Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2024 2Q
(For the fiscal year from April 1, 2024 to September 30, 2024)

Date & time: From 16:00 to 17:00, Tuesday, November 12, 2024
Presenters: Takeshi Kosokabe, Executive Vice President, CFO
Hirotsugu Otomo, Senior Managing Executive Officer
Yuji Yamada, Managing Executive Officer
Saori Seki, General Manager, IR Department

【Q1】

This is your second upward revision to the full-year performance forecast, the first being when you announced 1Q financial results. Please indicate the reason for an upward revision based on this timing. Also, please indicate the reason for your projections of an increase in extraordinary losses compared to the previous revised forecast.

(Reference) Financial Highlights P.21 “Business Performance Forecasts for FY2024”

【A】

-The main factor behind this second upward revision was that we conducted an upward revision to our full-year forecast for sales of development properties to reflect an increase in gain on sales in the Logistics, Business & Corporate Facilities Business as well as the replacement/addition of properties for sale. Also, the forecast for sales of development properties only reflects properties for which agreements are likely to be finalized.

-As for extraordinary losses, this forecast reflects impairment losses from commercial facilities and other properties. This is the result of the careful buildup of a few commercial facilities retained in Japan.

【Q2】

Please discuss your outlook on the gross margin ratio for construction in the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business. Looking at the Commercial Facilities Business, this improved to 21.7% in 2Q but you have left your full-year forecast unchanged at 21.5%. Are you projecting a decline in 2H?

Also, for the Logistics, Business & Corporate Facilities Business, the gross margin ratio for the segment overall worsened slightly despite an improving operating margin for Fujita since 1Q. However, you conducted an upward revision to your full-year forecast for gross margin ratio. Does

this mean you expect improved profitability at the time of order received will manifest as improvement in the gross margin ratio in 2H?
(Reference) Financial Highlights P.5 “Topics (1)”, P33-34 “Commercial Facilities Business”, P35-36 “Logistics, Business & Corporate Facilities Business”

【A】
-Profitability at the time of order received is on an improvement trend for the Commercial Facilities Business. At the same time, aggressive efforts in the built-for-sale business have resulted in the built-for-sale business accounting for 30% to 40% of construction. Built-for-sale commercial facilities are subject to volatility in profitability due to the impact of interest trends and other factors. As such, we are anticipating some level of fluctuation in the gross margin ratio. However, in light of the improvement in profitability at the time of order received, we expect this will improve overall.
-On a nonconsolidated basis, profitability at the time of order received is improving for the Logistics, Business & Corporate Facilities Business as well. Fujita, which accounts for a large percentage of net sales from construction, completed the transfer of a low-profit, large-scale property in 1H. Also, sales of development properties, which are recorded under construction, are heavily weighted towards 2H. These were factors leading to the improved forecast for gross margin ratio. We also expect the improvement trend in profitability at the time of order received to continue into next fiscal year and beyond.

【Q3】
Looking at the upward revisions to full-year operating income for the Environment and Energy Business and Other Businesses, the targets you set for your full-year forecast seem conservative relative to 1H performance. Please indicate if there are any factors behind this.

Operating Income	FY2024 2Q Results	FY2024 Forecasts
Environment and Energy Business	7.1 billion yen	10.0 billion yen
Other Businesses	2.0 billion yen	1.0 billion yen

(Reference) Financial Highlights P.25 “Business Segment Forecasts for FY2024 (2) Operating Income”

【A】
- (Environment and Energy Business) Winter has fewer hours of sunlight compared to summer, so we are forecasting a reduction in the volume of power secured through solar power generation. We formulated the full-year forecast to reflect the reduction in power we will be able to secure for the PPS (retail power sales) business. With the IPP (solar power generation) business of our subsidiary Daiwa Energy as well, summer months result in greater power generation so there is a difference between 1H

and 2H.

- (Other Businesses) The Hibikinada Power Plant, which is recorded under Other Businesses, is looking to start operations in April 2026, and we are advancing upgrades to the biomass-only generation unit. Our full-year forecast reflects the impact of this progress.

【Q4】

The number of unit orders received for the US Single-Family Houses Business improved by 8.3% year on year. Please discuss the current status of orders received and indicate the factors behind the favorable trend in orders received.

(Reference) Financial Highlights P.27 “Single-Family Houses Business (2) Overseas Business”

【A】

-Between January and April, orders received for houses in the US were favorable thanks to relatively strong purchasing demand among customers but the market slipped into a holding pattern around June or July due in part to the US presidential elections. However, the number of orders received has been on a recovery trend since October. Currently, interest rates are rising but the holding pattern caused by the presidential elections has also dissipated, so we are hoping that this recovery trend will continue moving forward.

【Q5】

On November 5, you announced the acquisition of equity in Alliance Residential Company. Please indicate what contributions this equity acquisition will make to performance moving forward.

【A】

-While I cannot provide specific figures related to any future impact on income, I can say that Alliance Residential is one of the top companies in terms of market share for multi-family developments in the US. Beyond the company’s contributions to income, we anticipate being able to generate synergy by sharing land information and engaging in joint purchasing with our three US homebuilding companies.

【Q6】

Please indicate the current status of sales for the Condominium Business in China. You are forecasting full-year operating losses of 1.7 billion yen for Condominium Business overseas. Do you anticipate economic stimulus policies in China will lead to an upward swing in performance?

(Reference) Financial Highlights P.31-32 “Condominiums Business”

【A】

-We saw a change between contracts through September and contracts in October. At Changzhou III, 387 of 967 units are up for sale. Through September, contracts were in the single digits for some months. However, we recorded contracts for 23 units in October. As of the end of October, we had finalized contracts for a total of 197 units.
-Partially due to the fact that construction is still underway at Suzhou II, through September we had months with only one unit contracted. However, we contracted 12 units in October. While we do not know if this trend will continue moving forward, we expect that stimulus measures had some level of impact.
-There is no change to the full-year forecast as we are considering factors such as expenses related to the abovementioned condominium development projects.

【Q7】

Please discuss your thoughts on operating income for next fiscal year and beyond. With such significant changes in the operating environment since you announced your Medium-Term Management Plan, is there a possibility that you will announce the next Medium-Term Management Plan ahead of schedule and begin formulating a new three-year plan?

【A】

-2Q represented passing the halfway point of the Medium-Term Management Plan. As for our forecasts for the next fiscal year, we will use performance from this fiscal year as a baseline while also examining each business division and Group company , and evaluating factors such as business growth overseas.
-As for accelerating the next Medium-Term Management Plan, we believe it is important to ensure we are able to achieve the performance targets outlined for the final fiscal year of the 7th Medium-Term Management Plan. The operating environment has changed significantly since we formulated the Medium-Term Management Plan, so there is a possibility we will reevaluate the plan to better align it with our current operating environment. This question raises an important point that we will keep in mind moving forward.

【Q8】

Concerning the impact of the 2024 Problem, at the end of 1Q, you revised conservative aspects related to the Logistics, Business & Corporate Facilities Business. Amid talk of cost increases during 2H, is there potential for an upward revision? Please discuss this topic as it relates to the Commercial

Facilities Business as well.

【A】

-At present, the impact of the 2024 Problem has not resulted in the generation of unexpected costs on a level that would significantly impact performance. We believe we are more than capable of achieving full-year forecasts for the Logistics, Business & Corporate Facilities Business.

-We expect to achieve forecasts for the Commercial Facilities Business as well. With Daiwa Roynet Hotels, we have been able to maintain high occupancy rates while increasing ADR. Additionally, income increased on the sale of property in the urban hotel business outperforming initial plan.

【Q9】

Occupancy rates for the Rental Housing Business fell below 96%. Has it become difficult to secure occupancy rates amid a policy of increasing rents? Please discuss your policy moving forward.

(Reference) Financial Highlights P.30 “Rental Housing Business (3)”

【A】

-While seasonality does play a factor, we do view it as disappointing that occupancy rates have fallen. As we have indicated in the past, our current policy is to focus on increasing rent. Average rent increased by approximately 2% year on year and the gross margin ratio has improved. We will continue working to increase occupancy rates and expect to see improvement towards the end of the fiscal year.

【Q10】

Please comment on the Monthly Contracts for October 2024.

(Reference) Monthly Contracts for October 2024

【A】

-There has been no significant change in the current trend, and I believe that overall domestic market conditions are good, with the exception of the Single-Family Houses Business.

【Q11】

What are the factors behind the increase in non-operating income and non-operating expenses in the revised full-year forecast?

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

【A】

-Initial plans only reflected high-probability sources of non-operating income, so these revisions are a reflection of performance through 1H. We revised non-operating expenses to reflect factors such as an increase in interest expenses (loans in foreign currencies).

【Q12】

There is a growing consensus concerning the Medium-Term Management Plan amid the increasing feasibility of achieving 500 billion yen in operating income. Please discuss your path to achieving the targets of 340 billion yen in net income and an ROE of 13%.

【A】

-We are constantly aware of ROE13%, and hope to achieve this by accumulating income and strengthening shareholder returns. The purchase of treasury stock announced in August was one part of that commitment. We are conducting internal deliberations and simulations to assess the level of operating income and shareholder returns required to achieve our ROE target.

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