirus pandemic on construction site productivity and what other risks are there? Is there a risk of delays in construction?

A: If construction is suspended, this will presumably increase the necessary costs from the perspective of compensating skilled workers for lost work as our social responsibility, in addition to the leasing costs on equipment and materials. We want to take the initiatives to introduce a shift system and staggered work hours at each construction site as opportunities to improve productivity, reform workstyles, and score a hit. It is not having that large of an impact on the construction schedule at the present time, but if it becomes difficult for the industry as a whole to maintain the supply chain for key materials and equipment, we will not be able to control this either. If that should happen, it could impact the schedule.

Q: If orders received from the manufacturing industry decline in the future from the impact of the novel coronavirus, will that be a factor that suppresses profit margins?

A: If that should happen, we will naturally need to improve productivity even further to secure profit. We will simultaneously work hard to achieve technological innovation so that a decline in orders received does not result in an extreme decline in profit.

Q: What is the status of the overseas business as the coronavirus spreads? What is your forecast for demand in the overseas business in the future?

A: In North America, public works construction continued while nearly all private-sector construction projects were suspended. However, construction is gradually resuming from early May onward. Construction has been suspended in Singapore and Bangladesh. Construction is continuing at nearly all construction sites in Thailand, Taiwan, Vietnam, and Guam.

We have not gathered enough data to be able to forecast demand. Some countries are maintaining their economies despite the impact from the novel coronavirus. We see robust demand for building construction in such countries.

Q: What types of anticipated projects have been suspended or delayed due to the impact of the novel coronavirus? Will you need to revise your view significantly from the 1 trillion yen in domestic building orders received? What impact are you projecting on orders received for large projects?

A: There have been no clear delays and suspension of order placement for individual

projects, but a loss of order opportunities would be unavoidable if future investment plans in the manufacturing industry and other industries were revised. We are collecting information on the direction of each customer on a daily basis; however, we do not expect large projects to abruptly disappear due to a deceleration in economic growth. While we need to keep a careful eye on how demand for office buildings will change as a result of workstyle reforms and the promotion of telecommuting, we think there will also be projects that are pursued from the perspectives of urban planning and disaster prevention and mitigation over the medium and long-term, due in part to the administrative policies of Japan.

By purpose of use, hotels were strong but will decline. Construction investment could also decline in the manufacturing industry due to the decline in inbound demand, but we think we will see projects to restore domestic manufacturing facilities emerge. Customers are proceeding as planned on redevelopment projects in large cities at present. We also think the Osaka-Kansai Expo/IR will proceed according to plan. At present, we do not think the market will change rapidly.

Q: Is the impact of the novel coronavirus on the electric power market, the real estate market, etc. affecting the medium and long-term strategy for the wind power business and other plans to diversify revenue sources? Has your stance on curbing investment and cash use changed?

A: We are not thinking of changing our direction substantially at present. The proliferation of renewable energy is based on Japan's energy policy and the Paris Agreement and is essential. We intend to boldly make the investments needed for growth after gauging what the Company's capacity for investment is, and we want to turn this into an opportunity for further growth.

Q: When will the consolidated forecast for the fiscal year ending March 31, 2021 be disclosed?

A: We are generally aiming to disclose the consolidated forecast at the time the first quarter or second quarter results are announced. However, I cannot state the exact timing at present. Either way, we will disclose the forecast once we are able to assess the impact on orders received and suspension of construction.

Q: What would the consolidated forecast for the fiscal year ending March 31, 2021 have been without the spread of the novel coronavirus?

A: I will refrain from stating hypothetical numbers for the consolidated forecast for fiscal year ending March 31, 2021.

Q: Will you keep more cash on hand?

A: The non-consolidated cash balance was ample, at more than 180 billion yen as of March 31, 2020. We will expand our commitment line more and take other steps to make sure that we are able to maintain flexibility in financing. We will make sure that we have ample

cash so that company operations are not hindered in any way.

(2) Other questions relating to performance

Q: What is the reason for the provisions for loss on construction contracts in an environment where costs are not rising? Is it due to the novel coronavirus or strategic orders received?

A: Provisions for loss on construction contracts were recorded for several building construction projects. There is not overall trend; the provisions were made for strategic reasons, due to technical issues, and due to an increase in costs. They were not related to the impact of the novel coronavirus.

Q: Why is the gross profit on sales in building construction in the fourth quarter low compared to the previous level, even if the increase in the provisions for loss on construction contracts is excluded?

A: Because few large projects were completed compared to the same period during the previous year, and there were relatively few construction projects on which profits improved.

Q: The profit margin on the non-consolidated domestic civil engineering business is 19.1%, even higher than the 18.1% margin last fiscal year. Will it be possible to maintain this level in the future? Has the profit margin on construction in hand increased?

A: The margin increased because we were able to secure payment for contract add-ons steadily due to changing construction conditions in projects that were completed or on which progress was achieved this fiscal year. Because these add-ons resulted from events associated with individual projects, there is no reason for this to continue in the future. It does not mean that the profit margin on construction in hand has risen significantly compared to before.

Q: What is the reason for the strong orders received in the fiscal year ended March 31, 2020, and the status of profitability at the time the orders were received?

A: The fact that we won bidding competitions for large building construction projects in the Kansai area contributed significantly. We received orders as planned in other areas as well. As for the profit margin at the time the orders were received, it was a little tough on large projects, but the profit margin did not decline significantly overall, and the profit margin on orders received is trending as planned.

(3) Questions related to shareholder return

Q: Your policy on shareholder return is a dividend payout ratio of 20 to 30%. Will you decrease dividends per share if profits decline and the payout ratio exceeds 30%?

A: Our first priority is to pay stable dividends over the long term. The dividend payout ratio has substantially exceeded 30% in some years in the past. We would not necessarily reduce dividends if profit declines; we will consider the dividend amount from a long-

term perspective.

Q: In regard to shareholder return, equity is nearing the target of 900 billion yen. Would it be right to expect an expansion of shareholder return?

A: It is difficult to state anything with certainty at the moment, due in part to the impact of the novel coronavirus. We will carefully consider what the balance sheet should look like in the future based on the assumption of maintaining a sound financial structure and ensuring investment targeted at further growth, and will discuss what form of shareholder return would be best.