

## Section

## 3

# Strategies and Initiatives for Sustainable Growth

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# Financial and Capital Strategy



**We will balance further growth investment with healthy finances as we create new value that addresses our changing times and environment.**

## **Yosuke Horiuchi**

**Representative Director of the Board  
Vice Chairman, Executive Officer  
In Charge of Division of Finance and  
ESG and TKC Project  
Head of ESG Management Promotion  
Headquarters**

### **Changes in the Business Environment and Sekisui House's Response**

The business environment in which Sekisui House operates has changed significantly over the past 10 years, as represented by megatrends such as the increasing topicality of climate change, biodiversity conservation, resource recycling and other environmental issues, as well as changes in economies, government policies and demographics. In particular, year after year the ESG management expected of companies is increasing in importance, including initiatives to achieve carbon neutrality, which has been taken up as an urgent issue worldwide. In this business environment, with the shift to remote work and home schooling and other aspects of people's lifestyles in the "new normal" brought about by the COVID-19 pandemic, attention to housing has been rising worldwide.

Sekisui House has provided customers with value in housing based on a belief it has held since its founding: that helping to resolve social issues supports its sustainable growth. After reexamining our value creation process centered on that corporate story, we substantially revised the way we identify material issues and reclassified them from five issues to three: creation of high-quality housing stock; contributing to a sustainable society; and diversity and inclusion. The development and popularization of eco-friendly housing, an area on which we were the first company in the industry to focus in Japan, is one of our representative initiatives for contributing to a sustainable society. Today, more than 90% of our customers for new detached houses choose a net zero energy house (ZEH). Our current focus is on

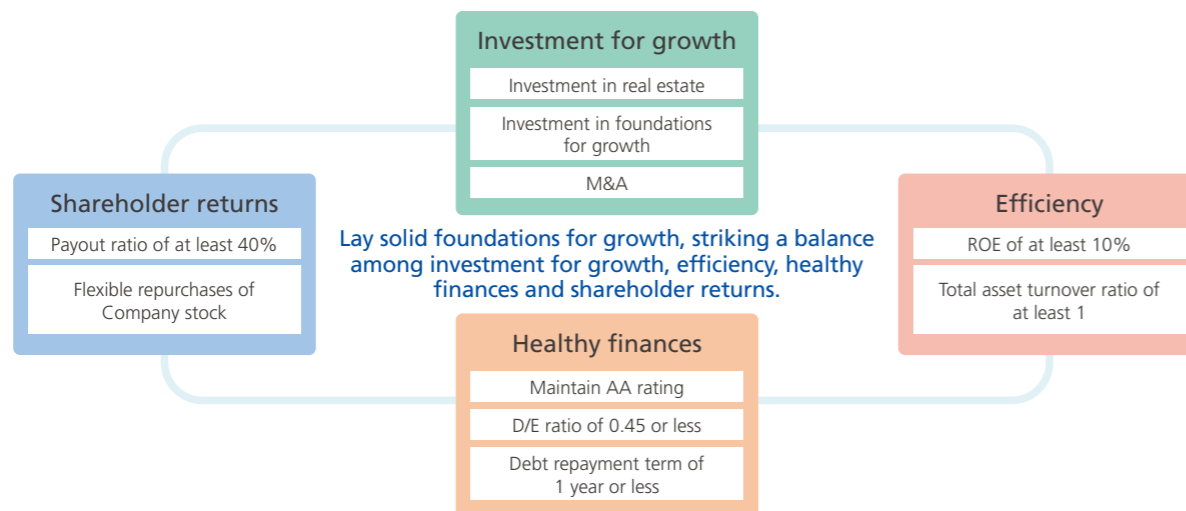
## Financial and Capital Strategy

popularizing ZEH for rental housing and switching to ZEH for all units in the condominium buildings we develop. We intend to lead the industry in this initiative as well. Meanwhile, for the RE100 initiative, our initial target date for employing 100% renewable energy sources for the electricity used in our business activities was 2040, but we now expect to reach that goal by 2030, ten years ahead of schedule. Through this and other measures, we are making steady progress in decarbonization. Based on our efforts to address our material issues, we intend to continue creating new value to provide happiness in the era of the 100-year lifespan.

Furthermore, to realize our global vision to make home the happiest place in the world, we aim to offer happiness through the integration of our technologies, lifestyle design and services and to make Sekisui House technologies the global de facto standard. We will therefore step up our investment for growth, considering options including mergers and acquisitions as well as capital or business tie-ups so that we can provide new added value and fully demonstrate our technologies worldwide.

### Basic Policies of the Fifth Mid-Term Management Plan

- 1 Lay growth foundations with an eye on the Third-Phase Management Vision and where the Group should be in 10 years**
- 2 Build a strong financial position to respond flexibly and agilely to growth opportunities**
- 3 Promote investment for growth and strengthen shareholder returns for sustainable improvement in corporate value**



## Improving Measures to Take Our Healthy Finances to the Next Phase

Sekisui House provides housing, a product that creates close, long-lasting relationships with customers, as well as services for residents. To earn the trust of those customers and other stakeholders, we consider it vital to make ongoing investments in business growth, and by extension, to build a strong financial base that enables such investment.

Under the Fifth Mid-Term Management Plan, we have continued our efforts to improve our finances from the Fourth Mid-Term Management Plan. By successfully promoting improvement of capital and asset efficiency in management through these efforts, we have reached a major milestone, and I feel we are ready to pick up our pace for further growth. We have already started studying financial strategies for the coming Sixth Mid-Term Management Plan, and we want to employ KPIs suited to Sekisui House so our employees can work together to achieve the plan's targets. Moreover, despite the ongoing COVID-19 pandemic we have maintained AA credit ratings from two domestic rating agencies. We will continue working to balance further growth investment with healthy finances, while maintaining these AA ratings as a measure of their robust health.

### Maintain AA Ratings\* as a Measure of Robust Health

D/E ratio of 0.45 or less

Debt repayment term (Net debt/EBITDA) of 1 year or less

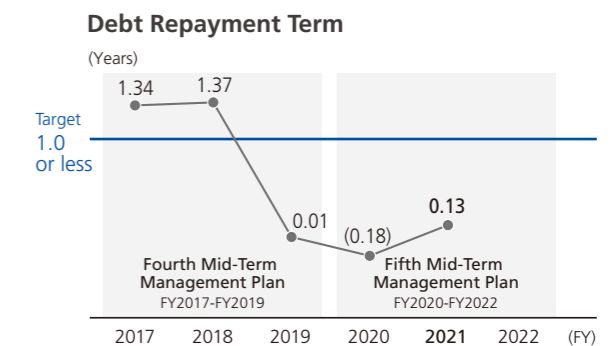
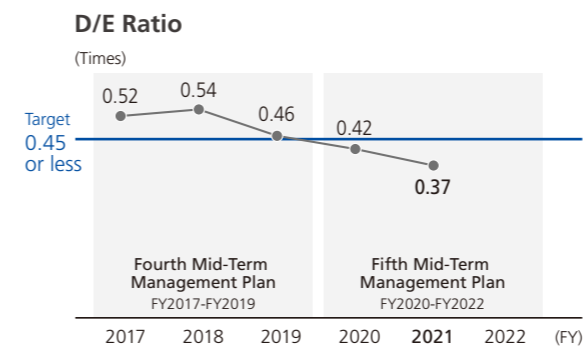
\* Ratings for Sekisui House



Japan Credit Rating Agency, Ltd. (JCR) AA



Rating and Investment Information, Inc. (R&I) AA-



## Financial and Capital Strategy

### A Growth Strategy of Aggressive Real Estate Investment and Investments in the Foundation for Medium-to-Long-Term Growth

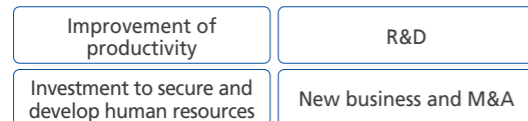
For sustainable growth, we are aggressively investing in real estate with an emphasis on asset efficiency (turnover ratio), as well as investing in the foundation for growth from a medium-to-long-term perspective.

Before investing in real estate, we set a hurdle rate (the minimum acceptable internal rate of return) based on the cost of capital as a standard for investment decisions. Sekisui House has made creation of high-quality housing stock one of its material issues, and to provide advanced, high-quality stock such as ZEH, ZEH condominiums and ZEB, real estate investment is indispensable. Investments under the Fifth Mid-Term Management Plan have progressed in Japan in particular, with aggressive purchases of land for detached houses, condominiums, and development projects. Since real estate investment generally entails risk, we emphasize asset turnover when making investment decisions. Especially in the development business and overseas business, where the scale of assets is large, we emphasize ROA and work to improve asset efficiency through monitoring.

	Domestic business	Overseas business	Total
Investment	920.0 (631.9)	970.0 (874.9)	1,890.0 (1,506.8)
Recovery	825.0 (810.1)	1,175.0 (975.3)	2,000.0 (1,785.4)
Net investment	95.0 (-178.2)	-205.0 (-100.4)	-110.0 (-278.6)

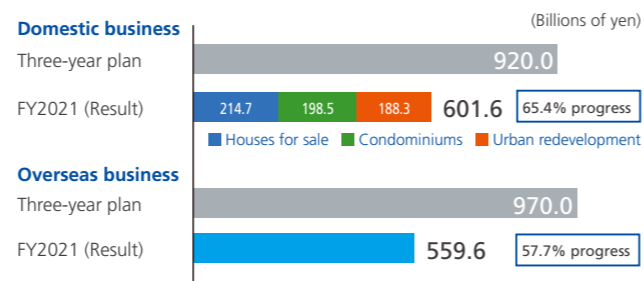
Note: Figures in parentheses indicate actual results under the Fourth Mid-Term Management Plan

#### Planned Foundation for Growth



Over three years

About **¥200 billion**



Strengthen the business foundation and consider and implement M&A as necessary [Over three years] About ¥200 billion

- Acquired Holt in the United States
- Other progress centered on investment in production equipment and R&D

We have set investments in our foundation for growth at ¥200 billion during the three-year period of the Fifth Mid-Term Management Plan, with about ¥100 billion of this set aside for potential new businesses and M&A in Japan and overseas, which we are currently studying. Our progress in this area has been steady, including the December 2021 acquisition of Holt, a homebuilding company in the United States. In addition, our SHAWOOD model house, built using the conventional Japanese wooden-frame construction method, received excellent reviews at the IBS\* held in Las Vegas in 2020. As one consideration when transferring Sekisui House technologies to our overseas business, the required housing performance differs in each region of the United States. Therefore, we intend to transfer our technologies while working toward a nationwide rollout of SHAWOOD, building houses with excellent earthquake resistance in areas where earthquakes are common, and houses that can withstand wind and flood damage in areas with frequent hurricanes. We therefore think that a key point for growth investment will be M&A or business tie-ups with companies that have their own factories, as well as the acquisition of factories in the United States capable of applying the Japanese wooden frame construction method. We are eager to consider all suitable possibilities for collaboration in various fields.

To sustainably improve corporate value, we also recognize the importance of investment in various intangible assets that support value creation and in non-financial capital such as ESG. Accordingly, the remaining ¥100 billion for our growth foundation has been earmarked for investments in areas such as productivity-improving equipment, IT, research and development, and the securing and development of human resources. These investments are proceeding steadily. Regarding human capital, we believe that in order for Sekisui House to provide happiness to customers, its employees must be happy. One initiative to ensure this involves conducting ESG dialogue and a Well-Being Survey targeting all employees. We have also been working to strengthen our organization. Efforts have included making 2021 the kickoff year for a variety of personnel system reforms and establishing a dedicated department for human resources development in February 2022. Since self-directed career development by each employee is indispensable for building a strong organization, we will continue to proactively conduct personnel system reforms and invest in human capital.

\* International Builders' Show: One of the world's largest housing exhibitions

## Financial and Capital Strategy

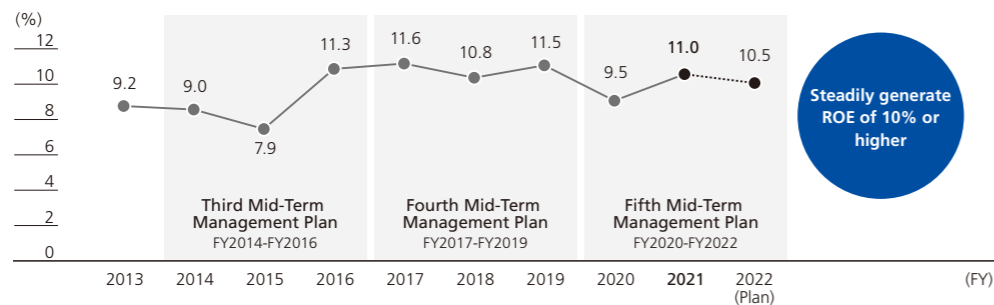
### Stable Returns and Improved Value for Shareholders

In addition to investments for growth and robust finances, we recognize that returns to shareholders is a key management theme of our financial and capital strategy. In the Fifth Mid-Term Management Plan, we are working to improve capital efficiency by meeting our KPI of ROE of at least 10%, which exceeds the cost of shareholders' equity (considered to be about 6%), and we are targeting an average dividend payout ratio of 40% or more over the medium term. For shareholder returns in FY2021, we paid dividends of ¥90 per share, an increase of ¥6 from the previous fiscal year, and repurchased approximately ¥15 billion (approximately 6.6 million shares) of our stock. In FY2022, we are planning our eleventh consecutive year of dividend increases with dividends for the year totaling ¥94. We also plan to repurchase up to ¥30 billion, or 15 million shares, of our stock. Continuous dividend growth remains our aim as we work to improve shareholder value through flexible stock repurchases.

#### ROE Calculation Method and Breakdown

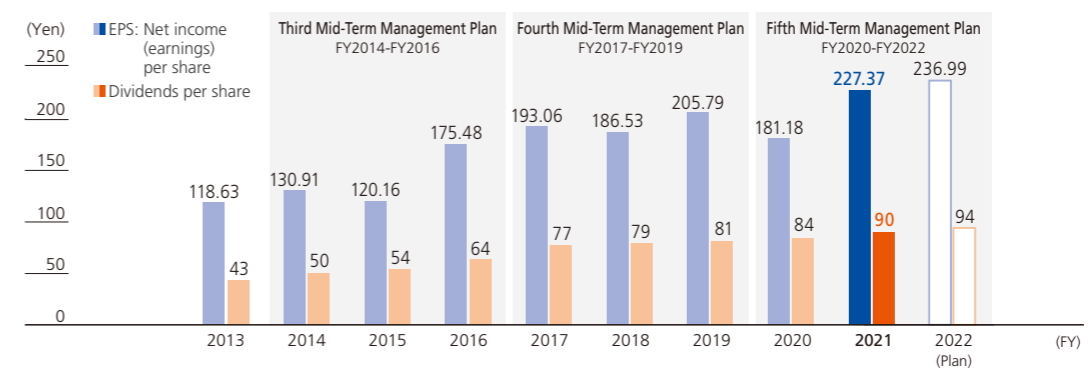
	ROE =	Profit margin	×	Total asset turnover ratio	×	Financial leverage
Fourth Mid-Term Management Plan (Final FY result)	11.5%	5.8%		0.96 times		2.06
Fifth Mid-Term Management Plan (Target)	At least 10%	At least 5%		At least 1.0 time		Approx. 2
Target level		At least 6%		At least 1.2 times		Approx. 2

#### ROE



Enhanced engagement with shareholders and investors is key for the Sekisui House Group to grow sustainably and increase its corporate value. We will continue to proactively conduct investor relations activities and appropriately reflect your suggestions and opinions in our management.

#### EPS and Dividends per Share



	2013	2014	2015	2016	2017	2018	2019	2020	2021 (Result)	2022 (Plan)
EPS: Net income (earnings) per share (Yen)	118.63	130.91	120.16	175.48	193.06	186.53	205.79	181.18	227.37	236.99
Dividends per share (Yen)	43	50	54	64	77	79	81	84	90	94
Dividend payout ratio (%)	36.2	38.2	44.9	36.5	39.9	42.4	39.4	46.4	39.6	39.7

# Environmental Strategy

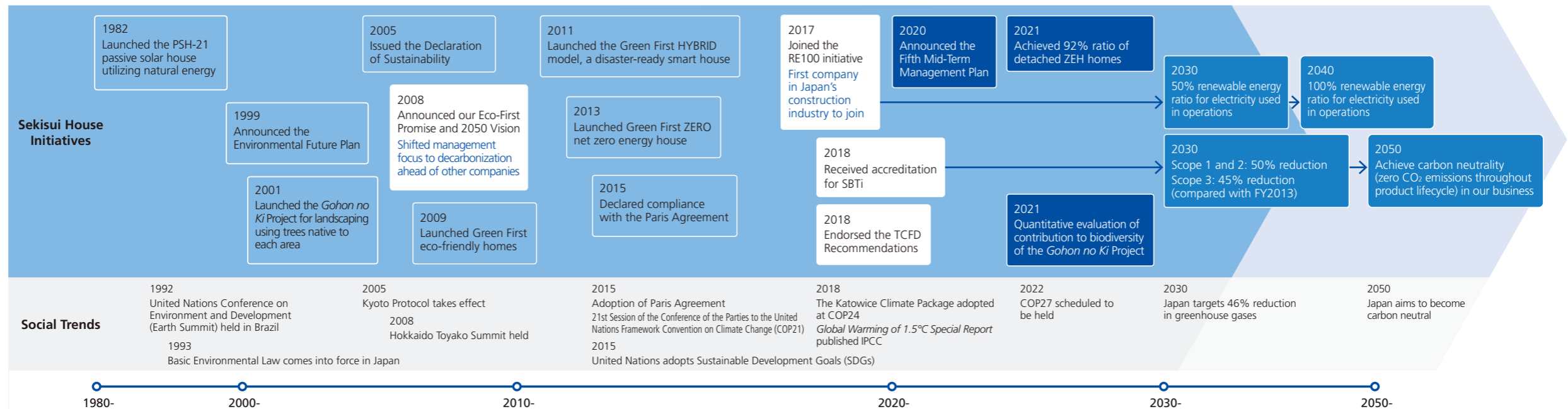
## Integrating Our Environmental and Business Strategies for Happy Lives for Our Customers

The starting point for the Sekisui House Group’s environmental strategy was the Environmental Future Plan we announced in 1999. Since the announcement of this plan, we have been effectively conducting various initiatives to quantitatively understand and reduce the impact of our business activities on the global environment. In particular, we realized that popularizing energy-saving housing would be a core measure to help prevent global warming. We began by making double-glazed windows a standard feature, followed by high-efficiency thermal insulation and water heaters, and began sales of houses with solar cells and fuel cells. Then, in 2013, we were among the first in Japan to begin sales of a net zero energy house (ZEH). In these and other ways, we have consistently considered our environmental and business strategies to be integrated. As an industry-leading corporate group, we are working to evolve our environmental strategy, taking an approach not simply of complying with laws and regulations and adapting to external factors, but of practicing ESG management.

Earning broad acceptance is important for the Sekisui House Group in conducting these initiatives. For instance, our ZEH makes dynamic use of large living rooms and windows, which are disadvantageous in terms of saving energy, but compensates for them with our technological capabilities in thermal insulation and other areas for a living space that offers both comfort and energy savings. In addition, for over 20 years we have been helping to preserve biodiversity by attracting birds and butterflies to customers’ gardens through our *Gohon no ki* Project. In this project, our exterior construction and landscaping business plants trees native to each area, with approximately 18.1 million trees planted to date. These initiatives not only have a positive impact on the global environment, but also help to enrich the lives of our many customers.

In ways such as these, the Sekisui House Group’s environmental strategy has been based on an approach of integrating the resolution of various environmental issues into our business. Since its starting point in 1999, this approach has continued unchanged into our third phase, in which we aim to achieve our global vision to make home the happiest place in the world.

### Main Progress in the Sekisui House Group’s Environmental Strategy



## Environmental Strategy

### Promoting Our Net Zero Energy House (ZEH)

To help create a decarbonized society, Sekisui House must first work to reduce CO<sub>2</sub> emissions from the housing it sells, which account for more than half of the CO<sub>2</sub> emitted as a result of its business activities. In other words, we must promote houses that use less energy. We have been selling our ZEH product Green First ZERO since 2013. In FY2021, 92% of orders for new Sekisui House detached houses were for ZEH, and the total of 69,163 buildings we have received orders for to date is the highest in the industry in Japan.

As for multi-dwelling complexes, we completed the first all-ZEH buildings in Japan for our Sha Maison rental housing in 2018 and GRANDE MAISON condominiums in 2019, and full-scale promotion has now begun. The ZEH rental housing we are promoting, in which tenants can sell the electricity generated by the unit, is particularly expected to meet the needs of ethical consumers, who will grow in number as society moves toward decarbonization. Owners can therefore expect long-term, stable management, while Sekisui House Real Estate can expect growth in rental income.

#### Net Zero Energy House (ZEH): Targets<sup>1</sup> and Progress

##### ● Ratio of Detached ZEH Homes

Target: ..... **90%**

Progress:<sup>2</sup> ..... **92%**

(Cumulative total of 69,163 detached ZEH homes ordered)

##### ● Ratio of ZEH Units for Rent

Target: ..... **2,500 units per year**

Progress:<sup>3</sup> ..... **8,501 units per year**

(Cumulative total of 12,307 ZEH units ordered)

##### ● Total ZEH Condominium Units Built

Target: ..... **540 units**

Progress:<sup>4</sup> ..... **192 units**

1. Targets for FY2022, the final year of the Fifth Mid-Term Management Plan

2. Results from April 2021 through March 2022

3. Results from February 2021 through January 2022

4. Results to January 2022

» Page 103: Contributing to a Decarbonized Society

### Gohon no Ki Project

Since 2001, Sekisui House has been conducting the *Gohon no Ki* Project to promote landscaping of customers' gardens using greenery native to the region that is adapted to the local climate. "*Gohon no ki*" means "five trees" in Japanese, and the project concept encourages planting three out of every five trees for birds and two for butterflies. This project arose from the idea that even in cities, biodiversity can be restored by establishing an ecological network with the surrounding natural environment.

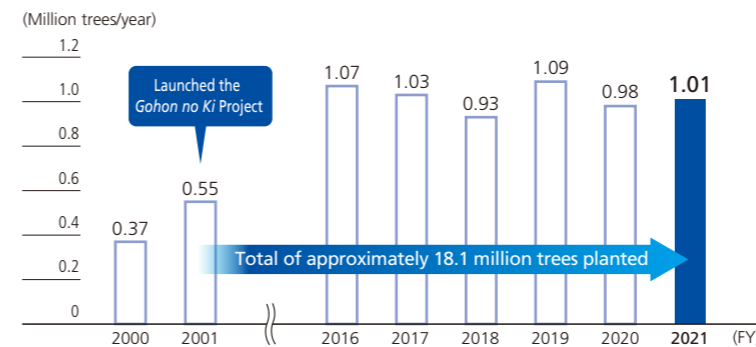
In 2021, in collaboration with the Kubota Laboratory (Faculty of Science, University of the Ryukyus), we constructed the world's first system for quantitatively evaluating contribution to urban biodiversity to verify the impact of the *Gohon no Ki* Project. The more than 17 million trees planted in the 20 years since the start of the project (the number up to

2020 at the time of the evaluation) resulted in an approximately tenfold increase in tree species planted in urban residential areas nationwide, which was shown to lead to a doubling of the number of bird species and a fivefold increase in the number of butterfly species that residential districts can attract. Sekisui House's landscaping business thus helps to preserve biodiversity as it provides customers with happy lives in gardens where they can enjoy birds and butterflies, and contributes to vibrant townscapes.

» Page 112: The *Gohon no Ki* Project, an eco-friendly landscaping and greening project

» Page 113: Evaluating effectiveness quantitatively by using big data on biodiversity

### Number of Trees Planted per Year Since the Launch of the *Gohon no Ki* Project



### Governance for Implementing Environmental Strategy

The Sekisui House Group's environmental policies and strategy are formulated by the Environmental Subcommittee, which is mainly composed of individuals in charge of the head office departments involved in environmental management and the environmental managers of each business division. Important matters are also examined by the ESG Promotion Committee, which includes outside experts, and decided on with the approval of the Board of Directors as necessary. More specific and detailed action plans are examined by working groups established under the Environmental Subcommittee and reflected in the plan in line with business operations throughout the Group. The progress of initiatives is managed through routine reports and instructions to the directors of the Board responsible for each business and other executives for timely monitoring and supervision.

Social conditions related to the environment will become increasingly severe, with a further rise in social and stakeholder expectations toward the Sekisui House Group's response. To meet these expectations, we believe that reviewing our environmental strategy based on medium-to-long-term scenario analysis is indispensable from the perspective of business continuity. Based on this approach, we will respond flexibly and appropriately, which includes reviewing our organizational structure.

# Human Resources Strategy

▶ Please see Section 6 for details.

» Pages 140-144: Developing Human Resources

## Promoting a Human Resources Strategy to Maximize the Happiness of Our Customers, Employees and Communities

Based on its global vision to make home the happiest place in the world, the Sekisui House Group's ideal vision for 2050 is to maximize the happiness of its customers, employees and communities. To achieve this ideal vision, we are implementing a human resources strategy underpinned by our belief that the growth of our employees is the growth of the Sekisui House Group, as we further instill a corporate culture of innovation and communication throughout the Group.

To make Sekisui House the world's happiest company, we started new personnel system reforms in 2021 with self-directed career development as a key point, in addition to the topics of diversity and inclusion, and workstyle innovations that we had been addressing. Sekisui House regards employees and the Company as having an equal relationship, and considers it important for employees to take ownership of their careers and develop them autonomously, rather than entrusting their career development to the Company. By proactively utilizing the Sekisui House Group's unique technologies, brand power, customer base and other resources to provide new value to our customers and communities and to increase the happiness of every customer, our employees will further enhance their own careers.

Consideration of the new personnel system began in FY2020 with a series of discussions with the management team from the initial stage to elucidate problems with the old system and identify projected issues from future personnel simulations, among other matters. After reports to the Personnel Affairs and Remuneration Committee and Management Meetings and further discussions, we introduced a new rating system starting with Sekisui House in February 2021,



Discussion sessions offer employees the chance to talk across generations and job roles about topics such as childcare leave for eligible male employees and balancing work and home life

followed by a grading system and remuneration system in April 2022 (Sekisui House Real Estate Group introduced the rating, grading and remuneration systems simultaneously in February 2022).

To instill these personnel system reforms throughout the Group, in February 2022 we also took proactive measures to strengthen our talent management organization by restructuring the former Personnel Department to establish the new Human Resources Development Department. We will take an extensive view of the entire Group's human resources in aggressively carrying out measures such as conducting selective training to systematically discover and cultivate our next generation of business leaders and creating opportunities for growth through personnel rotation.

### Four Reforms of Our Human Resources Strategy

- 1 **Career consciousness reform: Self-directed careers**
- 2 **Leader appointment reform: Leadership pipeline**
- 3 **Group human resources interchange reform: Group human resources database**
- 4 **Governance reform: Appropriate deployment of Group governance-related human resources**

### 1 Career Consciousness Reform: Self-Directed Careers

We promote the self-directed career development of our employees and are working to cultivate human resources who can create value for communities and stakeholders on their own initiative. We have started holding career interviews as a key measure supporting self-directed careers. Through regular dialogue with supervisors, employees share their values and thoughts about their careers, and receive pertinent feedback on their individual strengths and points for development. Via this process, the interviews support growth through practice and introspection. Employees lay out their vision for their careers themselves, rather than leaving it to the Company, which fosters a corporate culture in which employees can take on challenges autonomously.



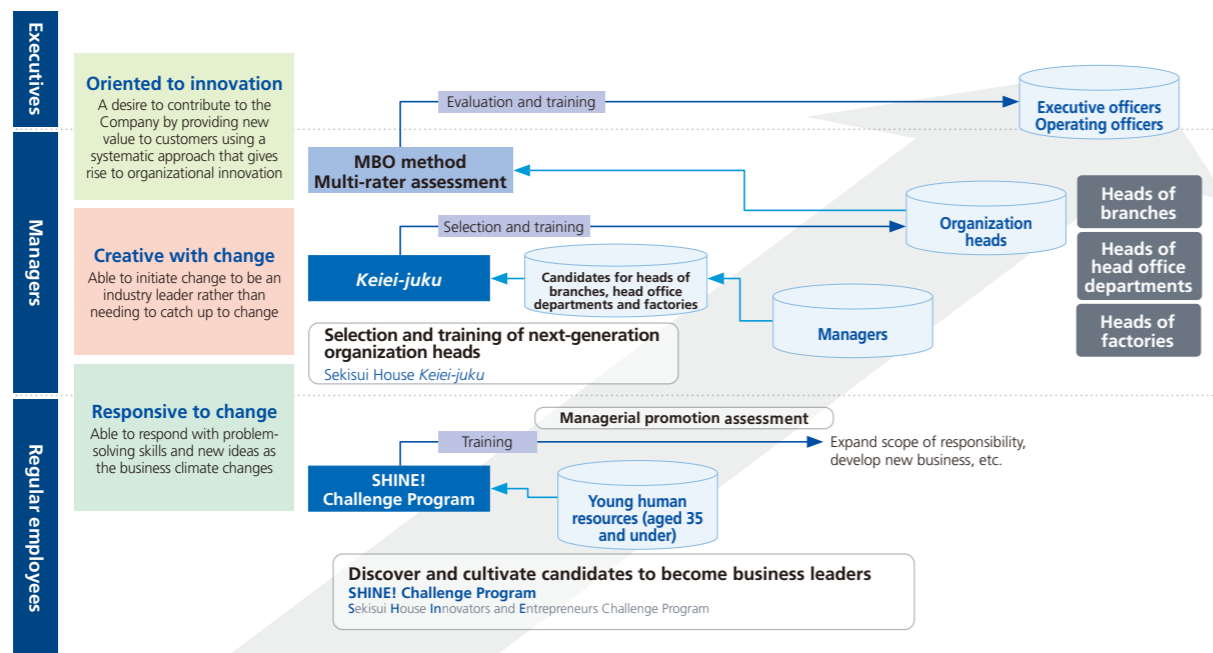
# Human Resources Strategy

## 2 Leader Appointment Reform: Leadership Pipeline

To remain in demand from society as a sustainable corporate group, the Sekisui House Group must develop a class of managers and leaders who will consistently surpass those who came before. It is therefore important that current leaders take responsibility for cultivating their successors.

We are building a leadership pipeline with three levels: executive officer and operating officer candidates; organization leader (heads of branches, head office departments, factories, etc.) candidates; and young human resources aged 35 and under. For executive officer and operating officer candidates, we conduct annual performance evaluations and multi-rater assessments using the management by objectives (MBO) method and devise development plans for each individual based on our succession plan. Progress under the development plans is shared with directors, executive officers and operating officers at meetings of the Succession Plan Council, which are held twice a year, and we aim for development on a Company-wide scale through challenging assignments, including transfers to other departments. In addition, appointments to posts are decided after multifaceted discussions at the Human Resource Promotion Council, which is made up of directors of the Board, and an assessment by an external organization in addition to the internal evaluations mentioned above.

### Leadership Pipeline for Cultivating the Next Generation of Business Leaders



## 3 Group Human Resources Interchange Reform: Group Human Resources Database

We have introduced a new human resources information database as a platform for the self-directed careers targeted by the new personnel system. In addition to the personal data and career information maintained under the former personnel system, it includes data on each employee's career vision, requests for specific transfers or duties, and self-reported information on strong points such as competencies and expertise. The database also enables centralized management and visualization of various human resources information such as performance evaluations, evaluations of abilities and behavior and multi-rater assessments. For the next stage, we will further enhance human resources information by expanding coverage to Group employees and linking with the Well-Being Survey and the SHIP Collective Communication and Innovation Awards Program.


In the future, we intend to conduct our human resources strategy by linking the Group human resources database with the career planning reform initiatives for self-directed careers and with the leadership appointment reform initiatives for the leadership pipeline.

## 4 Governance Reform: Appropriate Deployment of Group Governance-Related Human Resources

To strengthen Group governance, we have clearly positioned persons in charge of general affairs as governance-related human resources, and are conducting appropriate deployment and training throughout the Sekisui House Group. As a new initiative, we have built a cross-Group network and began holding the Area Governance Meeting to tackle important governance topics.

At this meeting, members of Sekisui House and its Group companies share updates on deployment of government-related human resources and training in each area as they strengthen Group-wide governance.

# Technology Development Strategy

 [Research & Development](#)  
(Japanese only)

 [Family Suite](#)  
(Japanese only)

 [SMART-ECS](#)  
(Japanese only)

## Research and Development of Housing for Customer Happiness

To realize our global vision to make home the happiest place in the world, our task for technology development is to ramp up coordination between our research and development, production and construction departments and our sites for housing R&D that integrates our technologies, lifestyle design and services. Based on the technologies for safety, security and comfort that we have been accumulating since our founding, we conduct research and development with the keywords of health, connectedness and learning to make home a happier place.

Housing is both a personal asset and social capital. High-quality housing stock that can be passed on intact to the next generation requires consideration of sustainability and the environment as well as a quest for beauty, and we are aware of a housing manufacturer's substantial responsibility to society. We will therefore continue our proactive efforts for research with a view to carbon neutrality by 2050, including promotion of ZEH and ZEB, harmony with townscapes, and design research that matches the sensibilities and values of residents. We will also roll out our business overseas to make Sekisui House technologies the global de facto standard through the creation of happy homes.

### Research and Development That Integrates Technologies, Lifestyle Design and Services

Our advantage in research and development lies in our ability to compile data through thorough technical verification at our Comprehensive Housing R&D Institute and to propose “happy homes” based on the research and analysis at our Human Life R&D Institute. With technology development based on the highest quality and technology as the industry leader, we conduct research and development aligned with our management strategy. Moreover, in collaboration with the Platform House Promotion Department, we have established the conditions for research and development that integrates technologies, lifestyle design and services.

Family Suite, which offers happiness for families through the integration of technologies and lifestyle design, is one result of our research and development. Our original Dynamic Frame System, which enables open living spaces with spans of up to 7 meters without pillars, is the preeminent technology in Japan's housing industry. Launched in 2020 to further build on the Family Suite concept, Family Suite *Ouchi* Premium incorporates various proposals for enjoying the changes in lifestyle and time spent at home due to the COVID-19 pandemic, and the adoption rate has exceeded 60% of our newly built detached houses. In addition, the adoption rate for SMART-ECS, our next-generation indoor environment control system that handles viruses, pollen and other pollutants, has exceeded 85%. Our technology development that integrates technologies and lifestyle design has received a very positive response from our customers.



In addition, our research and development that integrates technologies, lifestyle design and services is resulting in a series of new lifestyle proposals. These include the launch of PLATFORM HOUSE touch, which allows residents to use a smartphone to check from outside the home on in-home temperature and humidity and whether doors and windows are locked.

 [Page 27: PLATFORM HOUSE touch](#)

### Expanding in New Business Areas with Technology Development Based on the Residential Domain

Based on the unique Sekisui House technologies and lifestyle design that we have cultivated, we have started working to expand our area of business by incorporating the Platform House Concept, which provides new value to residents through services, into our technology development.

Sekisui House's main business has been housing, so we often seek external assistance when developing and providing new services. Aiming to find alliance partners who are aligned with our thinking, we exhibited at the CES exhibitions held in Las Vegas in 2019 and 2020 to spread information about the Platform House Concept. As a result of the exhibitions, we started joint research with the Massachusetts Institute of Technology (MIT), which has also laid the groundwork for the Sekisui House Group's globalization. Meanwhile, for prompt management of our internal organization, we established the Platform House Promotion Department, a specialized department to build a system that balances the three areas of business, planning and technology by securing internal human resources, introducing external human resources and collaborating with alliance partners to design and conduct business.

Sekisui House is developing products that fully utilize the accumulated results of its research and development. Looking ahead to the world of 2050, we see two urgent tasks: further expanding our R&D fields to collect and analyze information in all areas, based on the residential domain; and building a system to conduct R&D while singling out individual phenomena for further research and collecting substantial data. This will require effective utilization of resources from outside as well as inside the Group. We will work to enhance interchange and collaboration with parties in our own and other industries through measures including open innovation and M&A.

### Intellectual Property Strategy for Technology Development

In addition to our strategic acquisitions of intellectual property (IP), individuals in charge of technology development collaborate from the initial stage with departments responsible for IP and hold regular meetings that provide an opportunity to understand the importance of IP derived from our technology development. This early-stage collaboration also serves to increase the value of our technology through feedback to the departments responsible for technology development.

As the output from this process, we set and work toward patent application targets for each department. As of January 31, 2022, we held 716 patents and 343 design rights. To further strengthen our competitiveness, we have set higher targets for FY2022 (850 patents and 400 design rights) and will work to expand our research and development fields by proactively promoting joint research and development with universities and other companies.

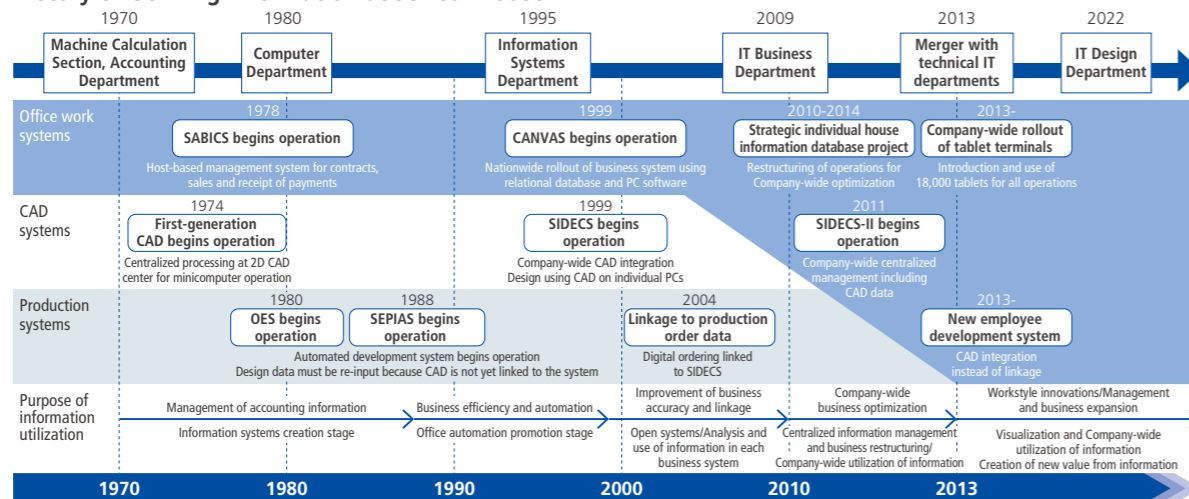
# Sekisui House's Digital Technology and Initiatives for Digital Transformation (DX)

## History of Sekisui House's Digital Technology

Sekisui House has developed digital technology mainly in three areas: office work, computer-aided design (CAD) and production. For office work, we began operation of SABICS to manage contracts, sales and receipt of payments in 1978, the AES estimate and order system in 1980, and the CANVAS business operations system in 1999, among others. For CAD, we started with the first system developed especially for housing in 1974, and after going through several stages we began operation of SIDECS in 1999. We also took the first step into the age of total presentations through linkage with peripheral systems. For production, we began operation of OES, a system for developing components, in 1980. By developing the building components we use from blueprint data created by CAD, we have achieved efficient production and advanced quality control at our factories. Through a strategic project we started in 2010, we have used this infrastructure to create a centralized database of information on individual customers' houses from initial contact to after-sales service. This platform underpins Sekisui House's DX.

Sekisui House thus has a history of leveraging its competitive advantages in the industry by introducing digital technology that increases efficiency and helps to manage and improve overall quality while considering changes in the business environment. Today, the IT Design Department plays this role. The former Information Systems Department, which was part of the Management Division, merged with the CAD/AES Center in 2009 to become the IT Business Department. In 2013, this department merged with technical IT departments from the Production Division, Development Division and elsewhere, and from 2018 it was made part of the Business Strategy Division. Now in 2022, as the IT Design Department, it is working to transform Sekisui House's businesses to pursue new potential from IT.

## History of Utilizing Information at Sekisui House



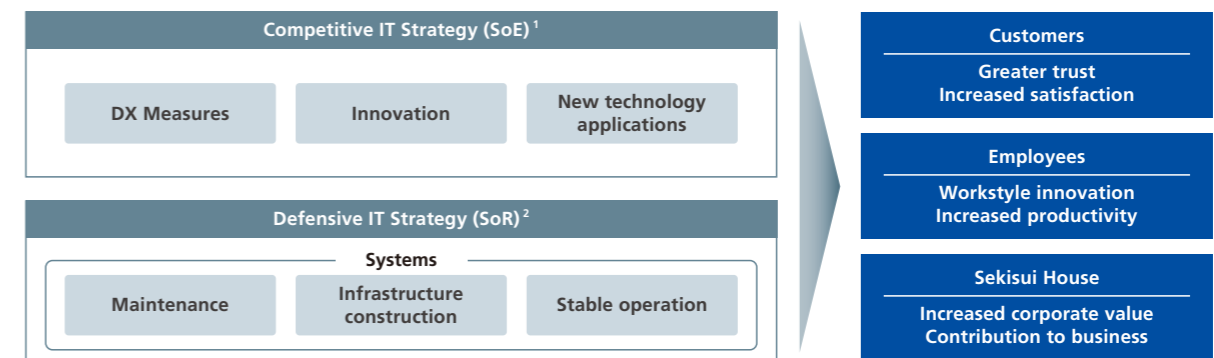
## Approach to DX

The Sekisui House Group's DX is centered on its businesses. We use digital technologies to transform these businesses. The extensive customer information and design data we have collected and managed over more than 60 years since our establishment provide a foundation for the application of these technologies. While using the data we have accumulated to conduct advanced competitive IT that applies AI, IoT and blockchain technology, we also conduct defensive IT, which entails raising operational efficiency through system-level reforms and upgrades in addition to constructing and stably operating system infrastructure. Furthermore, we are working to improve corporate value by establishing IT governance for strategic control of investment risks and returns in each information system according to uniform rules.

In recent years, responding to labor shortages and workstyle reforms has become an urgent issue. The COVID-19 pandemic in 2020 necessitated new ways of working, such as remote work, that can be done anywhere. Our top priority in addressing this issue was speed. As a result of the smooth introduction of new workstyles, remote work is now firmly established at Sekisui House. We have identified work premised on printed documents and personal seals and are promoting more efficient and effective ways of getting these tasks done. Moreover, as remote work has brought effective use of online communication methods to the fore, we are ambitiously working to improve performance by using new communication tools not just internally but also for meetings and consultations with customers and suppliers.

We will continue to formulate and promote our competitive IT and defensive strategy to create value for all our stakeholders.

## Overview of DX Strategy



1. System of Engagement 2. System of Record

# Sekisui House's Digital Technology and Initiatives for DX

## DX Initiatives and Technologies

### 1 Using Daily Resident Data to Provide Personalized Services

#### ● HED-Net In-Home Early Detection Network for Acute Illnesses and PLATFORM HOUSE touch Smart Home Service

As a core initiative for our global vision, we are promoting our Platform House Concept to help residents achieve happiness in the era of the 100-year lifespan. One such service, which focuses on health, is HED-Net, the world's first in-home early detection network for acute illnesses. Contact-less sensors detect and analyze the vital data of residents while at home. If an abnormality that may be acute illness is detected, an emergency call center is notified and an operator confirms the resident's health status. If necessary, the operator requests dispatch of an ambulance, confirms the arrival of the ambulance crew, and remotely unlocks and locks the front door, all in an integrated process. We have obtained a patent in Japan for this system, which is the first of its kind in the world, and filed an international patent application. Based on year-long field tests we started in December 2020, we will improve the accuracy and responsiveness of sensors and algorithms for commercialization and a full-scale launch. We will also use the vital data we accumulate to develop health monitoring over time and preventive services.



In August 2021, we began sales of PLATFORM HOUSE touch, a smart home service that focuses on connectedness. It uses the industry's first smartphone app offering intuitive operation using a diagram of the house's floor plan. The service collects IoT data from temperature and humidity sensors, window sensors and other inputs and stores it on a public cloud, and enables the user to check and operate devices such as air conditioners from outside the house. Users can also remotely check the use of entrance doors by family members and abnormal conditions such as unauthorized opening of windows and doors or activation of fire alarms.

Through the Platform House Concept, we will continue to provide highly convenient services that connect homes and families by using big data on housing, IoT and AI for functions such as recommendation, prediction, detection and classification.

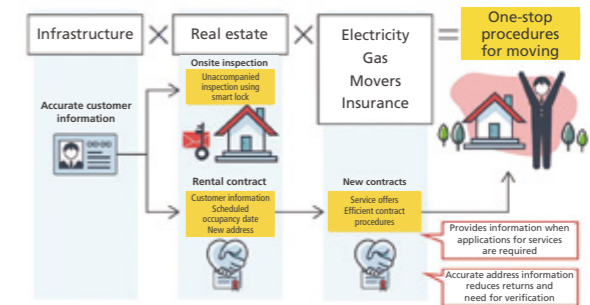
» Page 27: PLATFORM HOUSE touch

### 2 Sharing Information Securely with Other Companies Using Blockchain Technology

Sekisui House is a member of NEXCHAIN, a consortium that coordinates information among corporations. A DX implementation project with the support of the Japan Business Federation (*Keidanren*), NEXCHAIN\* uses blockchain technology to build a platform capable of sharing information across industry and business categories. In addition to helping to realize Society 5.0, an initiative endorsed by the Japanese government, the consortium's platform also helps to accelerate open innovation by promoting secure utilization of information.

The consortium aims to go beyond pilot studies to implement NEXCHAIN in corporate business. About 50,000 tenants annually use this inter-enterprise information-sharing platform in the actual usage scenario of moving into rental housing.

#### Image of a Consortium Model for Developing an Inter-Enterprise Information-Sharing Platform



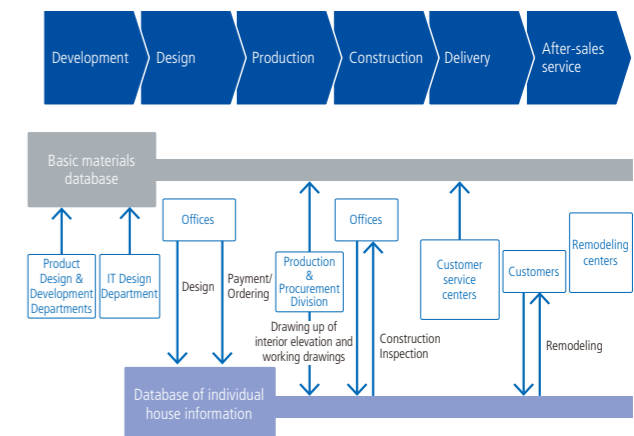
Note: In March 2019, Sekisui House and Hitachi Ltd. started collaboration as the project operators to develop an inter-enterprise information-sharing platform.

\* NEXCHAIN: A consortium that provides a cooperative information service for securely linking and utilizing data held by various enterprises

### 3 Integrated Management of Information Assets

We conduct integrated management of our customer information and extensive design data, which are key information assets that help maintain our competitive advantage. Integrated information management makes our workflow more efficient, optimizes Group-wide operations and enhances Group cooperation. Using our secure IT platform, we are also conducting initiatives to generate profits by deploying these assets in new businesses and services. We have developed a database of individual house information, and ensure that our information is accurate and up to date to facilitate greater utilization. We will also use individual customer data in sales activities for integrated management of long-term relationships from initial contact to after-sales service. In addition, we will leverage modeling information from design to production and construction to improve production and construction efficiency.

#### Integrated Management of Customer Information and Design Data



## Sekisui House's Digital Technology and Initiatives for DX

### 4 Utilizing Customer Data (CRM Strategy)<sup>1</sup>

Constantly remaining closely attuned to our customers has been a fundamental principle since our founding. We are working to provide value from our customers' point of view to better satisfy them. By establishing and utilizing a data platform based on our CRM strategy, we provide consistent high-quality experiences and value from housebuilding to after-sales service as we strive to further increase customer satisfaction with support that incorporates DX.

1. A management strategy for maintaining and improving relationships with customers to ensure continuous and stable profits.

#### ● Promoting Our CRM Strategy

Since our founding, we have been closely attuned to our customers to provide value through housing. Now, amid a shift to digital contact points and more complex relationships with customers, they come to expect us to consistently provide value and communicate based on comprehensively identifying and understanding our relationships with them. Therefore, based on a customer-centric approach, we are devising and promoting a CRM strategy to improve total experience value from housebuilding to after customers take possession.

We aim to provide customers with consistent, quality CX<sup>2</sup> and value by establishing a platform that can safely store and utilize individual data on the valued information customers give us and our business activities with them for timely and accurate linkage to on-site sales activities and after-sales service. We expect this not only to improve customer loyalty, but also to create customer contact points and sales opportunities throughout the Group. In addition, by establishing this data platform, we can create a management and sales environment based on data analysis, which will further improve each employee's ability to create value.

2. CX: Customer experience

#### ● System Support for the Increased Number of Calls to the Owners' Desk

At our Customer Service Center Owners' Desk, we have introduced a system that can accept calls 24 hours a day, 365 days a year. We have created conditions for homeowners to feel free to contact this consultation channel at any time and from anywhere at their convenience via our website for homeowners, AI chatbots on the LINE smartphone app and the Internet, or live chat, in addition to the telephone. In addition, we store data from each inquiry for analysis, verification and other use in homeowner support, with the aim of further increasing customer satisfaction.

#### ● Smart Inspection System That Improves Customer Satisfaction and the Workplace Environment

Our smart inspection system for detached houses uses multiple advanced devices to conduct regular inspections every 10 years. High-resolution footage is taken during inspection of 10 items such as the roof surface, and the data are shared with the office support desk via the cloud for high-quality, consistent inspections based on the judgment of dedicated staff. The shortened inspection time has led to a reduction in the burden both on customers and in inspection work.

##### Smart Inspection System



- ① Remote extension camera for attic inspection
- ② Semi-automatically controlled drone
- ③ Underfloor inspection robot

### 5 Communication Using Digital Technology and Mobile Terminals

As online work becomes more widespread, we are facilitating greater work efficiency by incorporating digital technology, which is advancing faster year after year, and striving to innovate workstyles and stimulate internal communication through the use of mobile terminals. The resulting improvement in the quality of our sales activities and proposals has further enhanced the value we provide to customers.

#### ● Promoting Our Individual House Database Strategy

Sekisui House is promoting workstyle innovations by centralizing information from proposals to post-contract data, schedule management and after-sales service for use as a database of individual house information.

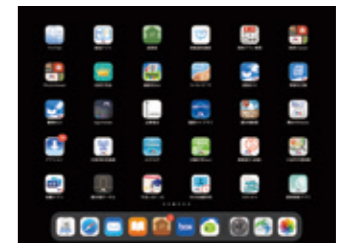
In 2017, we were the first in the industry to make practical use of a system that sends CAD data of our original, customized housing plans to a server for automatic conversion to virtual reality images. This facilitated better communication in sales negotiations and design proposals, significantly improving our proposal capabilities and competitiveness. By shortening the time required from design to presentation, it has also substantially increased work efficiency.

#### ● Expanded Use of Mobile Terminals

We supply tablet terminals and mobile phones to employees in sales, after-sales maintenance and other departments. We have also upgraded to an environment that allows employees to view and input data in our core system for managing the entire sequence of work data for planning, sales, design, production, construction and maintenance. This has dramatically improved the speed and accuracy of information transmission.

Upon the Japanese government's first declaration of a state of emergency in April 2020, we also distributed tablet terminals to employees engaged in office work and developed a new remote desktop service for remote connection to their office PCs. Enabling employees to work remotely by viewing core system data on their tablets through this new service has led to a 70-80% reduction in work carried out in-person at offices. It has also provided an opportunity for us to reconsider our use of desktop PCs in offices.

With the spread of remote work during the COVID-19 pandemic, we have moved ahead with hot desking in offices and online meetings, training and other events. Now that we have popularized tablet terminals, in 2022 we are gradually switching from desktop PCs to mobile PCs as we strive to improve work efficiency and stimulate communication though online connectedness anytime and anywhere.



Sample in-house tools and apps developed and distributed by the IT Design Department

## Sekisui House's Digital Technology and Initiatives for DX

### 6 Online Sales

While unable to meet directly with customers during the COVID-19 pandemic, our front-line sales offices have come up with many ideas for alternative means of customer contact. Utilizing IT has rapidly given these ideas form, transforming the way we conduct sales. Previously, we visited customers' homes or customers came to one of our locations for meetings, but the spread of online communication has enabled us to build relationships in new ways.

#### ● Advances in Online Sales

We have added the hands-on *Ouchi-de-Shiawase* Planning (Happy Planning at Home) tool to our corporate website, allowing customers to freely create layout simulations online. We also launched a service that creates 360-degree VR environments from those layouts for customers. In addition to traditional face-to-face communication, through online sales activities we are building closer relationships with customers that are only possible in the digital realm.

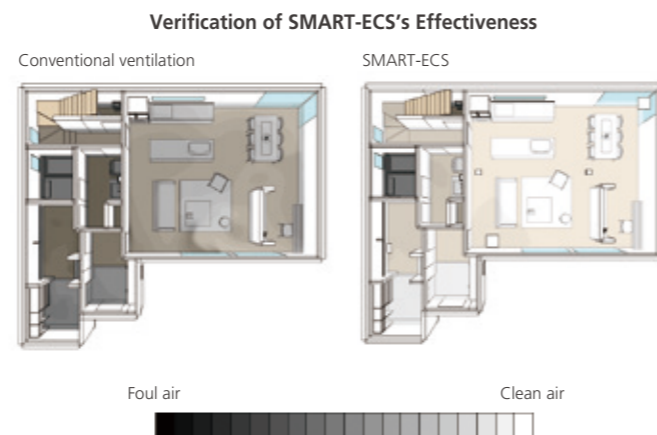


Note: VRscope® is a registered trademark of Toppan Printing Co., Ltd.

#### ● Ventilation/Air Purification Simulation Tool for SMART-ECS Proposals

We have commercialized SMART-ECS, a next-generation indoor environment control system that handles household pollutants such as viruses and pollen.

A system that analyzes ventilation and air purification in each house linked to a SIDECS residential housing CAD system enables visualization of air flow and the degree of air purification using a simulation video. Based on this, we propose the most suitable ventilation and air purification equipment for each customer's floor plan.



### 7 Strengthening Information Security Measures

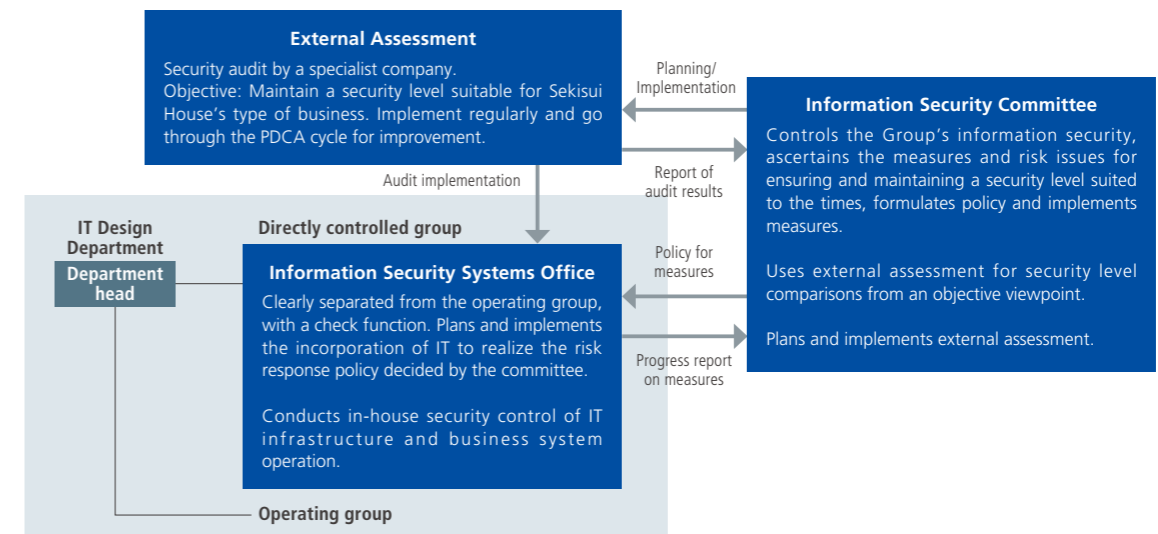
The development of IoT has led to an age when various devices interconnected via the Internet can monitor and operate each other. In addition to promoting initiatives to ensure IoT safety and security, including analysis of security problems and development of technology, we are working throughout the Group to strengthen information security measures against cyberattacks, which have been increasing in recent years.

#### ● External Assessment of Cybersecurity

To manage its cybersecurity, Sekisui House has established the Risk Management Committee as a consultative body to the Board of Directors, and under it, the Information Security Committee. Reporting to that committee is the Information Security Systems Office within the IT Design Department. We have also been conducting annual information security audits since 2019.

As cyberattacks have rapidly increased in recent years, greater diversity in workstyles, including remote work as a COVID-19 countermeasure, has led to more diverse working locations and networks. Conventional perimeter security that protects the boundary between an intranet and the Internet is generally considered to have reached its limits. Sekisui House has been implementing cybersecurity measures premised on protecting this boundary, but we also need new security concepts to support diverse workstyles. We are therefore accelerating the installation of next-generation network security.

#### Cybersecurity Countermeasures Implementation System



## Sekisui House's Digital Technology and Initiatives for DX

Meanwhile, advances in IT have made it necessary to verify the validity of our security measures from a third-party perspective through an external security assessment. Therefore, in 2021 we had a specialist company conduct an external assessment of our cybersecurity to ascertain the current status of our security measures, elucidate issues and prepare a roadmap for achieving the desirable level of cybersecurity for Sekisui House based on the changes in our internal and external environment.

Conducting the external cybersecurity assessment enabled us to visualize the current state of our security and what it should be. By formulating a roadmap, we were able to achieve security suited to the times. We will also use it to take further cybersecurity measures for greater sustainable growth as a company that provides safety and security to our customers and our many other stakeholders.

### ● Strengthening Countermeasures against Computer Viruses and Other Malware<sup>1</sup>

In response to the greater ingenuity and sophistication of cyberattacks in recent years, we have strengthened anti-malware measures through various mechanisms as well as through education, training and awareness-raising. In addition to conventional malware countermeasures for the email environment, which is a likely pathway of entry, we have added a sandbox function that inspects the operation and behavior of attached files to determine whether they contain malware. For online communication, which is a transmission route for malware, we have introduced cloud-based web security that enables inspection not only for intra-Company communication but also for terminals used outside the Company. For user terminals and various servers, we have introduced next-generation antivirus software and EDR<sup>2</sup> to detect and track malicious processes based on their behavior. We also regularly conduct information security training for all employees to raise their awareness and send emails that mimic actual targeted emails as a training exercise to ensure that employees either leave suspicious files unopened or promptly report them according to the rules if they do open such files. In addition, we send reminders about malware within the Group as necessary to reinforce countermeasures.

1. A general term for malicious and fraudulent software and programs such as viruses and ransomware.

2. Endpoint Detection and Response

## 8 DX in Our Overseas Business

### ● Website Redesign at Woodside Homes of the United States to Improve User Experience

Sekisui House Group company Woodside Homes, a homebuilder in the United States, redesigned its corporate logo and website in January 2022. Based on a multifaceted investigation, including a survey of user behavior, research studies and interviews with home buyers about their home search needs, the new website meets customer needs by providing a better user experience. Woodside Homes will continue working to increase its brand value and improve the digital experience on its website, social media and elsewhere.

 Woodsidehomes.com



### ● Differentiation Using Unique Digital Tools and Data Analysis

To differentiate itself from its homebuilder competitors, Woodside Homes built a suite of digital analytics tools for land purchasing and home design tailored to local characteristics to hone its processes for homebuilding that meets customer needs. Using real-time mobility data to analyze population movement, the company can predict regions where new home demand will be strong. It can also identify needs that differ among regions to offer lifestyle solutions such as unique storage, furnishings and home fitness solutions. Through this initiative, Woodside Homes will strengthen its price competitiveness and increase its recognition as a premium brand.

#### Woodside Homes Differentiation Model

