

Sumitomo Forestry Group
Financial Results for the Fiscal Year Ending December 31, 2024
Conference Call with Analysts and Institutional Investors – Transcript
Progress on Medium-term Management Plan and initiatives for the future

Time and date: 13:00–14:30, Friday, August 9, 2024

Briefer: Toshiro Mitsuyoshi, President and Representative Director, Sumitomo Forestry Co., Ltd.

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The results for Q2 of the fiscal year ending December 31, 2024 are as shown. The strong US housing business led the overall performance, resulting in an increase in both sales and income. In this fiscal year, the Australian housing business, which had been suffering from sluggish performance, also showed a recovery, contributing to the increase in profit.

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This is the full-year earnings forecast. We have revised our full-year results upward, mainly because the global construction and real estate business, which is our housing business in the US and Australia and which drove our H1 results, is expected to remain strong, and the domestic housing business is also improving its profit margins.

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As shown in the graph, this fiscal year is the final year of the medium-term management plan that started in 2022. We expect to achieve our target by far exceeding the recurring income of JPY173 billion, which was also our target at the beginning of the term and has been set as our Medium-term Plan goal.

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The chart shows changes in our stock prices and various indicators since the announcement of the long-term vision in February 2022. In August, our stock price has also moved significantly in line with the overall market, with market capitalization exceeding JPY1 trillion and PER and PBR improving compared to the time of the announcement of the long-term vision. During this period, our performance was solid, mainly due to the strong performance of our US housing business, but we also believe that this is a result of the high expectations our stakeholders have for us going forward, as they appreciate the various initiatives for decarbonization that we have set forth in our long-term vision. In May 2024, the issuer rating assigned by domestic credit rating agencies was also raised from Single A to Single A-Plus in recognition of the progress made in strengthening its earnings base.

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Here, I would like to reiterate the long-term vision and medium-term management plan that our group is currently working on. Our Group has set forth a long-term vision, Mission TREEING 2030, which outlines our ideal vision for the year 2030, the target year of the SDGs, with 2022 as the first year. In our long-term vision, we aim to achieve recurring income of JPY250 billion by 2030, based on four business strategies, including decarbonization and establishment of a circular bioeconomy that maximizes the value of forests and trees. This fiscal year is the final year of our medium-term management plan. This plan is positioned as the first phase of our long-term vision. During this period, we are laying the foundation to achieve our 2030 goals by making necessary investments and starting various businesses.

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The characteristic of our group is our business activities centered around wood, a renewable natural resource. We operate the WOOD CYCLE, a value chain that spans from upstream production to downstream sales of timber. This diagram shows how Sumitomo Forestry, by engaging in forest management, wood processing, distribution, wooden construction, and wood biomass power generation, operates the WOOD CYCLE and contributes to CO2 absorption and fixation not only for the Company itself but also for society as a whole through its business activities.

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The following section describes the progress of major business initiatives.

First is our US housing business, which is also the driver of our Group's performance. The US housing market continues to face a structural housing shortage due to the suppression of housing starts following the Lehman Brothers collapse, while the population continues to grow.

Furthermore, due to the rise in interest rates since 2022, people who took out loans to buy homes before then find it difficult to sell their homes. This has led to a lock-in effect, causing a significant decrease in the circulation of existing homes. As a result, the demand for new homes remains stable. Although the US housing business will be affected in the short term by interest rate trends, we expect stable demand to continue over the medium to long term against the backdrop of a structural supply-demand gap. The US housing business got off to a strong start from the beginning of the current fiscal year as mortgage rates, which rose to over 8% last fall, remained stable at around 6% from the beginning of the fiscal year 2024, providing the market with a sense of security. Since April, mortgage rates have risen to levels around 7%, which has caused customers to move more cautiously, but now that interest rates have settled, a sense of security is returning. Wood prices have settled down, and other material prices, labor costs, and land prices have remained stable, although at higher levels than a few years ago.

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In this business environment, we will continue to pursue our strategy to build a system to supply

23,000 housing units per year in the US by 2030, as set forth in our long-term vision.

As for area strategy, we will continue to develop our business with a focus on the Sunbelt. The five group companies will increase their market shares in their respective business areas. At the same time, the Group has designated Florida, a new state that it has entered since 2023, as a priority area for the time being, and aims to expand its market share in this area.

Currently, DRB Group acquired Biscayne Homes, which has a substantial land pipeline in Florida in March and is developing a new single-family homes business. Similarly, Brightland Homes is also engaged in the new single-family homes business. Additionally, Southern Impression Homes is operating a single-family rental homes business. Together, these initiatives have laid the foundation for market expansion. In Florida alone, we will build an annual supply of 5,000 homes in the future. In order to build a system to supply 23,000 homes per year, we will basically aim for growth through organic growth, but we will also engage in M&A if there are deals with good conditions.

With regard to M&A, as in the past, based on the premise that the housing business is a local industry, we will continue to target companies that are rooted in the region and focus on whether their corporate philosophy and that of their counterpart managers match ours.

In the US housing business, the unit price and profit margin of single-family homes greatly exceeded the initial plan in Q2 results, resulting in a significant increase in profit. In addition to the relatively favorable market environment, we believe this was the result of efficient order sales, as each group company, well versed in the business area, set prices according to the supply-demand balance and made full use of necessary incentives according to sales conditions.

In addition, as an initiative for the future, we expanded the FITP area and established a system to build a stable construction system for the future. Having expanded its area, the Company plans to strengthen cooperation with existing housing group companies in the future.

Furthermore, we continue to secure the land necessary for stable business operations. We currently have approximately 80,000 blocks of land, both owned and optioned, and are ready for stable business expansion in the future.

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The US real estate development business continues to face a very difficult environment, with cap rates rising due to soaring interest rates and declining office demand.

In the Sunbelt area where we operate, the population is growing, and leasing of the rental housing we have built is relatively positive, with both occupancy rates and rents holding steady, although the situation is similar in that selling properties is not easy.

Despite these conditions, the US population continues to grow and there is a clear housing shortage, so there is solid demand in the medium to long term. Therefore, the current supply of new properties is high. The business environment is difficult, but the Group will continue to build its pipeline with an eye toward the time of market recovery based on the supply-demand gap. JPI, which joined the Group in 2023, has a high proportion of revenue from fees related to building construction and management. This allows the Company to generate stable income even without selling properties.

Therefore, we are putting in place a system that will enable us to firmly increase our performance when demand recovers while taking advantage of the complementary relationship with our existing group company, Crescent.

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Affordability in the Australian housing market remains challenging, with inflation driving up housing prices and mortgage rates remaining high.

On the other hand, we, as a housing company, have suffered a decline in profitability because we were unable to secure the profits we had anticipated at the time of signing contracts due to the ongoing high cost of materials. However, inflation has finally settled down and profit margins have improved. In addition, SPG, based in the state of Western Australia, was extremely strong, with orders for units more than doubling from the same period last year, reflecting the increase in demand in the state of Western Australia, where land is relatively inexpensive, that has been noticeable since H2 of last year. The Australian housing market, like that of the US, is an attractive market that is expected to experience ongoing demand due to the ongoing housing shortage caused by population growth. The Group is also differentiating itself through advanced efforts to reduce its environmental impact, such as by becoming the first major builder to develop zero-emission houses at our mainstay company, Henley. In addition to the single-family homes business, the Company has launched a new multifamily housing project for rent in Brisbane and is also engaged in various related businesses such as residential land development and landscape business and will continue to build a solid business foundation in Australia.

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Our development efforts in Asia are currently focused on Indonesia, Vietnam, and Thailand.

The ASEAN area is a very attractive market, where economic development and strong housing demand are expected against a backdrop of population growth. In the ASEAN region, which has high growth potential, we will continue to supply high-quality, decarbonized housing by leveraging the design approach and other housing know-how that we have cultivated in Japan.

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From here on, we will discuss our domestic operations.

First is the housing business. In the housing business, the number of custom-built houses completed and delivered in the current fiscal year fell short of last year's results due to a lack of growth in orders received in the previous fiscal year from the stagnant owner-occupied home market, resulting in lower sales and profits but an improvement in profit margins. In addition to the implementation of various high-added-value proposals including ZEH, which were accepted by customers, the unit price increased due to the price revision implemented last year, which covered various cost increase factors such as material prices and logistics costs, resulting in an improved profit margin. In terms of orders, in addition to orders for high-added-value, high-priced homes, efforts to sell Forest Selection, a

planning-type product with low design costs, were successful in increasing orders in the volume zone of around JPY35 million, and the number of homes ordered exceeded that of the same period last year. Our efforts for the affluent market include the expansion of the Grand Estate Design Project. From among the designers belonging to our housing division, 112 designers with refined sensibilities and design skills are certified as chief designers to propose homes that respond to the desires and particular needs of our customers. We will continue to provide residences that meet the increasingly diverse values and lifestyles of our customers and their particular needs. In addition, the Construction Partner Promotion Center started operation in July 2024 to secure construction capabilities for the housing business. In addition to providing consultation on all aspects of management, such as business succession and securing personnel, from subcontractors, which are indispensable for the construction of houses, the center also serves as a point of contact for introducing new partners to work on our construction sites.

Our goal is to solve issues such as the anticipated shortage of housing construction workers and to expand and promote our business together with our cooperating builders.

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In the timber and building materials business, we launched the first phase of a timber industrial complex in Fukushima Prefecture, as outlined in our medium-term management plan.

Here, we will actively promote the use of domestic timber as dimension timber, one of the housing materials with a high ratio of imported timber use, and thereby aim to build a stable supply system for structural materials that is less susceptible to the supply and demand of imported timber. We plan to start operation of a new plant in March 2026.

In the timber and building materials business, we are focusing on initiatives to provide solutions to the challenges faced by our customers in response to the changing market environment.

One such software is JUCORE Estimate, which centrally manages property information, quotation details, order prospects, budget performance management, and other data in the building materials distribution industry. This can greatly improve productivity for building materials distributors by streamlining the cumbersome quotation process.

Together with One Click LCA, which contributes to the spread and standardization of carbon neutral design, structural design support services, and Structural Express, we will focus on expanding our services to meet the needs of the times, solve industry issues, and promote business innovation.

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This is the progress of medium- to large-scale wooden constructions that are currently under way. In its long-term vision, the Sumitomo Forestry Group is promoting the WOOD CYCLE, Sumitomo Forestry's value chain, in order to shift from steel and concrete to wood construction, claiming that this will lead to the decarbonization of the entire planet, thereby promoting the use of wood in the world. In this context, the promotion of medium- to large-scale wooden constructions is a symbolic effort in terms of the shift to wood construction, and as you can see, we are promoting it both

domestically and internationally. We plan to continue to expand both the number of properties and the area.

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The forest fund established in June 2023 is currently making good progress in acquiring forest assets. The fund will be funded by 10 Japanese companies, including our company, and will have assets of JPY60 billion, with a planned investment period of 15 years. By properly managing forests, in addition to revenue from wood production, we aim to contribute to the realization of a decarbonized society by increasing CO2 absorption capacity, generating an average of 1 million tons of new CO2 absorption per year, and creating and returning high-quality carbon credits. Currently, we are acquiring forest assets mainly in North America, and have already completed the acquisition of 46,000 hectares of forests, equivalent to approximately 20% of our plan on a value basis, and are on track to acquire approximately 80,000 hectares, including those under negotiation.

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This section describes the Company's evaluation by an external evaluation agency regarding ESG. CDP, a global ESG evaluation agency, has selected us as a Climate Change A LIST company, the highest rating, for eight consecutive years. We believe that our efforts to balance environmental responsiveness and corporate value enhancement based on our long-term vision and our efforts to engage in activities to reduce greenhouse gas emissions and mitigate climate change through our business activities have been highly evaluated. We will continue to contribute to the decarbonization of society through our business by turning the WOOD CYCLE around trees, and we will strive to earn further recognition by raising all levels of ESG.

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Finally, I will discuss shareholder returns. As for dividends, we plan to increase the annual dividend by JPY15 from the JPY130 per share announced at the beginning of the fiscal year to JPY145 per share, in line with the fact that this fiscal year's performance is expected to exceed the recurring income target set out in the plan at the beginning of the fiscal year. For Q2, we plan to increase the dividend to JPY65 per share, as originally planned, and the year-end dividend to JPY80 per share, an increase of JPY15 per share. The Company recognizes that returning profits to shareholders is one of its highest priorities and makes it a basic policy to do so in a continuous and stable manner. We will continue to strive to improve return on equity and expand capital adequacy, and at the same time, we will return profits to shareholders at an appropriate level according to the status of profits, comprehensively taking into account the balance among the management base, financial condition, cash flow, and other factors.

Thank you very much for your attention.

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