

Sumitomo Forestry Group
Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2021
Conference Call with Analysts and Institutional Investors – Summary
Business Environment and Future Initiatives

Time and date: 13:00 a.m.–14:00 a.m., Wednesday, August 11, 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. I will provide an overview of our business environment, the second quarter results, and the full-year forecast along with an explanation of our future initiatives.

< Page 2 - Business Environment >

- In the United States and some countries in Europe, daily life is gradually returning to normal as progress is made on vaccination. However, due in part to the spread of the new COVID-19 variant, there is still no end in sight in Japan, Southeast Asia, and other places. On the other hand, the real GDP growth rates for 2021 announced by the IMF in July showed global GDP growing by 6.0%, US GDP by 7.0%, Chinese GDP by 8.1%, and European GDP by 4.6%. Despite the uncertainties, the prediction is that economic activity will start to recover.
- In Japan, the recovery is behind that of other advanced countries with a year-on-year growth rate of 2.8%. Owner-occupied houses has been up year on year eight consecutive months, supported by demand for new housing in the suburbs sparked by COVID-19 and various government measures to promote home buying. On an annualized basis, the number of new housing starts in Japan in June 2021 was 866,000.
- Meanwhile, against a backdrop of demand for new housing in the suburbs and low mortgage interest rates, the number of new housing starts in the United States in June 2021 recovered to 1,643,000 on an annualized basis, which is where it was prior to the global financial crisis in 2008.

< Page 3 - 1H Results and Full-Year Forecasts >

- Kawata will provide details later, but in the first half, net sales were up 20.3% compared to the period from April to September 2020 to 632.9 billion yen, and recurring income was up 80.5% to 51.8 billion yen. These results were driven by the Overseas Housing and Real Estate Business, primarily in the United States. For the full year, we expect net sales of 1.31 trillion yen and recurring income of 100.0 billion yen, significantly surpassing the 85.0 billion yen target of the Medium-Term Management Plan for a new record high.

< Page 4 - Impact of Wood Shock >

- As you know, the price of construction materials, including timber, has risen sharply worldwide. This was mainly due to the brisk US housing market and the container shortage arising from rapid economic recovery in the United States and China.
- The United States has a high self-sufficiency rate when it comes to timber, including supply from Canada, and the volume of imports from Europe and other regions increased, so there were no shortages despite the sharp increase in prices. In late June, futures prices entered an adjustment phase. On the other hand, Japan depends on imports for more than 60% of its timber with less than 40% coming from within Japan, so there has been a supply shortage on top of the sharp increases in price.
- In our Domestic Housing and Construction Business, there is concern about rising prices of timber and other supplies impacting revenue, but we will continue to leverage our timber procurement capabilities, which is one of our strengths, and work to streamline construction and reduce costs to minimize the impact on the balance sheet.
- In the Overseas Housing and Real Estate Business, we have continued to raise our selling prices against the backdrop of the favorable US housing market and have secured higher income than initially anticipated. In addition, although there have been delays in delivery of some materials due to robust demand, this has not led to substantial delays in construction. Timber prices are up in Australia as well, but as in the United States, the self-sufficiency rate is high, and the market is not significantly affected by international prices, so the impact has been small compared to Japan.

< Page 5 - Future Initiatives in Each Business >

- In the Timber and Building Materials Business, timber prices are no longer rising sharply in the United States. We will continue working to ensure a stable supply of timber to our Domestic Housing Business and our customers. As the competitiveness of timber imports rapidly dwindles in Japan, we will work to increase the amount of domestic timber we handle.
- To prepare for decreased demand for new housing starts in the future, we will expand our business in fields that do not depend on new housing starts, such as non-residential wooden buildings, renovation, and fuels for biomass power generation. We will also work to improve profitability at our manufacturing bases in Indonesia and Vietnam, which are faced with difficult operating circumstances due to the resurgence of COVID-19, while prioritizing management of employee safety.
- In the Housing and Construction Business, orders received for custom-built detached housing remain strong owing in part to digital marketing efforts including MYHOME PARK.

Government assistance measures, including tax breaks on home loans, are set to expire at the end of September, but we will continue engaging in activities to attract customers using a combination of online technology and display centers to respond to the new normal.

- In addition, we will work to expand ZEH for a decarbonized society and further increase orders by proposing safe and secure homes that are highly resilient.
- We will establish an infrastructure for our integrated customer management system centered on existing customers of Sumitomo Forestry, which now includes 340,000 homes, and promote retention marketing focused on renovation to create synergy throughout the existing home business.
- In recent years, longer construction periods and rising labor and material costs have become a challenge. We are accelerating our efforts to streamline construction, including pre-cutting of materials, and promoting enhancement of our material development and production system to further improve construction quality and reduce costs.
- In addition to these efforts, we will work on creating further synergy with COHNAN KENSETSU INC. and Kumagai Gumi Co., Ltd. and accelerating the adoption of wood construction and material in the non-residential field.

< Page 6 - Future Initiatives in Each Business >

- In the Overseas Housing and Real Estate Business, we expect the number of units sold in the United States to reach 11,050 this year. We will work on purchasing land in anticipation of further expansion of this number and pursue Group synergy, including group purchasing of materials. In some metropolitan areas such as New York and San Francisco, affordability has declined due to rising housing prices, but in growing areas where we do business such as Dallas, Houston, and Atlanta, household income is also rising, so there is a healthy market environment.
- In addition, discussions have begun on the timing of reduction of quantitative easing by the Federal Reserve, but interest rates on 30-year fixed mortgages remain at historically low levels below 3%, so there have been no significant changes in the fund procurement environment for customers. We will continue working to steadily expand the business while monitoring market trends.
- In Australia, there is a substantial backlog of orders received as a result of measures to promote home buying through March, but the resurgence of COVID-19 has led to repeated lockdowns in Sydney and other metropolitan areas, and the chronic labor shortage is affecting operations, so careful management of construction progress is required. We will promote diversification of revenue streams, including development of medium- and large-scale wooden office buildings, in

the aim of realizing a decarbonized society through wooden buildings. In Asia, we will work to accumulate our own business know-how while actively cultivating partners that share our philosophy.

- In the Environment and Resources Business, the forestation business in New Zealand is performing well owing to rising prices of logs sold to China. Furthermore, in June, our fifth biomass power plant began commercial operations in Kanda, Fukuoka. Also in the Environment and Resources Business, we will take advantage of the boost provided by the government's carbon neutrality declaration to generate profits in the carbon sinks business, increase the value of forest assets, and expand profitability of the renewable energy business.
- In the elderly care business, we will prioritize preventing COVID-19 infection among tenants and staff and provide tenants with a safe and secure living environment to further increase trust. In July, HOTEL VISON opened in Taki, Mie. This was our first endeavor in hotel development and operations. Building on this, we will begin promoting regional revitalization initiatives utilizing our housing-related know-how in collaborations with various companies.

< Page 7 - Capital Increase Through Public Offering >

- As announced in June, we issued new shares through public offering and third-party allotment, raising a total of 34.5 billion yen in funds. In recent years, the amount of funds necessary for operations has increased with the expansion of the housing and real estate business, particularly in the United States. In order to flexibly invest in future growth opportunities, we increased capital through the procurement of long-term funding to establish a solid financial base and secure investment capacity. In regard to the 34.3 billion yen in funds excluding expenses associated with issuance, 32.3 billion yen will be allocated to working capital and repayment of long-term debt in the US business, and 2.0 billion yen will be allocated to operations in the Australian business by December 2022.
- Keeping in mind that the housing and real estate markets both in Japan and overseas are sure to enter adjustment phases in the future, we will constantly work on improving capital efficiency and effectively utilize the funds procured.

< Page 8 - Return to Shareholders >

- After a comprehensive consideration of performance and other factors, we plan to increase the dividend per share for the fiscal year ending December 2021 by 20 yen from the initially planned 50 yen per share to 70 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 9 - Initiatives for Realizing a Decarbonized Society >

- Countries around the world have made their greenhouse gas emission reduction targets more ambitious, so this year will be a major turning point for the realization of a decarbonized society.
- It is said that global CO₂ emissions amount to around 33.0 billion tons. Out of this, the construction sector accounts for as much as 38%. Breaking it down further, CO₂ related to residential energy consumption, including electricity and gas, accounts for around 70%, and that related to energy consumption throughout the life cycle of construction materials from manufacturing and construction to tear-down accounts for the remaining 30%. The advantages of wooden buildings are gaining attention as interest grows in efforts to reduce CO₂ emissions throughout the construction to tear-down life cycle and reduce residential energy consumption to achieve carbon neutrality by 2050.

< Page 10 - Our Initiatives for Realizing a Decarbonized Society >

- In the first half, we were involved in construction of non-residential wooden buildings, including a music hall at Toho Gakuen, which was completed, and a school building at Sophia University, which was started. Not only do wooden buildings produce substantially less CO₂ emissions in the life cycle from construction to tear-down than steel frame and reinforced concrete construction, but they also provide long-term carbon fixation. This widespread utilization of wooden buildings is truly an effort to change towns into forests. The Sumitomo Forestry Group will continue to highlight the advantages of wooden buildings and our Group's knowledge in Japan and overseas and accelerate development of the medium and large scale wooden architecture business.
- In addition, in June of this year, we signed a cooperative business agreement with IHI and launched efforts to commercialize peaty land management technology in tropical regions and measure the CO₂ absorbed by forests with high accuracy. In the near future, we will find ourselves in an era in which visualization and labeling of the CO₂ emissions of each product such as the building materials and equipment used in buildings will be required. In this way, measuring CO₂ emissions and verifying/visualizing the reduction effect will be very important elements of initiatives for decarbonization.

< Page 11 - Our Initiatives for Realizing a Decarbonized Society >

- Meanwhile, the structural issue of the Japanese timber industry of a weak timber production system, which arises from the fact that the self-sufficiency rate is under 40%, has surfaced once again.

- Japanese forest land is small and divided among owners, and the network of logging roads used to transport logs is insufficient. For that reason, the cost of felling trees is high, and the scale of timber processors is small. This results in low competitiveness as a construction material, and not much progress has been made on developing materials for medium- to large-scale buildings. As such, the Japanese timber industry finds itself in a negative cycle in which the prices of timber and forest assets do not increase. Our Group has signed agreements with municipalities in Japan and is working on consulting related to forest utilization and development of machinery for use in forestry.
- This year is the final year of our three-year Medium-Term Management Plan. In the next Medium-Term Management Plan, which will start next year, we will expand and promote the concept of sustainable forest management in Japan and overseas. We will also take the lead in developing cyclical economic activities from timber processing and distribution to wooden building construction or, in other words, a circular bio-economy. We believe that promoting the realization of a decarbonized society based on economic rationality in this way will be the key to achieving sustainability of society and growth of our Group.
- This concludes the briefing. Thank you for listening.

End

Note : This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.