Qualitative Information on the Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2023

(1) Qualitative Information on the Consolidated Financial Results

i. Overview of overall financial performance

During the first quarter (April 1, 2022 to June 30, 2022) of the fiscal year ending March 31, 2023, despite a decrease in the number of people infected with COVID-19 and the normalization of social and economic activities, the pace of global economic recovery slowed due to measures to prevent the spread of COVID-19 in some countries and regions, and the impact of the situation in Ukraine spreading worldwide through the supply chain. In addition to infectious disease trends, inflation and interest rates are adding to the sense of future uncertainty.

In the Japanese economy, the relaxation of restrictions on daily activities due to the subsiding of COVID-19 led to a restoration of the movement of people and a pickup in consumer spending, especially for services. At the same time, rising energy and raw material prices impeded business activity. It will be important to closely monitor the impact of the rapid spread of infection starting in July 2022, as well as economic trends in Japan and abroad.

In the domestic construction market, construction demand was steady, driven by private-sector capital investment, which had been increasing in both the manufacturing and non-manufacturing sectors, while public investment remained firm. On the other hand, prices for a wide range of materials and equipment, including steel, concrete, and lumber, soared, necessitating countermeasures for orders and procurement.

In this environment, the Kajima Group’s financial results for the first quarter of the fiscal year ending March 31, 2023 were as follows.

Consolidated construction contract awards increased 37.5% year on year to 493.0 billion yen (compared with 358.6 billion yen in the same period of the previous fiscal year), mainly due to an increase in contract awards in the Company’s building construction business. Non-consolidated contract awards, including those for real estate development and other projects, increased 53.7% year on year to 360.4 billion yen (compared with 234.4 billion yen in the same period of the previous fiscal year).

Revenues increased 10.1% year on year to 499.6 billion yen (compared with 453.8 billion yen in the same period of the previous fiscal year) due to higher revenues by the Company and its domestic subsidiaries and affiliates.

As for profit figures, operating income was down 29.2% year on year to 18.8 billion yen (compared with 26.6 billion yen in the same period of the previous fiscal year). This was mainly due to a decrease in gross profit in the real estate development and other businesses at overseas subsidiaries and affiliates, despite an increase in profit at the Company and its domestic subsidiaries and affiliates compared to the same period of the previous year. Although non-operating income improved due to an increase in non-operating income related to the real estate development business outside Japan, ordinary income decreased 10.3% to 27.6 billion yen (compared with 30.8 billion yen in the same period of the previous fiscal year). Net income attributable to owners of the parent declined 10.9% to 19.6 billion yen (compared with 22.0 billion yen in the same period of the previous fiscal year).

Regarding the Company’s business performance in the first quarter of the fiscal year ending March 31, 2023, even though the gross profit margin of the civil engineering business (11.3%) came in below the level of the full-year forecast (15.2%), we expect an improvement to the bottom line, mainly due to more projects completed toward the end of the current fiscal year. Moreover, the impact of higher prices for materials and equipment in the building construction business was within the range of risk factors that we factored in at the beginning of the fiscal year. In addition to preparing estimates that reflect price trends and working toward early procurement, we are taking measures against unpredictable short-term price increases by seeking clients’ understanding of changes to contract prices and design. Although there were no major real estate sales projects in the real estate and other businesses, revenues in the leasing, design, and engineering businesses increased and were generally steady against the full-year forecast.

In domestic subsidiaries and affiliates, progress in both the building construction business and real estate development and other businesses exceeded that of the same period of the previous fiscal year due to orders for large-scale construction projects, steady progress in the on-hand construction projects, the sale of building lease projects, and improved occupancy rates at operated hotels and golf courses following the relaxation of restrictions on daily activities.

In overseas subsidiaries and affiliates, the situation in Ukraine has had no direct impact, nor has it particularly impacted our businesses in Europe. In the construction business, both orders and on-hand construction were firm. On the other hand, in the real estate development and other businesses, both revenues and profits were down compared with the same period of the previous fiscal year, mainly due to fewer property sales in the distribution warehouse development business in the U.S. The decrease in the distribution warehouse development business in the U.S. was due to the high number of property sales in the same period of the previous fiscal year, but the effects of higher interest rates and other factors were minimal, as planned sales were achieved in the first quarter of the current fiscal year. We expect full-year profits at overseas subsidiaries and affiliates to be largely in line with those of the previous fiscal year.

ii. Segment Performance

Segment results are as follows. (Segment results include internal sales or transfers between segments.)

Civil Engineering

Civil engineering projects in the construction business operated by the Company

Revenues increased 7.7% year on year to 67.1 billion yen (compared with 62.3 billion yen in the same period of the previous fiscal year) due to progress in the on-hand construction projects, especially large-scale projects.

Operating income was 2.1 billion yen, largely unchanged from the same period of the previous fiscal year (2.2 billion yen), as higher revenues offset the decline in gross profit margin.

Building Construction

Building construction in the construction business operated by the Company

Revenues increased 29.0% year on year to 239.7 billion yen (compared with 185.7 billion yen in the same period of the previous fiscal year) due to the start of full-scale construction of large-scale projects on hand.

Operating income increased 10.2% to 11.3 billion yen (compared with 10.3 billion yen in the same period of the previous fiscal year) due to the significant impact of higher revenues, despite a decline in the gross profit margin mainly due to fewer construction projects nearing completion.

Real Estate Development and Other

Real estate development business, architectural, structural and other design business and engineering business operated by the Company

Revenues climbed 8.2% year on year to 10.0 billion yen (compared with 9.3 billion yen in the same period of the previous fiscal year) due to increases in the design and engineering businesses.

Operating income decreased 7.2% to 1.4 billion yen (compared with 1.6 billion yen in the same period of the previous fiscal year), mainly due to a decline in the real estate sales business.

Domestic Subsidiaries and Affiliates

Sales of construction materials, special construction and engineering services, comprehensive leasing business, building rental business and others mainly in Japan operated by domestic subsidiaries and affiliates

Both revenues and gross profit increased in the building construction business and real estate development and other businesses. Revenues rose 17.3% year on year to 76.5 billion yen (compared with 65.2 billion yen in the same period of the previous fiscal year) while operating income jumped 58.8% to 2.7 billion yen (compared with 1.7 billion yen in the same period of the previous fiscal year).

Overseas Subsidiaries and Affiliates

Construction business, real estate development business and others overseas such as in North America,

Europe, Asia, Oceania, and other areas operated by overseas subsidiaries and affiliates
Overall, revenues decreased 8.7% year on year to 139.7 billion yen (compared with 153.0 billion yen in the same period of the previous fiscal year). Although revenues from the construction business increased, revenues from the real estate development and other businesses fell below the high recorded in the same period of the previous fiscal year, mainly due to fewer real estate sales in the U.S.

Operating income decreased 87.7% to 1.3 billion yen (compared with 10.6 billion yen in the same period of the previous fiscal year), mainly due to a decline in gross profit in the real estate development and other businesses in the U.S.

(2) Qualitative Information on the Consolidated Financial Position

Total assets at the end of the first quarter were up 22.5 billion yen year on year to 2,360.2 billion yen (compared with 2,337.7 billion yen at the end of the previous fiscal year). The main factors were a 65.7 billion yen increase in inventories (real estate for sale, construction projects in progress, development projects in progress, and others), and a 54.0 billion yen decrease in notes and accounts receivable – trade.

Total liabilities increased 5.7 billion yen year on year to 1,389.8 billion yen (compared with 1,384.1 billion yen at the end of the previous fiscal year). The main factors were an increase in interest-bearing debt* of 23.8 billion yen and a decrease in advances received on construction projects in progress of 8.6 billion yen. Interest-bearing debt was 383.7 billion yen (compared with 359.9 billion yen at the end of the previous fiscal year).

Total equity, including shareholders' equity of 813.6 billion yen, accumulated other comprehensive income of 148.5 billion yen, and noncontrolling interests of 8.1 billion yen, increased by 16.7 billion yen year on year to 970.3 billion yen (compared with 953.5 billion yen at the end of the previous fiscal year).

In addition, the owners' equity ratio improved to 40.8%, up 0.3 points compared with 40.5% at the end of the previous fiscal year.

* Total amount of short-term loans payable, commercial paper, bonds payable (including current portion of bonds payable) and long-term loans payable.

(3) Qualitative Information on the Consolidated Earnings Forecasts

There has been no change, at this time, to the full-year earnings forecast announced on May 13, 2022, when the financial results for the fiscal year ended March 31, 2022, were announced.