DAITO TRUST CONSTRUCTION CO., LTD.

Nov.6.2020

2Q of FY ending March 31, 2021
Q&A Summary on disclosure of settlement of accounts

About orders received

Q1. Please tell us the reason that orders received in this 2Q decreased by about 25% year on year.

A1. First, it is still difficult to conduct direct sales in the Tokyo metropolitan area. Second, it is affected by the decline in customer sentiment caused by the COVID-19. Particularly, the number of cancellations due to the deterioration of the business environment for self-employed customers increased in the second quarter.

Q2. Please tell us about the implementation status of direct sales and the status of customer acceptance.

A2. Although we can say that the implementation status of direct sales is recovering to a considerable extent in the context of this nationwide situation, in areas where an increase in infections is still anticipated such as Tokyo's 23 wards, there is a tendency to refuse to accept direct sales. In such a situation, if it is necessary to provide some hours, face-to-face explanation, we thoroughly obey the rule of not visiting customers without obtaining appointments. As for those who are concerned about face-to-face sales, we use alternative methods, such as web conferencing, and prepare for a structure where we can conduct sales activities by taking advantage of these opportunities.

Q3. To recover orders, do you have specific measures, such as strengthening incentives and increasing personnel?

A3. We currently consider three measures to recover orders.
(1) Investing unused SG&A expenses in1st half as much as possible for sales promotions and incentives for sales representatives.
(2) Expansion of sales representatives by solid recruitment activities
(3) Increasing of our customer development channels such as online seminars, introduction from financial institutions, real estate companies, tax accountants, etc., and sales activities for corporations.

Q4. Please tell us the prospect of cancellation in the future.

A4. The amount of cancellations will decrease in the future due to order-taking activities based on lending attitude of financial institutions and the decrease in the amount of orders received in the previous year.

Q5. Please tell us the prospect of orders in 2nd half.

A5. Orders before cancellations in June and later recovered to 70% to 80% year on year. Although we have to get orders 120% YoY to achieve the ¥450bn target, we will take on challenges without changing this goal being based on the decrease in the amount of cancellations, and the recovery trend of orders received.

About the gross profit margin on completed construction work

Q6. As fixed costs are heavy in line with the decrease in the volume of construction work, the gross profit margin in the construction business continues to fall below 30%. Do you consider raising prices for products in order to improve the profit margin? What measures will you take to improve gross profit margin in the future?

A6. We believe that it is very difficult to raise prices. If we raise prices now, customers will have to accumulate their own funds because of a severe situation in lending from financial institutions. We would like to focus on recovering the volume of orders and increasing the amount of construction work to improve gross profit margin.

Q7. The gross profit margin on completed construction contracts in the 1st half of the FY was 26.8%, which is higher than the full-year forecast. Please tell us your outlook for the 2nd half.

A7. In the first half, the gross profit margin improved slightly because the ratio of personnel expenses and other expenses decreased as a result of the increase in the amount of completed construction contracts. The gross profit margin in 2nd half will decrease because of rise in labor costs as the number of completed construction projects will peak in February and March, including those at other companies, and decrease in completed construction ratio of 2×4 properties, which have relatively high profit margin, due to the impact of the self-restraint in sales activities in the 1Q.

About real estate business

Q8. While the real estate business has been doing well, what is the status of new residents and existing ones who left rental housing? Please tell us if there are any trends triggered by COVID-19, such as a rise in preference for home ownership.

A8. We expected that the occupancy rate will be somewhat affected by COVID-19, but there was no larger effect than expected. In the wake of the global financial crisis, the number of vacated properties increased from 110% to 140%. At present, the number of vacated properties is below the year before level. When residents leave, we ask why they move, but the rate of people who purchased their homes remains unchanged this year from the previous year.

About forecasts

Q9. Though you made an upward revision for the 1st half of the current FY, you left your full-year forecasts unchanged. Please explain us the reasons and the prospect.

A9. The reasons for the upward revision in the 1st half were two points, SG&A expenses were kept down, and construction made further progress than anticipated. For SG&A expenses, we intend to fully invest the portion that remained unused in the 1st half for sales promotion expenses and incentives to win orders. We also plan to use the remaining budget for recruitment expenses for sales representatives.

In the 1st half of the current FY, due to the impact of COVID-19, we anticipated that the construction work would be delayed, but it was more stable than anticipated. In a usual year, as we steadily implement with construction work, we would be able to accelerate construction work, which was originally planned for the beginning of the next FY, within the current year. However, such advancement will be impossible this year, partly due to the impact of the suspension of activities following the State of Emergency Declaration in the 1Q, and partly because we have little amount of work planned for the beginning of the next FY. In light of these factors, we have left our full-year forecasts unchanged.
If it is necessary to make corrections in the future, we will promptly review our full-year plan.

Q10. Due to the impact of COVID-19, you are to incur a decrease of ¥63bn in construction sales in the current FY. Can we believe that the same level as this amount will be a factor in increasing construction sales in the next FY?

A10. We will enjoy sales-boosting factors worth ¥63bn in the next FY if we manage to secure orders received at a normal year's level, and on the premise that the order environment will recover.

<u>Others</u>

Q11. What is the prospect of INVALANCE's contribution to profits or does Daito Trust Construction plan to be involved in its management?

A11. Leveraging mutual synergy, we aim at total sales of ¥50bn and operating income of ¥5bn for FY2023, ending March 2024. In terms of involvement in management, we intend to send human resources on loan, who can promote the synergy or in other ways.

Q12. Please tell us the objectives of the acquisition of INAVALANCE's shares, future business development, and expected synergy.

A12. The aims are to expand orders in the Tokyo metropolitan area and the growth of INVALANCE's sales by using our own resources. Specifically, we would like to expand the profits of both companies through synergies such as land purchase and building design capabilities of INVALANCE. We can also provide competency as intermediary agency and management of properties of the Group.

Q13. Meanwhile you utilize M&A and promote diversification, it is concerned over a decline in asset efficiency. What are you aware of, and are you implementing in order to increase asset efficiency?

A13. In expanding and diversifying our businesses, we not only aim to increase asset efficiency by returning profits to shareholders, but also make M&A decisions based on the prospects of investment targets and the most effective use of existing resources.
In acquiring INVALANCE shares, we considered whether or not the alliance will increase sales and operating income, and lead to a rise in stock prices, and an increase in market capitalization over the medium to long term. We intend to implement M&A based on this standpoint.

Q14. Please tell us the status of orders and the outlook for the current FY in non-residential properties.

A14. In the first half of the current FY, we received orders worth ¥3.7bn in non-residential properties. Orders decreased in the 1Q due to the impact of COVID-19, but they recovered to the year earlier level in the 2Q. So, we aim to secure full-year orders that will be flat from the previous year.

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