

Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2018
(For the fiscal year from April 1, 2018 to March 31, 2019)

Date & time: From 16:00 to 17:00, Monday, May 13, 2019

Presenters: Takeshi Kosokabe, Representative Director, Senior Managing Executive Officer and CFO
Yuji Yamada, Managing Executive Officer and General Manager of Finance and IR Departments

【Q1】

With regard to your forecasts for the Group's overseas business during the 6th Medium-Term Management Plan, could you give a breakdown by area of your performance targets for the final year of the plan, ending March 31, 2022?

(Reference) 6th Medium-Term Management Plan: p5 "Overseas Expansion"

【A】

• The table below shows our sales and operating income forecasts for each area for the final year of the plan.

(¥billion)

Area	Net sales	Operating income
USA	155.0	12.0
Australia	65.0	5.0
ASEAN	70.0	5.0
China • East Asia	52.0	0.5
Others	58.0	1.5
Total	400.0	24.0

【Q2】

Please give the performance figures for your Livness business for FY2018 and your forecasts for the current fiscal year.

(Reference) 6th Medium-Term Management Plan: p8 “Enhancing value-added of customers’ assets”
p9 “Deploying Livness Town Project”

【A】

- Net sales for FY2018 were ¥181.3 billion, and our forecast for FY2019 is ¥216.2 billion.

【Q3】

Please describe the way in which you set profit targets for each segment in domestic market under your 6th Medium-Term Management Plan.

(Reference) 6th Medium-Term Management Plan: p4 “Earning Goals by Business Segment”

【A】

- We are rather pessimistic about the Single-Family Houses Business. Sales is holding roughly flat with a forecast operating income decline of ¥7 billion. The reasons for this are, firstly, our expectation that buyer demand will slacken off following the raising of the consumption tax rate, even though we recognize that there has not been any particularly notable rush demand ahead of the tax hike. In addition, we have heard from our staff at sales offices that business inquiries from potential customers are being negatively impacted by the issue of off-specification components, and we thus feel obliged to take a cautious stance regarding performance forecasts.

- In our Rental Housing Business, we forecast a ¥5.1 billion increase in operating income. As for our strategy, under the 6th Medium-Term Management Plan, we will continue bolstering our marketing activities in urban areas, and by raising the proportion of medium- and high-rise properties compared with two- to three-story prefabricated housing properties, we hope to raise the average selling price per single property.

- Our Commercial Facilities Business is currently performing extremely favorably. Demand in the hotel trade continues to be firm, and by pressing ahead with large-scale multi-use facilities such as those now underway in Toyosu (Tokyo) and Sapporo (Hokkaido Pref.), we hope to grow our sales.

【Q4】

Your 6th Medium-Term Management Plan incorporates a forecast overall increase in earnings of ¥32.9 billion for the final year, but what would the figures be if broken down into the three categories of “Construction,” “Rental management,” and “Sale of development properties”?

(Reference) 6th Medium-Term Management Plan: p3 “Performance Targets under the 6th Medium-Term Management Plan”

【A】

• Regarding the sale of development properties, under our 5th Medium-Term Management Plan we registered a gross profit of ¥123.5 billion on sales of ¥331.0 billion, which amounts to nearly forty percent. Under the 6th Medium-Term Management Plan, we envisage ¥400 billion in sales with a profit ratio of about thirty percent. Consequently, we are not expecting the sale of development properties to play the role of an earnings driver.

• Regarding the balance between the construction business and management services, we have no specific numerical targets, but we hope to realize a profit increase predominantly in the construction business.

【Q5】

Under your 6th Medium-Term Management Plan, you schedule an investment of ¥700 billion in real estate development. Of this, what amount relates to investment in which you have already acquired the land and intend to invest in the construction of buildings from here on?

(Reference) 6th Medium-Term Management Plan: p12 “Investment Plan”

【A】

• Out of the total figure of ¥550 billion planned for real estate investment in Japan, we currently estimate around ¥250 billion in investment in the construction of buildings.

【Q6】

Within your capital policy under the 6th Medium-Term Management Plan, there is a reference to “flexible acquisition of own shares.” Are there any particular preconditions for implementing such acquisition?

(Reference) 6th Medium-Term Management Plan: p13 “Capital Policy”

【A】

- Needless to say, we always keep an eye on share prices, and the share price at the moment is at a level that fully warrants consideration of acquisition. When the time comes, we will base our decision on an overall evaluation of conditions, such as our investment policy and the debt-to-equity (D/E) ratio.
- Compared with our 5th Medium-Term Management Plan, net cash from operating activities is expected to increase under the 6th Medium-Term Management Plan, and we also plan to increase the sale of developed properties. We believe that we will be able to secure the funds necessary for the acquisition of own shares while at the same time maintaining fiscal discipline. Thus, we will decide to acquire shares or not depending on the share price level, among other factors.

【Q7】

Regarding the sale of development properties, the value for FY2018 amounted to ¥151.9 billion, whereas you estimate ¥103.1 billion for the current fiscal year, for a decrease of ¥48.8 billion year-on-year. Previously, you had stated that you planned to increase the pace of development property sales under the 6th Medium-Term Management Plan. Does this result from a change in the business environment or in your strategy? And is there a possibility of your increasing such sales going forward? (Reference) Financial Highlights: p15 “Business Performance Forecasts for FY2019 (4)”

【A】

- We have not changed our plan to speed up the pace of sales of development properties. Under our 5th Medium-Term Management Plan, we sold ¥331 billion in three years, compared to which we are scheduling sales of ¥400 billion over the three years of the 6th Medium-Term Management Plan.
- Regarding the plan that we have announced, this includes only sales that have already been decided, such as properties whose sale to Daiwa House REIT has been completed. From here up to March 2020, the total value of sales may increase.

【Q8】

The gross profit on your Logistics, Business & Corporate Facilities Business is projected to increase by 1.7 percentage points over the previous fiscal year to 15.8 percent for this fiscal year. Could you explain the reasons for this?

(Reference) Financial Highlights: p15 “Business Performance Forecasts for FY2019 (4)”

【A】

• The gross profit of Fujita for FY2018 was very poor, at 10.5 percent, owing to the impact of certain unprofitable construction contracts in Mexico and Qatar, but as there will be no repetition of such unprofitable work this term, we expect profits to increase.

• The non-consolidated profits of Daiwa House Industry Co., Ltd. have not been showing any significant change one way or the other, and the profit margin is following a stable trend.

【Q9】

How have the owners of the buildings affected by the recent off-specification component issue reacted? And is it likely that your response to the owners will impact future marketing activities, business performance, and so on?

【A】

• With respect to the number of affected buildings stated in our announcement on April 12, we have been explaining the situation to the owners, and this process is now almost completed.

• With regard to renovation/repair work other than those on buildings of “quasi-fireproof construction,” it appears from reports that we have received that there have been hardly any applications for renovation/repair work, and it thus seems unlikely that costs will increase beyond the amount we have already estimated.

【Q10】

Please keep us informed of any further developments regarding nonconformity with construction standards. Also, is there any likelihood of this problem becoming an issue at other buildings apart from those included in the recent news release?

(Reference) News release published on May 13, 2019: “Daiwa House Issues Correction of Number of Rental Housing Properties Affected by Off-Specification Components”

【A】

• Today, we have issued a news release in which we describe the progress that has been made in corrective work on off-specification inverted-L columns in rental apartment buildings, regarding which we had previously issued a news release on April 12.

• We are unable to provide any information at the present moment regarding the timing of the report that we are scheduled to receive from the external investigatory committee.

【Q11】

Regarding the off-specification component issue, roughly how long do you expect it to take for you to ensure that all the buildings affected are now safe?

【A】

• At the present moment, we expect to conclude our investigations of the safety of all buildings involved by the end of June. We anticipate that the entire issue—including dealing with all the concerns of our customers—will take about six months to completion.

(End)

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