

1Q of FY ending March 31, 2021
Q&A Summary on disclosure of settlement of accounts

About orders received

Q1. To achieve the plan ¥450bn of orders received, you have to increase 5% YoY in 9 months after July. When do you expect monthly orders received to exceed previous year? In addition, do the areas expand you can carry out door-to-door sales?

A1. The orders are getting recover gradually, therefore, we expect monthly orders received to exceed previous year in the second half of this FY based on the assumption that the COVID-19 will not spread further more.
Secondly, we have resumed door-to-door sales in areas except for the metropolitan area, where still COVID-19 is spreading.

Q2. I assumed that cancellations caused by financing would decrease due to sales activities that comply with bank loan conditions. Please tell us the reason why cancellations do not decrease easily.

A2. In the first quarter, cancellations caused by financing decreased slightly compared to the previous year. On the other hand, due to the COVID-19, the number of cancellations from sole proprietors due to the deterioration of the business environment is increasing, so we will carefully see the situation.

Q3. How do you think about the cause of the decline in monthly orders?

A3. We gain most of the orders from door-to-door sales. Therefore, the main factor for the decline in orders is that, we were unable to perform sufficient sales activities due to COVID-19.

Q4. Please tell us the measures to recover orders in the situation where conventional door-to-door sales cannot be done due to the COVID-19.

A4. Although we have resumed direct sales in most areas, we are engaged in sales activities such as direct mailing and telephone sales in the other areas. In the future, we will strive to recover orders by utilizing digital marketing and exhibition halls.

Q5. Are there any factors of decrease in orders other than affection of COVID-19, like decline in demand for inheritance tax measures and intensifying competition with other companies?

A5. Although we can't say generally because we have just resumed sales activities, there is no sign of intensifying competition. Secondly, about demand for inheritance tax measures, there is data that more people are considering inheritance due to COVID-19, so we will continue to approach them.

Q6. Please tell us about the status of orders in the non-residential field, which you are focusing on recently.

A6. Orders in the non-residential sector in the first quarter decreased by 50% year-on-year to approximately ¥600mn. The main factor is the fact that we couldn't do enough sales activities to corporations due to COVID-19.

About the gross profit margin on completed construction work

Q7. We have a full-year total gross profit margin plan of 25.3%, and we recognize that your company's conventional target is 30%. Please tell us what is required to recover the gross profit margin of completed construction work.

A7. The decline in the gross profit margin on completed construction work is due to the relative increase in the fixed cost ratio, such as personnel expenses, of our employees due to the decrease in the amount of completed construction work. In order to recover the gross profit margin, we will work to recover orders and increase the amount of completed construction work.

About the number of rental housing starts

Q8. The number of rental housing starts in FY2019 decreased to 334,000, and it is likely that it will decrease further in FY2020. Please tell us the appropriate number of rental housing starts.

A8. We believe that the number of rental housing starts in fiscal 2020 will be around 300,000. Due to the temporary boom due to the revision of the inheritance tax law, the number temporarily increased to about 400,000, but considering the number of companies that can properly operate the leasing business, we think that about 300,000 is appropriate. We will strive to expand our market share in that market.

About real estate business

Q9. Please tell us what you think about the risk of declining apartment occupancy rates due to the recession.

A9. The impact of the recession on the occupancy rate has not appeared significantly so far, and the occupancy rate has remained above a certain level. However, there is a possibility that the number of people leaving the economy will increase due to the recession, so we will continue to pay close attention to trends and proceed with various measures to reduce vacancies.

Q10. Please tell us the reason why the gross profit margin of the real estate business decreased.

A10. Due to the impact of COVID-19, the number of brokerages decreased due to store closures, brokerage commission revenue decreased, and repair work decreased. However, we recognize that the decline in gross profit margin is temporary.

About dividend policy

Q11. The dividend payout ratio is still 50%, but if there is a possibility of raising or lowering the payout ratio, what should we expect for?

A11. If the business environment changes drastically due to the situation of COVID-19, I think we should consider changing the payout ratio. If there is no significant change, we would like to secure internal reserves for the payout ratio of 50% and the remaining 50% for growth investment based on the medium-term management plan we have been implementing since last year. Therefore, there is no change in the basic policy.

Others

Q12. The operating income plan for the real estate business for the current fiscal year was 61.7 billion yen, the first to exceed the construction business of ¥27.5bn. Do you have any plans to increase the management resources of the real estate business in the future?

A12. The real estate business is a stock business, so it is necessary to allocate management resources according to the increase in stock. However, we believe that the first priority is to implement measures to return the construction business, which is our core business, to the original growth trajectory.

Q13. The adjusted amount of operating income (difference between consolidated operating income and total operating income by segment) increased from -18.6 billion yen in the fiscal year ending March 31, 2020 to -21.2 billion yen in the plan for the fiscal year ending March 2021. Please tell us the reason for the increase.

A13. We were unable to pay performance-linked bonuses because the performance for the fiscal year ended March 31, 2020 did not reach the internal standards, but we expect to achieve the standard in the fiscal year ending March 31, 2021, so that budget is included in the plan.

Q14. There was an article that your company will enhance the service for tenants. I think the aim of this service enhancement is to further increase the occupancy rate and help synergies with new order activities, but are there any other direct benefits such as advertising revenue from partner companies?

A14. The service is to build a new platform for tenants to expand the online contact service, and we are planning various services such as shopping agency and flat-rate use of furniture and home appliances. In its operation, we anticipate new revenue businesses such as advertising revenue. We will inform you again when the concrete business concept is decided.

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