



Sekisui House, Ltd.

Transcript for Question and Answer Session of the Management Plan Briefing for FY2024

Date: Friday, March 8th, 2024, 13:30 to 15:00 (JST)

Participants: Yoshihiro Nakai, Representative Director of the Board, President, Executive Officer, CEO
Yosuke Horiuchi, Representative Director of the Board, Vice Chairman, Executive Officer
Toru Ishii, Director of the Board, Senior Managing Officer
Hiroyuki Kawabata, Operating Officer, Chief Manager of Investor Relations Department

< Summary of Question and Answer Session >

Note: Matters previously described in the financial statements and documents subject to timely disclosure are omitted.

Question

- Q.1 Given the robust orders in the strong market for detached houses in the United States, what factors led you to set targets for the profit margin of detached houses in FY2024 plan announced in the Mid-Term Management Plan lower than those of the current plan, and what were the factors behind orders for the master-planned community business falling by half?
- Q.2 What is the risk scenario for the acquisition of MDC? Is it possible that the purchase price will increase?

Answer

- A.1 Although orders are very strong, prices have remained at a similar level to last year. We took a conservative view of the market environment, considering the impact on profit margin from the ¥5.0 billion increase in business expenses to ramp up our marketing campaign for SHAWOOD (SW) and a decrease in orders due in part to persistently high interest rates.
- There is room for community development to grow, and we have set aggressive targets for the multifamily business (rental housing development). As a result, we set robust figures for the Overseas Business as a whole.
- A.2 The biggest question is how MDC's General Meeting of Shareholders will go. We agreed on an appropriate price with MDC, and we have not heard of any opposition to it, but we will reconsider if any opposition does arise. In the already concluded agreement, if MDC breaks the agreement,

they will have to pay a penalty to Sekisui House, so any third parties proposing additional acquisition deals to MDC, they will need to present an amount that includes the penalty to be paid to Sekisui House. Three members of top management own over 20% of the shares, and the Company has already reached an agreement with these three, so there is a high certainty of the acquisition succeeding. And although investigations from the authorities have yet to be completed, we have been steadily clearing the hurdles, so any remaining risk is small.

Question

- Q.1 Regarding core competencies in the U.S. business, to expand sales of SW, what is the timeframe for and amount of advanced investment for the customer base and construction capabilities, which need to be built up going forward?
- Q.2 Regarding the market situation and stance, what is the status of the pipeline for multifamily properties and land acquisition for detached houses?

Answer

- A.1 Regarding marketing costs, the Company's system includes 5,000 homes annually, not including MDC, and 300 of them tried to be the SW brand. We incorporate a wide range of technologies, including our products, construction methods, construction quality, open spaces, and exterior walls, but we are at a crucial experimental stage for gaining a foothold in the U.S. market, and this will require marketing costs. At the same time, IT investment is also very important. IT costs take into account the assumption that the system will grow to include 5,000, 10,000, and up to 15,000 homes, not limited to SW. Construction has already started at 57 lots under the SW brand and sales are strong, so it is possible that marketing costs will not be that high, but we plan to continue investing in these properties every year because the IT costs will eventually evolve from building and managing a customer database to maintaining it.
- A.2 As for land, we currently own 20,000 lots, enough to last around 3.7 years. We have secured 5 years' worth including co-owned land, proving our pipeline is sufficient. We are acquiring new land while carefully monitoring the sales situation.
- As for the multifamily business, we have enough properties to last up to the Eighth Mid-Term Management Plan, and 30 projects are currently underway. We believe we have secured an abundant pipeline.

Question

- Q.1 What was your approach to guidance for this fiscal year? After completing the acquisition of MDC, it is possible that goodwill, interest rate burden, or other factors could have a negative impact on ordinary profit? Do you have property sale or other measures in place to safeguard the plan?
- Q.2 It is possible that the number of detached houses could increase on the back of recovery efforts for the Noto peninsula earthquake? Have you received orders for housing related to the recovery efforts?

Answer

A.1 MDC will not be included in the entire fiscal year's calculations. Calculations will be complicated due to such factors as interest rate burden and the temporary business expenses of goodwill and due diligence. Once the acquisition is complete, we will carefully analyze these factors and aim to achieve the Mid-Term Management Plan over three years.

This year, because the domestic development business has a first-rate pipeline focused on prime locations in the four major metropolitan areas of Japan, we think it will serve as a major buffer. Even after accounting for the risk factors, we intend to achieve the plan.

A.2 We do not foresee Noto peninsula recovery demand in the plan. However, there has been a steep rise in inquiries regarding seismic resistance, not limited to the Hokuriku region. This a good opportunity to appeal to these customers because the direct-joint structure is the part of the Company's standard foundation method, but we have not incorporated this into our plans. As for emergency temporary shelter, there are 16 companies in the Standardized Architecture Committee of Japan Prefabricated Construction Suppliers and Manufacturers Association, and they have received 6,000 inquiries and 3,000 orders. Sekisui House, however, is not among the 16 companies.

Question

Q.1 If the Company constructs SW-brand houses in the United States, will you provide specific parts and materials from Japan or procure them locally? If you procure them locally, can you ensure they will have the same quality levels as those from Japan?

Q.2 What is the background behind the current major recovery in orders for detached houses in Japan?

Answer

A.1 For SW construction in the U.S., we will bring everything over from Japan, down to the last bolt. Currently, we think we can manage up to 300 houses, but as we aim to increase this number, we will study parts and materials that need to be imported from Japan to ensure quality, supply chain problems, and the benefits of local procurement.

A.2 Orders for the Company's detached houses historically have corresponded to the share price. Because the construction unit price for the 3rd range spans from over ¥50 million to over ¥100 million, we think that the environment is now easy for high-income earners to move. As more money circulates in the economy due to wage increases, the 1st and 2nd ranges will also be able to move more.

Question

Q.1 Please tell us about the profit margin of the housing business in Japan.

Q.2 Please tell us about the financing scheme for the acquisition of MDC.

Answer

A.1 Regarding profit, in the three years of the previous Mid-Term Management Plan, costs increased around ¥20.0 billion due in part to the wood and iron shortages. In addition, from the second half of the previous year, there have been more inquiries about price increases, for both housing equipment and such materials as steel and aluminum. Because a house has over 10,000 parts, if prices increase for all parts, costs will be higher in the Sixth Mid-Term Management Plan than the fifth. We are thinking about passing on about half of these costs to customers in this fiscal year. With our currently robust orders, now is a good time for the price pass-through, and we think customers will be understanding.

Because houses are highly priced, even a 1% increase is a significant burden, so we intend to steadily revise prices multiple times while carefully monitoring the market.

A.2 Regarding the finance policy related to the MDC acquisition, we have not changed it since January. Although it is not decided, we are primarily considering hybrid bonds because we have previous experience issuing such bonds. After the acquisition is completed, we will announce the details.

Question

Q.1 What areas will be improved with the MDC acquisition? Will investment be needed to increase the production efficiency of existing builders?

Q.2 It seems that the real estate and brokerage business in Japan remains strong. How are the condominiums and urban redevelopment businesses?

Answer

A.1 MDC has a robust governance structure because it is a listed company. It is very attractive because it also has strong accounting, IT, and HR systems. However, because the purpose of the four previous company acquisitions was mainly to transfer technologies, we frequently discussed products and worked to raise awareness of the Company's technical capabilities in Japan to ensure the product capability vectors aligned. By expertly combining the merits of the governance structure and product capabilities, we aim to further enhance both. As for the efficiency of existing builders, they are working to shorten construction periods. MDC has a firm management, so they are managing the inventory replacement rate and construction periods.

A.2 The strengths of Sekisui House and Sekisui House Real Estate are its land and volume of customer data. Sekisui House Real Estate is strong in the brokerage, buying, and selling of land for detached houses, and can leverage this strength to grow more.

The order backlog for condominiums is 74% (in value) of the planned sales for the current financial year, and there is no order backlog remaining for the urban redevelopment business.

Question

Q.1 Regarding sales of land, what is the forecast for land lots for detached houses and non-housing

land going forward? What is the size and profit level when the revenues stabilize?

Q.2 I would like to ask about revisions to the Mid-Term Management Plan following the acquisition of MDC. Do you plan to release a three-year Mid-Term Management Plan with this fiscal year as its first year? Will you go beyond the guidance for revisions in this fiscal year and announce revisions to the plan and medium-term forecasts?

Answer

A.1 Around 80% of Sekisui House Real Estate's sales of land is for detached houses, and the remaining 20% includes non-housing land and warehouses. Regarding the 80% for detached houses, around 30% of it is provided to Sekisui House to build houses. The remaining 70% is provided to builders outside the Group. We have acquired good locations, which is a point of pride, and business performance is expected to remain steady.

Regarding the scale, investment plans are not just for land for detached houses in Japan, and budget allocations will be decided while accounting for condominiums, urban redevelopment business, overseas business.

A.2 After the acquisition is completed, we will sincerely calculate goodwill and expenses as well as carefully examine MDC's plans. I cannot say anymore on this point right now.