Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2023 2Q
(For the fiscal year from April 1, 2023 to September 30, 2023)

Date & time: From 16:00 to 17:00, Friday, November 10, 2023
Presenters: Takeshi Kosokabe, Executive Vice President, CFO
Yuji Yamada, Managing Executive Officer and General Manager of Finance and IR Departments

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【Q1】
Please indicate the recent status of orders received for the US Single-Family Houses Business. Also, please indicate the status of incentives and your forecast for gross margin ratio.
(Reference) Financial Highlights P.25-26 “Single-Family Houses Business”

【A】
-Orders received for the US Single-Family Houses Business were favorable between January and July, trending at around 500 to 600 houses per month. Due in part to the impact of rising housing loan rates, orders received from August onward decelerated slightly but still are outperforming results from the previous fiscal year. From October onward, while there are regional differences, cancellation rates increased slightly but current long-term interest rates in the US are leveling off so we do not see conditions as requiring significant concern.
-Looking at 2Q results, the gross margin ratio for the Single-Family Houses Business overall was 18.4%, a 2.3pt decline compared to the previous year. Of that, Stanley Martin Holdings, LLC, which is engaged in the Single-Family Houses Business in the US, worsened by 1.4pt. In light of the gross margin ratio during 2Q in Japan and overseas, we revised our full-year target for gross margin ratio downward from the initial 20.2% to 19.1%. However, we do expect that the ratio for US Single-Family Houses Business will improve from 2H onward.

【Q2】
Please discuss the domestic environment for orders received, recent profitability for orders received, and future forecasts.

【A】
-Our view is that the environment for orders received for the Rental Housing Business is firm. In the “monthly contracts” we announce each month, the cumulative total through October was -19% but

this is attributable to changes in the flow for entering into construction contracts. Performance is trending firmly when viewed based on order forms (pre-contract). We are also making steady progress reflecting cost increases into pricing, and we expect the gross margin ratio will improve moving forward.
-On the other hand, the orders received environment for the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business are not bad, but reflecting cost increases into pricing is taking longer than anticipated. While we did conduct a downward revision to full-year targets to reflect the 2Q gross margin ratio, profitability is trending upward for recent orders received that we anticipate recording as sales during next fiscal year. As such, our view is that profitability bottomed out this fiscal year and will improve moving forward.

【Q3】

Please answer the following three questions regarding overseas business.
(1) Reason for postponing sales of overseas rental housing properties this fiscal year
(2) Impact of acquiring the JP Holdings, LCC single-family houses business will have on the current fiscal year
(3) Reason for downward revision to earnings forecast for "Others" under area-specific performance
(Reference) Financial Highlights P.5-6 "Topics," P.36 "Overseas Business"

【A】

(1) After evaluating the transaction market in the US, we determined that the timing was not right for selling properties. Occupancy rates are trending firmly so we plan to earn income gains and sell based on a timing that allows us to maximize profit.
(2) The impact on earnings this fiscal year will be minor and we expect contributions from next fiscal year. Based on the company's FY2022 results, this will be roughly net sales of 30 billion yen and operating income of 2 billion yen.
(3) "Others" for overseas business mainly refers to the European area. This is due to the anticipation of valuation losses on a specific property. As such, this is a transitional minus factor.

【Q4】

Does the partial selloff your stake in Daiwa House REIT Investment Corporation represent some change in your policy concerning the company?
(Reference) Financial Highlights P.5 "Topics"

【A】

-There is no change in our policy. As we have thus far, we will continue to provide diverse sponsor support for Daiwa House REIT, the only J-REIT in the Daiwa House Group, including the allocation of preferential negotiation rights.

【Q5】

What is the reason for the revision of the full-year plan for the sale of development properties? (Reference) Financial Highlights P.20 “Sale of Development Properties: Results and Forecasts”

【A】

-During 2Q, we replaced properties planned for sale. Also, we were able to sell off properties at higher-than-expected prices. In light of this, we conducted an upward revision to our full-year target for operating income.

【Q6】

It appears that you have not reflected the impact of actuarial differences on retirement benefits in your full-year plans. Please discuss the current situation. Also, it seems that profitability is declining for bond investment management but has there been any impact on your company?

【A】

-At the end of September, valuation profit was roughly 19 billion yen. Bonds represent a relatively low percentage of our pension assets so there has been almost no negative impact.

【Q7】

Please give us any comments at this time on how you see the Company's performance for the next fiscal year.

【A】

-We will continue to aim to increase net sales and operating income in the next fiscal year.

-Looking a segment-specific results, we are in the midst of advancing reforms for the Single-Family Houses Business. Although conditions remain difficult when viewed in terms of the status of monthly contracts, we are strengthening the built-for-sale business with the aim of reducing fixed costs. With the Rental Housing Business, we continue to have expectations for the construction business and the rental and management business. The Commercial Facilities Business and the Logistics, Business &

Corporate Facilities Business are businesses in which we have a strong competitive advantage, and we will apply our strengths towards improving the gross margin ratio and expand business during the next fiscal year. Like other general contractors, the gross margin ratio for Fujita, the midsized general contractor operating in the Logistics, Business & Corporate Facilities sector, is currently declining but we expect to see improvement from next fiscal year and beyond.

【Q8】

Please discuss your approach to shareholder returns as you aim to achieve the ROE of 13% or higher outlined in your 7th Medium-Term Management Plan.

(Reference) Financial Highlights P.22

"Business Performance Forecasts for FY2023 (2) Shareholder return"

【A】

-Since announcing the purchase of treasury stock in May, performance has been favorable and our stock price is trending firmly, so the purchase of treasury stock has not advanced beyond plans. On the other hand, it is our view that we will need to strengthen shareholder returns as we aim to achieve an ROE of 13% or higher. Whether this will entail returns in the form of purchasing treasury stock or dividends is something about which we plan to discuss internally in the future.

【Q9】

Please discuss the status of material prices and land procurement. Also, what impact will the Qualified Invoice System have on earnings and what is your outlook on future labor expenses?

(Reference) Financial Highlights P.19 "Status of Real Estate Development Investment"

【A】

-Material prices remain high. We continue to engage in Group centralized purchasing as an initiative for lowering costs but conditions are such that controlling price hikes are producing a greater benefit.

-Land procurement is not proceeding as anticipated. Real estate development investments for the past six months have been 117.7 billion yen. We are seeing cases of being outbid by other companies at the onset of bidding.

-There is a transitional period of six years for the Qualified Invoice System but we believe the impact will be on the level of several hundred million yen. Our view is that no specific segment will be significantly impacted.

-We will continue to be impacted by worker shortages, and expect that labor costs will increase moving forward. However, we do not expect to see sudden spikes that would have a significant impact on performance.

【Q10】

Can we expect a further increase in the average daily rate (ADR) of Daiwa Roynet Hotels?

(Reference) Financial Highlights P.32 “Commercial Facilities Business (1) Results”

【A】

-Occupancy rates as of the end of September 2023 were at 87.7%, slightly lower when compared to before COVID-19. However, ADR is significantly higher at 11,483 yen. As costs are increasing, the current RevPAR situation is such that income is below what it was before COVID-19. We anticipate that further increasing ADR will lead to additional improvement.

【Q11】

Looking at the “monthly contracts,” cumulative results for October in the Commercial Facilities Business were down by 15% when excluding the sale of development properties. Please discuss if there have been any changes in the orders received environment and purpose-specific orders received.

(Reference) Monthly Contracts for October 2023

【A】

-The environment for orders received in the Commercial Facilities Business is not worsening. Looking at buildings by purpose, in the retail sector drug stores and food supermarkets remain firm. Looking at non-retail sectors, nursing care facilities, industrial offices, and distribution centers were firm. As for hotels, although no contracts have been finalized, inquiries are increasing.

-We are strengthening the built-for-sale business in the Commercial Facilities Business, and the ratio of such projects is increasing. Unlike the construction business, where we record orders received (contracts) prior to construction, property sales in the built-for-sale business entails our Company first procuring land and constructing a building before recording an order received or sales. As such, although contract performance trends in the negative direction, we also take into account the fact that there is a time lag prior to recording contracts.

【Q12】

Please discuss the scheme and other details related to the November 9 article in the Nikkei titled, “Investing 50 billion yen in Hotels”.

【A】

-Target hotels are Daiwa Roynet Hotels. We are planning on investing 50 billion yen for new construction as well as for repairs to deteriorating hotels. There are some regions in Japan where we have no presence so we will consider new openings.

-Under the conventional scheme, we typically built a property on leased land, sold that property to a lease company, and then Daiwa Roynet Hotels would leaseback the property. Since there will be changes in lease accounting standards, we are currently evaluating which scheme we will apply moving forward.

【Q13】

Please provide details on the status of orders received in the Single-Family Houses Business and Rental Housing Business in the US.

【A】

-Looking at cumulative progress for January through September, orders received for the US Single-Family Houses Business were at 82.3% of the 5,866 units outlined as our full-year target. Twelve-month performance for the previous fiscal year was 4,590 units.

-With the US Rental Housing Business, orders received are recorded during the same period as the sale since the business's main operations are the sale of developed rental housing properties.

【Q14】

On the subject of real estate available for sale, the NOI yield for logistics facilities declined by 0.6pt compared to 1Q. Please indicate the reasons for this and discuss the status of leasing. Also, please indicate if you have a forecast for year-end NOI yield.

(Reference) Financial Highlights P.17-18 "Breakdown of Investment Real Estate"

【A】

-The cause of the decline was the sale of properties and the replacement of newly opened properties.

-Currently, supply volume for logistics facilities is increasing. Two or three years prior, properties were operating at near full capacity at the point of construction completion, but more recently, some properties take nearly a year to reach full capacity. On the other hand, we have been able to confirm firm demand from tenants.

-At present, we have not yet estimated forecasts for year-end NOI yield.

【Q15】

Please discuss the cause for the downward revision to forecasts for the Single-Family Houses Business in Australia and your forecast for next fiscal year.

(Reference) Financial Highlights P.26 "Single-Family Houses Business (2) Overseas Business"

【A】

-The housing market in Australia has yet to achieve recovery and conditions remain difficult. We currently are advancing management reforms aimed at the rehabilitation of our local Group company Rawson Group Pty ltd.

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