Q&A at Earnings Conference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2024 3Q
(For the fiscal year from April 1, 2024 to December 31, 2024)

Date & time: From 4:00 p.m. to 5:00 p.m., Thursday, February 13, 2025
Presenters: Takeshi Kosokabe, Executive Vice President, CFO
Yuji Yamada, Managing Executive Officer
Saori Seki, General Manager, IR Department

【Q1】
Third quarter results are favorable, with certain segments trending above full-year targets. With this in mind, for what reason did you decide to not revise full-year targets?
(Reference) Financial Highlights P.4 “Topics”

【A】
-Third quarter results are trending favorably to the point of surpassing initial assumptions, and there are expectations that results will exceed full-year targets. However, certain projects are not progressing as planned, so we decided to forego any upward revision at this time.

【Q2】
US single-family houses orders received for the three-month period between October and December 2024 increased by 45% year on year. What factors led to such a significant increase? Also, please indicate your outlook for profitability.
(Reference) Financial Highlights P.25 “Single-Family Houses Business”

【A】
-We view this as the manifestation of our efforts to secure orders received. Amid consumers adopting in a wait-and-see approach due to the US presidential elections, we effectively utilized incentives involving partial reductions to home loan interest rates and while also working to secure a solid pipeline through aggressive M&A and land procurement. Also, the previous year (October to December 2023) saw a significant rise in interest rates, which impacted our ability to secure orders received.
-As for profitability, we are seeing the benefits of cost reductions through shorter turnaround and expect profitability will continue on an improvement trend.

【Q3】

Looking at construction and built-for-sale in the Logistics, Business & Corporate Facilities Business, the gross margin ratio for the third quarter was 13.6%, a year-on-year improvement of 1.5pt. Please indicate the factors behind this improvement and your outlook for achieving the full-year target of 14.3%. Also, net sales decreased by 35.5 billion yen. Can you indicate the factors that led to this decrease in sales and explain your approach to profitability?

(Reference) Financial Highlights P.33-P34 “Logistics, Business & Corporate Facilities Business”

【A】

-We think we can achieve our full-year target of 14.3% as we are projecting gross margin ratio to improve in the fourth quarter, particularly for Fujita.

-We view the sales decline for construction and built-for-sale to be the result of engaging in sales activities focused on profitability. We will continue to focus on profitability as we work to increase orders received.

【Q4】

Looking at the sale of development properties, can you indicate the reason you already surpassed full-year targets in the Logistics, Business & Corporate Facilities Business? Also, please discuss the possibility of the sale of development properties overall exceeding plans and your outlook for next fiscal year and beyond.

(Reference) Financial Highlights P.18 “Sale of Development Properties: Results and Forecasts”

【A】

-The sale of development properties in the Logistics, Business & Corporate Facilities Business surpassed full-year targets due to a firm real estate transaction market, which enable us to replace properties for sale and also drove sale prices upward for multiple properties.

-The Logistics, Business & Corporate Facilities Business has already surpassed full-year targets for the sale of development properties and we have already completed the sale of a multi-family project in the US (to be recorded with fourth quarter sales) that was a part of our full-year plans for the Rental Housing Business. As such, we project the overall sale of development properties will also exceed full-year targets.

-We will evaluate next fiscal year’s target for the sale of development properties based on improvement in the gross margin ratio for construction and built-for-sale as well as the overall condition of the Company.

【Q5】

Looking at rental management in the Rental Housing Business, occupancy rates were up by 0.2pt year on year and the gross margin ratio is trending above the 15.0% outlined in targets. Please indicate your outlook for full-year targets.

(Reference) Financial Highlights P.26-P28 “Rental Housing Business”

【A】

-With rental management in the Rental Housing Business, we focus in maintaining occupancy rates while aggressively promoting revisions to rent rates. Progress for both net sales and the gross margin ratio are favorable. For newly constructed properties, we are incorporating added value to secure occupancy while setting appropriate rent rates. As such, we think the business is sufficiently capable of achieving targets.

【Q6】

Please discuss the background behind the enhancements to the shareholder benefits program.

(Reference) “Notice Concerning Enhancements to Shareholder Benefit Program” released on February 13, 2025

【A】

-Our shareholder benefits program is a scheme that allows shareholders to use Group facilities and services. This decision was based on the thinking that expanding use will also contribute to business. Our aim is to increase the number of individual shareholders and create potential future customers.

【Q7】

Please discuss the state of your evaluations for the accelerated formulation of the next Medium-Term Management Plan. Also, please indicate your outlook for achieving an ROE of 13.0%, one of the goals of the current Medium-Term Management Plan.

【A】

-We continue to have internal discussions concerning accelerating the formulation of the next Medium-Term Management Plan. However, we view the achievement of the financial goals outlined for the FY2026, the final year of the current Medium-Term Management Plan, as a prerequisite. We think that surpassing operating income of 500 billion yen is the first step towards achieving an ROE of 13.0%. We conducted treasury stock repurchases of 87.0 billion yen last fiscal year, and have conducted 100.0 billion yen this fiscal year. We will continue to consider reductions in equity.

-As for capital allocation in the next Medium-Term Management Plan, we will also consider conducting additional growth investments.

【Q8】

Currently, additional tariffs between the US and Canada are being considered. Are you concerned about the impact on US business?

【A】

-At present, we have not received any reports from local sources indicating an impact on material procurement prices or deliveries but we will continue to monitor trends.

【Q9】

Please discuss the background behind the appointment of a new president. Also, please indicate what type of role new president Mr. Otomo will fulfill moving forward.
(Reference) “Notice Concerning Change of Representative Directors” released on February 13, 2025

【A】

-In light of progress on performance goals for the current Medium-Term Management Plan, the Company pursued the early creation of a management structure ahead of the next Medium-Term Management Plan.
-As COO, Mr. Otomo will focus on execution of operations for domestic business. As CEO, Mr. Yoshii will oversee overseas operations and lead overall Group management.

【Q10】

Gross margin ratio for construction and built-for-sale in the Commercial Facilities Business improved during the third quarter but the breadth of improvement is small compared to the Logistics, Business & Corporate Facilities Business. Please indicate the factors behind this. Also, please indicate if there are any asset types for which you expect to see growth in orders received moving forward.
(Reference) Financial Highlights P.31 “Commercial Facilities Business”

【A】

-In the Commercial Facilities Business, it is difficult to revise tenant rents to reflect rising costs. This is one of the reasons why the scope of improvement is small compared to the Logistics, Business & Corporate Facilities Business.

-Inquiries concerning hotels are increasing, including apartment hotels in urban areas and luxury hotels in rural areas, so we have expectations for these sectors.

End