

Open House Group Co., Ltd.
Financial Results for the First Quarter of the Fiscal year Ending in September 2024
Conference Call

Conference Call for Analysts and Institutional Investors

Date and time: February 14, 2024, 16:00

Speaker: Kotaro Wakatabi, Senior Managing Director, CFO

<Summary of Financial Results>

- In the first quarter, the single-family homes-related business led to increased sales and profit, with an operating profit margin exceeding 10%.
 - Consolidation of Meldia began, with a special profit of 12.7 billion yen recorded due to negative goodwill. Even excluding Meldia, sales and profits increased, maintaining a sound financial structure despite an increase in total assets.
 - Sales contract for single-family homes in the first quarter recovered to a 10% increase compared to the same period last year.
 - Meldia's PMI is progressing. An external advisor certified that "system development and recurrence prevention measures are functioning effectively." Mutual sales have begun, with over 30% of Meldia properties sold through open houses. Pressance Corporation's TOB for Meldia DC has ended.
 - The acquisition of 10 billion yen worth of treasury stock will reach 49.2% of the planned shares by the end of January 2024.
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Q&A:

[Q.1] Regarding sales contracts, what is the situation regarding areas, unit prices, and discounts?

[A.1] First quarter sales contracts show a significant increase in the Tokyo metropolitan area and Kansai, while Nagoya and Fukuoka show a decrease. Unit prices have slightly decreased due to a mix of areas and discounts, reaching 42 million yen.

[Q.2] Although inventory of single-family homes has decreased since the previous fourth quarter, what is the situation by area?

[A.2] There is no significant difference by area, but controlling inventory in the high-concentration Tokyo metropolitan area is important. In any area, demand in the suburbs is limited compared to the city center, so inventory turnover takes time.

[Q.3] What is the outlook for the future gross profit of the single-family home-related

business?

【A.3】 Since the inventory adjustment phase continues, there is no change in the initial assumption that the gross profit margin will decrease until the second half.

【Q.4】 Are land prices for procurement decreasing?

【A.4】 We anticipated it would take time for inventory turnover from the outset, so prices haven't dropped yet. We're selectively choosing properties to buy cheaply, expecting prices to decrease in the future, but negotiations with sellers who want to sell at higher prices are ongoing.

【Q.5】 For Open House Development (hereinafter OHD), the gross profit margin for the first quarter increased compared to the fourth quarter, but I'd like to know the reason for the expected decrease in gross profit margin for the next quarter.

【A.5】 Not only are there many land sales with high gross profit margins, but improvements in the gross profit margin of contracting sales including options are also supporting it. For the next quarter, we anticipate a decrease in gross profit margin as we sell land acquired in the past.

【Q.6】 What is the strength of OHD?

【A.6】 OHD operates mainly in the central areas of the Tokyo metropolitan region, which are popular compared to the suburbs and have a higher income level among customers. This, combined with many land sales with high profit margins and improvements in the gross profit margin of contracting including options, constitutes its strength.

【Q.7】 What are the factors contributing to the decrease in gross profit margin for Hawk One compared to OHD?

【A.7】 Prioritizing inventory turnover and an increase in low-gross-profit-margin spec-built homes have led to a decrease in the composition of land sales with high gross profit margins.

【Q.8】 Are you responding to the mandatory installation of solar power generation systems in Tokyo and Kawasaki?

【A.8】 In preparation for the start from April 2025, we are working with major infrastructure companies to introduce fixed-rate plans such as Zutto Mo Solar and Enekari to reduce initial costs. Since properties with a roof area below a certain threshold are exempt from the installation requirement, the impact is minimal.

【Q.9】 What is the reason for the decrease in gross profit margin for condominiums?

【A.9】 It's due to individual factors. Since the delivery of condominiums in the first quarter was minimal, the overall impact is small.

【Q.10】 What is the reason for the decrease in unit price for property resale?

【A.10】 In the previous period, there were high-priced properties, but there were fewer large-scale deliveries in the first quarter.

【Q.11】 What is the reason for the decrease in operating profit margin for other businesses?

【A.11】 Due to the low profit margin from RC construction by Open House Architect outside of U.S. real estate, it has lowered the overall profit margin. In U.S. operations alone, operating profit remains flat due to factors such as rising labor costs.

【Q.12】 Why has the adjustment amount for segment information increased to 3.2 billion yen?

【A.12】 Due to the consolidation of Meldia, it represents the elimination of transactions between Meldia DC and Presence Corporation for RC construction.

【Q.13】 While a 20% decrease in operating profit is anticipated for the first half, with a 6% increase in the first quarter, it would mean a decline of 30-40% for the second quarter alone. What is the current situation?

【A.13】 Our projections are conservative, and the first quarter has exceeded expectations. We managed to deliver results even in a challenging environment. Currently, our priority is steady sales. Based on sales contract trends, we feel confident that customers are willing to buy at fair prices.