Sumitomo Forestry Co., Ltd.

Financial Results for Third Quarter of Fiscal Year Ending March 31, 2019

Summary of Conference Call with Analysts and Institutional Investors

Time and date: 4:00 p.m.–4:30 p.m., Thursday, January 31, 2019

Briefer: Tatsumi Kawata, Director and Managing Executive Officer

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Third quarter consolidated results are provided on slide 4. Net sales were up 5.9% year on year to 907 billion yen, operating income was up 2.4% to 24.1 billion yen, and recurring income was down 4.1% to 26.5 billion yen. Existing businesses within the US housing business grew, but domestic sales of custom-built detached houses fell, contributing to a decline in recurring income. Net sales were up 10.4% year on year to 15.6 billion yen owing primarily to a gain on sale of investment securities.

Net sales in the Timber and Building Materials Business were up owing to strong sales overall, including import products. On the other hand, segment income was down due to primarily to an increase in the cost of materials in the wooden board manufacturing business in New Zealand and lower unit selling prices of particle board resulting from intensification of competition.

In the housing and construction business, revenue and earnings were down due to a decline in the number of custom-built detached houses sold resulting from a delay in construction starts on properties subject to ZEH subsidies in the first half, an increase in costs resulting from a rise in labor and materials costs, and a decline in apartment sales arising from lower orders received from the previous year.

In the Overseas Housing and Real Estate Business, although sales were unsteady in the US and Australia, revenue and earnings were up overall.

In the other segment, revenue and earnings were up with results from the biomass power generation business, including the Hachinohe Biomass Power Plant, which was commissioned at the beginning of the year, driving the segment as a whole.

Next, on page 6, we have domestic housing and renovation business orders received and sales. Orders received for custom-built detached houses increased in a wide range of prices. The number of units was up 627 year on year, while the amount was also up 12%.

Orders received for apartments were around the same level as the previous year as a result of efforts to strengthen sales of properties with adjoining non-residential facilities.

The renovation business saw a 13% increase in orders received year on year and a 2% increase in sales as a result of proposals leveraging technical capabilities, such as seismic resistance construction and renovation of traditional Japanese-style houses.

Additionally, in the overseas housing and real estate segment, the number of units sold was down year on year in Australia, especially spec homes. This was a result of the market going through an adjustment phase against a backdrop of financing regulations and rising real estate prices as well as a delay in land development. On the other hand, the number of units sold increased in the United States, driven by existing companies. Overall, revenue and earnings were up, with the US housing business covering the shortfall of the Australian housing business. This was thanks in part to the contribution of Bloomfield to results as a consolidated subsidiary beginning in the second quarter of the previous year.

On page 8 you will find the balance sheet. Total assets were up 85.9 billion yen from the end of the previous year. This was a result of an increase in inventory and fixed assets, including real estate for sale, associated with the acquisition of stakes in Crescent and Mark III, which is engaged in the land development business. Liabilities were up 84.9 billion yen from the end of the previous year. This was primarily the result of an increase in interest-bearing debt associated with issuance of commercial paper and inclusion of subsidiaries in consolidated results. Net assets were up 1 billion yen to 346.6 billion yen.

The full-year forecast for the fiscal year ending March 31, 2019 starts on page 10.

Consolidated results have been revised downward from the last forecast announced on November 8 last year. This was to reflect the impact of including Crescent in the accounting-related consolidation process at the end of the fiscal year. The forecast for net sales is unchanged at 1.31 trillion yen, while operating income is now 51.5 billion, recurring income is 55 billion yen, and net income is 30 billion yen.
Note that forecasts do not include actuarial differences associated with retirement benefit accounting.

By segment, only the overseas housing and real estate segment has been changed due to the

extraordinary factor of consolidated accounting associated with Crescent. The forecasts for other segments are unchanged.
In regard to Crescent, we are currently working on calculating the real estate valuation difference for its real estate holdings ahead of finalization. This does not affect individual results, but in the consolidated results, the difference when selling the real estate is amortized and recorded as a cost or non-operating expense. This year, several properties were sold, putting downward pressure on consolidated income.

In Japan, only the number and amount of orders received for custom-built detached houses have been revised upward from the previous forecast. By continuing the measures for orders received, the growth seen up to the third quarter is expected to continue until the end of the fiscal year. The number of units has been increased by 400 to 8,500 for a year-on-year increase of 12%. The amount will also be up 12% to 323.9 billion yen. See page 12 for details. Third quarter sales were down year on year, but the full-year forecast has been left as-is at 7,700 units (a year-on-year increase of 1.9%) in consideration of the current progress on properties under construction.
The full-year forecast for apartments is unchanged, and we will continue to work on achieving the target. The full year forecast for the renovation business has also been left as-is, but orders are trending as expected for the most part, so we expect them to be up year on year.

Finally, on page 13 you will find the forecast for the Overseas Housing and Real Estate segment. The forecast for “Affiliate Total,” which is the simple total of the individual results, is unchanged. The forecast for “Other, Consolidated Adjustments, etc.” reflects the impact of the consolidated accounting process related to Crescent.

This concludes the briefing.