KAJIMA CORPORATION

FY2022 1st Quarter Analyst and Investor Briefing (Web Conference)
Summary of Q&A Session

August 8, 2022

Q

Are sales in the North American distribution warehouse development business in the first quarter progressing as planned? Isn't the decline in the number of properties sold from the same period of the previous fiscal year due to market deterioration?

A

The number of distribution warehouses sold by KUSA (North America) in the first quarter declined to two, from seven in the same period of the previous fiscal year, but sales are progressing according to plan. Since the business environment is now stable, with no significant changes in cap rates, we expect sales to progress smoothly from the second quarter onward. For new developments, the company is promoting business plans that considers risks such as rising construction costs.

Q

What impact have soaring prices for materials and equipment had on the non-consolidated building construction business?

A

While some of the impact of soaring prices for materials and equipment materialized in the first quarter, it fell within the range of risk factors that we had factored in at the beginning of the fiscal year. As procurement of materials and equipment whose prices are rising and our discussions with clients are ongoing, it is difficult to determine the future impact, but we believe we can achieve our full-year forecast.

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Q What is the competitive environment in the private sector building construction business?

A The competitive environment remains challenging, especially for large-scale projects, but we are also beginning to see some changes in the environment. For example, due to the impact of soaring materials and equipment prices, there are cases where competing major construction contractors are withdrawing from projects, and cases where some clients are changing their orders to non-competitive orders so that they can be placed earlier.

Q What is the trend in the profit margin on new contracts in the non-consolidated building construction business?

A The profit margin on new contracts for the non-consolidated building construction business remains the same level as that of the fiscal 2021 results. We will continue to properly monitor costs while considering the impact of soaring prices of materials and equipment. At the same time, we will strive to win orders with an emphasis on profitability, focusing on our technological and solutions capabilities, and maintain and improve the profit margins on new contracts.

Q Why did the gross profit margin of the non-consolidated civil engineering business decline in the first quarter compared with the same period of the previous fiscal year?

A This was mainly due to fewer completed construction projects compared with the first quarter of the previous fiscal year. We expect to improve our bottom line mainly with completed construction projects, which will grow in number toward the end of the fiscal year, so we believe we can achieve our full-year forecast.

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Q What are the specific details on equity in earnings of partnership and equity in earnings of unconsolidated subsidiaries and affiliates in consolidated non-operating income?

A Equity in earnings of partnership includes gain on sales of rental housing in collaboration with partners at KUSA (North America), and equity in earnings of unconsolidated subsidiaries and affiliates includes gain on sales of distribution warehouses mainly at KE (Europe).

Q What is the trend in the provision for loss on construction projects in progress?

A The provision at the end of the first quarter was reduced compared with the end of fiscal 2021 due to the reversals associated with both civil engineering and building construction projects as construction progressed. We recorded no new provision for loss on construction projects in progress due to construction orders received in the first quarter.

Q What are the prospects for share buybacks during fiscal 2022?

A We need a little more time to assess the future business environment, including the impact of soaring materials and equipment prices. Our policy of flexibly returning profits to shareholders remains unchanged, and we will continue to consider share buybacks.

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What impact will the full-scale construction of large-scale projects have on cash flow? Will it also affect shareholder returns?

A

Since advances tend to increase as large projects go into full-scale construction, we are taking steps to alleviate the financial burden by, for example, having clients pay construction fees earlier. In fiscal 2022, we are considering the use of interest-bearing debt to meet capital requirements such as advances for construction projects and real estate investments, but we will maintain control so that we can stay financially sound. We consider shareholder returns based on our net income level and then decide while also considering our cash flow and cash allocation status.