Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2021 2Q
(For the fiscal year from April 1, 2021 to September 30, 2021)

Date & time: From 16:00 to 17:00, Tuesday, November 9, 2021
Presenters: Takeshi Kosokabe, Executive Vice President, CFO
Yuji Yamada, Managing Executive Officer and General Manager of Finance and IR Departments

---

【Q1】
Looking at revisions to full-year plans, is there a possibility you will increase the sell-off of development properties? Also, looking at the Other Businesses, you conducted a downward revision for operating income. What is your approach to the earnings forecast for the hotels and sports club business?
(Reference) Financial Highlights
P.23 "Business Performance Forecasts for FY2021 (4) Sale of development properties"
P.25 "Business Segment Forecasts for FY2021 (2) Operating income"
P.30 "Commercial Facilities Business"

【A】
-We conducted an upward revision to operating income from the sale of development properties but the 70.2 billion yen you are referring to is related to properties with negotiations in progress that are likely to be sold. We also have other properties in the negotiation process so expectation is that the number of properties sold will increase.
-As for operating income from the Other Businesses, we conducted a downward revision of 2.0 billion yen from our initial target of 15.0 billion yen. A breakdown of main decrease factors are approx. 6.0 billion yen for resort hotels, approx. 2.0 billion yen for sports clubs, and approx. 3.5 billion yen for the energy business. For the hotel business, we are forecasting nearly equivalent operating losses for the first half and the second half. Conversely, energy business earnings struggled in the first half, recording a 4.0 billion yen year-on-year decline in operating income. We also forecast an approx. 10.0 billion yen decrease in operating income from urban hotel management, which is part of the Commercial Facilities Business.
-The occupancy rate for the Roynet Hotel chain of urban hotels for the six months through September was 40.4%. Our full-year forecast is approx. 45%. We revised projections for operating losses to 15.8 billion yen based on the assumption that occupancy rates would not recover significantly in the second half. Resort hotel occupancy rates over the same period were at 20.5%, with a full-year forecast of

roughly 24%. As such, we are forecasting operating losses of 12.8 billion yen. However, looking at the current state of the COVID-19 pandemic, actual earnings could outperform these forecasts.

【Q2】

Please discuss the reason for revisions to depreciation, which represents a significant increase in depreciation for the Logistics, Business & Corporate Facilities Business compared to initial plans.

(Reference) Financial Highlights P.37 “Depreciation”

【A】

Revision of the Accounting Standard beginning from this fiscal year resulted in certain expenses previously recognized as costs being included in calculations for depreciation.

【Q3】

To the extent possible, please discuss the themes you are considering for your 7th Medium-Term Management Plan.

【A】

-We are planning to announce our 7th Medium-Term Management Plan in May of next year and we are planning on this being a five-year plan. A major theme will be management reforms based on the business division-based system we adopted from April of this year. We have already begun certain initiatives, including organizing and optimizing redundant operations within the Group, and we plan to fully reevaluate the Group’s entire supply chain. We will also begin reevaluating our portfolio.

-We will also implement ESG initiatives, define purpose and materiality, and fully engage in sustainability management.

【Q4】

Revised plans for the Logistics, Business & Corporate Facilities Business include an upward revision for construction net sales, and you maintain targets of a gross margin ratio of 15.0%. However, you conducted an upward revision to business-specific targets for orders received for Daiwa House’s non-consolidated businesses. Does this indicate that your company is able to secure profitability for orders received in an environment where major general contractors are seeing declining profitability at contract signing?

(Reference) Financial Highlights

P.31 “Logistics, Business & Corporate Facilities Business”

P.32, 33 “Orders Received by Business Segment (Non-consolidated)”

【A】

-Overall, first half orders received by business segment (non-consolidated) outperformed expectations so we revised our orders received forecast to 2,070.0 billion yen, which exceeds the 2,004.4 billion yen in orders received recorded in FY2019 prior to COVID-19. We are maintaining initial forecasts for the second half.

-The Logistics, Business & Corporate Facilities Business is recording favorable sales of development properties. The environment for corporate investment activities has been favorable compared to the peak of the COVID-19 pandemic but the competition for orders remains intense. Amid such conditions, we have been able to secure profitable orders received by utilizing the industrial parks we hold in various locations.

【Q5】

Looking at profitability at time of signing for the Commercial Facilities Business, urban hotel operations are down but construction is up if excluding those numbers. The downward revision to gross margin ratio targets was minimal and is higher compared to the previous year. Please discuss current conditions for profitability and orders received by asset type, as well as your thoughts on the sustainability of those numbers. Also, do targets reflect the skyrocketing prices for construction materials?

(Reference) Financial Highlights P.30 “Commercial Facilities Business”

【A】

-The Commercial Facilities Business is the only segment that recorded a year-on-year decrease in orders received for the first half. In particular, hotel construction projects were stagnant due to the COVID-19 pandemic. On the other hand, orders received for industrial offices and logistics facilities increased and orders received for drug stores and supermarkets remain favorable. However, those increases were not enough to cover the slump in hotel construction projects.

-The rise in construction material prices is ongoing. While we are working to constrain costs, we will need to reflect these conditions in customer pricing. As such, we do not plan on lowering our gross margin.

【Q6】

What were the results for each company for the overseas Single-Family Houses Business?

【A】

The results of each company are as follows.

(¥ 100 Million)	Sales			Operating income		
	20/9	21/9	Change	20/9	21/9	Change
Stanley-Martin (USA)	700	806	106	63	90	27
Trumark (USA)	7	100	92	-6	0	7
Box Hill (Australia)	27	38	10	3	6	3
Rawson (Australia)	89	107	17	-9	-10	-1

【Q7】

You revised the breakdown of each segment for the Overseas Business. Please discuss the factors for each segment. In particular, you raised your net sales forecast for Single-Family Houses but made no changes to the forecast for operating income. Also, you lowered the operating income forecast for the Other Businesses despite forecasting largely unchanged net sales. What factors influenced these forecasts?

(Reference) Financial Highlights P.24,25 “Business Segment Forecasts for FY2021”

【A】

-We revised forecasts to a roughly 100 million yen decrease in operating income for the Single-Family Houses Business for overseas to reflect higher-than-expected SG&A expenses.

-We revised forecasts for the Other Businesses for overseas from operating losses of 1.8 billion yen to operating losses of 2.8 billion yen. US and European management companies are mainly recorded in the Other Businesses segment, which incurred M&A and other expenses that were not reflected in initial plans.

【Q8】

Please explain the factors resulting in the year-on-year 10% decrease in orders received for the Single-Family Houses Business in the month of October.

【A】

-The businesses themselves are not reporting any particular changes in the market environment. While we did see slight last-minute demand at the end of September due to the construction contract signing deadline for eligibility for the housing loan tax exemption. However, at this point, we cannot say for sure that October figures reflect some sort of market correction.

【Q9】

Please discuss the US Single-Family Houses Business. The US market saw a significant year-on-year decline, down roughly 20%, in new house sales between July and September. There is concern about growing consumer pessimism but what are conditions like for Daiwa House?

【A】

-The US market conditions appear to be shifting somewhat compared to the favorable conditions seen six months ago. Prices for new houses are rising, in part due to the impact of skyrocketing prices for wood materials. This is likely creating hesitancy among consumers. However, there continues to be strong demand, particularly among millennials, so we think the likelihood of any sudden changes in market conditions is low.
-In terms of operations, the COVID-19 pandemic has caused delays in the permit approval process in the US. There are concerns about whether the smooth transfer of houses by the end of December will be possible in light of progress for final inspections.

【Q10】

Please discuss trends in orders received for the Rental Housing Business, including demand related to inheritance tax mitigation measures.

【A】

-We continue to see strong demand for inheritance tax mitigation measures. At the same time, refraining from in-person sales activities in some areas in response to COVID-19 has resulted in elongating the timing of orders received. With the withdrawal of the emergency declaration, we expect this impact to dissipate gradually with the resumption of in-person sales activities.

【Q11】

About new initiatives for the Logistics, Business & Corporate Facilities Business, please discuss how facilities such as data centers, public wholesale markets, and onshore aquaculture facilities will have on earnings.
(Reference) Financial Highlights P4 “Topics”

【A】

-Concerning public wholesale markets, we have secured priority negotiation rights for a redevelopment project in Toyama Prefecture, but at present this will have no impact on this fiscal year’s earnings. For public wholesale market redevelopment projects, we will pursue construction contracts as well as work towards the construction and management of commercial facilities on excess land.

-As for data centers, we started construction on two facilities in Chiba New Town. Of those, construction on one project has been completed. We expect these projects to contribute to this fiscal year’s earnings on a project completion basis. We are also engaged in negotiations for other sites, but those have yet to result in orders received.

【Q12】

Please provide an update on the business environment for logistics facilities. It appears that COVID-19 has caused increased inventory among manufacturers and a logistics REIT has indicated the demand and supply balance is tight, including last one mile demand. What are your impressions of current conditions? Can logistics facility development continue to be an earnings pillar heading into next fiscal year?

【A】

There are a lot of players in the logistics facility development market. Supply is increasing and competition is intensifying. However, Japan’s EC rate is still very low at just around 8% in FY2020. As such, we believe there is still tenant demand. Also, our strengths are not only limited to our ability to make proposals on good land. We have a strong digital platform, as is evidenced by the fact that Nike Japan entrusts our Group with their EC operations. As such, we believe this will continue to be a powerful pillar for us during the next Medium-Term Management Plan. There is strong demand and we are highly competitive.

【Q13】

About the direction of the next Medium-Term Management Plan. Will data centers be a main theme over the next five years? Assuming you will continue to be involved in logistics facilities, what are your current thoughts on your future direction?

【A】

-It is not the case that we view data centers as a replacement for logistics facilities.

-The Ministry of Economy, Trade and Industry has identified regions for data center development and, subsequently, we too are searching for land. Outside of Chiba New Town, we have a few properties we acquired for logistics facility development so we will consider soliciting data centers to those locations.

-However, as for what will become the focus of the next Medium-Term Management Plan, from a monetary perspective as well, I believe logistics facilities will become our focus. Overall, we want to gradually increase development investment amounts. We will gradually increase investments, build our property portfolio, increase sales, and then direct those funds towards new investments. We want to engage in this type of cycle.

【Q14】

Looking at the China Business, do you have concerns about the Evergrande Group situation? Please indicate if there have been any changes in your business environment.

【A】

-The two properties we were selling in China (details below) have already been sold out and we have collected all amounts due so there is no impact on us whatsoever.

-Our investment balance is approaching 90.0 billion yen. Moving forward, we will make investment decisions based on the careful analysis of US-China relations and other factors.

Project Overview in China

Project name	Number of units	Completion (Plan)	Condition
Nantong Project (Grace Residence)	Phase I: 680	November, 2021	Sold out
	Phase II: 800	June, 2022	Sold out
Changzhou Project II (Grace Residence)	636 *Residential units only	January, 2022	Sold out

【Q15】

On the subject of development property sales, the market remains favorable for sales of logistics facilities but what about other assets such as commercial facilities and hotels?

【A】

-Among commercial facilities this fiscal year, we sold Granode Hiroshima (multi-use facility with offices and hotel) and an office building in the Marunouchi area of Nagoya for nearly the same amounts. The Marunouchi office building was sold off immediately after completion.

-There is talk of concerns regarding rising office vacancy rates in central Tokyo but we feel we have confirmed that there is certain demand for high-quality properties in prime areas. We have a large-scale multi-use property in Nishi-Shinjuku that features offices and rental housing. Properties like these are also candidates for sales next fiscal year and beyond, and we feel we will be able to sell them for a considerable price.

【Q16】

One of the reasons for retaining your stock is the appeal of its strong growth potential. What types of growth strategies do you envision for your next Medium-Term Management Plan amid your increased focus on ESG and structural reforms?

【A】

-Looking at past performance, we achieved operating income of 381.1 billion yen in FY2019. However, we will not force ourselves to achieve this same level of rapid growth. Instead, we will strive for sustainable growth while solidifying our base on several fronts.

-One growth pillar will be the Overseas Business. In the next five-year plan, we will advance growth investments.

-In Japan, we must increase our market share amid a contracting market. In addition to investing in logistics facilities and facilities for the elderly, we will engage in cyclical businesses such as the renovation of rural shopping mall as part of our growth strategy, including ESG.

【Q17】

Despite hotels and sports clubs facing factors related to the prolonged COVID-19 pandemic that are contributing to decreased income, you are maintaining your full-year forecasts. I assume this is because, aside from increased income from development property sales, you have businesses that are recording improvements in sales and income. When excluding the impact of COVID-19, what changes have there been in overall profitability since the beginning of the fiscal year?

【A】

Aside from increased income from the sale of development properties, we revised our forecast for increased income from rental management in the Rental Housing Business. COVID-19 has caused restrictions on movement, which is resulting in high occupancy rates. Additionally, the standardization of amenities such as internet connections and delivery boxes are contributing to lifestyle changes in which people are spending more time at home. Looking at competitors as well, consumers are choosing housing that offers high-quality lifestyles, which has enabled us to increase rents. As a result, we revised plans by roughly 5.5 billion yen from initial forecasts to reflect higher-than-expected operating income from rental management for apartment buildings.

【Q18】

Please indicate if there are any risks you are concerned about for the second half and beyond other than rising material costs.

【A】

The real estate market, including the REIT market, has been favorable but one matter of concern is rising interest rates, which can lead to fluctuations.

End

Disclaimer:
This English translation has been prepared for general reference purposes only. The Company shall not be responsible for any consequence resulting from the use of the English translation in place of the original Japanese text. In any legal matter, readers should refer to and rely upon the original Japanese text released on November 11, 2021.