

Sekisui House, Ltd.

Transcript for Question and Answer Session of the Management Plan Briefing for the Second Quarter of FY2020

Date: September 11th, 2020, Friday 13:30 – 15:00 JPT

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< Summary of Question and Answer Session >

Note: The following generally omits the details of financial results presented in the “Summary of Consolidated Financial Results” or timely disclosure materials.

Question

- Q1 Orders for Rental Housing Business declined from the year-ago level in August. Do you expect a recovery, going forward?
- Q2 Reason for the reduction of the upper limit of share repurchase by 10 billion yen.

Answer

- A1 In the Rental Housing Business, we will continue to strengthen the ongoing effective area marketing strategy. In particular, we are looking at the possibility of using and selling company-owned land. So far, our main targets have been large landowners in regional areas. However, with more activities conducted in central city areas and a resultant increase in the number of corporate customers, we have started to change the targets. We predict that this is the correct strategy because companies are reviewing their assets due to the impact of COVID-19. On top of that, we have a strong tenant recruitment capability and Sekisui House Real Estate has superb management skills. Considering these strengths as well as services and other intangible factors, we can set asset high yields with respect to rental housing investments. This is our greatest strength, and with this in mind, we will move forward with the strategy.
- A2 We prioritize maintaining the total return ratio. The reduction is based on the management decision that the measure should be taken temporarily in consideration of any unexpected circumstances from a financial strategy perspective. We are assuming that we will continue to live with COVID-19 until next August, with situation fluctuating. We reduced share repurchases as an emergency measure based on the assumption that the current situation will continue for one year.

Question

- Q1 In conjunction with the first range products in the three brand strategy, sales of Sekisui House noie products seem slightly discouraging in consideration of the strong sales of other companies' low-end products. How will you strengthen the products, going forward?
- Q2 Describe the outlook of the hotel business in the Urban Redevelopment Business for the next year and beyond. Will you continue to engage in the development of hotels even though redevelopment projects cannot rely on inbound demand? Will you focus on the development of offices again?

Answer

- A1 It is true that sales have not been increasing as much as expected, compared to the volume of orders received by builders. However, our target customers are different. The average selling price (ASP) of Sekisui House noie products is in the 23 to 24 million range per building. It is characterized by three factors, namely, minimum specifications, construction by Sekiwa Construction, a wholly owned subsidiary of Sekisui House, and after-sales service provided by Sekisui House's customer centers. Builders that currently enjoy strong sales are offering low-priced land and buildings in the suburbs. The ASP of houses that they are offering is likely to be below the 10 to 20 million range and the overall price is also significantly subdued. Going forward, we will develop personnel and increase the number of staff members in charge of the first range products. We will establish an organizational structure with an eye on achieving the target of 1,000 units in the final year of the mid-term management plan.
- A2 With respect to hotel assets in the Urban Redevelopment Business, properties whose construction is underway according to the large project that we are undertaking with the Marriott Group are scheduled to open in 2023. With the project expected to have a significant impact on the sixth mid-term management plan, we will continue monitoring the status of inbound demand and proceed with planning, accordingly. In addition, this autumn, we decided to open hotels of the *Michi-no-Eki* Station project because the Marriot Group, which prepared one of the most advanced infection prevention manuals in the world ahead of others, is considered to be very reliable. In addition, the occupancy rate is recovering more quickly at The Ritz-Carlton Hotel Kyoto than at other hotels. With respect to the hotel business, although there is concern over risks, we will proceed with planning while also paying attention to the status of COVID-19, going forward. Since there has been no plan for selling hotels in the next fiscal year in the first place, there will be no impact on our business result for the next fiscal year. Meanwhile, we will invest in the office business as well if real estate prices decline to a reasonable range.

Question

- Q1 Describe the outlook for the Overseas Business for the next fiscal year and beyond, including an update on return on investment.
- Q2 Describe your stance in terms of the acquisition of land in the Urban Redevelopment Business.

Answer

- A1 We will sell all properties in the China project in the next two and a half years, and allocate returns to the United States, Australia and the United Kingdom. In the United States, the number of contracts concluded by Woodside Homes in August doubled year on year. We expect that this situation will continue for at least one year thanks to the speedy implementation of fiscal stimulus packages, which have totaled more than the amount spent in the wake of the global financial crisis. Seizing this opportunity, we will also increase sales in the Custom Detached Houses Business in the United States. In China, all contracts to which profit of 14 billion yen is attributable have already concluded. If deliveries are made as scheduled, we will be able to surely achieve it. Earnings are not yet strong in Australia, but taking this into consideration, this plan is reasonable. As announced recently, we will increase overseas sales of detached houses to 10,000 units by the end of the sixth mid-term management plan. Our housing technologies are drawing a lot of attention. We can lay the necessary foundations during the fifth mid-term management plan to achieve this aggressive goal.
- A2 We will actively promote the Urban Redevelopment Business based on information we have gathered with respect to the disposal of corporate assets. Meanwhile, the area marketing strategy, which we adopt for rental houses with a focus on the S and A areas, has been working effectively. Therefore, we will adhere to the concept of targeting properties located in central blocks in the three major metropolitan areas. We are currently involved in the development of large-sale projects in the Tameike-Sanno and Midosuji areas. We purchased those places in a very good timing. Because land prices are high at present, we are determining the best time to act.

Question

- Q1 Orders for detached houses recovered strongly in August. Will this recovery trend continue? The special extension of the housing loan tax reduction period will end at the end of September. Describe the impact.
- Q2 As for the shareholder returns, will you continue to target a total return ratio of 53.4% next year?

Answer

- A1 With respect to detached houses, demand, which rose in April and May, actually contributed to an increase in orders. In addition, the numbers of visitors at display homes and visits to our online reservation site reflect reactionary increases and indicate that more people, because they were forced stay at home, considered the importance of home and became interested in renovations. This trend will continue. A surge in orders in association with the housing loan tax reduction did not have a significant impact. On the other hand, consumer confidence may decrease next January and beyond, if the Japanese economy is polarized due to winter bonus-related factors. We strongly expect the government to take follow-up measures through housing-related support programs. The next one-year period will be characterized by risks and the implementation of follow-up measures.
- A2 We will maintain a payout ratio of 40% or higher, but no decision has been made on the total return ratio. We will implement repurchases of the Company stock flexibly in addition to the payout ratio of 40%. The

details of share repurchases will be announced at the beginning of the next fiscal year.

Question

- Q1 Which segments do you expect will improve in the next six-month period? Which segment has been showing the strongest uncertainty?
- Q2 Given changes in customers' needs as a result of COVID-19, what proposals do you expect will contribute to earnings and society? Is there any room to raise the ASP?

Answer

- A1 The number of visitors to display homes is increasing from the year-ago level and reservations for the *Sumai-no-Yumekojo* museums are full, indicating growing interest in houses. In addition, with more people becoming familiar with online discussion services, such as *Ouchi-de-Sumaizukuri*, we expect that the Custom Detached Housing Business will continue to grow. In the Remodeling Business, we set an aggressive goal to increase the percentage of orders for large-scale renovations, which amount to at least five million yen, to 35%. Now, we are close to 30%. Some people want to add additional rooms or studies to their homes due to the COVID-19 pandemic. Taking these needs into consideration, we anticipate that orders for large-scale renovations will keep rising. The Rental Housing Business enjoys a number of advantages, such as its successful area marketing strategy and management services implemented by Sekisui House Real Estate. However, looking ahead, we are concerned that demand for small-scale hotels and offices, which are non-residential properties, will be weak.
- A2 We completely changed the selling style. Instead of just offering products, we seek to make intangible factor-oriented proposals such as those reflecting residential floor plans mainly based on the Family Suite concept, concept on how the distance among family members should be and the creation of hobbies. Customers are interested in what kind of lifestyle proposal we will make to them, in addition to houses with reliable basic specifications. We will take advantage of our proposal-making capability for lifestyles and give customers choices with proposals prepared from a range of perspectives, including interior and external work plans, landscaping and interior decorations. These efforts appear to significantly contribute to an increase in the ASP.

Question

- Q1 Describe the current status of your properties in the U.S. multifamily business market. You rescheduled the sale of two properties for the next fiscal year. Describe your insights on the risk of price decreases.

Answer

- A1 The occupancy rate is currently high. Whether they will be sold in the next fiscal year is based on the interest of investors. With the number of deals recovering, we expect that they will be sold early next year.

Question

- Q1 I am concerned that the Remodeling Business may still be affected by people's attitude of not welcoming construction company workers in their houses. Why did you make an aggressive plan for the second half?
- Q2 Is housing demand increasing significantly in the U.K. as it is in Japan and the U.S.?

Answer

- A1 We are ensuring that explanations on measures against COVID-19 are provided to customers before workers enter their houses. Customers seem to show their understandings for the situation. Although customers' responses differ by prefecture, this concern has been eliminated in general.
- A2 Demand is still sluggish in the U.K. It takes up to 36 months to construct stone- or brick-based buildings. In addition, the country is facing a labor shortage. Taking these issues into consideration, we assume that the U.K. government is strongly expecting the introduction of our industrialized houses.

Question

- Q1 Houses for sale were strong in August. Looking ahead, is there sufficient land in stock?
- Q2 What does the Japan Federation of Housing Organizations expect from the new administration in terms of housing measures?

Answer

- A1 For land lots for sale, keeping a certain amount of land constantly and maintaining turnover is important. Currently, we have been focusing on a certain area, and the situation is steadily managed since the turnover between purchase and sale have been well-balanced.
- A2 It will be appreciated if the government launches the Max. 2,000,000-yen Point Program for people who obtain or remodel houses as COVID-19 measures. With Japan facing the issue of accumulating a proper stock of high-quality housing units, we expect that measures will be taken by government to facilitate the construction of high-quality houses, such as ZEH.