

# The Fourth Mid-Term Management Plan (2017-2019) of Sekisui House Group

March 10, 2017

## [Market Environment]



Holding of the 2020 Tokyo Olympics  
Increase in foreign visitors to Japan  
Depreciation of the yen  
Shortage of quality hotels

### [Acquisition of inbound demand]

Population inflow into urban areas  
Increase in the number of households  
Measures against inheritance tax  
Promotion of Net Zero Energy House  
Accelerated globalization

### [Supply of quality houses]

Full-scale aging society  
Arrival of IoT/AI age  
Vacant house problem  
Problem of children waiting for  
nursery schools

### [Creation of new housing demand]

Environment

Land use

Existing  
houses

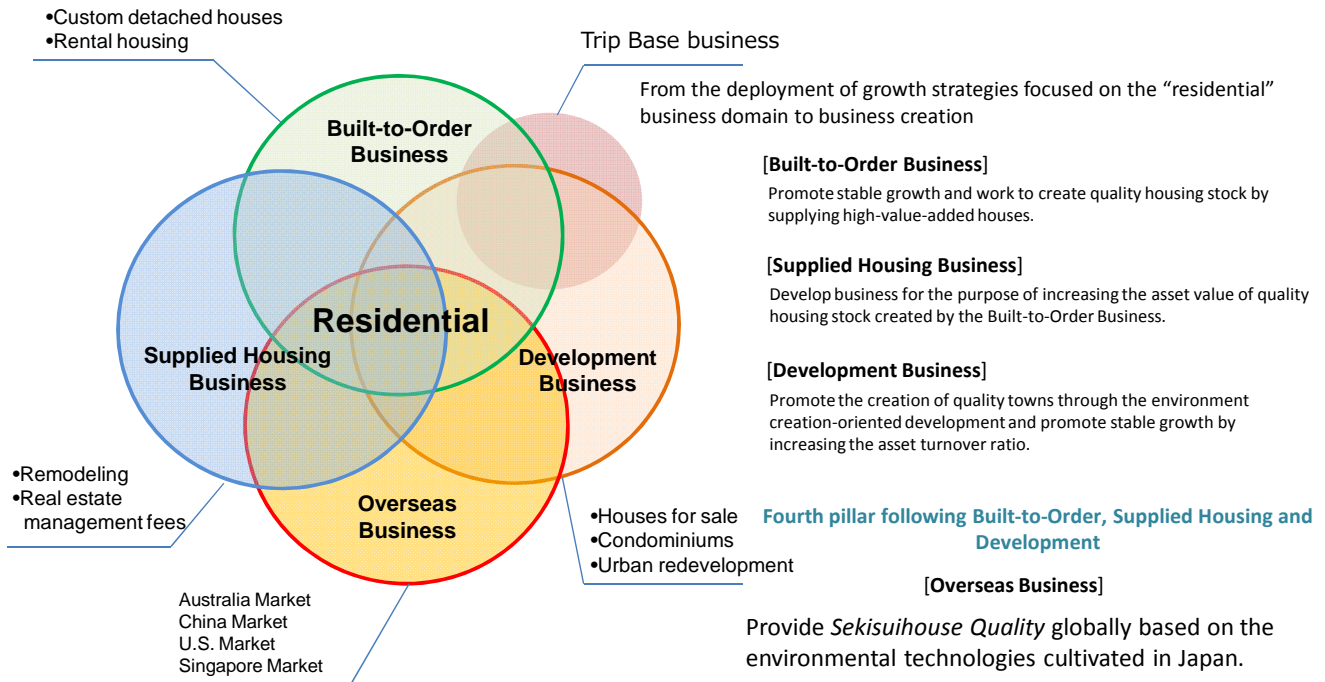
**Key words**

International

Aging

Inbound

## Building the foundation for the “residential”-related business toward BEYOND 2020



### Built-to-Order Business

Lead the industry as the top brand and challenge a new built-to-order business.

### Supplied Housing Business

Expand the business domain by creating new markets, taking advantage of existing houses.

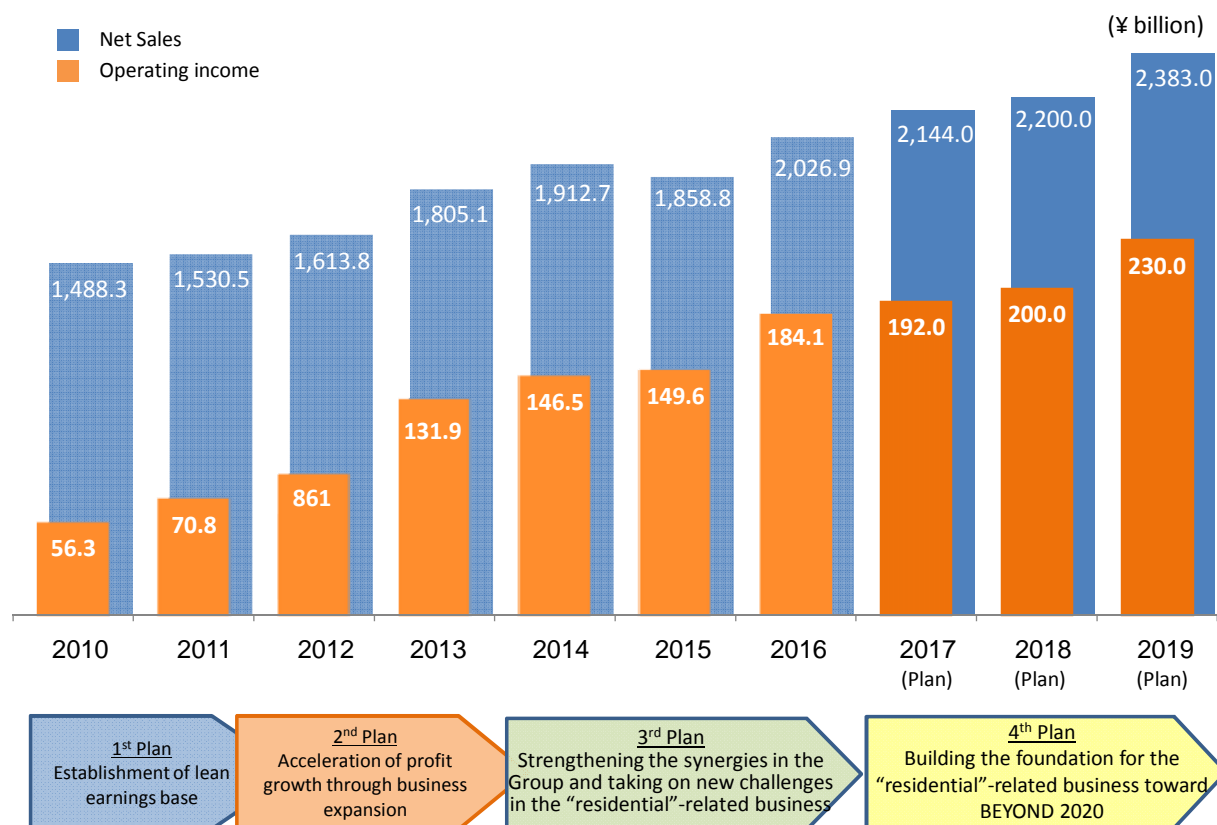
### Development Business

Focus on balance between growth investments and the asset turnover ratio.

### Overseas Business

Increase business opportunities by providing high value-added houses and housing environment internationally.

## [Fourth Mid-Term Management Plan] Earnings Plan



Sheet 4

## [Fourth Mid-Term Management Plan] Earnings Plan



(¥ billion)

	FY2014 (14/2-15/1)	FY2015 (15/2-16/1)	FY2016 (16/2-17/1)	FY2017 (17/2-18/1) Plan	FY2018 (18/2-19/1) Plan	FY2019 (19/2-20/1) Plan
Net sales	1,912.7	1,858.8	2,026.9	2,144.0	2,200.0	2,383.0
Operating income	146.5	149.6	184.1	192.0	200.0	230.0
Ordinary income	156.4	160.5	190.9	196.0	203.0	233.0
Net income	90.2	84.3	121.8	128.0	132.0	149.0
OP margin	7.7%	8.1%	9.1%	9.0%	9.1%	9.7%
EPS (yen)	130.9	120.1	175.4	185.4	191.2	215.9
ROE	9.0%	7.9%	11.3%	11.3%	Stably generate the 10% level.	

Sheet 5

(¥ billion)

		FY2017			FY2018			FY2019		
		Net sales	Operating income	OP Margin	Net sales	Operating income	OP Margin	Net sales	Operating income	OP Margin
Built-to-Order Business	Custom Detached Houses	381.0	48.5	12.7%	387.0	49.0	12.7%	395.0	50.0	12.7%
	Rental Housing	446.0	62.5	14.0%	453.0	63.5	14.0%	458.0	64.0	14.0%
	Subtotal	827.0	111.0	13.4%	840.0	112.5	13.4%	853.0	114.0	13.4%
Supplied Housing Business	Remodeling	140.0	18.0	12.9%	146.0	19.0	13.0%	152.0	20.0	13.2%
	Real Estate Management Fees	488.0	34.0	7.0%	508.0	37.0	7.3%	528.0	39.0	7.4%
	Subtotal	628.0	52.0	8.3%	654.0	56.0	8.6%	680.0	59.0	8.7%
Development Business	Houses for Sale	143.0	13.0	9.1%	144.0	13.0	9.0%	145.0	13.5	9.3%
	Condominiums	76.0	8.0	10.5%	78.0	6.7	8.6%	80.0	7.7	9.6%
	Urban Redevelopment	90.0	12.5	13.9%	104.0	11.0	10.6%	145.0	18.0	12.4%
	Subtotal	309.0	33.5	10.8%	326.0	30.7	9.4%	370.0	39.2	10.6%
Overseas Business		300.0	30.0	10.0%	300.0	37.0	12.3%	400.0	55.0	13.8%
Other Businesses		80.0	0.5	0.6%	80.0	0.8	1.0%	80.0	0.8	1.0%
Eliminations and corporate expenses		-	(35.0)	-	-	(37.0)	-	-	(38.0)	-
Consolidated		2,144.0	192.0	9.0%	2,200.0	200.0	9.1%	2,383.0	230.0	9.7%

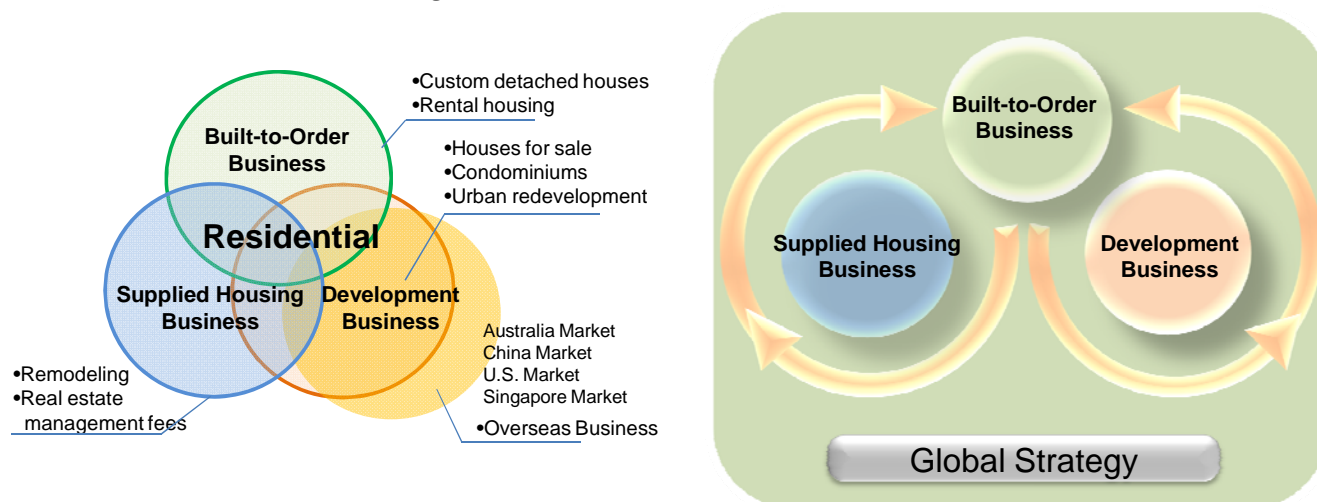
Sheet 6

## Review of the Third Mid-Term Management Plan (2014-2016)

Sheet 7

## Basic Direction of FY2014 Mid-Term Management Plan

Strengthening synergies in the Group and taking on  
New challenges in the “residential”-related business



## Management Direction

Deployment of growth strategies focused on  
the “residential” business domain

Sheet 8

Net sales and income reached record highs in the final year of the mid-term management plan.

Results relative to the third mid-term management plan (at the time of announcement)

(¥ billion)

	FY2014			FY2015			FY2016		
	Plan	Results	Relative to plan	Plan	Results	Relative to plan	Plan	Results	Relative to plan
Net sales	1,910.0	<b>1,912.7</b>	2.7	1,920.0	<b>1,858.8</b>	(61.2)	2,020.0	<b>2,026.9</b>	<b>6.9</b>
Operating income	145.0	<b>146.5</b>	1.5	152.0	<b>149.6</b>	(2.4)	166.0	<b>184.1</b>	<b>18.1</b>
Ordinary income	153.5	<b>156.4</b>	2.9	159.0	<b>160.5</b>	1.5	171.5	<b>190.9</b>	<b>19.4</b>
Net income	89.0	<b>90.2</b>	1.2	95.0	<b>84.3</b>	(10.7)	103.0	<b>121.8</b>	<b>18.8</b>
OP margin	7.6%	<b>7.7%</b>	0.1%	7.9%	<b>8.1%</b>	0.2%	8.2%	<b>9.1%</b>	<b>0.9%</b>
EPS (yen)	130.4	<b>130.9</b>	0.5	139.0	<b>120.1</b>	(18.9)	151.0	<b>175.4</b>	<b>24.4</b>
ROE	9.3%	<b>9.0%</b>	(0.3%)	9.5%	<b>7.9%</b>	(1.6%)	10.0%	<b>11.3%</b>	<b>1.3%</b>

Sheet 9

# [Third Mid-Term Management Plan] Net Sales and Operating Income (by Segment)



(¥ billion)

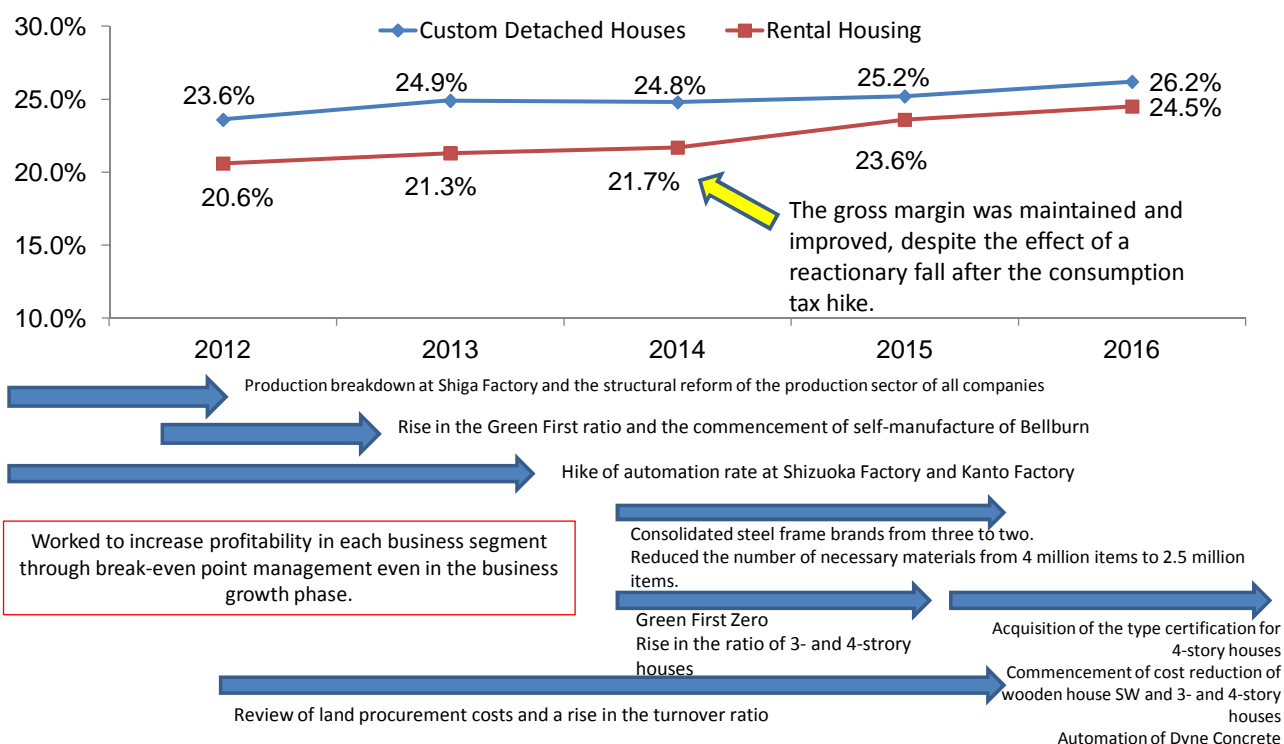
		<Net Sales>			<Operating Income>		
		FY2014	FY2016	Relative to FY2014	FY2014	FY2016	Relative to FY2014
Built-to-Order Business	Custom Detached Houses	427.0	383.1	(43.9)	48.8	49.5	0.6
	Rental Housing	398.4	440.3	41.8	45.8	60.8	15.0
	Subtotal	825.5	823.4	(2.0)	94.7	110.3	15.6
Supplied Housing Business	Remodeling	134.1	133.4	(0.6)	14.9	17.5	2.5
	Real Estate Management Fees	428.2	469.1	40.9	23.4	31.2	7.8
	Subtotal	562.3	602.6	40.2	38.4	48.8	10.4
Development Business	Houses for Sale	118.7	142.0	23.2	8.4	8.8	0.3
	Condominiums	56.6	66.1	9.4	4.7	2.2	(2.4)
	Urban Redevelopment	178.3	130.4	(47.8)	25.8	23.4	(2.3)
	Overseas Business	79.8	182.1	102.2	4.4	25.1	20.7
	Subtotal	433.6	520.7	87.1	43.4	59.6	16.2
Other Businesses		91.1	80.0	(11.0)	3.1	0.7	(2.3)
Consolidated		1,912.7	2,026.9	114.2	146.5	184.1	37.5

Sheet 10

## [Increasing Profitability in Each Business Segment Through Break-even Point Management]



### Changes in Gross Margin

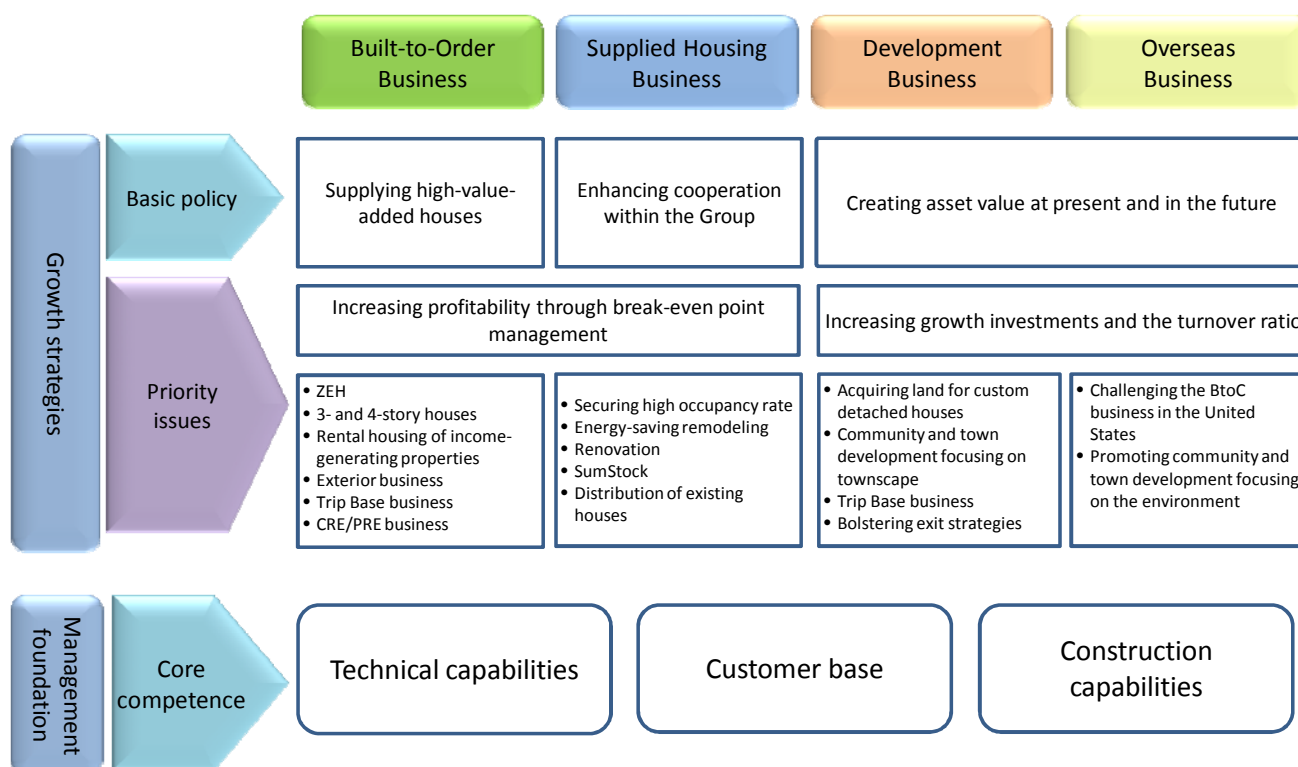


Sheet 11

## Business Strategies in the Fourth Mid-Term Management Plan

Sheet 12

### [Business Strategies in the Fourth Mid-Term Management Plan]



Sheet 13

## Brand Communication Strategy

My love in the house, Sekisui House. .... Corporate attitude aiming for maximum customer satisfaction

# SLOW & SMART

Housing innovation to make your heart feel at home

.... Allow customers to enjoy a comfortable life with advanced technologies.

Business	Custom Detached Houses Business			Rental Housing Business
	Steel frame houses	Steel frame 3- and 4-story houses	Shawood	Sha Maison
	A home for generations	Diverse values with multiple stories	A home of sensibility and sensation	Maximizing the asset value of customers
Advertisement	人生になる家。	夢よ、もう1階。	私という家。	このたび 引っ越しました。 今度の部屋は 積水ハウスです。

Sheet 14

## [Built-to-Order Business: Key Initiatives]

- Sales of high-value-added houses and the further enhancement of break-even point management through production and logistics reforms
- Increase in orders through the multifaceted development of β system construction method (3- and 4-story houses) and the SW construction method for hotels, nursery homes and hospitals, etc.
- Enhancement of the exterior business

Custom Detached Houses	Rental Housing	Exterior
<ul style="list-style-type: none"> <li>○ Sales expansion of Green First Zero (ZEH)</li> <li>○ Appeal of our original exterior walls (internal manufacturing) <ul style="list-style-type: none"> <li>• Dyne Concrete (steel frame houses)</li> <li>• Bellburn (earthenware exterior wall, wood frame houses)</li> </ul> </li> <li>○ Differentiation with our original technologies <ul style="list-style-type: none"> <li>• SHEQAS seismic response control system</li> <li>• Airkis air eco-friendly system</li> </ul> </li> <li>○ Establishment of a customer attraction method using IT</li> </ul>	<ul style="list-style-type: none"> <li>○ Strengthening of area marketing</li> <li>○ Challenge to the inbound business <ul style="list-style-type: none"> <li>• Temple lodging project</li> <li>• Development of hotels and private residences</li> </ul> </li> <li>○ Expansion of the CRE/PRE business <ul style="list-style-type: none"> <li>• Use of idle land of business corporations</li> <li>• Expansion of regional revitalization and redevelopment projects</li> </ul> </li> <li>○ Stronger sales of income-generating property Sha Maison</li> </ul>	<ul style="list-style-type: none"> <li>○ Promotion of the "Gohon no ki" landscaping plan</li> <li>○ Entry into the exterior market</li> <li>○ Active engagement in green redevelopment projects</li> <li>○ Appeal of an environmentally advanced company <ul style="list-style-type: none"> <li>Declared and signed in on the Global Alliance for Buildings and Construction at COP21 as a private-sector company in Japan (Paris Agreement).</li> </ul> </li> </ul>



Sheet 15



## [Supplied Housing Development: Key Initiatives]



- Increase in the asset value of quality housing stock
- Active proposal of large-scale renovation and comfortable and energy-saving remodeling
- Creation of the distribution market for existing houses (promotion of SumStock and the use of big data)

### Remodeling

- Enhancement of renovation  
From maintenance-type remodeling to lifestyle proposal-type remodeling
- Enhancement of rental housing remodeling  
Increase in the asset value of owners by maintaining a high occupancy rate
- Further enhancement of remodeling of general custom detached houses and condominiums
  - Re:QUEST (for general custom detached houses)
  - RENOVETTA (for condominiums)



### Real Estate Management Fees

- Securing a high occupancy rate.
- Increase in the asset value of owners by improving the quality of management operations
- Strengthening the earnings power by the price leader strategy.
- Strengthening SumStock and the real estate brokerage business.



Sheet 16

## [Development Business: Key Initiatives]



- Focusing on development that will increase the asset turnover ratio by carefully selecting valuable land.
- Developing “Communities” that will increase in asset value in the future.
- Leading the industry by actively adopting environmental technologies in the development business.

### Houses for Sale

- Active development of smart towns
- Branding by actively engaging in community
- Appeal of reconstruction in areas around land for sale
- Spillover effects of the active development of built-to-order houses on the Custom Detached Houses Business
- Differentiation with the appeal of the concept of “beauty that blooms with time”



Common Stage Sakasagawa (Hyogo)

### Condominiums

- All-out area strategy targeting Tokyo, Nagaya, Osaka and Fukuoka
- Active development of eco-friendly ZEH condominiums, etc.
- Mounting of advanced technologies such as a hybrid seismic isolation vibration control system.



Grande Maison Shin-Umeda Tower

Grande Maison Uchikyuhoji Tower



### Urban Redevelopment

- Collaboration with two REITs in the development of high-quality offices and rental housing
- Active development of Japanese-style CCRC
- Development of hotels and extended-stay service apartments in anticipation of inbound demand

Honmachi Garden City



Extended-stay high-end service apartment

Sheet 17

## [Overseas Business: Key Initiatives]



### Australia

We will emphasize business that will create value for society and community through the provision of a high value-added housing environment for residents, as well as townscapes that are compatible with nature, regional revitalization, energy saving, etc.

Around Sydney Harbour, more than 3,000 houses have already been sold. Aiming for sustainable growth, we will carry out the sustainable large-scale complex urban development of approximately 8,000 houses in this area alone, including a new project designed by Kengo Kuma.

In the Hermitage in the suburbs of Sydney, the development of housing land and sales of Shawood, our original industrialized housing, are strong. We will expand our supply capacity and business.



Complex development in Brisbane

### U.S.A

We will develop business that will help realize a sustainable society by building on good relations with local partner companies.

In the community (residential housing land development) business, we will promote sales of housing land with higher value by focusing on the market with a good business environment. In the multi-family (urban rental housing development) business, we will secure solid earnings by developing highly competitive projects.

As a new business domain, we will enter the housing sales business on developed housing land. We will seek to expand our business by considering a range of possibilities, including the introduction of environmental technologies and IoT.



Urban rental housing in Seattle

### China

In Taicang, Suzhou, Wuxi and Shenyang, we are developing low-rise housing with our original  $\beta$  system and the condominium business in the "Yuqin" brand.

Taking advantage of the know-how and experience we have developed in Japan, high-quality construction, the introduction of environmental technologies and an enhanced after-sales service system have penetrated the local market as the one-of-a-kind brand of Sekisui House, and this has led to strong sales.

Deepening these differentiation factors, we will continue and strengthen the appeal to the wealthy class.

We aim to secure stable earnings by responding to market trends.



Town house near Shanghai

### Singapore

Houses in six projects developed with local partner companies have almost sold out, and we will pursue sales in a planned manner in projects which we have already acquired. We will also seek to acquire new projects continuously by solidifying the good relationship we have built with our partner companies.

In each project, we will provide the market with new value by adding our design know-how to high-quality resident-conscious houses, paying attention to the environment.



Complex development of commercial facility and condominium

Sheet 18

## [Overseas Business: Key Initiatives]



### [Earnings Plan]

(¥ billion)

Country	FY2017				FY2018			FY2019		
	Net sales	Operating income	Ordinary income	Orders	Net sales	Operating income	Ordinary income	Net sales	Operating income	Ordinary income
Australia	58.0	8.0	8.0	45.0	55.0	5.7	5.8	65.0	7.8	7.9
China	41.0	2.0	1.7	42.0	45.0	4.0	3.8	80.0	9.2	9.0
U.S.A.	201.0	21.1	16.6	203.0	200.0	28.4	24.6	255.0	39.1	35.9
Singapore	-	-	1.3	-	-	-	1.8	-	-	2.1
Other administrative expenses	-	(1.1)	(1.1)	-	-	(1.1)	(1.1)	-	(1.1)	(1.1)
Total	300.0	30.0	26.5	290.0	300.0	37.0	34.9	400.0	55.0	53.8

\*The Singapore business is classified under equity in earnings (losses) of affiliates.

Sheet 19

## E: Environmental management

Selected for the Dow Jones Sustainability Indices (DJSI) World Index.

MEMBER OF

**Dow Jones Sustainability Indices**

In Collaboration with RobecoSAM

Promotion of Net Zero Energy House "Green First Zero" received the "2016 Minister of the Environment's Award for Global Warming Prevention Activity" and the "Minister of Economy, Trade and Industry's Award at the 26th Grand Prize For The Global Environmental Awards."

Ranked first in the construction industry in Nikkei Inc.'s "20th Environmental Management Survey."



## S: Improvement in sociability

### ■ Way of working reform

**"Creating an exciting workplace"**

- Fair evaluation and visualization
- Higher operational efficiency by IT
- Achievement of work-life balance

} Higher productivity

### ■ Promotion of diversity

- Promotion of active participation by women
- Support for the satisfaction of both work and child-rearing
- Support for the satisfaction of both work and nursing care
- Creation of a pleasant workplace for disabled people



## G: Governance

Positioning corporate governance as the most important management issue, we have appointed two outside directors to the Board of Directors and three outside audit and supervisory board members to the Audit & Supervisory Board to secure management transparency and exercise timely and appropriate checking and monitoring functions.

We have also introduced the executive officer system to clarify management responsibility and speed up the execution of business.

In 2016, we established the Basic Policy on Corporate Governance. We will strive to further improve our governance.

Sheet 20

# [Medium- to Long-Term Business Promotion Policy based on the Fourth Mid-Term Management Plan]

## 《Building the foundation for the "residential"-related business toward BEYOND 2020》

Core competence: [technical capabilities] [customer base] [construction capabilities]

New technologies

Open Innovation

Technical capabilities

- ◆ SLOW & SMART (Environmental technologies, SHEQAS, Airkis, UD, original exterior walls, etc.)
- ◆ 3 - and 4 -story products
- ◆ Chief Architects, First-Class Architects

×

Customer base

- ◆ World's No. 1 unit sales on a cumulative basis and after-sales system
- ◆ Long-running relationship through CC and Sekiwa Real Estate
- ◆ A variety of points of contact with customers (Housing exhibition, *Sumai no yume koje*, *Sumai no Sankanbi*, SHM Festa, etc.)

×

Construction capabilities

- ◆ Responsible construction system by Sekiwa Construction
- ◆ Cooperative construction framework with high loyalty by the Sekisui House Association

×

I o T

A I

Robot

Block chain

Business-academia collaboration

Joint development

Business alliance

Business contest

Venture investment

M & A

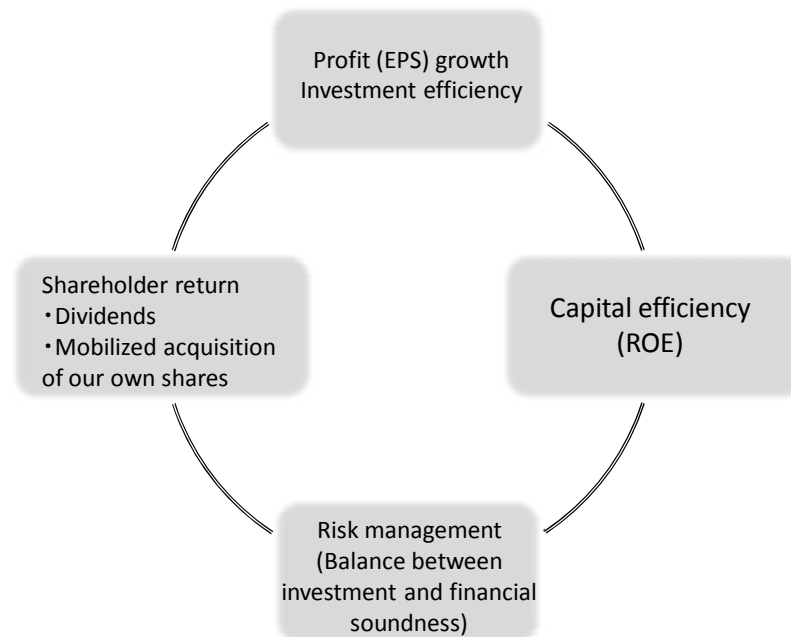


August 2020: Celebrating the 60th anniversary of our founding.

**Promote new business development by integrating hardware and software.**

Sheet 21

Promote a balanced capital policy focusing on growth investment, shareholder return and a credit rating.



Sheet 22

Business asset turnover ratio

- ◆ Real estate development business for three years

Approx. 1,700 billion yen

- ◆ Similarly, the collection amount is expected to be 1,700 billion yen.



- ◆ Aiming for total asset turnover ratio of 1.0, we will balance investments in growth businesses with asset efficiency.

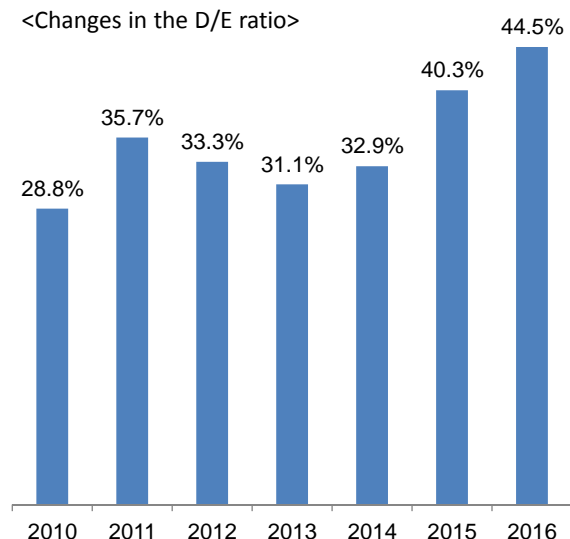
<Three-year plan> (¥ billion)

	Domestic businesses	Overseas business	Total
Investment	650	1,050	1,700
Collection	700	1,000	1,700
Net investment	(50)	50	0

Financial soundness

D/E ratio target: around 0.5

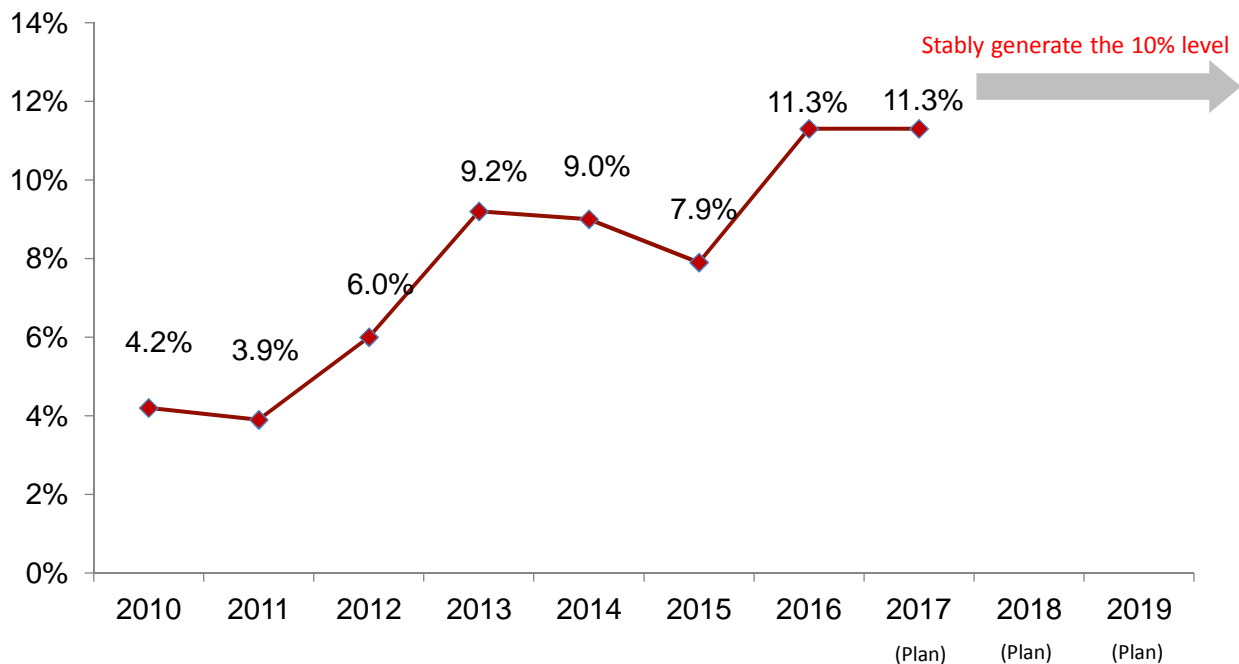
<Changes in the D/E ratio>



Sheet 23

## ROE

Achieve ROE of 10% in the fiscal year ended January 31, 2017, the final year of the mid-term management plan, by improving capital efficiency through the acquisition of our own shares, in addition to an increase in EPS due to profit growth. We will also continue to improve ROE subsequently.



Sheet 24

## Shareholder return

The Company regards the maximization of shareholder value as one of the most important management issues. Accordingly, the Company will strive to enhance the shareholder return by increasing earnings per share through sustainable business growth and by improving asset efficiency. In doing so, it will take into comprehensive account the status of profits and cash flows in each fiscal year and future business development, among other factors, as well as making growth investments, implementing a shareholder return targeting a dividend payout ratio of 40% over the medium and long term, and acquiring and canceling its own shares in a timely manner.

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 Plan	FY2018 Plan	FY2019 Plan
EPS (yen)	69.17	118.63	130.91	120.16	175.48	185.49	191.28	215.92
Dividends per share (yen)	28.00	43.00	50.00	54.00	64.00	75.00	Payout ratio of average 40%	
Payout ratio	40.5%	36.2%	38.2%	44.9%	36.5%	40.4%		

Sheet 25

Although the document is prepared on the information believed to be credible, Sekisui House does not guarantee the accuracy or the completeness of such information. Also the information herein contains forward-looking statements regarding the company's plan, outlook, strategies and results for the future. The Company undertakes no obligation to publicly update any forward-looking statements. All the forward-looking statements are based on judgments derived from information available to the Company at the time for this release. Certain risks and uncertainties could cause the company's actual results to differ materially from any projections presented here.