

**Sumitomo Forestry Group**  
**Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2022**  
**Conference Call with Analysts and Institutional Investors - Q&A**

Time and date: 4:30 p.m.– 5:30 p.m., Monday, October 31, 2022

Answers: Tatsumi Kawata, Director and Senior Managing Executive Officer, Sumitomo Forestry Co., Ltd.

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Q

With the backlog of orders expected to decline in the US Single-family homes business at the end of the current fiscal year, it will be important to increase the number of spec homes in order to secure the number of units sold in the next fiscal year. How should we understand your capacity for new starts?

A

Construction periods had been getting longer due to logistical disruptions caused by container shortages and labor shortages associated with the booming market, but they are gradually improving now. At this time, it is difficult to predict specific construction periods or the number of units we will sell in the future, but we believe that we will very likely be able to sell spec homes according to demand if construction periods return to normal.

Q

What is the current situation with orders received and the future outlook for custom-built houses in Japan? Also, when will the effect of selling price revisions be evident?

A

In the third quarter, the number of visitors to model homes was down, but the unit price of orders received is on the rise, and the amount has not fallen significantly. We are also forecasting that the order backlog at the end of the current fiscal year will be on par with that of the previous year in terms of the amount. We will continue to propose ZEH homes with high environmental performance and our unique spaces that feature a wood design sense and tie that into orders. While the effect of selling price revisions we made in this fiscal year will be evident starting in the next fiscal year, the price of building materials other than lumber is soaring in the Housing and Construction segment. We will present the overall business results at the time of financial results briefing in February next year, also taking into account future developments.

Q

Are any differences by area or changes in the buyer demographics when it comes to the trend in orders received in the US Single-family homes business?

A

Orders were down in all areas where we do business, but in the Southeast, primarily North and South

Carolina, there has not been as much of a decline as in other areas, partly because the shift to Single-family rental housing. I do not have clear data on buyer demographics on hand, but I do not believe there has been any significant change.

Q

As for shareholder return related to performance in the fiscal year ending December 31, 2023, will you maintain the dividend of 125 yen per share that you have planned for the current fiscal year ending December 31, 2022?

A

At this point in time, nothing has been determined concerning the amount of next year's dividend, so I do not have any comment on that today.

The current policy on shareholder return is to provide stable and continuous dividends, and at this point in time, we are considering dividends based on that policy.

Q

What is the projected actuarial difference in retirement benefits accounting for the current fiscal year ending December 31, 2022?

A

Actuarial differences are determined by the interest rate at the end of the fiscal year, so it is difficult to forecast at this time. However, although pension assets are currently not performing as well as initially anticipated, the interest rate for the discount rate used to calculate the retirement benefit obligation is on the rise, so if the current market conditions persist, I think we will probably see an overall gain of several billion yen.

Q

I understand you established a forestry asset management company in October 2022. What are the specifics concerning the schedule for the forestry fund such as the timing of its formation?

A

We established the company together with a partner in the US that has many years of experience in forming funds in order to form the fund. Our goal is to complete the formation early in the next fiscal year.

Q

Third quarter (July to September) orders received in the US Single-family homes business are about half what they were in the same period of the previous fiscal year, so it feels like there is some deceleration. What is the current situation and the future outlook, including price trends?

□

With mortgage interest rates exceeding 7%, the difficult circumstances from the third quarter will likely continue in the fourth quarter (October to December). As for selling prices, they were higher in the third quarter than in the same period of the previous fiscal year, but for orders received, in addition to partial adjustments against higher interest rates, prices have been lowered in some areas, so the unit price of orders received has hit a ceiling.

□

Based on the current deceleration in orders received and the reduced backlog, do you anticipate a substantial year-on-year decrease in the number of units sold in the US Single-family homes business next year, or do you think you'll be able to maintain around the same number as this year?

□

Compared to this year, we expect the number of units sold at next year to be down quite a bit based on the current orders received. However, last year and the year before, the US housing market was very active and companies increased the number of presales, so backlogs were on the rise. On the other hand, due in part to the current uncertainty over interest rates, built-for-sale (spec homes) has become more prevalent as there is less of a time lag between signing the contract and locking in the mortgage interest rate. In the spec homes business, which is centered on built-for-sale homes, the percentage of built-for-sale is around 60-70%, and the order backlog at the beginning of the year has usually been around 3,000-4,000 units. In the fiscal year ended December 31, 2020 before the pandemic, the order backlog at the beginning of the year was around 4,000 units, and the number of units sold during the year was around 9,000. Currently, we are focused on built-for-sale properties, so even if the order backlog at the beginning of the next year is lower than this year, that will not lead directly to a decrease in the number of units sold next year. We will promote sales of built-for-sale properties and Single-family rental housing against the backdrop of a strong rental market while controlling our inventory risk.

□

Will rising interest rates impact investor trends and real estate demand in the US real estate development business?

□

Led by Crescent, the real estate development business is performing well in the fiscal year ending December 31, 2022, continuing from the previous year. Some investors are taking a wait-and-see approach due to rising interest rates, but there has not currently been any deceleration in multi-family housing as demand for rental housing grows. On the other hand, investors will likely take a relatively sour view of offices, due in part to the spread of remote work.

Q

Looking at the recurring income margin in the overseas housing and real estate business overall, it has begun coming down from the peak in the second quarter of the fiscal year ending December 31, 2022. Your Medium-Term Management Plan already incorporated a gradual decline in the margin through the fiscal year ending December 31, 2024, the final year of the plan, but can you tell us about your outlook?

A

There is increasing downward pressure on the recurring income margin in the overseas housing and real estate business under the current harsh situation with sales due primarily to incentives given to customers. On the other hand, when it comes to material prices, timber is gradually returning to pre-pandemic levels despite a slight increase in other materials, so it is difficult to make specific predictions about the overall margin at this time. The Medium-Term Management Plan assumes a margin of 14% for the fiscal year ending December 31, 2024, the final year of the plan, based on the expectation that the favorable market conditions will not continue. The margin for the fiscal year ending December 31, 2023, is currently being worked out. We will present a specific figure at the announcement of financial results in February next year.

Q

My impression is that you have revised the full-year forecasts for this year frequently, but can you tell us the reason why you didn't revise them this time even though it seems there is room for an upward tick with the depreciation of the yen?

A

The yen continues to depreciate, but we have revised the number of units sold in the US and Australia downward from the previous forecast. We made the decision not to revise the full-year forecasts after taking all of these factors into account.

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