

Daiwa House Industry Co., Ltd.

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

Date and time: From 16:30 to 17:30, Monday, November 15, 2021

Speakers: Keiichi Yoshii, President and CEO
Takeshi Kosokabe, Executive Vice President and CFO
Yuji Yamada, Managing Executive Officer and
General Manager of Finance and IR Departments

【Q1】

Please tell us about the 7th Medium-Term Management Plan to be announced in May next year. The presentation materials mention "pursuit of sustainable growth through management reforms." What kind of story do you actually envisage?

(Reference) Presentation material P.16

【A】

- As we have already announced, we plan to formulate the 7th Medium-Term Management Plan for a period of five years. While numerical targets are currently under internal consideration, the key will be group-wide management reforms based on our business division-based system, which has been in full-scale operation since April of this year. Some businesses already have synergies with Group companies, so we would like to expand this to other businesses as well.

- Another example of measures we are considering is centralized purchasing for the Group. Currently, procurement is being conducted independently by each company. Combined, the scale of procurement will be considerable, so we would like to improve efficiency through integration and build cost competitiveness.

【Q2】

You have made substantial investments in the US business so far, and I think that you will continue to expand them in the 7th Medium-Term Management Plan. While there is continuing steady demand in

the market, adverse conditions such as soaring house prices and higher interest rates can also be observed in the immediate situation. Please tell us how you envisage the business environment in the 7th Medium-Term Management Plan, along with your growth strategy.

(Reference) Presentation material P.7

【A】

- We think that the US business will play a major role in the 7th Medium-Term Management Plan. Stanley-Martin Holdings, LLC operates on the east coast, Trumark Companies, LLC operates on the west coast, and CastleRock Communities, LLC operates mainly in Texas, and we believe that these three companies together can confidently aim to supply 10,000 units. Although we are not considering any further mergers and acquisitions at present, Stanley-Martin Holdings, LLC has expanded its business area while receiving business transfers several times in the past, so we will aim to achieve further growth while considering business acquisitions at each company as appropriate.

- According to the CEO of Stanley-Martin Holdings, LLC, the US continues to have strong housing demand, although supply is behind due to labor shortages and delays in the delivery of materials. We are therefore responding flexibly to changes in market conditions in order to respond to the rise in interest rates, such as by reducing land surface area slightly to lower house prices, and strengthening suburban housing, for which there is increasing demand due to the COVID-19 pandemic. It has become a major trend for people to build detached houses a short distance away from the city center and live there together with their families, and we do not think that the rise in interest rates will put a sharp brake on this strong demand.

- Moving forward, we would also like to work on "industrialization." We are engaged in various discussions regarding how to increase our percentage of factories from the perspectives of responding to labor shortages, shortening construction periods and improving quality. While we don't have any specific plans yet, industrialized housing is one of our specialties, so we hope that we will be able to consider building factories in the US in the future as the scale of our business expands.

- We believe that the Single-Family Houses Business is the business in which we have been most successful in shuffling domestic and overseas portfolios. For FY2021, we plan to generate operating income of 30 billion yen for the Single-Family Houses Business as a whole, and 17.5 billion yen overseas. With regard to present conditions, the order backlog at the beginning of the fiscal year

remaining in October had increased by 100 billion yen in comparison with the previous fiscal year (around 20 billion yen in Japan and 80 billion yen overseas). Although in Japan the number of new housing construction projects being started is predicted to decrease in the future, we believe that the housing-related expertise that we have cultivated up until now will also be sufficiently applicable overseas. As one of our core businesses, we would like to demonstrate our growth strategies for this business both in Japan and overseas. In the future, the three key growth-driving countries for housing overseas will be the United States, Australia, which is in a slightly difficult situation at present, and the Netherlands, where we acquired business operations at the beginning of the year.

【Q3】

- Please tell us about the balance between real estate investment and return and your approach to financial discipline in the 7th Medium-Term Management Plan. Under the 6th Medium-Term Management Plan, investment exceeded the amount collected, with sales of development properties standing at just under 700 billion yen, versus the investment plan of 1 trillion yen. Will you be engaging in proactive development in the same way under the 7th Medium-Term Management Plan, too? You indicated its D/E ratio is around 0.5 times. Do you have any plans to modify this?

(Reference) Presentation material P.9

【A】

- We would like to secure investment opportunities and link them on to growth of profits. For example, we believe that there are considerable investment opportunities even with just assets that are currently under consideration, such as in data centers and the redevelopment of public wholesale markets. I think there is no option for us to miss out on these opportunities.

- Our target for the redevelopment of public wholesale markets will be at least 200 of the 1,000 public wholesale markets that exist nationwide, and we think that this will be a considerable investment.

- With regard to commercial facilities, we would like to revitalize local communities not only by developing new facilities, but also purchasing antiquated commercial facilities, increasing their value, and operating them as a Group.

- We also want to keep focusing on overseas business, so we will continue to engage in thorough investment and return beyond the 6th Medium-Term Management Plan.

- With regard to D/E ratio, we do not currently intend to change our fiscal discipline of a D/E ratio of 0.5 times. That being said, in terms of the balance between investment and return, there may be some intermediate years during the period of the Medium-Term Management Plan in which we do exceed this discipline. We hope that you will regard the figure of 0.5 from a medium to long-term perspective.

【Q4】

Please tell us about your future initiatives and prospects for the environment and energy business. Also, how will you promote the widespread adoption of renewable energy under the 7th Medium-Term Management Plan with a view to creating a decarbonized society?

(Reference) Presentation material P.11

【A】

- We believe that the environment and energy business will play a major role in our efforts toward decarbonization. Power generated from renewable energy sources currently accounts for over 130% of the Group's energy consumption, but since most of the electricity is sold, our self-consumption rate is around 8–10%. Accordingly, we would like to increase our rate of renewable energy utilization.

- We also purchase surplus electric power from customers who are moving on from the feed-in tariff (FIT) purchasing period (post-FIT), and sell it, under the name of Daiwa House Denki. We also hope to firmly advance these efforts.

- Since we are the only company in the housing and construction industry that has an environment and energy business with sales of 150 billion yen, we believe that we must make this a key part of our growth strategy. On the other hand, a current obstacle to growth is that the business is easily affected by crude oil prices, making it difficult to predict what will happen in the future.

【Q5】

You mentioned that you will step up your efforts in purchasing and increasing the value of antiquated commercial facilities. What do you consider to be your strengths and opportunities for growth (in this area)?

(Reference) Presentation material P.5

【A】

- With regard to increasing the value of commercial facilities, we believe that we have encountered good projects like iias Kasugai because we have a nationwide business presence and have the advantage of being the only community-based company in the industry. When we began working on the iias Kasugai revitalization project, we initially considered various plans, including the renewal of equipment and facilities, but we believe that the leasing capabilities of the business division were the key factor that made it such a good finished project.

- There are around 2,300 aging shopping centers nationwide which have been in business for over 20 years, and we expect this business to have a major impact, both in terms of project numbers and returns. We have already received multiple inquiries for properties, so we would like to continue working hard in this area in the future.

【Q6】

Please tell us the status of Daiwa House and Fujita Corporation, with regard to current conditions for receiving orders for Logistics, Business & Corporate Facilities Business, and your outlook for the future?

【A】

- In the logistics facilities business, we feel that competition is intensifying due to the increase in industry players, but have still been able to receive orders steadily. As material prices continue to rise across the board, since we are the only company that has the unique aspect of being a construction company, we would like to continue making use of our strengths in reducing building costs below those of competitors and lowering rents for tenant companies as much as possible.

- We feel a very strong demand for data centers. Although there are various obstacles, such as the large amounts of electric power used by these facilities, we are considering establishing them not only in the Greater Tokyo area but also in more rural areas. While developments may not be as fast and large in scale as for logistics facilities, we would like to develop data centers as a pillar of our business operations, while making use of our advantage of also being strong in businesses in rural areas.

- While Fujita Corporation continues to endure challenging conditions with regard to receiving orders, it has always been a strong company in conducting redevelopment projects such as land readjustment,

and since it is also engaged in these efforts we believe that there is room for improvement in the future.

- Although the gross margin ratio in contracted construction for the Logistics, Business & Corporate Facilities Business in the FY2021 2Q was 15.8%, the full-year plan remains unchanged at 15.0% in light of the impact of soaring material prices and challenging conditions with regard to securing orders. Accordingly, if we can maintain similar level of profits to the first half of the year, there is room for increasing profits.

【Q7】

You mentioned earlier that the 7th Medium-Term Management Plan is planned for five years. What is the reason for extending the three-year plan by a further two years?

【A】

- One of the major reasons is that we considered the period of time from investment to return for real estate developments. When investments are made ahead of return we may sometimes exceed the D/E ratio of 0.5 times, so, under current situation, even if we create a good property we may have to sell it immediately to recover funds in order to make our next investment. We believe that it is acceptable to continue holding a property for a certain period of time in order to maximize profits, and we would like to sell them after establishing a proper track record and getting them on the right course. Our policy is to produce better results by taking five years to do so.

- With regard to the contracted construction business, we would like to view them from a more long-term perspective, taking various government policies and the span of product development into consideration.

【Q8】

You are constructing data centers and redeveloping public wholesale markets as new initiatives. Do you think there is room for involvement in aspects other than construction? Please tell us about your outlook for the future in that area.

(Reference) Presentation material P.6

【A】

- Among data center projects in Inzai City, currently ongoing projects are all contracted constructions . We have started work on two buildings, and sales are being posted gradually based on the progress of work.

- Eventually, we would like to switch over to development, and if that happens then we will have a large investment and return. We would like to demonstrate the direction of how we will develop this business in the 7th Medium-Term Management Plan with what areas and schemes, but this is an area with very high expectations.

- With regard to the redevelopment of public wholesale markets, we will seek to expand our business operations while considering what kind of proposals we can make to address the issues faced by each market. At Toyama, where a project is currently underway, we will build commercial facilities in surplus areas at the same time as the renewal of the market, and manage them through Group companies. We believe that there are also various other opportunities aside from commercial facilities, such as hotel construction and operation, so we will work together with the collective strength of the Group to develop this large piece of lifestyle infrastructure.

【Q9】

Please tell us about the future growth potential of the Rental Housing Business. In the past, the Rental Housing Business helped drive Daiwa House's rapid growth as one of the key growth drivers together with the Logistics, Business & Corporate Facilities Business and the Commercial Facilities Business. I believe that there are some signs for a brighter future after the "winter period" caused by the worsening of business conditions. What is your medium to long-term outlook for the Rental Housing Business, and your growth strategy based on the business division-based system?

(Reference) Presentation material P.4

【A】

- Market conditions are improving, and business models are gradually changing.

- So far, we have performed strongly in rural areas and somewhat poorly in the Greater Tokyo area. But as a result of strengthening our efforts in Greater Tokyo considerably, including proposals for medium- and high-rise properties, we have also been able to take in more orders.

- We are also strengthening our efforts with regard to the sale of houses and lands in lots. Until now, as an inheritance tax measure for owners, we have mainly proposed the construction of rental housing as a way of utilizing land already owned. Now, though, the proportion of businesses purchasing land ourselves and building properties to sell on a house and land lot basis is increasing. We think that the existence of rental property management companies is a big reason why these businesses are going strong. Daiwa Living Co., Ltd. has rented and managed nearly 600,000 units and maintained a high occupancy rate of 97%, and there can be no doubt that this is a great source of reassurance for customers.

- Additionally, Daiwa House Reform was split this year and Daiwa House Chintai Reform was launched. We would like to work together with them throughout the Rental Housing Business Division to drive various proposals, such as improving the thermal insulation of existing properties and delivering ZEH (net zero energy house) solutions.

【Q10】

Please tell us a little more about iias Kasugai. I feel that you have been able to improve the value of the property by making use of your leasing capabilities. Do you have any plans to sell it in the future?
(Reference) Presentation material P.5

【A】

- We have high hopes for iias Kasugai because it has been developed into such a very good property, to the extent that we are hesitant to sell it for the time being. In addition to our leasing capabilities, we are also working on construction by taking advantage of our strengths in assessing costs as a construction company, and are also able to manage facilities properly through Daiwa House Realty Mgt. Co., Ltd. The current situation is that vacancies are filled immediately as soon as a tenant vacates.

- Although this can be said for both the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business, it is important to maximize the value of properties when selling. For that reason, we would like to build a prime, representative location for Daiwa House's commercial and logistics facilities, such as the Marunouchi area for Mitsubishi Estate, or the Nihonbashi area for Mitsui Fudosan. To that end, we would like to create a cycle of holding on to properties for a certain period of time and depreciation costs before selling.

【Q11】

Three of your outside directors will have served in their positions for over ten years next year (including the term of office for outside auditor). How do you view this, from the perspective of independent oversight?

【A】

- We have been working diligently to enhance our corporate governance. We do recognize that some directors have been in office for more than ten years, but would like to refrain from commenting on personnel-related matters for the next fiscal year onward.

End

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