Sumitomo Forestry Group

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

Conference Call with Analysts and Institutional Investors – Q&A

Time and date: 17:00 – 18:00, Thursday, November 5, 2026

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

Q

Regarding the full-year forecast for FY12/26 for the U.S. housing business, while other U.S.-listed builders are also facing a challenging business environment, we think this downward revision is unavoidable. Are there any signs of improvement in current sales conditions? Also, could you tell us what you expect following the U.S. midterm elections, as well as your outlook for next year's spring sales season?

A

The business environment for the U.S. housing business is more challenging than we had assumed at the time of the announcement of the FY12/26 second-quarter results in August. Particularly since September, the order environment has remained extremely challenging due to factors such as the impact of rising interest rates, and we see no sign of improvement at this point.

Following the results of the U.S. midterm elections, the market has to some extent been pricing in lower interest rates, and we believe that future monetary policy trends will be the key point. If geopolitical risks and tariff issues settle down, leading to lower interest rates and inflation subsiding, signs of improvement in the business environment may emerge, but it is very difficult to predict the timing. We are currently discussing next fiscal year's plans with each of our U.S. housing companies, but at this point we believe it is highly likely that challenging conditions will continue, including during next year's spring sales season.

Q

Regarding the U.S. housing business, could you tell us why the recurring income to net sales ratio for the fourth quarter of FY12/26 is lower than in the other quarters?

A

We expect valuation losses on real estate for sale of approximately 10 billion yen, and we plan to record all of them in the fourth quarter. As a result, the recurring income to net sales ratio for the fourth quarter is expected to decline to around 4 to 5%.

Q

Regarding the FY12/26 full-year recurring income of "Others & Adjustments" in the Overseas

Housing segment, could you tell us why it was revised upward by 12.8 billion yen from the forecast at the time of the second-quarter results announcement?

A

Under the accounting treatment for the acquisition of TPH, the fair value adjustment on real estate for sale would normally be charged to expenses as the properties are sold. However, TPH's number of units sold fell below the assumptions, and the amount charged to expenses this fiscal year decreased. As a result, we have revised the recurring income forecast for "Others & Adjustments" upward. Since this fair value adjustment is expensed as the properties are sold, the portion not charged to expenses this fiscal year will be expensed when the properties are sold from the next fiscal year onward.

Q

Regarding the U.S. housing business, the recurring income to net sales ratio (cumulative third quarter) of the six companies combined, including TPH, is below that of the five existing companies combined, excluding TPH. Is this difference due to TPH having many low-profitability properties? Also, you mentioned that you expect valuation losses of 10 billion yen. Could you give us the details?

A

The main factors behind TPH's recurring income to net sales ratio being below that of the five existing companies are its high expense ratio associated with its nationwide operations and the impact of price competition with major competing builders in the California market. In addition, of the 10 billion yen in valuation losses on real estate for sale, approximately 70–80% is attributable to TPH, mainly due to the deterioration of the California market. TPH reviews the need to record valuation losses every quarter, and depending on market trends, additional valuation losses may arise going forward.

Q

Regarding the sawmill acquired in the U.S., could you tell us why the production launch has been delayed and when you expect operations to normalize?

A

At the U.S. sawmill (Plain Dealing Lumber), the time required to repair and replace equipments led to the delay in the production launch. Production is now getting on track under the leadership of the newly appointed local president, and efforts toward normalization are progressing. Meanwhile, due to the deterioration in housing market conditions, the unit sales price has fallen below the initial plan. Going forward, we intend to raise the unit sales price and strengthen our sales capabilities through measures such as shifting to high-value-added products.

Q

Regarding the U.S. housing business, to what level do you think mortgage rates need to fall for sales to accelerate in earnest? Is the 5% range you mentioned previously the benchmark, or can a recovery in sales be expected even at around 6.5%?

A

In assessing a recovery in housing sales, consumer sentiment is an important factor, not just the level of mortgage rates. In the past, there have been phases when the housing market recovered as consumers' willingness to buy improved, even with mortgage rates above 7%. Currently, however, in addition to rising home prices, factors such as inflation and persistently high living costs are delaying the recovery of consumers' willingness to buy homes. Therefore, we recognize that for housing sales to recover, it is important not only for interest rates to fall into the 5% range, but also for consumer sentiment to improve through lower energy prices and inflation subsiding.

Q

Regarding the downward revision for the U.S. real estate business, you explained that the main factor was the revision of the number of property sales in FY12/26 from 10 to 5. Is there any risk of additional losses arising, such as the valuation losses you explained at the time of the second-quarter results announcement?

A

The main factor behind the downward revision to the earnings forecast is that we have moved the timing of sales of properties that had been scheduled to be sold this fiscal year to the next fiscal year or later. Liquidity in the transaction market has declined against the backdrop of rising interest rates and cap rates, and we are making sales decisions carefully, including in terms of price.

As for the risk of additional valuation losses and the like, what we currently anticipate has been factored into this earnings forecast. Going forward, we intend to operate the business while carefully selecting projects even in a deteriorating market, and as a general rule, we will not make new investments in LP investment projects. Although current market conditions are challenging, we have carried out the loss processing we judged necessary at this point, and we are strengthening risk control.

Q

Regarding TPH's results, could you tell us about the room for improvement in the full-year results for FY12/26 and the measures to achieve that improvement? Given the challenging performance, are you also considering cost reduction measures, including workforce reductions?

A

Our U.S. housing companies, including TPH, are currently reviewing their staffing structures to reduce costs. In addition, we believe that realizing synergies between TPH and our other U.S. housing companies is the most important issue for recovering earnings next fiscal year. We are moving quickly to create synergies, for example by having our U.S. housing companies also use the mortgage company owned by TPH.

Q

Toward FY12/27, the final year of Phase 2 of the Medium-term Management Plan, how do you intend

to build up profits from the FY12/26 full-year recurring income forecast of 92.5 billion yen? Also, are you considering revising the 2030 recurring income target of 350 billion yen?

A

One factor that will increase income next fiscal year is that expenses related to the acquisition of TPH shares will not be incurred. In addition, if market conditions recover to a certain extent, the reversal of valuation losses recorded this fiscal year could be recorded as profit next fiscal year. At this point, however, we expect the business environment to remain very challenging next fiscal year as well.

We plan to announce the targets for 2030 together with the next Medium-term Management Plan (Phase 3) in February 2028.

Q

Is the current order situation in the U.S. housing business at about the same level as through the third quarter, or has it deteriorated further? Also, what level of order backlog do you expect at the end of the fourth quarter?

A

The number of units ordered in the fourth quarter is expected to be approximately 2,700 units, below the 2,930 units in the third quarter, and we still see no sign of recovery. The order backlog was 4,203 units at the end of the third quarter, and we expect it to be at about the same level at the end of the fourth quarter. We have not seen a recovery in market conditions in orders for October either, and we expect challenging conditions to continue.

Q

Regarding the remaining 260 billion yen of the TPH acquisition funds that still needs to be transitioned to permanent financing, what kind of financing do you plan to carry out, including foreign currency-denominated financing?

A

For the remaining 260 billion yen, we are considering financing through borrowings and bonds, and the use of foreign currency-denominated financing is the key consideration. On our current balance sheet, dollar-denominated liabilities are small relative to dollar-denominated assets, and the currency composition of our assets and liabilities is imbalanced.

We are therefore also considering improving the currency balance of our assets and liabilities by increasing dollar-denominated liabilities. Ultimately, we plan to decide on the financing methods and currency composition, taking factors into account such as interest rate levels and the impact on our credit rating.

Q

Regarding the U.S. real estate business, challenging conditions continue, as seen in the revision of the property sales plan from 10 to 5. Could you tell us about any current signs of improvement, including

leasing, rent trends and the property acquisition environment?

A

Leasing of the multi-family properties we own is generally progressing smoothly, and rents are trending upward. However, the environment for property sales remains challenging due to the impact of persistently high interest rates and rising cap rates.

At present, we are prioritizing financial discipline over aggressive investment expansion. We intend to first proceed with the sale of assets we hold, and then invest selectively after carefully assessing market conditions and our funding situation.

Q

Regarding the Australian housing business, has the FY12/26 earnings forecast been formulated conservatively? Also, are synergy creation with Metricon and cost reduction measures progressing as planned?

A

In Australia, the home acquisition environment has deteriorated due to factors such as the impact of recent interest rate hikes, and the order environment has also become more challenging for our housing business. In the order homes business, there is a certain period between orders and sales, so the impact on this fiscal year's results is limited, but we are concerned about the impact on results from the next fiscal year onward. We are steadily advancing initiatives to create synergies, to reduce costs and to improve profitability. Our earnings forecast is based on the business environment expected at this point, and it has not been formulated conservatively.

Q

Although you revised the full-year recurring income forecast downward, you have maintained the annual dividend of 50 yen. With the business environment challenging and leverage rising due to the acquisition, do you intend to maintain the dividend at the same level from the next fiscal year onward?

A

Regarding dividends, we have set an annual dividend of 50 yen per share as the minimum dividend during the Medium-term Management Plan period, and we intend to maintain this level. We are working to secure a financial base that will enable us to maintain this level by generating cash flow.

Q

Regarding leverage at the end of FY12/26, what levels do you expect for the equity ratio and the net D/E ratio? Also, is there a risk of a credit rating downgrade?

A

The equity ratio was 29.2% at the end of the third quarter of FY12/26, and we expect it to be in the 30% range at the end of the fiscal year. The net D/E ratio was approximately 1.4 times at the end of the third quarter of FY12/26, and we expect it to remain at about the same level at the end of the fiscal

year.

We recognize that our credit rating could be downgraded if the current business environment continues. We are therefore continuing discussions with the credit rating agencies while working to maintain and improve our cash generation capability.

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