

**Sumitomo Forestry Group**  
**Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2024**  
**Conference Call with Analysts and Institutional Investors – Q&A**

Time and date: 4:30 p.m., – 5:30 p.m., Thursday, October 31, 2024

Answers: Nobuyuki Otani, Director and Managing Executive Director, Sumitomo Forestry Co., Ltd.

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Q

The full-year target for the number of units ordered for the US single-family homes business was about 12,000 units at the closing of the second quarter in August this year. Does this seem somewhat difficult to achieve at present? Could you tell us what the current outlook is?

A

At present, we expect to receive orders for about 11,000 units for the full fiscal year. Customers are currently maintaining a wait-and-see attitude due to expectations that mortgage rates will fall. Although the US housing market will be impacted by the presidential elections and interest rate trends in the short term, we expect it to grow steadily in the medium term and take a bright outlook of our orders in the first and second quarters of the next fiscal year.

Q

With regard to the US real estate development business, I understand that the number of development properties planned for sale has been reduced from 11 to 10 for the full fiscal year. What impact will this have on the financial results? Could you also tell us about the status of JPI, which undertakes contract construction work for rental multi-family housing and other property development projects?

A

With regard to real estate development, we remain in a severe business environment due primarily to persistently high interest rates and expected yield rates. However, we can see signs of improvement compared to two or three months ago, in the aspects of project formation and sales inquiries. Regarding JPI's construction work, 14 construction starts had previously been scheduled for the full fiscal year, but under the current circumstances, the number is expected to fall below that.

Although there are some factors that could set us back in the real estate development business, the single-family homes business is progressing steadily. Thus, overall, we expect to be able to achieve our full-year earnings forecast.

Q

The cumulative profit margin for the US single-family homes business in the third quarter of FY24/12 was 18.1%, while the full-year plan was 16.4%. Are there any factors that could cause a significant fall in profit margins in the fourth quarter?

If incentives are increased in the fourth quarter, what impact will that have on the profit margin for the next fiscal year?

A

We took a somewhat conservative view for the full-year profit margin for the US single-family homes business, but with the market environment being far from optimistic, the full-year plan was prepared based on the assumption that incentives will be provided to ensure that properties are sold out in the fourth quarter. Note that incentive expenses are recorded at the time of delivery, so the expenses for properties for sale during the current fiscal year are not carried over to the next fiscal year.

Q

Could you tell us the current status with regard to incentives granted for the US single-family homes business?

A

Incentives granted for single-family homes in the U.S. are often around the level of US\$20,000 per unit. The granting of incentives varies by business company and sales area. While incentives may not be provided in areas with strong sales performance, there are also areas where they are granted for 80 to 90 percent of the properties.

Q

Could you tell us the approximate number of units ordered and unit selling price for US single-family homes in October?

A

The number of units ordered for US single-family homes was about 800 units in October, while average unit selling price remained largely unchanged at about US\$500,000.

Q

Could you tell us if decisions have been made regarding the targets for financial indicators such as ROE, as well as the shareholder return policy for the next Medium-term Management Plan?

A

We are currently preparing the next Medium-term Management Plan, so I am unable to provide details. However, we would like to aim for an ROE of around 15%. As for the dividend policy, we plan to set out a clear policy as our current policy of "paying stable and continuous returns" does not offer any numerical information.

Q

What are the actuarial differences as of the end of September 2024? Most recently, the impact of Sumitomo Forestry's actuarial differences has been at a level of about ¥4 to ¥5 billion per year. Would it be correct to assume that it will be a similar level for this fiscal year?

A

We are currently calculating the impact of actuarial differences internally, so I am unable to provide a concrete figure, but I believe it will be roughly around the figure you have stated. We are moving in a positive profit trend due to asset management performance and the interest rate situation.

Q

The profit margin of the US single-family homes business was boosted by land sales in the second quarter. If there have been any land sales in the third quarter, could you tell us what the impact was in terms of monetary value? Could you also share information about the profit margin in the fourth quarter and the incentives that will be offered to customers in order to increase orders going forward?

A

We did not make any profits from land sales in the third quarter from July to September. While excluding extraordinary factors such as land sales in the second quarter, the profit margin for the US single-family homes business in FY12/24 has remained largely at the same level for each quarter. We are taking a conservative view of profit margins as we wish to focus on steadily selling our inventory, which consists mainly of spec homes, by using the necessary incentives from October to December. There are various methods of granting incentives to customers, so it is difficult to generalize. Some examples include relieving the burden of mortgage fees and offering rate buydowns. We will continue to aim to increase orders while providing a certain amount of incentives.

Q

Concerning the US housing and real estate development business, if the economic outlook improves due to new policies put in place after the presidential elections, wouldn't orders increase even with

interest rates remaining high? It also appears that some buyers are taking a wait-and-see attitude toward the outcome of the presidential elections. Around when do you think orders will recover after the elections?

□  
A

Home buyers who are concerned about the burden of monthly payments place great importance on interest rates, and current housing market-related indices do not indicate that it is easy to purchase a home. Even if the economy starts booming after the presidential elections, a fall in interest rates is still necessary to bring about significant movements in demand. The same is true in the real estate development market, where property sales are unlikely to move forward unless expected yield falls. Furthermore, regardless of whether Trump or Harris becomes president, it is likely that some form of housing-related policy will be implemented. We consider this positive for the housing and real estate markets. I believe we will only see clear recovery in orders after the New Year.

□  
Q

Regarding the Australia housing business, could you share with us the synergistic effects from the acquisition of Metricon?

□  
A

If we combine the 3,000 housing starts per year from the three existing Group companies including Henley, with the 4,000 housing starts per year from Metricon, it will make a total of 7,000 housing starts per year for our Australia housing business. This gives us a huge presence in the market. On the other hand, since Henley and Metricon are in a competitive relationship in several business areas, Group synergies will more likely take the form of the joint purchasing of materials and the sharing of back-office operations, rather than in the sales aspect. The Australian housing market is characterized by the development of residential lots by land developers rather than builders. We believe that increasing the scale of our company gives us greater advantage in negotiating with developers. We will consider the details regarding the creation of these synergies after the acquisition is completed.

□  
Q

What is the extent of earnings from the forestry fund? Could you also tell us the balance of managed assets at the current point of time?

□  
A

I am unable to give details, but we expect fee revenue to be several hundreds of million yen in the full-year forecast for FY12/24, and the balance of managed assets is approximately ¥10 to ¥15 billion.

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