

Daiwa House Industry Co., Ltd.

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

Date and time: From 15:00 to 16:00, Monday, May 13, 2024

Speakers: Keiichi Yoshii, President and CEO

Takeshi Kosokabe, Executive Vice President and CFO

Yuji Yamada, Managing Executive Officer

【Q1】

Please tell us about FY2024 earnings plan and the outlook for orders received in Japan. Also, how likely are you to achieve ¥500 billion operating income target in the final year of your Medium-Term Management Plan?

(Reference) Presentation on Management Policies:

P.3 “The Progress of the 7th Medium-Term Management Plan”

【A】

- In formulating FY2004 plan, our top priority was to ensure that we did not contravene regulations limiting working hours in the construction, transport, and logistics industries set out in the amended Labor Standards Act (work style reform bill) that took effect in April 2024—the “2024 problem.” Although employees at our construction sites are entitled to eight days off every four weeks (28 days), we formulated our earnings plan with work processes and budgets that make greater allowances for the needs of our partner construction companies on which work at these sites depends. That being said, we intend to revise our earnings forecast as we move through 2024 and any disparity between the plan’s estimated and the actual impact of the “2024 problem” becomes more apparent.

- In the Single-Family Houses Business and Rental Housing Business, order backlogs are growing. We are working to maintain reasonable completion periods and spread out construction work evenly over the year. We think progress is steady in the Rental Housing Business in particular, with growing demand from property owners who want to take advantage of inheritance tax-saving measures, stable occupancy rates and increasing number of units under management at Daiwa Living Co., Ltd., and an improvement in gross margin. The Single-Family Houses Business is shifting to built-for-sale houses

while gaining an understanding of needs and attributes particular to the localities where it is active. We have seen a positive response in the Kyushu area, where we have put initiatives into action that led to an earnings recovery.

- Although tenant rents have not increased as much as we anticipated in the Commercial Facilities Business, we are working on expanding orders received and improving profitability at time of order received by making proposals that include greening work and renewable energy sourcing amid growing tenant awareness for the environment.

- The gross margin is recovering in the Logistics, Business & Corporate Facilities Business. We think the impact of rising raw material costs has been smaller for us than it has been for other major construction companies, due in part to centralized purchasing by the Group. Although we forecast lower construction sales in FY2024 in view of the “2024 problem,” we may revise up our forecast depending on progress.

- Sales of development properties are reflected in the plan for each fiscal year in light of the earnings performance of the Company as a whole. In FY2023, for example, we postponed sales of some properties factored into the earnings plan until FY2024. We plan to take a flexible approach to property sales again in FY2024 in consideration of the Company’s overall earnings performance.

- Looking at targets of the final year of the Medium-Term Management Plan, net sales of the Rental Housing Business have already exceeded the plan’s final-year target, while net sales at the Commercial Facilities Business and Logistics, Business & Corporate Facilities Business came close. The Single-Family Houses Business is also showing steady expansion. We certainly think that our operating income target of ¥500 billion for the final year of the Medium-Term Management Plan is achievable, because profit margins are expected to improve going forward despite the negative impact of higher input prices on operating income.

【Q2】

Please tell us your thoughts on shareholder return, including stock buybacks.

(Reference) Presentation on Management Policies::

P.5 “Capital Policy, Shareholder Return and Cash Allocation”

【A】

- We decided to increase the minimum annual dividend from ¥130 to ¥145 as part of our efforts to strengthen our shareholder return policy. Our priority is sound business performance to ensure stable dividend payments.
- Although we consider stock buybacks an option, we believe our management priority is to increase operating income to achieve our ROE target.

【Q3】

Please update us on progress of the data center business.

(Reference) Presentation on Management Policies:

P.25 “Value Co-Creation in Logistics, Business & Corporate Facilities Business (Topics)”

【A】

- Previously, when building data centers, we placed a blanket order with a major construction company to acquire data center construction know-how. We have now expanded the scope of work that we do ourselves (including electrical work) and are engaging in new schemes such as development of our own urban data centers.

【Q4】

In your business segments, you have utilized your strengths in land information and track record of developing a wide range of assets to achieve growth. Can you discuss recent cases and future initiatives in which you harness these strengths?

(Reference) Presentation on Management Policies:

P.12 “Expand Our Circular Value Chain ① Company-Wide Initiatives”

【A】

- In the Condominiums Business, competition to acquire land is heating up amid a strong market. We rigorously assess profitability when taking on projects such as complex developments and projects in

the regions such as Okinawa and Hokkaido as well as the usual condominiums for-sales.

- Some owners of rental housing own housing land near the construction site of a rental housing. We make a proposal to them to buy the housing land with the rental housing proposal to strengthen built-for-sale business in the Single-Family Houses Business.
- Cases of the purchasing and resale business acquiring an existing building are on the increase in the Commercial Facilities Business and Logistics, Business & Corporate Facilities Business. We think that the sale prices of the purchasing and resale business stand out in comparison with other companies' new buildings at a time when construction costs are on the rise.
- Having such an extensive scope of business gives us opportunities to obtain a broad range of land information. We believe that our land information capability is unmatched and will continue to make the most of this strength in doing business in diverse fields.

【Q5】

Can you tell us about the methods and costs of raising funds overseas as you expand your overseas business?

(Reference) Presentation on Management Policies:

P.7 “Accelerating Growth Through Overseas Business ①”

【A】

- We raise funds overseas at a lower interest rate than local companies borrowing directly from financial institutions by borrowing from Japanese banks, and making use of methods such as having Daiwa House Industry act as guarantor and intragroup loans provided by regional management companies.
- As well as reducing the cost of funds procurement, financing assistance from the Daiwa House Group offers benefits such as greater competitive advantage through economies of scale and accelerating business progress by raising funds in a timely manner.

【Q6】

What is the status of rent negotiations with tenants of commercial facilities and other properties? Please

explain your plans for passing increased costs through to prices going forward.

(Reference) Presentation on Management Policies:

P.15 “Expand Our Circular Value Chain ④ Commercial Facilities Business”

【A】

- For projects underway, we are patiently negotiating rents with tenants. We are explaining in precise detail how costs associated with construction (such as raw material and labor costs) are rising so that they understand why rents must increase.

【Q7】

In the US, three companies (Stanley Martin, Trumark and CastleRock) are expanding their businesses. Please explain management involvement from Japan, and whether and how you are looking into exporting products and services.

(Reference) Presentation on Management Policies:

P.9 “Accelerating Growth Through Overseas Business ③ Expansion of U.S. Business”

【A】

- Daiwa House Industry, Stanley Martin, Trumark, and CastleRock hold regular meetings in the US (attended by President Keiichi Yoshii, Head of Overseas Division Hirotsugu Otomo, Head of Single Family Housing Business Division Toshiya Nagase, and others). The four companies discuss our future expansion strategy in the US and exchange information on cost reduction initiatives and other matters. We also look for synergies with other countries’ operations. Daiwa House Modular Europe and Rawson (Australia) also join these meetings online so that they can apply the initiatives and expansion strategy of the US business in their own businesses.

- Regarding export of products and services from Japan, we allocate time during the meetings for Japanese manufacturers to pitch their housing fixtures and other products, but we leave it up to local companies to decide on whether they use Japanese products.

- To shorten construction periods, Daiwa House makes recommendations for shortening work periods at the process level and provide support for advancing off-site construction. We believe that progress

with off-site construction will not only shorten construction times but also help ensure consistent quality and reduce costs.

- As a future initiative, we are exploring the idea of companies such as Stanley Martin taking part in the development of rental housing that we operate in the US. We think this will help these US companies to acquire our rental housing development know-how and lead to diversification of their businesses.

End

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