

Daiwa House Industry Co., Ltd.

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

Date and time: From 15:00 to 16:15, Thursday, May 16, 2019

Speakers: Takeo Higuchi, Chairman and CEO
Keiichi Yoshii, President and COO
Takeshi Kosokabe, Representative Director, Senior Managing
Executive Officer and CFO
Yuji Yamada, Managing Executive Officer and General Manager of
Finance and IR Departments

[Q1]

The 6th Medium-Term Management Plan plans for profit growth in the three growth driver businesses, particularly for Commercial Facilities, and Overseas business as well. Please tell us your medium- to long-term approach. Will you continue aiming for profit growth in these four businesses? Or, will new businesses and core growth domains be positioned as new growth pillars?

[A]

• We believe the three businesses - Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities - will be major pillars for growth during both the 6th and 7th Medium-Term Management Plan periods. Additionally, Overseas business is finally growing to a point that it is beginning to show numerical significance in the performance of each segment so we will continue to conduct investments based on a careful evaluation of risks.

• The Rental Housing Business is seeing an increase in the ratio of orders for our medium-to-high-rise properties due to population concentrating in urban areas. The ratio of medium-to-high-rise properties during FY2018 was approximately 11%.

Rental Housing Business sales exceeded 1 trillion yen. Daiwa Living Co., Ltd. recorded firm earnings growth and as stock business, rental housing management also recorded steady growth. We will continue to enhance business development efforts targeting urban areas while taking advantage of our stock business strengths.

• The Commercial Facilities Business achieved this level of sales from the domestic business alone. We are currently evaluating the validity of our Japanese business model in the Taiwanese market and we believe we have business opportunities overseas.

- The Logistics, Business & Corporate Facilities Business currently requires an extreme sense of speed and urgency towards the logistics market. Conventionally, we have aimed for a 7:3 ratio in the number of BTS-type and multi-tenant-type properties we develop in logistics facilities business but recently we have been developing at a ratio of 5:5. We are increasing development of multi-tenant-type logistics facilities that allow immediate occupancy to meet the needs of tenants servicing the e-commerce market. We believe the e-commerce market will continue to see demand on favorable growth so we intend to aggressively engage in business development.

- As a new pillar, the Livness business has an incredibly large market. We will focus on providing powerful follow-up services for the properties we have developed thus far in an effort to further service the market.

[Q2]

During the presentation, you stated that moving forward you want to engage in offices. What are your company's strengths in this area?

[A]

- More than that having buildings in prime locations of urban areas, we will take advantage of our relationships with our more than 4,200 tenant companies to establish offices inside logistics facilities, etc. In this sense, we will focus on office proposals that enable us to apply our strengths.

[Q3]

Your plans call for sales of development properties this fiscal year to decline year on year but do you plan for sales to increase from next fiscal year onward? Also, if sales shift upward this fiscal year, will that factor into your assessment on the acquisition of treasury stock?

[A]

- For sales of development properties this fiscal year, only properties with a confirmed buyer have been included in plans. If conditions are preferable and the timing is appropriate, we would consider selling more properties.

- During the period of our 6th Medium-Term Management Plan, we expect our ability to generate cash flow to increase based on profit growth and increased property sales. We will maintain a D/E ratio of 0.5 while allocating capital towards the acquisition of treasury stock. We will continue these evaluations while also giving consideration to the status of our stock price.

[Q4]

The 6th Medium-Term Management Plan outlines you placing significant focus on the Livness business. Do you see this as a business with the potential to become a new growth pillar? Also, what impact do you expect this to have on your balance sheet?

[A]

- We believe we can take advantage of the strengths of the Livness business, not only in single-family house and apartment renovation, but also in the Business operational area. For example, it is said that approximately 80% of Japanese logistics facilities are antiquated. The process of rebuilding of logistics facilities located in urban areas into commercial facilities and relocating logistics facilities to new, more appropriate locations involves renovation work. We believe this is one aspect of the Livness business and one of our strengths is the ability to be a one-stop provider for those services. As customer assets in the Business area, we have constructed more than 40,000 commercial facilities and we have relations with over 4,200 tenant companies. As such, we believe there is sufficient room for growth.

- There is a possibility of using the balance sheet of the property purchase and resale business. If we can expect a residence to increase in value through renovation, in some cases we may provisionally acquire the property and maintain the property on the balance sheet. We have already begun such initiatives in the Condominiums Business.

[Q5]

Please tell me the ratio of sales represented by property purchasing and reselling transactions in the Livness business. Also, please tell me about how you plan to achieve growth and your strategies for this field.

[A]

- We are recorded sales of 62.3 billion yen in FY2018 and are planning on sales of 88.5 billion yen this fiscal year.

- With the purchasing and reselling of single-family houses, we do not particularly distinguish between our properties and competitor properties. Of course, it goes without saying that we have the best understanding of the appeal of our own properties so we want to aggressively promote this fact and use it to our advantage.

- In the condominium purchase and resell business, there are cases of us purchasing entire properties. In particular, this is a specialty of our subsidiary Cosmos Initia, which is involved in conversions to elderly homes and hotels.

- We also believe this business presents opportunities such as gaining information from Group management companies. The purchase and resale business is a segment growing faster than expected and we think the segment is continuing to grow.

[Q6]

Chairman Higuchi will step down as CEO but what is your view on governance moving forward.

[A]

- I have requested that the current issues be investigated by a third-party committee and an external investigatory committee. I believe the most important thing is that we maintain a stance of facing all issues head-on. I will continue to convey the importance of this issue to employees and executives.

- While I do feel the pressure of taking over for Chairman Higuchi, I understand that this responsibility comes with the good and the bad, and that fulfilling these responsibilities will help make Daiwa House into a better company.

[Q7]

The 6th Medium-Term Management Plan indicates a growth rate that is sluggish compared to plans thus far. Investment amounts are also largely unchanged from the 5th Medium-Term Management Plan. It appears that your growth outlook is slightly pessimistic. Please tell me your thoughts on this issue.

[A]

- At present, there are elements lacking stability and clarification so we have created a conservative plan. Our highest priority will be on strengthening governance and then we will consider reevaluating plans.

- We also reevaluated planned investments during the 5th Medium-Term Management Plan. During the 6th Medium-Term Management Plan as well, we will pursue good investment properties regardless of budget. We are also considering an upward revision during the 6th Medium-Term Management Plan so there is no change in our policy of aggressively pursuing investment opportunities.

[Q8]

Please provide an overall image of how you expect Overseas business to grow moving forward.

[A]

- Currently Overseas business has finally grown to a stage where we can outline earnings goals for each segment.

- We are developing the Single-Family Houses Business in America and Australia. Stanley Martin in the U.S.A. is growing steadily and we expect sales for the final year of the 6th Medium-Term Management Plan to exceed 100 billion yen.

The Rawson Group in Australia has been impacted by the market and we expect the next one to two years to be difficult.

- In the Rental Housing Business, we added Waldorf, a company involved in management and operation of serviced apartments in the Oceania region, as a consolidated subsidiary. We think it is also possible to develop rental housing in Australia.

We are already developing rental housing in the U.S.A., where we retain properties for a certain amount of time before selling them. We have excellent partners and business is developing favorably. However, due to somewhat of a lack of transparency looming over the US economy, we plan to carefully evaluate which properties we will look to sell and the timing of sales.

- In the Commercial Facilities Business, we are beginning to secure construction orders in Taiwan.

- In the Logistics, Business & Corporate Facilities Business, we are developing logistics facilities in Indonesia, Vietnam, Thailand, and Malaysia. The logistics facility in Indonesia, which is nearly 52,000m² in size, is nearly at capacity and expect a facility scheduled for completion during FY2020 will also reach full capacity. The facilities are in extremely attractive locations, making them highly competitive. The first Thailand facility, approx. 70,000m² in size, and the second facility, which is approx. 22,000m² in size, are both nearly full. Also, the nearly 30,000m² facility in Malaysia is already at half-capacity. Operations are favorable in all areas. Additionally, we added the Wakamatsu KONPOU Group as a consolidated subsidiary in March 2019. We plan to use the strengths of this new Group member towards developing a cold chain in the ASEAN region.

- About Overseas business, we want to generate a return on past investments while continuing our focus on developing business that is beneficial to people around the world.

[Q9]

Tell us about your strengths in the ASEAN logistics facility business.

Also, as you look to engage in the Commercial Facilities Business overseas, what strengths will you look to apply towards business expansion?

[A]

- First off, one of our strengths related to ASEAN business expansion is that we have a general contractor. In Indonesia and Vietnam, we are able to conduct construction in-house while continuing to evaluate costs. Also, we have a long history of relations in Japan and we have received reports of Japanese companies engaging in overseas markets. Our greatest strength is that we have a rich proposal menu, which includes in-house development. Additionally, we added the Wakamatsu KONPOU Group as a consolidated subsidiary, increasing the strengths of our cold chain and enabling us to increase the variations of our proposals.

- In Taiwan, we continue to validate the LOC system, the business model for the Commercial Facilities Business used in Japan, and the business has finally begun receiving orders.

- We will continue to conduct validation work in other regions as well.

- As a business concept, we will work on both construction and rental real estate management.

[Q10]

Planned investments in Logistics, Business & Corporate Facilities Business are down compared to the 5th Medium-Term Management Plan. Can you provide background information for this decline? Has there been a decline in purchasing opportunities or is it becoming difficult to acquire land?

[A]

- We do not believe the purchasing environment has become particularly difficult. If we encounter investment opportunities, we will reevaluate planned investments in order to proactively engage in investment activities.

[Q11]

With the domestic business, is there the possibility that you will change your portfolios for “Construction”, “Rental management”, and “Sale of development properties”?

[A]

- There is no change in our basic policies. Moving forward, we are aiming to be more than just a developer. We want to develop business model based on capturing contracts for building construction.

[Q12]

What is your view on a likely profit margin for Stanley Martin in the U.S.A.? Are you concerned about rising costs?

Considering factors such as residential land development costing more than expected, what is your view on impairment risks related to the Rawson Group in Australia?

[A]

- The profit margin for Stanley Martin has improved slightly. Labor expenses are currently on the rise and are hearing that this is a transitional element but we will continue to carefully evaluate the situation.

- The Rawson Group is not necessarily facing expanding costs. Instead, our view is that consumer sentiment is somewhat pessimistic due to the impact of stricter financing decisions by financial institutions. Looking at past conditions, we believe the market will recover in around two years so we are not largely concerned.

[Q13]

As you aim for net sales of 10 trillion yen, one would expect that the growth of new businesses will be a necessity but what is your view on business domain expansion?

[A]

- Speaking about logistics facilities, for example, we believe it will be important to increase our range of solutions, including proposing facilities with data centers, in order to expand beyond just logistics.

- Applying the concept of a comprehensive lifestyle business, we will continue to invest aggressively towards businesses that benefit people.

[Q14]

Amid low birth rates and population aging, how do you plan to maintain your client base and increase market share for the Commercial Facilities Business? Also, what do you view as key to being successful in doing so?

[A]

- From the perspective of low birth rates and population aging, we believe a key point is to engage in business in locations where populations are concentrating. We will strengthen our efforts in urban areas as we work to increase our per facility unit price.

- We will address properties with aging owners and expiring contracts by promoting contract renewals and the rebuilding of existing structures. At the same time, we will increase our proposal variety as we focus on securing new tenants.

[Q15]

What initiatives are you considering towards improving the accuracy of quality management in the design phase?

[A]

- The labor shortage is an area of concern related to improving quality management accuracy in the design phase. To promote investments in AI and automation, of the 250 billion yen for capital investments, we outline in our 6th Medium-Term Management Plan, 100 billion yen is slotted as investments in workstyle reform and technology infrastructure development.

(End)

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