

## Daikyo Incorporated Medium-term Management Plan Briefing Q&A (Outline)

Q You have set acquisition limits for treasury stock in your shareholder return policy; how have you dealt with the liquidity issues? Also, do you plan to purchase from major shareholders as well, and what kind of relationship will you maintain with major shareholders going forward?

A During the formulation of the Medium-term Management Plan, we spent considerable time consulting with Orix, one of our major shareholders. We received their approval for Medium-term Management Plan, which includes our shareholder return policy, and it is our understanding that they support this policy. With regard to the purchase of treasury stock, we plan to conduct purchases from the market in the usual manner.

In addition, we have determined that if purchases are within the scope of our limits governing the number of shares purchased and the total purchase price, even if liquidity is reduced, it will not be to a level at which we will need to consider whether we are in conflict with the listing requirements, etc.

Q With regard to results targets, you have stated that your operating income target for the year ending March 2021 is ¥28 billion, which is ¥8 billion more than the current level; however, I would like to know the breakdown for each segment and which businesses will produce these results.

A In the Medium-term Management Plan, we have set the target of increasing the operating income of ¥18.3 billion recorded in the year ended March 2016 by approximately ¥10 billion to ¥28 billion in the 5 years to the year ending March 2021. We plan to improve the results for management and brokerage, while maintaining results for real estate development and sales at their current level, without trying too hard to improve them. However, we expect redevelopment, which we are currently engaged in, to contribute to income by supplementing the regular sections from the year ending March 2020 or the year ending March 2021.

Q Tell us about the financial plan to carry out the ¥ 150 billion investment plan. You have stated that your policy is to allocate 50% of total net income during the period of the plan as shareholder returns; however, I think that if you do this, the amount of cash that can be allocated as investment capital will be limited to a certain extent. Is my understanding correct, that you will increase borrowings to increase equivalent leverage? If this is not the case, do you intend to obtain equity financing through external procurement?

A Until now, we have been a condominium developer. Although we have repaid all loans, we have not been able to use our financial leverage appropriately. We feel that financial institutions will help us to meet the capital requirements of the Medium-term Management Plan. Also, we believe we have a sound financial base and risk monitoring system that is able to withstand an external shock, such as the collapse of Lehman Brothers, if such an event were to occur. Going forward, we will actively invest in growth; however, we would also like to maintain a certain degree of financial soundness. Specifically, we will keep a shareholders' equity ratio of 50%. Furthermore, we are not considering equity financing during the period of this Medium-term Management Plan.

Q Will the investment of ¥ 150 billion be net or gross? Also, what returns are you likely to see? Will there be some investments that will not see a return by the year ending March 2021?

A We plan for the ¥ 150 billion to be invested by the end of the year ending March 2021 to be counted on the BS. With regard to real estate inventory, we hope to raise the balance to ¥ 200 billion from the level ¥ 100 billion for the year ended March 2016 by investing all ¥ 100 billion. We will allocate ¥ 70 billion of ¥ 100 billion of the funds to be invested to yield-generating real estate for lease, from which we will receive lease profits. The remaining ¥ 50 billion is for investment in M&A and R&D investment, and although they may contribute to revenue under the Medium-term Management Plan, these investments are aimed further into the future.

Q You gave an explanation concerning condominium repair and maintenance as part of your plan to greatly expand the management business, but how do you plan to expand regular condominium management and services for residents?

A We do not plan to greatly expand income from condominium management on commission in the absence of M&A, etc. In the light of this, although we are actualizing profits generated from management associations that are existing residents, it will become even more important for us to provide appropriate

services and record reasonable revenue in the future, depending on the needs of the management associations. Furthermore, we anticipate that we will be able to increase revenue by providing more products and services that respond to the needs of individual residents, and by increasing the number instances of returning capital to the Group by dealing with the remodeling and residential sale needs etc. of residents in-house..

Q I think that management of facilities other than condominiums is a promising area. How is it dealt with in the Medium-term Management Plan, including cooperation with Orix?

A We manage a range of facilities in conjunction with Orix, including an aquarium and a solar facility, and going forward we hope to deepen our cooperation through airport concessions, etc. Furthermore, in the field of building and facilities management, we will focus on expanding areas where we can engage in long-term relationships, such as with universities and hospitals, apart from our cooperative relationship with Orix. Increasing the number of facilities under management will lead to increases in proceeds from contract work on commission, such as repairs and maintenance, as well as consignment fees, so we will ensure that we grow in this area during the period of the Medium-term Management Plan.

Q You intend to greatly expand the brokerage business, and you have listed the target of increasing renovations of older condominiums to 2,500 units by the year ending March 2021; however the profitability of this area has recently been decreasing, and the number of competitors in the market is expected to increase in the future. How will you achieve growth while maintaining profitability going forward?

A Profitability is down from the previous fiscal year, partially because of insufficient management of the sales schedule as we expanded the scale of operations. We understand that profitability in the renovated condominium business declines as the sales period increases, so we are currently ensuring the implementation of our internal rules, and once these rules have taken hold, we expect profitability to recover to a certain extent and maintain its level. Also, there is a low barrier to competitors entering the renovation industry, so increased competition in the three major metropolitan areas is expected. We hope to leverage our business locations and sales network, which extend throughout Japan. Vacant units are increasing in regional cities, but for now, we have little competition, so we are increasing our presence and market share to build a secure position in the renovation sector.