Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2019 3Q
(For the fiscal year from April 1, 2019 to December 31, 2019)

Date & time: From 16:00 to 17:00, Friday, February 13, 2020
Presenters: Takeshi Kosokabe, Executive Vice President and CFO
Yuji Yamada, Managing Executive Officer and General Manager of Finance and IR Departments

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[Introductory statement]
Before we proceed with the Q&A, I would like to provide an update on the current state of our Chinese affiliate, which I know has been of concern to you all. As I have stated previously, the ownership period for the venture company was up to the end of December last year. As such, a board of directors meeting was held last year on December 30. We attempted to acquire ownership rights and extend the ownership period, but we were unable to receive cooperation from the China side. As a result, the ownership period concluded as of the end of December of last year. Currently, we are consulting with local experts to proceed with measures. Fundamentally, this creates a situation where the only option is liquidation. As such, we currently are in preparation to file a petition for compulsory liquidation. However, due to the impact of the novel coronavirus (COVID19), it is difficult to make any forecast concerning progress. We currently are investigating additional losses related to this venture and will provide an update as information becomes available.

Next is the issue of model approval violations stemming from nonconformance with construction standards. Third-party safety validations have been completed for all relevant properties. We are gradually preparing explanations for customers and confirming customer requests. Regarding the Notice Concerning Off-Specification Work Experience Criteria for Chief Construction Engineer Skills Qualification Tests released in December of last year (Japanese only), we have completed making apology calls and explanatory visits to customers affected by the 16 projects at which persons with off-specification qualifications were assigned to construction sites. Since then, we have been progressing with an investigation conducted by a third-party agency. We have already released information on reoccurrence prevention measures and currently an external third-party committee is also conducting an investigation, so we will provide a report on the results of the investigation by that committee at a later date.

Lastly, I would like to touch on 3Q earnings. While results differ between segments, we achieved record highs for both sales and income. As for our full-year earnings forecast, we expect being able to achieve our overall performance goals. Looking ahead to next fiscal year, the second year of our current Medium-Term Management Plan, we will continue building on this performance as we work towards achieving our earnings goals for the final fiscal year of the plan.

【Q1】

Orders received for the Single-Family Houses Business and the Rental Housing Business appear below the revised plans announced in November 2019. Please explain your strategy going forward and forecasts.

(Reference) Financial Highlights: p17 “Orders receive results and forecasts”

【A】

-Overall, the market environment for the housing business remains severe. Orders received for the Single-Family Housing Business decreased by 10.7% overall and the Rental Housing Business was down 20.1%. If these conditions continue, there is concern of an impact on next fiscal year’s earnings.

-Housing market sentiment remains low. As a strategy for the Single-Family Houses Business, we are expanding variation, including offering houses with rental units, to increase the price per unit. In the Rental Housing Business, we are implementing various strategies, including proposing RC construction in major cities to increase price per unit and reassigning sales personnel from suburban locations to the Tokyo area.

-Regarding a recovery in orders received, while there are some expectations that we are nearing the end of declining market conditions, it is too early to be optimistic at this point in time.

【Q2】

Please explain your fiscal year forecast for the impact of actuarial differences related to retirement benefits.

(Reference) Financial Highlights: p9 “Operating income excluded amortization of actuarial differences”

【A】

-The impact of retirement bonus actuarial differences on operating income during the previous fiscal year was 3.0 billion yen. Although not included in our earnings forecast for the current fiscal year, estimates as of the end of December indicate income is up by approximately 17 billion yen. As a breakdown, this is almost investment management gains.

【Q3】

If, for example, 17 billion yen is added to operating income due to actuarial differences, it will create a very high standard for next fiscal year and make it difficult to further achieve increased income. What are your thoughts about next fiscal year?

【A】

-We conduct the batch treatment of retirement bonus liabilities for each fiscal year. This accounting treatment is highly impacted by market environment factors, so we prefer to be evaluated based on operating income excluding that impact.

【Q4】

Regarding the venture in China, have you already found a buyer for the property? Also, if you are able to sell the property, can we assume there will be not significant losses moving forward?

【A】

-While I cannot comment specifically at this point as we have not yet conducted a real estate appraisal but we do not anticipate any significant additional losses. For FY 2018, we already recorded 12.5 billion yen as equity in (earnings) losses of affiliates as non-operating expenses. The expiration of the ownership period will result in approximately 7.5 billion yen in non-operating expenses, which I think will be recorded under current fiscal year accounting.

-This transaction involves a compulsory liquidation so it will involve an auction and I think there will be interested buyers. We will proceed with caution once the liquidation is approved.

【Q5】

For this earnings release, you are leaving plans for orders received unchanged, but do you think plans can be achieved when including the Rental Housing Business? If not

achievable, should we assume orders received will not be significantly below plans?
(Reference) Financial Highlights: p17 “Orders received forecasts”

【A】
-Based on current progress, there is a possibility we may not reach plan figures for orders received from the Single-Family Houses Business and the Rental Housing Business but figures from the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business should be sufficient to achieve overall plans.
-Internal meeting reports suggest that this will not be easy to achieve for the Single-Family Houses Business and the Rental Housing Business, but these divisions will work to achieve plan goals in the two months remaining in the fiscal year. As such, even if plan goals are not achieved, we believe figures will not be far below plans.

【Q6】
I want to ask about the overseas Single-Family Houses Business. First, please tell me about current fiscal year sales and operating income for Stanley-Martin Communities, LLC and the Rawson Group Pty., Ltd.
Also, please discuss the characteristics and strengths of the recent M&A acquisition Trumark Companies LLC.

【A】
-Stanley-Martin Communities, LLC (USA)
Net Sales: ¥71.8 billion (YoY ¥+14.8 billion)
Operating Income: ¥6.1 billion (YoY ¥+1.7 billion)
-Rawson Group Pty., Ltd. (Australia)
Net Sales: ¥25.2 billion (YoY ¥+2.1 billion)
Operating Income: ¥0 billion (YoY ¥-1.3 billion)
- Founded in 1988, Trumark (USA) had a long history as a company that started off in the land development business. In the past, they also engaged in commercial facility development but today they are mainly focused on housing development. A characteristic of the company is that they conduct capital procurement by gathering investors for each project without using their balance sheet, and instead form SPCs to conduct development. Projects completed thus far exceed 8,000 subdivisions. In FY2018, they delivered 526 houses (509 single-family houses, 17 condominiums).
In joining the Daiwa House Group, the company will engage in development by applying our brand credibility towards capital procurement. As such, we anticipate the company

will contribute significantly to sales and income.

【Q7】

In your 2Q earnings announcement, you commented that you are evaluating an upward revision to your three-year investment plan. Please discuss, to the extent possible, your current outlook on the direction of investments.

【A】

-Investments are proceeding faster than anticipated. Looking at real estate development investments, we expect investments in the Logistics, Business & Corporate Facilities Business (particularly logistics facility development) will exceed the 350.0 billion yen planned for the three-year period. As such, we plan to revise our three-year investment plan in May 2020. I think this will entail increasing the investment amount allocated for the Logistics, Business & Corporate Facilities Business.

-We also are ahead of schedule for the 400.0 billion yen from the sale of development properties planned for the three-year period. As such, from a cashflow perspective, we are reviewing plans towards increasing the sale of development properties.

【Q8】

You stated that the decline in gross margin for construction in the Commercial Facilities Business was attributable to certain properties with a poor cost-to-sales ratio. Has this been reflected in plans? Also, do you forecast improvement in the gross margin?

(Reference) Financial Highlights: p15 "Commercial Facilities Business"

【A】

-Gross margin for 3Q was 26.4% compared to 27.7% in our revised full-year plan. This suggests it will be difficult to recover to planned levels. The majority of properties with a high cost-to-sales ratio are on par with progress standards will be included in and have been recorded as net sales for the current fiscal year. However, the cost-to-sales ratio at time of order received is improving. As such, we expect improvement next fiscal year and beyond.

【Q9】

Are the details indicated for overseas losses related to the Logistics, Business & Corporate Facilities Business construction the same figures as those announced in 2Q? Also, please tell me about current fiscal year earnings for Fujita.

(Reference) Financial Highlights: p16 "Logistics, Business and Corporate Facilities Business"

【A】

-The content is the same as the details released for 2Q.
-Fujita earnings through 3Q were net sales of 376.9 billion yen (YoY ¥+1.4 billion), and operating income of 8.9 billion yen (YoY ¥-3.8 billion). These figures do not include overseas losses of 7.4 billion yen.

【Q10】

What is the current market environment for orders received for the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business?
Also, are governance initiatives related to Fujita working?

【A】

-It is not our impression that Daiwa House (non-consolidated) Commercial Facilities Business or Logistics, Business & Corporate Facilities Business are facing an increasingly severe market conditions for orders received. In fact, we believe orders received are firm. On the other hand, Fujita faces severe competition from the general contractor industry and competition is intensifying, making the market for orders received more severe.
-We are working to enhance Group governance. For Fujita, we already dispatched sales, technology, and compliance staff from Daiwa House in October 2018. We provide autonomy to Fujita for standard construction contracts while we also have established a structure for Groupwide governance and risk management on certain large-scale development projects.

【Q11】

Looking at operating income from the sale of development properties, income was 67.0 billion yen through 3Q against revised plans of 64.8 billion yen. Are you planning for further increases during 4Q?

【A】

-Income from sales of development properties increased from 51.0 billion yen for the first six months to 67.0 billion yen in 3Q, representing a 16.0 billion yen increase and exceeding full-year plans of 64.8 billion yen. At present, we do not have specific plans for

4Q. While we may see buyer sentiment move during 4Q, we are not anticipating a major increase.

【Q12】

Has the novel coronavirus (COVID19) impacted hotels you operate or ongoing construction projects?

【A】

-Construction projects have not been impacted significantly and we have not had any projects cancelled. However, hotels we operate are seeing a decline in occupancy rates. We are hoping for this situation to be resolved as quickly as possible.

End