Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)

at Announcement of Financial Results for FY2018 2Q

(For the fiscal year from April 1, 2018 to September 30, 2018)

Date & time: From 17:00 to 18:00, Thursday, November 8, 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】

In the breakdown of your gross margin ratio for the “Construction” in your business performance forecasts for FY2018, for the Commercial Facilities Business you estimate an improvement compared with the start-of-term forecasts of 2.0 percentage points, from 27.5% to 29.5%, whereas for the Logistics, Business & Corporate Facilities Business you estimate a 1.1pt worsening, from 16.1% to 15.0%. Could you explain the factors behind these estimates? Additionally, could you outline the Company's business performance prospects for the following term and beyond?

(Reference) Financial Highlights: p12 “Business Performance Forecasts for FY2018 (3)”

【A】

・In the case of all business segments, we anticipate orders already received to contribute to full-term results. We closely examine the cost-of-sales ratio for each individual project and adjust the full-term forecast accordingly.

・The cost-of-sales ratio at the time of receipt of order is showing an improvement when compared with both the first-half and second-half periods of the previous fiscal year, and this definitely does not indicate a deterioration in the operating environment.

【Q2】

Regarding the cumulative overseas investment balance, in addition to the parent company Daiwa House Industry Co., Ltd., which consolidated subsidiaries also hold investments?

(Reference) Financial Highlights: p18 “Cumulative overseas investment balance”

【A】

・The Daiwa Living Group has made investments in an Australian serviced apartment management company, but the impact of this on the total figure is minimal.

【Q3】

Please describe the current business environment and sales situation in China, the United States, and Australia.

(Reference) Financial Highlights: p18 “Overseas Business Regional Overview”

【A】

・Business performance by Stanley-Martin Communities, LLC, a single-family housing builder in the United States, has been on target thus far.

・In Australia, the single-family housing business, operated by the Rawson Group Pty Ltd., has seen a slight year-on-year decline in the number of homes sold due to the implementation in Australia of stricter guidelines for mortgage loans and other factors.

・In the condominium business in China, sales have followed a favorable trend in Changzhou and Wuxi, with all units sold out. In Dalian, neither the real estate market in particular nor the general economic situation has been as healthy as in Shanghai and a number of other areas, as a result of which the sales have been slower than normal.

【Q4】

We see that you have revised upward your forecast for Rental Housing Business orders. Could you describe the current order intake situation?

(Reference) Financial Highlights: p13 “Orders Received by Business Segment (Non-consolidated)”

【A】

・Sales of development properties that were not factored into the start-of-term forecasts were recorded as incoming orders, and as a result, orders received for the six-month period to September 2018 rose sharply by 16.5% over the same period of the previous year. It is on this basis that we have revised the full-term forecast upward.

・The order environment has not turned sharply favorable, but as orders for three-story and medium- to high-rise properties are increasing, the average sales price per single property is following an uptrend, and we believe that we are enjoying the benefits of this trend.

・Regarding the stricter rules for the loan screening, as the Daiwa House business model does not, for the most part, involve the sale of land plus a building or buildings erected on that land as a single package, this development has not had a significant impact on the Company's business.

【Q5】

Regarding the problems relating to seismic isolation/mitigation oil dampers manufactured and sold by KYB Corporation, it is unclear when such products are scheduled to be delivered for use in certain projects undertaken by your Condominiums Business, but we would like you to clarify if this issue will result in delays to the timing of recording as sales.

【A】

・There are two projects scheduled for completion and handover in February and March 2019 and in which KYB dampers have been used. While we believe that the projects can be handed over in the pre-specified quality, we have, nonetheless, conservatively adjusted our sales estimates.

・The impact for the current term is estimated at ¥24.7 billion for sales and ¥4.9 billion for gross profit.

・Regarding projects already completed, KYB dampers have been used in a number of them, and we are currently conducting investigations into this. In the event that it is found necessary to replace them, we will take steps to have KYB handle the replacement work, and thus we do not anticipate this resulting in any particular costs to the Company or the Group.

【Q6】

The monthly breakdown of Logistics, Business & Corporate Facilities Business orders received figures shows a decrease of 31% year on year for the month of October and a cumulative total decrease of 6% year on year for the 7-month period from April to October 2018, excluding the sale of development properties. Does this indicate a recovery in the near future?

(Reference) Financial Highlights: p13 "Orders Received by Business Segment (Non-consolidated)"

【A】

・The value of orders received amounted to ¥202.7 billion for the six-month first-half period and the amount for the second-half period is estimated to decline to ¥177.3 billion.

・As there will be no sales of development properties during the second-half period, looking solely at non-development orders, we expect the figures for the first-half and second-half periods to be essentially identical.

・In Logistics, Business & Corporate Facilities Business, there is a high number of large-scale projects, and, despite volatitlity from one month to another, we should easily be able to reach our targets for the full term. There does not appear to be any trend toward a decline in orders.

【Q7】

Regarding sales of development properties, you have revised upward your full-term forecasts for sales and gross profit. Could you explain the reasons behind this?

(Reference) Financial Highlights: p12 "Business Performance Forecasts for FY2018 (3)"

【A】

This was due to the fact that we had not factored the sale of certain properties into the initial forecasts. In Rental Housing Business, we sold the Royal Parks Sasashima in Nagoya.

【Q8】

Under "Construction" in the Rental Housing Business, you have revised downward the forecast for the full term. What are the reasons for this?

(Reference) Financial Highlights: p12 "Business Performance Forecasts for FY2018 (3)"

【A】

・As a result of the bankruptcy of a manufacturer of high-performance sound-insulating floors used in some of our rental housing properties, the possibility has arisen that we may not be able to deliver and install such materials in some 100 buildings. Consequently, we have factored an impact of ¥10 billion into sales and ¥2.5 billion into gross profit.

・Additionally, we have also revised downward our sales forecast after taking into account the amount of orders received during the April-July period of 2018.

・Regarding the gross profit and gross margin ratio, it is definitely not the case that direct costs are worsening: the value and rate of profits are deteriorating owing to a decline in sales, making it difficult to cover indirect costs such as design and construction workers' payrolls.

【Q9】

Regarding gain on sales of development properties, you have forecast a high figure for the current term of ¥51.9 billion. We would also like to hear about prospects for next term and beyond.

(Reference) Financial Highlights: p12 "Business Performance Forecasts for FY2018 (3)"

【A】

Profit margins overall are expected to deteriorate compared with the current level. At the present time, property holding periods are long, and we are prioritizing the sale of properties whose depreciation has progressed significantly. Consequently, assuming the same cap rate, the profit will be lower.

【Q10】

How do you see profit growth next term and beyond?

【A】

We will be releasing detailed information on that in our medium-term management plan, to be announced in May 2019, but we have adopted a policy of strengthening overseas operations. We are also considering increasing the value of sales of development properties as compared with the current Fifth Medium-Term Management Plan.

【Q11】

Please explain the background to your acquisition of treasury stock, including your objectives.

(Reference) November 8, 2018 News Release “Notice of the Determination of Matters Pertaining to the Acquisition of Treasury Stock”

【A】

・The main purpose of this acquisition is to exercise paid stock options for Company executives and other employees.

・In the event that accumulated operating income during the period of the Company's current Fifth Medium-Term Management Plan exceeds a certain specified level, this will result in the issuance of stock options in the amount of roughly two million shares or more in May 2019. For this reason, we have decided to implement this acquisition at the time of announcement of the Group's financial results.

【Q12】

Concerning the Rental Housing Business, please describe the situation as regards lending by financial institutions, the orders received situation, and any unique regional features that may exist.

【A】

・With regard to the tightening of lending conditions, it seems that the situation is more severe in the non-metropolitan regions of Japan.

・It appears that companies operating a business model focused on the package sale of land together with properties built upon that land are experiencing difficulties in acquiring the necessary loans from financial institutions in the Tokyo metropolitan region. In the case of Daiwa House, however, the land/building package-sale approach accounts for a mere 5-7 percent of total sales.

【Q13】

With respect to the KYB Corporation issue, what is the situation in the Commercial Facilities Business, and Logistics, Business & Corporate Facilities Business? Is there a possibility that the sale of properties currently being held will be delayed due to the need for inspections and replacement?

【A】

・There are no properties in the Commercial Facilities Business affected by the KYB issue.

・In logistics facilities, there are a number of already-completed properties affected, and our investigations are still under way. In the event that it becomes necessary to take remedial action, we must, of course, act quickly, but we do not anticipate that remedial action will take so long as to impact the pace of sales.

【Q14】

According to your forecast, the gross margin rate for the Single-Family Houses Business and Rental Housing Business in the second-half period of FY2018 will worsen slightly compared with the first-half period. Are there potential causes for concern on the horizon in the second-half period? Or is this development due to the non-repetition of one-time or temporary factors that served to push up the gross margin rate for the second quarter?

(Reference) Financial Highlights: p14 “Sales by Business Segment (Non-consolidated)”

【A】

In the Single-Family Houses Business and Rental Housing Business, while there are orders that will be booked in the near future and that will contribute to sales for the full term, in principle, as stated in Answer No.1, we will keep a close eye on both the order backlog and the state of progress of construction, will closely audit the cost rate for each individual project, and will adjust our full-term forecast accordingly. No particularly significant factors are involved.

【Q15】

Is the downward revision of the gross profit margin for the Logistics, Business & Corporate Facilities Business due to factors involving the non-consolidated accounts of Daiwa House Industry, or is it the effect of Fujita's business?

(Reference) Financial Highlights: p12 “Business Performance Forecasts for FY2018 (3)”

【A】

The gross profit margin for the current term shows a year-on-year decline for both Daiwa House Industry and Fujita, but the downward revision of the start-of-term forecast was caused by factors affecting the business of the parent company.

(End)