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OBAYASHI CORPORATION
1st Quarter: Summary of the Financial Results Briefing for Fiscal Year Ending March 31, 2021 (Teleconference) and Main Questions and Answers

・ Date/Time: Monday, August 3, 2020, 3:00 to 4:00 p.m.

1. Financial Forecasts for Fiscal Year Ending March 31, 2021

(1) Summary of Financial Forecasts

(Financial Results, P. 2)

・ There are three main reasons for the decline in net sales and each profit category in the forecasts for fiscal year ending March 31, 2021 compared to the previous fiscal year; 1) Comparison with the unusually large numbers during the same period of the previous fiscal year, during which multiple large projects were completed in the domestic building construction business, 2) a decline in sales posted during the first three months of the fiscal year under review because construction had just begun on many projects in the domestic building construction business, and 3) the impact from suspension of some construction projects in the overseas building construction business due to the spread of the novel coronavirus (COVID-19).

(Financial Results, P. 1)

・ The dividend forecast for fiscal year ending March 31, 2021 is an interim dividend of 16 yen per share and a year-end dividend of 16 yen per share. This amounts to 32 yen per share for the full fiscal year and a dividend payout ratio of 24.4%, on par with last fiscal year.

(2) Non-consolidated Forecasts

(Financial Results, P. 5)

・ In the building construction business, the forecast for net sales on completed construction contracts is 975 billion yen (down 136.8 billion yen YoY) and gross profit on completed construction contracts is 108 billion yen (down 16 billion YoY), a decline for both. The reasons for the declines are 1) comparison with the unusually large numbers during the same period of the previous fiscal year, during which multiple large projects in the Greater Tokyo Area were completed in the domestic building construction business, and 2) a decline in net sales and gross profit on completed construction contracts in fiscal year ending March 31, 2021 because construction has just begun on many construction projects on hand in the domestic building construction business.

- Net sales on completed construction contracts in the civil engineering business are forecast to increase slightly to 288 billion yen (up 7 billion yen YoY). However, gross profit on completed construction contracts is forecast at 51 billion yen (down 4.2 billion yen YoY). The forecast decline is due to comparison to fiscal year ended March 31, 2020, during which highly profitable large projects were completed in Southeast Asia.
- The reason for the relatively low income tax expense as a percentage of income before taxes compared to the previous fiscal year is the recognition of past impairment losses accompanying the sale of real estate owned by the Company to a Group subsidiary during the 1st quarter. These will be deductible expenses and will reduce the tax expense.
- Orders received in the building construction business are forecast to decline slightly to 1,150 billion yen (down 43.4 billion yen YoY). Despite the postponement in beginning construction and suspension of plans for hotels, commercial facilities, and other projects occurring in the domestic market due to the novel coronavirus, the volume of information on construction plans is being maintained at the same level as last fiscal year. The Company, therefore, projects a slight decline.
- Orders received in the civil engineering business are forecast to be roughly level with the previous fiscal year at 330 billion yen (up 3.1 billion yen YoY). The firm demand anticipated for construction of large government projects in the domestic market will cover for the decline in orders received in the overseas business due to comparison with the large orders received in Taiwan and Bangladesh in the previous fiscal year.

(3) Consolidated Forecasts

(Financial Results, P. 5)

- Consolidated net sales on completed construction contracts and consolidated gross profit on completed construction contracts are expected to decline to 1,762 billion yen (down 190.4 billion yen YoY) and 200.5 billion yen (down 31.1 billion yen YoY) respectively. The reasons for the declines are the impact from the suspension of some construction projects at overseas subsidiaries such as Webcor, LP in North America, Kenaidan Group Ltd. in Canada, and Obayashi Singapore Private Limited., in addition to the decline in net sales and profit at the non-consolidated level.
- Orders received in the overseas building construction business are expected to decline to 320 billion yen (down 106 billion yen YoY). The reason for the decrease in the forecast is the anticipated decline in orders received by Webcor, LP and other North American subsidiaries due to postponement of contracts and suspension of plans caused by the spread of the novel coronavirus.
- Orders received in the overseas civil engineering business are forecast to decline to 75 billion yen (down 69.9 billion yen YoY). This decrease is projected because of the comparison to last fiscal year, during which the overseas civil engineering subsidiary Kraemer North America, LLC received orders for multiple large construction projects.
- The balance of interest-bearing debt as of March 31, 2021 is forecast at 250 billion yen, on par with March 31, 2020.

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2. 1st Quarter Results for Fiscal Year Ending March 31, 2021

(1) Non-consolidated Results

(Financial Results, P. 4)

- In the building construction business, the Company achieved record high net sales and gross profit on completed construction contracts in the same period during the previous fiscal year due to the completion of multiple highly profitable large construction contracts. In the 1st quarter of fiscal year ending March 31, 2021, construction on many large projects in hand had just begun, causing both net sales and gross profit to underperform the 1st quarter of the previous fiscal year. Net sales on completed construction contracts declined to 207.6 billion yen (down 26.1 billion yen YoY) and gross profit on completed construction contracts fell to 18.6 billion yen (down 7.7 billion yen YoY).
- In regard to the temporary suspension of construction during the State of Emergency declared, the spread of the novel coronavirus only had a limited impact on the Company's domestic business because the temporary suspension was short-lived and also overlapped with the Golden Week holidays.
- The negative tax figure of 1.2 billion yen resulted from the reversal of income taxes accompanying the sale of property owned to a Group subsidiary.
- Orders received in the building construction business fell to 100.7 billion yen (down 129.6 billion yen YoY). This decline resulted from the anticipated timing of domestic orders received for large projects being concentrated in the second quarter and beyond, as well as the anticipated delay in the timing of estimates and conclusion of contracts to the second quarter and later due to the spread of the novel coronavirus. The Company believes that its full-year forecast for orders received is attainable because the volume of information on order plans is on par with last fiscal year.

(2) Consolidated Results

(Financial Results, P. 4)

- Profit attributable to owners of parent in the 1st quarter of fiscal year ending March 31, 2021 was 22.7 billion yen, level with the 1st quarter of last fiscal year.
- The balance of interest-bearing debt as of June 30, 2020 increased by 37.8 billion yen compared to March 31, 2020.

3. Main Questions and Answers

(1) Regarding the Financial Forecasts

Q. I understand that gross profit on completed construction contracts in the 1st quarter of fiscal year ending March 31, 2021 was low and the forecast for the full fiscal year is also on par with last fiscal year, when a provision for losses was made. What is the reason for that?

A. The gross profit margin on completed construction contracts in the domestic building construction business fell by around 2.3% YoY. However, the same period during the previous fiscal year benefitted from highly profitable large construction projects, which pushed to gross profit margin up. The full-year forecast shows lower profitability compared to the previous fiscal year. Construction on many large projects has just begun and the profit margin tends to improve as these are completed, so we expect the profit margin to be low this fiscal year.
Moreover, orders received for renovation projects declined due to the spread of the novel coronavirus and we will be watching the future trend closely.

Q. Has the impact from the decline in orders received for renovation projects due to the spread of the novel coronavirus been incorporated into the full-year forecast for this fiscal year?

A. It has been incorporated to a certain extent.

Q. You mentioned that renovation projects would be a variable factor in domestic building construction. Approximately what percentage of orders received and completed construction contracts do renovation projects account for?

A. It depends on the year, but generally from 10% to the high teens.

Q. The forecast for net sales in domestic building construction this fiscal year is for a 12% decrease from last fiscal year. What is your rough estimate of what the forecast would have been without the impact from the novel coronavirus?

A. We cannot provide an answer for what it would have been without the virus.

Q. You stated that the volume of information on order plans was sufficient in the domestic building construction business. Is it correct to assume that level of net sales will bottom out this fiscal year and rebound by around fiscal year ending March 31, 2025?

A. Orders received are not expected to decline significantly from last fiscal year. We think we can also maintain net sales at the level of fiscal year ending March 31, 2021 to a certain extent.

(2) Regarding the Order Environment for the Company

Q. You mentioned that the volume of information on order plans for domestic building construction in fiscal year ending March 31, 2021 is holding firm at the same level with last fiscal year. Have there been any signs of fiercer price competition?
A. The profit margin at the time of ordering is on par with the first quarter of last fiscal year.

Q. I understand that orders received for large construction projects at the end of last fiscal year exceeded expectations and the forecast for orders received this fiscal year is still on par with last fiscal year. Meanwhile, a provision for losses due to strategic order acceptance was posted last fiscal year. Please tell us why there were strategic order acceptance when the ordering environment was good.
A. The Company considers orders that will lead to other construction projects in the future, relationships with customers, and other factors when accepting strategic orders. Moreover, ordering activity just targets construction that the Company should undertake from among the information on order plans; we do not intentionally aim to secure volume in terms of construction projects on hand.

Q. In regard to domestic building construction orders, you mentioned that construction plans for hotels and commercial facilities were postponed or suspended due to the spread of the novel coronavirus. Is the trend the same in other areas and industries?
A. We have not seen that trend of decrease overall.

Q. Will the impact from the spread of the novel coronavirus also be a positive factor in the construction of logistics facilities and data centers?
A. We have received order inquiries for construction plans for logistics facilities and data centers and have not seen any decline in demand for these types of construction.

Q. What is the status or marketing activities accompanying the spread of the novel coronavirus? Was it hard to meet with the people responsible for placing orders during the 1st quarter of fiscal year ending March 31, 2021?
A. Marketing activities were restricted in April and May. The conditions were severe and necessitated telecommuting. Marketing personnel can now visit the offices of those responsible for ordering and marketing activities are gradually returning to normal. We are also searching for ways to conduct Web-based marketing activities.

Q. Which marketing activities will the spread of the novel coronavirus have a greater impact on, in terms of project scale? Are there any differences in the way you are proceeding with marketing activities depending on the scale of the construction project, such as whether it is a large or small project?
A. It depends on the individual project. There is already sufficient communication in

marketing activities for redevelopment plans and other projects that cover an extended period, and it is easy to use the Web to communicate for these. However, marketing activities that involve calling on customers are better suited to construction projects undertaken on a spot basis. In either case, we think we need to be creative in how we proceed with marketing activities in the future.

(3) Regarding the Overseas Business of the Obayashi Group

Q. What is the impact on financial results from temporary suspension of construction at overseas subsidiaries due to the spread of the novel coronavirus? Is the full-year forecast for Thai Obayashi Corporation Limited conservative?

A. Overseas subsidiaries are being impacted by the temporary suspension of construction, especially at Webcor, LP and Obayashi Singapore Private Limited. On the other hand, construction has not been suspended at Thai Obayashi Corporation Limited and it has not been impacted by the spread of the novel coronavirus. As is the case in the domestic building construction business, construction on many large orders in hand has just begun, so net sales and operating income has declined compared to last fiscal year. In the North American region, both the U.S. and Canada issued stay-at-home orders in late March and construction other than construction of a highly public nature was suspended. Once restrictions were eased in San Francisco in May, other states also eased restrictions and nearly all construction has now resumed with the exception of some projects. In Singapore, construction was temporarily suspended from April through June, but has already resumed with the exception of some projects. Nevertheless, infections continue to spread in the dormitory for foreign workers, who comprise the major of construction workers, and the inability to secure the necessary workforce means that it will take time to restore full operating capacity.
We have not seen much of an impact in other countries, and anticipate orders received and net sales at normal levels.

Q. The profit on overseas construction has declined. Is there a risk of a further decline in profit? Or will it rebound in fiscal year ending March 31, 2022?

A. Future economic trends are unclear due to spread of the novel coronavirus. North America is particularly difficult to predict and we need to keep a close eye on trends in the future as well. In Southeast Asia, we think it will be possible to maintain the conditions up to this point to a certain extent, with the exception of Singapore.

(4) Regarding Shareholder Return

Q. While I think the management indicator targets in the Medium-Term Business Plan are achievable, but please explain your policy on shareholder return.

A. Keeping stable dividends foremost in mind, we will pursue payment of stable dividends over the long-term, using a consolidated dividend payout ratio of 20% to 30% as a guideline.

Q. Is stock repurchasing a possibility?

A. We cannot deny the possibility, but we view it as a low priority in the use of funds, in light of the need for investment for the future.

(5) Other Questions

Q. While you are forecasting a decrease in profit for the current fiscal year, you are also projecting an increase in SG&A expenses. I think that expenses are normally reduced when performance deteriorates; am I correct in assuming that you are not anticipating deterioration in financial performance over the medium term?

A. We are forecasting 74 billion yen (up 2.9 billion yen YoY) in selling, general and administrative expenses at the non-consolidated level, and general expenses of 36.2 billion yen (up 2.5 billion yen YoY) as part of this. The reason for the increase from last fiscal year is the investment needed to strengthen the business base for future businesses by pursuing digitalization, etc. We are also considering office restructuring for the post-COVID-19 environment and these expenses could be incurred for one to two years into the future.

Q. You stated that the Company is implementing office restructuring aimed at the post-COVID-19 environment; can you be more specific on the content? Is it to ensure social distancing or expand the office?

A. The reason is because twenty years have passed since we first occupied our head office in Shinagawa and the layout is old. In the future, we will consider the impact from the spread of the novel coronavirus and reduce the number of individual desks while expanding space for meetings, breaks, and dedicated space for Web conferences. The existing floors will be used effectively.

Q. Obayashi has secured an ample cash position in cash on hand and cash also increased in the 1st quarter of fiscal year ending March 31, 2021. Are you concerned about sufficient cash flow?

A. We sought to procure financing and secure cash with the possibility in mind that Group companies in Japan and overseas might experience an operating capital shortage due to the spread of the novel coronavirus. In addition to this, progress on collecting accounts receivable from completed construction contracts during April through June led to an increase in the amount of cash. I do not anticipate a significant change in the level of loans payable in the future, and have no particular concerns about cash flow at present.

Q. In regard to the incorporation of the SEP vessel that is scheduled for completion in October 2020 into performance, what are your plans for depreciation expense, operating status, etc.?

A. It is currently under construction; depreciation will begin once it is put into service in business. In terms of the accounting, there are no projects in which it will be used this fiscal year so a depreciation expense will not be posted this fiscal year.

Q. You explained that the Company sold real estate. What sort of pace of real estate sales does the strategy for the development business in Japan and overseas call for?

A. The property was sold to a Group subsidiary and was nothing but a restructuring of the form of real estate ownership within the Group. We also do not have a policy on the sale of real estate owned by the Company. If there are properties that match the policy of Obayashi's redevelopment business in regard to project development and office buildings for lease, we would like to purchase them.