

Financial Results 2nd quarter of FYE 3/2026

The summary of the main questions and answers



Date and time of the event : Thursday, November 20, 2025 14:00~15:10

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 Management Strategy Division Naohiro Shimizu, Group Manager of Management Strategy Division Department IR Group Chihiro Nosaka

Q1 : Orders are expected to be in line with the plan, but will delays in orders affect the net sales that are recorded in the next fiscal year?

A1 : In Civil Engineering, bid opening dates for the fiscal year under review were concentrated in after September. As a result, bid opening in the first half of the fiscal year declined approximately 50% compared to the previous fiscal year. Consequently, orders received decreased. We anticipated the delays and are confident that we will achieve our order plan. These delays will not affect the sales plan for the next fiscal year.

In Building Construction, value engineering (VE) consultations are ongoing for certain projects due to rising costs, resulting in the postponement of contracts to the latter half of the fiscal year. As of November, orders received, unofficially received orders, and orders obtained without competitive bidding together accounted for 85% of the full-year order plan. Given the numerous ongoing projects and those planned for the second half, the delays in receiving orders will not affect the sales plan for the next fiscal year.

Q2 : In Building Construction, we were informed that no additional losses would be incurred. However, new unprofitable projects have emerged again this fiscal year. You mentioned the implementation of measures to avoid future losses. Could you clarify the timeline for the elimination of unprofitable projects or additional losses?

A2 : Factors contributing to the decline in profits include our inability to pass rising costs on via construction fees and a shortage of labor for specialized contractors, particularly those responsible for equipment work, which has impacted processes. In the previous fiscal year, the Architecture Management Division created a checklist for the order-receiving phase. We are implementing initiatives, including the addition of clauses to contracts to enable us to negotiate with customers regarding the passing on of rising costs to them via construction fees. Additionally, we are consulting with specialized contractors before receiving orders to determine matters related to the types of work in which there are labor shortages. In the order-receiving phase, we are carefully reviewing whether the process examination with the standard procedures. For design and construction projects, we include the head of the design department in the process review meetings to mitigate risks during the design stage.

All the construction work that involves risk factors will be completed within this fiscal year. Moreover, the various initiatives are working effectively. We believe that risks have been mitigated, including the risks associated with the ongoing construction work.



Q3 : It is expected that a profit margin of 12% will be recorded in Building Construction in the second half of this fiscal year. Is this target in line with the business's current capabilities? In Civil Engineering, how do you incorporate the impact of design changes and additional work towards the end of the fiscal year into your forecasts? Is it possible to hope that the results will exceed the forecasts?

A3 : We believe that a profit margin of 12% in Building Construction is in line with our capabilities. We have incorporated the additional losses recorded in the first half into the full-year forecasts. In the second half, we expect the percentage of sales from unprofitable construction projects to decrease to approximately 9%. At the same time, the effect of other highly profitable construction work is anticipated to be positive. Accordingly, we forecast a profit margin of 12% in the second half of the fiscal year.

In Civil Engineering, we have established a system for acquiring design changes. Due to significant uncertainties, including the timing of the acquisition of design changes, our full-year forecast is conservative. However, we anticipate an increase of about two percentage points compared to the initial forecast of 11.9%.

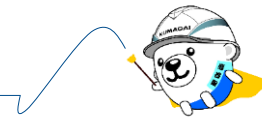
Q4 : Approximately what can we expect the gross profit margin in Building Construction to be in the next fiscal year? Currently, Currently, Super general contractors are aiming for 15%. Second tier general contractors are aiming for 12%. Civil Engineering is currently performing very well. How can we expect it to perform?

A4 : We expect to achieve a gross profit margin of 11% or higher in Building Construction from the next fiscal year, which is in line with the Medium-term Management Plan. Performance in the industry is projected to increase in the fiscal year after next. We are naturally aiming for 12%.

In Civil Engineering, our consistent efforts to enhance profit margins are producing positive results, including the acquisition of design changes, submission of technical proposals, and establishment of estimation systems. We have established a process for receiving orders for highly profitable projects and anticipate that the profit margin will exceed the target set in the Medium-term Management Plan in and after next fiscal year.

Q5 : Will factory projects continue to be promising in Building Construction? Are factory projects more profitable than other types of construction due to the shorter construction periods?

A5 : In the manufacturing sector, manufacturing facilities are returning to Japan, and the market remains vibrant. We will continue to focus on the market. We receive many projects from semiconductor suppliers. Recognition of our work is increasing, partly due to rising prices and the tight supply of subcontractors. We are receiving more inquiries from customers at earlier stages of projects. We have also received orders for large projects in the automotive sector, including a tire manufacturer. We complete construction in shorter time frames at the request of customers, which is greatly appreciated.



Q6 : In Civil Engineering, has identifying efforts such as risks stabilized or improved profit margins?

A6 : Inadequate contract examinations have resulted in unprofitable construction projects in certain types of construction. Since the implementation of the checklist, our review of requirements upon order receipt has greatly improved. We have concentrated on profit margins when bidding for government projects and securing orders in the private sector. After it was pointed out that our profit margins were lower than our competitors, we analyzed our ability to negotiate for additional design changes. We established a dedicated team and a system for communicating and negotiating with customers. We have observed the positive effects of this initiative in the previous fiscal year. Currently, the profitability of construction projects is not worsening. We have earned consistent profits. We plan to continue to implement the initiative to increase profit margins.

Q7 : Among your major consolidated subsidiaries, Gaeart is performing well. However, there are concerns regarding TaiwanKumagai and K&E, whose growth was sluggish in the first half of the fiscal year. Could you describe the current status of these companies?

A7 : K&E's net sales and profits took a turn downward following its strong performance in the previous fiscal year. K&E missed out on a large-scale project that it had aimed for. The company's focus is on renovation work that typically involves short construction periods, and the loss of this contract negatively impacted sales and profits in the first half of the fiscal year. In the second half, the company plans to focus on alternative projects, and it is expected that it will achieve its full-year plan.

TaiwanKumagai's results remained consistent with the previous fiscal year. Sales from large-scale projects, including the C1D1 project near Taipei station, have been recorded. The company significantly contributes to the results of the Group as a whole. The company has grown significantly. However, its construction system is nearing full capacity, which makes continued growth challenging. The company aims to achieve further growth while emphasizing quality and safety and enhancing its personnel system.

Q8 : What is your shareholder return policy? You mentioned that as the equity ratio nears 40%, you will consider share buybacks. What are your thoughts regarding shareholder returns and share buybacks?

A8 : In the Medium-term Management Plan, we expressed our goal of achieving a payout ratio of 40%. We aim to increase profits and gradually raise dividends. We have committed to paying dividends of 160 yen per share for this fiscal year, based on the number of shares outstanding before the stock split, and 190 yen per share for the next fiscal year. In the Medium-term Management Plan, we detailed an optimal capital structure with an equity ratio of around 45%. If the equity ratio rises, we will consider the option of share buybacks to enhance capital efficiency, while ensuring the capital ratio stays at 40% or higher.



Q9 : In what ways do you believe labor regulations should change? The number of companies facing significant labor shortages is increasing rapidly. When do you expect the number of employees in the construction industry to decline? What measures do you think will be necessary?

A9 : When considering work style reforms, we need to evaluate employee numbers and work quality. For the past two years, we have considered the 2024 issue when setting construction periods at the time when we receive orders. We have adhered to labor regulations. The number of new employees we expect to hire in April next year is an increase of about 40% over the previous year. At the same time, the total number of students has been declining, and the total number of employees is expected to decrease. Given the current situation, we will increase the number of people we hire mid-career. I believe we urgently need to enhance remuneration and improve working styles. We are striving to create an environment that encourages older employees to continue taking on site management roles or participate actively in other ways. In the construction industry, busy periods just before completion are unavoidable. We would appreciate the development of regulations that take seasonal and other factors into consideration.

(Precautions)

The content of this document is a summary of the main questions and answers to the financial results briefing, and is based on information currently available to us and certain assumptions that we judge to be reasonable. However, please be aware that the content may fluctuate due to changes in the business environment or other factors.

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