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

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

**Date and time: From 15:00 to 16:00, Monday, November 13, 2023**

**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 your presentation, you comment that you would like to increase the operating income target for the final year of your 7th Medium-Term Management Plan by 50 billion yen, from 500 billion yen to 550 billion yen, as you aim for ROE of at least 13%. Could you please explain your approach to achieving the ROE target and tell us how you aim to achieve the extra 50 billion yen?

(Reference) Presentation on Management Policies:

P.6 “The Progress of the 7th Medium-Term Management Plan”

【A】

- I am fully aware of the roles that stepping up shareholder returns and share buybacks play in heading for our 13% ROE target. However, I have strong feelings about improving ROE by lifting our aspirations for profit in our main business operations as well. In that context, the 550 billion yen operating income figure was a purely personal target I put forward. The share buyback program we announced in May is currently underway. Going forward, we will work to achieve our 13% plus ROE target through a mixture of returns to shareholders and share buybacks.

- To meet our targets, we are working to improve margins. For example, the first-half operating income margin in the Logistics, Business & Corporate Facilities Business was 8.9%, but excluding Fujita it is over 14.0%. Fujita is engaged in comparatively long-term construction projects, so is particularly heavily affected by sharp increases in material prices, and is experiencing a margin downturn. However, I think there is ample room for better profitability if we are able to extract greater synergies with Daiwa House’s General Construction Business Division than at present. We are reviewing our internal management systems with a view to improving our profit structure.

- In the US Single-Family Houses Business, operating income margins were over 10% when the business was strong, prior to rate hikes. Currently, we are working to improve margins by shortening construction periods while sharing our expertise from Japan.
- We also want to increase margins in the Commercial Facilities Business. Before the COVID-19 pandemic, orders for hotels were running at over 100 billion yen annually. Customers' willingness for opening hotels is recovering, and we are seeing some definite signs of demand, which we will be sure to tap into.
- Lastly is restructuring in the domestic Single-Family Houses Business. We are working to improve margins by increasing the proportion of the built-for-sale houses business.

【Q2】

You reduced your full-year forecasts for contracting gross profit margins in the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business. Could you please touch on the likelihood of GPMs recovering and your initiatives?

(Reference) Financial Highlights:

P.32-33 "Commercial Facilities Business"

P.34-35 "Logistics, Business & Corporate Facilities Business"

【A】

- We do not see the current order environment as bad. We want to ensure profits while explaining to customers at the time of contract that material prices might increase.
- Turning to orders in the Commercial Facilities Business, intentions to open stores are recovering after declining during the pandemic.
- The transport industry faces a serious issue in the "2024 Problem." We expect demand for logistics facilities to emerge outside the Tokyo metropolitan region as restrictions on working hours come into effect. Proposals involving land in regional areas are something we have specialty. We aim to tap into regional logistics demand in collaboration with Fujita, which has strengths in land readjustment projects.

【Q3】

In what sort of sectors do you plan to invest in Japan in the future?

You lowered your full-year capex forecast for the Logistics, Business & Corporate Facilities Business by 30 billion yen. Could you please share your thoughts on future investments such as purchase and resale of logistics and commercial facilities?

(Reference) Presentation on Management Policies:

P.11 “Expand Our Circular Value Chain② Commercial Facilities Business”

Financial Highlights: P.37 “Capital Investments”

【A】

- Regarding logistics facilities, we have had chances to make acquisitions, but decided we did not need to be involved if it would be declining margins, so did not proceed with such deals. It varies case by case. However, given the “2024 Problem” faced by the transport industry and burgeoning e-commerce demand, we expect ongoing demand for logistics facilities, and continue to purchase land parcels.
- Turning to logistics facility development, we can provide end-to-end construction, tenant leasing, and property management services within the group, and the resultant price negotiation capability of rents is one of our strengths. I believe that customers greatly appreciate the fact that our group’s logistics facilities do not have vacancies, or if they do, they are quickly re-tenanted.
- We are also involved in data centers and public wholesale markets.
- In commercial facilities, we continue our purchase-and-resale and value adding activities in aging properties. We have relationships with a huge number of tenants, enabling us to review an entire facility. At a project called ALPARK in Hiroshima, we increased value at a facility we purchased from another company and have attracted a variety of tenants, resulting in an extremely good property. We would like to increase the number of such initiatives going forward.

【Q4】

Regarding the overseas business, please tell us about your future initiatives in the Asian region.

(Reference) Presentation on Management Policies:

P.16 “Accelerating Growth Through Overseas Business④

Expansion of Business Portfolio and Enhancement of Regional Corporate Functions”

【A】

- We are running a business in China, while remaining aware of a certain risk value. Currently, we are receiving new business enquiries from various quarters. We will consider new projects while carefully monitoring the progress of individual projects currently underway. As a consequence, there will be volatility in sales and profit year by year. In the Chinese market, there is an issue with construction projects being interrupted, but we pay our construction workers reliably, and work to meet our construction schedules, so are confident in conducting our business.
- In Southeast Asia, we are in the condominium business in Vietnam, and sold the whole business after making good progress. However, at some time in the future when there is demand for condos among the middle- and upper-income demographics and preference for quality houses in Southeast Asia, we would like to re-enter the market. Currently, we are at the stage of building up our strengths with just minor investments.
- In Indonesia, we are focusing on logistics facilities. Due to prospects of significant population growth there, our aim is to provide logistics facilities that can handle frozen and refrigerated produce, one of our specialties, to deliver safe, secure food to dinner tables.

【Q5】

You booked an extraordinary profit of about 40 billion yen in the latest results. Is there any possibility you will announce a fresh share buyback in light of this?

(Reference) Presentation on Management Policies:

P.6 “The Progress of the 7th Medium-Term Management Plan”

【A】

- Under the shareholder returns policy set out in our 7th Medium-term Management Plan, we have a dividend payout ratio of at least 35% and are executing flexible share buybacks. We already announced a share buyback in May.
- My first priority as a manager is operating income. We will work to achieve our target of ROE of at least 13% by looking into reconfiguring our business portfolio and maximizing profit, in addition to shareholder returns and share buybacks.

【Q6】

In the Condominium Business, the stock of completed condominiums has declined from nearly 1,500 units at end-FY2020 to about 700 units currently. Please give us your thinking on future profit growth in the Condominium Business. Also, please tell us about expansion of the built-for-sale houses business in the Single-Family Houses Business.

(Reference) Presentation on Management Policies:

P.26 “Value Co-Creation in the Single-Family Houses Business (Topics)”

P.28 “Value Co-Creation in the Condominiums Business (Topics)”

【A】

- In the Condominium Business, reducing the stock of completed condominiums was one issue we are addressing, and we are near our target of about 500 units. We have reformed the business with innovative sales methods and outside support, and I sense we’re on the right track. Meanwhile, we are working on a wide range of businesses, including rebuilding projects and the purchase-and-resale business. We are continuing to invest with a view to improving profitability.
- Turning to strengthening our built-for-sale houses business in the Single-Family Houses Business, we are seeing results in Kyushu, where the business rollout is more advanced, and have forecast when we can turn a profit. Going forward, we plan to expand our initiatives throughout Japan, and are looking to build the optimal mix of contracting and build-for-sale business, taking into account the different attributes of various regions.
- In the Single-Family Houses Business, I have the impression that there is extremely fast progress in using subsidies for ZEH housing. According to a questionnaire, Generation Z people are willing to invest as much as an extra 12% for environmentally friendly housing. Except for a few regions, all buildings we build have solar power equipment installed in principle, and in the future, we intend to propose and provide buildings that satisfy increasing environmental awareness. In addition, there are enhanced economic stimulus measures such as subsidies for eco-friendly houses that apply to renovation and purchase-and-resale businesses. We intend to further expand our businesses by skillfully taking advantage of such tailwinds.

【Q7】

Which do you prioritize, the debt/equity ratio or ROE?

(Reference) Presentation on Management Policies:

P.6 “The Progress of the 7th Medium-Term Management Plan”

【A】

- I am keenly aware of the difficulty of managing with a focus on both D/E ratio and ROE, but this is also something deeply interesting as an executive. We are working to achieve an ROE of at least 13% and a D/E ratio of 0.6 times as set out in our 7th Medium-term Management Plan.

- The D/E ratio figure is something we should adhere to, but we also do not want to miss any growth investment opportunities.

【Q8】

Please let us know about the current situation of real estate development investment and the future outlook.

(Reference) Presentation on Management Policies: P.7 “Capital Policy and Shareholder Return”

【A】

- Progress on real estate development investment is set out in our briefing materials. In anticipation of rising interest rates, we have already lifted an internal investment benchmark we use, the internal rate of return (IRR). Even in these circumstances, there are plenty of new projects in front of our Business Investments Committee.

- The Business Investments Committee basically meets twice a month, and the next one will consider four proposals, three of which are commercial facilities. There was a time when real estate development investment cooled off in the Commercial Facilities Business, but even now, with prospects of higher interest rates, we are getting enquiries about opening stores from a variety of different sectors.

- Going forward, if there is an interest rate upswing, we believe that our differences with other companies in funding costs will come into play, and we think this will provide significant opportunities to purchase land.

【Q9】

Could you break down sales in the Livness business between residential and non-residential?

(Reference) Presentation on Management Policies: P.10-12 “Expand Our Circular Value Chain”

【A】

- In 1H, the Livness business (which is mainly engaged in renovation and purchase and resales) booked sales of about 172 billion yen. This included approximately 80 million yen from renovation (including non-residential). Its sales are smaller than the residential sector, but sales in the non-residential sector (Commercial Facilities business and Logistics, Business & Corporate Facilities business) were about 47 billion yen.

【Q10】

Please tell us about the impact of inflation on the Commercial Facilities businesses and Logistics, Business & Corporate Facilities businesses.

【A】

- We want to pass through the impact of inflation through to rents in logistics facilities and other areas. Costs such as personnel are rising in property management services. We would like to curtail the impact of inflation by explaining matters such as this carefully to our customers.

【Q11】

In the latest results, you booked an extraordinary gain on the sale of a portion of your Daiwa House REIT investment units. Can you please let us know if your net income forecast for the final year of your medium-term plan includes any extraordinary gains?

(Reference) Presentation on Management Policies:

P.6 “The Progress of the 7th Medium-Term Management Plan”

Financial Highlights: P.10 “Summary of Profits (1)”

【A】

- Our medium-term plan does not incorporate any extraordinary gains.

- Note that the sale of the resort business was not aimed at generating extraordinary gains. We decided to transfer the resort business to the best owner in order to revitalize the regions as part of portfolio optimization. The sale of the Daiwa House REIT investment units was to enhance shareholder returns and to raise funds for growth investments such as logistics facilities.

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