

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 14, 2022

**Speakers: Keiichi Yoshii, President and CEO
Yuji Yamada, Managing Executive Officer and
General Manager of Finance and IR Departments**

【Q1】

You are now six months into your 7th Medium-Term Management Plan. While the business environment has changed significantly over that time, please tell us about the Group's performance in the first half of the fiscal year and the outlook for the future.

【A】

- Although the period started with a small backlog of orders, the planned sales of logistics facility developments, if achieved, would have increased revenue by approximately ¥6 billion from the previous fiscal year. The better-than-expected recovery in the hotel and fitness club business has also contributed to performance.

- Orders for single-family houses in the US housing business have slowed as a result of rising interest rates. Offsetting this is a rise in rents from the five rental housing facilities that we currently operate. As a result, even assuming a downturn in the Single-Family Houses Business over the coming period, we anticipate that this will be made up for by the sale of rental housing developments. To achieve the Medium-Term Management Plan, we are progressively improving the balance of our overseas business portfolio.

【Q2】

While the business performance forecasts for FY2022 have been revised upwards, dividends remain unchanged. Please explain your plans regarding further dividend increases or share buybacks.

(Reference) Presentation on Management Policies

P.6 “Business performance forecasts for FY2022”

【A】

- As presented in the 7th Medium-Term Management Plan, the flexible acquisition of our shares will occur based on our assessment of business conditions. We currently have no plans for share buybacks as we are prioritizing investment. With regard to dividend increases, a final decision will be made with reference to performance over all of FY2022.

【Q3】

What progress is being made on ZEH-M in the Japanese Rental Housing Business?

【A】

- We launched TORISIA, our new ZEH-M product, in October. Moreover, one of our strengths is that we maintain high occupancy rates in our Rental Housing Business that manages approximately 600,000 housing units. We intend to increase the percentage of ZEH-M while continuing to offer added value.

- The ZEH percentage in our Single-Family Houses Business has increased to 77%.

【Q4】

What is your medium-to-long-term strategy and management priorities for improving the performance of your US business?

(Reference) Presentation on Management Policies

P.7 “Progress in overseas business: US areas”

【A】

- The key focus in our US business is on reinvesting capital. We want to deploy revenue from our US business as working capital for new ventures so as to achieve a situation where the US business is fully self-funding.

- We have secured prime land and expect business performance to expand. We are not currently looking at new acquisitions in the US area and instead intend to expand operations in the business areas covered by our three existing companies. Outside the Single-Family Houses Business, we are also looking at areas such as commercial facilities, logistics facilities, and data centers.

【Q5】

What is the outlook for orders in your Single-Family Houses Business? It has been reported that you intend to reduce the number of your model house exhibitions. Does this mean that you intend to shrink your Single-Family Houses Business in Japan?

【A】

- The level of orders is low right across the single-family housing market, not just at Daiwa House Industry. Although we are still getting a considerable number of inquiries, sales are taking longer to close. In our sales activities, we are seeking to make the most of the government's support measures for home buying, which include lower tax on housing loans and Kodomo-mirai housing support*.

- While we intend to close model house exhibitions that are not paying their way, this is being done as a cost saving measure and does not mean we are shrinking the business. It is also our practice to build "MACHINAKA-xevo" (single-family houses on development lots for use as model houses before ultimately selling them to customers.) We intend to continue to pursue this effort of ours as part of a philosophy of making the most of resources.

*The Kodomo-mirai housing support project provides subsidies to families with small children and young couples to acquire new houses with high energy-saving performance and to carry out energy-saving renovations.

【Q6】

Please describe the current status and medium-to-long-term strategy of your condominium business in China.

(Reference) Presentation on Management Policies

P.8 "Progress in overseas business: China"

【A】

- The condominium business in China enjoys rapid capital turnover, with the all the proceeds of a sale able to be collected between signing the contract and the completion of construction. In the case of the Changzhou II and Nangtong projects for which sales are planned in the current and upcoming period, the full proceeds of sales have already been collected. Although sales are expected to fall, with no properties scheduled for sale in FY2024, this will be covered by the Japanese and other overseas

businesses. The securing of properties for sale in FY2025 and FY2026 is mostly complete.

- We have built up a good reputation in China for the projects we have completed to date and are in a position where we are approached by the government on public tenders for development projects. We are investigating future projects on the basis of placing an upper limit on the money at risk.

【Q7】

Please tell us how orders are going for facilities such as data centers and semiconductor factories, and what you are doing in this area.

(Reference) Presentation on Management Policies

P.24 “ Logistics, Business and Corporate Facilities Business”

【A】

- Our data center business started in Inzai City in Chiba Prefecture. Beyond Inzai City, we are currently assessing the locations and geological suitability of sites we own but have yet to develop with a view to reassigning them for data center use. As our current stock of development sites where work has yet to start has a book value of approximately 160 billion yen, we expect this portfolio will include sites that are ideal for this purpose.

- Outside the area of logistics facilities, we have also obtained orders for semiconductor factories at industrial parks with which we are involved.

【Q8】

How is it that you have been able to make good progress on acquiring land for sales in your US Single-Family Houses Business?

【A】

- One reason is our ability to obtain financing. Although we do not yet have a high level of visibility in the industry, our being well-placed to acquire financing despite the environment of rising interest rates has been noticed and this has led to us being supplied with land information. Reduced competition is also a factor, we believe.

- Our three housing companies in the US have traditionally been strong at land acquisition and

subdivision development. Stanley Martin has a history going back more than 50 years, primarily in Washington, and is able to acquire land by a variety of different means. Likewise, Trumark has developed highly effective strategies in its acquisition activities despite operating in California, an area where subdivision development is difficult.

- The CEO of Stanley Martin in particular has enjoyed greater opportunities for engaging with companies in the region since it was named Builder of the Year in 2021.

【Q9】

The Livness business is very distinctive of Daiwa House and should be an area of solid growth over the medium and long term. How is the current progress of this business? Also, have you changed the organizational structure to a business division-based system?

【A】

- The Livness business is primarily involved in the renovation of existing buildings as well as acting as an agent and purchasing property for resale. Although its initial focus was mainly on the Single-Family Houses Business, changing times have also brought business opportunities in the Rental Housing and Commercial Facilities Businesses.

- Although it does not currently form part of the Livness business, the ALPARK complex commercial facility in Hiroshima Prefecture is one example of where we have undertaken the revitalization of a commercial facility. After acquiring the facility in 2019, we got new tenants in and undertook a major refurbishment that included upgrading aging equipment and the mall interior. We anticipate that similar business opportunities will arise in the Logistics, Business & Corporate Facilities Business.

- We are not undertaking any major changes to our organizational structure. As well as maintaining ties to each of our various businesses in its operations, the Livness Business Promotion Department will be responsible for overall coordination.

【Q10】

Please explain your thinking with regard to the state of the market for rental housing development in the US.

【A】

- Although the occupancy rates at our rental housing developments are in the 70 to 80% range for projects that have only recently been completed, occupancy exceeds 90% at a Chicago project we completed in 2017. As we have been able to maintain consistently high occupancy rates while also revising rents from time to time, we feel confident about this business.
- Likewise at a project currently under development in Houston, Texas where we are achieving a very high level of quality for both land and buildings. We believe this is another project where you can look forward to good results.

【Q11】

How is the progress of recovery in hotel construction contracts and hotel and fitness club operation business which have been severely impacted by COVID-19, and what is your outlook for these businesses?

【A】

- We are seeing a slow recovery in hotel construction in terms of both inquiries and orders and we are optimistic about the future.
- Daiwa Roynet Hotels (business and city hotels) that enjoyed occupancy rates in excess of 90% pre-pandemic have since recovered to above 80%. While ADR has yet to recover to pre-pandemic levels, it is showing a gradual improvement and the future is looking positive with rising numbers of overseas guests following the relaxation of restrictions on foreign visitors to Japan.
- Likewise with resort hotels and fitness clubs, losses are shrinking with these businesses looking to improve operating income and loss by ¥5.9 billion and ¥3.9 billion, respectively, compared to the previous year.

【Q12】

“Centralizing purchasing for the Group” was one of the features of the 7th Medium-Term Management Plan. How is this progressing, and when do you expect the benefits of this to become evident?

【A】

- Our priority in the first half of the fiscal year has been to deal with supply shortages. Work on centralizing group purchasing began with a detailed study of procurement prices at our various group companies. This found price differences of up to 30% based on differences in procurement volume. Whereas expenditures on centralizing purchasing in the previous fiscal year at Daiwa House (non-consolidated) amounted to approximately ¥400 billion, we hope not only to reduce costs and increase profitability, but also to improve the value we deliver to customers by increasing this to something in the ballpark of one trillion yen across the entire Group.
- While it is difficult to say when quantitative results will be available, we expect the benefits to emerge from the next fiscal year onward.

【Q13】

“Achieve growth of profits coexisting with capital efficiency through portfolio optimization” was one of the key themes of the 7th Medium-Term Management Plan. Please tell us about progress on restructuring the businesses concerned.

【A】

- We are working to achieve coordinated group-wide management by bringing group companies under the jurisdiction of the business divisions. For example, Sports Club NAS and Daiwa House Realty Mgt. have been brought into the business division-based system under the jurisdiction of the Commercial Facility Division. The business division heads are playing a central role in initiatives that include operational efficiency improvements and the creation of synergies.
- At the same time, we are also reviewing what purpose each business fulfills in our portfolio, including group companies, asking ourselves whether we are really the best owner.

【Q14】

You have spoken about reviewing your investment criteria. Does this mean you are thinking of possibly limiting new investment or changing your use of funds?

【A】

- Based on interest rate trends in the US, we need to consider seriously the prospect that Japan, too, will see higher interest rates in the next year and beyond. Accordingly, we are looking at tightening our current investment criteria so that we will be able to respond rapidly should such interest rates rises occur. The purpose is not to limit new investment. Nor are we changing our use of funds. Rather, as in the past, we are putting a particular effort into identifying prime sites and pursuing developments that exceed our investment criteria.

- On the other hand, in response to strong demand for capital due to investment in real estate development being stronger than anticipated, we are also planning to accelerate sales in order to allocate capital to new investment. We are seeking to achieve a balance while remaining cognizant of our D/E ratio and of the risk of interest rate rises.

End

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