

# FY2020 1<sup>st</sup> Quarter Analyst and Investor Briefing (Tele-Conference)

## Summary of Q&A Session

August 6, 2020

Q

The gross profit margins for both civil engineering business and building construction business in the first quarter are high. Is it possible that the gross profit margin for the full year will be higher than forecast?

A

The gross profit margin for civil engineering business was higher than our forecast due to some projects scheduled for completion in the current fiscal year, where we have boosted profitability by acquiring change orders and reducing costs. The higher-than-expected profit margin in building construction business was due to a large number of projects close to completion, where we have improved profitability in the final stages of construction. Although it is not easy to maintain the level of margin seen in the first quarter since many of our large-scale building construction backlog projects are still in the initial stage during FY2020, we strive to achieve gross profit margin that exceeds our initial forecast.

Q

What trends are occurring in new contracts for domestic building construction business?

A

Business activity in Japan has been limited by the declaration of the state of emergency in relation to COVID-19, which has resulted in delays to contract negotiations and procedures. We are scheduled to sign contracts for major secured or highly probable projects, including those extended from FY2019, from the second quarter onward. While we have some projects which are likely to be postponed or scaled back, we did secure new projects in the first quarter. With that said, our initial forecast for the full year has not been revised.

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Q Has there been any change in the projected profitability of new contracts?

A The projected profit margin for new contracts remains essentially at the same level as FY2019.

Q What preventative measures are the Company's construction sites taking responding to the spread of COVID-19?

A Based on the Ministry of Land, Infrastructure, Transport and Tourism's guidelines on preventing the spread of COVID, our construction sites have been limiting entry by taking temperatures at site entrances, thoroughly enforcing rules on hand washing and ventilation, and maintaining a safe distance between people on the site. In addition, our sites have been preparing for cases in which infected persons are identified or clusters break out by simulating coordination with clients and public health centers, identification of people with high-risk contact, and PCR. In the event of an outbreak, we have established the system that makes stopping the spread of infection the first priority and resumes the site as quickly as possible.

Q Have overseas construction works resumed yet?

A In no country are all construction sites across the board shut down, and sites that were temporarily closed down are gradually beginning to resume. Although it has differed from our initial projection in some countries, the length of site closures is going within expected timeframes as a whole.

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Q What is the outlook for new contracts for overseas subsidiaries and affiliates?

A Because the accounting period for the first quarter is January to March, the impact from COVID-19 on new contracts for overseas subsidiaries and affiliates was minimal. However, construction investment has been temporarily curtailed after the second quarter in areas such as Singapore, where economic activity has been severely restricted by public regulations. The full-year forecast has taken the impact of COVID-19 into account and therefore remains unchanged at this time.

Q What is the current state of construction demand in the US?

A While construction demands for distribution warehouses and some manufacturing facilities have been solid, construction plans for office buildings are apt to be postponed.

Q Why did the amount posted on “provision for loss on construction projects in progress” decrease?

A It is because we have expected losses generated by certain construction projects to be lower as a result of a reassessment.

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Q Is there any change to the policy on shareholder returns?

A Although operating performance was relatively good in the first quarter, we still have to closely examine the future impact of COVID-19 and therefore have not yet reached a definitive conclusion whether to increase dividends and whether to repurchase our shares.

Q Is it possible that the Company will continue repurchasing its shares in the future?

A We believe that it is necessary to increase shareholder returns over the medium- to long-term. Although we are currently waiting to decide whether to repurchase our shares due to the impact of COVID-19, we strive to continue share repurchase when becoming convinced that we are comfortable with both short-term performance and the medium- to long-term outlook.

Q What is the target for owners' equity?

A We believe that our current level of owners' equity at 800 billion yen is appropriate in terms of preparing for a decline in asset value accumulated through ongoing investment in real estate. We plan to set a target for owners' equity taking into consideration the impact of COVID-19 in our next Medium-Term Business Plan which will start in FY2021.

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What is the status of working on offshore wind power generation projects?

A

In addition to commencing construction of the offshore wind power generation facility at the Port of Akita and Port of Noshiro, we are working with Penta-Ocean Construction and others to build a large-scale self-elevating platform (SEP) vessel. We have also, with an eye on future market expansion, established a department specialized in this field to strengthen our efforts.

Q

Is there a possibility of building more large-scale SEP vessels?

A

We have no specific plan to do that now.