Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2020
(For the fiscal year from April 1, 2020 to March 31, 2021)

Date & time: From 16:00 to 17:00, Friday, May 14, 2021
Presenters: Takeshi Kosokabe, Executive Vice President, CFO
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【Q1】
Looking at your plans for FY2020, it appears that you could have strived for increased income through activities such as the sale of development properties. What was the background behind your forecast for decreased income? For example, are you currently out of development properties in the rental housing or commercial segments that are available for sale?

【A】
FY2020 operating income was 357.1 billion yen, but 329.4 billion yen after subtracting for the impact of actuarial differences from the employees' retirement benefits. We are planning to achieve increased income above this amount and are steadily building a portfolio of development properties. As such, we could increase income through the sale of development properties. The figures we announced are based on an approach of not taking an overly optimistic outlook for this fiscal year. That said, we do project increasing net income by 19.9 billion yen.

【Q2】
With rapidly increasing prices for building materials, the United States is facing the problem of procurement uncertainly outpacing strong demand. With steel prices rising in Japan, do you anticipate being able to reflect cost increases in product prices? You indicate projections for improvements to the operating margin for the non-consolidated Single-Family Houses Business, but can you approach to material costs and your pricing strategy?

【A】
Last year around this time, amid the lack of future transparency caused by the COVID-19 pandemic, we thought people would stop buying houses and condominiums. However, what we came to realize over time is that there was demand for homes. The Single-Family Houses Business is seeing stable demand thanks to market factors such as the adoption of telecommuting and low interest rates. Demand in the United States is particularly strong. Stanley-Martin has been able to offload costs onto customers

by adopting a method of finalizing costs first and then setting prices that enable the company to secure income. Conversely, the concern in the United States has been a declining supply of land caused by delays in securing land development permits due to the fact that government workers are also telecommuting. In Japan, the impact is limited because our main products are steel-framed prefabricated houses. We are able to cover market impact by achieving cost reductions in other areas. The majority of single-family houses are ordered and sold off in the same fiscal year, and we expect we can increase income depending on the status of orders received.

【Q3】

The rising price of lumber in Japan could result in certain SME construction companies being unable to procure materials. Do you think this will increase your competitiveness as a provider of steel-framed houses?

【A】

Conventional thinking would suggest that such conditions would drive increased competitiveness for us but customers looking at single-family houses typically do not sway from their decision on selecting prefabricated construction versus conventional construction.

【Q4】

Looking at your plans for FY2021, last fiscal year you incorporated a significant amount as the impact of the COVID-19 pandemic but has there been any change in how you are estimating plans for FY2021?

(Reference) Financial Highlights: P.16 “Business Performance Forecasts for FY2021 (1) Year on year change”

(Reference) Financial Highlights: P.27 “Orders Received by Business Segment (Non-consolidated) (1)”

【A】

There are no notable changes. Our methods have remained the same since even before the previous fiscal year. We create plans based on reports from our offices, business divisions, and Group companies. Daiwa House non-consolidated orders received decreased by 168.7 billion yen during the previous fiscal year, resulting in beginning of term orders received balance declining by nearly 100.0 billion yen (single-family houses orders received balance increased). This represents a difficult start to the fiscal year and will place some stress on plans for FY2021.

【Q5】

FY2021 is the final year of your 6th Medium-Term Management Plan. What points can we look

forward to this fiscal year?

【A】

The most significant point is enhancements to our value chain enabled by the full-scale adoption of our business division-based system.

For example, currently over 60% the Rental Housing Business Division is attributed to Daiwa Living. By increasing this to 80%, the increase in the number of units managed will drive income growth and help maximize revenues for the entire business division. We are building equivalent strategies for each business division. Achieving significant growth for building contracting will be difficult but, by strengthening alliances between Group companies, we can generate synergy and capture new business opportunities.

【Q6】

Please discuss why FY2021 plans call for a decline in the gross margin ratio from the sale of development properties for the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business. Also, considering that in June 2020 you revised investment plans in the Logistics, Business & Corporate Facilities Business from 350.0 billion yen to 650.0 billion yen, why are you planning for only a slight increase in sales?

(Reference) Financial Highlights P.15 “Status of Investment Plan”

(Reference) Financial Highlights P.25 “Commercial Facilities Business”

(Reference) Financial Highlights P.26 “Logistics, Business & Corporate Facilities Business”

【A】

One reason is that the period from the completion of construction to sale is decreasing, resulting in a lack of depreciation. Another reason is that development competition is intensifying. There are cases where it is impossible to win land bids without lowering development estimates. Regarding plans for property sales, as I explained earlier, plans reflect our intention of not taking an overly optimistic approach.

【Q7】

Please discuss why you lowered the gross margin ratio for construction in your FY2021 plan for the Logistics, Business & Corporate Facilities Business. Are there any particular asset types that are declining?

(Reference) Financial Highlights P.26 “Logistics, Business & Corporate Facilities Business”

【A】

We are not planning on a decline from Fujita, which is included in the Logistics, Business & Corporate

Facilities Business. The gross margin ratio is declining for Daiwa House's term beginning balance on orders received. Although we expect improvement as some of this balance includes properties that were ordered and will be delivered in the same fiscal year, we are being cautious with plans based on the current state of order backlog. As for asset types, conditions are difficult for factories and other construction tied to corporate capital investments. In addition to construction plan delays due to COVID-19, super general contractors are also targeting smaller budget projects, which is creating greater competition.

We win construction contracts because we excel at providing high-quality land and attracting not only logistics customers to industrial parks, but also enterprises. We will secure orders received by continuing with industrial park development and attracting tenants to land we have already developed.

【Q8】

About overseas business in Single-Family Houses Business, please tell us about sales and operating income of Stanley-Martin Communities, LLC and the Rawson Group Pty., Ltd. for FY 2020 results and FY 2021 forecasts.

(Reference) Financial Highlights: P.21 "Single-Family Houses Business"

【A】

The results of each company are as follows.

(¥ 100 Million)	Sales			Operating income		
	21/3	22/3 Plans	Change	21/3	22/3 Plans	Change
Stanley-Martin	1,556	1,622	65	168	118	△50
Rawson	239	279	40	△17	△9	7

We are planning for Stanley-Martin Group income to decline by 5.0 billion yen, with one of the factors behind this decline being a subsidiary housing loan company. In FY2020, Stanley-Martin (non-consolidated) recorded income of nearly 7.0 billion yen on favorable housing sales and low interest refinancing demand. However, this year we are only planning on roughly 1.0 billion yen. Also, the company does not generate costs so it has a very high profit margin, which is one of the reasons driving down the income margin for Stanley-Martin.

【Q9】

Looking at plans for orders received in the Commercial Facilities Business, what factors are driving increased income despite the difficult conditions for hotel construction demand.

(Reference) Financial Highlights: P.28 "Orders Received by Business Segment (Non-consolidated) (2)"

【A】

Amid COVID-19, hotel construction, which had been a top earner, was severely impacted. Two fiscal years prior, we recorded orders received exceeding 100.0 billion yen but this declined to 50.0 billion yen last fiscal year and we project this decline to continue this fiscal year. We think it will be difficult to cover all of this decline through over businesses.

At the same time, there are also some positive aspects. For example, thus far tenants were concentrated in urban areas and large-scale shopping malls. Due to COVID-19 forcing temporary closures of entire shopping malls and driving consumers to make decisions related to safety, we are seeing a return of certain tenants to suburban roadside stores.

Additionally, we are proposing the sale of land involving developing the land into revenue property as a way to promote the effective use of land.

This segment has a high profit margin and there is no change in our view as a growth driver for our company. We will continue working to grow this segment.

【Q10】

You issued a press release on the appointment of a new Executive Vice President. What is the relationship between Daiwa House and Taisei Corporation, where the soon-to-be-appointed Mr. Murata currently works?

(Reference) "Notice of Change in Representative Director and Changes to Executive Personnel Assignments", on May 14, 2021 (Japanese only)

【A】

In addition to the joint development of serviced apartments in Vietnam, the company is one of our contractees for logistics facilities and there is a history of interaction between the leaders of both companies.

We are strengthening our technology development and Mr. Murata will oversee management and supervisory functions for the Technology Division. We also are aggressively engaged in digital transformation and digital construction, so we brought in someone with expertise in this domain. Additionally, Mr. Murata has past management experience in the residential housing division at Taisei Corporation, so we believe he will have a positive impact on operations.

【Q11】

Concerning sales and income for the Hotel Management Business (FY2020 results, FY2021 plans), and background of conditions.

【A】

Earnings from the hotel management businesses of each company are indicated below. Our plans

project each company will see improved occupancy rates and increased income this fiscal year.

(¥ 100 Million)	Sales			Operating income		
	21/3	22/3 Plans	Change	21/3	22/3 Plans	Change
Daiwa Royal	210	403	193	△113	△33	79
Daiwa Resort	174	299	124	△109	△70	39

※Daiwa Royal：Commercial Facilities Business
Daiwa Resort：Other Businesses

【Q12】

Plans for FY2021 indicate difficult conditions. In which segments do you expect to see improvement?

【A】

We think you can expect improvement in our three growth driver businesses (Rental Housing Business, Commercial Facilities Business, and Logistics, Business & Corporate Facilities Business).
The Rental Housing Business is the segment in which we can expect to see the greatest improvement. In this segment, we grew from a 5% share to a 10% share and have remained at roughly 10% since 2014. The last few years, construction orders received and sales have declined in a reflection of market trends. However, we have not decreased our investments, including personnel investments, in this segment. We have strong sales personnel and we expect to see rapid improvements in sales.
As I stated earlier, the Commercial Facilities Business is forecasting an increase in suburban roadside stores, which will help drive a recovery.
In the Logistics, Business & Corporate Facilities segment, we are targeting data centers and the redevelopment of municipal wholesale markets in rural areas. Not limited to these wholesale markets, there are municipal facilities all over Japan for which deterioration is an immediate issue. We will increase sales by applying our expertise in providing comprehensive solutions that combine redevelopment with land-use proposals involving the solicitation of commercial facilities.

【Q13】

Looking at the most recent operating environment, as CFO what do you view as pressing risks or immediate concerns?

【A】

Our operating environment has not changed significantly compared to the timing of third quarter earnings.
What I am most aware of is the fact that our DE ratio is recently trending above the 0.5 times we set in our financial guidelines. We carefully select investments but operate under a policy that we should

take advantage of good investment opportunities. Fortunately, the real estate market has remained favorable even throughout the COVID-19 pandemic, so we are continuing with aggressive investment activities.

【Q14】

Do you have any comments directed towards investors concerning your FY2021 plans?

【A】

Conditions lack transparency due to COVID-19. This fiscal year, our forecasts call for operating income of 320.0 billion yen, which is short of the initial targets we outlined for our 6th Medium-Term Management Plan. However, internally, we are committed to achieving additional income growth.

We currently continue to evaluate the details of our 7th Medium-Term Management Plan. Although we believe it will be difficult to reach the double-digit growth we have achieved thus far, we will continue to aim for stable growth. On the subject of dividends, we will evaluate various opinions and remain flexible in our evaluations.

Our annual dividend for FY2020 is 116 yen, representing the 11th consecutive term of increased dividends. For FY2021, we are planning on a dividend of 126 yen (which includes a 10-yen commemorative dividend). We hope this will be received as our commitment to responding to the expectations of our shareholders and investors.

End

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