

**Daiwa House Industry Co., Ltd.**

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

**Date and time: From 16:00 to 17:30, Tuesday, May 17, 2022**

**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**

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**【Q1】**

In the 7th Medium-Term Management Plan, the final fiscal year's operating income target for the overseas business is set at ¥100 billion. There are concerns over rising interest rates in the US housing market, and the Chinese market seems to be slowing down. The progressively weaker yen is also raising fears of reducing the motivation of Japanese-affiliated companies to expand their businesses overseas. How do you view the current market situation? Please also describe whether you believe this target for your overseas business is an aggressive one or a conservative one.

(Reference) 7th Medium-Term Management Plan

P.17 “Accelerate growth of overseas business”

**【A】**

- We believe that the figures in our plan for our overseas business is conservative and that we can add on to the actual figures.

- The Chinese economy is in a slowdown, and investment in housing has comparatively cooled off, but our understanding is that products meeting actual demand will still sell out immediately. We expect our condominium business in China under the 7th Medium-Term Management Plan to generate stable income since the properties scheduled for sales in each fiscal year are already in place, with the exception of FY2024. In addition to the quality of the properties we provide, our support of tenants via property management companies has a good reputation locally, which is a factor in the stability of our Chinese condominium business.

- After visiting the US itself recently, we can say that the US housing market has solid demand over

the impact of rising interest rates. We believe the figures will go even higher.

The situation for our three main companies in the US in the 7th Medium-Term Management Plan is as follows.

(1) Stanley-Martin: Almost all of the land scheduled for sales up to FY2026 has already been secured. Starting next year, it will continue to secure land that will contribute to sales in the 8th Medium-Term Management Plan.

(2) Trumark, Castle Rock: Land for sale is almost completely secured up to FY2023. Trumark has secured 50% for FY2024 as well.

As this indicates, we are securing land including land readjustment in our housing business in the US. We believe we have a firm footing that will be resistant to any major disruption.

Our concern is over labor shortages. But last fiscal year we ultimately solved problems with shortages of materials and workers and built-up performance figures above what we expected, so we are not overly concerned on this point.

We already own approximately ¥200 billion worth of salable properties in the US rental housing development business, which we intend to sell when we can gain the maximum performance. However, we do recognize issues in securing lands for FY2026 and beyond.

- As for Australia, sales progress has been slower than expected, and we consider it urgent to rebuild. The Box Hill project had steady sales last term, but at the moment it is underperforming. In spite of this, we expect sales to be up 20% or 30% compared to the initial plan.

- In the ASEAN region, we are developing logistics centers in Indonesia, Vietnam, and Malaysia. The business model is to receive orders from Japanese-affiliated companies and develop logistics centers to receive occupancy. Demand from Japanese-affiliated companies remains extremely firm, and we intend to fully keep pace with it.

## **【Q2】**

Please give your reasons for increasing the D/E ratio from around 0.5 to around 0.6 times in your capital policy.

(Reference) 7th Medium-Term Management Plan

P.15 “Performance targets”

**【A】**

- Our intention in the 7th Medium-Term Management Plan and in the 8th Medium-Term Management Plan and beyond is to expand our stock business. Up to now we have sold real estate quickly after developing it, but going forward, by holding properties for a certain period of time, we hope to build up our expertise in rental management performance and in how properties can be put to use.
- We do not believe in missing out on opportunities for growth in our management. Increasing the D/E ratio allows us to take a more flexible stance on growth investments. We see it as our mission to engage in development to gain profit above the borrowing rate even if interest rates rise.
- In addition, we are not concerned if this change is taken as an indication that we are not considering a capital increase at this time.

**【Q3】**

For the investment amount of ¥2.2 trillion in real estate development, please give us a breakdown of new investments and investments in properties you have already acquired land for. Also, please give the amount for investments overseas.

(Reference) 7th Medium-Term Management Plan

P.23 “Expand a circular value chain from the perspective of local communities/customers  
(3) Development contributing to local communities”

**【A】**

- Out of the ¥2.2 trillion, the majority is for new properties.
- The total investment in real estate overseas is approximately ¥300 billion. Development of rental housing in the US included in Other is a major investment area.

**【Q4】**

Strategic investment is stated to be ¥650 billion. What does this include, apart from investment in real estate for sale overseas like US single-family housing and Chinese condominiums?

(Reference) 7th Medium-Term Management Plan

P.30 “Capital allocation and shareholder return”

**【A】**

- The amount of investment excluding overseas is ¥250 billion, which we are planning M&As and investing for carbon neutrality, e.g. solar power generation equipment.

**【Q5】**

What is the scale of sales from data center development in the 7th Medium-Term Management Plan?

**【A】**

- We project it to be around ¥200 to ¥300 billion. For the data centers, the project already underway in Inzai City in Chiba Prefecture is contracted construction. In addition, we have also at last started on construction of a building-type data center in central Tokyo.

- We are currently putting together a complete technology lineup, which will reach the stage of implementation in full including for equipment over these five years. The actual timing to start must be considered with respect to development schemes and so on.

**【Q6】**

Your performance targets for rental housing in your 7th Medium-Term Management Plan seem on the conservative side. What is your opinion?

(Reference) 7th Medium-Term Management Plan

P.46 “Rental Housing Business”

**【A】**

- We set the performance targets assuming conservative rents in the rental management business.

- In recent years, both owners and tenants are more aware of consideration for the environment. Owners or, in some cases, we ourselves will install solar power generation equipment to provide high added value products, leaving room for growth in rental rates.

- We already have a range of rental housing for sale overseas, which we will sell when performance is the best. This may result in variations in performance each fiscal year depending on the timing of the sale.

**【Q7】**

Demand for the housing business in Japan is expected to fall over the next five years. What growth opportunities do you expect, including the Livness Town Project?

**【A】**

- We see sales in the Japanese Single-Family Houses Business as increasing around ¥10 billion per year. Though progressive use is being made of the Kodomo-mirai Housing Support Project\*, careful thought must be given to soaring raw material prices and rising interest rates.

- The Livness Town Project has a key position in terms of growth opportunities. In the 7th Medium-Term Management Plan, we will work on ten locations. While this, of course, will not gain immediate results, our focus will be on customers; reinforcing their satisfaction while actively spreading awareness of the idea that we are responsible for the buildings we build.

\*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

**【Q8】**

What is your investment policy on Daiwa Roynet Hotels (urban hotels) and Daiwa Royal Hotels (resort hotels)?

**【A】**

- Though upkeep of the resort hotels will occur, we do not envisage building any new hotels at this point.

- The occupancy rate of Roynet Hotels recovered to around 80% in April 2022. The rate prior to COVID-19 was above 90%, so we will continue investing while viewing the recovery status.

**【Q9】**

Your plan states net sales of ¥1.6 trillion in the stock business in FY2026. Will the gross profit ratio be around the same as in FY2021? And, will this be the same for the profit ratio on sales of development properties?

(Reference) 7th Medium-Term Management Plan

P.23 “Expand a circular value chain from the perspective of local communities/customers  
(3) Development contributing to local communities”

**【A】**

- The profit ratio for the stock business is not expected to change greatly from the previous term's performance.
- The profit ratio on sales of development properties is a realistic figure constructed while looking at the content of each properties.

**【Q10】**

You have a unique position as both a general contractor and a developer. What steps will you take to deal with rising construction costs and what is your outlook?

**【A】**

- Though there is pressure on materials prices, we will use the advantages of the Daiwa House Group to differentiate ourselves from other companies, giving us cost competitiveness.
- Following our shift to a business division-based system, we have examined the issue of materials procurement. Going forward the entire group will utilize centralized purchasing of materials to stably secure parts and lower procurement costs.
- We also intend to move and rebuild the Chubu plant to reinforce our production structure.
- We are fully committed to the "Industrialization of Construction" advocated by our Founder. We will provide a stable supply of affordable, high-quality products rapidly by increasing the factory ratio.

**【Q11】**

The FY2026 target operating margin for the overseas business is 10%. The figure for FY2021 was 5.9%, so the plan expects a major improvement. What specific actions do you intend to take?

**【A】**

- With Stanley Martin we have started an initiative for rental single-family housing as a growth opportunity. In the US, demand for rental housing rises as interest rates go up. Our profits will increase

by skillfully meeting these needs with the interest rate rise. As work at the factories increases, we intend to improve the profit ratio by shortening the construction period by reducing the amount of tasks in the factory front lines.

- In the ASEAN region, we are developing logistics facilities in Indonesia and other countries, gaining profits on sales of development properties.

- In our investments, we will proceed with an operating margin of 10% in mind. If we can increase net sales, we will be able to increase our profit.

**【Q12】**

What group businesses are positioned in the reconstruction field?

(Reference) 7th Medium-Term Management Plan

P.29 “Achieve growth of profits coexisting with capital efficiency through portfolio optimization (2) Business portfolio”

**【A】**

- We haven't decided on specifics yet, but this applies to those that are not core businesses as stated in the document, for which we will rebuild the growth scenarios from scratch. Depending on the situation we may sell some businesses.

**【Q13】**

What are your projections for the rental housing market?

**【A】**

- There is still deep-rooted demand for rental housing as an inheritance tax measure for owners. Additionally, the Group has lump-sum leases (occupancy guarantees) for nearly 600,000 rental housing units, with an occupancy rate of 98% as of March 2022. As long as there is demand from tenants, we intend to meet their needs. We will take positive action, including renovations, in areas where occupancy is expected to remain as before.

**【Q14】**

Regarding the sale of development properties, will there be changes in the properties sold or in the attributes of who they are sold to?

**【A】**

- Currently we are primarily involved in development of logistics facilities, which will be central to our sales going forward. We don't have any intention to change our policy on the attributes of who we sell to.

- Currently we prioritize sales through the four REIT funds we manage, centering on Daiwa House REIT Investment Corporation, along with Daiwa House Global REIT Investment Corporation (a private REIT able to incorporate overseas properties into portfolios), Daiwa House Logistics Core Fund (private placement core fund dedicated to logistics facilities in Japan), and Daiwa House Logistics Trust (a REIT listed in S-REIT looking to incorporate ASEAN logistics facilities into its portfolio). We will adopt a flexible stance of also continuing to sell to third parties with consideration given to sales price and timing.

**【Q15】**

Your net sales target for the Environment and Energy Business does not seem to expect much growth from the FY2021 figures, what is the background to this?

(Reference) 7th Medium-Term Management Plan

P.62 “Environment and Energy Business”

**【A】**

- The Environment and Energy Business up to now expanded primarily through construction of FIT projects, but as these have almost completely ceased, we are shifting to the stock business. Going forward, we will focus on selling power via renewable energy in tune with the times.

**【Q16】**

In terms of investments, is it your policy to take a proactive, full-throttle stance? Also, what is your thinking on the growth scenarios looking to the 8th Medium-Term Management Plan and beyond?



**【A】**

- There are certainly plenty of investment projects, but rather than just investing at random, we will look carefully at each situation to invest funds in areas that promise maximum growth. Our chief advisor, Takeo Higuchi, often taught us "Don't get carried away with the land." We make investment decisions by giving thought to whether the business plan itself is attractive, rather than the land, namely, whether we can secure profit and profit ratios matching the scale of investment. For risks with overseas business, we fully take into account the investment risks ourselves when making decisions, rather than leaving it up to companies we have acquired.

- Going forward we believe we must make careful selections including the question of how we re-arrange our portfolios. This time, we set our net sales target as ¥5.5 trillion for the final fiscal year of our medium-term management plan. At last, we've reached the point where we can put forward this figure, but of course we cannot go as far as net sales of ¥10 trillion with our current business model. We made a major decision to reinforce the stock business in this medium-term management plan, to lay the foundations for the final fiscal year of the 8th Medium-term Management Plan by continuing with reconstruction of urban infrastructure as well as initiatives for the Environment and Energy Business.

**【Q17】**

In regard to reinforcing your overseas governance structure, what do you mean by "regional corporate functions"?

(Reference) 7th Medium-Term Management Plan

P.20 "Overseas governance system"

**【A】**

- We have developed corporate functions for the regional headquarters in each area and placed personnel there in accordance with the business structure and market risks. In addition to the regional type of headquarters in the US, Australia, and Europe, and the regional headquarters in Singapore, we also have a two-layer cross-border type that places sub-corporate functions in Vietnam, Indonesia, and Malaysia, and a networking type to manage projects in China. It has taken three years since the disclosure of the misconduct in China in March 2019, partly because of the COVID-19 pandemic, but

we have finally completed arrangements for the personnel.

- In addition, the overseas headquarters and HQ corporate division in Japan will continue to watch the situation, and the Overseas Strategy Committee is always consulted for overseas investment proposals.

We will continue to update our governance structure going forward.

End

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