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OBYASHI CORPORATION
1st Quarter: Summary of the Financial Results Briefing
for Fiscal Year Ending March 31, 2022 (Teleconference)
and Main Questions and Answers

Date/Time: Thursday, August 5, 2021, 2:00 to 3:00 p.m.

1. Financial Results for the First Quarter and Full-Year Forecast for Fiscal Year Ending March 31, 2022

An explanation was provided, based on 1st Quarter Financial Results (April 1 to June 30, 2021).

2. Main Questions and Answers

(1) Regarding Financial Results for the First Quarter of Fiscal Year Ending March 31, 2022

Q: Financial results for the first quarter showed a decline in the profit margin in the domestic civil engineering business. This resulted from a decrease in the contract scope of large projects due to design changes which necessitated a downward adjustment in net sales and profit posted in the previous fiscal year in accordance with the criteria for progress on construction. Where other results in line with the plan?

A: Results were generally in line with the plan in the first quarter, with the exception of the decline in the gross profit margin on completed construction. This adjustment was a one-off event that will not affect profit level in the second quarter and beyond. The impact of this factor on the full-year forecasts for fiscal year ending March 31, 2022 will also be minor.

Q: You explained that design changes pushed down the gross profit margin on completed construction in the domestic civil engineering business. Did this occur on one or two specific projects? Also, were the design changes made at the customer's request, or were they made by the contractor due to problems in the construction management process?

A: Design changes were requested by customers on some projects.

Q: What are the reasons for the decline in the gross profit margin on completed construction in the first quarter in the domestic building construction business, compared to the first quarter of the previous fiscal year?

A: As indicated in the financial forecasts for fiscal year ending March 31, 2022, the progress made on large, low-margin projects pushed down the overall profit margin for the domestic building construction business.

(2) Regarding Financial Forecasts

Q: The gross profit margin on completed construction in the domestic civil engineering business in the first quarter was low compared to the first quarter of previous fiscal years. Would profits be on par with the previous fiscal year if temporary factors resulting in a decline in profit are excluded? The profitability of the domestic civil engineering business has declined at other major companies in the same industry as well. Is the overall market environment making it difficult to secure additional construction and design changes?

A: Regarding the financial forecast for fiscal year ending March 31, 2022 in the domestic civil engineering business, we expected the profit level to be lower than in the previous fiscal year from the outset because we cannot expect design changes and other factors to boost the profit level as they did in the previous fiscal year. This is due in part to the fact that we have many construction projects in hand that will take time to complete. We are not aware of changes in the environment or other factors that would make it difficult to secure additional construction and design changes. I cannot comment on the situation at other companies.

Q: Based on the first quarter results for the domestic civil engineering business, the company will need to improve profitability in the second quarter onward through additional orders, changes, etc. in order to achieve the gross profit margin on completed construction forecast for fiscal year ending March 31, 2022. Do you anticipate improvement in profitability?

A: The domestic civil engineering business has many public works projects. Design changes therefore typically increase toward the end of the fiscal year and the gross profit margin on completed construction also tends to increase along with such changes. Moreover, the special factors that pushed down the gross profit margin on completed construction in the first quarter will not affect the gross profit margin on completed construction in the second quarter onward. The impact of this on the forecasts for fiscal year ending March 31, 2022 will be limited, so we are sticking to the numbers disclosed for the full-year forecasts.

Q: The gross profit margin for the domestic building construction business in the first quarter of fiscal year ending March 31, 2022 is lower than the margin forecast for the full year. I thought that the profit margin would deteriorate in the second half because less construction will be completed this fiscal year and progress will be made on large low-margin projects. Should I understand this to mean that the profit margin will improve in the second half instead?

A: The gross profit margin on completed construction in the domestic building construction business was 8.1% in the first quarter of fiscal year ending March 31, 2022. While this was lower than the 9% forecast for the full year, it's normal that the gross profit margin on completed construction contracts in the first quarter is lower than the full-year forecast as shown in the past results, and there is a tendency for the margin to increase from the second quarter onward. We will continue efforts to improve profitability through improving costs, securing orders for additional construction, etc. at each construction site with the goal of achieving the full-year forecast for fiscal year ending March 31, 2022.

Q: The deterioration in the gross profit margin from special factors in the domestic civil engineering business in the first quarter will impact the full-year forecast for fiscal year ending March 31, 2022. In terms of other risks, would I be correct to understand the resurgence in COVID-19 outbreaks as one potential impact in the overseas business?

A: As you are aware, the impact from the resurgence caused by COVID-19 variants is a concern, primarily in Asia.

Q: Is it becoming more difficult to negotiate prices on projects ordered by developers who are being impacted by the deterioration of the office market amid the COVID-19 pandemic?

A: It is already difficult to achieve profitability on projects ordered by developers, but we have not seen this exacerbated recently.

Q: The cost of steel and other materials is rising. Are you concerned that this will impact the profitability of large construction projects?

A: The price of steel is increasing, but the cost of procuring steel does not comprise a large percentage of construction costs. The market price of materials is calculated for each project at the time a bid is submitted and we take inflation into account when submitting bids, so it will not have a significant impact on the profitability of projects at present.

Q: Selling, general and administrative (SG&A) expenses in the first quarter of fiscal year ending March 31, 2022 increased substantially from the first quarter of the previous year, as indicated in the full-year forecast. Please explain the factors underlying the increase. Will SG&A expenses trend according to plan in the second quarter onward?

A: The increase in SG&A expenses was mainly due to DX-related expenses, technological development, branding, and other expenses that are necessary for future growth. Non-consolidated SG&A expenses for the first quarter of fiscal year ending March 31, 2022 were roughly 20 billion yen, compared to a forecast of 80 billion yen for the full year, so they were generally in line with the plan.

Q: You explained that SG&A expenses were spent on things necessary for growth. Do you expect them to increase in fiscal year ending March 31, 2023 onward?

A: The plan for SG&A expenses in fiscal year ending March 31, 2022 also included

temporary expenses for the fiscal year, so we do not think they will continue to increase from next fiscal year onward.

(3) Regarding the Order Environment for the Company

Q: Orders received increased for both the domestic building construction and civil engineering businesses in the first quarter of fiscal year ending March 31, 2022. Please explain the trend of profitability at the time orders were received.

A: Profitability at the time of order receipt has long been tough in the domestic building construction business due to competition on large construction projects, but there has been no change in profitability of small to medium-sized projects. Profitability has decreased overall due to the increase in large construction projects. Profitability in the domestic civil engineering business continues to remain firm.

Q: Please explain the order environment for the domestic building construction business, in terms of improvement in capital expenditures and other factors.

A: As we explained previously, the volume of information on construction plans we have been able to obtain is on par with the previous fiscal year. There are no major changes in the order environment, and there is continuing demand for construction of data centers, pharmaceutical facilities, and other projects.

Q: The breakdown of orders received by construction purpose in the domestic building construction business shows year-on-year growth in orders received in the “Others” category. What project purposes were the orders received for? Do you expect to continue receiving orders for these project purposes?

A: The growth was due to orders received for multiple large projects. We will refrain from naming individual projects. We do not expect to continue receiving orders for such projects.

Q: You explained that the competitive environment for obtaining orders for large projects remains stiff in the domestic building construction business. Has there been any change in your stance on receiving orders for large projects including 2025 World Exposition and integrated resort projects in Osaka, other large projects in the Kansai area, and large redevelopment projects in urban areas?

A: Competition for large projects is stiff and we also understand internally that profitability is low. The appropriate internal organizations discuss each project and decide whether or not to bid on a case-by-case basis. The head office and construction site also work together as one corporate team to improve the profitability after orders are received for large projects.

(4) Regarding Overseas Business

Q: I understand that you anticipate a rebound in financial results in Thailand and elsewhere in fiscal year ending March 31, 2022. Have there been any negative impacts from the resurgence in COVID-19 outbreaks? Do you foresee any circumstances in which the company will be suffer a negative impact in the future? I would like information on Asia, in particular.

A: The first quarter reporting period for overseas Group companies is January through March. The spread of the Delta variant began to worsen after that in Southeast Asia so it has not impacted first quarter results for fiscal year ending March 31, 2022 and results were as planned. However, we are concerned that it will impact financial results in the second and third quarters, given the current status of the outbreaks in Thailand, Vietnam, and other countries in Southeast Asia.

Q: Please describe the impact from the Delta variant on Southeast Asia in detail.

A: The resurgence in outbreaks caused by the Delta variant has resulted in suspension of construction from late June 2021 in Thailand and from July 2021 in Vietnam. While it has not reached the point of suspension of construction in Indonesia, construction is continuing under restrictions due to the resurgence in outbreaks.

Q: WEBCOR and other Group companies in North America forecast a decline in revenue in fiscal year ending March 31, 2022, but widespread vaccination for COVID-19 is seen as a positive factor for financial results. Was progress during the first quarter toward the full-year forecast for fiscal year ending March 31, 2022 according to plan? Is it also correct to say that COVID-19 did not result in the suspension of construction in North America?

A: WEBCOR saw a decline in construction projects in hand from the decline in orders received due to COVID-19 in the previous fiscal year. It is expecting a decrease in net sales, but progress on financial results during the first quarter was as planned, including progress on orders received. Group companies in North America are continuing construction.

(5) Other Questions

Q: I understand that cooperation with subcontractors is essential in order to improve the profitability of large projects involving the construction of facilities, which are producing relatively good results recently. What is your view of this?

A: We would like to build a relationship with subcontractors which profits both sides by strengthening the system for cooperating with subcontractors on initiatives in using BIM to increase productivity, and other initiatives.

Q: I think that you are currently in the process of discussing the next Medium-Term Business Plan, but please provide information on your Policy on Shareholder Returns and other topics that you are able to discuss.

A: We are currently in the midst of considering the next Medium-Term Business Plan, including our Policy on Shareholder Returns. These will probably be disclosed in the second half of fiscal year ending March 31, 2022, so I would like to refrain from future discussion at this time.