[Business Strategies]

Building Construction Business

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Business Characteristics and Strengths

Our building construction business creates well-rounded, safe living spaces tailored to the needs of customers in wide-ranging sectors, from collective housing as the core of our business to commercial facilities, distribution warehouses, offices and production facilities in various industries.
In the field of collective housing, we take pride in a high level of competitiveness and a wealth of track record in the construction of high-rise residential buildings, leveraging our proprietary SQRIM building frame method . We also provide facility maintenance and reconstruction that are indispensable to making facilities disaster-resistant or to customers' business development at various types of business facilities, leveraging our high technological capability.

Opportunities and Risks as well as Basic Policies of the Medium-term Management Plan 2019–2021 as Countermeasures

Opportunities

- Brisk demand for redevelopment projects particularly in the Tokyo metropolitan area; growing demand from the medical, environment, and energy sectors; strong investment in public works such as PFI projects
- Growth potential of the domestic renovation market
- Demand for distribution warehouses and data centers arising from new lifestyles

Risks

- Potential shrinkage of and harsher competition in the domestic construction market in the future
- Shortage of technical construction workers in the future against the backdrop of aging population
- Response to the reduction of overtime work
- Shortage of engineers overseas
- Shortage of human resources among mid-level employees
- Termination of/delay in business activities amid the COVID-19 pandemic

Basic Policies of the Medium-term Management Plan 2019–2021 as Countermeasures

1. Build a solid customer base
2. Accelerate the innovation of production processes
3. Build a system for driving transformation
4. Expand overseas and related businesses
5. Improve on-site capabilities
6. Developing and nurturing global human resources

Our Perception of Business Environment

We find it difficult to predict the outlook for investments in the overall construction market for a number of reasons, such as the revisions to planned capital projects by manufacturers triggered by the COVID-19 outbreak, and changes in the business conditions for office buildings and commercial/accommodation facilities, in addition to the completion of facilities for the Tokyo Olympics and Paralympics and the curtailment of CAPEX by the private sector. In the meantime, demand is growing for distribution warehouses and data center facilities, as shopping on the internet has become more common given a new lifestyle or the new normal firmly in place, while rapid growth is expected for health and medicine related facilities amid the growing need to fight infectious diseases, and for facilities in the field of environment/energy including zero energy buildings and biomass power plants which are aimed at realizing carbon neutrality. In this business environment, we will continue to focus on these markets. We will also make proactive efforts to achieve SDGS and carbon neutrality through our business operations.

Results and Major Efforts in Fiscal 2020

During fiscal 2020, the second year for our Medium-term Management Plan, extraordinary factors, such as the curtailment or delay in capital investment projects by the private sector amid the COVID-19 pandemic, affected the earnings projections for the overall construction industry. In fiscal 2020, the amount of orders received remained unchanged from the same period last year at 185.8 billion yen, with the amount of completed work at 193.9 billion yen (down 18.5% year-on-year) as many of the orders received were large-scale construction works that had just started. As a consequence of decreased completed work and deteriorated profitability in some construction works, gross profit of completed work declined to 13.3 billion yen (down 30.7% year-on-year).

Under these circumstances, we have successfully improved our competitive position and advantage in terms of construction technology in the large-size distribution warehouse segment, which we have positioned as a priority area and thus have focused on. The segment has now evolved into an area of our specialty, along with high-rise collective housing. As a result, orders received increased significantly in the segment. We will continue to sharpen our competitiveness as the logistics facilities development market will likely continue to grow in the future.

Development of technologies

As measures to improve productivity, one of the imminent challenges that the entire construction industry are pressed to address, we have promoted the development of technologies with a view to building a better future for both the entire construction industry and Sumitomo Mitsui Construction. Specifically, we have promoted digitalization at sites, leveraging ICT and BIM, and have also worked actively on development and introduction of new methods, such as advanced PCa (an industrialized construction method for building frames), to make our vision for the construction production processes come true. As measures to promote digitalization, we have provided tablet terminals to all technical employees, have built platforms for computerizing the management of production, and have started the operation of an ICT-version construction management confirmation/recording system. We have also promoted the effective use and implementation of BIM for our operations. As a result, the BIM technology has started to prove or proved useful for construction simulation in construction management operations, for inspection as to whether reinforcing bars and iron frames have fit in properly, and for concrete casting planning.

Also, as measures to contribute to decarbonizing the society, we have started to use green electricity at high-rise residential building work sites with a view to reducing CO_2 emissions during construction. We will contribute to creating a decarbonized society through a range of proactive efforts, including the expansion of work sites using green electricity.

In addition, we developed the SmaEwork (Sumai Work) (Japanese only)* Plan, a new layout plan for collective housing designed to meet new work styles in the post COVID-19 era. The plan allows another room to be added for working from home without expanding the floor area. We will continue to develop new technologies for addressing changes in society and lifestyle.

* The SmaEwork Plan is a patent-related technology (Patent No. 6185333) for Sumitomo Mitsui Construction.

Fiscal 2021 Policies

The basic policy of the Building Construction business for fiscal 2021 is to further promote a range of measures aimed at realizing our future vision for our production and operation processes, including digitalization, which we continued to work on until the previous fiscal year, and to demonstrate the effect of such measures in daily operations. Under the current business environment, while the outlook for future operating performance is uncertain given the influence of COVID-19, we will work on the following basic measures based on the belief that we can realize our future vision by continuing to make proactive efforts and yield positive results toward transformation:

Increased focus on growth areas

As measures taken since the previous fiscal year, we will continue to work intensively on distribution warehouse projects, a growth area, and will also strive to receive more orders for urban redevelopment projects and high-rise collective housing in regional towns and cities by further sophisticating our technologies for high-rise residential buildings where we have a competitive advantage. We will also focus on the PFI, health and medicine related, and environment engineering markets, which are expected to grow.

Initiatives for digital transformation (DX)

As measures to promote DX toward improving productivity, we will focus on the following three.

- Driving effective use of the BIM technology: Optimize the linkage between design BIM and construction BIM to promote front loading
- More sophisticated use of ICT: Drive digitalization at sites to improve operational efficiency and save labor.
- Automation of the precasting (PCa) technology: Introduce technologies to mechanize construction work, such as automated tower cranes (Japanese only)

Initiatives for sustainability transformation (SX)

We promote the following measures toward realizing decarbonization and reducing environmental burden.

- Further promoting eco-friendly construction at work sites
  Promote Reduce, Reuse, Recycle (3R) to establish eco-friendly construction, such as zero-emission construction
- Implementing measures to reduce CO_2 emissions across the supply chain
  Contribute to reducing CO_2 emissions through a series of efforts including the increased adoption of renewable energy
- Promoting the adoption of eco-friendly technologies
  Strengthen technologies and efforts for realizing ZEB/ZEH (Japanese only)
  Promote the use of green electricity at work sites
  Establish eco-friendly design and planning ability in the design phase

Initiatives Toward Realizing Decarbonated Society

Use of green electricity launched at high-rise collective housing construction sites

We have started the use of green electricity for construction work at high-rise collective housing construction sites under construction since March 2021.
We set out Environmental Policy "Green Challenge 2030" based on which we have aimed to contribute to realizing a decarbonated society, a vision for 2030. In line with such vision, we are using green electricity supplied by Evergreen Marketing Co., Ltd., practically 100% renewable energy electricity, which carries a non-fossil fuel energy certificate with tracking information, as a measure to reduce CO_2 emissions at work sites during the construction phase. By using green electricity in the construction phase, we will contribute to realizing high-rise residential buildings that have limited environmental impact throughout their life cycles.