



Bulls

JK Holdings
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JK Holdings overview of consolidated financial results for year ending March 2023

In Japan, while COVID-19 has been subsiding and economic activities are moving towards normalization, we are facing soaring prices of resources and energy imposed by the prolonged Russian invasion of Ukraine, among other factors. This has pushed up the cost of living, coupled with the depreciation of the yen due to the interest rate differential between Japan and the United States.

In the housing industry, prices for lumber and wooden materials have dropped in response to the end of the “wood crisis”. However, prices for building materials and housing equipment have continued to rise, leading to higher housing prices. As a result, overall housing starts for the year ending March 2023 declined by 0.6%. In particular, the number of owner-occupied houses and wooden houses, which are our group’s forte, showed a large fall of 11.8% and 5.9%.

Under these circumstances, we have resumed exhibitions nationwide, including our large-scale exhibit “Japan Kenzai Fair” for the first time in three years, to stimulate our sales activities in earnest. In addition, we have been promoting a variety of initiatives for the next generation in the first year of our new medium-term management plan, “Further Growth 24”.

As a result, our consolidated financial performance for the fiscal year ending March 2023 was as follows.

Net sales rose by 8.2% year-on-year to 407.022 billion yen, breaking the past records following the previous year. Profit margins were on a downward trend throughout the year due to higher purchase prices. Profits showed a double-digit decline from the previous year, which had recorded the largest growth in our history, although the full year results remained well above the level before the “wood crisis”. Specifically, operating income was 9.723 billion yen (down 22.1% from the previous year), and ordinary income was

Keiichiro Aoki
President
JK Holdings Co., Ltd.



10.3 billion yen (down 21.4%). Net income attributable to the shareholders of the parent company was 6.686 billion yen (down 24.9%).

While we have these results of the increase in revenue and decrease in profit, it is worth mentioning that we were able to maintain ordinary income above 10 billion yen for two consecutive years.

In the year ending March 2024, it is expected that the trend of recovery will continue as the impact of COVID-19 diminishes. Meanwhile, geopolitical risks such as the situation in Ukraine, as well as volatility in interest rates and exchange rates, remain high. Therefore, it is difficult at this point to predict when and at what level the prices of plywood and other materials, which are on a downward trend, and building materials and housing equipment, which are on an upward trend, will stabilize. Moreover, the situation remains uncertain, as there are concerns that housing demand may decline further depending on trends in these risks.

Our group will strengthen the governance by transitioning to a company with an audit and supervisory committee, and will address current issues at hand. In addition, we will strive for further growth as we steadily execute our mid-term management plan, “Further Growth 24”, in order to achieve our long-term vision, “Brand-New JKHD 2030”.

Survey

Business Prospect for July-September 2023

〈Demand Forecast by Builders and Distributors〉

Japan's GDP for January-March 2023 turned to a positive growth for the first time in three quarters, up 0.4% from the previous quarter, and the real GDP growth rate for FY2022 increased by 1.2% from the previous year, according to the Cabinet Office. Housing starts for FY2022, announced by the Ministry of Land, Infrastructure, Transport and Tourism, totaled 860,828 units (99.4% of the previous year's result), which was almost the same as the previous year. By owner/occupant, on the other hand, the number of owner-occupied houses remained low at 248,132 units, representing 88.2% of the previous year's result. This marks the first time since 1965, when comparison data is available, that the number did not

reach 250,000 units. The housing industry, which did well during the COVID-19 pandemic, is facing various challenges both internally and externally, including the continued negative growth in real wage rates. The situation for owner-occupied homes in particular remains difficult.

According to our survey about business demand prospects for July to September 2023, both small builders (contractors and other building companies) and distributors predicted a slightly better index than the previous survey for the previous quarter, but the number of negative views continued to significantly surpass that of positive ones. In the remodeling sector, the overall number of positive views increased slightly while that of negative views decreased a little compared to the previous quarter. However, the situation still exhibits significant stagnation.

Meanwhile, the number of applications for the Home Living Support Project for Households with Children and Young Couples, a subsidy program which has a

budget of 150 billion yen for this fiscal year, has already surpassed one-third of the budget as of mid-May, less than two months since its registration started. It is highly likely that the budget ceiling will be reached at an early stage, indicating that demand and investment

appetite for housing is strong. Although there are concerns over the recession due to price hikes and slowdown in overseas economies, the current Japanese economy is widely expected to remain resilient, especially in terms of domestic demand. In the housing industry, the key will be how the supply side can discover and seize the latent demand for enhanced performance and decarbonization in both new and existing houses.

〈Sales Forecast by Leading Manufacturers〉

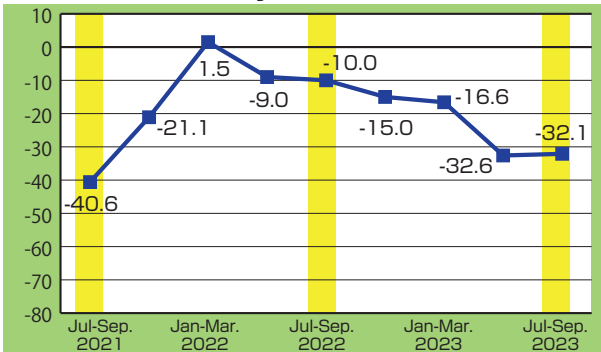
Manufacturers of plywood and wooden building materials reduced the number of negative views, showing a sign of bottoming out. On the other hand, in the forecasts by manufacturers of ceramics & insulation and housing equipment, the number of negative views increased. This indicates that they are adopting a cautious approach due to uncertainty about the future, as some companies are planning to revise their prices.

〈Various Surveys〉

More than 90% of the surveyed companies reported a labor shortage, particularly in sales, delivery, and other front-line occupations. Regarding the distribution of existing homes, the most frequent request is for cost measures and support. We would like to see expanded support not only for new construction, but also for the remodeling and performance improvement of existing housing.

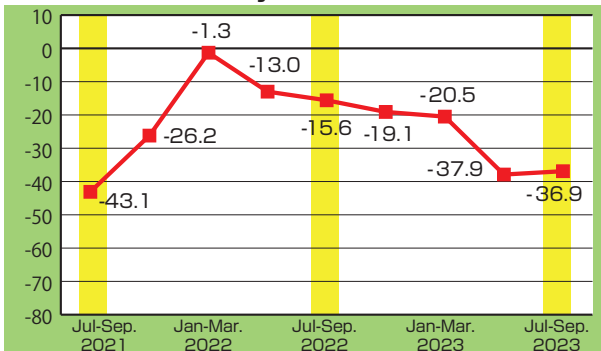
The forecast survey for July - September, 2023 is based on the totaled data gathered from 3,000 client companies in Japan through the internet, which took place from late-April to mid-May, 2023.

Demand Forecast by Builders



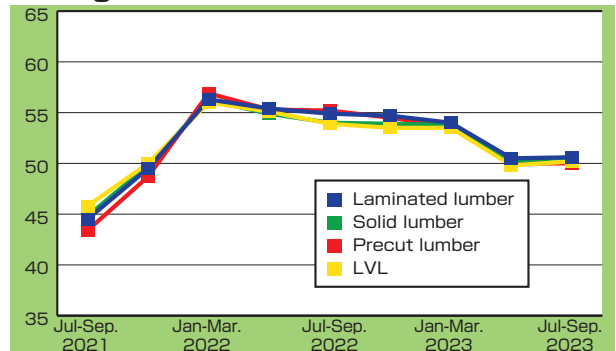
Point0=business result in April-June, 1992

Demand Forecast by Distributors



Point0=business result in April-June, 1992

Dealing Volume of Lumber



Point 100=all responses expect increase

Sales Forecast by Major Supplying Manufacturers (Jul-Sep. 2023)

	increase			level-off	decrease		
	over 15%	14 ~ 10%	below 10%		below 10%	10 ~ 14%	over 15%
Plywood (13 firms)	0.0	0.0	0.0	30.7	7.7	46.2	15.4
Wooden Building Materials (16 firms)	0.0	0.0	25.0	31.2	31.3	12.5	0.0
Ceramic/Heat Insulation (22 firms)	0.0	0.0	13.6	50.0	36.4	0.0	0.0
Housing Equipment (19 firms)	0.0	5.3	26.3	36.8	26.3	5.3	0.0
average	0.0	1.3	16.2	37.2	25.4	16.0	3.9

Trend

Market Outlook of Plywood

〈Trend of Japanese Plywood〉

Japan's production of softwood plywood in April 2023 was 191,260 cubic meters (74.1% of the same month in the previous year), and the shipment of the item was 199,930 cubic meters (79.4%). The inventory was 159,156 cubic meters (154.9%).

Domestic market prices have been declining gradually and the movement of the products remained sluggish. The buyers have maintained the purchase for immediate demand. However, the supply-demand balance appears to be in equilibrium at present partly because of the effect of supply adjustments resulting from production cuts. It seems that the market has started to show a sign of nearing the bottom by now. From now on, the industry concerned is trying to assess the extent of the impact that will result from the manufacturers restarting operations after the shutdown caused by the fires. In any case, in a situation of slowing growth in housing starts, it would still be difficult to see a significant improvement in shipments of the products, and it is highly likely that the purchasing for immediate needs will continue.

〈Trend of Imported Plywood〉

Japan's import of plywood in April 2023 was 151,025 cubic meters (62.5% of the same month in the previous year), which decreased 3.7% from 156,901 cubic meters in the previous month. By country of origin, 28,832 cubic meters (36.2%) came from Malaysia, 54,301 cubic meters (65.0%) from Indonesia, and 42,841 cubic meters (77.5%) from China.

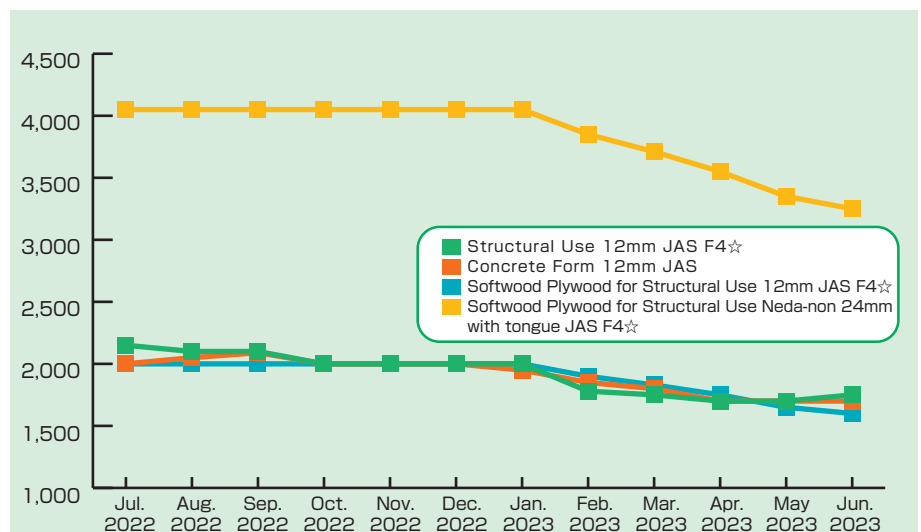
The arrivals of plywood from Malaysia are much lower than they have ever been in the past, but consumers do not seem to buy the items in a hurry even under such a situation. The decline in arrivals has significantly improved the situation at port warehouses, in which more space is available. Some port

warehouses, anticipating a future decline in the arrivals of plywood, have begun to look for cargoes other than plywood. Prices are also showing a sign of stability, mainly for ordinary plywood, which seems to be at the lowest level. However, they have yet to raise the prices fully for coated plywood for concrete formwork, and buyers continue the purchase for current demand. Also low prices are temporarily observed in some cases.

It is difficult to forecast the future demand; the recent depreciation of the yen appears to hinder buyers from placing significant orders with the local suppliers. It is likely that they will continue to make hand-to-mouth buying on a wait-and-see basis.

Wholesalers' Prices of Plywood in Tokyo

yen/sheet



Topics 1

President of Japan Kenzai plants trees in Indonesia

President Ogawa of Japan Kenzai Co., Ltd. visited a reforestation site in Indonesia in March 2023. The wood grown at the plantation site is used as raw materials for falcata-combined plywood, one of Japan Kenzai's envi-

ronmentally-friendly private label products known as "J-GREEN".

Recently, securing resources has become a global concern from various perspectives, and Japan Kenzai, as a



In front of a seedling field

company that handles a large volume of wooden materials, places great importance on securing wood resources.

This afforestation project in which Japan Kenzai participates provides stable income and employment opportunities for local people. It also helps protect the environment by combating global warming and reducing carbon dioxide emissions. We will continue the project to contribute to the creation of a better environment, society, and economy.



Afforestation work by local residents



Visiting grown falcata trees



President Ogawa at a tree planting experience

Topics 2

Butsurin, Shirataka Town of Yamagata, and Deloitte Tohmatsu conclude partnership agreement

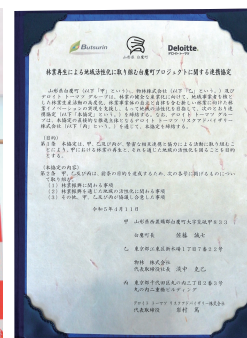
On April 11, Butsurin Co., Ltd., Shirataka Town Office, and Deloitte Tohmatsu LLC signed a partnership agreement to promote forestry and regional revitalization in Shirataka Town, Yamagata Prefecture.

Butsurin established a company April 2022 through investment with two local companies after being involved in the construction of the Shirataka Town Hall building. In October last year, Butsurin was entrusted with the management of 1,700 hectares of forests owned by the largest forest owner in Shirataka Town. In parallel, Butsurin and Deloitte Tohmatsu have exchanged views with a backcasting mindset on what actions they should take for the future of the forestry industry.

These efforts were appreciated by the Shirataka Town Office, leading to an



Cooperation agreement signing ceremony



Cooperation Agreement

agreement among the three parties to promote the forestry industry and revitalize the local community. This was reported not only in local newspapers but also in general newspapers throughout Japan, highlighting the widespread interest it has generated.

When viewed from a bird's-eye perspective, the future situations surrounding Japan's planted forest resources,

forestry, and mountain villages are considered to be extremely challenging. Meanwhile, many of the forests that were planted during the postwar period of afforestation expansion have now reached the time for harvest. In light of these conditions, we would like to achieve fruitful results from the partnership initiative and expand similar efforts in other areas of Japan.

Topics 3

NX Haneda Building has obtained ZEB certification by 75% reduction in energy consumption

The NX Haneda Building was built in Ota-ku, Tokyo as the base of the inspection business of NJS Co., Ltd. Japan Kenzai was involved in the design collaboration and construction of CLT and laminated lumber.

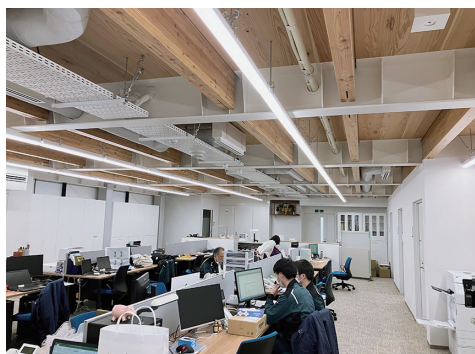
NJS positions the inspection business as compliant with carbon neutrality and

climate change regulations. The building, aiming to be an “environmentally advanced building”, has achieved a 75% reduction in energy consumption through the introduction of energy-saving equipment and solar power system, and has acquired ZEB (net Zero Energy Building) certification.

It is an environmentally conscious design by using CLT as well as structural laminated lumber for some of the beams. The building is also meant to serve as a pilot project, while the introduction of wooden materials is underway in public facilities which are business targets of NJS.



Black and white modern architecture with wood accent walls



White steel beams flatter visible wooden beams and wood ceiling surface

The exterior of the building combines a modern black and white color, with accents of wood. The interior is finished with visible wooden beams, wood ceiling surfaces, and white steel beams to create a good working environment.

The building is a hybrid structure incorporating both steel and wood. In the future, the key to making the most of trees in Japan will depend on how much wood structures can be incorporated into heterogeneous structures.

