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OBUYASHI CORPORATION
3rd Quarter: Summary of the Financial Results Briefing
for Fiscal Year Ending March 31, 2021 (Teleconference)
and Main Questions and Answers

Date/Time: Monday, February 8, 2021, 2:00 to 2:40 p.m.

1. Financial Results for the Third Quarter and Full-Year Forecast for Fiscal Year Ending March 31, 2021

An explanation was provided, based on the 3rd Quarter Financial Results for Fiscal Year Ending March 31, 2021.

2. Main Questions and Answers

(1) Regarding the Order Environment for the Company

- Q.** Progress on orders received is behind schedule compared to the plan for the full year in the domestic building construction business, even when looking at the results of other companies in the same industry. It appears that competition is intensifying; how are the conditions?
- A.** The competition on orders for redevelopment and other large projects remains intense as before. The market environment has also deteriorated due to the spread of COVID-19, and we therefore expect the overall environment for obtaining orders to become more severe. However, there is abundant information on construction plans and the volume of orders received will not decline dramatically.
- Q.** You explained that it was possible to achieve the full-year forecast for orders received in the domestic building construction business. Do you expect to record orders received for large projects mentioned in media reports in the fourth quarter? Aren't you concerned that the timing of order placement for those large projects will be postponed to fiscal year ending March 31, 2022?
- A.** I will refrain from commenting on individual projects, but hardly any of the projects you referred to in your question were included in orders received for the third quarter and we expect to record them in the fourth quarter. While I cannot state that there is no possibility

that the timing of orders received on these large projects will be postponed to fiscal year ending March 31, 2022 and beyond under the current business environment, we expect to achieve the full-year forecast.

- Q.** Do you foresee conditions in which orders received for small projects and renovation projects in the domestic building construction business might decline and impact profitability at the time of orders and net sales for the fiscal year?
- A.** Postponement of renovation projects was seen during the first half, but conditions improved upon entering the third quarter. In terms of profitability at the time of order received, we are hoping we can maintain the current level of profitability.
- Q.** It appears that plant orders received have declined by half from the same period last fiscal year. Do you anticipate a rebound?
- A.** Plant orders received have declined substantially from the same period in the previous fiscal year; however, the trend in orders received is not uniform in the manufacturing industry and varies according to the type of industry. While cosmetics and other industries related to inbound tourist demand have declined, we can expect investment in the medical supply industry and in next-generation technologies related to the automotive industry. We have been able to secure a good deal of information on construction plans in industries that are projected to see future growth.
- Q.** I have heard from other companies in the same industry that the timing of private sector order placement for additional construction work in the building construction and civil engineering businesses is delayed. Is Obayashi experiencing similar conditions?
- A.** We are not seeing a delay in the timing of order placement for additional construction. While we saw cases in which processing of public works was delayed due to the pursuit of telecommuting in the past, these circumstances have now been resolved.
- Q.** Distribution of COVID-19 vaccines has begun and, judging from the favorable trend in semiconductor-related industries and other factors, it seems that the economy is gradually rebounding. How do you think COVID-19 will affect results in the future? There is a time lag between deterioration in economic conditions and the impact on the construction industry. Do you foresee deterioration in future results? Or do you think that the timing of a rebound will coincide with that in other industries?
- A.** Capital expenditures are growing in some areas and decreasing in others. While capital expenditures declined in the hotel and other industries due to the decline in inbound tourist demand, the plans for large redevelopment projects are continuing and the impact on demand for office construction will be relatively minor. Nevertheless, if telecommuting progresses and vacancy rates increase, this could affect demand. Construction work is proceeding steadily after first ensuring comprehensive steps to avoid the three close conditions at construction sites. However, if the spread of COVID-19 intensifies in the future, we will need to find other methods of responding and this could impact results. At

minimum, COVID-19 is not a positive factor for performance and we are continuing to keep an eye on the conditions of spread.

- Q.** Are you taking a conservative view on profitability at the time of order received amid the many uncertainties in the business environment? Or is that not the case because of the abundance of information on construction plans?
- A.** We need to accurately estimate the profitability of projects at the time orders are received, which is unrelated to COVID-19. It is fair to say that competitive environment has intensified in light of the decline in capital expenditures and shrinkage of the market.

(2) Regarding Financial Forecasts

- Q.** You explained that there are many large projects in the initial construction stage among construction projects in hand in the domestic building construction business, so these will not contribute to net sales in fiscal year ending March 31, 2021. Will completed construction gradually increase in fiscal year ending March 31, 2022 and beyond? I understand that orders received for large projects have been delayed to the fourth quarter, but what will be the impact on net sales in fiscal year ending March 31, 2022?
- A.** We are currently in the process of preparing the net sales and profit forecasts for fiscal year ending March 31, 2022 and are targeting the same level as in fiscal year ending March 31, 2021. Although we are sure to receive orders for large projects in this fiscal year, the delay in order placement into the fourth quarter would also delay the timing for beginning construction and could affect net sales in the first half of fiscal year ending March 31, 2022.

- Q.** The gross profit margin for the domestic civil engineering business in the third quarter exceeded 20%. You explained that this resulted from cost reductions in individual projects. Do you expect this trend to continue in the future?
- A.** The high level of profit in the third quarter resulted from special factors such as greater than expected cost reduction in specific large projects and additional construction work secured. We do not think that we can sustain this profit level in the future. We have therefore left the full-year financial forecast for the domestic civil engineering business announced in November unchanged.

- Q.** Progress on the full-year forecast for net sales in the domestic building construction business has been slow up to the third quarter. Calculating backward from the full-year forecast would put net sales in the fourth quarter at 320 billion yen. Is that achievable? If progress is slower than expected, what is the reason for that?
- A.** As we expected from the outset, work has just begun on many large construction projects in hand and not much progress will be made on these during fiscal year ending March 31, 2021, so net sales have not grown in the third quarter either. In addition to that, results were also impacted by delays in the timing of orders received for projects that we

had expected to contribute to net sales during this fiscal year, and our view is that the full-year forecast is weakening.

- Q.** Calculating backward from the full-year forecast would put non-consolidated SG&A expenses at 21.6 billion yen in the fourth quarter. This is high compared to the level in the first and second quarters. What is the reason for that?
- A.** We had anticipated relatively high SG&A expenses from ICT expenses and expenses associated with COVID-19 response this fiscal year, but there are no special factors in the fourth quarter alone. While actual SG&A expenses may be lower than the full-year forecast, at present we assume that they will be the same amount as expected.
- Q.** In the domestic building construction business, you are forecasting growth in fiscal year ending March 31, 2022 net sales from progress on large construction projects in hand that are in the early stage of construction. Why will net sales be at the same level as in fiscal year ending March 31, 2021?
- A.** While it is also possible to anticipate growth in net sales from this fiscal year to next fiscal year, we are aiming for net sales at the same level at the present time.

(3) Regarding the Overseas Business of the Obayashi Group

- Q.** Overseas Group companies suspended some construction work due to COVID-19. Please tell us the current status of operations.
- A.** During the first half of this fiscal year, construction was suspended in North America and Singapore. However, nearly all construction has resumed at present. While delays in the timing of order placement can be seen in some regions, construction is continuing and there are no major hindrances in North America and Southeast Asia.
- Q.** I have heard from other companies in the same industry that they are having problems with labor procurement in Singapore because foreign workers who returned to their home countries are not being permitted to re-enter the country. Is Obayashi experiencing similar problems?
- A.** We struggled to secure workers for a while due to the spread of COVID-19 in the foreign workers' dormitory, but conditions have improved at present and the operating rate has rebounded to near the pre-COVID-19 level.
- Q.** Is there any difference between the overseas building construction business and the overseas civil engineering business in the degree of recovery from the effects of the spread of COVID-19?
- A.** We are not seeing any differences between the two businesses. The overseas building construction business was impacted by COVID-19 at our local subsidiary, WEBCOR, LP, and elsewhere, and the decline in overseas civil engineering business compared to the

previous fiscal year occurred because we currently do not have any large construction projects. It is difficult to confirm the impact from COVID-19 on results.

(4) Other Questions

- Q.** Other companies in the same industry are talking about actively pursuing the sale of shares owned in customers' businesses in the fourth quarter. What are Obayashi's plans?
- A.** I understand that investors are demanding a reduction in the shares that we own in our customers' businesses as stated in the standards published by Glass Lewis and ISS. This is being discussed by the Management Meeting and Board of Directors, but no specific numerical goal for reduction has been set at present. We will proceed with the sale of shares as appropriate, based on a collective judgment of results of the evaluation of the profitability of the shares, the business return, and other factors.