Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2022
(For the fiscal year from April 1, 2022 to March 31, 2023)

Date & time: From 16:00 to 17:00, Friday, May 12, 2023
Presenters: Takeshi Kosokabe, Executive Vice President, CFO
Yuji Yamada, Managing Executive Officer and General Manager of Finance and IR Departments

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【Q1】
Please indicate the status of orders received for the US Single-Family Houses Business and future outlook.

【A】
-We are planning for decreased net sales and income for the US Single-Family Houses Business in FY2023. The currency conversion rate was 132.70 yen in FY2022 and we are planning on a rate of 122 yen in FY2023, so sales will decrease by roughly 12% when excluding the impact of foreign currency conversion.
-The end of the year was impacted by a sudden rise in interest rates. While we were conducting sales promotions that included adding incentives for certain properties, after welcoming in the new calendar year, the status of orders received were extremely favorable in January through April. Based on the number of orders received, we recorded 2,288 units received cumulative for the four-month period (+68.7% YoY). Relative to the 5,291 units we planned to sell this fiscal year, we have already secured sales for 77% of that target number.
-As reasons for favorable orders received, one factor is that interest rates dropped down into the 6% range, triggering a recovery in customers' motivation. Another factor has been extremely low inventory numbers for used housing. In the south (Texas), which has been particularly favorable, these factors are driving demand for new housing construction.
-We believe the favorable environment for orders received will continue. In some cases, we have been able to sell properties after raising prices, and we expect improvements to profitability that exceed initial forecasts. However, we will determine the revision of our forecasts after analyzing conditions in May and June.
-As roughly six months are required to complete construction in the US, we think that favorable orders received from this fiscal year will also contribute to earnings for mainly next fiscal year and beyond.

【Q2】

Have you incorporated the sale of US rental housing into your plans for this fiscal year? Also, what is your forecast for the US real estate market?

【A】

-As for the sale of US rental housing, we are planning to sell one property in FY2023 that will result in net sales of roughly 20 billion yen and operating income of roughly 5 billion yen. During the previous fiscal year, we sold one property that resulted in net sales of 17.1 billion yen and income of 3.7 billion yen.

-The real estate market is currently sluggish due to issues such as financing and cap rates. However, the properties we developed are showing improvements in occupancy rates so we will sell properties based on an analysis of the appropriate timing.

【Q3】

Please tell us about the performance of your mortgage business in the US.

【A】

-The mortgage business sales were 13.6 billion yen in FY2021 and 7.7 billion yen in FY2022. We forecast sales of 5.6 billion yen in FY2023.

【Q4】

Please discuss the current status of recovering profitability of orders received for the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business. Also, what is the status of progress for Group centralized purchasing indicated in your 7th Medium-Term Management Plan and to what extent have you incorporated effect of cost reduction through Group purchasing into your plans for FY2023?

【A】

-The Commercial Facilities Business cost ratio of orders received was 76.2% for FY2022. This represents a YoY improvement of 0.5pt.

-Conversely, the cost ratio of orders received did not improve for the Logistics, Business & Corporate Facilities Business for FY2022. However, our plans reflect an improvement to the gross margin ratio as we are planning to increase the composition of sales from the built-for-sale business such as industrial parks, which is one of our strengths.

-Looking at FY2022, we worked to prevent cost increases while also implementing cost reduction initiatives, which resulted in a cost reduction effect of 23.2 billion yen. Of that, the effect of Group centralized purchasing was roughly 1 billion yen. In FY2023, we are planning on a reduction effect of roughly 5 billion yen. We will continue to expand the scope of Group purchasing as we aim for a cost reduction effect of 100 billion yen by engaging in the purchasing on a scale of one trillion yen in the last year of our 7th Medium-Term Management Plan.

【Q5】

What is your intent behind the 35 billion yen in share buybacks you recently announced? Also, are you considering ongoing share buybacks?

(Reference)

“Notice Concerning Determination of Matters Pertaining to the Acquisition of Treasury Stock and the Cancellation of Treasury Stock” released on May 12, 2023

【A】

-The revision of the discount rate and others resulted in an operating income of 96.6 billion yen as actuarial differences, but we did not include this figure in dividends for FY2022 since the income was non-cash. However, net assets were increasing and our stance is that achieving an ROE of 13% or higher requires that we enhance our shareholder returns. We will continue to consider this strategy as we work to improve our capital efficiency.

【Q6】

Operating income in the urban hotel and sports club business for FY2023 is expected to increase by 6.5 billion yen. Please give us a breakdown of this increase.

(Reference) Financial Highlights P.6 “Topics (1)”

【A】

-The hotel business will improve operating income significantly. We operate 80 urban hotels, which recorded operating losses of 2 billion yen in FY2022. This represents an income improvement of 12.2 billion yen. For FY2023, we are planning on an occupancy rate of 85% and an ADR of 10,500 yen for income of roughly 0.5 billion yen. Prior to COVID-19 in FY2019, we recorded an occupancy rate of more than 90%, an ADR of 10,000 yen or lower, and income of 5.5 billion yen so we are looking forward to increasing profit this fiscal year.

-Additionally, the accommodation business operated by Cosmos Initia Co., Ltd. recorded 0.9 billion yen in operating losses for FY2022 but they are planning on operating income of 2.9 billion yen for FY2023. The sports club business is also planning for income to increase by 0.5 billion yen.

【Q7】

Regarding the current contracts situation in the domestic business in April, Single-Family Houses Business is down 14% YoY and Rental Housing Business is down 21% YoY. Please tell us about the actual situation.

(Reference) “Monthly Contracts for April 2023”

【A】

-There are no business environment changes impacting the Rental Housing Business. The change in our standards implemented last year resulted in negative figures but, in reality, performance was positive compared to the previous year. On the other hand, we are implementing reforms for the Single-Family Houses Business, including strengthening built-for-sale houses in suburban areas and increasing sales personnel in areas of strong demand for custom houses.

【Q8】

Looking at the forecasts of orders received by non-consolidated business segment for FY2023, it appears that you have outlined rather bullish targets for custom houses and built-for-sale houses in Single-Family Houses Business and Rental Housing Business. What is the background behind these forecasts?

(Reference) Financial Highlights

P.40 “Orders Received by Business Segment (Non-consolidated) (2) Forecasts”

【A】

-From April 2022, we changed our standards from counting the projects scheduled to start construction within two months to counting projects on the month construct starts. Thus, the FY2022 hurdle appears low because projects that began construction in April and May 2022 were counted in FY2021 according to the previous standard.

【Q9】

Looking at construction for the Commercial Facilities Business, what are some strong asset types? Also, as inbound traffic recovers, what is the status of orders for hotels?

【A】

-Hotel orders received increased from roughly 6 billion yen in FY2021 to around 10 billion yen in FY2022. Prior to COVID-19, we had orders received of nearly 100 billion yen per year, so we are looking forward to future increases. Industrial assets, such as office buildings and delivery centers, in regional cities have doubled compared to FY2019, which was prior to COVID-19.

【Q10】

Regarding Logistics, Business & Corporate Facilities Business, the forecast for orders received (Non-consolidated) is -8.8% from the previous fiscal year and the forecast for capital investment is -41 billion yen from the previous fiscal year. Please give us a breakdown of this decrease.

(Reference) Financial Highlights

P.40 “Orders Received by Business Segment (Non-consolidated) (2) Forecasts”

P.41 “Capital Investments”

【A】

-In FY2023, we are planning for a decrease in real estate development investments, which are included in the capital investment amount. This is planned based on the cumulation of actual projects, so it does not mean that opportunities for business are decreasing. As for logistics centers, overall market supply is high. In the past, facilities would be filled by the time construction was completed. Although currently it can take from six months to a year after construction completion, tenant demand remains strong. Additionally, we are seeing other asset types such as data centers and public wholesale markets, so we think the segment still presents various opportunities.

-Looking at the orders received market as a general contractor, including Fujita, the market appears to be seeing a recovery in corporate facilities investments as the impact of COVID-19 subsides.

【Q11】

Looking at your plan for FY2023, what factors will cause non-operating expenses to increase by 8.3 billion yen year on year?

(Reference) Financial Highlights

P.23 “Business Performance Forecasts for FY2023 (1)”

【A】

-We are expecting roughly 5 billion yen on increased interest payments. We are forecasting increased liabilities and interest rate hikes, which will impact the capital procurement of US companies.

【Q12】

Please tell us about the current progress of the data center business.

【A】

-In addition to a development project in Shinagawa, we are also engaging in multiple construction projects for buildings on the west side of the Tokyo Metropolitan area. We have already begun construction on a second building at the area. We are also considering sites in Osaka.

【Q13】

What factors are behind FY2023 plans for decreased net sales and increased income for the Environment and Energy Business?

(Reference) Financial Highlights

P.25,26 “Business Performance Forecasts for FY2023”

【A】

-The major factors were that, last fiscal year, there was a halt on new contracts as the PPS (electricity retailing) business faced a period of having to accept high costs for procurement. Also, the business worked to terminate contracts in order to improve profitability.

-With the impending end of the FIT program, construction projects for power generation facilities are decreasing. On the other hand, we expect to see a future increase in the materialization of projects related to offsite PPA.

【Q14】

Regarding the business performance forecasts for FY2023, please tell us the details of 29 billion yen in extraordinary income.

(Reference) Financial Highlights

P.23 “Business Performance Forecasts for FY2023 (1)”

【A】

-We are mainly forecasting extraordinary income on the transfer of Daiwa Resort and Royton Sapporo.

【Q15】

What is the probability of your plan for increased income on the sale of development properties?

(Reference) Financial Highlights

P.22 “Sale of Development Properties”

【A】

-While not all projects to be sold have been finalized at this point, our plans are based on projects with a high rate of probability. We do not see the market environment as changing for the worse so we want to make this a reality as soon as possible.

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