FY2022 First Half Analyst and Investor Briefing (Web Conference)
Summary of Q&A Session
November 10, 2022

Q What is the competitive environment for orders in the non-consolidated building construction business and what is the trend in the profit margin on new contracts?

A The competitive environment for orders of large-scale office projects in the Tokyo metropolitan area remains intense, but construction demand is still high, and some projects with little competition are starting to emerge. The profit margin on new contracts has improved slightly from that of the previous fiscal year, but not to the pre-pandemic level.

Q What was the reason for the upward revision of the full-year forecast for gross profit in the non-consolidated building construction business?

A The main reason was due to the higher revenue forecast reflecting the anticipated progress of on-hand construction projects, including large-scale projects ordered in fiscal 2023. We made the upward revision because the impact of rising material prices had stayed within the range of risk factors considered at the beginning of the fiscal year, and we expect to maintain the same profit margin (8.5%) we forecasted at the beginning of the fiscal year.

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Q What is the reason for the increase in the non-consolidated provision for loss on construction projects in progress?

A The provision for the civil engineering business decreased, while that for the building construction business increased mainly because we factored in the impact of material price increases in some of our construction projects. We will continue to reduce losses by pursuing cost reduction initiatives and discussing contract price increases with clients.

Q What is the outlook for private sector building construction demand?

A Multiple redevelopment projects are planned over the next several years not only in the Tokyo metropolitan area but also in core regional cities. In addition, we expect demand for semiconductor- and pharmaceutical-related production facilities, data centers, and tourism-related facilities to remain firm, and believe construction demand will continue at this level for the foreseeable future.

Q What is the forecast for the gross profit margin of the non-consolidated building construction business in fiscal 2023 and beyond?

A Although it will depend on material price trends and competition for orders, we intend to maintain and improve the profit margin and set the fiscal 2022 profit level as our lower limit.

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Q Why was the forecast for construction contract awards for overseas subsidiaries and affiliates revised upward?

A We revised the forecast for construction contract awards at overseas subsidiaries and affiliates upward by about 100 billion yen. The main reason for this increase was our revision of the foreign exchange rate used for the full-year forecast from JPY115.02 : USD1.00* to the rate as of the end of September 2022, JPY144.81 : USD1.00. Contracts awarded by KUSA account for more than half of total contract awards of overseas subsidiaries and affiliates. Many of KUSA's projects are for automobile-related production facilities and distribution warehouses developed by other companies.

* This was the rate as of December 31, 2021, and it was used in the full-year forecast announced at the beginning of fiscal 2022.

Q What is the forecast for KUSA's construction contract awards in fiscal 2023?

A Since there are five construction companies under the KUSA umbrella, each with its own strengths, we expect to secure in fiscal 2023 construction contract awards comparable to that of fiscal 2022.

Q What are the prospects for the distribution warehouse development business in the U.S.?

A Although cap rates are rising slowly as interest rates and construction costs rise, demand from investors who see distribution warehouses as a hedge against inflation remains firm, so we believe we can steadily secure our future planned profits.

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Q What is your medium- to long-term outlook for consolidated net income?

A We continue to keep an eye on the possibility of soaring prices and a global economic slowdown, but we expect our overseas business, in addition to our domestic construction and real estate development businesses, to continue contributing to the bottom line. As stated in our medium-term business plan, we seek to secure consolidated net income of at least 95 billion yen in fiscal 2023 and 130 billion yen over the medium to long term.

Q Is there any possibility of higher dividends and further share buybacks? Do you have a target for the total payout ratio?

A We will decide based on future performance trends, financial conditions, and the business environment, in accordance with our shareholder return policy, which includes a "dividend payout ratio of 30%" and "flexible share buybacks." We have not set a specific target for the total payout ratio.