



## Increasing Corporate Value while Keeping Pace with the Changing Times

At the beginning of 2020, COVID-19 spread on an unimaginable scale, leading to restrictions on social and economic activity around the world. It is being said that both advanced and developing nations have entered a recession that will overshadow the financial crisis of 2008.

In addition, natural disasters such as large-scale forest fires, droughts, typhoons and floods have caused tremendous devastation around the world in the past few years. Awareness of climate change, which is thought to be the cause of those disasters, is rising. Meanwhile, concrete efforts are moving forward on both a national level and in the private sector.

Amidst such an environment, I took over the reins of management and became President in April 2020. We are facing a major turning point in the business environment, as corporate and social activities are required to adapt to a “new normal.” While that is going on, we are working to strengthen our business foundation while flexibly adapting to changing times based on cool-headed analysis of the situation and new concepts that go beyond conventional wisdom.

As a cornerstone of the Sumitomo Forestry Group, Sumitomo's Business Spirit, which places prime importance on fairness and integrity for the good of society, has continued to guide our activities since our foundation. Management believes it is the Group's mission to further increase corporate value based on this spirit, while clearly identifying areas to protect and areas to significantly change from a long-term perspective within a challenging business environment.

### Our Response to COVID-19

The impact of COVID-19 has spread like wildfire to all corners of the globe and an end is not yet in sight, but the Sumitomo Forestry Group places the utmost priority on preventing the spread of COVID-19 among stakeholders, including customers, suppliers, as well as employees and their families, while conducting business operations.

Regarding our work systems for employees, we have expanded the scope of eligibility for working remotely, which we had already been promoting as a part of workstyle reforms, and greatly accelerated the upgrading of IT systems and work environments ahead of the initial schedule. In addition, we aim to continue operations while at the same time preventing the spread of COVID-19 by encouraging the use of systems such as staggering working hours and flextime.

Turning to the topic of materials procurement, Sumitomo Forestry is enhancing the monitoring of inventory levels and operations at manufacturing bases, including overseas suppliers. At the same time, we are improving our ability to address risks in the supply chain, such as by commencing negotiations with suppliers to decentralize their production sites.

In capital procurement, we maintain good relationships with financial institutions, diversify procurement sources, and have taken out commitment lines with multiple financial institutions as part of various measures to mitigate financing risks. And we ensure there is adequate liquidity in cash and cash equivalents, and are making preparations for strategic investments in the future.



## Sustaining Growth with a Solid Management Base

Although the business environment is drastically changing, the Sumitomo Forestry Group is still determined to build an even stronger management foundation to sustain growth over the long term.

Management continues efforts to enhance shareholders' equity, along with measures to improve cash flow and return on equity (ROE). In light of deteriorating business conditions due to the COVID-19 pandemic, improving cash flow in particular has become a higher priority. While working to reduce current assets beginning with improvements to the inventory turnover ratio, we are more carefully scrutinizing investments targeting sustained growth.

Turning to corporate governance, in a bid to increase opportunities to gain the confidence of shareholders, Sumitomo Forestry shortened the term of directors from two years to one year and also shifted to segments that

matched the reality of the business situation. We aim to further improve the transparency of management by unifying the fiscal years of Group companies and facilitating the timely and accurate disclosure of business information.

We view returns to all shareholders as one of our most important management tasks at Sumitomo Forestry, and our basic policy is to provide stable and ongoing returns. In spite of challenging business conditions, the Company is keen to return an appropriate level of profits to shareholders based on recent profit levels and a comprehensive evaluation of the balance between the business foundation, financial conditions and cash flow. For the nine-month fiscal period ending December 31, 2020, the Company plans to distribute a dividend of ¥30 per share in total (interim and year-end dividends), which is on a par with the ¥40 per share dividend it has paid for a full 12-month year.

## Progress on the Medium-Term Management Plan

The aims of the 2021 Medium-Term Management Plan, which launched last fiscal year, are to strengthen the management foundation and promote future-oriented business strategies for further growth in order to create and nurture new businesses.

In the first year of the medium-term management plan, Sumitomo Forestry early adopted the "Accounting Standard for Revenue Recognition" in fiscal 2019, causing a sharp decline in net sales. However, when adjusted for the ¥240 billion impact from adopting this accounting standard, net sales increased. Recurring income totaled ¥58.8 billion, reaching a record high that was much higher than the previous year, thanks to a solid performance in the U.S. housing and real estate development business. Furthermore, recurring income (excluding the effect of actuarial gains and losses) was ¥61.4 billion.

Due to a change in fiscal year-ends from March to December, fiscal 2020 will be an odd nine-month fiscal period. Compared with the same period in the cumulative third quarter of the previous year (April to December

2019), Sumitomo Forestry expects profits to decline in domestic and overseas business owing to the impact from the spread of COVID-19 in Japan and around the world. We have proactively enacted sales strategies to respond to this "new normal," such as enhancing our website for product promotion, proposing floor plans suitable for working remotely and interacting with customers without in-person meetings. Impacts from a drop in domestic orders for custom-built detached housing at the start of the year and delays in finishing construction are expected to affect earnings from the second half of the current fiscal year and extend into the first half of the next fiscal year.

Regarding the plan for the year ending December 2021, which is the final year of the medium-term management plan, the initial business environment in Japan and overseas has changed significantly, and there is concern about the re-expansion of COVID-19 infections. Therefore, we will scrutinize the plan and announce it early in the next term.

### Four Basic Policies of the 2021 Medium-Term Management Plan

- ① Promote future-oriented business strategies for further growth
- ② Strengthen management base for sustainable growth
- ③ Accelerate R&D and technological innovation utilizing timber
- ④ Promote further integration of business operations and ESG (Environment, Society, Governance) initiatives



Consolidated Performance	Results in fiscal 2019 (ended March 31, 2020)		Forecasts for fiscal 2020 (ending December 31, 2020) <sup>*1</sup>		Plan for fiscal 2021 <sup>*1 *2</sup>
		YoY change		YoY change	
Net sales	1,104.1	- 15.6 %	777.0	- 3.2 %	1,260.0
Recurring income	58.8	+ 14.4 %	24.0	- 44.3 %	85.0
Profit attributable to owners of the parent	27.9	- 4.5 %	11.0	- 51.4 %	48.0
Recurring income excluding the effect of actuarial differences <sup>*3</sup>	61.4	+ 11.9 %	—	—	—

(Unit: Billions of yen)

<sup>\*1</sup> Due to a change in the fiscal year-end, estimates for fiscal 2020 are for the nine-month period from April to December 2020, and YoY comparisons refer to the same period in the previous fiscal year (the total for 1Q through 3Q). Furthermore, the end of the medium-term management plan has been changed from March 2022 to December 2021. (Forecasts as of August 12, 2020)

<sup>\*2</sup> Plan is as of the time of deciding the medium-term management plan. The plan is to closely examine the business environment within and outside of Japan and disclose figures as soon as possible in the next fiscal year.

<sup>\*3</sup> Actuarial differences arise due to the accounting standard that applies to employee severance payments and company pensions. Companies adopting the standard are required to recognize in each year's accounts any difference between estimates and actual results in terms of the amounts of retirement expense liabilities and pension fund investment returns, or else to amortize amounts over several years. The Group policy is to recognize such differences as an SG&A expense in the year they arise. As the impact of actuarial differences is hard to estimate, we do not factor it into our performance plans, including our medium-term management plan.

## ESG Initiatives

ESG is an essential aspect of evaluating corporations. The Sumitomo Forestry Group is promoting further integration of its ESG initiatives with its businesses, by incorporating specific non-financial targets in its medium-term management plans to strengthen the link between business and sustainability strategies.

In our response to climate change, we aim to achieve numerical targets set for each business segment with an eye on our long-term greenhouse gas emission reduction

target, which is certified as a Science Based Target (SBT). Sumitomo Forestry has declared its support for the Task Force on Climate-related Financial Disclosures (TCFD) and is advancing efforts to enhance climate-related financial disclosure to investors by conducting scenario analysis and such. In March 2020, the Company joined and endorsed RE100, which commits to sourcing 100% of the electricity used across its operations from renewable energy by 2040, and is striving to accelerate initiatives on greenhouse gas emission reduction.

## Toward Further Development of the Sumitomo Forestry Group

One of the Sumitomo Forestry Group's strengths is its broad involvement in upstream to downstream operations centered on trees, from forest management through to the production and distribution of wooden building materials, as well as the housing and construction business and renewable energy business. With the expertise which the Group has accumulated throughout our value chain, we will maximize the abilities of trees to absorb, store and reduce carbon dioxide. This will allow us to provide customers with products and services that help curb carbon dioxide emissions and benefit all of society by reducing the burden on the environment.

In recent years, global warming has increased awareness of the risks from climate change, as well as the importance of reducing greenhouse gases as a societal challenge. In the construction sector, attention has turned to curbing "embodied carbon\*" emissions in addition to the measures to improve the efficiency of energy consumed when using buildings, which has been the focus until now. As trees grow, they absorb and store carbon dioxide. Furthermore, compared to steel or concrete, wooden materials curb carbon dioxide emissions during the

manufacturing and construction process. In this context, in addition to wooden housing, attention is being drawn to the advantages of medium- and high-rise wooden structures for non-residential applications.

After its long use as a building construction material, wood waste can be recycled into wooden boards or used as fuel in biomass power generation. In this way, timber can be easily reused in a cascading fashion. Amid concerns about the depletion of natural resources around the world, products and resources must be utilized as much as possible, and continuously recycled and reused without degrading their inherent value. As the market expands for such a circular economy, we expect demand for timber to increase.

The Sumitomo Forestry Group will continue to evolve its circular business model centered on trees with the aim of not only generating operating profit, but also creating such public benefit as conserving ecosystems and creating jobs. We aim to play a leading role in the transition to a circular economy for the whole of society.

\* Carbon emissions associated with material extraction, manufacturing, transport, construction, and deconstruction of a building.



## To Our Stakeholders

The Sumitomo Forestry Group has boldly pursued the social responsibilities expected of it as a corporation, always keeping an eye on changes in society, carefully listening to the opinions of stakeholders, improving corporate governance, co-existing with the environment, enhancing customer satisfaction and respecting human rights and diversity.

COVID-19 outbreaks have increased uncertainties about the future to unprecedented levels. We must develop business in line with a new society and new value systems after the pandemic ends. Because this is such a challenging time for the world, we will uphold Sumitomo's Business Spirit. We will contribute to solving social issues through our sustainable business models centered on trees, a renewable natural resource.

Under a new management structure, we will strive to contribute significantly to the global environment in the future as each and every employee works with pride and confidence in the Group's ability to solve social issues. We ask for your understanding and continued support for our endeavors.

Toshio Mitsuyoshi  
President and Representative Director