Sekisui House, Ltd.

Transcript for Earnings Results Briefing for the Third Quarter FY2024

Date	:	Thursday, December 5, 2024, 4:00 p.m. to 5:00 p.m. (JST)	
Participants	:	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 status of orders in the U.S. Homebuilding Business under the continued high mortgage rates? What is the current state and future forecast considering the presidential election results and other factors? What is the status of inquiries for property sales in the Multifamily Business in such an environment?
- What is the enhancement of valuation in the exit strategy for the Real Estate and Brokerage Business, and what effects have been observed? What are the results for non-residential land?

Answer

- The number of orders is about 12,000 housings, an increase of approximately 16% from the previous fiscal year, when the full-year figures for the MDC are calculated using the cumulative total from January to October. Figures are growing compared to the previous year since July and growing steadily from the previous fiscal year. Inquiries in the Multifamily Business is increasing but is yet to reach the target price. We hope that the environment will change in the next fiscal year with the change in the presidential administration. Existing builders Woodside Homes, Holt Homes, and Chesmar Homes have adopted strategies to help customers understand the added value through optional contracts and other means, compared to the past. By Such added-value proposals and some deductions with incentives, we were able to increase orders while raising the unit price without significantly discounting prices.
- Sekisui House Real Estate Group has a target of focusing more on purchasing and selling residential lands than other real estate companies. About 70% to 80% of the purchases are residential lands but industrial and business lands are also purchased on the side and purchasers are diversifying through that channel. We are addressing latent demands in the four metropolises to increase procurement channels in response to the demand.

  Regarding non-residential lands, these cannot be always purchased and are purchased when we can purchase them where there is a demand. Therefore, this does not necessarily mean that it is part of our target but about 20% of the purchase was for non-residential lands in 3Q.

Question

- The profit margin of the Rental Housing and Commercial Buildings Business has declined by 3% until 3Q and profitability is also slightly declining. Is achieving the full-year plan difficult under a regular stance? What are the current issues and their solutions?
- The cumulative number of housing orders in the U.S. Homebuilding Business has increased by 16% to about 12,000 housings but there was a comment about the decline in orders compared to the previous year during the briefing in September. What are the results for September, October, and November?

Answer

- There was a situation in which the production of fire-resistant building materials at factories could not meet the increase in orders but we made additional capital investments. Going forward, this will enable sufficient shipments and increase the speed of construction, leading to more sales and profits. Orders are on a favorable trend and order backlog of contract orders for Green First Office, an energy-saving small office, is increasing. We plan to continue our efforts on this going forward.
- Since hitting the lowest in July, figures are increasing compared to the previous fiscal year with 106% in August, 121% in September, and 129% in October. Considering that sales were struggling during this time of year in the previous year, this should be considered a reactionary increase.

Question

- Orders in the U.S. Homebuilding Business have declined from 2Q to 3Q (1Q (three months): ¥137.1 billion, 2Q (three months): ¥288.3 billion, 3Q (three months): ¥220.7 billion). Is this due to the impact of increased mortgage rates? Is it possible to achieve the full-year plan of ¥983.8 billion with cumulative orders of ¥646.1 billion in 3Q? What is the current status of visitors and other factors leading up to the sales season in next spring?
- Has the process of making funds for the acquisition of MDC permanent completed with the issuing of corporate bonds in U.S. dollars in October? With the financial burden increasing with the D/E ratio becoming 1.0, what is the overall tone of acquiring treasury stock in the next fiscal year and beyond?

Answer

- Under the continued high mortgage rates, we promoted sales by adding incentives in 3Q. Entering 4Q, we are further increasing incentives. Gross margin is sustained at a decline of about 0.3 points compared to the previous year when figures are converted to a full year of MDC. Incentives may slightly increase in 4Q but we believe that the gross profit margin will remain the same or only decrease slightly. The trend of orders is weaker than the full-year plan.
- The process of making the funds for the acquisition permanent is not yet complete. We procured a bridge loan of $1.55 billion in U.S. dollars and approximately ¥420 billion in Japanese yen. In regard to the loan

in U.S. dollars, there is $0.55 billion remaining after issuing a foreign currency denominated corporate bond of $1 billion in October. For the loan in Japanese yen, there is approximately ¥220 billion remaining after issuing hybrid bonds of ¥200 billion in July. We plan to make the remaining amount permanent through senior loans and corporate bonds by April next year. Currently, our finances are stressed and we need to relieve it during the next year and in the next mid-term management plan. We will consider the timing of acquiring treasury stock again based on the balance between the execution of the growth strategy and financial soundness while considering the status of cash at hand.

Question

- How are the property sales in the U.S. Multifamily Business, which is the driver for increasing profits in the next fiscal year? Is the plan B in case sales do not go as planned to cover it with the Urban Redevelopment Businesses in Japan? How many properties in the Urban Redevelopment Businesses are ready to be sold immediately?
- What are the trends regarding land acquisition prices, construction fees, and other costs in the U.S. Homebuilding Business?

Answer

- Many properties are planned to be sold in the U.S. Multifamily Business during the next fiscal year but we will make comprehensive considerations that include properties in Japan if conditions are not met. We believe that the appetite for investment for investors in Japan is high and are hoping to secure profit by selling the properties in the Urban Redevelopment Businesses. In addition, it can be fully covered as we have already prepared pipelines for properties sold during the (next) Seventh Mid-Term Management Plan.
- There are a total of about 3.7 years' worth of lands when combining owned and partnered lands. We are currently making preparations for the sales season next spring. Costs have stabilized compared to the past.

Question

- Is there a change in the PPA of MDC? Are there any factors that may change before finalization?
- What is the outlook of orders in the U.S. Homebuilding Business from January to March next year? How is certain is it?

Answer

- We explained in the briefings held in June and September that the ratio of goodwill/trademark rights and inventory was about 3 to 1 and that has not significantly changed. Calculation of the inventory costs was planned to be ¥16.2 billion in June and ¥20 billion in September. The result may slightly exceed the plan but will not change the total amount but rather liquidate it slightly ahead of the initial two-year plan. In addition, costs related to acquisitions are mostly in line with expectations.
- We are preparing lands and buildings for the sales season next spring. There may be slight differences depending on the area but there are high hopes for states that were somewhat sluggish during the spring this year.

Question

- SG&A expenses seem to have leeway in 4Q but will it be used according to the plan?
- What is the outlook for the net sales and profits of MDC in the next fiscal year? The number of housing deliveries was planned to be 10,000 housings in the outlook for FY2025 provided in 1Q but will sales increase beyond the plan in the next fiscal year? Will the profit margin increase in FY2025 compared to FY2024?

Answer

- We have no significant plans for SG&A expenses. As we expect to achieve the full-year plan overall and net sales to increase in 4Q due to the year closing, some of the costs linked to performance will increase and SG&A expenses is likely to increase as well.
- We have announced that we plan to deliver about 15,000 housings during the current fiscal year, but considering that the current high mortgage rates require incentives to be added for sales, we are planning to finish the fiscal year by delivering slightly below the pace set in the plan and sell when there is a higher consumer demand in the next spring for higher profitability. Instead of forcing to increase the number of deliveries this year, we believe it is better to plan for sales during the sales season next spring in terms of profit as well.