

Sekisui House, Ltd.

Transcript for Question and Answer Session of the Management Plan Briefing for FY2021

Date: March 5th, 2021, Friday 13:30 – 15:00 JPT

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< Summary of Question and Answer Session >

Note: The following generally omits the details of financial results presented in the “Summary of Consolidated Financial Results” or timely disclosure materials.

Question

- Q1. Regarding the situation of the 1st range of the three-brand strategy in the Custom detached houses Business, while other companies' lower price ranges are performing well, the performance of Sekisui House noie is not growing. What is your view on this, including on medium- to long-term strategies?
- Q2. In the Rental housing business, competition is expected to intensify in the future because other companies will enter the market in urban areas. What are your strategies and what strengths do you have?

Answer

- A1. The performance of Sekisui House noie in the 1st range remains unchanged and it has a hard time. The actual number of houses sold is less than half of the sales target of 1,000 houses for the final year of the mid-term management plan. One of the factors for this is that there has been no progress in the increase of personnel in the 1st range due to the strong performance of the 2nd and the 3rd ranges. Another factor is that the unit price of Sekisui House noie is between 23 and 24 million yen to ensure that necessary minimum specifications are achieved, such as quake resistance, heat insulating properties and good-quality houses for long-term living, based on government initiatives working to establish high-quality housing stock, but the price range of builders with good performance that build houses mainly in suburban areas is less than 20 million yen. We believe that this few million yen difference has a significant impact on first-time buyers. However, we are fairly confident that the performance of our houses and their construction quality will gain the approval of potential customers. Therefore, we will patiently promote sales of 1st range homes based on the government initiatives aiming to build high-quality housing stock in earnest, partly encouraged by a report that heat insulation will become mandatory in 2025.
- A2. In the Rental housing Business, we also promote the provision of high added-value in S area. In ZEH rental

housing, for example, the high technical capabilities of our products and the management skills of Sekisui House Real Estate Companies are tested. We believe that differentiation will continue to be possible in integrated proposals of technologies, lifestyle design and services and the management system because we are able to maintain superiority in them.

Question

- Q1. Could you break down the Urban Redevelopment Business pipeline by use? What are your views on future real estate investment and the possibility of reviewing the investment balance by use?
- Q2. What progress has been made in Platform House and what will its policies be in the future?

Answer

- A1. The pipeline comprises offices and hotels valued at about 150 billion yen and rental condominiums valued at about 200 billion yen. In the Urban Redevelopment Business, our policy is also to develop prime locations in three major metropolitan areas by limiting the areas, as we do in the Rental Housing Business. The situation surrounding the hotel business is severe due to COVID-19, but the impact on our luxury hotels such as The Ritz Carlton Kyoto and The St. Regis Osaka was controlled compared to the overall decline of the market. We will continue to develop hotels under the two different formulas of luxury hotels in super-prime locations and *Michi-no-Eki* Stations project in local regions. Following our policy, we will not develop city hotels and business hotels in the middle price range. We will continue to develop offices, hotels and rental condominiums focusing on areas, instead of selecting properties by use.
- A2. In December 2020, we started demonstration testing of HED-Net, the In-Home Early Detection Network. They are very difficult tests for detecting acute illness without contact using advanced technology, and testing is expected to take a year at the minimum, up to about two years at most. Based on the results of testing, we will move forward to actual sales.

Question

- Q1. What is your view on orders received for Custom detached houses in the first and second halves? In the second half, the hurdles of the previous fiscal year will become higher. What are the downside risks of this?
- Q2. Regarding the growth investment in your financial strategy, in what areas are you going to invest the 100 billion yen for new businesses and M&A activities? If progress in investment is delayed, how will you use the excess funds?

Answer

- A1. In the first half, we will promote sales by taking advantage of SMART-ECS, a next-generation indoor environment system launched last year. SMART-ECS is performing well, accounting for 40% of new orders in the single month of February. This system is also able to deal with pollen and microscopic particles that are at the PM 2.5 levels. Under the forecast that the number of new housing starts will remain unchanged until 2030, we will secure the share in the second half, leveraging our product appeal and lifestyle proposals of Family Suite, among others, that proposes happy living in a spacious living room with the maximum span of 7 meters, which no other companies

can provide and is able to respond to growing interest in larger rooms and the larger number of rooms in housing in recent years, as well as our superiority in environmental responsiveness on the back of carbon pricing, etc.

- A2. We are considering investing mainly in the United States where homebuilding is strong and in Japan to diversify the housing business and develop new technologies for Platform House. We do not expect that the growth investment budget will not be used, but if there are excess funds, we will use them flexibly, including for a possible stock buyback, in consideration of financial balance.

Question

- Q1. In terms of the projected orders in the Custom detached houses Business, the Rental housing business and the Architectural / Civil engineering Business, which businesses are strong, and which are weak?
- Q2. Regarding the Multifamily business in the United States, what do investors wait and see specifically? Explain the timing of the recovery and the situation by area.

Answer

- A1. The Custom detached houses Business continues to perform strongly. In the Rental Housing Business, the orders projection is strong, given that orders are trending toward recovery due to the success of our area marketing. On the other hand, conditions surrounding orders for non-housing products are harsh due to a fall in corporate demand because companies' growth investments have been reduced due to COVID-19, and this has weakened the orders projection. In the Architectural / Civil Engineering Business, the orders environment for the construction business is deteriorating due to a decrease in large properties associated with falling corporate demand and intensified competition involving mega general contractors due to the removal of the special demand around the Olympics. Therefore, the orders projection is not strong.
- A2. The situation of the Multifamily business varies from city to city. Rents have ceased to fall in San Francisco and are performing very well in San Diego. In Denver, rents have recently been recovering from a very difficult situation. In the Multifamily business, although our development is mainly in the city center, we also own properties in areas away from the central area, and investors have very strong willingness in these areas. Regarding the timing of the recovery, we expect that the situation will probably turn for the better after summer as vaccination progresses.

Question

- Q1. How certain are you about your results forecast? Business performance is strong in Japan, but it is our impression that there are some risks in Australia and other places. Are there any buffers if business performance deviates below projections?
- Q2. Regarding your reserve capacity for property sales, would you confirm the properties you are able to sell, including those which were transferred from rental condominiums and non-current assets, other than the major development properties stated in the Factbook?

Answer

- A1. We want to follow through on what we've said and achieve our results forecast. Of the 200 billion yen that we

forecast for our operating income, income from hotels, which is included in the Urban redevelopment Business, could deviate and go above the forecast if the Olympic Games are held because it was projected on the assumption that the Olympic Games will not be held. In operations in Australia, permits and approvals for large projects have been delayed significantly because of COVID-19, and this has an impact on the profit margin. There are also other negative effects such as a time lag arising in delivery in sales to foreigners, but we believe that these adverse effects can be covered in the Overseas Business.

- A2. We have rental condominiums worth about 200 billion yen as a reserve, and we will sell them sequentially to REITs. We also have other completed properties including offices, but our basic policy is to sell properties when the right time to maximize profits comes.

Question

- Q1. What is your future outlook for the gross margin in the Custom detached houses Business?
- Q2. Regarding the homebuilding business in the Overseas Business, explain the progress that has been made and your initiatives for the achievement of the target of 10,000 houses for the final year of the next mid-term management plan.

Answer

- A1. In the briefing a year ago, we said that the gross margin was close to the upper limit because there was little room for improvement, but the gross margin in the Custom detached houses Business has improved more than expected. We realize that this is a testament to the willingness of customers to choose our products because of our ability to propose Integrated Proposals of Technologies, Lifestyle Design and the appropriate products suited to the times. We will continue to work to further increase the gross margin, even if only slightly.
- A2. Given that the outstanding balance of contracts at the beginning of the period increased 80% from the previous fiscal year, we will be able to ensure the number of houses sold this year steadily grows. Currently, we are developing the homebuilding business mainly in areas on the west coast, but also advancing into the South and the East where synergy with the master-planned community business looks promising, in addition to the steady growth of the number of houses sold by Woodside Homes Company, LLC. We are quietly proceeding with the homebuilding business to achieve the targets, including the M&A.

Question

- Q1. For offices in the Urban redevelopment Business, is there any change in the risks associated with the sale prices and buyers of offices and hotels associated with the deteriorating market conditions?

Answer

- A1. Investor sentiment is strong regarding developments in prime locations, and there are some large projects for which contracts have already been signed. We can't say more about them at the moment, but we will announce them at the right time.

Question

Q1. Regarding your response to the Productive Green land Act in 2022, we believe it could be an opportunity to acquire sites for not only the Rental housing Business, but also the Houses for Sale Business, etc. What is your stance on this, overall? When will your response begin to move in earnest, in the form of orders and land transactions?

Answer

A1. Area marketing is the basis of the Rental housing Business. Our approach involves proposing asset utilization by exploring the possibility of stable management in the medium and long terms, taking into account factors such as distance from the station and occupancy needs, as we do for other land. We make proposals for good locations and good properties, without taking any special response simply because the land is a productive green land. We do not do things such as making proposals for several areas collectively in a tie-up with an agricultural cooperative. Because negotiations with landowners have begun quietly, we think that it is creating the situation that a buyer has already been determined by the time a land transaction becomes possible.

Question

Q1. Regarding your stance on the sale of properties in the Overseas Business, will you sell all the properties which you plan to sell in the three years in the mid-term management plan in FY2022? Or is it possible to postpone sales also into the next fiscal year because of a focus on maximizing profits?

Answer

A1. In the multifamily business, which has the highest volatility, we will sell the properties which we planned to sell in the fifth mid-term management plan during the period of the fifth mid-term management plan. We are working on the sale of custom detached houses and condominiums with the intention of holding firmly to the total operating income target in the fifth mid-term management plan or ensuring that any deviation will be above the forecast, if possible, as a result of covering the increases and decreases in each country in the overall Overseas Business, given that the homebuilding business in the United States is performing strongly. Operating income in the Overseas Business will be between 54 billion and 55 billion yen in FY2022, taking into account the results of FY2020 and the plan for FY2021.