

**Summary of Financial Results
for the Third Quarter of the Fiscal Year Ending December 2023
[Japan GAAP] (Consolidated)**

October 31, 2023

Name of Company: Sumitomo Forestry Co., Ltd.	Stock Exchange Listing: Tokyo
Stock Code: 1911	URL: https://sfc.jp/english
Representative Title: President/Representative Director	Name: Toshiro Mitsuyoshi
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Scheduled Date of Filing Quarterly Securities Report: November 10, 2023	
Scheduled Date to Commence Dividend Payments: —	
Supplementary Documents on Financial Results: Yes	
Quarterly Financial Results Briefing: Yes (for analysts and institutional investors, in Japanese)	

(Note: Amounts are rounded to nearest million yen.)

**1. Consolidated financial results for the third quarter of the FY ending December 2023
(January 1, 2023 – September 30, 2023)**

(1) Consolidated results of operations (Cumulative total) (%: change from the same period of the previous year)

	Net sales		Operating income		Recurring income		Profit for the year attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
3Q FY Ending December 2023	1,232,884	2.2	97,615	(12.1)	99,579	(29.8)	63,797	(22.9)
3Q FY Ending December 2022	1,206,293	24.6	111,109	59.9	141,870	60.8	82,718	54.3

Note: Comprehensive income 3Q Ending December 2023 160,237 million yen (-23.4%)
3Q Ending December 2022 209,206 million yen (126.0%)

	Net income per share	Net income per share fully diluted
	Yen	Yen
3Q FY Ending December 2023	315.71	311.59
3Q FY Ending December 2022	413.92	404.26

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2023	1,759,101	817,938	42.7
As of December 31, 2022	1,537,598	682,554	40.8

Note: Shareholders' equity As of September 30, 2023 750,759 million yen
As of December 31, 2022 627,510 million yen

2. Dividends

	Cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
FY Ended December 2022	—	60.00	—	65.00	125.00
FY Ending December 2023	—	60.00	—	65.00	125.00
FY Ending December 2023 (Forecast)				65.00	125.00

Note: Revised dividend forecast for the quarter under review: None

**3. Forecast of the consolidated financial results for the FY ending December 2023
(Consolidated, January 1, 2023 – December 31, 2023)**

(%: change from the same period of the previous year)

	Net sales		Operating income		Recurring income		Profit for the year attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	1,726,000	3.4	130,500	(17.5)	150,000	(23.1)	92,000	(15.3)	449.56

Note: Revised forecast for the quarter under review: None

*Notice

(1) Changes in main subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): Yes

New Company: 1 (Company name): SI HoldCo, LLC

Removed: None (Company name): —

(2) Application of accounting treatment specific to the preparation of the consolidated quarterly financial statements: None

(3) Changes in accounting policies, accounting estimates, and restatements

(a) Changes in accounting policies due to revision of accounting standards: Yes

(b) Changes in accounting policies other than those in (a): None

(c) Changes in accounting estimates: None

(d) Restatements: None

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury stock)

As of September 30, 2023	206,057,068	As of December 31, 2022	201,218,236
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(b) Treasury stock

As of September 30, 2023	1,412,210	As of December 31, 2022	1,390,509
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(c) Average number of shares during the term (cumulative for the quarter)

As of September 30, 2023	202,073,125	As of September 30, 2022	199,841,096
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*Financial results summaries are not subject to audit.

*Cautionary statement regarding business results forecasts and special notes

(Caution regarding forward-looking statements)

Earnings forecasts and other forward-looking statements in this release are based on data currently available to the Company and certain assumptions that the Company believes are reasonable and are not intended to be a promise by the Company to achieve those forecasts. Actual results may differ substantially due to various factors.

(Method of Obtaining Supplemental Explanatory Material)

The Financial Factbook which is supplementary documents on Financial Results is published on the website.

<https://sfc.jp/english/ir/>

Additionally, the Company will hold a conference for securities analysts and institutional investors on Tuesday, October 31, 2023. The explanatory material on the financial results will be published on the website.

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2. Quarterly Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

(million yen)

	Previous consolidated fiscal year (December 31, 2022)	Third quarter cumulative period (September 30, 2023)
Assets		
Current assets		
Cash and deposits	128,752	126,062
Notes and accounts receivable-trade	112,487	108,786
Electronically recorded monetary claims-operating	41,974	37,886
Accounts receivable from completed construction contracts and contract assets	57,946	72,398
Marketable securities	3,177	3,180
Merchandise and finished goods	24,576	20,259
Work in process	2,050	2,125
Raw materials and supplies	11,385	11,634
Costs on construction contracts in progress	16,098	22,347
Real estate for sale	106,436	117,318
Real estate for sale in process	434,028	560,541
Short-term loans receivable	28,107	27,721
Accounts receivable-other	56,920	62,953
Other	49,349	59,486
Allowance for doubtful account	(521)	(498)
Total current assets	1,072,763	1,232,197
Non-current assets		
Property, plant and equipment		
Buildings and structure	111,884	118,642
Accumulated depreciation	(54,619)	(59,313)
Buildings and structures, net	57,265	59,329
Machinery, equipment and vehicles	89,673	95,529
Accumulated depreciation	(66,687)	(72,747)
Machinery, equipment and vehicles, net	22,986	22,782
Land	46,328	51,188
Timber	40,247	43,107
Leased assets	19,596	23,091
Accumulated depreciation	(7,392)	(9,141)
Leased assets, net	12,203	13,949
Construction in process	13,459	17,322
Other	21,339	24,343
Accumulated depreciation	(15,025)	(16,753)
Other, net	6,314	7,590
Total property, plant and equipment	198,802	215,269
Intangible assets		
Goodwill	5,911	11,612
Other	16,964	17,652
Total intangible assets	22,876	29,264
Investments and other assets		
Investment securities	203,572	231,859
Long-term loans receivable	8,938	12,971
Retirement benefit asset	710	725
Deferred tax assets	7,736	9,205
Other	23,211	28,717
Allowance for doubtful account	(1,010)	(1,107)
Total investments and other assets	243,158	282,371
Total non-current assets	464,835	526,904
Total assets	1,537,598	1,759,101

(million yen)

	Previous consolidated fiscal year (December 31, 2022)	Third quarter cumulative period (September 30, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	105,540	103,403
Electronically recorded obligations-operating	30,662	27,947
Accounts payable for construction contracts	103,566	115,380
Short-term borrowings	45,966	61,832
Current portion of bonds payable	12	10,012
Current portion of bonds with share acquisition rights	10,015	-
Lease obligations	2,120	2,218
Income tax payable	5,137	7,118
Contract liabilities	80,095	94,007
Provision for bonuses	24,210	26,689
Provision for bonuses for directors (and other officers)	163	-
Provision for warranties for completed construction	7,415	7,229
Asset retirement of obligations	234	809
Other	78,975	76,028
Total current liabilities	494,110	532,671
Long-term liabilities		
Bonds payable	90,140	80,214
Long-term borrowings	187,807	241,993
Lease obligations	12,263	14,199
Deferred tax liabilities	35,406	31,215
Provision for retirement benefits for directors (and other officers)	313	372
Retirement benefits liability	11,792	11,800
Asset retirement of obligations	3,608	3,229
Other	19,604	25,470
Total long-term liabilities	360,934	408,492
Total liabilities	855,045	941,163
Net assets		
Shareholders' equity		
Common stock	50,074	55,087
Capital surplus	31,493	36,514
Retained earnings	447,216	485,614
Treasury shares	(2,465)	(2,509)
Total shareholders' equity	526,318	574,707
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	36,926	38,867
Deferred gains (losses) on hedges	3,775	5,855
Foreign currency translation adjustment	60,443	131,287
Remeasurements of defined benefit plans	49	44
Total accumulated other comprehensive income	101,192	176,052
Share acquisition rights	96	76
Non-controlling interests	54,948	67,103
Total net assets	682,554	817,938
Total liabilities and net assets	1,537,598	1,759,101

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

For the third quarter cumulative period (consolidated)

(million yen)

	Previous third quarter cumulative period (January 1, 2022 - September 30, 2022)	Current third quarter cumulative period (January 1, 2023 - September 30, 2023)
Net sales	1,206,293	1,232,884
Cost of sales	919,163	950,525
Gross profit	287,130	282,359
Selling, general and administrative expenses	176,021	184,744
Operating income	111,109	97,615
Non-operating income		
Interest income	499	1,337
Purchase discount	262	256
Dividend income	1,212	1,157
Share of profit of entities accounted for using equity method	23,643	183
Foreign exchange gains	-	267
Gain on sale of investment securities	4,909	449
Other	3,642	4,881
Total non-operating income	34,166	8,530
Non-operating expenses		
Interest expense	1,935	3,393
Foreign exchange losses	68	-
Other	1,402	3,173
Total non-operating expenses	3,405	6,566
Recurring income	141,870	99,579
Extraordinary loss		
Impairment loss	2,366	-
Total extraordinary loss	2,366	-
Profit before income taxes	139,503	99,579
Income taxes-current	31,855	27,032
Income taxes-deferred	4,563	(6,750)
Total income taxes	36,418	20,282
Net income	103,086	79,298
Net income attributable to non-controlling interests	20,368	15,501
Net income attributable to owners of parent	82,718	63,797

Consolidated Statements of Comprehensive Income
For the third quarter cumulative period (consolidated)

(million yen)

	Previous third quarter cumulative period (January 1, 2022 - September 30, 2022)	Current third quarter cumulative period (January 1, 2023 - September 30, 2023)
Net income	103,086	79,298
Other comprehensive income		
Valuation difference on available-for-sale securities	4,200	1,602
Deferred gains (losses) on hedges	1,230	1,183
Foreign currency translation adjustment	85,865	66,891
Share of other comprehensive income of entities accounted for using equity method	14,825	11,264
Total other comprehensive income	106,121	80,940
Comprehensive income	209,206	160,237
(Breakdown)		
Comprehensive income attributable to shareholders of parent	178,997	138,657
Comprehensive income attributable to non-controlling interests	30,209	21,581

(3) Notes to the Consolidated Financial Statements

(Notes related to the Assumption of a Going Concern)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

In the current third quarter cumulative period (consolidated), common stock increased by ¥5,013 million and capital surplus increased by ¥5,022 million. As of the end of the current third quarter consolidated period, common stock was ¥55,087 million and capital surplus was ¥36,514 million.

This was mainly due to an increase in common stock of ¥5,000 million and capital surplus of ¥5,000 million due to the transfer of convertible bond-type bonds with share acquisition rights.

(Changes in Accounting Policies)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 31, June 17, 2021) has been applied from the beginning of the first quarter cumulative period. In accordance with the provisional measures set forth in paragraph 27-2 of the Accounting Standard for Fair Value Measurement, the new accounting policies established by the Accounting Standard for Fair Value Measurement will be applied going forward. This does not affect the quarterly consolidated financial statements.

(Segment Information)

Previous Third Quarter Cumulative Period (Consolidated) (January 1, 2022 to September 30, 2022)

1. Information regarding Sales and Income (Loss) for each Reporting Segment

(million yen)

	Reporting Segment					Other (Notes 1)	Total	Adjustment (Notes 2)	Total shown in the quarterly consolidated fiscal statement (Notes 3)
	Timber and Building Materials	Housing	Global Housing, Construction and Real Estate	Environment and Resources	Total				
Net sales									
(1) Unaffiliated customers	190,047	363,792	626,177	15,101	1,195,117	10,737	1,205,853	439	1,206,293
(2) Intersegment sales/transfer	15,815	274	534	1,001	17,624	7,455	25,079	(25,079)	—
Total	205,862	364,066	626,711	16,102	1,212,741	18,191	1,230,932	(24,639)	1,206,293
Segment income (loss)	10,639	7,392	126,614	1,291	145,936	1,961	147,897	(6,027)	141,870

(Notes) 1 "Other" is business segments not included in the reporting segments. Such segments include private nursing homes/private elderly care facilities with nursing care business, insurance agency business, and civil engineering/construction work.

2 The adjusted business loss of ¥6,027 million includes ¥99 million in eliminated intersegment transaction and ¥5,928 million in corporate losses which are not allocated to any of the reporting segments.

Corporate income (loss) is primarily selling, general and administrative expenses, non-operating income, and non-operating expenses not belonging to any reporting segments.

3 Total segment income (loss) is adjusted against recurring income in the quarterly consolidated statements of income.

2. Information on Impairment Loss on Noncurrent Assets, Goodwill, etc., for each Reporting Segment

(Significant impairment loss on noncurrent assets)

In the Environment and Resources Business segment, business plans related to wind power generation facilities were revised to reflect delays, etc. from the original plans. Consequently, as it is expected to be difficult to recover the amount of investment, an impairment loss was recorded. The amount of impairment loss recorded for the current third quarter cumulative period (consolidated) is ¥2,366 million.

(Important change in the amount of goodwill)

Not applicable

Current Third Quarter Cumulative Period (Consolidated) (January 1, 2023 to September 30, 2023)

1. Information regarding Sales and Income (Loss) for each Reporting Segment

(million yen)

	Reporting Segment					Other (Notes 1)	Total	Adjustment (Notes 2)	Total shown in the quarterly consolidated fiscal statement (Notes 3)
	Timber and Building Materials	Housing	Global Housing, Construction and Real Estate	Environment and Resources	Total				
Net sales									
(1) Unaffiliated customers	159,637	386,321	658,289	17,048	1,221,295	11,154	1,232,449	435	1,232,884
(2) Intersegment sales/transfer	16,039	417	644	961	18,062	8,250	26,312	(26,312)	—
Total	175,676	386,738	658,933	18,010	1,239,357	19,405	1,258,762	(25,877)	1,232,884
Segment income (loss)	7,955	22,047	70,240	747	100,987	1,458	102,446	(2,866)	99,579

(Notes) 1 “Other” is business segments not included in the reporting segments. Such segments include private nursing homes/private elderly care facilities with nursing care business, insurance agency business, and civil engineering/construction work.

2 The adjusted business loss of ¥2,866 million includes ¥70 million in eliminated intersegment transaction and ¥2,936 million in corporate losses which are not allocated to any of the reporting segments.

Corporate income (loss) is primarily selling, general and administrative expenses, non-operating income, and non-operating expenses not belonging to any reporting segments.

3 Total segment income (loss) is adjusted against recurring income in the quarterly consolidated statements of income.

2. Matters Related to Changes in Reporting Segments, etc.

In conjunction with the reorganization in January 2023, beginning from the first quarter consolidated accounting period, the reporting segments have been changed from the previous four classifications of Timber and Building Materials Business, Housing and Construction Business, Overseas Housing and Real Estate Business, and Environment and Resources Business, to the four segments of Timber and Building Materials Business, Housing Business, Global Housing, Construction and Real Estate Business, and Environment and Resources Business.

Segment information for the previous third quarter cumulative consolidated accounting period has been prepared based on the new reporting segments.

3. Information on Impairment Loss on Noncurrent Assets, Goodwill, etc., for each Reporting Segment

Not applicable

(Additional Information)

(Business combination through acquisition)

At the meeting of the Board of Directors convened on September 29, 2023, the Board approved by resolution the new establishment of SFA JPI Top Holdings, LLC as a subsidiary of the Company's consolidated subsidiary, Sumitomo Forestry America, Inc., alongside seven subsidiaries of SFA JPI Top Holdings, LLC, as well as the acquisition of 90% stake in JPI Group through the newly established companies, with the aim of acquiring equity interest in the JPI Group which is engaged in the development of multi-family housing in the United States. The equity transfer agreement was concluded on September 29, 2023 (US time).

1. Overview of business combination

(1) Name of acquired company and description of its business

Name of acquired company: JPI Services Holdings, LLC and 17 other companies

Description of business: Development of multi-family housing

(2) Main reasons for business combination

The Company acquired equity interests in JPI Group, which possesses land acquisition, development management, construction management, and asset management functions related to the development of multi-family housing mainly in the states of Texas and California, for the purpose of expanding its real estate development business in the United States and building a stable earnings portfolio.

(3) Date of business combination

End of November 2023 (provisional)

(4) Legal form of business combination

Acquisition of equity interests with cash

(5) Percentage of voting rights to be acquired

90%

Note: "Percentage of voting rights to be acquired" states the share of ownership.

(6) Main basis for determining the acquiring company

SFA JPI Top Holdings, LLC, a newly established subsidiary of the Company's consolidated subsidiary, Sumitomo Forestry America, Inc., is acquiring the stake with cash.

2. Breakdown of acquisition price and type of consideration

Acquisition price: ¥23,634 million (cash) (estimated)

Acquisition cost: ¥23,634 million (estimated)

Note: The abovementioned amounts are estimates as of the point of acquisition, and the actual amounts may differ from the above due to price adjustments and other factors in the future. The acquisition cost does not include contingent consideration. As an earnout clause, there is a possibility of additional payments corresponding to operating results in the next three years, and the maximum acquisition price after adjustment is ¥32,160 million.

3. Amount of goodwill, reason for goodwill, and method and period of amortization

Nothing has been finalized at this time.