KAJIMA CORPORATION

FY2023 First Half Analyst and Investor Briefing (Web Conference) Summary of Q&A Session

November 13, 2023

Q

What is the potential for the gross profit margin of the non-consolidated building construction business to exceed the full-year forecast (9.7%)? What is the forecast for the gross profit margin of the non-consolidated building construction business in fiscal 2024 and beyond?

A

Gross profit margin in the first half (9.8%) exceeded our full-year forecast mainly due to higher profitability of multiple completed projects and steady progress in large-scale construction projects. Since we must continue to assess the impact of rising construction costs, we have not changed the full-year forecast. In fiscal 2024 and beyond, although we must keep an eye on the impact of overtime work restrictions and trends in construction costs, we would like to aim for a gross profit margin in the 10% range.

Q

Do you expect the many orders from the manufacturing sector to continue? How profitable are manufacturing sector projects?

A

We are scheduled to receive orders for a large semiconductor plant and other projects in the second half. According to information from the sales department, we expect strong demand for projects in the manufacturing sector to continue for the foreseeable future. In terms of profitability, the construction of manufacturing facilities is relatively unaffected by rising construction costs, as there is generally a short period of time between the award of a contract and the start or completion of construction.

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What factors caused the gross profit margin of the non-consolidated civil engineering business to decline in the first half (13.0%) from the same period of the previous fiscal year (14.5%), and the full-year forecast to be lowered (from 16.1% to 15.6%)?

A

In the first half, the gross profit margin fell below that of the same period of the previous fiscal year due to fewer completed projects and a small profit increase from additional revenues and cost reductions. As for the full-year forecast, the gross profit is expected to increase while the gross profit margin is expected to decrease slightly due to higher revenues from projects in the early stages of construction. It does not mean that there are specific construction projects that are expected to decline in profit.

Q

Profits in the construction business in Southeast Asia declined in the second quarter. Do you expect profits to improve in the third quarter and beyond?

A

The profit decline in the construction business in Southeast Asia was caused by losses recorded in some completed construction projects as a result of settlements of accounts with clients and subcontractors related to construction cost increases due to the COVID-19 pandemic. We do not expect to record any major losses moving forward. In fiscal 2024 and beyond, although it will be difficult to achieve dramatic improvements due to declining orders and backlogs caused by the COVID-19 pandemic, we will strive to recover performance as quickly as possible.

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Are there any changes in the business policy in the U.S. real estate development business, considering the changes in the business environment, such as rising interest rates and inflation?

A
Tenant demand for distribution warehouses is strong. There is also demand from investors seeking to hedge against inflation, as rents are increasing due to inflation. Profitability has remained steady, although it has eased relative to fiscal 2021 and 2022, when the impact of rising interest rates and construction costs was small. In the apartment development business that we pursue with our partners, we have changed the timing of the sale of some properties to fiscal 2024 due to market conditions and other factors. However, our basic business policy remains unchanged.

Q
Can the U.S. real estate development business maintain its current profit level in fiscal 2024 and beyond?

A
The assets of the real estate development business are increasing due to continued investments. By selling off properties based on market trends, we believe that the net income of the U.S. development business will be able to maintain its profit level in fiscal 2023 going forward (fiscal 2023 full-year forecast: 17.6 billion yen).

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Is there any change in the policy on share buybacks? What are the prospects for an additional share buyback during fiscal 2023?

A

There is no change to our policy of flexibly contributing to stockholder returns by acquiring own shares. We intend to decide on future implementation by taking into account business performance, the business environment such as rising prices and interest rates, as well as financial conditions, including the growing demand for funds to invest for domestic and overseas real estate development projects.

Q

What is the policy for the future sales of strategic shareholdings? How will you use the proceeds of the sales?

A

We achieved the sales target of the current medium-term business plan (30.0 billion yen or more in three years) by selling off 5.9 billion yen in strategic shareholdings in the first half, and we plan to continue selling in the second half. In addition, we plan to reduce strategic shareholdings in fiscal 2024 and beyond, but we are still reviewing the specific reduction plan. As before, we intend to use the sale proceeds to strengthen our construction and real estate development businesses.