

FY12/2022 2Q Financial Results Briefing
Business Environment and Progress on
Medium-Term Management Plan

August 10, 2022

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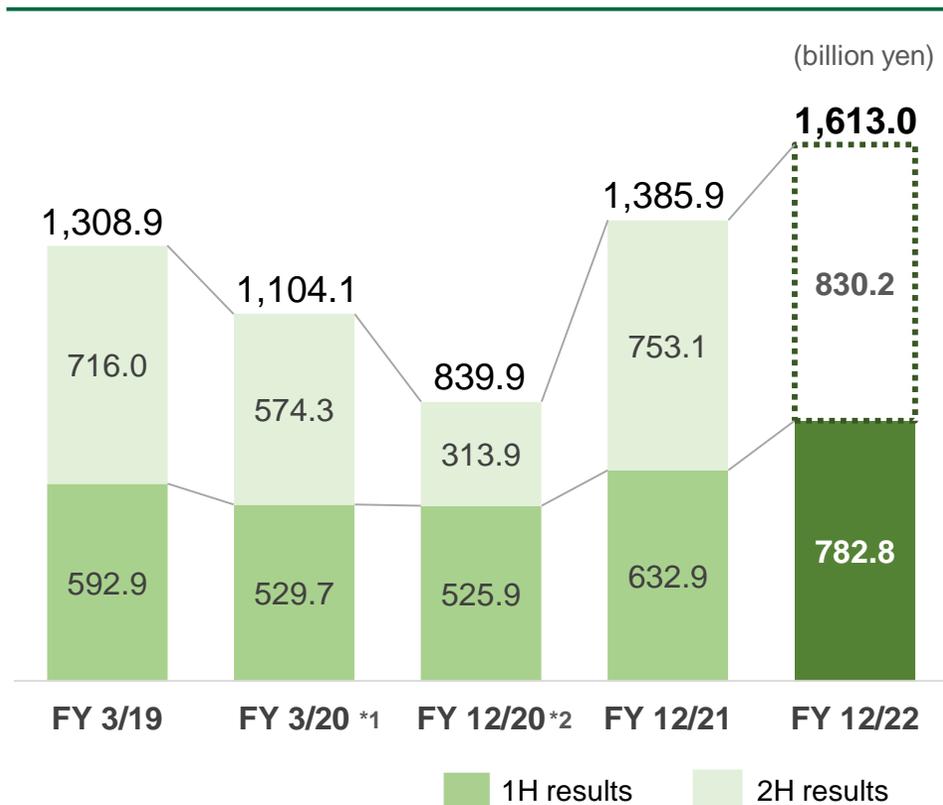
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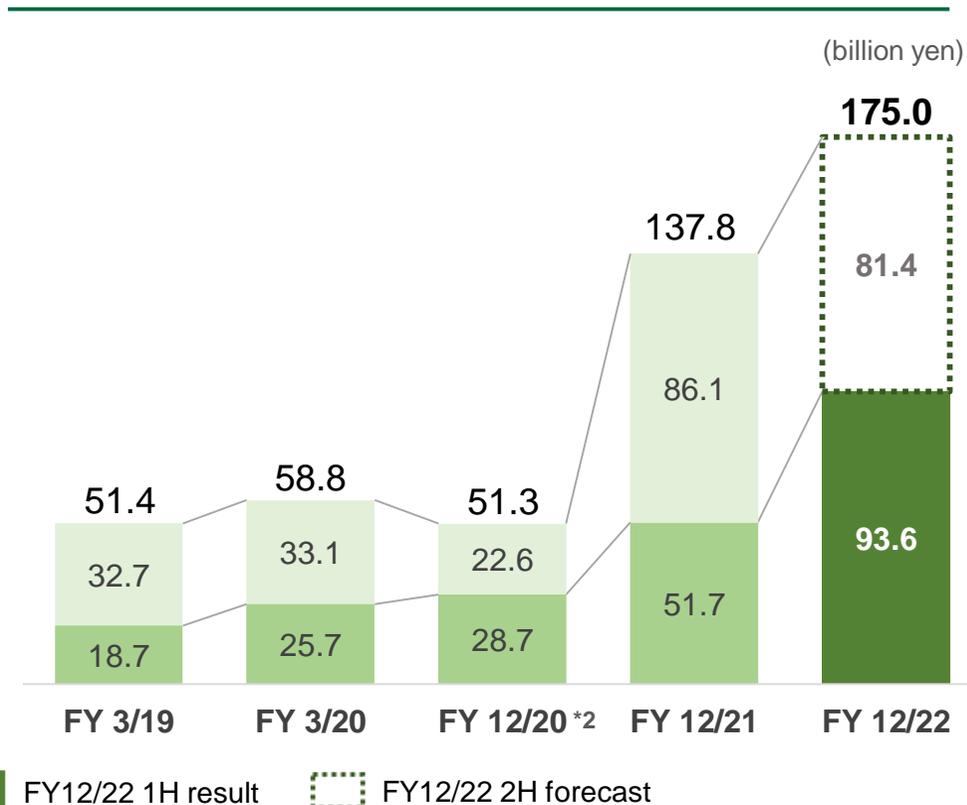
Overview of Results (2Q Results & Full-Year Forecast)

- Record-high income recorded in 2Q owing to growth of Overseas Housing and Real Estate.
- Full-year forecast revised upward as results in Overseas Housing and Real Estate expected to exceed initial forecast.

Net sales



Recurring income



*1. The net amount of revenue from Timber and Building Materials transactions is provided as of FY3/20.

*2. FY12/20 is the nine-month period from April to December due to the fiscal term end being changed from March 31 to December 31 in FY12/20.

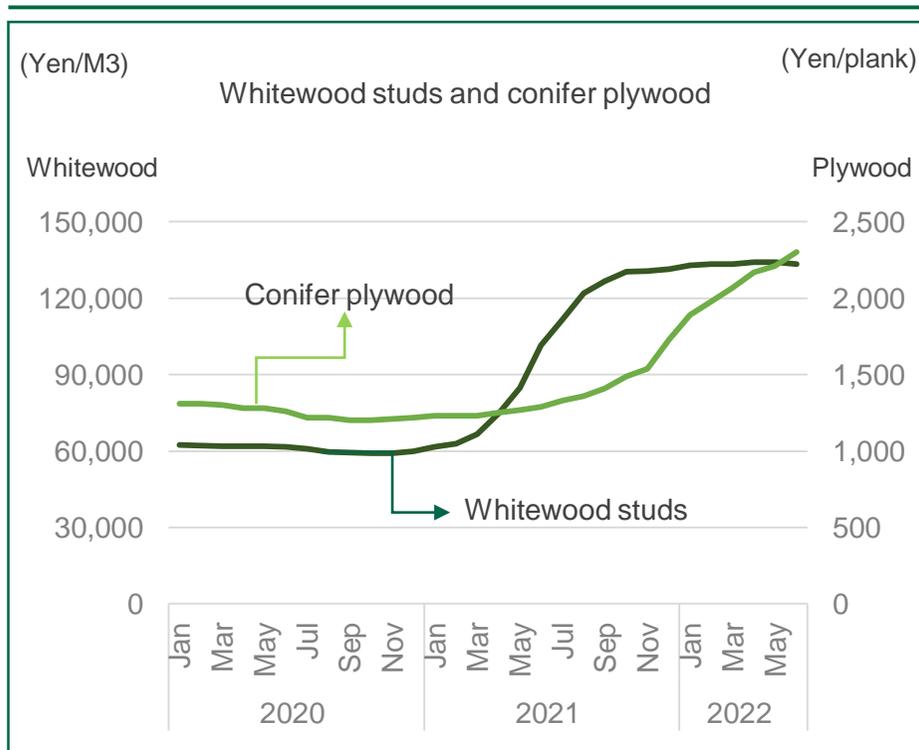
Segment Overview (2Q Results & Full-Year Forecast)

- A substantial 49% increase in recurring income is forecast as Overseas Housing and Real Estate performs well.
- Soaring prices of timber and other materials in Japan increased costs in Housing and Construction, but contributed to increase in profits in Timber and Building Materials.

	Billion yen	FY12/22 2Q results	Pct.	FY12/22 Full-year forecast	Pct.	Change from previous forecast
Timber and Building Materials	Net sales	136.5	+38.7%	258.0	+19.0%	+22.0
	Recurring income	7.4	+157.9%	12.5	+25.2%	+2.5
Housing and Construction	Net sales	255.9	+3.5%	527.0	+3.1%	+11.0
	Recurring income	5.9	-47.1%	12.0	-38.9%	-
Overseas Housing and Real Estate	Net sales	384.3	+37.3%	829.0	+28.6%	+63.0
	Recurring income	81.2	+125.2%	155.0	+48.6%	+40.0
Environment and Resources	Net sales	10.4	-6.7%	23.5	+5.4%	-
	Recurring income	1.1	-47.6%	2.5	-36.4%	-0.5
Other	Net sales	11.8	-2.4%	26.5	+10.7%	-
	Recurring income	1.3	-9.4%	3.0	-0.4%	-0.5
Adjustment	Net sales	-16.1	-	-51.0	-	-7.0
	Recurring income	-3.2	-	-10.0	-	-1.5
Total	Net sales	782.8	+23.7%	1,613.0	+16.4%	+89.0
	Recurring income	93.6	+81.0%	175.0	+27.0%	+40.0

- In regard to timber prices in domestic market, product prices expected to remain high and plywood prices to continue to rise.
- Some costs reflected in new contract prices for domestic houses since June in response to continued high prices of materials.
- Meanwhile, considering current inventory levels and other factors, prices may be adjusted going forward.

Prices



Source: Timber Statistical Survey by Ministry of Agriculture, Forestry and Fisheries
 Whitewood studs (3.0 cm thick, 10.5 cm wide, 3.0 m long, special grade)
 Conifer plywood (1.2 cm thick, 91.0 cm wide, 1.82 m long, Category 1)

Inventory levels



Source: Tokyo Lumber Terminal

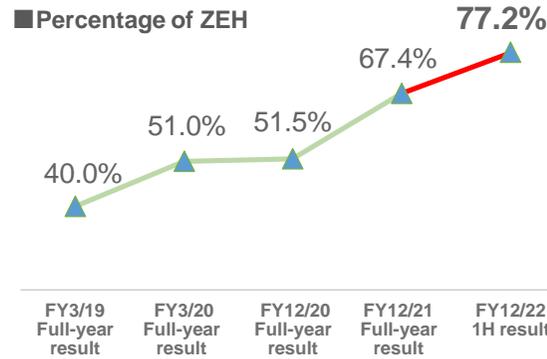
- Aiming to increase income by developing products that address various needs, enhancing marketing, and improving construction efficiency.

Provision of high added value

✓ Promotion of ZEH



Reduce annual primary energy consumption to zero or lower by combining high-performance insulation, energy-saving, and energy-creating equipment.



✓ Launch of new lineup of LCCM houses



Achieve negative CO2 balance over entire housing life cycle utilizing advantages of wooden houses.

✓ Strengthening of Forest Selection sales



Selection of floor plans based on lifestyle

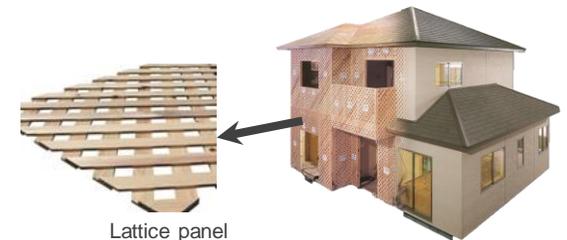
Enhancement of digital marketing

✓ Utilization of digital tools



Promotion of construction streamlining

- ✓ Pre-cut and panel parts
- ✓ Spread of pre-cast foundation



- Current US housing market situation is different from mortgage crisis (2007-2008).
- Unemployment rate also remains low.

Sound mortgages

✓ Increased debt-bearing capacity

As of 2Q of 2022, about 6% of mortgage borrowers in US had credit score of less than 660, significantly healthier than in 2007 at 25%.

✓ Low percentage of variable interest loans

In 2007-2008, high percentage of mortgage loans converted to variable interest rates after certain time (over 30%), contributing to higher percentage of defaults. Current percentage of variable interest rates remains low around 10%.

✓ Low mortgage delinquency rate

Mortgage delinquency rate remarkably low at around 4% overall.

✓ Homeowner's equity

Percentage of mortgages where housing value below mortgage balance (negative equity) currently around 2%, far below 2010 level of around 25%.

Housing supply shortage

✓ Low existing home inventory

Used housing inventory at around 1 million units as of May 2022; very low compared to nearly 4 million units during mortgage crisis. 2.5 months' worth of existing home inventory also low (was more than 10 months' worth during mortgage crisis).

✓ Low new construction inventory

As of May 2022, new construction inventory at low level of 37,000 units (around 200,000 units in 2008).



Although there will inevitably be an impact from the sharp rise in mortgage interest rates, the supply-demand balance remains tight, and the housing market is expected to expand over the medium to long term after a temporary adjustment phase.

Current Situation

- ✓ There is still demand for housing, but more and more, customers are taking a wait-and-see approach due to sharply rising mortgage interest rates and declining affordability.
(30-year fixed-interest rates have gone from the low 3% range in early 2022 to nearly 6% in late June.)
- ✓ In some areas, a temporary slowdown is unavoidable due to declining housing sales prices. At the same time, however, the prices of timber and other materials are dropping, and delays in delivery of materials are improving.

Outlook

- ✓ According to think tanks and other experts, mortgage interest rates are expected to peak in 2Q and 3Q of 2022, gradually decline, and remain in the range of 4% to 5% from 2H of 2023 to 2024*.
- ✓ If inflation were to subside and interest rates remained stable within a certain range, this would likely reduce the sense of uncertainty over interest rates and lead to more active home buying.
- ✓ If the supply-demand balance remains tight, once the current adjustment phase passes, it is expected that improvement in consumer sentiment will contribute to a recovery in the housing market.

* Source: The Mortgage Bankers Association, July 18, 2022 and Federal National Mortgage Association, July 11, 2022

- Steadily implement initiatives for future sales expansion while addressing current interest rate hikes.

Development of detached housing business with risk control

✓ **Response to rising interest rates**

Work on preventing cancellations and accumulating contracts by offering incentives such as preferential interest rates.

✓ **Appropriate inventory management**

Risk management system for real estate investment in place; maintaining appropriate balance between profit and risk.

✓ **Purchasing of choice land**

✓ **Consideration of entry into new areas**

Will carefully select a certain amount of land to purchase for future. Will also carefully select M&A projects and continue to consider entry into new areas.

Stable property sales in real estate development business

✓ **Crescent**

Sales of properties in 1H of FY12/22 exceeded expectations. Multi-family home leasing also going well.

✓ **SFAMF**

Property sales begun in joint ventures with TCR and JPI. Have also begun collecting fees in Asset Management Business.



Expansion of business portfolio Creation of synergy between businesses

✓ **Development of apartments**

✓ **Expansion of peripheral businesses**

Accelerate new business initiatives, including peripheral businesses, such as development of single-family and multi-family rentals and expansion of asset management business.

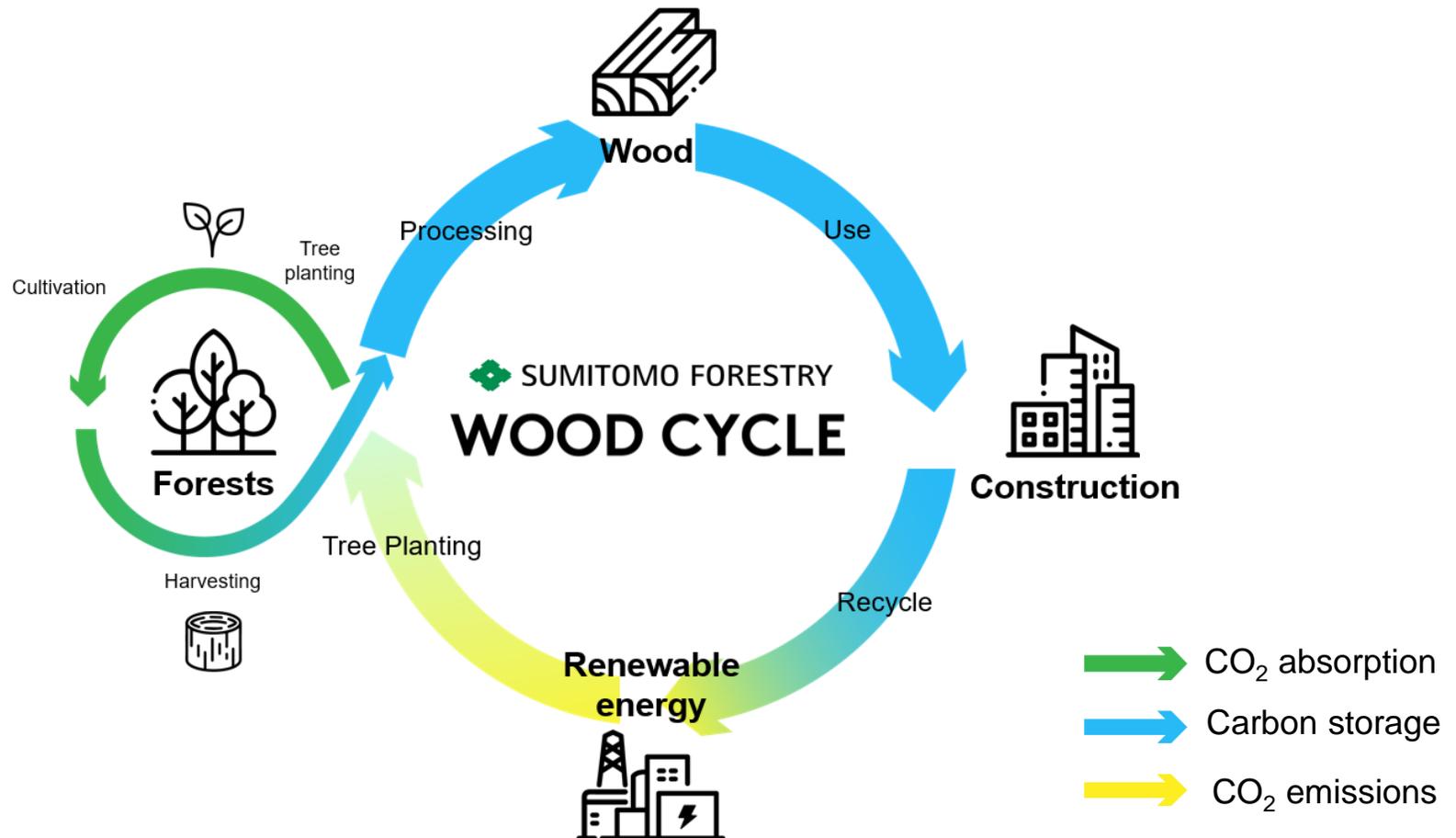


Streamlining of construction Shortening of construction periods

✓ **Promotion of Fully Integrated Turn-key Provider (FITP) business**

We are promoting an FITP business in which we provide integrated services that include everything from structural panel manufacturing to framing work in the aim of improving the stability and efficiency of the supply system, reducing costs, standardizing construction safety management, shortening construction periods, and reducing waste from construction sites.

Sumitomo Forestry, which handles everything from forest management to timber processing and distribution, wooden construction, and wood biomass power generation, will contribute to the absorption and storage of CO₂ not only at our company but also in society as a whole by implementing a wood cycle.



Forestry: Decarbonization Initiatives Centered on Forestry Fund (Global Forestry Fund)

Overview

- Establishment of Japan's first global forestry fund
- Contribution to carbon offsetting, including at other companies

Assets managed by forestry fund in 2030	100 billion yen
Forestry land managed in 2030	500,000 ha

Background

- Decarbonization efforts accelerating worldwide
- Increased attention/demand for carbon credits

Issue

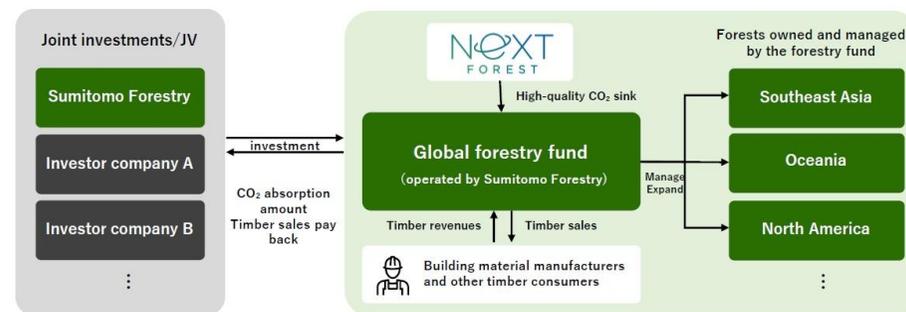
- Volume of credits issued by government is insufficient
- Large volume of credits is issued by private companies, but problems include unclear monitoring method, excessive issuance, and insufficient data

High-quality carbon credits need to be created

Progress

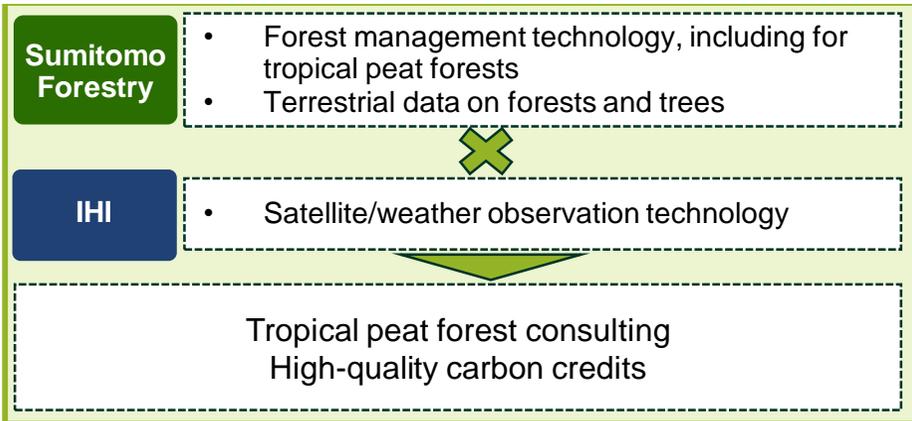
- 2020 Establishment of SFC Asset Management Co., Ltd.
- 2022 Formation and launch of management of private real estate development fund in US
- Present Ascertainment of needs, primarily those of domestic companies
Sourcing underway in Asia and Oceania
- Thru 2024 Formation of Fund No.1
- Thru 2030 100 billion yen in assets managed by forestry fund
500,000 ha of forestry land managed

We will expand our forestry fund business in anticipation of future demand for carbon offsetting



Overview

- Forest management/conservation using remote sensing technology
- Combine knowledge and technology of Sumitomo Forestry and IHI
- Aim to increase accuracy of technology for estimating carbon fixation amounts



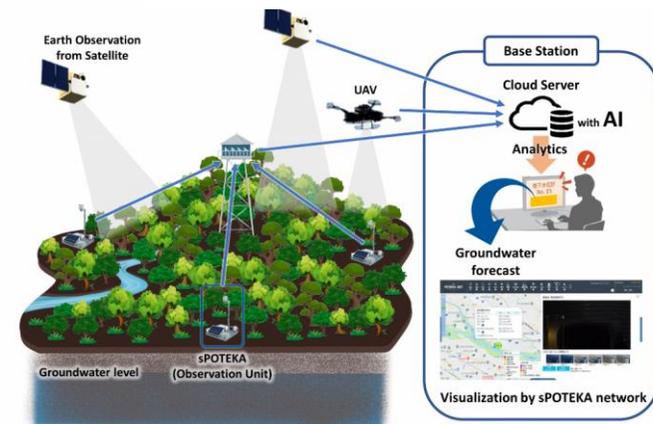
Expand forest management consulting business to other companies and contribute to decarbonization worldwide



Tropical peat forest in Indonesia

Progress

- 2016** Establishment of management method using water level control in tropical peat forests in Indonesia
- 2021** Conclusion of business collaboration agreement with IHI
Presentation of project to world at COP26
- Present** Establishment of project implementation system, development of technology required for forest management consulting underway
- Future** Aim to receive orders for consulting services related to tropical peat forest management in Indonesia
Accumulate data on forests and peatlands around the world to improve observation accuracy



Overview

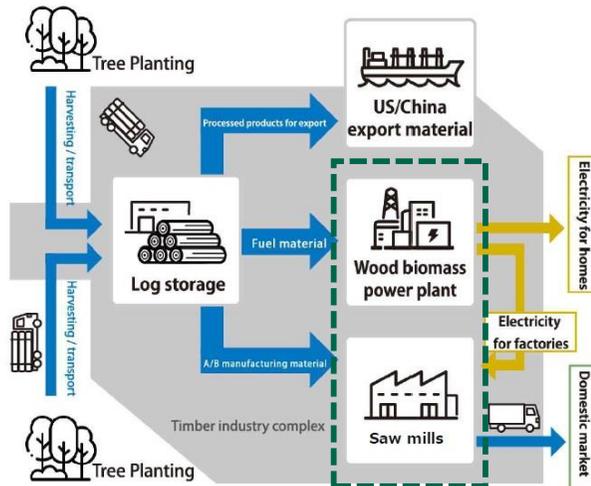
Background

- Lumber prices soaring worldwide (wood shock) under global competition for timber resources
- Expanding use of domestic timber is an urgent issue

- Build stable supply system for domestic timber and improve Japan's timber self-sufficiency
- Promote use of wooden construction in non-residential buildings

Wood industrial complex

2030 domestic timber use
1 million m³/year



Promotion of cascading in which every part of the tree is used

Progress

Progress made on Project No. 1 in Shibushi City, Kagoshima

- Shibushi Port is Japan's largest log export port
- Supplying products to Japan and other countries
- Secured power source via biomass power generation



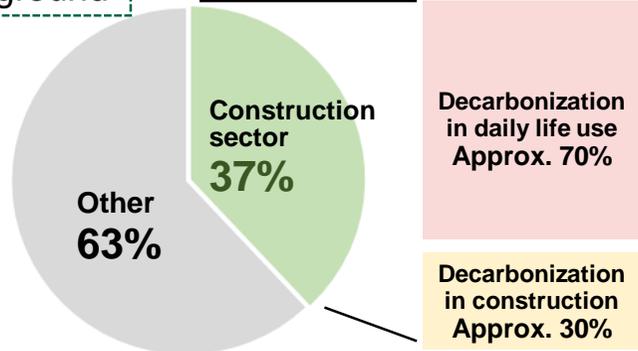
- 2022 Acquired business land in Shibushi City
- Present Developing high value-added processed products
- Future Considering multiple locations around Japan, mainly in areas rich in timber resources

At the wood industrial complex, our goal is to contribute to the realization of a decarbonized society through the implementation of a wood cycle of planting, cultivating, harvesting, using, and reforestation.

Aiming to launch operations between 2025 and 2028

Overview

Background



Source: Global Alliance for Building and Construction (2021)

Construction sector accounts for 37% of global CO₂ emissions

- Reducing CO₂ emissions during construction by using wooden structures instead of others
- Reducing CO₂ emissions with timber carbon fixation

Issue

- Establishment of appropriate indicators for evaluating CO₂ emissions
- Strengthening market competitiveness of wooden construction by standardizing materials and reducing costs

Contribute to the decarbonization of society as a whole by increasing the number of environmentally friendly buildings

Progress

One Click LCA

- Visualization of CO₂ emissions during construction
- Coordination with more than 50 international certifications, including ISO and LEED
- Sumitomo Forestry is sole agent in Japan
- Sales launched in Japan in August 2022
- Agreements concluded with multiple design firms, developers, and general contractors
- Create broad trend of decarbonized design



LCCM housing

- Achieve negative CO₂ balance over entire housing life cycle
- Sales launched in Japan in April 2022

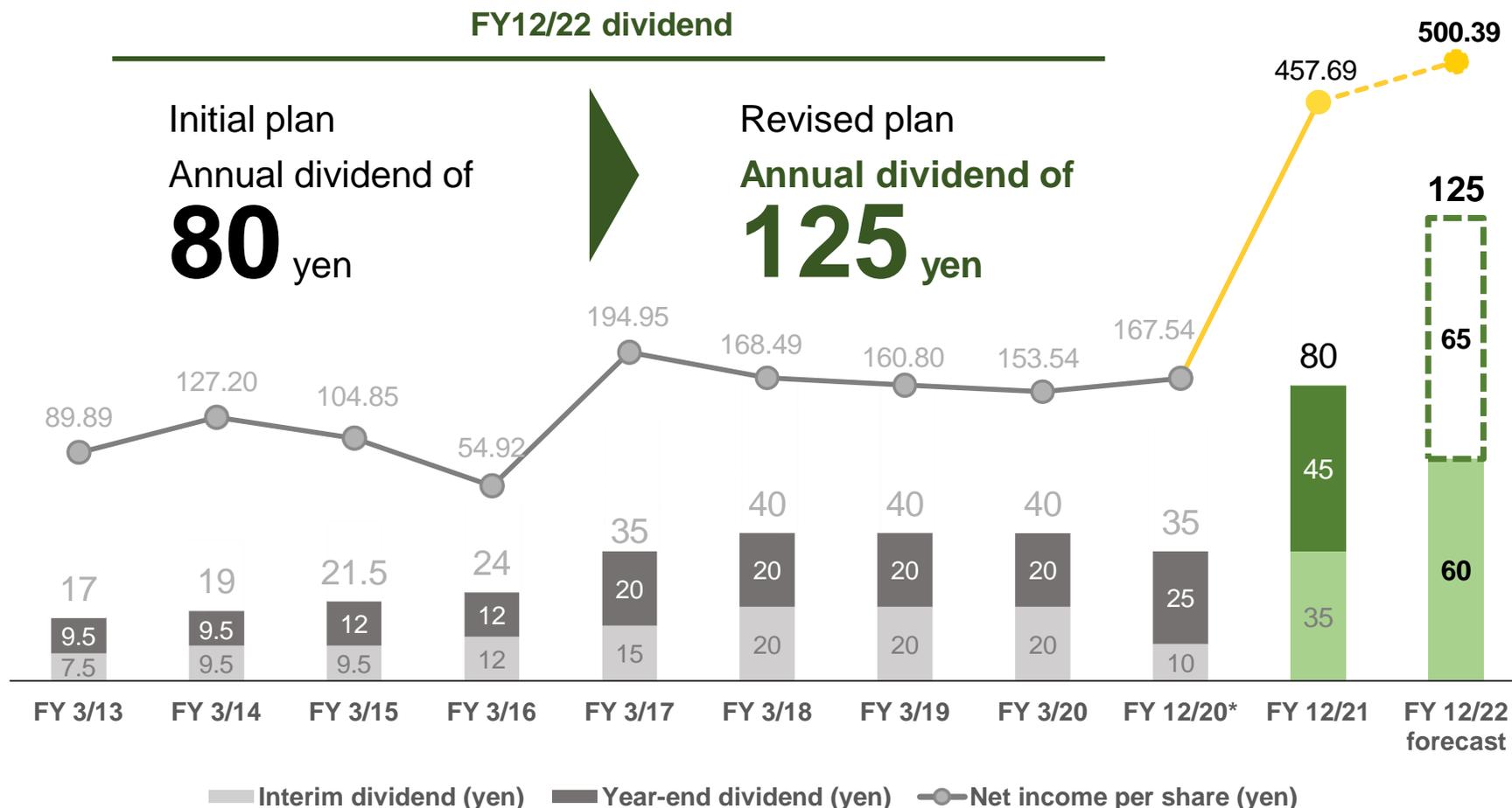


Promotion of medium- to large-scale wooden construction

Also under consideration in US



- Based on a comprehensive consideration of business results and other factors, we plan an annual dividend per share for FY12/22 of 125 yen, an increase of 45 yen from the initial plan of 80 yen per share.



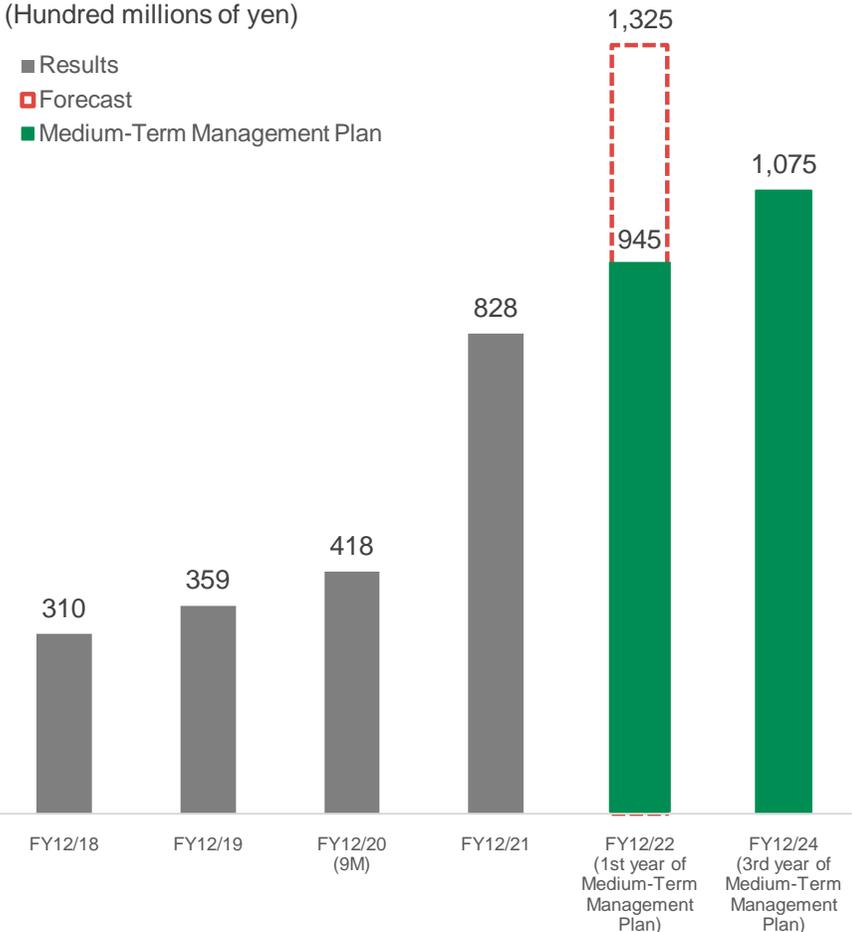
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Appendix

US Single Family Home Business Results (5 Housing Companies in US)

- Both amount and ratio expected to substantially exceed initial plan this year (FY12/22), first year of Medium-Term Management Plan.
- Recurring income forecast for this year is at level that exceeds target for third year of Medium-Term Management Plan (FY12/24).

Recurring income



Recurring income ratio



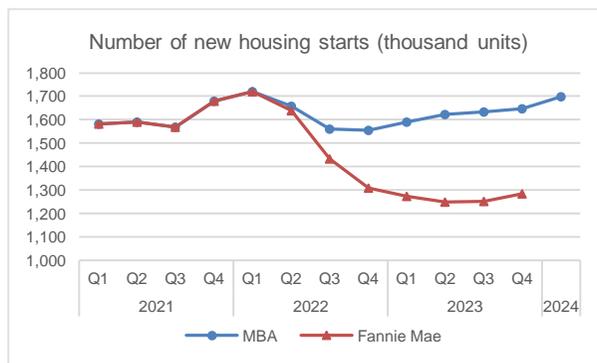
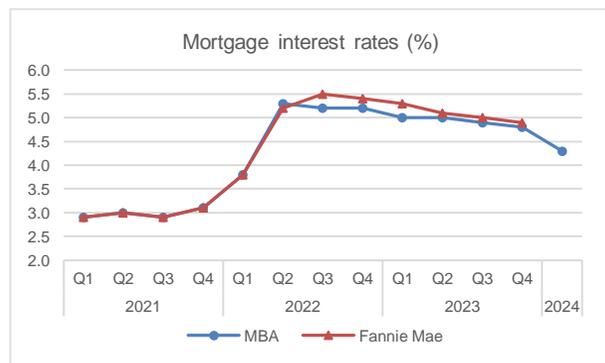
Think Tank Predictions for US Housing Market

		Result	Result	Result	Result	Result	Forecast							
		2021	2021	2021	2021	2022	2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4
Number of new housing starts (thousand units)	MBA	1,581	1,591	1,569	1,679	1,720	1,658	1,559	1,556	1,589	1,622	1,633	1,648	1,699
	Fannie Mae	1,581	1,591	1,569	1,679	1,720	1,640	1,432	1,308	1,273	1,248	1,252	1,284	
House price index	MBA *1	13.1	17.7	18.6	17.6	18.8	16.6	5.6	2.7	2.4	2.3	2.5	2.4	2.5
	Fannie Mae *2	12.9	17.2	19.3	19.0	20.5	19.9	17.4	16.0	11.3	7.8	6.3	4.4	
New home prices (thousand USD)	MBA	364.9	380.6	407.8	422.5	430.9	452.8	437.4	438.6	438.6	440.5	442.1	443.3	446.1
	Fannie Mae													
Mortgage interest rates (%) (30-year fixed)	MBA	2.9	3.0	2.9	3.1	3.8	5.3	5.2	5.2	5.0	5.0	4.9	4.8	4.3
	Fannie Mae	2.9	3.0	2.9	3.1	3.8	5.2	5.5	5.4	5.3	5.1	5.0	4.9	
Federal Funds Rate(%)	MBA *3	0.125	0.125	0.125	0.125	0.375	1.625	2.375	3.375	3.625	3.875	3.875	3.875	3.375
	Fannie Mae *4	0.1	0.1	0.1	0.1	0.1	0.8	2.2	3.4	3.1	2.8	2.7	2.9	
Long-term interest rates (%) (10-Year Treasury Yield)	MBA	1.3	1.6	1.3	1.5	1.9	2.9	2.9	2.9	2.9	2.9	2.8	2.8	2.5
	Fannie Mae	1.3	1.6	1.3	1.5	1.9	2.9	3.0	3.0	3.0	3.0	3.0	3.0	

MBA: The Mortgage Bankers Association, July 18, 2022
 Fannie Mae: Federal National Mortgage Association, July 11, 2022

*1. FHFA US House Price Index (YoY % Change)
 *2. Fannie Mae HPI

*3. End of year rate
 *4. Average rate



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- This material is not intended to solicit investment or acquisition of any other financial instrument.

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Happiness Grows from Trees



SUMITOMO FORESTRY