

Sekisui House, Ltd.

Transcript for Question and Answer Session of the Management Plan Briefing for FY2019

Date: March 8th, 2018, Friday 13:30 – 15:00 JPT

Participants: Yoshihiro Nakai, President and Representative Director
Fumiyasu Suguro, Senior Managing Officer and Director
Toru Ishii, Managing Officer and Chief Manager of Overseas Department
Hideyuki Kamijo, Managing Officer and Chief Manager of Accounting & Finance Department
Atsushi Yoshida, 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 “Summary of Consolidated Financial Results.”

Question

- With respect to the status of investment policy in the Overseas Business that you would prioritize recovery, won't you make any new investment in China? How many years have you stocked up for in the United States and Australia?
- Explain the synergies intended or expected from the acquisition of Konoike Construction.

Answer

- In China, we are focusing on completing the current projects and are not considering further land acquisitions due to China's country risk. In Australia, we have a high level of inventory and will, therefore, only consider investment in Central Sydney whilst assessing the balance between investment and recovery. In the multifamily business on the West Coast of the United States, we will seek to recover our investment. However, we would be keen to buy any prime properties that became available. As for sites for community development, we will prioritize recovery because we have plenty of inventory.
- Konoike Construction's appeal lies primarily in its expertise in site preparation. In the Michi-no-Eki Project, we want to increase in orders through our highly profitable β system construction method using materials shipped from our factories. However, we believe that we will require Konoike Construction's technology in cases where reinforced concrete structures are the only option, for example, in extremely cold climates or areas affected by salt damage, or areas where there is no choice but to build high-rise buildings with more than 4 stories. Collaborative projects in which Konoike Construction is responsible for supervising site creation and we build the buildings using the β system construction method or the SHAWOOD construction method are also underway.

Question

- Does FY2019 plan for the China business also include any project that is likely to be sold via a collective (en bloc) sale as you did before?
- Regarding your Platform House Concept what are the details such as the estimated price and response?

Answer

- We did sell properties collectively (en bloc) in FY2017, but we have no plans to do so at present. The condominium units we are selling at present were acquired quite a while ago and when sales pick up pace, profits will increase.
- The Platform House Concept is currently undergoing verification tests but we would like to promote widespread adoption of the housing by keeping the initial cost to no more than 1 million yen and the monthly running cost to no more than 10,000 yen. Many homebuilders are conducting research into IoT-enabled smart homes, but we are researching what kind of value we can provide to residents from the viewpoints of Health, Connections and Learning. Since realization of the Platform House Concept will require not only our own technologies but technologies from across Japan, we intend to forge ahead by forming alliances. We will start with new housing but our technologies and services will also be applicable to other areas such as remodeling and existing housing, hotels and care facilities, and we are determined to make a success of the Platform House business because it is attracting public attention.

Question

- Woodside Homes business is conducted mainly in California. Explain area-specific characteristics in terms of market differences and product price brackets?
- Will it be necessary to continue keeping an eye on the risk of revision as a result of development plan changes, such as the losses resulting from plan changes that occurred this time, in the future?

Answer

- Woodside Homes are targeted at the affordable price range and, in this market, the problem of variance between regions does not exist. The price range in which market conditions are bad in California is the high-price zone.
- Our developments in Australia other than the complex development (Coolum Project) in Queensland which was the subject of the valuation loss in the current fiscal year are regular condominium developments and residential area developments and we, therefore, believe that there is no risk of permission not being given.

Question

- The postponement of mandatory compliance with energy efficiency standards caused a stir in the

industry at the end of the year. What impact will this have?

- Valuation losses on real estate continue to occur both overseas and in Japan. Are there no plans to use this as an opportunity to conduct a review of the valuation of various real estate properties and recognize losses on a collective basis? The book value of assets is often written down when plans go wrong as in the Nagoya Project and Australia suggesting that the way in which land has been purchased in the past was not good. How about recognizing impairment losses for all assets including non-current assets on a collective basis?

Answer

- The postponement of mandatory compliance with energy efficiency standards is a shame as we had been at the forefront of promoting these changes but our efforts were not enough. We aim to make 80% of newly constructed homes ZEH compliant. Other industrialized housing manufacturers are also increasing the ratio of ZEH-compliant homes and the next step is to raise the ratio of ZEH compliant-homes of the entire industrialized housing industry. Japan lags behind the rest of the world in the quality of its housing and the role played by industrialized housing is important. We intend to consider what kind of technology we can provide to traditional construction companies once we are all on the same page.
- A breakdown of recognized impairment losses is as follows. In Japan, we reviewed two properties in the condominiums business (inventory completed in FY2018 and land where construction has yet to start) and any of our 5,000 lots of land for Houses for Sale segment that were slow moving. Our policy is to make sufficient effort to process impairment losses when we can and this was the result of our latest careful examination. In the Overseas Business, impairment losses were a result of revisions to plans for a complex development in Australia. In the case of the Nagoya Project, in relation to which we recognized an extraordinary loss, plans based on the assumption of the reshaping of lots of land, such as purchasing more land and improving the plot ratio, did not work out as expected. We will learn from this in the future and take upper, middle and lower forecasts into consideration and factor these into our next mid-term plan. Under our Fifth Mid-term Plan, we intend to conduct development business based on consideration of capital efficiency including ROIC and IRR.

Question

- Give a breakdown of cumulative global investment and recovery over the two years. In Japan your policy was to recover investment first, however, given recent factors including the strong real estate market conditions, please explain your current investment stance.
- On the matter of the inclusion of Konoike Construction in the scope of consolidation, do you plan to further expand non-residential business besides the hotel business by turning construction companies into consolidated companies?

Answer

- Cumulative investment for the two years amounted to ¥1,054.3 million, of which ¥437.0 billion was investment in Japan and ¥617.2 billion was overseas investment. However, cumulative recovery for the

two years was ¥1,106.2 million, including recovery of ¥528.3 billion in Japan and ¥577.9 billion overseas. In FY2018, recovery of investment in Overseas Business was slow mainly due to the absence of sales of multifamily properties.

Although the Fifth Mid-Term Plan has yet to be finalized, overseas we plan to recover investment first and reduce the balance of investment from the current level of ¥800.0 billion to around ¥650.0 billion. However, in Japan, we intend to accelerate purchases of properties in prime locations because we need to strengthen the pipeline.

- We have no plans at all for any M&A activity after Konoike Construction. If anything, we need alliances for integrating technology, soft skills and knowhow and we intend to focus on how we can form alliances throughout Japan rather than on M&A.

Question

- Regarding investment and recovery, you intend to reduce the balance of overseas investment from ¥800.0 billion to ¥650.0 billion, but how do you plan to use the ¥150.0 billion in floating cash?
- Regarding a fundamental review of directors' compensation, what kind of examination is this?

Answer

- Our top priorities are to strengthen our financial position, and above all to improve the D/E ratio. We also intend to resume share buybacks according to the circumstances if the opportunity arises.
- As for directors' compensation, the first step will be to get rid of stock options and introduce a restricted stock compensation plan, but we are also currently examining what to do about medium-to-long-term incentives. We are examining this from scratch and you can expect to hear more in a year from now.

Question

- Regarding the potential of the Michi-no-Eki Project. Of the 1,145 Michi-no-Eki sites throughout Japan, approximately how many stations could be eligible? What is the key to the sustainable success of the project?

Answer

- We consider 3-5 sites per prefecture to be the upper limit and are narrowing sites down through market research with Marriott International, Inc. The project could potentially be implemented in any prefecture except for Tokyo, Osaka and Aichi. We assume that travelers will travel from place to place staying for one night rather than consecutive nights and envisage 50 rooms per hotel. Since the hotels will be hotels specializing in lodging, we believe the key to success will lie in how to get travelers to consume locally through restaurants, activities, etc. We believe that Marriott International has already discovered the attraction of Japan's tourism resources (especially crops and fruit) through its market research and has every chance of winning.