Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2016 2Q
(For the six months from April 1, 2016 to September 30, 2016)

Date & time: From 17:30 to 18:30, Wednesday, November 9, 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

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●About Full-Year Business Performance Forecasts

[Q1]

-You conducted an upward revision for your full-year business performance forecasts. It appears that three segments, Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities constitute significant weight in your plan to increase operating income by 25 billion yen. The biggest reason was indicated as the improved cost-of-sales ratio. Please provide specific details for each segment regarding why this improved above original forecasts.
(Reference: Financial Highlights: p. 11 "Business Performance Forecasts for FY2016 (2)")

[A]

-Applicable to all three segments was the fact that materials costs declined and labor expenses did not increase as much as anticipated. Additionally, a favorable order environment lead to improvement in the cost-of-sales ratio.
-About Rental Housing, an increase in the proportion of three-story product resulted in an increase in the price per structure.
-For Commercial Facilities, the cost-of-sales ratio at time of order received improved by 0.8 points. We believe this is the result of initiatives within business divisions to

improve awareness regarding the cost-of-sales.

-For Logistics, Business & Corporate Facilities, the improved cost-of-sales ratio at Fujita Corporation contributed significantly. Original forecasts reflected conservative estimates of materials and labor expenses and the recent market environment for general contractors has been favorable overall. Also, receiving orders for additional construction has helped improve the cost-of-sales ratio.

[Q2]

About operating margin ratio, compared to first half results of 8.6%, your second half forecast is 7.6%. Please tell us the reason your operating margin ratio will decline by 1.0 points.

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

[A]

-As indicated in [A1], the cost-of-sales ratio improved better than expected, which resulted in a first half gross margin ratio of 20.6%. However, our forecast for the second half is 19.9%. We do not anticipate any significant fluctuations in the market environment but taking into consideration the possibility that materials and labor expenses might increase again due to the impact of construction related to the Tokyo Olympics and Paralympics, etc., we are making a slightly conservative forecast for the cost-of-sales ratio.

-Furthermore, relative to our full-year plan of 420 billion yen for SG&A expenses, first half actual SG&A expenses were 204.4 billion yen. However, the revision to our business performance forecasts includes no changes to the full-year plan.

-Based on the above reasons, the second half forecast is nearly 1 point lower than the first half at 7.6%.

[Q3]

About Single-Family Houses, it appears that the full-year forecast for gross margin ratio is slightly lower than the original forecasts (19.3% → 19.1%). Please tell us the reasons for this.

(Reference: Financial Highlights: p. 13 "Business Performance Forecasts for FY2016 (4) Versus Forecasts")

[A]

-We lowered our full-year forecast because the gross margin ratio for Single-Family Houses during the first half was -1.1 points YOY (19.5% → 18.4%).

(Reference: Financial Highlights: p. 8 "Business Segment Information (2)")

-The main reasons for the decline was the impact of valuation losses on land due to the application of lower of cost or market methods (inventories) (-0.5 points) and the impact of public housing projects with a high cost-of-sales ratio (-0.3 points).

[Q4]

About the full-year business performance forecast for sales of development properties, net sales has been increased by 12.3 billion yen compared to original forecasts. Is there a specific reason for this? Are you viewing now as the time to sell and as a result increasing volume? Please provide background information.

(Reference: Financial Highlights: p. 13 "Business Performance Forecasts for FY2016 (4) Versus Forecasts")

[A]

-In the revised plan we have included the sale of land acquired for the development of logistics facilities, which resulted in the increase in the sales amount.

-We revised the plan for the current fiscal year because we changed to a scheme of selling retained land to companies looking to conduct capital expenditures in company-owned land instead of leasing, and then executing construction contracts with the company to which we sold the land.

[Q5]

In the revision of your full-year business performance forecasts, please tell us if there are any changes to extraordinary income or losses or to net income attributable to non-controlling interests.

(Reference: Financial Highlights: p. 10 “Business Performance Forecasts for FY2016 (1)”)

[A]

1. About extraordinary income or losses

-In our original forecasts, we planned for extraordinary losses of 4.5 billion yen but we have revised this to extraordinary income of 0.7 billion yen and extraordinary losses of 4.7 billion yen.

-The main breakdown of extraordinary income consists of income on sales of investment securities.

-The main breakdown of extraordinary losses consists of 0.5 billion yen in losses on sales of noncurrent assets, 3.5 billion yen as an impairment loss on noncurrent assets, and 0.7 billion yen in loss on disaster due to damages from the Kumamoto Earthquake.

2. As for net income attributable to non-controlling interests, there were no significant changes.

[Q6]

The revised plan for your full-year business performance forecasts outlines operating income of 280 billion yen as you plan to achieve the 5th Medium-Term Management Plan two years ahead of schedule. Are there any changes to your forecasts for next fiscal year?

(Reference: Financial Highlights: p. 10 “Business Performance Forecasts for FY2016 (1)”)

[A]

-The three segments we have positioned as growth drivers – Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities – are expected to perform firmly during the next fiscal year as well, and there is room for the sale of development properties.

-The market environments for materials and labor expenses may become more severe moving forward. However, we will work to achieve increased net sales and income.
-We will consider announcing specific numerical goals for both the next fiscal year and for the final year of the Medium-Term Management Plan when we release full-year earnings in May of next year.

●About Single-Family Houses Business

[Q7]
Orders received for custom-built houses during the first half were firm at +6.6% YOY. What is the status of the current market?
(Reference: Financial Highlights: p. 15 "Orders Received by Business Segment (Non-consolidated)")

[A]
The rate of orders received for xevo Σ, our highest tier product in Single-Family Houses, is increasing, which is contributing to an increase in the unit price for orders. Current market conditions do not suggest any particular signs of a slowdown.

●About the Rental Housing Business

[Q8]
In your monthly orders for October, rental housing was −7% YOY. Please tell us about current conditions.

[A]
In no way do we feel there is a slowdown in the rental housing demand. The negative transition for that month was a transient phenomenon and we think orders received will turn positive again from next month onward.

●About Commercial Facilities Business

[Q9]

Your monthly orders for October indicated that commercial facilities were up by an incredible 76%. Even looking 7-month total for April through October, orders received are up by 19%, indicating a high rate of growth. What is the reason for this?

[A]

-October figures outperformed the previous year significantly due to multiple orders received for large-scale facilities.

-Openings of drug stores and food supermarkets are growing firmly. Additionally, we have benefited from initiatives aimed at increase structure price per property, including the development of multi-purpose and large-scale properties, and as a result order prices grew.

●About Logistics, Business & Corporate Facilities Business

[Q10]

Amid concerns that there is an oversupply of logistics facilities, how are you able to maintain such favorable orders received in the Logistics, Business & Corporate Facilities segment, and for logistics facilities in particular?

[A]

-70–80% of the properties we construct are BTS (Build to Suit)-type logistics facilities, thus in most cases tenants already have been decided at the time we start construction. As such, we believe the rising rate of vacancies at multi-tenant logistics facilities being noted lately has little impact on us.

-Our company excels at development land acquisition. The majority of land we acquire is not through bidding but based on rezoning and other unique land acquisition routes that allow us to be involved from an early stage. We have established such routes throughout the country and, at least as far as the 5th Medium-Term Management Plan is concerned, we anticipate this firm order environment to continue.

[Q11]

With logistics facilities, which segments have tenants with strong needs for increased surface area?

[A]

Mainly e-commerce business and master leases based on 3PL. In addition to those segments, we are seeing an increase in cases of retail and apparel businesses, which typically have operated under 3PL, executing direct leases.

[Q12]

Currently your company is seeing firm growth in orders received but certain general contractors are reaching a limit to their construction capacity and there are cases of companies not being able to take on any more new orders. What are your thoughts on this situation?

[A]

As far as our construction capacity, we have some divisions that, like general contractors, are reaching their limits. In response, we are maintaining balance by strengthening our push toward large-scale properties and, for some development properties, outsourcing construction to other companies.

[Q13]

Please tell us about first half results and full-year plans for net sales and operating income for Fujita Corporation.

[A]

Fujita Group earnings are as follows.

(billion yen)

	First half results	Full-year plan
Net sales	193.1	425.5
Operating income	11.4	20.9

●About Overseas Business

[Q14]

Please tell us about the sales status for the condominiums for sale in China.

(Reference: Financial Highlights: p. 18 "Overseas Business")

[A]

-Sales are progressing smoothly. Regarding the unit price of sales, we recorded a valuation loss based on the lower of cost or market methods (inventories) but we have been able to sell at prices above the unit price used to record valuation losses. Thus, we feel we are making leeway.

[Q15]

Please tell us your net sales and operating income for Overseas Business during the first half. Also, a press release was issued on October 26 in the U.S. regarding the buyout of Stanley-Martin Communities, LLC (hereinafter, Stanley-Martin). As it relates to this transaction, please tell us your forecast for future net sales and operating income.

[A]

- Overseas Business during the first half resulted in net sales of 41.7 billion yen and operating income of 1.5 billion yen. Previous year results were net sales of 28.6 billion yen and operating income of 0.1 billion yen, so both have increased year on year.
-For the full year, we forecast net sales of 100 billion yen and operating income of 3 billion yen.
-the U.S. Stanley-Martin Group results from FY2015 were net sales of 41.7 billion yen and operating income of 2.4 billion yen, meaning that we are aiming for net sales and operating income exceeding these figures. The company is largely involved in the sale of housing development business in Single-Family Houses and has a certain level of land and property so we expect that our goals for next year are achievable.

(End)