

Sekisui House, Ltd.

Transcript for Earnings Results Briefing for the First Quarter FY2024 (WEB Conference)

Date	:	Thursday, June 6, 2024, 4:00 p.m. to 5:30 p.m. (JST)
Participants	:	Yoshihiro Nakai Representative Director of the Board, President, Executive Officer, CEO
		Yosuke Horiuchi Vice Chairman, Representative Director of the Board, Executive Officer
		Toru Ishii Director of the Board, Senior Managing Officer
		Toru Fujita Managing Officer, In Charge of Accounting and Finance
		Hiroyuki Kawabata Operating Officer, Head 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

- What are the assumptions of the business forecast of MDC for FY2024 and FY2025? Is the synergetic effect included?
- What are the details on the procurement costs becoming permanent and the financial costs due to acquisition of MDC?

Answer

- We are hoping to transplant the Sekisui House technologies to homebuilding businesses overseas. We are working to reach an agreement with each builder while transitioning to New 2 x 4 with our technologies. This may take time but we will pursue meticulous product development. Prospects of the business results were initially estimated for each builder's operating profit base of about 50% in FY2023, about 70% in FY2024, and about 90% in FY2025 compared to FY2022 when the homebuilding business in the United States was favorable. In actuality, the figure recovered to almost 70% in FY2023 and about 80% is expected for FY2024, exceeding the initial estimate. For MDC, this may be conservative but we are estimating the same rate of recovery and have not included the synergetic effect.
- We have released a notice on the issuance of hybrid bonds for the repayment of the bridge loan. We plan on taking senior loans and issuing corporate bonds but the amount of the bridge loans becoming permanent is yet to be determined. We expect interest costs of about ¥10.0 billion over eight months in FY2024 and ¥15.0 to ¥16.0 billion in FY2025. In regards to equity finance, we have no plans, including the issuance of corporate bonds.

Question

- How would transplanting Sekisui House technologies increase the unit price and profit ratio?
- What is the forecast on interest-bearing debt and interest costs of the bridge loan?

Answer

- Going forward, SHAWOOD in the United States, which incorporates our technologies at maximum specifications, is a high-price range product that is equivalent to the 3rd-range product in Japan, where three brands strategy for detached houses is implemented. In regards to the New 2 x 4, which is value-added product incorporating our technologies, it would be 2nd-range and the existing 2 x 4 would be 1st-range. While the unit prices of existing builders that offer products that incorporate our lifestyle proposals have increased by about 8% year on year, it was about a 2% increase for the MDC. It is difficult to say for certain as price ranges differ, but this may be playing a role in the increase in unit prices.
- We have not set a clear target for interest-bearing debt. We expect no significant change in FY2024 and FY2025. We cannot provide details on the interest rates of bridge loans, but they are under 0.5% for yen and upper 5% for US dollars.

Question

- Can you elaborate on the repurchase of company shares?
- What is the rating?

Answer

- We will repurchase company shares in a flexible manner. We have determined not to repurchase shares in 2024 but have not yet made a decision for the next year and beyond. We will make decisions taking into account financial exposures and other factors.
- Issuer rating and shelf registration were disclosed with the issuance of hybrid bonds. Ratings remained at AA from JCR and AA- from R&I. S&P Global, which hinted at the possibility of reducing the rating by two notches with the acquisition of MDC, is to also release a credit watch soon and provide a new rating.

Question

- What is the reason behind the upper revision and the duration of amortization of goodwill?
- What is the policy toward the 20,000-unit structure in FY2031?

Answer

- We revised the business results forecast with the expectation that net sales will increase by 10% or more with the consolidation of MDC. The upper revision only takes into account the inclusion of MDC and assumed exchange rate, and the business results of existing builders were unchanged. We have also made upper revisions by revising the shared costs of all companies to ¥1.0 billion and making cost reductions, etc. The duration of amortization of goodwill is determined by taking into account the size of investment

difference, duration until return, and other factors upon discussion with an auditing company. The investment difference will be allocated to inventory, trademark rights, etc. as a temporary measure.

- We believe there is room for growth under the current structure by transplanting Sekisui House technologies. There are possibilities of acquiring small builders that could be incorporated under existing builders but there are no plans for large M&As.

Question

- What are the estimates for the investment difference and temporary expenses related to acquisitions through the next year and beyond?
- What is the progress of the sales in the multifamily business?

Answer

- Goodwill will be amortized evenly over ten years. We estimate the calculated inventory costs will be impacted by almost ¥7.0 billion in 2026. For temporary expenses related to acquisitions, we expect the PMI consulting fees and other costs will be incurred in the next term.
- We plan sales of three properties in FY2024, with sales of property in Seattle to Sekisui House Reit, Inc. being finalized. We recognize that the sales environment remains harsh.

Question

- What is the reason for the lower profit rate in the Real Estate and Brokerage segment?
- What is the property acquisition capacity of Sekisui House Reit, Inc.?

Answer

- The lower profit rate is due to the sales of high-profit properties during the same period of the previous year, and orders and sales of residential land are progressing steadily.
- We heard that Sekisui House Reit, Inc. has a capital surplus through the sales of offices in Japan, which was carried out based on its transition to an investment strategy focusing on the residential segment, but we are unable to provide specific details.