

Message from the CEO

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Chapter 1 Message from the CEO

Moving steadily toward Our Hopes for the Future

Awareness and understanding of Our Hopes for the Future

My mission: Passing on our founder's philosophy

Creating the fundamental societal infrastructure and lifestyle culture rooted in regeneration, ensuring a world where we live together in harmony embracing the Joys of Life.

Announced in May 2022, this is Our Hopes for the Future (Purpose), which set out the direction we should travel.

The opening pages of *The Future of the Daiwa House Group** by our founder state that “our hopes for the future enable both individual and company growth.” We thought it important to delineate Our Hopes for the Future to steer us toward sustainable growth, which we defined as our Group Purpose as we proceed toward our 2055 centennial.

In drafting it, we gathered the thoughts of young people such as students and a variety of stakeholders

on what to change to suit the times and what to keep. The outcome, Our Hopes for the Future, encapsulates our ongoing gratitude to our stakeholders, the hopes and expectations they have for us, and our desire to get closer to them. We think the Our Hopes for the Future project will drive change in the company's culture heading for the next generation and speed up our Seventh Medium-Term Management Plan(the 7th Plan). I will continue visiting our offices around Japan to deepen communication with employees and get them all on board with the shift in management direction toward Our Hopes for the Future and translate word into deed as they take ownership of it. I am also keen to continue dialogue with younger employees who will be running the company in 2055.

* A book aimed at passing on the founder's spirit containing his thoughts and corporate philosophy.

KEIICHI Yoshii

Keiichi Yoshii
President, CEO



Looking back on the first years of our 7th Plan

A year when we were keenly aware of improving capital efficiency

The business environment changed beyond any expectations in the first year of the 7th Plan. China's zero-COVID policy, the war in Ukraine, spikes in materials prices, significant yen depreciation, and rapid rate hikes swamped our assumptions. Fiscal 2022 started with a smaller order backlog than the previous year following a 22-day suspension of business in December 2021. However, as our founder said, tough times are opportunities, and the tougher they are, the more Daiwa House grows. I believe that we again demonstrated our strengths—speed, creativity, sincerity, and passion—in the face of anticipatable circumstances.

We are investing aggressively in real estate development to establish a sustainable growth model under the 7th Plan (five-year plan). However, with an eye on future interest rate rises, we wasted no time in raising the internal rate of return (IRR)—our investment benchmark. We have always assessed capital efficiency and risks when investing in real estate developments, overseas businesses, and acquisitions. We also consider

social impact; that is, making sure what we are doing is useful for society and preserves harmony with the Earth and local communities. When lifting our required rate of return, we wanted to strengthen sustainability as well as profitability, so adopted investment criteria using internal carbon pricing (ICP)*.

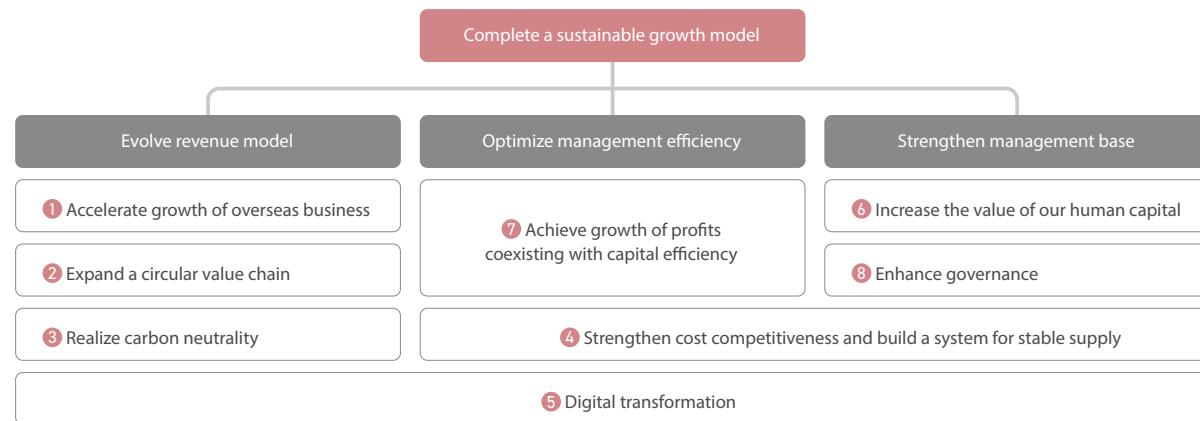
We are reviewing our business portfolio to establish a good balance between profit growth and better capital efficiency. In December 2022 we decided to sell our resort hotel business. While the facilities were aging

and earnings continued to slump, for us key point was whether we were the best owner. After considering what was needed to turn the business around, the option we chose from a range was to sell it to a counterparty that operates numerous resort hotels and is well set to derive business synergies from it.

Our net sales reached a new record high, as did operating income, partly on a ¥96.6 billion reduction in operating expenses due to actuarial differences in retirement-benefit accounting. Underlying operating

* A scheme in which corporations set an internal (or shadow) carbon price to help them move decarbonization forward.

Seventh Medium-Term Management Plan: Three management policies and eight focal themes





income also grew more than the announced forecast. The operating environment is improving. Conditions in the hotel and sports club business, which was heavily impacted by COVID-19, returned to near pre-pandemic levels in the past year. However, the gross margin recovered more slowly than hoped due to sharply higher materials and energy prices. Still, we have passed on the past year's increases in raw materials and labor costs to selling prices and expect a recovery in fiscal 2023 and beyond. ROE was 14.3%, and we increased the dividend

for the 13th consecutive year in line with our stable shareholder-returns policy. However, I am not proud to report that the price-to-book ratio was below 1 time at end-March 2023. I feel we need to better inform the market of how our investments will contribute to future earnings. We will continue working to recoup investments and operating with a view to capital efficiency, and hope that dialogue with shareholders and other investors boosts our market rating.

Fiscal 2023 challenges and growth drivers

Carrying on businesses to solve current societal issues, cognizant of risks and challenges

We expect fiscal 2023 to be a tough year for the overseas business. We forecast lower sales and profit following a slowdown in the US housing business in late 2022 after a series of sharp interest rate hikes and a drop-off in the number of condominium units delivered in China. However, the construction business in the Commercial Facilities Business and Logistics, Business and Corporate Facilities Business are showing signs of recovery, and we continue to make progress

in sales of development properties, primarily logistics facilities. We are also active in contracted construction and development of data centers and other new asset types. In recent years we have been bolstering our subdivision business, using land data gained through close local ties, and have been able to acquire and sell prime properties more quickly than previously anticipated.

Interest rate movements remain a cause for concern, and geopolitical risks such as the Ukraine conflict and US–China relations bear watching. As we continue to expand our overseas business, we are working to mitigate risks—materials shortages due to global supply-chain disruptions and spikes in energy costs among them—with all means at our disposal.

In businesses that address current social issues, we established Japan's largest onshore salmon aquaculture facility at our industrial park in the face of worsening food-supply situation amid global population growth. To respond to earthquakes and climate change-related disasters, we have entered local agreements making these facilities available to their localities when disaster strikes. We will respond to changing times and keep working to create value for our customers to remain the corporate Group society turns to.

Beginning in fiscal 2024, the revised Labor Standards Act will limit overtime in the construction industry,

exacerbating the labor shortage. This is a priority issue for us. To rectify a shortage of engineers, we have been hiring students from technical high schools since fiscal 2018 and sending them to study at vocational schools—at our expense—to become construction site supervisors.

Six materialities: Our efforts

1. Circular economy and carbon neutrality

Sharing concern for the global environment with all employees; pushing on with community development to support the society of tomorrow

Decarbonization is one of our efforts to make our children's future better, and we aim to be carbon neutral by 2050. Regarding environmental issues, our founder stated the need for wind, sun, and water businesses in the 21st century. We are proud of our early initiatives in these areas, but are aware that the uptake of net-Zero Energy Houses (ZEHs) could be quicker. To redress the situation, we aim for all of the new builds we deliver to, as a matter of principle, be ZEHs or net-Zero Energy Buildings (ZEB), and for all new building to be equipped with solar generation systems, by fiscal 2030.

Specifically, in October 2022, we launched our TORISIA rental housing product that offers ZEH-M

Oriented specification as standard. We also decided to make ZEH-M specifications standard for PREMIST condominiums we build from fiscal 2024 forward. All our own newly built facilities are also ZEB-specifications, and we are stepping up our ZEB proposals for customers. We also think that the Environment and Energy Business will play an important role due to its synergies with other businesses in terms of responsible production and consumption. In addition to using rooftops and vacant land, we are working to promote uptake of renewable power and, as a supplier of numerous types of buildings, creating fully renewables-powered communities.

We are also working toward an RE100 target (using renewable energy in all of our business activities). In fiscal 2022, all power purchased by Daiwa House Industry (non-consolidated) in Japan came from renewable energy sources. We aim to reach RE100 across the entire Group in fiscal 2025, partly due to the inclusion of the Hibikinada Thermal Power Station. Transforming Hibikinada into a biomass-fired plant will be a major challenge, but we see this as an opportunity to further expand our renewable energy supply, extend our efforts in in-house supply and consumption of renewable energy, spread renewables in the wider community, and achieve RE100.

Looking back at fiscal 2022, we adopted ICP

investment benchmarks to promote business that protects Earth's environment, and I believe concern for the environment has spread further among our workforce. Further, we've got a positive feedback loop flowing: As the people who have developed our "works" (the towns we build), employees grow attached to them as they follow up with the people who live in them and put smiles on their faces. I think they feel closer to Daiwa House as we provide the place they live and the electricity that they use. Going forward, we want to go beyond decarbonization and design circular economy-oriented towns.

2. Revitalizing local communities

Roll out a circular value chain that creates, fosters, and revitalizes across all businesses nationwide

All our businesses are involved in the creation, fostering, and revitalization that form a circular value chain. We foster and refresh long-term relationships of trust, starting with creation, through customer service, management operations, and renovation to create rich lives hand-in-hand with our customers. We strive to fulfil our responsibilities to customers and buildings so as time goes by and the building's role is over, customers will approach us with a view to the next role.



Our Livness brand is the heart of our revitalization business. The brand was set up to engage in brokerage, renovation, and purchase/resale, initially in single-family and rental housing. It is rolling out initiatives for large buildings and commercial facilities, and earnings are steadily expanding. Under the Livness Town Project (redevelopment of existing housing complexes), offices took unique initiatives to suit housing complex needs.

Beginning in fiscal 2022, we introduced program that lets employees “live” in our housing complexes so they can develop a feeling of what it’s like to be a resident and share residents’ awareness of associated problems.

In terms of revitalizing local communities, major results are emerging from our project to rebuild public wholesale markets. The first instalment was a ¥10 billion redevelopment project in Toyama Prefecture. We can see the social value of the business scheme are aiming to help revitalize the local area. Municipalities across Japan are asking to inspect the project, so our plans are for proactive rollout in the future.

3. Globalization

Operate with bottom-up approach suited to local characteristics overseas

Overseas, we consider what sort of business model can contribute to the region and run businesses deeply rooted in local communities. The US is a priority the 7th Plan area. In the first half of fiscal 2022, our three US companies (Stanley Martin, Trumark, and CastleRock) performed strongly, but as mortgage rates rose from 3% to over 7% in the second half, customers put off or cancelled purchases, and we ended up supplying 6,010 homes. Still, we believe population growth will support

firm demand for housing in the US. We view current conditions as an opportunity and will secure promising sites for the future while keeping an eye on risk.

In April 2023, I was at long last able to convene a meeting of top management of the three US companies in New York. We discussed issues and initiatives in the US housing business as part of our efforts to achieve sales of ¥1 trillion and operating income of ¥100 billion overseas, and shared our mission: stable supplies of quality housing. We think that industrialized manufacturing is crucial to developing the US business in the face of the country’s tight labor market. To supply housing in a quick and stable manner while maintaining quality, we are gradually increasing the share of off-site panel manufacture. Because these are not one-off projects but community-based businesses, we hope that proactive initiatives will yield significant results.

Meanwhile, in view of geopolitical risks, recouping investments is now a bigger priority than aggressive investment in China and Southeast Asia, and we are proceeding cautiously while managing our risks.

In Europe we sell and rent modular structures, a kind of industrialized building, mainly through Daiwa House Modular Europe, which joined the Group in 2020. Our expertise in building units on-site should prove useful when conflict or disaster creates a need for temporary

housing. Europe is contiguous, making land transport feasible over a wide area. We also believe that the restoration and town planning capabilities we have developed in Japan, mainly through Daiwa Lease, can be applied to Europe. Since our founding in 1955, the Daiwa House Group has operated in line with our founder Nobuo Ishibashi's spirit, *Don't do things because they will make a profit, but because they will be of service to society*. We want to create social value as we demonstrate our raison d'être to the wider world.

In fiscal 2022, Daiwa House, Fujita, and Daiwa Lease formed a procurement group, sharing expertise and verifying purchase prices. In 2023 we will integrate procurement departments and expand group level purchases. If the three US subsidiaries also take advantage of the scale economies from group procurement, they should be able to boost margins.

4. DE&I

Look at strengths and create environment where individuals can thrive

We are working to create an environment where our employees can extend their potential and grow, as part of human capital focused management. As the Daiwa House Corporate Creed, "developing people through

business" highlights, human resources are the source of corporate value. To date, our Group has employed people of many backgrounds, letting them display their strengths and develop by embracing their individuality and skill sets to create new value. I always stress to our managers the importance of focusing on their subordinates' strong qualities. This attitude is unwavering. We will continue to build a workplace of mutual respect and support, where employees can be their best, as set out in Our Hopes for the Future. We identified KPIs in fiscal 2022 to benchmark DE&I progress.

5. Digital transformation

Use digital technologies to strengthen customer base and technological and manufacturing platforms

We are using digital transformation to create new value proposals. For example, in our domestic Single-Family Houses Business, as part of reforms to selling methods, we analyzed our massive database of past contracts, and launched our 3D fast plan using Big Data in January 2023. This enables us to shift from model-house exhibits (which entail hefty operating expenses) to a more efficient selling style, and improves customer satisfaction, and should help solidify our client base by instantly showing customers 3D plans that suit their needs.

We are also working to streamline and automate on-site workflows in collaboration with the MLIT in response to the aging workforce and lack of human resources. We are tackling this issue on behalf of the entire industry, not just our company, and are taking steps to strengthen technological and manufacturing platforms.

6. Governance

Training the next generation to inherit Daiwa House DNA

Instilling corporate culture is important for risk management. The more of our employees that have the sense of mission and ethics to meet society's expectations and exercise self-discipline, the lower our risks. I thus place great importance on our management ranks. The D-Succeed succession planning system introduced in July 2020 is a selective training system for branch managers who are potential future leaders of the Company. They are assigned to positions that use their talents and suit their abilities. We develop our talent by drawing out their latent capabilities through experience. We must of course pass on the Daiwa House DNA.

To enhance the value of human capital, we aim to further streamline processes and implement our HR strategy for some 70,000 Group employees in the right

place at the right time in line with our overall business strategy. Since April 2023, the Corporate Strategy Planning Department reports directly to the CEO, so it can tackle management issues separate from functional strategy. We revamped our branch office evaluation criteria, lowering the share of earnings-based figures and raising those relating to HR development, legal compliance, and customer satisfaction so we can see whether the organization can produce results in the future. These moves have reinforced the foundation for further growth by our Group.

To our stakeholders

**Co-creating Our Hopes for the Future
with our stakeholders, we will continue
working to enhance corporate value**

At the start of every year I choose one *kanji* (Chinese character) to symbolize the year. For 2023 I chose *jun*, which encapsulates the idea of sticking to the path and continuing to grow while maintaining what is necessary. Our employees do have a law-abiding spirit, but I want them all to come together, strengthen our defenses, and follow the right path.

Since its founding, the Daiwa House Group has squarely faced societal issues and provided many buildings and services, constantly opening up new horizons. I believe that a strength that our founder built, and we must leave for future generations, is the ability to reach our goals in a ceaseless quest no matter what difficulties. As CEO, I am working to convey the essence of the Daiwa House Group to have its strengths properly evaluated.

Carrying out our responsibilities and fulfilling our roles, we will work together with our stakeholders to realize Our Hopes for the Future, carrying our founder's words about Daiwa House becoming a much-loved company in our hearts and minds.



Jun, the kanji CEO Yoshii has "engraved in his heart" as the Group byword for 2023

