

Financial Briefing for the Second Quarter of the Fiscal Year Ending March 2022 Including Information about Future Measures to Increase Corporate Value

November 17, 2021



大末建設

To achieve our consolidated sales target of 100.0 billion yen as set forth in the 2030 Vision and strengthen initiatives under the Medium-term Business Plan, we've formulated a new series of policies to increase corporate value around the core themes of strengthening growth investments, shareholder returns, and governance.

Kazunori Murao
President and Representative Director

村尾 和則



As part of a larger effort to **elevate our business stage so that we can increase corporate value on an ongoing basis** by strengthening our management foundation, primarily through financial improvements, we've formulated and are working to implement our long-term vision, the 2030 Vision, and our Medium-term Business Plan, "Challenges for the Future."

Although we've made steady progress towards putting the plan into practice during the year and a half since it began in April 2020, **it will be necessary to further strengthen initiatives in order to realize our consolidated sales target of 100.0 billion yen under the long-term vision**. From the perspective of increasing our corporate value in a sustained manner, **we're aware of the need to incorporate the standpoint of increasing shareholder value into the Medium-term Business Plan**.

Based on these facts, we've formulated **a series of policies to increase corporate value by the fiscal year ending March 2025 around the core themes of strengthening growth investments, shareholder returns, and governance**. In keeping with these policies, **we will resolutely implement a series of initiatives to realize our long-term vision and increase corporate value**.

We look forward to your continued support and understanding in the future as we pursue these goals.



Company Overview

Name	DAISUE CONSTRUCTION CO., LTD.
Head Office	2-5-28 Kyutaromachi, Chuo-ku, Osaka
Established	March 20, 1947
Capital	4.3 billion yen
Employees	602 (consolidated basis, as of March 2021)
Share listing	First Section, Tokyo Stock Exchange 6 throughout Japan
Business Sites	Osaka, Tokyo, Nagoya, Sendai, Takamatsu, Fukuoka
Group companies	DAISUE TECHNO SERVICE CO., LTD. YASURAGI CO., LTD.



March 1937	Sueo Yamamoto founds the business in the city of Matsubara, Osaka Prefecture.
March 1947	Daisue Gumi Co., Ltd. is established in Osaka Prefecture.
October 1961	The Company is listed on the Second Section of the Osaka Securities Exchange.
April 1963	The Head Office is relocated to Yamatocho in Osaka's Minami Ward.
July 1963	The Company is listed on the Second Section of the Tokyo Stock Exchange.
May 1967	The Company is listed on the First Section of the Osaka Securities Exchange and the Tokyo Stock Exchange.
March 1970	The Company changes its name to DAISUE CONSTRUCTION CO., LTD.
September 1991	The Head Office is relocated to Fukushima in Osaka's Fukushima Ward.
May 1999	The Head Office is relocated to Minamisenba in Osaka's Chuo Ward.
September 2009	The Head Office is relocated to Kyutaromachi in Osaka's Chuo Ward.

85th

Earning Customers' Trust through Good Faith

Daisue Construction marked the 85th anniversary of its founding in March 2022.

Our Businesses

We operate three businesses: our flagship condominium business, which boasts an industry-leading construction track record; our construction business, which accepts contracts for a wide range of buildings; and our renovation business, which expands and renovates existing structures.



Condominium business

Construction of condominium and apartment buildings, public housing, company housing, employee dormitories, etc.

Having constructed numerous condominium buildings throughout Japan, particularly in the country's three largest cities, we boast an industry-leading construction track record. Expertise accumulated through this extensive track record and the high level of trust our customers place in us comprise our core strengths.

We've been involved with a broad range of condominium and apartment building projects that meet customers' wishes, from compact buildings in urban settings to large, multi-building developments.



Construction business

Construction of office buildings, distribution warehouses, factories, healthcare and social welfare facilities, ceremonial venues, cultural and educational facilities, etc.

We've participated in numerous building projects that run the gamut of categories, including office buildings, distribution warehouses, factories, medical and social welfare facilities, commercial facilities, and educational facilities. We also have an extensive track record for ceremonial venues like wedding halls and funeral homes, particularly in the Tokyo area. In recent years, we've been working to earn orders for distribution warehouses, a segment of the market where demand is growing.



Renovation business

Repair and expansion, and renovation of existing structures as well as the performance of building diagnostics, seismic resistance diagnostics, seismic resistance reinforcement, and other services

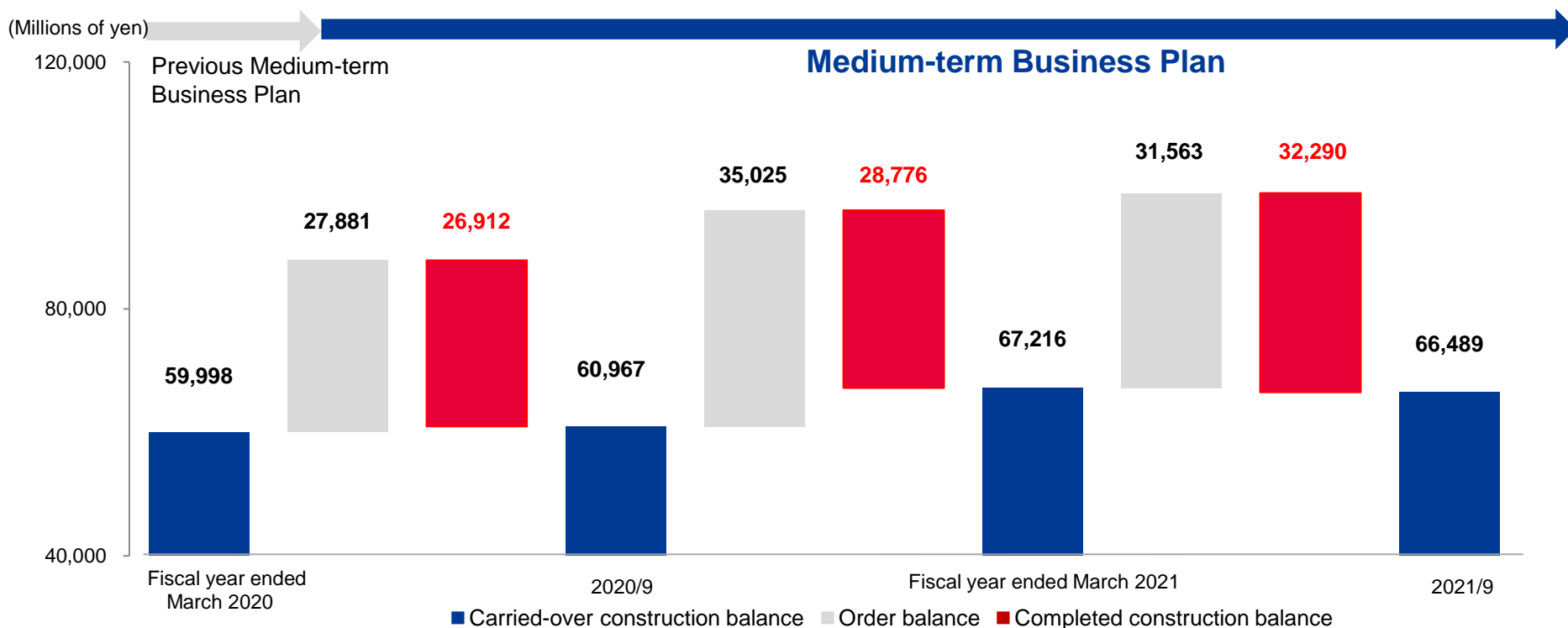
We meet the full array of customer needs with regard to existing structures, from repair and improvement to renovation, expansion, seismic resistance diagnostics, and seismic resistance reinforcement. We also have the ability to accommodate comparatively large-scale, difficult update projects, for example renovations and conversions. We're helping realize a sustainable society by recycling and extending the service life of buildings.

Financial Information

1. Summary of results

Sales rose 20.0% from the corresponding quarter of the previous fiscal year thanks to factors including an increase in the construction balance carried over from the previous fiscal year.

Consolidated completed construction balance: 32,290 million yen



Reference: Construction balance carried over from previous fiscal year + order balance from current fiscal year - completed construction from current fiscal year = Construction balance carried over to next fiscal year

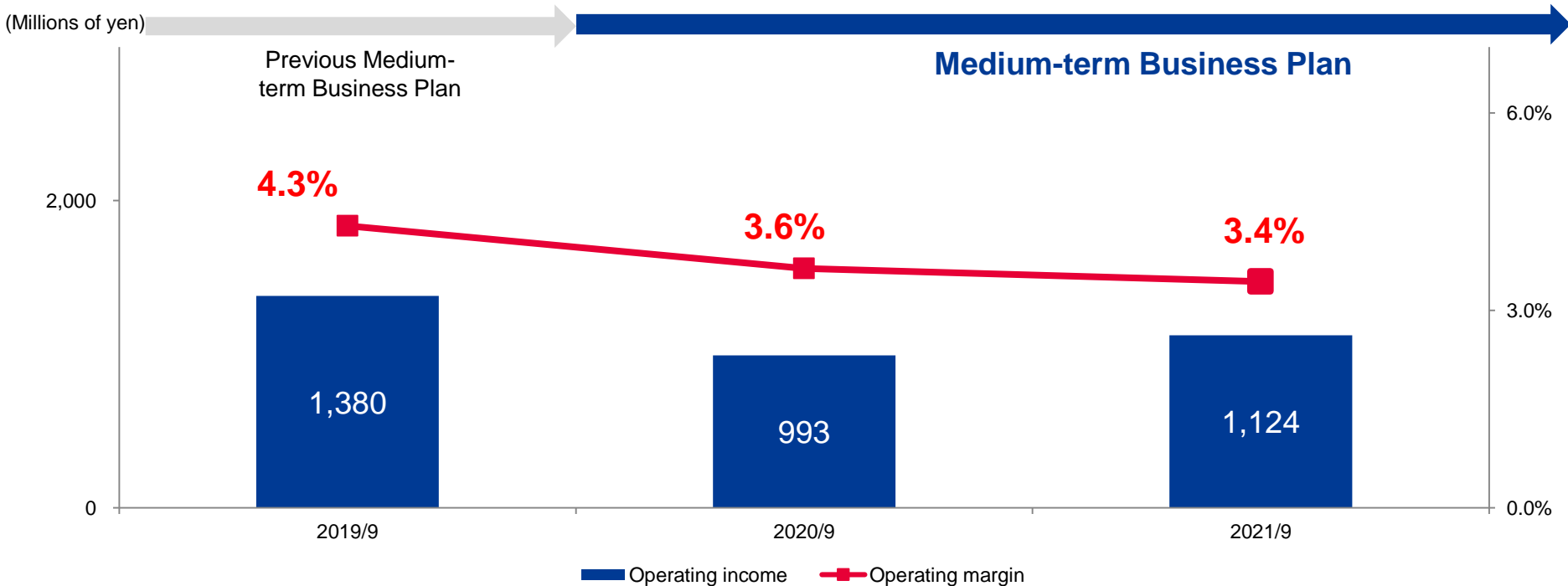
*Figures have been rounded down to the nearest million yen.

1. Summary of results

Operating income rose 13.2% from the corresponding quarter of the previous fiscal year to 1,124 million yen thanks to factors including an increase in the completed construction balance. The operating margin fell 0.2 points from the corresponding quarter of the previous fiscal year to 3.4%.

Consolidated operating income: 1,124 million yen / Consolidated operating margin: 3.4%

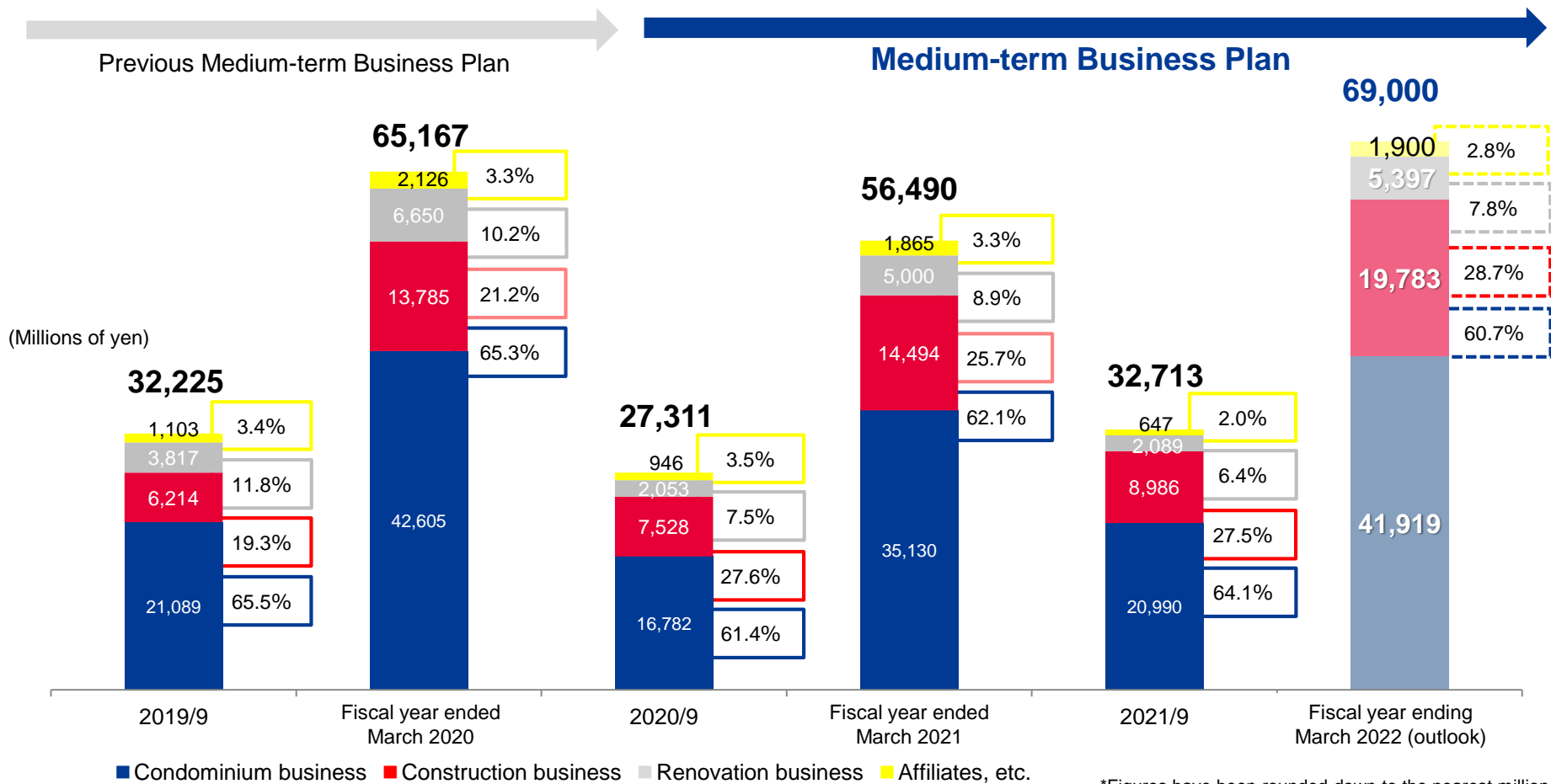
*There has been no change to the full-year consolidated business outlook of sales of 69,000 million yen and operating income of 2,500 million yen as announced on May 7, 2021.



*Figures have been rounded down to the nearest million yen.

2. Trend in consolidated sales

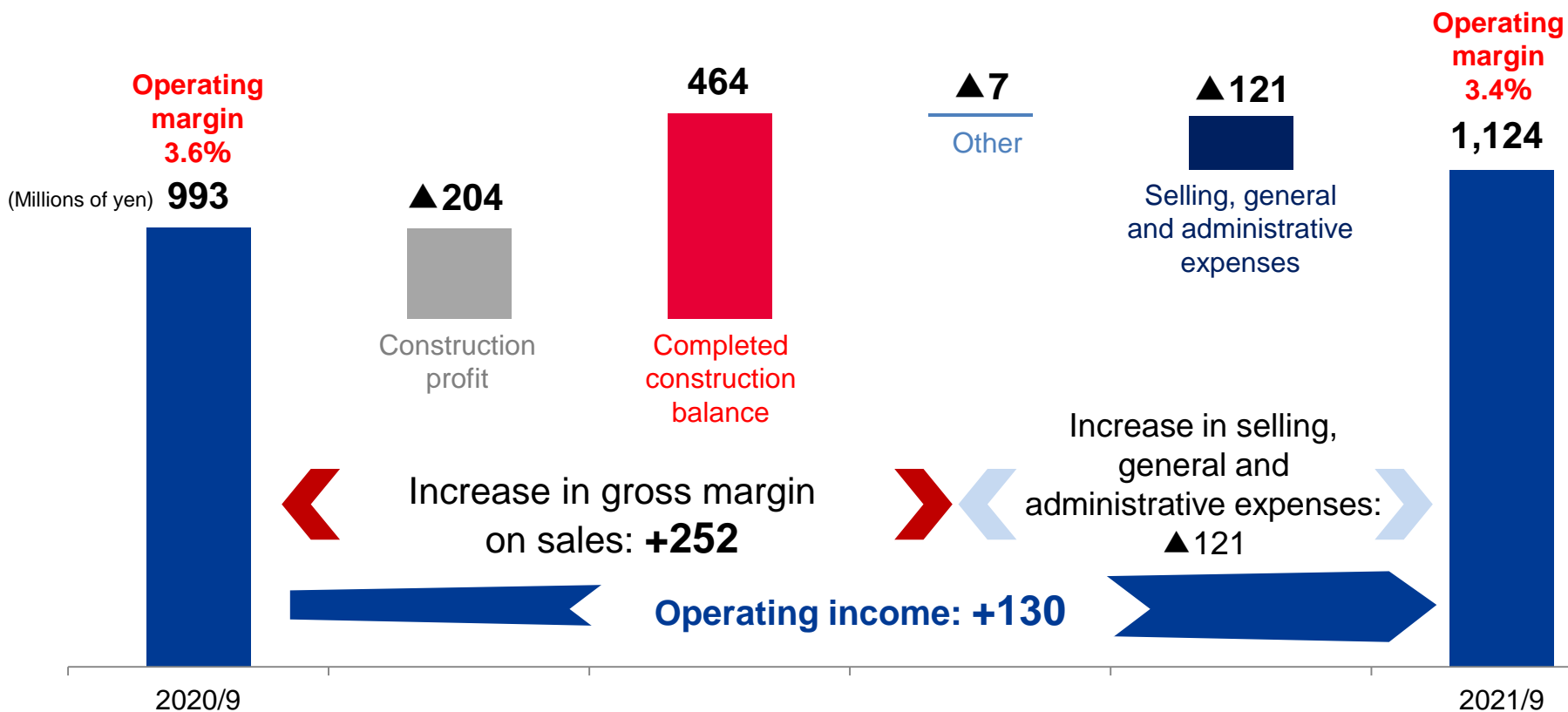
Consolidated sales rose 19.8% from the corresponding quarter of the previous fiscal year to 32,713 million yen amidst growth in our flagship **construction** business.



*Figures have been rounded down to the nearest million yen.

3. Factors affecting consolidated operating income

Profit rose 130 million yen from the corresponding quarter of the previous fiscal year thanks to factors including growth in the completed construction balance.



*Figures have been rounded down to the nearest million yen.

4-1. Principal completed and ordered construction

April 2021 to September 2021

Completed construction

*In order of prefectural code

Client	Building	Prefecture	Use
Shimizu Comprehensive Development	VPO Higashi-nihonbashi	Tokyo Metropolitan Government	Government building/offices
Central Japan Railway Company JR Tokai Real Estate Co., Ltd.	Meieki Taiko Doriguchi Building	Aichi Prefecture	Government building/offices
Sakai City	Sakai Health Center and Municipal Parking Garage*	Osaka Prefecture	Government building/offices
Eslead Corporation	Eslead Tsurumi Ryokuchi Koen Forest Eslead Tsurumi Ryokuchi Koen Breeze	Osaka Prefecture	Condominiums and apartments
Kyoei Steel Ltd.	Kyoei Steel Ltd. Hirakata Office Product Warehouse	Osaka Prefecture	Distribution warehouse and plant
Anabuki Kosan Inc.	Alpha States Eirakudori	Tottori Prefecture	Condominiums and apartments

Ordered projects

Client	Building (project)	Prefecture	Use
Tokyo Tatemono Co., Ltd.	T-LOGI Kazo	Saitama Prefecture	Distribution warehouse and plant
Nomura Real Estate Development Co., Ltd.	1 Sakuragicho, Omiya-ku, Saitama	Saitama Prefecture	Condominiums and apartments
Daikyo Incorporated	Lions Chigasaki Ekimae	Kanagawa Prefecture	Condominiums and apartments
Osaka Gas Co., Ltd.	Imazu Athletic Field Gymnasium Ceiling and Floor	Hyogo Prefecture	Education/culture/sports (repair)
Shinko Real Estate Co., Ltd.	Kobe Suma Ward Yasakadai Plan*	Hyogo Prefecture	Distribution warehouse and plant
Anabuki Kosan Inc.	Alpha States Higashinaka	Fukuoka Prefecture	Condominiums and apartments

*Joint venture project

4-2. Principal completed construction

April 2021 to September 2021

Sakai Health Center and Municipal Parking Garage



Meieki Taiko Doriguchi Building



Alpha States Eirakudori



Kyoei Steel Ltd. Hirakata Office Product Warehouse

5. Revision of (increase in) the end-of-year dividend outlook

We recently revised our dividend policy in light of **newly adopted measures to increase corporate value** and as a result determined to actively return profits to shareholders by adopting **a dividend ratio of at least 50%** starting during the fiscal year ending March 2023.

Based on the above policy, we will increase dividends for the fiscal year ending March 2022 from 20 yen to 40 yen, for a total of 60 yen per share (consisting of a 20-yen dividend at the end of the second quarter and a 40-yen dividend at the end of the year).

Going forward, we will work to maintain and improve ROE and ROIC by increasing profit through growth investments and implementing appropriate balance-sheet management.

5. Revision of (increase in) the end-of-year dividend outlook

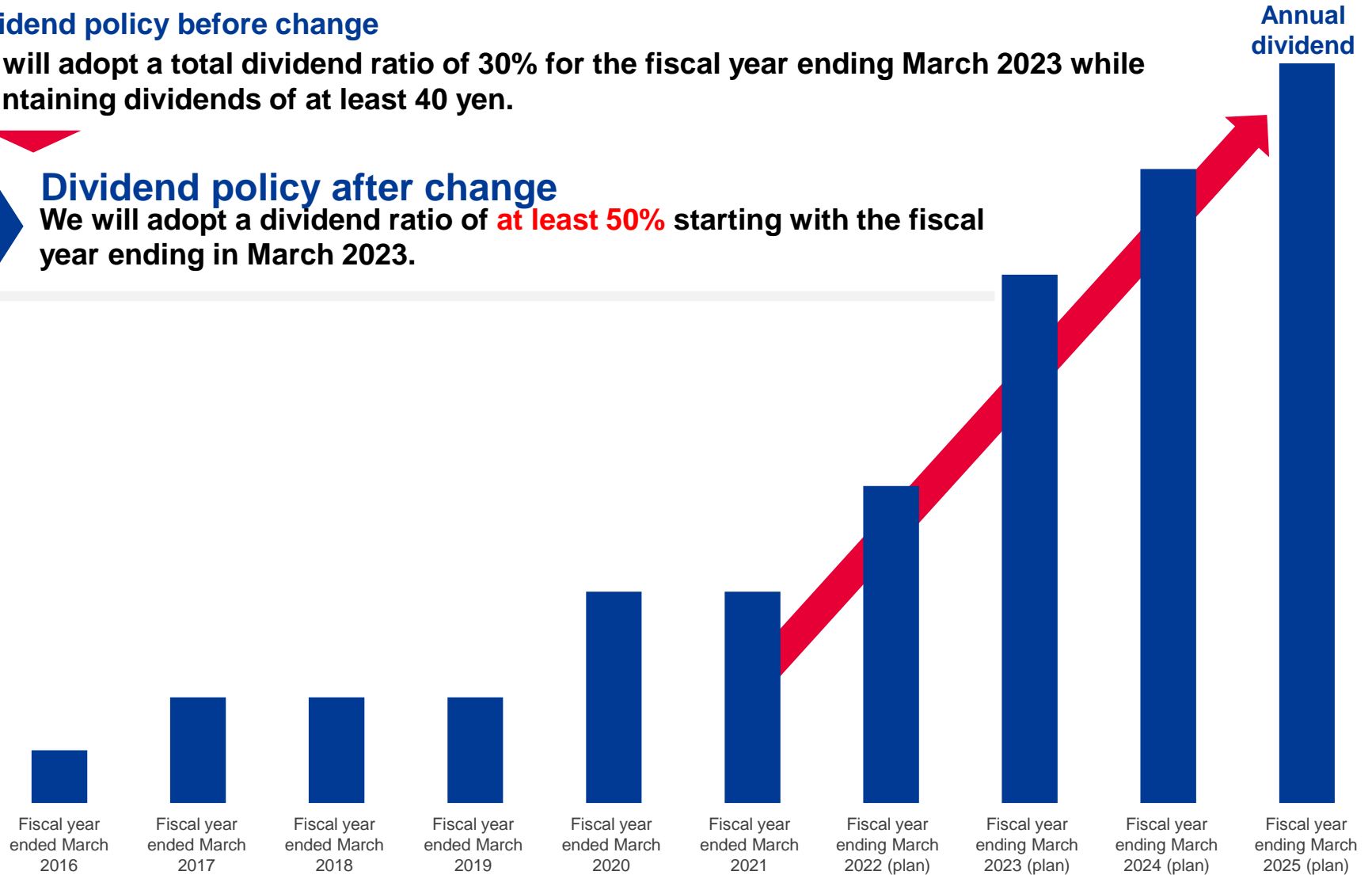
Dividend policy before change

We will adopt a total dividend ratio of 30% for the fiscal year ending March 2023 while maintaining dividends of at least 40 yen.



Dividend policy after change

We will adopt a dividend ratio of **at least 50%** starting with the fiscal year ending in March 2023.



Information about Future Measures to Increase Corporate Value

1. Status of the Medium-term Business Plan

In May 2020, we adopted our long-term vision, the 2030 Vision, and a three-year Medium-term Business Plan, **“Challenges for the Future.”**

Although falling sales and profits in the condominium and renovation businesses put a damper on progress during the plan’s first year (the fiscal year ended March 2021), the general construction business notched increased sales and profits despite the COVID-19 pandemic, allowing us to make a certain amount of progress in **accelerating the strengthening of the general construction and renovation businesses**, a central theme of the plan.

New medium-term business plan: “Challenges for the Future”

Companywide policy Intensively allocating management resources to growth fields and working to hire and train human resources and to improve technological innovation and productivity

Condominium business

Boost customer satisfaction by working to improve productivity and quality and ensure that we continue to generate current levels of profit.

General construction business

Expand our private-sector customer base and earn large orders from government agencies by augmenting proposal capabilities and cost competitiveness with an effort to strengthen sales activities.

Renovation business

In addition to earning large orders from government agencies by strengthening our order and construction structures, work to expand our private-sector customer base and increase partnerships involving new construction projects.

Technology and construction

1. Improving technical capabilities: Actively introducing industrialized construction methods, strengthening architectural design and structural design capabilities, and pursuing in partnerships with outside entities (joint ventures)
2. Strengthening human resources development: Training young employees and field engineers so that they can contribute more quickly, raising the bar for mid-career employees' skills, and developing a human resources development system
3. Reassessing organizational structures: Enhancing organizations and structures that support operations in the field, a key source of profit

Business foundation policies

1. Strengthening human resources development and management: Strengthening hiring to facilitate growth in sales, making it easier for employees to do their jobs
2. Putting in place organizational structures: Implementing sales structures that accelerate the strengthening of our operations in the general construction and renovation field
3. Improving productivity: Improving employees' per capita productivity by putting in place and enhancing information systems and reassessing business processes
4. Strengthening our ability to execute: Steadily continuing PDCA activities

We will accelerate our efforts to strengthen the general construction and renovation businesses while maintaining the current level of sales in the condominium business, even as that market undergoes a structural contraction.

Current business structure

Business environment Our competitive strengths

General construction and renovation

Nonhousing investment is expected to remain comparatively robust against the backdrop of demand for updates, renovations, and related services.

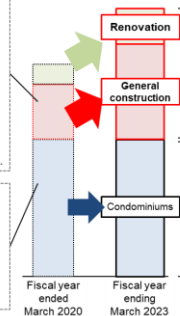
Although we made a certain amount of progress in expanding our customer segment and accumulating construction experience under the previous medium-term business plan, challenges remain in the area of our track record, requiring more aggressive strengthening.

Condominiums

Housing investment is expected to undergo a structural contraction due to the shrinking and aging of Japan's population.

We enjoy competitive advantages against the backdrop of our construction track record.

Overview of the scenario envisioned by the new medium-term business plan



We will work to strengthen the general construction and renovation businesses by increasing strategic expenditures (see page 16) and reassessing our organizational structure and business processes and draw on them as drivers of growth for the entire company.

Although the housing market is shrinking gradually, we will maintain the scale of our sales by taking advantage of the competitive advantages we've developed in the condominium business.

2. Revision for the Medium-term Business Plan

As we study how to further strengthen the general construction and renovation businesses based on our performance during the previous fiscal year, **we will take advantage of the reorganization of the Tokyo Stock Exchange to reconsider key milestones on the way to 2030.**

We will resolutely address issues as we target prime markets in order to increase corporate and shareholder value, and we recognize the need to incorporate investors' perspective into the Medium-term Business Plan.

Issues facing Daisue Construction



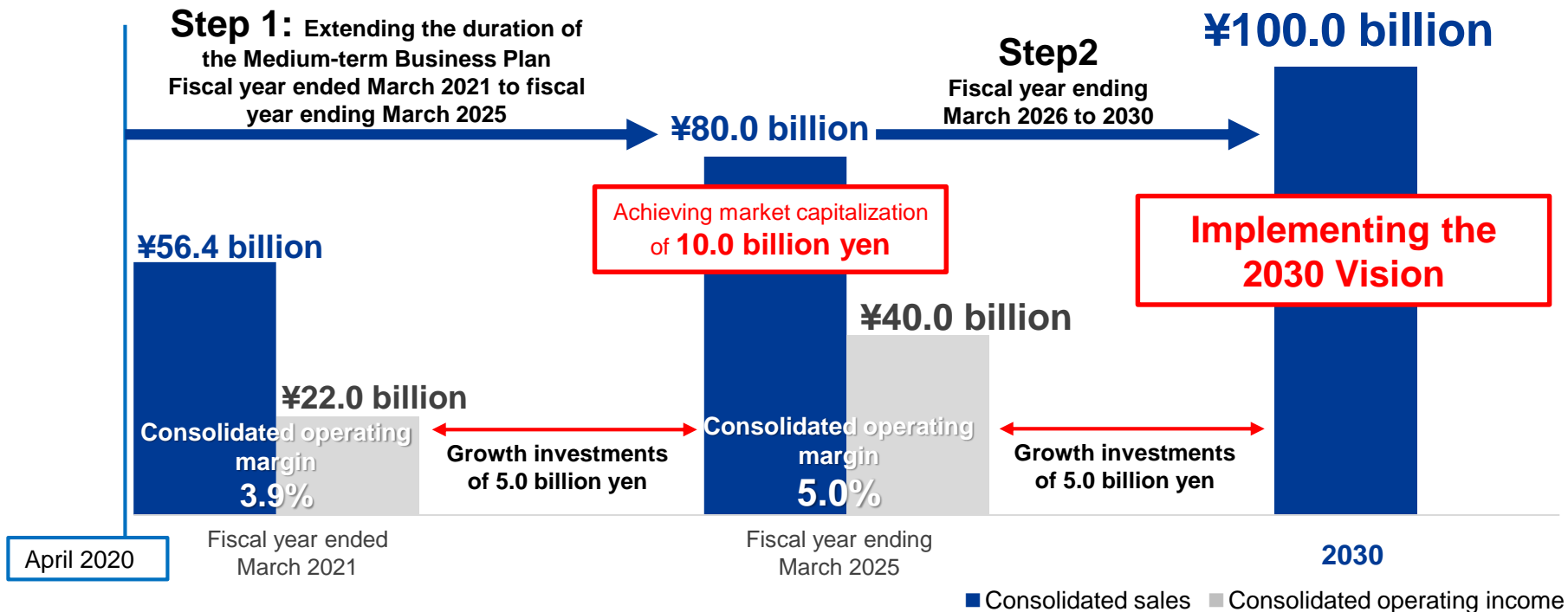
Issues facing the construction industry



3. Time axis for initiatives (new milestones)

- In order to increase corporate value as we implement the 2030 Vision, we recognize the need to incorporate the perspective of increasing shareholder value into the Medium-term Business Plan to complement bolder growth investments.
- Based on this recognition, we're revising the old milestones and extending the final year of the plan from the fiscal year ending March 2023 to the fiscal year ending March 2025. Our goal is to increase our market capitalization to 10.0 billion yen through new business growth strategy and capital measures.

Challenges for the future



4. Initiative basic plan

- Building **interconnected business and capital strategies** with the goal of increasing shareholder value, along with government structures to support them
- For the time being, striving to achieve growth and improvement through high-priority investments that help resolve issues and balance-sheet management



5-1. New business strategy (1)

Maintaining and increasing ROE and ROIC by improving profitability through growth investments that are linked to a capital strategy that centers on aggressive and defensive DX

Our return on capital is not low compared to other companies, but there are issues with the level of our operating margin.

We boast a high return on capital and exceed the average values of other companies in our industry for both ROIC and ROE.

However, we do have issues with low operating margin (high cost rate).

Comparison of EVA spread with other companies in our industry*

<table border="1"> <tr><th colspan="2">EVA spread</th></tr> <tr><td>Daisue</td><td>1.3%</td></tr> <tr><td>Industry average</td><td>0.7%</td></tr> </table>	EVA spread		Daisue	1.3%	Industry average	0.7%	<table border="1"> <tr><th colspan="2">ROIC</th></tr> <tr><td>Daisue</td><td>7.8%</td></tr> <tr><td>Industry average</td><td>7.1%</td></tr> </table>	ROIC		Daisue	7.8%	Industry average	7.1%	<table border="1"> <tr><th colspan="2">Pre-tax ROIC</th></tr> <tr><td>Daisue</td><td>11.7%</td></tr> <tr><td>Industry average</td><td>10.3%</td></tr> </table>	Pre-tax ROIC		Daisue	11.7%	Industry average	10.3%	<table border="1"> <tr><th colspan="2">Operating margin</th></tr> <tr><td>Daisue</td><td>3.9%</td></tr> <tr><td>Industry average</td><td>5.0%</td></tr> </table>	Operating margin		Daisue	3.9%	Industry average	5.0%	<table border="1"> <tr><th colspan="2">Tangible fixed asset ratio</th></tr> <tr><td>Daisue</td><td>2.9%</td></tr> <tr><td>Industry average</td><td>14.9%</td></tr> </table>	Tangible fixed asset ratio		Daisue	2.9%	Industry average	14.9%	<table border="1"> <tr><th colspan="2">Sales-cost ratio</th></tr> <tr><td>Daisue</td><td>90.1%</td></tr> <tr><td>Industry average</td><td>88.3%</td></tr> </table>	Sales-cost ratio		Daisue	90.1%	Industry average	88.3%
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*Comparison of average values for the fiscal year ended March 2021 with general contractors of roughly the same size (data from Capital IQ)

5-2. New business strategy (2)

- Step 1 in improving the profitability of our core businesses will be to invest 5.0 billion yen to address topics such as the DX and increasing the size of orders. We will strive to achieve consolidated operating income of 4.0 billion yen (operating margin of 5.0%) in the fiscal year ending March 2025.
- We will also invest 5.0 billion yen in Step 2 to jump-start efforts to expand our business domain into peripheral businesses and new fields. Although we will give priority to addressing investment topics related to strengthening our core businesses in Step 1, we will also start to address the investment topics in Step 2 in order to lay the groundwork for the future.
- We will make active use of outside resources (M&As, promoting experts, etc.) in order to implement Steps 1 and 2.

Step 1: Fiscal year ended March 2021 to fiscal year ending March 2025

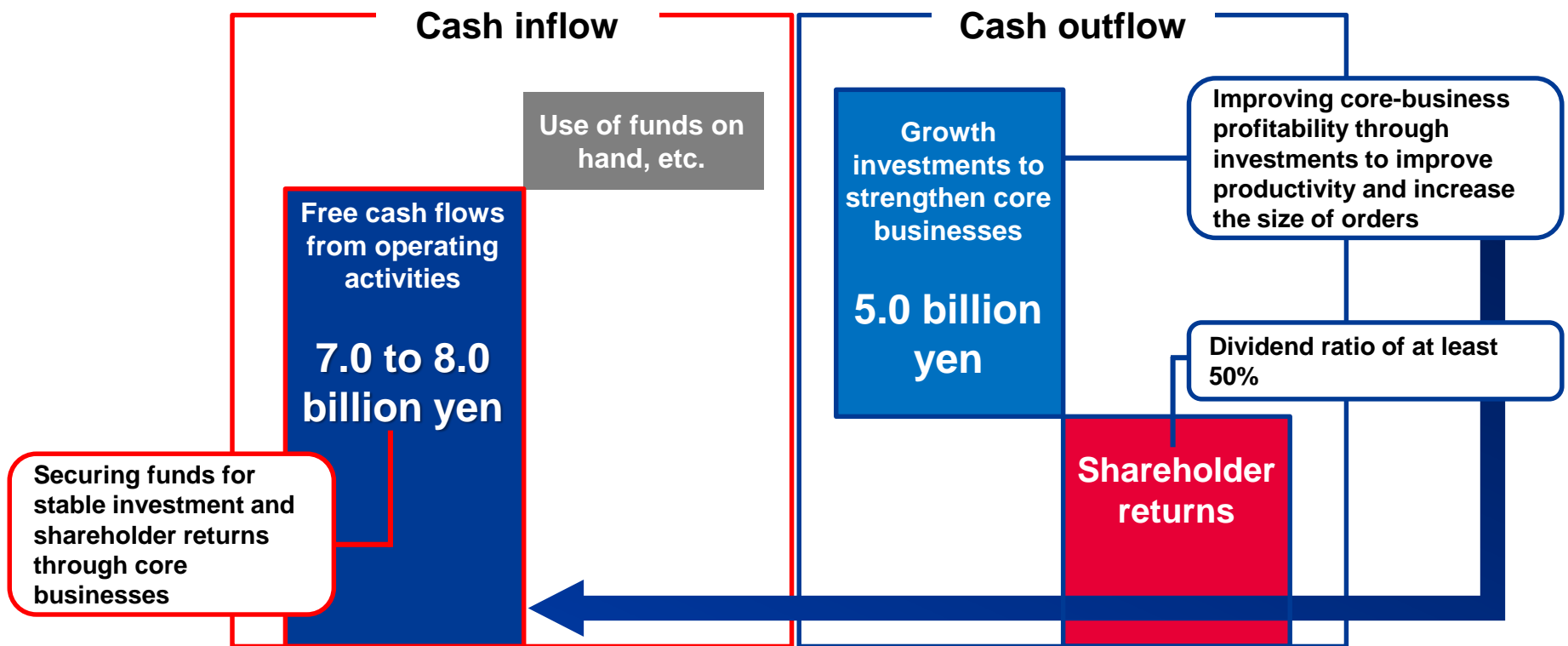
Issues	Priority investment topics	Amount of investment
Lag in accommodating the DX Decline in operating margin (rising cost rate) Expanding the size of orders	<ul style="list-style-type: none"> • DX focusing on construction sites (defensive DX) • Improving productivity through industrialization, BIM adoption, etc. • DX in sales-related operations in order to increase orders (aggressive DX) • Entry into super-high-rise buildings and super-large projects worth at least 5.0 to 10.0 billion yen 	5.0 billion yen

Step 2: Fiscal year ending March 2026 to 2030

Issues	Priority investment topics	Amount of investment
Expanding our business domain Securing sources of profit outside contracting Complying with ESG and SDGs; contributing to a low-carbon society	<ul style="list-style-type: none"> • Developing and acquiring zero-energy technologies like ZEB, ZEH, and wood construction techniques in order to achieve carbon neutrality • Reentering the civil engineering business • Entering the real estate business • Entering the environmental business (renewable energy, etc.) 	5.0 billion yen

6. New capital strategy

- Realizing growth investment on the order of 5.0 billion yen and shareholder returns with a dividend ratio of at least 50% based on funds earned through our core businesses
- Working to maintain and improve ROE and ROIC by increasing core-business profit through growth investments



3-year cash flow conditions for Step 1 (fiscal year ending March 2023 to fiscal year ending March 2025)

7. Strengthening governance

- Striving to realize a higher level of governance by focusing on implementing principles that will be applied to prime markets under the June 2021 revision of the Corporate Governance Code, for example by appointing independent outside directors to at least one-third of all Board of Directors positions
- Pursuing ESG-related initiatives and measures to strengthen IR alongside this strengthening of governance

Principles from the June 2021 revision of the Corporate Governance Code that will be applied to prime markets

- 1-2 (4)** Electronic platforms for exercising voting rights should be accessible to institutional investors.
- 3-1 (2)** Necessary information contained in disclosed documents should be disclosed and provided in English.
- 3-1 (3)** Companies should enhance their disclosure practices in terms of both quality and quantity in accordance with the TCFD or an equivalent framework.
- 4-8** Companies should appoint independent outside directors to at least one-third (and a majority as necessary) of the seats on their Board of Directors.
- 4-10 (1)** Independent outside directors should hold a majority of seats on nominating committees and remuneration committees, and companies should explicitly define their approach to independence as well as the authority, roles, and other characteristics of those committee members.

We will work to implement the Corporate Governance Code with a focus on the above principles.

Additionally, we will strive to address priorities including implementing ESG-related initiatives, enhancing IR information, and pursuing dialog with investors.

A company that creates spaces rich
in security and joy



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