

FY2020 First Half Analyst and Investor Briefing (Tele-Conference)

Summary of Q&A Session

November 10, 2020

Q What impact has COVID-19 had on construction market trends for domestic and overseas?

A Domestic: Japan's competitive environment has grown fiercer due to the cautious investment stance of companies. More specifically, while inbound-related investment is decreasing, digital-related and industrial warehouse demand is increasing.
Overseas: In the U.S., manufacturing sector is stable while demand for hotels and retail is shrinking. In Asia, we see delayed negotiations for new contracts caused by the impact of COVID-19 in Southeast Asia including Singapore.

Q Are there any secured or high-probability projects that were scheduled to be ordered during this fiscal year but were cancelled instead?

A Several projects have been cancelled due to customers' requests, but we are striving to achieve our full-year contract awards forecast by increasing the number of new projects to work on.

Q What fields do you expect much for new contract awards in the future?

A We expect growing industrial warehouse and digital-related demand as well as several large-scale redevelopment projects for building construction business. We also see that public investment in disaster preparedness for climate change and investment in the renovation of aging infrastructure will increase for civil engineering business.

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Q

Considering that gross profit margins for civil engineering and building construction businesses in the first half were at a high level, do you expect to exceed the full-year forecast for gross profit margins?

A

In the first half, because there were many projects headed for completion before the previously scheduled summer Olympic Games were to be held, we achieved a large improvement in profitability. On the other hand, in the second half, the initial forecast for gross profit margins was left unchanged considering we have many projects in the early stage of construction while there is a persisting uncertainty caused by COVID-19.

Q

What has been the impact of COVID-19 on domestic and overseas real estate development investment?

A

Domestic real estate development has not been significantly impacted by COVID-19. New investments have been made, and we have made steady progress toward our investment plan in a stable investment environment. In overseas real estate development, industrial warehouse demand is expanding in Europe and the U.S., and we are investing according to plan. On the other hand, the progress of certain investment plans is lagging in Southeast Asia due to licensing delays and other factors.

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Q Why is the R&D investment forecast lower than the initial investment plan?

A It is because we have increased R&D efficiency and have made slower progress of cooperation with external organizations due to COVID-19.

Q Why did the “provision for loss on construction projects in progress” increase?

A Although we see deteriorating profits in some construction projects, this is due to project-specific factors; the impact of COVID-19 is not the main cause. We expect this provision will be eliminated over time in tandem with the construction progress.

Q What is the outlook for the owner’s equity ratio?

A We have already achieved the owners’ equity target on a consolidated basis set in the current Medium-Term Business Plan, but since we are also investing in real estate development, we will consider a new target after examining our real estate assets and individual risks.

Q Do you have a target for total return ratio?

A Our policy is to consider the acquisition of treasury stock as a stockholder return, and we are taking into account the total return ratio, but we have not set a target value at this time. We will consider targets for total return ratio and owners’ equity in line with performance goals in drawing up the next medium-term business plan.