

# **FY12/2022 Financial Results Briefing Progress on Business Environment and Medium-Term Management Plan**

**February 15, 2023**

# Table of Contents

P.3 Business Environment

P.4 Long-Term Vision and Medium-Term Management Plan

P.6 Performance and Plans

P.7 Progress on Decarbonization-related Business

P.12 Future Initiatives

P.17 Shareholder Return



- The COVID-19 situation remains unpredictable, **but things are beginning to return to normal.**
- Meanwhile, the global economy has **reached a significant turning point** with widening divisions between the West and Russia and China catalyzed by the Russian invasion of Ukraine, which have brought about **inflation and higher interest rates** around the world.
- This rise in interest rates has had a **material impact** on our US housing and real estate business, which has contributed significantly to improving our results over the past several years.
- In Japan, the situation in the domestic housing market **remains uncertain**, due in part to concern over rising interest rates and high resource prices caused by depreciation of the yen despite a recovery in inbound demand and domestic demand.

# Mission TREEING 2030

~Making our planet safer and more secure for future generations~

By providing value for our planet, for people and society, and for the market economy, we at Sumitomo Forestry Group will strive to make our planet safer and more secure for current and future generations of people and all living beings. With our long-held strengths in harnessing and expanding the value of forests and wood, we will create change for a new future.



## Business Policy

1. Maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy
2. Advancing globalization

3. Striving for transformation and the creation of new value
4. Transforming our business foundation for growth

## Performance Target

Target for recurring income in 2030: **250** billion yen

# Medium-Term Management Plan

The new Medium-Term Management Plan is Phase 1 of Mission TREEING 2030  
Three years for creating a foundation aimed at future growth and contribution  
to decarbonization



## Basic Policy

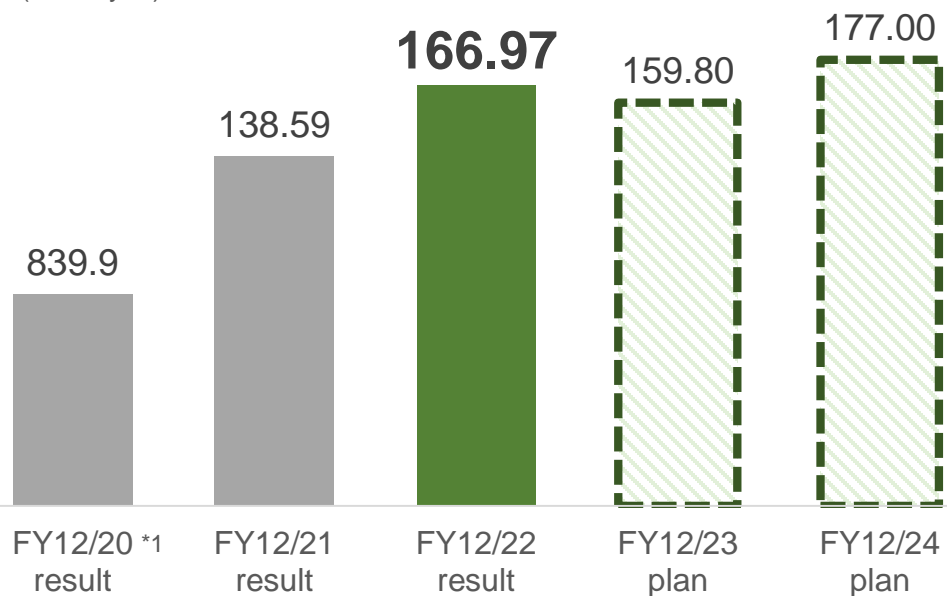
1. Pursuing decarbonization through the use of timber resources
2. Promoting strengthening of the revenue base
3. Accelerating global expansion
4. Strengthening the management base for sustainable growth
5. Further integrating business operations and ESG initiatives

# Overview of FY12/22 Performance and Plans for FY12/23 and FY12/24

- The US housing and real estate business grew significantly owing primarily to rising unit selling prices.
- Recurring income was up 41.6% YoY to a record high of ¥195.0 billion.

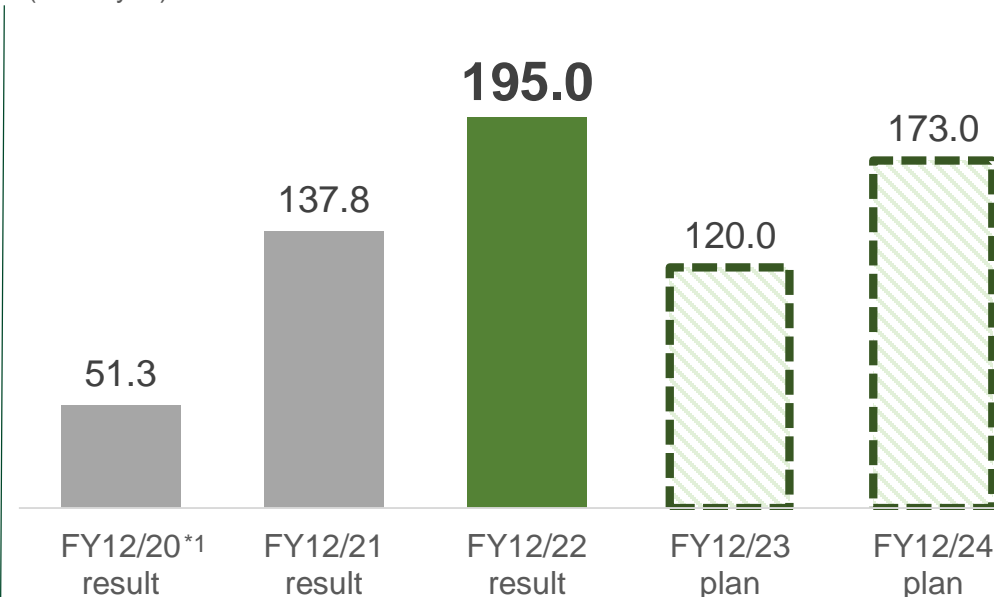
## Net sales

(billion yen)



## Recurring income

(billion yen)



\*1. FY12/20 is the nine-month period from April to December due to the fiscal term end being changed from March 31 to December 31 in FY12/20.

## Establishment of global forestry fund

- Decarbonization efforts accelerating worldwide
- Increased attention/demand for carbon credits

### Challenges

- Volume of credits issued by government is insufficient
- Large volume of credits is issued by private companies, but problems include unclear monitoring method, excessive issuance, and insufficient data

### High-quality carbon credits need to be created

2022	Established forest asset management company Eastwood Forests in US
Present	Ascertaining needs, primarily those of domestic companies. Sourcing underway in North America, Asia, and Oceania
Thru 2024	Formation of Fund No. 1

2030 forestry fund  
Managed assets

100 billion yen

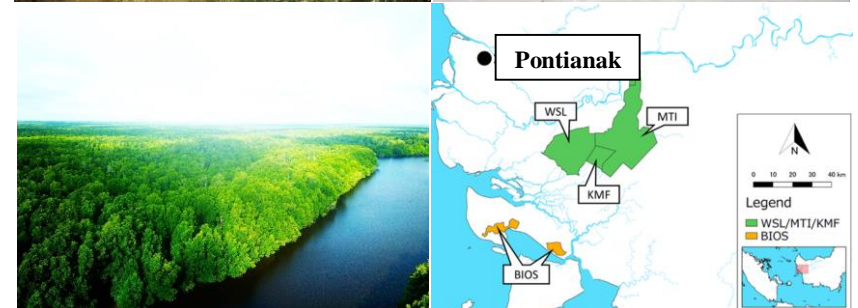
Forestry land managed  
in 2030

500,000 ha

## Launch of mangrove conservation project in Indonesia

- Acquired 100% stake in BIOS, which owns and manages 9,738 ha of mangrove forests in Indonesia, in December 2022.
- The aim is to reduce CO<sub>2</sub> emissions and create blue carbon credits by managing mangroves, which are globally valuable ecosystems, as protected forests.

\* Blue carbon: Carbon incorporated into the marine ecosystem of seagrass beds, seaweed beds, wetlands and tidelands, and mangrove forests designated by the United Nations Environment Programme

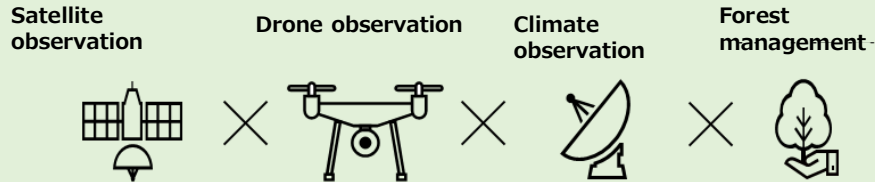


Mangrove forests owned and managed by BIOS

## Overview of NeXT FOREST

- Forest management/conservation using remote sensing technology.
- Combine knowledge and technology of Sumitomo Forestry and IHI.
- Aim to increase accuracy of technology for estimating carbon fixation amounts.

### NeXT FOREST



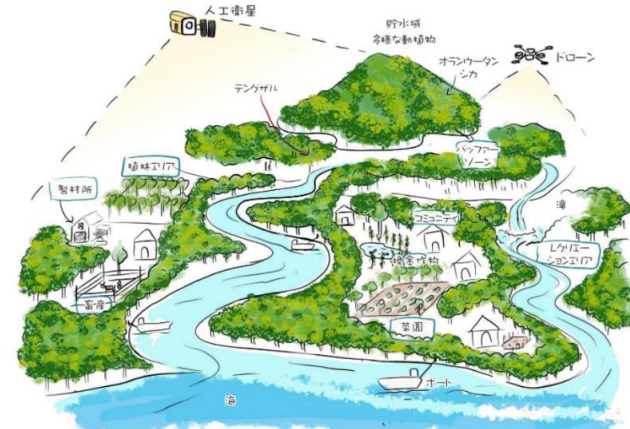
Combining the tangible (observation equipment) and intangible (utilization of observation data) strengths of Sumitomo Forestry and IHI

Tropical peat forest consulting  
High-quality carbon credits

Expand forest management consulting business and contribute to decarbonization worldwide

## Progress

- 2016 Establishment of management method using water level control in tropical peat forests in Indonesia
- 2021 Conclusion of business collaboration agreement with IHI. Presentation of project to world at COP26.
- 2023 Establishment of joint venture NeXT FOREST with IHI in February. Launch of consulting services for appropriate management of tropical peat forests.
- Future Aiming to land orders for consulting services for tropical peatland management while commercializing creation of high-quality carbon credits



<Illustration of project>



## Overview of wood industrial complex

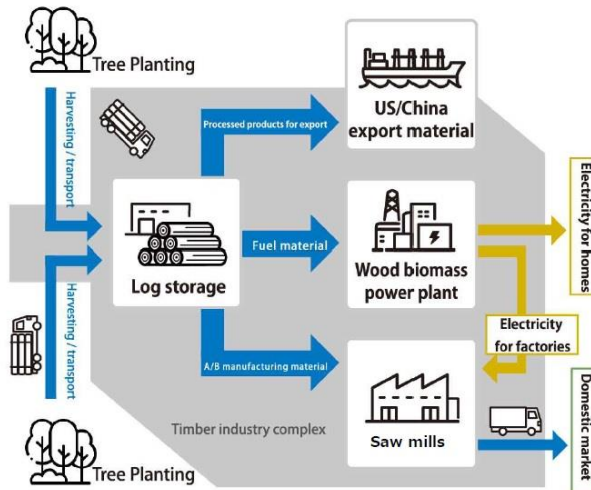
### Background

- Lumber prices soaring worldwide (wood shock) under global competition for timber resources
- Expanding use of domestic timber is an urgent issue

- Build stable supply system for domestic timber and improve Japan's timber self-sufficiency
- Promote use of wooden construction in non-residential buildings

**Wood industrial complex**

**2030 domestic timber use**  
**1 million m<sup>3</sup>/year**



Promotion of cascading in which every part of the tree is used

## Progress

### Progress made on Project No. 1 in Shibushi City, Kagoshima



- Shibushi Port is Japan's largest log export port
- The aim is to use exported logs to manufacture high-strength structural material that can also be used for non-residential applications.
- Specific consideration and verification underway for each item

Infrastructure preparation

Raw material procurement

Environmental impact assessment

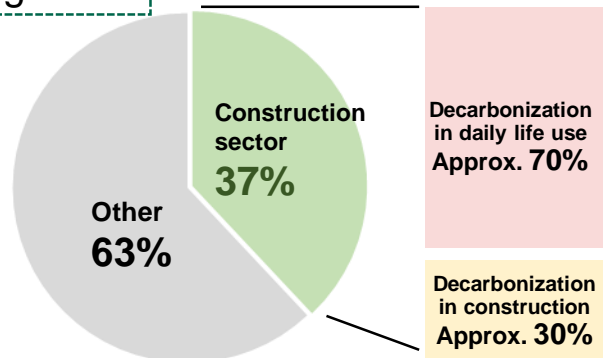
Capital expenditures

Marketing

**We will continue to look into multiple locations throughout Japan, focusing on areas with abundant timber resources, aiming to make them operational between 2025 and 2028.**

## Overview

### Background



Source: Global Alliance for Building and Construction (2021)

Global energy-based CO<sub>2</sub> emissions: 31.5 billion tons (2020)  
Construction sector accounts for 37% of emissions

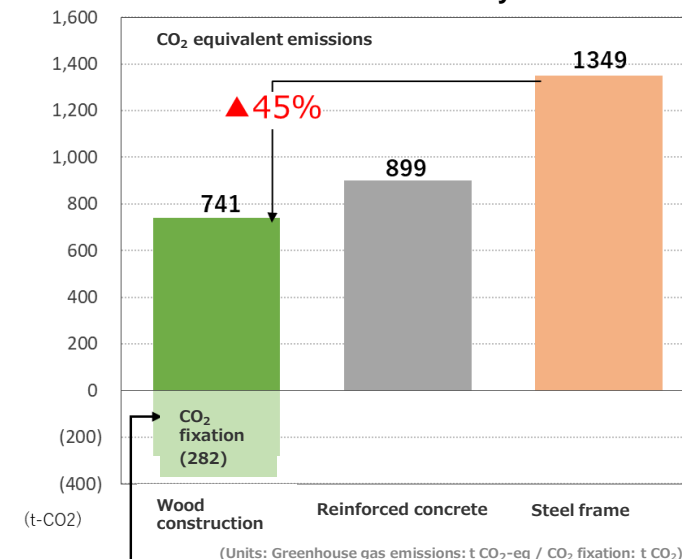
- Reducing CO<sub>2</sub> emissions during construction by using wooden structures instead of others
- Reducing CO<sub>2</sub> emissions with timber carbon fixation

### Challenges

- Establishment of appropriate indicators for evaluating CO<sub>2</sub> emissions
- Strengthening market competitiveness of wooden construction by standardizing materials and reducing costs

**Contribute to the decarbonization of society as a whole by increasing the number of environmentally friendly buildings**

### <Greenhouse Gas Emissions by Structure>



\*If CO<sub>2</sub> fixation is offset, it will result in a roughly 66% reduction.

\* Estimated by Tsukuba Research Institute based on Forestry Agency survey

Calculation model: 3-floor office (1,500 m<sup>2</sup>)

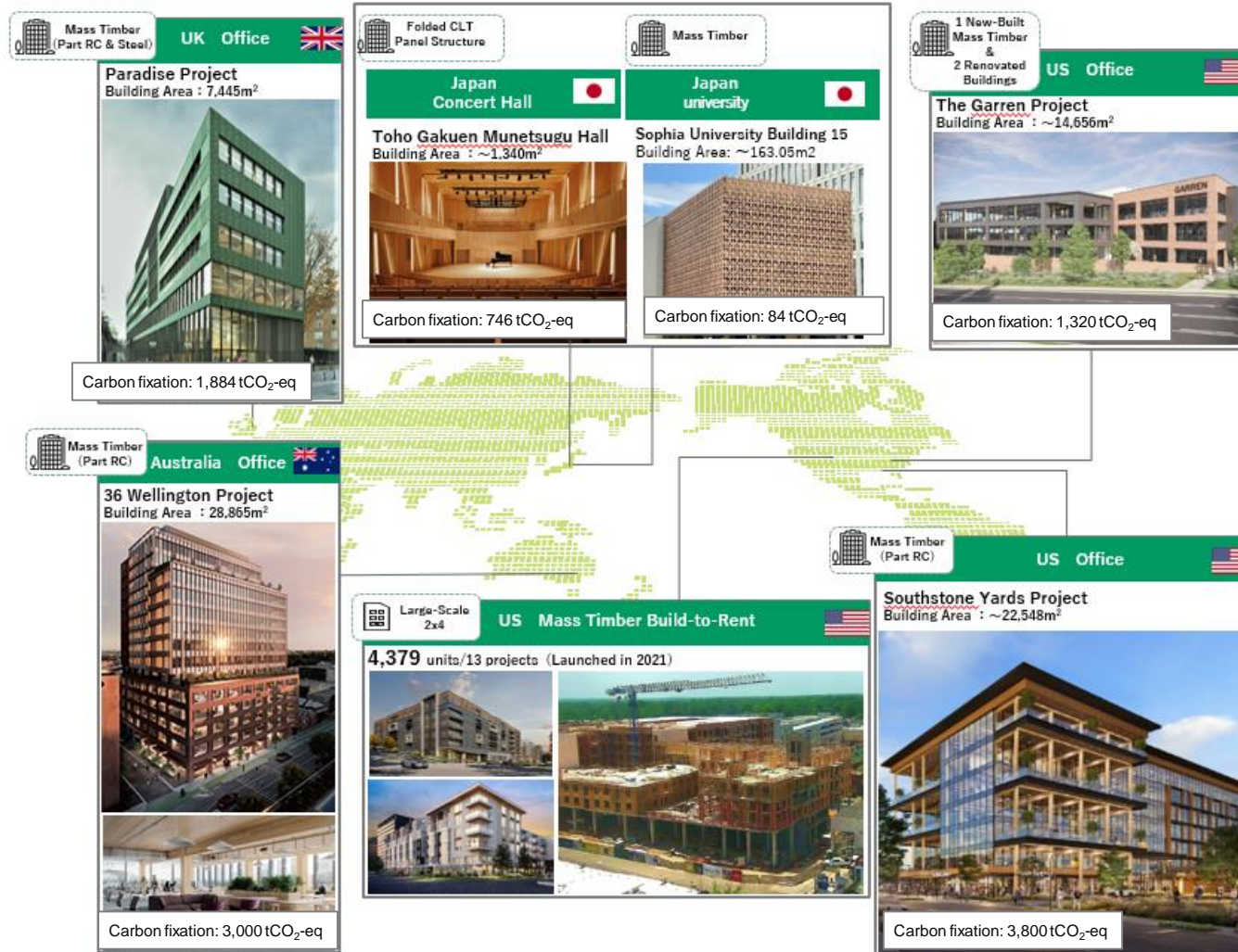
## One Click LCA

- Visualization of CO<sub>2</sub> emissions during construction
- Coordination with more than 50 international certifications, including ISO and LEED
- Sales of Japanese language edition launched in August 2022. Agreements concluded with multiple design firms, developers, and general contractors.
- Launched a decarbonization design support business to support acquisition of EPD environmental certification label and calculation of building CO<sub>2</sub> emissions.



# Construction: Medium- to Large-scale Wooden Construction

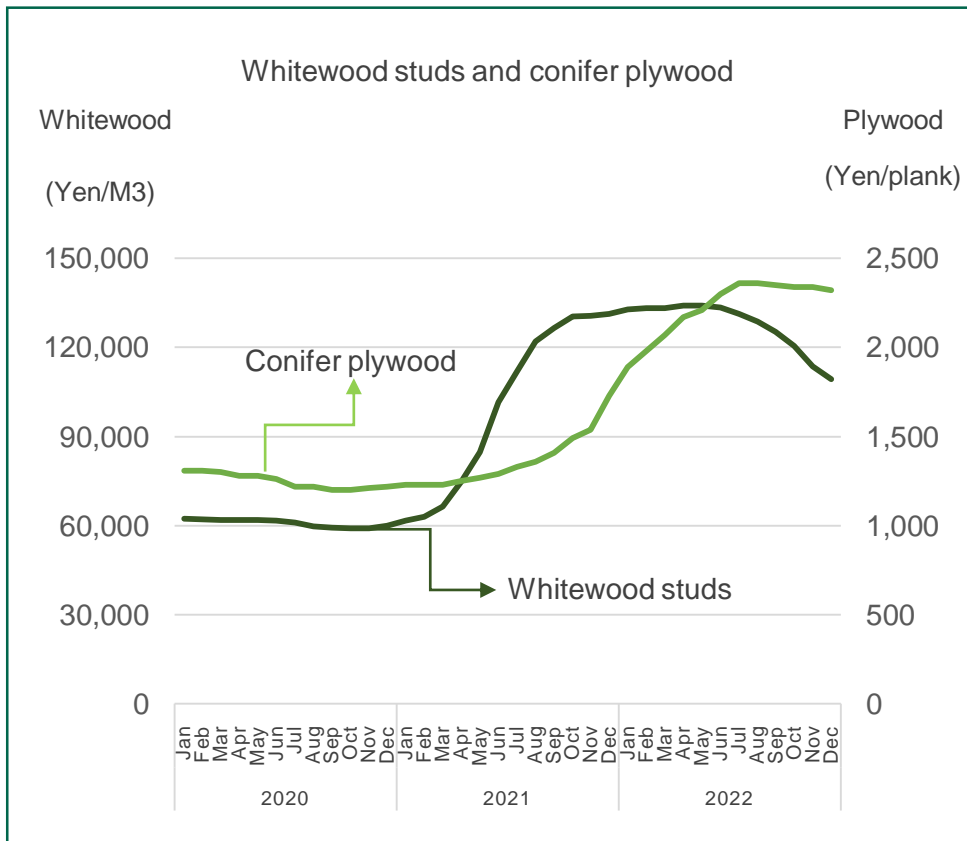
- Construction progressing steadily in Melbourne, Australia and London, England. New projects being launched in Atlanta and Dallas, USA. Established joint venture Bywater SFC Holdings with local partner in England in February 2023. Making full-scale entry into British real estate market. Working to expand business in European market quickly.



Note: Carbon fixation overseas calculated before construction

- Domestic timber prices coming down, but prices for other major building materials remain high.
- Using domestic timber, expanding supply of fuel for wood biomass power generation, and promoting One Click LCA

## Trend in Timber Prices



Source: Timber Statistical Survey by Ministry of Agriculture, Forestry and Fisheries  
 Whitewood studs (3.0cm thick, 10.5cm wide, 3.0m long, special grade)  
 Conifer plywood (1.2cm thick, 91.0cm wide, 1.82m long, Category 1)

## Future Initiatives

- Enhance Sumitomo Forestry Wood Products functions to promote the use of domestic timber.
- Standardize components and establish supply chain to strengthen competitiveness of medium- to large-sized timber constructed buildings.
- Develop new products and services, including establishment of fuel supply system for biomass power generation.
- Enhance functions to solve challenges faced by suppliers, such as building information infrastructure directly linked to entire supply chain.
- Spread and promote One Click LCA and promote EPD acquisition.



- Improve profitability by providing high added value, streamlining construction, and promoting the integrated use of owner information.

## Future Initiatives

- Expand sales of high value-added products, including LCCM homes, ZEH, and original PRIME WOOD components.
- Introduce DX and promote integrated exterior contracts and streamlining of construction.
- Establish Innovation Promotion Department, which will be responsible for structural reform in all areas from sales to construction, and review existing operations.
- Expand rental business and increase Group profits by fully utilizing owner information.



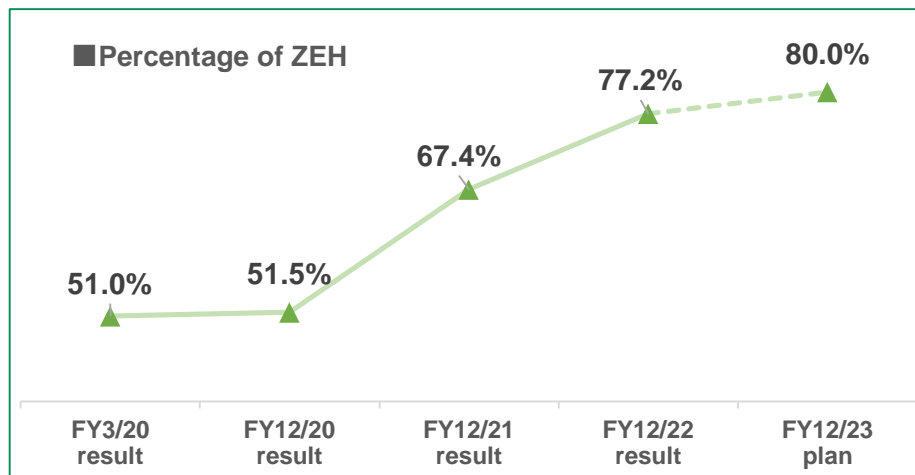
LCCM model house  
(Yonago City, Tottori)



Enhancement of online strategy  
and expansion of DX



Exclusive, original interior components



Expand pre-cast foundation. Ship risers to site and install them after manufacturing at plant. Foundation and exterior are also shipped complete for high degree of accuracy and completeness of design.

## Business Environment

- **Demand is strong** in the US housing market due to an increase in buyers and a shortage of supply.
- Currently, **there are signs of a market recovery** as mortgage rates come down.
- We will **implement a growth strategy** in anticipation of market recovery.

## Setting up operations in Florida, USA

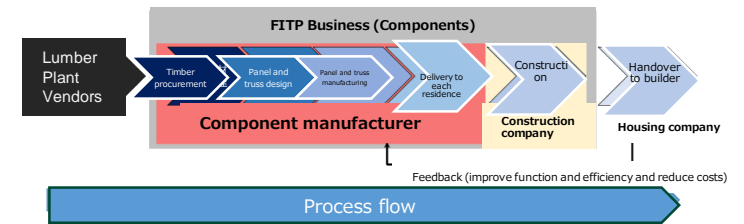
- Acquired Southern Impression Homes, which is engaged in residential land development, building, sales, and rental management of detached rental housing in leading US market of Florida, in January 2023.
- Will use entry into state as foothold to further expand existing detached spec home business and enter rental management business.



Southern Impression Homes and its area of operations

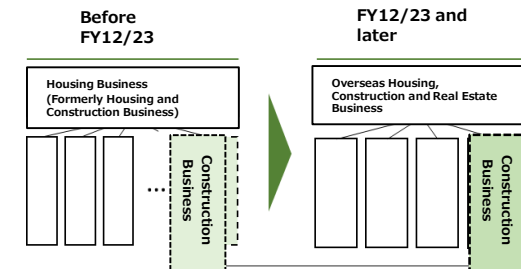
## Promotion of Fully Integrated Turn-key Provider (FITP) business

- Promoting FITP business, which aims to stabilize and streamline supply system, reduce costs, shorten construction periods, and reduce waste.
- Established new plant in North Carolina to manufacture wall panels and roof/floor trusses and further strengthen FITP business.



## Globalization of real estate development business

- Promoting development and sale of high demand properties. Promoting business management with high capital efficiency using joint ventures, funds, and other methods.
- Restructuring organization to integrate domestic construction division with overseas division.
- Promoting development of medium- to large-sized wooden buildings in Japan and overseas.



- In US single family homes business, we plan to sell 9,000 units in FY12/23.
- Contract format has changed significantly from presale (built to order) to spec (built for sale). Key to achieving target unit sales in FY12/23 is not order backlog at beginning of year, but rather number of contracts and construction starts during year.

## Contract

- We will achieve our target number of units sold by **offering incentives and making certain price adjustments.**
- Cancellations of contracts by customers who signed when interest rates were low stood out, but **progress has been made on selling those cancelled properties**, and the inventory has not built up any more than expected.
- Currently, most contracts are those signed after interest rates rose, so the **cancellation rate is returning to normal levels.**
- Contracts in January 2023 recovered to 70% of the level of last January, owing in part to stable mortgage rates. **There are also signs of movement among customers who were taking a wait-and-see approach.**

## Construction starts

- **Controlling excessive buildup of completed inventory** while keeping certain level at construction start.
- With 12,000 construction starts in FY12/21, **capacity is not a problem.**
- We will maintain **construction starts at an appropriate level** while keeping an eye on progress with contracts.



- In the Australian housing market, soaring material prices, labor shortages, and delays in administrative procedures due to COVID-19 continued. We will promote initiatives to enhance profitability in the custom-built business and increase the number of units delivered in the spec homes business.

## Australia

- Custom-built: Capturing demand from areas where we do not yet have a presence by utilizing satellite display centers, strengthening digital marketing strategies using social media, and promoting efficient sales activities.
- Spec homes: Developing residential land in-house, promoting securing of land in cooperation with real estate developers, and reducing holding costs through off-balancing.
- Creating Group synergy and streamlining production through the integration of IT infrastructure, joint purchasing of materials, and securing building materials through the Timber and Building Materials Business.



Henley Australia is the first major builder to provide solar panels standard on all custom-built detached homes (left), meeting a wide range of customer needs from townhouses for first-time buyers (above) to luxury homes.

## Asia

- Launching new projects, mainly in collaboration with local partners familiar with the real estate development business.
- Differentiating ourselves with communities and buildings by solving challenges in local housing with our technical expertise.



Example projects of detached spec home business in Indonesia

Top left: Summarecon Bekasi  
Top right: Summarecon Makassar  
Bottom left: Joint project with GPI in Depok City



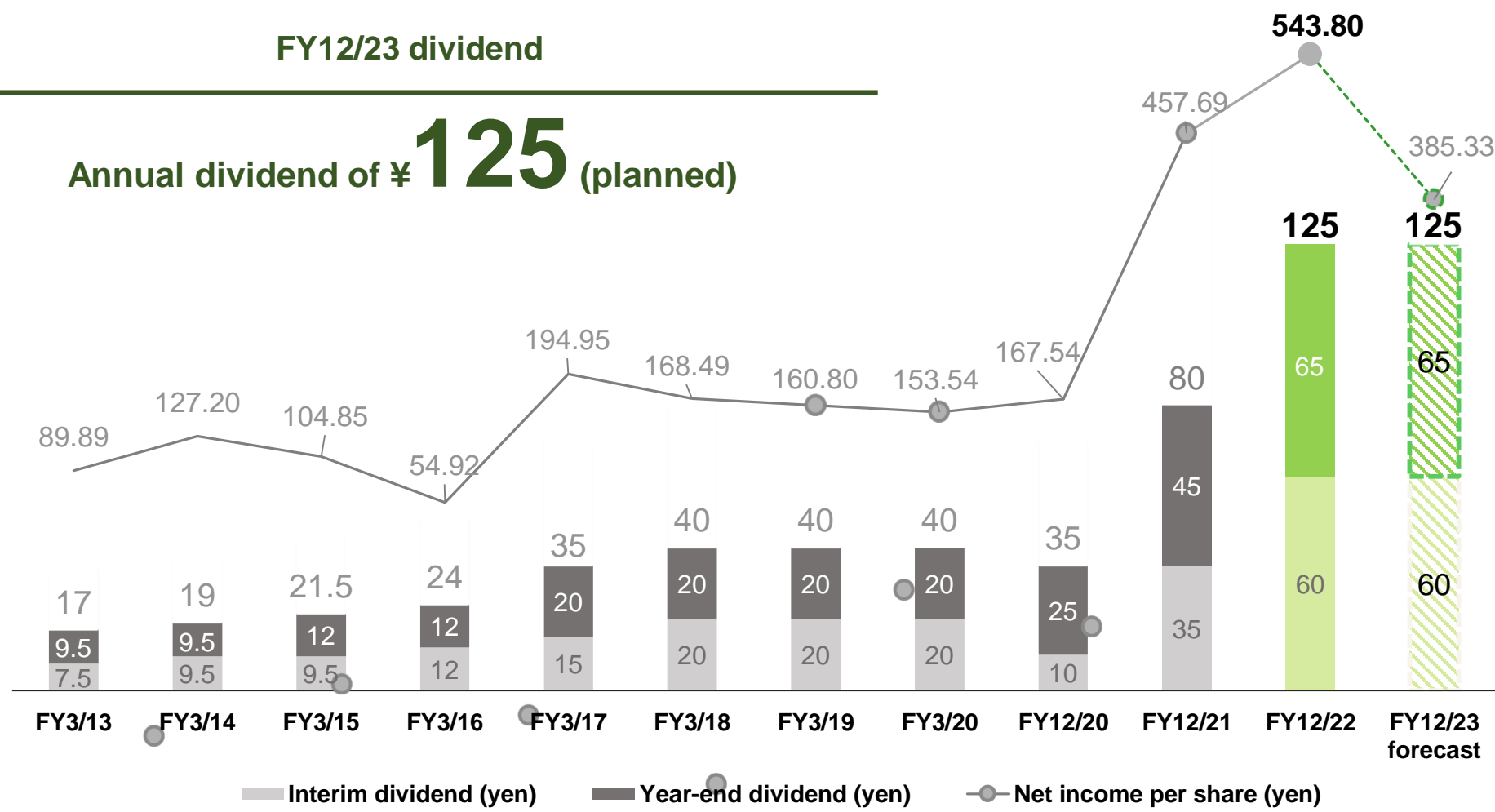
# Shareholder Return

## ◆ Annual dividend per share

FY12/22: ¥125 (¥45 increase from initially planned ¥80 dividend); FY 12/23: ¥125 (planned)


### FY12/23 dividend

Annual dividend of ¥ **125** (planned)




FY12/20 is the nine-month period from April to December due to the fiscal term end being changed from March 31 to December 31 in FY12/20.


- We will organically link the management resources of the entire Group to implement the wood cycle and contribute to the realization of a decarbonized society.



Knowledge of wood Expertise in forestry, timber, and construction

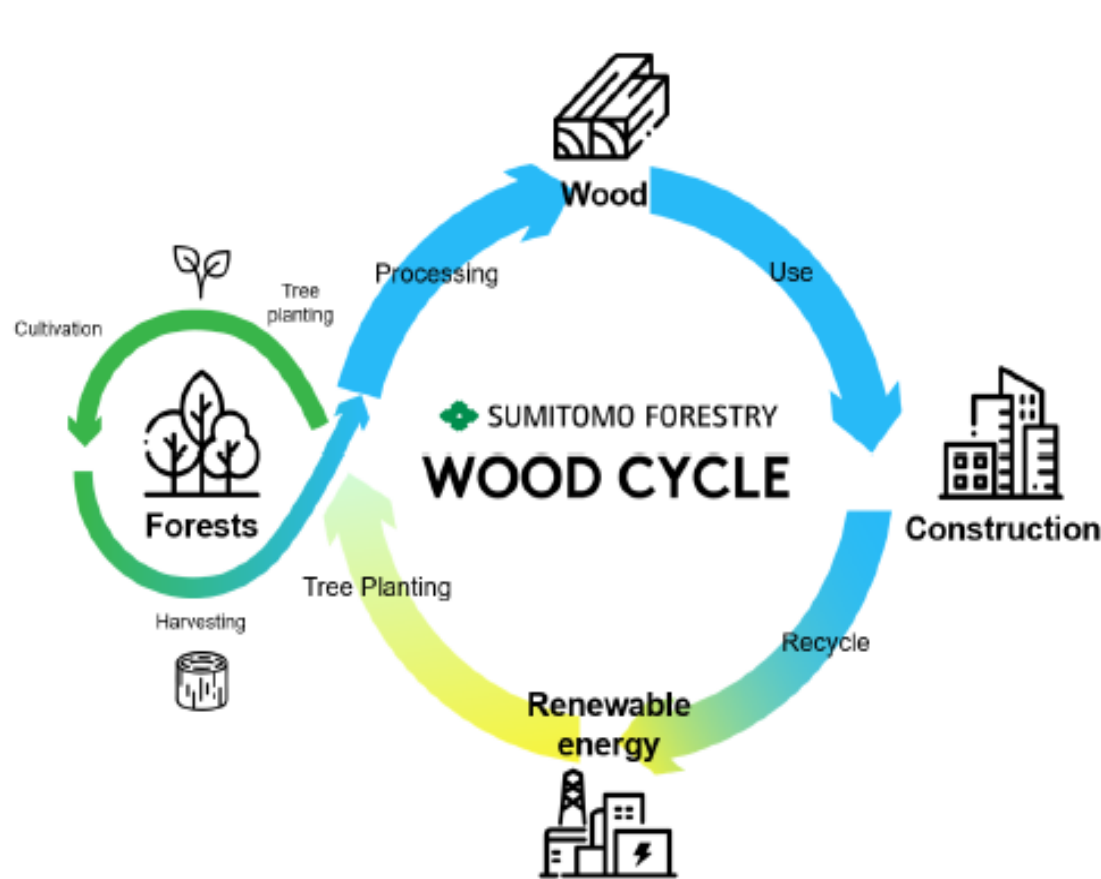


Timber and Building Materials network



Abundant human resources

etc.



Contributing to realization of decarbonized society

# Appendix

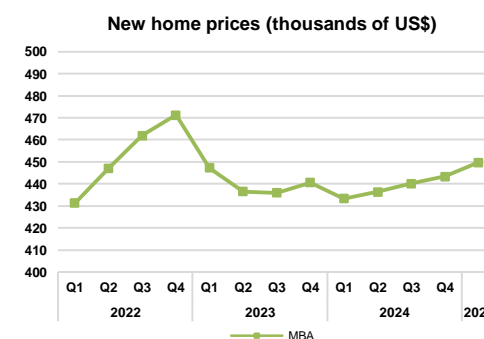
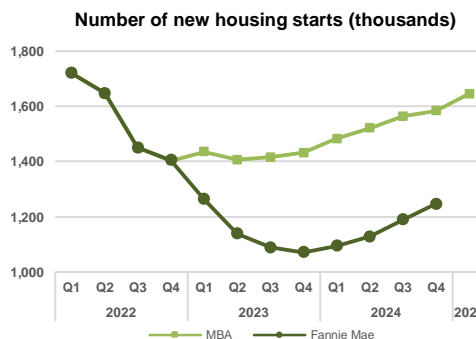
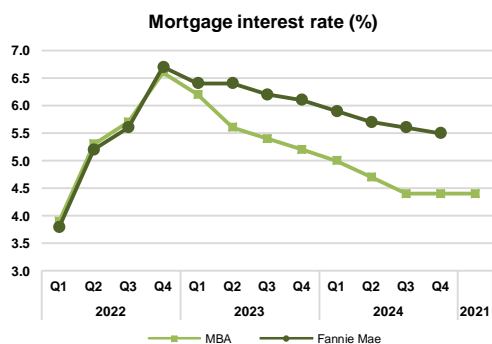
# Think Tank Predictions for US Housing Market

		Result	Result	Result	Result	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
		2022				2023				2024				2025
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Number of new housing starts (thousand units)	MBA	1,720	1,647	1,450	1,403	1,435	1,406	1,415	1,432	1,482	1,521	1,564	1,583	1,645
	Fannie Mae	1,720	1,647	1,450	1,405	1,263	1,138	1,088	1,071	1,094	1,128	1,189	1,246	
House price index (YOY % Change)	MBA *1	18.8	17.9	14.2	8.2	4.1	2.4	0.9	-0.6	-2.5	-2.5	-1.9	-1.2	2.1
	Fannie Mae *2	20.0	19.1	13.8	8.4	2.0	-3.1	-4.2	-4.2	-3.7	-3.4	-2.6	-2.3	
New home prices (thousand US)	MBA	431.3	447	462	471.3	447.3	436.6	436	440.6	433.4	436.4	440.2	443.4	449.8
	Fannie Mae													
Mortgage interest rate (%) (30-year fixed)	MBA	3.9	5.3	5.7	6.6	6.2	5.6	5.4	5.2	5.0	4.7	4.4	4.4	4.4
	Fannie Mae	3.8	5.2	5.6	6.7	6.4	6.4	6.2	6.1	5.9	5.7	5.6	5.5	
Federal Funds Rate(%)	MBA *3	0.375	1.625	3.125	4.375	4.875	4.875	4.875	4.875	4.375	3.875	3.875	3.375	2.375
	Fannie Mae *4	0.1	0.8	2.2	3.7	4.6	5.0	4.6	4.3	4.1	4.0	3.9	3.9	
Long-term interest rate (%) (10-Year Treasury Yield)	MBA	1.9	2.9	3.1	3.8	3.5	3.3	3.2	3.0	2.8	2.7	2.5	2.5	2.5
	Fannie Mae	1.9	2.9	3.1	3.8	3.9	3.8	3.8	3.8	3.8	3.7	3.7	3.7	

MBA: The Mortgage Bankers Association, January 19, 2023  
 Fannie Mae: Federal National Mortgage Association, January 10, 2023

\*1. FHFA US House Price Index (YoY % Change)  
 \*2. Fannie Mae HPI

\*3. End of year rate  
 \*4. Average rate



- The performance forecasts, outlooks, business plans, etc. in this document are based on the assumptions and judgment of the Group made based on information available as of the time of preparation. No promise or guarantee is made with respect to the accuracy or completeness thereof.
- Performance forecasts, outlooks, business plans, etc. are subject to change.
- This material is not intended to solicit investment or acquisition of any other financial instrument.

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Happiness Grows from Trees



**SUMITOMO FORESTRY**