

Financial Results FY2024 2nd Quarter

The summary of the main questions and answers



Date and time of the event :Thursday, November 21,2024 14:00~15:30

Attendees : President Shin Ueda, Vice President Koji Okaichi, General Manager of the Administration Division Hiroyasu Yaguchi, General Manager of the Civil Engineering Management Division Tetsuo Ono, General Manager of the Architectural Management Division Taiji Ito, General Manager of the New Business Development Division Masao Kajiyama, General Manager of the International Division Hideki Yamasaki, General Manager of the Corporate Strategy Division Naohiro Shimizu, General Manager of Sustainability Promotion Department Chihiro Nosaka

Q1: I anticipate that business performance will improve and dividends will be higher next fiscal year. Could you provide specific figures?

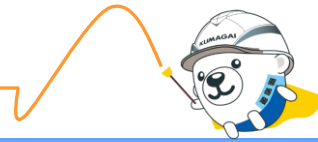
A1: We believe that we will be able to increase the dividends in the next fiscal year by around 30 yen per share if we achieve our gross profit forecast for the second year of the Mid-term Management Plan: 12.0 billion yen for civil engineering and 23.5 billion yen for building construction.
If we meet our ordinary profit target for the final year of the Mid-term Management Plan, 30.0 billion yen, we plan to increase dividends to approximately 190 yen per share.

Q2: Please describe the scale of additional returns, including the purchase of treasury shares.

A2: As described in the Mid-term Management Plan, we aim to establish an optimal capital structure with an equity ratio of around 45%. Our goal is to achieve both financial soundness and capital efficiency and we will flexibly explore additional returns, including the purchase of treasury shares. We are not able to disclose the scale of any additional returns at this time.

Q3: Please detail your initiatives aimed at reducing cross-shareholdings.

A3: As noted in the financial results presentation materials, a resolution specifying initiatives to reduce cross shareholdings to enhance capital efficiency was passed at a Board of Directors meeting in October 2024. We will review the investment securities we hold. We will continue to practice management that is conscious of cost of capital and the stock price.



Q4: What factors have contributed to the improvement of your profitability in Civil Engineering?

A4: Currently, little of our Civil Engineering work is unprofitable and we are acquiring additional design change projects. Consequently, our profitability is improving. Profitability at the time of order acceptance is rising, partly due to stricter screening, which has resulted in the improved profitability of construction work in hands. Given this situation, we believe we can achieve a higher profit margin next fiscal year than what was forecast in the Mid-term Management Plan.

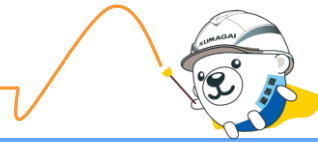
Q5: What factors have led to the decline of your profitability in building construction? What is your outlook for the next fiscal year? Please detail your profitability at the time of order acceptance.

A5: In certain construction projects, there were delays in the acquisition of additional design change projects due to the extension of construction periods caused primarily by regulations on overtime work, which resulted in a decline in profit margins in the current interim period. We are working to acquire additional design change projects. However, we have revised our profit forecast 2.0 billion yen downward due to certain anticipated design change projects that we now believe we are unlikely to acquire. Profitability at the time of order acceptance improved significantly compared to the same period in the previous year due to a favorable order-receiving environment and the results of our initiatives. Recently, we have been seeing an enhancement in the profitability of construction projects for which we have received orders. We anticipate that profitability will improve when these projects start contributing to sales.

The impact of unprofitable construction projects on our results will be limited beginning in the next fiscal year. Projects accepted with a high level of profitability will begin contributing to sales. We anticipate that the profit margin will improve to nearly 10% next fiscal year.

Q6: What is the background behind the strong performance of the group companies and what is your outlook regarding their future performance?

A6: Orders and sales at Gaeart are strong, and the outlook for the next fiscal year appears positive. K&E is actively involved in large projects. We expect that its results will remain flat next fiscal year. Taiwan Kumagai has received an order for the construction of a landmark high-rise tower and it is performing well by leveraging its brand power in Taiwan. All of these companies are projected to grow moderately.



Q7: While the increase in construction costs has stabilized, your competitors are experiencing cost deterioration due to subcontractors requesting price indexation. What is your situation?

A7: The head office thoroughly reviews the negotiations for individual projects. We take price indexation into account to some extent.

Q8: The profit margin declined due to unprofitable construction work and additional provisions for loss on construction contracts. Why have you been unable to understand and control costs? What changes have you made to your system?

A8: In Domestic Building Construction, we faced challenges during additional negotiations due to the significant price increases. The purchasing department has now been instructed to conduct thorough market price surveys. We initiated this initiative in the previous fiscal year. This year, we have enhanced our workforce and are beginning to see profitability at the time of order acceptance improve.

In Domestic Civil Engineering, we have not been able to acquire sufficient additional design change projects, which has resulted in low profitability and unprofitable construction projects. Consequently, the profit margin decreased. The head office and branches are collaborating to enforce stricter order evaluation measures. Since the previous fiscal year, we have been enhancing our systems to increase the likelihood of securing additional design change projects. This effort includes the establishment of dedicated departments at the head office and branches. We are beginning to see positive results from this initiative.

(Note)

This document summarizes major questions and answers from the results presentation meeting and includes forward-looking statements based on information currently obtainable at present as well as specific assumptions deemed to be reasonable. However, these statements are subject to change depending on the business environment and other factors.

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