

Sumitomo Forestry Group
Regarding the Acquisition of Shares (Subsidiarization) of Tri Pointe Homes, Inc.
Conference Call with Media and Analysts – Q&A

Time and date: 18:00 – 19:30, Friday, February 13, 2026 (Keidanren Kaikan, 8th Floor)

Answers:

Toshiro Mitsuyoshi, Representative Director, President and Executive Officer, Sumitomo Forestry Co., Ltd.

Nobuyuki Otani, Director, Managing Executive Officer, Sumitomo Forestry Co., Ltd.

Atsushi Iwasaki, Managing Executive Officer, Divisional Manager of Overseas Housing Division, Sumitomo Forestry Co., Ltd.

Q

Given that the domestic housing market in Japan is currently shrinking, please explain again the rationale of the acquisition.

A

In Japan, the number of new housing starts have fallen below 750,000 units, which is less than half of the 1.5-1.6 million units recorded in the 1990s. According to a think tank, the figure is expected to decline further to around 600,000 units by FY2040. Despite this backdrop, we have maintained annual starts of approximately 8,000 custom-built detached houses, with market share recently rising to nearly 4%. Going forward, we aim to achieve stable growth domestically by positioning new custom-built detached housing businesses and renovation businesses as two complementary pillars.

Meanwhile, we plan to expand our housing operations into the U.S., Australia, and parts of ASEAN countries, where population growth and housing shortages underpin significant growth potential. Under our long-term vision toward 2030, we have set a target of supplying a total of 65,000 units across Japan, the U.S., and Australia, with the U.S. accounting for 23,000 units. The acquisition of Tri Pointe Homes (hereinafter TPH) will represent an important step toward strengthening the presence of our overseas housing business and earnings contribution in the U.S. housing market. What is important is the know-how we have accumulated over more than 50 years through our custom-built detached housing business in Japan. By leveraging strengths such as reduction in construction period, design and construction technologies, and human capital, we intend to deploy these capabilities on a company-wide basis to drive the growth of our overseas housing operations.

Q

Does “WOOD CYCLE” initiative lead to preferential interest rates or more favorable financing terms when borrowing from financial institutions overseas?

A

When we acquired 30,000 hectares of forestland in New Zealand, we financed the transaction through green bonds as an environmentally focused financing instrument. In addition, with respect to our plantation forestry projects in Indonesia and Papua New Guinea, we have also begun discussions with international institutions such as the IFC and the ADB, not only regarding loans but also including the possibility of granting subsidies. We recognize that initiatives in the forestry sector in developing countries are highly regarded internationally.

In Japan, meanwhile, discussions are underway regarding the introduction of building-related LCA regulations, which are scheduled to be implemented in 2028. This framework will visualize CO₂ emissions across the entire life cycle of buildings, which we believe will clearly highlight the advantages of wooden construction. While the evaluation framework for the carbon sequestration effects in timber has not yet been determined, if such effect is also incorporated into the evaluation framework, the superiority of wooden will be more widely recognized. This could lead to a wide range of support, including the granting of credits, regulatory ease, and financing options beyond traditional subsidies and loans.

Q

In the U.S., the average age of first-time homebuyers has risen to the 40s. Are there any subsidies or other support for major demographic groups, including Millennials and Gen Z?

A

In the U.S., housing prices surged after the COVID period, followed by a rise in mortgage rates due to increases in policy interest rates. As a result, mortgage underwriting for first-time homebuyers, particularly Millennials and Gen Z, has remained challenging. In light of this situation, housing affordability bill has passed the House of Representatives with near-unanimous bipartisan support. However, it is said that final legislation is unlikely to be enacted until the end of the year at the earliest. In addition, in the U.S., policies determined at the federal level do not necessarily translate directly into implementation at the state or municipal level. Nevertheless, there is strong recognition within the government that current housing prices have become increasingly unaffordable, and we expect that efforts to address this issue will continue to move forward.

Q

What was the background behind this decision of issuance of bond-type class shares, and what are the key advantages of this instrument?

A

Bond-type class shares are treated as 50% equity for credit rating purposes and 100% equity for accounting purposes. We are preparing this instrument as one of the potential funding sources for the acquisition, although whether we will proceed with financing through bond-type class shares will be subject to further consideration in comparison with other financing options going forward. As the issuance of bond-type class shares require an amendment to the Articles of Incorporation, the necessary resolution was approved by the Board of Directors at this time.

Q

The Articles of Incorporation authorize up to ten issuances of bond-type class shares. Does this reflect an intention to pursue large-scale acquisitions going forward?

A

Given the assumption that bond-type class shares would be issued once and rolled over approximately every five years, repeatedly amending the Articles of Incorporation on a five-year cycle would be a significant burden. For that reason, we have registered up to ten issuances at this time.

Q

Regarding the mid-term management plan and the long-term vision that have been announced, please explain the anticipated impact of this acquisition, along with any potential risks, challenges, and measures to address them.

A

As this acquisition is expected to close around May to June 2026, subject to approval at shareholders meeting convened by TPH and other required procedures, we are still in the process of assessing its impact on our consolidated financial results. We plan to provide a more detailed explanation at our earnings announcement in the first half of the year. In terms of the number of units sold in the U.S., the combined total of our group and TPH amounted to approximately 18,000 units as of 2024, which corresponds to a top-five scale in the U.S. market. We have set a target of supplying 23,000 homes by 2030, and we believe that the addition of TPH will bring us closer to achieving the goal set out in our long-term vision.

Q

Based on TPH's strengths, please provide an explanation of the synergies with Sumitomo Forestry Groups' overseas businesses and future vision.

A

Our five existing U.S. homebuilders have expanded their scale primarily through M&A. To date,

we have achieved cost reductions through initiatives such as joint procurement of building materials. With the increased scale resulting from this acquisition, we expect to achieve further improvements in cost control. In addition, TPH operates a mortgage finance subsidiary as part of its financial services business. As none of our existing U.S. subsidiaries currently engage in mortgage business, we believe that adding TPH to our builder platform will create synergies by expanding scale through combination of home sales and financial services.

Q

Was this large-scale acquisition driven by company's strong financial position? In addition, is there a possibility that up to JPY 100 billion of bond-type class shares will be used to finance this acquisition?

A

The acquisition will initially be financed through a yen-denominated bridge loan, which will then be converted into U.S. dollar-dominated investments. Considering the interest rate difference between Japan and the U.S., we believe that this approach is manageable given our current financial capacity. Bond-type class shares are considered as one of the means of achieving permanent finance, and we will continue to compare and evaluate them alongside other financing options. As an amendment to the Articles of Incorporation is required, we have disclosed this matter now, and we view bond-type class shares as an additional financing option for the future.

Q

Previous acquisitions of homebuilders have worked well by allowing existing management teams (founders) to retain equity and be involved in management. Given that this acquisition involves the purchase of 100% of the shares, how does Sumitomo Forestry Group plan to manage the business going forward?

A

In our past homebuilder acquisitions, existing management teams (founders) have remained involved in leading businesses while retaining a certain equity stake, with Sumitomo Forestry Group acquiring a majority stake and consolidating the entities as subsidiaries. We believe this structure has worked effectively, as it has enabled us to enhance value even in the phase when the management teams (founders) eventually exited from the business. At the same time, in preparation for such eventual transitions, we have been working toward building an organizational management structure. As part of this effort, we integrated the DRB Group and Brightland Homes to establish a platform for our U.S. East Coast operations within the group.

Although California is the third-largest housing market in the U.S., we have not previously made a full entry in single-family homes due to strict regulations and the difficulty of land acquisition.

TPH has a solid business foundation in California as well as in neighboring Nevada. In addition, TPH has established governance framework as a listed company. By welcoming TPH as another platform within our group, we believe that our U.S. housing business has now entered its second phase of growth.

Furthermore, we have engaged in an ongoing dialogue with TPH's management team (founders) for approximately two years. Through these dialogues, we have confirmed that we share many common values, including corporate culture, customer-first mindset, valuing employees, and the belief that the company should be a place where people want to work. Based on this overall assessment, we have reached agreement in the form of this acquisition.

Q

What is the expected amount of goodwill to be recognized?

A

Based on a simple calculation using the acquisition price and TPH's net assets, the goodwill would amount to approximately JPY 150 billion. However, following the acquisition, we will need to conduct procedures such as purchase price allocation (PPA), and therefore it is difficult to comment on the exact amount of goodwill at this stage.

Q

While the acquisition was negotiated on a friendly basis, what does Sumitomo Forestry Group see as the main merits of the transaction from TPH's perspective?

A

TPH is currently led by its two founders, who were seeking further growth and expansion. As a public company, however, growth investments were at times limited by factors such as share buybacks. By becoming part of the Sumitomo Forestry Group, TPH can move beyond those constraints and allocate capital toward future growth. The CEO and COO, both founders, selected us as a company they could entrust the business to even after retirement, which helped the acquisition discussions progress friendly.

Q

Is Sumitomo Forestry Group considering the integration of the affiliated U.S. homebuilders?

A

We established a platform on the East Coast implementing an integration between the DRB Group which is primarily focused on the East Coast, and Brightland, which operates mainly in Texas. We are currently working on system and management integration. Following this acquisition, TPH will become another platform within Sumitomo Forestry Group. However, we

have absolutely no intention at this stage of using this transaction as an opportunity to integrate everything at once. Rather, looking ahead to a future in which owners may retire, we believe it is important to build robust platforms in advance, platforms to which the business can be confidently entrusted when that time comes.

TPH's leaders are both the founders and professional management who have also led a listed company. In that respect, we believe there are common elements with the types of companies we have successfully acquired in the past. Through this acquisition, TPH will become a private company, and they had a strong desire to entrust the company to a new parent company that can ensure its long-term, sustainable growth even after they eventually retire. We believe this alignment, together with the affinity with our past successful M&A cases, was one of the reasons that led to the agreement of this acquisition.

Q

We have a good understanding of the medium- to long-term growth story through the presentation. That said, what short-term risk factors should we be mindful of?

A

From a short-term risk perspective, the most important point is a review of the land holdings owned by TPH. We conducted our own due diligence, and TPH has a clearly defined internal threshold in place. Land with declining gross margins is identified and regularly impaired under a structured monitoring process.

At present, the total number of lots under ownership and option combined is 32,738, with the split being roughly half owned and half optioned. This level is comparable to our own and represents approximately six and a half years' worth of controlled land inventory, which we believe represents a healthy position.

Q

I understand that TPH focuses on the higher-end client. TPH's margins have come down in recent years to levels closer to the other listed homebuilders. In TPH's high target price range, would it be fair to say that the market is still quite competitive, requiring price cuts or stronger incentives?

A

As has been noted, among other listed U.S. homebuilders, TPH is the second highest with an average sales price of around USD 680,000. However, TPH also offers more affordable products, not focused solely on cash buyers. In fact, a meaningful portion of its customers rely on mortgage financing, which is reflected in the fact that TPH operates its own mortgage business.

At the same time, TPH places a strong emphasis on branding, positioning themselves as a “premium lifestyle brand.”. Under this approach, TPH has avoided relying on aggressive price cuts or excessive price competition.

Q

While I understand that there is long-term potential, mortgage rates have not come down as much as expected, and the labor market is also becoming more challenging.

Given the challenging conditions, it seems possible that a clear turning point for the overall U.S. housing market may still be some way off. Against that backdrop, how does Sumitomo Forestry Group view the current market environment?

A

Regarding interest rates (30-year fixed mortgage rates), although it has come down to around, or slightly below 6.1%, we consider that mortgage rates are more likely to remain around the 6% level for the time being, rather than falling meaningfully below 6% anytime soon.

As for immigration policy, we were initially concerned that labor shortages could become a serious issue at construction sites. However, construction demand has slowed, and as a result, we have not seen much impact from labor shortages at job sites so far.

While there is a view that population growth has moderated as the pace of immigration has slowed, the population itself is not declining. Looking ahead, as it becomes increasingly clear that the U.S. economy depends on highly skilled and specialized foreign talent, we believe immigration policy will eventually move toward a more stable and pragmatic stance.

Q

If we assume the acquisition price is roughly JPY 650 billion and the associated interest is around 4%, it implies annual interest expenses of approximately JPY 26 billion.

In addition, given that goodwill is expected to be recognized as part of the acquisition, is it fair to assume that the contribution on a profit basis will come a little later?

A

Regarding the financing, we will raise funds in Japanese yen and convert into U.S. dollars. Details regarding the permanent financing structure for the acquisition, the expected goodwill, and the impact on our earnings are currently being carefully examined.

Q

With this acquisition, the number of units sold will increase significantly. With that in mind, how does Sumitomo Forestry Group plan to change the procurement and supply of building materials?

A

Last year, we acquired TJPD in Louisiana, U.S., and is currently working toward full-scale commercial production. Although we are not pursuing a strategy of supplying all materials for single-family homes and rental housing with the materials from FITP, there is potential in some regions to establish an integrated in-house flow connecting lumber production, truss manufacturing, and ultimately construction. In addition, the factory of TJPD has access to abundant, high-quality Southern Yellow Pine resources. In addition to material production, we are also looking ahead to the production and processing of engineered wood products, including CLT and LVL, over time, positioning itself as a supplier of mass timber products that contributes more broadly to the group's overall value chain.

Q

Regarding the exports of Japanese cedar to the U.S. started last year as a trial, would this be fully integrated into the lumber production, truss manufacturing, and construction that was just explained earlier?

A

Onahama, where Yotsukura Factory of Kowanomori Co., Ltd. is located, is well located to export. In particular, Japanese cedar for residential fencing has strong potential, considering supplies of Western Red Cedar are currently quite limited in the U.S.

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