

Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2023
(For the fiscal year from April 1, 2023 to March 31, 2024)

Date & time: From 16:00 to 17:00, Friday, May 10, 2024

Presenters: Takeshi Kosokabe, Executive Vice President, CFO

Yuji Yamada, Managing Executive Officer

Saori Seki, General Manager, IR Department

【Q1】

Your plans for FY2024 indicate an increase in operating income yet a decrease in net income, excluding the impact of actuarial differences related to retirement benefits. What are your plans for non-operating gains and losses and extraordinary gains and losses? Also, this would indicate that ROE will also decline, so, given that, will you consider improving ROE via measures such as share buybacks?

(Reference) Financial Highlights

P.24-28 “Business Performance Forecasts for FY2024”

【A】

-For non-operating income, we only included amounts for which we have a high degree of certainty. However, for non-operating expenses, in addition to projecting interest payments to increase by more than 4 billion yen due to an increase in interest-bearing debt, plans reflect a conservative estimate of other expenses. As for extraordinary gains and losses, we are projecting a year-on-year decrease due to a subsequent reverse effect following gains on transfer of stock in Daiwa Resort, and gains on the sale of part of the investment units with Daiwa House REIT Investment Corporation and cross-shareholdings. This fiscal year we intend to continue the selloff of cross-shareholdings and have included a certain portion of projected gains on sales in plans.

-As for ROE, current projections are for roughly 10% but we will continue to work towards improvement, including considering additional shareholder returns through measures such as flexible share buybacks.

【Q2】

I want to ask about your approach to plans for the construction business. First, the gross margin ratio for the Commercial Facilities Business worsened year on year and your plans indicate this will decline next fiscal year as well. With the Rental Housing Business as well, gross margin ratio declined year

on year. Also, you are planning on decreased sales for the Logistics, Business & Corporate Facilities Business.

(Reference) Financial Highlights

P.33-35 “Rental Housing Business”

P.38-39 “Commercial Facilities Business”

P.40-41 “Logistics, Business & Corporate Facilities Business”

【A】

-During the formulation of the FY2024 plan for the construction business, our highest priority was not violating the upper limits on overtime work set for construction businesses, the so-called 2024 problem for the construction industry. This meant formulating plans based on feasible schedules, which resulted in conservative plans. However, we expect the benefits of DX promotion we are undertaking as a measure to address the 2024 problem for the construction industry will become more apparent over time, and we will look to reevaluate plans when that happens.

-In particular, although plans for Logistics, Business & Corporate Facilities Business call for decreased sales, it is not the case that we are in a bad environment for orders received. We want to take a half-year or so to assess conditions, meaning that at the beginning of the fiscal year we took a conservative approach to plans.

-In the Commercial Facilities Business, we continue to negotiate pricing that reflects costs but some price increase negotiations with tenants have proven difficult depending on the asset type. As a result, the gross margin ratio for FY2023 was 21.2%. While we are planning for the gross margin ratio for the contracting construction in Commercial Facilities Business to decline by 0.1pt in FY2024, we will use competitive store opening proposals and other measures to negotiate prices that reflect cost increases as we continue working to improve gross margin ratio.

-Regarding the Rental Housing Business, in FY2023 we recorded operating losses on unprofitable projects by Daiwa House Modular Europe, which was a factor that drove down gross margin ratio. However, looking at the Rental Housing Business in Japan, gross margin ratio improved by 1.4pt thanks to product price revisions that have enable us to reflect costs in sales prices. The environment for orders received is also strong.

【Q3】

Please indicate the factors causing the deceleration of real estate development investment performance for FY2023 compared to the previous fiscal year.

(Reference) Financial Highlights

P.22 “Status of Real Estate Development Investment”

P.18 “Consolidated Balance Sheets (2) Assets”

【A】

-Real estate development investment has slowed somewhat in part due to the fact that procurement of large-scale land decreased compared to previously. As a rate of progress on the five-year real estate investment plan outlined in the 7th Medium-Term Management Plan, we are at 30 percent. At the same time, real estate for sale increased by 190 billion yen compared to the previous year. We are promoting the built-for-sale business in the Single-Family Houses, Rental Housing, and Commercial Facilities Businesses, and currently are conducting investments in those areas.

【Q4】

Looking at FY2024 plans for overseas business, the China area is expected to post losses. Please discuss the factors behind that forecast, if there is a risk of impairment losses, and details on future new projects.

(Reference) Financial Highlights

P.42 “Overseas Business”

P.37 “Condominiums Business (2) Forecasts”

【A】

-Next fiscal year, we are forecasting losses of 1.7 billion yen on condominiums in the overseas business. Factors behind this include sales costs for the Suzhou II and Changzhou III projects under development in China. Looking at the sales status, the number of contracted units is gradually increasing, so we do not consider there to be any risk of impairment losses. Furthermore, we will not be planning any new condominium projects in China for the foreseeable future.

【Q5】

Please indicate your confidence level and promising businesses as you aim to achieve operating income of 500 billion yen in the final year of the 7th Medium-Term Management Plan.

【A】

-One factor is the expansion of the US Single-Family Houses Business. Another has been the housing business in Japan, which is engaging in reforms towards a shift to the built-for-sale business. The domestic Single-Family Houses Business (non-consolidated) recorded losses in FY2023 but we are planning to break even in FY2024, and will aim to for profitability in the future.

-We are also positioning the Rental Housing Business, the Commercial Facilities Business, and the Logistics, Business & Corporate Facilities Business as growth drivers, and will pursue growth for these businesses with each fiscal year. Through this approach, we expect 500 billion yen to come into

view by the final year of the 7th Medium-Term Management Plan.

【Q6】

Concerning the FY2024 plan for your overseas business, what is your view on assumptions such as the impact of interest rates? Please provide details on the US Single-Family Houses Business as well as businesses in Australia and ASEAN.

(Reference) Financial Highlights

P.42 “Overseas Business”

【A】

-Current orders received for the US Single-Family Houses Business have exceeded 2,000 units for the cumulative three-month period between January and March. Our FY2024 plan is to exceed 8,000 units so this is a favorable start. We have confirmed that, even amid high interest rates, customer demand does not decline if we employ sales measures that involve lowering the interest rate. As such, we believe we can achieve the planned figures for sales. However, as results depend on interest rate trends, at present it remains unclear as to whether or not we can advance sales while seeking to improve the gross margin ratio, in other words, without offering options. We believe the annual supply volume goal of 10,000 units for the final year of the 7th Medium-Term Management Plan is sufficiently achievable as we are having success with area expansion. This includes our three US subsidiaries proceeding with M&As.

-As for Australia, since the previous fiscal year resulted in losses, we are advancing cost reduction measures as we look to rehabilitate the business. In ASEAN, we plan on seeing contributions from the Fujita construction and condominium businesses.

【Q7】

What is your thinking in terms of the component distribution ratio of custom houses and built-for-sale houses in your plans for the domestic Single-Family Houses Business?

(Reference) Financial Highlights

P.31 “Single-Family Houses Business”

【A】

-In terms of number of units, our policy is to maintain current levels for custom houses and work towards increasing built-for-sale houses. For custom houses, we are projecting an improvement in the gross margin ratio on price revisions to reflect cost increases conducted in January 2024.

-We started reforming the built-for-sale houses business last fiscal year beginning from Kyushu, and

were successful in returning to profitability by reducing design costs. Moving forward, we plan on further area expansion and will increase the number of units.

【Q8】

Compared to the previous fiscal year, there appears to be an increase in the elimination of consolidated operating income for FY2024. Is this due to cost increases triggered by factors such as inflation?

【A】

-In the previous fiscal year results, consolidated eliminations include the impact of actuarial differences related to retirement benefits but, excluding that factor, we are projecting corporate costs to increase by roughly 5 to 6 billion yen, so this is an increase within normal expectations.

【Q9】

Please discuss the impact of construction cost increases on progress for real estate development investments and the construction business.

【A】

-With real estate development, if rents are at a certain level, then yield will decline with the increase in construction costs so, in some cases, we are forced to constrain land acquisition costs. There is also an impact on the construction business. For example, with the Logistics, Business & Corporate Facilities Business, we approach orders received with a focus on gross margin ratio. As such, we are seeing some cases where we present construction cost estimates that reflect increases in construction costs but the customer backs out of negotiations. Although this is not a frequent occurrence, there are cases when this does happen.

-With logistics facility development, we are increasing the ratio of BTS, for which we can project stable rents by responding to the needs of specific customers, and will work to increase development properties as a future pipeline.

【Q10】

My assumption was that you may constrain sales of development properties in FY2024 as you aim for the final year of the plan but your plan outlines gains on sales of 98.4 billion yen. Is there a possibility that you will postpone the sale of development properties depending on conditions? Also, please discuss the status of progress for FY2024 plans for the sale of development properties.

(Reference) Financial Highlights

P.23 “Sale of Development Properties : Results and Forecasts”

【A】

-There is the possibility that plans to sell development properties could be postponed depending on the progress of performance for the Company overall. In FY2023, we actually held back the sale of certain properties until the next fiscal year.

-As for logistics facilities, investor demand remains strong and we already have prospective buyers for plans during FY2024.

【Q11】

Please indicate the status of orders received for hotel contracting construction.

【A】

-Prior to COVID-19, we had construction orders received of roughly 100 billion yen a year, mainly for business hotels in urban areas. Currently, property development needs are increasing for luxury hotels near tourist destinations but as these are large-scale projects, their contributions to sales will come in the future.

【Q12】

Please discuss why NOI yield is decreasing for logistics facilities and indicate the current state of leasing.

(Reference) Financial Highlights

P.21 “Breakdown of Investment Real Estate (2) NOI Yield”

【A】

-One factor is that we sold off high-yield properties in FY2023. Another factor is that, in this environment with strong logistics facility supply, leasing for newly opened properties is taking time. However, we are pursuing leasing without lowering rents so we expect yield to improve moving forward.

【Q13】

Please discuss how you will build income in FY2024 if negotiations with prospective buyers for development properties do not go as planned. Also, compared to the past, it appears that the timeframe from investment to payback has shortened and that income growth is declining but what is your view?

【A】

-We have confirmed desire to purchase properties so if negotiations with prospective buyers do not pan out, then we will engage with a different prospective buyer.

-Our view of the timeframe from investment to payback is unchanged but soaring construction costs are a factor causing a decline in income.

-As we announced by Daiwa House REIT Investment Corporation recently, we repurchased three logistics facility properties from Daiwa House REIT Investment Corporation. Currently, logistics facility construction costs roughly 700,000 to 800,000 yen per tsubo (approx. 3.3m²), but the properties purchased were constructed at roughly half that cost. Furthermore, rent revisions were difficult as these are BTS (Built To Suit: dedicated logistics facilities mainly for use by a specific tenant). Considering we will be able to advance price revisions for these properties, we believe we acquired favorable properties from our perspective. From the perspective of Daiwa House REIT Investment Corporation as well, selling these properties provides them with additional purchasing power. Moving forward, we will seek to further demonstrate the benefits of this business model unique to our Group.

End

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