

# Sekisui House, Ltd.

## Transcript for Question and Answer Session of the Overseas Business Briefing

Date: Wednesday, July 19, 2023, 4:00 p.m. to 5:00 p.m. (JST)

Participant: Toru Ishii, Director of the Board, Senior Managing Officer, In Charge of Overseas Business

### 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

- Q1. How has the gross margin compared with plans in the homebuilding business in light of sale prices and buyer incentives?
- Q2. Could you tell us about the progress of negotiations and the sales environment for the three multifamily business property sales in the latter half of the year?

#### Answer

- A1. Since the start of the second quarter, we have seen a considerable reduction in buyer incentives, and sales prices have stabilized. The number of house sales is currently higher than planned. The gross margin has been on a similar trajectory, with some companies showing gradual recovery since the second quarter, although performance has varied from company to company. Chesmar Homes, in particular, has seen gross margin improvement. Woodside Homes is a bit behind, but we expect its gross margin to improve as we begin to close on houses built during the period of low construction costs under the Stretch Plan.

Home sales fell beginning in June last year, but I think that market conditions are stronger now than they were then. We believe that the production increase was very well timed, and we expect to see a difference in results from builders who could not increase production.

- A2. Leasing is progressing well for all three properties, and we are working to increase rents more than originally planned. We are also very confident in the buildings themselves. However, because of current headwinds in terms of investor appetite and the environment, we plan to sell the best of our properties in the current fiscal year. We have begun sales activities in earnest, aiming for sales in the fourth quarter. In the event that we are unable to sell at the prices we are aiming for, or if their sale is delayed until the next fiscal year, we will aim to make up the difference to meet plan for the overall development business by, for example, increasing sales of properties in the domestic urban redevelopment business.

#### Question

- Q1. Housing orders were particularly strong in March, then declined in April and May. Was this due to seasonal factors? Also, will you use buyer incentives to offset the impact of rising interest rates going forward?
- Q2. In terms of the Sekisui House expertise, obvious aspects are SHAWOOD and pre-engineered products, but how will becoming part of the Sekisui House Group change the U.S. builders? Also, how do you expect joining the Sekisui House Group to improve Hubble Homes? As a builder, are there benefits to Hubble Homes in terms of financial support, or only expertise?

#### Answer

- A1. Orders in March came to 530 homes. From April to June, orders remained above 400 homes. Performance has varied by company, and orders were down for Holt Homes in May and June due to seasonal factors, but Chesmar Homes was able to make up the difference, keeping the total for the three builders above 400 homes. We expect this trend to continue in July and beyond, with orders for more than 400 homes.
- A2. We believe that building a platform based on the three pillars of sales, design and construction is extremely important. To raise the gross margin, it will be important to make high-value-added housing proposals to customers by adding options to standard plans, and to steadily advance construction and closings. We have successfully increased the gross margin of Woodside Homes by applying our platform developed in Japan to the two-by-four construction used in the United States. We are currently horizontally expanding this approach to Holt Homes and Chesmar Homes.

We had been discussing business succession with Hubble Homes for almost two years. Having reached an agreement, we were now able to realize the acquisition. Hubble Homes boasts a high gross margin, based on a limited number of plans and quick turnover. With the addition of Sekisui House, we aim to build a platform based on three pillars that can offer option plans for mature markets and consumers.

There are also financial benefits to Hubble, such as reduced cost of borrowing. The current plan to increase production is only possible due to Sekisui House's capital strength.

#### Question

- Q1. Please tell us about your course forward and strategy for supplying 10,000 homes overseas in FY2025.
- Q2. As mortgage interest rates have remained high, has your customer base changed?

#### Answer

- A1. We expect to reach around 7,000 to 8,000 homes through the organic growth of our four builders in the United States, including Hubble Homes. With this as well as additional M&A or expansion into other regions, we think that the target of supplying 10,000 homes overseas in FY2025 is now in view.
- A2. Our companies have different customer bases, with Woodside Homes and Holt Homes selling houses in the mid-to-upper range, for around \$600k, and Chesmar Homes and Hubble Homes in a more affordable range, around \$450k. Across these ranges, however, we have continued to sell all the homes on offer, even in the current climate. Through such means as adding options, we have been bringing up sales

prices, but we have not seen a major change in our customer base.

**Question**

- Q1. What impact will goodwill and other one-off expenses related to the acquisition of Hubble Homes have?
- Q2. Could you tell about the M&A environment, including changes in the conditions that must be met for acquisition?

**Answer**

- A1. We are still calculating the exact amounts of goodwill and other expenses, but we do not expect them to be that great.
- A2. Recently, as stock prices have rapidly increased, more builders are operating from a place of confidence. Those who have been considering selling for some time are looking to raise their prices a bit, and it seems that the opportunity to get a bargain has passed. However, we think that it will be easier to reach agreements in these conditions.

**Question**

- Q1. Which indicators do you give the most weight in M&A?
- Q2. What kind of corporate scale are you targeting in M&A?

**Answer**

- A1. We make decisions based on a variety of perspectives, including P/TBV, the company's past transactions and the DCF method. The most important factor is whether we will be able to build a platform to transfer Sekisui House technologies. As we plan to operate on a scale of 10,000 homes per year in overseas markets, we are not setting rigid conditions for M&A, but rather approaching M&A from a medium- to long-term perspective, taking into account post-merger integration and other factors.
- A2. The operating area of Hubble Homes neighbors those of Woodside Home and Holt Homes and is seeing strong growth. We decided to acquire a company of this scale with an eye to advancing its post-merger integration as a branch of Woodside Homes. We are not focused on any particular scale, however, and we are considering both companies of around the same size and larger for M&A going forward.

**Question**

- Q1. You mentioned that some of your three builders have seen stronger performance than others; what factors account for that?
- Q2. With the rise in interest rates, demand fell from the latter half of 2022. Are you now seeing that pent-up demand reemerging? What do you expect after this wave of demand has passed?

**Answer**

- A1. The biggest factors are the characteristics of their respective business areas and markets. In addition, the support that Sekisui House has given Chesmar Homes to strategically expand it led to stronger

performance. The combined effect of these factors led to the differences we have seen.

- A2. Since demand fell off sharply from June of last year, we do think that the emergence of pent-up demand is a factor. However, there was a supply/demand gap to begin with, and we think that demand, as much as it has risen, is still low. Employment is very strong, and the salaries of buyers are growing, so we believe that the demand we have seen is because they could not wait to buy homes, despite the higher interest rates.

**Question**

- Q1. What impact are high mortgage interest rates having on buyers, both currently and going forward?

**Answer**

- A1. At their present level, we think interest rates have no impact on sales. We are currently able to sell houses without offering buyer incentives.

**Question**

- Q1. Please tell us about risks going forward. What do you think about the possibility of recession?

**Answer**

- A1. If mortgage interest rates rise further, it could lead to a cooling of demand. However, we do not expect interest rates to remain high over the long term, and decreased demand means a build-up of latent demand that will emerge again at some point. Employment is extremely strong, and the labor market is tight; looking at only the housing industry, it is hard to imagine a hard recession. However, office and commercial real estate—which impact multifamily business—require close monitoring.