

# FY2020 Results Analyst and Investor Briefing (Tele-Conference)

## Summary of Q&A Session

May 14, 2021

Q

What is the current environment for domestic building construction contracts? Is there any impact on profitability, such as a decrease in the profit margin on new contracts?

A

The environment has become increasingly competitive due to the uncertainty over future private-sector capital investments driven by COVID-19. We believe that this could continue for some time to come, and we will focus on increasing productivity and streamlining construction process while working to maintain and improve profit margins.

Q

What is the background and reason for the net income target for FY2023 or 95 billion yen set out in the Medium-Term Business Plan?

A

The impact of COVID-19 on overall business performance was minimal in FY2020, with consolidated net income of 98.5 billion yen. However, in the light of the fact that the construction business is affected by economic downturns later than other industries, we expect the pandemic to affect performance beginning in FY2021. For this reason, we have set our FY2023 net income target at 95 billion yen or more.

Q

What is your view on the domestic building construction business performance over the next three years set out in the Medium-Term Business Plan?

A

Looking at backlog construction projects, we expect revenue and profits to remain flat in FY2021 and FY2022. However, given that we have several large-scale projects scheduled for completion in FY2023, we expect to see growth at that time.

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How will the gains on sales of cross-shareholdings be put into use? Will they be put in part toward shareholder returns?

A

We do not plan to use these gains directly for dividends or share buybacks. As the purpose of holding the shares was to strengthen the construction business, we intend to put the gains from their sale into growth investments for the construction business promoting R&D, DX, and securing workforce. We believe these investments will boost financial results, which will in turn provide returns to shareholders.

Q

Which of the five strategic investment areas\* outlined in the Medium-Term Business Plan are the highest priority?

A

All five of the strategic investment areas set out in the Medium-Term Business Plan are high priority investments. Currently, we are studying specific plans for the area of commercializing technologies, e.g. CO2-SUICOM, and the area of building smart cities and smart societies.

\* (1) Commercializing technologies, (2) Increasing production capacity and expanding value chain, (3) Entering energy business, (4) Building smart cities and smart societies, and (5) Creating new businesses and entering frontier areas

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What is the approach to assets in the domestic and overseas real estate development businesses?

A

Offices currently account for 80% of assets in the domestic real estate development business. However, we intend to diversify the portfolio into hotels, residences, logistics facilities, and data centers with a focus on urban centers and upper-tier regional core cities. With respect to the overseas real estate development business, we will pursue short-term development projects such as industrial warehouses in Europe and the United States, where land cost is relatively low. In areas with high land cost such as Singapore, we are looking at long-term holding-type projects.

Q

When do you expect to see the effects of real estate development investment?

A

We are making steady progress on our real estate development investment plan in Japan. Although there will be temporarily less return on investment in FY2021 due to permitting, design, and construction timeframes, we expect to see results from investment in FY2022, and we expect FY2023 profits to surpass those in FY2020. The short-term investment in industrial warehouses and apartment development projects overseas is already contributing to earnings. Some projects sold in January 2021 are expected to boost our FY2021 financial results.

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How will initiatives like smart production and remote/automated construction affect the company's performance?

A

One of the objectives of promoting initiatives like smart production is to make the construction industry more attractive and increase the number of people hiring on at subcontractors. As indicated in the Medium-Term Business Plan, we have set such KPIs as 15% boost in productivity in site PH (cost of sales/total working hours) over FY2016 for civil engineering business and 20% improvement in model site productivity (cumulative working hours/total construction floor area) over FY2017 for building construction business.