

Sumitomo Forestry Group
Full-Year Financial Results for Fiscal Year Ended March 31, 2020
Briefing for Analysts and Institutional Investors - Q&A

Time and date: Monday, June 1, 2020, 1:00 p.m. - 2:30 p.m.

Respondents:

Toshiro Mitsuyoshi, President, Sumitomo Forestry Co., Ltd.

Tatsumi Kawata Director and Managing Executive Officer, Sumitomo Forestry Co., Ltd.

Q

As the new president, I would like to know if there is any change in management policy or new emphasis on initiatives.

A

There was no major change in the management policy, but the business environment changed greatly due to the impact of the coronavirus (COVID-19) pandemic.

Against this backdrop, in addition to continuing to work to improve the profitability of Housing and Construction Business and Timber and Building Materials Business, in Overseas Housing and Real Estate Business we believe it is essential that we further expand our business in the United States, Australia, and Southeast Asia.

On the finance, we have already made preparations to secure liquidity and make strategic investments by increasing the amount of corporate bond issuance limits and CP issuance limits.

It will also strengthen cash-flow generation at the level by reducing product inventories, shortening construction time, and improving inventories turnover.

Furthermore, as telework takes hold in the future, the Company intends to improve its entire profitability by establishing a system that includes IT infrastructure development, and by raising efficiency and productivity.

Q

In the past few years, the unit price of orders for custom-built detached housing business has been declining, but orders were strong in January and February of this year. I think that the sales strategy, which is not limited to the high class and rebuilding, has worked well, but what is your future sales strategy?

A

Amid changes in the customer's age structure and attributes, we will further strengthen our marketing

strategies in line with market trends by accurately grasping customer needs obtained through our sales offices nationwide.

While homebuilders struggle to receive orders, the builders, which are mainly targeting first-time home buyer segment, are doing well.

We are also seeing an increase in the percentage of land-seeking customers, and we will continue to work with subdivision business to acquire building sites and provide land data in collaboration with real estate brokerage Group companies.

In addition, the popularity of one-story houses is increasing in some areas, and we are further strengthening strategies tailored to the situation in each area.

Regarding ZEH, we will carefully explain to customers the benefits and the subsidy system, which will lead to future sales expansion.

As a consequence, we intend to maintain the overall unit price at the same level as the previous fiscal year, mainly due to an increase in the percentage of environmentally sound equipment installed due to the promotion of ZEH.

Q

Regarding housing proposals tailored to some needs at home, please tell us about specific product developments in the future.

A

A plan with a workspace was added to a planning product called Forest Selection.

For custom-built houses, we will propose floor plans that are easy to use for teleworking and home building that measure health and safety into account, such as the installation of hand washing spaces at the entrance to prevent infectious diseases.

Q

Please tell us about the factors behind changes in Housing and Construction's Fiscal Year 12/20 plans.

A

On a non-consolidated basis, it was down approximately ¥6.3 billion year on year. In addition, Renovation Business and real estate management business struggled due to face-to-face sales constraints and weak consumer sentiment, and the construction division subsidiary-owned fewer projects due to prioritizing orders from outside contractors. As a result, the total for affiliated companies is expected to be down approximately ¥8 billion, total for Housing and Construction segment is down ¥14.7 billion year on year.

Q

Regarding custom-built detached houses, what is your current order status, including visiting trends at the exhibition halls, and your outlook for the time to recover in the future?

A

The number of signatures at the model house was down 90% of the same month of the previous year in April, and the situation was severe in May as well.

On the other hand, there are some positive signs, such as an increase in the number of requests for information from the website and an increase in the number of customers who are active in subscribing to the service.

The forecast for orders going forward is expected to return to the previous year from September and toward the end of the year, but the extension of the deadline for applying tax deductions for home loans and its tenants becoming "contracts by the end of September 2020 and tenants by the end of December 2021" are also expected to support the acquisition of orders.

Q

Please tell us about the current situation and future prospects for the delay in construction due to the influence of the COVID-19.

A

At present, there are mainly delays in the properties before contracted construction starts.

The main reasons were delays in design discussions with customers due to voluntary restraints on going outside, delays in related work due to restrictions on CAD operations at subsidiaries, and time required for confirmation application procedures.

The delays will be gradually eliminated in construction starts, but as the slump in orders in April and May will lead to a decrease in housing starts from October onward, it will work to improve performances by recovering orders and shortening the lead time from contracts to construction starts.

Q

If you think that domestic orders for custom-built detached houses will recover from July onward, is it conservative to see a -28% year on year in the amount of orders in the Fiscal Year 12/20 plans?

A

As a precondition for the order-taking plan, we expect that June will bottom out due to a decrease in

the number of Golden Week Vacation (Large National holidays) exhibitors, and will recover from July. However, after the announcement of the emergency at the end of May, the event activity will continue to be restricted, so it is expected that from September onwards, we will recover to the same level as in the previous fiscal year, until the end of the year.

Q

There is a view that the potential demand for renovation is rising.

Are there differences in recovery periods compared with custom-built detached houses?

A

In the case of renovation, business negotiations and construction work in the residence may be avoided in the COVID-19 pandemic. However, since the lead time is shorter than that of custom-built houses, if consumer sentiment returns to normal, business performance may recover quickly.

Q

Regarding Overseas Housing and Real Estate Business's Fiscal Year 12/20 plans, the Company plans to review the sale of real estate from time to time. Could you tell us Crescent's policy for the sale of real estate this fiscal year, and what level it intends to stably generate in the future?

A

In the Fiscal Year 12/20 plan, the company plans to focus on sales.

From this time, Crescent's individual company performance is disclosed in Factbook.

Recurring income on a company-by-company basis, which does not include unrealized gains/losses on real estate, was ¥2.7 billion in Fiscal Year 12/18 and ¥3.7 billion in Fiscal Year 12/19, which was relatively strong.

The 9-month period ending in December 20 is planned for ¥-1.4 billion due to the effects of the COVID-19. Going forward, we intends to maintain recurring income level of ¥2 billion to ¥3 billion.

Q

In the US housing business's Fiscal Year 12/20 sales forecast, please tell us about the factors that the Edge Homes and Gehan Homes are projecting a year-on-year decline in the number of units sold.

A

For Gehan Homes, sales are particularly strong in Fiscal Year 12/19, and the hurdle for year on year is high. As Edge Homes, we are considering to strong sales in the previous fiscal year and the current

level of completed inventory, it is planned that sales will fall below the previous fiscal year's level. However, the market is not down significantly, as seen in the signs of a recovery in the number of visitors to both companies.

Q

In the Fiscal Year 12/20 plans, is the utilization rate of wood biomass power generation business declining temporarily?

A

The decline in the operating rate is due to inspections and repairs, and is scheduled to be held twice a year. However, the impact is temporary.

Q

As a precondition for the Fiscal Year 12/20 plan, the Resource and Environment Business is forecasting an increase in the cost of imported biomass fuels. Please explain the factors behind the higher sales and lower profits.

A

In addition to a decline in operating rates due to Biomass Power Generation Business inspections and repairs, we expect lower profits due to delays in importing fuel-type PKS due to the impact of the COVID-19, and rising procurement prices.

On the other hand, in addition to steady sales of Biomass Power Generation Business, the New Zealand forestry business, which was affected by the forest fire in the previous fiscal year, will recover, and as a result, net sales are forecast to increase.

Q

The company plans to pay a dividend of ¥30 per share for Fiscal Year 12/20. Please tell us your policy on shareholder returns.

A

We have not changed its policy of providing continuous and stable dividends.

For the full year, we have planned to pay a dividend of ¥40 per share, but for Fiscal Year 12/20 it plans to pay a dividend of ¥30 per share for the 9 months of the fiscal year.

Q

With regard to ROE, there are some opinions that we should consider it from a medium-to long-term sustainable perspective rather than an excessively high value, and I would like to ask you what your thoughts are based on.

A

We have always emphasized the balance between improving ROE and enhancing shareholders' equity, and has not been focusing on improving ROE.

Going forward, the Company will continue to maintain this approach and target for a level of ROE10%.