

Daiwa House Industry Co., Ltd.

Q&A Session at Presentation on Management Policies (Summary)

Date and time: From 16:30 to 17:30, Monday, November 16, 2020

Speakers: Keiichi Yoshii, President and CEO

Takeshi Kosokabe, Executive Vice President and CFO

Yuji Yamada, Managing Executive Officer and

General Manager of Finance and IR Departments

【Q1】

Please tell us a little more about the impact of the novel coronavirus (COVID-19) on each of the businesses, recent trading conditions, and the outlook going forward.

【A】

-With regard to the Single-Family Houses Business, there had been a falloff, albeit a small one, in reaction to the increase in the consumption tax in October 2019, and just as we were recovering from that we were hit by COVID-19, so without doubt the environment has remained a difficult one.

-However, since the declaration of a state of emergency was lifted, there have been some slight changes, and we have become more hopeful. In April and May we had closed the model house exhibitions, but going forward we think there will be a steady recovery. When we ran a campaign the other day, the total of local visitors and online visitors came to more or less the same level as that of the previous year, so we think that interest in buying homes has probably not fallen that much. Although they have not yet been finalized, I hear that various measures are being considered, including some from the Ministry of Land, Infrastructure, Transport and Tourism, and we will give a solid response to these.

-In the Commercial Facilities Business, some tenants have been negatively affected, but conversely some tenants have been seeing growth related to consumption by people staying at home. Hotels are struggling the most, and they are facing a very difficult situation compared to the previous year. On the other hand, we are seeing a continuation of firm orders from such sources as drugstores and childcare/educational facilities. In addition, in this segment we are also making approaches to small-scale logistics facilities, and orders have grown by approximately 10 billion yen year on year.

-Conditions are currently difficult at Roynet Hotels (the city hotels business), which is part of the Commercial Facilities Business, but we do not think this will continue indefinitely. At some point it will recover, and we have high expectations for it.

-In the Logistics, Business & Corporate Facilities Business, we feel that the COVID-19 pandemic has led to a raising of expectations with regard to the logistics business anew. Forecast data from all sources suggests that demand will continue to rise going forward, and this is a very promising field.

-As for recent trading conditions, orders related to general construction associated with capital investment by companies are weak, but our perception is that this is not because plans for the building of new factories and the expansion of existing factories have completely vanished, but rather that they have been postponed.

【Q2】

What will be your approach to investment in the 7th Medium-Term Management Plan? In the 6th Medium-Term Management Plan the weight of real estate development has increased as a result of factors such as upward revisions to investment and selling. Will this approach change in the next medium-term management plan?

【A】

-Real estate development investment will continue in the 7th Medium-Term Management Plan, and we intend to increase it. The strength of the Company lies in its ability not simply to undertake construction, but also to develop its own real estate and even conduct leasing, and that is where we are focusing. While guaranteeing high levels of quality as a construction company, in future we will continue to engage with this area of the market.

-Even now, amid the COVID-19 pandemic, there may be opportunities to acquire promising parcels of land, and we will move to avoid overlooking these.

-On this occasion, investment in construction on land that had already been acquired explains nearly all of the increase in the amount being invested in logistics facilities. On the other hand, in order to maintain a debt-equity ratio of 0.5 times we must recover the funds we have committed, and so we will move forward with investments in properties that are not yet rented with a view to getting them to rented status. As of the end of September, the book value of real estate being rented was 164.2 billion yen, and that of real estate not being rented was 531.9 billion yen, so if we can increase sales while raising the balance of real estate being rented to 350-400 billion yen, I think we will be able to enter the next phase of further sales in the 7th Medium-Term Management Plan.

【Q3】

For the 7th Medium-Term Management Plan, are you considering some relaxation of financial discipline, as expressed in such indicators as the debt-equity ratio?

【A】

-We have not yet decided our approach to capital policy, but we believe that for an important point like this there needs to be thorough discussion.

-With regard to the debt-equity ratio target of 0.5 times, I am conscious that, with the low interest rates available these days, there are some both inside and outside the Company who are of the opinion that it might be acceptable to take on a little more leverage.

-When we used a hybrid loan in October to raise 100 billion yen in funds, at the consideration stage we were apprehensive about struggling to raise money, but in the end we were able to attract substantial interest, primarily from regional banks. At that time, we were given high marks for defending a debt-equity ratio 0.5 times and maintaining our financial soundness. Just as ROE is a promise to our shareholders, we think of the debt-equity ratio as one of our promises to creditors, and we will consider our approach to the next medium-term management plan while treating this important issue with the seriousness it deserves.

【Q4】

You mentioned that demand for single-family houses of housing projects in the suburbs is growing. Will this continue into the future? In order to deal with this demand, do you have any plans to move ahead with investments to acquire sites?

【A】

-There are other issues to consider, such as population decline, so we are not thinking of major suburban housing developments such as the Neopolis projects we have developed in the past.

-However, at least in Kanto-area locations such as Tama, there is currently high demand for houses in housing development projects, and we are receiving a variety of inquiries. While keeping a careful eye on the progress by companies of remote working, we will move forward with site acquisitions and offer not only single-family houses of housing projects, but also custom-built houses that is sold as a set with land.

【Q5】

You revised up real estate investment in Logistics, Business & Corporate Facilities, primarily logistics facilities. What do you think of the prospects for future growth? My feeling is that appropriate locations in the Kanto area, such as those near the Ken-O Expressway and Gaikan Expressway, are getting close to saturation point, so I would like to hear your strategy and the outlook going forward.

【A】

-This field is held to be extremely promising, and we have seen a range of players entering the market. Even compared to those we have a strong position in leasing, and multi-tenant type logistics facilities in the Tokyo metropolitan area have filled up, so we think there is still plenty of potential.

-We believe that our ability to develop on a national basis, for example in regions such as Hokkaido and Toyama, rather than just the Kanto area, Nagoya, Osaka, and Fukuoka, is a unique strength of the Company, and we intend to continue these initiatives going forward.

-Also, although we have significantly bolstered multi-tenant type developments recently to meet the needs of clients who want to start renting immediately, that does not in any way mean that we have

given up on the BTS-type projects, which we have until now cultivated as one of our strengths, and we will engage with this in response to demand.

【Q6】

Please tell us about your enthusiasm for data center development. Despite it being only the first building on the site, the Chiba New Town data center on which you are working is of a significant size, so I expect this to become a pillar of growth for your company at a fairly early stage. What is your opinion? In addition, you said that the first building is construction work, but would you switch to some kind of development scheme for this?

【A】

-Some forecasts data centers growing to become a market of 500-600 billion yen by 2024. We have high expectations for this rapidly growing field, and will be focusing on it.

-Buildings with a total floor space of approximately 330,000 square meters is scheduled to be built at Chiba New Town. We sold the land for the first building and received the orders the construction. Because such buildings require a high degree of technical ability, for the time being we will accumulate know-how as we work out the construction, but at an appropriate time we intend to switch to development. Also, although we had been projecting a total project period of approximately 10 years for Chiba New Town, after taking into account the current situation we think it might be around five years.

-Looked at from the perspective of storing and sending data, we see data centers as a form of logistics. The important points are selecting a location suitable for construction, and enabling vast amounts of electricity to be supplied by laying down special high-voltage cables. In the case of the Chiba development, we induced TEPCO Power Grid, Inc. to set up a super-high-voltage substation. There are two types of location criteria. When speed is important, suburbs of the Tokyo metropolitan area with easy access are suitable. When day-to-day access to data is not required and the site can be a little further away, for a building like a data center that generates heat, development is appropriate in regional areas such as Hokkaido where storage conditions are more favorable from a cooling perspective. Our strength is that we can roll out projects on a national scale and assist in selecting the optimal location, and we believe we can leverage that strength in either of the above scenarios.

【Q7】

On the subject of selection and concentration, what approach are you - including Outside Directors - considering at this time? If you have a roadmap for this, please share it.

【A】

-Until now the Company maintained its growth by developing businesses in a variety of fields, and we have had no experience of selling businesses or cutting headcount. However, from this point

forward, the Board of Directors will be required to consider and review the optimal portfolio of businesses on an ongoing basis, as advocated by the Ministry of Economy, Trade and Industry. In the same way, in our own company we will consider selling as one option in fields where we are struggling, and there may be cases where, if necessary, we execute that option at an appropriate time.

- However, we will not make the decision to sell based simply on poor profitability alone. While carrying out a full validation of the business, I believe we need to think about how to create a setup that can generate proper synergies within the business division-based system. For example, we are considering whether or not we can generate synergies in relation to our future store-opening program by incorporating Royal Home Centers, which are currently benefiting from consumption by people staying at home, into the Commercial Facilities Division, as well as various other possibilities.
- With regards the composition of the Board of Directors, as a first step we have this year achieved the minimum of having Outside Directors account for one third of the total. We will move forward with this as we utilize the expertise, knowledge and skills of outside directors to the full, and benefit from their opinions.

【Q8】

On the subject of data center initiatives, what are the company's strengths, and what points do you regard as important, if any? Also, are you thinking of taking the integrated approach that you have taken with other assets, running from development through to operations?

【A】

- I believe that the Company's strength is its ability to select optimal locations on a national scale, and to acquire sites. While linking up with local governments from a perspective of regional revitalization, we will make further efforts to gather information.
- With regard to construction work, because this is a type of building that we have not attempted before, we are proceeding with extreme caution, and will focus on the contracting side of the business at first. By dispatching engineers to accumulate know-how, we think we can make internal development possible at some point.

【Q9】

What is your strategy for expanding the logistics facilities development business overseas?

【A】

- The logistics facilities in which we are involved in Thailand and Indonesia are almost full, so going forward we plan to expand these. Because it is rather difficult to acquire land in Indonesia, we will move forward with the help of a partner company.
- We are also acquiring land and developing logistics facilities in Malaysia. We feel that one of the issues is how to sell these in future, but we have been handling it appropriately.

-In Indonesia we are currently involved with dry cargo logistics facilities, but in future we would like to be able to handle cold chains. Because Indonesia is an island country with a hot climate, we believe that chilled and frozen storage facilities will become important going forward. There are companies within our group that are skilled in dealing with cold chains, and we will leverage that know-how while strengthening related initiatives, and hopefully we will be able to assist in resolving the food-related problems faced by local people. There are also companies who are looking for data center sites in Indonesia, so we think that too presents opportunities.

-In America we concluded an agreement with Blackstone Group, and will use that as a toehold to move forward with our investigations, but that will probably be after the COVID-19 pandemic has been resolved. In Australia the economy is in the process of recovering, and we are also investigating the situation there.

【Q10】

I have a question about the domestic Single-Family Houses Business. There is a problem of population decline, but if environmentally aware products such as ZEH begin to attract attention, I think this could provide a following wind for the major home builders. How do you plan to grow this going forward? What makes your housing products distinctive?

【A】

- Each of the products that we make has its own features, but in terms of marketing, we might not have been successful in using our uniqueness to appeal to customers. For example, in the case of “xevoΣ” we did not implement marketing that pushed the results of our test results from E-Defense (full-scale 3D seismic testing facility) to the forefront, even though we were the first private-sector company to introduce such testing. We do believe that consumer appeal is important for the Single-Family Houses Business, so we aim to put more effort into this in future.

-On the other hand, regarding sales methods, a product called “Lifegenic,” which is sold online, has generated a considerable reaction. At first, we did not think that the approach of online home building would receive such a positive reception, but with the COVID-19 pandemic also contributing, visits to the site were more than five times higher than when we began sales.

-With regard to ZEH compliance, we don’t think there are any major differences between the major home builders, but we think we can play a valuable role in reinvigorating existing houses, through initiatives such as SumStock. By leaving a history of house inspections and repairs, our aim is to usher in an era in which the people who next live in a house are able to make an appropriate assessment of its value. In order to establish a system, through the use of SumStock, in which the value of a house is preserved and in which it can furthermore be sold to somebody who appreciates that value, we are currently putting resources into purchase and resale initiatives.

【Q11】

What is the future of the Environmental Energy Division and Related Business Division?

【A】

-Originally the environmental energy business dealt mostly with construction related to solar power generation and so on, but the stock of retail electric power sales has risen, and the ratio is now around 1:1. Going forward, while continuing our involvement with construction related to solar power and wind power generation, in the housing field we will purchase from house owners whose feed-in-tariff programs have ended, and strengthen sales of “Daiwa House Denki” electricity.

-Whether or not we have high expectations for the Group companies organized into the Related Business Division is unrelated to the fact that they are organized in this division. In the case of many of these companies, we are considering which division we should tie them to in order to achieve maximum synergistic effects. If we are able to come to a judgment that tying it to a division will result in greater synergistic effects, then we will organize it within one of the divisions, and in cases where keeping it independent will result in more growth we leave it as it is.

【Q12】

What effect will the so-called “New Sublease Act” that will come into effect in December have on your company? Will it provide a tailwind for companies like yourself that come up with a solid response to it, or will costs rise as result of this revision to the system?

【A】

-Because explanations at the time of construction must be given with even more care than was previously the case, there may be a slight impact, but we think there will be almost no effect on the management and operations business of Daiwa Living.

【Q13】

The deadline for the Productive Green Space Act is approaching rapidly. Will this have any impact on the business of the company? Or are you already pursuing any specific initiatives?

【A】

-We believe that it will have a positive effect on the Rental Housing and Commercial Facilities businesses, amongst others. We have been following up with owners for the past few years, and promoting management of appropriate locations.

【Q14】

I think that the Health and Leisure Business, such as the hotel operations, have been affected by COVID-19. What sort of impact has there been in monetary terms? In addition, what measures are you taking to minimize this impact?

【A】

-Regarding the field of health and leisure, there are Daiwa Royal, which operates 59 Roynet Hotel locations nationwide (city hotels* included in the Commercial Facilities Business), Daiwa Resort, which operates Royal Hotels (resort hotels), and Sports Club NAS. All of these are in the red, and we project a decline in operating income for the three companies combined of around 32.5 billion yen year on year.

- However, in the case of Daiwa Royal, although the company recorded more than 7.0 billion yen in losses in the first half, we are seeing a gradual recovery and predict that losses in the second half will be kept to less than 1.0 billion yen. The occupancy rate showed a remarkable decline in March and April, but we implemented cuts to room rates and the situation has gradually recovered, and is in the process of returning to normal. The appeal of locations close to stations is unchanged whatever the situation, and we feel our success in establishing Roynet as one of our brands has become a strength.

-Sports Club NAS has been affected by a decline in the number of new members and an increase in the number of those suspending membership, but we have put thorough safety measures in place and believe it is important to provide reassurance that it is safe.

-As for resort hotels, the Go To travel project has resulted in a return of activity. Because there are also some facilities that have benefited greatly, we intend to implement measures with our eyes firmly on the period after the ending of support measures.

End

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