Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2021
(For the fiscal year from April 1, 2021 to March 31, 2022)

Date & time: From 16:00 to 17:00, Friday, May 13, 2022
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【Q1】

Please discuss your view of the current environment and your forecast as it relates to the growth rate for the 7th Medium-Term Management Plan. Excluding actuarial differences, the plan outlines increasing operating income to 500 billion yen from the 332.2 billion yen recorded for FY2021, an annual average growth rate of approximately 8.5%. However, the FY2022 operating income forecast is 350 billion yen (a year-on-year growth rate of 5.3%) due to decreased income from the Logistics, Business & Corporate Facilities Business and decreased gains on sales of development properties.

【A】

-Considering the current market environment and the next five-year period of the Medium-Term Management Plan, we expect this fiscal year to be a period of instability that faces factors such as rising material procurement costs and interest rate hikes. As such, our figures for the current fiscal year represent sufficiently achievable targets based on consideration of our current balance for orders received and cost-of-sales ratio.

-We only include properties already in line to be sold in sales figures of development properties for the current fiscal year but we possess other investment real estate. As such, we have the ability to sell that real estate in order to add on to figures for the current fiscal year.

-As for overseas figures, the USD is currently over 130 yen to the dollar. At the time we set figures for the current fiscal year, we set an assumed currency rate of 116 yen. As such, we have incorporated a certain amount of leeway into the figures we set for overseas business. Specifically, with the USD currency rate, yen depreciation of 1 yen results in an increase in income of approximately 600 million yen.

As it concerns the Medium-Term Management Plan for overseas business, we view the American housing market as being particularly favorable. We are planning on sales of 1 trillion yen and income of 100 billion yen, but we are expecting figures to see significant growth particularly in the latter three years of the Plan.

【Q2】

You indicate shareholder returns as a dividend payout ratio of 35% (up from previous 30%) with a minimum dividend of 130 yen and flexible acquisition of own shares. Is it fair to look at this as you intentionally enhancing your policy on shareholder returns? Please discuss any parameters and criteria you apply to repurchasing treasury stock.

【A】

Thus far, we have focused on balancing the risk of a ratings downgrade caused by a decline in financial stability due to up-front investments outpacing returns amid capital constraints. As for the 7th Medium-Term Management Plan, our stance is to focus on achieving an ROE of 13%, and position treasury stock repurchasing as one strategy towards achieving an ROE of 13%. We do intent to enhance our focus on shareholder returns moving forward. Our stock price is one of the criteria we use when making decisions on repurchasing treasury stock.

【Q3】

You position the overseas business as a growth driver for the 7th Medium-Term Management Plan and indicate that income from the Single-Family Houses Business in particular is set to grow. What level of investments are you considering for overseas business? When factoring in financing markets, it does not appear to be the best timing for investments but what investment amount is necessary to achieve plans? Also, please discuss any investments that have already been decided.

P.30 “Capital allocation and shareholder return”

【A】

-We will conduct 2.2 trillion yen in real estate development investments and 1.5 trillion yen in sales. The remaining 700 billion yen will be capital allocation for real estate development. We are planning for approximately 10% of the 2.2 trillion yen, roughly 200 to 300 billion yen, to be allocated overseas. This will include logistics in ASEAN and apartment buildings in the US, but not even 50 billion yen in new investments have been decided. The 650 billion yen in strategic investment cashflow includes investments for condominiums in China and inventories such as homebuilder housing land etc. in the US. Current plans call for investments of roughly 2.8 trillion yen and sales of 2.4 trillion yen, but we will carefully assess sales progress as we move forward.

-As for investment timing, there are factors to be considered such as interest rates and, with real estate developed for eventual sale, cap rate. However, with logistics development in ASEAN, for example, we are advancing based on the existing tenant needs of Japanese customers. We are progressing based the bare minimum assumption of being able to generate cashflow. With homebuilders in the US, this does not entail subdivision sales to end users, but rather addressing the increasing need for rental single-family houses. We are seeing an increase in businesses seeking that type of inventory so we are proceeding with an assumption of exit strategies for the investments we are making.

【Q4】

Amid ongoing cost inflation, your plan calls for improved profit margin and gross margin. I assume this means raising prices accordingly but can you discuss your views on costs and sales prices? Also, are price increases having an impact on housing orders received?

【A】

-For single-family houses, we reflected cost increases in prices to the tune of approximately 1.3 million yen per unit in the previous fiscal year. To minimize future cost transferal, we will look to reduce expenses, including by closing model house exhibits.

-We also reflected cost increases in prices for rental housing but it would be difficult to raise prices further so we will look to raise rents by providing added value such as internet service.

-In the Logistics, Business & Corporate Facilities Business, we negotiate with customers on case-by-case basis so it will be difficult to pursue uniform price increases to reflect rising costs. We generate figures based on information from each frontline and our cost-of-sales ratio at the term beginning balance on orders received. It is simply not a matter of using figures based on wishing thinking. Our planned gross margin for construction in the Logistics, Business & Corporate Facilities Business is down compared to the previous year.

-While we cannot say that price increases introduced the previous fiscal year have had no impact at all on orders received for the Single-Family Houses Business, our analysis shows that the most recent negative factors are largely due to the voluntary suspension of sales activities in December and the strategic cancellation of orders received resulting from the careful examination of property status.

【Q5】

Looking at figures in monthly disclosures, from this month changed to “Monthly Contracts” but can you discuss what this change entails? Also, can we consider this a straight year-on-year comparison or does this reflect the impact of restraints on sales activities in December and price increases? Please indicate what level of growth rate this would be based on the previous standard.

【A】

-Internal standards for recording orders received previously entailed recording projects set to begin construction within two months. However, from this fiscal year, we changed to a standard of recording orders received at the start of construction.

-As a result, we change to disclosing our flash report based on the amount for executed contracts. Using disclosure figures based on the amount for executed contracts establishes a baseline that is more similar to the flash reports for orders received published by other companies and allows us to convey market conditions in a way that is easier to understand. However, limited to FY2022, the previous year's figures used for comparison are based on the previous method of recording the amount of orders received.

【Q6】

Please discuss changes in profit margin, including the impact of rising material costs for the domestic Single-Family Houses Business.

【A】

-Operating income from the Single-Family Houses Business for Daiwa House (non-consolidated) was 6.5 billion yen in FY2021 but we are planning for 6 billion yen in FY2022. We are planning on increased net sales of 8 billion yen, but a 0.5 billion yen decrease in income.

-The impact of price increases is not significant, but we expect there will be some impact. The market environment for housing orders received is seeing somewhat of a positive impact of the kodomo-mirai housing support project*. We are hopeful for the benefits of this rebound.

*The kodomo-mirai housing support project provides subsidies to families with small children and young couples to acquire new houses with high energy-saving performance and to carry out energy-saving renovations.

【Q7】

Regarding the impact of rising material prices on gross margin, when will you be able to confirm a halt to the decline in gross margin attributable to corporate efforts such as the transfer of cost increases into sales prices? If gross margin falls below plans for this fiscal year, will you consider additional price increases or other measures to maintain gross margin?

【A】

-It is difficult to estimate when the rise in material prices will settle. However, if material prices do rise in the future, we will work to maintain gross margin levels consistent with plans by transferring costs to the extent possible.

【Q8】

Policies in the 7th Medium-Term Management Plan indicate a D/E ratio of around 0.6 but how strictly will you enforce this financial discipline? Is this increase compared to the financial discipline outlined in the 6th Medium-Term Management Plan, a D/E ratio of around 0.5, based on your track record of results achieved from maintaining a high level of investments?

(Reference) 7th Medium-Term Management Plan P.28

"Achieve growth of profits coexisting with capital efficiency through portfolio optimization (1) Policy"

【A】

-We increased financial discipline in part due to our track record of success but also in part because certain businesses that previously were mainly construction have seen an increase in the ratio of development.

-We will prioritize investments through to about the midway point of the Medium-Term Management Plan before controlling the D/E ratio as we head towards the final fiscal year of the plan to get down to 0.6.

【Q9】

About overseas business in Single-Family Houses Business, please tell us about sales and operating income of each company for FY 2021 results and FY 2022 forecasts.

【A】

(¥ billion)	Sales			Operating income		
	FY2021	FY2022	Change	FY2021	FY2022	Change
Stanley Martin (USA)	194.6	240.3	+45.7	18.0	25.5	+7.5
Trumark (USA)	39.2	60.9	+21.6	2.4	3.5	+1.1
CastleRock (USA)*	22.2	66.4	+44.2	3.0	11.1	+8.0

*FY2021 results for CastleRock reflect four-month period after joining the Group.

【Q10】

Looking at operating income from Other Businesses, plans call for losses of 5 billion yen in FY2022 compared to losses of 5.9 billion yen for FY2021. This plan reflects very little improvement but what is your view on hotels and fitness clubs?

(Reference) Financial Highlights P.34 “Business Segment Forecasts for FY2022”

【A】

-We modified segment categories this fiscal year, moving the home center business and other businesses previously recorded under Other Businesses, to the Commercial Facilities Business.

-The largest company included under Other Businesses segment is Daiwa Resort. The company recorded operating losses of 13.8 billion yen in FY2020 and 10.9 billion yen in FY2021. Plans for this fiscal year are operating losses of 8 billion yen. This reflects the fact that the business is still heavily impacted by COVID-19. Daiwa Resort losses are supplemented by the REIT management company, resulting in operating losses of 5 billion yen for the Other Businesses segment in this fiscal year.

-In the Commercial Facilities Business, Daiwa Roynet Hotels recorded losses of 14.5 billion yen for the previous fiscal year and plans for the current fiscal year are for losses of 9.4 billion yen. NAS Sports Club, which we transferred from the Other Businesses segment, recorded losses of 3.9 billion yen for the previous fiscal year with plans for losses of 2.4 billion yen for the current fiscal year. Both hotels and sports clubs are struggling to overcome the impact of COVID-19, and this has had a significant impact on earnings. As a business hotel, Daiwa Roynet Hotels is recovering to occupancy rates near 80% in March and April but we continue to maintain a conservative outlook.

【Q11】

Your performance targets for the 7th Medium-Term Management Plan are overseas net sales of 1 trillion yen and operating income of 100 billion yen by the final fiscal year of the Plan. Looking at the housing business in North America, do you expect sustained firm demand over the five-year period of the Plan despite rising interest rates?

(Reference) 7th Medium-Term Management Plan

P.17 “Accelerate growth of overseas business”

【A】

-Demand is firm among millennials, our target audience. Demand is also firm in the smile zone area connecting the East Coast to Texas and the West Coast. We are aiming to sell 10,000 single-family houses by the final fiscal year of the 7th Medium-Term Management Plan. However, based on the size of the US market, it is sufficiently possible to reach the additional 6,000 houses needed to achieve this target.

【Q12】

On the subject of logistics facility development, will you be able to increase income over the next five-year period, the length as the 7th Medium-Term Management Plan, on a pace similar to that achieved over the past five years? Also, please discuss your goal business scope five years from now for data centers, which you position as a growth business.

(Reference) 7th Medium-Term Management Plan

P.59 “Social infrastructure: Logistics facilities and data centers”

【A】

-E-commerce is a growth market and we expect to see demand for logistics facilities continue over the next five years. One point of concern is rising interest rates. If the real estate market collapses and REITs face pressure, we could be forced to halt certain investments.

-Data centers are limited to appropriate sites because of electricity needs and other limiting factors. As such, we do not expect development on the same scale as logistics facilities. Data center construction is on the scope of 10 billion yen per facility. We have completed two construction projects in Inzai, where we are planning up to 14 facilities. During the 7th Medium-Term Management Plan and beyond, we are projecting over 100 billion yen for Inzai alone and we are engaged in multiple negotiations for lands we have already secured. As such, we are expected commercialization to exceed roughly 200 billion yen, including Inzai. We intend to continue efforts to secure development land for data centers.

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