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**OBUYASHI CORPORATION**  
**Summary of the Financial Results Briefing Conference**  
**for FY2024 1<sup>st</sup> Quarter**  
**(April 1, 2024 to June 30, 2024)**

Date: Tuesday, August 6, 2024, from 13:30 to 14:15  
Respondent: Yoshiaki Takata, General Manager of Accounting Department  
Attendees: 93 securities analysts, institutional investors and others

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**1. Presentation on Financial Results for FY2024 1<sup>st</sup> Quarter and Forecasts for FY2024**

An explanation was provided by the General Manager of Accounting Department, based on the Presentation on Financial Results FY2024 1<sup>st</sup> Quarter (April 1, 2024 to June 30, 2024).

**2. Main Questions and Answers**

**(1) Domestic Building Construction Business**

Q: The profit margin in the first quarter was good both compared to the previous fiscal year and to the plan. Did the result exceed the plan?

A: Progress on profit margin for the first quarter was within the expected range, at 7.2% against the full-year plan of 8.0%. The result looks better due to impact of low result in the first quarter of the previous fiscal year.

Q: Is it correct to assume that the improvement in profit margin in the first quarter is due to improvement in the profitability of construction projects in hand and not a transitory improvement in profit margin upon completion of construction projects? Also, what is the progress of net sales compared to the plan? Will sales continue to increase in the second quarter and beyond?

A: In the previous fiscal year, most of the construction projects completed at the end of the fiscal year, not in the first quarter. On the other hand, this fiscal year, we have some completion of construction projects increasing the profit margin in the first half of the year. But the improvement on profit margin is not due to specific construction projects. Net sales are also progressing as planned for each construction project.

Q: How is the progress on large construction projects for which a provision for loss on construction contracts was recorded in previous years? What risk factors, if any, are you aware of?

A: The construction projects for which the provision for loss on construction contracts has been made are progressing as planned.

Q: Profit margins are improving, but is there any change in the difficult situation in arranging mechanical and electrical (M&E) subcontractors?

A: Although profit margins were good, there was no particular change in the tight situation in subcontractors. Prices continue to rise due to continued busyness, and there was no improvement in the negotiation situation.

Q: How was the profitability at the time of receiving orders in the first quarter?

A: The trend on profitability at the time of receiving orders has not changed since the last financial results, and has recovered from the bad period, returning to the level before the COVID-19 around FY2019.

Q: You mentioned that the order environment is favorable and demand is strong, but what specific sectors contributed in the first quarter? What is the content of "54.3 billion yen in the transportation machinery" on page 2 of the FY2024 1<sup>st</sup> Quarter Supplementary Data on Financial Results? What do you think of sustainability in this environment going forward?

A: Demand is mostly related to specified critical products which the Japanese government designates such as semiconductors, storage batteries, and machine tools. Due to the recent volatility in stock prices, we will closely monitor future trends in capital expenditure. Regarding order environments, construction work is currently at full capacity, and we are currently working on projects to record orders received several years later in the future.

Q: With regard to the profitability of large projects that have already been awarded but not yet contracted, are you able to contract without losing a profitability in the future?

A: We continue to focus on construction capacity and profitability in our order receiving strategy, and there is no indication that this policy will be broken.

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

Q: What is the breakdown of orders received for domestic civil engineering in the first quarter? Orders from government, overseas, and railroads are increasing.

A: The main project recorded in the first quarter for non-consolidated sector is a large civil engineering project in Singapore, not in Japan. Not many orders for domestic government projects were recorded in this quarter.

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

Q: What contribution to the profit does consolidation of MWH make?

A: Net sales of MWH are progressing according to the plan. As shown in the YoY consolidated operating income (see p. 6 of the Presentation on Financial Results), the subsidiary construction business of 3.8 billion yen (including 1.1 billion yen in foreign exchange impact) minus 3.0 billion yen in subsidiary SG&A expenses (including 0.8 billion yen in foreign exchange impact) will be the profit. Note that SG&A expenses include goodwill amortization expenses (total goodwill of 15.0 billion yen / 10-year amortization).

#### **(4) Real Estate Development Business**

Q: Progress on the operating income in the first quarter was about 15%. What is the plan for selling properties to private funds in the second quarter and beyond?

A: We will proceed with the sale of properties to private funds, etc. in accordance with the plan, but we are not able to comment on the detail of the contract at this time.

#### **(5) Outlook for FY2024**

Q: Although the first quarter progressed well against the plan, what are the downside risks for the second quarter and beyond?

A: The risk of price hikes and high construction prices continue. In addition, although we are receiving orders in a controlled manner due to construction capacity, any trouble in construction could affect our business performance.

Q: What impact will the recent sharp exchange rate fluctuations have on the second quarter and beyond?

A: The first quarter results were converted at 161 yen per U.S. dollar, compared to the original plan of 135 yen per U.S. dollar. Since operating income of overseas subsidiaries is not so large, there is no significant impact from exchange rate fluctuations.

#### **(6) Reduction of Cross-Shareholdings**

Q: I believe that the sale of cross-shareholdings contributed significantly to extraordinary income in the first quarter. How much cross-shareholdings were sold this quarter? Is the progress within the range of your full-year plan or is the sale proceeding ahead of schedule?

A: We would like to refrain from disclosing the amount sold and the progress in the first quarter of the fiscal year. In the first quarter, we sold the shares out of those that had been agreed to sell by the clients at the time of the full-year plan.

Q: How are the negotiations with your business partners that you hold shares in regarding the reduction of cross-shareholdings? Is there a possibility that the sale may be accelerated?

A: Some business partners are in advanced negotiations, while we continue to negotiate with others. There has been no particular change in the agreed issues from what we reported at the end of last fiscal year.

#### **(7) Capital Policy**

Q: Due to dividends payment and the sale of cross-shareholdings, the amount of equity decreased to 1.1 trillion yen in the first quarter. Is this a large amount compared to the performance indicator target of ¥1 trillion level, or is it within the acceptable range amid fluctuating stock prices?

A: Since stock prices of cross-shareholdings fluctuating so much, we believe that the ¥1.1 trillion-equity is not excessive, but within the target range.

**(8) Performance forecast of Medium-Term Business Plan 2022**

Q: As large unprofitable construction projects are completed during the period of the Medium-Term Business Plan 2022 through the end of FY2026, to what extent should I be aware of the risk of additional provision for loss for unprofitable construction projects in hand? Since construction materials have already been procured, can I assume that the risk is limited?

A: There are risks for provision for losses if there are price hikes or changes in the progress of construction, but at this point there are no such particular risks to report. It is difficult for us to comment on material costs, since M&E work progress and there will be construction work other than what we have procured in the past.

Q: What is the speed on decrease of provision for loss on construction contracts? It seems to be decreasing steadily.

A: The balance will decrease as the construction projects for which provision for loss on construction contracts had been recorded progresses in the current and next fiscal year. Eventually, we would like to keep it at the previous several billion level.

Q: In the addendum to Medium-Term Business Plan 2022 announced in May, you set a target of "profit attributable to owners of parent of around 100 billion yen." Considering the current orders environment and the completion of unprofitable projects in hand, can I assume that the plan is on track? Can I expect an early achievement of the plan?

A: The progress for the current fiscal year is in line with our plan since the economic environment has not changed significantly from the announcement of the addendum to Medium-Term Business Plan 2022 in May.