Financial Results Online Conference for analysts and institutional investors for the first quarter ended March 31, 2024 Main Q&A (Summary)

Date: August 9, 2023 (Wed) 17:00-18:00

Q. Non-consolidated construction contract sales in Q1 seem to be progressing favorably compared to previous years. Is there a possibility that the full year will exceed the FY2023 annual forecast?

A. Compared to the previous fiscal year, the progress is steady, and we think there is a possibility that there will be a slight increase from the FY2023 annual forecast.

Q. How is the accumulation of the pipeline of orders? Do you think the orders received next fiscal year will exceed the FY2023 annual forecast?

A. We are making good progress compared to the previous 1Q. However, the situation may change suddenly, so we are working to accumulate the pipeline of orders as early as possible.

Q. Why can you accumulate the pipeline of orders favorably?

A. There are both factors: we are steadily receiving "Exclusive contracts" through bringing in land, and we are getting "Exclusive contracts" for large-scale projects other than bringing in land.

Q. Is the volume of construction work still expected to increase this fiscal year and next fiscal year?

A. Orders received have been steadily accumulating this fiscal year and the volume of construction work is expected to increase further next fiscal year.

Q. The profit margin on completed construction contracts in 1Q was 15.2%, which is lower than the FY2023 annual forecast. Can you recover the profit margin from the bottom in 1Q?

A. The decline in the profit margin on completed construction in 1Q was due to progress in the construction work of low construction profitability upon receiving orders, as well as higher labor costs due to tighter-than-expected labor conditions. We do not think that the profit margin will continue to be lower than the FY2023 annual forecast, and at this stage, we believe that there is no need to change the profit margin forecast for the FY2023 annual forecast.

Q. What is the specific background behind the tight labor situation? In your company, which maintains a good relationship with your cooperating companies, what is the reason that labor costs have risen more than expected?

A. We are working to secure a labor force to keep the construction period, especially because building frame workers such as formwork and rebar are short. In addition, due to the increase in orders received, the amount of work under construction and the number of sites are increasing. "Ken-ei-kai", an organization of cooperating companies alone has exceeded its capacity, and while we are also looking for new companies, we must add labor costs to secure the workforce. As a result, labor costs have risen slightly, but we have been able to secure most of the labor required for this fiscal year, and we will strive to save costs while improving efficiency in other areas in the future. In addition, we expect labor costs to rise overall in the future, so we will have to take orders received on that basis.

Q. Has not the construction profitability upon receiving orders improved expectedly due to rising labor costs, or is the outlook that the worst is over?

A. Construction profitability upon receiving orders has not changed much from the previous fiscal year. Excluding special projects, we have managed to maintain 15%.

Q. What is your outlook for the profit margin on construction contracts in the next fiscal year?

A. Construction profitability upon receiving orders in the 1Q in FY2023 fell below 15% due to the impact of special large-scale projects with low gross margins, but we have secured around 15% for plate-type condominiums, which we are good at. Since labor costs have risen more than expected, we will carefully explain the situation to each business owner to increase the price of order. The profit margin on construction contracts for the next fiscal year will depend on the orders received in the first half of this fiscal year, but we have not changed our outlook that the profit margin on construction contracts will be at the bottom this fiscal year and slightly improve in the next fiscal year.

Q. Shouldn't we expect too much profit margin on construction contracts in the future?

A. We don't want you to be too optimistic, but we are negotiating carefully one by one, aiming for a profit ratio of 15% or more upon receiving orders.

Q. The contract progress rate against the number of annual expected units is 59.4%, which is slightly lower than the previous term and the term before last. Is there a possibility that the number of condominium units sold this fiscal year will fall below the FY2023 annual forecast of 1,700 units? (Summary of Financial Statements P8)

A. The number of visitors and the number of contracts, including local projects, have not decreased, and we do not feel any major negative factors so far.

Q. Is there a possibility that the number of units for For-sale Condominium Sales will exceed the FY2023 annual forecast?

A. We currently expect that the number of units for For-sale Condominium Sales will be as forecasted.

Q. The number of For-sale Condominium units you plan to sell has increased from the previous fiscal year. What is the sales pace going forward? (Summary of Financial Statements P8)

A. We have a total sales plan for about 9,300 units now, and we plan to sell about 1,700 units in the next fiscal year, which is the same level as this fiscal year, and further increase the number of units sold after that.

Q. Looking at the breakdown of real estate balance by use, “Land for orders” decreased by 43.1 billion yen in the first quarter, but will it trend upward from the second quarter? Please tell us about the image of the balance at the end of FY2023 and the real estate transaction environment, including “Other real estate for sale”. (Summary of Financial Statements P11)

A. “Land for orders” increased due to an acquisition of large-scale bulk projects at the end of the previous fiscal year, but it decreased because we were able to sell it in a short period of time. The amount of real estate information is currently slowing down slightly, but we expect that it will increase in the second half of the fiscal year, as in the previous fiscal year. In addition, we will continue to expand the scale of “For-sale Condominiums business” and “Other real estate for sale” to some extent.

Q. Why was consolidated ordinary income 7 billion yen less than non-consolidated ordinary income?

A. The main reason is that dividends received from subsidiaries on a non-consolidated basis are offset on a consolidated basis.

Q. With the shareholder’s equity ratio exceeding 40%, does it seem that you have the capacity to return a little more to shareholders?

A. As we have said before, we will maintain our current shareholder return policy during the period of the current medium-term business plan.

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