

**Sumitomo Forestry Group Full-Year Financial Results for Fiscal Year Ended  
March 31, 2019 and the 2021 Medium-Term Management Plan  
Briefing for Analysts and Institutional Investors - Q&A**

Time and date: 1:00 p.m. - 2:30 p.m., Monday, May 13, 2019

Respondents: Akira Ichikawa, President and Representative Director, Sumitomo Forestry Co., Ltd.  
Tatsumi Kawata, Director and Managing Executive Officer, Sumitomo Forestry Co., Ltd.

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Q

What are the assumptions about the macroeconomic environment in Japan and overseas in the 2021 Medium-Term Management Plan (“medium-term plan”)?

A

In Japan, we expect the number of new housing starts to decrease mainly because of reduced consumer purchasing eagerness resulting from the consumption tax hike and population decline.

In the United States, there is a possibility that the market could enter into an adjustment phase in response to interest rate movement and other factors. However, based on fundamentals like the low unemployment rate and population increases, continued growth is expected in the market, so we believe there is a possibility that the number of units sold may increase.

Q

Economic and market fluctuations related to such things as the economic downturn precipitated by the Lehman Brothers bankruptcy probably have some impact, but there have been some discrepancies between the plans announced and the actual results up to now. The targets in the medium-term plan seem quite high, so how will you achieve them?

A

We have been recording actuarial differences for retirement benefit accounting as a lump sum to expenses in the year of occurrence, so if you exclude that impact, we have had increases in earnings eight years in a row. When analyzing our corporate strength, I would ask that you analyze the numbers excluding actuarial differences.

During the period of this medium-term plan, there will be approximately a 10 billion yen decrease in goodwill from past M&As and real estate revaluation differences in our Overseas Housing and Real Estate Business, and the projected results of investment in our real estate business in Southeast Asia have been factored in. Orders received in the domestic housing business are also expected to remain at the same level as they are now.

Q

In the US housing business, the forecast is for an increase in net sales but a decrease in earnings in the fiscal year ending March 31, 2020. Has there already been any impact on the profit ratio under the current circumstances?

A

In response to lower affordability in the US housing market, some group companies have already adjusted their prices, and the operating margin has been on the decline since the middle of the fiscal year ended December 31, 2018 (12.5% in 1H, 11.3% in 2H).

Also, as for the circumstances in each business area, the market environment is harsh in the Seattle area where housing prices were high to begin with as well as some places on the east coast, but the environment is relatively favorable in Dallas, Texas and other areas.

Q

What is the breakdown of the increase (21.4 billion yen compared to FY3/19) in recurring income in the Overseas Housing and Real Estate Business in the medium-term plan?

A

Approximately 10 billion yen is from a reduction in amortization of goodwill and other expenses, while approximately 70% of the rest is from an increase in the number of units sold in the United States and Australia, and the other 30% includes things like the planned contribution by the condominium business in Asia. We expect the profit ratio remaining at the current level in the housing business in the United States and Australia.

Q

Does the 10 billion yen from the reduction in amortization of goodwill and other expenses providing a boost to income include the decrease in real estate revaluation difference? Also, what was the actual result for real estate revaluation difference in FY3/19?

A

The real estate valuation difference in FY3/19 was approximately 3 to 4 billion yen. As of this time, the assumption is that most will be eliminated during the period of the medium-term plan.

Q

How long does it take for Crescent development properties to be sold?

A

At Crescent, tenants are recruited that will provide stable rental income to development properties, which are sold after the added value is increased, thereby maximizing profit. For that reason, the timing of sale varies depending on the tenant occupancy ratio of the property. In the future, we will transition to the SPC (special-purpose company) method for ownership and switch to a business model where the impact on the balance sheet is smaller.

Q

What is the contribution of the MOCCA (Timber Solution) Business to the increase (6.8 billion yen compared to FY3/19) in recurring income in the Housing and Construction Business in the medium-term plan? Also, what is the breakdown of the 9,000 units that will be sold in FY3/22, and what will the impact be on the results?

A

The plan calls for 10 billion yen in orders received in the MOCCA (timber solution) business in FY3/22, but due in part to the length of time between receiving and completion of the order, the contribution is limited when you exclude the one billion yen from collaboration with Kumagai Gumi Co., Ltd.

The breakdown of the number of units sold is 8,000 custom-built detached houses, 600 spec homes, and 400 apartments, accounting for half of the 6.8 billion yen. Additionally, we expect approximately one billion yen in recurring income from the Renovation Business.

Q

With respect to the orders received forecast for FY3/20 (monetary amount basis), apartments are up 0.1% year on year, but in April, orders received (monetary amount basis) for apartments were actually down 59% year on year. This is likely from a reactionary drop following the surge demand from the consumption tax hike, but how will this gap between the actual results and the plan be filled? Also, orders received for custom-built detached houses were only down 2% year on year in April, but do you anticipate a reactionary drop in the months ahead?

A

Orders received for custom-built detached houses came in according to plan in April, and we do not believe there will be a significant reactionary drop. On the other hand, in regard to the year-on-year decline in apartments, there was a reactionary drop to the surge that took place from February to March,

and on top of that, the business scale is small, so that results in high volatility on a monthly basis. Nevertheless, we plan to add approximately 20 employees this year in the Apartments Business, and the branch office structure established in FY3/19 is starting to function, so we aim to achieve the target by expanding orders received.

Q

If the 300 MW target for renewable energy generation is achieved, what will the contribution be to profit and loss in FY3/22?

A

The 300 MW target is based on finalized projects, so the impact on recurring income will be a one billion yen increase compared to FY3/19. We aim to achieve the target by gathering project information from Renova, Inc., Kumagai Gumi Co., Ltd., and others.

Q

As for cash flows and investments/loans, the medium-term plan calls for 150 billion yen in investments. Is it correct to say that the plan corresponds to the current level of cash flows from operating activities (40.7 billion yen in FY3/19)?

A

Our target is to generate positive free cash flows during the period of the medium-term plan, and the 150 billion yen planned for investments/loans will be within the scope of cash flows from operating activities.

Q

In regard to investments/loans in the medium-term plan, what is the breakdown of the 63 billion yen in the Overseas Housing and Real Estate Business? Also, what is your thinking on future M&As?

A

We anticipate investing in the Real Estate Business in Southeast Asia, new development projects such as housing and commercial complexes by Crescent in the United States, housing display centers, and other such projects. The amount also includes possible acquisition of additional interest in existing overseas housing companies.

As for M&As, we will look into them as necessary, taking into account things like the strategic value and investment timing, on the condition that they will help grow the business in each region over the

long term.

Q

Under R&D, the medium-term plan mentions "research and development on trees at the genetic level." Specifically, what kinds of research are you considering?

A

We are working on research leveraging biotechnology, and our research has yielded results under themes that include methods of increasing growth of choice wood like cherry trees and other rare woods, promotion of tree growth, and improved tolerance. We hope to continue producing results and to expand the scope of our research.

Q

What kind of contribution to your business results do you anticipate from your alliance with the Marui Group?

A

In the field of Housing and Construction, we aim to expand our business domains such as renovation by acquiring knowledge related to construction and interior decoration of commercial facilities, which is a specialty of the Marui Group. Beyond direct sales in the form of orders received, we also hope that synergy in various fields, including material procurement in the Timber and Building Materials Distribution Business, will contribute to our business results.

Q

How do you determine the level of your dividend payout ratio?

A

Over the years, we have increased our dividends according to our level of earnings. Our basic policy is to engage in continuous and stable distribution of dividends. We also make sure that our dividend payout ratio is on par with other companies in housing and other sectors and general norms.

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