

Second Quarter Financial Results Briefing (Question and Answer Summary) for the Fiscal Year Ending March 31, 2024

TENOX CORPORATION

Q. Orders increased from 9,300 million yen to 16,300 million yen. Orders for what type of services increased?

A. About half of second quarter orders were for civil engineering piling work for the Hokkaido Shinkansen extension project.

Q. Profit fell because of fiercer competition for foundation construction. Specifically, where is the competition coming from, and who are you receiving orders from?

A. Our customers are general construction companies. It appears that small- and medium-sized companies in the same industry that previously handled small-scale foundation construction for such buildings as detached houses are eating into general construction company projects due to uncertainty about future construction demand as a result of the COVID-19 pandemic.

Q. What are the factors behind being unable to achieve targets in the Medium-Term Management Plan?

A. Net sales fell slightly short of targets even though the impact of the COVID-19 pandemic is fading. Rising prices for construction material, such as steel, was one of the causes for not being able to achieve profit targets. Furthermore, it was not possible to sufficiently pass on price increases. Labor costs are also rising. These are concerns for the whole construction industry, not only Tenox.

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Q. Why is Tenox working with Nippon Sharyo Ltd. to introduce small motorized pile drivers?

A. We are doing so because we use construction equipment made by Nippon Sharyo Ltd.

Q. What are the factors behind Tenox recording an operating loss for the second quarter (July–September)?

A. One factor is that we were burdened with unprofitable projects because of difficult construction due to ground conditions. Another factor was rising labor costs.

Q. Are any measures to be implemented to generate a recovery in the second half and achieve full-fiscal-year forecasts?

A. We will analyze what factors resulted in projects being unprofitable, have the sales departments, construction departments, the Technology Department, and partner companies fully ascertain site conditions, and manage construction based on appropriate KPI (output/day).

Q. Is there any difficult construction work that will continue into the second half?

A. Because we posted allowances and similar items in the first half, there should be none that continue into the second half or after.

Q. While the Medium-Term Management Plan includes plans for 3,500 million yen in capital investments, there have been no actual green investments (preparing for carbon neutrality) since the 5 million yen in the first fiscal year. Have plans been put off?

A. Although we expected to make about 500 million yen in capital investments, we have not started to actually do so. We will continue to tackle this issue in the next medium-term management plan.

Q. Is there a numerical target for reducing CO₂ emissions in the Medium-Term Management Plan?

A. We plan to conduct disclosure in line with TCFD recommendations starting next year, and concrete figures are expected to be included in the next medium-term management plan.

Q. How would you evaluate the profitability of backlog orders when the orders were received?

A. We will be able to ensure a normal profit margin for the Hokkaido Shinkansen extension project. Furthermore, the profit margin on backlog ground improvement construction is not all bad.

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Q. Through the second quarter, there were large-scale projects such as the Hokkaido Shinkansen extension project, but that type of large-scale projects are being targeted now?

A. The Hokkaido Shinkansen extension project has not yet been completed, and there will be additional work. We also expect to see large-scale civil engineering projects related to infrastructure in the Kansai region. As for the ground improvement work for buildings, we have received inquiries regarding large-scale projects, primarily for private-sector factory projects.

Q. How has business sentiment changed compared to six months and one year ago? Has the outlook for the business environment next year changed? Could you also comment on the president's impression of business conditions.

A. Compared to a year ago, there has been a noticeable increase in the price of iron and cement, our key materials. Furthermore, in the construction industry, labor costs are rising as it has become difficult to secure workers, which has led to a seller's market. The key points to the outlook are continuing high prices for construction materials and passing on rising labor costs due to the "2024 problem" (approaching stricter regulations on overtime and overtime pay within the construction industry). Furthermore, China's economy is slowing, and US economic indicators have begun to trend downward; thus, it will be necessary to focus on what impact this will have on Japan's economy. It is the president's opinion that although the overall Japanese construction market is not at all bad, there are some concerns about a decline in detached house construction.

Q. Looking five to ten years into the future, how do you think the priority of public work projects in government finances will change? At a time when the government faces such issues as national defense, healthcare, and a shrinking population, what priority do you think public works projects will be given?

A. We are not pessimistic about public works projects. It is our opinion that investments related to disaster prevention and mitigation and making Japan resilient will continue at a stable pace. Even for construction, we think that there will be construction projects due to the closure and merger of medical facilities and schools.

IR Inquiries

- ❑ Budget and IR Group, Corporate Planning Department
- ❑ E-mail ir@tenox.co.jp
- ❑ URL https://www.tenox.co.jp/en/contact/contact_ir/
- ❑ Corporate website <https://www.tenox.co.jp/en/>