Daiwa House Industry Co., Ltd.

Q&A Session at Presentation on Management Policies (Summary)

Date and time: From 14:30 to 15:30, Monday, November 12, 2018

Speakers: Takeo Higuchi, Chairman and CEO
Keiichi Yoshii, President and COO
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 about the business environment and future initiatives for the three core businesses (Rental Housing Business, Commercial Facilities Business, and the Logistics, Business & Corporate Facilities Business), and future growth drivers.

[A1]

・Non-consolidated first half orders received for the Rental Housing Business was up 4.2% year on year excluding sales of development properties, indicating stable performance despite a difficult business environment. First half orders received for medium-to-high-rise properties, an area of increased focus, contributed to sales with a 40% year-on-year increase. We also are maintaining a high level for occupancy rate, which was 97.3% as of the end of March, 2018. We will continue offering the type of rental housing that is chosen by tenants.

・The Commercial Facilities Business has been successfully capturing redevelopment products such as a property near Hiroshima Station and the Tokyo Takao Project. One of our strengths is our ability to offer one-stop solutions, from construction to management, for projects involving residential housing, condominiums, and commercial facilities. I believe this is one of the reasons we are chosen by our customers. We will continue working aggressively to win multi-use development projects.

・The Logistics, Business & Corporate Facilities Business is facing intensifying competition due to an increase in the number of logistics facility development companies. However, we still view this business as a growth segment that will be driven by replacement construction for old logistics facilities, the consolidation and elimination of facilities, and construction demand in the Tokyo Metropolitan area to address the expansion of E-commerce.

We are both a developer and a construction company, so another one of our strengths is in our ability to make land acquisition and construction proposals based on an evaluation of building costs.

・The three core businesses will continue to be growth drivers for our Group during the period of the 6th Medium-Term Management Plan. At the same time, we want to continue overseas business expansion.

[Q2]

Please tell us about your area strategies and policies for investment for overseas business.

[A2]

・From the perspective of risk dispersal, we are focusing on balanced investments for overseas business. Net sales also break down as approximately 30% from America, approximately 20% from Australia, and approximately 30% from China and ASEAN.

・The projects we are starting will vary for each area. Our investment strategy is proceeding as planned in America and Australia, where successful M&A of Stanley Martin Communities, LLC and Rawson Group respectively have enabled us to establish platforms for developing the residential housing business in each country.

・In China and Southeast Asia, we are focusing on the construction contracting business for buildings under high demand in each country, including condominiums and industrial parks.

[Q3]

Specifically what types of construction will you focus on now that you have become a gold sponsor for the Tokyo Olympics? Also, will you increase projects related to the Olympics moving forward and do you think becoming a sponsor will lead to an increase in new business opportunities? Please tell us your thoughts on these three points.

[A3]

・While only representing 5% of the entire project, we already are involved in the construction of the Olympic Village and construction for the international broadcast center and the media and press center facilities is underway.

・Moving forward, as an official partner we hope to contribute to society through our work completing overlay construction.

・The gold sponsor logo mark is printed on the business card of every Daiwa House employee but at present we do not know what level of impact this will have on new business opportunities.

[Q4]
Please tell us about current financing ratios for Rental Housing Business customers who receive financing from banks. What impact do you think stricter lending standards will have on your company?
Also, do you see risks in financing for land and building as a package purchase?

[A4]
・For Daiwa House, the majority of our business involves land owners aiming for the effective use of their land, so we do not feel any significant change in construction capital financing ratios.
・I imagine review processes vary with each financial organization but we focus on apartment building proposals in areas where we can expect high occupancy rates and after a careful analysis of occupant targets and appropriate rent levels. The level of proposals for residences with rental units is increasing so we view the risk of stricter lending standards as minor.
・Our land and building package purchases largely involve existing owners and TKC*-related owners so it is rare for a proposal to not result in financing.
*TKC (Tochigi Keisan Center) Corporation - a specialized electronic data processing center for tax consulting firms and local governments.

[Q5]
In the Logistics, Business & Corporate Facilities Business, do you think you can achieve targets for non-consolidated orders received? Including Fujita and overseas initiatives, please tell us if you think the Logistics, Business & Corporate Facilities Business will continue to see growth next fiscal year and beyond.

[A5]
・We view the full-year goal of +6% year on year for orders received as achievable.
・We continue to receive inquiries for logistic facilities so we think the Logistics, Business & Corporate Facilities Business, including Fujita, will continue to see growth next fiscal year and beyond.
・Overseas, we already are developing logistics facilities in Jakarta and the two properties currently in operation are nearly at full occupancy. Moving forward, we will carefully examine each area as we engage in business for logistics facilities overseas.

[Q6]

With the Commercial Facilities Business faces in an environment where acquiring land has been difficult, do you think you will continue being able to acquire land information, something that has been a strength for your company?

Also, please tell us about your remaining construction capacity.

[A6]

・Land information is a strength of ours and we continue being able to acquire information.

・Construction capacity is very limited but we are strategically increasing per building unit price, which is currently at 350 million yen. We will continue to respond by increasing our unit price but we expect the number of available workers will fall below requirements due to construction related to the Olympics so we will focus on strengthening our construction structure.

[Q7]

Please tell us about your policies for real estate development investments for next fiscal year and beyond, investment distribution for each business segment, and your approach to capital plans.

[A7]

・We will continue with growth investments during the 6th Medium-Term Management Plan. Our policy is to secure returns on investments and focus on rotating capital.

・We want to increase overseas investments and our M&A budget. Moving forward, we will conduct internal deliberations on investment distribution, including for domestic real estate development investments.

We will aggressively pursue projects that transcend segment borders such as multi-purpose urban development projects and large-scale development projects.

・Overseas, we want to pursue growth with a focus on the construction contracting business. In China, we have already shifted from pursuing new large-scale investments to focusing on rotating capital.

[Q8]

Please tell us your vision in terms of what type of company you want to develop Daiwa House into over the next 10 years.

[A8]
I think there is a limit to the methods we have employed thus far in terms of achieving our goal of 10 trillion yen by our 100th anniversary. I believe we must view every country as a target market, observe to needs of each market, and provide the products and services that benefit each market. As such, we will strengthen investments in product development to enable us to grow beyond being a construction contracting business.

[Q9]
Please tell us about policies for future initiatives for the overseas business that symbolize the Daiwa House brand.

[A9]
Overseas, we are most regarded for our customer service and aftercare after construction completion. We are recognized for our commitment to the customer.
We also excel at being able to provide one-stop solutions for construction and management for various projects, from infrastructure to residential housing.
We will continue to evaluate the business needs of each country while focusing on balanced investments.

[Q10]
Please tell us about future business development plans for America.

[A10]
Stanley Martin, which we acquired via M&A, has been in the business of single-family housing development and sales for over 50 years. Though they previously operated mainly in Virginia, they expanded their service area by absorbing the business operations of FrontDoor Communities. We will promote the continued expansion of business in nearby areas.

[Q11]
Please tell us about the areas in which you are planning to expand your IoT initiatives.

[A11]
At present, we are advancing IoT initiatives for logistics facilities. We also are evaluating IoT integration for single family houses and will continue investments in IoT.

[Q12]
There are concerns about a declining macroeconomic environment but what are your thoughts on future profit growth?

[A12]
We will outline specific goal figures in the 6th Medium-Term Management Plan but regardless of the economic environment we are focused using creativity and innovation to secure higher revenues and profits.

[Q13]
Please tell us your thoughts on target ROE moving forward.

[A13]
I think we are likely to make an upward revision to our current ROE goal of 10% or higher but at present we are proceeding with internal discussions on specific figures.
Last year's result of 17% for ROE was particularly high due to the impact of actuarial differences related to pension accounting.
This fiscal year, current calculations suggest an ROE of around 15%. Assuming a dividend payout ratio of 30% and an internal retention level of 70%, our view is that a profit growth rate of 10% or higher will be required to maintain an ROE of 15% for the upcoming fiscal year.
Our basic policy is to generate shareholder value by creating economic value that exceeds capital costs. We will indicate appropriate ROE goals based on a comprehensive evaluation of profit growth rate, financial leverage, shareholder returns, and other factors.

(End)