Rebuild governance to restore the trust from stakeholders, and achieve sustainable management with financial strategies ensuring a good balance between vigorous growth and stability

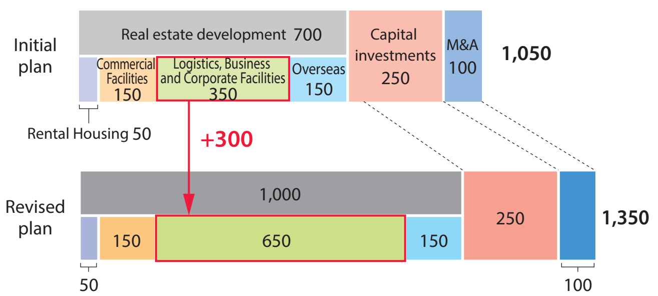
Takeshi Kosokabe
Executive Vice President and CFO

Basic policy: Investment **Materiality ④: Efficient management and financial soundness aware of capital costs**

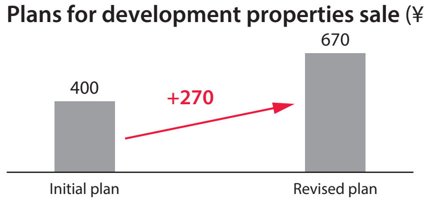
Investment Plan under the Sixth Plan

Revised upward investment plans for Logistics, Business and Corporate Facilities in view of solid demand for logistics facilities and robust market conditions of logistics real estate trading

Investment Plan (¥ billion)

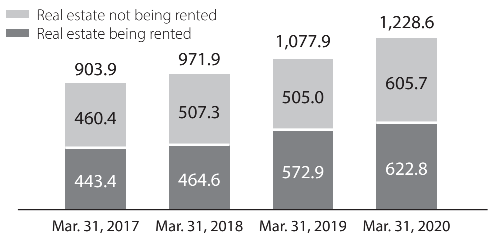


Plans for development properties sale (¥ billion)

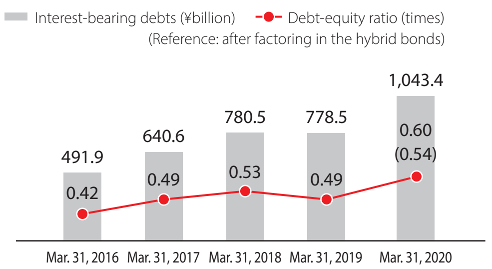


Status of real estate investment

Real estate investment (¥ billion)



Interest-bearing debts



I would first like to take this opportunity to thank all of our shareholders and investors for the support they have extended to the Daiwa House Group. Being engaged in initiatives for governance and society as Executive Vice President and CFO, I am reminded of the increasing importance of ESG for corporate sustainable growth.

In fiscal 2019, the Company discovered a series of violations of its compliance rules. I would like to again sincerely apologize to all our stakeholders for the trouble and concern caused by these events. Facing up to the serious consequence that has shaken your confidence in the Group, we will steadily implement measures to enhance our governance and exert our utmost efforts to regain the trust in the Group. The progress of the measures will be reported to the stakeholders on a periodic basis.

Heighten diversity and further enhance the effectiveness of the Board with outside directors accounting for over one-third of the Board

Last year, we set up a project team led by myself, and announced four basic policies to enhance governance in November. The policies have been steadily implemented at all Group companies both in Japan and abroad, with an aim to rebuild the Groupwide governance largely during the three years under the Sixth Medium-Term Management Plan.

First of all, under Basic Policy No. 1—Review management structure and state of management and supervision— the ratio of outside directors to the Board is now over one-third, based on the resolution at the June 2020 General Meeting of Shareholders. Accordingly, we have nine inside directors and five outside directors in the Board. In addition, we introduced a mandatory retirement age for officers. The maximum age for serving as inside representative directors shall be sixty-nine, while that for inside directors and auditors as well as executive officers shall be sixty-seven. By setting the age limits, we seek to secure diversity of the Board, encourage more lively discussion, and ensure a smooth transition from one generation of top management to the next. Our future task is to optimize management structure through reorganizing managerial decision-making function and management and supervision functions and improving corporate value with medium- to long-term management strategies and a stronger supervisory function.

Reviewing risk management and governance systems toward enhancing corporate governance

Under Basic Policy No. 2—Enhance agile business execution and risk response structure, we established eight Divisions following the introduction of a business division-based system in April 2020. Business operations in Japan were reorganized into seven business divisions, namely, Single-Family Houses, Rental Housing, Commercial Facilities, Logistics, Business and Corporate Facilities, Condominiums, Environment Energy, and Related Businesses, while relevant Group companies were positioned within their purview. The head of each division has comprehensive authority over and responsibility for business performance and risk management, while all divisions support all business divisions in a cross-sectoral manner. In these ways, we will work to enhance the functioning of our governance system. Toward the full-scale operation of the system set to commence in April 2021, fiscal 2020 is positioned as a year in which the Company develops an organizational structure and operational method. In addition, we set up a Compliance Promotion Department in November 2019. The department works to preempt the emergence of risks and non-compliance by facilitating better communication between the head office and the business front line, while also playing its part in realizing an improved working environment.

In our global business, we established an Overseas Business Division, under which management systems were established for our respective five global business areas—North America, Australia, member nations of ASEAN and South Asia, Europe, and East Asia. Officers exercising comprehensive authority over each area will manage business performance, risks, and compliance in their respective areas.

Going forward, we will optimize organizations and functions, etc. for overlapped Group businesses and reorganize the Group head office function, so as to manage the Group in a sustained and efficient manner and enhance the Group-wide governance.

Regarding Basic Policy No. 3—Strengthen risk information gathering and sharing, we clarified risk reporting standards and established a new external whistleblowing hotline. Working to have them gain foothold, we will make ongoing improvements to the risk management system in line with the new business execution system.

Strengthen management base with investment in work-style reforms and technological infrastructure development

Finally, under Basic Policy No. 4—Strengthen environment for supporting sustainability and implementation, we continue risk and compliance training for executives and employees and strengthen the Group's internal audit system and risk approach. We will maintain these compliance-related activities while making further efforts to enhance efficient business bases to raise our operational effectiveness. To achieve sustainable growth over the medium- to long-term, it is vital to make investment for strengthened management base. In the Sixth Medium-Term Management Plan, of the ¥250 billion in capital investment, ¥100 billion is set to be invested in reforming work styles and reinforcing technology infrastructure.

Due mainly to shrinking population, Japan is predicted to see decreases in demand for housing and the number of skilled builders by approximately 40% and 60%, respectively, in a decade to come. I believe the day is coming in sight when digitizing technologies—building technique itself in addition to diversifying marketing methods with the use of IT—will determine the competitive superiority in the industry.

To follow this trend, it is essential to strengthen our operational systems through a digital transformation (DX) process. One such effort is the adoption of Building Information Modeling (BIM) to check conformity to laws and regulations with greater efficiency. Labor saving and automation of construction sites using operational robots will also help us increase the competitive superiority.

Maintain financial soundness with an emphasis on cash flows considering the balance between real estate investment and collection

With respect to financial condition, development property sales have been steadily progressing, but interest-bearing debt increased by ¥264.9 billion over the past year, with the year-end balance of ¥1,043.4 billion. The debt-equity ratio came to 0.60, higher than the appropriate financial leverage of around 0.5 times set out in the Sixth Medium-Term Management Plan. However, anticipating an increase in real estate investment, we issued hybrid bonds (subordinated bonds) with a public offering amounting to ¥150 billion in September 2019 to maintain financial soundness. The issuance intended to improve the debt-equity ratio from the perspective of capital reinforcement, and when factoring in the equity credit attributes of the hybrid bonds, the debt-equity ratio stood at 0.54.

For us to remain financially sound, we must place greater emphasis on cash flows in our business operations. I consider improving the turnover ratio of assets, especially that of real estate for sale, as one of the priority issues for the Company's financial strategies. Based on this understanding, we want to raise the annual turnover ratio of single-family houses to 1.0, which is currently hovering at around 0.6. Also, the year-end balance of land and buildings for sale for condominiums amounted to approximately ¥390 billion, which I believe to be rather excessive compared with net sales. We will devise measures not to retain and accumulate these assets on hand.

The turnover ratio of real estate for commercial facilities, as well as logistics, business and corporate facilities, remains relatively high. We will keep an eye on and respond agilely to the respective market conditions.

In terms of real estate development, investments in the first year of the Sixth Plan were ¥362.6 billion. Given the faster-than-expected progress of the investments in logistics, business and corporate facilities with a focus on logistics facilities, we revised our investment plans for these facilities to ¥650 billion, an increase of ¥300 billion from the initial plan. This revision increased our investment plans for real estate development from ¥700 billion to ¥1,000 billion.

The balance of real estate development as of March 31, 2020 was ¥1.2 trillion, the majority of which were logistics facilities. While the world has been impacted by the COVID-19 pandemic, logistics volume for e-commerce is increasing due to growing demand among consumers choosing to stay at home. At the same time, manufacturing companies are facing inventory buildup for materials and products. As markets work to rebuild supply chains, the demand for multi-tenant logistics facilities remains high in major urban areas, and there is significant latent need in core rural cities and surrounding areas. We expect this demand will remain firm going forward, so we will continue to focus on it. In addition, the Company continues investing in multi-use development and urban redevelopment projects, the areas in which the Company can demonstrate its strengths. We intend to invest in new real estate development projects more carefully than ever, but it is under such a market condition that new investment opportunities may emerge. We plan to closely examine all investment opportunities that would benefit our operation.

As to sale of development properties, we sold properties amounting to ¥189.5 billion in the first year of the Plan, an addition of ¥86.4 billion to the initial plan, and ¥190 billion worth of sale is scheduled for the second year. Having reviewed plans for sale for the three years in line with the upward revision in the investment plans, we revised initial sales plans to ¥670 billion, an increase of ¥270 billion. We will generate contributions to cash flow by accelerating facility construction on previously acquired land and by achieving the rapid launch of operations on real estate currently not being used. Holding some additional properties ready for sale, the Company will seek the right timing by keeping a close watch on circumstances, including its cash flows, degree of profit attainment and growth of REITs it manages, though it is a little hard to predict how the spread of COVID-19 will affect the real estate market in the future.

Developing Livness, a highly capital-efficient business, into a new growth driver

Having constantly adopted financial strategies that were a step ahead of the times, Daiwa House Industry has solidified its stable management foundation. Taking the publicly offered hybrid bonds mentioned earlier as an example, we timely procured funds that would contribute to financial soundness at a low interest rate before the market was affected by the COVID-19 pandemic, while the risk of rising interest rates in the market is not anticipated at this point.

As the balance of investment real estate increases, we are exploring various purchasers by organizing a private placement REIT and a private placement fund, in addition to a listed REIT we manage. The Company develops a diverse type of assets based on relationships with a wide variety of tenant companies, which is one of its strengths in real estate development. By leveraging this strength, we will determine the timing that would be appropriate to sell the properties.

Meanwhile, to promote business operations with an emphasis on cash flows in this difficult market environment, we need to think of a way to raise financial efficiency. In 2018, we launched Livness, a new group-wide brand to strengthen the housing stock business, under which we offer real estate agency intermediary services, the purchase and resale of homes, renovation work, and so on irrespective of business types. Without involving facility investment, this business is highly capital-efficient and also accords with our founder's spirit, "being of service to society." Developing Livness into a new growth driver will be the key to riding out the current difficulties.

Shareholder returns

The Company's capital policy consists of three indicators, namely, return on equity (ROE) of 13% or higher; debt-equity ratio of around 0.5; and dividend payout ratio of 30% or higher combined with flexible acquisition of own shares. The current shareholders' equity cost of the Company is approximately 6.5%, while ROE, one of the important indicators, has been more than 13% since fiscal 2017.

Nonetheless, assuming deterioration in the operating environment due to the COVID-19 pandemic, I believe it is important to devise financial strategies with both growth and stability in mind by further balancing these three indicators.

In terms of cash dividends, as a result of increasing earnings per share (EPS), we achieved an annual dividend of ¥115 and a payout ratio of 32.7%, representing the 10th consecutive term of increase in fiscal 2019. In fiscal 2020, we plan an annual dividend of ¥90 and a payout ratio of 56.9% from the perspective of maintaining stable dividends, despite a projection for decreased sales and income on account of the impact of COVID-19. We are currently repurchasing our own shares with a maximum of 10 million shares for a total acquisition price of ¥30 billion. Additional acquisitions will be discussed according to situations after the containment of COVID-19, and for the time being, we will secure funds on hand given the larger-than-projected decrease in operating cash flow.

Amid the COVID-19 pandemic, we will undoubtedly have to contend with an extremely serious business environment during the current fiscal 2020. But it is precisely in such circumstances that we will continue steady efforts, and the true worth of the Daiwa House Group—which we owe to the example set by our founder Nobuo Ishibashi—will be revealed.

Continuing dialogue with all our stakeholders, including shareholders and investors, and listening to their opinions, and promoting businesses that will be of service to society guided by the Group's Endless Heart symbol—to create bonds of empathy—all employees and executives of Daiwa House Group will unite to achieve continuous growth. I look forward to the continued support of all our stakeholders.

Basic policy: Financial

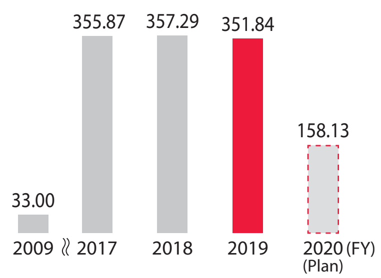
While maintaining our financial soundness, we plan to realize an ROE in excess of capital cost and achieve an equity spread adequate to enhance shareholder value.

Ⅰ **ROE target: 13% or higher**
(The current shareholders' equity cost of the Company is approx. 6.5%)

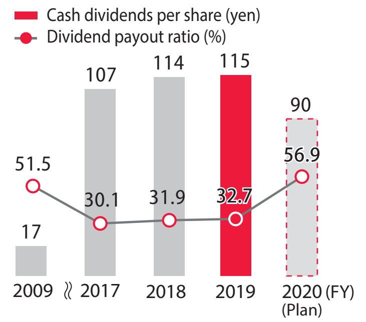
Ⅱ **Appropriate financial leverage**
Debt-equity ratio: around 0.5

Ⅲ **Shareholder return:**
Dividend payout ratio of 30% or higher and flexible acquisition of own shares

Net income per share (EPS)
(yen)

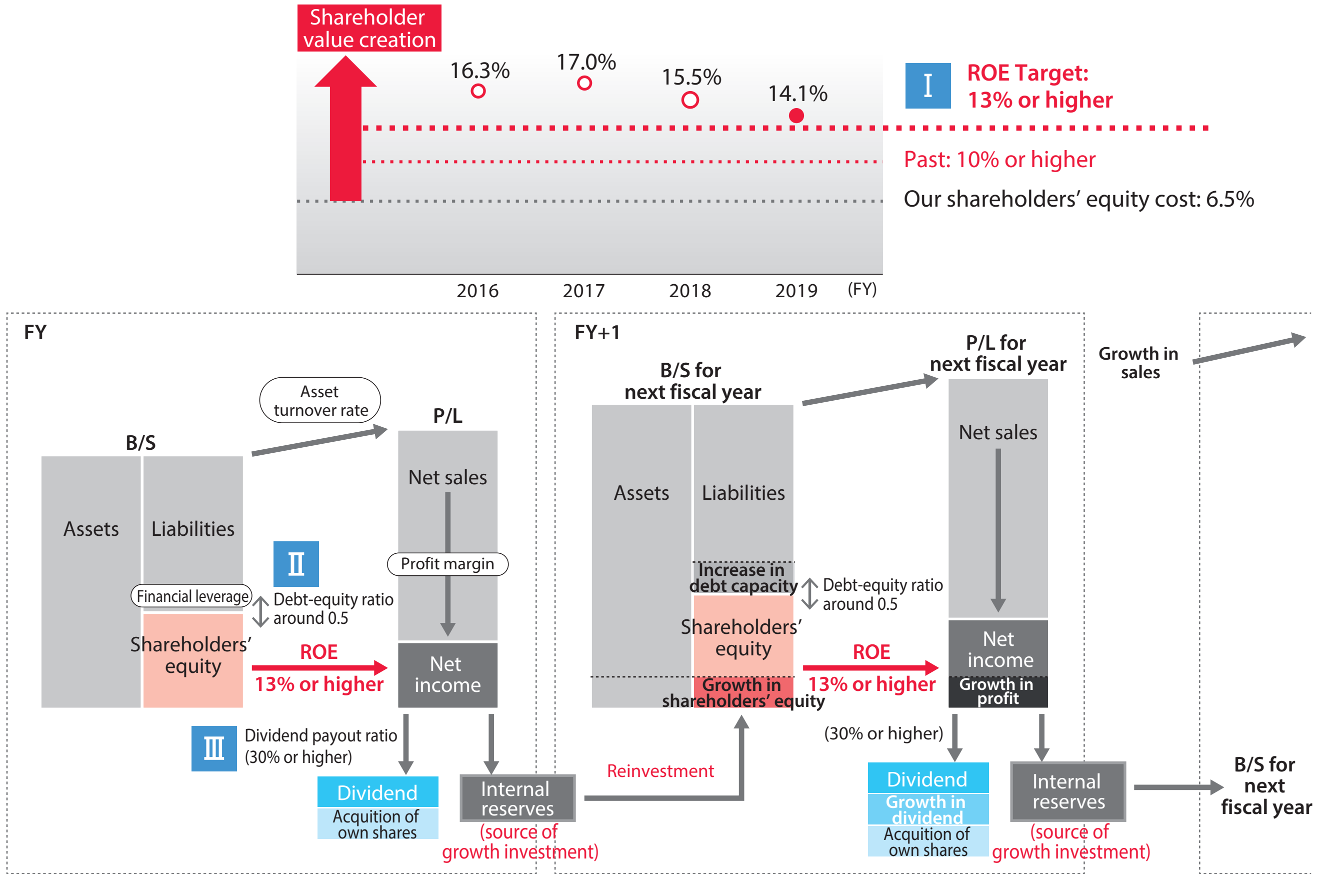


Cash dividends per share and Dividend payout ratio



Basic Strategy for Capital Policy

Conceptual diagram of basic strategy for capital policy



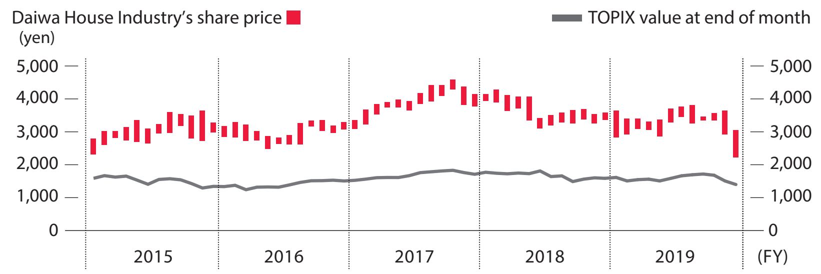
We are reinvesting capital in growth sectors while maintaining an appropriate level of financial leverage by securing operating cash flow, the source of funds required for growth investment, and increasing internal reserves after returning a portion to shareholders.

Secure stable operating cash flow

The Company will realize return on reinvested capital with capital efficiency that exceeds the expected rate of return (cost of shareholders' equity) for shareholders in order to achieve growth in profits and dividends, as well as increased capital required for new growth investment.

Achieving ROE target based on an optimal capital structure

Trends in share price of Daiwa House Industry and TOPIX



	2015	2016	2017	2018	2019
Market capitalization (¥ million)*1	2,109,310	2,129,297	2,731,576	2,344,492	1,783,852
Total shareholder return (%)*2	136.9	142.0	184.7	165.0	134.4
Share price high (yen)	3,654.0	3,367.0	4,594.0	4,293.0	3,647.0
Share price low (yen)	2,326.0	2,500.5	3,096.0	3,119.0	2,230.5

*1 At the end of the fiscal year
*2 Numerical yield value incorporating both dividends and capital gains on shares

Management's Discussion and Analysis of Financial Position and Results of Operations

Note: This section analyzes the financial position and results of operations during the ten fiscal years from fiscal 2010 to fiscal 2019. For the list of financial data, see "Financial Highlights" on pages 77 and 78.

Ⅰ. Financial position

Financial condition Figure 1

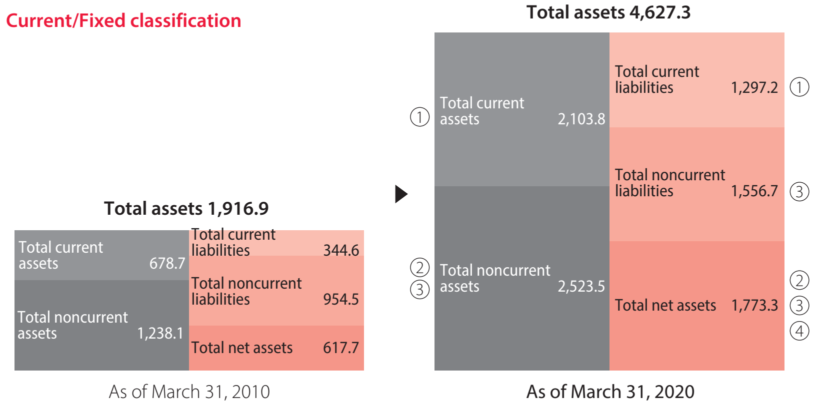
Total assets as of the end of fiscal 2019 increased by ¥293.3 billion from the end of the previous fiscal year to ¥4,627.3 billion. This was mainly due to the increase in inventories following the strengthening of the overseas business and the increase in property, plant and equipment resulting from the acquisition of investment properties. Total liabilities increased by ¥163.6 billion from the end of the previous fiscal year to ¥2,853.9 billion. This was mainly due to fund raising through borrowing and hybrid bond issuance for the purpose of acquiring inventories and investment properties, despite payment of trade payables.

Total net assets increased by ¥129.6 billion from the end of the previous fiscal year to ¥1,773.3 billion. This was mainly because a net income attributable to owners of the parent of ¥233.6 billion was recorded, which offset the dividends paid to shareholders associated with the previous fiscal year.

The balance of interest-bearing debt (excluding lease obligations) increased by ¥264.9 billion from the end of the previous fiscal year to ¥1,043.4 billion. Thanks to internal reserves and the fiscal 2013 capital increases, the debt-equity ratio improved from 0.74 at the start of fiscal 2010 to 0.60. In terms of the breakdown of assets, the balance of real estate for rent was ¥1,126.1 billion and accounted for a large share in recent years. As assets are expected to grow in the future due to the acquisition of real estate for development and other factors, we will seek to maintain financial health by verifying the optimal capital structure.

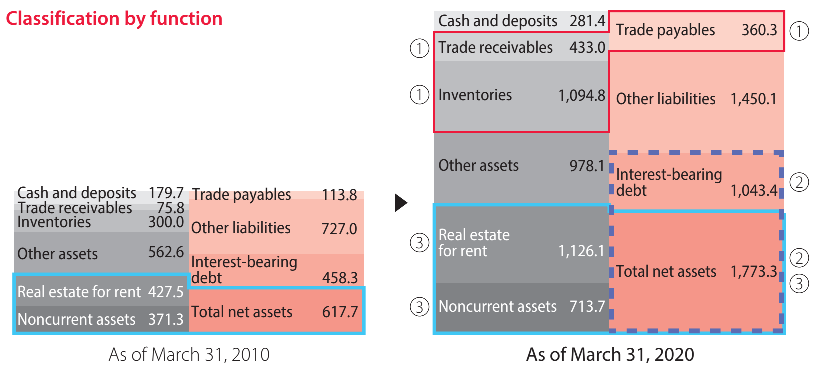
Figure 1 Comparison of balance sheets (¥ billion)

Current/Fixed classification



①The current ratio dropped from 197% to 162%.
②The fixed ratio dropped from 200% to 146%.
③The ratio of fixed assets to long-term capital dropped from 78% to 76%.
④Net assets excluding non-controlling interests grew from ¥616.8 billion to ¥1,726.9 billion.

Classification by function



①Working capital (Trade receivables + Inventories - Trade payables) increased from ¥262.0 billion to ¥1,167.5 billion.
②Interest-bearing debt increased from ¥458.3 billion to ¥1,043.4 billion, but the debt-equity ratio fell from 0.74 to 0.60.
③The ratio of real estate for rent and noncurrent assets to net assets excluding non-controlling interests fell from 1.29 to 1.06 while real estate for rent increased.

II. Cash flows

Basic approach

The basic approach to cash management is to invest in line with the amount of cash generated by business operations.

With regard to attractive investment opportunities, investment is structured to include externally raised capital because of the need to actively pursue such opportunities. While this will result in the debt-equity ratio sometimes exceeding 0.5, we seek to balance investment in growth with financial soundness by controlling the level of interest-bearing debt to maintain a ratio of about 0.5 over the medium to long term.

Cash flow condition Figures 2 & 3

Cash flows from operating activities during fiscal 2019 decreased by ¥117.9 billion from the previous fiscal year to ¥234.7 billion. The ratio of cash flows from operating activities to net assets excluding non-controlling interests has been approximately 14% which is a decrease of 8 points from the previous period's 22%. In spite of recording ¥349.6 billion in income before income taxes, the decrease in cash flows was mainly due to the change in payment dates for contract construction-related trade payable, the impact from abolishing most payments made by promissory notes and, in addition, the last day of the prior fiscal year falling on a holiday which caused a reduction in trade payables and the payment of income taxes and other payments.

Cash flows from investment activities were - ¥317.2 billion, due to the acquisition of real estate for rent, etc. and the implementation of the ¥289.5 billion investment into the real estate development business based on the investment plan under the Sixth Medium-Term Management Plan. As a result, free cash flows (cash flows from operating activities + cash flows from investment activities) were - ¥82.4 billion, while cash flows from financial activities were ¥169.1 billion due to fund raising through borrowing and hybrid bond issuance for the purpose of acquiring inventories and investment properties.

As a result of the above, the balance of cash and cash equivalents at the end of fiscal 2019 (after bank holiday adjustments) was ¥276.0 billion, an increase of ¥84.9 billion from the end of the previous fiscal year.

Enterprise value/Ability to generate cash Figures 4 & 5

Our ability to generate cash steadily grew as earnings before interest, taxes, depreciation and amortization (EBITDA)*1 as an indicator of ability to generate cash were ¥456.3 billion. We will further enhance the ability to generate cash and improve enterprise value by continuing the policy of maintaining interest-bearing debt at a certain level and aggressively investing in favorable investment projects, as well as by developing new revenue streams.

The enterprise value (EV)*2 at the end of fiscal 2019 was ¥2,545.8 billion, the sum of the market capitalization of ¥1,783.8 billion and the net interest-bearing debt of ¥762.0 billion.

The EV/EBITDA ratio, as an indicator of enterprise value to the ability to generate cash, was 5.6 as of the end of fiscal 2019.

Figure 2 Cash flows

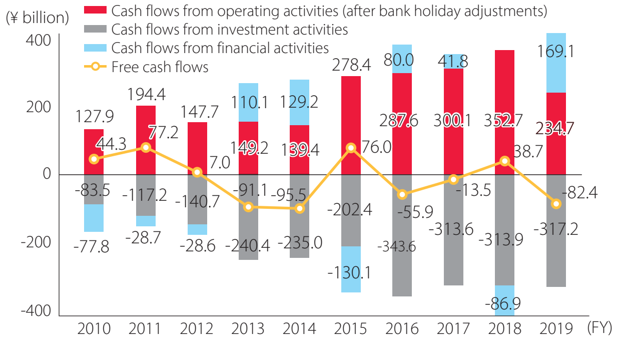


Figure 3 Indices to net assets excluding non-controlling interests (as a ratio where net assets excluding non-controlling interests is equal to 1)

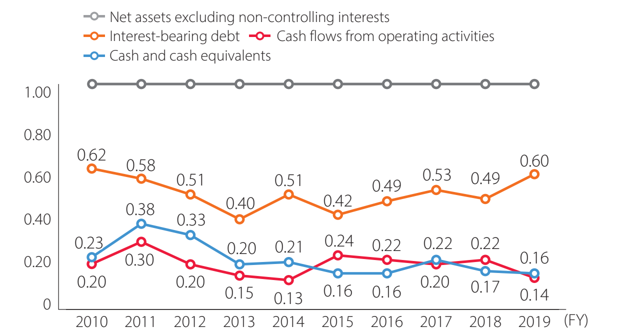
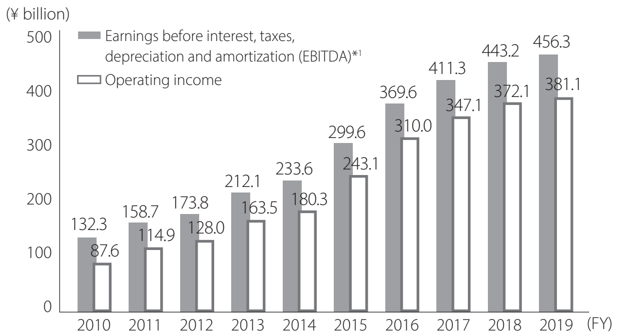
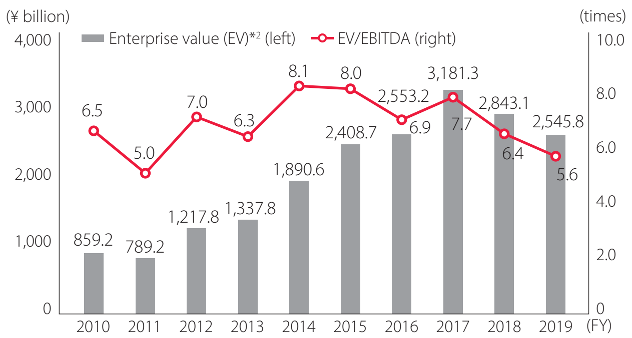


Figure 4 Earnings before interest, taxes, depreciation and amortization (EBITDA)/Operating income



*1 Earnings before interest, taxes, depreciation and amortization (EBITDA) = Operating income + Depreciation

Figure 5 Enterprise value (EV)/EV/ EBITDA



*2 Enterprise value (EV) = Market capitalization + Net interest-bearing debt

III. Profits and losses

Net sales/Total asset turnover ratio Figure 6

Net sales amounted to ¥4,380.2 billion and the average growth rate for the period of ten years starting from fiscal 2010 was 11.2%.

In terms of the total asset turnover ratio*3, the period of seven years from fiscal 2013 to fiscal 2019 shows a tendency of slight improvement in comparison to the performance in the period of three years from fiscal 2010 to fiscal 2012.

To further improve the turnover ratio, we will continuously seek to ensure the effective utilization of assets through measures that may include encouraging the sale of inventories and also selling investment properties and strategically held shares.

*3 Average during the fiscal year.

Gross profit/Operating income margin Figure 7

Gross profit amounted to ¥870.2 billion and the average growth rate for the period of ten years starting from fiscal 2010 was 11.1%. The gross margin decreased by 0.5 points from the previous fiscal year to 19.9%. Operating income was ¥381.1 billion and the average annual growth rate for the period from fiscal 2010 was 17.7%. The operating income margin was 8.7%, a decrease of 0.3 points from the previous fiscal year.

This is because, although the cost-of-sales ratio declined by 0.5 points due to soaring construction material and labor costs, we were able to raise sales per employee through improved productivity, among other means and thereby push down the SG&A ratio. In this way, we have striven to prevent the operating income margin from decreasing substantially.

Return on invested capital (ROIC)/Return on equity (ROE) Figures 8 & 9

Net operating profit after tax (NOPAT)*4 was ¥264.5 billion and return on invested capital (ROIC), a ratio of NOPAT to the invested capital (= Net assets excluding non-controlling interests + Interest-bearing debt) of ¥2,572.5 billion*5, was 10.3%. Under the Company's Sixth Medium-Term Management Plan, one of our business objectives was to earn an ROE of 13% or more. Since we are expanding our businesses by means of loans and the like where the debt-equity ratio of 0.5 is used as a guide, we make a conscious effort in our business investments to ensure that the return on the total invested capital will exceed the weighted average cost of capital (WACC), which is the weighted average of the cost of shareholders' equity and cost of liabilities. We will seek to maintain and improve the return on equity (ROE), a ratio of net income to shareholders' equity by maintaining and improving the ROIC.

*4 Net operating profit after tax (NOPAT) = Operating income × (1 - Effective corporate income tax rate)

*5 Average during the fiscal year.

ROIC		WACC		ROE		
Return on invested capital	>	Cost of liabilities / Cost of shareholders' equity	→	Return on equity	>	Cost of shareholders' equity

Figure 6 Net sales/Total asset turnover ratio

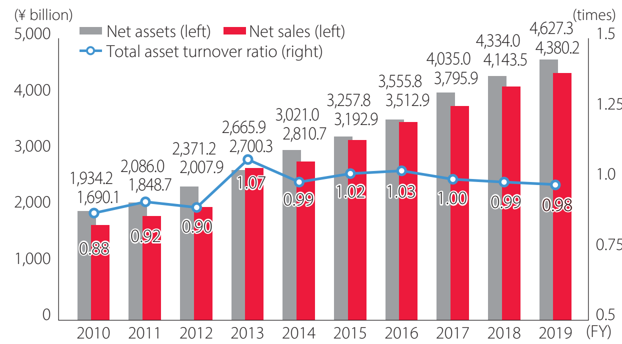


Figure 7 Gross profit/Operating income margin

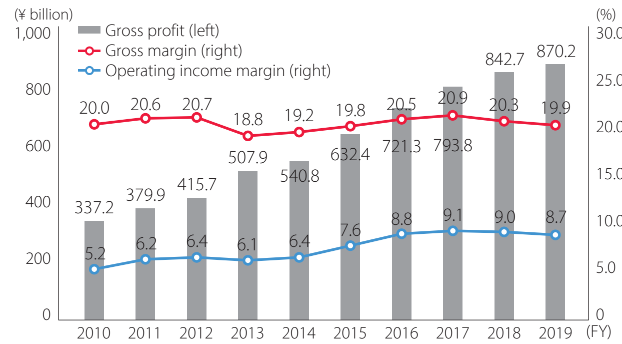


Figure 8 Return on invested capital (ROIC)

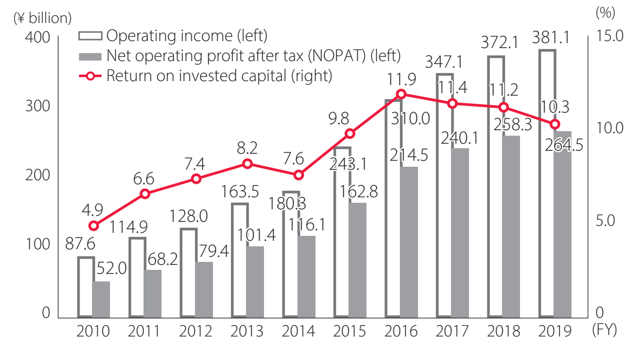
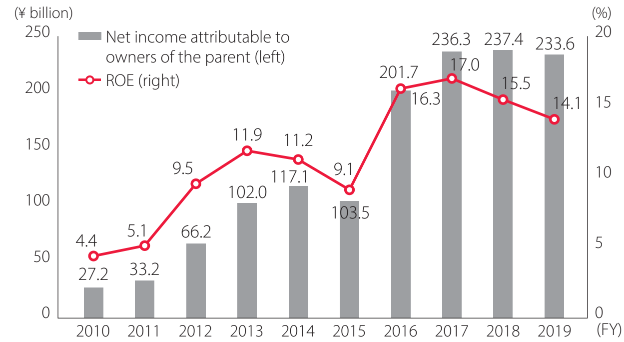


Figure 9 Net income attributable to owners of the parent/ROE



Note: By changing the discount rate used to calculate retirement benefit obligations from 1.7% to 0.8% in fiscal 2015, the Company posted extraordinary losses of ¥84.9 billion. As a result, the ROE dropped by approximately five points.

IV. Business results by segment

Growth potential analysis Figure 10

The profit growth rate for fiscal 2019 over fiscal 2010 showed an over ten-fold increase in the Logistics, Business and Corporate Facilities segments, an over seven-fold increase in the Other Businesses segment, an over four-fold increase in the Commercial Facilities segment, an over three-fold increase in Existing Homes segment. Since the Rental Housing segment had been already at a high level of profit ten years ago, its profit growth rate over fiscal 2010 was relatively low, but remained at a high profit rate.

One of the Company's strengths is its ability to make business proposals that leave no gaps between the business areas. As society changes at an accelerated pace, we anticipate that multiple products and services held by individual business segments will be combined in order to cope with diversified construction needs and that there will be a further increase of new business opportunities through business development in peripheral areas. In order to ensure that these new markets will lead the company-wide growth rate, we will make an effort to grow in view of a balance with overall profitability.

Profitability analysis Figure 11

In terms of operating income, three segments, Rental Housing, Commercial Facilities, and Logistics, Business and Corporate Facilities, accounted for 80% of the total. The Existing Homes segment constituted 3.2% of net sales, but its profit rate and capital efficiency were high (Figure 12). We are making active use of "Livness", the group-wide brand that we launched primarily for the existing homes market, a sector where market growth is anticipated. In terms of the Single-Family Houses and Condominiums segments, we will seek to improve their profit rates by selecting areas and clarifying targets as new housing starts are decreasing in number due to falling population.

Operating income margin to segment assets Figure 12

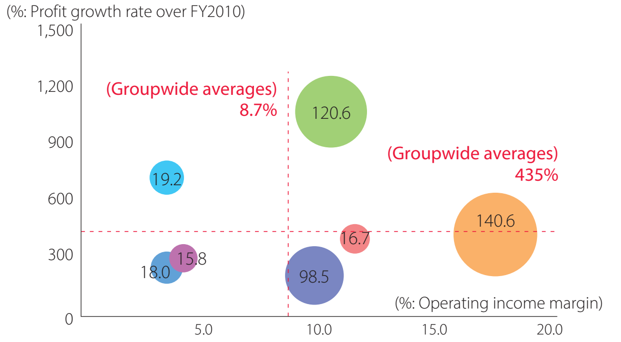
The Existing Homes, Rental Housing, and Commercial Facilities segments showed higher operating income margins to segment-specific assets. The current return on assets in the Logistics, Business and Corporate Facilities segment is at a low level because we are making aggressive investments to address the rapidly growing market for logistics facilities. However, this segment is expected to significantly contribute to cash flows at the time of payback in the future.

Investments in businesses Figure 13

With regard to investments in businesses, we are aggressively investing in the Logistics, Business and Corporate Facilities segment, which is highly profitable and shows a high growth rate. We are also investing in the Commercial Facilities and Rental Housing segments, both of which are the second-most profitable. In addition, investments in new businesses and overseas businesses, etc. are being made to develop new revenue streams through the use of funds generated by the above-mentioned core segments.

[Business segments]
Single-Family Houses / Rental Housing / Condominiums / Existing Homes / Commercial Facilities / Logistics, Business and Corporate Facilities / Other Businesses

Figure 10 [Business segments] Operating income*1/Operating income margin/Profit growth rate over FY2010



*1 The size of the circle depends on the relevant amount of operating income (¥ billion) for FY2019.

Figure 11 [Business segments] Operating income margin/Net sales ratio by segment (FY2019)

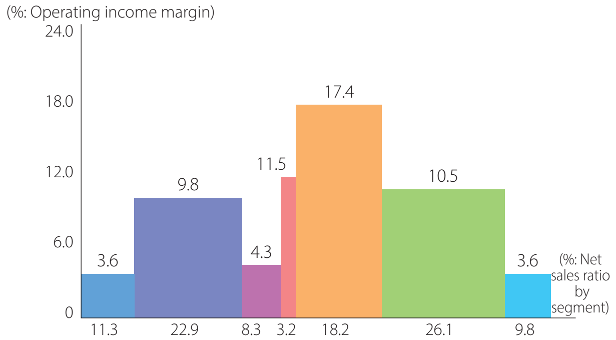
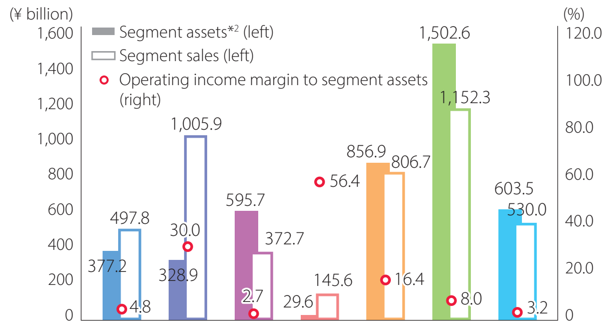
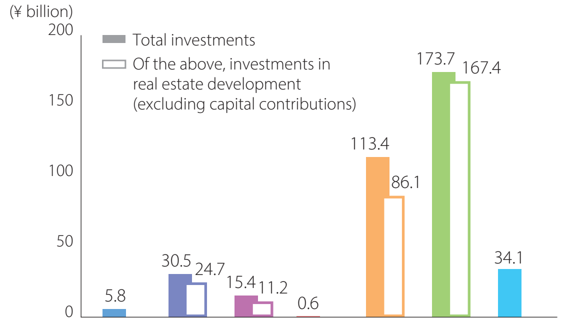


Figure 12 Operating income margin to segment assets (FY2019)



*2 Segment assets are averages during the fiscal year.

Figure 13 [Business segments] Total investments (FY2019)



V. Investments

Investments and returns for employees Figures 14 & 15

One of the essential elements for sustaining growth is to invest in the development of human resources and to maintain and improve the living environment of employees. The human resources development costs*3 for fiscal 2019 were ¥620 million (on a non-consolidated basis), 146% up from fiscal 2010 (Figure 15). Employee salaries on a non-consolidated basis increased by ¥54.8 billion from fiscal 2010 (an average increase of 28% or ¥2,035,000 per employee).

Meanwhile, the ratio of employee salaries to operating income*4 decreased from 62% in fiscal 2010 to 37% in fiscal 2019, and the growth rate of profits significantly exceeded the rate of increase in personnel costs. As a result, we have successfully secured funds for growth investments and increased returns to shareholders, and will actively promote investments in human resources, which are the most important source for growth.

*3 Personnel costs on training, etc. + Transportation costs on training
*4 Employee salaries/(Operating income + Employee salaries)

Investments in research and development (R&D)

Figure 15

R&D expenditures in fiscal 2019 were ¥10.1 billion, of which ¥4.9 billion was for the housing business, ¥5.1 billion for the construction business and other businesses. Our research and development activities range from basic and applied research to the development of new technologies and new products, and further to utilization and verification of these new technologies in architectural structures and urban development.

Capital investments Figure 16

Capital investments of ¥84.2 billion (excluding investments in real estate development) were mainly for replacing production lines in plants to increase production efficiency and for renovating plant facilities. Well-planned investments in production lines are carried out based on market trends, order trends, and other factors. With regard to major assembly processes in particular, which are a significant element affecting the cost-of-sales ratio and quality improvement, we will work on further increasing the rate of automation.

IT-related investments Figure 17

IT-related investments involve significant elements that may lead to revenue increases and cost reductions in the future, such as through the enhancement of added value in products and services, through utilization in marketing, and through the achievement of higher efficiency in production processes and operations. Therefore, we will actively work on such investments by combining the injection of more funds with the improvement of the organizational structure.

Figure 14 Ratio of employee salaries to operating income (non-consolidated)

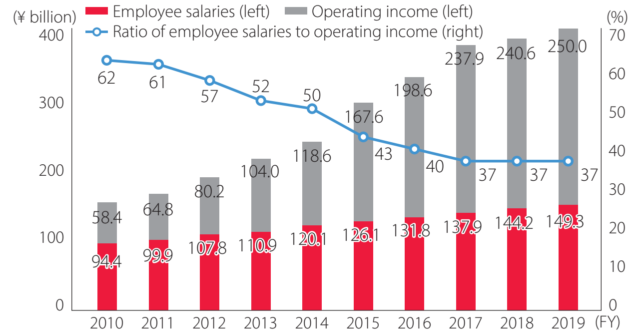


Figure 15 Research and development expenditures/Human resources development costs

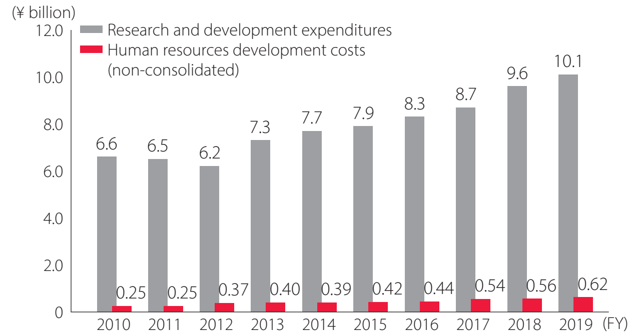


Figure 16 Capital investments (excluding investments in real estate development)

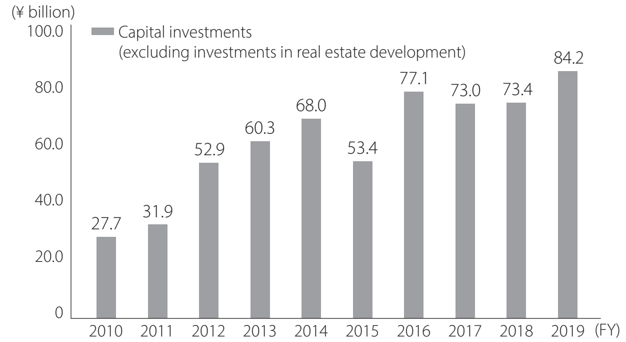
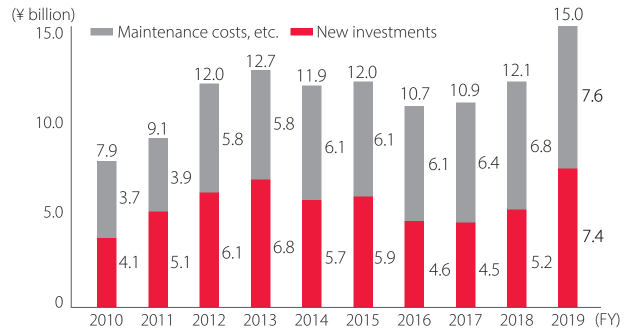


Figure 17 IT-related investments



Dialogue with Shareholders and Investors

To realize purposeful dialogue with our shareholders and investors, we constantly work to enhance mutual communication in the spirit of "co-creating a brighter future," which is embedded within our management vision.

We strive to disclose information that will enable our shareholders and investors to assess our corporate value over the medium and long term.

In addition, our directors, executive officers, and outside officers receive timely and appropriate feedback in the form of the opinions and desires of shareholders and investors, as obtained through this dialogue. In this way, we facilitate a shared awareness of issues facing the Group, and work to realize sustained growth and improvement in corporate value.

Our activities for FY2019

General meeting of shareholders (June 26, 2020)

- Shareholder attendance **165**
- Percentage of voting rights exercised **85.70%**

Communication with institutional investors and analysts

Total **678** companies

Face-to-face and telephone interviews with Japanese and overseas institutional investors	As needed	306 companies
Financial results briefing session via teleconferencing	4 times	190 companies
Briefing sessions from top management	Twice	99 companies
Tours of our facilities for institutional investor representatives	3 times	37 companies
Dialogue on ESG	As needed	46 companies
Overseas roadshows by top management	Europe, North America, Singapore, Hong Kong	

Communication with individual shareholders and investors

Total **1,693** investors

Tours of our facilities for individual shareholders (Nara, Tokyo)	3 times	125 shareholders
Online explanatory sessions for individual investors	Once	1,568 investors

Feedback on shareholder and investor opinions and requests obtained through IR activities

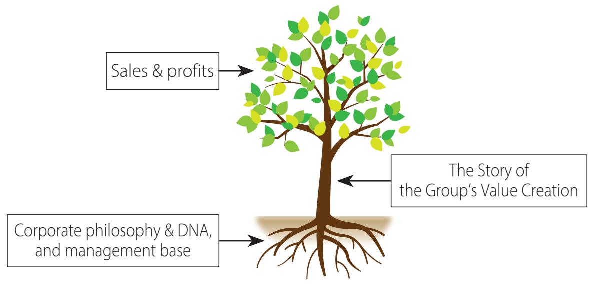
Reports on IR activities at Board meetings	Annually
Reports on IR activities to outside directors	Semi-annually
Opinions on business performance and market trends exchanged with business divisions	Quarterly




Small meeting on ESG

ESG small meeting held as a tool for communication with investors on the 2019 Integrated Report.

Date	Dec. 16, 2019
Attendees	28 institutional investors
Daiwa House departments represented	CFO, IR officer, General Affairs, Environment, Sustainability Planning Department, IR



In fiscal 2019, we explained the materiality (management issues) identified as challenges to be tackled in terms of business, society, and environment in pursuit of our management vision to "Realize a society in which people can live fulfilling lives," as well as our environment and social initiatives, the Endless Green Program 2021 and the Endless Social Program 2021, both of which started along with the Sixth Medium-Term Management Plan. We also laid out the Daiwa House Group Governance Enhancement Measures, our governance initiative announced in November 2019, as well as our views on the future management structure.

The participating institutional investors left many opinions for us, a selection of which we reprint here: "We believe that you have been promoting ESG successfully combined with the founder's spirit"; "We would like to know what is discussed at the Board of Directors on the environmental KPI"; "What is your view on the linkage between the environmental KPI and remuneration for directors?"; "What are your priorities in the governance initiatives going forward?"; and "We will be closely monitoring how the new governance reforms will function."

As we promote ESG initiatives, we are aware that achieving sound management and governance system, and fulfilling accountability with enhanced disclosure of both financial and non-financial information must be realized in pairs. Based on this recognition, we strive to lower capital costs with a trustworthy and transparent management structure. The IR Department will continue proactive information disclosure and dialogue with our shareholders and investors so that they find it rewarding to communicate with the Company.

Data Section