

**Sumitomo Forestry Group**  
**Financial Results for the Fiscal Year Ending December 31, 2023**  
**Conference Call with Analysts and Institutional Investors – Transcript**  
***Business Environment and Progress on Medium-Term Management Plan***

Time and date: 13:00–14:30, Wednesday, August 9, 2023

Briefer: Toshiro Mitsuyoshi, President and Representative Director, Sumitomo Forestry Co., Ltd.

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Our Group have set a long-term vision, Mission TREEING 2030, which outlines the vision for the year 2030, the target year of the SDGs, and as first phase, we are promoting the medium-term management plan, which will conclude in 2024.

In the medium-term management plan, we are pursuing initiatives based on specific strategies for the next three years to solidify our scaffolding toward the realization of our long-term vision, including further expansion of our global housing and real estate businesses, which have become pillars of our earnings, and improvement of profitability of our domestic businesses, as well as investment in the decarbonization field.

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Based on the fact that the single-family homes business in the US has started to recover this year and both orders and deliveries have been strong, we have upwardly revised our full-year forecasts for both net sales and recurring income.

Net sales are expected to increase 8.0% from the previous forecast to JPY1,726.0 billion, Recurring Income are expected to increase 25% to JPY150 billion, and ROE to improve by 1.9pt to 13.7%.

We will continue our efforts to steadily achieve this year's forecast and the goals of our medium-term management plan.

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The US housing market is facing a structural housing shortage of 4 million to 6 million units due to the decline in construction starts since the global financial crisis 2008, in contrast to the strong demand from homebuyers, mainly the Millennium Generation and Generation Z.

In addition, the recent increase in mortgage rates since last year has led to a significant decrease in the volume of existing homes in circulation, which has increased the relative demand for new homes. Currently, approximately 70% of people with existing mortgages have opted for a 30-year fixed interest rate and about two in every three of these people take out loans with mortgage rates below 4%.

Therefore, with mortgage rates currently hovering in the low 6% range, the sale of existing homes will result in the sale of homes with low interest rates and the acquisition of new homes with higher interest rates, resulting in a lack of demand for resale and difficulty in getting existing residential properties into the market.

Originally, nearly 90% of the US housing market was comprised of existing homes, with new homes accounting for about 10%. However, due in part to a significant decline in the volume of existing homes in circulation, new homes now account for around 30% of all housing inventory, and structurally, there is a strong pull toward new homes.

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With the new housing market on the road to recovery, our orders continue to be higher than expected at the beginning of the period. On a YTD basis, our orders in Q2 totaled 5,882 units, a YoY increase, and when compared to the months from April to June, it was the highest level for the same period since 2020. Demand for new housing is expected to be sustained in the housing market.

We will continue to implement detailed sales strategies, such as offering incentives such as support to partial housing interest rates, known as rate buy-downs, as well as price reviews based on area conditions, in order to win more orders.

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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, to the Group through Brightland. The company is engaged in the residential land development, construction, sales, and rental management of single-family rental homes for investors in Florida and Georgia, selling approximately 500 homes annually.

Southern Impression Homes' strengths is that the company has a unique and competitive operating base in the areas where it operates including a flexible procurement capability that allows the company to purchase land with a combination of finished and unfinished residential lots, a highly efficient business model in terms of products and financing, and rental management service know-how.

The plan is to not only use Southern Impression Homes' business platform to develop a single-family home business in Florida, but also to expand Southern Impression Homes' expertise in the single-family rental housing business into the existing five companies' business areas.

Furthermore, the company plans to develop a wide range of businesses, including the development of a single-family rental business for the group and collaboration with Crescent, a real estate development company, including mutual introduction of land information.

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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 time, we are promoting the FITP business, aiming for the expansion of business area in the US, in which structural wall panels, floors, and roof trusses are manufactured at our factories, delivered, and installed within our group companies.

Promoting FITP projects is expected to help address future labor shortages as well as improve construction efficiency, reduce costs, ensure construction security, shorten construction time, and reduce waste.

In February 2022, our company acquired a framing and interior construction company as a group, in October 2022, we acquired Structural, which is in the business of manufacturing trusses and wall panels, in November, we decided to establish a panel plant in North Carolina, and is currently building a new plant.

We already adopted truss of Structural in the part of housing with DRB and build homes within the Group. In addition, we adopted cabinets of An Cuong, a group company in Vietnam, in DRB's housing for sale and Crescent's multi-family housing, and is constructing them in-house. This is one of the examples of the synergy effects within our Group.

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The real estate development market is facing a difficult environment, especially for commercial and office properties, as soaring global interest rates and financial instability in the US have made it difficult to raise funds for real estate investment. Despite these circumstances, the Group is focusing on promoting medium- to large-scale wooden constructions with a view to realizing a decarbonized society.

Wooden construction reduces CO<sub>2</sub> emissions during construction compared to reinforced concrete and steel frame, contributing to the reduction of embodied carbon, or CO<sub>2</sub> emissions at construction sites. The carbon storage effect of wood can also contribute significantly to reducing emissions in the construction industry.

Our estimate of embodied carbon for a 1,500-square-meter, three-story model is 45% less for wood construction than for steel construction, and if we consider carbon storage amount will be offset emissions, we can also consider that a 66% reduction is possible.

The Group is currently constructing wooden office buildings in Melbourne, Australia; London, UK; and Dallas, USA, and plans to start construction on a new building in Atlanta, USA. As the global construction sector accelerates its efforts to decarbonize, we expect demand for medium- to large-scale wooden constructions to increase, and we will seek to differentiate ourselves through wooden construction.

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The Australian market has been hit by a market slump for the past two years, and performance has been sluggish. However, the population is growing on the back of immigration policies, and the market is facing a chronic housing shortage. In response to the prolonged construction period in the COVID-19 pandemic, we are working to rationalize building processes and shorten the construction time by utilizing know-how from other areas within the Group, and the number of units sold is increasing in the current fiscal year.

In 2030, the final year of our long-term vision, we aim to sell 5,500 units and to build a stable profit structure in collaboration with our residential land development, medium- to large-scale wooden constructions and landscape architecture businesses.

Our development efforts in Asia are currently focused primarily in Thailand, Indonesia, and Vietnam. The ASEAN region is an attractive market with large medium- to long-term growth potential. We will supply high quality and environmentally friendly housing that is easy to utilize the design approach and other housing know-how we have cultivated in Japan.

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In the custom-built housing business in Japan, we have made steady progress in efforts to improve profitability, such as by increasing the ratio of zero energy housing and harnessing the effects of price revisions in light of soaring material prices. Gross profit margin has improved for the housing business on a non-consolidated basis. In July 2023, we took over the business of Sasazawa Construction, a long-established construction company with a proven track record in building villas and other structures, especially in Karuizawa, where demand for vacation homes is growing.

Sasazawa Construction boasts the largest share of owner-occupied housing starts in the Karuizawa area and possesses a wealth of experience and a land procurement network. We will expand the villa and hotel contracting business fields to strengthen our competitiveness.

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Our long-term vision, Mission TREEING 2030, calls for the acceleration of recycling-oriented forest businesses, and the forestry fund is a central initiative in this effort. The Paris Agreement is an opportunity for the world to move toward a decarbonized society.

In 2013, Japan's CO<sub>2</sub> emissions were 1.24 billion tons, and the goal is to reduce this to 670 million tons by 2030. And we have set a goal of achieving so-called carbon neutrality, which means virtually zero CO<sub>2</sub> emissions by 2050.

In order to significantly reduce CO<sub>2</sub> emissions, it is expected that the use of fossil fuels will be reduced and replaced by renewable energy sources, etc., and all companies are making various efforts to reduce their CO<sub>2</sub> emissions. However, it is necessary to offset the CO<sub>2</sub> emissions that will inevitably remain even after going through various efforts to reduce emissions. This is where the ability to absorb

CO<sub>2</sub> and fix carbon, which only forests can achieve, becomes important.

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CO<sub>2</sub> absorption by forests is important to achieve carbon neutrality, and a forestry fund is a mechanism that enables appropriate management of forests with an area and funds that are too large to be realized by individual companies.

In July 2023, we announced the formation of our first forestry fund. Nine companies participated in the fund we created, making a total of 10 companies, including our group. The pooled capital of the fund is approximately JPY60 billion.

Our Group and participating companies aim to increase forest sequestration of carbon dioxide through a forest fund, with a target of sequestering an additional 1 million tons of carbon dioxide a year. The increased sequestration will enable the production and trading of high-integrity carbon credits, which will contribute to the realization of a decarbonized society.

In addition to the economic value from wooden production, the Fund will maintain carbon storage through proper management of acquired forests and increase CO<sub>2</sub> absorption through afforestation. And we will continue to maintain the health of forests in terms of biodiversity and water source recharge.

Healthy forests absorb more CO<sub>2</sub>, which can be returned to investors in the form of carbon credits. In other words, in addition to the economic value of the wood trade, preserving and expanding forests contribute to the global environment, while at the same time contributing to carbon offsets for its investors.

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First is the expansion of the region outside of the US. We will consider various countries and regions, including tropical peatlands in Oceania and Indonesia, where we have forestry business.

Next, we will seek to establish a forestry fund that will monetize the value of natural capital generated by maintaining forest health, such as biodiversity conservation, by making it visible.

And we are considering introducing a forest management and conservation system using satellites and drones in collaboration with IHI, as well as a forest management system based on observations from space using NeXT FOREST. The goal is to improve forest health and create high quality credits. While there are cases of carbon credits circulating in the world that are not in line with actual conditions, or so-called "credit padding," the forestry funds established by the Company are managed transparently by an experienced fund management team to ensure the credibility, or integrity, of the credits.

Through these developments, we aim to achieve the goals of increasing the size of the forestry fund assets to JPY100 billion and the area of forests it owns and manages to 500,000 hectares by 2030.

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As for dividends, we plan to continue to pay JPY125 per share for the current fiscal year, the same as the previous fiscal year. We recognize that returning profits to shareholders is one of our highest priorities, and our basic policy is to do so in a continuous and stable manner.

We will continue to strive to improve return on equity and enhance equity capital, and at the same time, we will return profits to shareholders at an appropriate level according to the status of profits, taking into consideration a comprehensive balance among the management base, financial condition, cash flows, and other factors.

[Conclude]

With the end of FY12/2023 2Q, we have passed the turnaround point of the medium-term management plan. The business environment is changing rapidly, as last year, the first year of the plan, we achieved record profits driven by the US residential real estate business, while this fiscal year started with the US housing market on the brakes.

The immediate situation will constantly change, but in the medium to long term, the global trend toward decarbonization will further accelerate. There are high expectations for our Group to contribute to decarbonization through our businesses by turning the wood cycle around wood as a carbon-neutral material.

We will continue to strive to realize our medium-term management plan and long-term vision.

Thank you very much for your attention.

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