Sekisui House, Ltd.

Transcript for Question and Answer Session
of the Management Plan Briefing for the Second Quarter of FY2023

Date:	Friday, September 8th, 2023, 13:30 to 15:00 (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
	Atsushi Yoshida, Executive 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

Q.1 Please tell us the main factors behind the recent improvement in the profit margin on the U.S. homebuilding business. Also, how are the buyer incentives being granted to secure demand affecting the profit margin?

Q.2 What kind of profit growth do you expect in the U.S. business next year and beyond?

Answer

A.1 Sales prices are down about 5% year on year, but shortening construction periods and building during a period when costs were lower because other companies were holding back on construction helped improve the profit margin. We are not doing anything out of the ordinary in terms of buyer incentives and only offer them for completed inventory properties that do not readily sell. Including the effects of these incentives, the operating profit margin has improved about 4 points from the start of the year, and we think that over the whole fiscal year, it will come out to an improvement of about 2 points. Buyer incentives are not so significant that they greatly affect the overall operating profit margin.

A.2 In the U.S. homebuilding business, our plan is for operating profit in FY2023 to be about 50% that of FY2022, then 70% in FY2024, and 90% in FY2025. However, it could reach about 65% in FY2023, and if the recent level of orders persists—more than 400 houses per month—then, as the order backlog steadily increases, we think that there will be room for operating profit in FY2024 to exceed the levels anticipated when the Sixth Mid-Term Management Plan was formulated. In the overall plan for the U.S. business, planned sales of properties in the multifamily business are concentrated in the third year. Although conditions in the multifamily business are challenging, the average occupancy rate is high, at 94%, and we are confident in the properties themselves. We aim to sell these properties when the time is right.

Question

Q.1 Are you not planning to do business in selling land and buildings together by building rental housing on land procured through the real estate and brokerage business?

Q.2 Please tell us about your approach to inventory control in domestic businesses and whether you plan to continue investing aggressively overseas.

Answer

A.1 Under our area strategy, we have been procuring land in S and A areas, and then offering Sha Maison buildings and the land under them together. The rate of such offerings is, in fact, increasing.

A.2 In Japan, we exercise effective governance by placing Sekisui House in charge of loaning the capital necessary for inventory procurement by Sekisui House Real Estate.

In terms of turnover, we aim for a Company-wide total asset turnover ratio of one, and apply basically this same standard to real estate.

The balance of investment in the U.S. multifamily business is up about 30% from the previous fiscal year-end. To bring this back to a more sound level within the period of the Sixth Mid-Term Management Plan, we are advancing property sales and considering potential new partners as we work to enter the eastern United States. In the U.S. homebuilding business, investment has grown about 20% through M&A. We view the two pillars of the U.S. business as the homebuilding and master-planned community businesses on the one hand, and the multifamily business on the other, and we therefore aim to balance out investment across the two, as investment is currently leaning somewhat toward the multifamily business.

As for the pace of purchasing in the multifamily business, we will reduce the number of properties sold in the second half of the fiscal year to two, and given that we have plenty of properties in the pipeline, we will weigh purchases against the pipeline to maintain balance. In term of when to buy, we believe it will better to wait a little longer, and we seek to purchase properties at the appropriate time.

Question

Q.1 How long do you expect your current inventory of land to last in the U.S. homebuilding business? Also, could you tell us about the environment and conditions for land procurement?

Q.2 Does the skeleton and infill business have major social significance? How profitable will it be?

Answer

A.1 In terms of acquisitions, good offerings are currently available, and we are acquiring prime land. We think, given normal conditions, we have lots for about five years in the pipeline.

A.2 Currently, we think that the skeleton and infill business has the major social mission of increasing the strength of wooden-frame housing. In terms of revenue, of the houses priced at around ¥25 million supplied by our skeleton and infill business partners, about 30% is the foundations, framing, and other structural elements built by Sekisui House. We get a corresponding portion of the profit margin, so our profit in this business is currently rather lean. Going forward, profitability will increase as volume increases, so we expect this business to really contribute to profit from the period of the seventh mid-term management plan.

Question

Q.1 Looking at just the latter half of the fiscal year, it seems like the operating profit margin of the U.S. homebuilding business will be around 10%. Can we expect this to become the standard for the operating profit margin from coming fiscal year onward?

Q.2 Please tell us about the net balance of income and expenses in the domestic hotel business, both currently and going forward.

Answer

A.1 In the U.S. homebuilding business, the operating profit margin was quite strong in FY2022, at 12%. In contrast, our initial forecast for this year, factoring in goodwill, was about 5.4%, but this could improve by around 2 percentage points. From FY2024 onward, the total amount of goodwill will decrease, so we will do our utmost to bring the operating profit margin back up to 12% from then.

A.2 The significant amortization on recently opened hotels negatively affects income in the rental business, but recovery at luxury hotels is very fast, and we are seeing signs of improvement. Other than luxury, the recovery of the select type hotels and the *Michi-no-Eki* series has been slower, but picked up considerably since August, with the *Michi-no-Eki* hotel series as a whole turning a gross operating profit. If this continues, we expect the rental business to return to profitability in the latter half of the fiscal year.

In FY2024, outside of luxury hotels, the volume of inbound visitors from China will be an important factor.

Question

Q.1 You said that orders have been increasing in the U.S. homebuilding business; could you give us more detail about which areas and categories are stronger or weaker?

Q.2 In the real estate and brokerage business, how is the procurement environment for land in prime areas? Please tell us more about how you have been able to successfully procure such land.

Answer

A.1 In the U.S. homebuilding business, orders are about 30% higher than planned. Year on year, orders earlier in the year were around 100% of the previous year's level, but in more recent months have risen to nearly 300%. Orders from January to August were also up about 30% year on year. If orders remain around 400 houses per month, we expect the recent level of orders nearly 300% of the previous year's level, to continue.

By area, Texas and the Northwest have been strong, while recovery has lagged a little in the Southwest.

A.2 Of the 300,000 inquires we receive annually, about 150,000 are customers looking first for land. We have long been highly discerning in our selection of land for homebuilding, and our efforts to concentrate on certain areas in land acquisition serve as a strength.

We also prioritize the turnover ratio, and do not just blindly acquire land. Rather, I think the success of our cooperation with local real estate companies has significantly helped us effectively gather information.

Question

Q.1 Please tell us about the portfolio of the urban development business.

Q.2 Please tell us about the environment and conditions you look for in M&A in the U.S. homebuilding business.

Answer

A.1 Sekisui House develops a variety of rental housing, offices and other properties in four major metropolitan areas in Japan, and we are confident in the advantages of their locations.

After development, we manage these properties for a brief period, collecting rent revenue as we get them up and running stably, and then sell them, as this approach provides a greater profit. Accordingly, just before selling, we reclassify these properties from non-current assets to real estate for sale. We have many properties that are generating rent revenue, and we plan to sell them in good time.

A.2 In light of the importance of post-merger integration, in making M&A decisions, we consider companies' resonance with our approach to housing and the compatibility of their principles with ours in such areas as environmental awareness.

Question

Q.1 Please tell us about shareholder returns. Is there any possibility of an increase in the dividend payout ratio or other changes during the period of the Sixth Mid-Term Management Plan?

Answer

A.1 For the period of the Sixth Mid-Term Management Plan, our basic approach to shareholder returns is to maintain a dividend payout ratio of 40% or more, and, as investment progresses, to direct some of the additional returns to flexibly repurchasing Company stock, all the while being mindful of the balance of returns with investment plans. We will make announcements regarding stock buybacks at the start of each fiscal year.