

# Progress on Medium-Term Management Plan and Initiatives for the Future

## FY12/2023 Financial Results Briefing



Happiness Grows from Trees



SUMITOMO FORESTRY

February 15, 2024



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## 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.

  
Value for  
our planet

×

  
Value for  
people and society

×

  
Value for  
the market economy

### 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

## 2. Consolidated Results FY12/2023 Results

The Global Housing, Construction and Real Estate Segment was the key driver for overall performance. In the US single family homes business, measures tailored to market trends were successful, **contributing to results that greatly exceeded the forecast at the beginning of the fiscal year.**

### ■ Consolidated Results

(billion yen)	FY12/22 Results	FY12/23 Forecast	FY12/23 Results
Net sales	1,669.7	1,598.0	<b>1,733.2</b>
Operating income	158.3	101.5	<b>146.8</b>
Recurring income	195.0	120.0	<b>159.4</b>
Net income	108.7	77.0	<b>102.5</b>
ROE (%)	19.4	11.8	<b>14.8</b>

### ■ Recurring income by segment

(billion yen)	FY12/22 Results	FY12/23 Forecast	FY12/23 Results
Timber and Building Materials	14.9	15.0	<b>11.2</b>
Housing	15.4	23.5	<b>32.8</b>
Global Housing, Construction and Real Estate	161.8	85.0	<b>112.5</b>
Environment and Resources	1.4	2.3	<b>0.6</b>
Other	1.9	2.4	<b>2.2</b>
Adjustment	-0.4	-8.2	<b>0.2</b>

## 2. Consolidated Results FY12/2024 Forecast

Both sales and profit are expected to increase on the back of growth in the US single family homes business and other factors. **Net sales is forecasted to exceed 2 trillion yen for the first time in the Group's history.**

### ■ Consolidated Results

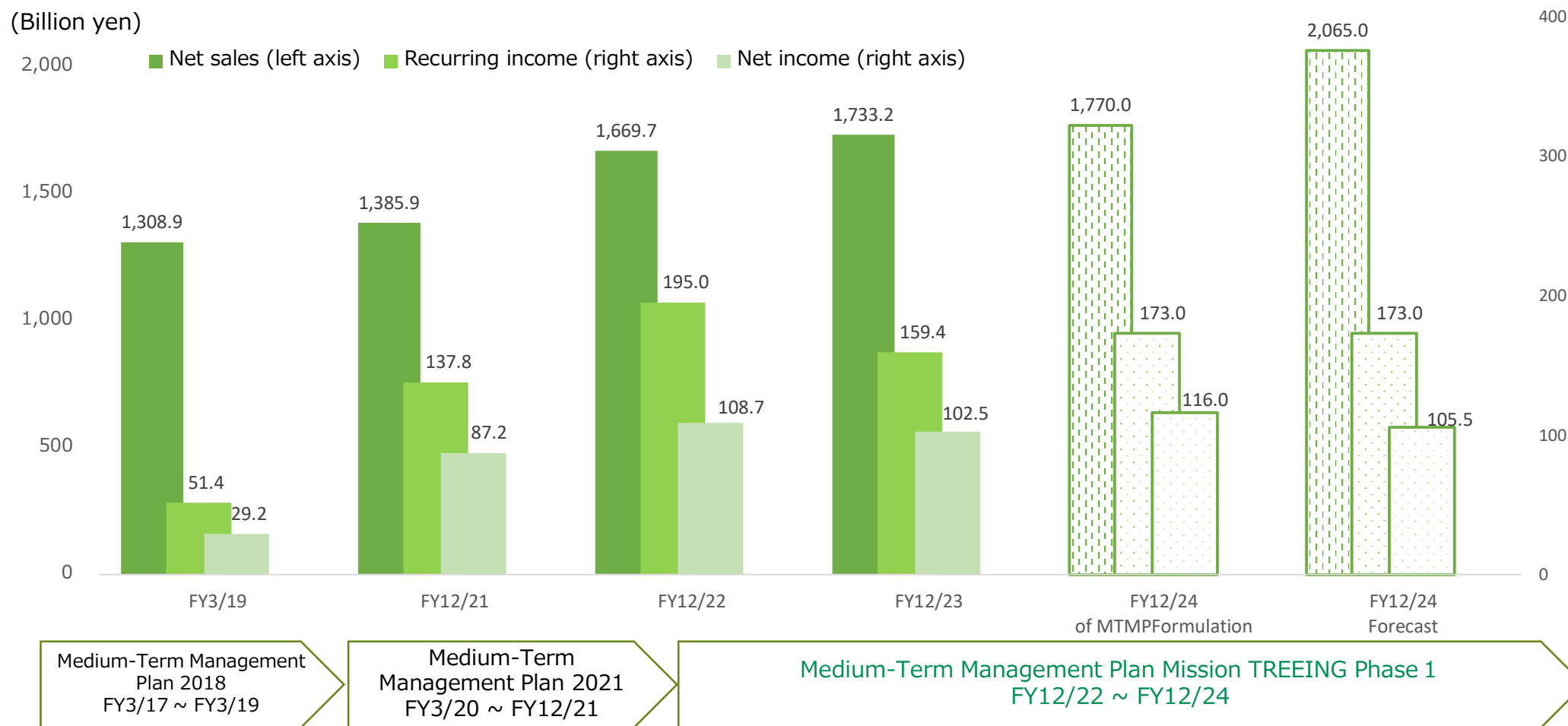
(billion yen)	FY12/23 Results	<b>FY12/24 Forecast</b>	Change
Net sales	1,733.2	<b>2,065.0</b>	+19.1%
Operating income	146.8	<b>161.5</b>	+10.0%
Recurring income	159.4	<b>173.0</b>	+8.5%
Net income	102.5	<b>105.5</b>	+2.9%
ROE (%)	14.8	<b>13.3</b>	-1.5pt

### ■ Recurring Income by Segment

(billion yen)	FY12/23 Results	<b>FY12/24 Forecast</b>	Change
Timber and Building Materials	11.2	<b>14.0</b>	+25.2%
Housing	32.8	<b>31.5</b>	-3.9%
Construction and Real Estate	112.5	<b>132.5</b>	+17.7%
Environment and Resources	0.6	<b>1.5</b>	+165.8%
Other	2.2	<b>2.4</b>	+9.5%
Adjustment	0.2	<b>-8.9</b>	-

### 3. Progress of the Medium-Term Management Plan

Although the market environment is going through major changes from the time when the Plan was prepared, such as the significant increase in mortgage rates in the US housing market, **we expect to achieve our Medium-Term Management Plan targets for both net sales and recurring income.**





# Acceleration of Global Expansion

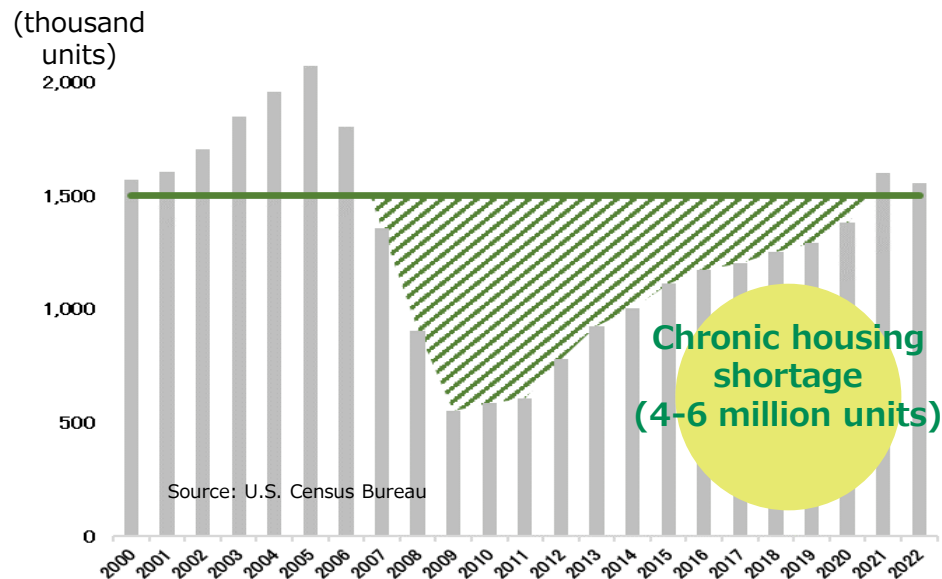
## Market Environment of the US Single Family Homes Business

Happiness Grows from Trees

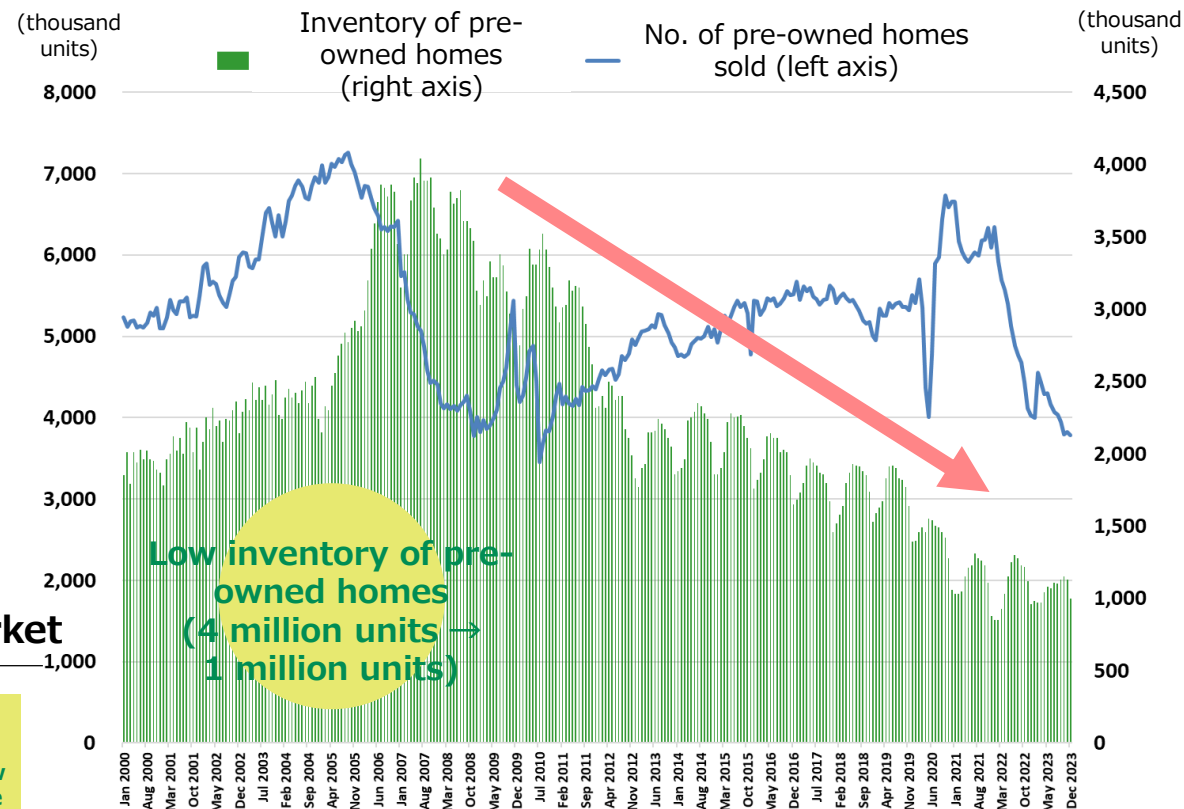


**There is continued chronic housing shortage.** The current inventory of pre-owned homes is at a low level of around 1 million units. Mortgage rates are not expected to fall significantly in the short term, and the lock-in effect\* is unlikely to disappear immediately. The housing shortage structure is likely to continue for the time being, **and robust demand for new housing is expected to continue going forward.**

### ■ No. of new housing starts in the U.S.



### ■ Inventory of pre-owned homes/No. of sales



### ■ Slow momentum in the pre-owned housing market

Of all mortgage debtors

Those opting for 30-year fixed rate mortgages

**Approx. 73%**



For mortgage debtors

Borrowing rate of 4% or less

**Approx. 2/3**



**Selling a pre-owned home means refinancing from low to high interest rate**

Source: Black Knight

\*Lock-in effect: Refraining from selling a pre-owned home under conditions that make it necessary to refinance from a low to high interest rate.

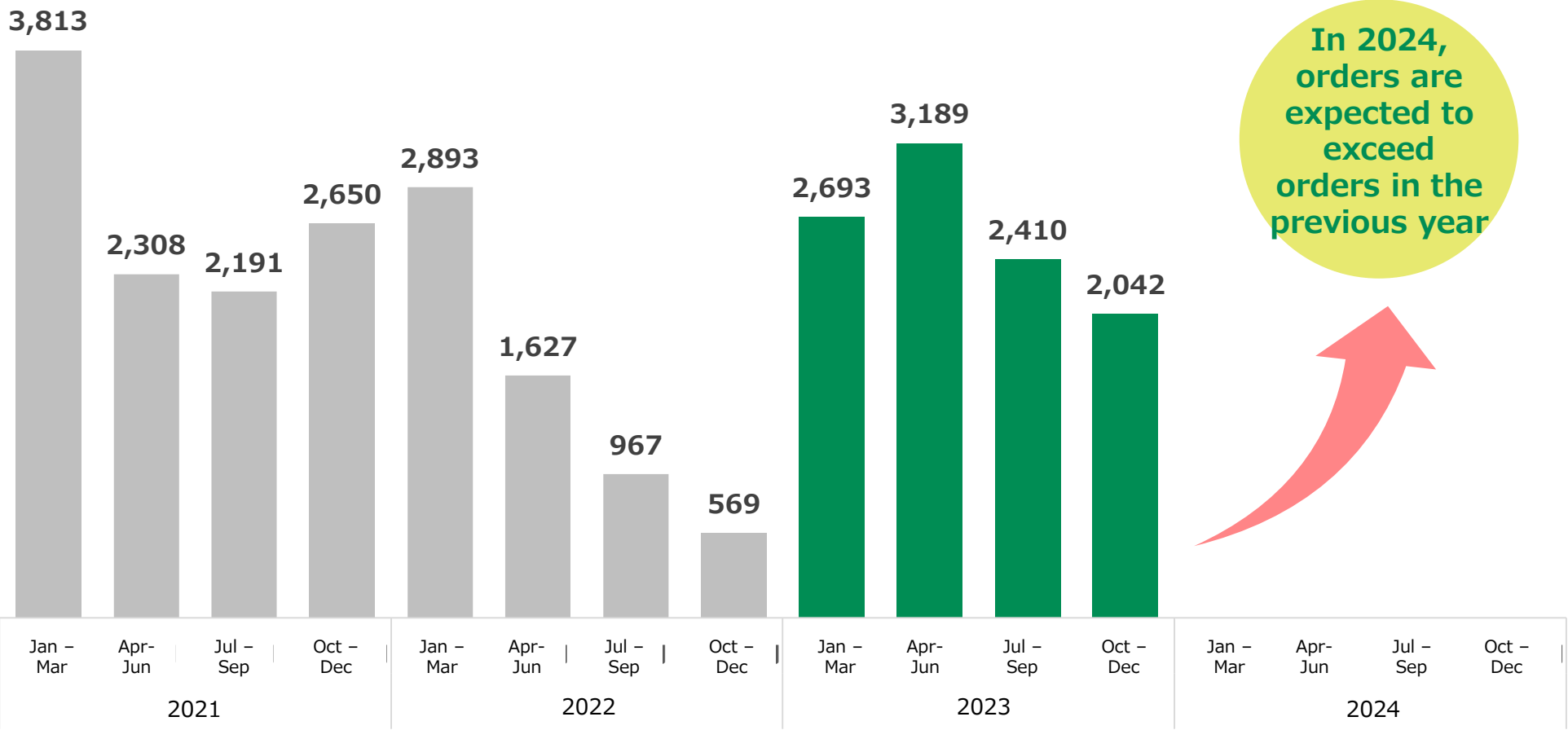
# Acceleration of Global Expansion

## Orders in the US Single Family Homes Business

Continued recovery in the number of people visiting land for sale, against the backdrop of falling mortgage rates. The number of units ordered in a single month has been increasing, with month-on-month growth for two consecutive months since December 2023. An upsurge is expected in spring, which is a period of high demand.

Changes in the number of units ordered in Sumitomo Forestry’s US single family homes business

(no. of units)





# Acceleration of Global Expansion US Single Family Homes Business

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We are moving forward with the development of business infrastructure to achieve the delivery target of 23,000 units in 2030. In Florida, U.S., which is a massive market, we will work to secure land in every metropolitan area while sharing information between Group companies, and realize further increases in the number of units delivered.

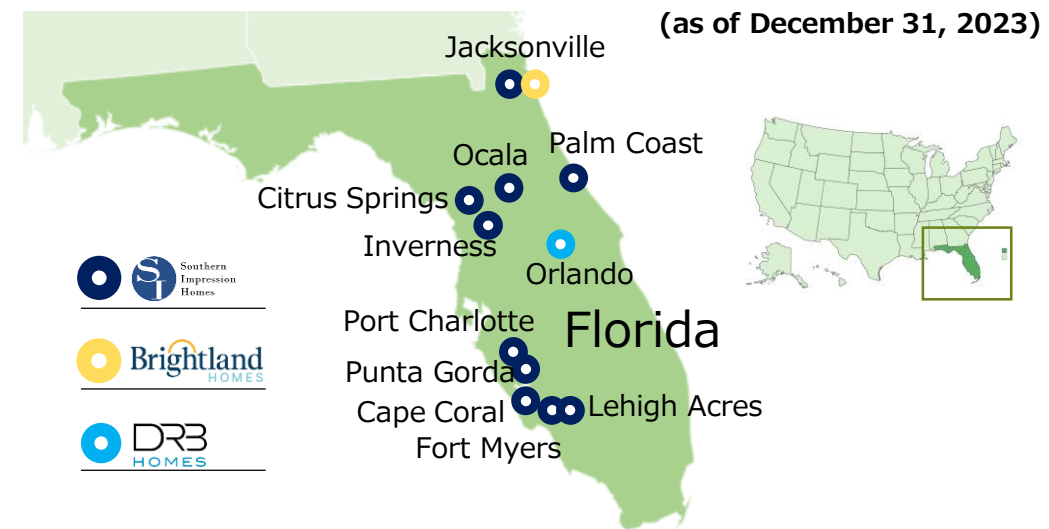
## ■ Future initiatives

- **Grow the areas of expansion** with a focus on areas where high demand is anticipated, such as Florida.
- **Strengthen support for various customer needs**, such as highly affordable housing and single family rentals.
- **Streamline construction and minimize building costs** through FITP (integrated procurement of construction materials such as trusses and wall panels).
- **Business management that is conscious of capital efficiency and profitability. Maintain sound finances** through careful land acquisition and off-balance sheet arrangements.
- **Enhance environmental performance**, for example through the development of products that meet new standards such as Energy Tax Credits.



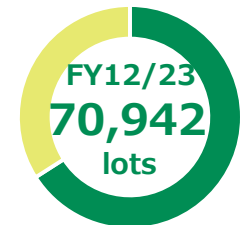
Single Family, 1-story, garage

## ■ Single family homes business expansion area in Florida



## ■ Land inventory

- **With regard to land inventory that is necessary for increasing the number of units sold, while controlling inventory risks appropriately, we have purchased over 70,000 lots** as of the end of FY12/23, including lots with contracts signed but not yet completed.



■ Lots purchased ■ Lots with contracts signed but not yet completed

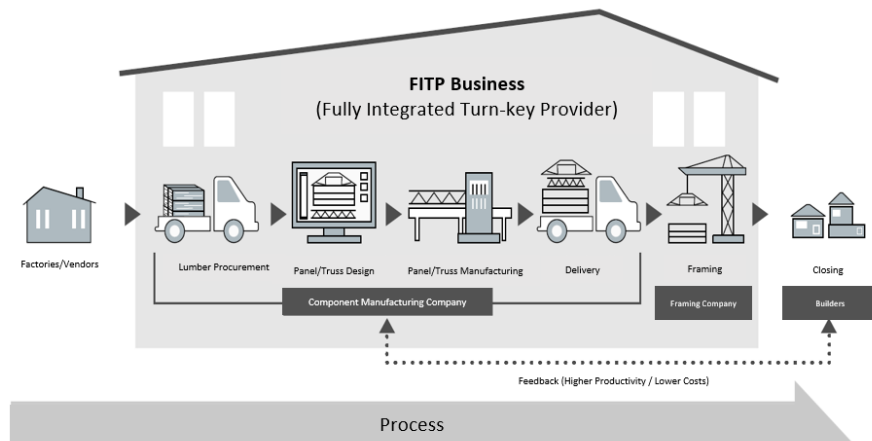
# Acceleration of Global Expansion FITP Business

Happiness Grows from Trees



**We will expand the Fully Integrated Turnkey Provider (FITP) business in the U.S., providing panel design, manufacturing, delivery, and construction as an integrated service. We will expand the coverage area, including the start of operation for a new factory in the state of North Carolina in March 2024.**

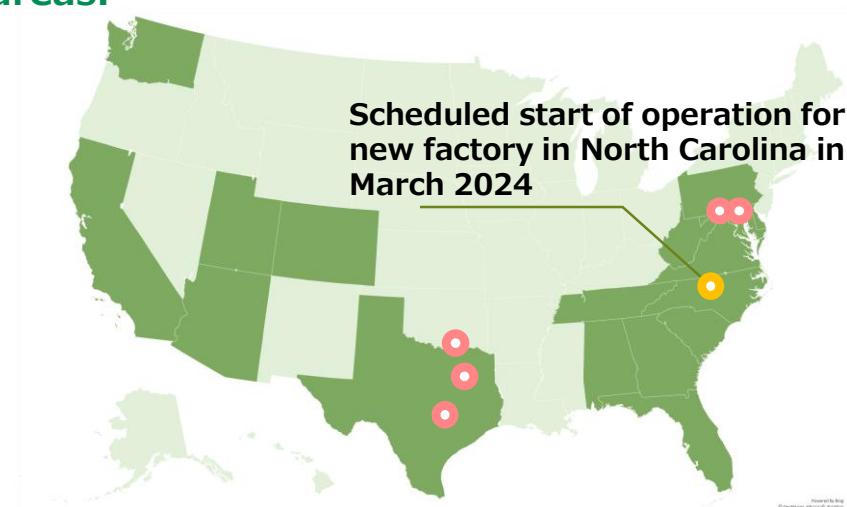
## ■ Main goals of FITP business



1. To resolve future labor shortages faced by the US housing industry, and to stabilize the supply chain.
2. To establish stable systems for material supply and construction, toward the realization of 23,000 units sold set out in our Long-Term Vision.
3. To streamline the overall construction process through wall panel development.

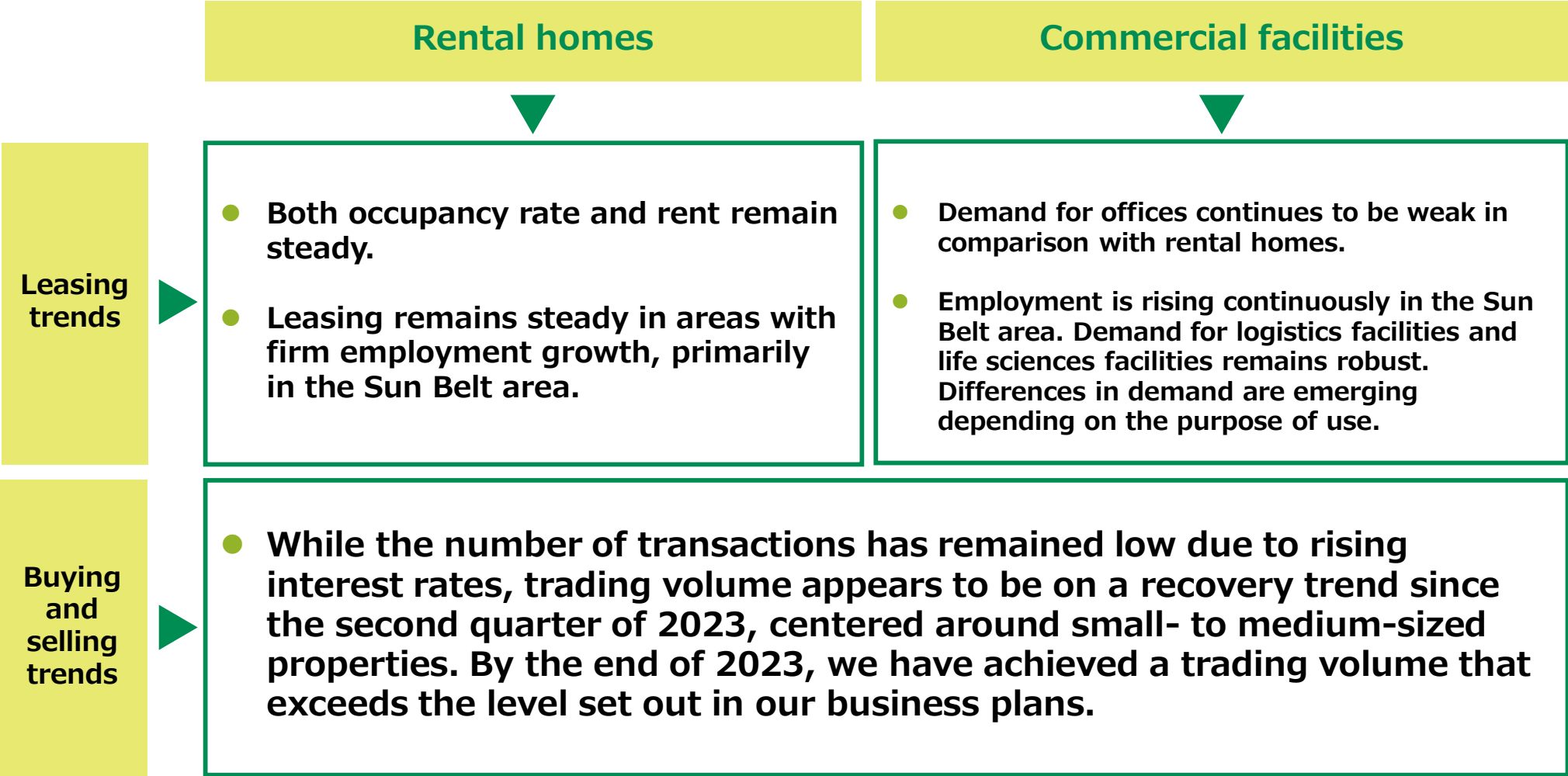
## ■ Concept of FITP business area expansion

- We will expand the number of component manufacturing plants and coverage areas.
- We will promote the gradual expansion of the FITP business in the Company's single family homes and real estate development business areas.



- Areas of Sumitomo Forestry's single family homes business and real estate development business
- Factories in operation as of December 31, 2023

The leasing of rental homes has remained steady in terms of both occupancy rate and rent. The employment environment remains robust in the Sun Belt area, where we are expanding our business. For commercial facilities, differences in demand are emerging depending on the purpose of use.



# Acceleration of Global Expansion US Real Estate Development Business

Happiness Grows from Trees



In November 2023, JPI, which is engaged in the development of multi-family housing in the U.S., became a consolidated subsidiary of the Company. **We aim to expand the commercial real estate business in the U.S. and build a stable earnings portfolio.**

## Sumitomo Forestry's subsidiaries



## Characteristics/Strengths

- Specializes in the development of high value-added multi-family housing through dialogues with residents and strong roots in the community.
- In addition to multi-family housing, also engages in the development of offices, logistics facilities, and life sciences facilities.

## Future initiatives

- Develop projects in the single family rental business as well as logistics/life sciences facilities, in addition to multi-family housing, in order to expand and stabilize earnings over the medium to long term. Develop mass timber projects in carefully selected locations for office projects.
- Expand fee revenue sources by increasing the number of in-house construction projects, etc.



- Specializes in the development of multi-family housing. Has in-house design and construction functions, and is adept at cost and quality control.
- Engages in the development of multi-family housing that strike a balance between affordability and functional/design performance.

- Became a subsidiary in November 2023.
- Develop PMI and governance system after consolidation, secure pipeline projects, and expand financing sources.

Through the acquisition of JPI, the number of multi-family housing starts by the Sumitomo Forestry Group in the U.S. has expanded significantly.✳  
Its results in 2022 **exceeded 8,000 units to rank 6th in the U.S.**

\*Total housing starts by the three Group companies (Crescent, JPI, and SFAMF) were 8,118 units in 2022, putting us in 6th place in NMHC2023, the ranking list for multi-family housing businesses across the U.S.

# Acceleration of Global Expansion US Real Estate Development Business

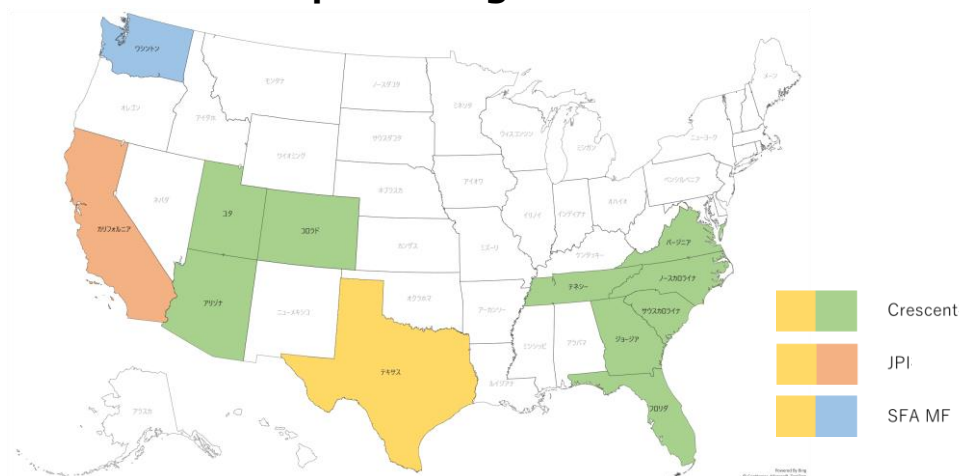
Happiness Grows from Trees



We have expanded our business area with the acquisition of JPI. We will continue to monitor current interest rate trends and market conditions, **and carefully select and commercialize excellent projects from a medium- to long-term perspective.**

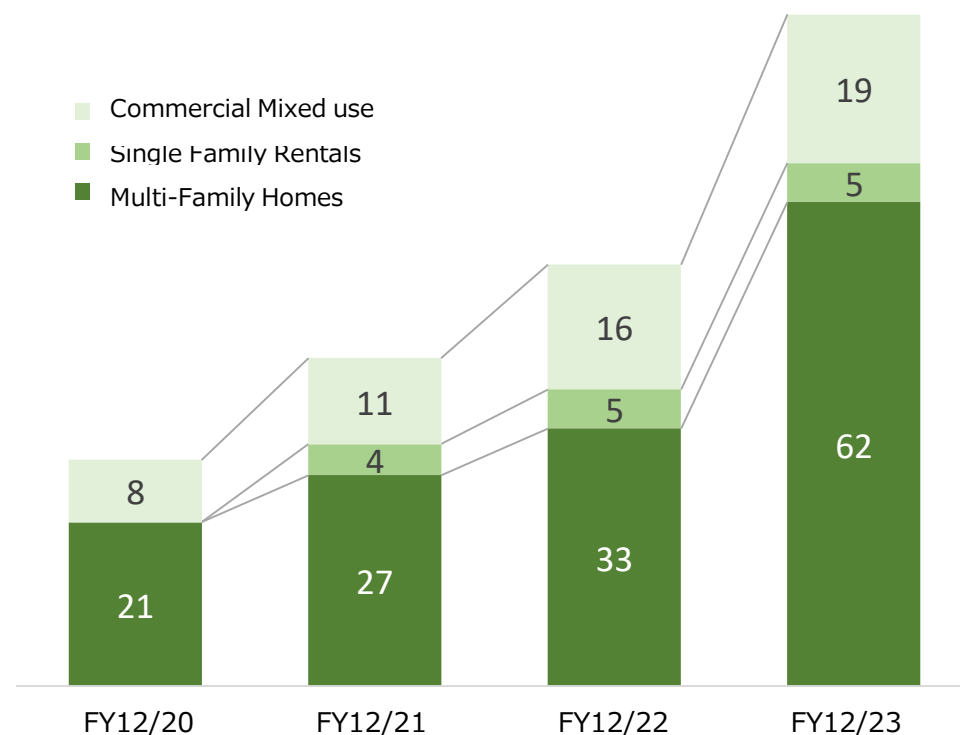
## ■ Area of expansion of the US real estate development business

The main business areas of the newly acquired JPI are Texas and southern California, which are promising markets.



## ■ Changes in number of projects

No. of projects that have started construction in the US real estate business (as of the end of each fiscal year)





# Acceleration of Global Expansion Australia Business

Happiness Grows from Trees



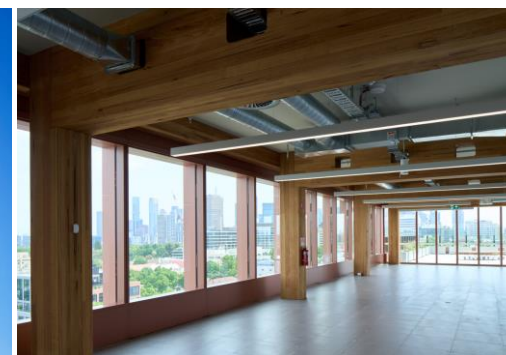
**We aim to achieve sales of 5,500 units in 2030.** In addition, we aim to stabilize profits through the landscaping, land development, and medium- to large-scale wooden construction business, and realize further profit growth across the whole of Australia.

## ■ Business environment

- The Australian economy remains firm even amidst rising interest rates. **Problems such as rising costs of construction materials and shortage of skilled workers are gradually being resolved.**
- On the other hand, affordability is declining with the impact of soaring housing prices on the back of robust housing demand.
- Differences are emerging in different areas, such as **strong order performance for Sumitomo Forestry as the population influx continues in Perth, WA.**

## ■ Future initiatives

- **Promote the development and sale of affordable products** in the order homes sector. Capture the first-time buyer market.
- **Strengthen the ready built homes business.** Purchase land while paying attention to capital efficiency through off-balance sheet arrangements and collaboration with developers.
- **Promote the establishment of a stable material supply system as well as construction streamlining measures.**



Completed construction of medium- to large-scale wooden construction, "36Wellington," in October 2023. We will harness the knowhow gained through this project to develop other projects.



Henley's housing (illustrations) that realize cost reductions from conventional products while meeting new energy-saving standards.

By continuing to carve out new business opportunities with a focus on Indonesia, Vietnam, and Thailand where we already have a presence, **we aim to grow the Asia business as the third pillar of our business, after U.S. and Australia.**

## ■ Business environment

- With expectations that the demographic bonus will continue in the ASEAN region, **economic growth** driven by the middle-class population **is anticipated**。
- The region is experiencing rapid economic development, **and there are expectations of robust housing demand backed by stable population growth going forward.**
- There is ongoing enactment of environment standards and laws in the construction sector, **and eco-friendly housing is attracting attention.**

## ■ Future initiatives

- **Continue to promote project development with a focus on landed housing development projects in the suburbs.**
- **Accelerate initiatives toward a decarbonized society** through EDGE certification, renewable energy such as solar power, etc. Also verify and consider the possibilities of wooden construction.
- **Utilize knowhow** cultivated in Japan, such as strong design capabilities, construction management, and enhanced environmental performance, **and pursue synergy.**

## ■ Topics

**Construction and sale of landed housing with solar panels as a standard fitting, in the Jakarta metropolitan area.**  
**~ First among Japanese companies, accelerating decarbonization design~**



Landed housing (illustration) in Depok City, Indonesia, that have solar panels as standard fitting.



We emphasize shared principles. Win-win relationships with partners lead to sustainable growth.

## (1) Target

- Emphasis on shared principles
- Competing in growth markets



Our targets are excellent partners that can diversify risks and grow together with us.

## (2) Acquisition style

Aim to convert to fully-owned subsidiary after a joint management period with the partner



We respect the management, employees, and principles of the companies we acquire, and aim to achieve medium- to long-term growth together with them.

## (3) Win-win transactions

- Sharing of risks and returns
- Maintain motivation for business expansion
  - Share management responsibilities



Win-Win transactions that offer benefits to both seller and buyer.

# Promotion of a More Resilient Earnings Base Domestic Housing Business

Happiness Grows from Trees

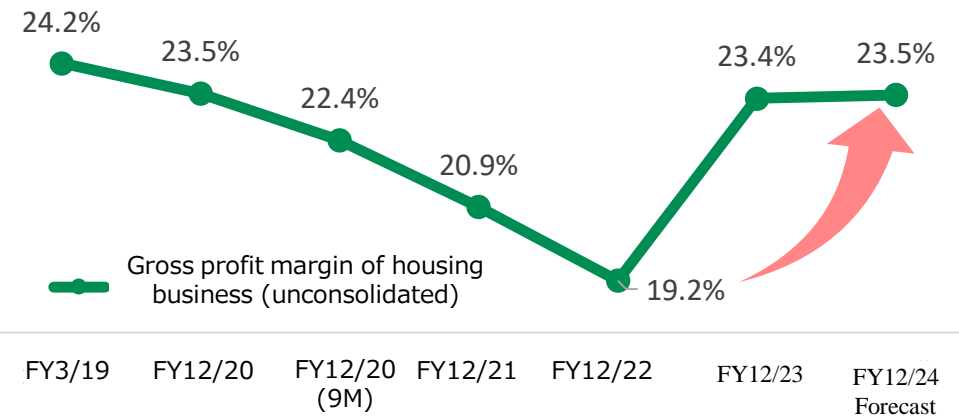


We have advanced efforts to improve profitability, **and the gross profit margin of the housing business (unconsolidated) has improved.** We will continue to advance orders and sales with a focus on added value, and at the same time roll out measures to enhance business efficiency, such as cost-cutting and DX.

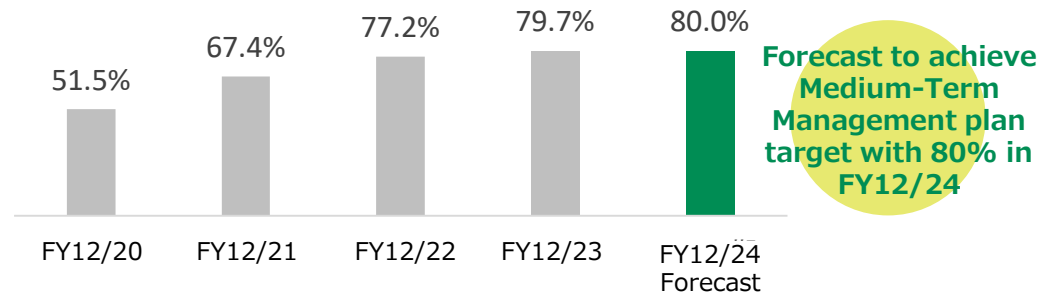
## ■ Future initiatives

- Further improve the earning capability of the custom-built housing business. Implement product strategies that can appeal to a wide range of customers. Strengthen land measures such as the introduction of land support systems.
- Improve the foundation of the rental business. Promote orders for three-floor wooden multi-family housing.
- Strengthen the businesses of Group companies and promote collaboration, such as renovation projects.

## ■ Gross profit margin of housing business (unconsolidated)



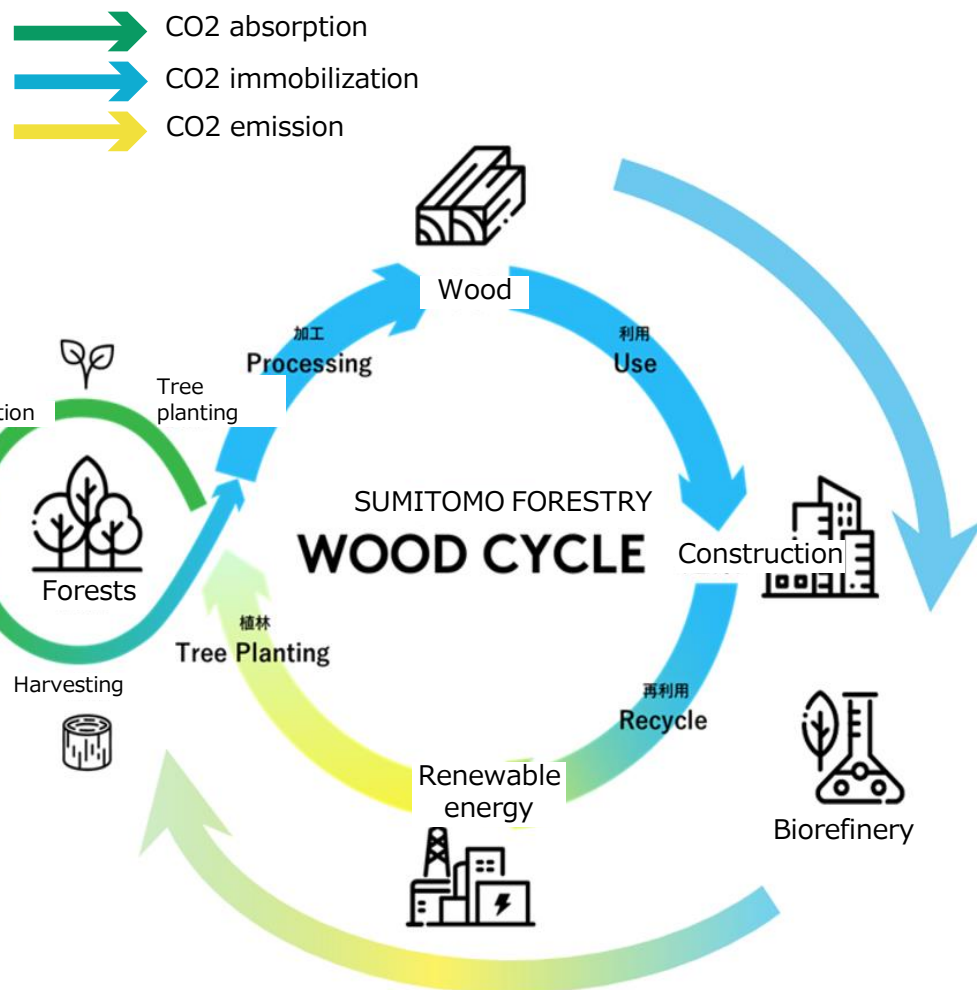
## ■ ZEH order ratio



Forecast to achieve  
Medium-Term  
Management plan  
target with 80% in  
FY12/24

# Efforts to Address Decarbonization Challenges Using Wood Resources

Happiness Grows from Trees



## Three pillars of Sumitomo Forestry's decarbonization business

### 1 Accelerate circular forestry business

- ✓ In June 2023, we formed Forestry Fund No. 1 with a total investment of 60 billion yen. We are making progress in the acquisition of specific forestry assets.

### 2 Promote "wood change"

- ✓ We are promoting timber industrial complex initiatives in multiple locations across Japan, including Shibushi City, Kagoshima.
- ✓ A new Biorefinery Promotion Office was established in January 2024. We aim to create new businesses in business domains with growth potential.

### 3 Standardize decarbonized design

- ✓ We are steadily building up a track record of wooden construction/woodification projects in Japan and abroad, such as medium- to large-scale wooden construction.
- ✓ We will continue to promote the popularization of One Click LCA, a software that efficiently visualizes embodied carbon (CO2 during construction), as well as the acquisition of the environmental certification "EPD."

# Strengthen Management Base for Sustainable Growth

**We will further strengthen our management base** with a view to achieving our Long-Term Vision “Mission TREEING 2030,” such as by enhancing governance, promoting digitalization, and strengthening human resource development.

## ■ Governance and risk management in the U.S.

Clarification of decision-making processes through the Rules Concerning Official Authority	Control of business processes through the introduction of internal controls (J-SOX)
Strengthening of internal audits by posting members of the Internal Audit Department to the U.S.	Introduction of internal whistleblowing system
Promotion of structure with three expatriate staff in each company, including one full-time Director	Implementation of management and monitoring based on the Real Estate investment Risk Management Regulations
Thorough efforts to prevent bribery	Acceleration of efforts to develop databases and visualize performance management indicators

## ■ Increasing the number of Outside Directors

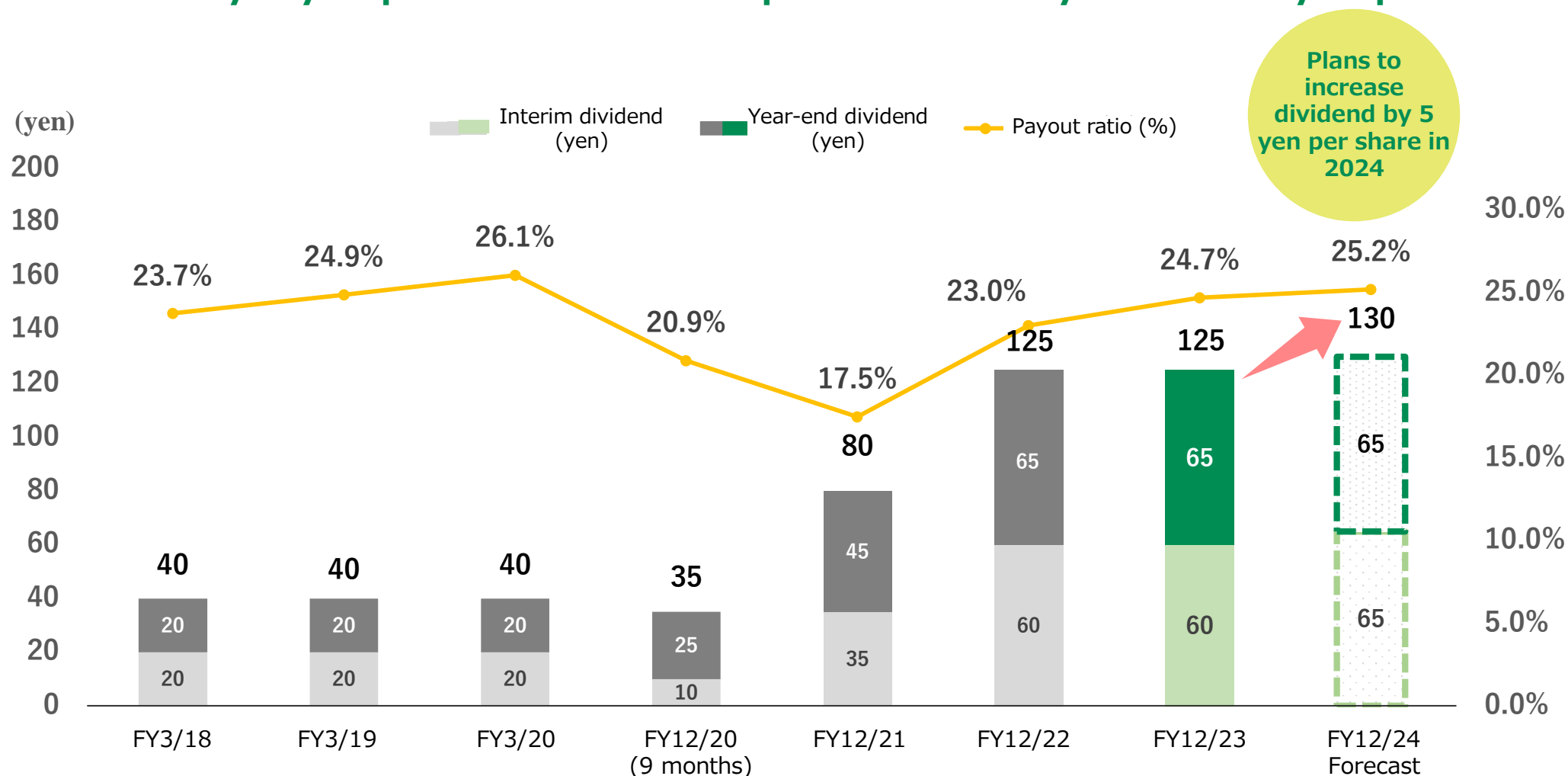
- We plan to **add one Outside Director** based on a resolution of the Ordinary General Meeting of Shareholders and Board of Directors to be held in March 2024.
- After this increase in the number of Outside Directors, the Board of Directors will comprise 10 Directors (8 men, 2 women) including 4 Outside Directors (2 men, 2 women), **and the ratio of Outside Directors will increase from 33% to 40%.**

## ■ Reducing cross-shareholdings

- At Board of Directors’ meetings held periodically, we verify if cross-shareholdings contribute to enhancing the corporate value of the Company. If the rationale or need for cross-shareholdings cannot be verified, measures are taken to reduce the cross-shareholdings in question.
- **In FY2023, 8 issues were sold, of which 6 issues were completely sold.**

## 4. Returns to Shareholders

We provide continuous and stable returns to shareholders. In the fiscal year ending December 2024, in line with profit growth, **we plan to increase annual dividend by 5 yen per share from the previous fiscal year to 130 yen per share.**



- 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.
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