



Bulls

JK Holdings
Quarterly Report International

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JK Holdings overview of 3Q business results for year ending March 2023

In the third quarter, the movement restrictions due to the COVID-19 pandemic continued to be eased in Japan. Meanwhile, we are facing sharp price hikes caused by the insufficient supply of raw materials and energy imposed by the prolonged Russian invasion of Ukraine and the depreciation of the yen. Business prospects have become more uncertain with concerns about recession in the U.S. and Europe due to the rising interest rates, heightening geopolitical risks, changes in the monetary policy, and others.

In the housing industry, rental and built-for-sale houses are going well. However, owner-occupied and wooden houses, which are our group's forte, are declining year-on-year and the degree of decrease is spreading lately.

Under these circumstances, we have resumed our exhibitions and sales to stimulate our sales activities in earnest. In addition, we have been promoting a variety of measures 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 third quarter of the fiscal year ending March 2023, which broke the past records in both sales and ordinary income, was as follows.

Net sales rose by 10.7% year-on-year to 309.671 billion yen, showing a double-digit increase. Profits for the whole financial year maintained the level of the previous year, which had recorded the largest growth in our history, although profit margins have been declining lately due to higher purchase prices. Specifically, operating income was 10.334 billion yen (up 2.2% year-on-year), and ordinary income was 10.764 billion yen (up 0.2%). Net income attributable to the shareholders of the parent company was



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6.915 billion yen (down 7.1%), which exceeded the full-year prediction announced at the beginning of the fiscal year.

As described, our third quarter results were extremely strong on a cumulative basis. In terms of profits, however, while the first quarter saw a significant year-on-year increase, which maintained the momentum from the previous year, the second quarter showed a year-on-year decline, of which extent widened in the third quarter. In the remaining fourth quarter, it is expected that gains from the sale of certain shares of affiliated companies will boost net profit, whereas expenses will increase due to valuation loss on our inventories in response to lower material prices.

The biggest concerns in the housing industry are the trends in wood-based material prices, which have turned from upward to downward, and the slowdown in housing demand, which has been firm to date. Under these circumstances, we will appropriately control risks while keeping an eye on the direction of change in the market. Furthermore, we will strive to improve our business performance by intensifying sales activities, including taking on new initiatives.

Survey

Business Prospect for April - June 2023

〈Demand Forecast by Builders and Distributors〉

Housing starts for January to December 2022 totaled 859,529 units, which was 100.4% compared to the previous year's result, according to a report released by the Ministry of Land, Infrastructure, Transport and Tourism. This was a growth for two consecutive years. By owner/occupant, the number of owner-occupied houses was 253,287 units, which was 88.7% compared to the previous year. It was the lowest ever recorded since the statistics began. On the other hand, rental houses and built-for-sale homes performed well, pushing up the overall number of starts. Rental houses were 107.4% compared to the previous year, built-for-sale condominiums 106.8%, and built-for-sale houses 103.5%.

According to our survey, both small builders (contractors and other building companies) and distributors predicted more negative index than the previous survey for the previous quarter: a negative index of 32.6 points by smaller builders and a negative index of 37.9 points by distributors. By prefecture, however, regional differences were found.

Price hikes, sluggish growth in real wages, rising housing prices, and uncertain mortgage rates have led to a sense of stagnation in the market of newly built single-family houses. On the other hand, as energy costs rise, homebuyers are more aware of net zero energy houses (ZEH) and other energy-saving and high-performance housing. Their interests in improving housing performance through renovation and remodeling are growing. The subsidies and incentive programs for higher housing performance have become more generous, and it should be closely monitored how the adoption rate of the programs will affect the housing market in the future.

materials showed more negative views compared to the previous survey for the previous quarter, predicting stagnant housing starts. In the forecasts by manufacturers of housing equipment, the number of positive views exceeded that of negative ones, indicating that a certain volume of business has been secured, including remodeling demand and the sales of highly value-added products.

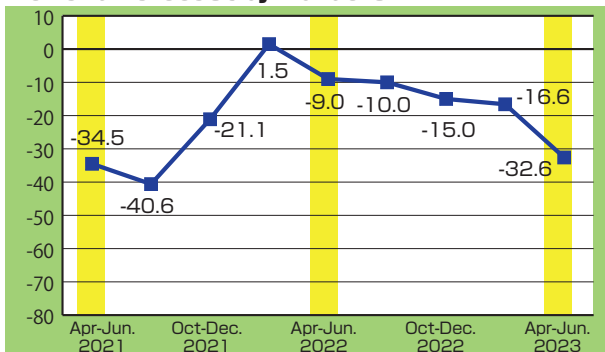
〈Various Surveys〉

The purchasing costs have increased 10% or more, according to 45% of the respondents. Manufacturers have announced price increases one after another, and it seems unlikely that the price hikes will stop for the time being.

As to what kind of requests they received from customers, the most common answer showed customers' expectations based on product images on the website of the respondents. This indicates that information sources have become more diverse for users to make decisions, aside from an impact of the image strategy of the production side.

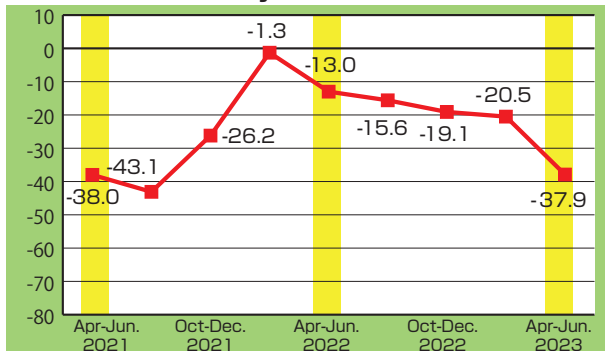
Meanwhile, as important sources of information, the survey respondents prioritized "suggestions from suppliers," ahead of "the Internet and social media." This is due to the trust relationships that have long existed between the respondents and suppliers.

Demand Forecast by Builders



Point0=business result in April-June, 1992

Demand Forecast by Distributors



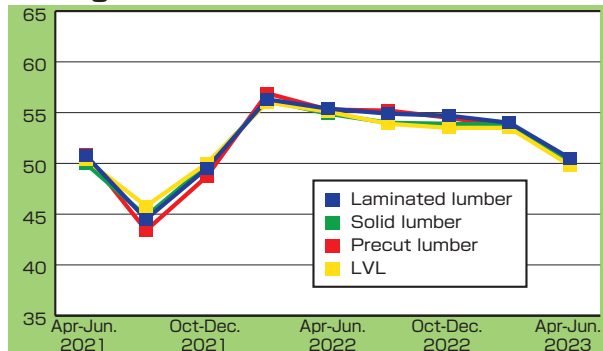
Point0=business result in April-June, 1992

〈Sales Forecast by Leading Manufacturers〉

In the sales forecasts, all plywood manufacturers had negative views. In addition, the forecasts by manufacturers of wooden building

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

Dealing Volume of Lumber



Point 100=all responses expect increase

Sales Forecast by Major Supplying Manufacturers (Apr-Jun. 2023)

	increase			level-off	decrease		
	over 15%	14 ~ 10%	below 10%		below 10%	10 ~ 14%	over 15%
Plywood (12 firms)	0.0	0.0	0.0	0.0	27.3	63.6	9.1
Wooden Building Materials (10 firms)	4.8	4.8	14.3	23.6	42.9	4.8	4.8
Ceramic/Heat Insulation (15 firms)	0.0	0.0	11.5	65.5	19.2	3.8	0.0
Housing Equipment (9 firms)	4.0	8.0	20.0	52.0	16.0	0.0	0.0
average	2.2	3.2	11.5	35.3	26.4	18.1	3.5

Trend

Market Outlook of Plywood

〈Trend of Japanese Plywood〉

Japan's production of softwood plywood in January 2023 was 190,516 cubic meters (78.2% of the same month in the previous year), and the shipment of the item was 186,851 cubic meters (75.4%). The inventories were 166,620 cubic meters (181.4%).

Buyers of Japanese softwood plywood are focused on the purchase for current use because demand for the item has decreased due to the smaller number of housing starts. Prices have also been falling gradually, causing buyers' spot purchasing with a wait-and-see attitude.

Japanese manufacturers take a stance to maintain prices by adjusting supply through production cuts. However, they are not completely aligned because the extent of production reductions varies depending on manufacturers.

Furthermore, the manufacturers which decreased supply due to fires last year are planning to resume operations this spring. The market might find even more difficult conditions than they are now, depending on future demand trends.

〈Trend of Imported Plywood〉

Japan's import of plywood in January 2023 was 181,270 cubic meters (70.8% of the same month in the previous year), which decreased 6.4% from 192,891 cubic meters in the previous month. By country of origin, 40,525 cubic meters (51.2%) came from Malaysia, 56,048 cubic meters (64.8%) from Indonesia, and 51,525 cubic meters (81.5%) from China.

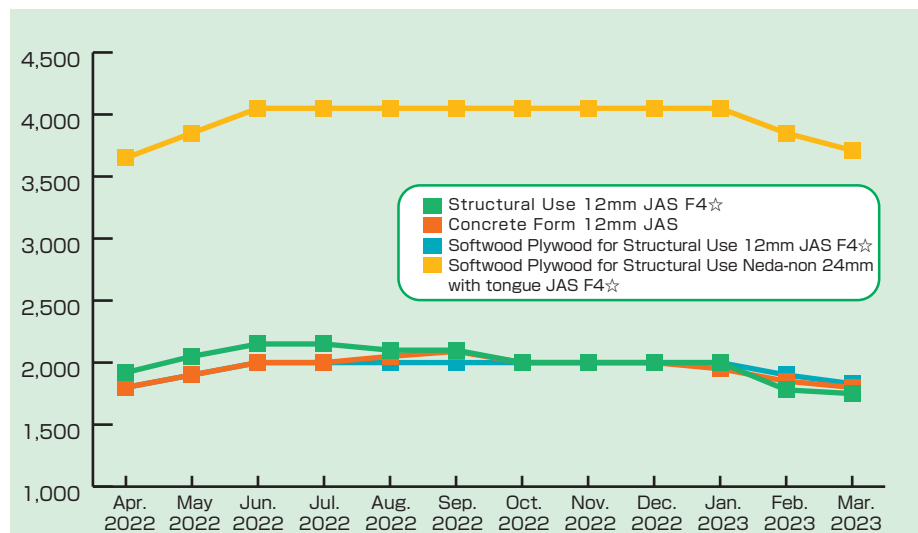
Despite a significant decrease in arrivals particularly from Malaysia, there is no sign of shortage at all. The decline in arrivals has improved the situation at port warehouses compared to what it

was before, but shipments from warehouses remain sluggish and they are managing the situation by adjusting the volume of arrivals to the ports. Sales prices are falling sharply due to low-priced sales by importers and distributors in anticipation of the fiscal year-end. As a result, the wait-and-see mood has further spread in the market, with buyers purchasing for current use, which is no different from the situation of Japanese plywood.

Demand upsurge has yet to occur and the foreign exchange rate is unstable, so it is likely that the purchases will continue to be on a temporary basis for the time being.

Wholesalers' Prices of Plywood in Tokyo

yen/sheet



Topics 1

Prec Component's environmental and social contributions

Prec Component Co., Ltd. has been working on upcycling industrial wastes, including timber offcuts from the manufacturing process of 2×4 housing panels, to reduce them as well as to support the creation of job opportuni-



Timber offcuts reborn to blocks and other things

ties. In addition, the company transforms the packing sheets that wrap 2×4 lumber for transportation into bags through upcycling. The bags with stylish design are highly appreciated.

Prec Component would like to achieve such effective utilization of industrial wastes and employment support. These activities will lead to increasing the popularity of 2×4 housing as well as spreading the knowledge about the advantages of wooden houses to the public. Furthermore, we will contribute to the creation of communities



Upcycled bag easy to use in outdoor activities, etc.

where people can continue to live by providing 2×4 houses which are earthquake resistant.

Topics 2

KEY TEC signs forest improvement agreement for sustainable forest management

KEY TEC Co., Ltd. signed a forest improvement agreement on March 2 with forest owners and log producers in Yamanashi Prefecture. This will encourage sustainable forest management through purchasing logs as raw materials for plywood and LVL at prices that allow for planned reforestation.

Under the agreement, the log sellers will separately collect two percent of the value of log sales to KEY TEC to be allocated to the costs of reforesta-

tion. It is also important to maintain the market levels that can prevent easy price depreciation of logs and wooden products in order to secure financial resources for the reforestation.

For specific reforestation, low density planting of about 1,200 larch trees per hectare is planned. This is to lower the cost of planting, undercutting, and thinning. Moreover, the project will encourage mixed forestation by leaving red pine and hardwood species such as



KEY TEC President Nakanishi signs Forest Improvement Agreement in Yamanashi Prefecture

chestnut and Konara oak trees when undercutting, taking the biodiversity of the forests into consideration.

Matsui Building ANNEX -First 75-minute semi-fireproof structure in Japan as hybrid of post-and-beam & CLT

Topics 3



Exterior - front, northeast side



The entrance

Matsui Building ANNEX, completed in Chuo-ku, Tokyo in October 2022, is a two-story building on a narrow urban site with a ground area of 191 square meters, a building area of 96 square meters, and a total floor area of 174 square meters. This is the first 75-minute semi-fireproof structure in Japan as a hybrid building of wooden post-and-beam and CLT construction methods. Japan Kenzai Co., Ltd. was involved in the structural design, material procurement, and woodwork for the building.

The construction was built with the TE System that five companies including Japan Kenzai were jointly certified. The TE System is a CLT panel construction method in which floor and roof beams, rather than CLT floors, are placed on CLT wall panels, and beams are prioritized over posts when constructing. Supporting the floor and roof with beams allows us to design open spaces with long-span structures.

The total amount of wood used for the building is 63 cubic meters, of which 41 cubic meters are CLT.

The building embodies the solutions for promoting wooden constructions on narrow urban sites, including fire-resistant design to actualize wood constructions in urban fire protection districts, maximum use of a limited site, rational cost allocation, and how to design exposed structural wood.



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