

**Sumitomo Forestry Group**  
**Conference Call with Analysts and Institutional Investors on Overseas Housing and**  
**Real Estate Business - Q&A**

Time and date: 3:00-4:00 pm on Tuesday, June 21, 2022

Answers: Sumitomo Forestry Co., Ltd.

Tatsumi Kawata, Director and Senior Managing Executive Officer

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Q

In regard to the number of units sold in the single family home business in the United States, there are some companies seeing an increase and others whose numbers remain flat. What is the background behind that, and will the overall number of units sold be able to grow further? Also, please tell us about any experience you have up to now with M&A not going well or recovering from that through capable management.

A

The situation is different depending on the area where the company engages in business. Companies that do business in areas where there is considerable economic growth compared to other parts of the United States, such as Texas and the Carolinas, are growing significantly. Some of these companies have expanded their business area through acquisitions, and this has led to a high growth rate in the number of units sold. On the other hand, growth appears stable at MainVue Homes, which operates in Seattle, in terms of the number of units. This is due in part to the market being smaller in terms of supply to begin with, but owing to differentiation in the area, its products in a higher price range have gained acceptance. The different growth drivers for companies that increase the number of units sold and companies that increase added value produce different growth rates in terms of the number of units sold.

We struggled when we first entered the overseas single family home business, and that was due in part to the 2008 financial crisis. We have already dissolved the joint venture relationship of the time, but today, we have built solid, highly transparent relationships with each of our partners and believe that they will be able to achieve growth.

Q

You mentioned that the ROA in the single family home business in the United States is relatively high compared with other top US home builders. Can you tell us about the factors? On top of that, the plan is for the percentage of recurring income in the business to peak at 16.9% (FY2022 forecast) and then fall to 14.0% in FY2024. Please tell us how you maintain the high effectiveness and profit margin?

A

The housing market has seen significant growth during the most recent several years. Selling prices have risen due to the tight supply, and orders have had high profit margins. On the other hand, it is unlikely that this strong housing market will persist, and we expect some factors to increase costs, such as rising material prices, including the recent wood shock, and construction delays caused by labor shortages. We hope to continue working on procuring high-value land while maintaining discipline in our portfolio. Leveraging our information gathering capabilities as a local builder, we will ensure highly accurate valuations at the land acquisition stage and develop our business in areas with high growth potential and relatively low land prices, tying that into maintaining high profit margins.

Q

I understand that there is a structural tightness in supply and demand in the US housing market. However, housing demand has started to drop due to the current mortgage rates. What kinds of measures would you take to achieve the Medium-Term Management Plan targets if market modulation were to become more severe?

A

Inflation has risen to the point where it is necessary to address overheating not only in the housing market, but also in the economy as a whole. As such, we believe that there could be a certain amount of correction in the future. We will continue to expand our business not only in the single family home business but also in fields where growth is expected even if there is a slowdown in the new housing market, including the real estate development business and the build-to-rent development business. We also believe that one of the results of expanding our business into asset management and a wide range of other domains in a diversified manner and growing our business portfolio overseas will be that it provides hedging of risks when one business domain is negatively impacted.

Q

You have not used the Japanese Sumitomo Forestry brand or the Big-Frame construction method in your overseas housing business. What are the distinctive characteristics and strengths of the Sumitomo Forestry Group overseas?

A

Housing is a regionally-oriented local market. In the United States in particular, design features and other housing preferences vary greatly depending on the region. For that reason, we believe it is more logical to leverage locally trusted brands and local management teams rather than to provide a uniform brand or products. At the same time, while less than conspicuous, we are working on differentiation in collaboration with our local partners in such areas as effective utilization of space and design methods that lead to shorter construction periods. The Sumitomo Forestry name is not front and center, but we are highly involved in

product design and construction management.

Q

I think this fiscal year your business results will be fine owing to the abundant orders received and the depreciation of the yen. On the other hand, I think the conditions will be harsher in the next fiscal year. It will be fine if interest rates settle down by the end of the year, but what is your outlook for the next fiscal year?

A

Mortgage interest rates have increased rapidly over the past month or two, and during the summer break season, the flow of people slows, so there has been a lull when it comes to the number of orders received. Meanwhile, the price of timber has come down as the number of housing starts has decreased. At this stage, it is still difficult to predict the combined impact of these factors on the next fiscal year's business results. The sharp rise in the policy rate is intended to bring inflation down as quickly as possible. It is unlikely that these high interest rates will be maintained until the market crashes. We believe that customers may find it difficult to judge the right timing to buy a home based on the interest rates in the past month or two alone.

Q

I think that demonstrating the strengths of the Sumitomo Forestry Group such as in the Fully Integrated Turn-key Provider (FITP) business where you are increasing your construction capabilities will also lead to a higher stock price valuation. Where will you develop this business and what is the road map for the future?

A

As for the areas, we would like to cover the widest range possible, but we expect to start with the Mid-Atlantic and Southeast areas where square housing designs are more prevalent and commercialization is further along on panels and roof trusses. In addition to utilizing the know-how related to CAD and precut materials cultivated in Japan, we will work on streamlining construction and shortening construction periods while promoting further adoption of construction materials made by group manufacturing companies. We will do this through the function of delivering materials using physical distribution bases such as depots and the function of installing materials at construction sites, and this will allow us to provide unique value.

Q

What is the composition of your customers by attribute such as selling price range, first-time buyer, and move-up buyer in the single family home business in the United States? Also, are any signs that move-up buyers are holding off due to the increase in mortgage interest rates?

□

Although we do not have reliable data on the composition of first-time buyers and move-up buyers, some of the areas where we are engaged in the detached housing business have many younger households moving in from other areas. As for first-time buyers and move-up buyers holding off due to rising interest rates, we assume there are some, but at this time it is difficult to comment on an overall trend, in part because cash buyers are not significantly impacted.

□

In addition to existing businesses such as single family home business and real estate development, what kind of a profit structure do you hope to achieve in the future by promoting various undertakings such as rental housing and asset management? What are your specific targets?

□

We do not have specific targets for the profit structure, but we will work on enhancing human capital in new business domains, and we hope to expand these businesses by seizing growth opportunities in each domain. Having been able to build a platform centered on the single family home business has led to the acquisition of information on new businesses and the expansion of our business domains. In regard to the real estate development business as well, through collaboration with joint venture partners such as Crescent and SFAME, we have obtained a wide range of information that is connected to further growth opportunities, and there is much room for future expansion. By deepening our relationships with the management of local partner companies, we believe that we will also be able to work on new initiatives in an accelerated manner.

In addition, although this will not necessarily be linked to performance targets, in terms of the number of units supplied, the single family home business in the United States accounted for around 70% of the total number of units supplied overseas in FY2021. While we expect growth of the housing complex and single family rental businesses to result in the number of units increasing to 23,000 in FY2030 (compared to 11,230 in FY2021), the percentage accounted for by the business in the United States will decrease to around 50%.

□

Has the purchase of land via options contracts been common in the United States, or is it something that has increased in recent years?

□

As you are already aware, options contracts are not a new method. The percentage of options contracts is largely dependent on the policies of the individual company, but we have always considered the overall balance in our business.

Q

Real estate prices in the United States are soaring, and your results will grow with depreciation of the yen. Under these circumstances, what will your approach be to use of your funds? Will you promote further acquisition of real estate for sale or buy back your own shares?

A

We have nothing to say about buying back shares at this time. As for our stock price, looking only at indicators such as PBR or PER, we feel that the stock market has overlooked some of our value, so we hope to deepen understanding of our business through conference calls like this one.

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