OBAYASHI

March 4, 2024

Notice Concerning Revision of Capital Policy

OBAYASHI CORPORATION (hereinafter referred to as the "Company") hereby announces that the Board of Directors has decided to revise the basic capital policy and specific measures. The details are described below.

1. Basic Capital Policy

The Obayashi Group Medium-Term Business Plan 2022 stipulates that the Company works to strengthen the business foundation and accelerate company-wide transformation and targets a minimum return on invested capital (ROIC) of 5% or more over the medium term as one of the performance indicators for promoting management that emphasizes capital efficiency.

To achieve the target, the Company will work on striving for sustainable profit growth in each business as before and on controlling invested capital. Additionally, as a result of examining a capital structure that further emphasizes capital efficiency, including the use of finance leverage, the Company decided to set the necessary equity at around one trillion yen and target a return on equity (ROE) of 10% by fiscal year ending March 31, 2027 (FY2026), the final year of the Obayashi Group Medium-Term Business Plan 2022, by conducting strategic shareholder returns.

Therefore, the Company will revise some of the performance indicator targets in the Obayashi Group Medium-Term Business Plan 2022 as follows.

	Performance indicator targets	Current	After change
Stability indicators	Equity standard	Equity ratio of around 40%	1 trillion yen
Efficiency indicators	Return on invested capital (ROIC)	5% or more in the medium term	5% or more in the medium term
	Return on equity (ROE)	(Reference) 8% or more in the medium term	10% or more by FY2026

Moreover, reviews on other performance indicator targets and cash allocation in the Obayashi Group Medium-Term Business Plan 2022 are also underway in the Company and scheduled to be released with the financial results announcement for the fiscal year ending March 31, 2024, in May 2024.

2. Current Situation Recognition

Aiming to enhance its corporate value, the Obayashi Group (hereinafter referred to as the "the Group") invests in human resources, digital transformation (DX), technology, and enhancement of productivity to continue to fulfill the social mission of the construction industry where a decline in the number of engineers and workers is expected while giving top priority to the safety and quality. In addition, the Group carries out timely growth investments by taking advantage of its solid financial foundation in fields where the Group can establish a competitive advantage. Moreover, the Group has been selling cross-shareholdings to reduce the ratio of consolidated net assets to 20% or less by the end of FY2026.

However, the current price-to-book ratio (PBR) of the Company's shares is below one. The Group recognizes that this is partly due to a decline of ROIC and ROE in association with a decrease in operating margin and increase of equity in recent years, and insufficient communication of the Group's growth strategy with stakeholders.

Consolidated Financial Summary (Millions of Yen)

Fiscal Years Ended/ Ending March 31	Results FY2019	Results FY 2020	Results FY2021	Results FY 2022	Forecasts FY 2023	
Net sales	2,073,043	1,766,893	1,922,884	1,983,888	2,280,000	*1
Operating income	152,871	123,161	41,051	93,800	74,000	*1
Operating margin (%)	7.4	7.0	2.1	4.7	3.2	*1
Profit attributable to owners of parent	113,093	98,780	39,127	77,671	59,000	*1
Equity (net assets less non-controlling interests)	817,892	931,008	955,691	997,109	1,069,717	*2
Interest-bearing debt and nonrecourse loans	248,552	265,953	280,436	337,921	340,000	*1
ROIC (%)	9.8	7.4	2.3	4.9	(Reference) 3.6	*3
ROE (%)	14.3	11.3	4.1	8.0	(Reference) 5.7	*3
Equity per share (Yen)	1,139.69	1,297.25	1,333.10	1,390.77	1,491.94	*2
Stock price at end of period (Yen)	926	1,015	900	1,013	(Reference) 1,220	*4
PBR (Times)	0.81	0.78	0.68	0.73	(Reference) 0.82	*4

(Note) Performance forecast for the year ending March 31, 2024

*1 The projected figures for net sales, operating income, operating margin, profit attributable to owners of parent, and interest-bearing debt and nonrecourse loans are those announced on February 5, 2024.

*2 Equity (net assets less non-controlling interests) is the amount in the consolidated balance sheet at the end of the third quarter of the fiscal year ending March 31, 2024. Equity per share is the amount divided by the total number of issued and outstanding shares (excluding treasury stock) at the end of the third quarter of the fiscal year ending March 31, 2024.

*3 In calculations of ROIC and ROE, the average amount of equity uses the average of the amount at the end of the fiscal year ended March 31, 2023, and the amount at the end of the third quarter of the fiscal year ending March 31, 2024. The average amount of interest-bearing debt uses the average amount at the end of the fiscal year ended on March 31, 2023, and the amount at the end of the fiscal year ending March 31, 2024.

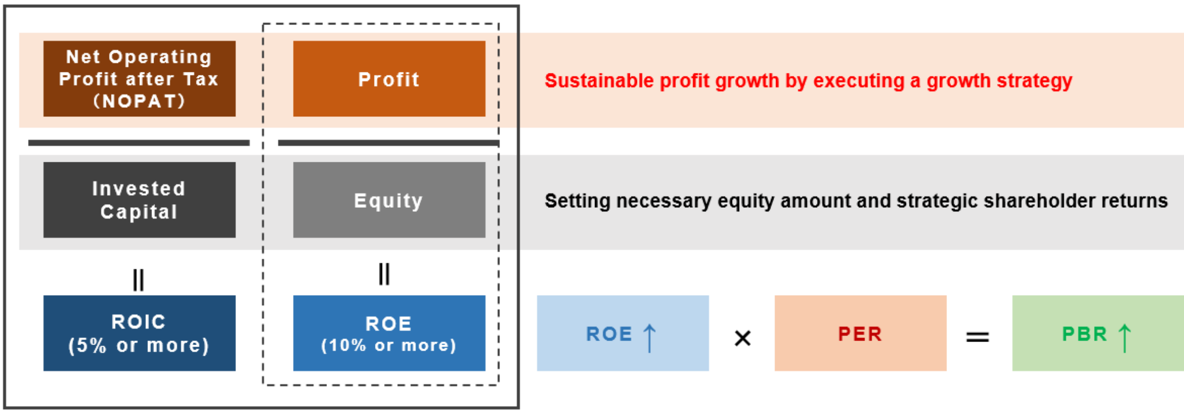
*4 Stock price at the end of the fiscal year is the closing price as of December 29, 2023. PBR is calculated by dividing the stock price per share by equity per share at the end of the third quarter of the fiscal year ending March 31, 2024.

At the Company, shareholders' equity cost and weighted average cost of capital (WACC) have been calculated with the capital asset pricing model (CAPM) and are used for internal investment decisions and the management accounting system. The Company is aware that shareholders' equity cost for the Company in the CAPM is at the 5% to 7% level, and WACC is around the 4% level. In addition, after examining changes in ROE and PBR over several years, the Company estimates that the cost of shareholders' equity that the stock market demands is around 8% to 9%.

The Company recognizes that it is necessary to work on specific measures where capital efficiency is further emphasized with the aim of ROIC of 5% or more that exceeds WACC, and ROE of 10% or more that exceeds the cost of capital as targets.

3. Specific Measures that Further Emphasize Capital Efficiency

The Company aims to achieve ROIC of 5% and ROE of 10% by promoting the following measures: sustainable profit growth by executing a growth strategy and setting necessary equity amount and strategic shareholder returns.



(1) Sustainable profit growth by executing a growth strategy

- Generate sustainable profits by further enhancing investment in human resources, DX, technologies, and productivity improvement to continue to fulfill the social mission of the construction industry while giving top priority to safety and quality in the background of the decline in the number of engineers and workers in the construction market
- Identify fields where the Group can establish a competitive advantage in fields contributing to the solution of social challenges, such as carbon neutrality and well-being or fields with a potential for growth for each business, and increase profit by implementing proactive and timely growth investment in the identified fields

(2) Setting necessary equity amount and strategic shareholder returns

- Set investment capital for each business according to the growth of the construction business and related businesses of the Group, and set the necessary equity amount after examining the capital structure of each business, including the use of finance leverage
- Review the necessary capital for investment and equity according to each business scale and other factors based on necessity, and periodically evaluate the capital structure and balance sheet of each business by the Board of Directors from the point of capital efficiency
- Set the necessary equity of the Group during the period covered by the Obayashi Group Medium-Term Business Plan 2022 as the one trillion-yen level and execute strategic shareholder returns
- For annual dividends, increase dividends from a dividend on equity ratio (DOE) of around 3% set forth in the Obayashi Group Medium-Term Business Plan 2022 to DOE of around 5% from FY2023, maintaining long-term stable dividends as the priority. Please refer to "Notice Concerning Changes in the Dividend Policy and Revision to Dividend Forecast (Dividend Increase)" announced separately on March 4, 2024.
- In addition to annual dividends, execute flexible shareholder returns by using various ways such as special dividends and acquisition of own shares, according to necessary equity and profit status (comprehensive decision-making will be made in consideration of the profitability and financial status of the Group, PBR, and other factors)
- Review the DOE target in line with the medium- to long-term improvement of the profit level

The Group will also work on reducing the cost of shareholders' equity by providing information primarily regarding its growth strategy, approach to its business portfolio, and status of ESG initiatives to stakeholders to improve engagement.

The above forecast is based on available information as of the date of the release, and actual results may differ from the forecast due to various factors in the future.