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**OBAYASHI CORPORATION**

**Summary of the Financial Results Briefing Conference  
for FY2025 3rd Quarter (First Nine Months: April 1, 2025 to December 31, 2025)**

**Date:** Monday, February 9, 2026, from 14:00 to 15:02  
**Respondents:** Takayuki Tomioka, Managing Executive Officer, General Manager of Corporate Strategy Division  
**Attendees:** 122 securities analysts, institutional investors and others

**1. Presentation on Revisions to Full-Year Forecasts, Financial Results for FY2025 3rd Quarter (First Nine Months), and Forecasts for FY2025**

An explanation was provided by the Managing Executive Officer, based on the Presentation on Financial Results for FY2025 3rd Quarter (First Nine Months: April 1, 2025 to December 31, 2025).

**2. Main Questions and Answers**

**(1) Domestic Building Construction Business**

Q. Regarding the gross profit margin on completed construction contracts for the third quarter, you explained that it included profit improvements upon settlements of large-scale projects. Excluding this factor, what would the underlying margin have been? In addition, based on the most recent upward revision to the full-year forecast, the gross profit margin on completed construction contracts for the fourth quarter alone is implied to be approximately 15%. Should this be regarded as the current underlying level? Or does the fourth-quarter forecast also incorporate factors such as design changes?

A. Following the upward revision at the time of the second-quarter results, we have made a further revision to our forecast. The primary factors behind this additional revision include: (1) at large-scale unprofitable construction projects for which a provision for loss on construction contracts had been recorded (and which was not a contributing factor to the second-quarter upward revision), an additional claim approval for price hikes was approved; and (2) in the settlement of construction costs with subcontractors, although we had budgeted for potential cost increases reflecting recent rises in material and labor costs, actual costs came in below initial estimates, contributing to profit improvement. In addition, across projects other than the aforementioned unprofitable construction projects—regardless of scale—we have steadily accumulated profit improvements through cost reviews, additional claim approvals, and change orders. The most recent revised forecast incorporates a certain level of such improvements for the fourth quarter as well. Furthermore, projects in the final stages of the construction period account for a share of net sales that is

approximately 10 percentage points higher than in previous fiscal years, which we believe also contributed to the larger-than-expected upside. By analyzing the factors behind the two upward revisions made in the current fiscal year, we will work to further enhance the accuracy of our forecasts from the next fiscal year onward.

Q. Should I understand that the approximately 15% gross profit margin on completed construction contracts implied for the fourth quarter alone represents the current underlying level, and that the plan for FY2026 will be at a similar level? At the time of the second-quarter results, you indicated that the margin is not expected to exceed the then-revised forecast level of approximately 13% in the next fiscal year. Has this view changed?

A. We are currently reviewing the expected level of gross profit margin on completed construction contracts for the next fiscal year. The profit recovery recorded in the current fiscal year in connection with the large-scale unprofitable construction project will not recur. In addition, the proportion of projects in the early stages of construction is expected to be higher than in the current fiscal year. As a result, we do not yet have sufficient visibility as to whether we can achieve the same margin level as the current fiscal year. That said, downward pressure on profits from large-scale unprofitable construction projects included in construction projects in hand will be eliminated in the next fiscal year. Furthermore, the profit margin at the time of receiving new orders in the current fiscal year exceeded past peak levels; with this change in the composition of projects in hand, we expect the contribution from highly profitable construction projects to increase further. Accordingly, we expect the margin to remain at a relatively high level.

Q. Regarding the unprofitable construction projects in hand, is there still room for further profit improvement through additional claim approvals? Or should I consider that such improvements have largely materialized by the end of the third quarter?

A. We believe that negotiations with clients have largely been concluded.

Q. Of the factors behind the most recent upward revision, you mentioned that actual costs came in below initial estimates following cost reviews. Was this due to conservative internal estimates regarding price trends and other related factors?

A. Our internal estimates were not particularly conservative; we incorporated all reasonably foreseeable information at the time. However, profit improvement ultimately exceeded our expectations. In addition, improvements were achieved across a greater number of projects than in previous fiscal years.

Q. You mentioned that you are strategically receiving new orders in alignment with the current construction capacity. For the next fiscal year and beyond, do you expect net sales to remain at a level similar to the current fiscal year, or is there a strong possibility of an increase reflecting inflation and other factors?

A. While a certain degree of growth due to price hikes is anticipated, capacity constraints remain a limiting factor. Accordingly, we do not anticipate a significant increase in net sales.

Q. Regarding the factors behind the forecasted change in consolidated operating income between the FY2024 result and the FY2025 revised forecast (page 19 of the Presentation on Financial Results for FY2025 3rd Quarter), of the ¥68.0 billion increase in the domestic building construction business due to additional claim approvals, change orders, and greater contribution from highly profitable construction projects, how much is attributable to one-time factors limited to the current fiscal year? Excluding such one-time factors, do you believe that achieving a profit margin of approximately 15%, as indicated by some companies in the same industry, is feasible in the medium term?

A. Gross profit on completed construction contracts in the domestic building construction business is also approximately ¥60.0 billion higher than the initial FY2025 forecast. The largest contributing factor—accounting for slightly more than one-third—was profit improvement in the final stage of the construction period for large-scale unprofitable construction projects. In addition, large-scale projects other than the unprofitable ones contributed to profit improvement through additional claim approvals and cost reviews, accounting for slightly less than one-third. The remainder was attributable to accumulated improvements, primarily from projects in the final stages of the construction period. The proportion of one-time factors has not changed significantly from what we explained at the time of the second-quarter results. As for future profit margins, we expect the next fiscal year to exceed the past peak of 12.8% recorded in FY2017 and believe margins will trend toward the 15% level indicated by some companies in the same industry.

Q. Regarding profitability at the time of receiving new orders, at the second-quarter briefing you indicated that the current level represented a peak. What is your current assessment? In fact, many companies in the same industry have suggested that further improvement may be possible. Has your view changed in this regard?

A. We recognize that profitability at the time of receiving new orders is approximately in line with, and slightly above, past peak levels. As long as the current economic environment continues, we believe this high level can be maintained to a certain extent. However, whether it will continue rising is another matter—there is a possibility of a turning point depending on global economic conditions and geopolitical risks. We will continue to monitor developments closely.

Q. While profit margins in the domestic building construction business have reached unprecedented high levels, some may argue that, considering the value provided and the sustainability of the industry, the current profit level—or even higher—may be justified as an appropriate level. In order to avoid falling back into price competition should demand decline in the future, would it not be desirable to establish, through a logical and consistent approach, an appropriate profit level commensurate with the value provided?

A. We believe it is important to ensure appropriate profit levels while delivering high quality and

productivity to our customers. We will continue to work toward achieving this.

Q. Regarding orders received, the proportion of projects related to manufacturers and factories appears somewhat lower. Is this merely due to the timing of receiving new orders, and can I assume that the demand for securing specified critical products, including semiconductors, will continue going forward?

A. In the sector breakdown of orders received for the third quarter, the proportion from manufacturers may indeed appear lower. However, this reflects a point-in-time snapshot as of the end of the third quarter. We expect new orders from manufacturers in the fourth quarter, and therefore anticipate that the full-year level will remain high. That said, projects for manufacturers could be subject to rapid demand contraction depending on fluctuations in the global economy, and we are closely monitoring this risk.

Q. Where are the bottlenecks on the construction side? Beyond securing mechanical and electrical (M&E) subcontractors, are there other constraints?

A. M&E subcontractors continue to face shortages of their capacity. In particular, for large-scale projects, difficulties in placing new orders are expected to persist until around FY2028. In addition, factors such as the increase in design and build projects and the impact of overtime regulations have led to some capacity tightness in our design department and engineers at construction sites.

## **(2) Domestic Civil Engineering Business**

Q. Regarding the outlook going forward, there is an impression that change orders have been steadily secured through the third quarter. Has an improvement in the underlying earnings base also contributed? Is the high profit margin level of just under 19% sustainable into the next fiscal year and beyond?

A. The business has maintained a high level in both FY2024 and FY2025. Even taking into account changes in the project mix going forward, we believe that a margin level close to the current one can be expected.

## **(3) Overseas Construction Business**

Q. Among the consolidated subsidiaries, which companies contributed most significantly to profit growth in the first nine months?

A. In the first nine months of the current fiscal year, Obayashi Singapore contributed most significantly.

## **(4) Outlook for FY2026**

Q. With respect to the FY2026 plan, given that you made two upward revisions in the current fiscal year, are you considering any changes to your method for formulating forecasts? In addition, at the

second-quarter briefing you stated that you were not yet in a position to determine whether operating income would exceed the ¥165.0 billion level going forward. Following the most recent upward revision, has your level of confidence regarding profit levels for the next fiscal year changed?

A. The FY2026 plan is currently under close review. However, taking into account the outlook for the domestic building construction business, we believe that a relatively high level can be maintained to a certain extent.

Q. Is it correct to understand that you do not intend to use sales of real estate as a means of adjusting profits?

A. As real estate assets are highly individual in nature, we are not in a position at this stage to provide a clear indication of their potential impact. Regarding the real estate business, in anticipation of the next medium-term business plan, we are reviewing our investment policy and approaches to enhancing returns, and intend to provide further details in due course. This review is being conducted from a long-term strategic perspective and is not intended to increase short-term profits through asset sales.

## **(5) Capital Policy**

Q. While the balance of cross-shareholdings is not easily reduced amid rising stock prices, the amount of equity is moving further away from the ¥1 trillion level. Although ROIC and ROE are rising due to higher profits, there is concern that the focus on maintaining an optimal capital structure may be overlooked. In this context, with respect to the target for reducing cross-shareholdings, do you expect to achieve a ratio of 20% or less of consolidated net assets by the end of FY2026, or would a decline in the ratio resulting from an increase in equity be considered sufficient? Could you comment on the current balance sheet?

A. Including shares already agreed for sale by the end of FY2026, cross-shareholdings are currently below 20% of consolidated net assets. We will also assess the impact of today's stock price movements and, if necessary, may hold discussions with relevant counterparties. Our intention is not simply to allow the ratio to fall below 20% as a result of an increase in equity; rather, we plan to achieve the target of 20% or less through steady and planned sales. While the forecast for equity as of the end of the current fiscal year is ¥1,220.0 billion, this is significantly influenced by valuation differences on available-for-sale securities due to rising stock prices and by foreign currency translation adjustments resulting from yen depreciation. Retained earnings have also increased, and we recognize that there are views suggesting equity levels should be managed through additional shareholder returns. However, as we have consistently stated, if a high level of profit is expected to be maintained, we prioritize stable dividends through a review of DOE (dividend on equity), rather than pursuing flexible, short-term shareholder returns. In this context, we are reviewing our capital policy toward the next medium-term business plan.

Q. You indicated that including shares agreed for sale, the ratio of cross-shareholdings is already below 20%. How are negotiations progressing beyond that? What is the medium-term reduction target?

A. First, we intend to firmly achieve the target of reducing cross-shareholdings to 20% or less of consolidated net assets during the period of the Medium-Term Business Plan 2022. Beyond that, while no specific direction has been finalized at this stage, we will continue to review the matter as circumstances evolve.

Q. As progress is made in reducing cross-shareholdings, equity can be expected to stabilize. However, despite conducting share buybacks, profits in the construction business have accumulated beyond expectations. You have also indicated that an increase in DOE is under consideration toward the next medium-term business plan. Is there a possibility that capital policy could be revised during the next fiscal year to reflect improved profitability in the domestic building construction business?

A. We have begun reviewing our capital policy; however, we are not in a position at this stage to comment on the timing of any announcement. Details will be disclosed once finalized. With respect to equity, we have previously indicated a level of approximately ¥1 trillion, based on the accumulation of the necessary equity level for each of our businesses. However, as our North American and overseas construction businesses continue to expand and we seek to further increase our bonding capacity, a comprehensive strengthening of creditworthiness becomes necessary. In this context, we have received a letter from surety companies stating that an increase in equity is the most important factor. At the same time, net working capital, liquidity, and the project execution capabilities of our Group companies will also be evaluated on a comprehensive basis. While we currently satisfy the underwriting requirement of surety companies, further expansion and growth of our North American business will require a stronger equity level than in the past. Accordingly, we believe that a certain level of additional equity strengthening will be necessary going forward.

Q. In the Addendum to the Medium-Term Business Plan 2022, the ROE target was set at 10% or higher, while the forecast for the current fiscal year is 14.3%. In setting future ROE targets, should I understand that an increase in the cost of shareholders' equity resulting from higher long-term interest rates will also be taken into consideration?

A. ROE targets have traditionally been set taking interest rate trends into consideration. We also recognize that the level of the cost of shareholders' equity expected by the stock market may change. These factors will be incorporated into our deliberations when setting targets under the next medium-term business plan.