

**Daiwa House Industry Co., Ltd.**

**Q&A Session at 5th Medium-Term Management Plan Conference (Summary)**

**Date and time:** From 16:30 to 17:30, Tuesday, May 17, 2016

**Location:** Daiwa House Industry Co., Ltd.,  
Tokyo Head Office, 2nd Floor, Conference Room

**Speakers:** Takeo Higuchi, Chairman and CEO  
Naotake Ohno, President and COO  
Takeshi Kosokabe, Representative Director, Senior Managing  
Executive Officer and CFO  
Yuji Yamada, Senior Executive Officer and General Manager of  
Finance and IR Departments

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● **Perception of Outside Environment**

[Q1]

The 4th Medium-Term Management Plan resulted in earnings that significantly exceeded targets and in the 5th Medium-Term Management Plan you also are aiming for profit growth. How do current performance goals reflect the impact that changes in market conditions may have on business?

(Reference) 5th Medium-Term Management Plan: p.4 “Perception of Outside Environment” and p. 6 “Performance Goals of 5th Medium-Term Management Plan”

[A]

-For example, we view a hike in the consumption tax rate as a destabilizing factor. Considering the consumption tax rate hike from 5% to 8% resulted in drop in consumer spending, we think a further hike to 10% would have a similar negative impact.

-However, if the tax rate hike is postponed, we want to aim for growth on a level that exceeds currently announced targets.

- **About the Single-Family Houses Segment**

[Q2]

The growth rate for operating income in the Single-Family Houses Segment indicated in the 5th Medium-Term Management Plan seems low (+2.9% over three years). Please provide background information for this forecast. Also, please tell me about initiatives related to improving operating margin.

(Reference) 5th Medium-Term Management Plan: p. 15 “Earnings Goals by Business Segment”

[A]

-The figures announced in the 5th Medium-Term Management Plan are somewhat conservative because the plan reflects the negative impact anticipated in the event the consumption tax rate is increased to 10%. However, we have set internal goals that exceed those targets. We currently position Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities as growth drivers but the Single-Family Houses Segment is also a core segment and we will continue to focus on profit growth in this segment.

-We will work to improve operating margin by establishing specific goals related to improving construction systems, shortening construction deadlines, and other areas.

- **About the Logistics, Business & Corporate Facilities Segment**

[Q3]

Please tell me the retained value of logistics facilities your company possesses in comparison to your competitors.

(Reference) 5th Medium-Term Management Plan: p. 17 “Strategies for Each Core Business—Logistics, Business & Corporate Facilities—”

[A]

-The retained book value for logistics facilities was approximately 360 billion yen as of the end of March 2016 (includes facilities not in operation and unfinished construction). The retained value for the J-REIT we sponsor (Daiwa House REIT Investment Corporation) is approximately 165 billion yen. Combined, this equates to a total scale of approximately 525 billion yen. We believe this retained value for logistics facilities exceeds our competitors and by further expanding investments we will aim to position ourselves as the NO. 1 developer for logistics facilities.

[Q4]

Please tell me the logistics facilities investment amount outlined in 5th Medium-Term Management Plan.

(Reference) 5th Medium-Term Management Plan: p. 7 “Active Investment in Real Estate Development” and p. 11 “Planned Investment”

[A]

-The investment total for the Logistics, Business & Corporate Facilities segment, which is centered on logistics facilities, in the 4th Medium-Term Management Plan was 322.4 billion yen and we have set a target of 360 billion yen in the 5th Medium-Term Management Plan. This amount includes investments in new development projects and investments for construction on previously-acquired land.

● **About the Environment and Energy Business**

[Q5]

Please tell me about current net sales, income, and future forecasts for the Environment and Energy Business.

[A]

-FY2015 earnings were net sales of 80.2 billion yen and operating income of 4 billion yen. Our targets for FY2018, the final year of the 5th Medium-Term Management Plan, are net sales of 120 billion yen and operating income of 8.3 billion yen.

-The Daiwa House Group currently includes three companies related to the Environment and Energy Business. Eneserve Corporation, Daiwa Energy Co., Ltd., and the Daiwa House Industry Environment and Energy Business Division. We will link these three companies to conduct electricity sales and various other businesses.

- **Aggressive investment in real estate development**

[Q6]

Currently, real estate market recovery appears to be creating more difficult conditions for land acquisition. What types of measures are you implementing to facilitate aggressive investments in real estate development?

[A]

-We apply the knowhow cultivated through our past experience with large-scale development projects and we view our ability to present land development solutions as one of our strengths. Moving forward, we will continue to acquire land with little competition by avoiding bids on completed residential land whenever possible, and instead being involved in land development from the earlier phases.

- **Accelerate Overseas Business Expansion**

[Q7]

What are your thoughts on Overseas Business development risks?

(Reference) 5th Medium-Term Management Plan: p. 9 “Accelerate Overseas Business Expansion”

[A]

-Risk is an unavoidable aspect of overseas business. During the previous two fiscal years, we recorded lower of cost or market methods (inventories) for our China Business (FY2014: 4.3 billion yen, FY2015: 8.9 billion yen).

-We will conduct overseas business carefully by identifying the unique characteristics of each country and focusing on turnover.

[Q8]

Please explain the background for the decision to not include new investments in the China Business in your 5th Medium-Term Management Plan.

(Reference) 5th Medium-Term Management Plan: p. 9 “Accelerate Overseas Business Expansion”

[A]

Our 5th Medium-Term Management Plan does not include investments for the China region but we will continue to evaluate the China economy, particularly changes in the real estate environment, and create solid strategies for any business chances that we identify.

[Q9]

In FY2015 earnings, the NOI yield for rented real estates available for sale in your Overseas Business seems low compared to other businesses (Overseas Business is 4.4% compared to average of 7.2%). As it related to Overseas Business investments, what are your thoughts on NOI yield for Overseas Business?

Also, please tell me the background behind your decision to accelerate Overseas Business development during a time of favorable performance for domestic business.

(Reference) Financial Highlights for FY2015: p. 9 “Breakdown of Rental Real Estates”, and 5th Medium-Term Management Plan: p. 9 “Accelerate Overseas Business Expansion”

[A]

- While NOI yield is low compared to other businesses, we believe this to be more than adequate as a business. Investment decisions are made based on an evaluation of how much profit we can expect to see from the final sale of a property.

-We believe the quality of Japanese housing to be very high, even when compared to other countries. To take this quality into global markets, we will maintain our emphasis on “good locations, good environment, and good buildings” while conducting development suited to each area.

● Develop Plus 1, Plus 2 Businesses and Foster Future Core Businesses

[Q10]

You company always says that you will aim for net sales of 10 trillion yen by 2055, the 100th anniversary of Daiwa House Industry. However it seems like achieving a sudden jump up to 10 trillion yen will be difficult based on your current business format. In this sense, what are your thoughts on the future direction of business expansion and the development of new businesses?

(Reference) 5th Medium-Term Management Plan: p. 10 “Develop Plus 1, Plus 2 Businesses / Foster Future Core Businesses”

[A]

-Achieving 10 trillion yen by our 100th anniversary was the dream of our founder Nobuo Ishibashi. We at the Daiwa House Group are determined and committed to fulfilling the dream of our greatest benefactor.

-One of the initiatives related to achieving this goal will be to create products that are popular on the global market. We will not root ourselves in our current business format. We will also embrace the teachings of our founder, who stated that “It is not a question of what we can do to generate profits, but a question of what types of businesses and products will benefit society and bring people happiness.” It is based on this philosophy that we are working to support venture businesses like CYBERDYNE Inc.

-Another example is the product *comuoon*, for which we have been serving as a sales agent since December 2014. *comuoon* is the product by UNIVERSAL SOUND DESIGN Inc. It is a tabletop conversation support device that improves communication by processing sound and vocal input by the speaker to provide easy-to-hear sound output for people with hearing disabilities. Not only have we setup these devices in all our offices, the devices also have been placed at the teller windows of financial institutions to much praise from customers. We intend to conduct broad-based sales of this device.

-In April 2016, we established Seven Dreamers Laundroid Inc. through a capital partnership with seven dreamers laboratories inc. and Panasonic Corporation. Aiming to sell “laundroid”, the world’s first automatic laundry folding and sorting bot, the project has gained much attention in both Japan and the U.S.A.

[Q11]

Please provide details about your Used Home Renovation Business.

(Reference) 5th Medium-Term Management Plan: p.10 “Develop Plus 1, Plus 2 Businesses / Foster Future Core Businesses”

[A]

-We are working to develop the single-family housing reform business and a business involving purchasing existing homes and reselling them as renovated homes with a long-term guarantee. Although this is not a division in which we can expect to see major net sales, we expect the market for newly constructed homes to contract due to population decline, and thus we will steadily expand these businesses in order to restructure Japan’s housing industry.

-On a nationwide scale we are seeing the beginning of initiatives related to the rehabilitation of large-scale housing complex developments such as the designated regional redevelopment project underway in Miki City in Hyogo Prefecture. We will aggressively engage in such projects.

[Q12]

Are you considering initiatives related to the private residence-based accommodation business?

[A]

-While we are interested in the private residence-based accommodation business, at present we have not outlined any initiatives in this area. Between Daiwa Resort Co., Ltd., Daiwa Royal Co., Ltd., Nishiwaki Royal Hotel Co., Ltd., and Osaka Marubiru Co., Ltd., we operate a total of 72 hotels (\*as of end of March 2016) ranging from resorts to urban locations. As such, we intend to respond to increasing lodging demand by building a strategy that is centered on these companies.

-We also are currently advancing the development of low-cost hotels near theme parks in east and west Japan.

- **About Management Structure**

[Q13]

Please tell me your thoughts on building a management structure that will correspond to your goal of achieving rapid business expansion and aiming for net sales of 4 trillion yen.

[A]

-Our management structure is founded in our existing branch structure that allocates authority to each branch in order to speed up decision-making. In 2011, we added a block structure as part of our efforts to establish a faster and detailed management structure. We further broke down the block structure to elevate offices achieving a certain level of performance from “branch” to “branch headquarters” to function as the flagship store for each block.

-Moving forward, we will promote partnerships between multiple business segments and conduct complex development, and further strengthen our group-wide management structure.

- **Strengthen human resources foundation for business expansion**

[Q14]

Please tell me about your current plans and outlook for developing a human resources foundation as well as your methods for human resource development as it relates to both Japan and overseas.

[A]

-Our human resources foundation development is still insufficient and we recognize that this is a vital issue for Daiwa House Industry. We have outlined a plan for hiring approximately 1,500 people throughout the Group and we will continue with proactive hiring practices, including the hiring of mid-career candidates.

-For human resources development, in addition to our Human Resources Development Center, divisions and departments within Daiwa House spearhead the creation of various curriculum relevant to each rank, position, and business division. Daiwa House uses this curriculum to implement training programs at three training centers in Japan. For example, the “Daiwa House Juku” training program conducted since 2008 works to foster management-level candidates.

-For Overseas Business, we realize that we face a significant shortage of human resources relative to our goal of expanding current net sales of 72.6 billion yen to 200 billion yen within three years.

-We require human resources who are able to approach work with the attitude that “success is an absolute must.” To foster this attitude, we dispatch employees to overseas sites where we have them learn the customs and business practices of that country. At the same time, employees lead the search for good business partners. Through such initiatives, we will foster the development of human resources capable of taking responsibility for business promotion.

- **Maintain financial stability**

[Q15]

To what extent are capital gains reflected in the operating income target figures for the final year of the 5th Medium-Term Management Plan? Also, do you plan to maintain a debt-equity ratio of around 0.5?

[A]

-Capital plans relative to the 900 billion yen in planned investments outlined in the 5th Medium-Term Management Plan are as follows.

- ◇ Operating cash flow: 460 billion yen
- ◇ Real estate sales amounts: 300 billion yen
- ◇ Interest-bearing liabilities: 140 billion yen

-For real estate sales amounts of 300 billion yen, we are anticipating 90 billion yen in the 1<sup>st</sup> year, 90 billion yen in the 2<sup>nd</sup> year, and 120 billion yen in the 3<sup>rd</sup> year, with capital gains of 20 billion yen or more in FY2018, the final year of the plan.

-Our policy will be to maintain a debt-equity ratio of around 0.5. The 5th Medium-Term Management Plan outlines procuring 140 billion yen in interest-bearing liabilities and we believe this is sufficiently possible when we add the increase in net assets based on income accumulation.

- **About interlocking stock ownership**

[Q16]

Please tell me about the status of interlocking stock ownership transactions in FY2015 as well as your future forecasts.

[A]

-As of the end of March 2015, Daiwa House Industry (non-consolidated) held 98 listed interlocking stocks and held 89 listed interlocking stocks as of the end of March 2016 (sold 10 issues, purchased 1 issue). Gains on sale were approximately 9.8 billion yen and the book value as of the end of March 2016 was 53.2 billion yen with unrealized gain of approximately 120 billion yen. There also are multiple issues we are considering selling during the current fiscal year.

- Other

[Q17]

It appears that the operation and management of Osaka Castle Park has become very efficient thanks to synergy achieved throughout the Group. What initiatives are you implementing to capture future business chances resulting from this type of new business involving taking over operations from local municipalities?

-We view the management of Osaka Castle Park as not only a business chance but also as an investment in culture.

-Under our management vision of being “a Group that co-creates value for individuals, communities, and people's lifestyles”, we want to sponsor various concerts and theater as part of our effort to support culture.

End

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