

Message from the CFO

Daiwa House Industry's CFO explains the capital policies underpinning our evolving business model.

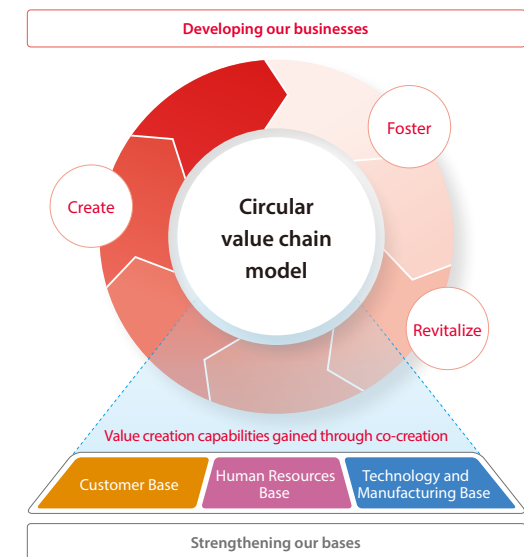
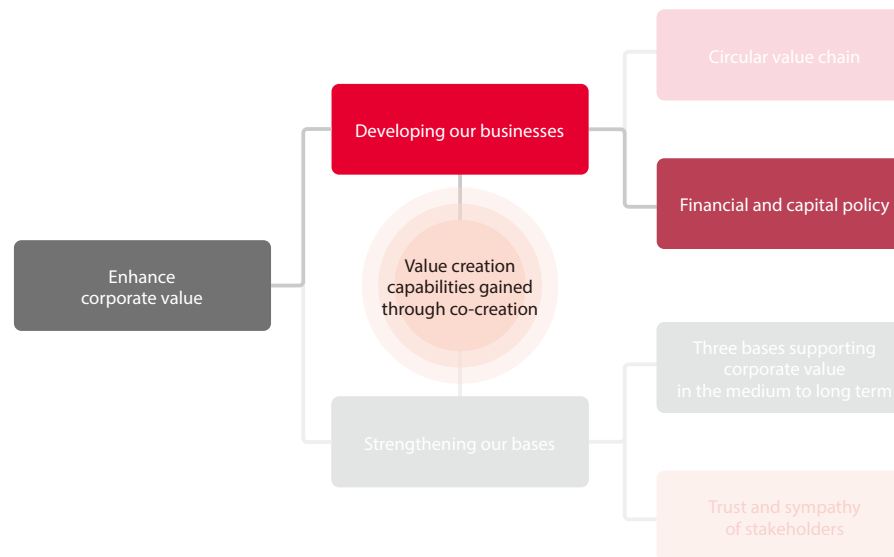
In pursuit of unassailable competitive advantage, we will allow us to balance growth investing and shoring up our financial foundations.

This will enable Daiwa House Industry to maximize corporate value through optimal business-resource allocation and focus on improved capital efficiency with a watchful eye on ROE, ROIC, and other essential indicators, and providing stable shareholder returns.

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Chapter 3 Message from the CFO

Message from the CFO

Financial and capital strategies to undergird our evolving business model

Takeshi Kosokabe

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Executive Vice President, CFO

Optimizing capital strategy for current operating environment and business model

The Daiwa House Group has grown while evolving its business model to anticipate and adapt to the demands of the day. At founding, we primarily engaged in contract businesses, then branched out into the built-for-sale business. With the advent of the fixed-term commercial land lease system, we started providing solutions for landowners who wanted to generate revenue by leasing out rather than selling their land. We also rolled out a property development business building commercial and logistics facilities on land we have purchased. We grew businesses that match properties in our vast land databases to tenants needs. We have not done anything particularly extraordinary. These are the results of working earnestly to meet customers' needs while running

our businesses in line with our founder's philosophy of doing things not because they will be profitable but because they will be of service to society. We expect to continue to reinvent ourselves going forward, evolving in a manner unique to the Daiwa House Group.

Daiwa House Group intends to grow sustainably while improving corporate value. In the near term, we are and will continue to squarely face the changes and challenges in the operating environment, such as interest-rate fluctuations, while evolving our business model and reviewing our capital strategy as needed.

Responding to a changing global economy and positive interest rates

After traversing a low and even zero interest-rate path for decades, Japan is gradually adapting to



positive interest rates. We have not yet been significantly affected, but believe rising interest rates will have no small impact on our business.

For example, many people use mortgages to buy a home, and when mortgage rates rise, their costs (payments) increase, which could dull their appetite to buy and affect home buying and selling activity. Profitability in the real estate development business is also impacted. We make a profit by selling a property once a building is complete and fully up and running. However, if the cap rate (investors' expected return) increases by the time of sale, the transaction may not proceed as planned. Further, costs will increase due to higher payments on interest-bearing debt. We raise funds with a balance of fixed and variable interest rate loans, keeping in mind interest-rate risk. Obviously, interest-rate fluctuations will affect the floating-rate portion, but could also affect fixed-rate funding costs in the future. Our business development plans take such risks into account.

Approach to fluctuating interest rates

In February 2023, we raised our hurdle rates (internal rate of return: IRR) for real estate development, anticipating future interest rate rises. The reaction from some in the field was initially negative, as they wanted to invest aggressively; but we took the step because

dealing with interest-rate risk becomes more important as real estate developments grow in scale. We think the current hurdle rates will be sufficient if future interest rates rise in line with our expectations.

We have recently circulated a message to our employees concerning how we intend to deal with positive or rising interest rates. I joined Daiwa House Industry during an era of high interest rates in the 1980s. To foster awareness of the changes underway among our workforce, I remind them of what our founder said about interest rates in light of their impact on earnings: "Interest works even when we are sleeping." The low interest rate environment persisted for a long time. I believe it is important to change the mindsets of every employee, making them aware of the risk rising rates entail when they do sales and make investment decisions.

Daiwa House Industry has an internal interest-rate system to sharpen the awareness of those in the field and improve asset turnover. This is a kind of management accounting, and applying it to the assets of individual segments and business locations makes the frontline workforce more aware of interest rates. This system means they will need to be more conscious of cash flow and boost inventory turnover, as well as improve collection terms on customer contracts, and I sense that a stronger awareness of interest and its implications is taking hold on the ground. Going

forward, I want to explore effective measures to firmly entrench awareness of interest rates and the need to improve asset turnover among our workforce.

Evolving business model and growth strategy

I think improving the asset turnover rate is important given that it has fallen to about 0.8 times in the wake of the COVID-19 pandemic of 2020, after previously ranging between 0.95 and 1.05 times. This means that investment is exceeding returns. While some growth investment gets frontloaded as our business expands, changes in the operating environment could make finances more difficult to manage if this situation persists. As CFO, I am committed to overcoming all obstacles and improving the situation by the end of fiscal 2026, the year originally slated to be the final one of our Seventh Medium-Term Management Plan.

Direction of overseas business growth

Currently, the share of our overseas businesses in the overall mix is gradually increasing, especially that in the US, where we are boosting investment (in M&A and real estate). We feel that risk management is more important when investing overseas than in Japan, so have set

hurdle rates for overseas investment projects higher to reflect local risks. We are rolling out overseas businesses cautiously, strengthening our monitoring capabilities, and increasing the number of opportunities to collaborate with local subsidiaries.

Our three single-family housing subsidiaries in the US may see some impact from government-imposed tariffs on lumber from Canada, but in April 2025 we learned that additional tariffs would not apply to Canadian lumber, so we currently think the earnings impact will be limited. It is conceivable that the overall US economy may face sharp inflation or stagflation, but demand for housing remains strong in regions with growing populations, so we see numerous business opportunities. The US market remains important for the Group's growth, and we will be focusing intently on it.

Challenges and our response in the domestic business

Major challenges in Japan include the shrinking housing market on falling household numbers as the population contracts and the construction workforce declines sharply. We have acted to secure human resources, such as revising starting salaries, and are moving ahead with the digitalization of construction; i.e., using digitization to improve onsite workflow

efficiency and productivity. Turning to business opportunities, we see ample unmet demand for rebuilding aging structures, and we need to further grow our BIZ Livness offering (real estate-segment recurring-revenue businesses; e.g. nonresidential-property brokering and renovation and remodeling businesses).

On the financial front, inventories are in an uptrend as our built-for-sale business actively develops rental housing, commercial facilities, business facilities, and single-family houses. For land parcels that are not proceeding to plan, we are not making individual business divisions alone responsible, but working as a unified corporate division to actively monetize these assets in an optimal manner.

Capital strategy and narrative to 13.0% ROE

We want to simultaneously achieve an ROE of at least 13.0% and a debt-equity (D/E) ratio of about 0.6 times, with each equally important. ROE is a benchmark promise to our shareholders and equity investors, and the D/E ratio is our obligation to financial institutions, bondholders, and other debt investors. While curtailing our equity to achieve the ROE target, we also have to pay attention to the D/E ratio, which is a very difficult balance to strike, in my opinion.



It is important to maintain our AA credit rating as we need to raise funds for sustainable growth. Looking back on the global financial crisis of 2008, when it was impossible to issue corporate bonds without at least a AA rating, we are aware that the present is a critical juncture, given recent rises in interest rates. We are working to boost asset turnover to reduce the D/E ratio to about 0.6 times and utilizing intra-group financing to cut down on interest-bearing debt. Investing upfront requires recouping the funds at some point. We will work during our medium-term plan using all means available to achieve our ROE and D/E ratio targets by recouping funds through real estate sales and crystallizing capital gains.

In the next medium-term plan, we will re-examine the D/E ratio in the context of how much growth funding we need and the impact of accumulated profit on equity capital. For our Group to grow, it is important to seize on any business opportunities while considering the appropriate balance between accelerator and brake. We are well aware that we need to communicate thoroughly with credit rating agencies and other stakeholders.

Starting in fiscal 2027, new lease accounting standards will apply, and transactions that had previously been treated as operating leases will impact the balance sheet. The presentation of the current D/E ratio (i.e., its apparent size) will change when accounting standards change, but there are no cash flow implications, so we expect no impact. We are pressing on with internal preparations such as system upgrades, and will examine in further detail transactions likely to be affected by the change in accounting standards while communicating closely with our accounting auditors.

Managing shareholders' equity via returns to shareholders

The Daiwa House Group sees both growth investment and returns to shareholders as important. Under our 7th Plan, we have maintained a dividend payout ratio of at least 35%, and a minimum dividend per share, while

investing in growth. We will manage our shareholders' equity via flexible share buybacks in light of the share price and investment opportunities as we aim to meet our ROE target.

We enhanced our shareholder benefits program in March 2025 to boost the investment appeal of our stock, as well as deepen the understanding of our businesses among shareholders who avail themselves of the Group's services. A breakdown of our shareholders shows that individuals still only make up about 12% of the total, which is below the average of companies listed on the Tokyo Stock Exchange. Half our revenue comes from our individual-facing businesses such as our Single-Family Houses, Condominiums, and Rental Housing businesses, which we think opens the door for more retail investors to hold our Company's shares. We believe that boosting the percentage of individual shareholders will help reduce our capital costs.

Managing with an eye on capital cost and share price

Initiatives to improve corporate value

We were very pleased to see our shares reach a record high in May 2025. In addition to a favorable earnings release for the third quarter in February 2025, enhanced

shareholder benefits announced on the same day played a part. However, I am not satisfied with the current share price. The P/E ratio is about 11–12 times, lower than the average for companies listed on the Prime market (16.5 times) and the construction and real estate sectors (construction: 14.9 times; real estate: 14.0 times). We intend to thoroughly explain our growth narrative going forward to investors and adopt optimal capital management strategies with a view to further share price appreciation.

Note: PER figures are weighted averages published by Japan Exchange Group as of end-April 2025

Improving cost of capital

We understand that our Group's cost of capital is roughly 7% (calculated using capital asset pricing model concepts), and our ROE target was set with an ample equity spread in mind. We will work to reduce the cost of capital via timely and appropriate disclosures on matters such as progress on our growth strategies, moves toward sustainability management, and strengthened governance mechanisms. We will continue constructive dialogue with our investors covering our results so far and growth prospects going forward. The goal is deepening understanding of the Daiwa House Group as a company striving for sustainable growth and improving corporate value.

 Management's discussion and analysis of financial position and results of operations ► p.99

Basic strategy for capital policy

① Secure cash flow required for growth investment

- Generate operating cash flow via steady profit growth
- Secure investment cash flow by reducing cross-shareholdings and inefficient assets

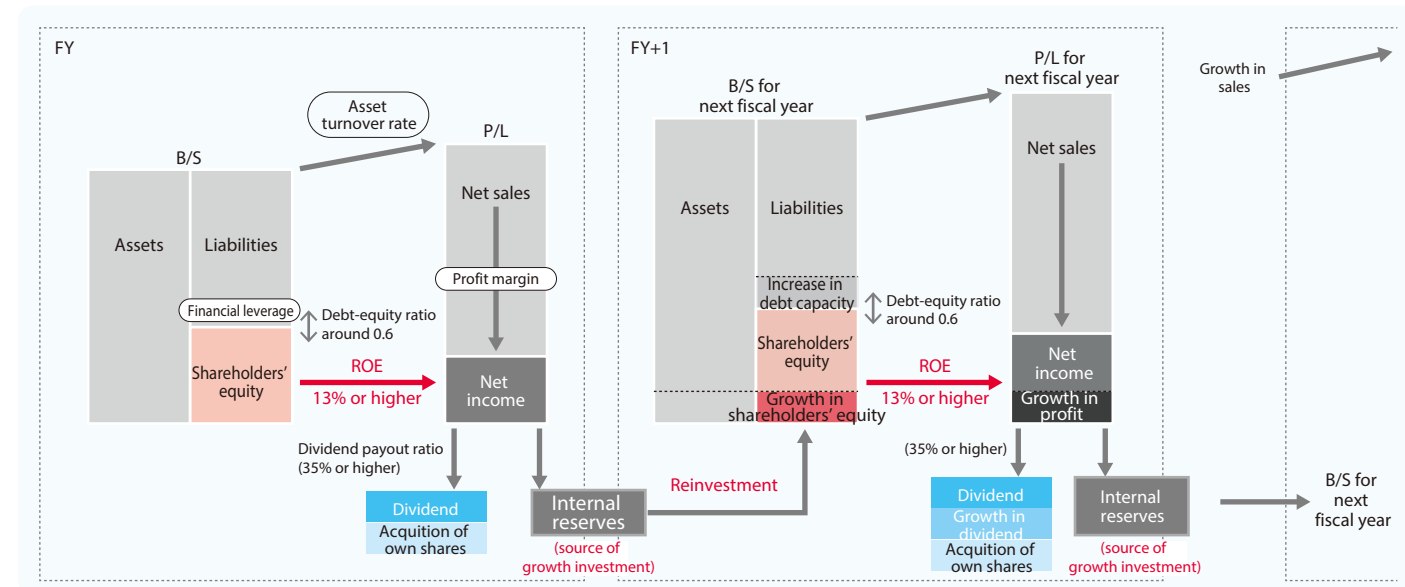
② Reinvest in growth areas while maintaining a D/E ratio of about 0.6 times

- Draw on internal reserves to reinvest in growth areas while vigilantly maintaining appropriate level of financial leverage

③ Achieve ROE of at least 13%, profit growth and dividend payout ratio of 35% or higher

- Realize return on reinvested capital with capital efficiency that exceeds the expected rate of return for shareholders in order to achieve growth in profits and dividends, as well as increased capital required for new growth investment.

Basic strategy for capital policy (conceptual diagram)



In addition to securing operating cash flow, the source of funds required for growth investment, we generate investment cash flow by reducing cross-shareholdings and inefficient assets. While increasing internal reserves after returning a portion to shareholders, we reinvest capital in growth sectors, factoring in an appropriate level of financial leverage.

Secure operating cash flow through steady growth of profits

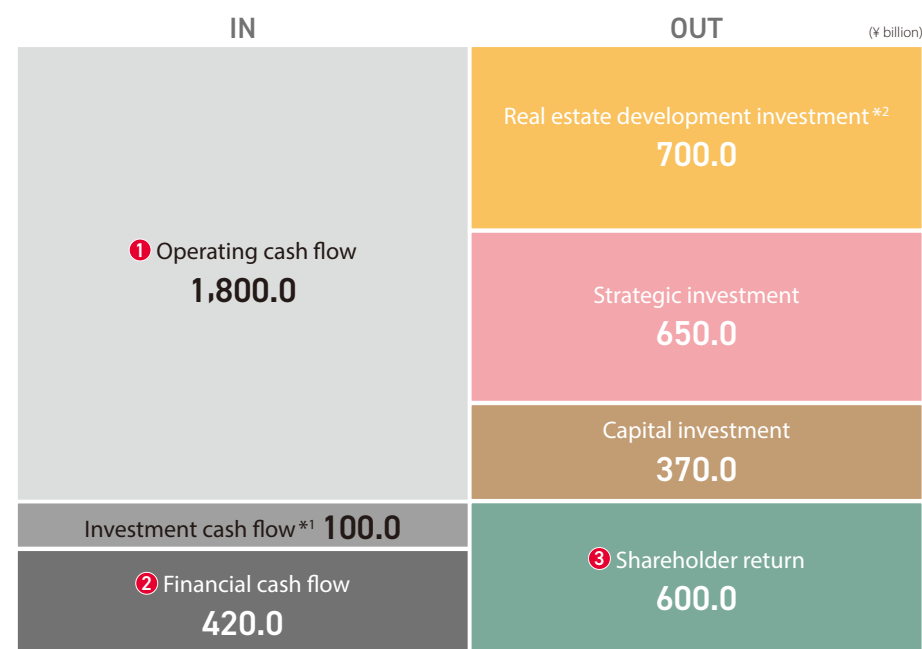
The Company will realize return on reinvested capital with capital efficiency that exceeds the expected rate of return (cost of shareholders' equity) for shareholders in order to achieve growth in profits and dividends, as well as increased capital required for new growth investment.

Achieving ROE target based on an optimal capital structure

Capital allocation and shareholder return

We engage in real estate development and strategic investments necessary for sustainable growth. We also increase operating cash flow based on stable growth of profits and steadily return profit to shareholders. Looking back over the previous three years of the 7th Plan, ❶ operating cash flow accumulated owing to steady profit growth. ❷ Regarding financial cash flow, interest-bearing debt accumulated by approximately ¥900 billion due to real estate development investments, as well as upfront strategic investments such as for the US Single-Family Houses Business, and in Japan, the built-for-sale business covering Single-Family Houses and Rental Housing, and Commercial Facilities business, etc. However, ahead of fiscal 2026, which is the final year of the plan, we are stepping up activities such as real estate sales, and we expect to arrive at a D/E ratio of 0.6 times as a financial benchmark. ❸ With regard to shareholder returns, over the past three years we returned approximately ¥272.1 billion in dividends and conducted a share buyback of roughly ¥187.1 billion.

Seventh Medium-Term Management Plan Capital allocation in five years



*1 Reduction in cross-shareholdings and inefficient assets, etc. *2 Real estate properties for rent held for sale or holding purpose

Real estate development investment

- In addition to the profit driver of logistics facilities, investment in new fields (data centers, semiconductor-related facilities, public wholesale markets, etc.)
- Investment that covers inbound demand and the Livness business (hotels, revitalization of aging facilities, etc.)
- Investment to gradually increase stock assets for profit-earning real estate

Strategic investment

- Priority investment in the overseas Single-Family Houses Business, with a focus on the US.
- Investment to fundamentally overhaul the Single-Family Houses Business in Japan
- Strengthen the built-for-sale business for rental housing and commercial facilities
- Investment into onsite/offsite PPA toward the realization of carbon neutrality

Capital investment

- Strengthen production sites for the business field
- Invest in IT platform to promote DX and invest in digital construction

Shareholder return

- Dividend payout ratio of 35% or higher, and dividend per share of ¥145*3 or more
- Flexible acquisition of own shares

*3 The initial ¥130 changed to ¥145 from fiscal 2024