# Sekisui House, Ltd.

## Transcript for Earnings Results Briefing for the Second Quarter of FY2021 (Telephone Conference)

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## < Presentation >

Note: The following generally omits the details of financial results presented in the "Summary of Consolidated Financial Results".

### [Sheet 1] Overview

Second quarter financial earnings can be broadly summed up in the following three points. (1) Net sales hit a record high for the first six months, reflecting sales of custom detached houses and rental housing and a very strong performance in the supplied housing business, despite tough business conditions. Operating income also improved significantly. (2) The full-year plan has been revised upward, reflecting robust sales and an improved profit margin in Japan, and growth in overseas business, especially homebuilding business and master-planned community business in the United States, as well as strong demand in the multifamily business. (3) The dividend plan was revised in keeping with the revised the full-year plan.

Net sales increased 4.8% year on year. In the built-to-order business, net sales fell 1.4%. The custom detached houses business and rental housing businesses posted increased sales as a result of strong orders and the main factor for the fall in net sales was a reaction to sales from large projects posted in the architectural/civil engineering business in the previous fiscal year. Sales in the supplied housing business climbed 7.3%. The remodeling and real estate management fees businesses both achieved higher sales. Sales in the development business rose 18.0%. Sales in the houses for sale business soared by more than 30%. In the condominiums business, sales fell slightly due to a difference in the delivery of properties. In the urban redevelopment business, sales rose thanks to the sale of properties during the first quarter. Sales in the overseas business climbed 6.4%. A decrease in the delivery of condominiums in China was offset by increased sales of housing in the United States.

Gross margin rose 9.7%. The profit margin improved 1.0p. In the built-to-order business, the profit margin improved 2.4p, reflecting continued improvement in the profit margin in custom detached houses and rental housing. In the supplied housing business, the profit margin rose 1.1p. In the development business, the profit margin fell 3.4p due to a difference in the profit margin in the sale of properties in the urban redevelopment business. In the overseas business, the profit margin was 0.7p higher.

SG&A expenses rose 3.8%. The SG&A ratio fell 0.1p, to 11.7% partly due to an increase in sales.

Operating income increased 18.4%. The operating margin improved 1.1p. In the built-to-order business, the profit margin was 2.1p higher, reflecting a rise in profit margin in the custom detached houses business and the rental housing business. In the supplied housing business, the profit margin rose 1.3p. In the development business, the profit margin fell 3.5p. In the overseas business, the profit margin was 1.0p higher.

The balance of non-operating income/expenses increased ¥3.6 billion year on year. Equity in earnings of affiliates declined ¥1.0 billion year on year due to a decrease in earnings in Singapore. Non-operating income/expenses improved due to foreign exchange gains of ¥1.1 billion as opposed to foreign exchange losses of ¥3.3 billion in the previous fiscal year.

Extraordinary income was due to sales of investment securities. Extraordinary losses were mainly related to a loss on sales or disposal of fixed assets.

Orders received increased 18.2%. All segments received higher orders. The order backlog increased 8.7% from the end of the previous fiscal year, to ¥1,481.9 billion.

### [Sheet 2] Financial position

Total assets increased ¥84.8 billion from the end of the previous fiscal year. Current assets rose ¥86.3 billion. Of current assets, cash and deposits fell ¥7.0 billion. The increase in real estate for sale consists of an increase of ¥42.3 billion in Japan and an increase of ¥73.0 billion overseas, including an increase of ¥41.0 billion due to foreign exchange rates. Non-current assets decreased ¥1.4 billion. Capital expenditures climbed ¥13.7 billion, to ¥47.7 billion, of which investment in real estate for lease was ¥38.0 billion. The full-year plan remains unchanged at ¥100.0 billion.

Total liabilities rose ¥7.9 billion from the end of the previous fiscal year. The redemption of bonds of ¥30.0 billion in July was offset by an increase in borrowings, leading to a slight increase in liabilities. Interest-bearing debts increased ¥4.3 billion chiefly due to effects of exchange rates of just over ¥20.0 billion at overseas subsidiaries, offsetting a decrease in Japan. The D/E ratio was 40.5%, improving 1.9p.

Net assets increased ¥76.8 billion from the end of the previous fiscal year. Translation adjustments increased ¥32.7 billion due to a weaker yen, while we proceeded with the repurchase of company shares of around ¥15.0 billion.

Looking at cash flows, cash flows from operating activities improved ¥35.6 billion chiefly due to an increase in profit. Cash flows from investing activities climbed ¥0.9 billion year on year chiefly due to investment in real estate for lease. As a result, free cash flows improved ¥36.6 billion. Cash used in financing activities was ¥58.8 billion, reflecting the redemption of bonds and dividends paid. Cash and cash equivalents at the end of the second quarter stood at ¥593.1 billion.

### [Sheet 3] Segment Information (Built-to-Order Business)

The custom detached houses business recorded increases in sales and profit. The gross margin improved 1.7p due to active added value proposals. The operating margin improved 2.7p, reflecting the effect of sales quantities, among other factors. Orders remained strong, exceeding first-quarter growth and increasing 15.4%. The order backlog increased ¥12.1 billion. More time at home has given families greater opportunity to discuss living styles, and our proposals of unique value added solutions for the new normal such as Family Suite have been well received. As a result, ASP per building rose ¥150,000 year on year, to ¥41.53 million.

The rental housing business recorded gains in sales and profits. The gross margin improved 1.8p, a significant increase as in the custom detached houses business. The operating margin improved 1.7p. Orders received rose 7.9%. The order backlog increased ¥9.6 billion. Sales of ZEH rental housing remained strong. The number of units ordered by the end of the second quarter reached 3,486, exceeding the initial target of 1,800 and the target was raised to 6,000 units. Sales rose, especially in urban areas, thanks to a positive reception among both owners and tenants.

ASP per building increased ¥7.04 million year on year, to ¥125.00 million. The ratio of three-to-four-story houses remained high, 77.9%.

The architectural/civil engineering business posted decreased sales in reaction to sales from large projects posted in the previous fiscal year. However, the gross margin improved 2.2p. Orders increased 15.7% mainly due to marketing efforts and the order backlog also grew ¥20.6 billion from the end of the previous fiscal year.

### [Sheet 3] Segment Information (Supplied Housing Business)

The remodeling business recorded increases in sales and profit. The operating margin also improved 2.4p. Custom detached housing remodeling focused on large-scale remodeling and increasing interest in more comfortable houses was translated into orders. Remodeling for rental housing also showed steady growth, reflecting the active proposal of remodeling which is essential for long-term stable operation. Orders received rose 21.8%.

The real estate management fees business achieved growth in both sales and profits. The number of units under management increased 9,600 from the end of the previous fiscal period, and the occupancy ratio rose 0.3p, to 98.0%, remaining at a high level. Measures such as remodeling and rent increases on the replacement of tenants and the reduction of long-term vacancies proved successful. In the second quarter, the tenants of approximately 63,000 units changed, and monthly rents rose by more than ¥0.1 billion.

### [Sheet 4] Segment Information (Development Business)

The houses for sale business recorded increases in sales and profits. Sales growth was mainly driven by first-time buyers and move-outs from condominiums. Stocks of land also increased through continued efforts to step up purchases of prime land. Orders received climbed 52.4%.

The condominiums business made progress as planned mainly in the delivery of large condominiums in Tokyo, Osaka and Fukuoka. Sales, including sales of expensive properties, were strong. Orders increased 44.9％. Based on contracts already concluded, the plan for this fiscal year looks achievable. Completed housing stock increased slightly to 98 units but is expected to trend downward.

The urban redevelopment business registered an increase in sales and a decrease in profits. Net sales from property sales amounted to ¥36.2 billion, the majority of which was attributable to sales in the first quarter. Both orders received and the order backlog increased mainly due to sales agreements concluded for five properties with Sekisui House Reit, Inc.

### [Sheet 4] Segment Information (Overseas Business)

In Australia, both sales and profits increased. The delivery of condominiums in Sydney contributed to this. Orders received rose ¥15.5 billion. Prices for custom detached houses are rising due to the effects of measures to support home ownership and low interest rates. The condominiums business appears to have been hit by a decline in overseas investment and the impact of lockdown on construction work. Investment increased ¥5.6 billion from the end of the previous fiscal year.

In China, sales fell sharply in reaction to the intensive delivery of condominiums in Suzhou in the previous fiscal year. However, the sales decline was as planned. This fiscal year, the delivery of condominiums in Wuxi, Shenyang and Taicang was recorded. Orders decreased ¥2.0 billion. The order backlog was ¥51.0 billion. Progress was made as planned toward the completion of all projects. Investment amounted to ¥52.5 billion, an increase of ¥0.3 billion from the end of the previous fiscal year.

In the United States, sales climbed ¥30.1 billion from the end of the previous fiscal year. Sales growth was driven by a buoyant housing market. Looking at sales by business model, the multifamily business reported sales of ¥14.9 billion, reflecting the sale of a project in Portland in the second quarter. Sales came to ¥34.2 billion in the master-planned community business segment and ¥69.5 billion in the homebuilding business (Woodside Homes Company, LLC). Operating income came to ¥3.7 billion in the multifamily business, ¥7.3 billion in the master-planned community business, and ¥6.4 billion in the homebuilding business. Of orders received of ¥146.7 billion, orders in the homebuilding business were ¥93.6 billion, up 43% year on year. The order backlog in master-planned community business and homebuilding business stood at ¥55.8 billion and ¥88.5 billion, respectively. The multifamily business saw steady improvement in leasing activities as well as an increased investment appetite amongst investors. In the second half, there is now the prospect of selling two properties, one more than initially planned. Meanwhile, master-planned community business and homebuilding business are seeing an increase in orders received. Although there is still firm demand on the new housing market, sales remain subdued amid rising raw materials prices and supply chain constraints. Investment amounted to ¥494.6 billion, rising ¥66.2 billion from the end of the previous fiscal year.

In Singapore, equity in earnings of affiliates, mainly rents at commercial facilities, declined ¥0.9 billion year on year. The investment balance was ¥36.3 billion.

In the United Kingdom, we made an investment in 2019 to participate in a project for new homes using (proprietary) pre-engineered housing technology, and equity in earnings of affiliates came to a loss of ¥0.1 billion.

### [Sheet 5] Full-Year Plans

The full-year plan were revised upwards. Net sales are expected to rise 4.3% year on year, to ¥2,553.0 billion. Operating income is projected to increase 18.0% year on year, to ¥220.0 billion, an upward revision of ¥20.0 billion from the initial plan. Plans were revised upward for the overseas business, which will be driven by business in the United States, and the custom detached houses and houses for sale businesses, where profit margins are favorable. Ordinary income is expected to reach ¥218.0 billion. Profit attributable to owners of parent of ¥148.0 billion is projected. This represents an increase of ¥13.0 billion from the initial plan. EPS is expected to rise 20.7%, to ¥218.65. ROE of 10.7% is planned. The dividend will be ¥88, an increase of ¥2 from the initial plan. Orders received are also expected to increase in the overseas business and in other strongly performing areas such as the custom detached houses and houses for sale businesses.

In terms of financial position, we will aim for improvement in the asset turnover rate and strive to be able to generate a stable ROE of 10%. We will also seek to return profits to shareholders mainly through dividend growth financed by higher levels of profit.

## < Summary of Question and Answer Session >

Note: Matters previously described in the financial statements and documents subject to timely disclosure are omitted here.

**Question**

- **Give details of the market environment of the multi-family business in the United States.**
- **What is the impact of rising materials prices on the profit margins of the custom detached houses business and houses for sale business in Japan?**

Answer

- Leasing activities are going well. Since investment appetite among investors is also strong, we have increased the number of properties we expect to sell on a full-year basis from two to three. However, we have no intention of selling properties cheaply and we may postpone sales if there is a possibility of selling later at a higher price.
- The impact of rising raw materials prices is around ¥5.0 billion for lumber and ¥2.0 billion for steel materials. We expect lumber prices to settle in six months or so but steel prices are likely to continue rising for some time.

**Question**

- **Give details of sales of Woodside Homes Company, LLC (homebuilding business) and the master-planned community business in the United States.**
- **What are your concerns or what is your outlook for orders in Japan going forward?**

Answer

- In the homebuilding business, we believe there is a risk that construction will not be able to keep pace with orders and we are keeping orders received at a level we can deal with given our construction capacity. We are also raising unit prices through the lifestyle proposals we make in Japan and sales with optional extras such as improved insulation. In the master-planned community business, we are seeing strong demand, obtaining development permission and making headway with sales. We have secured enough land for around seven years.
- We are also lobbying the government as an industry association over the expiration of various support measures, including mortgage deduction, and green housing points. It is unlikely that support for homebuyers will be withdrawn completely and we are optimistic about future measures.

**Question**

- **Explain the revised plan for orders. Why is the growth rate of orders slower in the second half than the first?**
- **What are the profit margin assumptions underlying the revised plan?**

Answer

- Last year, orders received decreased from April through June due to the state of emergency and recovered from August. Consequently, compared with the previous fiscal year, growth in orders will be slower in the second half.

- We have estimated profit margins conservatively, factoring in the impact of rising prices for materials such as lumber and steel.

**Question**

- **Why did you upwardly revise your plan for custom detached houses in the revised plan?**
- **In the revised plan for the architectural/civil engineering business, why did you lower the sales plan but leave the operating income plan unchanged?**

Answer

- We raised the custom detached houses business forecast mainly because our lifestyle design proposals match the current environment and our products such as SMART-ECS and ZEH have been well received by customers. We have also renovated the *Sumai No Yume Kojo* housing theme park to *Tomorrow's Life Museum* and our lifestyle design proposals using model houses designed for specific families are appealing to customers.
- We left the operating income forecast for the architectural/civil engineering business unchanged because the share of Konoike Construction's sales accounted for by construction, which has low profit margins, decreased, while the share of civil engineering, which has high profit margins, increased.

**Question**

- **Give details of the profit margin of the custom detached houses business. What is the outlook from next fiscal year, taking both positive and negative factors into consideration?**
- **What is your outlook for the rental housing business?**

Answer

- On the upside, the sharp increases in lumber price can be expected to come to an end next fiscal year. On the downside, the sharp increases in lumber price caused us to raise selling prices, which definitely caused a surge in demand ahead of the price increases, and we should take action to prevent a reactionary fall in demand. In the case of custom detached houses, added value proposals will result in higher gross profit on the conclusion of contracts and gross profit will also increase as the ratio of construction costs falls due to the volume effect. If lumber prices also settle down, conditions will be even more in our favor.
- The market for rental housing as a whole has changed. Demand for investment in rental housing as a way to reduce inheritance tax is subdued and in areas where tenant demand cannot be corroborated, lending attitudes are restrained. Since 2010, we have adopted an area strategy focusing on the three major metropolitan areas and core cities. In areas where tenant demand is high due to corporate contracts, we are working on proposals which tie in with the ESG management of target companies through the use of Sha Maison and ZEH as the company housing of corporate clients, and the appeal of these products is growing. We will continue building high added value rental housing in areas where tenant demand is strong among corporate clients.

**Question**

- **What is behind the higher profit margin of the rental housing business?**

- **In the United States, did Woodside Homes Company, LLC succeed in adjusting selling prices in response to volatility in lumber prices? What was the impact on the profit margin?**

Answer

- One of the reasons for improvement in the profit margin is an increase in the size of properties. Another factor is a change in the way we find tenants. By providing partner corporations with information about Sha Maison in advance, move-ins do not all happen at the same time in March and construction work can be spread out evenly over a certain period and this also leads to an improvement in the profit margin.
- Woodside Homes Company, LLC benefits from a booming market that allows it to pass through material cost increases to selling prices and the profit margin is very unlikely to fall.

**Question**

- **What is your outlook for operating income next fiscal year?**
- **You have been passing increases in lumber and steel prices onto selling prices since July. What is the latest situation?**

Answer

- I will not give any figures for next fiscal year, but we are optimistic.
- We have increased our selling prices and, as a result, we are receiving fewer orders for wooden houses and more for steel-framed houses. Once the sharp increases in lumber price comes to an end, we expect selling prices will also return to previous levels and sales of wooden houses will increase.