

Sumitomo Forestry Group
Conference Call with Analysts and Institutional Investors on
Global Housing, Construction and Real Estate Business
—Transcript

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Please look at page four. The overall results for the segment for the year ending December 2022 are as shown.

The US housing and real estate business posted record-high sales and recurring income as a result of significant numerical growth. The recurring income ratio was 19%, and CAGR since 2013 was 27.2%, which is also high.

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Currently, we are engaged in a variety of businesses, centered on the single family home business and real estate development businesses, and are building a structure that enables us to diversify our sources of earnings, expand synergies among businesses, and respond to changes in the business environment.

In the US, in particular, we are expanding our portfolio by entering the FITP business, which covers everything from truss and panel manufacturing to framing work, and by forming an environmentally conscious real estate development fund by combining the real estate development business and the asset management business. Through these efforts, we have been building the platform where we can create new business by synergies between businesses. We feel that we have moved to a stage where we can aim for further growth.

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Please refer to page seven. From here, I would like to explain our US single family homes business. The new construction market in the single family homes business slowed down in H2 of 2022 as policy interest rates rose to curb inflation and mortgage rates also rose. However, since the end of 2022, mortgage rates, which had continued to rise, have stabilized and demand has been recovering.

As for the outlook for the US market as a whole, while housing starts have remained sluggish since the Lehman Shock, resulting in a period of short supply, a structural housing shortage continues as people in their 20s and 30s, a thick population, reach the age to purchase homes. This shortage is estimated to be 4 million to 6 million units.

Therefore, we believe that the demand environment is basically firm, although it is affected by the economy and interest rates from time to time and market conditions fluctuate.

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Currently, 30-year fixed mortgage rates are in the 6% range, but about two-thirds of the mortgages taken out by homeowners are at 4% or below, making it difficult for existing homes to appear on the market due to concerns about the increased interest burden of refinancing, and as a result, we believe this is one of the reasons why those with actual demand are returning to purchasing new homes.

Originally, the US housing market was very large in terms of existing homes compared to the new home market, and while the percentage of new homes in the secondary inventory used to be about 15%, it has now increased significantly to about 30% due to the background I mentioned earlier.

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The number of mortgage loans made to borrowers with low credit scores or with the case of negative equity where collateral value decreases against the mortgage loan balance has remained stable at a low level, and we believe that the market remains extremely healthy compared to the pre-financial crisis period.

The series of financial institution failures triggered by the collapse of Silicon Valley Bank in March of this year has had little impact on the housing and real estate business, and there is very little information on the credit concerns of major builders and developers.

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Please see page 10. The map of the US shows the states in which we operate.

The Company currently operates housing business in 16 states. The total number of housing units sold by the five companies in our group in 2022 is 10,244, which is equivalent to ninth place in the US ranking.

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We are engaged in the business mainly in the Sun Belt, a relatively warm and populated region in the southern and eastern parts of the US, where industrial concentration has been increasing in recent years.

Of the cities in which our group operates, 83% are among the top 15 cities for construction starts in

the US, and 39% are among the top 10. The majority of the housing price-to-household income multiples are less than 6.2 times the US average, which I believe indicates that the area is relatively easy to buy a home and has a high level of affordability.

The figure on the right shows the distribution of population growth and market size by city, and you can see that the cities in which we operate have generally large markets and growing populations.

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The table shows the market share of each of the five existing single family homes business groups in major cities of operation. All boast a high market share in their respective areas.

Although the builders were originally strong in their respective areas, after joining our group, they have further expanded their market share in those areas and have been developing new areas, making each company more competitive and expanding their business beyond market growth.

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Please see page 13. The table shows the number of units sold and market share of our US housing business since 2011.

Due to an increase in the number of group companies as well as market expansion, the number of units sold has increased year after year and our market share has grown. On the other hand, the number of units sold in 2021 and 2022 were lower than the previous year in both years due to the rapid increase in construction starts resulting from the COVID-19 pandemic and the growing demand for single family home in the suburbs, which led to longer construction periods. However, our market share has increased and we have maintained a high level of competitiveness, as you can see.

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In January 2023, we are pleased to welcome Southern Impression Homes, which operates a single-family rental housing business in Florida and Georgia, to the Group through Brightland.

The company has a unique single family rentals housing development business model, targeting mainly investors, in which it completes everything in-house from land development to construction, sales, and rental management, and develops and sells approximately 500 housing units annually.

The company possesses a very unique and highly original business foundation, including flexible land procurement capabilities that allow it to purchase a combination of finished and unfinished residential land, product development capabilities focused on leasing, a highly capital efficient business model, and expertise in rental management services for single family homes.

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The key point of this project is that Brightland has established a foundation to develop a for-sale

housing business in Florida, a huge market with the third largest population and the second largest number of housing starts and building permits in the US, by entering the market with a new single-family home business and utilizing Brightland's land information and land development capabilities. Second, the company's highly unique single family rental housing development model can be deployed at each of the Group's single family homes companies in each region.

Thirdly, the company will be able to expand its know-how in the management of single family rentals to other group companies, and fourthly, it will be able to expand its business in the development of single family rentals in cooperation with Crescent, which is expected to create many new business opportunities.

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Please refer to page 16. I will now explain the strengths of our business, using the same materials as last year.

We believe that each company in the Group has a good balance of strengths, both local and national builders.

One of our greatest strengths as a local builder is our ability to procure land. The US housing business is community-based, and our ability to acquire land in good condition depends on our thorough knowledge of local characteristics, fast and accurate information acquisition, and proper land evaluation. Since our business is centered on housing for sale, the location of the project site is particularly important. Our group companies have long been engaged in community-based businesses and have built relationships of trust with government agencies, industry associations, and others, enabling us to obtain information on projects at an early stage and to procure land at an advantage.

On the other hand, as a national builder, Sumitomo Forestry's strengths include the acquisition of abundant human resources, material purchasing power, financing power, various synergies, and the same standardized governance structure, all of which are made possible by the comprehensive management of the Company.

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Please see page 17. I would like to explain the land management of our group companies.

As a local builder, we are able to realize a variety of procurement options, including selection capabilities that is unique to a local company with local knowledge of the area, and a combination of ownership and options for both finished and unfinished residential lots. While Sumitomo Forestry Group's financial strength supports the purchase of prime land projects, governance functions to maintain financial soundness by keeping the balance of land investments below a certain level, thereby ensuring thorough risk control.

From acquiring land in a cleared state several years in advance to purchasing completed residential lots, we use a variety of acquisition methods to ensure sound and well-planned land acquisition in accordance with the market environment and business schedule.

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As a solution to the housing industry's constant problems, such as a shortage of craftsmen, rising costs due to higher labor costs, and longer construction periods, we are promoting the FITP business, in which structural wall panels, floors, and roof trusses are manufactured at our factories, delivered, and installed within our own group companies.

This business will address the shortage of craftsmen and will also improve construction efficiency, reduce costs, ensure construction safety, shorten the construction period, and reduce waste.

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Please refer to page 19.

In February 2022, the Company acquired a company that performs framing interior and exterior work as a group, and in October of the same year, it acquired Structural, a company that manufactures trusses and wall panels. The company announced the establishment of a panel plant in North Carolina in November, which is currently under construction.

In addition to using trusses from Structural for some of DRB's houses and constructing them within the Group, cabinets from An Cuong of Vietnam have been used for DRB's houses for sale and for Crescent's multi-family housing. Group synergy effects are being realized, such as in-house construction.

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In the single family homes business, we believe it is important to increase the asset turnover ratio from the perspectives of business capital efficiency and reduction of asset value fluctuation risk.

ROA is an important indicator for this purpose, and we believe that the ROA of our group is high compared to other companies in our industry, allowing us to conduct highly efficient business operations. We share information with each group company on asset efficiency in addition to performance indicators such as revenue growth, and constantly strive to recognize the current situation, to optimize it, and to improve it.

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Please refer to page 22. I will explain about the real estate development business in the US from here onward.

Our US real estate development business can be divided into two main categories. One is real estate development by Crescent and SFA MF, including multi-family housing, commercial facilities, and logistics facilities. The other is land development by Mark III and others.

Real estate development takes about three to four years from the start of a project to the construction of the property, the start of operations after completion, stable operation, and the sale of the property. Therefore, we believe it is important to understand the business environment from time to time, as

well as to always look several years ahead to carefully select quality projects and continue commercializing them.

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As mentioned earlier, the real estate development business is conducted by two companies, Crescent and SFA MF. While Crescent itself is the developer of the project, SFA MF is participating in the business by making an LP investment in the project in collaboration with other developers.

Crescent is a developer of rental multi-family residential properties, as well as commercial properties, distribution warehouses, life science facilities, and detached townhomes for lease.

The development entities for SFA MF-funded projects are major US real estate developers, including TCR, JPI, and Fairfield, and the majority of the projects are rental multi-family housing. As an exception, in 2022, we are also working with Crow Holdings to develop a wooden office building in Dallas.

The Group's total number of rental multi-family housing starts in the US in 2022 is 4,379 units, which would position the Group 15th in the ranking of real estate developers.

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Please refer to page 24. Like its single-family home business, Crescent also focuses on the Sunbelt area.

The company has a strong business awareness of environmental considerations, and in addition to NGBS and LEED certification, it is also promoting the acquisition of Fitwel certification, which recognizes the wellness considerations of its users. In the planning stage of development projects, we gather the opinions of local residents and other stakeholders through a unique process called a "canvas session" and reflect them in our projects to ensure high-quality real estate development in harmony with the history, culture, and living environment of local communities.

In recognition of these efforts, the company has received numerous awards, including a 2019 award from the NAHB National Association of Home Builders as the best multi-family housing developer of the Year.

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In the medium- to large-scale wooden construction business, the Company began developing wooden office buildings by mass-timber construction in Dallas and Atlanta in 2022. We have also started a wooden office business in London, England.

Beginning in FY2023, the Construction Business Sub-Division, which is engaged in the construction business in Japan, joined this segment. We plan to develop medium- to large-scale wooden construction business on a global scale to realize a decarbonized society.

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In 2022, we launched an ESG friendly real estate opportunities fund and started full-fledged asset management business.

We have close relationships with Crescent and other top-tier developers in the US, and extensive experience with single family homes group companies. In addition to this, the Group's major characteristics are its ability to develop master plans and procure quality assets for a wide range of assets, its track record of structuring a wide variety of cross-border transactions such as funds and joint ventures, and its advanced initiatives such as medium- to large-scale wooden construction and forestry funds.

Through the asset management business, we aim to expand the scale of our business and achieve long-term stable earnings by establishing a capital-efficient business scheme and creating new business opportunities.

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Please see page 28. From here, the Australian market is explained.

We entered the Australian market in 2009, and currently operate three companies in the single family homes business, including Henley, in all major cities in the country, where the population is particularly concentrated.

The total number of units sold by the three companies is equivalent to the third place ranking of single family homes in Australia.

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Please turn to page 29.

Population growth is expected to continue, partly due to the government's immigration policy, and the five major states in which we operate, Victoria, Queensland, New South Wales, South Australia, and Western Australia, are all expected to continue to experience high population growth rates of 1.2% to 2% per year.

The number of housing starts surged across Australia as a result of the housing construction subsidies introduced in June 2020 as a stimulus package under COVID-19 pandemic, but the temporary increase in housing starts exceeded the construction capacity of the industry as a whole. As a result, long-term construction period and rise in cost have been caused by the delay in market supply and shortage of craftsman across Australia.

The current shortage of materials has generally been resolved, and the shortage of craftsmen is also on its way to being resolved, so we plan to improve our profitability in the future.

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In addition to order and spec homes, the Company is currently engaged in land development, medium- to large-scale wooden construction, and landscaping business in the country.

As a promising market with continuing population growth, we aim to sell 5,500 single family homes in the final year of our long-term vision of 2030, while expanding our business portfolio and achieving stable profitability.

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Please refer to page 32 and 33. The housing real estate business in Asia is as shown.

The current areas of operation are Thailand, Indonesia, and Vietnam. These countries, with their continuously growing populations and economies, are expected to grow over the medium to long term, and we intend to continue to invest management resources in these markets to grow them into our third pillar of business.

On the other hand, we believe that a long-term perspective is important for business development in Asia, and we will continue to carefully scrutinize projects and plan carefully.

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Please refer to page 35. This is an organizational chart of the Global Housing, Construction and Real Estate Division.

We are headquartered in Japan for our entire business, and we execute our business strategies in collaboration with other regions around the world.

Sumitomo Forestry has established local subsidiaries, such as Sumitomo Forestry America in the US and Sumitomo Forestry Australia in Australia, each headed by a Sumitomo Forestry employee who is responsible for the respective area. Sumitomo Forestry dispatches several expatriates, including a resident director, to each of its operating companies, and local partners, management, and local employees work together to promote the business.

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Please refer to page 36. This section summarizes the management structure of overseas group companies.

The managers of Group companies in charge of overseas operations are given a certain amount of discretion depending on the scale of the project in accordance with the rules concerning official authority and while respecting on-site decisions, we maintain close communication with the head office to ensure that the head office and local subsidiaries under its direct control can exercise good governance.

We have introduced the J-SOX internal control reporting system, stationed a person in charge of the Internal Audit Department in the US, and introduced other systems and assigned a person exclusively in charge of auditing. We will continue to strengthen governance and constantly raise the level of risk management to keep pace with our expanding business.

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Please see page 38. This section summarizes the environmental response of our Global Housing,

Construction and Real Estate Division.

In addition to the fact that building a high-quality wooden structure emits less CO2 than building with steel or concrete, the long-term preservation of wood, which absorbs CO2 and fixes carbon, will contribute significantly to decarbonization.

We will actively increase the number of wooden buildings, including mass-timber construction properties, and strive to further add value to projects that contribute to the realization of a decarbonized society by promoting the One Click LCA, which counts environmental certification and environmental impact assessment in projects.

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Finally, please see page 40. Target figures for the medium-term management plan and long-term vision are listed.

The Company has sales targets of 25,250 units in 2024 and 40,000 units in 2030 in the US, Australia, and elsewhere. Each existing group company, through organic growth and the use of M&A, will work to achieve its goals.

This concludes my presentation. Thank you for attention.

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