

Sumitomo Forestry Group
Financial Results for the Fiscal Year Ended 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., Tuesday, February 16, 2021

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

- Thank you very much for taking time out of your busy schedule today to attend our results briefing. My name is Mitsuyoshi.

- First, I would like to express my sincere sympathy to those who have contracted COVID-19 and my deep condolences to those who have lost friends or family members. May they rest in peace. I would also like to take this opportunity to express my heartfelt gratitude and respect to those working in health care and other fields to stop the spread of the virus.

- Now, let's take a look at an overview of the business results for the fiscal year ended December 31, 2020, progress on the Medium-Term Management Plan, and our future initiatives.

< Page2 to 4 > Business Environment

- Even now that we are in 2021, there is no knowing when the COVID-19 pandemic will come to an end. However, the global economy is expected to recover owing to the quick economic recovery in China, the effect of ongoing fiscal and monetary policies enacted by the United States, the European Union, Japan, and other major countries, and the dissemination of vaccines. Accordingly, the IMF raised the growth rate forecast for 2021 0.3 points from last October to 5.5%. Nevertheless, it is difficult to make predictions due to the many uncertainties, including the risk of a resurgence of the virus caused by mutant strains, trade friction between the United States and China, and the sustainability of the fiscal and monetary policies of each country.

- The Japanese economy was on the path toward recovery owing to the up-tick in consumer spending and exports in the second half of last year, but the second declaration of a state of emergency issued at the beginning of the year dealt a heavy blow. It is very likely that GDP for January to March will show negative growth for the first time in three quarters, so the future remains uncertain.
- The number of new housing starts on owner-occupied dwellings was up year-on-year for two consecutive months in November and December, showing signs of a recovery. However, overall, the year-on-year comparison has been negative for 18 consecutive months, so the market environment remains harsh.
- At the same time, even in the midst of this uncertain political and economic environment, things are moving steadily toward establishment of the “new normal,” which has been developing in anticipation of the post-COVID-19 world, and realization of a decarbonized society.
- In Japan, Prime Minister Suga announced an ambitious target of achieving carbon neutrality by 2050 in his general policy speech last October. Since then, in addition to digitalization, the Green Growth Strategy for a decarbonized society has become a long-term centerpiece policy.
- In the United States, President Biden declared immediately after his inauguration that he would re-enter the Paris Agreement and has shown an interest in measures to address climate change. The policies of the Democratic Party, which was victorious in the presidential and congressional elections could impact our business in terms of the environment, taxes, and other business issues.
- Under these circumstances, the Group continues to prioritize the health and safety of our

customers, trading partners, and employees. We are rolling out business strategies adapted to the peri-COVID-19 era. In the custom-built detached housing business in Japan, the starting point for customer home building has shifted greatly from housing display centers to online due to the COVID-19 pandemic. In the midst of this situation, we created a MYHOME PARK section on our website for customers to experience Sumitomo Forestry home building virtually and promoted online sales activities. Under these circumstances with the future uncertain, we will focus on earthquake resistance, insulation, and various resilient features as well as on floor plan proposals addressing new lifestyles and proposals highlighting the relaxing effect of wood and “woody” feel as people are spending more time at home.

- The detached housing business in the United States has been performing favorably against a backdrop of historically low mortgage interest rates, increased demand for new constructions in the suburbs, and low inventory of existing homes. Going forward, we anticipate upward pressure on costs, including residential construction materials and labor costs, and an increase in long-term interest rates associated with the issuance of an enormous amount of government bonds by the United States government. However, the Sumitomo Forestry Group is primarily engaged in business in an area called the Sun Belt, which is expected to enjoy steady housing demand due to job and population growth as shown on page 4. Last December, we entered the Atlanta area, and in February of this year, we entered the Denver area, establishing a structure capable of handling annual sales of 10,000 houses.
- In the real estate development business, leasing slowed and sales plans were delayed due to COVID-19, but we secured higher selling prices of individual projects than planned and have set to work on developing new properties. We will promote sustainable business growth while generating synergy within the Group based on the detached housing and real estate development businesses.

- The detached housing business in Australia slowed temporarily due to COVID-19, but a housing purchase subsidy was introduced for new houses as an economic measure, and combined with record-low mortgage interest rates, this resulted in an increase in orders received into the second half of the year. The Scott Park Group, which joined the Group in 2019, and other group companies have a substantial backlog of orders, and we have established a structure capable of annual sales of 3,000 houses.
- We are also continuing operations in our manufacturing business, reforestation business, and real estate development business in New Zealand, Indonesia, Vietnam, Thailand, and other locations based on the COVID-19 situation in each country and the infection control policies of each government.

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the FYE December 2020 results, FYE December 2021 Plan and Progress on 2021 Medium-Term Management Plan

- Mr. Kawata, the director in charge, will explain the details of the previous year's results and this year's plan later, but to give an overview, the fiscal year ended December 2020 was an irregular fiscal term of nine months. During these nine months, the Overseas Housing and Real estate Business grew significantly against the backdrop of the favorable US housing market. Compared to the first nine months of the previous fiscal year, net sales were up 4.6% to 839.9 billion yen, and recurring income excluding actuarial differences was up 7.9% to 46.5 billion yen, a new record for the first nine months.
- On page 6, you'll see the progress on the Medium-Term Management Plan based on this year's plan. Due in part to the fact that the business environment in Japan and overseas has changed

significantly due to the spread of COVID-19 and that the Medium-Term Management Plan now covers a shorter period as a result of the changing of the fiscal year-end, the results cannot be easily compared to the figures from the initial plan. However, the plan is for net sales of 1.257 trillion yen, 3 billion less than the figure from the Medium-Term Management Plan, and for recurring income excluding actuarial differences of 80 billion yen, 5 billion less than the figure from the Medium-Term Management Plan.

- Under this year's plan for net sales and recurring income, we expect the Overseas Housing and Real estate Business to exceed the initial plan substantially. On the other hand, we expect both net sales and recurring income to come in lower than the initial plan in the Timber and Building Materials Business and the Housing and Construction Business. Unfortunately, on a group-wide basis, this means we will fall short of the targets.
- In the Timber and Building Materials Business, we do not expect to achieve the plan as the number of new housing starts in Japan falls short, construction demand for timber and building materials lets up, and the overseas manufacturing business takes time to recover from the COVID-19 pandemic.
- In the Housing and Construction Business, orders received are on the path toward recovery in the main custom-built detached housing business, but the profit margin is down due to increased costs, including labor. Additionally, the renovation and apartment businesses, which were significantly impacted by COVID-19 in the first half, will require time to recover, and the pace of securing land in the spec homes business fell short of the plan. As such, we expect to fall significantly short of the plan in these businesses.
- We expect net income to reach the 48 billion yen target of the Medium-Term Management Plan

owing in part to the decreased corporate tax rate associated with the increased percentage of profits from the overseas business where the corporate tax rate is lower.

- Furthermore, we had planned a total of 150 billion yen in investments during the period of the Medium-Term Management Plan, and we expect the three-fiscal year total, including the roughly 70 billion yen planned for this year, to come in at around that level.
- We will continue working to achieve positive free cash flows for the three-year period as was set forth as a goal for establishing a foundation for sustainable growth.

< Page 7 > Return to Shareholders

- After a comprehensive consideration of performance and other factors, we have increased the year-end dividend for the fiscal year ended December 2020 by 5 yen from the initially planned 20 yen per share to 25 yen. The combined amount of the interim and year-end dividends will be 35 yen. In the fiscal year ending December 2021, we will increase the full-year dividend 10 yen compared to the fiscal year ended March 2020, bringing the combined interim and year-end dividend to 50 yen.
- We recognize return to shareholders as one of our highest priorities, and our basic policy in the current Medium-Term Management Plan as well is to provide stable and continuous dividends. We will continue working 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.

< Page 8 and 9 > Main Future Initiatives

- The first is a strengthened response to the peri- and post-COVID-19 situations. Our assumption is that the COVID-19 pandemic will not fully come to an end this year. We will prepare for risks related to business management and funding, and looking ahead to the post-COVID-19 society, trends toward a new normal and a decarbonized society will be taken as business opportunities and leveraged for a new growth strategy. Group-wide, we will clarify what needs to be reviewed, such as changes in customer purchasing behavior and markets, corresponding marketing methods and product development, and the ideal supply chain. We will then work quickly to do what needs to be done.
- Next are our main initiatives by business. In the Timber and Building Materials Business, we will improve the profitability of our existing distribution business and work on expanding businesses not linked to the number of new housing starts in Japan with a focus on handling of wood biomass fuels, which are increasingly in demand, such as exports of domestic materials. At the same time, we will work on strengthening the integration of manufacturing and sales at overseas manufacturing companies both at home and abroad. We will also work on DX to promote value-added proposals, including structural design services by Home Express Structure Design Co., Ltd. for builders and pre-cut factories.
- In the Housing and Construction Business, we will work on creating new added value by actively promoting DX, including cross-Group digital marketing and utilization of real data accumulated through business activities such as those at housing display centers. Additionally, in order to reduce costs and effectively recover funds, we will set specific goals for streamlining construction and shortening construction periods and gradually implement efforts over the next several years.
- We aim to cultivate the market for medium-sized wooden buildings while cultivating our custom-build detached housing business, and we will generate synergy through collaboration, including

technology and personnel exchanges with new group company Cohnan Kensetsu Inc.

- In the Overseas Housing and Real estate Business, which is a pillar of Group profits, we plan to sell 11,000 houses in the United States and 3,550 in Australia, and expect to achieve the respective levels set forth in the Medium-Term Management Plan. We will make sustainable growth of our detached housing and real estate development businesses in the United States, Australia, and Asia our top priority as we build a business portfolio that is highly resistant to environmental change by further expanding our business domains and areas.
- As measures to address climate change accelerate worldwide, we launched operations at a 75 MW biomass power plant in Kanda, Fukuoka in our Environment and Resources Business, which has attracted a great deal of attention. Including the Sendai power plant for which the decision on commercialization was made last year, this brought the total biomass power generation capacity of our Group to 252 MW, getting us closer to the realization of our goal of developing a structure capable of generating 300 MW.
- We will also contribute to regional revitalization in cooperation with other companies and municipalities through the expansion of our managed area in the Indonesian plantation forest, increased operational efficiency with the latest technology such as sapling transport via drone and the use of heavy machinery on sloped land, and consultation related to forest management.
- The second initiative is strengthening our financial foundation. To ensure sustainable growth, we will optimize the cash conversion cycle, including maintaining proper inventories and quick recovery of credits, carefully select investments, and thoroughly review the cost effectiveness of general administrative expenses. However, if there is concern over significant deterioration of cash flows due to COVID-19, we will identify the financial requirements and risks as we did in

the previous fiscal year and flexibly secure liquidity.

- The third initiative is strengthening governance. Strengthening governance is essential to be a sustainable company. This year, we will elect an additional outside director, bringing the percentage to one-third. We will work to strengthen governance while strengthening profitability and finances and addressing various risks in order to solidify our management foundation.

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Direction of Next Medium-Term Management Plan, Which is Set to Start Next Year (2022)

- Our Group is rooted in forest management, and we have been working to harmonize our business with the global environment since before the concept of ESG existed. In recent years, as climate change has become a bigger social issue, we have set forth an SBT-certified long-term target for reducing greenhouse gases and have been working to achieve that target by 2030. We have also signed onto RE100, which aims to power all business operations with only renewable energy by 2040, and are working on efforts to address climate change.
- Furthermore, the US and Japanese administrations have set course to achieve a decarbonized society. We are taking this year—one in which implementation of measures to mitigate climate change will be accelerated worldwide—as the first year of decarbonization. Going beyond efforts within the Group, we will fully utilize the natural capital of forests and timber produced in forests to solve problems of society as a whole and create public benefit consisting of environmental value and social value. We believe this is the key to the growth of our Group.
- The forests we manage in Japan and abroad are precious natural capital that not only provide CO₂ absorption and carbon fixation but various other public benefit, including recharging of water sources, prevention of landslides, and conservation of biodiversity. Using timber produced in

forests in wooden construction with less environmental impact ensures long-term carbon fixation, and proposing custom-built housing made to ZEH specifications not only provides customers with an economic benefit but also reduces household energy consumption allowing both us and our customers to achieve carbon neutrality and, further, to contribute to mitigation of climate change.

- In this way, we have been working on our business and ESG in an integrated fashion from upstream to downstream within an unparalleled value chain, always being mindful of contributing to the achievement of SDGs. Further, under our next Medium-Term Management Plan, we will visualize the public benefit of forests and wood, including carbon absorption and fixation and their impact on health. We plan to flesh out our carbon sink business that contributes to absorption and fixation of greenhouse gases throughout society through our forest resources in Japan and overseas and our management know-how as well as our strategy for widely supplying wooden construction materials, wooden buildings, fuels for biomass power generation, and other products that contribute to the realization of a decarbonized society.

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