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**OBUYASHI CORPORATION**  
**1st Quarter: Summary of the Financial Results Briefing**  
**for FY2023.3 (Fiscal Year Ending March 31, 2023) (Teleconference)**  
**and Main Questions and Answers**

- Date/Time: Wednesday, August 10, 2022, 2:00 p.m. to 2:40 p.m.

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**1. Financial Results for First Quarter and Full-Year Forecast for FY2023.3**

An explanation was provided, based on the "1st Quarter Financial Results (April 1, 2022 to June 30, 2022)."

**2. Main Questions and Answers**

**(1) Order-receiving environment of domestic building construction business**

Q: The amount of orders received appears to be at the same level as the previous year. Has the competitive environment calmed down or is profitability at the time of receiving orders still severe given steep rises in material and equipment costs?

A: We have seen no major change in the competitive environment as a whole, including profitability at the time of receiving orders. Severe competition remains unabated as to large-scale construction projects but, entering the FY2023.3, companies appear to be receiving orders in consideration of their construction capacity, resulting in less keen competition than before. There are time lags regarding design/construction projects and projects for which we obtained preferential negotiating rights before the previous fiscal year. In recording construction starts and orders received on the books in the future, therefore, we are concerned about the possibility of profitability being adversely affected by the impact of higher material and equipment costs as these cost hikes would be reflected in settling accounts belatedly due to such time lags.

Q: It seems that you got many orders from the manufacturing sector in the first quarter. How about the status of inquiries? How far do you think this situation will continue in the future?

A: Capital expenditure is increasing in broad areas of the manufacturing industry. There are many projects in place involving semiconductor plants and data centers against the background of growing trends of decarbonization and digitalization. Going forward, we can expect to receive sufficient orders. Moreover, we are receiving steady orders from the nonmanufacturing sector, including for redevelopment projects and logistics facilities. Given an expected reaction to sluggish orders amid the COVID-19 pandemic, we believe that steady demand will continue this fiscal year.

## **(2) Performance of domestic building construction business**

Q: We see the gross profit margin on completed construction contracts adversely affected by the large-scale construction projects with low profitability in the first quarter. How about a full-year outlook?

A: We tend to start each fiscal year at a low level as sales remain sluggish in the first quarter. Furthermore, large-scale projects with low profitability made progress in the first quarter. So, the first-quarter results are within our anticipated range. However, full-year performance will depend on the impact of rapidly rising material and equipment costs, and no optimism is warranted.

Q: We have been told that the reason for reduced net sales in the first quarter was delayed deliveries of materials and equipment. What factors are there behind such delays? And tell us their effects in the future.

A: The delayed deliveries represent delays in quarter-to-quarter booking of net sales as of the end of the first quarter, and so there is no impact on our full-year forecast.

Q: You've told us that you can recover within the current fiscal year delayed works on domestic building construction projects affected by the delayed deliveries of materials and equipment. Is there any risk stemming from such delays, including additional cost increases? What sorts of projects correspond to such works?

A: We have a number of projects delayed, but we expect to be able to recover a delay in each project within the current fiscal year. We don't expect additional cost rises to occur at the present time. As to the delayed projects, there are no specific regional cases nor specific materials and equipment delayed in their procurements.

Q: Regarding your reference to the anticipated recovery in gross profit margin in and after the second quarter, what is your scenario in the presence of large-scale projects for which provision was taken the previous year for loss on construction contracts?

A: The gross profit margin in the first quarter was at our expected level and we anticipate that it will improve in and after the second quarter as construction projects other than those with low profitability are expected to make progress as well. But it is necessary to keep watch on the impact of sharp rises in material and equipment costs.

Q: How about the status of material and equipment cost rises being passed on to our clients? Are higher costs being passed on as planned at the start of the current fiscal year?

A: When we announced our business plan at the beginning of the fiscal year, we had higher material and equipment costs reflected in the plan based on the prevailing situation then. Although we are beginning to obtain understanding of our clients, further cost hikes since then are increasingly weighing on our business performance. We have been negotiating with clients for passing on cost increases, including those since the beginning of the fiscal year.

Q: Do you expect the effects of higher costs of materials and equipment to grow in the second and third quarters?

A: As for the prospect of risk increasing in the second and third quarters, it is difficult to give quantitative replies as we are currently negotiating with clients on pricing.

### **(3) Performance of civil engineering business**

Q: Is the improvement in the gross profit margin of non-consolidated overseas civil engineering business a temporary rise? Also tell us the background behind the year-on-year rise in the gross profit margin of domestic civil engineering business in the first quarter.

A: In our non-consolidated overseas civil engineering business, the gross profit margin improved in the first quarter as a number of construction projects showed better profitability while the number of overseas construction projects is small itself, and this improving trend is not the sort of thing that regularly continues. Meanwhile, the profit ratio of domestic civil engineering business improved in reaction to lower profitability in some projects resulting from design changes in the same quarter of previous year. We would like to add that the reason for the somewhat low gross profit margin in the full-year forecasts is the difficulty to anticipate highly profitable projects as seen a few years ago.

### **(4) Performance of domestic and overseas subsidiaries**

Q: Tell us trends of construction demand at Asian subsidiaries. What is the reason for reduced profit at group subsidiaries as a whole?

A: Entering this fiscal year, we have seen the impact of the COVID-19 pandemic disappear at some subsidiaries, including those in Thailand and Singapore, with construction works in progress as planned and new orders received at a brisk pace. As we see group subsidiaries in general, their performance has been affected greatly by Obayashi Road Corporation's profit decline caused by higher costs of straight asphalt raw materials.

Q: We hear construction starts were in delay at Webcor, L.P. in North America and elsewhere. Is there any possibility of such projects being postponed or called off?

A: The delays at Webcor and some other subsidiaries are attributed to wait-and-see attitudes on the part of clients amid soaring costs. We see the possibility of some projects being called off at the convenience of clients.

### **(5) Other Questions**

Q: Referring to gains on sales of investment securities, we see 3.3 billion yen worth was realized in the first quarter against the full-year forecast of 6.0 billion yen, showing apparent progress in the sale of cross-shareholdings. Are the sales proceeding according to plan or going to proceed at a greater pace than planned in the future?

A: The first-quarter sales were as planned. The full-year forecast of 6.0 billion yen is a figure excluding a special loss, and we are scheduled to go ahead with sales of cross-shareholdings.