# Sekisui House, Ltd.

## Transcript for Earnings and Management Plan Briefing for the Second Quarter FY2024

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| Date | : | Thursday, September 5, 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 | Representative Director of the Board, Vice Chairman, 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: Details already explained in the financial statements or timely disclosure materials have been omitted.

Question

- What is the outlook of the performance in the next fiscal year? What is the reason for including the temporary expense of 14 billion yen for the M&A as an extraordinary loss in the plan?
- How is the process of making funds for the acquisition of MDC permanent? Is there an option to procure equity with the favorable performance?

Answer

- Despite including temporary expenses related to the acquisition of MDC in this fiscal year, goodwill will decline by about 14 billion yen in total, and the burden associated with amortization will decrease from the next fiscal year. As of June, we were still discussing ways of handling stock remunerations and other matters, and temporarily considered it as goodwill. Since then, as discussions with the auditing company progressed, the possibility of considering about 14 billion yen as a temporary expense emerged as there were parts that would remain as goodwill and others that would be temporary expenses. As treating it as an extraordinary loss strengthened based on the level of amount and being a short-term expense, we included it in the current plan (of which 3.3 billion yen has already been included in the second quarter results as an extraordinary loss). Additionally, while we expected around 25% of the investment difference to be included in inventory and paid out evenly over two years, the payout in this fiscal year is expected to exceed the plan. As such, we believe that the burden in the next fiscal year and beyond will decline. The purchase price allocation (PPA) has not been completed yet, but you will be notified when it is finalized.
- We are not considering equity financing. We procured bridge finances of 418.2 billion yen and 1.55 billion USD but we are not considering changing currency type when making them permanent. We have already issued hybrid bonds of 200 billion yen for the yen-dominated portion. We are considering procuring the

remaining yen- and US dollar-dominated portions through bonds and loans, and are in the preparation stage.

Question

- What is the outlook of the trend of orders for the Homebuilding Businesses in the United States?
- Development and leasing of offices seem to be making progress in the Urban Redevelopment Business, but is there any news for the next fiscal year?

Answer

- Orders for the Homebuilding Businesses in the United States are lower in July and August, but when looking at it in the span of January to August, the number of housing units is +14% year on year (calculated including contracts of MDC since January 2023). Although we have not included the effects of reduced interest rates in this revised plan, given that some may be waiting for the reduction of interest rates, we are hoping that there will be a recovery in orders from September after the reduction.
- The profitability will increase as loss from depreciation costs can be offset given that occupancy and profits increase as the leasing of offices takes off. We believe next fiscal year will continue to be impacted by depreciation costs due to more properties being completed.

Question

- What is the reason for revising the plan for the Master-planned Community Business upwards? What is the outlook for the next fiscal year?
- What is the trend of the current state of profit rate of the Homebuilding Business in the United States?

Answer

- The upwards revision of the Master-planned Community Business is due to contributions from the sales of commercial lots in the first half of the year and other factors, which were not included in the initial plan because it was unclear if it will actualize. Upon actualization, we have revised the plan for the full year upwards. We bulk purchased lands owned by the CalPERS (The California Public Employees' Retirement System) about ten years ago, and while the quantity has been reducing, there is still five to six years' worth of stock. We would like to notify the outlook of the Master-planned Community Business after comprehensively reviewing past results and determining what level of investment is appropriate.
- Orders in July and August were weak, and we are unable to state the operating profit margin as the number is yet to be finalized, but the profit ratio of order backlog shows an improvement year on year.

Question

- Are there any changes in expectations or challenges related to the acquisition of MDC from during the acquisition or previous revision of the plan?
- What is the outlook of Multifamily Business in the United States for the next year and beyond?

Answer

- As expected, we believe that we acquired a great company. Our PMI involves not just MDC but a total of five companies, including three existing builders, MDC and Sekisui House. MDC is particularly active in PMI. Specifically, we hold subcommittee meetings for administrative, technology and sales, where active and forward-looking discussions participated by the three existing builders. For the administrative subcommittee, MDC's headquarters function and platform are very attractive for the three existing builders. The sales subcommittee sets two approaches for the brand strategy. Each builder actively exchanges their opinion on what brand to promote for each area. For the technology subcommittee, there are positive effects on the profit ratio of existing builders, especially Woodside Homes, which has a longer history with us and incorporates some of our technologies. MDC excels at the sales of efficient and modest houses in short cycles, but we hope to discuss ways to transplant the New 2x4 technology to MDC mainly at the technology subcommittee. Our overall impression is that we built a good meeting structure where forward-looking discussions are taking place and PMI is making good progress.

  We recently held a training camp for the managements from all divisions, not only of MDC but also Group builders. We discussed the targets for this fiscal year, the outlook for the next fiscal year and beyond, as well as sharing our vision. What we reaffirmed was how high the level of human resources is. Its operational management system is also spectacular and similar to what we have in Japan. This made us believe that transplanting our technology would further improve the system. As the integration is still in progress, we would like to gradually accelerate the initiatives.
- We feel that the tide is turning slightly and the response of investors is becoming more active, making us look positively at the next fiscal year for the Multifamily Business. Who to sell to is not limited to Sekisui House Reit, but third parties are also candidates. We will determine it based on the balance between the growth of Reit and profitability.

Question

- What is the approach to balancing the Multifamily Business and Homebuilding Business over the long term?
- What is the approach to strengthening shareholder returns?

Answer

- Due to the stress on financial soundness following the acquisition of MDC, reinvesting in high-turnover businesses, such as the Homebuilding Business in the United States is a standard tactic for early recovery. As the balance between the Multifamily Business and Homebuilding Business is still under discussion, and we hope to disclose it in the Seventh Mid-Term Management Plan.
- Regarding shareholder returns, as we acquired MDC, we will postpone share repurchases during this fiscal year, but plans for next fiscal year and beyond are undecided. We will make a decision based on the balance between cash flow, financial soundness and other factors. The top priority is the early recovery of the financial soundness.

Question

- How will the housing policies of both presidential candidates impact the Homebuilding Business in the United States?
- Are there any issues in securing residents in the Rental housing management Business in the domestic?

Answer

- We believe that both presidential candidates intend to promote their housing policies, but we are uncertain of the impact they will have.
- Sha Maison continues to have a backlog of residents waiting to move in. There are even residents who are waiting solely for vacancies in Sha Maison, so we have no issues with the number of applications. While there are rooms that may be struggling individually due to layout or sunlight issues, we propose renovations for such units to increase their appeal and successful leases. Through these initiatives, we believe that the owners are satisfied with us. Especially in S areas, we are working with owners on a concept of attaching the highest rents and creating flagship properties for the area, aiming to achieve a quality that is on par with condominiums. By incorporating the know-how cultivated in detached houses, such as luxurious entrances, soundproofing, layouts, and sunlight, we are proud of providing unrivaled housing, particularly in S areas.