Financial Results, Corporate Information

Chapter 8

Chapter 8 Financial Results, Corporate Information

Management's Discussion and Analysis of Financial Position and Results of Operations

[MD&A summary]

Note: This section analyzes the financial position and results of operations during the ten fiscal years from fiscal 2012 to fiscal 2021. For the list of financial data, see "Financial Highlights" on pages 115 and 116.

I. Financial position

Financial condition

Total assets as of the end of fiscal 2021 increased by ¥468.6 billion from the end of fiscal 2020 to ¥5,521.6 billion. This was mainly due to the increase in inventories following the purchase of real estate for sale, and the increase in property, plant and equipment resulting from the acquisition of investment properties in Single-Family Houses and Condominiums segments.

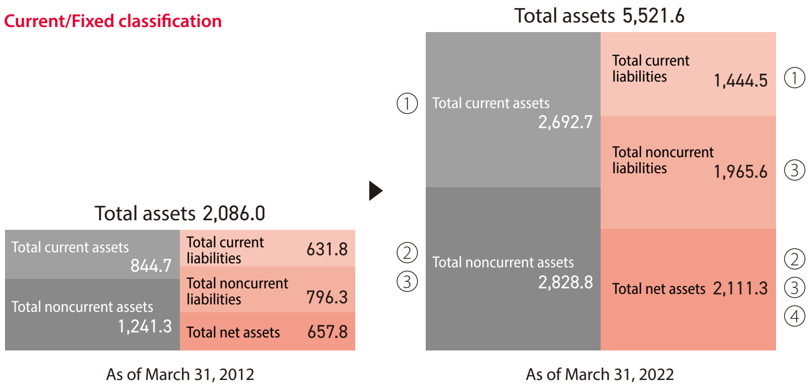
Total liabilities increased by ¥250.7 billion from the end of fiscal 2020 to ¥3,410.2 billion. This was mainly due to fund raising through borrowing and bond issuance for the purpose of acquiring inventories and investment properties.

Total net assets increased by ¥217.8 billion from the end of fiscal 2020 to ¥2,111.3 billion. This was mainly because a net income attributable to owners of the parent of ¥225.2 billion was recorded, which offset the ¥79.2 billion in dividends paid to shareholders.

The balance of interest-bearing debt (excluding lease obligations) increased by ¥150.5 billion from the end of fiscal 2020 to ¥1,425.4 billion. Thanks to internal reserves and the fiscal 2013 capital increases, the debt-equity ratio improved for a time from 0.58 at the start of fiscal 2012, but at the end of fiscal 2021 had risen to 0.61*1. At ¥1,562.4 billion, inventories account for the largest proportion of assets. As assets are expected to grow in the future due to the acquisition of inventories and investment properties, we will seek to maintain financial health by verifying the optimal capital structure.

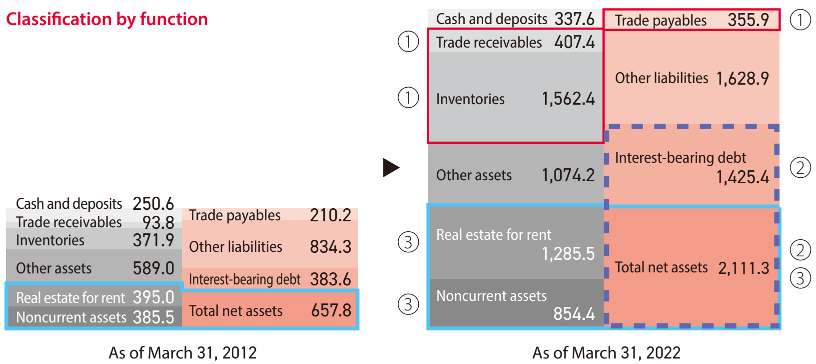
Figure 1 **Comparison of balance sheets** (¥ billion)

Current/Fixed classification



① The current ratio increased from 133% to 186%.
② The fixed ratio dropped from 188% to 140%.
③ The ratio of fixed assets to long-term capital dropped from 85% to 71%.
④ Net assets excluding non-controlling interests grew from ¥657.1 billion to ¥2,020.1 billion.

Classification by function



① Working capital (Trade receivables + Inventories - Trade payables) increased from ¥255.5 billion to ¥1,613.9 billion.
② Interest-bearing debt (excluding lease obligations) increased from ¥383.6 billion to ¥1,425.4 billion. As a result, the debt-equity ratio increased from 0.58 to 0.61 (after taking the hybrid financing into account).
③ The ratio of real estate for rent and noncurrent assets to net assets excluding non-controlling interests fell from 1.18 to 1.05 while real estate for rent increased.

*1 Calculated by taking into account the 50% equity credit in the hybrid financing (¥150 billion in hybrid bonds (subordinated bonds) issued in September 2019 and ¥100 billion in hybrid loans (subordinated loans) taken out in October 2020).

II. Cash flows

Basic approach

The basic approach to cash management is to invest in line with the amount of cash generated by business operations. With regard to attractive investment opportunities, investment is structured to include externally raised capital because of the need to actively pursue such opportunities. While this will result in the debt-equity ratio sometimes exceeding 0.5, we seek to balance investment in growth with financial soundness by controlling the level of interest-bearing debt to maintain a ratio of about 0.5 over the medium to long term. Note, however, that our Seventh Medium-Term Management Plan revised the criterion for financial discipline to a debt-equity ratio of about 0.6.

Cash flow condition

Cash flows from operating activities during fiscal 2021 decreased by ¥93.8 billion from fiscal 2020 to ¥336.4 billion. The ratio of cash flows from operating activities to net assets excluding non-controlling interests has been approximately 17% which is a decrease of 6 points from fiscal 2020's 23%. This was mainly due to the purchase of real estate for sale and the payment of corporate income tax, which offset the ¥353.3 billion recorded in income before income taxes.

Cash flows from investment activities were - ¥467.4 billion, due to the acquisition of real estate for rent, etc. and the implementation of the ¥317.8 billion investment into the real estate development business based on the investment plan under the Sixth Medium-Term Management Plan. As a result, free cash flows (cash flows from operating activities + cash flows from investment activities) were - ¥130.9 billion, while cash flows from financial activities were ¥24.4 billion due to fund raising through borrowing and bond issuance for the purpose of acquiring inventories and investment properties.

As a result of the above, the balance of cash and cash equivalents at the end of fiscal 2021 was ¥326.2 billion, a decrease of ¥90.0 billion from the end of the previous fiscal year.

Figure 2 Cash flows

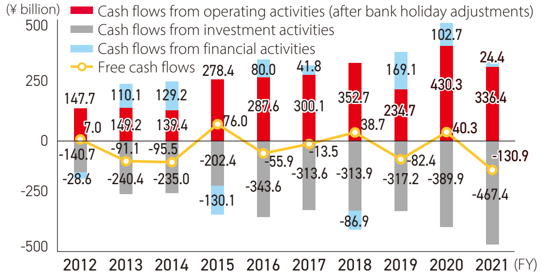
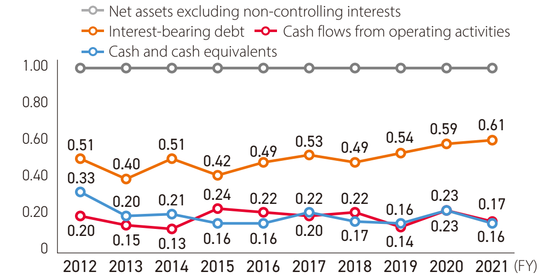


Figure 3 Indices to net assets excluding non-controlling interests (as a ratio where net assets excluding non-controlling interests is equal to 1)



Note: Since FY 2019, interest-bearing debt has been shown as an index after taking the equity of hybrid financing into account.

Enterprise value/Ability to generate cash

Our ability to generate cash was maintained despite the impact of COVID-19 as earnings before interest, taxes, depreciation and amortization (EBITDA)*2 as an indicator of ability to generate cash were ¥483.5 billion. We will further enhance the ability to generate cash and improve enterprise value by continuing the policy of maintaining interest-bearing debt at a certain level and aggressively investing in favorable investment projects, as well as by developing new revenue streams.

The enterprise value (EV)*3 at the end of fiscal 2021 was ¥3,220.4 billion, the sum of the market capitalization of ¥2,132.6 billion and the net interest-bearing debt (excluding lease obligations) of ¥1,087.7 billion. The EV/EBITDA ratio, as an indicator of enterprise value to the ability to generate cash, was 6.7 as of the end of fiscal 2021.

*2 Earnings before interest, taxes, depreciation and amortization (EBITDA) = Operating income + Depreciation

*3 Enterprise value (EV) = Market capitalization + Net interest-bearing debt

Figure 4 Earnings before interest, taxes, depreciation and amortization (EBITDA)/Operating income

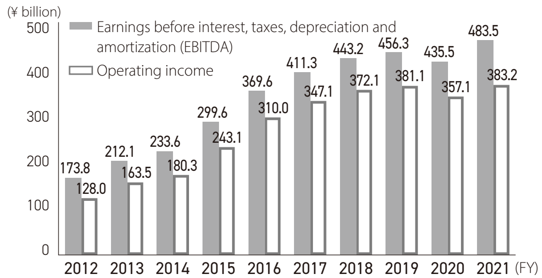
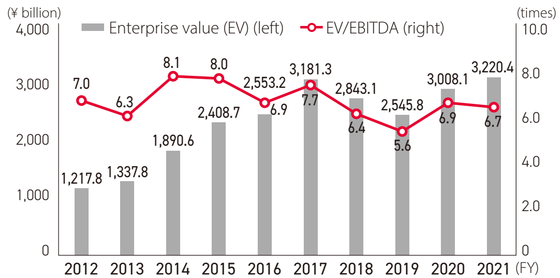


Figure 5 Enterprise value (EV)/EV/ EBITDA



III. Profits and losses

Net sales/Total asset turnover ratio

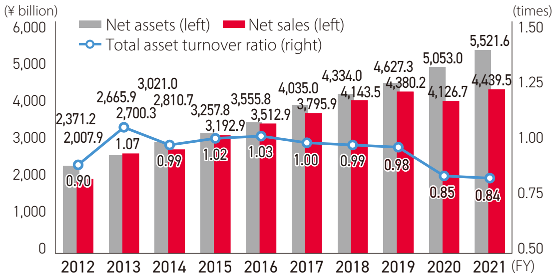
Net sales amounted to ¥4,439.5 billion and the average growth rate for the period of ten years starting from fiscal 2012 was 9.2%.

In terms of the total asset turnover ratio*4, it had been around 1.0 in the years from fiscal 2012 to fiscal 2019, but in fiscal 2021 it declined due to the ongoing impact of COVID-19 leading to decreased sales in some businesses such as hotels and sports facilities operation, and the implementation of active investment in real estate development accompanying the increase in opportunities for investing in business facilities, centering on logistics facilities.

To improve the turnover ratio, we will continuously seek to ensure the effective utilization of assets through measures that may include encouraging the sale of inventories and also selling investment properties and cross-shareholdings while maintaining a balance between the stock business and the flow business.

*4 Average during the fiscal year.

Figure 6 Net sales/Total asset turnover ratio

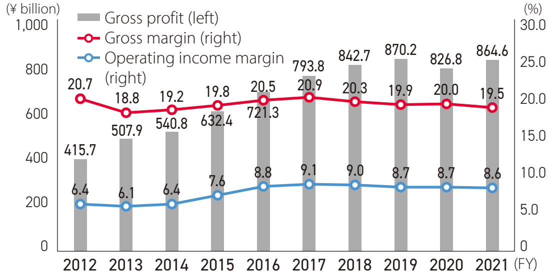


Gross profit/Operating income margin

Gross profit amounted to ¥864.6 billion and the average growth rate for the period of ten years starting from fiscal 2012 was 8.5%. The gross margin decreased by 0.5 points from the previous fiscal year to 19.5%. Operating income was ¥383.2 billion and the average annual growth rate for the period from fiscal 2012 was 13.0%.

The operating income margin was 0.1 points down from the previous fiscal year, at 8.6%. While the cost-of-sales ratio decreased by 0.5 points due to the rising cost of construction materials and labor, we were able to continue to raise sales per employee through improved productivity, among other means, and thereby push down the SG&A ratio. In this way, we will strive to prevent the operating income margin from decreasing substantially.

Figure 7 Gross profit/Operating income margin



Return on invested capital (ROIC)/Return on equity (ROE)

Net operating profit after tax (NOPAT)*5 was ¥266.0 billion and return on invested capital (ROIC), a ratio of NOPAT to the invested capital (= Net assets excluding non-controlling interests + Interest-bearing debt) of ¥3,278.4 billion*6, was 8.1%.

Under the Company's Sixth Medium-Term Management Plan, one of our business objectives was to earn an ROE of 13% or more. Since we are expanding our businesses by means of loans and the like where the debt-equity ratio of 0.5 is used as a guide, we make a conscious effort in our business investments to ensure that the return on the total invested capital will exceed the weighted average cost of capital (WACC), which is the weighted average of the cost of shareholders' equity and cost of liabilities. We will seek to maintain and improve the return on equity (ROE), a ratio of net income to shareholders' equity by maintaining and improving the ROIC.

*5 Net operating profit after tax (NOPAT) =
Operating income × (1 - Effective corporate income tax rate)
*6 Average during the fiscal year.

Figure 8 Return on invested capital (ROIC)

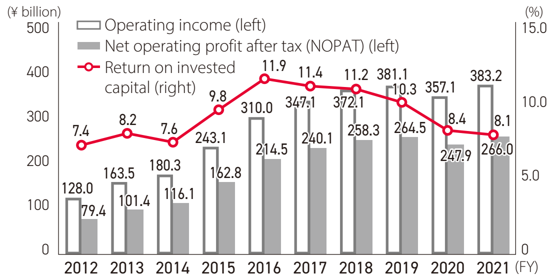
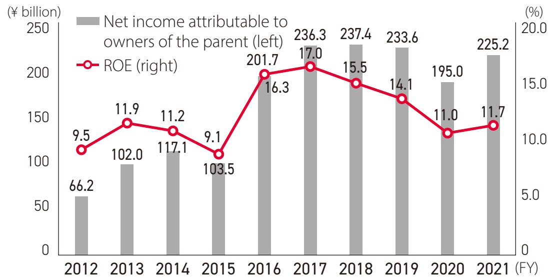


Figure 9 Net income attributable to owners of the parent/ROE



Note: By changing the discount rate used to calculate retirement benefit obligations from 1.7% to 0.8% in fiscal 2015, the Company posted extraordinary losses of ¥84.9 billion. As a result, the ROE dropped by approximately five points.

[Business segments]
Single-Family Houses | Rental Housing | Condominiums | Existing Homes | Commercial Facilities | Logistics, Business and Corporate Facilities | Other Businesses

IV. Business results by segment

Growth potential analysis

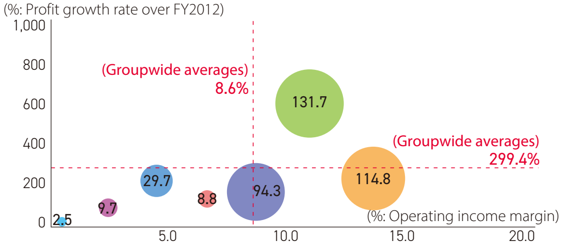
The profit growth rate for fiscal 2021 over fiscal 2012 showed an over six-fold increase in Logistics, Business and Corporate Facilities segment, an over two-fold increase in Commercial Facilities and Single-Family Houses segments.

Since the Rental Housing segment had been already at a high level of profit ten years ago, its profit growth rate over fiscal 2012 was relatively low, but remained at a high profit rate.

One of the Company's strengths is its ability to make business proposals that leave no gaps between the business areas. As society changes at an accelerated pace, we anticipate that multiple products and services held by individual business segments will be combined in order to cope with diversified construction needs and that there will be a further increase of new business opportunities through business development in peripheral areas.

In order to ensure that these new markets will lead the company-wide growth rate, we will make an effort to grow in view of a balance with overall profitability.

Figure 10 [Business segments] Operating income/ Operating income margin/Profit growth rate over FY2012



Note: The size of the circle depends on the relevant amount of operating income (¥ billion) for FY2021.

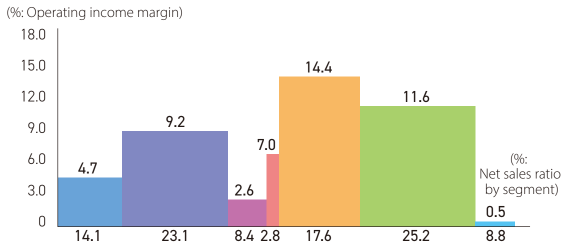
Profitability analysis

In terms of operating income, three segments, Rental Housing, Commercial Facilities, and Logistics, Business and Corporate Facilities, accounted for 80% of the total.

The Existing Homes segment constituted 2.8% of net sales, but its profit rate and capital efficiency were high (Figure 12). We are making active use of "Livness", the group-wide brand that we launched primarily for the existing homes market, a sector where market growth is anticipated.

In terms of Single-Family Houses and Condominiums segments, we will seek to improve their profit rates by selecting areas and clarifying targets as new housing starts are decreasing in number due to falling population.

Figure 11 [Business segments] Operating income margin/ Net sales ratio by segment (FY2021)

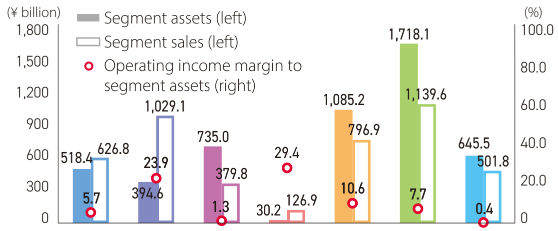


Operating income margin to segment assets

The Existing Homes, Rental Housing, and Commercial Facilities segments showed higher operating income margins to segment-specific assets.

In the Logistics, Business and Corporate Facilities segment we are making aggressive investments to address the rapidly growing market for logistics facilities. The current return on assets is at a low level because we are progressing with construction investment in land we have acquired, but this segment is expected to significantly contribute to cash flows at the time of payback in the future.

Figure 12 Operating income margin to segment assets (FY2021)

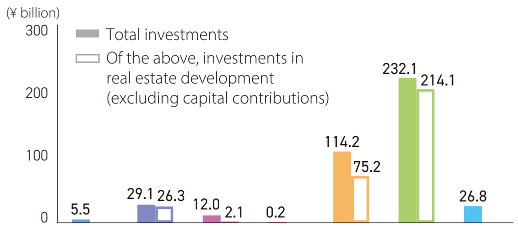


Note: Segment assets are averages during the fiscal year.

Investments in businesses

With regard to investments in businesses, we are aggressively investing in the Logistics, Business and Corporate Facilities segment, which is highly profitable and shows a high growth rate. We are also investing in the Commercial Facilities and Rental Housing segments, both of which are the second-most profitable. In addition, investments in new businesses and overseas businesses, etc. are being made to develop new revenue streams through the use of funds generated by the above-mentioned core segments.

Figure 13 [Business segments] Total investments (FY2021)



V. Investments

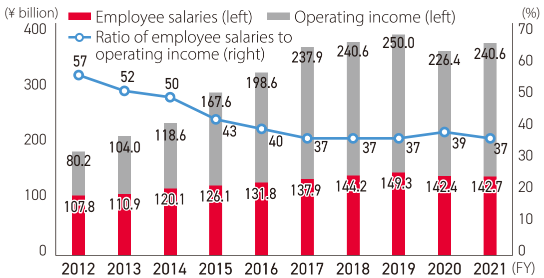
Investments and returns for employees

One of the essential elements for sustaining growth is to invest in the development of human resources and to maintain and improve the living environment of employees. The human resources development costs*7 for fiscal 2021 were ¥430 million (on a non-consolidated basis), and still 16% up from fiscal 2012 (Figure 15). Employee salaries on a non-consolidated basis increased by ¥34.9 billion from fiscal 2012 (an average increase of 11% or ¥846,000 per employee).

Meanwhile, the ratio of employee salaries to operating income*8 decreased from 57% in fiscal 2012 to 37% in fiscal 2021, and the growth rate of profits significantly exceeded the rate of increase in personnel costs. As a result, we have successfully secured funds for growth investments and increased returns to shareholders, and will actively promote investments in human resources, which are the most important source for growth.

*7 Personnel costs on training, etc. + Transportation costs on training
*8 Employee salaries/(Operating income + Employee salaries)

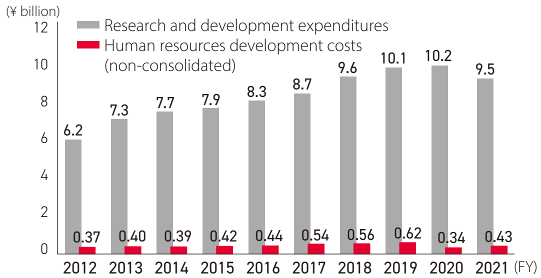
Figure 14 Ratio of employee salaries to operating income (non-consolidated)



Investments in research and development (R&D)

R&D expenditures in fiscal 2021 were ¥9.5 billion, of which ¥4.1 billion was for the housing business, ¥5.3 billion for the construction business and other businesses. Our research and development activities range from basic and applied research to the development of new technologies and new products, and further to utilization and verification of these new technologies in architectural structures and urban development.

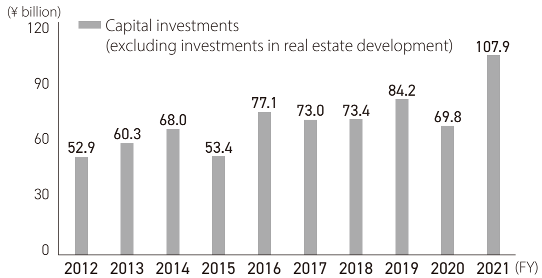
Figure 15 Research and development expenditures/Human resources development costs



Capital investments

Capital investments of ¥107.9 billion (excluding investments in real estate development) were mainly for constructing logistics facilities in anticipation of rising demand for logistics arising from the growth of e-commerce and other changes in consumer activity, and for constructing electric power generation systems driven by renewable energy for the realization of a carbon-free society. We also replaced production lines in plants to increase production efficiency and renovated plant facilities. Well-planned investments in production lines are carried out based on market trends, order trends, and other factors. With regard to major assembly processes in particular, which are a significant element affecting the cost-of-sales ratio and quality improvement, we will work on further increasing the rate of automation.

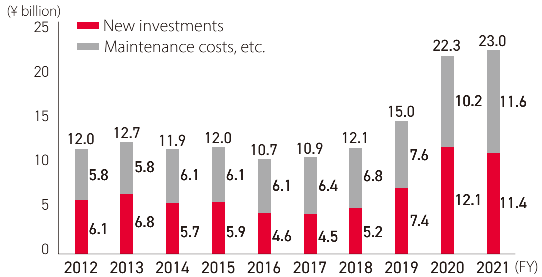
Figure 16 Capital investments (excluding investments in real estate development)



IT-related investments

IT-related investments involve significant elements that may lead to revenue increases and cost reductions in the future, such as through the enhancement of added value in products and services, through utilization in marketing, and through the achievement of higher efficiency in production processes and operations. Therefore, we will actively work on such investments by combining the injection of more funds with the improvement of the organizational structure.

Figure 17 IT-related investments



Environment

E Efforts at Environment

Overall picture

Four themes

Mitigating and adapting to climate change	Harmony with the natural environment (Preservation of biodiversity)
Closed-loop resource sourcing and conservation of aquatic environments (Greater durability and waste reduction)	Prevention of chemical pollution

×

Three phases


ZEH single-family houses (image)


ZEH-M rental housing


DREAM Solar Natsumidai III (Nara Prefecture)


An office building embodies the ZEB concept

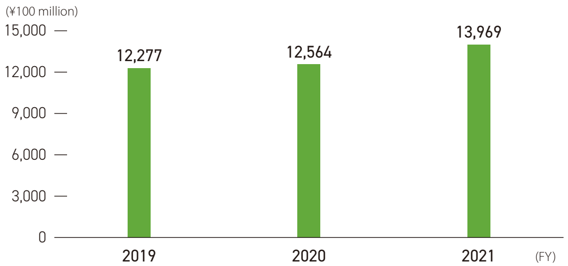
General

1 Promoting development and dissemination of environmentally conscious products and services

Viewing environment as a future business opportunity, we designated sales of environmental contribution business as a key management indicator, to clearly and quantitatively publish our stance that we contribute to the environment through our business and make environmental stewardship an added value to our businesses. Each company and division sets sales targets and does its best to achieve them. In fiscal 2021, we focused our efforts on popularizing ZEH in the Single-Family Houses Business, as well as ZEB in the Commercial Facilities Business and the Logistics, Business and Corporate Facilities Business. In the Environment and Energy business, we have installed new large-scale solar power plants and executed a number of projects based on the onsite PPA model*1. As a result, sales of the environmental contribution business amounted to ¥1,396.9 billion, with a year-on-year increase of approximately 11%.

*1 A business model in which we set up renewable energy power generation facilities at free of charge on the roofs of facilities owned by clients. The generated energy is supplied directly to their facilities.

Sales of environmental contribution businesses

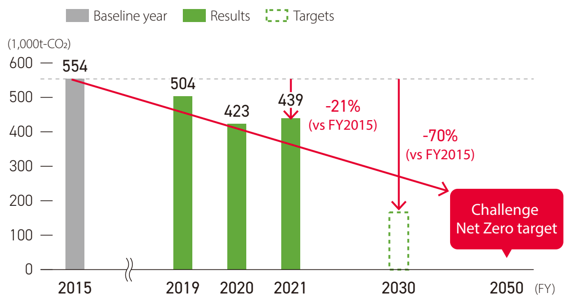


Mitigating and adapting to climate change

2 Reducing greenhouse gas emissions in business activities

We acquired SBT certification, an international initiative for greenhouse gas emissions reduction, to be consistent with the target for keeping global temperature increase well below 2°C, as required by the Paris Agreement. In addition, we joined EP100 and RE100, international initiatives that seek to raise energy efficiency and to increase renewable energy use, respectively, as the world's first-ever construction industry company, and have been accelerating activities in terms of a medium- to long-term vision. We build our new facilities in ZEB specifications as a rule and install on them photovoltaic power generation systems for self-consumption, while working to raise energy efficiency at our existing facilities by systematically investing in energy conservation measures. As a result, greenhouse gas emissions (total) fell 21% from fiscal 2015 levels, and similarly, energy efficiency rose to 1.47 times.

Greenhouse gas emissions (Total)



Mitigating and adapting to climate change

3 Development of renewable energy and expansion of its use

The Group was working to achieve "self-sufficiency in renewable energy" by 2040 to fully cover the power it uses in its business operations with self-generated renewable energy. Now that we made a significant progress toward the goal by fully switching to renewable energy-derived electricity, we decided to attain it by 2023, 17 years ahead of the initial schedule. In fiscal 2021, the 56 new renewable energy power plants were put into operation, making the number of renewable energy power plants operated by the Group 433 sites*[1] across Japan for 565 MW*[1] of power. As a result, the Group achieved a renewable energy generation rate of 131%, and renewable energy utilization rates of the Company on a non-consolidated basis and of the entire Group came to 53.9% and 18.2%, respectively.

*1 Including power consumed internally

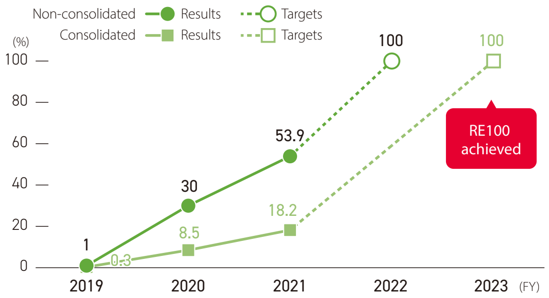
4 Reducing greenhouse gas emissions from use of products

In our Group, greenhouse gas emissions derived from our business activities are as low as 3% for Scopes 1 and 2, and indirect emissions from sources other than our company for Scope 3 account for the majority of 97%. In particular, greenhouse gas emissions generated in the "habitation and usage stage" of houses and buildings which tend to be used over a long period of time account for about 50%. In fiscal 2021 we developed tools to support marketing and design and provided training sessions, which lifted both the ZEH and ZEB sales rates from the previous fiscal year. As a result, greenhouse gas emissions (per floor area unit) declined 34.9% compared with the fiscal 2015 level. Through promoting ZEH sales for rental housing and holding ZEB seminars for customers, we will significantly improve the sales rates of ZEH and ZEB, striving to provide houses and facilities that are both comfortable and energy efficient.

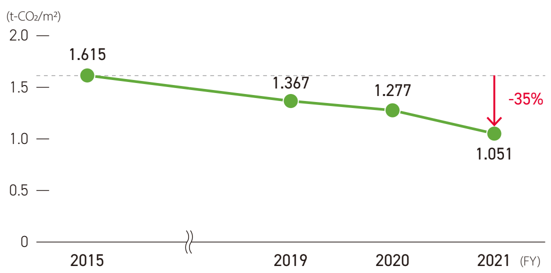
5 Developing and popularizing energy-zero housing and buildings

The Group works to develop and popularize energy-zero housing, rental housing, and buildings. In fiscal 2021, we launched Wood Residence MARE and promoted ZEH homes mainly for made-to-order projects. We held ZEH seminars on a regular basis for our personnel involved in design and sales to hone their ZEH pitching skills. As a result, the share of ZEH sales rose 5 percentage points from the previous fiscal year. We also promoted ZEH-M in rental housing and condominiums, and have developed 35 ZEH-M buildings* as of end-fiscal 2021. In terms of ZEB, we enhanced our ZEB proposals by offering online ZEB seminars and utilizing ZEB estimated cost sheet. These efforts led to a 4.5 percentage points increase in ZEB sales rate in fiscal 2021.

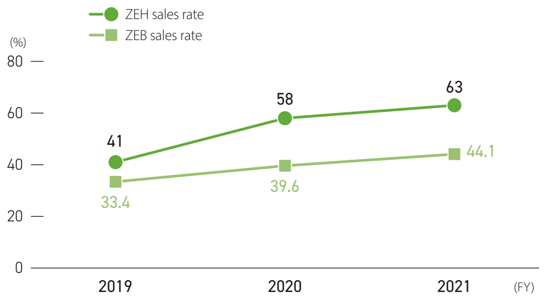
Renewable energy utilization rate



Greenhouse gas emissions from use of products (per floor area unit)



ZEH sales rate/ZEB sales rate



* ZEH: Newly contracted properties (order basis) for single family houses
ZEB: Newly designed and constructed properties (construction start basis) for offices, factories, and warehouses and company-developed properties (D Project)

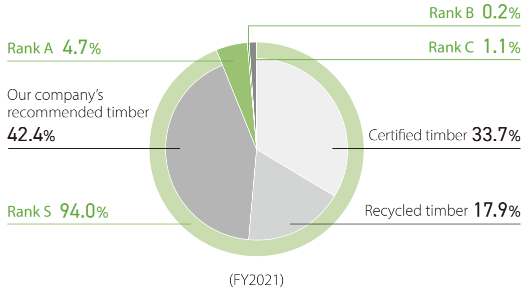
Harmony with the natural environment/Preservation of biodiversity

6 Sustainable timber procurement

The structural materials and interior materials the Group utilizes for houses and buildings involve the consumption of large quantities of lumber sourced from countries of origin located around the world. In an effort to minimize global deforestation, we are encouraging the use of timber that is obtained legally and sustainably through our supply chain. In fiscal 2021, the volume of timber procured from Sarawak, Malaysia increased due to the disruption in timber procurement caused by the global lumber shortage. As a result, our use of C-ranked timber rose to 1.1%, a deterioration of 0.6 percentage points from the previous fiscal year, while the use of S-ranked timber fell to 94.0%, a deterioration of 1.1 percentage points. Going forward, we will adopt the new evaluation criteria consistent with our zero deforestation policy and once again promote efforts to eliminate the use of C-ranked timber.

Note: The Group evaluates and categorizes procured timber into four ranks of S, A, B, and C, according to the evaluation flow of survey results.

Assessment result of procured timber



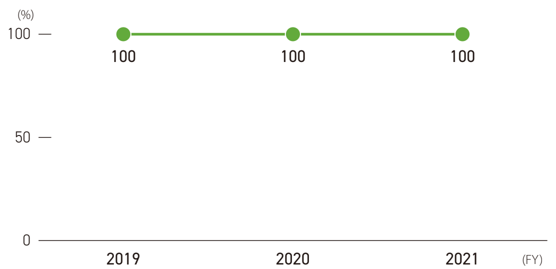
7 Promote the preservation and creation of green spaces in projects and community development

The Group, acknowledging the importance of contributing to the creation of a rich network of ecosystems, remains committed to minimizing its impact on biodiversity through its construction of large-scale real estate developments, housing and buildings in urban areas. We are therefore engaged in projects and community development in keeping with the six points in our guidelines as our voluntary standards. All applicable projects in fiscal 2021 complied with the voluntary standards.

Biodiversity Guidelines: Development & Community Creation

1. Ascertain the potential of the natural environment
2. Preserve and plant greenery
3. Be careful to preserve a sufficient natural environment as a habitat for small animals
4. Take care to create a connected network of habitable environments for the ecosystem
5. Take steps to minimize the environmental impact of construction work
6. Pay adequate consideration to ecological maintenance and management

Compliance with voluntary standards for biodiversity conservation (development)

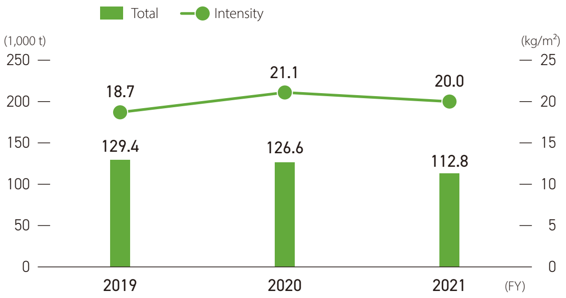


Closed-loop resource sourcing and conservation of aquatic environments

8 Promote 3R activities with construction waste

The Group has established and operates mechanisms for properly managing and recycling the construction waste discharged from the tens of thousands of construction sites created every year. By doing so, we work to mitigate the risk of improper handling of waste, reduce waste emissions and improve the recycling rate. In fiscal 2021, at new construction sites, waste emissions showed a downward trend in both total amount and intensity. Meanwhile, emissions of plasterboard rose due to an increase in construction of nursing care facilities from the last fiscal year, which is apt to generate more waste emissions per floor area unit. Recycling rate for construction waste remained high at 97.7%.

New construction: Waste emissions and Intensity



Closed-loop resource sourcing and conservation of aquatic environments

9 Reduce water consumption

Our Group promotes water consumption reduction activities with a Groupwide target set for the reduction. In fiscal 2021, water consumption increased from the previous fiscal year due to a recovery in guest numbers at resorts, sports facilities, and hotels, which had declined amid the spread of COVID-19. However, water consumption per user decreased at these facilities as we made replacements with water-saving devices. As a result, water consumption per unit of sales in fiscal 2021 declined 46.8% compared with the fiscal 2012 level.

Prevention of chemical pollution

10 Reduce the use of toxic chemicals in production stages

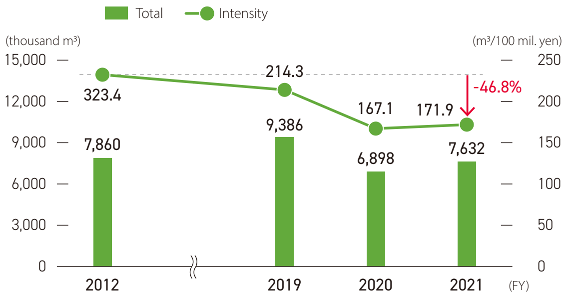
The factories of the Daiwa House Group utilize various chemical substances. In order to minimize the risk of chemical substances in our factories, we are focusing on those chemicals targeted by the PRTR and working to reduce them. In fiscal 2021, we changed some internal work processes, including the scope of coating conducted at our housing factories and welding methods adopted at our construction-related factories. As a result, we reduced release and transfer (per unit of sales) of PRTR-listed substances by 69.3% from fiscal 2012.

Environmental management

11 Develop human resources for environmental management

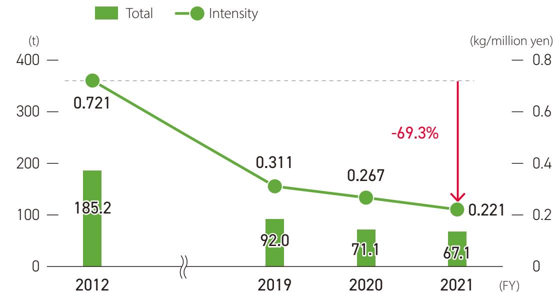
Eco Test certification is a good way to acquire basic knowledge regarding varied and complex environmental issues. We encourage our employees to take the test as part of our efforts to raise environmental awareness. In fiscal 2021, as a result of developing glossaries and prep tests in-house and providing them online as an assistance for test preparation, we had 19,033 certification holders as of end-March, 2022. By linking the certification with the employees evaluations, we aim to have 38,000 Eco Test certification holders across the Group by the end of fiscal 2026.

Total water consumption and unit consumption

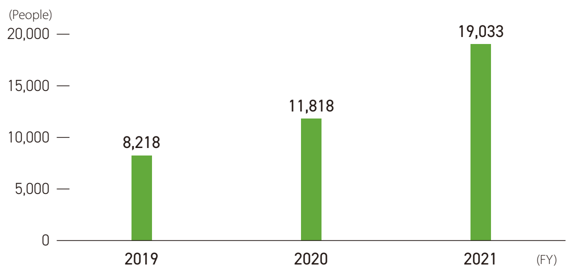


Note: The data has been revised to correct some errors in the overseas water consumption for fiscal 2019 and 2020.

Release and transfer of PRTR-listed chemicals



Number of those who acquired the Eco Test certification (The Group)



Social

S Efforts at Social

Customer base

1 Upgrade corporate communications

In fiscal 2021, we continued our advertising and promotional efforts that started in 2020 under the corporate communication theme of "Grow a new Life."

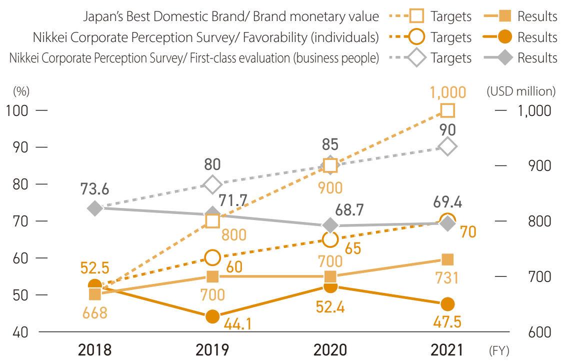
In the year where society was overshadowed by the COVID-19 pandemic, the Company embarked on developing new businesses, products, and services for adapting to New Normal, and Livness Town Project (redevelopment of existing housing complexes) that embodies the value of a sustainable lifestyle. Through these and other initiatives, we pressed forward on active communications that put a spotlight on voices of customers and other stakeholders, seeking to establish the image of our Company that is be of service to society.

2 Promote customer support to maintain long-term relationships

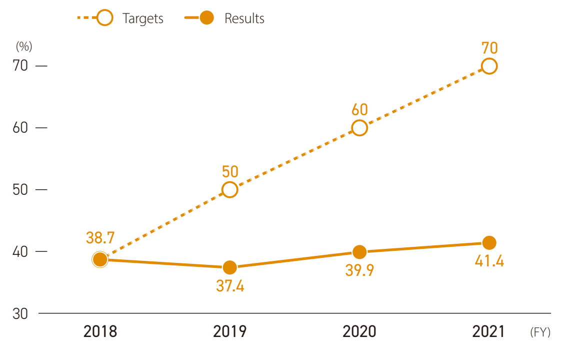
Fiscal 2021 was characterized by efforts to prevent the spread and proliferation of COVID-19, which had continued to impact lives from fiscal 2020, the subsequent establishment of a new type of relationship with customers, as well as regular inspections and impromptu visits. Following fiscal 2020, we will continue to use remote assistance tools for a number of our special post-disaster inspections and build a customer relationship system for customer satisfaction (CS) using digital technology.

While taking these CS initiatives, we also took action for our Livness business, which is a business that starts with customers with whom we have existing relationships. In this way, we are building a framework that makes it easy for customers to contact the Company.

Brand value, Perception survey results



Order rate using our customer base

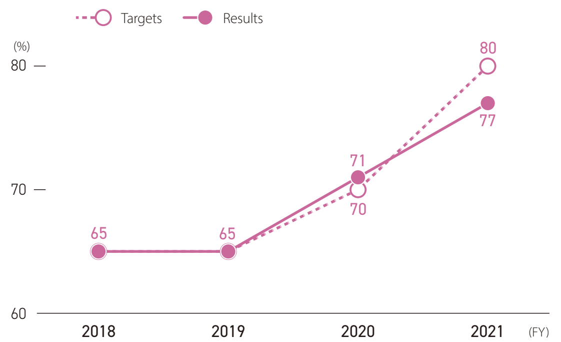


Human resources base

1 Work style reform for employees

Work style reform involved updating the system for performance evaluation and mentoring interviews targeted at chiefs and rank-and-file employees, focusing on fostering three major outcomes by which performing well at their work will make employees feel motivated and happy: work environments conducive to trust in the company, pride in work, and solidarity with colleagues. In addition to adding behavioral objectives (process), productivity, and contribution to the organization as evaluation criteria, we also changed from a standardized set of employee assessment criteria to different criteria that depend on the nature of each employee's work and their job type. To improve employee health and safety, we promoted health and productivity management practices. These included training managers in employee mental health supervision practices, and training young employees in self care.

Improvement in "motivation"

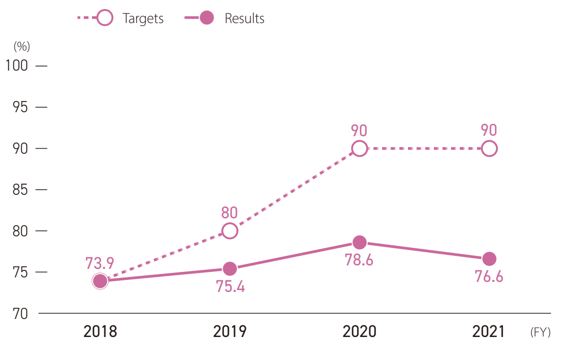


2 Upgrade human resource development and recruitment

In fiscal 2020 we introduced our D-Succeed succession plan to nurture new branch managers, and with effect from our new hirings in fiscal 2021 we have introduced a system of hiring for specified business divisions and job types. Building on these and other initiatives, we continue to invest actively in human capital, and are proposing a new system to enable us to create a base for innovation by maximizing the value of both individuals and organizations through the provision of workplaces and opportunities where employees can develop their capabilities.

In fiscal 2023, to deal with the ongoing COVID-19 pandemic, we will be adopting a new method for interviewing potential new hires that will combine face-to-face and online interviews, allowing us to interview a larger number of students.

Retention rate of young employees (3 years after joining the company)



3 Promote diversity and inclusion

In fiscal 2021, we held a training course for all employees on diversity and inclusion, in addition to a forum and other activities by the Working Group on Promotion of Female Employees within the Daiwa House Group's Construction Technology Committee. On top of our existing systems providing for teleworking from home and staggered work shifts, we also introduced a full flextime system, among various measures to improve work-style flexibility.

In fiscal 2022, we are taking continued measures to improve our Branch Diversity Scores and Business Division Diversity Scores, which are comprehensive Group diversity assessment indexes, as well as other such indexes. We will also continue to conduct training and dialogues, including the newly commenced D&I Meetings under the Daiwa House Group Construction Technology Committee.

General indices for diversity and inclusion

(%)

KGIs	FY2019 results	FY2020 results	FY2021 results	FY2021 targets
Female managers	4.1	4.5	**4.9**	5
Line leaders amongst female managers	25	21.5	**22.6**	40
Female engineers	4.9	4.9	**4.8**	6
Female sales reps	10.2	9.9	**10.2**	13
Female amongst recruits	24.8	23.5	**25.8**	30

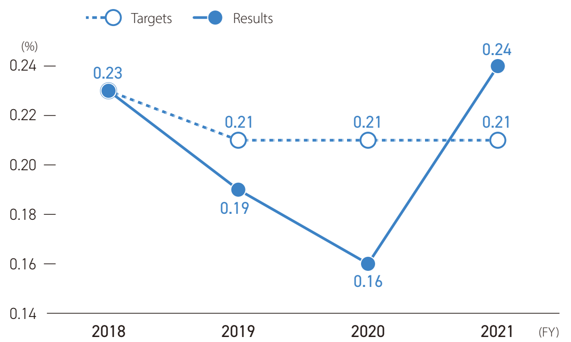
Technology and manufacturing base

1 Enforce safety/security at construction Sites

Continuing our initiatives in fiscal 2020, in fiscal 2021 we revised our health & safety educational methods targeted at skilled construction workers on site (employees of our business partners), and took steps to strengthen our management system.

We expect to see more changes in the health & safety environment at construction sites. We have introduced measures to minimize the spread of the COVID-19 virus, and are developing new teaching materials for safety. We will also continue our efforts relating to the fundamentals of safety, such as regularly issuing our safety management newsletter, promoting use of information panels on serious accident case studies, and installing environmental sensors to help cope with severe heat.

Frequency of worksite industrial accidents



* The number of industrial accidents that have occurred involving worker injury or death per one million hours worked (injuries requiring 4 or more days-off).

2 Raising construction efficiency through cooperation with our business partners

To raise the efficiency of operations at our construction sites, we continue to push forward with various digital construction projects, including remote site management. In human resources development, we are making increased use of certification for skilled engineers and technicians, and in addition to our existing conduct of surveys at the factories operated by our business partners, and our system enabling business partners to make reports, we are also working to build a system that allows employees to directly propose improvements to the work environment.

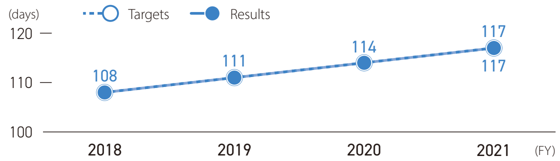
Going forward, we will continue to introduce new technologies. At the same time, by improving the skills and motivation of our business partners' employees, we aim also to ensure high product quality and reduce the time required for completion of tasks at the workplace.

Number of days off per annum for construction site workers

FY 2021 results	FY 2021 targets
112 days* (8 days-off for every 4 weeks)	112 days (8 days-off for every 4 weeks)

* Total of sites adopting a face recognition access control system. Approx. 80% of sites on average took holidays as scheduled.

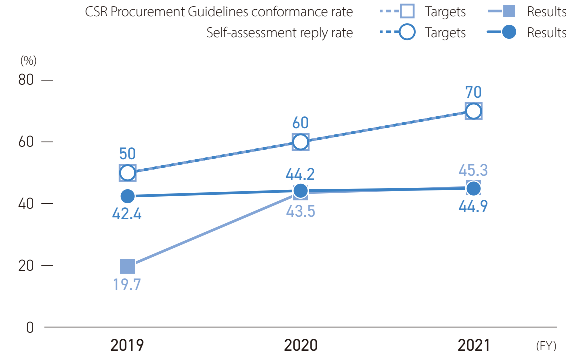
Number of days off per annum for factory workers



3 Promoting and raising the efficiency of CSR procurement across the Group

In fiscal 2021, we continued re-collecting letters of consent to our CSR Procurement Guidelines from our business partners, while promoting self-assessment via our website. We also distributed Ethics Cards to employees of our business partners, and we will maintain dialogue with our business partners and work to improve the rate of self-assessment submissions. To promote procurement in line with our CSR Guidelines, in fiscal 2010 we established the CSR Procurement Subcommittee, with representatives from departments involved in procurement and construction, among others. In fiscal 2021 the subcommittee shared information and held discussions on such themes as the Group's Zero Deforestation Policy, human rights in relation to procurement, timber procurement surveys result-sharing, and self-assessment result-sharing.

Group CSR procurement



Financial Highlights

(¥ million)

Fiscal Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net sales	2,700,318	2,810,714	3,192,900	3,512,909	3,795,992	4,143,505	4,380,209	4,126,769	**4,439,536**
Gross profit	507,903	540,868	632,417	721,312	793,832	842,767	870,206	826,883	**864,682**
Selling, general and administrative expenses	344,326	360,516	389,316	411,220	446,690	470,571	489,091	469,761	**481,425**
Operating income	163,576	180,352	243,100	310,092	347,141	372,195	381,114	357,121	**383,256**
Operating income margin (%)	6.1	6.4	7.6	8.8	9.1	9.0	8.7	8.7	**8.6**
Net income attributable to owners of the parent	102,095	117,133	103,577	201,700	236,357	237,439	233,603	195,076	**225,272**
Return on equity (ROE) (%)	11.9	11.2	9.1	16.3	17.0	15.5	14.1	11.0	**11.7**
Total assets	2,665,946	3,021,007	3,257,805	3,555,885	4,035,059	4,334,037	4,627,388	5,053,052	**5,521,662**
Net assets	992,686	1,112,817	1,181,986	1,329,901	1,513,585	1,643,717	1,773,388	1,893,504	**2,111,385**
Net assets ratio (%)	37.0	36.6	35.9	36.8	36.5	36.8	37.3	36.3	**36.6**
Interest-bearing debt	393,568	563,530	491,964	640,671	780,574	778,546	1,043,478	1,274,886	**1,425,407**
Debt-equity ratio (times)	0.40	0.51	0.42	0.49	0.53	0.49	0.60	0.69	**0.71**
Net cash provided by operating activities	78,451	139,465	278,497	287,691	382,365	355,599	149,651	430,314	**336,436**
Net cash used in investing activities	(240,439)	(235,027)	(202,447)	(343,643)	(313,664)	(313,989)	(317,273)	(389,980)	**(467,423)**
Net cash provided by (used in) financing activities	110,131	129,202	(130,185)	80,086	41,804	(86,979)	169,128	102,731	**24,427**
Market capitalization	1,156,397	1,565,858	2,109,310	2,129,297	2,731,576	2,344,492	1,783,852	2,159,278	**2,132,628**
Stock prices (FYE) (yen)	1,751	2,371	3,166	3,196	4,100	3,519	2,677	3,241	**3,201**
Per share of common stock (yen):									
Earnings per share (EPS)	161.08	177.74	156.40	304.14	355.87	357.29	351.84	297.18	**343.82**
Book-value per share (BPS)	1,496	1,678	1,762	1,971	2,218	2,404	2,600	2,805	**3,081**
Cash dividends*1	50	60	80	92	107	114	115	116	**126**
Dividend payout ratio (%)	31.0	33.8	51.2	30.2	30.1	31.9	32.7	39.0	**36.6**
Price earnings ratio (PER) (times)	10.87	13.34	20.24	10.51	11.52	9.85	7.61	10.91	**9.31**
Price to book-value ratio (PBR) (times)	1.17	1.41	1.80	1.62	1.85	1.46	1.03	1.16	**1.04**
Number of employees (FYE)*2	32,628	34,903	37,191	39,770	42,460	44,947	47,133	48,807	**48,831**
Number of group companies	129	145	172	196	317	387	360	444	**480**

*1 Cash dividends for fiscal 2015 include a commemorative dividend of ¥10 to mark the 60th anniversary of the Company's foundation. Cash dividends for fiscal 2021 include a commemorative dividend of ¥10 to mark the 100th birthday of founder Nobuo Ishibashi.
*2 Regular employees only.

Fiscal Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Sales by segments (consolidated)*3 (¥100 million)									
Single-Family Houses	3,944	3,753	3,783	3,903	3,853	3,838	4,978	5,161	**6,268**
Rental Housing	6,887	7,729	8,801	9,772	10,308	10,613	10,059	9,827	**10,291**
Condominiums	2,427	2,313	2,793	2,628	2,850	2,805	3,727	3,397	**3,798**
Existing Homes	867	916	955	1,055	1,121	1,145	1,456	1,247	**1,269**
Commercial Facilities	4,219	4,562	4,955	5,697	6,208	6,939	8,067	8,083	**7,969**
Logistics, Business and Corporate Facilities	5,921	5,815	7,363	8,284	8,502	10,223	11,523	9,899	**11,396**
Other Businesses	3,939	4,265	4,588	5,135	6,371	7,161	5,300	5,073	**5,018**
Adjustment	(1,205)	(1,248)	(1,311)	(1,349)	(1,256)	(1,293)	(1,311)	(1,423)	**(1,617)**
Total	27,003	28,107	31,929	35,129	37,959	41,435	43,802	41,267	**44,395**
Operating income by segments (consolidated)*3 (¥100 million)									
Single-Family Houses	133	88	165	192	215	199	180	218	**297**
Rental Housing	642	695	819	942	1,066	1,022	985	908	**943**
Condominiums	107	108	157	134	133	135	158	53	**97**
Existing Homes	93	99	112	130	132	159	167	104	**88**
Commercial Facilities	607	672	803	1,007	1,141	1,377	1,406	1,228	**1,148**
Logistics, Business and Corporate Facilities	269	384	680	789	889	989	1,206	1,159	**1,317**
Other Businesses	140	102	95	168	230	325	192	107	**25**
Adjustment	(358)	(348)	(403)	(265)	(337)	(486)	(487)	(209)	**(85)**
Total	1,635	1,803	2,431	3,100	3,471	3,721	3,811	3,571	**3,832**
Housing starts*4 (thousands of units)									
Housing starts	987	880	921	974	946	952	883	812	**865**
Number of houses sold in Japan (non-consolidated) (units)									
Number of houses sold	46,018	49,087	51,207	54,925	51,641	48,410	43,703	38,991	**40,758**
Custom-built houses	8,088	7,280	6,999	7,106	6,907	6,524	5,917	5,178	**5,164**
Houses in housing development projects	2,433	2,614	2,333	2,180	2,320	2,192	2,066	1,841	**1,596**
Reference: Sales of houses (overseas)	—	—	—	—	973	2,621	2,875	4,184	**4,857**
Rental housing	32,424	36,757	38,903	43,428	40,254	37,905	33,502	29,488	**31,202**
Condominiums	3,073	2,436	2,972	2,211	2,160	1,789	2,218	2,484	**2,796**
Average sales per unit (¥ million)									
Custom-built houses	31.1	32.7	33.7	34.3	35.9	37.3	39.6	39.6	**41.0**
Houses in housing development projects	23.5	24.0	24.5	25.3	24.0	24.3	22.4	23.1	**24.2**
Rental Housing Business									
Rental housing units managed	391,778	435,515	471,342	510,208	543,124	572,238	595,182	611,874	**630,555**
Occupancy rates (%)	97.2	97.5	97.4	97.1	97.3	96.9	97.6	98.2	**98.2**
Commercial Facilities Business									
Subleasing floor space of commercial facilities									
Total leasing floor space (m^2)	4,829,902	5,134,274	5,441,604	5,736,312	6,157,287	6,375,278	6,765,150	6,871,560	**6,964,194**
Average orders received per building (¥ million)	138	160	222	281	324	381	488	551	**563**
Occupancy rates*5 (%)	99.2	99.1	99.2	99.1	99.1	99.0	98.8	98.5	**98.6**

*3 Including intersegment transactions. *4 Statistics for housing starts are from Housing Starts Survey by Ministry of Land, Infrastructure, Transport and Tourism.
*5 Leasing floor space occupied/ Total leasing floor space.

Corporate Data (as of June 29, 2022)

Corporate name	Daiwa House Industry Co., Ltd.
Corporate name	April 5, 1955 (Established: March 4, 1947)
Paid-in capital	¥161,699,201,496
Employees (consolidated)	48,831 (as of March 31, 2022)
Securities traded	Tokyo stock exchange
Securities code	1925
Head office	3-3-5 Umeda, Kita-ku, Osaka 530-8241, Japan Phone: +81-6-6346-2111
Tokyo Head office	3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-8112, Japan Phone: +81-3-5214-2111
Offices (35)	Hokkaido, Kita-Tohoku, Sendai, Fukushima, Ibaraki, Utsunomiya, Gunma, Saitama, Saitama-nishi, Saitama-higashi, Chiba, Kashiwa, Chiba-chuo, Tokyo-nishi, Yokohama, Kawasaki, Kanagawa-nishi, Kanazawa, Niigata, Gifu, Nagoya, Okazaki, Aichi-kita, Mie, Shiga, Kyoto, Sakai, Kobe, Nara, Okayama, Hiroshima, Shikoku, Fukuoka, Kita-Kyushu, Kumamoto
Branches	22
Factories	9
Research center	Central Research Laboratory (Nara)
Training center	Daiwa House Group MIRAI KACHI KYOSO Center (Nara)
Overseas offices/ Representative offices	Shanghai (China), Hanoi (Vietnam), Taipei (Taiwan), Ho chi minh (Vietnam)
Contact	Daiwa House Industry Co., Ltd. IR Department, Management Administration Headquarters Phone: +81-6-6225-7804 e-mail: dh.ir.communications@daiwahouse.jp
Website	https://www.daiwahouse.com/English/

Board of Directors, Audit & Supervisory Board and Executive Officers (as of June 29, 2022)

Board of Directors

Representative Director and President, CEO	Keiichi Yoshii
Representative Director and Executive Vice President, CFO	Takeshi Kosokabe
Representative Director and Executive Vice President	Yoshiyuki Murata
Director and Managing Executive Officers	Hirotsugu Otomo Tatsuya Urakawa Kazuhito Dekura Yoshinori Ariyoshi Keisuke Shimonishi Nobuya Ichiki Toshiya Nagase
Outside Directors	Yukiko Yabu Yukinori Kuwano Miwa Seki Kazuhiro Yoshizawa Yujiro Ito

Audit & Supervisory Board

Audit & Supervisory Board Members	Tomoyuki Nakazato Tadatoshi Maeda Yoshinori Hashimoto
Outside Audit & Supervisory Board Members	Shonosuke Oda Akihisa Watanabe Tatsuji Kishimoto

Managing Executive Officers

Eiichi Shibata, Koji Harano, Yuji Yamada, Yukikazu Kataoka, Takashi Miyatake, Moritaka Noumura, Tetsuya Tamur, Junko Ishizaki

Senior Executive Officers

Hirofumi Hama, Takafumi Nakao, Nobuhito Ishibashi, Hirotaka Najima, Isao Mizutani, Shigeki Ochiai, Yoshin Minagawa, Yuichi Sugiura, Tetsuro Wada, Ryuichi Oyaide, Hiroshi Kono, Katsuyuki Murai

Executive Officers

Hideharu Hashimoto, Tadahiro Takayoshi, Taro Kawamura, Kazuya Mukai, Norio Togashi, Yoshimune Morizumi, Masataka Kanai, Akira Matsuba, Yoshinori Iwabuchi, Tetsuo Hatta, Masatoshi Hatta, Akira Kitamura, Keisuke Izumoto, Eiji Saito, Masafumi Sugimoto, Katsuhiro Sugiyama, Kenichi Yoshioka, Masao Noshi, Katsunori Nobe, Masatoshi Sarashina, Kazumi Suwa, Takehiro Uchiyama, Ryuzo Matsuyama, Masaaki Kikuchi, Masao Kita, Shingo Suzuki, Keiichi Moteki, Akihiko Wada, Nobuhiko Watanabe, Toshiyuki Suminaga, Hideto Tamiya, Toshiki Tanaka

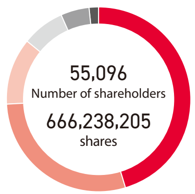
Share Information (as of March 31, 2022)

Authorized .... 1,900,000,000 shares
Issued .... 666,238,205 shares
Number of shareholders 55,096

Principal shareholders	Thousands of shares*1	Equity stake*2 (%)
The Master Trust Bank of Japan, Ltd. (trust account)	119,918	18.29
Custody Bank of Japan, Ltd. (trust account)	41,132	6.27
Sumitomo Mitsui Banking Corporation	16,117	2.46
Daiwa House Industry Employee Shareholders Association	13,635	2.08
Nippon Life Insurance Company	11,944	1.82
STATE STREET BANK WEST CLIENT - TREATY 505234	10,606	1.62
MUFG Bank, Ltd.	9,680	1.48
JPMorgan Securities Japan Co., Ltd.	9,420	1.44
SSBTC CLIENT OMNIBUS ACCOUNT	9,252	1.41
JP MORGAN CHASE BANK 385781	8,319	1.27

*1 Number of shares held is rounded down to the nearest thousand.
The Company holds 10,508 thousand shares of treasury stock but is not listed as a principal shareholder above.
*2 Equity stake is calculated excluding treasury stock.
Equity stake is rounded down to three decimal places.

Shareholdings by shareholders



	Number of shareholders	Shares	Equity stake (%)
Financial institutions	191	303,370,461	45.53
Foreign investors	988	192,484,792	28.89
Individuals and others	52,449	76,585,123	11.50
Other corporations	1,423	50,578,909	7.59
Securities companies	44	32,710,138	4.91
Treasury stock	1	10,508,782	1.58

Note: Equity stake shows the percentages of the total outstanding shares.

Editorial Postscript

Breaking ground on our Future Landscape with a sense of mission

Yuji Yamada

Managing Executive Officer
General Manager, Finance Department and IR Department

Thank you for taking the time and effort to read through our report.

Recent years have seen numerous corporations define a purpose and overhaul their management plans to align with them. We believe this trend is driven by calls for them to take initiative in working to address issues society faces. Daiwa House Industry has always sought to deal with society issues as laid out in our founding philosophy, "don't do things because they will make a profit, but because they will be of service to society." Formulating our Purpose, the latest iteration of our mission, was—we believe—a great opportunity to spell out what we stand for. All Group employees from the bottom up were involved. Deeply reflecting on our founding mission, they deliberated topics from corporate culture to how corporations and society ought to interact and the value our businesses provide. They stated clearly that we want to create fundamental societal infrastructure and lifestyle culture rooted in regeneration. Thus we have committed ourselves to bringing about a world where people can embrace the Joys of Life, all living together in harmony, as we face the many challenges ahead with the strong sense mission with Our Hopes for the Future as our compass.

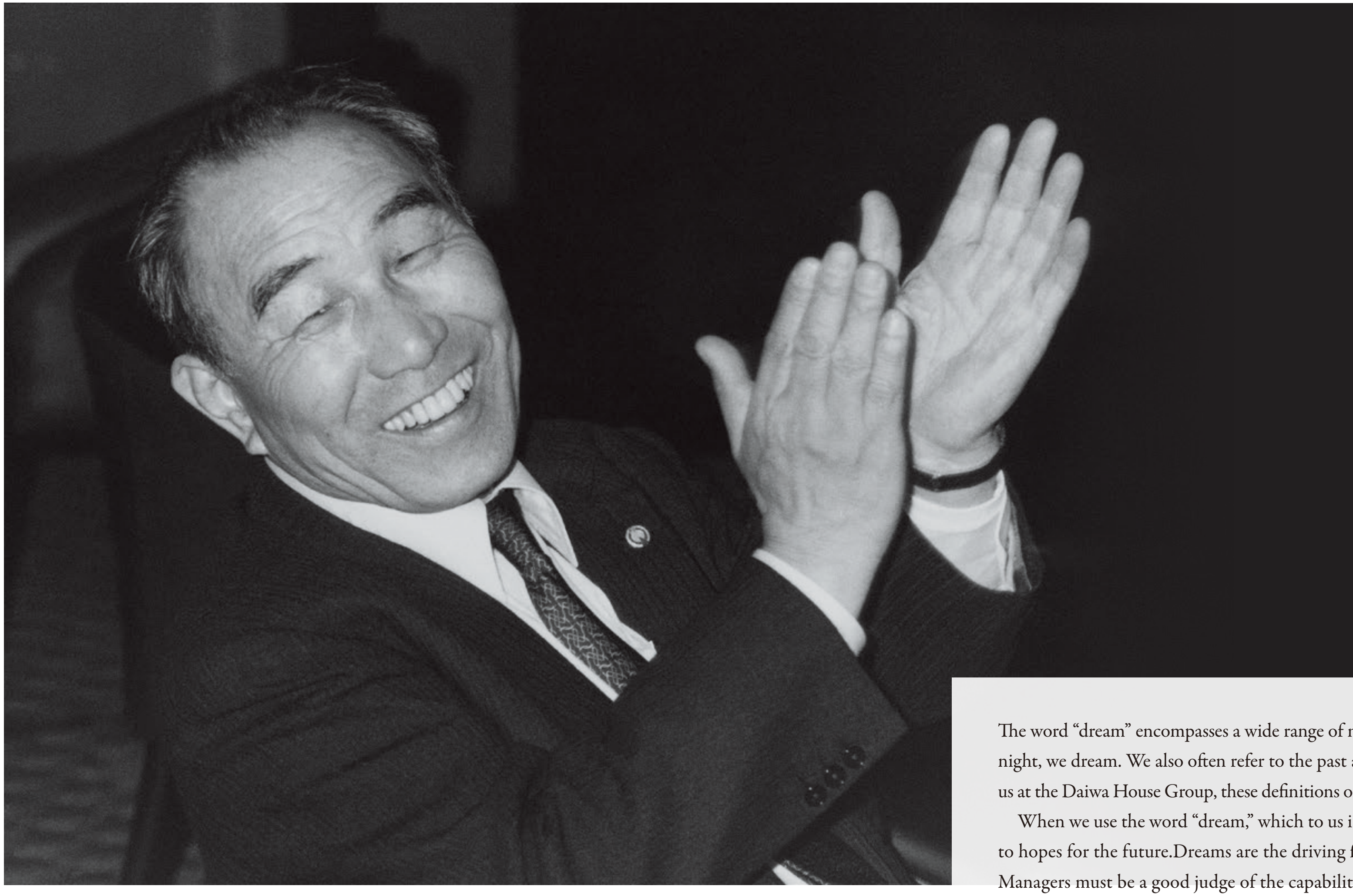
In our Seventh Medium-Term Management Plan, which got underway in 2022, we committed to steadily moving forward on eight focal themes and to becoming the kind of corporation society will need in 2055, our centennial year. These include decarbonizing all our buildings to help achieve carbon neutrality as well as pursuing the plan's three major management policies for establishing a sustainable growth model: evolving our revenue model, optimizing management efficiency, and strengthening our management base.

In closing, we would like the express our appreciation to all who have taken an interest in and the time to read this report, as well as to those without whose involvement it would not have seen the light of day. We hope stakeholders, deepening their understanding of the Group's business activities, will provide the Daiwa House Group with even greater support as we break ground on our Future Landscape.

Our Communications at a Glance

Coordination

	Financial information	Non-financial information
Dialogue	• Release of financial results • Presentation on Management Policy • Guided tours of building sites, plants, etc. • Teleconferencing with securities analysts and institutional investors • General Meeting of Shareholders	• Experts' dialogue • Stakeholders' meeting
Reports	• Securities report • Business result report	• Corporate governance report
	 **Integrated Report** Integrated report on selected financial and non-financial information judged to be material	 **Sustainability Report** (incl. Data Section / Third-Party Assurance) Japanese-language edition English-language edition
WEB	 **Investor Relations** https://www.daiwahouse.com/English/ir/	 **Sustainability** https://www.daiwahouse.com/English/sustainable/



Our founder, Nobuo Ishibashi (1921-2003)

The word "dream" encompasses a wide range of meanings. When we go to sleep at night, we dream. We also often refer to the past as "seeming like a dream." But for us at the Daiwa House Group, these definitions of the word can be put to one side.

When we use the word "dream," which to us is very important, we are referring to hopes for the future.Dreams are the driving force behind great achievements. Managers must be a good judge of the capabilities of their staff. Employees, too, must have a dream in their hearts. Companies grow along with the realization of such dreams. A company's management and staff must all keep on trying to make their dream reality, and must never give up.

Our founder, Nobuo Ishibashi

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