

Sekisui House, Ltd.

Transcript for Question and Answer Session of the Management Plan Briefing for FY2022

Date: Friday, March 11th, 2022, 13:30–15:00

Participants: Yoshihiro Nakai, Representative Director, President & Executive Officer, CEO
Yosuke Horiuchi, Representative Director, Vice Chairman & Executive Officer
Toru Ishii, Director, Senior Managing Officer
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 presented in the Consolidated Financial Statements Summary or timely disclosure materials.

Question

- Q1. What is the future outlook for ZEH rental housing orders? Are you expecting a significant increase?
- Q2. Is future profit growth still possible with the decreasing number of households and the population decline in Japan?
What do you think of the medium-term market?

Answer

- A1. We are confident that we will achieve the goals of the current mid-term management plan. Tenants being able to sell electricity is one of the unique features of the Company's ZEH rental housing. This both curbs utility costs and offers ethical appeal and social significance, which has also well-received by our corporate clients. In addition, these properties are based on high-added-value Sha Maison building proposals and in desirable locations, so even though making them ZEH increases construction costs, we are able to make rent proposals that are commensurate with that increase, resulting in good returns and support from owners. The Company expects orders for ZEH rental housing to remain strong in the future.
- A2. The Fifth Mid-Term Management Plan currently underway is based on the assumption that annual new housing starts in Japan will remain over 800,000 until 2030. This reflects that, in Japan, there are approximately 5 million detached houses that lack earthquake resistance and 8.4 million houses that were built before the new earthquake resistance standards, while only 13% of houses meet the current standards for thermal insulation. Many other countries have mandated thermal insulation standard compliance, but Japan has lagged behind. We believe that housing demand, including the rebuilding of houses that lack earthquake resistance and thermal insulation, will remain steady, and we feel it is our mission to meet this demand and contribute to the formation of high-quality housing stock.

Question

- Q1. While the price per unit for detached houses is increasing, the market share based on the number of units appears to be decreasing. What is your policy going forward?
- Q2. Are there plans to introduce PLATFORM HOUSE touch for existing houses, rather than just new construction? What impact on profits in the supplied housing business could this have?

Answer

- A1. Sales of our mainstay medium- to high-end products are strong. Unit prices are increasing due to high-value-added proposals. The Company will expand its *noie* offerings, which meet certain earthquake resistance and thermal insulation performance standards, in the first-time buyer price range of around ¥23 million. One challenge for the Sixth Mid-Term Management Plan will be to expand sales of detached houses in the first-time buyer price range by allocating more human resources, which has been delayed due to COVID-19.
- A2. With a cumulative sales volume of approximately 2.5 million units, we have the advantage of a large base of potential users we can reach out to, including residents of rental housing and condominiums for sale. We would like to further develop our services while respecting the trust we have gained. Service revenues have only a limited short-term impact on financial performance, but the business has the potential to grow significantly in the future.

Question

- Q1. What factors are you considering when deciding whether or not to raise sales prices?
- Q2. Cash levels seem high; what is the appropriate level? How long will it take to return to the appropriate level?

Answer

- A1. In June 2021, we started passing on cost increases to consumers as a result of the sharp rise in lumber prices and other factors. As a result, the portion of orders for wood-framed houses fell, with the ratio of orders for steel-framed houses to wood-framed houses going from 7:3 to 8:2. The ¥13 billion raw material price increase factored into this fiscal year's plan mainly affects steel-framed houses, so we must be cautious about raising prices. We are hoping to avoid passing on prices through such internal efforts as cost reduction at factories, but we will carefully monitor factors that could cause instability, such as the situation in Ukraine, and keep an eye on orders in the early spring to respond with care.
- A2. The Company's financial position is improving. We are currently in internal discussions regarding our cash position as well as overall financial strategy, including investments and their recovery, leverage, and shareholder returns. We will announce details in the Sixth Mid-Term Management Plan.

Question

- Q1. What factors led to the decline in rental income in the urban redevelopment business, and what is your investment policy going forward?
- Q2. Will your business in the United States focus more on M&A or organic growth in the future?

Answer

- A1. In addition to the increased depreciation associated with new openings, hotel revenues were sluggish due to the COVID-19 pandemic. Our development policy for the future includes developing rental housing, but the Company will also continue its basic approach of developing properties in prime locations in the four major metropolitan areas of Tokyo, Nagoya, Osaka, and Fukuoka in a manner appropriate to the location of each project.
- A2. We will assiduously advance the post-merger integration of Holt Homes and move forward with the transfer of Sekisui House technologies. Targeting growth, we will supply 4,000 units through Woodside Homes and Holt Homes by 2025. Simultaneously, the Company is negotiating new M&A deals and, as with Woodside and Holt, will transfer Sekisui House technologies to ensure growth following future acquisitions.

Question

- Q1. Are there any issues related to the situation in Ukraine that have been factored into the FY2022 plan? What are the risks going forward?
- Q2. What is the current order and supply chain situation for the homebuilding business in the United States?

Answer

- A1. The impact of the situation in Ukraine has not been factored into this plan. We do not import lumber from Russia, but there is a possibility of indirect impacts, such as price increases for various materials if global supply tightens. In addition, backups in logistics for equipment and devices could cause construction to take more time than planned. Assuming that the supply chain will be affected, we will take careful preemptive measures, such as diversifying our procurement sources.
- A2. Housing demand remains very strong, as in the previous fiscal year. Construction timeframes have been extended by about one month due to supply chain problems, but this impact has already been factored into the plan for this fiscal year. At the beginning of the fiscal year, the Company had an order backlog of approximately 50% of its sales plan for the current fiscal year, and construction progressed as planned in January and February.

Question

- Q1. What is your strategy going forward for the master-planned community business in the United States?
- Q2. What is the status of the pipeline of the multifamily business in the United States?

Answer

- A1. For some time, the master-planned community business was holding lot of land purchased when there was a good opportunity, but sales have been steady, assets are now decreasing, and the asset turnover ratio is very good. For new investments, there is risk associated with getting development permits and risk due to the project length, so we are considering ways to move forward while minimizing risks.
- A2. The multifamily business is securing its pipeline for the next five years. Currently, investors are very eager to invest, and many investors are interested in purchasing property while the occupancy rates are still low. We are

considering how to sell at the optimal time for the maximum price.

Question

Q1. The U.S. housing market presents such risks as rising interest rates, rising material prices, and supply chain issues. How will you control these risks when making investments?

Answer

A1. Decisions about investment and recovery will be made at the level of the entire portfolio, including both domestic and overseas businesses. The multifamily business in the United States develops high-quality properties in good locations. This enables the business to hold these properties while securing rental income during periods of lower investor purchasing interest, making it easy to adjust the timing of sales. In the homebuilding business, we believe that there is a potential demand for about 10 million units, so if 1 million units are supplied annually, this demand will last for 10 years. In that time, we will transfer Sekisui House technologies through M&A and other means while increasing customer satisfaction to enhance our strength so that the business can thrive even in a difficult environment.

Question

Q1. Do you have a hurdle rate or similar indicator for evaluating investments in M&A in the United States?

Answer

A1. In addition to return on investment, another important factor is how well potential investments align with our businesses and goals. The International Business Department, Sekisui House US Holdings, LLC (in the United States), and outside U.S. consultants participate in the process of selecting candidates from various perspectives and making investment decisions.