Open House Group Co., Ltd.
Financial Results for the Second Quarter of the Fiscal Year Ending in September 2024
Conference Call and Financial Briefing Summary

- The sales contracts for single-family homes have bottomed out, showing signs of recovery (an increase of 15.6% compared to the same period last year, excluding Meldia, a 4.2% increase). The strength of our in-house sales capabilities, coupled with inventory disposal ahead of other companies, has proven successful.
- Large-scale provisions for conservative allocation of property resale (-4.9 billion yen), a one-time impairment loss.
- Despite the weakening yen, the flow of investment in U.S. real estate remains robust.
- Pressance Corporation also exceeded its first-half plan.
- Steady execution of Meldia's PMI, leveraging the Group’s strong sales force.
- Significant increase in non-operating income, and an increase in special profit from negative goodwill, resulting in increased net profit for the second quarter.
- With a focus on shareholder returns and EPS improvement, additional implementation of a 10 billion yen share buyback is planned for the second half. Additionally, there is a plan to advance the implementation of the next fiscal year's 20 billion yen buyback.

Conference Call for Analysts & Institutional Investors
Date and Time: May 15, 2024, 5:00 PM
Speaker: Kotaro Wakatabi, Senior Managing Director, CFO

Q&A:

[Q. 1] Although the first-half performance has exceeded expectations, are there any plans to revise upward the full-year performance forecast?

[A.1] We haven't revised the full-year performance forecast. Considering the lower-than-expected utilization rate of property resale in the first half, we see the first-half outperformance as a buffer.

[Q.2] What is the outlook for the gross profit margin for the full year in the single-family home-related business?

[A.2] Given the continued disposal of inventory assets, it's challenging for the gross profit margin to exceed the anticipated 15% for the full year. However, there are signs of recovery in sales contracts.

[Q.3] What are the reasons behind the recovery in sales contracts?

[A.3] Demand for single-family homes varies between urban centers and rural areas. Inventories tend to be higher as you move further away from urban centers, and it takes time to adjust supply and demand. Therefore, our company is consciously sourcing more from central areas with higher demand.

[Q.4] I would like to hear about the trends in sales contracts by region, excluding Meldia and rental single-family homes.

[A.4] The Tokyo metropolitan area is performing well, but the Kansai region is experiencing significant inventory adjustments, leading to a slowdown in growth rates. Rental single-family homes are decreasing, partly due to the investment timing of the buyer Kenedix.

[Q.5] What is the outlook for inventory assets and procurement in the single-family home-related business for the next fiscal year?

[A.5] We anticipate better results for the next fiscal year as inventory adjustments are expected to be completed.

[Q.6] I would like to inquire about the situation regarding impairments incurred in large-scale projects of property resale.

[A.6] Impairments incurred in large-scale projects are temporary and have been conservatively allocated. We have already progressed discussions on sales methods and other related matters.

[Q.7] What are the factors leading to the allocation of impairments in property resale: a decline in income outlook or an increase in cap rates due to rising interest rates?

[A.7] We don't uniformly decide based solely on income returns. We also consider investor purchase preferences and seek opinions from auditing firms to make judgments.

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[Q.8] Are there any changes in the attributes that contribute to the decrease in the number of properties worth over 1 billion yen in property resale?

[A.8] The decrease in the number of properties worth over 1 billion yen does not reflect any changes in investor attributes. Sales targeting inbound demand are also progressing well and constitute approximately 20% of our portfolio.

[Q.9] How will the progress of Meldia's PMI be in the future?

[A.9] We are progressing with the replacement of inventory assets acquired in the past and reviewing procurement areas.

[Q.10] What is the nature of the 3.5 billion yen gain on the sale of investment securities?
[A.10] The gain on the sale of investment securities is related to the sale of unlisted stocks. We consider it as income obtained through proactive engagement in M&A activities.

Consolidated Financial Highlights briefing
Date and Time: May 22, 2024 (Wednesday), 9:30 AM
Speakers: Masaaki Arai, President & CEO
Kotaro Wakatabi, Senior Managing Director, CFO

Management Policy and Environmental Awareness

- **Progress of Inventory Adjustment in Single-Family Home Business**
  Although we have passed the worst period, the adjustment period for inventory still continues to some extent, and it will take up this entire fiscal period.
  Customer enthusiasm for purchasing remains high, and we're seeing a rebound in new contract signings, which gives us optimism for improvement in the upcoming fiscal year. Looking ahead, we anticipate ongoing competition, which may pose challenges particularly for mid-sized companies. However, we believe there will be opportunities after the inventory adjustment period ends.

- **Investment Property Outlook**
  While long-term interest rates are rising, financial institutions maintain an aggressive lending stance. As long as the current lending environment persists, the buoyancy of the real estate investment market is expected to continue.
  Investment in central urban area condominiums continues to attract funds from investors and wealthy individuals, leading to continued price increases. Although impairments incurred in large-scale projects, these are viewed as individual and temporary occurrences. For the U.S. business, the demand for real estate from wealthy Japanese individuals seeking dollar assets remains strong, with continued growth anticipated. We already manage a team of 200 local employees in the United States. Given the difficulty for competitors to replicate our model, we believe we have a competitive advantage over the next few years and aim to further expand our presence.

- **Progress in Reformation of Governance and Compliance**
  The separation of sales activities from contract operations has had a significant impact. A specialized department handling contract operations ensures proper explanations to customers, resulting in a decrease of approximately 30% in contract cancellations compared to the previous period. Strengthening the quality management system for single-family homes has led to a reduction in the number of reported defects at the time of delivery. We will continue to refine our internal management systems and focus on continuous improvement.

- **Strengthening Recruitment Efforts**
  Labor shortages remain a significant challenge, and increasing the number of sales representatives directly correlates with higher net sales for our company. While we faced difficulties last year, we anticipate nearly double the recruitment this year. We have assigned top sales personnel from each business unit to oversee recruitment efforts, and President Arai himself is committed to this initiative, resulting in a significant increase in recruitment.

- **Future M&A Strategy**
  Regarding Meldia, we believe we have made a successful M&A deal. While we receive numerous inquiries for M&A discussions, our stance is not to acquire high-priced entities but rather those that align with our company's vision. Our strength lies in swift decision-making, and we are recognized for our ability to make quick decisions. We aim to proactively pursue M&A opportunities by identifying promising ventures and executing them promptly.

<Q&A>

[Q.1] The gross profit margin for the single-family home-related business is lower than expected. What are the reasons for this, and what are the prospects for the gross profit margin for the coming fiscal year?

[A.1] The prices of newly acquired land have not decreased as much as anticipated, which is a contributing factor. However, by acquiring land at prices lower than the current inventory, the gross profit margin will gradually improve. Additionally, actively selling to progress inventory adjustment can also increase market share. While it's premature to discuss next year's outlook, we believe we have overcome the worst in terms of sales.

[Q.2] Considering the balance changes in inventory assets for the single-family home-related business, what is the appropriate inventory level?

[A.2] Regarding the appropriate inventory level for inventory assets, we believe we need to increase procurement and continue purchasing moving forward.

[Q.3] Regarding future branch expansions.

[A.3] We aim to strengthen our presence in the Kansai region. While we currently operate in Ota City, Gunma Prefecture, we have realized an oversupply situation, acknowledging the difficulty of conducting business in rural areas. We believe it's crucial to operate in densely populated areas.

[Q.4] Regarding the outlook for the condominium business from the next fiscal year onwards, land acquisition, and rising construction costs.

[A.4] We sell compact condominiums in urban areas where demand is strong, but due to limited supply, selling prices are increasing, and profit margins are expected to remain unchanged.

[Q.5] Is it possible to catch up with the absorption rate of net sales for property resale in the second half, despite it being low compared to the plan?

[A.5] We believe that the current inventory status and product strength meet the necessary requirements for catching up.

[Q.6] Can you give us more details regarding the properties where impairments were recorded in the property resale business?

[A.6] We are not particularly adept at long-term business ventures, and while we attempted ventures outside our expertise, they did not go as initially planned, resulting in the recording of impairments. We are already progressing discussions on sales methods.

[Q.7] Future outlook for impairments in the property resale business.

[A.7] Significant impairments are temporary. There may be minor impairments in the future, but they will be within the margin of error.

[Q.8] Regarding future M&A activities, what is the outlook?

[A.8] There are M&A opportunities emerging in the United States. Our policy is not to acquire high-priced entities but to purchase those that align with our vision. We are considering companies in the U.S. real estate business where synergy effects can be expected.

[Q.9] Regarding future resource allocation for wealthy clientele businesses.

[A.9] We have allocated resources in line with upgrading governance and compliance levels, limiting resources available for wealthy clientele businesses. However, we plan to further focus on this area, expanding into U.S. real estate, NOT A HOTEL, and property resale.

[Q.10] Future policies for the RC business.

[A.10] Our RC business is comparable in scale to mid-sized general contractors, at 40 billion yen. We aim to utilize the construction functions of the group further to contribute to the development of our business.

[Q.11] Future developments for Meldia's apartment business.

[A.11] It is a high-profit margin business, and we aim to continue expanding it in the future. We will manage the business period and handle construction through Open House Architect.

[Q.12] Regarding talent acquisition, is there a policy shift towards focusing more on hiring new graduates rather than experienced hires? What are the reasons for this?

[A.12] While we will continue with experienced hires, there are instances where the mindset of experienced employees from other companies, based on their norms, does not align with our company culture. Therefore, we intend to strengthen our recruitment of new graduates in the future. We aim to actively hire individuals who aspire to grow along with our company.

[Q.13] What is the background behind the increase in recruitment numbers?

[A.13] The increase in recruitment numbers is due to direct involvement from the president himself, who has taken leadership in this initiative.