

**Sumitomo Forestry Group**  
**Financial Results for the Third Quarter of the Fiscal Year Ending December 31,**  
**2021**

**Conference Call with Analysts and Institutional Investors - Q&A**

Time and date: 4:30 p.m.– 5:30 p.m., Friday, October 29, 2021

Answers: Tatsumi Kawata, Director and Managing Executive Officer, Sumitomo Forestry Co., Ltd.

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Q

The US housing market has been performing well this year. How long do you think this will last? I think there are some causes for concern, such as a drop in COVID-19-related demand, a let-up in demand due to sharply rising housing prices, and rising interest rates associated with tapering. What is your outlook concerning supply and demand?

A

Housing demand is still favorable, even if it is not as overheated as it was for a time. We do not expect to see a significant decline any time soon. The inventory of existing homes is also about two months low, compared to the normal average of four to six months. In addition, the number of new home buyers among millennials and Generation Z is on the rise. Overall, housing stock is low, so the strong housing demand will continue. Housing prices are going up, but the average prices in areas where we have set up operations are around four to five times the average annual income, so the environment is still favorable for home buying. Due to various factors, there was some brisk business this year that could be called special COVID-19-related demand, so it will be difficult to maintain the very high level of profitability going forward. However, we anticipate being able to secure a higher level of profit than we had prior to COVID-19. On the demand side, we see the rising interest rates in the United States as the biggest risk and will be watching trends in the financial market closely.

On the supply side, the Group's land inventory equates to an average of around six years' worth in terms of the number of lots, so we have a structure in place to be able to maintain stable sales. Although there have been some short-term delays in the supply of materials such as window sashes due to robust housing demand, but overall, we expect the favorable market conditions to continue next year.

Q

There is concern in the overall housing market of a shortage of carpenters. How is your construction capacity? The forecast is for 11,550 units sold this year. Can you tell us from a construction standpoint whether you still have some capacity to spare?

A

Many people have lost jobs due to COVID-19, and in the areas where we operate, increases in labor

costs associated with the shortage of carpenters have not been as high as feared. In regard to the forecast for delivery of 11,550 units this year, there have been some delays in material deliveries, but construction is proceeding smoothly, so there are no particular problems at this time. However, as the economy recovers, there will be an increasing shortage of carpenters in the housing market as a whole, so we are considering initiatives to reduce on-site processes requiring carpenters, such as using pre-cut trusses and panels.

Q

The full-year forecast for net sales in the Overseas Housing and Real Estate Business is up 44.0 billion yen from the previous forecast, and the forecast for recurring income is up 20.0 billion yen. Can you break down the causes behind the upward revisions between the detached housing business and real estate development business in the United States?

A

The US detached housing business, in which we anticipate an increase in the number of units sold, accounts for the better part of the 44.0 billion yen increase in net sales. As for the 20.0 billion yen increase in recurring income, around 15.0 billion is from the US detached housing business, and around 5.0 billion is from Crescent, which is engaged in the real estate development business. In many cases, real estate development at Crescent involves minor investments, so most income is recorded under equity in income of affiliates (non-operating income).

Q

Some of the major listed builders in the United States have revised their sales forecasts downward due to supply chain constraints. Can you explain the background behind your upward revision of the number of units sold in the US detached housing business and the trends in selling prices and backlog?

A

The fact that we were more conservative in our forecasts accounts for some of it, but the main factor behind the upward revision is that the housing market has been performing more favorably than anticipated. In the areas where we operate, the housing prices are more affordable compared to other areas when you look at the prices versus annual household income. Unit selling prices vary depending on the area, but they are up average unit price increase of about 10% for each company over the full-year results for FY12/20. As for backlog, as of the end of September, there are 7,400 units, which is around the same level as the beginning of the year. Going forward, these will be delivered, so the number could decrease slightly through the end of the year.

Q

In Japan, prices of European and domestic timber are up. What is the impact of higher timber costs,

and what is your outlook for the next year in the Housing and Construction Business?

A

For properties whose contracts were signed in July or later, we have revised the pricing based on the higher timber prices, so the increased timber costs will gradually be absorbed by the selling prices. However, with respect to those properties that were ordered up to June, timber costs went up after the contracts were signed, so we have included several billion yen in this year's costs. Some properties among those that we will begin construction on next year were ordered before June of this year, so there will still be some impact from the increased costs next year.

Q

The forecast for number of units sold in FY12/21 in the US detached housing business was revised upward from the previous forecast by 500 units. Does this mean sales of spec homes have been or will be higher than anticipated? Also, through the end of the year, how will the percentages of house and land packages and spec homes shape up?

A

The upward revision of 500 units is because in addition to the increase in the number of units sold, especially spec homes but also house and land packages, the previous forecast was somewhat conservative. Looking at the number of units sold in FY12/21, the percentage of spec homes will be higher, and we anticipate this being the case through the end of this year as well.

Q

How do you think the Overseas Housing and Real Estate Business will perform in FY12/22?

A

At this time, I cannot talk about the performance of the Overseas Housing and Real Estate Business next year, but we will endeavor to increase both sales and income. However, when it comes to the real estate development business like that of Crescent, the amount of income per project is high, and there will be some cases where many sell-offs will occur at once like they did in the third quarter, so it is harder to forecast profit and loss compared to the detached housing business.

Q

The full-year forecasts for FY12/21 were revised upward in both the Timber and Building Materials and the Environment and Resources businesses. On top of that, decarbonization is currently providing a boost, so market expectations toward your company are high. Ahead of the announcement of the new Medium-Term Management Plan next February, can you tell us what your direction is regarding the decarbonization business and whether you will include medium- to long-term targets and specific

measures for it?

**A**

We have been reminded that the role and value of forests in absorption of carbon dioxide and carbon fixation is very significant. We see businesses such as the Environment and Resources and the Timber and Building Materials businesses that utilize forest resources as ones that can contribute greatly to the realization of a decarbonized society. The decarbonization business will not turn a profit immediately, but we hope to present things such as the related investment strategy in the new Medium-Term Management Plan.

**Q**

There is a great deal of interest in decarbonization among investors, but when it comes to contributing to profits as a business, there are some challenges. In your case, the biomass power generation business and others are already contributing, but are there other decarbonization businesses that might contribute to performance in the future?

**A**

In October of this year, we announced our participation in a wooden office development project in Melbourne, Australia. Against the backdrop of increasing recognition of carbon fixation by wood, we expect that wooden structures will spread even more in the field of medium- to large-sized buildings, which previously were mostly built with reinforced concrete or steel frames. As such, we will be actively working on these. Regarding forest resources, we will follow trends such as investment in forest resources by global IT companies and tie the forest management know-how that we have cultivated into our business. In addition to conventional wood biomass power generation, we will promote efforts contributing to profit in the decarbonization business, including other renewable energy businesses.

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