Sekisui House, Ltd.

Transcript for Question and Answer Session of the Management Plan Briefing for the Second Quarter of FY2021

Date: Friday, September 10th , 2021, 13:30–15:00

Participants: Yoshihiro Nakai, Representative Director, President & Executive Officer, CEO
Yosuke Horiuchi, Representative Director, Vice Chairman & Executive Officer
Toru Ishii, Director, Senior Managing Officer
Atsushi Yoshida, Executive Officer, Chief Manager of Investor Relations Department

< Summary of Question and Answer Session >

Note: The following generally omits the details of financial results presented in the Consolidated Financial Statements Summary or timely disclosure materials.

Question

Q1. In the homebuilding business in United States (mainly Woodside Homes Company, LLC), do you aim to increase unit prices by, for example, offering zero energy houses (ZEH), and are you considering M&A or other measures to expand your areas of operation or scale?

Q2. What steps are you taking to increase profit in the Overseas Business in the coming fiscal year?

Answer

A1. In terms of M&A, under the fifth mid-term management plan, we have set a target for growth investment in such areas as new businesses and M&A, both in and outside Japan, and are examining a range of investment opportunities. In the United States, we would like to expand the area in which our homebuilding business operates, but finding companies that align with our philosophy and values is not easy. We are considering options in coordination with Woodside Homes, looking for partners that will share and support our sales strategies of focusing on mid- to high-end products and on products that offer living options, rather than just prioritizing cost.
As for ZEH, in the West Coast region, where consumers have a strong environmental awareness, we began sales of a new package in December 2020. Combining high-efficiency home appliances, high-performance thermal insulation, and solar panels, this package has been well received.

A2. In the master-planned community business, sales have been strong this year, and the number of lots available for sale is falling, so we are working to quickly develop more. We expect demand to remain robust and for sales to increase until the latter half of the coming fiscal year. Furthermore, purchasing by Woodside Homes has been going well. With an eye on supply chain crunches and rising costs, the company has been controlling supply, and we expect a buildup in the order backlog by the end of the current fiscal year, which will contribute to revenue in the next fiscal year.

Question

Q1. To secure more lots in the master-planned community business, are you purchasing new property, or improving land you already own? I think that the book value of land you already own is low. Is it fair to say that profit growth is behind the increasing emphasis on the master-planned community business?

Q2. Could you tell us about performance in the non-housing sections of the rental housing business and architectural/civil engineering business?

Answer

A1. We are improving land we already own, dividing it into parcels for sale. As sales progress, the value of the remaining land on the balance sheet decreases. The land from major acquisitions in 2012 and our other holdings include unimproved land. We are working to acquire development permits for such land as quickly as possible, seeking to accelerate development, parceling, and sales.

While profit on the land itself is rising, Woodside Homes is effectively securing profit on the buildings, as well.

A2. Our non-housing businesses are facing very challenging circumstances, as corporate customers' appetite for investment has declined due to the COVID-19 pandemic. However, we have seen some movement in small and mid-sized environmentally friendly offices built using our factory-produced materials, reflecting demand for head offices and other facilities from companies that are performing well during the pandemic.

In hotels, we are advancing construction on the *Michi-no-Eki* Stations Project as planned, following discussions with the relevant municipalities. Although conditions are challenging at present, the easing of restrictions on activity within Japan is under consideration, and surveys indicate that Japan is the top destination that international tourists want to visit after the pandemic, so we believe that demand from inbound tourists will most definitely return in the long term.

Question

Q1. My question is about the outlook for custom detached house orders in Japan. You mentioned that there has been a shift from wood-framed to steel-framed houses due to the passing on of rising costs. If unit prices continue to rise, do you expect demand to taper off?

Q2. In light of the upward revision to the dividend plan, what are your thoughts on balancing investment, your financial position, and shareholder returns?

Answer

A1. Following the sharp increases in lumber and steel prices in May, we began to pass along the rises in costs to customers in June. Material costs continued to rise in July and August, and we are gradually raising prices. From June onward, we had to absorb about ¥5.0 billion in lumber costs that could not be passed on. However, material prices have recently settled down, and we expect to be able to pass along costs for orders received going forward. As such, we anticipate eliminating such absorbed costs in the coming fiscal year.

Handling both wood-framed and steel-framed houses is a strength of ours. About 70% of orders received in August were for steel-framed houses, and 30% for wood-framed houses. There may have been a slight shift because price increases for steel-framed houses were smaller, but there is still a strong core of customers with a clear preference for wood-framed houses, as the 30% of orders for such houses that we secured shows. Going forward, we will maintain balance as we work to offer products that meet customer needs.

A2. Building on our efforts to establish a strong financial position over the past several years, we announced in the mid-term plan that we would aggressively invest in growth. This investment, mainly in real estate, has been moving forward smoothly, and we aim to maintain this pace as we implement our growth strategy. In terms of financial strategy, we will flexibly consider adapting our policy on shareholder returns as needed with an eye toward maintaining an overall balance encompassing the business portfolio and our financial condition, including the D/E ratio, in the coming fiscal year and under the sixth mid-term management plan.

We will firmly maintain a 40% dividend payout ratio. At the same time, we will proactively advance the plan for share repurchases to be announced at the start of the fiscal year, making adjustments in light of our financial status as appropriate.

Question

Q1. How is the housing industry considering reacting to the incentives for building long-lasting quality rental housing being considered by the government, mainly the Ministry of Land, Infrastructure, Transport and Tourism?

Q2. What led to the upward revision of the consolidated results forecast?

Answer

A1. The extremely low proportion of long-lasting quality housing among all rental housing built is a problem. This is partly because the significant burden on the building owners—including the stringent structural specifications required and obligation to provide inspection reports for 30 years—is not sufficiently offset by incentives. Industry actors are currently examining ideas for measures related to single-owner rental housing properties, such as our Sha Maison properties.

A2. At the beginning of the fiscal year, it was difficult to predict the impact of the state of emergency declaration, and we planned for ¥200.0 billion in operating income. However, our efforts to enhance our sales apparatus and capabilities and product proposals have positively impacted performance. Furthermore, as a result of offering proposals based on both technologies and lifestyle design, customers have been receptive to high added-value housing, and profitability improved more than expected. In light of this, we decided to upwardly revise the consolidated results forecast.

Question

Q1. As the end of government measures supporting the purchase of housing approaches, are you carrying out sales activities with an eye toward a last-minute demand surge? It seems like increases in the proportion of ZEH and the use of SMART-ECS are contributing to the rise in unit prices this year, but what factors will push up unit prices in the next fiscal year and beyond?

Q2. Could you tell us your thoughts regarding the increases in unit prices and sales volumes at Woodside Homes? What does the current order backlog look like?

Answer

A1. The magnitude of fluctuations in demand due to such factors affecting last-minute demand as the mortgage tax deduction and a potential subsequent falloff in demand has been shrinking. In addition, given that it is still unclear whether the 13-year deduction period will be merely reduced or eliminated entirely, I think the effect in terms of driving a demand rush is rather small.

In terms of unit price increases, we are advancing R&D aimed at introducing SMART-ECS, which has been a hit for custom detached houses, in the rental housing and remodeling businesses. I think this could be a powerful new tool for us. For PLATFORM HOUSE touch, which we launched in September, we are aiming for a 25% adoption rate for the time being, but we expect to further increase this rate in the coming fiscal year, which will contribute to higher unit prices.

A2. We are now offering the lifestyle features we have developed in Japan as options through Woodside Homes. This has been very successful, helping to enhance both customer satisfaction and profitability.

At the end of the second quarter, the order backlog stood at ¥88.6 billion (1,565 houses). This is up from the previous fiscal year, and we believe that we will be able to meet the revised plan for the homebuilding business.

Question

Q1. How would you evaluate progress in Japan and overseas on investment in real estate under the mid-term management plan?

Answer

A1. The end of the second quarter marked the halfway point of the three-year plan. We have made good progress toward securing a pipeline of assets in Japan, including land for detached houses. Overseas, land acquisition is proceeding smoothly, mainly through Woodside Homes, and construction investment in the multifamily business is progressing as planned. Investment is thus on track both in Japan and overseas. In the United States, as lockdowns have been lifted, people are returning to urban centers, generating robust demand for rental housing. We aim to quickly begin construction so that we can leverage this demand into strong sales.