



# **Financial results briefing for analysts and institutional investors** **for the fiscal year ended March 31, 2024** **Message from the President and Main Q&A (Summary)**

Date: May 15, 2024 (Wed) 11:00-12:00

## **1. Opening remarks from President Ikegami**

In terms of the business environment surrounding our company during the past year, domestic construction demand was extremely strong because there were semiconductor plants and large-scale redevelopment projects, etc., and all construction companies have had a very difficult year in securing labor. Next, despite condominium sales prices rising, the condominium market was steady as variable mortgage rates remained low and the economy maintained a gradual but steady recovery trend. Going forward, while there are expectations that higher wages will increase the willingness to purchase, sales prices are still expected to continue to rise, as there are no factors that are likely to cause them to decline, such as the persistently high cost of land and rising construction costs. We feel that we need to pay attention to interest rate trends and changes in consumer sentiment.

For the fiscal year ended March 31, 2024, net sales were JPY1,099.4 billion, and the ordinary income of JPY83.3 billion slightly exceeded our forecast. Although the gross profit margin for construction work declined more than expected due to rising prices, this decrease was covered by group companies. On the other hand, the non-consolidated order received reached a record high of ¥5.369 trillion in a robust order environment.

For the fiscal year ending March 31, 2025, we expect net sales to increase to JPY1,180 billion due to an increase in real estate sales. However, due to a decrease in the gross profit margin for construction work and an increase in personnel expenses, we expect ordinary income to decline for the second consecutive fiscal year to JPY80 billion this fiscal year. However, for the current fiscal year, we expect orders, a leading indicator, to reach a record high for the second consecutive fiscal year at JPY580 billion.

This fiscal year is the final year of the current medium-term business plan. In response to the so-called 2024 problem in the construction industry, we have responded by reforming work styles, promoting industrialization, and improving efficiency through DX. With an abundance of pipelines secured for orders, we will not stop this progress and will build a production system that includes subcontractors in order to maintain quality and safety. In the real estate-related business, which has been performing well, pipelines have generally been secured for the next several years. We have always been conscious of efficiency in our business, but we will aim to further increase profitability and turnover in the future. We have many positive factors such as abundant pipelines in construction and real estate, and the growth of service-related business, so we would like to achieve our performance target of JPY80 billion in consolidated ordinary income for the current fiscal year and use this period to lay the foundation for the next mid-term business plan.

We have presented our current thinking on management with an awareness of the cost of capital and stock price in our financial results presentation material. We are currently in internal discussions for the

formulation of a new medium-term business plan that will start next April, and I strongly feel that we need to strive for management with even greater awareness of capital efficiency in the future. We would like to be aware not only of profit growth but also of the appropriate level of equity capital and the efficient state of our balance sheet.

We believe that strengthening shareholder returns is an important management policy, and we have increased our annual dividend forecast from JPY80 to JPY85 per share, 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. How will the completed construction profit margin improve in the future?**

A. First, We were unable to pass on the higher-than-expected rise in material and labor costs under construction. Furthermore, projects received in the past with difficult profitability and long construction periods progressed. They were the reasons for the decrease in the gross profit margin of completed construction. This is expected to affect the first half of the next fiscal year. On the other hand, as the construction profitability upon receiving orders of the previous fiscal year improved to about 15%, we expect that the gross profit margin of completed construction will recover in the second half of the next fiscal year.

**Q. What is your outlook on orders? Is it possible to receive JPY600 billion or more in orders in the future?**

A. We think that we will be able to receive approximately JPY600 billion in orders yearly in the future because the domestic construction demand is extremely strong and other construction companies are very busy. We are trying to establish a construction system so that we can receive orders of JPY600 billion yearly by the fiscal year ending March 31, 2025.

**Q. It seems that while sales of high-priced condominiums in the central area are strong, sales of condominiums in the suburbs are relatively weak. I think that your company specializes in the popular price range condos. Do you have a plan to address high-priced condominiums in the central area?**

A. It is true that high-value projects in central Tokyo are selling well, as well as many power couples purchase wider condos which prices are from JPY70 million to JPY80 million in suburbs. We don't feel that the suburbs condo sales are slowing down. There are still a lot of developers which are positive to the large projects in suburbs, so we don't think that orders will decrease rapidly and the demands will fall sharply. So basically, as we have been doing, we are going to focus on large-scale suburban-type projects.

**Q. How do you see labor costs increasing in the future?**

A. We expect labor costs to continue to rise. General contractors are fighting each other to secure labor to solve that labor shortage. The volume of our construction work is also increasing and the cost of securing new subcontractors is going up. But since we specialize in condominium construction, we utilize our strength that can build our efficient construction system and we reduce construction costs.

**Q. In the past, there have been labor shortages and rapid inflation. When was the similarity to the current situation and what eventually happened afterwards?**

A. I have never experienced such labor shortages since 1980. However, I believe that one of the factors that we can increase construction orders in the situation of the current labor shortages is the result that we have been utilizing a variety of technologies and improving our productivity.

**Q. What do you think about the real estate business and overseas business in the future?**

A. Regarding the investment in domestic real estate, although each developer is now becoming quite cautious, we will also respond flexibly to the situation while keeping an eye on the future market. Since we have reached a certain scale, we believe that additional investment will only take about one year. We will continue to strictly manage real estate turnover rates and profit margins. Regarding the investment in overseas business, we are going to continue to invest in it to the goal that we can build the system to be able to gain JPY10 billion in ordinary income every fiscal year.

**Q. What is the status of investment in new businesses and M&A?**

A. We have invested in the start-up company that is operating land-based salmon farming. Other than that, we haven't made any other major investments. We are discussing various new businesses and M&A within the Company and would like to present them in the new medium-term business plan for the next fiscal year and beyond.

**Q. What is the reason for the decision to increase dividends this time and what are your thoughts on future dividends?**

A. In this current medium-term plan, the policy of the total return ratio is about 40%. We forecast that the total ordinary income for these five fiscal years would exceed JPY400 billion. Based on this approach, we have decided to increase dividends. Regarding the policy of next year and beyond, we are considering it with the next new medium-term business plan.

**Q. What kind of changes about the environment surrounding HASEKO will take place in about five years from now compared to now?**

A. We pay attention to the advancement of generative AI. At Sustaina Blanche Hongyotoku, we have installed a variety of ICT technologies in the experimental dwellings, and we are taking the data and using it for daily life. I have a feeling that around 2030, Generative AI will make our life better. I hope that will happen.

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