

Sumitomo Forestry Group 2021 Medium-Term Management Plan

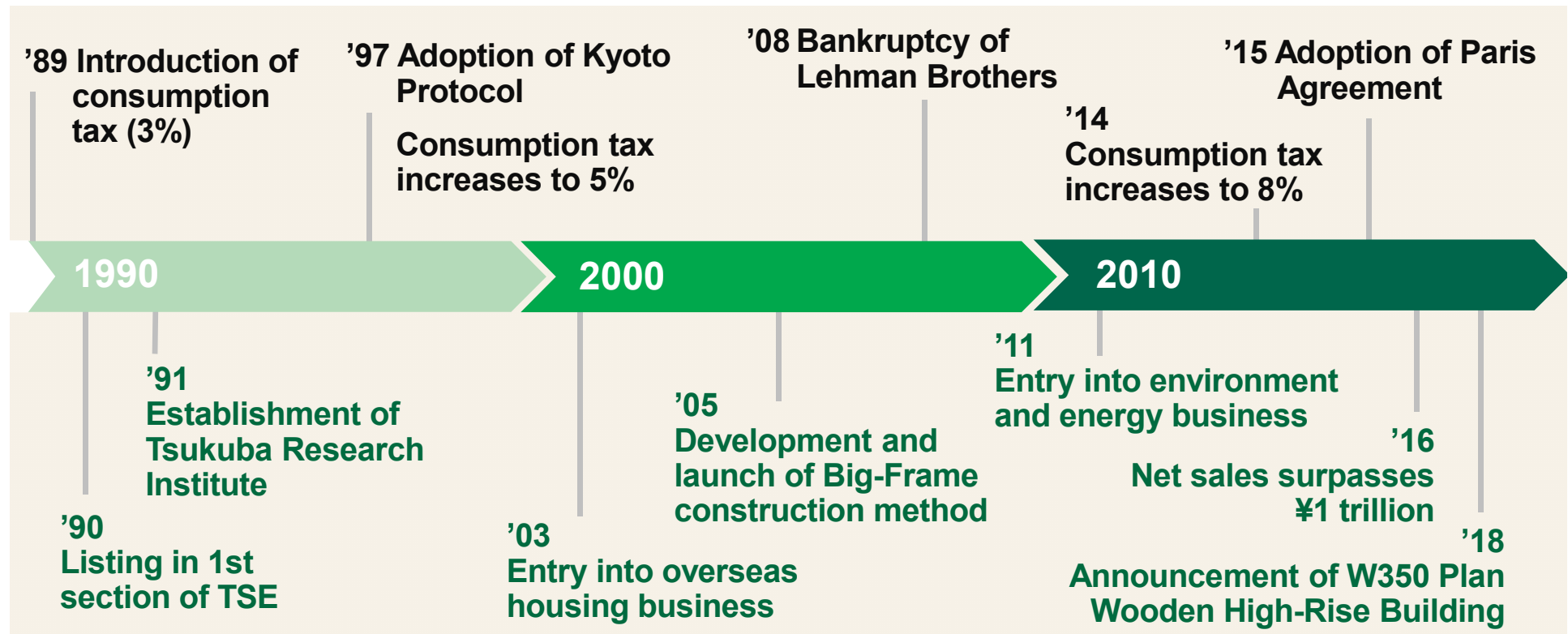
(FY3/2020-FY3/2022)



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Reflecting on the Heisei Era: 30 Years of Sumitomo Forestry

Along with technological innovation arising from advances in IT and dramatic changes in the industrial structure as a result of rapid globalization, interest has increased in the environment, human rights, governance, etc. to bring about an era of growth achieved by solving problems from the standpoint of ESG and SDGs.



Promoting future-oriented business activities as a new era begins

Promoting change for a new stage

Pursuing a strategy that
anticipates societal
changes

Diversifying revenue
sources in the global
market

Transforming the value
of wood

Also implementing reform of corporate climate to further solidify
business foundation

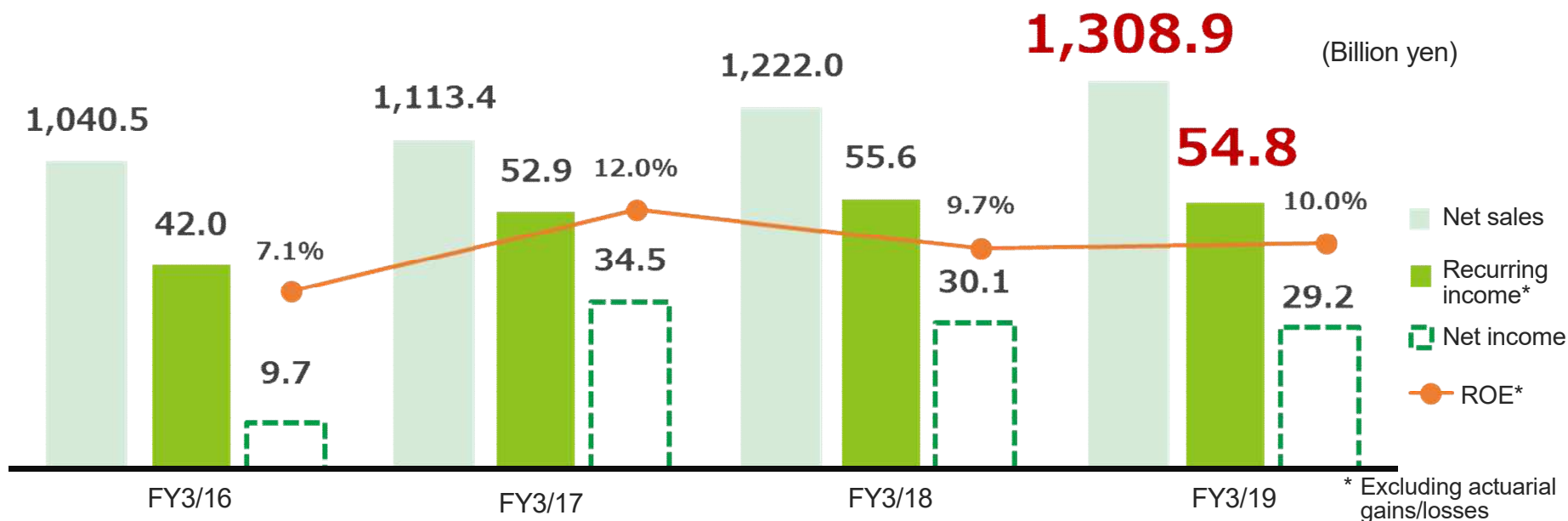
(Billion yen)	Net sales			Recurring income		
	FY3/16	FY3/19	Change	FY3/16	FY3/19	Change
Timber and Building Materials	427.0	487.1	+14.1%	3.4	8.0	+138.1%
Overseas Housing and Real Estate	187.9	364.9	+94.2%	13.1	25.8	+97.2%
Housing and Construction	454.6	452.8	-0.4%	31.5	21.6	-31.5%
Other	16.9	40.4	+139.5%	-1.0	5.2	-
Adjustment	-45.8	-36.3	-	-16.4	-9.2	-
Total	1,040.5	1,308.9	+25.8%	30.5	51.4	+68.6%

* Starting from the fiscal year ended March 31, 2019, the Overseas Business has been renamed the Overseas Housing and Real Estate Business, and the Overseas Manufacturing Business has been reclassified as part of the Timber and Building Materials Business.

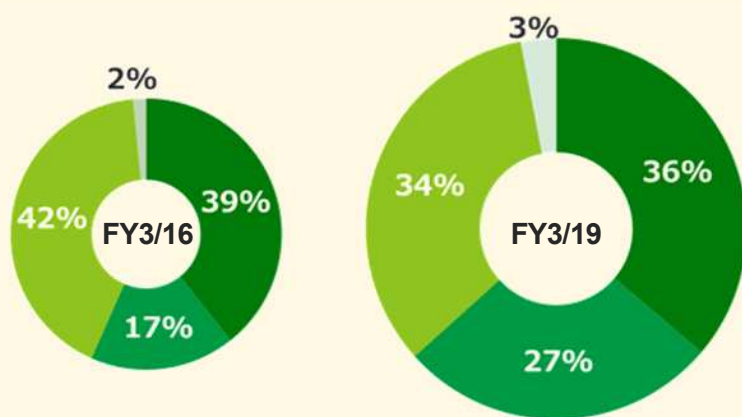
(Reference)
Excluding actuarial
differences

	42.0	54.8	+30.5%
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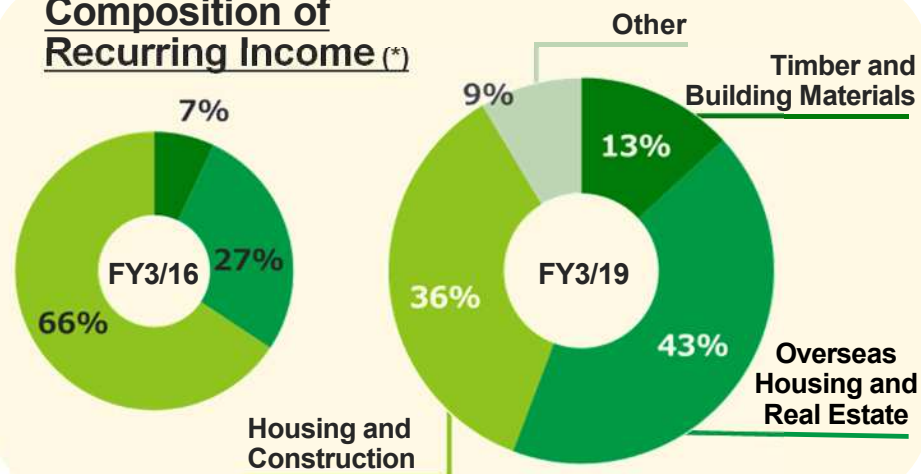
2018 Medium-Term Management Plan summary



Composition of Net Sales



Composition of Recurring Income (*)



"Net income attributable to parent company shareholders" is expressed as "net income."

2018 Medium-Term Management Plan summary

- M&As in Overseas Housing and Real Estate Business and subsequent business growth drove overall performance.
- In Other Business (environment and resources and lifestyle services), focus was on expanding plantation forest operations business, stable operations of biomass power generation plant, and development of business structure for elderly care.
- In Housing and Construction Business, focus was on pursuit of timber value and detailed proposals.
- In Timber and Building Materials Business, management structure integrating manufacturing, marketing, and sales was prepared to improve collective strength.

Measures to be taken under 2021 Medium-Term Management Plan to address issues that have surfaced.



Develop housing that fully utilizes timber and products with flows designed from perspective of those that live in them. Appeal to broader customer base than ever before.

Properly identify and promptly address impact of external environment on business from global perspective.

USA

- Population is increasing in each area where we do business, and economic indicators are favorable.
- Number of permits for housing starts remains strong in response to slowdown in housing price increases and less concern over interest rate increases.
- Concerns of global economic deceleration remain due to trade friction between United States and China, Brexit, etc.

Australia

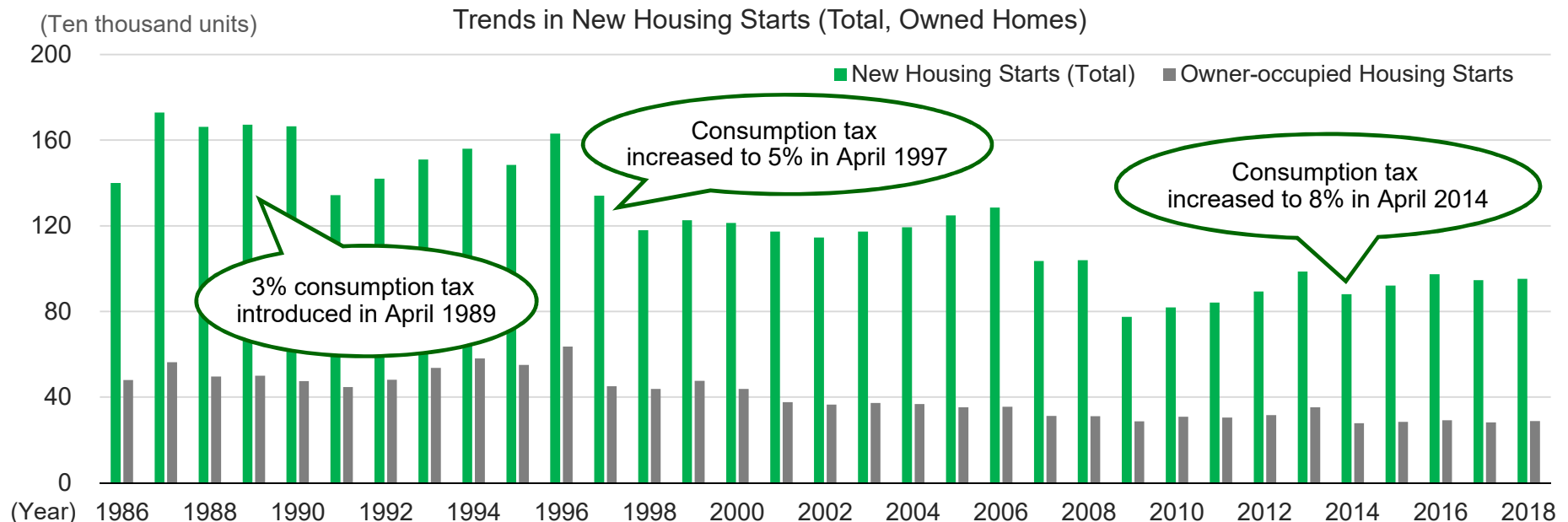
- Population is expected to continue to increase owing primarily to immigration, and number of people employed is on the rise. Economic indicators expected to remain strong.
- Financing regulations remain in place. Decline in number of housing starts and adjustments to housing prices expected to continue for time being.

Southeast Asia

- Population trends and economic indicators remain strong.
- Country risk must continue to be monitored.

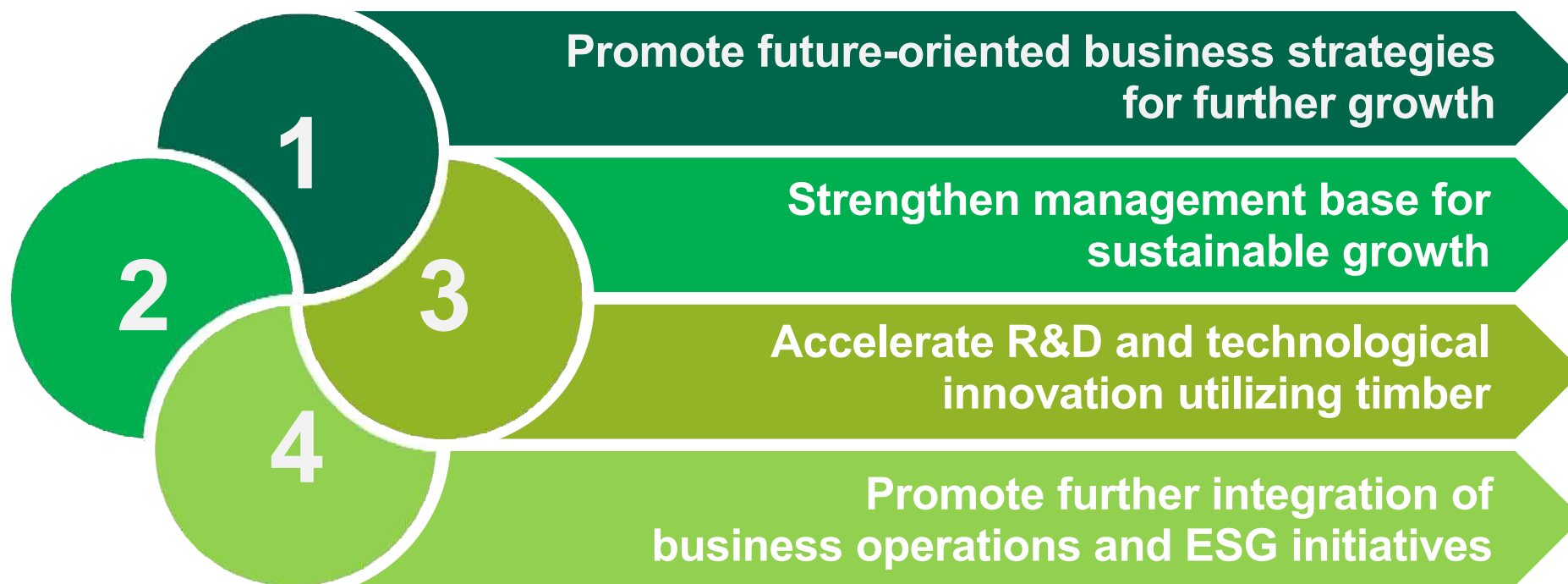
Business Environment (Domestic)

- Impact of surge demand and reactionary drop with respect to consumption tax hike expected to be less than last time in 2014 due to government measures and other factors.
- Some see downward phase as having started, so business strategies need to be rolled out swiftly.



Promoting creation and growth of new businesses based on future-oriented business strategies

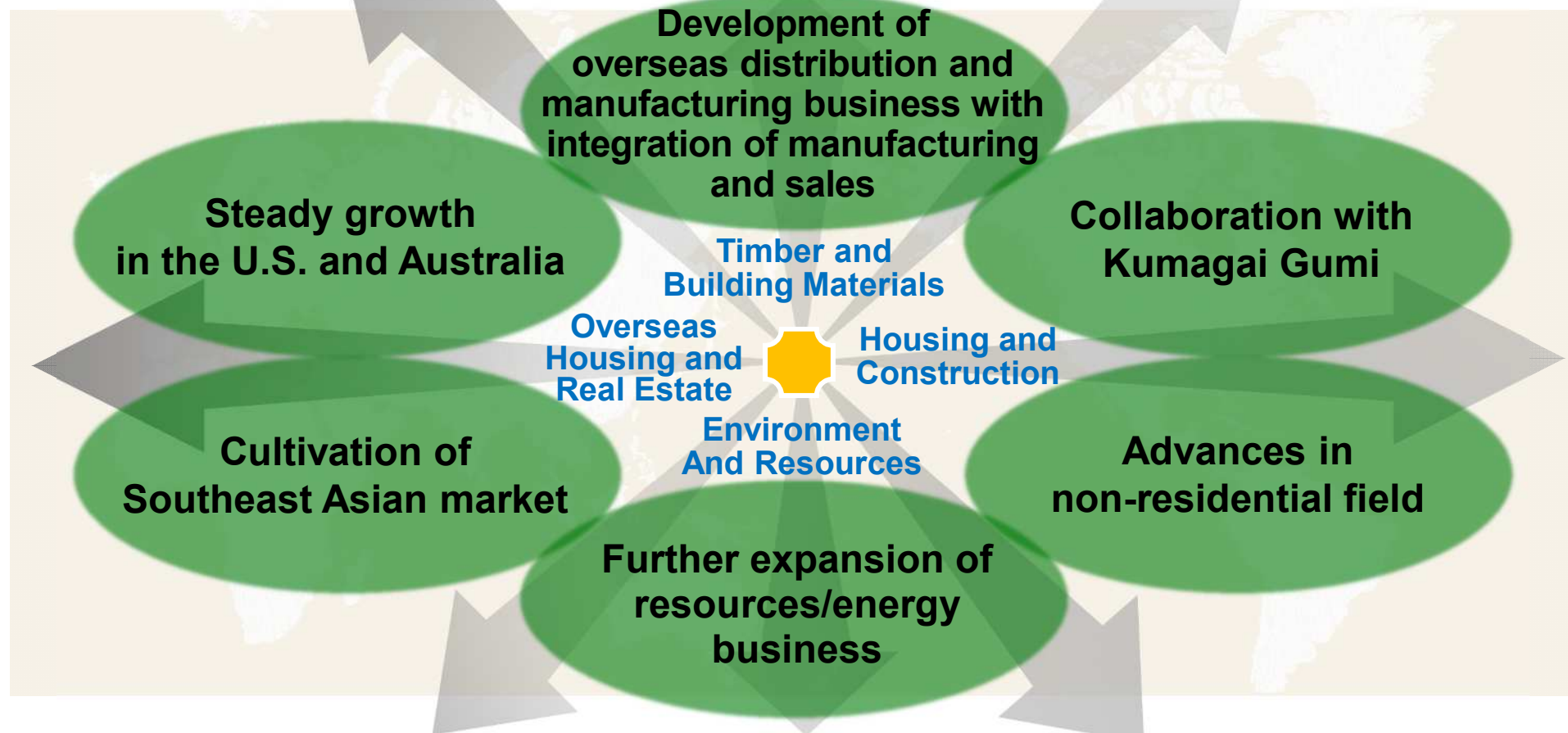
<Four Basic Policies>



Work on solving social problems in the midst of changing times and aim to strengthen our management base and further move our businesses into the future based on four basic policies.

Promote future-oriented business strategies for further growth

Accelerating development and creation of businesses serving as pillars of Group profits by rolling out strategies that anticipate the times and customer needs



Strengthen management base for sustainable growth

Becoming a corporate group with strong individuals, a strong organization, and a high level of competitiveness

▶ Improved financial standing

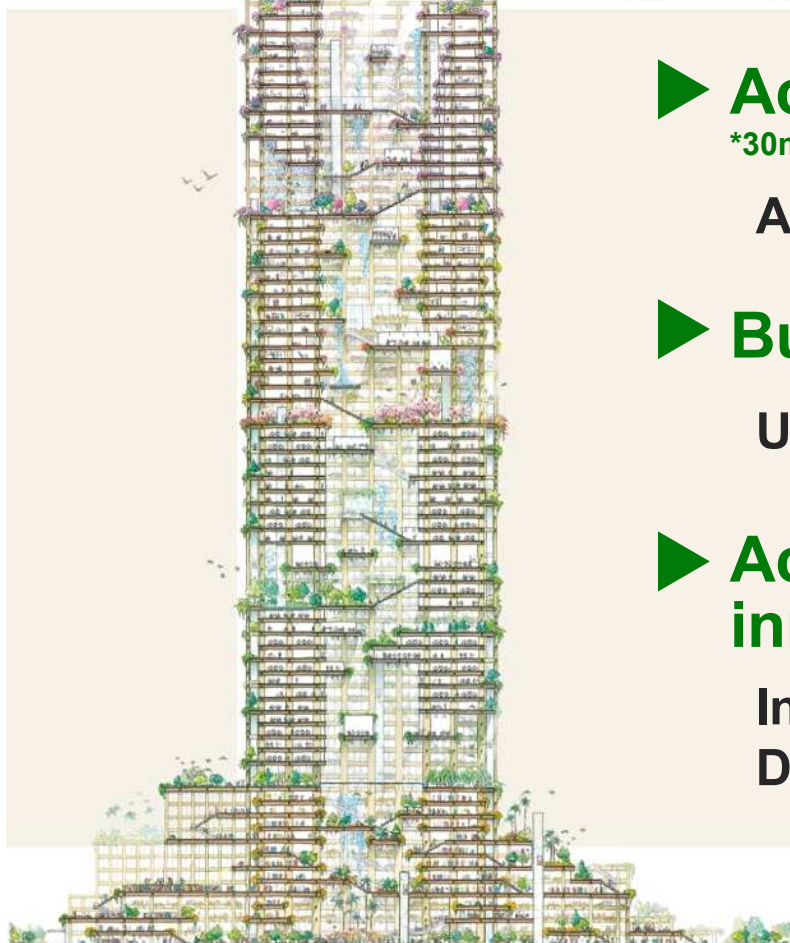
- Tie previous investments into results
- Generate positive free cash flows over three-year period (cumulative)

▶ Improved organizational capabilities

- Engage in thorough risk management by strengthening governance
- Promote diversity management and also focus on work style reform and human resources development

Accelerate R&D and technological innovation utilizing timber

Developing biotechnologies and new technologies for constructing wooden high-rise buildings to improve competitiveness and promoting labor saving and efficiency in Housing and Construction Business and forestry by utilizing ICT



▶ Achievement of W30 Plan

*30m wooden high-rise buildings

Aim for achievement by end of FY3/22

▶ Business labor saving and efficiency

Utilize ICT, including BIM and robotics

▶ Acceleration of technological innovation

Increase number of personnel in IT Solutions Division by 20% compared to FY3/19

Promote further integration of business operations and ESG initiatives

Promote integration with business, including further consideration for the environment and strengthening of governance, while also enhancing disclosures from a medium- to long-term perspective.

Participation in and support of initiatives



FTSE4Good
Continually selected since 2004



Sustainability Award
Gold Class 2019



Sustainability Award
Industry mover 2019



Selected three years in a row



2018 Constituent
MSCI Japan ESG
Select Leaders Index



2018 Constituent
MSCI Japan Empowering
Women Index (WIN)



FTSE Blossom
Japan



2018
健康経営優良法人
Health and productivity
ホワイト500

Continually selected since 2017


















Member of SNAM
Sustainability Index
2018
Continually selected since 2013



Selected in
2016 and 2018

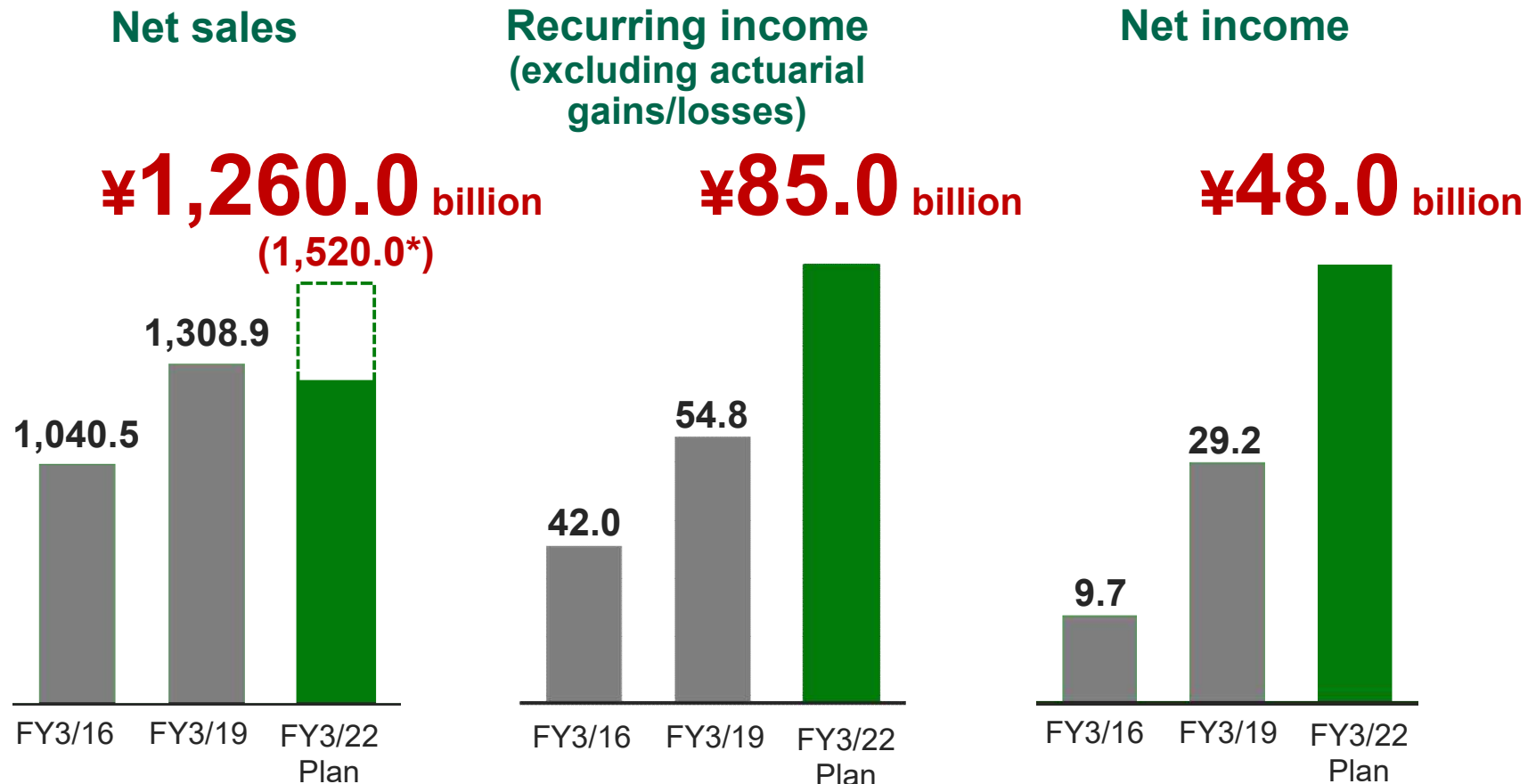


Materiality and 15 targets

Material Issue	Target	Related SDGs
Ongoing timber and materials procurement that considers sustainability and biodiversity	<ol style="list-style-type: none"> 1 Management forests while mitigating climate change and protecting biodiversity 2 Expanding the utilization of sustainable forest resources 3 Building sustainable supply chains 	    
The development and sale of reliable and safe products and services that consider the environment and society	<ol style="list-style-type: none"> 4 Increasing environmentally conscious products and services ※ including reducing greenhouse gas emissions towards creating a decarbonized society (SBT: Scope 3) 5 Creating an environment that considers biodiversity 6 Expanding businesses that contribute to resolving social issues 7 Promoting sustainable and innovative technological development 	     
The reduction of the environmental impact of our business activities	<ol style="list-style-type: none"> 8 Reducing greenhouse gas emissions toward creating a decarbonized society (SBT: Scope 1 & 2) 9 Protecting resources, reducing the generation of waste and achieving zero emissions 10 Conserving and effectively utilizing water resources 	   
A vibrant work environment where a diverse workforce can unharness their skills and individuality	<ol style="list-style-type: none"> 11 Creating a work environment that generates diverse ideas, job satisfaction and vibrancy 12 Securing human resources by training younger workers and utilizing older ones 13 Reducing long work hours through work style reforms 14 Eliminating occupational injuries 	  
Corporate ethics and governance structures	<ol style="list-style-type: none"> 15 Reinforcing risk crisis and compliance structures 	

Performance Targets

Promote future-oriented strategies in each business to make it to the next stage.
Also enhance shareholders' equity while increasing capital efficiency.



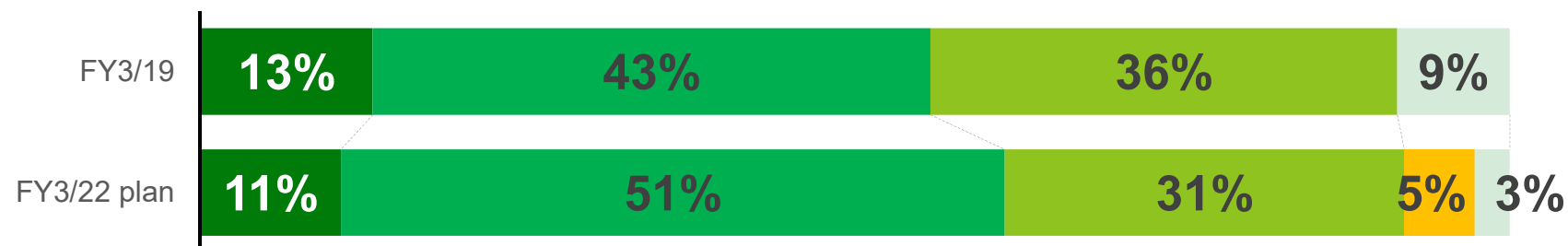
Return on equity (ROE) 10% or higher

* Reference value for net sales prior to application of "Accounting Standard for Revenue Recognition"

Performance Targets by Segment

(Billion yen)	Net sales				Recurring income			
	FY3/19	FY3/22 plan	Composition	Change	FY3/19	FY3/22 plan	Composition	Change
Timber and Building materials	487.1	266.0	20%	-45.4%	8.0	10.0	11%	+25.3%
Overseas Housing and Real Estate	364.9	470.0	36%	+28.8%	25.8	47.2	51%	+82.9%
Housing and Construction	452.8	525.0	40%	+15.9%	21.6	28.4	31%	+31.5%
Environment and Resources	-	23.0	2%	-	-	5.0	5%	-
Others	40.4	20.0	2%	-50.5%	5.2	2.5	3%	-52.0%
Adjustment	-36.3	-44.0	-	-	-9.2	-8.1	-	-
Total	1,308.9	1,260.0	-	-3.7%	51.4	85.0	-	+65.3%
				(Reference) Excluding actuarial differences	54.8	85.0	-	+55.1%

Recurring income composition



■ Timber and Building Materials ■ Overseas Housing and Real Estate ■ Housing and Construction ■ Environment and Resources ■ Others

Growth strategy

- Increased handling of biomass fuel material and domestic timber and strengthened sales for non-residential properties
- Capturing of global demand through capital and business tie-ups with leading overseas partners like An Cuong (Vietnam)
- Product development and expansion of sales through integrated manufacturing and sales structure

Overseas Distribution Business

Recurring income

¥**0.3** billion → ¥**1.4** billion

Overseas Manufacturing Business

Recurring income

¥**2.2** billion → ¥**3.8** billion



Growth strategy

- Promote unique structural development, including related businesses
- Provide safe, reliable, healthy, and earth-friendly housing
- Establish market position in apartment/non-residential field
- Further expand Renovation business

Custom-built detached houses, spec homes, apartments

Annual sales/construction **9,000** units

MOCCA(Timber Solution)business:
Orders received **¥10.0** billion

Renovation business:
Net sales **¥100.0** billion



Growth strategy

- Address wide-ranging customer needs, including detached houses, townhouses, and condominiums
- Improve competitiveness through centralized purchasing of material and information sharing
- Expand business in Southeast Asia

Development of future annual sales structure

United States **10,000** units
Australia **3,000** units



Crescent Communities II, LLC



Growth strategy

- Transfer detached spec homes business to DRB and reorganize business group-wide
- Promote transition from independent real estate development to SPC* format and pursue business efficiency while reducing risk

* Special purpose company

Recurring income

Approx. ¥ **1.5** billion

Growth strategy

- Increase Group presence in environment and resources field, which enjoys high level of interest internationally
- Improve profitability of forestry business in Japan and overseas
- Expand area of managed/owned forests

Total amount of renewable energy generated **180 MW → 300 MW**

* Total in operation and planning





**One of Japan's largest elderly residents
by combining living support services
with a total of approximately 300 units**

ELEGANO NISHINOMIYA (Hyogo)

**Expansion of elderly
care services business**



**Resort complex developed through
industry-government-academia
collaboration for regional revitalization**

AQUAIGNIS TAKI (Mie)

**Possibility for
business expansion
in commercial and
lodging fields**

Promote strengthening of management base from standpoint of governance, human resources, finance, and IT as part of efforts to develop structure capable of flexibly handling business expansion and increase in business domains.

Strengthening of governance

Business
continuity

Crisis
management

Internal control

Human Resources strategy

Support for growth

Diverse work
styles

Financial strategy

Improvement of
financial standing

Improvement of
capital efficiency

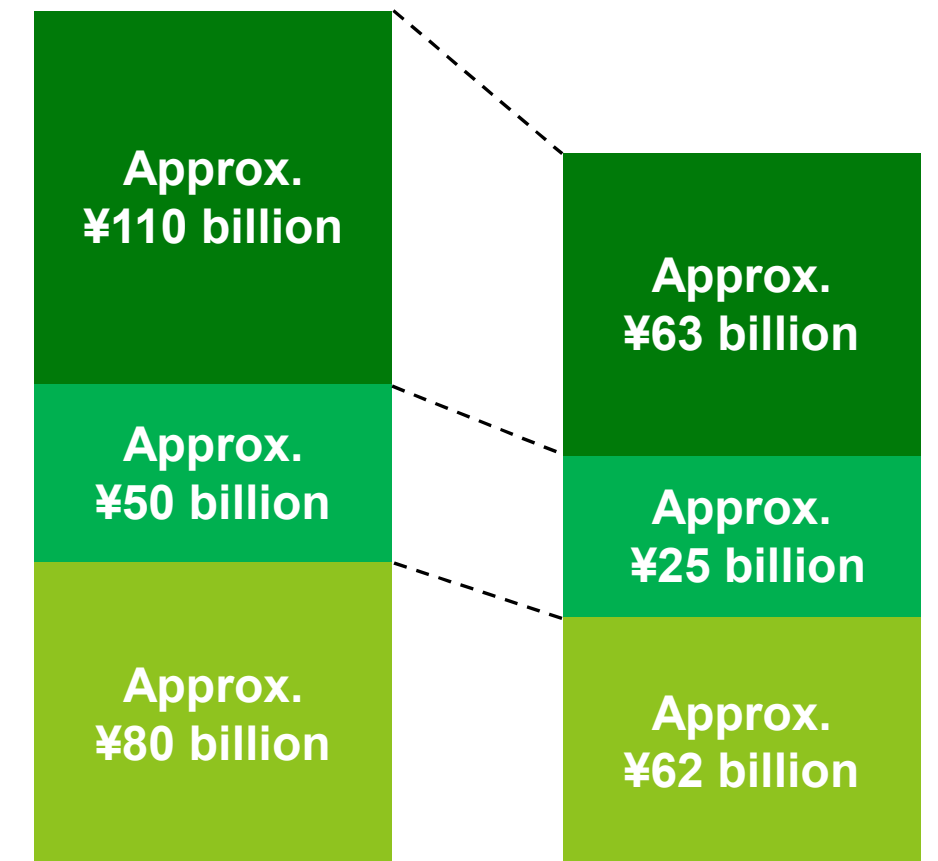
IT strategy

Improvement of
productivity

Utilization of AI,
IoT, RPA, etc.

Implement based on medium- to long-term business strategy, etc. while balancing with asset efficiency and operating cash flow.

FY3/17-FY3/19
Total:
Approx. ¥240 billion



2021 Medium-Term
Management Plan
3-year total

¥ **150** billion

* Other investments

Housing display centers, housing stock	¥17 billion
Strategic system investments	¥10 billion
Elegano Nishinomiya	¥10 billion
Other equipment updates, etc.	

- Overseas Housing and Real Estate-related
- Environment and Resources-related
- Other

Engage in wide-ranging research and development to further increase added value through creation of innovative uses for timber.



Development of building materials through research on trees at the genetic level

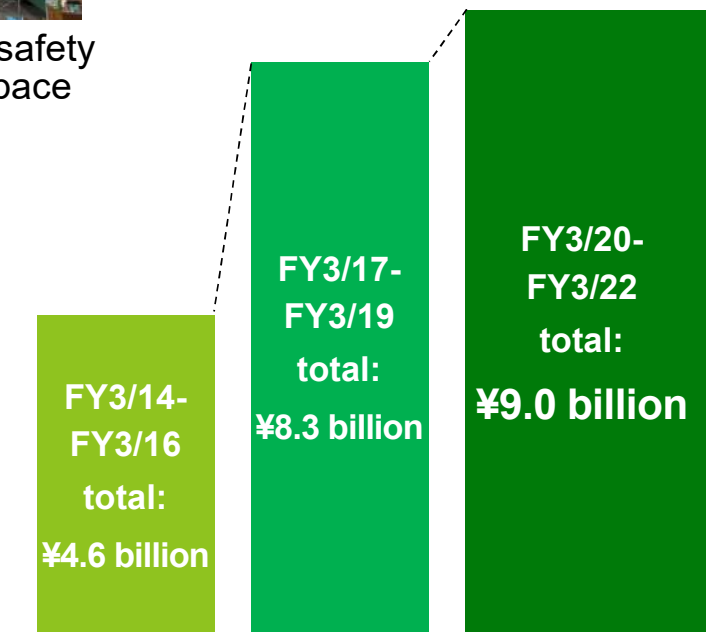


Verification of housing safety and effectiveness of space



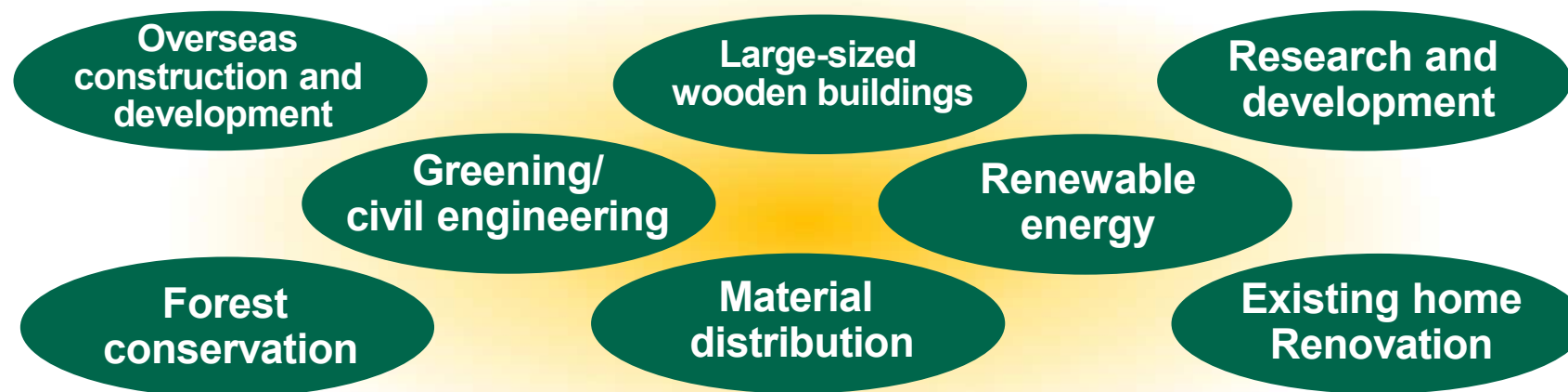
Technical R&D related to W350 Plan

2021 Medium-Term Management Plan
3-year total
R&D investments **¥9.0 billion**



Collaboration with Kumagai Gumi

Aim to bring about innovation going beyond existing frameworks and create new markets through collaboration.



2021 Medium-Term Management Plan (FY3/22) Targets for the Company

Orders received

Approx. ¥**20** billion

Net sales

Approx. ¥**15** billion

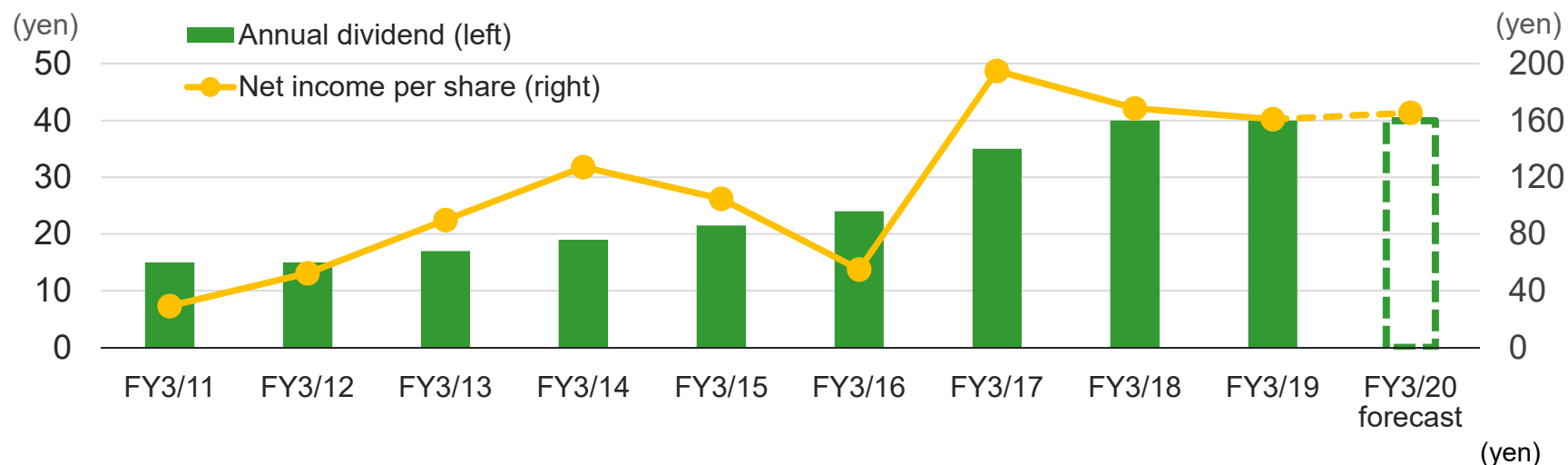
Operating income

Approx. ¥**1** billion

Steadily build up track record and accelerate creation of synergy

Basic policy

- Provide continuous and stable dividends
- Continue to provide appropriate level of returns according to profit situation, considering growth investments, financial standing, etc. in a comprehensive manner



	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20 forecast
Dividend per share	15.0	15.0	17.0	19.0	21.5	24.0	35.0	40.0	40.0	40.0
Net income per share	29.21	52.34	89.89	127.20	104.85	54.92	194.95	168.49	160.80	165.43

Notice

- **The business results forecasts, outlooks, business plans, etc. in this document are based on the Sumitomo Forestry Group's assumptions and judgments made based on information available at the time of preparation. No guarantee or assurance is provided with respect to the accuracy or completeness thereof.**
- **Business results forecasts, outlooks, business plans, etc. may change in the future.**

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Happiness Grows from Trees



SUMITOMO FORESTRY