



Obayashi Group

# Medium-Term Business Plan 2017

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Realizing Our Vision for the Future

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# Objectives of the Plan



The Obayashi Group has established its Vision for the Future for its 150th anniversary year (2042), in which it looks to “realize a sustainable society” in line with its Corporate Principles. The Medium-Term Business Plan 2017 was drafted as a set of results to be achieved and policies to be implemented in the first five years of our roadmap for achieving this vision.

With the recovery of the domestic construction market and, improvements in productivity, the Obayashi Group's business results have improved markedly and the Group has made steady progress on improving its financial base. As a result, we expect to achieve most of the targets in Obayashi Group's Medium-Term Business Plan 2015, our three-year plan that started in the fiscal year ending March 31, 2016, ahead of the final year of the plan.

On the other hand, looking at the Group's business environment, the outlook is increasingly uncertain. Although the Japanese economy has been performing steadily, there is increasing uncertainty over the global political and economic situation, reflecting factors such as the UK decision to exit the EU and the direction of the new US government, while terrorism has become the norm in regions around the world.

Furthermore, with technological innovation accelerating more quickly than expected in various fields, the Obayashi Group needs to evolve and grow constantly beyond the scope of its existing businesses.

In this situation, the Group will use all of its strength to maintain and increase its current performance of record-high earnings. At the same time, we will seize growth opportunities presented by changes in the business environment, formulate a new Medium-Term Business Plan one year ahead of schedule to prepare the way for the future, and advance our business.

# Review of Medium-Term Business Plan 2015



## Net sales

- Net sales to achieve a level around 10% higher than the plan target.
- The overseas construction sales ratio to reach the plan target.

## Operating income

- Operating income to be more than double the plan target due to an improvement in the business environment for the domestic construction market, etc.
- The ratio of operating income from areas other than domestic construction was lower than the plan target due to dramatic improvement in profits from domestic construction.

## Others

- ROE is expected to exceed the plan target significantly due to a major improvement in profits.
- Improvement of financial base, such as interest-bearing debt and the D/E ratio, is proceeding ahead of the plan.

(Billions of yen, unless otherwise noted)

	FY2015.3 Result	Medium-Term Business Plan 2015		
		Plan	FY2016.3 Result	FY2017.3 Result
Net sales	1,773.9	Around 1,700.0	1,777.8	1,872.7
Ratio of overseas construction sales within construction business	24%	25%	24%	25%
Operating income	48.3	<b>Around 45.0 (stable)</b>	<b>106.3</b>	<b>133.7</b>
Domestic construction	58%	55%	83%	92%
Other than domestic construction (overseas construction, real estate development, new businesses)	42%	45%	17%	8%
Ordinary income	59.9	Around 50.0	111.2	140.1
Profit attributable to owners of parent	28.6	—	63.4	94.5
Interest-bearing debt	410.8	Around 400.0 (March 31, 2018)	346.3	273.3
D/E ratio (times)	0.81	Around 0.9	0.67	0.46
EBITDA	62.7	59.0 to 63.0	120.8	148.7
ROE	6.2%	Around 8% (over the medium to long term)	12.4%	17.0%
Dividend payout ratio	25.0%	20% to 30%	20.4%	21.3%

## Domestic

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- ▶ The domestic construction market is unlikely to expand over the long term due to underlying factors such as population decline. However, for the time being, investment is firm in major urban areas and the private non-residential sector.
- ▶ With infrastructure aging even more quickly, the nature of the construction market is changing, including a pivot from new construction to renewal projects and the expansion of the public-private partnership (PPP) market, in response to public sector financial constraints.
- ▶ Increase in awareness of disaster readiness and mitigation against the threat of damage from natural disasters and demand for clean energy
- ▶ Improvement in productivity, including technology innovation such as IoT, artificial intelligence (AI), and robots, is essential for maintaining and expanding business
- ▶ Urgent need for initiatives in personnel development and work style reform to help secure workers for the future given the aging population and declining birthrate

## Overseas

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- ▶ Increasingly uncertain outlook with unclear global political and economic situation and the normalization of terrorist activity in regions around the world
- ▶ Expansion in business opportunities driven by increase in demand for food, energy, and infrastructure in step with population growth and economic development, primarily in emerging countries
- ▶ Strong investment in urban development and infrastructure in the regions where the Obayashi Group has expanded, including Southeast Asia, North America, and Oceania

# 4 Approach to Obayashi Group Business Plan



**The Vision for the Future** that Obayashi has established for its 150th anniversary year (2042) looks to realize a sustainable society.

**The Medium-Term Business Plan 2017** was drafted as a set of results to be achieved and policies to be implemented in the first five years of our roadmap for achieving this vision.

## Obayashi Principles

1. Exercise true craftsmanship and employ superior technologies to make every space as valuable as it can be.
2. Show concern for the global environment and offer solutions to social challenges as a good corporate citizen.
3. Value everyone we come in contact with in our business.

Obayashi  
Principles

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## Vision for the Future with a view to the Obayashi Group's 150th anniversary year (2042)

Vision for the Future

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Obayashi Group will adapt flexibly to changes in the business environment while establishing and executing policies to realize its Vision for the Future

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## Results to be achieved and policies to be implemented over five years (FY2018.3 to FY2022.3)

Medium-Term  
Business Plan 2017

The leader at the  
forefront of technology  
and productivity



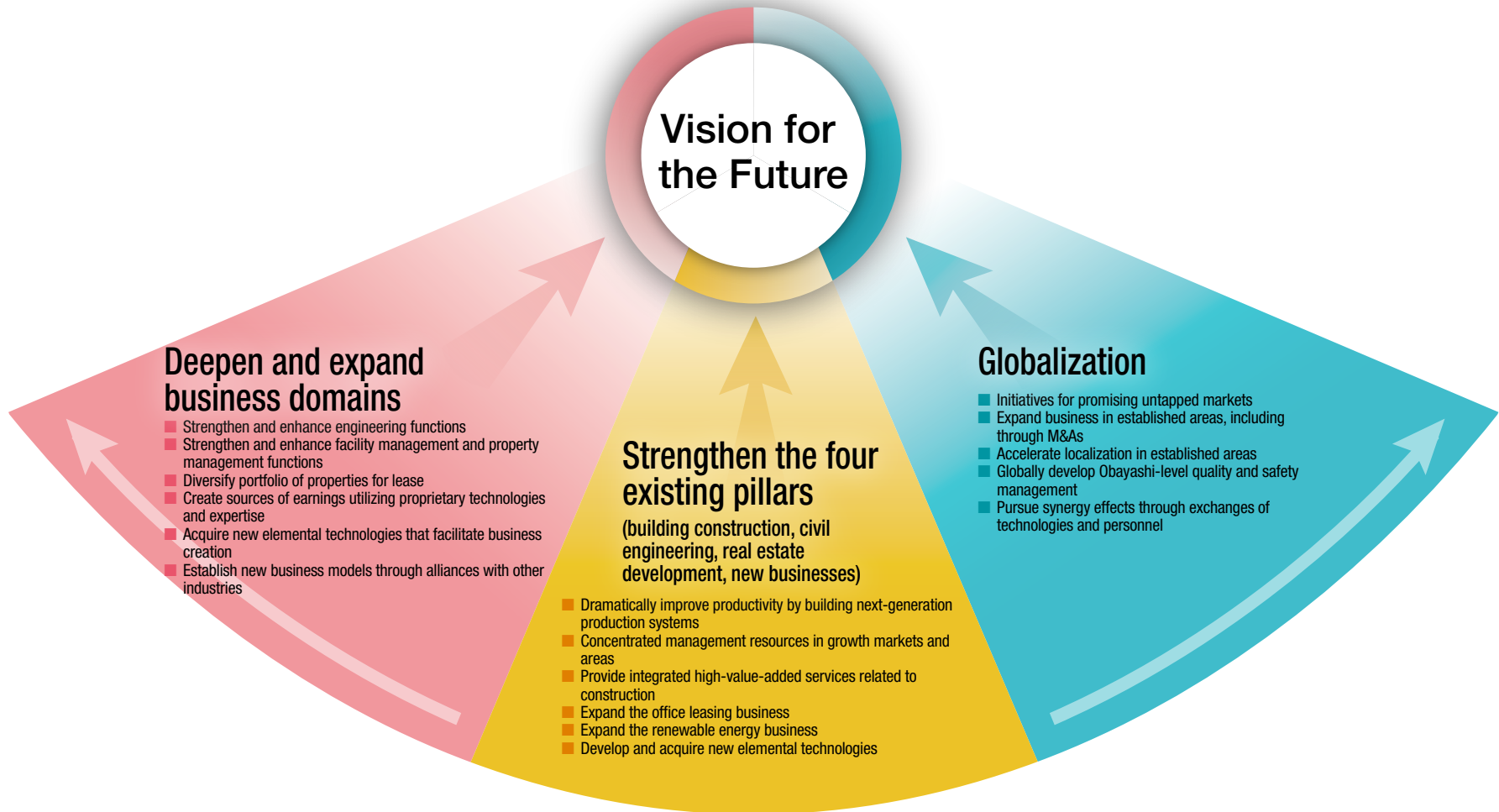
A corporate group  
advancing while  
creating diverse  
earnings sources

The Obayashi Group will evolve into a corporate group that can meet the expectations of all its stakeholders, continuing to grow beyond the framework of a general contractor and adapting flexibly to changes in the business environment.

# Strategy for Realizing Obayashi's Vision for the Future



Obayashi will **deepen and expand its business domains**, and accelerate **globalization** centered on **strengthening the four existing pillars** with an eye to achieving its Vision for the Future







# Medium-Term Business Plan 2017



Obayashi  
Principles

Vision for the Future

Medium-Term  
Business Plan 2017

# Medium-Term Business Plan 2017 Basic Policy



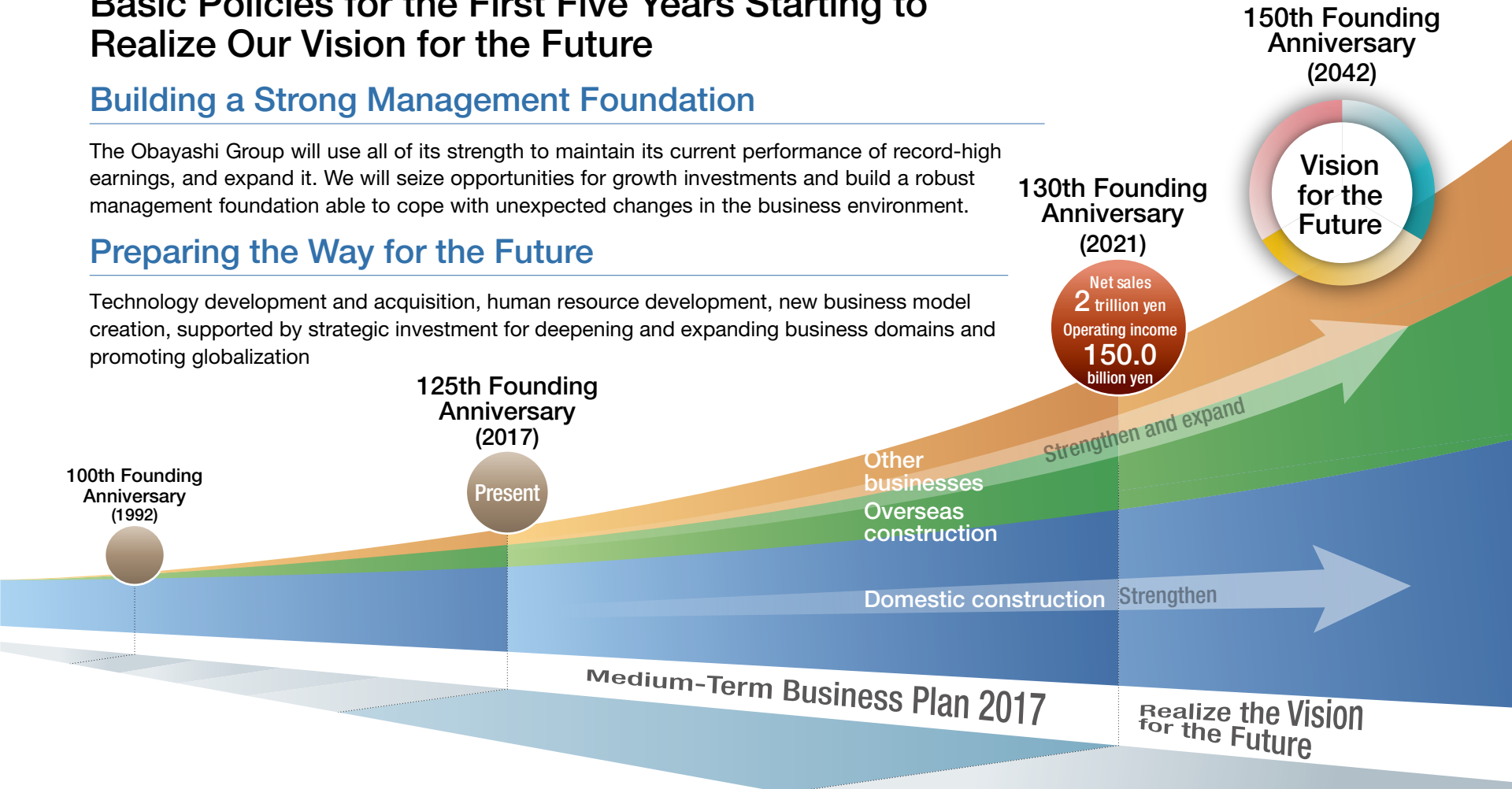
## Basic Policies for the First Five Years Starting to Realize Our Vision for the Future

### Building a Strong Management Foundation

The Obayashi Group will use all of its strength to maintain its current performance of record-high earnings, and expand it. We will seize opportunities for growth investments and build a robust management foundation able to cope with unexpected changes in the business environment.

### Preparing the Way for the Future

Technology development and acquisition, human resource development, new business model creation, supported by strategic investment for deepening and expanding business domains and promoting globalization



# Main Management Indicator Targets



Obayashi will build a strong management foundation to enable it to make growth investments for realizing its Vision for the Future and cope with changes in the business environment

## March 31, 2022 Consolidated Balance Sheet

**Equity**

**900.0 billion yen**

Retained earnings 700.0 billion yen

**Equity ratio**

**40%**

**Net interest-bearing debt**

**0 yen**

Interest-bearing debt 250.0 billion yen

Cash and deposits 250.0 billion yen

March 31, 2017 Result

**594.1 billion yen**

334.9 billion yen

**29.5%**

**78.7 billion yen**

273.3 billion yen

194.5 billion yen

- Further improvement of financial base
- Strengthen equity to withstand unexpected business risks
- Strengthen investment capabilities to support systematic and flexible growth investment for expanding business fields

## FY2022.3 Consolidated Income Statement

**Net sales**

**Around 2 trillion yen**

**Operating income**

**Around 150.0 billion yen**

**Profit**

**Around 100.0 billion yen**

attributable to owners of parent

**Profit**

attributable to owners of parent per share (EPS)

**Around 150 yen**

March 31, 2017 Result

**1,872.7 billion yen**

**133.7 billion yen**

**94.5 billion yen**

**131.66 yen**

- Improve enterprise value by maintaining and expanding its profit level

**Return on equity (ROE)**

March 31, 2022

**Over 10%**

ROE expected to decline due to a decline in financial leverage caused by strengthening equity

	[ROE]	Profit attributable to owners of parent margin	Asset turnover ratio	ROA	Financial leverage	ROE
March 31, 2022		5.0%	0.92	4.6%	2.5	11.5%
March 31, 2017 Result		5.0%	0.94	4.7%	3.6	17.0%

# Policy on Shareholder Returns

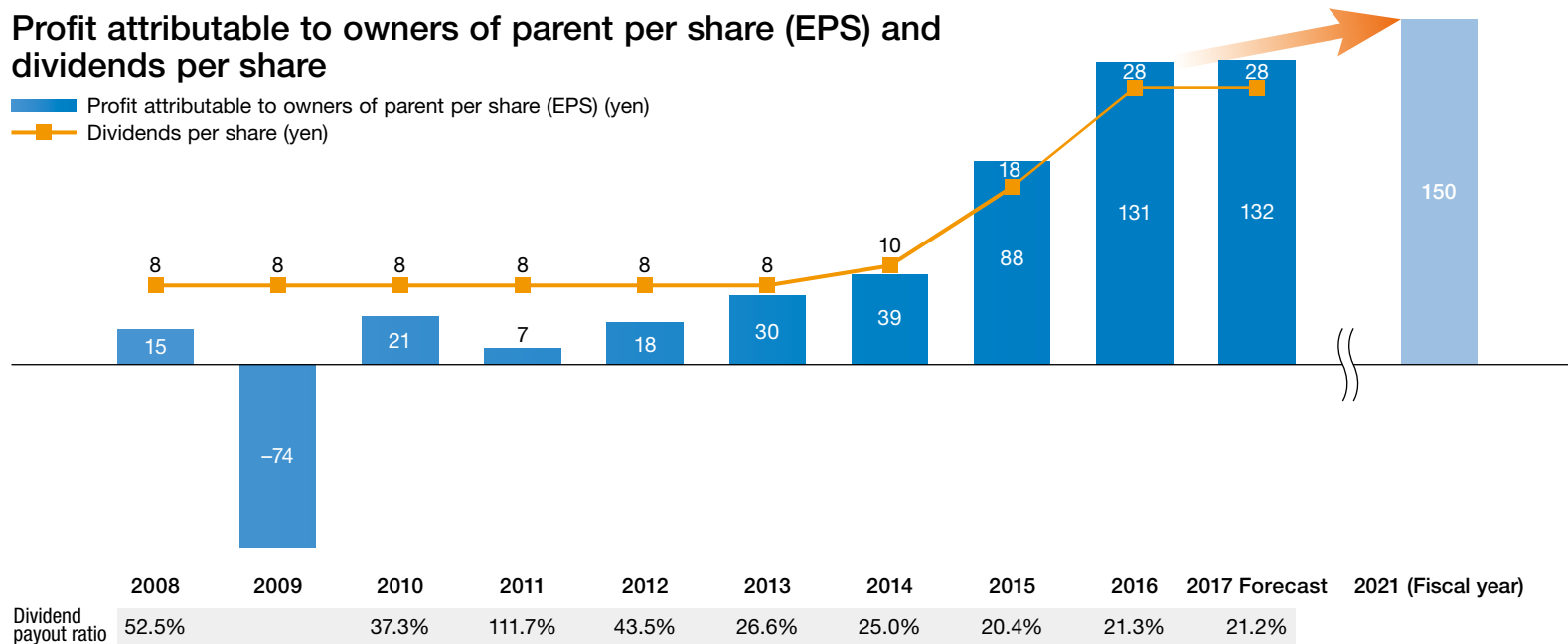


## Consolidated Dividend Payout Ratio Target: 20 to 30% Range

Provide shareholders with returns commensurate with the Company's performance, including through share buybacks, with a primary emphasis on providing stable dividend payouts to our shareholders over the long term, taking into account the need to enhance internal reserves so as to further improve our financial base, develop technologies, and make capital expenditures for the future

### Profit attributable to owners of parent per share (EPS) and dividends per share

■ Profit attributable to owners of parent per share (EPS) (yen)  
 ■ Dividends per share (yen)



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 Forecast	2021 (Fiscal year)
Dividend payout ratio	52.5%		37.3%	111.7%	43.5%	26.6%	25.0%	20.4%	21.3%	21.2%	

# Capital Expenditure Plan



Obayashi will invest 400.0 billion yen over five years to prepare the way for realizing its Vision for the Future

Medium-Term Business Plan 2017		(Reference) Medium-Term Business Plan 2015	
Plan for 2017–2021	(Fiscal year average)	Plan for 2015–2017	(Fiscal year average)

## ■ Continuous investment to maintain position as “the leader at the forefront of technology and productivity”

R&D of construction technologies	100.0 billion yen	(20.0 billion yen)	40.0 billion yen	(13.3 billion yen)
Construction machinery and business facilities	50.0 billion yen	(10.0 billion yen)	25.0 billion yen	(8.3 billion yen)

## ■ Investment to realize “a corporate group advancing while creating diverse earnings sources”

Real estate leasing business	100.0 billion yen	(20.0 billion yen)	55.0 billion yen	(18.3 billion yen)
Renewable energy business, and others	100.0 billion yen	(20.0 billion yen)	60.0 billion yen	(20.0 billion yen)

## ■ Growth investments that seize opportunities

M&As and others	50.0 billion yen	(10.0 billion yen)	—	(—)
<b>Total investment amount over five years</b>	<b>400.0 billion yen</b>	<b>(80.0 billion yen)</b>	<b>180.0 billion yen</b>	<b>(60.0 billion yen)</b>

## Provide new value to society by strengthening competitive advantages and securing stable profits

### Create

Provide high-value-added services by drawing on “manufacturing DNA” to realize higher quality, better safety, and a leap forward in productivity

### Connect

Respond flexibly to changes in society, markets, and customers’ needs by forming a group with advanced technologies and skills, leveraging our global network, and using open innovation to develop and use new technologies

### Support

- Ensure a working environment that is secure and stimulating for all construction-related personnel
- Establish systems that can respond rapidly and flexibly when disasters occur
- Realize a sustainable society by creating spaces and environments that are safe, secure, and comfortable

## 1 Building construction

- (1) Realize stable earnings by enhancing competitive advantages in growth markets and areas and providing integrated high-value-added services for buildings, centered on leveraging the Group's total capabilities and global network
- (2) Improve productivity by building next-generation production systems utilizing IoT, AI, and robotics, transforming business processes by basing them on BIM, and developing labor-saving construction methods, etc.
- (3) Secure production capacity by improving the working environment at construction sites, developing multi-skilled workers, securing skilled construction workers, and providing educational support, etc.
- (4) Eradicate major disasters and quality and construction defects by implementing diverse education programs and rigorously applying quality and safety management utilizing ICT

## 2 Civil engineering

- (1) Strategically acquire orders to construct, renew, and extend the life of infrastructure that contributes to the safety and security of the public as well as Japan's economic development
- (2) Work to acquire orders for energy-related projects that respond to social and environmental change
- (3) Expand design-build projects using labor-saving technology and ICT, and further increase productivity and construction safety using IoT and AI
- (4) Diversify earnings base by expanding into upstream and downstream sectors in the civil engineering business
- (5) Secure engineers and skilled construction workers by improving the working environment on construction sites and secure production capacity by supporting their development and so forth

## 3 Overseas

- (1) Seek to maximize profits by promoting further localization in areas where Obayashi has expanded, increasing quality and safety management using ICT, and conducting technology and personnel exchanges
- (2) Strengthen business platform and build an organization to support further global development of the construction business and diversification of the earnings bases at overseas bases
- (3) Overseas Building Construction—Strengthen earnings capability and expand business domains by collaborating with local partners and developing global human resources
- (4) Overseas Civil Engineering—Stabilize business earnings by promoting business strategies tailored to regional characteristics and strengthening coordination between overseas sites and head office divisions in Japan

## 4 Engineering

- (1) Strengthen business platform for growth and expansion of the engineering business (technology, organization, human resources)
- (2) Increase earning capabilities by strengthening competitive advantages in the engineering business and harnessing powerful synergies with building construction and civil engineering business
- (3) Expand businesses leveraging advanced, specialized technological capabilities to generate high added value (existing fields, new fields, and overseas expansion)

## 5 Nuclear power

- (1) Promote initiatives for nuclear power construction related to measures for increase the safety of nuclear power installations and environmental restoration following the Fukushima Accident
- (2) Participate in new nuclear power station construction projects in and outside Japan, and in operations of decommissioning reactors and disposing of radioactive waste



# Business Strategy — Real Estate Development Business/New Businesses



## 1 Real estate development business

- (1) Strengthen stable earnings base through further investment in the office leasing business (focusing on the key area of central Tokyo)
- (2) Continue to develop business selling detached housing and condominiums located in the Tokyo metropolitan area and major cities in the Kansai region
- (3) Promote development of new rental housing, logistics facilities, and so forth to drive diversification of the leasing portfolio
- (4) Contribute to creation of a low-carbon society and sustainable communities by promoting environmentally responsible real estate development projects
- (5) Promote facility management leveraging innovation such as IoT and AI

## 2 New Businesses

- (1) Expand the renewable energy business and develop peripheral businesses
- (2) Expand earnings by redoubling efforts in PPP projects
- (3) Establish new business models and create earnings sources utilizing proprietary technologies and expertise

# Management Foundation Strategy (Technology, Human Resources and Organization, and ESG)



## 1 Technology strategy

- (1) To create a “Flexible Future,” enhance the technological capabilities that are the source of the Group’s competitive advantage and promote technological innovation in all business domains
- (2) Develop technologies that contribute to business by aligning with customer needs, stimulating new demand, and reading the markets and the times
- (3) Develop and utilize technologies that will lead to a great leap forward in productivity applying IoT and AI, etc., and to the creation of new value

## 2 Human resource and organizational strategy

- (1) Enhance human resources through systematic development of qualification holders, enhancement of employee skills, and creation of construction site environments that facilitate active participation by female employees
- (2) Secure and develop diverse human resources to support global development and business strategy in new businesses
- (3) Secure and develop workers for the future through work style reform designed to boost the appeal of the construction industry
- (4) Strengthen risk management framework in line with expansion of Group businesses

## 3 Environment, Social, and Governance (ESG) initiatives

<b>Environment</b>	Promote initiatives to resolve global environmental issues in construction and peripheral business activities, based on the medium- to long-term environmental vision “Obayashi Green Vision 2050”
<b>Social</b>	<ul style="list-style-type: none"> <li>• Provide high quality buildings by promoting constant improvement of the quality management system, as well as utilization of ICT at construction sites, technology development, and personnel development</li> <li>• Secure the safety and health of workers and promote creation of comfortable workplaces where diverse human resources can participate</li> <li>• Promote proactive initiatives on solving social issues as a good corporate citizen, including disaster preparedness, restoration and recovery support following disasters, and good citizenship in local communities</li> </ul>
<b>Governance</b>	Enhance corporate governance by increasing transparency and soundness of management, and ensuring adherence to corporate ethics, and promote constructive dialogue with shareholders



This presentation contains predictions and forecasts regarding the future plans, strategies, and performance of Obayashi and the Obayashi Group.

These statements are forward-looking statements based on assumptions and opinions made in light of information available to the Company at the timing of writing, and are subject to risks and uncertainties related to economic trends, market demand, currency exchange rates, taxation and various other systems.

Actual results may therefore differ materially from forecasts.