Daiwa House Industry Co., Ltd.

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

Date and time: From 16:00 to 17:00, Wednesday, November 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 your thinking regarding meeting the targets for the final year of your 7th Medium-Term Management Plan, namely net income of ¥340 billion and ROE of 13.0%.

(Reference) Presentation on Management Policies:

P.6 “The Progress of the 7th Medium-Term Management Plan”

【A】

- Firstly, we think it is important to grow net sales and operating income. On the profit margin front, costs have risen more than we anticipated when we formulated the plan, but we seem to have curtailed the impact of higher costs as much as possible due to efforts at our worksites. We think there is ample scope to expand margins given that building-material prices have settled down and customers have a better understanding of the need to pass through costs to prices.
- It is also important to increase asset turnover. Sales of logistics facilities are solid, and turnover rates are increasing, but we see remaining scope to improve rates in built-for-sale housing and other asset classes.
- We will work on improving margins in areas where they are slumping, with portfolio reshuffling one of our options.
- We will look into reducing equity capital via share buybacks and dividend payments as a way to achieve our ROE target.
- While using financial leverage is another option, this ranks low as a priority, as a sound balance sheet is an important business indicator.

【Q2】

Regarding the Overseas Business, in the US, profit is increasing due to aggressive business expansion by means such as the recently announced purchase of a stake in Alliance Residential; but in other areas, my impression is that growth is lower than in the US and profit is volatile. Please give us your thinking on expansion of the Overseas Business going forward.

(Reference) Presentation on Management Policies:

P.13 "Overseas Business- Business Expansion and Portfolio Management"

【A】

- In ASEAN, while there are delays in the sale of some projects such as logistics facilities in Indonesia, NOI is solid, and we are in discussions with potential purchasers such as a Singapore REIT, with a view to an eventual sale.

- In the China condominium business, we are making progress in sales at the Changzhou III and Suzhou II projects. While slower than initially expected, deliveries at Changzhou III started in October, and sales are increasing little by little. We think that sales will progress at Suzhou II once construction is complete.

- In Europe, we are investing in plants and strengthening our production systems with a view to expanding sales of modular architecture.

- From the viewpoint of optimizing our US business portfolio, our recent investment in Alliance Residential Company strengthened our Rental Housing Business. By having Alliance join in our regular meetings between Daiwa House and our three US builders, we hope to explore opportunities for business collaboration.

【Q3】

You have purchased a 35% stake in Alliance, and it is slated to become an equity method affiliate. Going forward, do you plan to maintain an aggressive approach in purchasing similar minority stakes in other M&A deals?

【A】

- Regarding stakes in M&A deals, we will consider what sort of investment is optimal with a view to our future growth and risks on a case-by-case basis.

【Q4】

The operating environment has changed significantly since you formulated the 7th Medium-Term Management Plan. Is it possible that you will bring forward plan completion (although there are roughly two years left) and announce a new medium-term plan?

(Reference) Presentation on Management Policies:

P.6 “The Progress of the 7th Medium-Term Management Plan”

【A】

- We had a practice of announcing three-year plans through the 6th Medium-Term Management Plan, but that involved a hectic schedule whereby we had to start thinking about the next plan as soon as the current one had begun, so we covered a five-year period in the 7th plan. However, I sense somewhat of a loss of momentum in the lengthy five-year period, partly due to the pandemic. We will address what to do regarding the current plan—whether to wind it down early or move launch of the next plan forward—when the timing is right, once we have thoroughly considered future earnings and business strategies that will be acceptable to shareholders.

【Q5】

Is there a single most important criterion when you do an M&A deal? Also, please tell us what factors enabled earnings growth at group companies you have acquired in the past.

(Reference) Presentation on Management Policies:

P.5 “Enhancing Corporate Value”

【A】

- When considering an M&A deal we place the most importance on to what extent the target values its customers. This is something our founder often reiterated. Another important factor is appetite for growth. They need to have a clear growth scenario, so that once they join our group, they do not leave management up to Daiwa House, but have a desire to grow the company themselves.

- We place great importance on having thorough discussions with the target. For example, we have had dialogues spanning several years before getting Stanley Martin to join our group. As a result, we were able to execute a favorable M&A deal. I also understand that the CEO of CastleRock had discussions with the CEO of Stanley Martin before joining our group.
- Other important factors include compatibility with our corporate culture and corporate philosophy. We see M&A as one way to grow our company, so will continue looking into it going forward.

【Q6】

In your presentation, you mentioned that investment in real estate development itself was progressing well, despite spending just 36.3% of the ¥2.2 trillion earmarked in your 7th Medium Term Management Plan. Can you please discuss the reasons for this and investment direction going forward?

(Reference) Presentation on Management Policies:

P.9 "Portfolio Management"

【A】

- Recently, an increasing number of our projects are on leased land, such as DoubleTree by Hilton Osaka Castle. We have also just begun looking into leased land for a data center in Kansai. Rental payments on leased land are not included in real estate development investment figures, but we have a growing number of development projects and expect progress in other areas such as construction investment.
- While not included in the ¥2.2 trillion in real estate development investment, inventories are increasing more than expected, and in particular, upfront investment to secure land is progressing in the US. As a result, aggregating fixed assets and inventories, progress in real estate investment is certainly not lagging, in our view.

【Q7】

Please let us know your longer-term thinking on shareholder returns after you reach the 13% ROE target set out in your 7th Medium-Term Management Plan.

(Reference) Presentation on Management Policies:

P.8 “Capital Policy / Shareholder Return”

【A】

- I think we will consider shareholder returns in the next plan in the context of how the plan is positioned in our future overall. While we have a strong focus on shareholder returns, I also think we may have to make decisions with a view to future business opportunities. For example, we may deploy funds toward growth investments such as proactive acquisition of land for data centers. When thinking of the next plan, we will discuss the appropriate balance of growth investments and returns to shareholders from a longer-term perspective.

【Q8】

Given reports of difficulties in leasing logistics facilities, what is your company’s stance on fresh investments in developing them? Also, please let us know the growth prospects of freezing and refrigeration facilities and data centers you are currently working on.

(Reference) Presentation on Management Policies:

P.19 “Construction and Development Business”

【A】

- Our impression is that fewer players are looking into acquiring land for new logistics facilities due to the difficulty of getting services from general contractors. One of our Group’s strengths is that it includes a general contractor, Fujita, so we will continue to invest aggressively in projects we judge favorable so as not to miss out on growth opportunities.

- Turning to freezing and refrigeration logistics, we think our Group can bring to bear the capabilities of Wakamatsu Konpou Unyu Soko, one of our companies. Recently, we started development at Osaka Nanko. This is an area where we think is promising, as we have confirmed that there is mounting demand for logistics facilities with freezing and refrigeration capabilities.

- For data centers, acquiring land and negotiating with authorities is significantly different than the processes involved when developing logistics facilities. Another issue is securing adequate power supplies, but if we can clear that hurdle we expect to be getting a plenty of enquiries from potentials. The market for data centers is ¥5–6 trillion, so we intend to set up a specialist department and strengthen our business.

【Q9】

You mentioned that you might increase leverage as one way to achieve ROE of 13%. As your business model is changing, could you please let us know your thinking about debt/equity ratio levels?

(Reference) Presentation on Management Policies:

P.8 “Capital Policy / Shareholder Return”

【A】

- We have set a target debt/equity ratio as it is an important indicator of corporate financial soundness, but our business is shifting significantly away from our previous focus on contracting. As a consequence, we are carefully explaining the gradual increase in the share of built-for-sale business (which requires upfront investments) and aggressive investment in real estate development for future growth to the rating agencies, in order to maintain our current AA rating. Going forward, when we consider our next medium-term plan, we will look into an appropriate debt/equity ratio in consultation with the finance department.

【Q10】

Please let us know the roadmap for achieving ¥1 trillion in net sales at the Livness business by the 2030s. Also, as you are rolling out the Livness business in a wide variety of business territories, could you please let us know recent margins and forecasts?

(Reference) Presentation on Management Policies:

P.18 “Livness Business”

【A】

- To date, the Livness business has focused on residential product lines such as homes, apartments, and condominiums, but currently we are seeing significant growth in the Commercial Facilities Business. In some cases, tenants relocate when they are approaching the end of their leasing contract as their business has grown in size. For example, one drugstore business has expanded the scope of operations and started handling a wide range of products, so needed more floor space. We want to get involved with such changes and rebuild and renovate stores.
- We also think that sales will grow further going forward as we purchase large commercial facilities and perform value-adding construction and lease before resale in a growing number of projects. We thus expect that we may reach ¥1 trillion in net sales before the 2030s.

End