

Daiwa House Industry Co., Ltd.

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

Date and time: From 14:30 to 15:30, Monday, May 15, 2017

Location: Daiwa House Industry Co., Ltd.,
Tokyo Head Office, 2nd Floor, Conference Room

Speakers: Takeo Higuchi, Chairman and CEO
Naotake Ohno, President and COO
Takeshi Kosokabe, Representative Director, Senior Managing
Executive Officer and CFO
Yuji Yamada, Senior Executive Officer and General Manager of
Finance and IR Departments

[Q1]

You have implemented sharp upward revisions in your business performance targets for fiscal 2018—the final year of the Group's Fifth Medium-Term Management Plan—compared with the targets figures under your initial plan. Could you explain the principal reasons for this?

	Net sales	Operating income	Net income
After revision	¥3,950 billion	¥340 billion	¥224 billion
Before revision	¥3,700 billion	¥280 billion	¥180 billion

[Answer]

- Our initial plan was drawn up prior to the government's decision to postpone raising the consumption tax rate from April 2017 to October 2019. Thus, when we drafted the plan, we assumed that the domestic economy would unavoidably be negatively impacted by the tax hike, and were therefore cautious in setting our performance plan.
- In addition to the positive factor of the tax increase postponement, in deciding on the upward revision we also took into account the beneficial effect on the Japanese construction industry of growing demand in the run-up to the 2020 Tokyo Summer Olympics and Paralympics.

[Q2]

While construction starts on rental housing are currently increasing, the percentage of vacancies also appears to be on the rise. In view of this, what is your strategy for your Rental Housing Business over the near future?

[Answer]

- The unit occupancy rate of rental housing that the Daiwa House Group leases in entirety from landowners is 97.1 percent, and we have maintained that high level of occupancy for a number of years.
- We operate our rental housing business through careful selection of building styles and locations after thoroughly analyzing all the major factors involved, notably rent levels and local environments, to produce properties that are optimally attractive to potential tenants.
- We are also actively involved in the effective utilization of corporate real estate (held by companies, such as dormitories and employee housing) and public real estate, among others, in line with our concept of “Plus 1 and Plus 2 Business,” under which we add new peripheral businesses.

[Q3]

Given that your construction contracting and rental housing management businesses are by their nature labor-intensive, they may be liable to adverse impacts from factors such as a shortage of skilled workers and rising labor costs. Please describe your policy for coping with these factors in the near future.

[Answer]

- It is undeniable that the performance of these two businesses tends to be subject to bottlenecks in the human resources area. However, the Group's policy is to provide continuous, long-term support to our customers, as we believe that this is one of our main strengths, resulting in the accumulation of a considerable reserve of trust in the Group. We thus believe it would be impossible for us to cut corners in these fields.
- At the same time, we are pressing ahead with further labor-saving measures and process streamlining as a means of dealing with these issues in our all businesses.

[Q4]

What is the cause of the extremely strong growth being achieved by your Commercial Facilities Business?

[Answer]

- Our basic business model here is to make proposals to landowners for optimally effective use of their land. We conclude construction contracts with them under which we build retail and

wholesale facilities, and then invite corporate tenants seeking suitable locations to open stores within the facilities. We have been applying this business model to fields other than retail stores.

- As a result, non-retail-use construction has been increasing. For example, in the Tokyo area we have built a large number of day-care centers for children using this business model. In response to growing demand for accommodation facilities, we have also been building business and city hotels.
- Additionally, we have been utilizing our capabilities in the field of relationships with corporate tenants to expand the scope of our operations in our Commercial Facilities Business. For example, the relationships we have built up with our corporate tenants over many years enable us to win orders from them for the construction of logistics facilities.

[Q5]

The scale of individual projects has been growing larger in your Commercial Facilities Business as well as your Logistics, Business and Corporate Facilities Business. Is this leading to competition with the general contractors? Also, could you describe the way in which Fujita Corporation cooperates with Daiwa House Industry?

[Answer]

- We have not encountered much competition. We believe that this is because we don't simply construct buildings—we take care of all the complex and time-consuming ancillary processes, including pre-construction land preparation and land-lot consolidation.
- One of Fujita Corporation's major strengths is in redevelopment projects, and this, too, makes our cooperation all the more fruitful.

[Q6]

Could you describe your policy toward the sales of development properties?

[Answer]

- Our decisions with respect to the sales of development properties take into account three main factor categories: 1) factors affecting the balance of profit & loss, such as the value of the sale and the gain on sale; 2) factors affecting cash flow, such as the recovery of the funds used; and 3) factors affecting the growth of Daiwa House REIT Investment Corporation, of which Daiwa House Industry is the sponsor.

- The investment yield differs from one properties to another, and so you should expect to see fluctuations in the value of gains on sale from one business term to the next.

[Q7]

In your overseas business, could you provide the figures for sales and operating income over the three-year period of the current medium-term plan?

[Answer]

FY2016 (results): Sales ¥111.6 billion/Operating income ¥2.5 billion

FY2017 (plan): Sales ¥200 billion/Operating income ¥10 billion

FY2018 (plan): Sales ¥250 billion/Operating income ¥20 billion

[Q8]

Could you provide some details on near-term plans for your overseas business, broken down by geographical area and operational field?

[Answer]

- We will continue to engage in the development of rental housing in the United States, and our business in that country will be expanded by the addition of Stanley-Martin Communities, LLC—which engages in the sale of single-family houses—as a new Group member.
- In Australia, we will continue to operate our condominium development business.
- In the ASEAN countries, we will continue to undertake contracting for the development of industrial parks, as well as individual factories, logistics facilities, and other types of facility, and we also plan to expand into the field of serviced apartment development.

[Q9]

In your Environment and Energy Business, could you provide the figures for sales and operating income over the three-year period of the current medium-term plan?

[Answer]

FY2016 (results): Sales ¥97.6 billion/Operating income ¥4.5 billion

FY2017 (plan): Sales ¥110 billion/Operating income ¥5.5 billion

FY2018 (plan): Sales ¥130 billion/Operating income ¥9.5 billion

[Q10]

The Daiwa House Group appears to be actively entering the concession business field, with participation in the management of Osaka Castle Park and the expressway project being undertaken by the government of Aichi Prefecture, among others. Do you plan to enter this new business field in a coordinated, groupwide effort?

[Answer]

We have already begun organizing cooperation among Group-member companies to move into a number of related business fields. Going forward, we plan to optimally leverage the various unique specialist skills of Group companies to expand our sphere of operations.

[Q11]

I recently toured the Daiwa House Central Research Laboratory in Nara Prefecture and was very impressed by the words of your founder Nobuo Ishibashi: "One should never fall into the rut of 'stable growth'," which seems to encapsulate the core of your company's corporate DNA. The Group's business performance is favorable for the past few years, but could you isolate the factor that you feel is most essential to avoid an interruption of this growth trend?

[Answer]

We believe that, above all else, it is vital to continue passing on the spirit of our founder. Nobuo Ishibashi always used to exhort us to think far ahead, and not to be satisfied with the status quo. These are just some of the many wise words of counsel that he left us as our corporate legacy. Above all, he passed on to us the dream of creating a corporate group with annual sales of ¥10 trillion by the 100th anniversary of the Company's establishment. Going forward, we will continue to work toward the realization of our mission—to create and offer products and businesses that will be of service to many people around the world, and that will make them happy. We believe that this stance will bear fruit in the form of continuous growth.

(End)

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