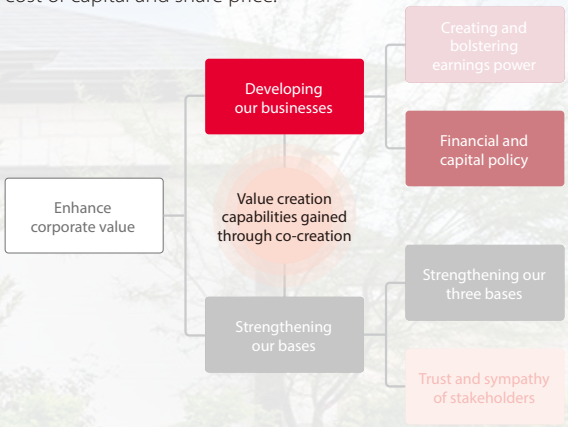


Single-family houses (United States)

Financial and Capital Strategies

To achieve sustainable growth and enhance corporate value, we are promoting our business and financial strategies as an integrated whole. In this section, our CFO discusses our goal to establish a competitive advantage by balancing the strengthening of our financial foundation with growth investments, as well as our approach to financial discipline supporting business model transformation, management practices focused on improving ROE, while remaining conscious of the cost of capital and share price.



Chapter 4

Chapter 4 Financial and Capital Strategies

Message from the CFO

Sustainable growth by realigning business model, anticipating market developments



Takeshi Kosokabe

Takeshi Kosokabe
Executive Vice President, CFO

7th Plan targets met one year ahead of schedule on business model realignment

Since its founding in 1955, Daiwa House has grown steadily and broadened its business areas by addressing societal problems. Sales reached ¥1 trillion in 1995, our 40th anniversary, with particularly strong growth from the 2010s, to ¥2 trillion in 2012, ¥3 trillion in 2015, and ¥4 trillion in 2018. The operating environment has been bumpy since the launch of our Seventh Medium-Term Management Plan in 2022, impacted by soaring material prices and stubbornly high mortgage rates in the US single-family houses business, on top of COVID-19. Still, we reached our sales and operating income targets a year ahead of plan. I believe this demonstrates our Group's commitment to achieving targets and growth-oriented approach.

Business model realignment was another key factor in our strong growth. Our Rental Housing and Commercial Facilities Businesses are primarily contracting—constructing buildings at the request of land owners. One strategy in recent years has been to buy land, develop, and sell properties as we expand the built-for-sale business. This enables us to offer rental housing properties to wealthy individuals who do not own land. In the Commercial Facilities Business we are developing offices and apartment hotels to tap into inbound tourist demand in the Tokyo metro area and key regional cities. These initiatives stem from our broad-ranging land-attribute intelligence, insights into future demand, and ability to commercialize. We use our balance sheet strategically to approach potential new customers with offerings suited to market needs. Seeing our people in the field spearheading these changes reminds me of our Group's strong execution capabilities and thirst for growth. Going forward, we will work to achieve growth through capital-efficient management while maintaining a good balance between the built-for-sale and contracting businesses.

Current state of our balance sheet

Our total assets have grown to ¥8.4 trillion, partly on growth in the built-for-sale business. Regarding real estate (over half of the total), we need to strengthen our management by cutting back on dormant assets to boost asset turnover and keep a closer eye on profitability. The increase in real estate for sale is not necessarily an issue as we grow the US single-family houses and domestic built-for-sale businesses. The main point is whether our returns are commensurate with asset growth. While performance varies by business and region, in all of our businesses we will keep an eye on asset turnover and real estate holding breakdowns for an appropriate balance between assets and returns.

We understand the mounting importance of carefully scrutinizing investment real estate quality. We are in constant dialogue with employees on the ground to confirm that properties we own or are considering developing meet society's needs and have prospects for stable earnings in the long term, while monitoring market conditions.

With real estate comprising more than half of our total assets, we are aware of a range of risks such as price declines. In April 2026 we set up an Asset Management Strategy Division Preparatory Office to bolster asset management capabilities across the Group. Our thinking is to move toward a more comfortable balance sheet position through measures such as improving asset turnover.

Passing on our founder's teaching—"interest works even when we are sleeping"—to today's employees: risks from changes in operating environment and responses

Our business is sensitive to interest rates, with several risks from rising rates: a decline in customers' appetite to buy using mortgages, higher cap rates (investors' expected return) on property developments, and higher payments on interest-bearing debt. In Japan, higher mortgage rates have not yet blunted buyers' appetite. We are also using more fixed-rate funding than usual, so there is a limited impact thus far. As our property developments grow in scale, we had been concerned about cap rates rising with interest rates. Our move to revise property development hurdle rates ahead of time has borne fruit, with no significant downward pressure on our earnings yet. We will continue to appropriately factor in interest rate risk and develop strategies to deliver sustainable growth and redouble our efforts to make all employees interest-aware in their work activities.

Making all employees interest-rate aware

Our founder, Nobuo Ishibashi stressed the importance of being interest-rate aware, saying: "Interest works even when we are sleeping." Some current employees joined at a time of persistent low rates, so may not be equally tuned in. An important task for me is to convey how important raising interest rate awareness is.

In February 2025, we circulated a message urging our employees to change their mindsets and behavior to suit a rising rate environment. To drive individual buy-in, in April 2026, we raised our internal interest rate (on invested capital for individual offices under management accounting). We also imposed penalty interest rates on dormant assets in the Commercial Facilities Business in light of expanding built-for-sale projects, in line with our other businesses. Such measures are designed to sharpen interest rate sensitivity in operations across the Company.

The CEO, COO, and CFO speak directly on interest rates at conferences for branch managers and Group company presidents. We are seeing mindsets out in the field change as our leadership team consistently brings up these issues. We will keep rolling out initiatives to strike a balance between real estate investment and returns and trim idle assets at individual divisions and offices.

Enhancing regional oversight and human capital development to support overseas businesses

The overseas business has steadily expanded since Stanley Martin joined us in 2017, with sales topping ¥1 trillion in fiscal 2025. The US single-family houses business has driven the growth, solidifying its position as a key earnings

base. Cultures and business practices vary by country, and risks hard to foresee in Japan may emerge, so developing people who can properly manage the overseas businesses and building appropriate organizations are important.

We launched a regional corporate system in 2022 in view of overseas business growth. After clarifying its role, we set rules to suit the cultures and business practices of individual countries and regions, building up experience on the ground. However, as evident in the current Middle East situation, the operating environment for the overseas business is increasingly opaque. We must be geared toward more than just business expansion. It is increasingly important to develop mechanisms for flexible decision-making, including withdrawal if needed, given the speed of change and unexpected developments. We thus think it is necessary to build arrangements enabling the swift return of human resources and funds to Japan in emergencies.

Role and improvement of ROE in path toward goals: To maintain credit rating and boost capital efficiency

ROE is an important management indicator in our Corporate Governance Guidelines, and we operate with an eye on maintaining and improving it. We strove to achieve our 7th Plan target of an ROE of at least 13.0%, which came in at 12.7% in fiscal 2025.

The capital allocation earmarked in our 7th Plan comprised investment of ¥2.2 trillion in major real estate developments (and a net increase of ¥700.0 billion after sales), but progress at the four-year mark is lagging. However, our planned ¥650.0 billion in strategic investment came in at ¥1.94 trillion on the Sumitomo Densetsu acquisition, growth in built-for-sale operations, and higher inventories in US single-family housing. Growth investments overall came in ahead of forecast, curtailing the boost to ROE from managing shareholders' equity. ROE breaks down to margins × asset turnover × leverage. Improvements in this benchmark hinge on better asset turnover. We continue to instill an interest-aware mindset among employees and reiterate the need to act in a way commensurate with rising rates.

ROE is an important promise to our equity investors, and the D/E ratio is a benchmark that underpins trust with creditors and rating agencies. With each equally important, we will continue operating with an eye on both.

We believe that the seeds sown during our 7th Plan will contribute to stable cash flow in the longer term. Initiatives include investments to strengthen the built-for-sale and real estate development businesses in our individual domestic operations, working together with Alliance Residential in the US, and synergies from Sumitomo Densetsu.



Thinking on debt-equity ratio

Our credit rating (from R&I) is currently AA-. I witnessed companies being unable to issue corporate bonds without at least a AA rating during the global financial crisis. I strongly believe that Daiwa House Group must absolutely avoid being caught up in such a situation.

Our D/E ratio has risen to roughly 1.0 times. Annual meetings with rating agencies focus mainly on the balance between obligations and cash flows and the debt and equity breakdown. They appreciate our prospects for stability after we carefully explain changes to our business model, approach to strategic growth investment, and

views on future cash flow.

A decline in the credit rating could increase funding costs and damage the trust of our business partners. We feel it is important to outline in concrete terms how boosting our earnings power and growth investments will flow through to higher profits, and give external stakeholders a sense of security regarding future investments and stability.

I believe that the target D/E ratio going forward needs to be considered in the context of growth investment, a sound financial position, and changes to the external operating environment.

Managing with an eye on capital cost and share price

The newly established Management Committee, a recent corporate governance initiative, has gained solid traction. With authority for some discussions on execution delegated to the committee, Board meetings are increasingly discussing how to improve corporate value in the medium to long term. Previously, the Board spent considerable time deliberating the execution of individual projects; we were aware that longer-term corporate growth needed more focus. I feel that this reform, aimed at making the best use of outside directors and their diverse knowledge and experience, is extremely meaningful.

We continually share the key takeaways of our investor dialogues with the Board, which is used to enhance management and strategy. In terms of managing with an eye on capital cost and share price, on multiple occasions I have provided the Board with feedback from investors and case studies of other companies' initiatives, sparking discussions and exchanges of opinion. Going forward, I want our business strategy to be informed by opinions and advice from outside directors at the Board and other forums, and incorporate measures to enhance the focus on the cost of capital and share price.

On the way to ¥10 trillion in sales, it is important to enhance the effectiveness of supervisory and executive functions, building on our existing governance structure. As we press on with growth investments, we need to deploy a select and concentrate approach, and comprehensively manage overall risks.

To our investors and shareholders

Currently, the risk-free rate (10-year government bond yield) is rising, so the cost of equity should also increase in theory. I thus believe we will need to communicate our growth strategy and plans for improving capital efficiency more clearly than ever before.

Daiwa House Industry has grown by meeting diverse societal needs through multifaceted operations, enabling us to book steady earnings in a volatile market environment and increase the dividend for 16 consecutive years. I will continue to convey to our investors and shareholders that Daiwa House represents a combination of growth potential and stability. I will also work to have our corporate value properly assessed through ongoing dialogue featuring an easier-to-understand explanation of our returns policy.

Management's discussion and analysis of financial position and results of operations ▶ P.96

Basic strategy for capital policy under the Seventh Medium-Term Management Plan

❶ 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

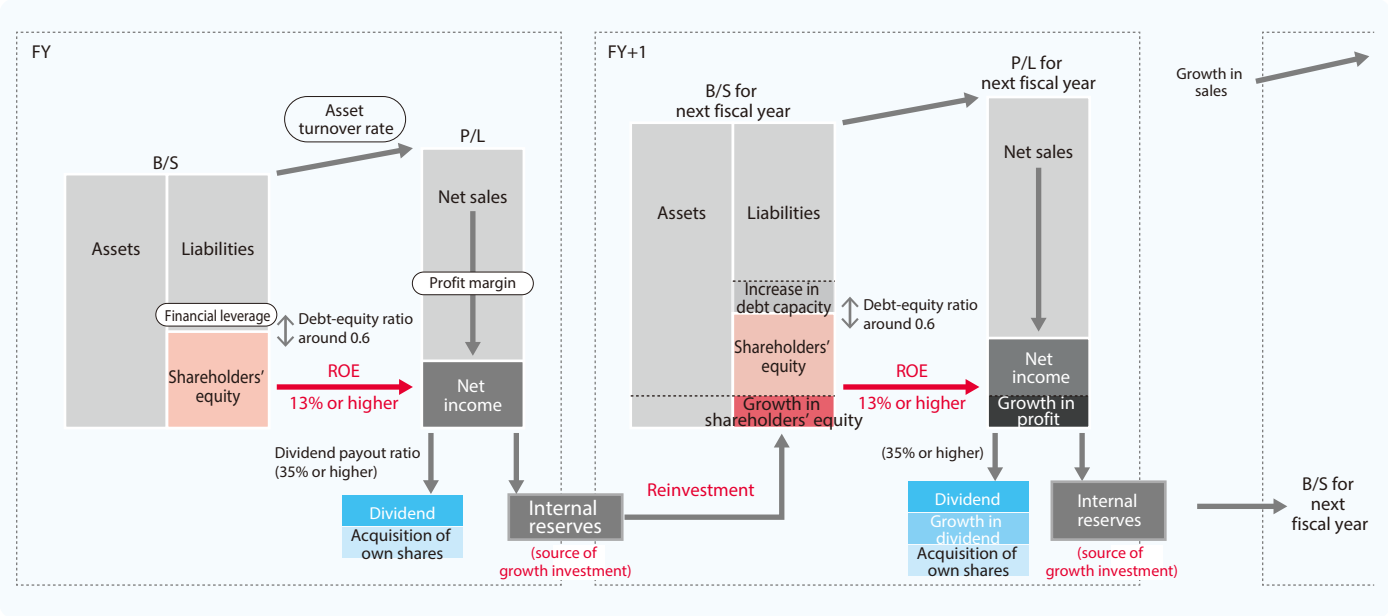
❷ Reinvest in growth areas while maintaining a D/E ratio of about 0.6 times

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

❸ 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 areas, factoring in an appropriate level of financial leverage.

Secure operating cash flow through steady growth of profits

We 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.

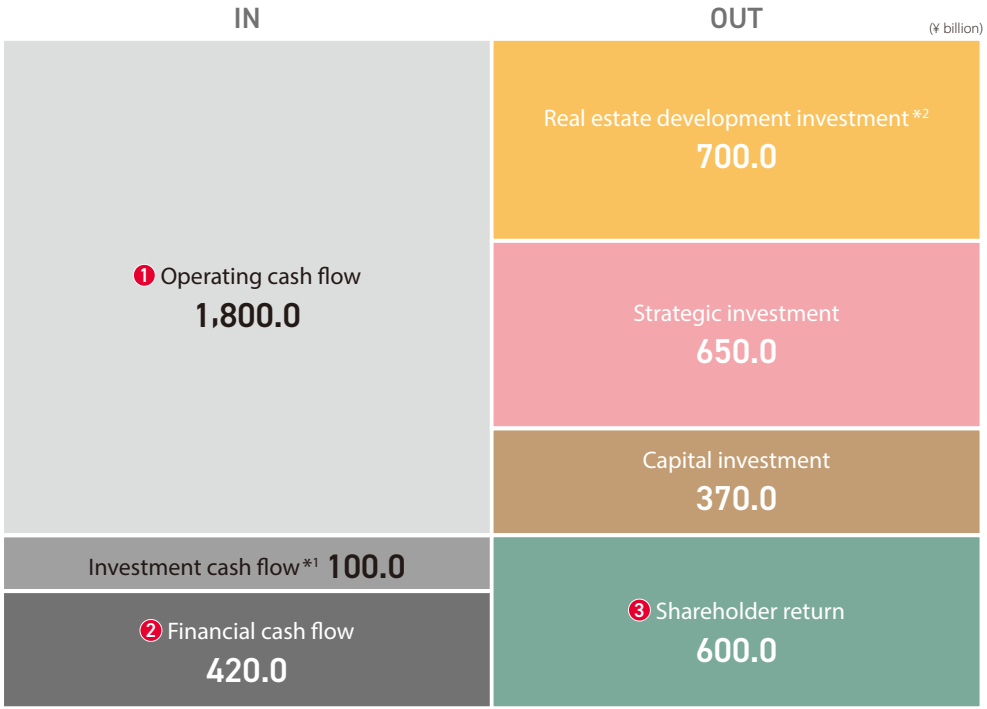
Achieving ROE target based on an optimal capital structure

Capital allocation and shareholder return under the Seventh Medium-Term Management Plan

Looking back on the four years of the 7th Plan, ❶ operating cash flow accumulated steadily, owing to steady profit growth. ❷ Regarding financial cash flow, interest-bearing debt accumulated by approximately ¥1,650 billion due to real estate development investments, as well as investments aimed at expanding the built-for-sale business covering the US single-family houses business and the Single-Family Houses, Rental Housing, and Commercial Facilities Businesses in Japan, plus growth investments including M&A involving US homebuilders and Sumitomo Densetsu. ❸ With regard to shareholder returns, over the past four years we have returned approximately ¥365 billion in dividends and conducted share buybacks of roughly ¥187.1 billion.

Seventh Medium-Term Management Plan　Five-year capital allocation (plan)

This chart shows the capital allocation under the 7th Plan, which was originally formulated as a five-year plan.



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

Main initiative results

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 construction business
- 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