

Daiwa House Industry Co., Ltd.

Q&A Session at Presentation on Management Policies (Summary)

Date and time: From 16:30 to 17:30, Monday, May 15, 2023

Speakers: Keiichi Yoshii, President and CEO

Takeshi Kosokabe, Executive Vice President and CFO

Yuji Yamada, Managing Executive Officer and

General Manager of Finance and IR Departments

【Q1】

Your FY2023 earnings forecasts call for operating income of ¥380bn and growth of 3.1% excluding actuarial differences. This year's growth seems a little behind the target in your seventh medium-term plan. Are you taking a conservative view?

(Reference) Presentation on Management Policies P.5 "FY2023 Full Year Plan"

【A】

- I think FY2023 earnings forecasts are conservative. In November we upgraded our FY2022 forecasts. Since the start of 2023, January-April orders for US single-family houses have been extremely strong. I would like to consider upgrading this year's earnings forecasts with an eye on May and June orders, and we are managing the Company with sales of ¥5tn in our sights.

【Q2】

You have announced a share buyback. Please share your thoughts on achieving ROE of 13.0% through further buybacks and profit growth.

(Reference) Presentation on Management Policies

P.6 "Progress of 7th Mid-Term Management Plan"

【A】

- Management benchmarks figures excluding actuarial differences when targeting ROE. It was in the

11% range in FY2022 on this basis. We would like to look into further buybacks in the future to achieve ROE of 13% or more. Regarding timing, we would prefer to hit the benchmark earlier than the last year of the plan.

【Q3】

You explained that you are investing aggressively while also tightening your investment criteria. Currently in the US business, while orders are recovering, interest rates remain high. You have positioned the US business as a growth business. Please tell us about the current state of investments there.

Also, you have invested to build modular construction plants in Europe. Does the business model not require land procurement for real estate investment as in the US or ASEAN?

(Reference) Presentation on Management Policies

P.9 “Basic Policy FY2023 (2) Continue proactive investment for sustainable growth”

【A】

- The US Single-Family Houses Business is primarily built-for-sale business, and obtaining land is important for ongoing profit generation. The three companies involved in the Single-Family Houses Business have virtually enough land to achieve their earnings targets until FY2026.

- Trumark develops residential communities, mainly in California. We are looking for earnings growth as it makes solid progress in acquiring sites, leveraging its experience and knowledge in land development, where its strengths lie.

- The US market environment currently features still remain high interest rates. I think there will be a temporary economic slowdown rather than a recession. Because inventories of preowned homes are low, I think prospects are for ongoing solid growth in the newbuild residential market. Based on materials released by local loan companies, roughly 60% of all home buyers are millennials, and tend to be keen on home purchases at mortgage rates below 7%. They are running their businesses with interest rate discount campaigns in places to reach consumers who are eager to make a purchase. As evidence, in January–April we have achieved strong contract numbers at CastleRock in particular, where the figure for these four months total exceeded that for all of last year. We are looking forward

to next year with great anticipation.

- Daiwa House Modular Europe mainly provides buildings such as student dormitories with construction methods that connect modular units, and does not procure land typically used in real estate development. Its products and services are gradually finding market acceptance, and we opened a new plant in Germany. We plan to offer products across Europe in the future.

- After visiting the Netherlands and Germany to inspect the business, I have high hopes. Large numbers of Ukrainians have fled to the Netherlands, and we are building about 800 units for refugees at their request. We want to expand our business throughout the continent, making best use of Europe's contiguous nature. In FY2023, we transferred the company from the Single-Family Houses segment to the Rental Housing segment, and hope that you will keep an eye on its growth in that segment going forward.

- Considering that over the five years of our seventh medium-term plan we plan to spend ¥2,200bn on real estate development, or ¥440bn per year on average, we are lagging slightly at the current pace. We plan to steadily roll out investments with a view to profit growth in our seventh and eighth medium-term plans.

【Q4】

You talk about strengthening wooden construction, something I don't associate Daiwa House. Could you let us know your thoughts on the strengths of wooden construction and background to your wooden construction strategy?

(Reference) Presentation on Management Policies

P.10 "Basic Policy FY2023 (3) Strengthening Wooden construction"

【A】

- In 2001, we merged with wooden house builder Daiwa Danchi, which had sales of about ¥60bn in its wooden construction business. Wooden single-family house sales are currently about ¥13bn, partly because the mainstay Daiwa House products are steel frames.

- Our rationale for strengthening this business is increasing numbers of customers looking into wooden products when they come to our housing exhibition halls amid heightened interest in carbon neutrality.

We plan to meet such customer needs by making best use of the wooden building construction expertise and personnel from the Daiwa Danchi era.

【Q5】

In the domestic Single-Family Houses Business, you have initiatives to capture new information digitally, improve the ZEH rate and strengthen built-for-sale business. Could you let us know of any other initiatives you have for improving profit in the domestic business and any results?

(Reference) Presentation on Management Policies

P.19 “Strengthen cost competitiveness”

P.24 “Value Co-Creation in the Single-Family Houses Business (Topics)”

【A】

- We have mentioned group purchasing initiatives to cut costs as a medium-term plan goal. However, in FY2022 our first priority was to obtain materials amid yen weakness, shortages, and soaring prices. With materials prices having settled down recently, we expect margins to improve if we press on with our centralized purchasing initiatives. I’m not satisfied with our margins of Single-Family Houses Business. We will work hard to lower the cost ratio to boost margins.

- In addition to cost reductions from economies of scale through group purchasing, the amount of cost savings referenced in the materials also includes the effect of cost-cutting and curtailment measures. We intend to accelerate our group purchasing efforts in FY2023.

【Q6】

Have you made any progress in transferring Daiwa House expertise with a view to expanding your US Single-Family Houses Business? California has enacted laws regarding solar power equipment installation. Have you been able to transfer any environmental expertise?

(Reference) Presentation on Management Policies

P.12 “Progress in overseas business: U.S. areas”

【A】

- Last month, management of Daiwa House and the three US companies got together in New York. We shared updates about our businesses, and the area of most interest to US managers was Daiwa House's expertise in industrialization. Industrialization lowers costs, allows us to supply uniformly high quality products, and resolve labor issues stemming from employee shortages. Stanley Martin has already launched arrangements to manufacture off-site, with about 50–60% of wall panels made away from the construction site, and is working to do the same with floor materials. In addition to Daiwa House technological teams and procurement department, we are working with suppliers on these initiatives to provide support in the US.
- US customers are also increasingly environmentally aware, and we are thinking about environmental initiatives in the US and targets in collaboration with three US companies.

【Q7】

Please let us know about FY2021 sales results at the Livness business and forecasts for FY2023.

Please also tell us which segments are growing sales.

(Reference) Presentation on Management Policies

P.17 “Expand a circular value chain”

【A】

- Sales for Livness business

Fiscal Year	2021	2022	2023
Net sales	263.9 billion yen	320.7 billion yen	297.0 billion yen

- The Single-Family Houses Business accounts for a large share of Livness sales, coming to ¥127.4bn (+10.8% YoY) in FY2022. We are focusing on renovation in this business.
- Sales are growing rapidly in the Commercial Facilities Business. In FY2022, sales were up 49.5% YoY. When the rental agreement between building owner and tenant expires at commercial facilities that we have built, we purchase the building, revitalize and sell it, or keep it and rent it out to grow the business.

【Q8】

Please tell us about data center business progress and background to your ability to grow the business and strengths. With securing power for data centers an issue, are there any advantages for Daiwa House in having the Environment & Energy Business?

(Reference) Presentation on Management Policies

P.28 “Value Co-Creation in Logistics, Business & Corporate Facilities Business (Topics)”

【A】

- The data center business we operate at Inzai has won plaudits, and we recently attended a conference on data centers held by the Ministry of Economy, Trade and Industry. Our strengths in the business revolve around our ability to find land and our wealth of land data. Data centers require power supplies and strong foundations among other requirements. We have several potential sites we intended to use for logistics facilities we could switch to data center use.

- As environmental awareness increases among customers and tenants, we believe that it will be more important to support from the Environment & Energy Business that implements initiatives such as renewable energy initiatives.

- We also have sales offices throughout the country, and operating close to the community is another strength. Due to government policies and power supply considerations, demand for suburban data centers in addition to the Tokyo metropolitan area is expected to increase. The ability to provide and build data center proposals throughout the country is one of our strengths.

- Yoshiyuki Murata, Executive Vice President and Head of the Technology Coordination Department, is spearheading the data center business using his knowledge in construction, using Inzai as a case study, as inquiries about data centers from our customers increase. We encourage you to keep an eye on data center business growth in the years ahead.

【Q9】

Last year, you decided to sell Daiwa Resort, but do you plan to expand the urban hotel business in the future? Also, is the accommodation business of Cosmos Initia expanding?

(Reference) Presentation on Management Policies

P.27 “Value Co-Creation in the Commercial Facilities Business (Topics)”

【A】

- I think our forecast for the urban hotel business this year is conservative, and I have high hopes as recent occupancy rates are above plan.
- Roynet Hotels have recovered from the pandemic and are performing well. While full-year FY2022 occupancy levels did not reach those of pre-pandemic FY2019, I expect earnings to top forecasts based on recent conditions.
- Cosmos Initia’s Mimiru hotels target the inbound market, and are recovering, and we proceed our hotel business with an eye to differentiating ourselves from the hotel business operated by Daiwa House.
- We will continue to grow the hotel business with bringing the Daiwa House Group’s presence and further to extend our contributions to society.

【Q10】

Your guidance for the overseas business calls for operating losses in Australia and ASEAN this year. Can you please tell us when you expect them to generate profits?

(Reference) Presentation on Management Policies

P.12-14 “Progress in overseas business”

【A】

- In ASEAN, we are at the investment/development stage, and are thinking of when to sell development properties, with a view to an early move into profits.
- The housing industry in Australia remains extremely severe environment. While keeping an eye on the timing of market recovery, we are working to turn the business profitable, reviewing our pricing strategy and dispatching staff from Japan.
- Meanwhile, in the sales business in China, we are refraining from investing in new projects until we collect payments from customers and return the funds to Japan. Sales in the Chinese Condominiums Business likely to drop about ¥60bn YoY in FY2023. This is a result of rolling out the business bearing

in mind the maximum investment risk, leading to a small number of condominiums deliveries in FY2023.

【Q11】

What is the outlook for gross margin ratio in Daiwa House's Logistics, Business & Corporate Facilities Business?

(Reference) Presentation on Management Policies

P.19 "Strengthen cost competitiveness"

【A】

- The Logistics, Business & Corporate Facilities Business has contracts for many large projects that take two or three years from signing the contract to delivering to the customer, if land development is included. Until the delivery is made, contract provisions allow for negotiations with customer for additional payments regarding cost increases during the period, but even if additional costs are covered, it is difficult to include an additional profit amount, so it is hard to improve our cost-of-sales ratio. Considering that our work in hand includes contracts signed during the cost upswing, we think it will be some time before we are able to make a significant improvement in the cost-of-sales ratio, with gentle progress likely to continue for now.
- Development schemes where we set specifications in-house, attract tenants, and sell to external parties are appreciated by those parties, and we have high margins on these. We think that raising the weighting of such schemes will help improve the cost-of-sales ratio going forward.

【Q12】

Can you please explain to us the factors/background in Daiwa House's construction business having a better cost-of-sales ratio than the major general contractors?

(Reference) Presentation on Management Policies

P.19 "Strengthen cost competitiveness"

【A】

- We think that competition with others in the industry affects the cost-of-sales ratio in the construction business. Our approach is to try to win special orders (those that do not involve bidding). For example, in industrial park development, we win special orders for building construction by putting forward proposals including land. We think this is one factor in our better margin.

【Q13】

The general contractors are having trouble finding construction workers. Could you please touch upon your efforts in this area?

(Reference) Presentation on Management Policies

P.22 “Increase the value of our human capital – Creating a foundation for innovation”

【A】

- Our Company was one of the first in the industry to implement a system of eight days off every four weeks to cope with the so-called “2024 problem” (new labor laws limiting overtime taking effect next year).

- Labor shortages due to a shrinking, ageing population are not confined to our Company but are faced by the entire industry including our partners. When our partner companies do not have a successor for current management, we sometimes invite them to join our Group, among other initiatives.

End

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