

Homebuilders

House of the Rising Sun: Japanese builders continue US expansion through M&A

Industry Overview

Sekisui to buy MDC, creating 5th largest US builder

Sekisui House (TSE: 1928 covered by Takumi Kasai) announced a definitive agreement to acquire M.D.C. Holdings (ticker: MDC, uncovered) for \$4.9mm in cash (19% premium to 1/17 close). MDC was the 11th largest U.S. homebuilder based on number of closings in 2022. Upon closing, the combined builder along with Sekisui's other US brands (Woodside, Chesmar, Holt and Hubble) will be the 5th largest US homebuilder based on 2022 closings. On a cumulative basis, Sekisui has built more detached homes than any other firm in the world (2.62mn units vs. D.R. Horton at >1mm). Based on Visible Alpha consensus, MDC's 2024 return-on-equity (ROE) is forecast around 12%. Sekisui paid around 1.3x 2024 price-to-tangible book (P/TB) which is above other public builders with similar return-on-equity (ROE) profiles. For example, KB Home (ticker: KBH, Neutral: \$61.12) trades at roughly 1.0x P/TB with a forward ROE of 14%.

Japanese builders continue to grow in US through M&A

Sekisui's acquisition is the largest Japanese builder acquisition of a US builder. Since 2017, this marks the 9th acquisition of a top 100 U.S. homebuilder by a Japanese builder (10th since 2014). Sekisui also bought Chesmar Homes for \$514mm in 2022. Daiwa House purchased Stanley Martin (now #20 US builder) in 2017 for \$252mm. Sumitomo Forestry purchased Brightland Homes, DRB Group, Bloomfield Homes and Edge Homes from 2014-2017. In each case, market share increased for each of these builders after the acquisition. Please see full summary transaction on following page.

What makes US attractive to Japanese builders?

US single-family home demand continues to benefit from favorable demographics and housing shortage. We also believe Japanese homebuilders utilize more technology and off-site construction and there is an opportunity to improve building efficiency and quality of homes (Sekisui noted the expansion its SHAWOOD homes concept).

Exhibit 1: Japanese builders will own 10 of 100 largest US builders following Sekisui + MDC deal

US homebuilder market share by closings

2023 Rank	Company	2022 Closings	Parent
11	M.D.C. Holdings	9,710	-
20	Stanley Martin Homes	4,426	Daiwa House Group
21	DRB Group	4,282	Sumitomo Forestry
34	Brightland Homes	2,639	Sumitomo Forestry
37	Woodside Homes	2,269	Sekisui
40	Bloomfield Homes	2,118	Sumitomo Forestry
44	Chesmar Homes	1,779	Sekisui
56	Edge Homes	1,280	Sumitomo Forestry
87	Holt Homes	685	Sekisui
92	Hubble Homes	624	Sekisui

Source: Builder 100 (Zonda)

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Exhibit 2: Japanese homebuilders have acquired ten top 100 largest US homebuilders since 2014

Summary of Japanese homebuilder acquisitions of US builders

Company	Parent	Year of Purchase (Completed)	Cost of acquisition \$ (mm)	Notes
Stanley Martin Homes	Daiwa House Group	2017	251.9	Acquired 82% of the member interests in Stanley Martin Communities, LLC.
DRB Group	Sumitomo Forestry	2016	83.3	60% stake
Brightland Homes	Sumitomo Forestry	2014	71.44	Previously known as Gehan Homes. Name changed to Brightland in 2023 51% stake in 2014 for \$71.44mm. Acquired remaining 49% in 2016 for undisclosed amount
Woodside Homes	Sekisui	2017	468	100% stake
Bloomfield Homes	Sumitomo Forestry	2017	36.5	Acquired a minority stake (targeted 50%) for an undisclosed amount in 2013, then P Ryan Properties Inc sold Bloomfield Homes LP to Sumitomo Forestry Co Ltd for USD 36.50M. Additional 15% stake
Chesmar Homes	Sekisui	2022	514	100% stake. Chesmar Group Inc announced the sale of CLM Mortgage Inc, Chesmar Homes LLC, N Title Inc & Entitled Insurance Agency Inc to Sekisui House Ltd for USD 514.00M.
Edge Homes	Sumitomo Forestry	2017	63	Sumitomo Forestry Co Ltd acquired Edge Utah HoldCo LLC for USD 63.00M. 70% stake
Holt Homes	Sekisui	2022	--	100% stake. Financial terms of the transaction are undisclosed.
Hubble Homes	Sekisui	2023	--	100% stake. Financial terms of the transaction are undisclosed. Woodside Homes acquires Hubble

Source: Company filings

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