

**Sumitomo Forestry Group**  
**Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2023**  
**Conference Call with Analysts and Institutional Investors - Q&A**

Time and date:

4:00 p.m. – 5:00 p.m., Tuesday, October 31, 2023

Answers:

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

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Q

With mortgage rates staying persistently high in the U.S., there are concerns that housing sales may stagnate. With regard to the US Single Family Homes Business, could you tell us about the recent situation concerning sales and granting of incentives?

A

Mortgage rates in the U.S. are currently staying at a high level of close to 8%, so some customers have adopted a wait-and-see attitude. On the other hand, we have been able to maintain cancellation rate at the usual level, so soundness is assured. The granting of incentives to promote sales varies depending on the area, but we have not reached a situation where houses will not sell without significant discounts and incentives. As we believe that the U.S. is a very structurally robust market, we expect sales to recover once interest rates stabilize.

Q

Sumitomo Forestry announced at the end of September 2023 that it has acquired 90% of the stake in JPI. Could you tell us the impact of this acquisition on the results for FY12/24? What is the expected annual number of units sold, sales, profits, and goodwill?

A

We are currently conducting a detailed analysis of the relevant figures, so I am unable to provide a clear answer in that respect. If everything proceeds as planned, JPI is expected to contribute fully to FY12/24 results. JPI specializes in the development and sale of multi-family housing. The real estate development market is currently facing a difficult situation due to rising mortgage rates. However, with the growing population and housing shortage in the U.S., the multi-family housing sector is regarded as an area with market growth potential going forward. The combined number of multi-family housing starts by Crescent and JPI in the U.S. amounts to about 8,000 units annually, putting Sumitomo Forestry Group in the sixth position in US-wide real estate development ranking.

Q

What do you perceive to be the impact of the current interest rate of close to 8%? Will demand return if mortgage incentives are offered to buyers in promotional campaigns?

A

As interest rates have now risen to almost 8%, there are probably buyers who are taking a wait-and-see attitude. However, as there is a very limited supply of existing homes, we believe that demand for new housing will grow again once interest rates fall. For this reason, we think that it is possible to stimulate demand, to a certain extent, if incentives are granted. Furthermore, as the U.S. has structurally robust housing demand, we can expect demand to recover once interest rates stabilize.

With regard to incentives and discounts, measures such as rate buydown, which partially reduces the burden of interest payments for the first one to two years after the loan commences, have been successful. However, in 2023, we have been receiving more orders than expected at the beginning of the fiscal year, with lower offering incentives and discounts than expected at the beginning of the period. Going forward, we will continue to put in place effective campaign measures while monitoring the interest rate situation.

Q

Losses in the real estate development business in the U.S. appear to be increasing in the cumulative third quarter. Could you tell us why this is so, and what the full-year forecast is?

A

The US real estate development business is a segment that includes not only property sales by Crescent and SFAMF, but also land sales by Mark III, which engages in residential land development. As there were no property sales by Crescent and SFAMF until the third quarter, there was an accumulation of expenses, interest payments, and other payments, resulting in recurring loss of 4.3 billion yen for the cumulative third quarter.

Although we had previously forecasted seven sales this fiscal year, two of these have been postponed, so five sales have been scheduled for the fourth quarter.

The real estate development market is facing challenging conditions, particularly in the case of offices. However, there is movement in areas such as logistics facilities and rental housing, and some Japanese investors have expressed interest in investing in the U.S. Therefore, we aim to move forward while capturing demand across a wide range of areas.

Q

Could you tell us the impact from changes in the lending stance of financial institutions?

A

FRB regulations on loans and credit have become extremely tight due to financial unrest, and some competing small- and medium-scale builders have not been able to receive loans from banks. Under these circumstances, companies with financial muscle, such as our Company and leading builders, are gaining greater advantage.

Q

With regard to the FY12/23 full-year forecast for the Global Housing, Construction and Real Estate segment, the number of single family homes sold in the U.S. for the cumulative third quarter was 7,104 units, falling below the 10,500 units forecast for the full year ending December 2023. In addition, will it be possible to achieve recurring income of 110 billion yen for the Global Housing, Construction and Real Estate segment with a reduction in the number of real estate development sales from the previously forecasted number of seven to five?

A

Although the number of property sales in the real estate development business will fall in the fiscal year under review, we believe that we are fully capable of achieving recurring income of 110 billion yen for the Global Housing, Construction and Real Estate segment with the effects of yen depreciation and an increase in unit sales price and profit margin in the US single family homes business.

Q

With regard to the FY12/24 plans for the Global Housing, Construction and Real Estate segment, with mortgage rates rising to almost 8%, will it still be possible to achieve the target recurring income of 129 billion yen established in the Medium-term Management Plan? Could you tell us the outlook, including the profit margin status?

A

We have established a sales target of 16,000 units for the US single family homes business for FY12/24, which is the final fiscal year of the Medium-term Management Plan, but face considerable challenges toward achieving it. On the other hand, as unit sales price and profit margin have improved significantly from the time when the Medium-term Management Plan was formulated, we will aim to achieve the plan in the aspect of profit and loss.

Q

The foreign exchange assumptions applied to the full-year results forecast for FY12/23 have remained unchanged from the previous forecast at 135 yen. It is expected to exceed 140 yen at the end of the fiscal year due to the yen depreciation trend, so there is a strong possibility for an upswing in business results. How does Sumitomo Forestry view this point?

A

With regard to the exchange rate for the full year, at present, we assume that yen depreciation will advance from 135 yen. Therefore, we perceive that the impact of the exchange rates will bring about an upswing in our business results.

Q

Regarding rate buydown, in which the builder bears a part of the mortgage interest for the customer, could you tell us the current implementation status in the US single family homes business? If interest rates rise, will the amount borne by Sumitomo Forestry also increase?

A

Rate buydown is about how much our Company covers in total for customers, and it does not mean that the amount we have to pay will increase simply because mortgage rates increase. If we pay 0.5% when mortgage rate is 6% and 0.5% when mortgage rate is 8%, the amount that we pay does not change significantly.

Q

Regarding the outlook for the US housing market, do you anticipate a scenario in which homes do not sell even if mortgage rates fall?

A

Such a scenario seems unlikely under the current circumstances. While the home buyer population is growing in the U.S., there is a housing shortage, resulting in a tight supply-demand structure. This strong housing demand is expected to continue unless the US economy were to collapse.

Q

What is the expected order level in the fourth quarter for the US single family homes business, and what is the outlook for the order backlog at the end of the fiscal year?

A

In view of the order environment in the future, we expect to receive orders exceeding 2,000 units

in the three months of the fourth quarter. As a result, the number of orders for the full year is expected to be about 10,500 units. In that case, the order backlog is expected to be about 3,000 units.

Q

Could you tell us the outlook for the delivery of properties for the US real estate business in the fourth quarter?

A

We plan to sell five properties in the fourth quarter. Of these, two have been sold in October and the contract has been signed for one.

Q

Could you tell us if there is room for improvement in the profit margin for the domestic housing business from next fiscal year and beyond?

A

Gross profit margin is currently recovering under the impact of price revisions and a fall in timber prices, which had been rising. Price revisions have been implemented three times. While the price revisions carried out in June 2021 and June 2022 were mostly reflected in profits, the price revision implemented in April 2023 will contribute to profits from the next fiscal year and after. On the other hand, we believe that cost increases due to the introduction of the invoicing system also have a certain degree of impact.

(End)