HASEKO

Financial results briefing for analysts and institutional investors for the fiscal year ended March 31, 2023 Message from the President and Main Q&A (Summary)

Date: May 16, 2023 (Tue) 10:00-11:00

1. Opening remarks from President Ikegami

Thank you very much for joining us today at our financial results briefing for the fiscal year ending March 31, 2023. We are now in the fourth year of our ongoing five-year mid-term management plan.
Looking back over the past three years, while the first year was affected by the COVID-19, we were able to recover our performance in the second and third years, the last two years thanks to the efforts of all executives and employees.
In Japan, the economy is also slowly picking up and further recovery is expected with the lifting of restrictions on COVID-19 and the government's support measures for coexisting with the COVID-19. Meanwhile, in the condominium market, the number of units supplied decreased in both Tokyo and Kansai, but the initial-month sales rate, which is a rough indicator of favorable or unfavorable sales, exceeded 70%. However, both the unit price and average price per unit sold continue to rise, and we believe that we need to continue to monitor global price hikes, rising interest rates, and financial instability, especially in the US economy.
The results for the previous fiscal year ended March 31, 2023, showed net sales of JPY1,027.3 billion, mainly due to strong real estate transactions. This is the first time that our sales have exceeded JPY1 trillion. Consolidated ordinary income was JPY88.3 billion, exceeding the full-year forecast of JPY85 billion. In particular, the for-sale condominium business, which is a key strategy in our mid-term management plan, made a significant contribution to our business performance. We feel that our investment in this business has entered a period of fruitful growth. Orders received totaled JPY481.3 billion, achieving the full-year forecast of JPY480 billion, as planned.
Regarding the consolidated earnings forecast for the current fiscal year ending March 31, 2024, although net sales are expected to increase to JPY1,080 billion due to an increase in completed construction projects and real estate deliveries, ordinary income is expected to decrease by JPY83 billion due to soaring material prices and increasing in labor costs.
On a non-consolidated basis, we expect orders to reach JPY500 billion for the first time since the fiscal year ended March 2017, up from JPY480 billion in the previous fiscal year, amid a firm order environment. In particular, orders received by bringing in land, which is one of our strengths, are increasing.
In the fiscal year ending March 31, 2025, the final year of our mid-term management plan, we aim to increase profits both by increasing construction sales and improving construction profit margins. Adding JPY30 billion in ordinary income from subsidiaries on it, we would like to achieve the target of JPY100 billion in consolidated ordinary income.
Lastly, with only two years remaining in our mid-term management plan, we will continue our efforts to

secure profits, and we will also take firm measures to return profits to shareholders in line with our policy of a total return ratio of approximately 40% over the five-year period.
We look forward to your continued support.

2．Q&A Session

Q． **What are the improvement factors of the gross profit margin of construction contracts for the next fiscal year?**

A． Due to an increase in the ratio of orders received by bringing in land, this is a very good factor for securing gross profit margins of construction contracts. And the average profit margin on construction starts of orders received in the last fiscal year is now close to 15%, so we expect the gross profit margin of construction contracts to recover in the next fiscal year.

Q． **What is the competitive environment for acquiring land for condominiums? What is the developer's business motivation?**

A． We hardly see any competition from hotel developers compared to before the COVID-19 pandemic. The demand for hotels seems to be recovering, but I don't think it is yet noticeable that lands are being acquired. It seems to be slightly slowing down in suburban logistics sites, which have been competing with each other for some time. Developers' business ambitions are as strong as ever. Because the major developers are paying attention to the central area, the ratio of developers whose parent companies' run railway businesses is increasing in suburban area.
The major developers are not active in acquiring land in the suburbs, so opportunities for HASEKO to acquire land and bring it to developers other than the major developers are increasing.

Q． **What has changed in the condominium market before and after Corona?**

A． Due to the impact of the COVID-19, demand shifted from urban areas to the suburbs in search of larger housing units in order to obtain a nice environment for remote work. So far, there is no indication that sales in suburban areas have become sluggish though the COVID-19 pandemic has been controlled. Sales of condominiums in urban areas are very strong, and as a result, properties in the suburbs are becoming more attractive due to the price difference compared to urban areas. The reason for the strong sales is the current environment that makes it easy to buy, due to low-interest rates and tax incentives, so unless the interest rates change significantly, we expect the same trend to continue.

Q. Why can HASEKO acquire lands more than other companies?

A. In the case of the closure of a commercial store or department store, we believe that we have an advantage over other companies in that we are able to acquire the land and undertake the construction when we construct a scheme of rebuilding after continuing the business through leaseback. The bulk including local region real estate has been hard to acquire in the past, but thanks to the knowledge we have gained through our local business, which we have been developing for several years, so HASEKO has become able to acquire bulk projects. We acquired some real estates at the end of March. I think that HASEKO has acquired some new competitiveness.

Q. How is HASEKO working on the labor shortage and the increase in labor costs?

A. Regarding the labor shortage, we are working hard to increase productivity by 20% at construction sites. The results of these efforts have been gradually emerging, I personally think that productivity has improved by about 7-10%. Regarding labor costs, there are redevelopment projects in the Tokyo metropolitan area and large semiconductor factories that are being built in rural areas, and they have certainly led to a serious labor shortage. HASEKO is also raising wages in order to respond to the increase in the amount of work in the future. In order to respond to the 2024 issue, we will need to increase investments in DX and facilities in productivity-enhancing, etc.

Q. What are the benefits for HASEKO from the relaxation of requirements for rebuilding condominiums?

A. Even if the requirements for rebuilding condominiums are eased, it will be humanely difficult to force those who are opposed to the project to leave the building. Therefore, I do not see it as simply a positive factor for our company. However, I have a feeling that the project period for rebuilding is getting shorter than before.

Q. What is the reason to forecast for the increase in the gross profit of real estate sale in the fiscal year ending March 2024?

A. The most significant factor is the fact that some properties will be sold to our private REIT and funds. The for-sale condominium business is also expanding, and we expect that we will be able to create a revenue base for generating the gross profit of real estate sale of approximately JPY50 billion every fiscal year.

Q. Investments in real estate are increasing. How are you looking at the risk of real estate?

A. Real estate is classified by use and managed in capital allocation considering the rate of past price declines. We have expanded our equity capital in a way that is commensurate with the expansion of real estate. However, as has been said recently, we understand that there is also the issue of how to improve capital efficiency in the future. We have been rapidly expanding our investment in real estate, but in the next mid-term management plan we will consider how far we can extend the investment of real estate while considering not only the safety but also the efficiency of the issue.

Q． **Please let me know the progress of the JPY40 billion investment plan for "New businesses, M&A, etc." in the mid-term business plan.**

A． At this stage, we have not made any specific investments for new businesses or M&A.

Q． **Please let me know the mid-term level of ROE.**

A． ROE has reached the 13% level and ROE will decline slightly in the short term due to further investments. If we properly execute our goal of JPY100 billion in the fiscal year ending March 31, 2025, and JPY150 billion in the fiscal year ending March 31, 2030, we can theoretically maintain ROE in the 13% range. In the next mid-term business plan, we will formulate the investment framework and profit plan while keeping ROE in mind.

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