Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2017 3Q
(For the 9 months from April 1, 2017 to December 31, 2017)

Date & time: From 17:00 to 18:00, Friday, February 9, 2018

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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【Q1】

Please tell us the net sales and operating income for Overseas Business in FY2017 3Q. Also, please tell us the sales status of overseas condominium for sale development.
(Reference) Financial Highlights: p17 "Sales status of overseas condominium for sale development"

【A】

・Net sales and operating income were ¥156.1 billion and ¥6.8 billion for Overseas Business.
・For sales status of condominium for sale development, two condominiums in China has been processing steadily. For China Business, operating income was ¥3.3 billion, while operating loss was ¥500 million last year.
・In Australia, we are beginning to transfer sold-out properties. Sales and operating income this period were ¥9.7 billion and ¥600 million, while sales were ¥2.6 billion last year with ¥300 million in operating loss.

【Q2】

Please tell us the net sales and operating income of energy business in FY2017 3Q. Also, please tell us the factors for the increase.
(Reference) Financial Highlights: p2 "Summary"

【A】

・In FY2017 3Q, the net sales and operating income were ¥84.8 billion and ¥5.5 billion.

(In FY2016 3Q, the net sales and operating income were ¥66.6 billion and ¥3.4 billion.)

・The main factor driving sales growth is been our retail electricity business. We are also undertaking FIT (Feed-in Tariff) electricity sales in connection with our own solar power generation facilities, as well as subcontracting the construction of solar power generation facilities for other companies.

・We expect to see continued growth in our retail electricity business.

【Q3】

Single-Family Houses and Rental Housing orders fell in January. Tell us more about recent circumstances related to orders.

【A】

・Not very many factors line up to drive customer contracts for Single-Family Houses, as consumption tax increases are still ahead and home loans continue to be at low interest rates.

・Weak sentiment for apartment construction, prolonged apartment loan review process, and other factors have had an impact on the rental housing market. We do not record orders until property financing has been completed, even those projects under contract, which has had an impact on orders.

【Q4】

Gross margin ratio improvement has fallen below one percentage point for both Commercial Facilities Business and Logistics, Business & Corporate Facilities Business. Is there room for improvement here?

(Reference) Financial Highlights: p8 “Business Segment Information②”

【A】

・We are making progress with large-scale commercial facilities projects. Until a few years ago, unit costs were in the ¥100 million range. Over the three months from October through December, unit costs have exceeded ¥300 million. We are making improvements in indirect costs. We believe there is room to make improvements moving forward as well.

・In Logistics, Business & Corporate Facilities Business, Daiwa House on a non-consolidated basis improved 2.2 percentage point on gross margin. Fujita has worsen 0.4 percentage point in this fiscal year.

・Market costs for materials and labor have risen. We are working minimize the impact through productivity gains. We expect the start of Olympics-related construction in earnest will result in a more challenging cost environment.

【Q5】

Have you felt the impact of recent increases in steel prices?
How long is the period between materials procurement and the impact on your PL?

【A】

・We have seen almost no impact on our results for FY2017 3Q.

・We do centralized purchasing (bulk purchasing) for the steel used in our single-family house and rental housing pre-fab products.
Since we set prices beforehand and purchase at those prices for a six-month period, price changes do not have much impact.

・The size of steel frames used in commercial facilities and logistics facilities varies project to project. After we purchase steel frames, we process them in the factory before delivering to the project site for use. These materials are more susceptible to the impact of prices compared to single-family houses or rental housing. However, sales prices are not set as they are with single-family houses or rental housing, which means we are able to pass on the costs.

【Q6】

Your debt-equity ratio for FY2017 3Q was 0.66. Is it possible that you will change your current debt-equity ratio guideline of 0.5?

(Reference) Financial Highlights: p6 "Interest-bearing liabilities"

【A】

・Our debt-equity ratio rose at the end of December temporarily due in part to seasonal factors as dividends, bonuses, tax payments and others.

・We expect this figure to settle around 0.55 at the end of March 2018. We plan to sell development properties during fiscal year 2018. Accordingly, we have no plans to alter our debt-equity ratio guideline of 0.5.

【Q7】

Can you tell us the factors causing the decrease in NOI yield for real estate available for sale that is being rented? What is your outlook?

(Reference) Financial Highlights: p9 "Breakdown of Investment Real Estates"

【A】

・The environment for purchasing land has become more challenging. NOI yield over the past several years has been falling in comparison to NOI yield at the time of acquisition. However, market capitalization rates are also falling to levels where we can achieve our investment hurdle rate of 8.5% on an IRR basis.

【Q8】

How do you handle actuarial gains and losses in terms of your targets?

(Reference) Financial Highlights: p10 "Business Performance Forecasts①"

【A】

・Actuarial gains and losses encompass two types differences, mathematical calculation differences and pension asset management differences.

As we announced, we have planned for ¥5 billion in mathematical calculation losses. While we have not incorporated asset management differences into our plans, as of the end of December, we have seen approximately ¥20 billion in investment gains. We intend to use this same approach when planning earnings projections for our next fiscal year and beyond.

【Q9】

The number of real estate properties available for sale that are under rent seems to be increasing. What are your thoughts about profits from property sales next period and beyond.

【A】

Property sales for next year have almost all been determined. Profit ratios for property sales this year were high, and we anticipate nearly the same level of profits for next year.

【Q10】

Please talk about your investment plan progress. It appears that the pace of investment is slowing. Also, will the Rawson M&A in Australia be included in your results beginning January?

(Reference) Financial Highlights: p15 “Status of Investment Plan”

【A】

・We have not slowed the pace of investment.

・Our investment activities are proceeding ahead of schedule, and we will likely exceed our initial total investment plan of ¥900 billion under the current conditions. We may add another ¥100 billion or so in investment.

・Next year, we plan to arrange development properties assuming we will maintain a debt-equity ratio of 0.5, reducing interest-bearing debt to approximately ¥800 billion.

・We plan to close the Rawson deal this month (February). The transaction will be reflected on our BS and PL next fiscal period.

【Q11】

We touched on Overseas Business net sales and operating income earlier. What is the amount of Overseas Business sales and operating income included only in Other Businesses?

Please tell us about the sales status of properties in the US.

【A】

Performance for Overseas Business.

Overseas Business		2017/12	2016/12
Net sales	Total	1,561	724
	Included in Other Businesses	833	168
Operating income	Total	68	9
	Included in Other Businesses	76	6

・Among our real estate properties in the US, this period we sold the Berkeley rental housing project developed in Dallas. The sale was for around ¥13 billion, and operating income amounted to about ¥2 billion.

【Q12】

Are you planning to revise your investment plans in the US?

(Reference) Financial Highlights: p17 "Overseas Business"

【A】

・We have begun to sell properties in the US, which is turning over more capital. Even if we sell one property next year, we have more projects in the works, so we will likely be increasing investments in the future.

【Q13】

Are there any factors that will contribute to profits next year?

【A】

・Rawson, contributing operating income of nearly ¥6 billion, will be a positive new factor.

・We should see about ¥50 billion more in sales related to rental housing management and an increase of slightly less than ¥2 billion in related operating income. We expect to see Fujita grow sales and operating income next fiscal period. Our energy and hotel businesses and others should also be positive factors. We expect to achieve the ¥340 billion in operating income targeted for the final year of our medium-term management plan.

【Q14】

Tell us more about your plans and outlook for your hotel business.

【A】

・Over the two fiscal years ending March 2018 and 2019, we plan to open about 25 properties group-wide, including properties from Daiwa Royal, Cosmos Initia and others.

・We are also building hotels other than those we will operate ourselves. FY2017 3Q was also a period in which we recorded our highest volume of sales in our retail and wholesale facilities business in Daiwa House on a non-consolidated basis.

We have numerous hotel projects in stages prior to order recognition, and demand is trending high for next year and the year after.

(End)