Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2022 1Q
(For the fiscal year from April 1, 2022 to June 30, 2022)

Date & time: From 16:00 to 17:00, Tuesday, August 9, 2022
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【Q1】
Your full-year plan for the US Single-Family Houses Business is to increase operating income by 16.7 billion yen. Relative to this plan, first quarter progress appears to be somewhat behind schedule but what is your view of current conditions and what is your forecast for the full year?
Also, please discuss any changes in your approach to sales prices and sales volume for the US Single-Family Houses Business compared to May when you announced your Medium-Term Management Plan.
(Reference) Financial Highlights P.26 "Single-Family Houses Business (2) Overseas Business"

【A】
-Orders received for January through July are at 46% relative to full-year plans based on the number of units. Our pace has slowed down somewhat. This fiscal year, we have already secured customers for roughly 80 percent of the land for which we are scheduled to deliver, and we have been able to raise the unit price. When looking at full-year plans based on the US dollar, and not just based on the Japanese yen, then we think we will be able to achieve full-year plans. For the remaining 20 percent, after starting construction, we began selling some of these properties at the point where costs were largely finalized so we are not concerned about attracting buyers. However, we are somewhat concerned about next fiscal year.
-As supplemental information for specific areas, CastleRock operates in Texas where land is affordable so unit prices are relatively low. CastleRock has a slightly different target customer from Stanley Martin, which operates on the east coast, and Trumark, which operates on the west coast. Compared to these two companies, CastleRock is more impacted by the drop in demand caused by interest rate hikes.
-We have been able to raise the unit price but there is the possibility we may revise our target number of units sold to more realistic figures depending on the order environment moving forward.

【Q2】

Looking at construction for the Commercial Facilities Business, the gross margin ratio for the first quarter was 20.4%, a 5.8 point decline from the same period of the previous fiscal year. Please discuss the factors behind this and your future outlook.
(Reference) Financial Highlights P.32 "Commercial Facilities Business (1)"

【A】

- Our full-year forecast is 24.2%, so this may be difficult to achieve if conditions remain as they are. Unlike the Single-Family Houses Business and the Rental Housing Business, the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business does not deal in prefabricated products, and estimates are created for each property. We take all possible costs into consideration when creating our plans, but market conditions make it difficult to pass those costs through pricing.
-However, steel, which saw the sharpest rise in prices, has begun to stabilize somewhat. We will make steady efforts to recover our gross margin ratio moving forward.

【Q3】

Please discuss the factors behind why the first quarter contracts for the domestic Single-Family Houses Business decreased by 7% year-on-year. Also, are you raising sales prices?
(Reference) Financial Highlights P.4 "Topics"

【A】

-Daiwa House Industry (non-consolidated) recorded operating losses for the first quarter due to constraints on sales activities in December last year, when we were unable to conduct normal sales activities until around January and February. I do think we need to raise the bar a little more.
-In July and October of last year, we raised prices by a total of approximately 1.3 million yen (per unit average). Costs are rising again this fiscal year, but given the market environment, we have not passed those cost increases on through pricing. We are responding by promoting cost-cutting measures such as reducing the number of model house exhibition.
-Regarding demand, housing manufacturers are raising their prices, so I think there has been some impact. However, the kodomo-mirai housing support project is having some positive impact on people who are considering purchasing. We will proactively promote this point as we work to stimulate demand.

【Q4】

Real estate development investment seems behind schedule, but is there any change in your investment stance? Also, please tell us about overseas investments and investment balances.

(Reference) Financial Highlights P.18 “Status of Real Estate Development Investment”

【A】

-Figures decreased unexpectedly in the first quarter but there is no change in our investment stance. From the second quarter onwards, I believe that we will be able to show solid results for both the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business.

-Overseas, we invested 5.3 billion yen, mainly towards rental housing development in the US. Our investment balances as of the end of June are as follows.

Region	Investment Balances (¥ billion)
USA	172.3
Australia	47.4
ASEAN	61.2
China	95.6
Others	29.8
Total	406.5

【Q5】

Are there any future changes to the full-year plans? Please also let me know if there are any upside factors.

【A】

-The upward improvement is due to a recovery in hotel occupancy rates. Urban hotels have recovered to 80% and resort hotels have recovered to above 50%. The first quarter operating income for the entire hotel and sports club management business improved by 6.7 billion yen year-on-year.

-Since the first quarter has just ended, we have yet to revise our full-year plan. However, we think foreign currency market conditions will have a positive impact so we think this will cover the stagnant progress of the Commercial Facilities Business.

(Reference) Financial Highlights P.4 “Topics”

【Q6】

In the Condominiums Business, plans are for 14.8 billion yen in overseas operating income for the full year, but you only reached 200 million yen in the first quarter. When do you expect to see income contributions from the projects in Changzhou and Nantong, China?

(Reference) Financial Highlights P.30-31 “Condominiums Business”

【A】

-The Changzhou project is scheduled to deliver from September, and thus will contribute to income in the fourth quarter. The Nantong project is also expected to start contributing to income from the fourth quarter as the second phase of deliveries will start in September. I believe we will be able to achieve our income plans for the current fiscal year.

【Q7】

Looking at the Commercial Facility Business, please discuss the reasons for strong orders received and the profitability of new contracts.

【A】

-Some companies that had put off opening new stores due to COVID-19 are beginning to show willingness in new store openings. I also received reports that multiple business talks have begun regarding hotels.

-Our cost-of-sales ratio was significantly impacted in the first quarter because the contracts were concluded before the rise in material prices. Currently, we conclude contracts based on the presumption that there is a possibility of price reevaluation and negotiation.

【Q8】

Contracts for commercial facilities from April to July was up 34% year on year. Are you seeing contributions from large-scale projects?

【A】

-There are no contributions from large-scale projects exceeding 10 billion yen, but the unit price per property is rising.

【Q9】

The occupancy rate of Roynet Hotels has recovered to nearly 80%. Can we expect to see a shift into profitability?

(Reference) Financial Highlights P.32 “Commercial Facilities Business”

【A】

-If the average daily rate (ADR) returns to pre-COVID-19 levels, the business can return to being profitable with an occupancy rate in the high 60 percent range. However, as ADR has not fully recovered yet, the urban hotels business recorded losses for the first quarter. Occupancy rates are stable and above 80%, so we believe that we can increase ADR moving forward.

【Q10】

Please discuss the progress of the 7th Medium-Term Management Plan. Was centralized purchasing for the Group effective in the first quarter?

【A】

-While we did gather personnel from the Group companies to start the project, work is not progressing according to the schedule we initially envisioned, so we did not generate any benefits in the first quarter. Since securing materials has been an urgent issue, we prioritized measures aimed at stabilizing supply. However, we believe that centralized purchasing for the Group is essential to achieving plans for the final year of the Medium-Term Management Plan.

【Q11】

Can you update us on the status of cost transferal through pricing revisions for the Single-Family Houses Business and the Rental Housing Business? Do you think the gross margin ratio will recover from the next fiscal year onwards?

【A】

-For single-family houses, we reflected cost increases in prices of approximately 1.3 million yen per unit in fall of the previous fiscal year. The first quarter decline in the gross margin ratio is due to the fact that some properties were constructed before we began passing on costs through pricing. Since the beginning of this fiscal year, material prices have risen further, and while other companies are raising their prices, we are keeping our prices unchanged. We are first working to reduce internal costs. With changes in our sales channels, we are implementing measures such as adopting low-cost online services and reducing the number of model house exhibitions to reduce annual exhibition costs, which amount to roughly 6 billion yen.

-For rental housing, in October last year we reflected cost increases in prices. We evaluated the order environment and again reflected costs increase in prices in June of this year. Demand for inheritance tax countermeasures is strong, so we think we can look forward to an improvement in the gross margin ratio.

【Q12】

Please discuss if you are forecasting an increase in orders received for the Logistics, Business & Corporate Facilities Business. In addition to logistics facilities, you are also working on factories and data centers, so please discuss the order environment for each asset.

(Reference) Financial Highlights P.34 “Logistics, Business & Corporate Facilities Business”

【A】

-We feel that sentiment towards capital investments in factories, etc. is improving among companies, and we expect orders received to exceed our forecasts. Demand for data centers is also increasing, and we are making proposals featuring optimal land that we possess.

【Q13】

You are planning to generate 70 billion yen this fiscal year in income from the sale of development properties. In light of the current environment, please discuss the feasibility of this plan.

【A】

-Looking at the real estate transaction market, we were concerned about the impact of rising interest rates on cap rates. However, we are currently receiving inquiries not only from REITs but also from external sources. We believe that it is sufficiently possible to achieve our sales plan for the current fiscal year.

【Q14】

Do you plan to proactively acquire local builders in order to grow the US housing business?

【A】

-As far as future acquisitions in the US housing business are concerned, our policy is that if there is a good company in a specific area, a local subsidiary will take the lead in evaluating collaboration. Each company is actively planning to acquire land for sale towards expanding their businesses. However, since we do see investment budgets, we will monitor the status of investments in land for sale while considering any acquisitions.

【Q15】

The COVID-19 pandemic is an ongoing situation. Is there any impact on the current sales structure for the Rental Housing Business? Also, please indicate the number of sales personnel.

【A】

-Although we conduct some telecommuting, we are still able to conduct in-person sales and there is no impact on sales activities. If the customer refuses, then we refrain from doing so, but at present, we have not encountered many people with such concerns. There have been no major changes in the number of sales personnel over the past year or two, and our structure is comprised of about 1,100 people.

【Q16】

Regarding the cost-of-sales ratio for construction in the Logistics, Business & Corporate Facilities Business, it seems like results did not decline beyond assumptions despite the impact of soaring material prices. Please discuss why this was the case.

(Reference) Financial Highlights P.34 “Logistics, Business & Corporate Facilities Business”

【A】

-While general contractor Fujita's cost-of-sales ratio is worsening, Daiwa House Industry (non-consolidated) improved by 1 point. Daiwa House Industry (non-consolidated) has acquired land and developed an industrial park, making business proposals that leverage the strengths of the land. We view this as one of the factors preventing the cost-of-sales ratio from worsening.

-Since Fujita's orders received are strong, we expect to be able to secure profits in the future.

【Q17】

Regarding logistics facilities, I have heard that the vacancy rate of logistics facilities is rising in the market. Please tell us about the current state your tenant leasing.

【A】

-When we acquire land, we proceed with planning while confirming tenant intentions regarding occupying the property. There are almost no properties with high vacancy rates due to a lack of tenants.

【Q18】

If this market environment continues in the future, do you have any plans to sell more properties to achieve your plan?

(Reference) Financial Highlights P.20 “Business Performance Forecasts for FY2022”

【A】

-We expect to achieve operating income of 350 billion yen for the current fiscal year with a planned gain of 70 billion yen from the sale of development properties. Due to a lack of transparency in our market environment, there is the possibility we will consider additional property sales depending on future conditions.

【Q19】

Regarding the overseas governance system, what is the status of risk management amid major changes in the market environment? Please tell us again about the role fulfilled by the regional corporate (RC) function and the support system at the head office.

【A】

-From this fiscal year, we have strengthened the risk management structure by establishing RC functions in each area. The head office and related departments monitor overseas business by holding regular meetings with the local RCs and by evaluating performance reports received daily from local subsidiaries in accordance with the Group Management Rules. Regarding new overseas businesses and business changes, including the construction business, we consult with the Overseas Strategy Committee, which is comprised of multiple departments at the head office, to identify risks and discuss countermeasures.

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