

**Main Contents of Q&A from the FY2024 Q3 Financial Presentation**

Date : Wednesday, February 12, 2025, 13:30–14:10

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**Q. It has been pointed out that the market environment for the biomass power generation business is deteriorating. Regarding Ozu Biomass, the company has undertaken advantageous measures such as foreign exchange forward contracts, but is the company planning to sell it next fiscal year? Please tell us about the prospects and certainty. Also, is it correct to understand that the sale will be conducted in a lump sum rather than in installments?**

A. Regarding Ozu Biomass, the future outlook of the market is uncertain, and there is a possibility that short-term recovery might be difficult. Based on an evaluation of business value using cash flow, it was found that delaying the sale as much as possible could maximize its value, and we are discussing that it may be more advantageous to continue holding it for the time being. If we decide to proceed with the sale, we will promptly inform you.

**Q. Looking at the non-consolidated the domestic building construction business, the gross profit margin in Q3 alone improved significantly to over 12%. I would like to know the background to that. Meanwhile, the full-year gross profit margin seems to have been revised downward a bit. So, I would like to know whether there are risks in Q4 and what is your approach regarding Q3 and the full year for the domestic building construction business.**

A. Several large, high margin completed projects contributed to the significant increase in the gross profit margin in Q3. On the other hand, there are one or two projects in Q4 that cannot absorb the impact of rising prices, leading to a lower gross profit margin.

(Gross profit margin: Q3 non-consolidated: 12.6%, Q4 forecast: 9.5%, Full-year forecast: 9.5%)

**Q. I understand that there are unrealized profits in building construction segment and civil engineering segment aside from the sale of the Ozu Biomass. Is it correct to understand that these will be realized if sold next fiscal year? Basically, will the recognition of unrealized profits be deferred unless a sale is made?**

A. If the Ozu Biomass continues to be owned, the unrealized profits from building construction segment and civil engineering segment will be realized in line with the depreciation of the assets, thus reducing the amortization costs in the P/L. We have confirmed with the auditors that the unrealized gross profits from construction and civil engineering will be recognized when a portion of the shares are sold and the company is no longer a consolidated subsidiary.

**Q. Many in the market are concerned about the potential decline in profits after the sale of the Ozu Biomass. Could you share your current thinking on whether there is a high likelihood of selling it next fiscal year, or is it more likely that you will continue to hold it and sell it at a time when its value is maximized, as mentioned earlier?**

A. Based on the current situation, we think it is highly likely that we will not sell it next fiscal year. The price of electricity for renewable energy is rising underwater, and the possibility of exceeding the current FIT price of 24 yen may be seen within a few years. If this is realized, the sale value may increase significantly, and if not, it may be advantageous to continue to hold the property. At this point, we are discussing the possibility of holding the property without selling it until about 2030, when it will probably appreciate in value. Yet, the market changes from moment to moment, so as I mentioned earlier, we would like to make a proper announcement to everyone as soon as possible after we have decided our policy.

**Q. In the medium-term business plan starting next fiscal year, I would like to know about the potential for profit increase after the downward revision this fiscal year. I think that margins of building construction segment are likely to improve next fiscal year, but I would like to ask you about the factors that are expected to increase profits in each segment next fiscal year, both in terms of sales and margins.**

A. One of the factors for profit increase is the growth in the contracting business sector. Considering the contents of the unfinished works and the projects already ordered in both building construction segment and civil engineering

segment, sales are expected to increase, and profits are unlikely to fall below current levels. . Additionally, regarding the infrastructure operation business, the storage battery business is progressing at a very fast pace, and we anticipate that the speed from development to sale will be several times faster than other renewable energy businesses, contributing to profits. As for public-private partnerships, we cannot provide specific numbers of projects acquired due to bidding processes, but we aim for more than seven arena projects, eight water PPPs, and more than ten road-related projects, including comprehensive outsourcing, by 2030, and we are formulating plans considering these. Details will be disclosed in the medium-term management plan to be presented to everyone from the end of this fiscal year to the beginning of the next fiscal year, where we will explain in detail.

**Q. Please tell us about the current situation of profit margin on orders received in the building construction business. In your opinion, is the profit level already good or do you think there could be room for improvement? ?**

A. The projects we have received orders for during this period have achieved an extremely high order-to-profit ratio of 9.2% on average. We expect the final figure for Q4 to settle at 8.5%, as lower margins on some large cost-on projects will result in a slight decline. In addition, the award of a large project that has been under redevelopment for a long time and has finally been received under the original order conditions has also had an impact. It is therefore difficult to suddenly increase the profit margin on orders received. Improving profit margins is a challenging task, but we believe that the current profit margin on contracting projects is close to its limit.

**Q. Regarding the road civil engineering business, while performance has been steadily recovering, could you please share your thoughts on the potential for future growth?**

A. Regarding the road civil engineering business, in the past, the highest profits of approximately 29 billion yen have been achieved. While the production volume and other factors were different at that time, we believe there is still significant room for cost reduction and business improvement. We are also planning various initiatives including M&A in the future, and there is still a lot of room for improvement, especially in construction, such as more thorough order discipline. This term, we achieved the highest profit since the establishment of the holding company, and we believe there is still room for us to target the past record-high profits again.

**Q. I understand that you believe there is a possibility of increased profits due to future performance, current gross profit, the status of the order backlog, and the strong performance of subsidiaries. However, instead of maintaining the dividend, there might be a perspective to use the funds to accelerate growth by expanding investment in promising areas such as wind power generation. Observing recent trends in shareholder returns, it is often seen that share prices fall even when share buybacks or dividend increases are announced. Therefore, it might not be necessary to focus as much on returns as before. Rather, directing funds towards growth investment could be more effective when considering the next medium-term business plan. What are your thoughts on this?**

A. As you pointed out, if we maintain the dividend at JPY60 this fiscal year, the dividend payout ratio will exceed 47%, which is quite high compared to our peers. Considering that the P/B ratio is hovering around 0.8, there is no small risk of acquisitions, so we believe it is necessary to maintain the dividend payout ratio for the time being while continuing short- to medium-term measures to raise the PBR to 1x. While there are voices in the market calling for the acquisition of treasury stocks, we would like to allocate funds for growth investment for the time being. We also recognize that it is extremely important to invest in growth not only for 2030 but beyond.

**Q. I think it was a wise decision to postpone the sale of Ozu Biomass. I'm not sure whether it's a good decision to give up assets that generate an average income of about 800 million yen a year so easily. As part of our strategy to move away from the FIT, it is important to establish a system to ensure a stable supply of electricity, and owning our own power plant is a significant advantage. Renewable energy depends on conditions such as sunlight and wind, so there is a need for power generation capacity to supplement their absence. I assume this is considered in your medium-term management plan but given the potential for rising interest rates making it difficult for buyers to obtain financing, I suggest considering strategies that not only involve selling but also building up stable income gains.**

A. Thank you very much for your valuable feedback. We would like to incorporate it into our future strategy.