

**Sumitomo Forestry Group Financial Results
for Fiscal Year Ended December 31, 2021
Conference Call with Analysts and Institutional Investors - Q&A**

Time and date:

10:30 a.m. – 12:00 p.m., Tuesday, February 15, 2022 JST

Answers:

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

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

Q

Your backlog of orders for US detached houses at the beginning of FY12/2022 is below FY12/2021. Will you be able to achieve your sales forecast for FY12/2022, which calls for year-one-year gains over FY12/2021? Also, if the detached housing business slows, would you consider selling real estate development projects?

A

The reason why our backlog of orders at the beginning of FY12/2022 is below FY12/2021 is not because of a slowdown in strong housing demand; rather, it is due to external conditions such as soaring timber prices, delays in the procurement of construction materials, and worker shortages. The impacts from adjusting new orders in an optimal way to suit the timing for the start of construction on properties in the order book in each area also plays a role. Considering the greater number of buyers, including Generation Z and Millennials, and the shortage of resale home supply, we do not believe that the current supply-demand balance will change largely. In FY12/2022, while keeping close watch on rising interest rates, we will accumulate new orders, in addition to our backlog of orders of around 7,000 units, and secure sales volume by starting projects early and steadily delivering units. In real estate development, at present we do not foresee that we will have to adjust sales prices or the timing of sales to secure profitability.

Q

Can you share a detailed timeline of when the Company's decarbonization investments will contribute to earnings?

A

Specifically, our investments in decarbonization entail the establishment of a forestry fund, creation of a timber industrial complex for promoting domestic timber, and promotion of non-residential wooden buildings in Japan and abroad. These investments will only make limited contributions to earnings during the period of the new medium-term management plan, but we should be able to generate recurring income on par with FY12/2021.

In terms of the timber industrial complex, in February 2022, we concluded a basic agreement with Shibushi City, Kagoshima Prefecture, to establish a timber mill that uses domestic timber. Going forward, we will place orders for manufacturing facilities and we expect to commence operations around 2025.

As for overseas non-residential wooden buildings, in December 2021, we began construction of a 15-story wooden-framed office building partially reinforced with RC Melbourne, Australia. The total project cost is around 15 billion yen, with completion slated for 2023. We plan to sell the building after owning it for several years. In addition, the six-story wooden-framed office building in London, UK, that we announced in February 2022 has a total project cost of around 7.5 billion yen, with completion planned for 2024. After finding tenants, we plan to sell the property and recoup our investment.

One important aspect of the forestry fund is that it can secure forests that supply high quality emissions credits. Currently, we are looking for the assets suited to the fund's purpose. Once it reaches critical mass, we plan to open the fund up to investors. We expect the fund will contribute to earnings after the next medium-term management plan.

We will work to realize each of these plans as soon as practicable in order to contribute to earnings and to the decarbonization of society as a whole.

Q

Can you provide the scenarios/breakdown of profit growth under the medium-term management plan (FY12/2024: recurring income of 173 billion yen) and the long-term vision (FY12/2030: recurring income of 250 billion yen)? Do these plans include M&A?

A

The medium-term management plan assumes organic growth of existing businesses centered on Overseas Housing and Real Estate will contribute to overall earnings, while

promoting investment in decarbonization. At present, the plan does not include M&A as a contributor to earnings, but we will prudently and boldly examine favorable deals if they present themselves. Particularly, in the US detached housing business, we will continue to explore business expansion in promising growth markets. Since one issue is how to rationalize construction in preparation for soaring labor and construction materials costs in the future, we are considering the acquisition of framing companies and perhaps expanding into panel manufacturing.

The target of our long-term vision of recurring income of 250 billion yen will be achieved with organic growth of each business. Although Overseas Housing and Real Estate Business will maintain its position in profits, by promoting decarbonization initiatives, we will grow the Timber and Building Materials Business, Housing and Construction Business, and Environment and Resources Business.

, and increasing the weighting of these three businesses in our portfolio.

Q

Your policy for return to shareholders is to provide a stable dividend. Looking at the dividend payout ratio, it has leveled off around 18%. What are your thoughts on the dividend payout ratio?

A

In FY12/2021, recurring income surpassed 100 billion yen and the Group's profit level moved another step higher. We plan to double the dividend from 40 yen per share in FY3/2020, the first fiscal year of the previous medium-term management plan, to 80 yen per share. As a result, the dividend payout ratio remains at 18.6%. We will return to shareholders looking toward our target of recurring income of 250 billion yen in FY12/2030, while considering the balance of growth investments including major investments in decarbonization.

A

I would like to draw your attention to the fact that under our policy of a stable dividend we have steadily linked past growth investments to higher profit, which has enabled us to raise the dividend. Our total shareholder return (TSR) exceeds TOPIX and peers for the trailing five-year period, so we feel that we are returning profits to shareholders appropriately. We will continue to closely monitor the dividend payout ratio, and by continuing with investments and sustaining profit growth over the medium to long term, we intend to return profits to

shareholders stably and consistently.

Q

Mortgage rates in the US are on the rise. Do you think people will begin taking more of a wait-and-see-approach to home buying? Can you share with us the current situation regarding delays in the supply of construction materials?

A

Fixed rate 30-year mortgage rates in the US have recently risen all the way to the upper 3% range. This is a situation we are closely monitoring. However, mortgage rates remain low considering the long-term trend. Also, visitor traffic at the model homes of our subsidiaries has yet to see a rapid decline. In terms of affordability, in most of our coverage areas, the ratio of detached home price to income is below the national average of 5.9 times. Therefore, we feel that we can expand our business in sound housing markets. Going forward, for example, we will continue to strengthen our product offerings tailored to each location, such as providing townhouses that are easier to afford in places like Seattle where detached home prices are high.

While the situation varies for each subsidiary, construction of detached homes takes about one month longer compared to before COVID-19 in 2020 due to supply chain disruptions. In some cases, this figure is up to around three months. Nevertheless, our sales forecast for FY12/2022 takes into account these longer completion times and as such there should not be any major impact on ability to achieve this forecast. We will work toward the stable supply of construction materials by continuing to strengthen relationships with our suppliers.

Q

Your plan is to invest 300 billion yen over the three years of the medium-term management plan. Regarding financing, can you provide details about how you will fund these investments? For example, will you use borrowings or operating cash flow?

A

Our capital plan for the 300 billion yen in investments involves 240 billion yen from cash on hand and operating cash flows, and covering the rest with borrowings of 60 billion yen.

Q

When structuring the forestry fund, what are the resources that will be a strength (for your

company) and what is the expected return from the fund?

A

Previous forestry funds looked at maximizing cash flows through production of timber. Today, however, these funds have evolved to the point of looking at the price of carbon credits as a CO2 sink as well as creating value as natural capital, such as protecting biodiversity and watershed conservation. We engage in forest management in Japan and abroad. As with our forest management in Indonesia that includes water level management in peatlands, methods that do not damage the environment can be fully utilized in the structuring and operation of forestry funds in the future.

In terms of return, the IRR of forest assets in locations with short production yield, such as New Zealand and the southern US, is believed to be around 5%. We intend to create a fund aimed at the next and novel dimension of highest and best use (HBU) that achieves preservation of forest resources and contributes to decarbonization at the same time as generating steady cash.

Q

One of your targets for FY12/2030 is to reach 1 million m³/year of domestic timber usage at timber industrial complexes. What are some challenges to achieving this?

A

We plan to use around 200,000 to 300,000 m³ of timber per year in the construction of the mill and biomass power generation plant in Shibushi City, Kagoshima Prefecture, as detailed in the news release issued in February 2022. In terms of the timber processing business, currently, we are moving ahead with technological development for processing timber, which has typically been exported as logs, and thinned timber materials into value-added engineered wood. To avoid the risk of relying on imports for domestic housing, as was the case during last year's "wood shock," it will be beneficial to utilize domestic timber in housing components.

The scale of 1 million m³ can be described as equivalent to around 20,000 units, where on average timber of around 25 m³/unit is used during our BF construction method, assuming yield at the time of milling is 50%. At a timber industrial complex, we will aim for cascade use where all parts of timber are utilized, from manufacture of timber products to fuel for biomass power generation. One million m³ is not necessarily a large number to achieve.

These initiatives will become an impetus behind the development of forests and manufacturing sites in Japan, which in turn will make it possible to achieve Japan's national target of a 50% or higher ratio of domestic timber. This is something we want to contribute to.

Q

The presence of Overseas Housing and Real Estate Business is increasing significantly. What are your thoughts on the future workforce needs for this business?

A

Our current workforce in the US, which is a particularly important market for the Overseas Housing and Real Estate Business, includes one expatriate executive officer and a total of three persons dispatched to each subsidiary including one director, one person in charge, and one trainee. Unlike the auto industry, housing requires product and business development tailored to regional needs, so we emphasize teamwork involving local management and our expatriate staff. With our business scale growing, approaches to workforce and governance systems are very important management issues. We will continue to examine these to develop the most appropriate systems.

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