



Bulls

JK Holdings
Quarterly Report International

January, 2024

No. 73

CONTENTS

- P1 JK Holdings Overview of 2Q Business Results for Year Ending March 2024
- P2 Business Prospect for January-March 2024
- P3 Market Outlook of Plywood
Japan Kenzai Develops 3- and 4-story Timber Building System
- P4 Timberam's Community Contribution Activities
Production of Wooden Cover for JKHD Group Employee Planner Book

JK Holdings Overview of 2Q Business Results for Year Ending March 2024

The Japanese economy in the second quarter of the year ending March 2024 continued to show gradual recovery as socioeconomic activities normalized in the post covid. Meanwhile, we are still facing soaring prices of materials and energy imposed by geopolitical risks, coupled with the depreciation of the yen. Currently, situations are expected to remain uncertain with developments such as the deterioration of the real estate market in China and the escalation of tensions in the Middle East.

In the housing industry to which our group belongs, the price hikes for building materials and housing equipment, due to the wild swings in wood prices caused by the “wood crisis” and the soaring prices of materials and energy, are finally slowing down. However, housing prices remain high amid sluggish growth in real wages. As a result, the overall number of housing starts declined by 6.2%, as well as owner-occupied houses, which are our group’s forte, decreased by 10.2%, showing a continuous reduction respectively.

Under these circumstances, we hosted the Japan Kenzai Fair in August on the same scale as before the covid pandemic to stimulate our sales activities. At the same time, we have been strengthening sales activities with an eye on the current as well as future environments of the industry. While we work on optimizing inventory levels, we also promote proposals for change of products with consideration of factors such as price and mobility, as well as of high value-added products for “Building homes that retain their asset value”. In addition, in preparation for the “Logistics 2024 Issue,” we have been steadily improving our organizational structure and systemic measures related to logistics.

As a result, our financial performance for the second quarter was as follows.

Net sales decreased by 6.2% compared to a year ago, reaching 191.165 billion yen, which is still higher than the



Keiichiro Aoki

President
JK Holdings Co., Ltd.

level before the “wood crisis”, although it did not surpass the result in the same term of the previous year which significantly broke the past records. As for profits, while the retail business of general building materials secured as much profits as the previous term to remain firm, the plywood manufacturing and wood processing business decreased significantly. As a whole, there was also a sharp decline in profits. Specifically, operating income was 4.133 billion yen (down 40.0% year-on-year), and ordinary income was 4.393 billion yen (down 40.4%). Net income attributable to the shareholders of the parent company was 2.46 billion yen (down 47.2%). However, compared to the plan at the beginning of the period, which incorporated various factors after the “wood crisis”, the sales were almost in line with the plan and the profits exceeded the target.

Thus, our second-quarter results were challenging compared to a year ago, against a backdrop of declining housing demand. However, the gross profit margin was higher than we targeted, resulting in the profits exceeding the target at the beginning of the fiscal year. As the future business environment remains uncertain, we must be prepared for the continuation of difficult conditions. However, we are currently able to sustain the momentum gained in the first half, particularly in the second quarter, as we move into the second half. We are committed to sustaining this momentum throughout the third and fourth quarters, leading to results that exceed our initial plan.

Survey

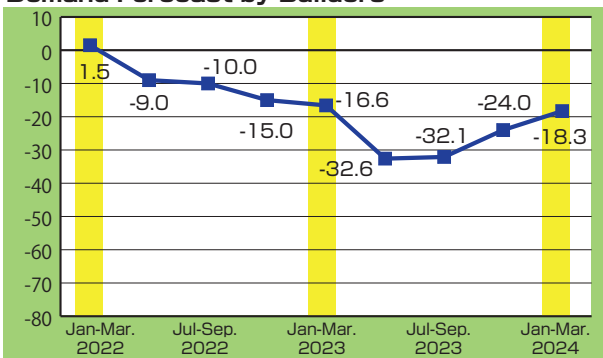
Business Prospect for January-March 2024

Housing starts for January-September 2023 totaled 617,030 units, 95.9% of the year-on-year result. The number of housing starts is on the same level as when the lowest marked at 815,340 units in 2020. The number of owner-occupied homes, in particular, has dropped nearly 10% following last year, and might be the smallest annual figure since the statistics began.

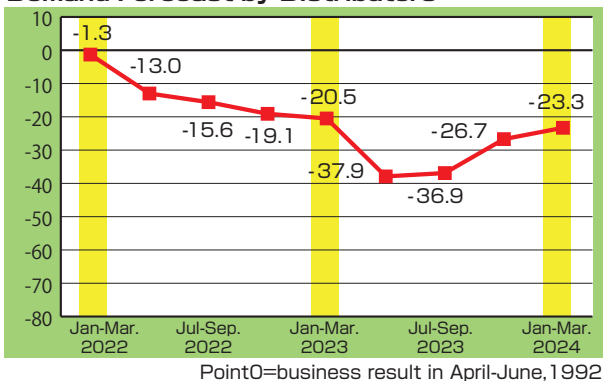
〈Demand Forecast by Builders and Distributors〉

Both small builders (contractors and other building companies) and distributors predicted a smaller negative index compared to the previous quarter's survey, showing a negative index of 18.3 points and 23.3 points respectively. The results have been improving

Demand Forecast by Builders

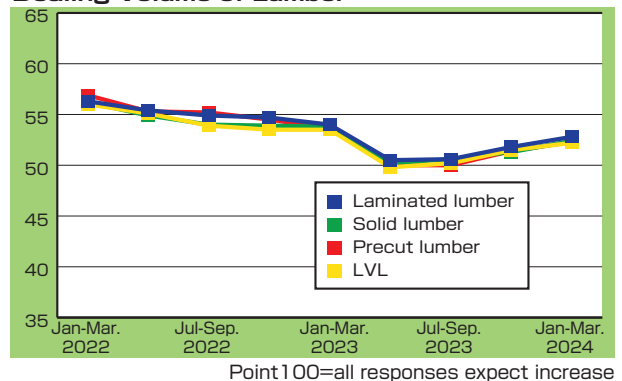


Demand Forecast by Distributors



The forecast survey for January to March, 2024 is based on the totaled data gathered from 3,000 client companies in Japan through the internet, which took place from late-October to mid-November, 2023.

Dealing Volume of Lumber



since the bottom marked at the April-June 2023 survey. Although there are differences in extent from area to area, the overall picture is beginning to look brighter. However, the increases in home prices and energy costs have not been restrained, leaving the housing market in a difficult situation, especially for single-family houses. In November, the Cabinet approved a new economic stimulus package, which includes support for the acquisition and remodeling of energy-efficient homes. The implementation of the Residential Energy Saving Campaign 2024 is scheduled as well. We would like to make effective use of such subsidy policies to open up the way for the business.

〈Sales Forecast by Leading Manufacturers〉

Manufacturers of plywood and wooden building materials reduced a forecasted “decrease.” The plywood sector, in particular, indicated a forecasted “increase” by more than 20 points higher than the previous survey. On the other hand, the housing equipment sector, which had been seeing a sales forecast for “increase” exceeding “decrease” for more than a year, strength-

ened a “decrease” forecast in this survey.

〈Various Surveys〉

Regarding government subsidies, “Home Living Support Project for Households with Children and Young Couples (for remodeling)” was the option with the highest number of responses in both the “useful for the business” and “not useful” categories. While the application requirements were relatively lenient and a wide range of households was eligible, the divided evaluation is presumably due to concerns that the subsidy cap would be reached early and to the respondents’ status of orders received for remodeling projects.

Many businesses seem to be preparing for the revision of laws related to the industry in the next fiscal year, but more than 20% of the respondents answered that they “will not change, remaining below the energy conservation standards” or “have no concrete plans to take measures”. As we will face the “2024 issues” in logistics and various other areas, the housing sector is expected to undergo additional changes in the environment, encompassing enhancements in the working environment, operational efficiency, and productivity.

Sales Forecast by Major Supplying Manufacturers (Jan-Mar. 2024)

	increase			level-off	decrease		
	over 15%	14 ~ 10%	below 10%		below 10%	10 ~ 14%	over 15%
Plywood (11 firms)	18.2	0.0	27.3	9.0	36.4	9.1	0.0
Wooden Building Materials (18 firms)	0.0	0.0	22.2	50.0	22.2	5.6	0.0
Ceramic/Heat Insulation (22 firms)	0.0	0.0	13.6	36.4	50.0	0.0	0.0
Housing Equipment (23 firms)	4.3	4.3	4.3	56.7	30.4	0.0	0.0
average	5.6	1.1	16.9	38.0	34.8	3.7	0.0

Trend

Market Outlook of Plywood

〈Trend of Japanese Plywood〉

Japan's production of softwood plywood in October 2023 was 227,074 cubic meters (102.4% of the same month in the previous year), and the shipment of the item was 228,860 cubic meters (108.7%). The inventory was 162,784 cubic meters (97.9%).

Japanese manufacturers are focusing on producing only enough quantity they can sell, resulting in no increase in the amount of inventory on hand. However, the market prices have begun to decline again, triggered by an article in an industrial paper about price cuts. The market prices, which had been thought to have completely bottomed out, fell even further, leading consumers to believe that the prices will still become lower. They have shifted to an extreme mode of purchases for current demand out of a sense of caution about the future. Unless a strong message is issued by manufacturers, it will take time for prices to bottom out, and a recovery in shipments is a long way off.

〈Trend of Imported Plywood〉

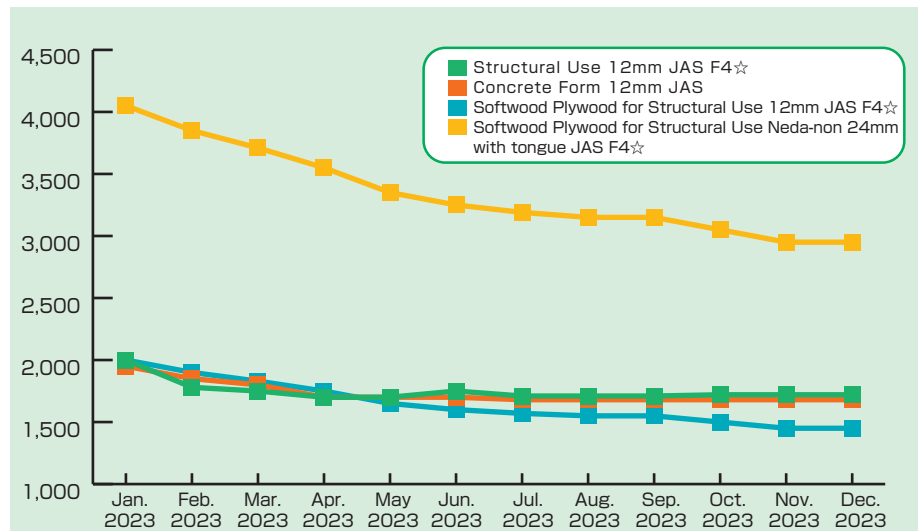
Japan's import of plywood in October 2023 was 173,626 cubic meters (88.4% of the same month in the previous year), decreasing by 6.6% from 185,928 cubic meters in the previous month. By country of origin, 46,178 cubic meters (116.8%) came from Malaysia, 57,267 cubic meters (74.9%) from Indonesia, and 41,719 cubic meters (82.3%) from China.

Due to the decrease in port arrivals, some items have only short inventory, showing no sense of oversupply at all. Meanwhile, there is also no sign of tightness in the market, either. Usually,

the local bottom-line sentiment and exchange rates would have affected market prices to present a reversal, but in reality, there has only been a slight increase in prices for items in short supply. It cannot be asserted with certainty that a substantial passing on of the yen's depreciation impact to the market prices is progressing. This development suggests a weakness in demand. Given the current market conditions, it is inevitable that orders to the producing regions will be limited to the bare essentials. For the time being, it is highly likely that we will continue to see small port arrivals as the market adopts a wait-and-see approach.

Wholesalers' Prices of Plywood in Tokyo

yen/sheet



Topics 1



Image of the Timber Building System

Japan Kenzai Develops 3- and 4-story Timber Building System

Japan Kenzai Co., Ltd. has developed a Timber Building System for three- and four-story structures. While the system may not necessarily feature the latest technology or eye-catching design, it is currently capable of accommodating up to five floors.

In Japan, around 2,500 non-residential non-wooden buildings with five stories or lower are constructed annually. There is ample potential for them to be replaced with wooden structures. To encourage the adoption of wooden buildings within communities, Japan Kenzai will propose the standard system for medium- and large-sized wooden constructions. This system, based on our extensive experience and technology, provides safety, security, and affordability.

Topics 2

Timberam's Community Contribution Activities

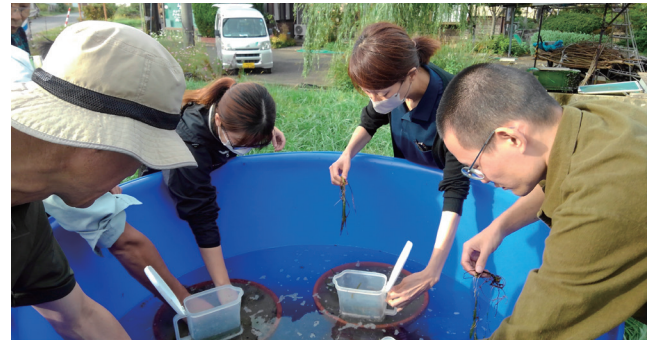


At the Timberam property

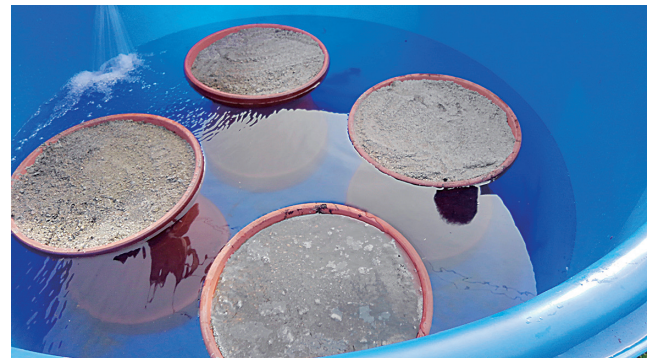
On October 18, 2023, Timberam Co., Ltd. and Hachiro Project, a specified nonprofit organization, installed a "Hachiro-gata* Mogurium" on the premises of Timberam located in Gojome Town, Akita Prefecture.

The Hachiro-gata Mogurium project is an initiative to revive and nurture buried seeds of water plants that were dug up from the strata prior to the reclamation of Hachiro-gata Lagoon. By cultivating indigenous aquatic plants of Hachiro-gata, it aims to restore a rich ecosystem, encompassing organisms like water fleas and dragonflies, connecting habitats for aquatic organisms to facilitate migration, and ultimately fostering a vibrant presence of aquatic life over a wide area.

The initiative has been expanded primarily at elementary schools in the Hachiro-ko Lake watershed. It marks the first



Planting water plants



Cultivated in large aquariums

installation at a private company in Akita Prefecture.

Timberam will continue to contribute to the revitalization of the town through its community contribution activities.

(*Hachiro-gata: a lake located in Akita Prefecture. It used to be the second-largest lake in Japan in terms of surface area until a significant portion of its water area was reclaimed through land conversion projects.

Production of Wooden Cover for JKHD Group Employee Planner Book

Topics 3

JK Holdings Co., Ltd. produces an original planner book for JKHD group employees every year. For the 2024 edition, we have made a new attempt to create a wooden cover.

The material for the wooden cover is LVL noncombustible sheets for interior use, which are manufactured at a JKHD Group company. We have made good use of their superior formability and applicability that can be applied to curved and uneven surfaces, as the sheets are originally intended for interior finishing.

This attempt aims to create a symbolic planner book unique to the JKHD Group while concurrently creating stronger cooperation within the Group.



A planner book



Wooden cover



JK Holdings Co., Ltd.

Wood Land Tower 1-7-22 Shinkiba Koto-ku, Tokyo 136-8405 Japan
Phone +81-3-5534-3800 Fax +81-3-5534-3835
URL <https://www.jkhd.co.jp>