Q&A at IR Teleconference for Analysts/Institutional Investors (Summary) at Announcement of Financial Results for FY2015 (From April 1, 2015 to March 31, 2016)

Date and time: From 17:00 to 18:00, Friday, May 13, 2016

Presenters: Takeshi Kosokabe, Representative Director, Senior Managing Executive Officer and CFO
Yuji Yamada, Senior Executive Officer and General Manager of Finance and IR Departments

---

● About FY2016 Orders Received and Earnings Forecast:

[Q1]

For FY2016, non-consolidated orders received forecasts for Daiwa House Industry is -1.3% year-on-year for Custom-built houses. What is the background behind this? And despite the fact that your 5th Medium-Term Management Plan positions Logistics, Business & Corporate Facilities as a growth driver, you are only forecasting minor growth of +1.0% year on year. On the other hand, you are forecasting growth of +6.2% year-on-year for Commercial Facilities. Tell us your specific plans for each business.
(Reference: Financial Highlights: p.13 "Orders Received by Business Segment (Non-consolidated)")

[A]

-For Custom-built houses, as we do not expect there to be a consumption tax rate hike, we are not seeing the type of pre-hike demand rush seen prior to the previous tax hike. As such, we have set somewhat conservative figures.
-For Commercial Facilities, although we do not have any particularly large plan underway, we believe the segment will see firm sales.
-One reason for the minor increase in orders received for Logistics, Business & Corporate Facilities can be attributed to development by our specific purpose companies (SPC). Orders received and sales for logistics facilities being developed by SPC are treated under accounting for consolidated subsidiaries so the non-consolidated figures for Daiwa House Industry appear lower than our actual development volume.

[Q2]

For the gross margin ratio, forecasts for the current fiscal year and actual results from the previous fiscal year are largely unchanged (FY2015: 19.8%; FY2016: 19.7% (forecast)). One would think that, in terms of current market conditions, yen appreciation and declining raw material costs would be a positive for your company while rising labor costs would have a negative impact. What is your outlook on these factors in the short term?

(Reference: Financial Highlights: p. 10 "Business Performance Forecasts for FY2016 (1)", and p. 12 "Business Performance Forecasts for FY2016 (3)")

[A]

-In our forecasts for the current fiscal year, we are expecting the gross margin ratio for Construction to improve in business segments excluding Logistics, Business & Corporate Facilities.

-As for Construction for Logistics, Business & Corporate Facilities, we are forecasting the Daiwa House Industry (non-consolidated) gross margin ratio to improve by +1.3%. However, the gross margin ratio for Fujita Corporation was high the previous fiscal year so we are forecasting that it will decline by approximately -1.4%. As such, in total we are forecasting a slightly negative transition in the gross margin ratio.

- **<u>About the Condominiums Business:</u>**

[Q3]

About the Condominiums Business, completed inventory had increased as of the end of March 2016 (of 693 units, orders placed for 107 units). Is there a cause for concern such as a lag in sales or other conditions? Also, what is your inventory forecast for the current fiscal year and beyond?
(Reference: Financial Highlights: p. 17 "Condominiums Business")

[A]

-We did record a valuation loss for a single property but we have no other struggling properties and thus are not particularly concerned.
-Our forecast for completed condominiums this fiscal year is 2,132 units. This is a decline in inventory compared to the previous fiscal year (3,141 units) so the increase in completed units is in part to secure units for sale for the current fiscal year.
At present, units secured for the upcoming fiscal year and beyond are 2,300 units for FY2017, 1,718 units for FY2018, and just under 2,000 units for FY2019 and beyond.

- **<u>About Other Businesses Segment</u>**

[Q4]

Compared to FY2015, your FY2016 operating income forecasts attribute the largest increase in income to Other Businesses. What are the factors behind this?
(Reference: Financial Highlights: p. 11 "Business Performance Forecasts for FY2016 (2)")

[A]

-One factor is that during FY2015 we recorded a lower of cost or market methods (inventories) of 8.9 billion yen for China (Wuxi and Changzhou) under Overseas Business, which is part of the Other Businesses.
-Also, occupancy rates for city hotels operated by our subsidiary Daiwa Royal Co., Ltd. (Daiwa Roynet Hotel, 42 locations nationwide) have been incredibly high due to the impact of inbound demand, and we are reflecting the company's income contributions in our forecasts for the current fiscal year.

- <u>About Real Estate Development Investments</u>
  <u>(Planned Investments in the 5th Medium-Term Management Plan)</u>

[Q5]
About the planned investments in the recently announced 5th Medium-Term Management Plan, can you provide a breakdown of real estate development investments? Also, in which area will you focus your investments overseas?
(Reference: 5th Medium-Term Management Plan: p. 11 “Planned Investment”)

[A]
-The segment in which we will inject the most capital will be the Logistics, Business & Corporate Facilities business segment with a focus on logistics facilities. As a breakdown of our three-year real estate development investments of 700 billion yen, we are planning to invest 100 billion yen in Rental Housing, 140 billion yen in Commercial Facilities, 360 billion yen in Logistics, Business & Corporate Facilities, and 100 billion yen in Overseas Business.
-Areas for Overseas Business investments will be focused on the U.S.A., Australia and ASEAN.
-Currently, we are not planning any investments in China.

- <u>About the Operating Environment for Logistics Facilities</u>

[Q6]
Do you expect demand for logistics facilities to continue to grow?

[A]
-At least we expect strong demand to continue for the next three years (during the period of our 5th Medium-Term Management Plan) and we are proceeding as per usual with development.
-Growing e-commerce demand is serving as a tailwind for the development of multi-type logistics facilities. Additionally, the land information gathered from our 83 branches and offices located throughout the country and the powerful solutions developed in cooperation with partner companies enable us to further develop investment opportunities in one of our areas of strength, BTS-type (Build-to-Suit/order-made) logistics facilities.

[Q7]

Tell me the results and forecasts for sales of development properties for real estate investments in your 4th Medium-Term Management Plan and 5th Medium-Term Management Plan.

(Reference: Financial Highlights: p. 15 “Capital Investments / Depreciation”)

[A]

-During the three-year period of our 4th Medium-Term Management Plan, we conducted real estate development investments of 482 billion yen. During the same three-year period, we recovered 118.1 billion yen in capital from sales of development properties.

- During the three-year period of our 5th Medium-Term Management Plan, we are planning real estate development investments of 700 billion yen, including Overseas Business, and planning on capital recovery of 300 billion yen from sales of development properties.

-Our capital recovery plan of 300 billion yen breaks down as: 1st year: around 90 billion yen, 2nd year: around 90 billion yen, 3rd year: around 120 billion yen.

- **About Real Estate Development Investments (Planned Investment for Current Fiscal Year)**

[Q8]

Tell me about the investment amount and an overview for Overseas Business during the current fiscal year.

(Reference: Financial Highlights: “Status of Investment Plan in Financial Highlights for FY2015”)

[A]

The investment amount for Overseas Business will be 40 billion yen with the largest percentage positioned in the U.S.A. We currently have multiple properties under construction, including a 31-story high-rise rental housing project in Chicago.

[Q9]

Tell me your forecasts for sales of development properties during the current fiscal year. Also, last fiscal year it seems like more transactions occurred during the first quarter but are you making similar plans for the current fiscal year as well?

(Reference: Financial Highlights: p. 12 "Business Performance Forecasts for FY2016 (3)")

[A]

-Of the anticipated 90 billion yen sales for the current fiscal year, this forecast includes 83.6 billion yen from sales on properties for which the price has already been nearly finalized with the buyer.

-The main property to be sold during the first quarter is a large-scale logistics facility in Ariake, Tokyo.

-As for other properties, we are planning on sales to a newly listed J-REIT (Daiwa House REIT Investments Corporation) in the second quarter. This REIT will be created after the merger of two listed J-REITs we sponsor (Daiwa House REIT Investment Corporation, Daiwa House Residential Investment Corporation).

(End)