Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2021 3Q
(For the fiscal year from April 1, 2021 to December 31, 2021)

Date & time: From 16:00 to 17:00, Thursday, February 10, 2022
Presenters: Takeshi Kosokabe, Executive Vice President, CFO
Yuji Yamada, Managing Executive Officer and General Manager of Finance and IR Departments

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【Q1】
Please discuss why you chose to not revise your business performance forecasts? Also, what is state of management for retirement benefits?
(Reference) Financial Highlights
P.23 "Business Performance Forecasts for FY2021 (4) Sale of development properties"
P.25 "Business Segment Forecasts for FY2021 (2) Operating income"

【A】
- Earnings from sales of development properties already exceed full-year plans, and other businesses are also outperforming targets. However, we gave consideration to the impact on orders received in the housing area due to our self-imposed restriction on sales activities for December of last year. We also took into account the impact of rising material costs causing declining cost-of-sales ratios for properties we expect to sell during the fiscal year. In light of these factors, we decided that no revisions were needed to our full-year plans.
- As for retirement benefits, we conducted batch treatment at the end of the fiscal year. As of the end of December, the total of both investment gains or losses and actuarial differences resulted in a positive impact of roughly 50 billion yen but we have not reflected this amount in plans.

【Q2】
What is your current impression of the new Medium-Term Management Plan you are planning you announce in May? To the extent possible, please discuss your projections based on information you are seeing from sales division and areas of concern.

【A】
- The heads of each business division are outlining bearish forecasts for our domestic businesses considering the current difficult operating environment impacting operations.
- Looking at overseas business, on the other hand, we are planning on a 28% increase in net sales in

the US market and our US subsidiaries are making bullish forecasts for next fiscal year and beyond. Current market conditions suggest a trend towards purchasing hesitancy due to concerns of rising interest rates and rising property prices. However, we have expectations for strong demand and a firm purchasing market for residential housing. Although we may not see the type of growth rate we have achieved thus far, we do think the market still has significant growth potential.

- One of the issues we are focused on is financial rules. Current plans will require a significant level of investment and operating capital. Our debt-equity ratio as of the end of December was already at 0.82 (0.72 after reflecting hybrid financing). This significantly exceeds the 0.5 we outline as the benchmark of our financial rules. We are currently assessing the optimal investment level that allows us to strive for growth while adhering to financial rules. If progress calls for upward revisions to our investment amounts, we will also focus on maintaining a balance with investment returns in order to return to a level near 0.5 by the end of the final year of our upcoming Medium-Term Management Plan.

【Q3】

Orders received for the Single-Family Houses and Rental Housing Businesses declined year on year for December and January. What is your forecast moving forward? Is there a risk of underperforming full-year plans and what impact will there be on next fiscal year?

(Reference) Financial Highlights P.32, 33 “Orders Received by Business Segment (Non-consolidated)”

【A】

- Between mid-November, when we announced the temporary suspension of operations, through January after the resumption of operations, Single-Family Houses Business dedicated most of its time towards issuing apologies and providing explanations to customers concerning our self-imposed restriction on sales activities in December. The business was unable to conduct sufficient activities towards generating orders receives from new customers. As a result, orders received declined. However, there were almost no contract cancellations resulting from that judgment and we are planning on implementing various marketing campaigns. As such, we expect our numbers will recover over time.
- In the Rental Housing Business, we worked to address existing contracts that were postponed or cancelled due to the impact of COVID-19. The process is largely complete but, due to the impact of eliminating roughly 8 billion yen in orders received monthly since October, there is a possibility we will not achieve full-year plans.
- On the other hand, the business area is firm.
- While there may remain a mild impact on next fiscal year’s earnings, most housing orders received and sales are recorded within the same fiscal year so we will work to recover performance.

【Q4】

Material prices are rising again but is there a possibility of you making additional price hikes for single-family houses or rental housing?

【A】

- While we are working to reduce costs, or basic policy is to reflect cost increases in our sales prices. As such, we cannot negate the possibility of future price hikes.
- We began adjusted prices for the Rental Housing Business in October, and even earlier for the Single-Family Houses Business. Currently, cost-of-sales ratios are worsening but we are expecting less of an impact on prices from next fiscal year onward.

【Q5】

I have heard that home builders in Japan are seeing delays in deliveries of certain residential housing fixtures such as water boilers and kitchens. Has your company been impacted?

【A】

We are working to prevent any inconvenience to customers by implementing model changes or installing temporary fixtures. As such, we have experienced almost no impact.

【Q6】

What were the results for each company for the overseas Single-Family Houses Business?

【A】

The results of each company are as follows.

	Sales			Operating income		
(¥ 100 Million)	20/12	21/12	Change	20/12	21/12	Change
Stanley-Martin (USA)	1,174	1,228	53	131	117	-13
Trumark (USA)	10	186	176	-8	5	14
Box Hill (Australia)	46	40	-6	5	6	0
Rawson (Australia)	148	137	-10	-14	-19	-4

【Q7】

Please tell us about orders received recently in Commercial Facilities Business.

(Reference) Financial Highlights P.30 "Commercial Facilities Business"

【A】

There are no significant changes from the second quarter. Although orders from hotels and restaurants remain difficult, orders from drug stores, supermarkets, logistics facilities, and other facilities remain strong.

【Q8】

What is the current state of occupancy rates for urban hotels?

(Reference) Financial Highlights P.30 “Commercial Facilities Business”

【A】

Last year in November and December, occupancy rates recovered to near 80% but dropped to 57% in January due to the impact of the Omicron variant.

【Q9】

Please discuss the growth trajectory outlined in your upcoming Medium-Term Management Plan and the thinking serving as the basis for your assumptions.

【A】

- We are discussing the possibility of an annual average sales growth rate of 5%.
- We are also considering aiming for an operating margin of 9%. The assumptions for this growth are discussed based on figures minus the impact of annually occurring retirement benefits.

【Q10】

As seen with the revisions for housing loan deductions and the kodomo-mirai (children’s future) housing support project, government subsidy policy is prioritizing housing offering advanced environmental performance. Please discuss how your Single-Family Houses and Rental Housing Businesses compete in terms of zero-energy initiatives.

【A】

- In FY2020, our ZEH track record was 58%. We set a goal of 70% for FY2021, and as of the first nine months we were at 61%. We want to increase this ratio even more.
- We only had three ZEH-M (rental housing) projects in FY2020. In FY2021, we have recorded 121 properties, which exceeds our goal of 100 properties. We have a solid partnership with Daiwa Living, which serves as the management company, and so we feel we are being competitive on this market.
- As for housing loan deductions, although the deduction rate was reduced to 0.7%, the deduction period has been expanded. In particular, the kodomo-mirai (children’s future) housing support project provides subsidies of up to 1 million yen to households with children and young married couples in ZEH properties. This support project aligns with our goals and so we see this as an incredible opportunity.

【Q11】

Please discuss Daiwa House Logistics Trust, which was listed on the Singapore Stock Exchange in November of last year.
(Reference) Financial Highlights P4 “Topics”

【A】

Daiwa House Logistics Trust targets investments in logistics facilities in Asia. At the time of listing, the trust was comprised of domestic regional properties and properties on leased land. The objective of this trust is to provide an exit for logistics properties that will accelerate development in Asia, so investors have shown excitement for the fund’s potential. We will focus on supplying properties that suit the characteristics of each REIT.

【Q12】

Why are you increasing inventories for single-family houses, rental housing, and condominiums?
(Reference) Financial Highlights P14 “Consolidated Balance Sheets Assets (2)”

【A】

- Single-family houses and condominiums are mainly due to the impact of overseas business. Major factors include the acquisition of land for new properties and the status of building construction related to condominium development projects in China, the addition of the US company CastleRock to the scope of consolidation, and the impact of business expansion by Stanley Martin.
- As for rental housing, this is due to our aggressive development of built-for-sale apartments in Japan.

【Q13】

Is profitability declining for logistics facilities in Japan?
(Reference) Financial Highlights P18 “Breakdown of Investment Real Estate (2)”

【A】

In addition to intensifying competition for land acquisition and rising acquisition prices, we are also facing the rising cost of materials, particularly steel. At the same time, rents are not rising. As a result, yield is declining. In the past, we achieved higher-than-expected gains on sales due to a drop in the transaction cap rate. However, the US economy has triggered a trend of rising interest rates. We see these conditions as requiring strict assessment when considering investments.

【Q14】

Will the goal of an ROE of 13% or higher outlined in the Sixth Medium-Term Management Plan also

be used as a benchmark for your upcoming Medium-Term Management Plan?
(Reference) Financial Highlights P22 “Business Performance Forecasts for FY2021 (3) Shareholder return”

【A】

We want to aim for an ROE near 13%. We are also considering the balance with debt-equity ratio, which we position as an indicator of financial stability, as well as our dividend payout ratio. We will also carefully evaluate capital and evaluate the option of increasing our dividend payout ratio.

End