

Sumitomo Forestry Group
Financial Results for Second Quarter Fiscal Year Ending December 31, 2020
Conference Call with Analysts and Institutional Investors — Summary
Business Environment and Future Initiatives

Time and date: 13:00 a.m.–14:00 a.m., Friday, November 13, 2020

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< Page2 > Business Environment

- In Japan, consumer spending and exports are on the rise with the resumption of social and economic activities, but they remain at low levels due to COVID-19. We also believe that there will be a gentle recovery in the number of new housing starts, which has fallen short of the previous year for 15 consecutive months. However, based on the employment and income environment, the lack of vigor will likely continue.
- Looking at the global economy, there is a recovery trend, led by China, but according to the economic outlook announced by the International Monetary Fund (IMF) last month, the global growth rate is predicted to be -4.4% in 2020. The IMF also said that it would take until next year or later for the global economy to return to pre-COVID-19 levels, and they suggest that a second wave of the virus could delay recovery even further. The virus is spreading again in Europe and the United States, so there is still concern that economic stagnation could become prolonged or worsen. Even in Japan, once the cold sets in, it is clear that the virus will spread, so there is increasing risk of another negative impact on social and economic activities.
- In the midst of these circumstances, the Group continues to prioritize the health and safety of our customers, trading partners, employees and their families. We are rolling out business strategies adapted to the peri-COVID-19 era and are working to strike a balance with our business activities.
- At our workplaces in Japan, we are working to expand the scope of telecommuting, which we were promoting as part of work style reform, while also promoting use of programs such as staggered office hours and flextime to engage in ongoing reform that does not stop with temporary measures to address COVID-19.
- In the domestic custom-built detached housing business, in addition to face-to-face customer service

and business talks with thorough measures to prevent viral spread, we are focusing on web-based sales activities. This includes enhancement of our digital catalog and establishment of our new MYHOME PARK website with video tours of construction sites and other content, which is a new opportunity to provide information on our housing to take the place of housing display centers. In principle, during the state of emergency from April to May, our housing display centers were closed. Due in part to this, we were unable to collect contact information, but thanks to our enhanced web strategy, we had more than double the previous year's number of online material requests for seven consecutive months starting in April. Starting in July, the amount of orders for custom-built detached housing was higher than the previous year for four consecutive months, and in the first half, the amount was up 7.1% year on year.

- Overseas, we are engaging in dynamic business development according to the pandemic situation and market trends in each country. In the United States, the Group's main base of operations, favorable sales of the Group's new houses continue against a backdrop of historically low mortgage rates and low levels of existing housing inventory. Under the likely new Biden administration, fiscal stimulus and financial measures are expected to continue, so we expect a certain level of economic activity to be maintained. We also expect that policies emphasizing the environment will have a positive effect for the Group. However, there is still no end in sight for the COVID-19 pandemic, so we continue to monitor the local situation as we engage in business operations.
- In Australia, our second largest base of operations after the United States, COVID-19 has brought about the worst recession in about 30 years, but the impact on the housing market varies greatly from area to area depending on the spread of the virus. The Group's housing sales have been sluggish in Victoria, particularly Melbourne, where a strict lock-down has remained in place, but sales have been strong in Western Australia where the state government has provided a home buying subsidy.
- We are also continuing operations in our overseas manufacturing business, forestation business, and real estate development business in New Zealand, Indonesia, Thailand, Vietnam, and other locations based on the COVID-19 situation in each country and the infection control policies of each government.

<Page 3 and 4> FY12/2020 2Q Results and Full-year Forecast

- Beginning this year, we have unified the fiscal year end throughout the Group. Note that as a measure for transitioning from a March fiscal year end, this year the second quarter covers the period from

April to September, and the full year covers the nine-month period from April to December, including at overseas subsidiaries.

- In the second quarter, sales were sluggish in the Timber and Building Materials Business and the domestic Housing and Construction Business due to the temporary stagnation of the Japanese economy. On the other hand, the relatively higher margin Overseas Housing and Real Estate Business grew. As a result, for the Group overall, net sales were down 0.7% year on year to 525.9 billion yen, operating income was up 7.5% to 26.9 billion yen, and recurring income was up 11.8% to 28.7 billion yen. This represents record high second quarter income despite the headwind of the COVID-19 pandemic.
- The full-year forecast for net sales is 821.0 billion yen, and the full-year forecast for recurring income excluding actuarial gains and losses is 37.5 billion yen. The most recently announced forecasts were revised upward owing primarily to growth of the spec homes business in the United States.
- To give an overview of each business, although not to the extent initially anticipated, the Timber and Building Materials Business will be impacted by the drop in the number of new housing starts through the end of the year, and we expect the difficult situation to continue into next year.
- Additionally, orders for custom-built detached houses, which have been up since July of this year, will contribute to ensuring a steady number of construction starts next year. Assuming that significant viral spread does not resume, we expect construction completed to also remain at the previous year's level from the end of this year into next year. We had initially planned to shut MYHOME PARK down at the end of September, but due to favorable reception, we have made it a permanent site. Utilizing the advantages of both virtual websites and physical housing display centers in our approach to customers, we expect to maintain the previous year's level of orders even in the midst of the COVID-19 situation.
- Next, in the Overseas Housing and Real Estate Business, we expect the number of spec homes sold in our main market of the United States to remain strong. The number of people infected in the United States greatly exceeds the level of infection in Japan, but construction is considered an essential business, so we are continuing our business operations. However, costs are on the rise, especially labor and materials, and there are limits to how much of these can be reflected in the selling price, so we will work to ensure profits by developing products that match customer needs and other such means.

- In the environment and resources business, biomass power generation continues to perform well, but maintenance is planned at the main Mombetsu Biomass Plant, so we expect income to decrease compared to the second quarter.

<Page 5 and 6> Main Future Initiatives

- The initial uncertainty in the business environment surrounding the Group has abated, but there is still concern over various potential risks, including natural disasters. In the midst of these circumstances, we will provide our customers with safety and peace of mind through our business and work to maintain and improve our business results.
- In regard to the Timber and Building Materials Business, we will work on developing diverse revenue streams while attempting to increase the market share of our existing businesses and boosting our competitiveness. We are seeking to expand sales of fuel materials for wood biomass power generation. Promoting long-term supply agreements with power generation business operators, we will build a system for ensuring steady profits. We will also step up our efforts in next-generation businesses utilizing IT. This past August, we launched services at Home Express Structure Design Co., Ltd., which provides builders and pre-cut factories with structural design support, whereby we will generate new added value.
- Next, the domestic Housing and Construction Business is the backbone of our domestic business and is a cornerstone supporting cash flows. However, in addition to the long-term shrinking trend in the new housing market due to population decline, the economic slowdown caused by COVID-19 will likely bring about intensification of competition between companies. Strengthening the competitiveness of our business is essential if we are to survive.
- As measures to improve profitability, on the sales side, we are applying advanced technological capabilities to technology for utilizing the characteristics of wood and working to expand sales of unique net zero energy homes (ZEH) that provide the pleasantness and comfort of wooden structures. We are also pursuing reform of our sales model to improve sales efficiency, including further promotion of our web strategy and strengthening of order management with the introduction of a sales support system. On the cost side, we will work on further streamlining of construction. As specific examples, we are promoting wider adoption of the precast concrete (PCa) mat foundation construction method, which shortens the on-site construction period, and shifting to pre-cut

construction materials, including structural panels, exterior siding material, and roofing material. We will shorten construction periods, which have been getting longer due to natural disasters and COVID-19, and tie this into reducing industrial waste and preparing for the anticipated aging of craftsmen and shortage of successors.

- We will expand the Overseas Housing and Real Estate Business into one that drives growth of the Group as a whole, centered on the US spec homes business. The number of spec houses sold in the United States from January to December 2020 is expected to come to 8,900 units. We will continue to aim for a structure capable of handling annual sales of 10,000 units based on organic growth of the spec housing business by entering new areas and other such efforts. By December 2020, we plan to take over the spec homes business of Builders Professional Group, which is operated under the brand Knight Homes primarily in the Atlanta, Georgia area. By entering this area, which boasts the third largest market in the United States, we will gain a business foundation in a new growth area.
- In Australia, which has been more cautious in resuming economic activity than the United States, economic recovery is expected to take some time, but we have already established a structure capable of handling 3,000 units that includes the Scott Park Group in Western Australia, which we acquired last year.
- As we expand the business, we will also thoroughly work on strengthening governance and invest in real estate for sale and real estate development projects while engaging in appropriate risk management. In this way, we will work to maximize profitability of the spec homes business and diversify and stabilize profits in the real estate development business.
- Next, the environment and resources business is both the starting point of our company and the key to environmental management going into the future. One piece of recent news is our decision in October to jointly invest in Morinomiya Biomass Energy. The plan is to construct a 75MW biomass power generation facility in Sendai City, Miyagi and to provide power to roughly 177,000 households by 2023. This project will contribute to prevention of global warming by utilizing renewable energy and will also create new jobs, which is especially meaningful for restoration of this disaster area.
- The elderly care business is an important one that tackles a social issue in this aging society. In May of this year, we opened Elegano Nishinomiya, one of Japan's largest care facilities with supportive services. It got its start during the COVID-19 pandemic, but we are advertising for tenants while taking utmost precautions in terms of health and safety.

<Page 7 and 8> ESG

- Once the COVID-19 pandemic comes to an end, in the post-COVID-19 era, new values will take hold, and expectations will be even higher on company efforts to address social problems. The market will not respond favorably toward companies that prioritize short-term profits. The times are shifting so that the market is looking for environmentally conscious products and services based on sustainability. The Sumitomo Forestry Group is keenly aware that ESG/SDG initiatives are essential for a company to enjoy sustainable growth, and we are promoting integration of business operations and ESG initiatives.
- Among SDGs, addressing climate change brought on by global warming is an issue shared by the whole world. In his general policy speech, Prime Minister Suga announced the target of achieving net zero greenhouse gases by 2050. Additionally, the new Biden administration plans to rejoin the Paris Agreement, so movement toward the realization of a post-carbon society is accelerating worldwide. Consumer awareness is also expected to change significantly, and as public institutions of society, companies will be expected all the more to engage in management that emphasizes public benefit consisting of environmental and social value.
- As expressed by our name, the Sumitomo Forestry Group has the natural capital of forests in Japan and overseas and is engaged in a timber-based business that consists of everything from upstream to downstream, including our renewable energy business. Among these, our forest management business is full of potential for creating public benefit in the form of the natural capital of forests not just as a supply source for building materials and raw fuel but also as a means of absorbing and storing carbon dioxide as well as by preventing damage from landslides, cultivating water sources, and preserving biodiversity.
- We signed an agreement on industry-academia co-creation with the University of Tokyo in September for the purpose of quantifying the latent public benefit of forest resources. Based on this agreement, we will engage in further joint research and exploratory research, seeking to create new economic value that goes beyond conventional timber applications while also visualizing the public benefit of forest resources from various perspectives. We will draw the attention of all stakeholders to the Group's efforts in this regard.
- Furthermore, we will pursue a business model that will increase the public benefit of forest resources consisting of environmental and social value throughout society. We will develop a growth strategy

oriented toward solving social problems for a post-carbon society in the next fiscal year and subsequent period of the next medium-term management plan starting from the fiscal year ending December 2022.

< Page 9 > Return to Shareholders

- We recognize return to shareholders as one of our highest priorities, and our basic policy is to provide stable and continuous dividends. Going forward, we will work to improve our return on equity and enhance shareholders' equity and distribute profits at an appropriate level according to earnings while taking into account the need to preserve the balance between these distributions and the management foundation, financial position, cash flows, and other items.
- This year's dividend, which will be for a nine-month period, will be a total of 30 yen (interim and year-end) as initially planned based on adjusting the normal full-year dividend of 40 yen (which was provided up to the previous year) to reflect the shorter period.