OBAYASHI

November 8, 2021

OBAYASHI CORPORATION announces its revised financial forecasts for FY2021

Tokyo, November 8, 2021 —Obayashi Corporation (hereinafter referred to as the "Company") hereby announces that it has revised its consolidated and non-consolidated forecasts for the fiscal year ending March 31, 2022. The revisions are as follows:

1 Revised forecasts

(1) Consolidated forecasts for the fiscal year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

	Net Sales	Operating Income	Ordinary Income	Profit attributable to owners of parent	Profit attributable to owners of parent per share (EPS)
Forecast to be revised (A)	Yen in millions 1,910,000	Yen in millions 95,000	Yen in millions 98,500	Yen in millions 71,500	Yen 99.63
New Forecast (B)	1,960,000	34,500	40,000	35,000	48.82
Change (B-A)	50,000	△60,500	△58,500	△36,500	
Change (%)	2.6	△63.7	△59.4	△51.0	
(Reference)Comparison with the results of the previous fiscal year(FY ended March 31, 2021)					
Results of previous fiscal year (C)	1,766,893	123,161	128,784	98,780	137.64
Change (B-C)	193,106	△88,661	△88,784	△63,780	
Change (%)	10.9	△72.0	△68.9	△64.6	

(2)Non-consolidated forecasts for the fiscal year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

	Net Sales	Operating Income	Ordinary Income	Profit	Profit per share (EPS)
Forecast to be revised (A)	Yen in millions 1,365,000	Yen in millions 65,000	Yen in millions 72,500	Yen in millions 55,000	Yen 76.64
New Forecast (B)	1,405,000	4,000	12,000	16,000	22.32
Change (B-A)	40,000	△61,000	△60,500	△39,000	
Change (%)	2.9	△93.8	△83.4	△70.9	
(Reference) Comparison with the results of the previous fiscal year(FY ended March 31, 2021)					
Results of previous fiscal year (C)	1,230,418	93,441	103,894	81,237	113.20
Change (B-C)	174,581	△89,441	△91,894	△65,237	
Change (%)	14.2	△95.7	△88.4	△80.3	

2 Reasons for the revisions

(1) Reasons for the revision in the non-consolidated forecast

There were two main reasons for the provisional losses. First, prior to the COVID-19 pandemic, the Company offered a strategic bid price for a large project expecting to achieve economies of scale through the winning of its peripheral construction projects along with significant cost reductions through value engineering (VE) proposals during the pre-construction period. However, the VE proposals were not approved as the Company expected, so the expected amount of cost reduction was not achieved, and the price of steel frames and other materials rose due to changes in the market environment. Second, in a design-build contract project, the initial design drawn at the time of bidding had to be revised during the phase of developing the design drawings, which increased the construction costs.

In response, operating income for the fiscal year ending March 31, 2022 is expected to decrease by 61 billion yen from the previous forecast to 4 billion. This is due to recording a provision for losses on construction contracts in the second quarter of this fiscal year for several large projects in the domestic building construction business and the expectation that such losses will be recorded by the fourth quarter of this fiscal year. As a result, profit for this fiscal year is expected to decrease by 39 billion yen from the previous forecast to 16 billion yen, considering an expected gain on sales of investment securities of 9 billion yen

The above projection does not take into account additional profits in future procurement or additional work on the projects.

(Details such as project names and locations cannot be disclosed.)

(2) Reasons for the revision in the consolidated forecast

The consolidated forecast has been revised in conjunction with the revisions made in the non-consolidated forecast.

3 Measures to be taken

The Company will make every effort to improve profitability of the construction projects mentioned in 2 above by reducing construction costs, etc. We will also take the following measures to prevent similar losses:

(1) More stringent project screening

The screening process for expected cost improvement before bidding, etc. has been made more stringent. In the preliminary review, we have established a more objective and rigorous system to evaluate the profit recovery plan and risk factors such as rising material prices.

(2) Strengthen the quality and risk management system of the design division

As of April 1, 2021, all architects and design engineers who were assigned to each branch office have been reassigned to the design division of the head office, which has enabled us to assign architects and design engineers to each project according to the difficulty of the project and the abilities and experience required for the projects. In addition, we have established a management system in which quality and risk assessments are conducted separately from the project team in order to improve design quality and eliminate risks.

(Projects mentioned in above 2 had been tendered before measures (1) (2) above were implemented)

4 Return of Executive Compensation

In consideration of a significant downward revision to the business performance forecast, directors and executive officers will voluntarily return a portion of their monthly compensation for the three-month period starting from December 2021 as follows:

(1) Representative Director, President: 50% of the monthly compensation
(2) Other Representative Directors: 30% of the monthly compensation
(3) Directors (excluding outside directors): 20% of the monthly compensation
(4) Executive officers who have responsibilities in the execution of the projects mentioned in 2 above : 10% to 40% of monthly compensation
* For Executive officers who fall under both (3) and (4) of the above criteria, the respective reduction rates are added together.

Based on the consolidated forecast stated in 1 above and the calculation method for performance-linked remuneration for directors and executive officers, which was approved at the Ordinary General Meeting of Shareholders held in June this year, no performance-linked remuneration (cash bonus and stock remuneration) will be paid except for the fixed provision stock remuneration.

5 Year-end dividend

Our dividend policy is to maintain stable dividend payment over the long term and keep the standard dividend payout ratio in the range of 20-30% as well as to return profits to shareholders including share buybacks according to business performance while considering an increase in internal reserves to improve our financial position and develop technologies for the future and to invest in fixed assets.

Although the consolidated forecast has been revised downward, we plan to keep a year-end dividend of 16 yen per share (32 yen per share including the interim dividend) as planned, which will be submitted to the Ordinary General Meeting of shareholders in June next year, from the perspective of maintaining stable dividend payment over the long term based on the above basic policy, regardless of the standard dividend payout ratio.

6 The next "Medium-Term Business Plan"

In order to respond to the changing business environment during and after the COVID-19 pandemic, we are planning to announce a new Medium-Term Business Plan in March of next year, with fiscal 2022 as the first year, and we are developing the new plan.

In fiscal years 2022 and 2023, we will place the highest priority on recovering and stabilizing our business performance on the premise of securing a level of consolidated operating income of 100 billion yen or more. In addition, from fiscal 2024 onward, we will work solidify the medium– to long-term growth of our group as a stage for subsequent growth.

Disclaimer

This revision of forecasts, announced in the Japanese language at the Tokyo Stock Exchange on November 8, 2021, was translated into English and presented solely for the convenience of non-Japanese speakers. If there is any discrepancy between the Japanese announcement and this English translation, the former will prevail. The numbers used with words or phrases relating to future events such as "forecast," "expected" or "projected" provided in this document are based on the information available to us at the time of the release of this document. Due to various factors, the actual results may differ from the forecasts.