Daiwa House Industry Co., Ltd.

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

Date and time: From 16:30 to 17:30, Friday, May 15, 2020

Speakers: Keiichi Yoshii, President CEO and COO

Takeshi Kosokabe, Executive Vice President and CFO

Yuji Yamada, Managing Executive Officer and General Manager of Finance and IR Departments

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【Q1】

Please tell us about the strategy for future real estate development business. While the risks of the novel coronavirus (COVID-19) remain in many countries in the world and economic activities are restricted, are you considering selling development properties at an early stage? Moreover, should the real estate market decline, it is also possible to say it would be a good opportunity to acquire property, so please tell us what kind of stance you are taking on investment, together with the prospective areas in the future.

【A】

- Investment results for real estate development for the initial year were 362.6 billion yen, which corresponds to 52% of the three-year plan, so progress was more rapid than predicted. As there is higher demand of working capital for subsidiaries due to the impact of COVID-19, and also the state of the real estate market after COVID-19 is uncertain, we would like to consider new investment carefully.
- Meanwhile, the book value of development property not being rented at present is approximately 400 billion yen as for logistics facilities. In order to complete these at an early period and get them leased out, and turn them into profitable properties, we will steadily continue investment in construction. We consider acceleration of this process will lead to the addition of future income.
- Promising fields are logistics facilities and mixed-use development, etc. As for logistics facilities, even in the present situation, demand is extremely steady. As for mixed-use development, we consider there will be more cases of large-scale development that makes use of our strong areas and the overall strengths of the Group in the future, such as Funabashi Grand Oasis, as introduced in the presentation.
- As for sales, we are planning 400 billion yen for 3 years of the Medium-Term Plan, and for the initial year we sold 189.5 billion yen. For the second year we are planning 190 billion yen in sales, and we already competed 48% of overall sales in April (just to Daiwa House REIT, 37% of the overall). Although it is still difficult to forecast what kind of impact COVID-19 will have on the state

of the real estate market, we still have many properties that can be sold, therefore we would like to increase the asset turnover ratio considering sales while taking into account various aspects including cashflow, achievement of the profit plan and Daiwa House REIT growth.
- We will promote protective management, however, that does not mean we will slow down our growth strategy of aggressive management, or the speed of growth. We will make efforts while staying conscious of the balance between defense and offense.

【Q2】
There is a growing possibility of significant change in lifestyles and work-styles in the society overall after the onset of COVID-19. Would you like to take this opportunity to promote anything actively?

【A】
- As for lifestyle, we think that the ways of living will change due to the increase of working at home, so we will make use of this change in the housing segment strategy. For example, we have already received such requests as desires to have room design with an additional room for telework or to have a soundproof room.
- As for workstyles, in the 6th Medium-Term Management Plan, we are planning 100 billion yen as investment for workstyle reform and reinforcement of our technology base, and have promoted various measures since last year. As for workstyle reform, we implemented telework targeting approximately 50% of employees even after the emergency announcement is lifted, and based on the results thereof, we will review how to change workstyles in the future.
- Regarding the reinforcement of our technology base, we have identified labor-saving and automated workplaces, in order to respond to issues such as the declining birthrate and the aging population and the shortage of workers skilled at construction work, initially. However, since our construction sites were temporarily closed from April 20 to May 10 due to the impact of COVID-19, we felt once again the need for sites free from human intervention, so we would like to steadily go ahead with this initiative.
- However, with regard to automated work, it is necessary to have context on whether or not we can legally go ahead, so we think that this is not just an issue for us, but an issue to propose to the entire industry to think about.

【Q3】
You stated that the financial forecast for the fiscal year ending March 2021 is based on the assumption that the spread of people infected with COVID-19 and restraint from economic activities would largely be settled and return to normal by the second quarter, but if it is settled sooner than

expected, is there room for going over the plan? In addition, in such instance, what kind of factors can be identified in fluctuations of income?

【A】

- The amount of impact this time is so calculated as to provide the largest possible figure. We believe that the earlier the situation returns to normal, the smaller the impact will be, and in that case, needless to say we would like to exceed the plan.
- One of the major factors in fluctuations of income is the hotel business. Currently, the hotel business has been hit hard, and the point is how far it can recover in the future. For the hotels operated by the Group, 70 to 80% of customers are domestic and 20 to 30% of customers are overseas, although each hotel is different. Therefore, we consider there to be a possibility that we may earn more income, depending on the state of domestic recovery.

【Q4】

What are the key fields or issues for your firm after COVID-19?

【A】

- As for the Single-Family Houses Business, we think our sales methods will change simultaneously with the workstyle of individual customers. In October of last year, we launched on our website Lifegenic, a product that makes it easy to experience home design. Until February, the average number of visits was about 30,000, and the number of contracts was about 10; however, in March, monthly accesses increased significantly to 220,000 and contracts increased to 35. Although this may be the effect of advertising and promotion, we are feeling more positive than ever, so we will aggressively work on reviewing our sales methods in line with changes in lifestyles.
- As for the Rental Housing Business, we have carried out measures to allow tenants to receive grace on payment of their rent for three months and for payment of rent to owners in advance by us, and we believe that this will lead to a sense of security for owners. We believe that this kind of response will appeal to owners who have not used comprehensive management at Daiwa Living, and will be one of the factors due to which we will be chosen when people build rental housing in the future.

【Q5】

As for the Commercial Facilities Business, city hotel earnings are expected to decline in the future. How will you cover this up with other fields?

【A】

- We would like to cover this with medical and nursing care facilities and logistics facilities. The orders received for medical and nursing care facilities for the fiscal year ended March 31, 2020 were approximately 79 billion yen, however, we believe that COVID-19 will affect the demand for medical buildings and increase their size, and we consider there will be growth in excess of 100 billion yen going forward.
- In the Commercial Facilities Business, we are also involved in small-scale logistics facilities, and we received orders for approximately 65 billion yen in the fiscal year ended March 31, 2020, but we believe that we can expect to grow by 100 billion yen or more in the future.
- In addition, we have been receiving more inquiries about existing properties, such as about office renovation to prevent the "Three Cs." Of course, this depends on how workstyle reforms progress throughout society, but we believe that these fields will also grow.

【Q6】

Business activity is restricted by COVID-19, and income is expected to decrease significantly. What kind of measures are you taking to minimize these adverse effects?

【A】

- Although we have not yet made a concrete estimate, we will strive to cut costs as well through a company-wide review of such budget items as personnel costs and advertising fees, as well as through cost cutting by promoting telework.
- In addition, in the event of this situation, we would like to fulfill our mission to all stakeholders such as customers, employees, business partners, local communities, and shareholders. For example, we have implemented temporary closures at construction sites and accompanying leave compensation for workers.

【Q7】

What about the state of the housing market in the United States? Please tell us about the current status of Stanley-Martin's sales and construction activities.

【A】

- Although there are great differences in the state of the US market among the various areas, we do not think that the areas in which we are currently operating business have been significantly affected.
- As for Stanley-Martin, although it is in a tough situation, the results have been steady. Although the plan for this fiscal year takes into account the effects of COVID-19, the number of orders received exceeded the plan for January to March. Orders received in April fell short of plan, but since the

beginning of May, both orders and deliveries have been steady. Accordingly, we consider their operations to have been steady.

【Q8】

Your financial forecast for the fiscal year ending March 31, 2021, which takes into account the influence of COVID-19, seems to be more conservative than the guidance of other general contractors and real estate companies. If there are factors unique to your firm, please tell us.

【A】

- As for a difference from general contractors and real estate companies, our company is affected by the hotel and sports club business, etc.
- Moreover, as for Single-Family Houses and Rental Housing Businesses, there is a sizable proportion of orders received are sold during the same term, so restrictions on activities to pursue orders will affect the results for the current fiscal year.

【Q9】

The outlook for the fiscal year ending March 31, 2021, excluding the impact of COVID-19, made us feel that the outlook for the Single-Family Houses and Rental Housing Businesses was slightly bullish. Please tell us about background of this and your future strategy.

【A】

- In the Single-Family Houses Business, after the consumption tax hike in October of last year, there was a greater decline than expected despite the low last-minute demand, but since January of this year there had been signs of recovery in the number of visitors to the exhibition site, so we made an initial plan based on that. In the future, we will prepare products with a slightly lower unit price, targeting first-time buyers, and respond to the post- COVID-19 situation.
- Regarding the Rental Housing Business, we felt that we had bottomed out, as the negative range of orders for a single month decreased in around February of this year after the introduction of new products since the second half of last year, but at present, with the impact of COVID-19, we are reviewing it a little more conservatively. We will continue taking measures in the future as well, including release of new products.

【Q10】

Please tell us about the background of the dividend reduction/dividend payout ratio of 56.9% in the current fiscal year and your approach to the future capital policy.

【A】

- Our policy for returning profits to shareholders is to maintain a payout ratio of 30% or more and to maintain a stable dividend. However, we have set a dividend payout ratio of 56.9% and a dividend of 90 yen with the aim of stable dividends, as there has been a large decline in income.
- By investing in growth investments such as real estate development and M&A, and increasing EPS, we have been able to achieve a dividend increase for 10 consecutive years. However, we expect sales and income to fall for this fiscal year, and ROE as well is forecasted to be in the 6% range, well below the target of 13%. We recognize that if we cannot maintain the high growth rate that we have seen, we will need to revise our capital policy.
- First of all, we need to have more cash on hand to keep the company running, so we would like to be cautious about new investments. In the previous fiscal year, as the first year of the 6th Medium-Term Management Plan, we made aggressive investments, but going forward we will refrain from investing, and regarding recovery, we are considering sale of development properties by some means that exceeds the initially planned 400 billion yen.

【Q11】

Please tell us about your capital allocation priorities.

【A】

- If we were to state these in order, 1. Dividends, 2. Growth investment, 3. Stock buybacks, and we think we have been able to allocate capital in that order. Although a D/E ratio of about 0.5 times is our financial discipline, it is 0.6 times as of the end of March 2020, which is in excess of that, so we recognized there is not much room in the current balance sheet. If this situation continues and interest-bearing debt continues to increase, it will become difficult to maintain our rating, so we are reconsidering whether to invest in growth at the same pace as before.
- Although dividends have been reduced, please understand that this is a number that maintains a stable dividend within the possible range.

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