Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)

at Announcement of Financial Results for FY2017

(For the fiscal year from April 1, 2017 to March 31, 2018)

Date & time: From 17:00 to 18:00, Thursday, May 10, 2018

Presenters: 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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【Q1】

I would first like to ask about the value of adjustments to segment operating income for the business year ended March 31, 2018. Under your business plan, you forecast -¥50.1 billion, but the actual adjustment figure came to only -¥33.7 billion. Was this caused by the payment of retirement benefit obligations? I would also like to know if the -¥44.5 billion forecast for the current term includes the effect of retirement benefit obligations.

【A】

・Yes, the reason for the increase in our operating income lies with the effect of retirement benefit obligations. The forecast given in our business plan assumed a valuation difference on investment of zero and a calculation value difference of minus ¥5.0 billion, giving a return on investment of ¥17.0 billion. Our forecast for the current term does not take into account the effect of retirement benefit obligations.

【Q2】

Could you give a region-by-region breakdown of overseas sales and operating income?

【A】

・The breakdown is shown in the table below. (¥billion)

	FY2017 (Actual)		FY2018 (Plan)	
	Net sales	Operating income	Net sales	Operating income
USA	78.3	6.4	79.8	7.2
Australia	18.6	1.3	56.6	5.7
China	44.5	4.4	37.5	3.3
ASEAN	26.0	0.7	44.6	1.1
Others	63.4	-0.5	68.9	0.2
Total	231.0	10.6	270.0	15.0

【Q3】

Could you provide an explanation for the deterioration in the NOI yield on rented real estate available for sale in the categories of Commercial Facilities, and Logistics, Business and Corporate Facilities? And could you also explain why the overseas book value is zero?

(Reference) Financial Highlights: p10 “Breakdown of Investment Real Estates”

【A】

・The main reasons are the fact that, at the end of March 2018, we transferred to inventory properties with high NOI yields in preparation for their sale to Daiwa House REIT Investment Corporation in April, and the fact that a number of new multi-tenant facilities with low NOI yields came onto our books. We plan to pursue the leasing of the multi-tenant facilities so as to realize higher yields going forward.

・Hitherto, our overseas properties included two completed rental housing properties in Dallas, but one of these was sold in FY2017. The remaining property is scheduled for sale in the current term, and we have therefore already transferred it to inventory.

【Q4】

Do your business performance forecasts for the current term take account of the anticipated effect of the upcoming increase in the consumption tax?

(Reference) Financial Highlights: p12 “Business Performance Forecasts for FY2018 (1)”

【A】

・No, we have not factored the consumption tax increase into our forecasts for orders received, sales, or operating income.

【Q5】

Orders received by your Rental Housing business in FY2017 rose by 3.6% year on year on a consolidated basis, whereas non-consolidated orders received by Daiwa House Industry posted a 2.7% year-on-year decline. Could you explain the reasons for the consolidated increase?

(Reference) Financial Highlights: p9 “Business Segment Information (3)”, p15 “Orders Received by Business Segment (Non-consolidated)”

【A】

・Orders received on a consolidated basis include orders in the amount of approximately ¥50 billion annually received by Daiwa Living Co., Ltd. for subleased properties. The consolidated figures were pushed upward by an annual increase in orders received and sales for Daiwa Living.

【Q6】

In your overseas business, you released an initial forecast for operating income for FY2018 of ¥20 billion. Why has this been revised downward to ¥15 billion?

(Reference) Financial Highlights: p21 “Overseas Business”

【A】

・This is due to the fact that completion of stages 3 and 4 of our Flour Mill of Summer Hill condominium project in Australia has been put back to May 2019. Principally for this reason, the registration of roughly ¥4 billion in operating income will be carried over to FY2019.

・Additionally, Group member Fujita Corporation has recently been experiencing a deterioration in its profit margins on large-scale projects in Qatar and Mexico. As we are unable to accurately foresee the future direction of profit trends, we have decided to revise the forecast downward.

【Q7】

Gross profit on the sale of development properties in the Rental Housing business for FY2018 is forecast at ¥8.3 billion in your business plan. Does this figure include large-scale projects?

(Reference) Financial Highlights: p14 “Business Performance Forecasts for FY2018 (3)”

【A】

・It includes the sale of the Ariake Central Tower (Tokyo).

【Q8】

Will the Group's overseas operations develop into the fourth growth driver after Rental Housing, Commercial Facilities, and Logistics, Business and Corporate Facilities?

【A】

・In the Japanese market, we are energetically tackling expansion in our energy and hotel businesses, among others, but we believe it will take some time before such businesses grow to rival the scale of our three growth-driver segments. Going forward, we plan to invest more in our overseas operations, which we see as a potential fourth growth driver.

【Q9】

Regarding the gross profit ratio of Rental Housing, your business plan sees a year-on-year fall of 1.5 points. Could you explain this with reference to trends in construction and labor costs?

(Reference) Financial Highlights: p16 “Sales by Business Segment (Non-consolidated)”

【A】

・Both for last term and the current term, figures for the sale of development properties are included in non-consolidated sales for the Rental Housing business of Daiwa House Industry. As the profit margin on sales of development properties last term was high, the effect of this is now being seen.

・Regarding our normal contract formula, we have commenced a new business model in which we purchase land and subsequently sell the land together with housing built for sale, as well as medium- to high-rise housing projects. Because of this, the cost-to-sales ratio has worsened slightly.

【Q10】

Please explain the situation in the United States regarding the sale of development properties in the current term, as well as properties under construction.

【A】

・The sale of one property in Dallas is scheduled for the current term, while construction of another property in Chicago is also scheduled for completion. We also have properties currently under construction in Seattle, Boston, and Manhattan.

【Q11】

For FY2017, operating income in the Other Businesses segment had been targeted at ¥30 billion under your business plan, but the actual figure was only ¥23 billion. What are the reasons for this underperformance?

(Reference) Financial Highlights: p7 “Business Segment Information (1)”

【A】

The two principal reasons are as follows:

・On the occasion of our purchase of Rawson Group Pty Ltd. in Australia in February, unanticipated expenses were generated relating to Australia's taxation system, in the amount of approximately ¥2 billion.

・We were also forced to revise downward our business performance forecasts for Royal Home Center Co., Ltd., due to the fact that the performance of some of the stores that had been opened 2-3 years previously had fallen below expectations, and we amortized unexpired expenses resulting from future leasing fees.

【Q12】

Do you plan to release business performance figures for your overseas operations broken down by segment?

【A】

・We are currently drafting our Sixth Medium-Term Management Plan, which will be announced next year. As part of this, we are examining various options for the disclosure of our corporate data with a view to selecting the most effective method of explaining the Group's situation.

(End)

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