Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2023 1Q
(For the fiscal year from April 1, 2023 to June 30, 2023)

Date & time: From 16:00 to 17:00, Monday, August 7, 2023
Presenters: Takeshi Kosokabe, Executive Vice President, CFO
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【Q1】
In light of first quarter results, what is your full-year forecast for construction gross margin ratios for the Rental Housing Business, Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business?
(Reference) Financial Highlights
P.25-26 “Rental Housing Business”　P.30-31 “Commercial Facilities Business”
P.32-33 “Logistics, Business & Corporate Facilities Business”

【A】
-The first quarter just ended so it is difficult to discuss projections for full-year plans with any degree of certainty. However, looking at the gross margin ratio for the Rental Housing Business, first quarter results were firm, having improved year on year, and we think we can expect an upswing from full-year plans.
-As for the gross margin ratio for the Commercial Facilities Business, although we are projecting improvement over the full-year, first quarter results were down slightly year on year. As I conveyed during the previous teleconference, the cost-of-sales ratio as of the time of receipt of order is on a recovery trend and we expect the gross margin ratio to improve moving forward. The range of cost ratio improvement from the point of order received until the time of adjustment is not as significant as it was previously. Also, while we are seeing a rebound in tenants demand for store openings, the tenants themselves are facing rising costs due to difficult securing personnel and soaring personnel expenses. Despite these concerns, we believe there is room for further improvement over the course of the full year.
-Regarding the gross margin ratio for the Logistics, Business & Corporate Facilities Business, our full-year plan calls for a 2.8pt improvement but first quarter results are down year on year. However, across the country we are securing highly profitable orders received involving land in industrial parks we developed. We will continue to improve our margin ratio, including through initiatives related to the built-for-sale business.

【Q2】

The US Single-Family Houses Business recorded increased income for the first quarter on an increase in the number of units delivered. Are sales conditions continuing to remain favorable? Please explain your full-year forecast.

(Reference) Financial Highlights P.24 “Single-Family Houses Business (2) Overseas Business”

【A】

-First quarter performance for the US Single-Family Houses Business transitioned steadily, with results exceeding projections. While it will be difficult to surpass last year’s results, the business is on pace to exceed initial plans so we believe the business will outperform targets.

-As for the number of orders received, the cumulative total for January through June is transitioning firmly and is up 54% year on year.

【Q3】

Net sales for the US Single-Family Houses Business are up by 42% year on year while the number of units delivered is up by 28%. Is this difference due to the per-unit sales price and the impact of foreign currency rates?

(Reference) Financial Highlights P.24 “Single-Family Houses Business (2) Overseas Business”

【A】

-For the US Single-Family Houses Business, there is no significant change compared to the previous fiscal year in the per-unit sales price of each company based on local currency. However, Trumark, which operates in the western US where per-unit sales prices are high, recorded a high rate of growth in net sales. As a result, the per-unit sales price increased when looking at the overall US Single-Family Houses Business.

-The impact of foreign currency on net sales was roughly 8 billion yen for all overseas business.

-There is no change to the full-year currency rate. (USD-JPY 122.00)

【Q4】

The Environment and Energy Business recorded decreased sales but increased income for the first quarter. Against full-year plans for operating income of 6.3 billion yen, first quarter results were 4.5 billion yen. What factors caused the decreased sales and increased income, and what is your full-year forecast?

(Reference) Financial Highlights P.10-11 “Business Segment Results (1) Sales, (2) Operating income”

【A】

-Last fiscal year, the PPS (electricity retailing) business of the Environment and Energy Business was impacted by soaring costs for power procurement from the market. This fiscal year, we advanced efforts to terminate contracts with low profitability so net sales decreased. However, operating income increased on improved profitability due to the balanced power supply and demand and power procurement costs trending lower.

-Because it is difficult to foresee winter conditions, we have decided against any revisions to our full-year forecast for the Environment and Energy Business.

【Q5】

What are your thoughts on first quarter progress for sales of development properties? Also, what is your future forecast, including for rental housing development properties in the US?

(Reference) Financial Highlights P.18 “Sale of Development Properties: Results and Forecasts”

【A】

-First quarter results were on par with plans. As for sales of rental housing and commercial facility development properties, it is planned to sell them in the second quarter or later, in line with the initial plan.

-As for logistics facilities, we are utilizing the private core fund and other channels to advance sales based on an approach that maintains balance between external and internal transactions. As for the Logistics, Business & Corporate Facilities Business, we consider it possible to sell additional properties depending on the status of the construction business.

-Of the six completed properties for the US Rental Housing Business, three properties have occupancy rates exceeding 90% and are posting firm income gains. As such, we do not see a need to rush the sale of properties in the current market environment, and intend to evaluate the right timing. From the sale of development properties this fiscal year, we are planning on net sales of about 20 billion yen and income of about 5 billion yen. However, even if sales are postponed, we expect we can more-than-sufficiently cover that difference through the domestic Rental Housing Business.

【Q6】

A land-based salmon farming facility is being constructed at the D-Project Industry Fuji Oyama I industrial park. Moving forward, do you expect repeat orders or have plans to engage in such a development?

【A】

-Construction was launched in May 2021 and is scheduled for completion in September of this year. We sold the land, received the building construction contract, and recorded sales and income in each period under the percentage of completion method. The construction site for this project was originally part of an industrial park developed as land for logistics centers and factories. The solicitation of a land-based salmon farming facility was the result of the site's access to high-quality water. We will continue to make proposals for various asset types and to various tenants considering the unique characteristics of each development site.

【Q7】

ADR is rising for Daiwa Roynet Hotels but is the business able to absorb rising costs such as soaring personnel expenses associated with labor shortages? Please explain your future forecast, including for ADR. Also, is there a risk of future delays in opening plans due to construction delays or other reasons?

(Reference) Financial Highlights P.30 "Commercial Facilities Business (1) Results"

【A】

-For the three-month period through June, ADR was 11,319 yen, exceeding the ADR of 9,847 yen for FY2019, which was prior to COVID-19. Occupancy rates have also recovered to 87.0%, which is on par with FY2019. Plans called for an ADR of 10,500 yen, so we are transitioning at a level that exceeds plans. City centers in particular are maintaining high occupancy rates and so we believe there is room to increase ADR even further.

-Income is being impacted by cost increases, and other factors. However, the fact that we did not reduce staff during the COVID-19 pandemic has meant we are not facing severe staff shortages. The number of Daiwa Roynet Hotel facilities increased from 59 facilities in FY2019 to 76 facilities, so the opening plans are progressing favorably.

【Q8】

Is progress for real estate development investments favorable relative to full-year plans? Also, please explain the status of property acquisitions.

(Reference) Financial Highlights P.17 "Status of Real Estate Development Investment"

【A】

-First quarter real estate investment results were slightly behind schedule relative to plans. We are advancing efforts related to new property acquisitions but we continue to see a difficult environment of competition from the point of land bidding.

【Q9】

While the Rental Housing Business has a favorable gross margin ratio for rental management, occupancy rates are on a downward trend. Please explain the factors behind this and your forecast for future occupancy rates.

(Reference) Financial Highlights P.25 “Rental Housing Business (1) Results”

【A】

-Daiwa Living Co., Ltd., which manages rental housing, is working to increase rents appropriately while maintaining an awareness of occupancy rates. As a result, occupancy rates declined slightly by 0.8pts but the gross margin ratio improved by 1.1pts. Our view is that the occupancy rate of 96.3% is a very high standard even when compared to past performance. We will propose property value improvements through renovation construction services by Daiwa House Chintai Reform Co., Ltd. while continuing initiatives to increase rents appropriately.

【Q10】

Please provide a breakdown for the major components of the 6.6 billion yen in increased income from the hotel and sports club business.

(Reference) Financial Highlights P.3 “Topics”

【A】

-The city hotel management business, including Daiwa Roynet Hotels and MIMARU operated by Cosmos Initia Co., Ltd., improved by 5.1 billion yen in total. The resort hotel business improved by 1.6 billion yen, although the results will not be included from the second quarter onward. Sports clubs were largely unchanged.

【Q11】

Please discuss the details of operations announced and future developments for business in the UK.

(Reference) “Notice Concerning Change of Specified Subsidiary (Sub-Subsidiary) in the United Kingdom” released on August 7, 2023

【A】

-The business will develop condominiums in London. We will evaluate the status of this project as we consider future business in the UK.

【Q12】

Fujita Corporation net sales for the first quarter increased by 24.2 billion yen year on year but its full-year plans call for a decrease in net sales by 52.7 billion yen. Please explain this gap in results versus plans.

(Reference) Financial Highlights P.32-33 “Logistics, Business & Corporate Facilities Business”

【A】

-As I stated at the beginning, the Logistics, Business & Corporate Facilities Business has set a high hurdle for gross margin ratio. In particular, we think that conditions are difficult for Fujita. It has multiple projects involving customers negotiating for additional orders. Depending on the results of those negotiations, there is a possibility it may not be able to achieve a margin ratio in line with plans. As such, the present situation is that Fujita is using property sales to supplement the potential lack in income. First quarter net sales increase reflects property sales not included in its original plans.

【Q13】

Please explain your forecasts for the future cap rate on the sale of logistics facilities.

【A】

-For the cap rate, we constantly monitor fluctuation risks associated with interest rate hikes. At present, we do not see that there has been any impact on domestic real estate.

【Q14】

Please indicate the state of pension actuarial differences as of the end of June.

【A】

-At the end of June, this resulted in revenues of roughly 18 billion yen. This is mainly due to the impact of private equity and domestic stocks.

【Q15】

Operating income for the Condominium Business overseas was 5.3 billion yen for the first quarter while your full-year forecast calls for 200 million yen. Please explain the factors behind this difference.

【A】

-From the second quarter onward, plans include sales costs for projects under development and costs associated with the settlement of projects already sold off. Additionally, we have made conservative forecasts for sales costs associated with condominiums for sale in the US. As such, we forecast results will be on par with plans.

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