

**Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)**  
**at Announcement of Financial Results for FY2024 1Q**  
**(For the fiscal year from April 1, 2024 to June 30, 2024)**

**Date & time: From 16:00 to 17:00, Wednesday, August 7, 2024**

**Presenters: Takeshi Kosokabe, Executive Vice President, CFO**

**Yuji Yamada, Managing Executive Officer**

**Saori Seki, General Manager, IR Department**

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**【Opening remarks by Takeshi Kosokabe, Executive Vice President, CFO】**

Thank you for taking the time to join us here today. We will begin with me explaining the upward revisions to forecasts and the purchase of treasury stock.

First, I will discuss the upward revision to the full-term performance forecast. After announcing our full-term performance forecast in May 2024, we received various feedback from investors and analysts. Initially, our performance forecast was conservative as we accounted for the impact of the selloff of the resort hotel business, which we conducted to promote portfolio optimization, as well as the change in the scope of consolidation for Cosmos Initia Co., Ltd., and the potential impact of the 2024 problem. However, we also indicated that we would reevaluate our forecasts based on actual performance as the term progressed.

There were two major factors that prompted this reevaluation of our forecasts. The first factor was the increased certainty of the sale of a development property in the US. Thus far, we have been engaged in sales activities for development properties in the US but, amid rising interest rates, the environment was not favorable for offers in line with our assumed price points. However, we received an inquiry in mid-July and the certainty of the closure of that deal increased. This led us to reevaluate our performance forecast for the Rental Housing Business.

The second factor was increased clarity of financial accounting as the term progressed, through which we were able to confirm that performance was outperforming assumptions. Sales of development properties during the first quarter progressed favorably and we also confirmed that gradual progress was being made in reflecting cost increases in construction prices. As a result, we decided to make the most recent upward revision to our performance forecast.

Next, I will discuss the purchase of treasury stock. Our basic shareholder return policy is to enhance shareholder value by increasing our earnings per share (EPS) through growth investments. Regarding the purchase of treasury stock, our policy is to make dynamic decisions that take into account conditions such as the market environment and capital efficiency. Under this policy, we decided that conducting the purchase of treasury stock at this time as we strive to meet shareholder expectations. This decision reflects our evaluation of recent stock price trends and is deemed to be in line with our

commitment to achieving the capital strategy outlined in the 7th Medium-Term Management Plan. We understand that opinions on this decision will vary, especially considering it follows the issuance of convertible bonds. However, we hope this decision will be viewed as a frank message from Daiwa House that we are not satisfied with our current stock price.

**【Q1】**

Please indicate the timing for recording the sale of the US rental housing that you recently incorporated into your performance forecast. Also, is there a possibility of additional sales of US rental housing this term?

(Reference) Financial Highlights P.29 “Rental Housing Business (2)”

**【A】**

-This is a property for which construction was completed in 2021. Due in part to the impact of COVID-19, we were unable to sell the property based on initially assumed timing. However, heading into this term, we have received multiple inquiries and the certainty of finalizing a buyer has increased. We are planning to conduct the sale in the fourth quarter. Transaction market conditions have been difficult, but we feel that the tide is slowly turning.

-We are currently operating seven properties in the US rental housing. We do not have plans for additional sales this term but we do want to continue selling properties over the next two terms.

**【Q2】**

Looking at the gross margin ratio of the full-term performance forecast, you conducted an upward revision for the full-term performance forecast despite the first quarter gross margin ratio for the Logistics, Business & Corporate Facilities Business declining YoY. Can you please discuss the background of this decision? Also, please indicate why you decided to leave the performance forecast for the Commercial Facilities Business unchanged.

(Reference) Financial Highlights

P.34 “Commercial Facilities Business (2)”

P.35-36 “Logistics, Business & Corporate Facilities Business (1)(2)”

**【A】**

-With the Logistics, Business & Corporate Facilities Business, the first quarter gross margin ratio declined due to a decrease in real estate sales at Fujita, which recorded highly profitable sales during the first quarter of the previous term. However, we revised the full-term performance forecast upward to reflect a trend towards improved profitability on a non-consolidated basis for the Daiwa House

construction business and built-for-sale business, and the Fujita construction business. Costs are increasing but the cost-to-sales ratio at the time of order received is also trending towards improvement. In particular, the Logistics, Business & Corporate Facilities Business has been successful at gaining understanding among customers concerning estimate revisions to reflect cost increases. Moving forward, we will continue our focus on the cost-to-sales ratio at the time of order received.

-While the majority of Logistics, Business & Corporate Facilities Business customers are corporations, individual customers represent a certain percentage of Commercial Facilities Business customers. Corporate sentiment towards capital investments is on the rise and we made steady progress on negotiations to reflect cost increases in prices. However, negotiations with individual customers can sometimes get prolonged. As such, we decided to leave the gross margin ratio for the Commercial Facilities Business unchanged. Measures towards improvement going forward will come down to the accumulation of diligent efforts but we will work to increase rents and thereby improve construction profits by using our vast network of nationwide land information to refer tenant businesses to land that they find appealing.

### 【Q3】

First quarter performance for the urban hotel business in the Commercial Facilities Business was favorable relative to performance forecasts but do you think there is room for additional improvement? (Reference) Financial Highlights P.33-34 “Commercial Facilities Business (1)(2)”

### 【A】

-The sale of a hotel in the first quarter resulted in profit contributions of 7.3 billion yen, which we included in the initial performance forecast. We also sold a property last term so, excluding those figures, first quarter operating profit was 1.0 billion yen this term compared to 0.5 billion yen last term. We have been able to maintain high occupancy rates while also increasing ADR. This led to improvement in operating margin and expectations that the business will outperform full-term performance forecasts.

-The sale recorded this term has almost no impact on performance for the hotel management business and we will not be leasing back the sold property.

### 【Q4】

To what extent is the impact of the 2024 problem (limits on overtime in construction work) reflect in this revision to the full-term performance forecast?

(Reference) Financial Highlights

P.21 “Business Performance Forecasts for FY2024 (1)”

**【A】**

-When we initially formulated the performance forecast, we assigned the most weight from the impact of the 2024 problem to the Logistics, Business & Corporate Facilities Business. In light of first quarter performance, this upward revision addresses what had been an overly conservative forecast.

-We must continue to address the 2024 problem but our view is that business has progressed without the level of disruption originally assumed.

**【Q5】**

You announced the purchase of treasury stock up to a maximum of 100 billion yen but what will be your approach to capital policy moving forward?

(Reference) Financial Highlights P.6 “Topics (2)”

**【A】**

-To increase the probability of us being able to achieve the capital policies outlined for the 7th Medium-Term Management Plan, we decided to purchase treasury stock based on consideration of our current stock price levels. Moving forward, we will pursue further shareholder returns and profit accumulation while working to achieve an ROE of 13.0% or higher and a D/E ratio of roughly 0.6.

**【Q6】**

Moving forward, if one were to anticipate additional upward revisions to full-term performance forecasts, what segments other than the urban hotel business show growth potential? Also, please indicate your outlook for next term.

**【A】**

-The domestic Single-Family Houses Business, for which we made no changes in the most recent upward revisions, has seen an increase in the number of built-for-sale houses sold and we believe we are beginning to see benefits of reforms shifting to built-for-sale business.

-The Rental Housing Business is also a growth driver that has room for additional growth. In March 2024, we revised prices to reflect cost increases, and we expect to see those benefits from the second half onward. We are also making progress in the rental housing management business to revise rents to appropriate rates.

-As for next term, I believe we will accelerate the sale of development properties as we seek to achieve our ROE and D/E ratio targets. With the US Single-Family Houses Business, while we are concerned about rising interest rates, we think the business can still expand net sales and operating income.

-Looking ahead to the upcoming 8th Medium-Term Management Plan, we want to begin evaluating

investment plans and will continue our focus on developing a plan for sustainable growth.

**【Q7】**

Looking at segments other than the Logistics, Business & Corporate Facilities Business, what has been the impact of the 2024 problem?

**【A】**

-With businesses other than the Logistics, Business & Corporate Facilities Business as well, we have been able to respond in line with assumptions. There is the possibility of exceeding targets depending on conditions during the second quarter, but we do not expect this to be significant.

**【Q8】**

Please discuss the current status of orders received for the US Single-Family Houses Business . Also, please indicate your outlook for the orders received environment moving forward.

**【A】**

-Through the end of June, orders received for the cumulative period were up by 8.4% YoY (based on number of units).

-In terms of the environment for orders received, buyer sentiment will turn positive if interest rates drop. At the same time, the market could see an influx of used properties so there are reports that buyers are waiting to see how the market moves.

**【Q9】**

The occupancy rate for rental housing was 95.8%, dropping below 96%. What is your view on this? (Reference) Financial Highlights P.30 “Rental Housing Business (3)”

**【A】**

-We are constantly conscious of occupancy rates. Currently, we are focused on raising rents to appropriate levels, and were successful in raising average rents by 2% YoY for the first quarter. We will continue with appropriate rent increases while working to raise occupancy rates.

**【Q10】**

Regarding trends in orders, are these reflected in the monthly contracts disclosed each month?

**【A】**

-While performance did diverge slightly from the status of monthly orders received, which we used to disclose, the status of monthly contracts is more in line with current trends, so please refer to these figures.

**【Q11】**

What is your outlook for the D/E ratio at the end of the fiscal year?

**【A】**

-Our initial assumption for the D/E ratio was roughly 0.78. With the planned 100 billion yen purchase of treasury stock, we expect this to reach around 0.85.

**【Q12】**

There was a gain on sales of investments in securities of about 10.8 billion yen. Please tell us what kind of shares were sold.

(Reference) Summary of Financial Results P.12

**【A】**

-We have sold cross-shareholdings with several old business partners.

**【Q13】**

Regarding the sale of development properties in the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business, please indicate the probability of achieving full-term performance forecasts and also please indicate the proportion of sales by quarter. Also, please discuss the status of logistics property leasing. Lastly, please indicate your outlook on whether or not the target of 450 billion yen in net sales from the sale of development properties outlined for the final fiscal year of the 7th Medium-Term Management Plan is achievable amid rising interest rates.

(Reference) Financial Highlights P.20 “Sale of Development Properties: Results and Forecasts”

**【A】**

-Regarding the sale of development properties for the remainder of this term, it is not the case that we have concluded contracts for all the properties we are seeking to sell. However, the full-term performance forecast represents the cumulative figures for each of the individual properties for which

we have already lined up buyers. As such, we believe the certainty is high. Performance forecasts for this term are heavily weighted on the first quarter. The transaction market remains highly invigorated, so there is the possibility of further increases.

-Compared to two or three years prior, the supply volume for logistics facilities has increased, meaning that leasing takes time. NOI yield has dropped temporarily due to the sale of properties with high occupancy rates and the emergence of new properties with vacancies and offering free rent periods. By around 2026, the final year of the current Medium-Term Management Plan, we are projecting the normalization of the demand-supply balance. We view this leasing as the most critical element to successfully selling development properties over the next two terms, and are making efforts to that end.

**【Q14】**

Is there any prospect of increasing the sale of development properties beyond the current forecast?  
(Reference) Financial Highlights P.20 “Sale of Development Properties: Results and Forecasts”

**【A】**

-When considering the next Medium-Term Management Plan and beyond, we want to focus on increasing cash flow from operating income rather than focus solely on the sale of development properties. Progress on real estate development investments is behind schedule. However, the acquisition of inventory assets has surpassed initial targets. As such, we are accumulating property that will contribute to income during the current and upcoming Medium-Term Management Plans.

**【Q15】**

Moving forward, how will you proceed with the data center business ?

**【A】**

-Data center construction requires both the acquisition of suitable land as well as a power grid and construction knowhow. While we have not yet accumulated a significant track record, we are steadily incorporating the knowhow gained through projects such as the DPDC Inzai Park. We will seek to apply those strengths when we receive new inquiries.

**【Q16】**

In relation to real estate development investments, please indicate your evaluation of progress through the first quarter and discuss your future plans.

(Reference) Financial Highlights P.19 “Status of Real Estate Development Investment”

**【A】**

-First quarter results were 64.6 billion yen, which represents a rate of progress of 33% relative to the 7th Medium-Term Management Plan. There is no change in the fact that we are behind our initial assumptions. In the Logistics, Business & Corporate Facilities Business, this is due to the fact that we have been unable to acquire large-scale properties.

-On the other hand, looking ahead to the 8th Medium-Term Management Plan and beyond, the members of the business divisions are eager to pursue investment opportunities in high-quality properties, so we will continue working to acquire such properties.

End

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