

Sumitomo Forestry Group
Financial Results for the Fiscal Year Ended December 31, 2024
Conference Call with Analysts and Institutional Investors – Transcript
Mission TREEING 2030 Phase 2 / Medium-Term Management Plan
and FY12/24 Financial Results Briefing - President's Presentation Script

Time and date: 13:00–14:30, Friday, February 14, 2025

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

[Introduction]

Thank you all for taking the time to attend our briefing today.

Today, I will primarily explain the content of our Medium-Term Management Plan for the three years from 2025 to 2027, which represents Phase 2 of our long-term vision "Mission TREEING 2030."

The details of our FY December 2024 financial results and FY December 2025 forecast will be explained later by Managing Executive Officer Otani.

[Page 3 - Long-term Vision]

Please look at page 3. In February 2022, we formulated our long-term vision "Mission TREEING 2030" with a view toward where we should be in 2030. As we enter Phase 2 this year, I would like to explain again our group's fundamental philosophy through our value chain "Wood Cycle."

Our group aims to simultaneously realize three values through our business activities: "Value for our planet" "Value for People and Society," and "Value for the Market Economy."

[Page 4 - Wood Cycle]

This is Sumitomo Forestry's value chain "Wood Cycle," which has gained recognition both internally and externally during the three years of Phase 1.

By taking the initiative to globally circulate the "Wood Cycle" across our business fields of "Forests," "Wood," "Construction," and "Energy," our group demonstrates how we contribute to decarbonization not only for ourselves but for society as a whole.

Let me explain how this business activity through the "Wood Cycle" circulation contributes to realizing a decarbonized society.

[Page 5 - Decarbonization Impact]

This visualizes how sustainable forestry - planting trees, harvesting them, and replanting - along with supporting timber production and promoting wooden construction contributes to social

decarbonization as "Decarbonization Impact."

The graph shows the cumulative effect over time of forest CO₂ absorption, long-term carbon sequestration in wood and wooden buildings, and emissions reduction through material substitution - replacing steel and concrete with wood in construction and fossil fuels with wood biomass in energy. Let me explain more specifically how our businesses supporting the "Wood Cycle" build up decarbonization impact.

[Page 6 - Non-Harvesting Scenario]

Let me explain using the example of Japanese cedar in our company-owned forests in Miyazaki Prefecture.

This graph shows the accumulation of CO₂ absorbed by forests in a scenario where forests are left unharvested.

Forest absorption peaks when trees are around 30-40 years old, and net absorption stops increasing after 50 years.

[Page 7 - Forests]

We distinguish between conservation forests and working forests. In working forests, we harvest trees at a certain age - 50 years for Japanese cedar - and then reforest. The newly grown young trees absorb significant amounts of carbon.

With 50-year harvest cycles, annual harvesting is limited to 2% of the total. During reforestation, we replace trees with low-pollen or pollen-free Japanese cedar varieties.

[Page 8 - Forests]

After harvesting, CO₂ already absorbed remains sequestered in stumps, remaining branches, leaves, and root systems left in the forest.

[Page 9 - Timber and Construction]

Next, by utilizing harvested timber for construction and furniture products, carbon remains sequestered for extended periods, adding to the decarbonization impact. This follows the HWP (Harvested Wood Products) concept agreed upon in the Paris Agreement.

[Page 10 - Construction]

Furthermore, promoting wooden construction and wood utilization in buildings leads to emission reductions compared to using steel and concrete, which emit large amounts of CO₂ during manufacturing.

[Page 11 - Energy]

Finally, in the energy sector, substituting fossil fuels with wood biomass-derived materials leads to emission reductions during disposal/combustion, enhancing the decarbonization impact.

[Page 12 – Summary of Decarbonization Impact]

By circulating the "Wood Cycle," conducting sustainable forest management and utilizing wood resources for construction and energy, we can achieve significant decarbonization impact through three effects: absorption, sequestration, and reduction.

[Page 13 - Three Values]

From the perspective of Sumitomo's business spirit of "benefit for self and others," our initiative in circulating the "Wood Cycle" promotes environmental conservation including biodiversity, creates economic value, and contributes to people and society, leading to broader social change.

[Page 14 - Value Created by Each Business]

Here we have plotted the three values provided by the "Wood Cycle" from the perspectives of "Forest," "Wood," "Construction," and "Energy."

[Page 15 - Global Development of "Wood Cycle"]

Our company is expanding the "Wood Cycle" multinationally, not just domestically, to create "Value for our planet," "Value for People and Society," and "Value for the Market Economy."

[Page 16 - Opening Section Summary]

To conclude this opening section, I want to reaffirm our commitment to achieving "Mission TREEING 2030" by sustainably growing each business segment while providing value for the environment, society, and economy.

[Page 18 - Consolidated Financial Results Trends]

Please look at page 18. I will explain the results of our previous Medium-Term Management Plan from 2022 to 2024.

In the final year of the previous Medium-Term Management Plan (FY12/24), our consolidated results exceeded ¥2 trillion in net sales for the first time, and recurring income reached ¥198.0 billion, surpassing our target of ¥173.0 billion by ¥25.0 billion, marking a record high profit.

[Page 19 - Segment Performance Trends]

Page 19 shows performance by business segment. Over these three years through 2024, the Global Construction and Real Estate segment, centered on the U.S. housing business where we actively invested, drove our overall performance.

[Page 20 - Financial Indicators Trends]

As shown on page 20, regarding our KPI financial indicators, while we achieved our targets for equity ratio and net D/E ratio which measure financial soundness, our ROE, which indicates profitability

and efficiency, came in at 13.9%, falling short of our target.

This was partly due to the expansion of foreign currency translation adjustment account within shareholders' equity, resulting from yen depreciation amid overseas business expansion.

[Page 21 - Achievements and Challenges (By Segment)]

Please look at page 21, which summarizes our achievements and challenges by business segment.

In the Timber and Building Materials business, while working to move away from our traditional dependence on distribution margins, we launched various new services aimed at industry digital transformation.

In the Housing business, we gained market share as customers recognized our ability to offer products meeting a wide range of needs.

In the Global Construction and Real Estate business, we expanded our operations in the U.S. through single-family homes and multi-family housing, entered the FITP business, and established top market share in the Australian single-family housing business. Going forward, we will work on diversifying and stabilizing real estate development revenue and creating group synergies.

The Environment and Resources business faced challenging conditions and profits, but we launched our first forest fund and began a pilot project for peatland management technology.

[Page 22 - Achievements and Challenges (Decarbonization Business Initiatives)]

Page 22 summarizes our progress on "Decarbonization Initiatives," a key theme of our previous Medium-Term Management Plan.

Under "Acceleration of Circular Forest Business," we are making steady progress in acquiring forest assets through our first forest fund. Our group's forest ownership and management area has reached 366,000 hectares, and including contracted assets, we have already exceeded our 2030 target of 500,000 hectares as of the end of last year.

For "Promotion of Wood Change," we established "Kowa-no-mori," our first timber industrial complex in Iwaki City, Fukushima Prefecture, with commercial production scheduled to begin in 2026.

Regarding "Standardization of Decarbonized Design," our annual housing supply, combining domestic and overseas single-family and rental housing, has reached nearly 25,000 units. In addition to our core single-family housing business, we have accumulated achievements in medium- to large-scale wooden office buildings in the U.S., Australia, UK, and Japan.

[Page 23 - Stock Price Trends]

On page 23, in recognition of our performance and business activities, our stock price rose approximately 3.5 times from its level at the start of the previous Medium-Term Plan in January 2022, significantly outperforming domestic and overseas industry peers. Although our stock price has entered an adjustment phase since then, our market capitalization remains above ¥1 trillion, with a

PBR of approximately 1.3x.

[Page 25 – Mission TREEING 2030 Phase 2]

From page 25, I will explain our new three-year Medium-Term Management Plan for FY2025 through FY2027, which represents Phase 2 of our long-term vision "Mission TREEING 2030."

In this new Medium-Term Management Plan Phase 2, under the theme "Three Years of Reform and Implementation for Dramatic Growth," we will achieve sustainable and steady profit growth by maintaining financial soundness while continuing proactive investments.

[Page 26 – Mission TREEING 2030 Phase 2 Basic Policies]

On page 26, we have outlined five basic policies. We will continue to deepen global expansion, strengthen our management base to enhance earning power, and promote efforts to address the decarbonization challenge and ESG integration through our business activities.

[Page 27 - External Environment and Domestic/Overseas Housing Market Conditions]

Looking at page 27, while the domestic housing market is expected to shrink due to population decline, rental housing and renovation markets are expected to see stable demand for the time being, supported by inheritance tax planning needs and asset effects.

In the U.S. and Australian housing markets, while there is solid underlying demand due to housing shortages amid population growth, there are concerns about rising construction material costs due to additional U.S. tariffs, rising labor costs from chronic labor shortages, resurgent inflation, and persistently high interest rates.

[Page 28 – Consolidated Performance Targets]

As shown on page 28, we are targeting net sales of ¥3,220.0 billion and recurring income of ¥280.0 billion in FY2027, the final year of our new Medium-Term Management Plan Phase 2.

[Page 29 – Segment Performance Targets]

Page 29 shows our segment-specific plans under the new Medium-Term Management Plan Phase 2. We will continue to pursue revenue growth across all segments, with the Global Construction and Real Estate business as our core driver.

[Page 30 - High EPS Growth Rate and ROE Exceeding Cost of Shareholders' Equity]

Looking at page 30, we are targeting a high compound annual EPS growth rate of 14.7% during the Medium-Term Management Plan period, and we plan to achieve an ROE of 15.5%, significantly exceeding our cost of shareholders' equity of 7.4%.

[Page 31 - Capital Allocation]

Page 31 shows our cumulative three-year capital allocation plan.

Through operating cash flow from business activities and financing, we have developed a balanced plan between proactive growth investments and shareholder returns.

Regarding our dividend policy, we will shift from our previous stable dividend policy to a clearer approach that specifies both a dividend payout ratio and minimum annual dividend per share.

[Page 32 - Growth Investment and Real Estate for Sale]

Looking at page 32, our investment over the previous Medium-Term Management Plan totaled ¥326.4 billion, reflecting active M&A in decarbonization-related and growth areas such as the U.S. and Australia.

In the new Medium-Term Management Plan Phase 2, we will continue to make proactive investments toward achieving our long-term vision. We plan to invest ¥413.0 billion over three years in areas including our core U.S. and Australian single-family housing businesses, multi-family rental housing, medium- to large-scale wooden construction real estate development, and expansion of domestic and overseas wood building materials manufacturing facilities.

[Page 33 - Shareholder Return Policy]

As shown on page 33, we have clarified our shareholder return policy for the new Medium-Term Management Plan period with a "dividend payout ratio of 30% or higher" and a "minimum annual dividend per share of ¥150." Accordingly, we plan to increase this year's dividend by ¥37 to an annual dividend of ¥182.

[Page 34 - Timber and Building Materials Business]

Please turn to page 34. From here, I will explain the strategies for each business, starting with the Timber and Building Materials business.

While domestic housing starts continue to decline, we will move away from traditional dependence on distribution margins and actively promote the use of domestic timber.

Starting with "Kowa-no-mori" in Iwaki City, Fukushima Prefecture, we will expand our timber industrial complexes and build an integrated manufacturing and sales business model that considers both the promotion of wooden construction in Japan and approaches to export markets.

With the planned reduction of Building Code Article 4 exceptions and mandatory energy efficiency standards coming into effect this fiscal year, we will promote support services for builders and contractors through "Home Express Structural Design."

Additionally, we will work to create and implement solution-based functions and services that enhance the value-added of our timber and building materials business, such as "JUCORE Estimation" and "Home Eco-Logistics" which help reduce operational burden in building materials distribution and logistics industries, as well as "One Click LCA" which visualizes CO₂ emissions during construction.

Furthermore, we will accelerate the creation of supply chain businesses centered on housing and real estate development operations in the U.S. and Australia, based on our Japanese business model.

[Page 35 - Housing Business]

Looking at page 35, while the domestic housing market is expected to contract due to declining population and household numbers, the business environment will become increasingly challenging due to worsening labor shortages, rising material costs, and upward pressure on mortgage interest rates.

In this environment, we will pursue a price segment-based sales strategy through the enhancement of cost-competitive semi-custom products like Forest Selection and single-story houses, as well as the promotion of our "Grand Estate Design Project" for affluent customers. Additionally, we will steadily increase our market share by establishing a group-wide land acquisition system that includes strategies for first-time buyers and spec homes.

We will rapidly advance fundamental structural reforms and productivity improvements through digital transformation (DX), utilizing accumulated real data digitized for business transformation, and customer-centric innovation.

We will strengthen our business foundation in areas with growth potential, including rental housing, detached spec homes, renovation, real estate brokerage, rental management, and environmental greening, aiming for recurring income of ¥60 billion by 2030.

[Page 36 - Global Construction and Real Estate]

Page 36 shows the growth and planned expansion of our Global Construction and Real Estate business. We will continue to expand our business centered on the U.S. and Australia, while promoting detached housing and multi-family housing development projects in Asia and the UK, as well as medium and large-scale wooden construction projects both domestically and internationally.

[Page 37 - Global Construction and Real Estate / U.S. Single-Family Housing Business]

Please turn to page 37. The U.S. single-family housing business has become a major pillar of our Group's revenue.

With stable demand expected in the single-family housing business, we aim to double our current supply to 23,000 units annually by 2030.

While in the short term we will be affected by persistently high mortgage interest rates and existing home market trends, we will continue proactive investments for expansion in growth markets.

Centered on our five U.S. builders, we aim to expand our business through organic growth and M&A in the growth markets known as the Sunbelt region. We own or control a total of 80,000 lots of land essential for growth and will continue to secure prime properties.

[Page 38 - Global Construction and Real Estate / Real Estate Development Business]

As shown on page 38, our real estate development business, centered on multi-family rental housing and operated through our two developers, Crescent and JPI, has faced challenges under difficult capital market conditions due to high interest rates.

However, multi-family housing occupancy rates remain stable due to single-family housing supply shortages and affordability issues. While monitoring interest rates and market trends, we will selectively advance quality projects from a medium to long-term perspective.

Furthermore, we aim to build a stable revenue model combining capital gains from property sales with fee income from our general contractor division and rental income.

As the global construction industry accelerates initiatives toward carbon neutrality, demand is increasing for mass timber construction, where we have strengths. We will promote sustainable real estate development projects focused on decarbonization in the U.S., Australia, Europe, and Japan.

[Page 39 - Global Construction and Real Estate Division / FITP Business]

Looking at page 39, in the U.S. housing industry, labor shortages are causing structural problems such as soaring labor costs and extended construction periods.

To address these challenges, we are promoting our FITP business, which provides integrated services from design of roof trusses and wall/floor panels through manufacturing, delivery, and installation. We are gradually expanding this to areas where we operate single-family housing and real estate development businesses.

We will digitize and integrate data from design through construction, improving business processes, construction site productivity, and construction quality.

[Page 40 - Global Construction and Real Estate / Australia Single-Family Housing Business]

Page 40 addresses Australia, where robust housing demand is expected to continue due to ongoing housing supply shortages amid population growth.

In our Australian single-family housing business, last year's acquisition of Metricon has brought our annual supply to over 7,000 units, establishing an overwhelming top share nationwide. Beyond expanding unit sales, we have broadened our product lineup through Metricon's affordable second brand business, townhouses, and products for affluent customers.

In addition to advancing post-Metricon PMI, we will realize synergies among our four builders through leveraging economies of scale in joint material procurement, construction method development, core system integration, and sales method transformation. We aim to achieve annual sales of 10,000 units by 2030 while improving profitability.

[Page 41 - Domestic and Overseas Housing Sales Targets]

Page 41 summarizes our domestic and overseas housing sales plans for FY2027, the final year of our new Medium-Term Management Plan Phase 2. We will steadily execute strategies for each country and business.

[Page 42 - Environment and Resources Business]

Page 42 explains Environment and Resources business. High-quality forest-derived carbon credits are seeing increasing demand as society accelerates efforts toward carbon neutrality.

Furthermore, growth potential is increasing in the biorefinery sector, including SAF (Sustainable Aviation Fuel) and biodegradable plastics as alternatives to fossil fuels, beyond demand for wood biomass fuel for power generation.

Going forward, we will expand properly managed forest areas both domestically and internationally using forest fund capital, while developing sustainable forestry infrastructure and maximizing the value of wood resources, including biomass power generation and biorefinery businesses.

[Page 43 – Environmental: Environment]

On page 43, our Group conducts global business activities centered on "wood," and through this “Wood Cycle”, we contribute to a decarbonized society by increasing forest CO₂ absorption and achieving long-term carbon sequestration through wood products and wooden construction.

While we obtained SBT certification in August 2018, we newly acquired SBT certification in November last year, setting short-term targets through 2030 with the goal of achieving net-zero emissions by 2050.

In addition to decarbonization initiatives toward carbon neutrality, we will accelerate efforts toward biodiversity and nature conservation/restoration, contributing to the realization of nature-positive outcomes.

[Page 44 – Social: People and Society]

Through the initiatives outlined on page 44, we aim to achieve sustainable growth of individual employees and organizational capabilities by focusing on human resource development, organizational culture reform, and health management promotion to enhance employee engagement toward achieving our long-term vision.

[Page 45 – Governance: Governance]

On page 45, regarding strategic shareholdings, the Board of Directors regularly examines returns on individual stocks and trading relationships with investment partners to verify the rationality and necessity of holdings.

The market value of these holdings has decreased to approximately 8% of net assets as of the end of the previous period, and we will continue to reduce holdings while discussing their rationality.

Regarding the officer compensation system, in line with increased profit levels, we will raise the base profit for variable compensation from ¥100 billion to ¥150 billion.

For the performance-linked stock compensation comprising 15% of total compensation, we will change the ratio from 2/3 company stock price growth rate and 1/3 greenhouse gas reduction target achievement rate to 1/3 and 2/3 respectively under the new medium-term plan, strengthening our emphasis on sustainability.

Additionally, we have introduced measures to enhance employee awareness of business performance and stock price appreciation by expanding the employee shareholding association and establishing a new employee stock compensation system to foster a sense of belonging.

[Page 46 - Alliance with Kumagai Gumi]

Page 46 explains our collaboration with Kumagai Gumi. Since the start of our business and capital alliance in 2017, both companies have regularly held business collaboration promotion committees and advanced cooperation. In the contract business, we have established two pillars: "with TREE" for medium- to large-scale wooden construction and environmental greening construction. The main achievements in collaboration areas are as shown in the materials.

[Page 47 – Revision of Final Year Targets for Long-Term Vision (FY12/2030)]

Please look at page 47. We will raise our numerical targets for 2030, the final year of our long-term vision, based on the results of our previous medium-term plan.

While we initially announced a recurring income target of ¥250 billion for 2030 at the time of our 2022 announcement, we will raise this to ¥350 billion.

This increase reflects our expanded business foundation, including growth in our core U.S. single-family housing business revenue, establishment of a two-developer structure in multi-family housing through the acquisition of JPI, construction of a vertical integration model through FITP business, and establishment of top market share in Australia through the Metricon acquisition, aiming for further enhancement of corporate value.

We will continue to promote our business toward achieving our long-term vision "Mission TREEING 2030," rotating our "Wood Cycle" centered on "forests," "wood," and "construction" fields, pursuing sustainable growth and realization of a decarbonized society by maximizing the value of forests and wood.

Thank you for your attention.

-END-