

**Sumitomo Forestry Group**  
**Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2022**  
**Conference Call with Analysts and Institutional Investors - Q&A**

Time and date: 1:30p.m. - 2:30 p.m., on Wednesday, August 10, 2022

Answers:

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

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

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Q

What level of sales do you think will be at in the detached housing business in the United States in the fiscal year ending December 31, 2023? I understand it will depend on orders received in the third and fourth quarters this fiscal year.

A

Currently, orders received have slowed down due to a drop in affordability, but the number of cancellations has not increased much. If orders received continue at the pace, they were at through the first half, the number of units ordered for the full year will be down 20-30% compared to the previous fiscal year.

As for the order backlog, last year and the year before, the percentage of presale agreements (built after sale) was particularly high. As of the beginning of the year, the backlog for the fiscal year ending December 31, 2022 was over 7,700 units, but we hope to start out at a backlog of around 5,000 units at the beginning of the fiscal year ending December 31, 2023. Up to the fiscal year ended December 31, 2019 before the COVID-19 pandemic, the percentages of presale agreements (built after sale) and spec home agreements (built for sale) were roughly 50/50. Going forward, we will respond by company and by market, taking inventory risk into consideration, secure properties for sale in the next fiscal year and tie that into sales while maintaining a balance between built-after-sale and built-for-sale homes.

Q

What is the outlook for the recurring income margin in the detached housing business in the United States in the fiscal year ending December 31, 2023 and beyond? (FY2022/12 forecast: 19.5%; FY2022/12 1H result: 21.0%)

A

The recurring income margin in the detached housing business in the United States was around 12% in the fiscal year ended December 31, 2019 and before. However, by passing on the increase in costs to our market prices in the fiscal year ending December 31, 2022, we expect to bring it to 19.5%, which is substantially higher than the initial expectation of 15.4%. At the same time, this is a very high level, so it is unlikely to continue at this level into the future. We hope to maintain it at around 14-15% as set forth in the Medium-Term Management Plan. Timber prices have currently come down around a third in the futures market

compared to the peak, and material delivery delays are steadily being resolved. While working on reducing costs and promoting sales through discounts using the current high margin as a buffer, we hope to thoroughly secure the overall number of units sold and keep the profit level from dropping as much as possible next fiscal year and thereafter.

Q

The forecast for recurring income for the five housing companies in the United States in the fiscal year ending December 31, 2022 is 132.5 billion yen, which exceeds the target of 107.5 billion yen for the final year of the Medium-Term Management Plan. On the other hand, based on the current drop in orders received, should a conservative approach be taken with respect to results in the fiscal years ending December 31, 2023 and December 31, 2024 or is everything on track? Based on rental condominium sales, primarily multi-family housing, and expansion of the detached house rental business, will you also be looking to revise the target from the Medium-Term Management Plan upward for the Overseas Housing and Real Estate Business as a whole? Can you tell us about your outlook in that regard?

A

Our targets for the number of units sold in 2024 are 16,000 in the United States and 4,000 in Australia for a total of 20,000 units. At this time, these targets remain unchanged. In addition, to achieve the target in the United States, we have prepared 77,000 lots, including lots not yet acquired but that are under contract. We do not expect the margin to remain at the level of the forecast for this fiscal year around 19.5%, but we will work on a product strategy of differentiation and reducing the costs of labor and materials to ultimately achieve a recurring income margin of 14-15%, which is the target of the Medium-Term Management Plan. Moreover, as demand for detached rental housing increases, we are already seeing some built-for-sale properties used for detached house rentals at our housing subsidiaries. Being able to respond to these changes in demand is a result of the efforts we have made to date, and we hope to maintain profits while moving forward with efforts such as these.

Q

As for dividends, is my understanding correct that even if profits were to decline next fiscal year, your basic approach will be to maintain stable dividends and not lower them unless there is an event of the magnitude of the 2008 financial crisis? What are your thoughts on this?

A

We revised the annual dividend forecast from 80 yen per share to 125 yen in light of the profit level after the recent upward revision and other such factors. At this time, there is no change in our dividend policy. In the fiscal year ended December 31, 2021, net income exceeded 80.0 billion yen, and we believed it had reached another level, but we were unsure how long that would last, so at the time of the initial plan, we set the annual dividend at 80 yen per share (the same as the previous year). With the upward revision to the results, we now expect net income of 100.0 billion yen for the fiscal year ending December 31, 2022, so we increased the

annual dividend to 125 yen per share. We hope to keep it at this level going forward.

Q

What is the situation with orders received for detached houses in the United States by area, and what is the outlook for the future?

A

Among the areas where we do business, we are seeing a certain slowdown in orders received, including a certain amount of cancellations and a decrease in the number of visitors to our housing display centers, in markets where housing prices have risen sharply such as Phoenix, Arizona, Denver, Colorado, and Salt Lake City, Utah. At the same time, prices have risen in Seattle, Washington, but demand for homes in the higher price range is strong, so there is not as much of a struggle in terms of orders received there. The strategies and situations differ depending on the area, but overall, there is a sense of relative deceleration in the American West where housing prices had risen while the sense of deceleration is less pronounced in the South Central and Mid-Atlantic areas.

The areas in which we operate are regions with a significant population influx and a large number of housing starts. From the standpoint of future recovery, we believe that 30-year mortgage rates settling at around 4 to 5% will be a turning point. Based on this outlook, we will work on landing orders while balancing presale (built after sale) and spec homes (built for sale) according to the market conditions in each area.

Q

In regard to the domestic Housing and Construction Business, what is the situation with your ZEH initiative in rental housing, and what would be the impact of mandatory solar power generation for new houses, which Tokyo is considering?

A

The basic policy for our Forest Maison rental housing is to make all of them ZEH condominiums. As for the proposal to make solar power generation mandatory in Tokyo, there is not a big difference between that and our ZEH strategy for Tokyo, so even if it were to be enforced, we would be able to address the requirements.

Q

You said that real estate development is going well in the United States. What is the sales and pipeline situation there, and what does the market environment look like?

A

In regard to real estate development in the United States, this fiscal year, Crescent and SFAMF expect to sell a combined total of 10 properties. There are about 20 multi-family housing properties in the pipeline and around 20 commercial and mixed-use complexes, so the business is performing well. As for the market environment, rental demand is particularly high for multi-family housing. Compared to multi-family housing,

it is difficult to identify demand for office buildings. However, in Texas and South Carolina, where there are tax advantages, we expect continued demand for offices in conjunction with company relocations. We are also considering wooden office projects and others in the United States.

Q

What will the scale and yield be for the forestry fund, and how are actual inquiries shaping up?

A

Forestry funds have been available as an alternative investment in the United States, Oceania, South America, and other places for more than 30 years, and the internal rate of return is around 6%. In recent years, forest-based carbon credits have attracted a great deal of attention, and development of international frameworks and national rules for calculating credits is underway. Companies in industries that emit large amounts of greenhouse gases, such as the energy industry, are already purchasing overseas forest assets on a voluntary basis and are announcing these moves externally as carbon credits derived from forests rather than utilizing funds. In addition to the forest management technology and terrestrial measurement data that we have cultivated in Japan and overseas, we are working to commercialize the creation of high-quality carbon credits that utilize satellite data technology. We have already received inquiries about investing in the fund from around 30 companies. We hope to launch the first fund by 2024, but we believe it may be possible to realize bilateral carbon credit trading sooner than that.

Forest value consists of conventional revenue from the sale of timber and the new value of forest-based credits. Second-generation forestry funds are gaining traction. Furthermore, discussions on forests in relation to conserving biodiversity as natural capital and their function in preventing landslides have begun in international frameworks such as SBT for Nature and Task force on Nature-related Financial Disclosure (TNFD). We have the additional know-how of forest management, having properly managed tropical peat forests, which are said to fix CO<sub>2</sub> equivalent to 10 times the annual greenhouse emissions of the world. We hope to form forestry funds with a view to utilizing these as well.

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