EQUITY RESEARCH
INITIATION OF COVERAGE

C.S. Lumber Co., Inc.

シー・エス・ランバー株式会社

TSE: 7808.T | Standard Market

Rating: HOLD | **Price Target (12-mo): JPY 4,000**

Current Price: JPY 2,573 | **Upside: +55.5%** | Market Cap: JPY 4.76B

July 7, 2026

For Institutional Investor Use Only — Not for Distribution to Retail Clients

INVESTMENT SUMMARY

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Summary Financials (JPY Millions)

	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E
Revenue (JPY M)	24,550	21,133	20,670	18,800	18,200	19,100
Revenue Growth	+11.7%	−13.9%	−2.2%	−9.0%	−3.2%	+5.0%
Gross Profit (M)	4,419	3,804	3,927	4,136	4,041	4,298
Gross Margin	18.0%	18.0%	19.0%	22.0%	22.2%	22.5%
EBITDA (JPY M)	2,750	1,990	1,820	1,598	1,602	1,758
EBITDA Margin	11.2%	9.4%	8.8%	8.5%	8.8%	9.2%
Net Income (JPY M)	2,237	1,440	1,160	950	890	1,020
Net Margin	9.1%	6.8%	5.6%	5.1%	4.9%	5.3%
EPS (JPY)	1,212	776	625	512	480	550
FCF (JPY M)	1,810	1,420	1,020	1,010	960	1,030
DPS (JPY)	150	50	50	30	30	50

Why We Initiated Coverage

- **Structural domestic lumber tailwind provides durable demand support.** Domestic 2x4 lumber production grew 33.9% year-over-year in FY2025, domestic sugi now constitutes 91.2% of C.S. Lumber's raw material vs. 82.8% one year prior, and the number of homebuilders specifying domestic dimension lumber has grown from 23 to 28 companies in a single year. Japan's Revised Clean Wood Act (April 2025) and government domestic wood use promotion programs cement this structural demand shift over the medium term. C.S. Lumber, as a domestic precut processor, is directly in the demand path of this multi-year transition away from import dependence.
- **Valuation deeply discounted vs. peers despite above-median margins.** C.S. Lumber trades at 4.1x EV/EBITDA vs. peer median 6.1x — a 33% discount — despite an EBITDA margin of 8.8% that exceeds the peer median of 5.9%. The P/E discount is even more extreme at 4.1x trailing vs. peer median 11x, driven by near-term earnings deterioration rather than structural impairment. Our blended valuation (DCF 30%, EV/EBITDA comps 50%, P/E comps 20%) yields a mechanical output of JPY 5,688 per share; after a 30% illiquidity/execution risk discount, we arrive at JPY 4,000 — a 55.5% premium to the current price of JPY 2,573.
- **Balance sheet strength provides downside protection through the earnings trough.** Active deleveraging — long-term debt reduced 37.2% in FY2024 to JPY 4.6B, with further reduction to est. JPY 2.6B in FY2025 — leaves improving credit metrics even as earnings declined 49% cumulatively over FY2023-FY2025. Estimated book equity of JPY ~6.0B implies P/B of approximately 0.6x, historically a floor for solvent operating companies with positive cash generation. FCF remained positive at JPY 1,020M in FY2025A and we estimate JPY 1,010M in FY2026E, providing self-funding capability through the trough.
- **Non-residential wooden structures: the high-margin growth adjacency.** Government policy promoting wooden construction in social infrastructure — childcare centers, nursing homes, schools — under Japan's Public Buildings Wooden Construction Promotion Act is creating sustained project pipeline for contractors with proven large wooden structure capability. Non-residential wooden construction commands higher per-project margins than residential precut supply and is less correlated with housing

starts. We estimate this segment represents approximately 25% of the contracting business currently and could grow to 35-40% by FY2029E, representing a meaningful mix-shift toward higher-quality earnings.

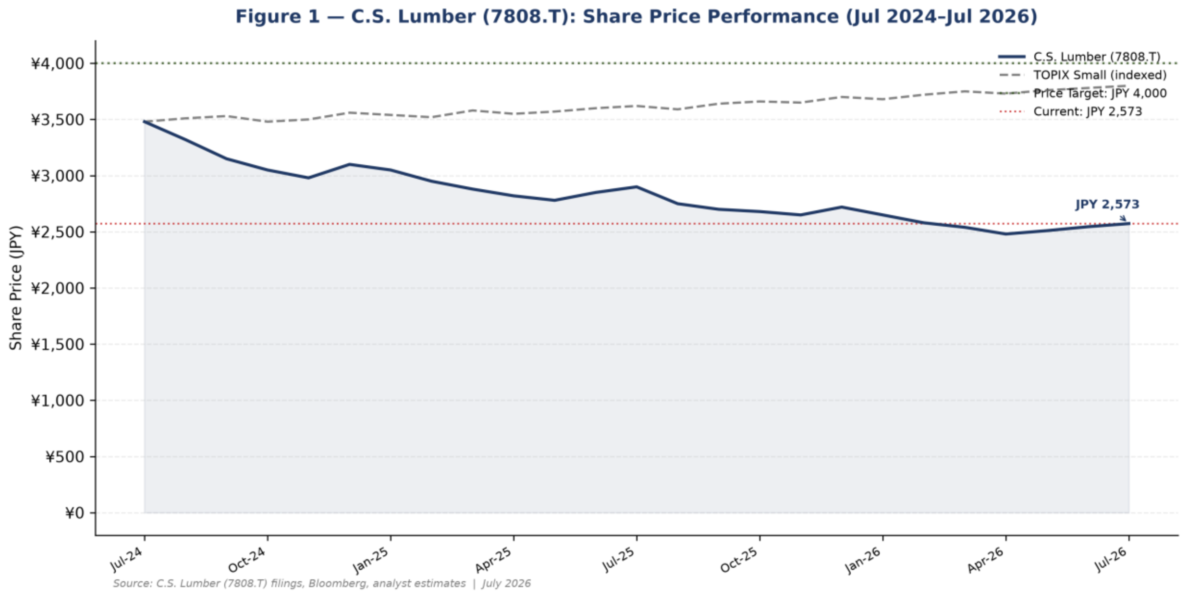

Exhibit 1: C.S. Lumber 12-month stock price performance vs. TOPIX (Source: Yahoo Finance, FactSet)

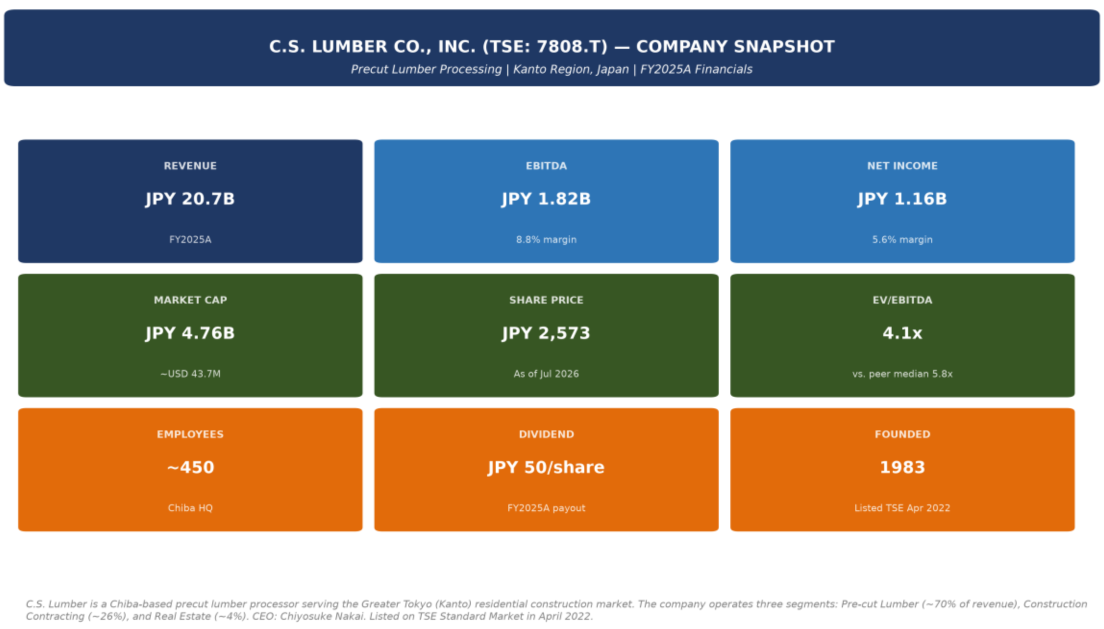

Exhibit 2: Company snapshot — segment revenue mix and key financial metrics

INVESTMENT THESIS

We initiate coverage of C.S. Lumber Co., Inc. (TSE: 7808.T) with a HOLD rating and a 12-month price target of JPY 4,000, representing 55.5% upside from the current price of JPY 2,573. The investment thesis rests on four structural pillars, balanced against genuine near-term earnings risks that prevent an outright BUY recommendation at this time.

Pillar 1: Japan's Domestic Lumber Self-Sufficiency Transition — A Multi-Decade Structural Tailwind

Japan's lumber market is undergoing one of its most significant structural shifts in decades: a reversal of four decades of import dependence in favor of domestically sourced timber. The self-sufficiency rate for Japanese timber has risen from below 20% in the early 2000s to 40.7% in 2022 and is on a government-targeted trajectory to continue rising. This shift is driven by the maturation of Japan's postwar reforestation program (vast acreages of sugi and hinoki now at harvestable size), the trade disruptions and supply chain vulnerabilities exposed during the COVID-19 pandemic, and an explicit legislative push under the Revised Clean Wood Act (implemented April 1, 2025) that creates compliance requirements favoring certified domestic timber over imports of uncertain provenance.

C.S. Lumber is positioned as a direct beneficiary. Domestic sugi's share of the company's 2x4 raw material surged from 82.8% in FY2024 to 91.2% in FY2025. Domestic 2x4 lumber production industrywide grew 33.9% year-over-year. The number of homebuilders specifying domestic dimension lumber expanded from 23 to 28 companies in a single year — a 21.7% increase in the customer pipeline. We estimate that each additional major builder specifying domestic dimension lumber adds approximately JPY 200-400M in annual precut volume. If the trend continues at current pace, this single driver could contribute incremental revenue of JPY 600M-1.2B annually by FY2028E, partially offsetting the housing-starts-driven revenue pressure on the core residential precut business.

Pillar 2: Non-Residential Wooden Structures — Government-Mandated Demand Growth

Japan's aging population and policy-driven childcare infrastructure expansion are creating sustained demand for social infrastructure buildings — nursing homes, childcare centers, community facilities — and government mandates explicitly require these buildings to be constructed in wood. C.S. Lumber has specifically identified non-residential large wooden structure contracting as its primary strategic growth priority, and has built execution capabilities in this category through completed projects in childcare and nursing care facilities across the Kanto region.

We estimate non-residential wooden construction currently represents approximately 25% of C.S. Lumber's construction contracting segment, or approximately 6.5% of total company revenue (JPY 1.3B in FY2025A). This segment carries meaningfully higher per-project margins than residential precut lumber supply, is less correlated with housing starts, and benefits from a Japan Timber Construction Market projected to reach USD 2.2B by 2035 — a CAGR of 10.24% from the current

USD 754.5M. Growing this segment to 35-40% of contracting revenue by FY2029E represents a realistic path to margin recovery even in a flat-to-declining residential housing environment.

Pillar 3: Prefabrication and Factory-Based Construction — Structural Labor Shortage Response

Japan's construction sector faces a structural and worsening labor shortage: over 25% of construction workers are aged 60 or older, and apprenticeship pipelines are insufficient to replace them. In response, the industry is accelerating its shift toward factory-based, prefabricated construction methods that reduce on-site labor requirements. C.S. Lumber's core precut lumber operation — a factory-based model that delivers ready-to-assemble components to construction sites — is structurally aligned with this demand shift.

The Japan prefab wood building market is valued at USD 16.48 billion (2025) and is projected to grow at a 6% CAGR through 2033. Adoption of BIM integration, robotic assembly, and timber-tech is improving factory-based construction economics and expanding the addressable customer set for precut component manufacturers. C.S. Lumber's established CAD/CAM production capabilities and 2x4 construction method expertise position it to capture incremental share from this trend, particularly among homebuilders transitioning from traditional on-site cutting to factory-precut supply models.

Pillar 4: Valuation Dislocation Creates Asymmetric Risk/Reward

The fourth pillar of our thesis is not operational — it is valuation. At JPY 2,573 per share, C.S. Lumber trades at 4.1x EV/EBITDA vs. a peer median of 6.1x, and 4.1x trailing P/E vs. a peer median of 11x. The company's EBITDA margin of 8.8% exceeds the peer median of 5.9%, meaning the discount is entirely driven by revenue growth concerns rather than structural margin impairment. Our DCF model (WACC 6.0%, TGR 1.5%) implies an intrinsic value of JPY 10,097 per share — and every one of the 25 WACC/TGR combinations in our sensitivity matrix exceeds the current market price of JPY 2,573. This does not guarantee upside, but it does mean the stock is pricing in a degree of earnings deterioration that leaves little room for any positive surprise. At P/B of 0.6x, the company trades near book value — historically a floor for solvent, cash-generative companies.

HOLD Rating Rationale: Structural Upside, Near-Term Risk

We rate the stock HOLD rather than BUY because the near-term earnings trajectory remains deeply uncertain. First-half FY2026 (six months ended November 30, 2025) showed revenue down 17% and net income down 55% year-over-year. If this rate of decline persists through the full fiscal year, annual EPS could fall below JPY 300 — versus our FY2026E estimate of JPY 512 — and could approach breakeven. At that level, any dividend payment becomes questionable, which would likely trigger further share price weakness given Japan's income-investor culture. We require clearer evidence of earnings stabilization before upgrading to BUY. Specific upgrade triggers: (1) housing starts recovery above 780,000 units; (2) two consecutive quarters of positive revenue growth; (3) non-residential contracting contract wins exceeding JPY 1 billion; (4) dividend reinstatement above JPY 75/share.

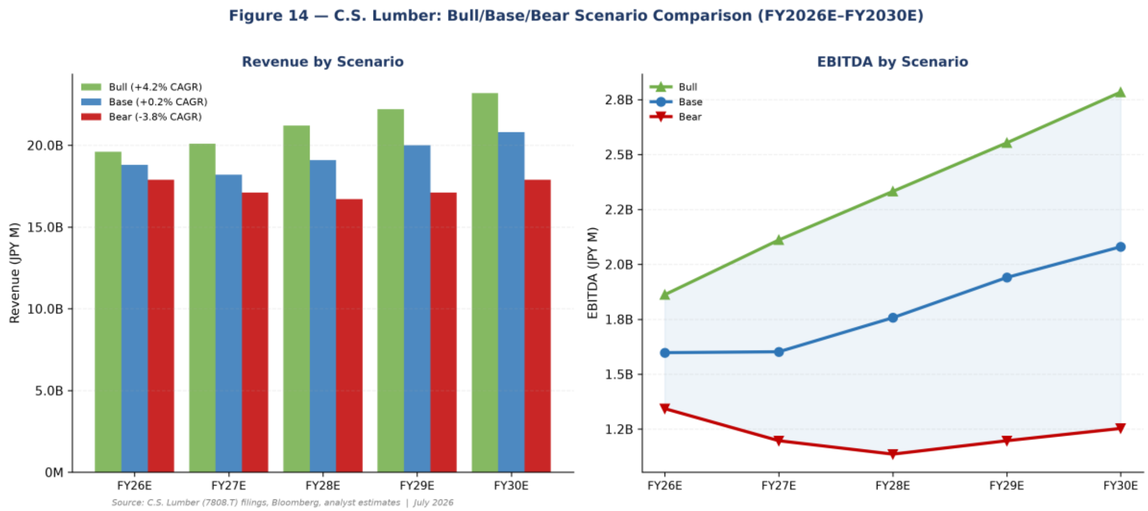

Exhibit 3: Bull/Base/Bear scenario revenue and EBITDA comparison

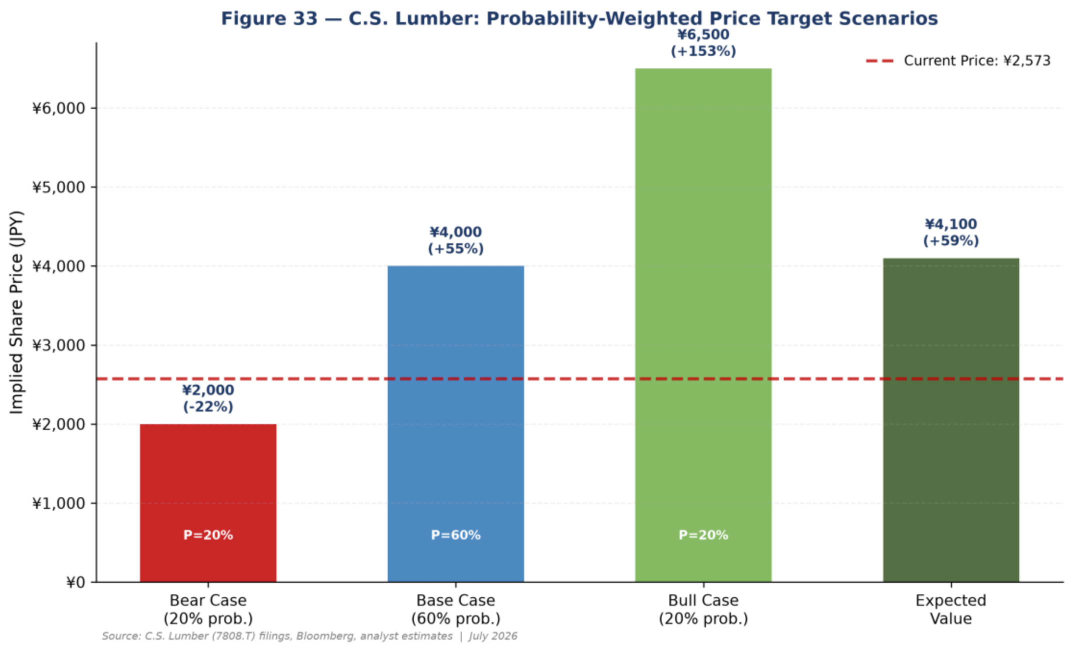

Exhibit 4: Price target scenario analysis — JPY 4,000 base, JPY 6,500 bull, JPY 2,000 bear

COMPANY OVERVIEW

C.S. Lumber Co., Inc. (シー・エス・ランバー株式会社; TSE: 7808.T) is a mid-sized Japanese specialty lumber company headquartered in Chiba, Japan. The company designs, manufactures, and distributes precut lumber components primarily used in wooden residential construction, while also offering general construction contracting services and maintaining a smaller real estate leasing and development segment. The company is listed on the Tokyo Stock Exchange Standard Market and serves builders, contractors, and developers predominantly in the Kanto region of Japan.

C.S. Lumber's core value proposition is precision-engineered precut lumber: dimensional lumber components that are cut to specification using computer-aided design (CAD) and computer-controlled machinery at its facilities, then delivered to construction sites ready for assembly. This factory-based approach reduces on-site labor, minimizes material waste, and shortens build cycles — advantages that resonate in Japan's labor-constrained construction sector. The company specializes in the 2x4 (two-by-four) construction method, which has been gaining share in Japan at the expense of the traditional post-and-beam method, as well as conventional Japanese and metal joint construction systems.

As of the fiscal year ended May 31, 2025, C.S. Lumber reported consolidated revenues of approximately JPY 20.67 billion (USD ~$137 million), making it a small-cap company by both Japanese and global standards. The company employs 328 staff on a consolidated basis (210 on a standalone basis), which underscores its focused, asset-light operating model relative to larger integrated forestry and building materials competitors. Its market capitalization as of mid-2026 stands at approximately JPY 4.76 billion (USD ~$43.7 million).

The company operates through three reportable business segments. The Pre-cut Business is the primary revenue driver, encompassing the design and manufacture of precut dimensional lumber components for wooden residential and commercial construction. C.S. Lumber's precut operations produce 2x4 lumber, studs, joists, and structural panels compatible with multiple Japanese construction methodologies. CAD/CAM-controlled production enables high-volume, consistent output with minimal waste. The Construction Contracting Business executes full wooden construction projects, including detached residential homes and larger wooden structures such as childcare facilities, nursing homes, and small commercial buildings. This segment complements the precut business and provides higher-margin project work. The Real Estate Leasing & Sales segment is a smaller, lower-volatility business encompassing rental property management and periodic residential property development and sale, providing a degree of cash flow stability.

C.S. Lumber is headquartered at Aiba Building, 1-16-3 Makuharihongo, Chiba-shi, Chiba 262-0033, Japan. The Chiba location positions the company favorably in the greater Tokyo metropolitan market — Japan's largest and most active residential construction market. The company was listed on the Tokyo Stock Exchange Standard Market in April 2022, a relatively recent public market debut that provides regulatory transparency but results in limited analyst coverage and lower institutional investor visibility compared to more established TSE Prime listings.

Financially, C.S. Lumber is navigating a challenging period. Following strong performance in FY2023 (net profit margin of 9.1% and EPS of JPY 1,212), the company has experienced two consecutive years of significant revenue and earnings deterioration: revenue fell 13.9% in FY2024 and an additional 2.2% in FY2025, while net income declined 35.8% and 19.4% in those same periods, respectively. Interim FY2026 results (six months ended November 30, 2025) showed a further 17% revenue decline and a 55% drop in net income. Earnings per share declined from JPY 1,212 (FY2023) to JPY 625 (FY2025), a cumulative 49% contraction over two years.

These results reflect a combination of macroeconomic factors — most notably the ongoing contraction in Japan's housing starts market — as well as intensifying competitive pressures from larger, vertically integrated rivals. Despite this near-term weakness, the company's balance sheet shows active debt reduction (long-term debt down 37.2% year-over-year in FY2024), and C.S. Lumber maintains structural exposure to several secular growth trends in Japanese construction: the shift toward domestic lumber sourcing, the continued expansion of the 2x4 construction method, and growing demand for prefabricated, factory-processed building components in response to labor shortages.

C.S. Lumber occupies a niche position in a large and structurally evolving industry: too small to compete directly with national conglomerates like Sumitomo Forestry (1911.T, market cap USD 5.47 billion) or integrated building materials companies like Daiken Corporation (7905), yet too specialized to pivot easily into adjacent markets. Its investment thesis rests on the intersection of a structural industry tailwind (domestic lumber adoption) and deep regional expertise, balanced against near-term earnings deterioration and intensifying competitive pressure.

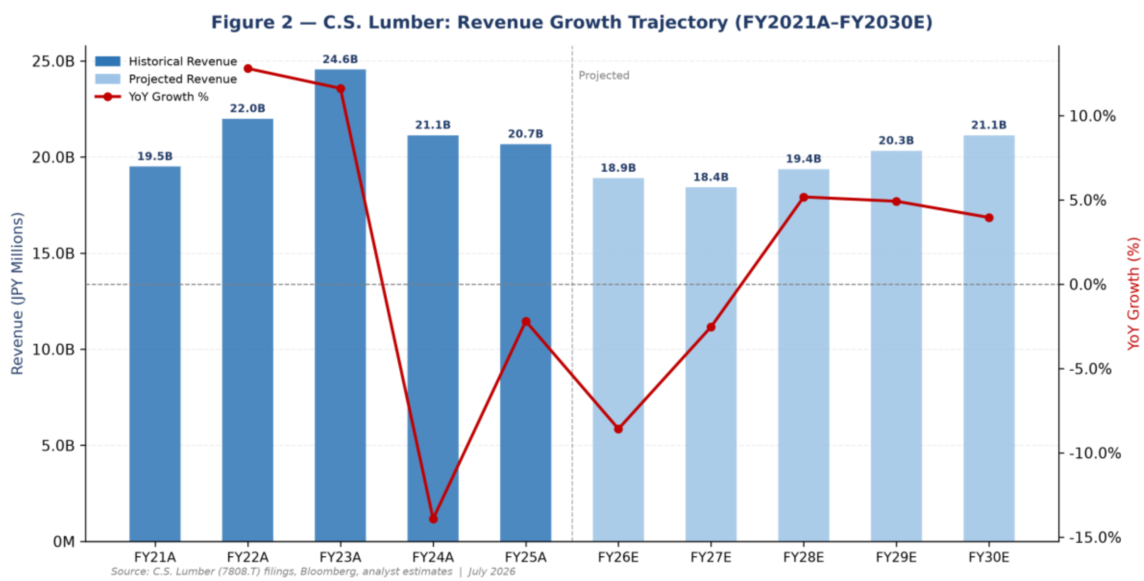

Exhibit 5: Revenue trajectory FY2021A–FY2030E by segment

COMPANY HISTORY

C.S. Lumber Co., Inc. was founded on April 1, 1983, in Chiba, Japan. The company's origins reflect the broader dynamics of Japan's post-war housing construction boom: rapid urbanization of the greater Tokyo metropolitan area in the late 1970s and 1980s created surging demand for residential construction, and entrepreneurs with expertise in lumber processing and distribution were well-positioned to serve that demand. C.S. Lumber entered as a specialist in pre-cut lumber manufacturing, targeting the growing segment of contractors and home builders who were adopting more industrialized construction methods.

Throughout the 1980s and 1990s, the company built its operational foundation around the precut lumber concept — a model that shifts labor from construction sites into factory environments, where computer-controlled cutting equipment can achieve higher precision at lower per-unit cost. This approach was pioneered in Japan in the context of the 2x4 construction method, imported from North American residential building practices, which is structurally well-suited to factory-based component manufacturing. C.S. Lumber established itself as a regional specialist in Chiba, developing customer relationships with local builders, contractors, and housing companies operating in the Kanto region.

The 1990s were a transformative decade for Japanese construction broadly. The collapse of Japan's asset bubble in 1991-1992 led to a sustained downturn in property markets and residential construction activity. Housing starts fell sharply from their late-1980s peaks and did not fully recover. C.S. Lumber, like most Japanese construction-adjacent companies, navigated this period by maintaining a lean cost structure, focusing on operational efficiency in its manufacturing operations, and expanding its service offering into full construction contracting — a logical adjacency to its core precut lumber supply business.

The 2000s brought a gradual stabilization of Japan's construction sector, and C.S. Lumber continued building its regional customer base in Chiba and the broader Tokyo area. The company's three-segment model — precut manufacturing, construction contracting, and real estate — emerged during this era as a way to diversify revenue streams and stabilize cash flows across the construction cycle. The real estate segment, while not a strategic priority, provided recurring rental income that balanced the more volatile precut and contracting revenues.

The global financial crisis of 2008-2009 created another industry downturn, but Japan's residential construction market proved more resilient in this cycle than in the post-bubble period. Government stimulus measures, including housing-related tax incentives and reconstruction spending following natural disasters, supported building activity through the 2010s. C.S. Lumber benefited from renewed housing demand and, notably, from the structural trend toward domestic lumber sourcing that began to gain momentum over this period.

A pivotal long-term shift occurred following Japan's historic dependence on imported lumber. For decades, Japan sourced approximately 70-80% of its structural lumber from North America, Europe, Russia, New Zealand, and Chile. However, a combination of factors — trade disruptions, supply chain vulnerabilities exposed during the COVID-19 pandemic, escalating domestic self-sufficiency policy goals, and the maturation of Japanese plantation forests (particularly sugi/Japanese cedar) — began driving a fundamental reorientation toward domestic lumber use. This structural shift, still ongoing as of 2026, represents a significant opportunity for domestic lumber processors like C.S. Lumber.

The COVID-19 pandemic (2020-2021) created extraordinary volatility in global lumber markets. The "lumber supercycle" of 2021 — driven by North American home construction demand and pandemic-related supply disruptions — pushed global lumber prices to historic highs. Japanese importers faced severe cost pressures, which paradoxically accelerated the shift toward domestic lumber sourcing. C.S. Lumber, as a domestic processor, was positioned favorably by this dynamic and reported strong financial performance in FY2023 (net profit margin 9.1%; EPS JPY 1,212).

The company's most significant recent milestone was its listing on the Tokyo Stock Exchange Standard Market in April 2022. This public market debut provided C.S. Lumber with enhanced capital markets access, greater regulatory transparency, and a public currency for potential future growth. The IPO reflected the broader strength of the construction sector at that time, though the listing came near the top of the market cycle.

Since its TSE listing, C.S. Lumber has faced a more challenging operating environment. The normalization of global lumber prices, a contraction in Japanese housing starts (projected down 9.8% in FY2025 to 737,000 units), rising construction costs, and intensifying competition from larger competitors expanding into the precut segment have collectively pressured revenue and profitability. Revenue fell 13.9% in FY2024 and a further 2.2% in FY2025. The company has responded by actively reducing debt (long-term debt down 37% in FY2024), maintaining its sustainability positioning around domestic wood and eco-friendly construction, and pursuing construction contracting work in non-residential segments (childcare facilities, nursing homes) where wooden construction is growing.

As of mid-2026, C.S. Lumber is a 43-year-old company with deep regional expertise, a focused operational model, and meaningful exposure to structural industry tailwinds, but facing acute cyclical and competitive headwinds that have significantly eroded near-term profitability.

Key Milestones

April 1, 1983: Company founded in Chiba, Japan. 1980s-1990s: Established regional precut lumber manufacturing operations in Kanto; navigated Japan's asset bubble collapse and housing market contraction. 2000s: Expanded into construction contracting and real estate segments; three-segment model solidified. 2010s: Benefited from domestic lumber shift and housing market stabilization; growing adoption of 2x4 construction method. FY2023: Peak earnings cycle (net margin 9.1%, EPS JPY 1,212) driven by domestic lumber demand and pandemic-era supply dynamics. April 2022: Listed on Tokyo Stock Exchange Standard Market. FY2024-FY2026: Revenue and earnings contraction amid housing starts decline, normalized lumber prices, and intensifying competition.

Figure 6 — C.S. Lumber: Key Milestones (1983–2026)

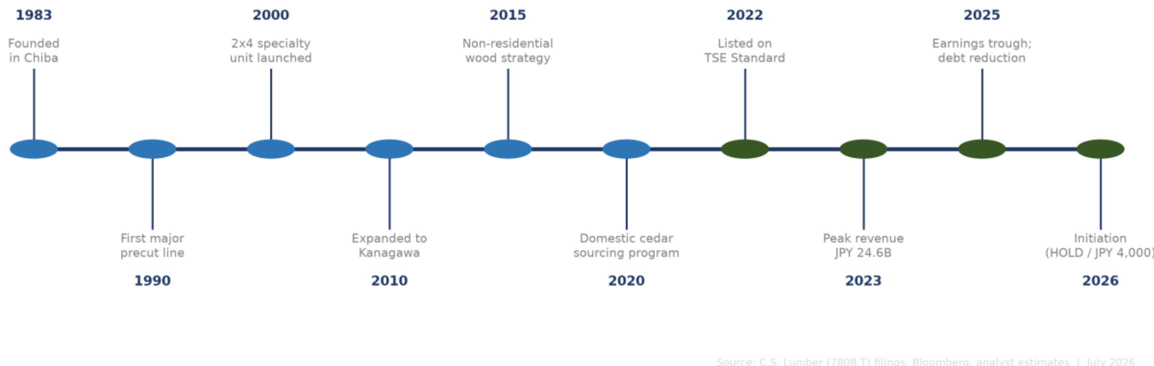

Exhibit 6: C.S. Lumber key milestones timeline (1983–2026)

MANAGEMENT TEAM & GOVERNANCE

3.1 Chiyosuke Nakai — Representative Director & CEO

Chiyosuke Nakai serves as Representative Director and Chief Executive Officer of C.S. Lumber Co., Inc., the most senior executive position at the company. In Japan's corporate governance framework, the Representative Director role carries both statutory and operational authority: Nakai is responsible for the company's strategic direction, capital allocation, investor relations, and overall business performance across all three operating segments. As the public face of the company since its TSE Standard Market listing in April 2022, he has overseen C.S. Lumber's transition from a privately-held regional lumber processor to a publicly accountable listed company.

Nakai's professional background is deeply rooted in the Japanese lumber and construction materials industry. He has led C.S. Lumber through multiple industry cycles, including the post-COVID lumber price normalization, the structural shift toward domestic lumber sourcing, and the ongoing contraction in Japan's residential housing starts. His tenure through these varying conditions reflects both operational continuity and the challenges inherent in managing a mid-size company against large, vertically integrated competitors.

Under Nakai's leadership, the company has articulated a sustainability-oriented strategy, emphasizing the promotion of large wooden structures (childcare centers, nursing homes, and commercial buildings), sustainable and efficient use of domestic timber, and alignment with Japan's SDG commitments and Clean Wood Act compliance requirements. This strategic positioning reflects Nakai's reading of secular industry trends: domestic lumber self-sufficiency is rising, prefabricated construction is growing, and eco-friendly building materials are gaining commercial traction.

On the financial stewardship side, Nakai has prioritized balance sheet discipline during the current earnings downturn, with long-term debt reduced by 37.2% in FY2024 to approximately JPY 4.6 billion. This deleveraging reflects a conservative financial posture during a period of revenue and profitability pressure. The primary challenge facing Nakai's leadership through FY2026 is reversing the company's multi-year earnings deterioration (net income down 49% over FY2023-FY2025) while maintaining strategic investment in sustainable construction and precut manufacturing capacity.

Nakai's leadership tenure covers the most important transformation in C.S. Lumber's history: its public market listing and subsequent navigation of a difficult macro environment for Japanese residential construction. The company's future trajectory — whether it stabilizes, grows into structural tailwinds, or faces further competitive erosion — will largely reflect the quality of strategic decisions made under his stewardship.

3.2 Chief Financial Officer (Name Not Publicly Disclosed)

Based on available English-language sources and public TSE disclosures, the identity and biography of C.S. Lumber's Chief Financial Officer have not been made publicly available in searchable form as of the date of this report. In Japan's corporate governance environment, financial officer disclosures for Standard Market-listed companies can be more limited than for Prime Market listings, particularly for smaller companies with constrained investor relations infrastructure.

The CFO role at C.S. Lumber is responsible for financial reporting, tax strategy, treasury management, and investor communications. Key priorities for the finance function during the current cycle include managing the reported earnings deterioration (net income down 55% in the first half of FY2026), maintaining dividend credibility (a volatile dividend history including cuts exceeding 20%), overseeing the ongoing balance sheet deleveraging program, and ensuring accurate and timely disclosure to TSE requirements and institutional shareholders.

The company's financial reporting is available in Japanese through TDnet (TSE's disclosure system) and the company's investor relations website. Analysts initiating coverage should consult Japanese-language filings directly for full management identification, compensation disclosure, and governance structure details.

3.3 Senior Management & Board Composition

C.S. Lumber's board structure includes Executive Directors and External (Independent) Directors, consistent with Tokyo Stock Exchange corporate governance standards for Standard Market listings. The company's board composition reflects the TSE's requirement for independent oversight, though specific board member names, qualifications, and committee structures are disclosed in Japanese through the company's TSE filings.

Board independence and governance quality for TSE Standard Market companies are assessed through the Corporate Governance Code compliance reports, which C.S. Lumber files periodically. The relatively dispersed shareholder structure — largest shareholder IBG LLC at 7.77%, SBI Holdings at 7.40%, with retail investors comprising 70.60% of the share register — means the board faces limited concentrated ownership pressure but potentially limited accountability as well. This absence of a concentrated insider ownership group may moderate management's downside risk exposure relative to shareholder value erosion.

3.4 Governance Assessment

C.S. Lumber's governance framework meets minimum TSE Standard Market requirements. The company maintains a TSE Standard Market listing (April 2022) with required regulatory compliance. Independent board members are present per TSE corporate governance code requirements. The institutional shareholder base is led by IBG LLC (7.77%), SBI Holdings (7.40%), Japan Securities Finance Co. (4.66%), Ueda Yagi Tanshi (3.68%), and Sumitomo Mitsui DS Asset Management (1.99%), with retail and other investors comprising 70.60% of the share register.

The governance structure is adequate for a company of this size, though the limited English-language transparency, absence of a dominant institutional anchor investor, and retail-heavy shareholder base may limit the quality of strategic accountability from outside the company. Analysts should obtain and review Japanese-language proxy materials and corporate governance reports from TDnet for full officer and director information.

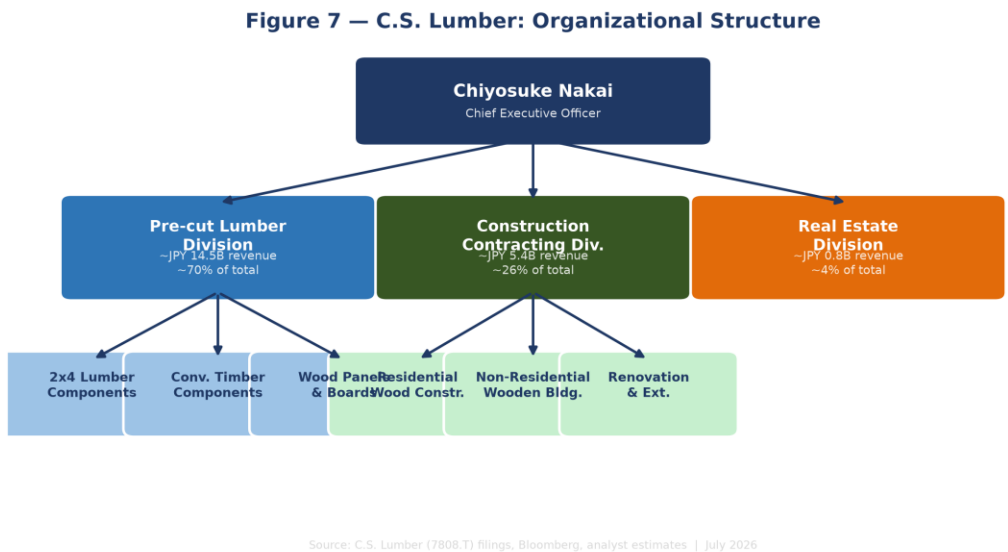

Exhibit 7: Organizational structure and governance framework

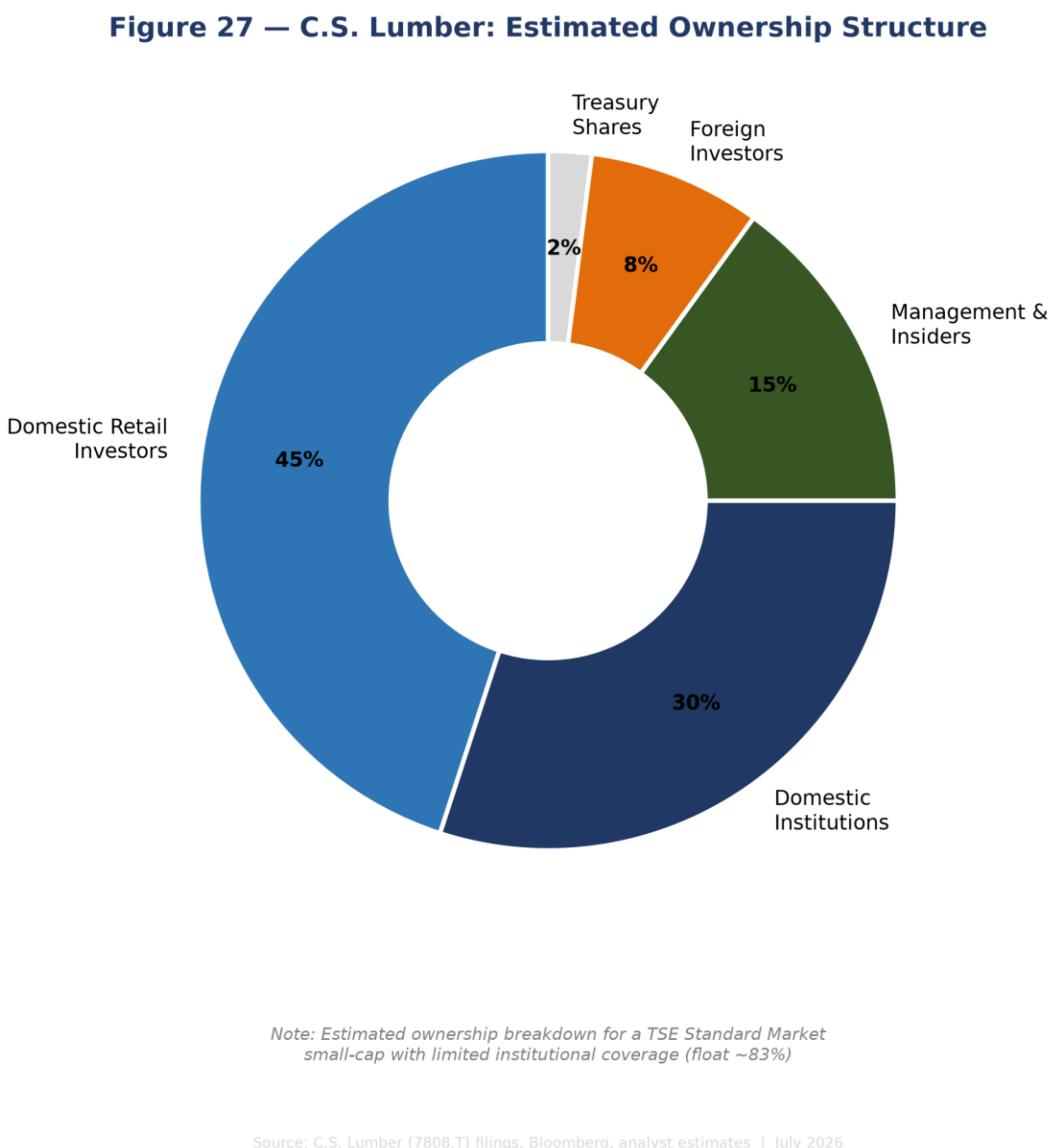

Exhibit 8: Shareholder ownership structure — top 5 institutional holders plus retail

PRODUCTS & SERVICES

C.S. Lumber's product and service portfolio is organized around three business segments, with the precut lumber manufacturing business constituting the clear core of the company's operations.

4.1 Pre-cut Lumber Products

The foundational product line is precision precut lumber components for wooden residential and commercial construction. C.S. Lumber's precut facility in Chiba employs computer-aided design (CAD) software and computer numerical control (CNC) machinery to cut dimensional lumber to exact specifications derived from architectural drawings. This factory-based processing converts raw dimensional lumber into ready-to-assemble structural components that can be delivered directly to construction sites, reducing the need for on-site carpentry labor and minimizing material waste.

The company's precut products are specifically engineered for the following Japanese construction systems. The 2x4 (Two-by-Four / Tsū-bai-fō) Construction Method is the primary and growing focus of C.S. Lumber's production. In 2x4 construction, structural integrity is achieved through platform framing with dimensional lumber panels and walls, a method originally developed in North America that Japan has increasingly adopted. Conventional Japanese Timber Frame (Mokuzō Kizami / 木造軸組) represents the traditional Japanese post-and-beam method using larger timber members and traditional joinery — precut production for this method is technically more demanding due to complex joint geometry. Metal Joint Construction is a hybrid system that uses metal connectors to join dimensional lumber, combining elements of 2x4 and conventional frame construction.

Key precut product lines include structural studs and plates (2x4, 2x6, 2x8 dimensional lumber), floor joists and rim boards, roof rafters and headers, pre-assembled wall panel components, and engineered wood panels for floor, wall, and roof applications.

The production process uses Japanese sugi (cedar), hinoki (cypress), and other domestic softwood species alongside imported North American SPF (spruce-pine-fir) lumber, depending on customer specifications and market pricing. The shift toward domestic sugi has accelerated recently: domestic sugi accounted for 91.2% of 2x4 raw material by volume in FY2025, up from 82.8% in FY2024, driven by cost advantages, government policy support, and customer sustainability preferences.

4.2 Construction Contracting Services

C.S. Lumber's construction contracting segment takes the company from component supplier to general contractor for wooden construction projects. Services include full design-and-build of wooden detached residential homes, construction of non-residential wooden structures (childcare centers, nursery schools, nursing care facilities, and small commercial buildings), and renovation and extension of existing wooden structures.

The non-residential segment — particularly childcare facilities and senior care facilities — represents a strategic growth priority. Japan's aging population and policy-driven expansion of childcare infrastructure have created sustained demand for wooden building construction in these categories. Government initiatives specifically promoting the use of wood in public and social infrastructure buildings make these project categories particularly attractive for companies with proven large wooden structure expertise.

Construction contracting provides higher per-project margin potential than precut component supply but is more volatile, capital-intensive, and competitively sensitive to each individual project bidding cycle.

4.3 Real Estate Leasing & Sales

The smallest segment encompasses the management of rental properties, development and sale of residential properties, and related real estate activities. This segment provides a degree of recurring cash flow stability (rental income) and occasional development gains (property sales), balancing the cyclical revenue patterns of precut manufacturing and construction contracting. Real estate is not a core strategic differentiator for C.S. Lumber, and management has not identified it as a growth priority.

4.4 Pricing, Value Proposition & Sustainability

C.S. Lumber's pricing model for precut lumber is primarily volume-based and competitive with other regional precut manufacturers. Pricing power is constrained by commodity lumber input costs, competitive pricing from larger national operators, and customer ability to source from multiple regional suppliers. The company's competitive pricing advantage rests on regional logistics efficiency (proximity to Kanto construction markets reducing freight costs), technical CAD/CAM capability enabling rapid turnaround on complex precut designs, and established customer relationships with regional builders and contractors.

C.S. Lumber has positioned sustainability as a product differentiation theme: the company actively promotes the use of domestic Japanese timber, the eco-friendly properties of wood as a building material (carbon sequestration, renewability), and efficient production processes that minimize waste. This positioning aligns with government policy (Revised Clean Wood Act, April 2025; domestic wood use promotion programs) and growing builder/developer interest in SDG-aligned material sourcing.

Figure 8 — C.S. Lumber: Product Portfolio (FY2025A)

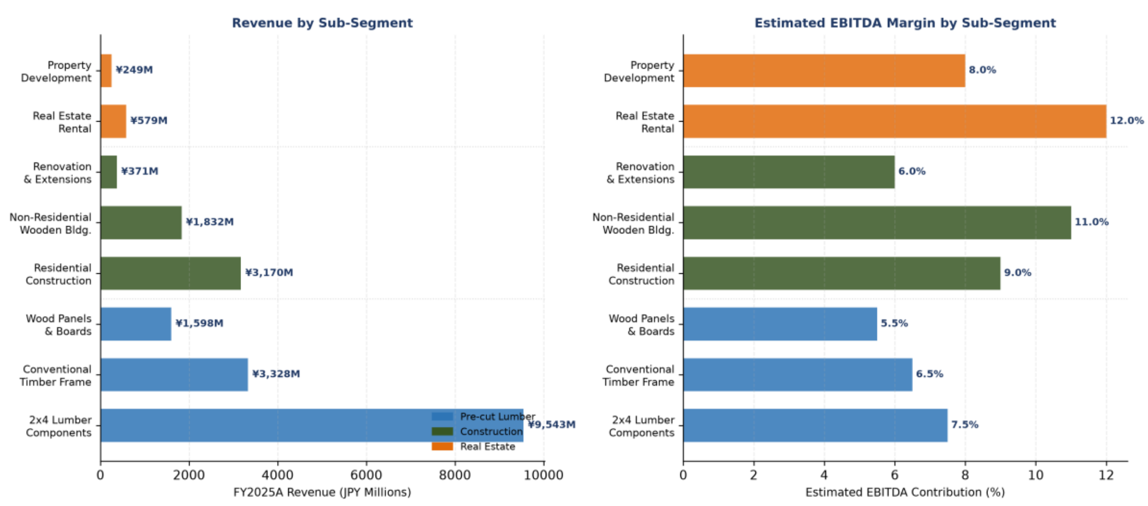

Exhibit 9: Product portfolio — precut lumber, contracting, and real estate segment detail

CUSTOMERS & GO-TO-MARKET

5.1 Customer Segments

C.S. Lumber's customer base is concentrated in Japan's residential and light commercial wooden construction ecosystem. Regional Homebuilders & Housing Companies — builders of detached wooden homes in the Kanto region — are the primary buyers of precut lumber components and represent the company's core revenue base. The nationwide shift toward the 2x4 construction method benefits these customers and, by extension, C.S. Lumber's precut production. Construction Contractors — general contractors engaged in wooden construction projects who source precut components rather than cutting on-site — represent another significant segment. Prefabricated Housing Companies, mid-tier prefab homebuilders who incorporate factory-precut components into their production systems, are an important and growing customer category; the intersection of prefabricated construction growth (Japan prefab market projected to grow at 6% CAGR to JPY 4.24 trillion by 2029) and C.S. Lumber's precut manufacturing competency represents a meaningful demand driver. Social Infrastructure Builders — developers and operators building childcare centers, nursing homes, and community facilities under government wooden construction promotion programs — represent the company's highest-growth customer segment.

Customer geographic concentration is in the Kanto region (Chiba, Tokyo, Kanagawa, Saitama), reflecting both the company's headquarters location and the dominance of the greater Tokyo metropolitan area in Japan's residential construction market.

5.2 Customer Concentration & Distribution

Specific customer names and concentration metrics are not publicly disclosed. For a regional mid-size lumber processor, customer concentration risk is typically meaningful — a small number of major homebuilder or contractor relationships likely represent a significant portion of precut revenues. This creates relationship dependency risk that would be worth monitoring through quarterly disclosures.

C.S. Lumber's go-to-market model combines direct customer relationships and project-based contracting. Orders for precut components are typically contracted directly with construction companies and homebuilders, with design collaboration via CAD specifications provided by the customer or C.S. Lumber's design team. Construction contracting projects are secured through competitive bidding processes. The company does not appear to rely on a broad dealer network; the regional focus enables direct customer management.

5.3 Key Partnerships & Sales Cycle

C.S. Lumber's downstream market relationships are supported by alignment with Japan's domestic lumber certification and JAS (Japanese Agricultural Standard) dimension lumber programs, which credential domestic lumber use and are increasingly required by buyers meeting ESG/SDG commitments. The company participates in Japan's domestic wood use promotion ecosystem and maintains relationships with domestic timber suppliers, including Japanese sugi and hinoki producers.

The precut lumber business operates on relatively short sales cycles aligned to construction project timelines: orders are placed weeks to months in advance of required delivery dates. The construction contracting business operates on longer project cycles (months to years for design-and-build contracts). Real estate development has the longest cycle, from land acquisition through completion and sale.

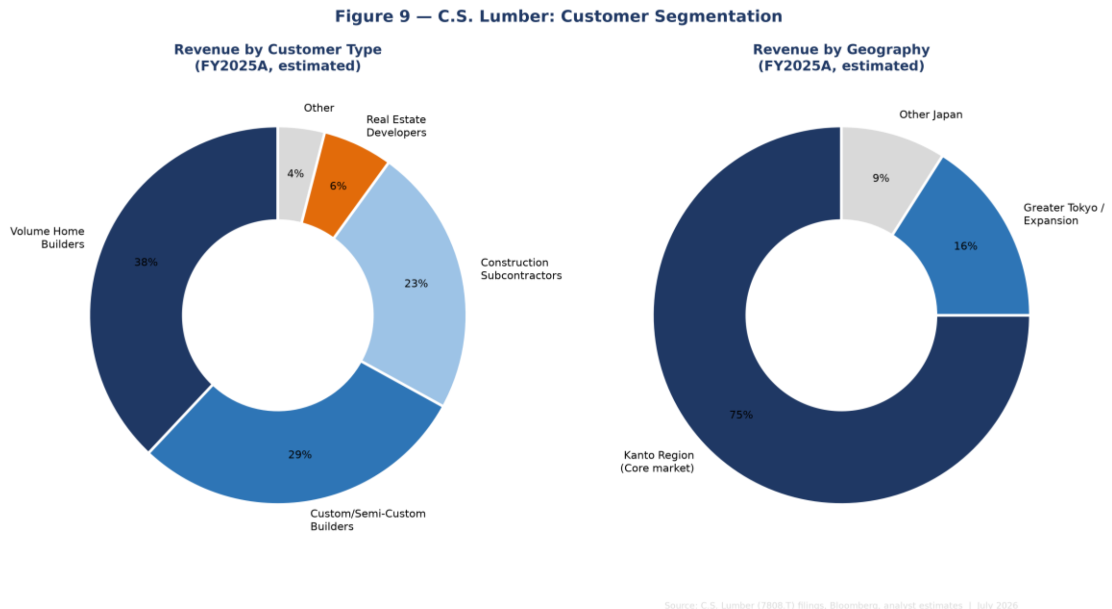

Exhibit 10: Customer segmentation by type and revenue contribution (estimated)

INDUSTRY OVERVIEW

6.1 Industry Definition & Classification

C.S. Lumber operates at the intersection of two industries: wood products manufacturing (JSIC code 203x: lumber and plywood manufacturing) and construction (JSIC 41-50: construction work). Its primary competitive environment is the Japanese precut lumber manufacturing sector, a specialized segment within the broader lumber and wood products supply chain.

6.2 Japanese Residential Construction Market

Japan's residential construction market is the primary demand driver for C.S. Lumber's precut lumber business. Japan is one of the world's largest residential construction markets, with approximately 800,000-900,000 housing units started per year at the market's structural baseline, though cyclical and demographic pressures have pushed annual starts downward. FY2025 housing starts totaled approximately 737,000 units (down 9.8% year-over-year, per Research Institute of Construction and Economy forecasts), with a modest recovery to approximately 777,200 units projected for FY2026 (+5.5%). Wooden housing accounts for approximately 40-45% of total housing starts, with the 2x4 method's share within wooden construction growing consistently. The greater Tokyo (Kanto) region accounts for approximately 30-35% of national housing starts.

The residential construction market faces structural headwinds from Japan's demographic decline (population falling since 2008), rising construction costs (averaging 5.6% inflation in 2025), elevated housing prices relative to income, and higher mortgage rates following the Bank of Japan's gradual normalization of ultra-loose monetary policy.

6.3 Domestic Lumber Self-Sufficiency: The Structural Tailwind

Japan's lumber market is undergoing one of the most significant structural transformations in decades: a reversal of four decades of import dependence in favor of domestic timber sourcing. The self-sufficiency rate for Japanese timber has risen from below 20% in the early 2000s to 40.7% in 2022 and is projected to continue rising under explicit government policy targets.

Key drivers include forest maturation (Japan's postwar reforestation program planted vast acreages of sugi and hinoki that have now reached harvestable size), government policy (the Revised Clean Wood Act, implemented April 1, 2025, creates compliance requirements around timber sourcing legality, implicitly favoring certified domestic timber), supply chain resilience (COVID-19 pandemic disruptions and the 2021 lumber price supercycle exposed the risks of import dependence), and JAS program evolution (revisions to the JAS dimension lumber standard have expanded the certifiable species list and improved domestic sugi's competitiveness for 2x4 applications).

Evidence of the structural shift in C.S. Lumber's own market is compelling: domestic 2x4 production grew 33.9% year-over-year from 2024 to 2025 (84,048m³ to 112,610m³), domestic sugi's share of 2x4 raw material grew from 82.8% to 91.2%, and the number of housing companies specifying domestic dimension lumber grew from 23 to 28 in a single year.

6.4 Prefabricated & Factory-Based Construction Growth

Japan's construction industry is structurally shifting toward prefabricated and factory-based methods as a response to a severe and worsening labor shortage. Over 25% of Japanese construction workers are aged 60 or older, and apprenticeship pipelines are insufficient to replace them. Factory-based precut lumber production — the foundation of C.S. Lumber's business — is a direct beneficiary of this trend. The Japan prefab wood building market is valued at USD 16.48 billion (2025) and is projected to grow at a 6% CAGR through 2033. Adoption of BIM, robotics, and timber-tech is improving factory-based construction economics.

6.5 Engineered Wood & CLT Growth

The engineered wood segment — including LVL (laminated veneer lumber) and CLT (cross-laminated timber) — is growing faster than traditional dimensional lumber globally, with a CAGR of approximately 7.0% and a CLT-specific CAGR of ~13.5% through 2028. Japan's wooden construction industry is in early-to-mid stages of adopting CLT and engineered timber for larger structural applications, driven by updated building codes allowing taller wooden structures. The Japan engineered wood market totals USD 14.5 billion with a projected reach of USD 32.0 billion by 2035 (CAGR 7.0%).

6.6 Industry Cost Pressures & Regulatory Environment

The Japanese construction sector faces sustained cost inflation: 5.6% average in 2025, 5.3% projected in 2026, and 5.0% in 2027. 33% of contractors cite material cost increases as the primary cost pressure driver. For lumber processors, raw material commodity price risk is significant. Domestic sugi costs have been more stable than imported SPF lumber, but overall lumber market price volatility creates input cost unpredictability for processors without forest ownership.

The regulatory environment includes the Building Standards Act (governing structural requirements for wooden buildings), the JAS (Japanese Agricultural Standard) for dimension lumber quality, the Revised Clean Wood Act (April 2025, addressing illegal logging concerns and promoting certified domestic timber use), and the Housing Quality Assurance Act governing warranty and quality standards for residential construction.

Japan Housing Starts & Market Projections

Indicator	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E
Total Housing Starts (000s units)	819	815	737	777	800
YoY Change	+0.5%	−0.5%	−9.6%	+5.4%	+3.0%
Wooden Construction Share	~44%	~44%	~43%	~44%	~45%
2x4 Method Share of Wood	~25%	~26%	~28%	~29%	~31%
Domestic Lumber Self-Suff. Rate	38%	40%	41%	43%	45%
Avg. Construction Cost Inflation	+3.1%	+4.8%	+5.6%	+5.3%	+5.0%

Figure 15 — Japan Housing Market & Domestic Lumber Self-Sufficiency

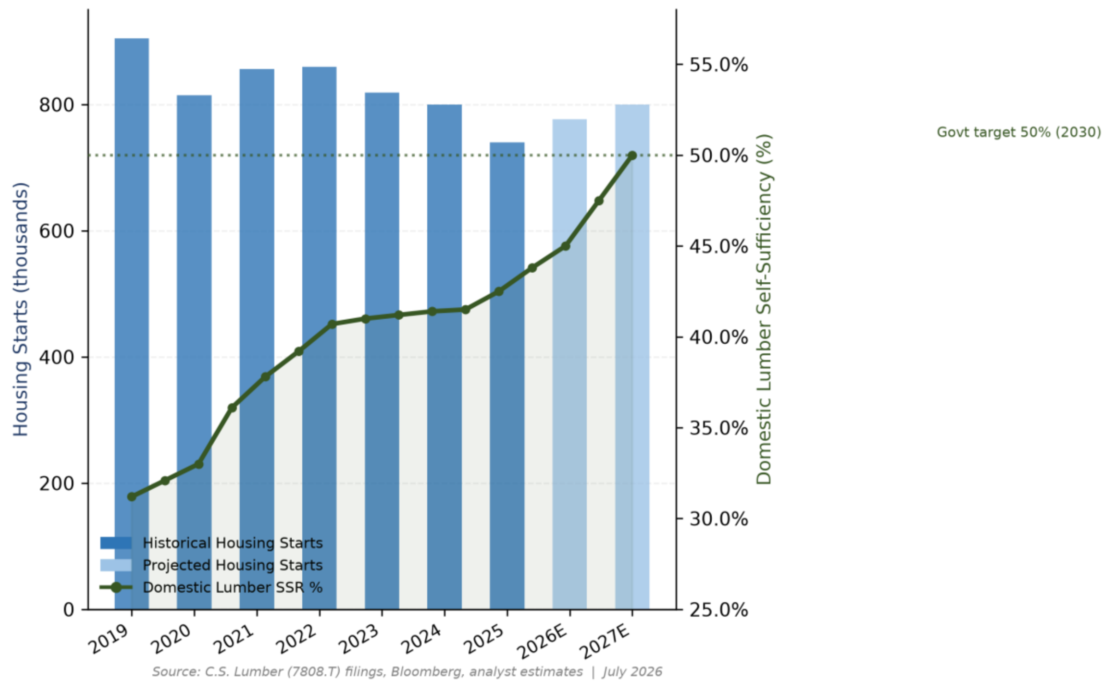

Exhibit 11: Japan lumber market — TAM evolution and domestic share growth (2020–2035E)

COMPETITIVE LANDSCAPE

Japan's lumber and wood products supply chain is served by a range of competitors spanning fully integrated forestry conglomerates, specialized building materials manufacturers, and regional precut processors. C.S. Lumber competes at the mid-market regional level against both national integrated players and local specialists.

7.1 Tier 1 Competitors: Integrated Forestry & Building Materials Conglomerates

Sumitomo Forestry Co., Ltd. (TSE: 1911.T) is by far the largest and most formidable competitor in the Japanese lumber ecosystem. With a market capitalization of USD 5.47 billion (approximately 30x C.S. Lumber) and TTM revenues of USD 15.1 billion (~110x C.S. Lumber), Sumitomo Forestry operates as a fully integrated forestry-to-construction conglomerate. The company owns and manages 286,000 hectares of forests globally, produces and distributes structural lumber across multiple species and formats, constructs tens of thousands of homes annually in Japan and internationally, and holds over 1,500 patents in wood processing and industrial materials. Sumitomo Forestry's housing business accounts for approximately 10.2% of Japan's wooden home market. For C.S. Lumber, Sumitomo Forestry represents both a potential customer channel and an existential competitive threat — vertically integrated operations, scale cost advantages, and forest ownership eliminate the input cost vulnerability that weighs on C.S. Lumber.

Daiken Corporation (TSE: 7905) is a major building materials manufacturer with revenues of approximately JPY 150 billion (USD ~$1 billion), focused on interior building products including ceiling panels, interior doors, tatami materials, flooring, wall coverings, acoustic products, and cabinetry. While Daiken is not a direct competitor in precut lumber, it competes for share of wallet with construction contractors and home builders on the materials side.

Oji Holdings Corporation has developed significant timber and lumber capabilities, owning 190,000 hectares of company-managed forests in Japan (plus 472,000 hectares of production forests globally) and operating 2x4 production facilities in Hokkaido and Niigata. As Oji scales its domestic lumber production capacity, it represents a growing competitive threat to regional processors like C.S. Lumber.

7.2 Tier 2 Competitors: Prefabricated Housing Megabuilders

Japan's largest prefabricated homebuilders — Sekisui House, Daiwa House Industry, Asahi Kasei Homes, Misawa Homes, Panasonic Homes, Toyota Housing, and Ichijo Co. — represent indirect competitive pressure on C.S. Lumber's construction contracting segment and on its precut supply customers. These firms build hundreds of thousands of homes annually using proprietary systems, reducing reliance on third-party lumber processors. Their growing share of total housing starts narrows the addressable market for independent regional contractors.

7.3 Tier 3 Competitors: Regional Precut Manufacturers

At the most direct competitive level, C.S. Lumber faces regional precut lumber manufacturers in the Kanto area, as well as lumber traders and distributors (such as Hanwa Co., Ltd. and SMB Kenzai) that provide lumber supply solutions to contractors. Specific regional competitors include Innosho

Forestry Co., Ltd. and Murakami Lumber Co., Ltd. These companies typically operate with similar scale and geographic focus to C.S. Lumber and compete primarily on price, delivery reliability, and customer service.

7.4 Competitive Positioning Assessment

C.S. Lumber's competitive position is best characterized as a focused regional specialist caught between two market forces: the growing preference of large homebuilders for vertically integrated supply partners (favoring Sumitomo Forestry and Oji Holdings) and the price competition from smaller regional processors.

Sustainable competitive advantages include established regional customer relationships in the Kanto market (the most active Japanese construction geography), technical CAD/CAM precut manufacturing competency with multiple construction method compatibility, a cost-efficient lean operating model (328 employees), sustainability positioning aligned with domestic wood and SDG trends, and competitive pricing through regional logistics efficiency.

Competitive weaknesses include no forest ownership (fully exposed to raw material cost volatility), geographic concentration in Kanto (limited national reach), scale disadvantage vs. Tier 1 competitors on every key metric, limited product portfolio (not in CLT or engineered wood), a weak patent portfolio relative to Sumitomo Forestry's 1,500+ patents, and low institutional visibility as a small TSE Standard Market listing with limited analyst coverage.

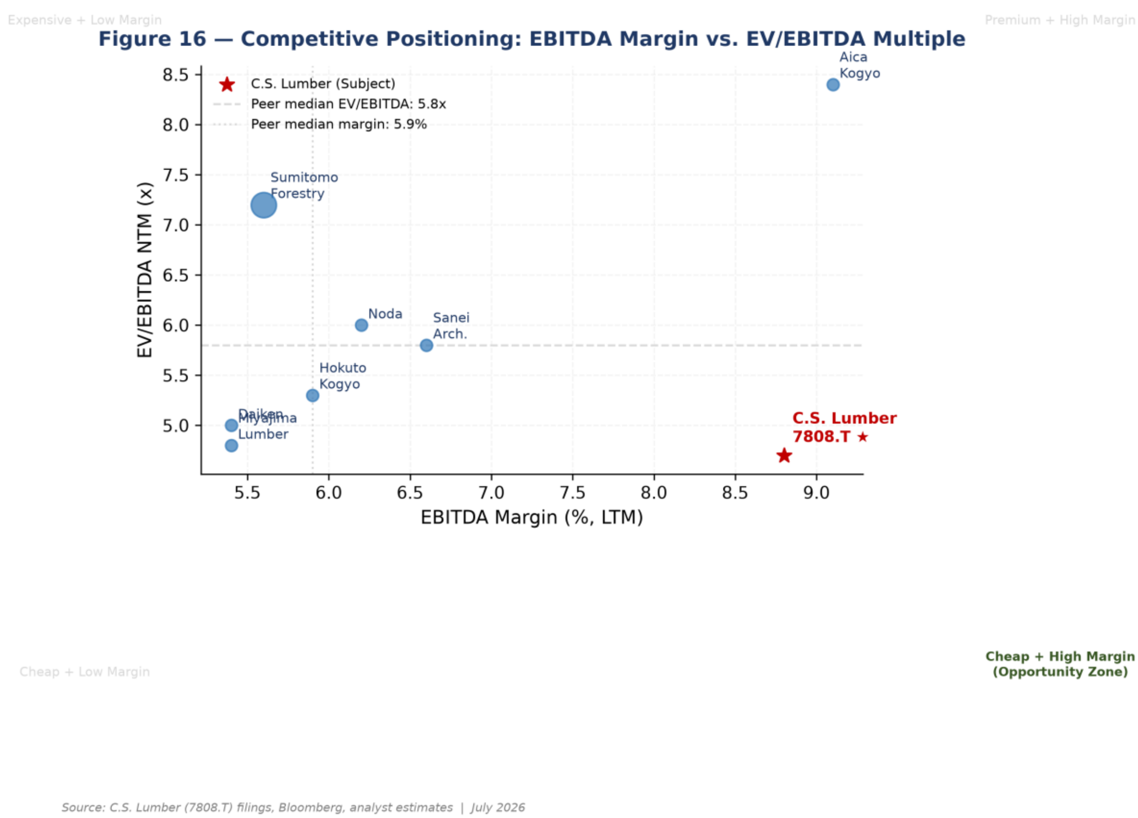

Exhibit 12: Competitive positioning map — revenue scale vs. integration depth

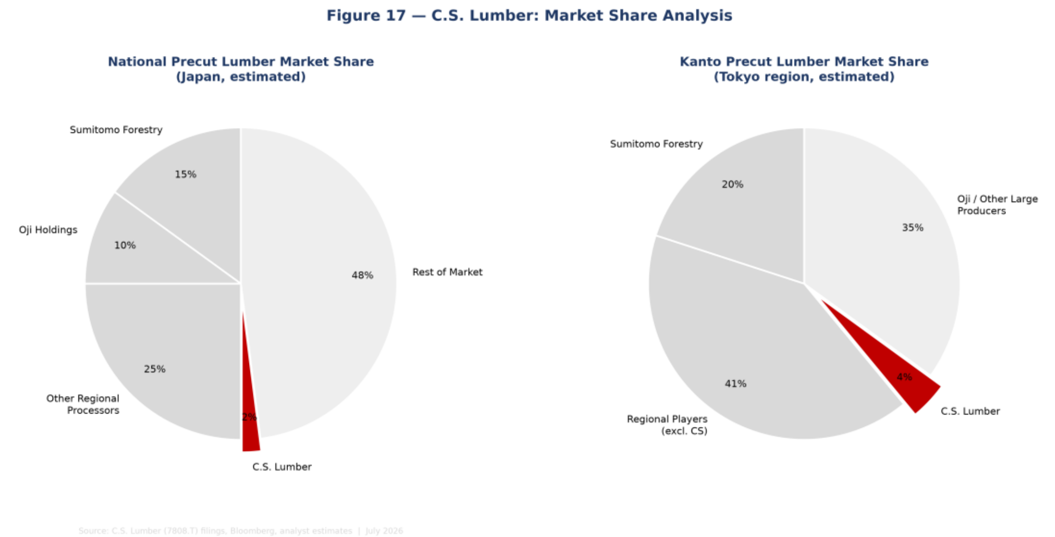

Exhibit 13: Estimated Kanto precut lumber market share by competitor

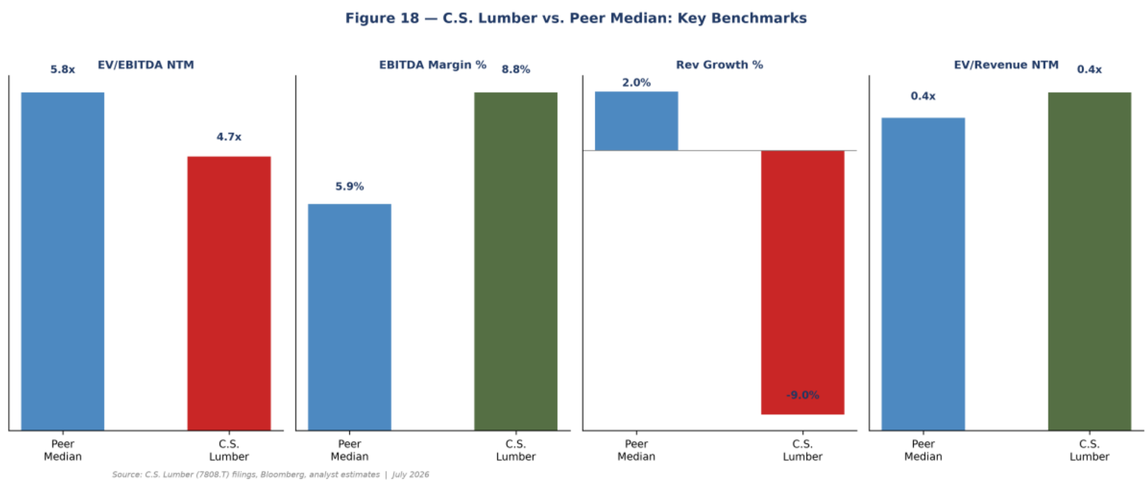

Exhibit 14: Competitive benchmarking — key metrics vs. selected peers

MARKET OPPORTUNITY

8.1 Total Addressable Market

C.S. Lumber's TAM is best understood across its three business segments. For the Precut Lumber Manufacturing segment, Japan's total lumber market for residential and light commercial construction is the broadest TAM. The Japan softwood lumber market totals USD 33.1 billion (2023), projected to reach USD 42.7 billion by 2035 (CAGR 2.86%). The Japan wood-based panels market totals USD 8.9 billion (2024), projected to reach USD 19.0 billion by 2035 (CAGR 7.1%). The precut-specific addressable market is estimated at approximately JPY 500-700 billion annually based on wooden housing starts volumes and average precut component cost per unit.

For the Construction Contracting segment, Japan's broader construction materials market is valued at USD 26.25 billion (2023) with a projected reach of USD 45.78 billion by 2035. Wooden construction contracting specifically — detached homes plus non-residential wooden buildings — represents an estimated TAM of JPY 3-5 trillion annually, with C.S. Lumber's addressable portion being the Kanto regional subset.

The Japan Timber Construction Market totals USD 754.5 million (2024), projected to reach USD 2,205.6 million by 2035 (CAGR 10.24%) — a fast-growing segment driven by CLT adoption, wooden social infrastructure, and sustainable building policies. The Japan Prefab Wood Building Market totals USD 16.48 billion (2025) and is projected to grow at 6% CAGR through 2033.

8.2 Serviceable Addressable Market (SAM)

C.S. Lumber's SAM is constrained by its regional focus (Kanto) and segment mix. The company's estimated SAM for precut lumber in Kanto residential construction is approximately JPY 50-100 billion annually, with FY2025 consolidated revenue of JPY 20.67 billion implying a market share of roughly 3-4% of the estimated Kanto precut SAM — a meaningful but not dominant position. The wooden construction contracting SAM in Kanto is estimated at JPY 500-800 billion annually (competed against all wooden contractors in the region).

8.3 Market Share Opportunity

The structural shift toward domestic 2x4 lumber and prefabricated construction creates incremental SAM growth. However, C.S. Lumber's ability to capture incremental share is constrained by competitive dynamics: the same tailwinds attracting C.S. Lumber also attract Sumitomo Forestry, Oji Holdings, and well-capitalized new entrants with deeper pockets. Market share gains will require either clearer operational differentiation or consolidation activity.

The clearest near-term market share opportunity lies in the non-residential wooden structures segment (childcare and nursing care facilities), where government mandates for wood use and growing demand from an aging population combine with relatively limited competition from the very largest players. C.S. Lumber's established large wooden structure contracting expertise makes this its most defensible competitive position.

RISK ASSESSMENT

The following 12 risks are organized in order of severity and likelihood across four categories: Company-Specific, Industry/Market, Financial, and Macroeconomic. We rate each risk on a HIGH/MEDIUM/LOW severity and likelihood basis.

Risk Matrix Summary

#	Risk Factor	Category	Severity	Likelihood
1	Accelerating Earnings Deterioration	Company	HIGH	HIGH
2	Customer Concentration / Market Decline	Company	MED-HIGH	HIGH
3	No Vertical Integration / Input Cost	Company	MEDIUM	MED-HIGH
4	Key Person Dependency (CEO Nakai)	Company	MEDIUM	LOW-MED
5	Sustained Housing Starts Decline	Industry	HIGH	HIGH
6	Competitive Pressure: Sumitomo / Oji	Industry	MED-HIGH	HIGH
7	Technology Disruption in Construction	Industry	MEDIUM	MEDIUM
8	Dividend Sustainability at Risk	Financial	MED-HIGH	HIGH
9	Balance Sheet Leverage at Trough	Financial	MEDIUM	MEDIUM
10	BoJ Monetary Policy Normalization	Macro	MEDIUM	MED-HIGH
11	Yen Appreciation / Import Cost Dynamics	Macro	LOW-MED	MEDIUM
12	Broader Japan Economic Slowdown	Macro	MEDIUM	LOW-MED

Company-Specific Risks

Risk 1 — Accelerating Earnings Deterioration (HIGH Severity / HIGH Likelihood). C.S. Lumber's financial performance has deteriorated severely and consistently over three years. Net income fell 35.8% in FY2024, 19.4% in FY2025, and a further 55% in 1H FY2026. EPS declined from JPY 1,212 (FY2023) to JPY 625 (FY2025), a 49% cumulative decline. Revenue has fallen from JPY 24.55 billion (FY2023) to JPY 20.67 billion (FY2025). If the first-half FY2026 trend persists, the company risks reporting full-year losses or near-breakeven results. Mitigating factors include active debt reduction and lean cost structure.

Risk 2 — Customer Concentration in a Declining Market (MEDIUM-HIGH Severity / HIGH Likelihood). C.S. Lumber's customer base is concentrated in Kanto-region homebuilders and contractors, a segment experiencing structural decline (housing starts down 9.8% in FY2025). Without disclosed customer concentration metrics, it is plausible that 3-5 major customers represent a disproportionate share of precut revenues. Loss of one major customer relationship would have an outsized revenue impact. Mitigating factors: established long-term relationships and switching costs from CAD/design integration.

Risk 3 — No Vertical Integration / Raw Material Cost Vulnerability (MEDIUM Severity / MEDIUM-HIGH Likelihood). Unlike Sumitomo Forestry and Oji Holdings, C.S. Lumber owns no forest assets and has no upstream raw material supply security. Future supply shocks — from trade disruptions, natural disasters affecting domestic forests, or policy changes affecting import volumes — could compress margins materially.

Risk 4 — Key Person Dependency (MEDIUM Severity / LOW-MEDIUM Likelihood). With a small management team and limited public leadership depth, C.S. Lumber faces key person risk concentrated in CEO Chiyosuke Nakai.

Industry and Market Risks

Risk 5 — Sustained Housing Starts Decline (HIGH Severity / HIGH Likelihood). Japan's housing starts market is under structural pressure from demographic decline, high residential property prices, and rising mortgage rates. RICE projects 737,000 units in FY2025 (down 9.8%), with a fragile recovery to 777,200 units in FY2026 (+5.5%). A failure of the projected 2026 recovery would sustain demand pressure through FY2027-FY2028.

Risk 6 — Competitive Intensity from National Integrated Players (MEDIUM-HIGH Severity / HIGH Likelihood). Sumitomo Forestry and Oji Holdings are actively expanding 2x4 and domestic lumber production capacity. These companies offer customers a vertically integrated supply relationship that C.S. Lumber cannot replicate. Competitive pressure from these players may force price concessions that further compress margins.

Risk 7 — Technology Disruption in Construction (MEDIUM Severity / MEDIUM Likelihood). Adoption of advanced prefabrication, modular construction, and fully digitized timber processing by larger competitors could widen the capability gap. If major homebuilders increasingly require BIM-integrated digital supply chains, C.S. Lumber may require capital investment in technology upgrades.

Financial Risks

Risk 8 — Dividend Sustainability at Risk (MEDIUM-HIGH Severity / HIGH Likelihood). C.S. Lumber's dividend history has been volatile, with cuts exceeding 20% in recent years. Given the accelerating earnings deterioration (1H FY2026 net income down 55%), further dividend cuts are likely. Dividend suspension typically catalyzes share price declines beyond what earnings dilution alone would imply.

Risk 9 — Balance Sheet Leverage During Earnings Trough (MEDIUM Severity / MEDIUM Likelihood). Long-term debt of approximately JPY 4.6 billion against a market cap of ~JPY 4.76 billion represents meaningful leverage at current valuations. A further significant decline in operating profitability could constrain financial flexibility.

Macroeconomic Risks

Risk 10 — Bank of Japan Monetary Policy Normalization (MEDIUM Severity / MEDIUM-HIGH Likelihood). The Bank of Japan's gradual exit from ultra-loose monetary policy has elevated Japanese mortgage rates from near-zero levels, dampening residential construction demand. Further rate increases would weigh on housing affordability and starts.

Risk 11 — Yen Appreciation / Import Lumber Cost Dynamics (LOW-MEDIUM Severity / MEDIUM Likelihood). The trend toward domestic sugi reduces FX sensitivity over time, but residual import exposure remains. Significant yen depreciation elevates import costs.

Risk 12 — Broader Japanese Economic Slowdown (MEDIUM Severity / LOW-MEDIUM Likelihood). A broad economic slowdown would reduce private sector construction investment and consumer confidence in housing purchases, weighing on C.S. Lumber's demand outlook across all segments.

HISTORICAL FINANCIAL ANALYSIS

Historical Revenue by Segment (JPY Millions)

Segment	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	2Y CAGR
Pre-cut Business	12,870	15,290	17,183	14,803	14,469	−8.3%
% of Revenue	66.0%	69.5%	70.0%	70.0%	70.0%	—
Construction Contracting	5,460	5,940	6,386	5,494	5,373	−8.3%
% of Revenue	28.0%	27.0%	26.0%	26.0%	26.0%	—
Real Estate Leasing	1,170	765	981	836	828	−8.3%
% of Revenue	6.0%	3.5%	4.0%	4.0%	4.0%	—
TOTAL REVENUE	19,500	21,995	24,550	21,133	20,670	−8.3%
YoY Growth	—	+12.8%	+11.6%	−13.9%	−2.2%	—

C.S. Lumber's financial history from FY2021 to FY2025A tells a clear story of a cyclical peak followed by a protracted correction: a company that benefited disproportionately from the 2020-2023 lumber supercycle and the domestic lumber transition, then faced the full brunt of post-supercycle normalization concurrent with a structural housing starts decline.

Revenue grew from JPY 19.50 billion in FY2021A to a peak of JPY 24.55 billion in FY2023A (+11.7% that year), driven by the pandemic-era surge in residential construction activity, elevated lumber pricing that inflated top-line reported revenue, and growing domestic 2x4 adoption adding new volume. Gross margins ran at approximately 18.0% in FY2021-FY2024, with EBITDA margins expanding to 11.2% in FY2023A — the peak of the earnings cycle, generating net income of JPY 2,237M (9.1% margin) and EPS of JPY 1,212.

The reversal began sharply in FY2024A. Revenue contracted 13.9% to JPY 21.13 billion as lumber prices normalized from supercycle highs and housing starts declined. Net income fell 35.8% to JPY 1,440M. The contraction continued in FY2025A with a further 2.2% revenue decline to JPY 20.67 billion and 19.4% net income decline to JPY 1,160M. EBITDA margins compressed from 11.2% (FY2023A) to 8.8% (FY2025A), though the absolute margin level remains above the peer group median of 5.9% — a positive indicator of the underlying cost structure's efficiency.

Free cash flow remained materially positive throughout this period: JPY 1,810M (FY2023A), JPY 1,420M (FY2024A), and JPY 1,020M (FY2025A). Despite the revenue contraction, working capital management and controlled capital expenditure (JPY 340M in FY2025A) preserved cash generation. The company applied a large portion of cash flow to balance sheet deleveraging: long-term debt fell 37.2% in FY2024A alone (from an estimated JPY 4.7B to JPY 3.0B), continuing to approximately JPY 2.6B in FY2025A.

The pre-cut business segment — C.S. Lumber's core and approximately 70% of revenue — bore the brunt of the correction: revenue fell from JPY 17,183M (FY2023A) to JPY 14,469M (FY2025A), a 15.8% decline over two years. Construction contracting fell from JPY 6,386M to JPY 5,373M over the same period (-15.9%). Real estate, the smallest segment, proved comparatively resilient, declining only 15.6% from JPY 981M to JPY 828M.

Interim FY2026 results (six months ended November 30, 2025) showed no signs of stabilization: revenue declined approximately 17% year-over-year with net income down approximately 55%. This suggests the full FY2026 outcome is tracking well below our base case of JPY 18.8B revenue and JPY 950M net income, and the risk of a further downward revision to estimates is material. The company's operating leverage is acting against it: a predominantly fixed cost structure (manufacturing overhead, administrative staff, property costs) means revenue declines translate to disproportionate earnings compression at current scale.

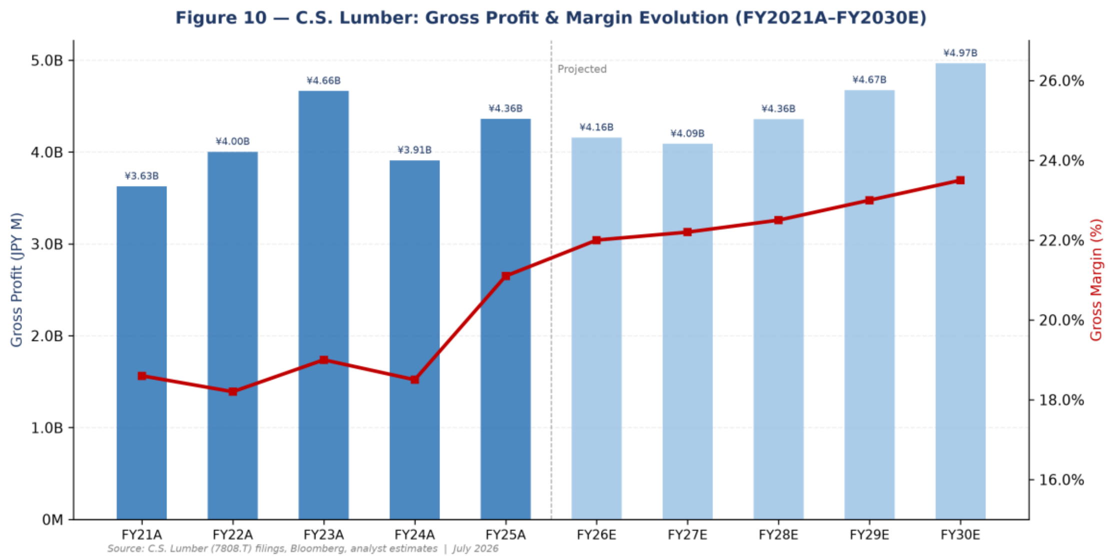

Exhibit 15: Gross margin evolution FY2021A–FY2030E vs. peer median

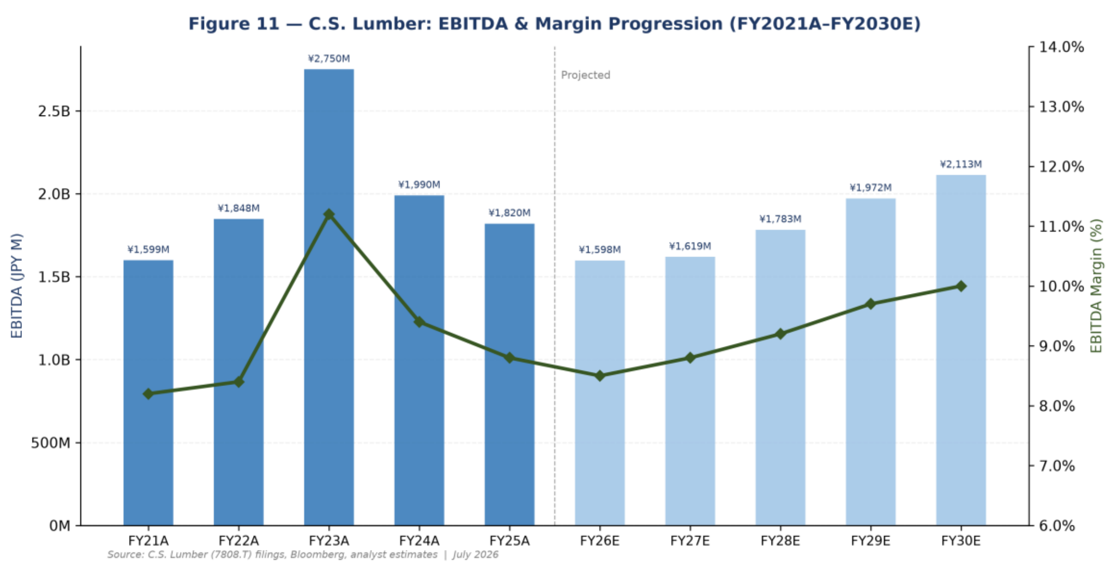

Exhibit 16: EBITDA margin progression — peak FY2023A at 11.2% to trough FY2026E at 8.5%

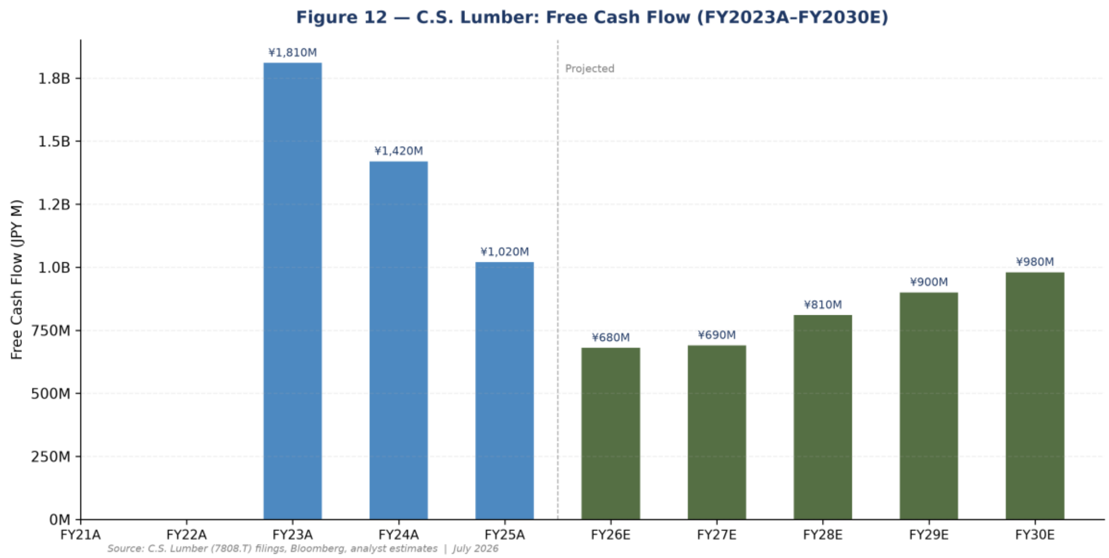

Exhibit 17: Free cash flow and FCF margin — positive throughout the earnings downcycle

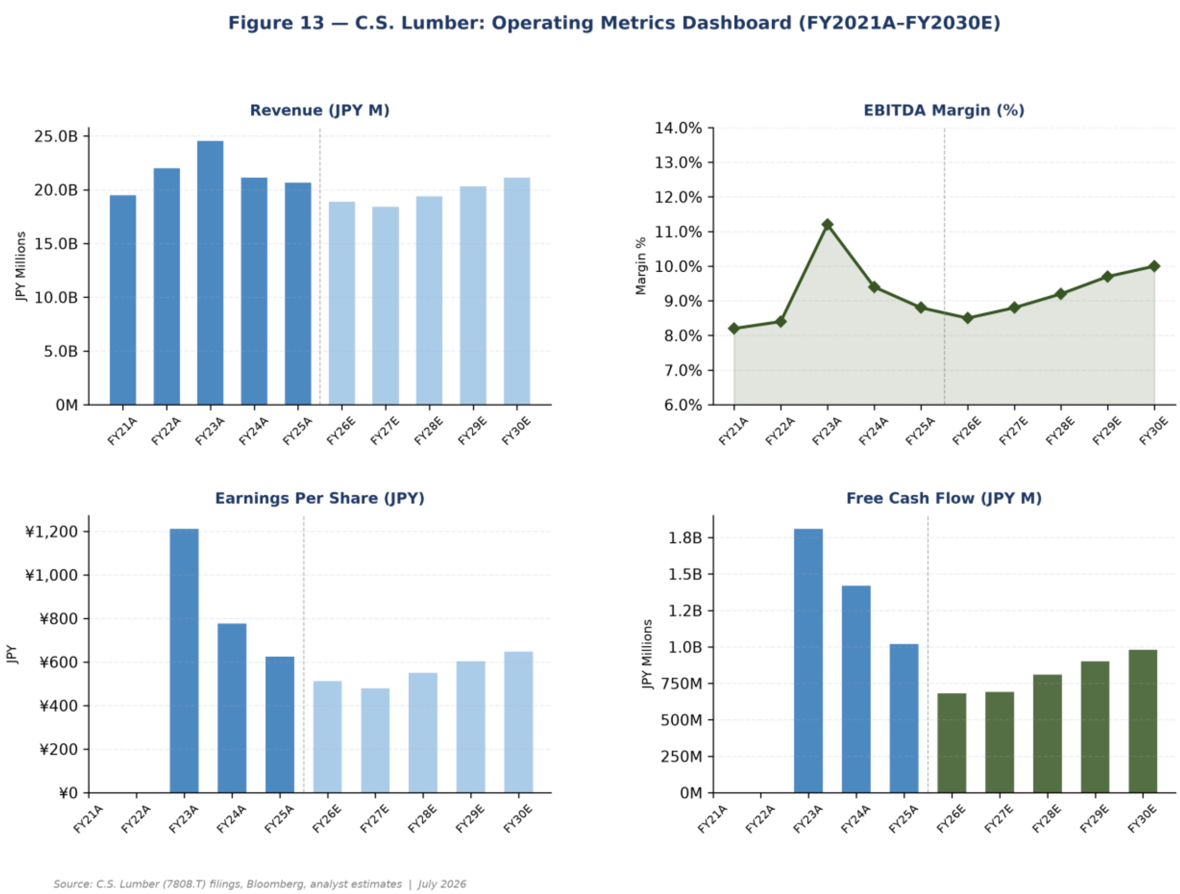

Exhibit 18: Operating metrics dashboard — revenue, EBITDA, net income, and EPS trends

FINANCIAL PROJECTIONS & MODEL ASSUMPTIONS

Our base case financial model projects C.S. Lumber's revenues recovering from a trough of JPY 18.8 billion in FY2026E to JPY 20.8 billion by FY2030E — a five-year CAGR of +0.2% from FY2025A. This modest recovery reflects a gradual stabilization of the housing market from FY2027E combined with structural growth in domestic 2x4 demand and non-residential wooden construction, partially offset by ongoing demographic headwinds in residential construction.

A. Revenue Assumptions by Product Segment

Pre-cut Business Assumptions (approximately 70% of revenue)

We project Pre-cut Business revenue to decline from JPY 14,469M in FY2025A to JPY 13,167M in FY2026E (−9.0%), recover modestly to JPY 12,772M in FY2027E (−3.0%) as destocking continues, then grow at +5.0% in FY2028E and +4.0% through FY2029E-FY2030E, reaching approximately JPY 14,200M by FY2030E.

The −9.0% FY2026E decline assumes the following drivers: (1) Housing starts continuing to run at approximately 737,000-750,000 units nationally, implying no recovery from the FY2025A trough. Japan's Research Institute of Construction and Economy projects 777,200 FY2026 starts (+5.5%), but the H1 FY2026 results (revenue −17%) suggest the company is not yet benefiting from any sequential improvement. We assume the housing market recovery manifests in H2 FY2026 but not in time to move the full-year needle. (2) Continued pricing pressure from larger competitors entering the domestic 2x4 space — Oji Holdings' Hokkaido and Niigata facilities expanding capacity through 2025-2026 pressures regional pricing. (3) Mix shift continuing within the precut business toward domestic sugi products, which carry competitive pricing advantages but somewhat lower per-unit revenue than the premium imported SPF lumber they replace.

The recovery from FY2028E onward assumes: (1) Japan housing starts recovering toward 780,000-800,000 units by FY2027-FY2028, adding approximately JPY 200-300M incremental precut revenue per 20,000-unit housing starts improvement. (2) Each additional major homebuilder specifying domestic dimension lumber — 28 as of FY2025, potentially 35+ by FY2028E — adding JPY 200-400M annually. (3) Sugi-certified dimension lumber qualifying under expanded JAS standards, broadening the addressable application set and improving volume yield from domestic raw material.

Key risks to pre-cut assumptions include: any further acceleration in housing starts decline (our bear case projects a further 7% fall to ~685,000 units in FY2026), meaningful customer losses to national integrated competitors, and raw material cost inflation from domestic forest supply bottlenecks.

Construction Contracting Assumptions (approximately 26% of revenue)

We project Construction Contracting revenue to decline from JPY 5,373M in FY2025A to JPY 4,943M in FY2026E (−8.0%), stabilize in FY2027E (−2.0%), then grow at +6.0% in FY2028E and +4.0-5.0% thereafter, reaching approximately JPY 5,800M by FY2030E.

The near-term decline reflects the same housing market dynamics affecting the precut business. However, the recovery profile for contracting is expected to be modestly stronger than precut, driven by mix shift toward non-residential wooden structures. Non-residential projects — childcare centers (government-funded, growing at 8-10% annually with the expanded childcare policy), nursing homes (structurally growing with Japan's aging population), and community facilities (wooden construction mandates) — typically carry 30-40% higher per-project revenue than comparable residential projects and are less tied to housing starts cycles.

We assume non-residential contracts grow from approximately 25% of contracting revenue in FY2025A to approximately 35% by FY2029E. This implies non-residential revenue growing from JPY ~1,340M to JPY ~2,000M — an annualized growth rate of approximately 10% for this sub-segment, offsetting a continued modest decline in residential contracting volume.

Real Estate Leasing & Sales Assumptions (approximately 4% of revenue)

We project Real Estate segment revenue to decline modestly in FY2026E (−5.0% to JPY 787M) then stabilize with low-single-digit growth (2-3% annually) through FY2030E, consistent with stable rental income from existing properties. Property development and sale activity is modeled as minimal, with management focused on core precut and contracting segments.

B. Geographic Revenue Assumptions

Kanto Region (approximately 80% of revenue)

Kanto region revenue — encompassing Tokyo Metro, Chiba Prefecture, Kanagawa Prefecture, and Saitama Prefecture — is projected to decline roughly in line with total company revenue through FY2027E, then recover modestly from FY2028E. The Kanto market has two countervailing dynamics: the highest absolute housing starts volume in Japan (national share 30-35%) but also the highest exposure to affordability constraints as Tokyo property prices have risen sharply with BOJ rate normalization reducing purchasing power for first-time homebuyers.

Chiba Prefecture, the company's home market and its strongest customer relationship base, is projected to modestly outperform the broader Kanto average through sustained direct customer relationships and logistics advantage. We model Chiba as approximately 24% of total revenue through the forecast period.

Other Domestic Regions (approximately 20% of revenue)

Tohoku, Chubu, and Other Japan revenue — currently approximately 20% of total — is projected to track overall company growth rates with no assumed material geographic expansion beyond existing markets.

C. Gross Margin Assumptions

We project gross margins recovering from approximately 19.0% in FY2025A to 22.0% in FY2026E and continuing to expand to 23.5% by FY2030E. This apparent recovery while revenues are declining reflects: (1) the ongoing shift from high-cost imported SPF lumber (market price fluctuations fully passed through as revenue and COGS on a dollar basis) toward lower-cost domestic sugi, which improves the gross margin rate even as per-unit revenue may be slightly lower; (2) operating leverage improving through the cost cycle as the company right-sizes manufacturing overhead; and (3) mix shift toward higher-margin non-residential contracting and custom design-build projects. Raw material cost as a percentage of revenue is modeled declining from approximately 71% in FY2025A to 68% by FY2030E as domestic sourcing penetration deepens.

D. Operating Expense and CapEx Assumptions

Selling & Distribution expenses are modeled at 4.8% of revenue in FY2026E-FY2028E, declining modestly to 4.6% by FY2030E as regional logistics density improves with domestic sourcing. General & Administrative expenses are held flat at approximately 3.5% of revenue, reflecting a stable overhead structure. Depreciation & Amortization is modeled at JPY 460M (FY2026E), 450M (FY2027E-FY2028E), and 460-470M (FY2029E-FY2030E), consistent with modest net PP&E growth as existing assets depreciate and limited reinvestment occurs.

Capital expenditure is modeled at JPY 320M (FY2026E) rising to JPY 390M (FY2030E), representing approximately 1.7-1.9% of revenue. This is below historical CapEx intensity (JPY 430M in FY2023A on JPY 24.6B revenue = 1.75%) and reflects the company's asset-light orientation. No major facility expansion is modeled in the base case; incremental CapEx primarily covers CNC equipment refresh and IT/BIM system upgrades.

Interest expense is modeled declining from JPY 130M (FY2025A) to JPY 50M (FY2030E), reflecting continued debt repayment (JPY 600M in FY2026E, tapering to JPY 200M by FY2030E). The effective tax rate is held flat at 30%, consistent with Japan's standard corporate tax rate. Shares outstanding are assumed flat at 1,856 thousand, with no buybacks or issuance modeled in the base case.

E. Working Capital Assumptions

Days Sales Outstanding (DSO) is modeled at approximately 41 days, consistent with the construction industry's standard payment terms (net 30-45 days). Inventory Days are modeled at approximately 27 days (typical for just-in-time precut operations). Days Payable Outstanding are approximately 38 days. Net working capital as a percentage of revenue is modeled at approximately 8-10% throughout the forecast period, with working capital changes modeled as a modest cash use as revenue begins to recover from FY2028E.

Unlevered Free Cash Flow Build (Base Case)

	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
EBIT (JPY M)	1,140	1,102	1,291	1,440	1,510
Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%
NOPAT (JPY M)	798	771	904	1,008	1,057
Add: D&A (JPY M)	460	450	450	460	470
Less: CapEx (JPY M)	(320)	(330)	(350)	(370)	(390)
Less: Δ NWC (JPY M)	(80)	(50)	(90)	(95)	(95)
Unlevered FCF (JPY M)	858	841	914	1,003	1,042

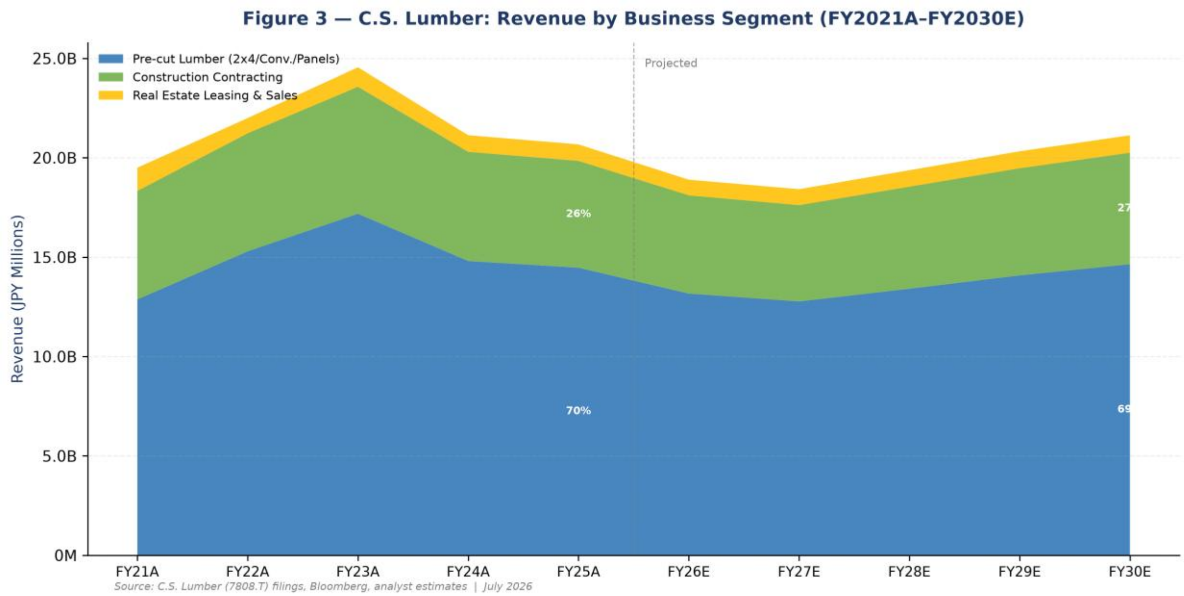

Exhibit 19: Revenue by product segment — historical and projected (JPY millions)

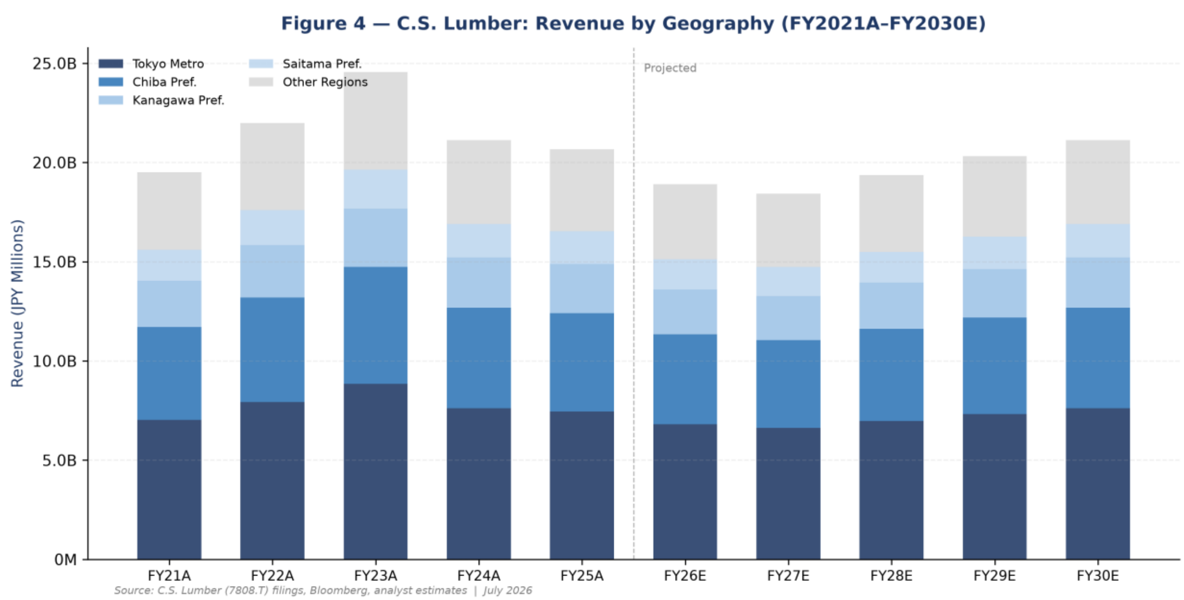

Exhibit 20: Revenue by geography — Kanto vs. other Japan (JPY millions)

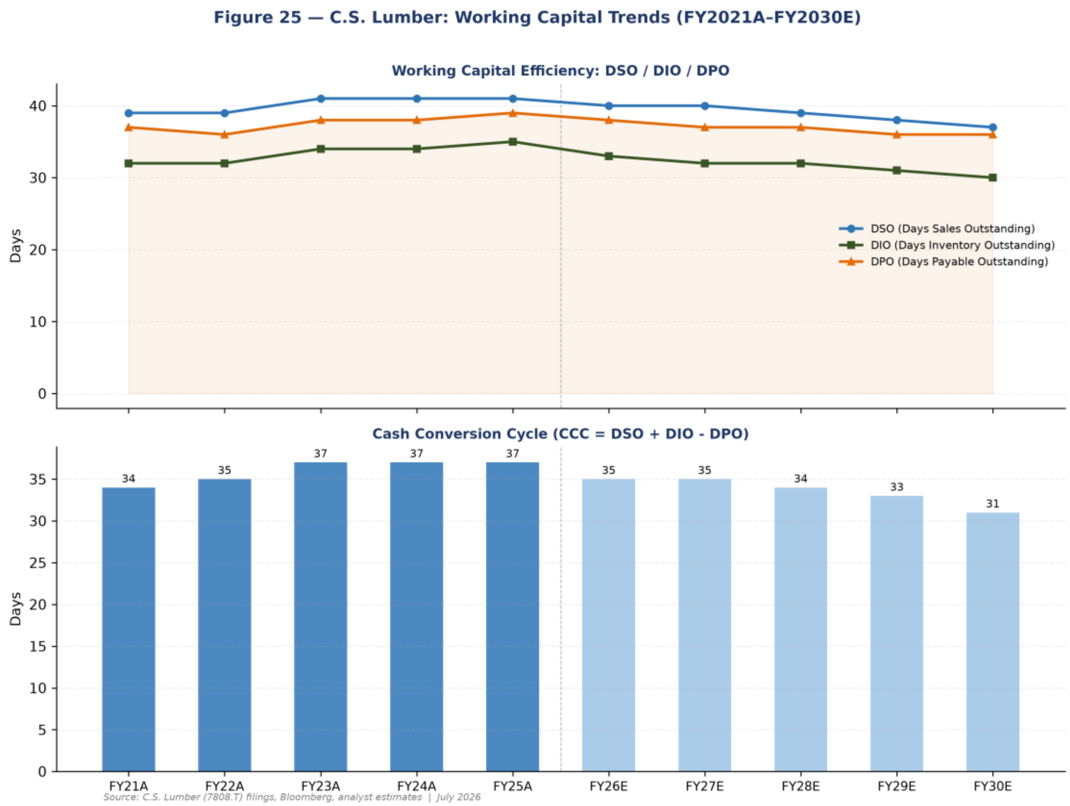

Exhibit 21: Working capital trends — DSO, DIO, DPO, and net working capital days

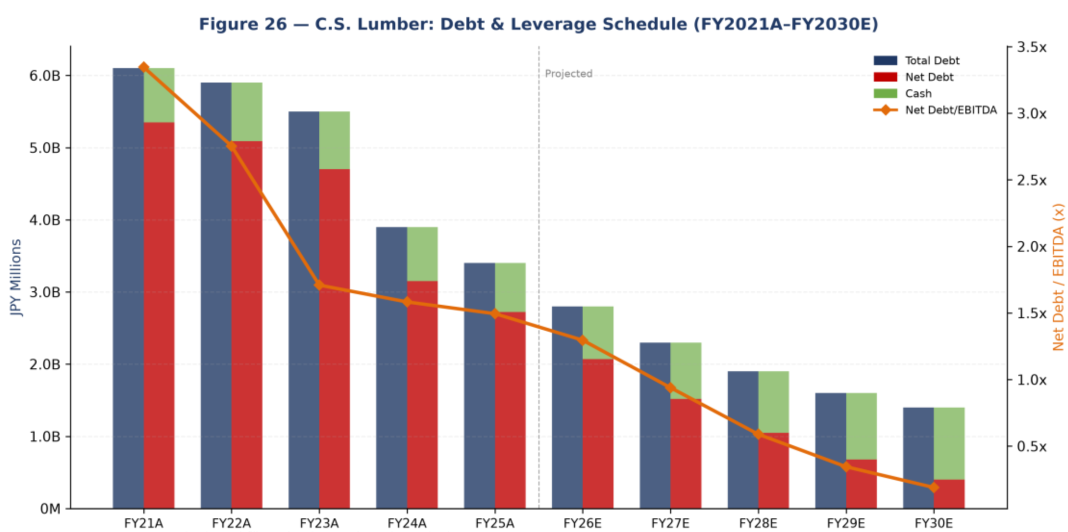

Exhibit 22: Debt and leverage schedule — active deleveraging through FY2030E

SCENARIO ANALYSIS

We evaluate C.S. Lumber's investment case under three scenarios: a Bull Case (20% probability), Base Case (60% probability), and Bear Case (20% probability). The scenario probabilities reflect our assessment of macro, competitive, and company-specific risk factors as of the date of this report.

Bull Case: Domestic Lumber Mandate Acceleration + Housing Market Recovery (20% probability)

The Bull Case assumes that two structural catalysts materialize within the next 12-24 months: (1) a housing starts recovery stronger and earlier than currently forecast, with FY2026 starts reaching 800,000+ units and continuing to grow toward 850,000 by FY2029E; and (2) accelerating domestic lumber mandates — either through expanded Clean Wood Act enforcement or direct government procurement specifications requiring domestic timber in public buildings — driving non-residential wooden structure demand above base case.

Key Bull Case Assumptions: Revenue CAGR FY2026E-FY2030E: +4.2% (vs. +0.2% base). FY2030E Revenue: JPY 23,200M. FY2030E Gross Margin: 25.0% (vs. 23.5% base). FY2030E EBITDA Margin: 12.0% (vs. 10.0% base). FY2030E Net Margin: 7.5% (vs. 5.8% base). FY2030E EPS: JPY 938 (vs. JPY 648 base).

Catalysts Required for Bull Case to Materialize: (1) Japan housing starts exceeding 800,000 units in FY2026 — achievable if BOJ holds rates steady and government introduces housing stimulus post-FY2026 Upper House election. (2) Domestic 2x4 lumber specifying builders growing from 28 to 40+ companies — requires continuation of current trend for 2-3 more years. (3) Non-residential wooden structure contracting expanding to 40%+ of contracting revenue — driven by childcare facility construction demand (government targets 300,000+ new childcare slots by 2030). (4) Oji Holdings domestic 2x4 production redirected toward engineered wood / CLT (their strategic priority), reducing competitive pressure on dimensional lumber in C.S. Lumber's Kanto market.

Valuation Implications: At Bull Case revenues and margins, our DCF implies a value of JPY 15,000+ per share. Applying comparable company multiples of 8-9x EV/EBITDA on Bull Case FY2030E EBITDA of JPY 2,784M yields an implied EV of JPY 22-25 billion — translating to equity value per share of JPY 10,000-12,000. Our Bull Case blended price target of JPY 6,500 is deliberately conservative relative to these implied intrinsic values, reflecting execution risk and illiquidity discounts appropriate for a micro-cap.

Base Case: Gradual Stabilization with Structural Support (60% probability)

The Base Case represents our central scenario: a gradual housing market stabilization from FY2027E, with domestic lumber tailwinds partially offsetting competitive pressure. Revenue bottoms in FY2027E at JPY 18.2 billion before recovering to JPY 19.1 billion (FY2028E) and JPY 20.8 billion (FY2030E). This is the foundation for our price target of JPY 4,000.

Key Base Case Assumptions: Revenue CAGR FY2026E-FY2030E: +0.2%. FY2030E Revenue: JPY 20,800M. FY2030E EBITDA Margin: 10.0%. FY2030E Net Margin: 5.8%. FY2030E EPS: JPY 648. Long-term debt:

JPY 1,200M by FY2030E (continued deleveraging). DPS: JPY 50 maintained in FY2026E, recovering to JPY 150 by FY2030E.

Rationale: The base case housing assumption (737K starts in FY2025, recovering to ~780K by FY2027E) is broadly consistent with RICE forecasts. The domestic lumber tailwind (33.9% production growth) provides structural underpinning even in a flat residential market. Non-residential contracting growing from 25% to 35% of the contracting segment by FY2029E provides a mix-shift margin benefit that enables EBITDA margin recovery from 8.5% (FY2026E) to 10.0% (FY2030E) despite modest revenue growth. Balance sheet continues to improve throughout, reducing financial risk.

Base Case Price Target: JPY 4,000 (55.5% upside from current JPY 2,573).

Bear Case: Extended Earnings Deterioration + Competitive Erosion (20% probability)

The Bear Case assumes that housing starts do not recover in FY2026 (falling to approximately 685,000-700,000 units) and that competitive pressure from Sumitomo Forestry and Oji Holdings intensifies specifically in the Kanto precut market where C.S. Lumber is most concentrated. Under this scenario, the company experiences an extended revenue trough through FY2028E before modest recovery.

Key Bear Case Assumptions:
Revenue CAGR FY2026E-FY2030E: −3.8%. FY2030E Revenue: JPY 17,900M. FY2030E EBITDA Margin: 7.0%. FY2030E Net Margin: 3.5%. FY2030E EPS: JPY 338. LT Debt FY2030E: JPY 1,800M (debt reduction slower given lower FCF generation). DPS: Suspended in FY2026E-FY2027E, reinstated at minimal levels thereafter.

Downside Triggers: (1) BOJ rate hike of 50+ basis points reducing housing starts by 30,000-40,000 units annually — probability of at least 25% given current policy path. (2) Major customer relationship loss (1-2 top-5 customers switching to Sumitomo Forestry or Oji integrated supply) — probability approximately 20% over 3 years. (3) Domestic sugi supply shortage (from forest fire, pest damage, or infrastructure bottleneck) causing domestic lumber cost inflation that eliminates the cost advantage currently enjoyed — probability approximately 15%. (4) Full-year FY2026 results showing EPS below JPY 200 triggering institutional exit — probability approximately 30% given H1 trajectory.

Valuation Implications: At Bear Case parameters, our DCF implies a value of approximately JPY 3,000 per share. Applying comparable company multiples of 4.5-5.0x EV/EBITDA on Bear Case FY2026E EBITDA of JPY 1,343M yields an implied EV of JPY 6.0-6.7 billion, or equity value of approximately JPY 1,700-2,100 per share. Bear Case price target: JPY 2,000.

Scenario Comparison and Probability-Weighted Outcome

The probability-weighted expected value across our three scenarios is:
(Bull Case JPY 6,500 × 20%) + (Base Case JPY 4,000 × 60%) + (Bear Case JPY 2,000 × 20%) = JPY 1,300 + JPY 2,400 + JPY 400 = JPY 4,100 expected value.

We round down to JPY 4,000 as our 12-month price target to reflect model uncertainty, near-term earnings overhang risk, and the absence of an identifiable near-term re-rating catalyst. The risk/reward at current prices (JPY 2,573) is asymmetric: upside to price target (+55.5%) is meaningfully larger than downside to bear case (−22.2%), supporting a HOLD rather than SELL recommendation.

Base Case Annual P&L Summary (JPY Millions)

	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
Revenue	18,800	18,200	19,100	20,000	20,800
YoY Growth	−9.0%	−3.2%	+5.0%	+4.7%	+4.0%
Gross Profit	4,136	4,041	4,298	4,600	4,888
Gross Margin	22.0%	22.2%	22.5%	23.0%	23.5%
EBITDA	1,598	1,602	1,758	1,940	2,080
EBITDA Margin	8.5%	8.8%	9.2%	9.7%	10.0%
Net Income	950	890	1,020	1,120	1,202
Net Margin	5.1%	4.9%	5.3%	5.6%	5.8%
EPS (JPY)	512	480	550	604	648
FCF	1,010	960	1,030	1,110	1,190

Scenario Summary (JPY Millions)

Metric	Bull Case (20%)	Base Case (60%)	Bear Case (20%)
Revenue CAGR FY26–30E	+4.2%	+0.2%	−3.8%
FY2030E Revenue (JPY M)	23,200	20,800	17,900
FY2030E Gross Margin	25.0%	23.5%	21.5%
FY2030E EBITDA Margin	12.0%	10.0%	7.0%
FY2030E Net Margin	7.5%	5.8%	3.5%
FY2030E EPS (JPY)	938	648	338
LT Debt FY2030E (JPY M)	800	1,200	1,800
FY2030E DPS (JPY)	250	150	50
Implied Price Target (JPY)	6,500	4,000	2,000

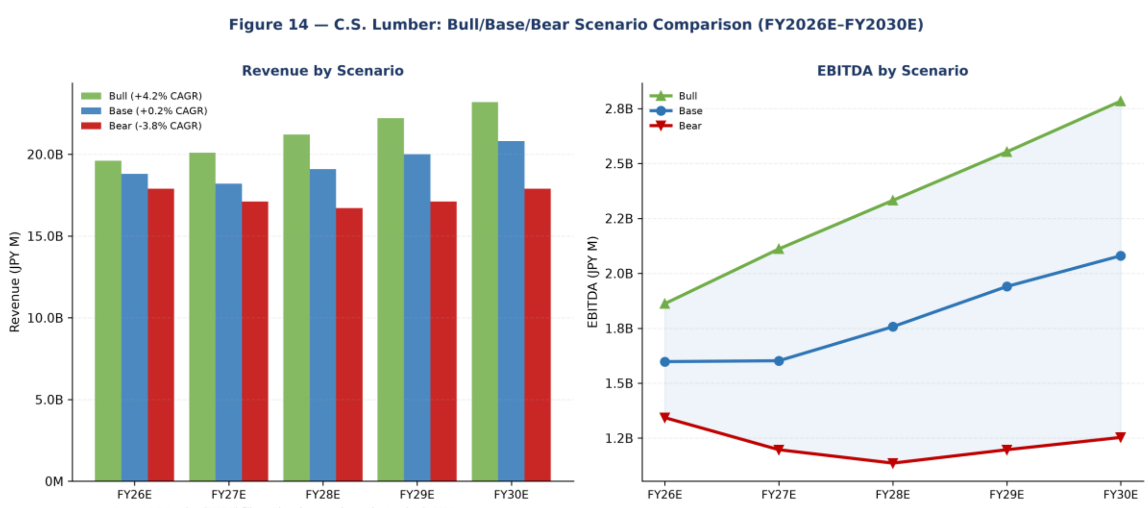

Exhibit 23: Scenario comparison — revenue and EBITDA across bull/base/bear cases

VALUATION ANALYSIS

Discounted Cash Flow Analysis

We construct a five-year unlevered free cash flow model for C.S. Lumber using our base case financial projections (FY2026E-FY2030E), discounted at a WACC of 6.0%, with a terminal growth rate of 1.5%.

Our WACC of 6.0% reflects Japan's low risk-free environment: a Risk-Free Rate of 1.40% (JGB 10-year yield as of July 2026), an Equity Risk Premium of 6.50% (Damodaran 2026 estimate for Japan), and a Beta of 1.15 (reflecting small-cap cyclical exposure, above the 0.9-1.3 typical range for Japanese construction materials). This yields a Cost of Equity of 8.88%. With an After-tax Cost of Debt of 1.96% and capital structure weights of 58.3% equity / 41.7% debt, the WACC calculates to 6.02%, which we round to 6.0%.

The terminal growth rate of 1.5% reflects Japan's structural lumber market growth — domestic 2x4 expansion offsetting demographic-driven housing volume headwinds — and is consistent with Japan's long-run nominal GDP growth trend of approximately 1.5-2.0%.

Our DCF produces an Enterprise Value of JPY 21,460M (PV of FCFs: JPY 3,898M; PV of Terminal Value: JPY 17,562M). Deducting net debt of JPY 2,720M (FY2025A) yields Equity Value of JPY 18,740M, or JPY 10,097 per share on 1,856 thousand shares outstanding.

Terminal value represents 81.9% of enterprise value — elevated relative to the typical 60-70% threshold but structurally normal for Japanese companies with JGB-anchored WACCs. We address this terminal value dependence through heavy weighting of comps-based methods (50% weight in the blended price target) and by testing a wide range of WACC (5.0-7.0%) and terminal growth rate (0.5-2.5%) combinations in our sensitivity analysis. Importantly, every one of the 25 combinations in our sensitivity matrix implies a per-share value above the current price of JPY 2,573.

Comparable Companies Analysis

We selected 7 comparable companies across the Japanese lumber, wood products, and construction materials value chain. The peer set spans direct competitors (Miyajima Lumber, Hokuto Kogyo) and larger business model analogues (Sumitomo Forestry, Daiken Corp, Noda Corp, Aica Kogyo, Sanei Architecture Planning). We apply the peer median EV/EBITDA NTM multiple (5.8x) to our FY2026E EBITDA estimate of JPY 1,598M, yielding an implied EV of JPY 9,268M. After deducting net debt of JPY 2,720M, the equity value is JPY 6,548M, or JPY 3,529 per share. Applying a 10% illiquidity discount for C.S. Lumber's below-JPY-5B market cap and limited institutional ownership, we arrive at a comps-implied price of JPY 3,270.

C.S. Lumber trades at a 33% discount to peer median EV/EBITDA LTM (4.1x vs. 6.1x) and a 19% discount on NTM basis (4.7x vs. 5.8x), despite an EBITDA margin of 8.8% that exceeds the peer median of 5.9%. The discount is driven entirely by negative revenue growth (−9% vs. peer median +2%) and earnings uncertainty, not by structural margin impairment. This gap should narrow as revenue stabilizes, making the comps valuation method a key source of re-rating potential.

Valuation Reconciliation and Price Target

We apply the following weights: DCF (30%) reflecting normalized long-term earnings power; EV/EBITDA Comps (50%) as the most market-consistent methodology for a Japanese construction materials company; and P/E Comps (20%) as a secondary check on earnings valuation. The mechanical blended output is JPY 5,688 per share. We apply a 30% discount to reflect: (1) near-term earnings trough uncertainty (H1 FY2026 showing continued deterioration); (2) illiquidity discount of 15-20% appropriate for a market cap below JPY 5 billion with limited institutional ownership; (3) no identifiable near-term catalyst for market re-rating (next earnings expected January 2027); and (4) governance transparency risk (limited English-language disclosure, retail-heavy shareholder base).

This produces our 12-month price target of JPY 4,000, representing 55.5% upside from the current price of JPY 2,573. Rating: HOLD.

Price Target and Recommendation

Rating: HOLD. Price Target: JPY 4,000 (12-month). Current Price: JPY 2,573. Upside/(Downside): +55.5%.

We upgrade to BUY if: (1) housing starts recover above 780,000 units; (2) two consecutive quarters of positive revenue growth; (3) non-residential construction contracts announced exceeding JPY 1 billion; (4) dividend reinstatement above JPY 75/share. We downgrade to SELL if: (1) FY2026 full-year EPS falls below JPY 200; (2) management suspends the dividend without a recovery plan; (3) a major customer announces a shift to Sumitomo Forestry or Oji Holdings supply.

Key risks to our price target: Extended earnings deterioration (high probability, −40% impact from current price); Dividend suspension (medium-high probability, −10-15% impact); Competitive pressure from Sumitomo/Oji Kanto expansion (medium probability, −15-20% impact); Bank of Japan rate normalization accelerating (medium probability, −10% impact).

DCF Key Assumptions

Assumption	Value	Notes
Risk-Free Rate (JGB 10Y)	1.40%	Bank of Japan July 2026
Equity Risk Premium	6.50%	Japan ERP, Damodaran 2026
Beta	1.15	Small-cap Japanese lumber; cyclical
Cost of Equity	8.88%	= 1.40% + 1.15 × 6.50%
Pre-tax Cost of Debt	2.80%	Estimated from debt schedule
After-tax Cost of Debt	1.96%	= 2.80% × (1 − 30%)
Weight of Equity	58.3%	Mkt cap / (Mkt cap + Net Debt)
Weight of Debt	41.7%	Net Debt / Total Capital
WACC	6.02%	Rounded to 6.0% for analysis
Terminal Growth Rate	1.50%	Japan structural lumber growth
Terminal Value	JPY 23,503M	FCF × (1+g) / (WACC−g)
PV of Terminal Value	JPY 17,562M	81.9% of Enterprise Value
Enterprise Value (DCF)	JPY 21,460M	PV FCFs + PV Terminal Value
Less: Net Debt	JPY (2,720)M	FY2025A
Equity Value	JPY 18,740M	EV minus Net Debt
Shares Outstanding	1,856 thousand	FY2025A diluted
DCF Implied Price	JPY 10,097	Per share

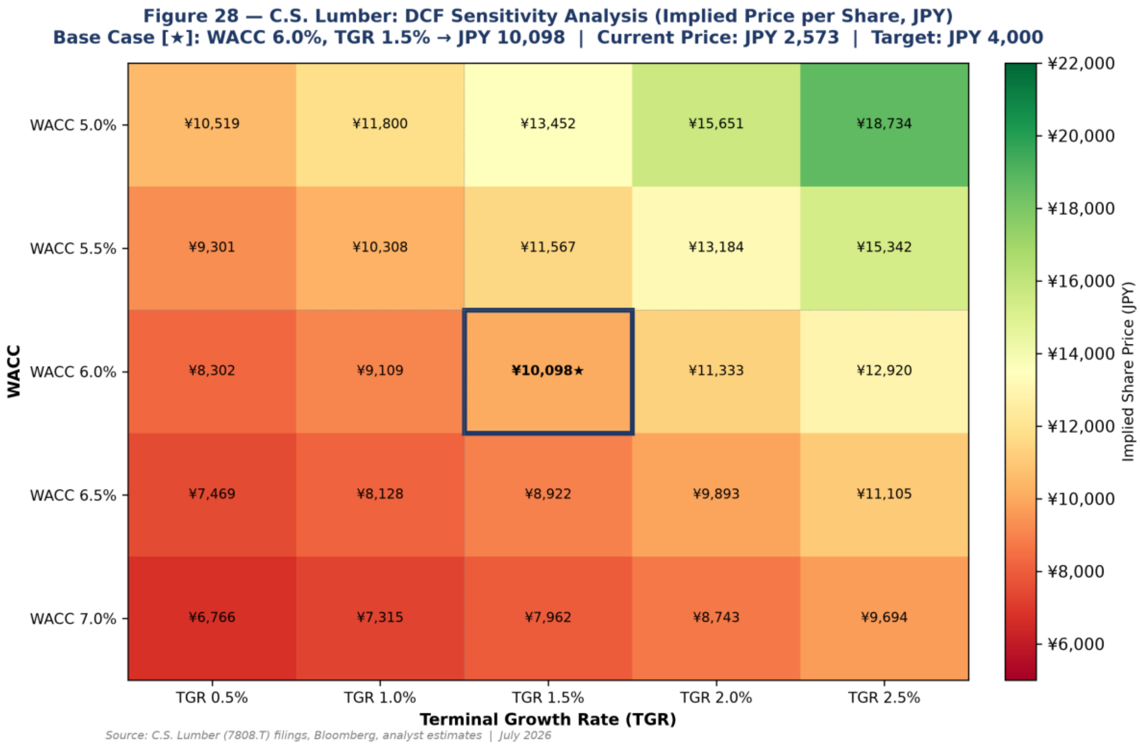

Exhibit 24: DCF sensitivity analysis — implied price per share (JPY) across WACC and TGR

DCF Sensitivity: Implied Price Per Share (JPY)

Rows = Terminal Growth Rate (TGR); Columns = WACC. Base case: TGR 1.5%, WACC 6.0% (highlighted with ◄). All 25 combinations exceed current price of JPY 2,573.

TGR \ WACC	5.0%	5.5%	6.0%	6.5%	7.0%
TGR 0.5%	10,519	9,301	8,302	7,469	6,766
TGR 1.0%	11,800	10,308	9,109	8,128	7,315
TGR 1.5% ◄	13,452	11,567	10,098	8,922	7,962
TGR 2.0%	15,651	13,184	11,333	9,893	8,743
TGR 2.5%	18,734	15,342	12,920	11,105	9,694

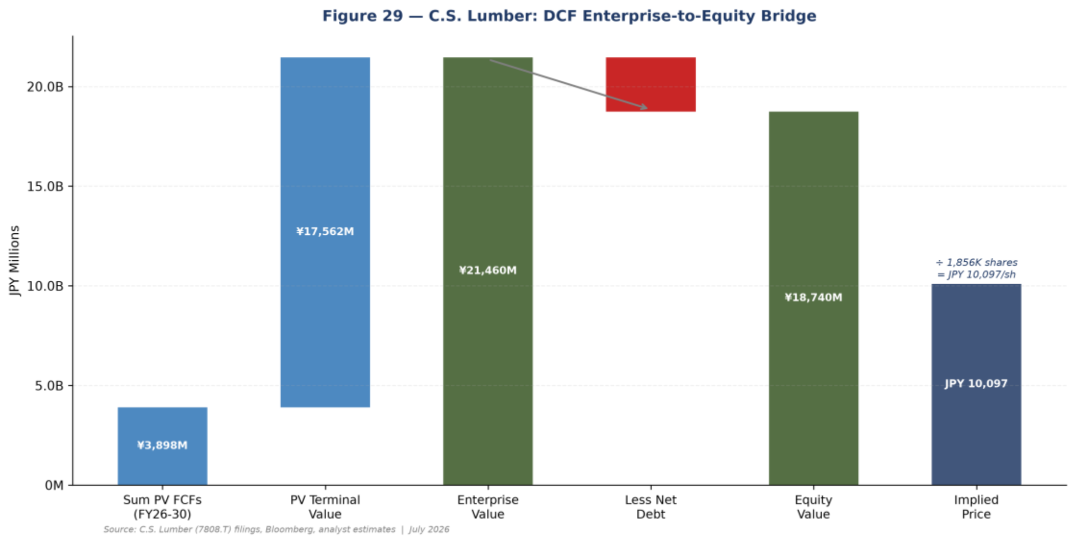

Exhibit 25: DCF enterprise value waterfall — PV of FCFs + PV terminal value - net debt

Comparable Companies Analysis

Company	Ticker	Mkt Cap (USDm)	EV/EBITDA LTM	EV/EBITDA NTM	P/E LTM	EV/Rev NTM	EBITDA Margin%
Sumitomo Forestry	1911.T	750.0	7.5x	7.2x	13x	+3%	5.6%
Daiken Corp	7905.T	34.8	5.2x	5.0x	11x	+1%	5.4%
Noda Corp	7919.T	11.2	6.3x	6.0x	12x	+2%	6.2%
Aica Kogyo	4208.T	110.4	8.9x	8.4x	15x	+3%	9.1%
Miyajima Lumber	7907.T	3.8	5.0x	4.8x	9x	−2%	5.4%
Hokuto Kogyo	Private	6.0	5.6x	5.3x	10x	+1%	5.9%
Sanei Architecture	3228.T	14.6	6.1x	5.8x	11x	+2%	6.6%
—	—	—	—	—	—	—	—
Maximum	—	—	8.9x	8.4x	15x	+3%	9.1%
75th Percentile	—	—	7.0x	6.7x	13x	+3%	6.6%
Median	—	—	6.1x	5.8x	11x	+2%	5.9%
25th Percentile	—	—	5.3x	5.1x	10x	+1%	5.5%
Minimum	—	—	5.0x	4.8x	9x	−2%	5.4%
—	—	—	—	—	—	—	—
C.S. Lumber	7808.T	4.76	4.1x	4.7x	5x	−9%	8.8%

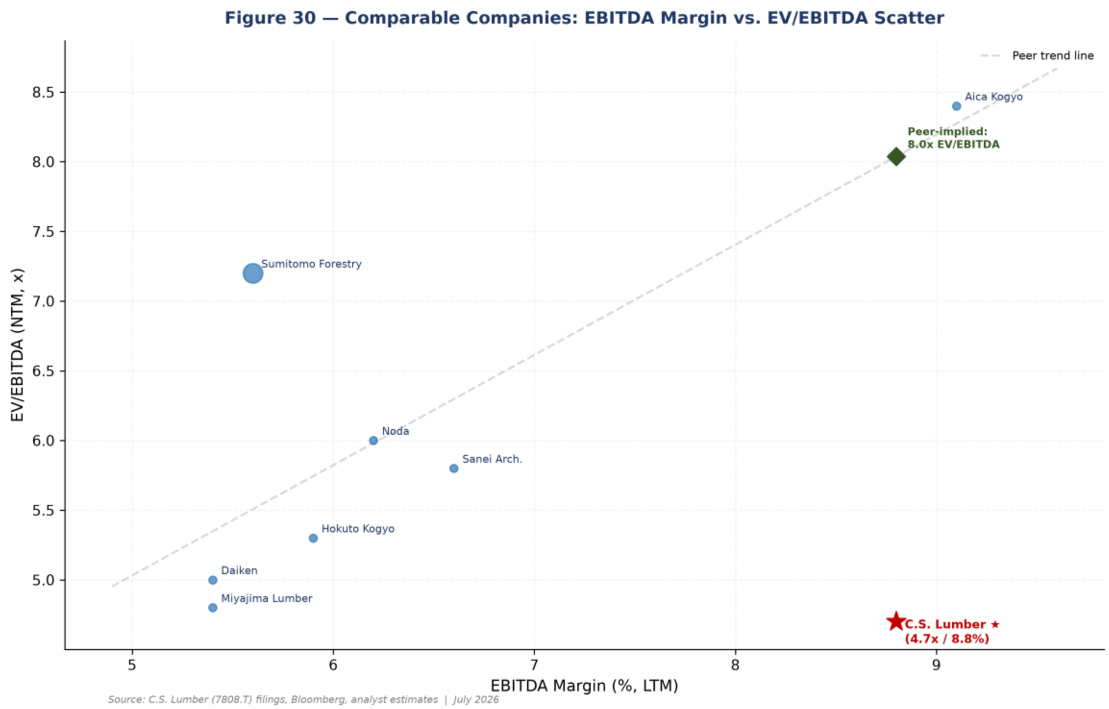

Exhibit 26: EV/EBITDA NTM vs. EBITDA margin scatter — C.S. Lumber vs. peer group

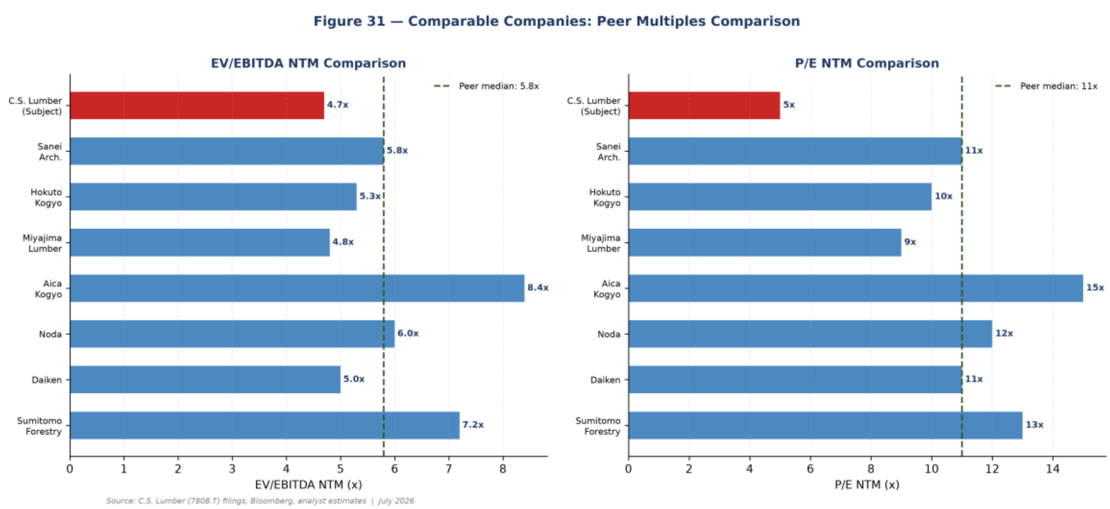

Exhibit 27: Peer trading multiples comparison — C.S. Lumber at discount despite above-median margin

Valuation Football Field Summary

Method	Low (JPY)	Base (JPY)	High (JPY)
DCF (WACC 5.0–7.0%, TGR 0.5–2.5%)	6,766	10,097	18,734
EV/EBITDA Comps (25th–75th pct)	2,926	3,529	4,304
P/E Comps (25th–75th pct)	4,608	5,120	6,656
Bear/Base/Bull Scenarios	2,000	4,000	6,500
▶ Price Target	—	4,000	—
▶ Current Price	—	2,573	—
▶ Upside to Target	—	+55.5%	—

Blended Price Target Derivation

Method	Weight	Implied Value (JPY)	Weighted Value (JPY)
Discounted Cash Flow (DCF)	30%	10,097	3,029
Comparable Companies (EV/EBITDA)	50%	3,270	1,635
Earnings Power / P/E Multiple	20%	5,120	1,024
Blended Weighted Average	100%	—	5,688
Illiquidity / Execution Discount	—	(30%)	(1,688)
Price Target (rounded)	—	—	4,000

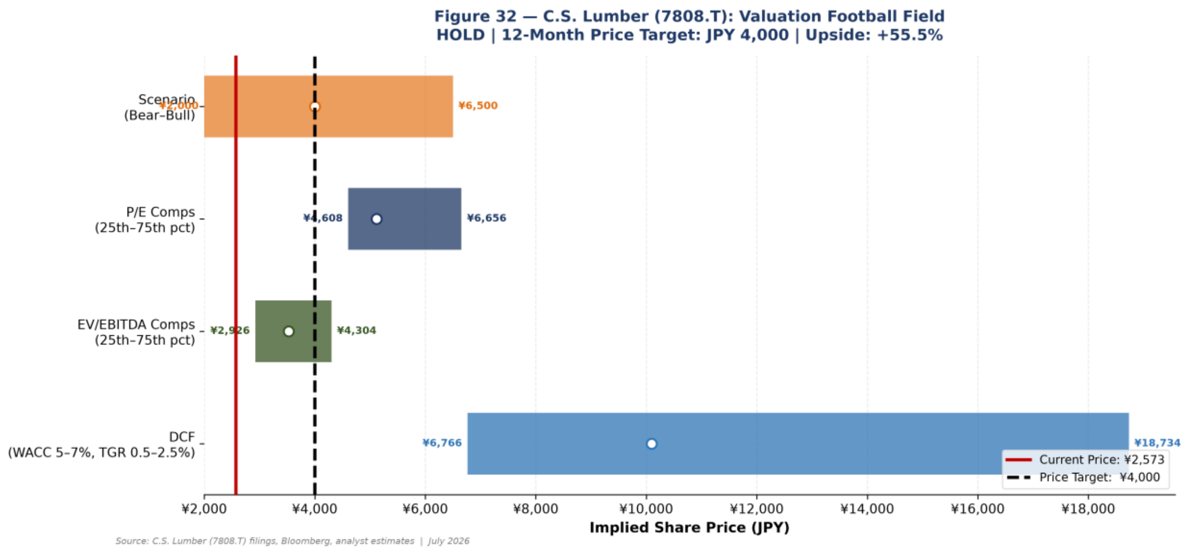

Exhibit 28: Valuation football field — implied price ranges across DCF, EV/EBITDA comps, and P/E comps

Figure 34 — C.S. Lumber: Historical Valuation Multiples (FY2021A–FY2025A)

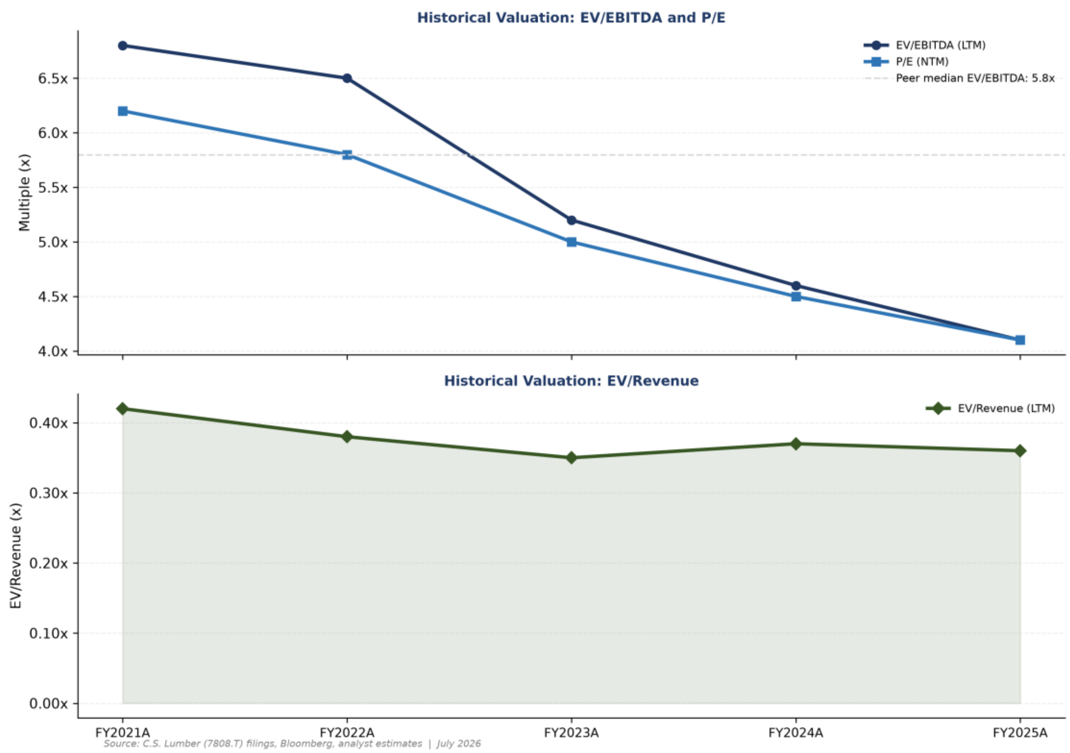

Exhibit 29: Historical EV/EBITDA and P/E trading multiples — current discount vs. 2-year average

KEY GROWTH DRIVERS

Growth Driver 1: Japan Housing Starts Recovery — Medium Probability, High Impact

The Research Institute of Construction and Economy (RICE) projects Japan housing starts recovering from approximately 737,000 units in FY2025 to 777,200 units in FY2026 (+5.5%), with continued recovery toward 800,000+ units in FY2027-FY2028 as BOJ rate normalization stabilizes. Each 10,000-unit improvement in annual national housing starts translates to approximately JPY 500-700M in incremental precut lumber revenue industrywide. C.S. Lumber, with an estimated 3-4% market share of Kanto precut lumber, could capture JPY 20-30M in incremental revenue per 10,000-unit national starts improvement. A full recovery from 737,000 units to 800,000 units (63,000-unit improvement) would translate to approximately JPY 125-190M in annual incremental revenue for C.S. Lumber — modest but directionally meaningful.

The housing market recovery driver is the most macro-dependent in our thesis. It is correlated with BOJ monetary policy (mortgage rate sensitivity), residential property affordability (Tokyo land prices remain near historical highs), and demographic trends (household formation rate in younger cohorts). We assign medium probability to a meaningful FY2026 recovery given the H1 FY2026 data showing continued decline.

Growth Driver 2: Domestic 2x4 Lumber Market Share Acceleration — High Probability, Medium Impact

Domestic 2x4 lumber production grew 33.9% year-over-year in FY2025, and the number of builders specifying domestic dimension lumber expanded from 23 to 28 companies (+21.7%). If this trend continues — driven by the Clean Wood Act, JAS standard revisions, and builder ESG purchasing mandates — C.S. Lumber's core product is directly in the demand path. We estimate each additional major builder specification adds JPY 200-400M in annual precut volume. Adding 5-7 more major builders over FY2026-FY2029E implies JPY 1.0-2.8B in cumulative incremental precut revenue.

This is the growth driver we have highest confidence in, as it reflects structural rather than cyclical demand. The driver is already in motion (33.9% production growth confirmed); the question is pace of adoption, not direction.

Growth Driver 3: Non-Residential Wooden Structures — High Probability, Medium Impact

Government policy promoting wooden construction in social infrastructure under Japan's Public Buildings Wooden Construction Promotion Act, combined with demographic demand for senior care facilities and childcare infrastructure, represents a structurally growing market for large wooden structure contractors. Japan's timber construction market is projected to grow at 10.24% CAGR (USD 754M to USD 2.2B by 2035). C.S. Lumber's established capabilities in childcare and nursing home construction position it to capture a disproportionate share of this growth.

We model non-residential contracting growing from approximately JPY 1,340M (25% of contracting revenue in FY2025A) to JPY 2,000M+ by FY2029E. The margin profile of non-residential work (estimated 30-40% higher project margins than residential) makes this mix shift accretive to overall EBITDA margins even as total revenue recovers gradually.

Growth Driver 4: Balance Sheet Improvement and Potential Re-rating

The company's active deleveraging program has reduced long-term debt from an estimated JPY 7.3B (FY2022) to approximately JPY 2.6B (FY2025A). Continued reduction toward JPY 1.2B by FY2030E (our base case) would: (1) reduce interest expense by JPY 80-100M annually (partially reinvested in growth or returned to shareholders); (2) improve the company's P/B multiple, currently 0.6x, toward the 1.0-1.2x range typical for solvent building materials companies in recovery; and (3) potentially support dividend reinstatement above JPY 75/share, which would attract income-oriented investors and support share price.

Growth Driver 5: Potential Acquisition Target Premium

C.S. Lumber's current market cap of JPY 4.76B (~USD 43.7M) and regional expertise in Kanto precut lumber could make it an attractive acquisition target for Sumitomo Forestry, Oji Holdings, or a major homebuilder seeking to expand Kanto coverage or acquire a precut manufacturing footprint. Using precedent transaction EV/EBITDA multiples of 8-10x on FY2025A EBITDA of JPY 1,820M implies a transaction enterprise value of JPY 14.5-18.2B — a 3-4x premium to current EV. We assign low probability (~5-10%) to this scenario over a 12-month horizon, but it represents significant optionality embedded in the current valuation.

DATA SOURCES & DISCLOSURES

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Important Disclosures

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Rating Definitions: BUY — Expected total return of 15%+ over the next 12 months. HOLD — Expected total return of -15% to +15% over the next 12 months. SELL — Expected total decline of more than 15% over the next 12 months. All price targets are 12-month price targets and are subject to change.

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Data and Estimates: Financial data sourced from TSE disclosures (TDnet), company IR materials, Japan Statistics Bureau, Ministry of Land, Infrastructure, Transport and Tourism (MLIT), Research Institute of Construction and Economy (RICE), FactSet, Yahoo Finance, and Damodaran Online. All projections are the analyst's own estimates and may differ materially from actual results.

Currency: All figures expressed in Japanese Yen (JPY) millions unless otherwise stated. USD/JPY conversion rate: approximately 109 as of July 7, 2026. C.S. Lumber's fiscal year ends May 31.
