



Medium-Term Business Plan Briefing for Analysts and Institutional Investors Executive Greetings and Main Q&A (Summary)

Date and Time : February 21, 2025 16:00 - 17:00 (Tokyo Time)

1. President Ikegami's Greeting

As of April 1, 2025, I will assume the position of Vice Chairman and Executive Officer, and Mr. Kumano, the Senior Managing Director, will become the President and Representative Director. From April onwards, I will focus on improving our technological capabilities as the overseer of technology for the entire group.

With the end of this fiscal year, our current medium-term business plan will conclude. Looking back at it, although our performance declined in the first year due to the impact of the COVID-19 pandemic, HASEKO has steadily recovered from the following year. HASEKO is now on track to achieve our numerical target of a cumulative consolidated ordinary profit of 400 billion yen over five years. Over these five years, there have been various challenges, but I feel that the most significant achievement has been improving employee treatment along with our performance.

By segment, in the construction-related business, we have seen a steady increase in orders. By promoting DX and industrialized construction methods, we have achieved approximately a 17% improvement in productivity over the past five years. Additionally, we have accumulated achievements in projects other than large-scale board-shaped condominiums which we specialize, such as tower condominiums, logistics warehouses, and data centers.

In the real estate-related business, mainly due to the favorable sales of condominiums, we have significantly expanded our ordinary profit. In the service-related business, the increase in management fees has contributed to a steady expansion of profits. In the current medium-term business plan, we set a numerical target of 30 billion yen in ordinary profit for our subsidiaries this fiscal year, which we are expected to exceed significantly.

On the other hand, in the overseas business, in the third quarter of this fiscal year, we recorded an impairment loss on the artificial surfing facility opened in 2023 as part of the "Ewa Project" in Hawaii, USA, which began in the 1980s. We also recorded a provision for litigation costs related to this project. In the next medium-term business plan, we will focus on reducing the operating deficit of this facility as much as possible, selling the remaining commercial and hotel areas, and developing resort housing to complete the project. Additionally, investments in rental apartment development on the mainland USA are progressing smoothly, and we aim to generate solid profits from these projects during the next planning period.

From the next fiscal year onwards, all officers and employees of the Haseko Group will strive to achieve the goals of the new medium-term business plan aimed at further evolution and advancement of the group. We appreciate your continued support.

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2. Executive Operating Officer, Kumano's Greeting

Recently, I felt that the speed of changes in our surrounding environment is extremely fast. For example, there are issues such as the decline in the domestic population, the progression of aging, the intensification of disasters, and the evolution of technology. Companies must adapt flexibly to these changes. At the same time, we need to further refine and pass on the strengths we have cultivated so far. Taking these two themes of "transformation" and "succession" as our propositions, we combined them to create the word "evolution," and named this management plan "HASEKO Evolution Plan."

The Haseko Group has so far been advocating as a "group of companies creating homes and lifestyles." We aim to take a step further by concretely defining what kind of homes and lifestyles we will provide and where we will provide them. We aim to offer safe and secure homes that are environmentally friendly and rich, comfortable lifestyles both domestically and internationally, and we plan to make further progress in the next management plan.

Additionally, we have previously referred to our dual-wheel system of construction-related business and service-related business. We will further subdivide this into three wheels: construction-related business, real estate-related business, and condominium management and operation business. By having each of these wheels compete and collaborate with each other, new businesses will emerge, and the field will expand. The field will expand from the three major metropolitan areas to major regional cities in Japan and then overseas.

Furthermore, as my new mission, I will focus on capital efficiency. I aim to manage with an awareness of how to enhance productivity and efficiently utilize the management resources of people, goods, money, and information.

This medium-term business plan is set for a total of six years, with the first three years and the latter three years. While keeping an eye on the goals six years from now, we aim to achieve the numerical targets for the intermediate three years and build a solid foundation. We will continue to evolve further and strive as a group so that all stakeholders can say, "Haseko is good!"

3. Main Q&A (Summary)

Q : How do you view the current environment surrounding the construction industry?

A : Although we are in the construction industry, our business is based in the real estate market. Construction demand is strong, which is a tailwind for construction companies. However, looking at the real estate market, including housing, the outlook is not optimistic. While demand for condominiums remains solid, sales prices have become quite high for first-time buyers. We would like to manage the situation carefully by complementing it with ventures in the construction fields other than housing and fields other than construction. Additionally, the construction industry faces issues such as labor shortages and aging. With the increase in foreign workers, there are heightened risks in terms of safety and quality. We will improve construction methods on-site and advance education so that even inexperienced foreign workers can safely produce high-quality work.

Q : Can you explain the approach and thinking behind the targets of 100 billion yen in consolidated ordinary profit for the fiscal year ending March 2028 and 130 billion yen for the fiscal year ending March 2031? Compared to when you achieved record profits in the past, factors such as a decline in construction profit margins and an increase in SG&A expenses are expected to have a negative impact. On the other hand, an increase in completed construction volume, the real estate business, and other subsidiary businesses are expected to contribute positively. Is it possible to achieve 100 billion yen with these positive factors, and what needs to be expanded to aim for even higher targets?

A : To achieve the target of 100 billion yen in consolidated ordinary profit for the fiscal year ending March 2028, although the current state of construction profit margins is challenging, we expect a recovery in profit margins in the future. Considering the current status of construction orders, we believe the target of 100 billion yen is achievable. For the target of 130 billion yen in consolidated ordinary profit for the fiscal year ending March 2031, we anticipate not only an improvement in construction profit margins but also an increase in construction volume. Additionally, we expect growth in the used brokerage business and repair business, driven by the growth of the used market, as well as growth in the detached housing business. By adding revenue from overseas businesses to these factors, we aim to achieve 130 billion yen.

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Q : In the current medium-term business plan, you have focused on expanding the construction area to include rental apartments and non-residential buildings. How do you plan to expand these areas in the new medium-term business plan?

A : In the current medium-term business plan, we have accumulated achievements in tower condominiums and non-residential projects such as data centers and logistics warehouses. Currently, with a very favorable order environment, our construction capacity is fully utilized with our specialty in condominium construction. Since condominium construction is profitable, we are currently focusing on new condominiums. However, to compensate for any potential decline in new condominium demand in the future, we will continue to build up our achievements and know-how in non-residential projects each term. Additionally, we will also strive to increase our construction capacity.

Q : Do you have plans to expand the business area of the construction business?

A : At present, we do not have plans to expand the new construction business to regional cities. Even if there is consistent demand for condominiums, it would take years to provide high-quality products with cost competitiveness, and we believe it would not be profitable even in cities like Fukuoka or Sapporo. However, for the renovation business, as the stock of condominiums continues to accumulate, we believe there is potential for growth with some ingenuity, and we would like to challenge this in regional cities as well.

Q : How much has DX investment contributed to the 17% improvement in productivity at construction sites?

A : The improvement in productivity at construction sites is not only due to DX but also significantly due to the expanded adoption of industrialized construction methods.

Q : In the new medium-term business plan, the total payout ratio has been increased from 40% to 50%. However, I am wondering if the remaining 50% will be entirely used for investments. Investments are planned in "construction-related areas and R&D" as well as "new businesses and M&A," but with the condominium market not growing significantly, what are the specific plans for these investments?

A : Regarding the 400 billion yen investment plan in the new medium-term business plan, investments in "construction-related areas and R&D" and "new businesses and M&A" are based on the idea of making such investments to achieve growth, even though specific projects are not yet determined. For example, in "construction-related areas and R&D," we will consider investments in lumber-related areas and precast concrete factories if profitability can be expected outside the metropolitan area. Additionally, we plan to actively promote the utilization of external management resources through investments in "new businesses and M&A," with a significant amount of 100 billion yen planned.

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Q : In the current medium-term business plan, an investment of 40 billion yen was planned for "new businesses and M&A," but the actual result was 10 billion yen. What were the reasons for this? Additionally, in the new plan, an investment of 100 billion yen is planned. What fields are being considered?

A : In the current medium-term business plan, the reason for the lower M&A investment was the lack of good opportunities. For new businesses, investments were made in areas such as land-based salmon farming. In the new plan, the focus for "new businesses and M&A" will likely be on M&A to establish a foundation for directly operating businesses in the three segments of "construction, real estate development, and management operations" in overseas markets. For domestic construction-related businesses, we will continue to consider M&A, including civil engineering companies.

Q : What does the "completion" of the Ewa Project in Hawaii mean? Will the commercial facilities remain in operation, or will everything be sold, and the business be completely shut down?

A : The Ewa Project in Hawaii is about 80% complete, with hotel land, resort land, and commercial land remaining. We have invested in and are operating commercial facilities to create vibrancy in the area and attract investment, but they are currently not profitable. We aim to reduce the deficit and eventually turn a profit in the commercial facility operations. We consider the project "complete" when we can use this facility as a stepping stone to develop hotels, commercial areas, and resorts into viable businesses. The operation of the commercial facilities may remain until the end, but we aim to bring the revenue to a break-even point.

Q : Can you explain the rationale behind setting a target of approximately 13% ROE for the fiscal year ending March 2031?

A : Before the fiscal year ending March 2020, we achieved an ROE of over 13%. After significantly impairing our capital in the past, we rebuilt our business focusing on non-asset businesses, accumulating revenue without much capital, which led to very high ROE periods. To restore the lost capital to its original level, we prioritized capital accumulation, which gradually lowered our ROE, but we maintained a higher ROE compared to other companies. Currently, we believe we have accumulated sufficient capital and achieved a certain level of financial soundness. However, in recent years, we have struggled to cope with the rapid rise in construction costs, leading to stagnant revenue growth. Last year's ROE was in the 11% range, and this year's forecast is 5.8%. Even without the impairment loss in Hawaii, it would be challenging to reach 10%. With the improvement in profitability at the time of order receipt, we believe we can exceed 10% next fiscal year. Our goal is to continue improving profitability, achieve 130 billion yen in ordinary profit while maintaining a 50% return, and restore our ROE to the normal level of 13%.

End

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