Sumitomo Forestry Group

Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2026

Conference Call with Analysts and Institutional Investors – Q&A

Time and date: 13:00 – 14:30, Monday, August 10, 2026

Answers: Toshiro Mitsuyoshi, Representative Director, President and Executive Officer, Sumitomo Forestry Co., Ltd.

Tatsumi Kawata, Representative Director, Executive Vice President, Sumitomo Forestry Co., Ltd.

Q

Regarding the costs associated with the acquisition of Tri Pointe Homes, Inc. (hereinafter, TPH), could you tell us to what extent the acquisition-related costs incurred this fiscal year, the amortization of the fair value adjustment, the amortization of goodwill, interest expenses, and other such items are expected to be recorded from the next fiscal year onward?

A

As for TPH acquisition-related costs from the next fiscal year onward, regarding goodwill, we currently estimate an amortization period of 10 years as a provisional figure, and expect amortization expenses of approximately 10 billion yen per fiscal year. In addition, we anticipate interest expenses of approximately 17 billion yen per year in connection with financing the 610 billion yen in acquisition funds. As for TPH's standalone recurring income, we expect 30 billion yen for the nine-month period this fiscal year, but we are currently examining the outlook for the next fiscal year, which we plan to communicate at the financial results announcement in February 2027.

Regarding the amortization of the fair value adjustment, we expect it to be approximately 19.7 billion yen this fiscal year, and we assume that about 5 billion yen will also be incurred in the next fiscal year. In addition, since we plan to carry out part of the transition to permanent financing for the acquisition funds in the next fiscal year as well, we expect related one-time costs of approximately 2 billion yen.

Q

Regarding the U.S. housing business, how will the newly enacted home purchase support measure (the 21st Century ROAD to Housing Act) affect the results?

A

Regarding the home purchase support measure by the U.S. federal government, while we had been concerned that it might place restrictions on sales of our multi-family housing (BTR properties), we currently assume that it will not have a major impact. Because authority over matters such as land development permits lies with state governments and local municipalities, the effect of this support measure is unclear at this point. The management teams of our U.S. builders are also viewing the effect of this support measure cautiously at present. While there are expectations that it could lead to reductions in construction and development costs, we believe it is difficult to quantify.

Q

Regarding the revision to the full-year forecast for the U.S. housing business, the recurring income to net sales ratio was revised downward from 9.9% to 8.2%. Looking at the five existing builders alone, excluding TPH, is the situation improving relative to expectations, or is it more challenging? Could you tell us about the situation of the five existing builders in the full-year forecast, as well as any signs of market recovery?

A

As for the recurring income to net sales ratio of the five existing builders, we had planned a full-year figure of 9.9% at the start of the period, but the first-half result was 9.1% and the full-year outlook is 8.9%. While DRB's profit margin has declined, the other builders continue to maintain recurring income to net sales ratios in the high-teens percent range.

This fiscal year, we are pursuing a strategy of expanding the number of communities while maintaining absorption (the number of contracts per month per community) at approximately 2.5. The number of communities has increased to an average of 374 in the second quarter, and we expect to be able to expand to nearly 400 communities for the full year. On the other hand, absorption declined from 2.5 in the first quarter to 2.3 in the second quarter, and at 2.4 on a first-half average basis, it has not reached the target.

As for the market environment, while signs of improvement can be seen in Dallas and Austin, sales conditions remain challenging in other key markets, and the average sales price of the five existing builders has declined by approximately 6% year on year, from $496,000 to $466,000. In addition, the incentive ratio rose from 7.3% last year to 8.2% this fiscal year, which has lowered profit margins. On top of this, at DRB, overlapping costs associated with the integration of Brightland, as well as increased expenses accompanying the expansion in the number of communities, have weighed on earnings.

Q

Regarding the downward revision to the U.S. real estate business, you noted that, given the challenging market environment, the number of properties to be sold was revised from 20 to 10, and that valuation losses were recorded on some projects. Given this, is it reasonable to conclude that all valuation losses and the like have now been fully accounted for? Also, are there any signs of recovery in the U.S. real estate market? In addition, could you tell us about specific initiatives to avoid being swayed by gains on property sales?

A

This downward revision reflects a decrease in sales gains resulting from the postponement of 10 of the 20 property sales initially planned to the next fiscal year, in addition to the recording of sales losses and other losses on certain LP investment projects in light of a deterioration in business viability. The GP of these properties is not our Group's Crescent nor JPI. In the multi-family housing projects for which these two companies serve as GP, many of the properties in operation have reached a certain occupancy rate within the expected period, and at this point we do not anticipate recording new losses attributable to sluggish occupancy rates.

Meanwhile, the U.S. real estate transaction market continues to face challenging conditions, including cap rates remaining high. Accordingly, for the next fiscal year as well, we do not currently assume a significant improvement in the market, and the Company's subsidiaries are focusing on increasing rental income and the like through higher property occupancy rates, while also stabilizing earnings by expanding construction-related fee income as a general contractor, rather than relying solely on earnings from property sales.

Q

Could you tell us about the purpose and background of the recent changes to executive personnel in the U.S. business?

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In our U.S. business, given the expanding scale of businesses such as housing, real estate, FITP, sawmills, and forest funds, we decided to place a director of the board in North America in order to manage these divisions on a cross-functional basis and to create and expand synergies. The newly established Real Estate Division is intended to oversee the U.S. real estate business as well as the domestic property management, real estate development, and construction businesses, and its purpose is to share know-how and develop human resources by leveraging wooden constructions expertise. The Overseas Housing Division is positioned as the division that oversees the housing businesses in the U.S., Australia, and Southeast Asia.

Q

Regarding the amortization of the fair value adjustment on real estate for sale that is expected to arise from the acquisition of TPH, will it be recorded in line with the sale of the relevant properties, or is it planned to be recorded on an accelerated basis this fiscal year?

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The basic accounting policy is to calculate the valuation for each property and record the expense at the point when the relevant property is sold. Because detached houses have a short sales cycle, expenses are concentrated in this fiscal year; this is not an intentional acceleration, but a result that reflects the sales progress plan.

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The unit selling price for the U.S. housing business has declined from US$490,000 in FY12/25 to $466,000 in the first half of FY12/26. Is this in line with the plan, including factors such as the increase in the number of townhomes sold?

A

Partly because we had set the unit selling price at $466,000 in the initial forecast for FY12/26, the level is largely in line with the plan. One of the factors behind the decline in the average unit selling price is a change in the product mix; in particular, sales of townhomes for first-time buyers, which are highly sensitive to interest rates, are struggling, as is the case with other companies.

Q

Could you tell us about the plan to issue bond-type class shares?

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Regarding the bond-type class shares, they have been approved at the General Meeting of Shareholders, and the structure to issue them is in place. On the other hand, as a result of examining the financing method this time, we have established the prospect of maintaining our credit rating by carrying out 350 billion yen of hybrid financing and obtaining equity-credit evaluation for 50% of it. Therefore, at this point we plan not to issue the bond-type class shares, which carry a high cost burden, and instead to proceed with financing through hybrid financing.

Q

At other companies, there are cases where the SG&A expense ratio rises following an integration. Should we factor in the risk that TPH's SG&A expense ratio will also rise significantly after the acquisition?

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As for TPH's SG&A expense ratio, the impact of the decline in the number of units sold is greater than the impact of the integration. While the number of units ordered is on an improving trend due to the increase in the number of communities, expenses are being incurred ahead of that, resulting in a rising SG&A expense ratio.

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Regarding the Timber and Building Materials business, could you tell us the background to the delayed launch of the U.S. sawmill acquired last year, and when it will be normalized?

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In connection with the acquisition of this sawmill, we relocated the entire set of equipment from Canada to Louisiana, but once operations began, various malfunctions came to light. By updating the equipment as needed to address these issues, we recognize that the malfunctions have now been largely resolved. Going forward, we plan to raise production volumes in stages toward the target originally planned.

Although it is currently in the red on an EBITDA basis, we expect it to turn profitable in the fourth quarter of this fiscal year. Sales prices for timber products are stable, and from the next fiscal year onward we aim to expand earnings while stabilizing production. The official name of this sawmill has been changed to “Plain Dealing Lumber.”

Q

Regarding the Australian housing business, could you tell us about the outlook for margin improvement through synergies among the four Australian group companies, as well as specific progress?

A

As for creating synergies among the four Australian group companies, we are first working on joint procurement of building materials such as timber and siding. In addition to structural materials, we are advancing the standardization of specifications for materials such as interior components and electrical switches, aiming to reduce procurement costs by leveraging economies of scale. We are also advancing initiatives to utilize flooring, kitchen cabinets, and other products sold by our Group's manufacturing subsidiaries in Indonesia and Vietnam in the Australian housing business. We are currently verifying product performance and obtaining certifications, and we expect the effects to materialize in earnest from next year onward.
Furthermore, in housing design and drafting operations, Metricon has begun to make use of our Group's bases in Dalian, China, and the Philippines, thereby advancing operational efficiency and cost reductions. In addition, we are working to reduce distribution costs by reviewing the supply chain and to streamline procurement methods, and we are currently advancing analysis and improvement measures targeting multiple products.

Q

In 2028, a “life cycle assessment (LCA)” system, which evaluates the CO_2 emissions generated across the entire life cycle of newly constructed buildings, is scheduled to be introduced. Could you tell us about the outlook for the spread of Sumitomo Forestry's One Click LCA and the differences from the software provided by the Ministry of Land, Infrastructure, Transport and Tourism (J-CAT)?

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Our Company serves as the sole agent in Japan for “One Click LCA,” a construction-phase CO_2 emissions measurement system originating in Finland. Under the building LCA system scheduled to take effect in 2028, disclosure of construction-phase CO_2 emissions is expected to be required for buildings with a total floor area of 5,000 m^2 or more. In addition, when our research institute examined data from the Forestry Agency, we found that wooden buildings emit approximately 40% less CO_2 than steel-frame buildings, so wooden construction is highly likely to be more highly valued going forward. The government-released software (J-CAT) is a tool for calculating CO2 emissions data across the entire life cycle of a building, whereas “One Click LCA” enables a wide range of construction-related LCA calculations through its integration with an Environmental Product

Declaration (EPD) generator. Our Company proposes “One Click LCA” together with the EPD generator as a set, and we believe this is an initiative that contributes to decarbonization across the entire construction industry.

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