

## Message from the Executive Officer in Charge of Corporate Planning and Finance



We will implement growth strategies aimed at achieving our Long-Term Vision while building a robust financial structure

**Tatsumi Kawata**  
Director and  
Senior Managing Executive Officer

**Under the current Medium-Term Management Plan, which will end in 2024, the basic policy of our financial strategy is to build a robust financial structure and balance investing for growth and returning profits to shareholders. As KPIs, we aim to make growth investments for decarbonization and achieve a stable return on equity (ROE) of 15% or more while maintaining an equity ratio of 40% or more and a net debt-to-equity ratio of 0.7 times or less.**

### Financial and capital strategies in the Medium-Term Management Plan

The current Medium-Term Management Plan, which corresponds to Phase 1 of the Long-Term Vision Mission TREEING 2030, is positioned as a three-year period to lay the foundation for future growth and for our contribution to decarbonization. We will diversify our residential real estate business in the United States, which has become a pillar of earnings, enter businesses in which procurement of materials and construction are undertaken by one company, and restore the earning power of our housing business in Japan, which remained an issue in the previous Medium-Term Management Plan. By accelerating

investments and initiatives in decarbonization-related businesses, we intend to gain a foothold to realize our Long-Term Vision. In order to actively invest in new growth fields, while building a profit base, I consider it important to balance the preservation of financial soundness and a growth in earnings mindful of capital efficiency. Specifically, we have set the ambitious targets of making growth investments for the future while maintaining an equity ratio of 40% or more and a net debt-to-equity ratio of 0.7 times or less, and achieving a ROE of 15% or above consistently.

# Message from the Executive Officer in Charge of Corporate Planning and Finance

## Review of fiscal 2022 and future outlook

In the fiscal year ended December 31, 2022, thanks to the strong performance of our single-family homes business in the United States, which is a pillar of earnings, and the yen's depreciation, the Group's overall net sales were 1,669.7 billion yen, up 20% year on year, recurring income was 195.0 billion yen, a 42% year-on-year increase, and net income was 108.7 billion yen, up 25% year on year. Both recurring income and net income reached record highs, and recurring income exceeded the target of 173.0 billion yen set for the fiscal year ending December 31, 2024, the final year of the Medium-Term Management plan. ROE stood at 19.4%, significantly exceeding the cost of equity (recognized as around 7%) due to the large increase in net income, and well outpacing the target of 15%, following 20.2% for the fiscal year ended December 31, 2021.

In order to achieve a stable ROE of 15% or above going forward, it is necessary to secure profitability of our housing and real estate business in the United States, which accounts for 70% to 80% of our profits. In the fiscal year ending December 31, 2023, a decline in earnings compared to the previous fiscal year, which showed strong performance, is inevitable partly due to the temporary adjustment phase of the United States housing market against the backdrop of a sharp rise in interest rates. On the other hand, we believe that the United States housing market will continue to grow over the medium to long term

as the tight supply-demand relationship continues for the time being, driven by the growing population of homebuyers' groups including millennials and Generation Z, buyers, along with a shortage of available previously-owned homes in the market. In such a business environment, we believe that we can secure a certain level of profitability by promoting sales strategies tailored to the conditions in each region, and in fact, contracts and sales of houses have been progressing favorably this year.

In addition to newly entering the state of Florida in January 2023, the Group is actively promoting initiatives to increase profits, improve profitability, and prepare for labor shortages. These include obtaining of land with reduced risks, such as purchase contracts with options and the use of land bankers, and promoting the FITP\*1 business, which provides integrated services from the design of structural panels to manufacturing, delivery, and construction. In addition to the housing and real estate business in the United States, we are also improving profitability in the domestic housing business by reviewing sales prices and streamlining production, reducing our assets by selling domestic nursing homes to funds, and decreasing cross-shareholdings. We will continue to aim for profit growth mindful of capital efficiency across the entire Group.

\*1 Fully Integrated Turnkey Provider

### Trend in main financial indicators

	2019/3	2020/3	2020/12*2	2021/12	2022/12	2023/12 forecast*3
Equity ratio	32.8%	32.1%	33.7%	37.7%	40.8%	39.0%
Net debt-to-equity ratio (times)	0.5	0.5	0.5	0.3	0.4	-
Return on equity (ROE)	9.3%	8.8%	8.8%	20.2%	19.4%	11.8%
Dividend payout ratio	24.9%	26.1%	20.9%	17.5%	23.0%	32.4%

\*2 Due to a change in the fiscal year end, the fiscal year ended December 31, 2020 consisted of the nine-month period from April to December 2020.

\*3 Forecast as of April 27, 2023.

## Maintaining financial soundness

In order to achieve the Medium-Term Management plan and realize the Long-Term Vision, financial stability and soundness that can withstand the effects of economic fluctuations are prerequisites. This is becoming even more

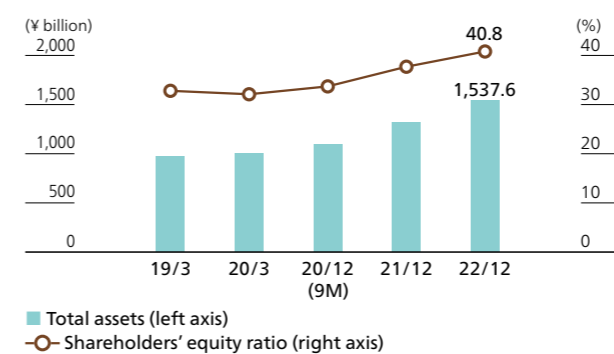
material, especially in the context of our growing housing and real estate business in the United States, which is easily affected by market environments. We have been working to maintain our financial soundness, and while interest-

bearing debt has increased due to business expansion, we have maintained an equity ratio of over 40% and a net debt-to-equity ratio of 0.7 times or less thanks to the steady accumulation of profits and timely public offerings.

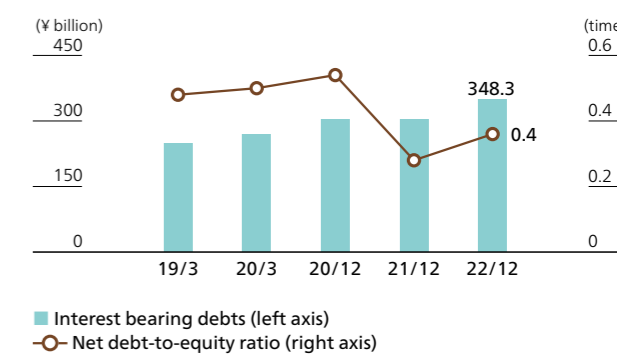
In addition to the active investments and loans to decarbonization-related businesses set forth in our Long-Term Vision, demand for funds is expected to rise through the acquisition of real estate for sale, mainly in the United

States housing market, and the growth of our real estate development business. Although we consider that financial indicators will change depending on the timing of these investments and the funding environment, we will continue to balance active investments for growth with financial soundness while maintaining financial discipline.

### Total assets/Shareholders' equity ratio



### Interest bearing debts/Net debt-to-equity ratio

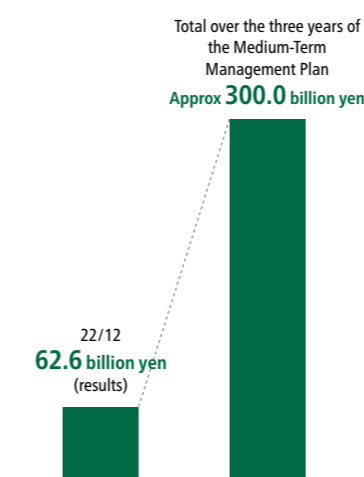


## Investments for growth

In order to increase ROE and ROIC, the Group has adopted IRR and NOI yield as quantitative criteria for new investments and stipulates that efficiency indicators such

as IRR calculated from business plans exceed hurdle rates (WACC, etc.) set for each country and business as a general rule.

### Investment plan



		22/12 Results	Three years of MTP	Rate of progress
Main decarbonization-related investments	Timber industrial complex investment	0.4	20.0	2%
	Overseas wooden non-residential investment	3.6	30.0	12%
	Forestry fund related investment	0.2	12.0	2%
Investments and loans by segment outside of the above segments*4	Timber and Building Materials	3.9	35.0	11%
	Overseas Housing and Real Estate	42.9	130.0	33%
	Housing and Construction	6.4	25.0	26%
	Environment and Resources	3.1	30.0	10%
	Others	2.1	15.0	14%
<b>Total</b>		<b>62.6</b>	<b>297.0</b>	<b>21%</b>

\*4 Former segment classification.

## Message from the Executive Officer in Charge of Corporate Planning and Finance

Under the Medium-Term Management Plan, we plan to invest approximately 300.0 billion yen in total over the three-year period, of which 62.0 billion yen is earmarked for decarbonization-related investments such as forestry funds, timber industrial complexes, and overseas non-residential construction. In the fiscal year ended December 31, 2022, we made investments amounting to a total of 62.6 billion yen, mainly for commercial real estate development in the United States, the acquisition of a panel manufacturing company to jumpstart the FITP business, model homes in

Japan and overseas, and IT-related investments. As a result of careful consideration, some projects were abandoned, so the progress in the first year was slower than expected, but in 2023, we will move ahead with projects such as ESG-friendly offices near Atlanta, a seven-story office building of mass timber construction near Dallas, and forestry funds. We will also continue to promote the businesses set forth in the Long-Term Vision and actively invest in our business expansion.

### Acquisition of real estate for sale

In the Medium-Term Management Plan, apart from the investment plan mentioned above, we plan to acquire real estate for sale, mainly in the United States, where steady housing demand is expected, but we are particularly conscious of controlling inventory risk and improving the turnover rate.

With regard to risk control, we have established a limit for investment in real estate for sale as an operational rule and imposed certain restrictions to avoid excessive inventory levels. This limit was set in such a way that even if a certain amount of loss occurred, it would not significantly impair financial soundness. We are controlling the balance of real estate for sale based on these approaches and rules. In addition, subsidiaries in the United States have been

obtaining funds individually from financial institutions for the acquisition of real estate for sale in the United States, but in the fiscal year ended December 31, 2022, we switched part of these funds to parent company loans with the aim of reducing financing costs. By establishing our own covenants for these loans, we can maintain the financial soundness of our subsidiaries and control the amount of real estate for sale.

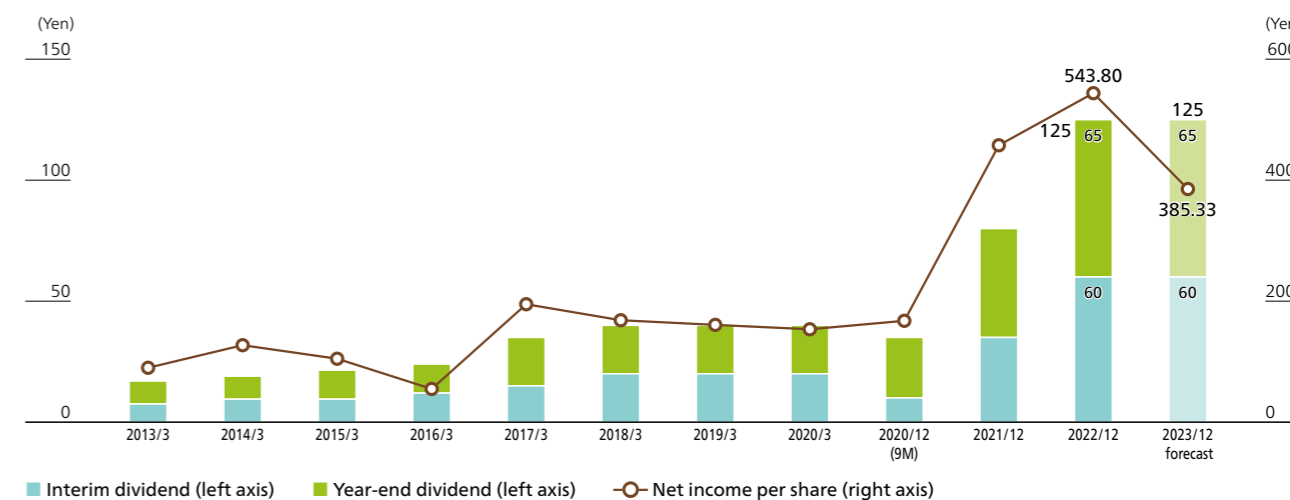
In order to expand our single-family homes business in the United States, which predominantly focuses on houses built for sale, it is vital that we acquire real estate for sale in a continuous manner. In addition to our growth strategy, we will continue to strive for sound business growth through a system that controls inventory risk.

### Policy on shareholder returns

Sumitomo Forestry recognizes that returning profits to shareholders is one of its most important tasks, and our basic policy is to provide these returns in a continuous and stable manner. Going forward, we will continue to improve ROE and enhance equity by properly utilizing retained earnings for effective investments and R&D activities that contribute to the long-term enhancement of corporate value. We will also return profits at an appropriate level according to profit trends while comprehensively considering the balance between our management base, financial position, cash flow, and other factors.

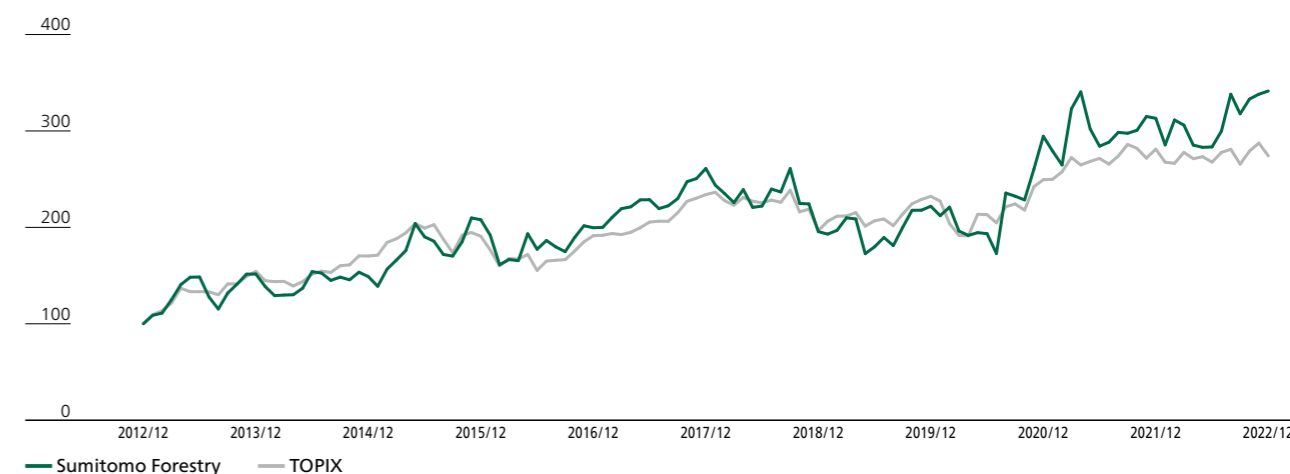
Our TSR over the past 10 years has been 241.4% cumulatively, which is higher than TOPIX. In recent years, we have pursued our growth strategy while utilizing funds obtained through a public offering of approximately 35.0 billion yen in July 2021, which resulted in an increase in profits and net income per share, leading to an increase in our stock price and corporate value. We will continue to return profits to shareholders by paying stable and continuous dividends and increasing corporate value.

### Shareholder returns



\* Due to a change in the fiscal year end, the fiscal year ended December 31, 2020 consisted of the nine-month period from April to December 2020.

### TSR

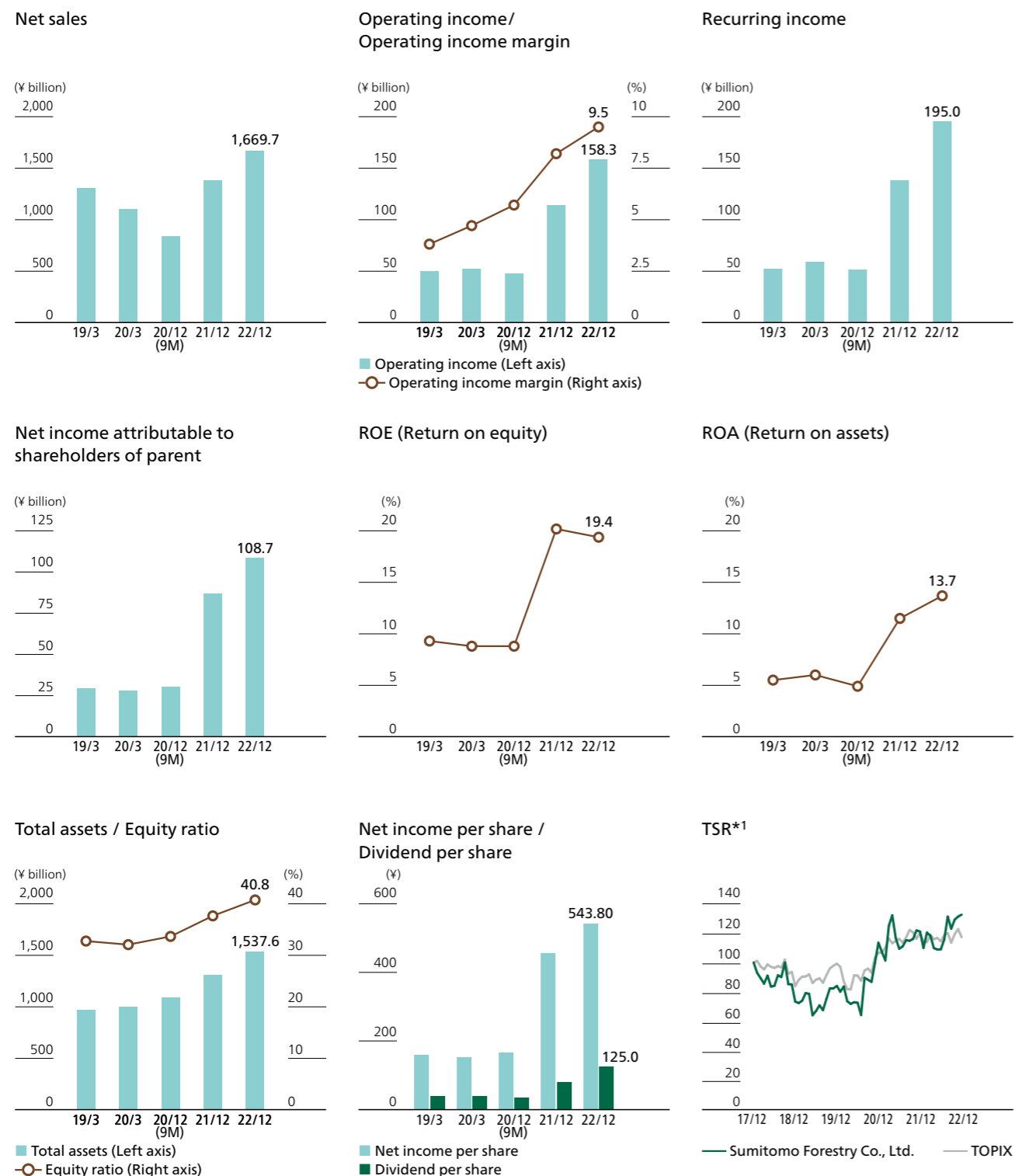


	1 year	3 years		5 years		10 years	
		Cumulative	Annual rate	Cumulative	Annual rate	Cumulative	Annual rate
Sumitomo Forestry	10.4%	60.6%	17.1%	32.6%	5.8%	241.4%	13.1%
TOPIX	-2.5%	18.1%	5.7%	17.2%	3.2%	174.2%	10.6%

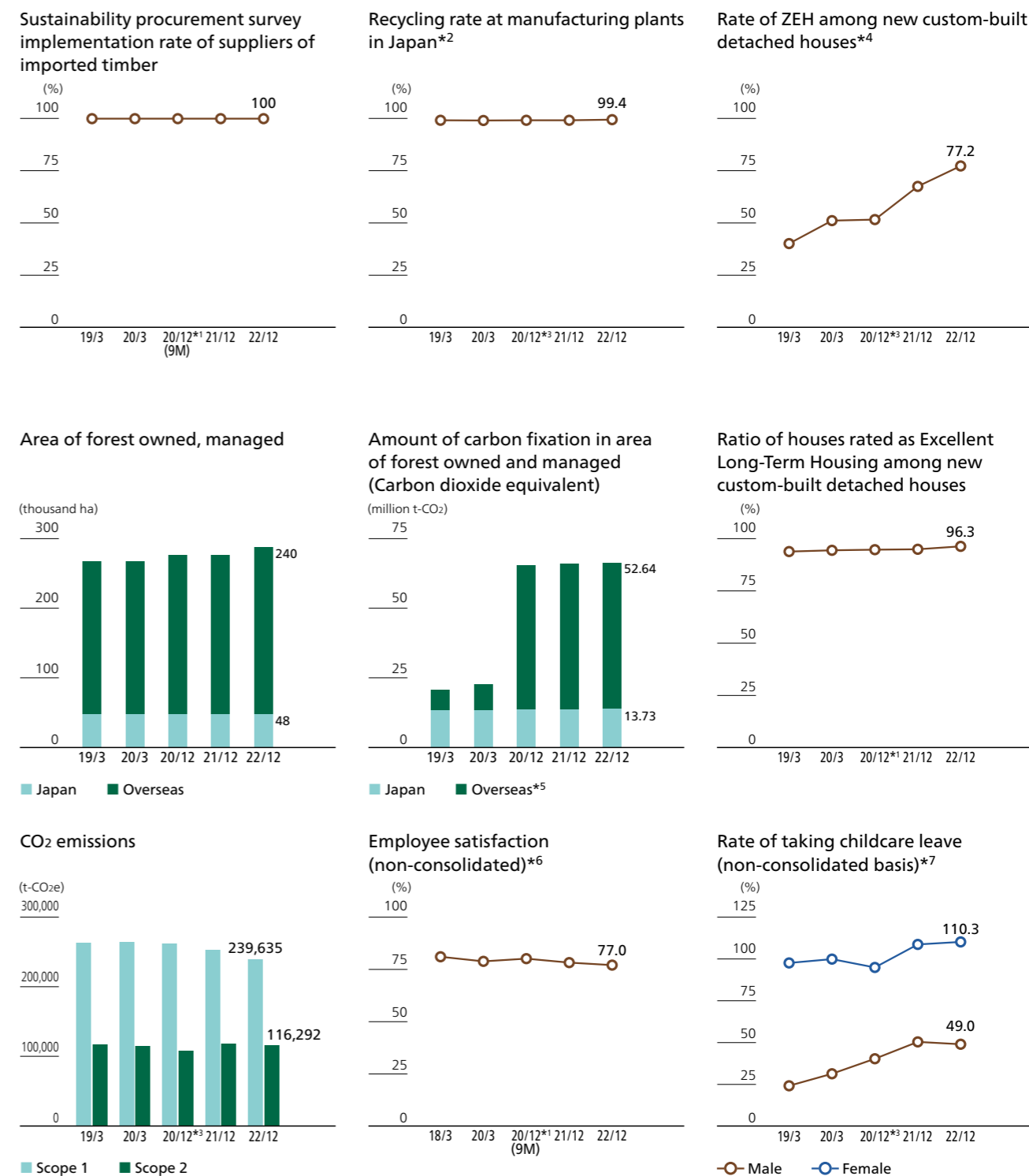
\*Total Shareholder's Return (TSR): Comprehensive return on investment including capital gains and dividends.  
 \* The above graph shows the TSR, including dividends and stock price fluctuations, of investments made on December 31, 2012 up to December 31, 2022. The Sumitomo Forestry's chart indicates index figures of investment results (assuming no reinvestment of dividends) by setting investment amounts as of December 31, 2012 as 100. The index for comparison is TOPIX inclusive of dividends, and it is calculated in the same way as the above.  
 \* The above table shows TSR as of December 31, 2022 assuming investments were made one year prior (December 31, 2021), three years prior (December 31, 2019), five years prior (December 31, 2017), and ten years prior (December 31, 2012). Figures for the one-year, three-year, five-year, and ten-year investments are annualized by geometric average of the return on investment for the relevant period.

# Financial and Non-Financial Highlights

## Financial highlights



## Non-financial highlights



\* Regarding the application of the Accounting Standard for Revenue Recognition, the Sumitomo Forestry Group has been applying the Accounting Standard for Revenue Recognition (ASBJ Statement No.29) from the FY ended March 2020. From this fiscal year, primarily in the Timber and Building Materials Business, for transactions where the Company's role in providing the products to the customer is fulfilled as an agent, an amount equivalent to fees is shown as sales on a net amount basis, rather than the total transaction amount. In addition, in regard to construction contracts in the Housing and Construction Business and the Overseas Housing, Construction and Real Estate Business, revenue is recognized for all construction works over a certain period of time in line with the fulfillment of performance obligations.

\* The end of the fiscal year was changed from March 31 to December 31 starting in the FY ended December 2020. This fiscal year is a nine-month transition period from April 1 to December 31, 2020.

\*1 Current market value by TSR is shown as an index figure based on the closing price as of December-end in 2017 set as 100.

\*1 Data collection period: April to December 2020

\*2 Sumitomo Forestry Crest, the Agro-Products division of Sumitomo Forestry Landscaping, Japan Bio Energy, Okhotsk Bio Energy, Michinoku Bio Energy

\*3 Data collection period: January to December 2020

\*4 The above includes Nearly ZEH and has ZEH Oriented in narrow areas since FY ended March 2019, and ZEH Oriented in heavy snowfall areas since FY ended March 2020. Hokkaido has been comprised since FY ended December 2020.

\*5 From FY ended December 2020, conservation forests overseas were added to the scope of the collection.

\*6 From FY ended March 2020, surveys on employee satisfaction have been conducted yearly.

\*7 Rate of taking childcare leave = number of persons starting childcare leave in fiscal year/number of persons whose children were born in the applicable each fiscal year.