

Sekisui House, Ltd

Transcript for Question and Answer Session of the Overseas Business Briefing

Date: Thursday, January 20, 2022, 17:00-18:20

Participants: Toru Ishii, Director, Senior Managing Officer, In Charge of Overseas Business
Atsushi Yoshida, Executive Officer, Chief Manager of Investor Relations Department

< Summary of Question and Answer Session >

Note: The following generally omits the details of financial results or other information presented in the presentation materials.

Question

- Q.1 Do you have a projection for the price range for SHAWOOD and Woodside Homes in 2025 and 2030? Also, what is the basis of your forecast for operating income for operations in the United States in 2025?
- Q.2 What matters did you specifically consider when looking to strengthen the global management system to supply 10,000 houses?

Answer

- A.1 We think the price of a SHAWOOD property will be around \$750,000 up to 2025. The price of Woodside Homes has steadily risen over the years to exceed \$500,000, and, in line with our policy to in favor of a higher price range, it seems like it will approach \$600,000 in 2025. However, because the supply of SHAWOOD properties will increase in 2030, we assume it is possible that the price will fall below \$750,000.

Wanting SHAWOOD to continue staying close to Japan's profit margin, we think the earnings structure of the homebuilding business will become more robust. In actuality, the ROA and operating income margin are both rising. We are striving to ensure this trend continues and to further strengthen the earnings structure by launching SHAWOOD.

- A.2 The local subsidiary SH Residential Holdings owns Woodside Homes and the recently acquired Holt Homes. Going forward, as the company continues making inroads into Florida, Texas, and other states, the number of companies owned by them will increase further. With SH Residential as a foundation, the Company will continue working to engrain its philosophy and know-how into the companies it welcomes into the Group. We have already made progress in transferring our philosophy

and know-how to Woodside Homes, and several top management personnel have been participating in meetings with Holt and begun cooperative activities. We will hire key local personnel for SH Residential, and, in line with progress on M&A, including with regard to Holt, we will continue transferring our philosophy and know-how. If our global home sales exceed those in Japan after 2030, and we will consider hiring a foreign national with a wider perspective on the overall builder business, including that in Australia and the United Kingdom, as a director in the head office.

Question

- Q.1 Amid such market risks as rising interest rates, why do you think the operations in the United States are strong?
- Q.2 How do you view the target of 4,000 homes in America in 2025? Are you considering a merger or acquisition to enter the southern region, including Texas? What is the production framework for SHAWOOD?

Answer

- A.1 Although interest rates are on the rise, we currently do not foresee them rising as high as 5% or 6%. There is latent demand for around 10 million homes due in part to robust housing demand among millennials and a supply-demand gap due to the 2008 great recession. We are not worried about demand for about the next 10 years. Multifamily transactions are increasing, and the profit margin for each project is also getting quite high. Transactions are currently solid. We think the sales environment will stay relatively good in fiscal 2022 too, and we will work to sell while the environment is good.
- A.2 The 4,000-home target is the total for both Woodside Homes and Holt. We intend to achieve 10,000 homes globally by further raising the number of homes in supply by acquiring companies, including in Florida and Texas.

We have not currently made any decisions regarding the production framework for SHAWOOD. In the Las Vegas and California projects we are promoting now, we are importing materials from Japan as we undertake construction locally. Going forward, we will firm up specific business policies, such as prospective new markets and supply plans, in light of our business progress. We will also construct local factories and consider specific production frameworks, for example, we may reduce production costs by cooperating with other companies.

Question

- Q.1 What are the characteristics that distinguish Holt's buildings and what are the merits of the acquisition for Holt?
- Q.2 Why is there stagnation in the Australian business, which the Company has been involved in since its early days?

Answer

- A.1 Holt's building style is typical for the U.S., so we are aiming to shift to a strategy to add features through emphasizing value and lifestyle by collaborating with Woodside Homes. Holt's attitude toward customers, high level of manufacturing awareness, and the management team's way of thinking all have good synergy with the Company. We believe that Holt saw the merits of moving from fund-based project management to operating under the umbrella of an operating company for the business continuity such a structure provides, as well as the fact that the management team would be able to stay on as a result of being under an international umbrella.
- A.2 When the Company first entered the Australian market, it was in the 2×4 contracting business, but the profit structure was poor because the Company could not quickly pass on cost increases due to the long period leading up to sales, an issue that took time to improve. SHAWOOD was also launched, but the Company decided to move its business area to the northeast of Sydney, an area where the market characteristics are more compatible with SHAWOOD.

Question

- Q.1 What is the outlook for operations in the UK and Australia with regard to the global goal of a 10,000-unit system by 2025? Also, is the 4,000-unit target for the United States conservative? What are your market share assumptions?
- Q.2 In the UK, why has there been a delay in progress for projects scheduled to be completed by 2025?

Answer

- A.1 Growth in Australia and the UK has been slow, so we want to increase supply in the U.S. to reach 10,000 units. The U.S. has a conservative plan for 4,000 units with the two existing companies, and we believe there is room for more based on the pipeline situation. As for further growth, we feel that we can aim for a level exceeding 4,000 units by strengthening our M&A activities.
- A.2 We believe that the revenue contribution from the UK business in 2025 will be small. The delay in progress was caused by the COVID-19 pandemic, which led to a two-year gap between the start-up of the business and the establishment of the system.

Question

- Q.1 What proportion of total operating income will the Overseas Business account for after the completion of the next Mid-Term Management Plan? What are some risks and issues the core U.S. business is facing?
- Q.2 What is the potential for SHAWOOD projects in the U.S., given the varying cultures, customs, and values?

Answer

- A.1 We cannot give any specifics, but if the homebuilding business in the U.S. doubles, we plan to increase the assets of the multifamily business as well. Profitability is increasing as investment efficiency improves, and we believe that we can secure sufficient operating income while maintaining a balance between investment and recovery. As for risks and issues, we believe it is necessary to carry out M&A at an early stage in order to expand housing sales and also to develop a sales structure for SHAWOOD. The multifamily business faces the risk of a worsening economic environment, but the Company plans to reduce the volatility of its earnings by holding on to trophy projects and selling them when the economy worsens. For example, in FY2020, a year heavily impacted by COVID-19, we sold the trophy project “Kiara” (Seattle) and secured a profit. With this approach, we believe that there is little likelihood of significant fluctuations in our earnings plan even if the economic environment deteriorates dramatically.
- A.2 We are very optimistic. The customer response to the \$2.5 million sale of the concept SHAWOOD home constructed near our display at the International Builders’ Show 2020 in Las Vegas matched our expectations. Through detailed analysis of the customer base and their expectations, we have come to understand that California is suitable for SHAWOOD development, and we will implement the best sales methods and strategies. In the past, Woodside Homes was reluctant to sell the SHAWOOD brand because of a lack of interest in high-quality housing in the U.S. market and the price balance, but six district managers are now very active and are ready to promote the project as a united front.

Question

- Q.1 What do you think the investment balance of the Overseas business will be in 2025?
- Q.2 What did the Holt acquisition cost in terms of money and goodwill? What is the outlook for the number of units sold per year after this fiscal year at Holt?

Answer

- A.1 We are not able to give specific figures, but you can get a rough estimate from the fact that we are hoping to roughly double our earnings in the U.S.
- A.2 The Company has not disclosed the acquisition price. We believe that Holt can supply more than 1,000 units by 2025.

Question

- Q.1 How are you handling upcoming M&A continuation in terms of speed and response?
- Q.2 With regard to M&A, how is the transfer of Sekisui House technologies to the acquired company being handled?

Answer

- A.1 We are in simultaneous talks with several companies at this time and want to complete the M&A as soon as possible.
- A.2 The U.S. structure is being strengthened, including through secondments from Japan. Collaboration with Woodside is going very well, and we have established a system in which Woodside will take the lead in implementing the transfer of Sekisui House technologies. The M&A team includes Woodside personnel who possess relevant knowhow and understand our philosophies. As the speed of information processing is also increasing, we believe that we have sufficient capacity to handle post-merger integration after M&A.