

# Earnings Briefing FY Ending March, 2015 - Second Quarter Financial Results and Full Year Forecast

(Information meeting for 2Q FY ending March 31, 2015)



November 7, 2014

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# Second Quarter of FYE March 2015 Results



## Second Quarter of FYE March 2015 Results

### 1. Summary ◇See earnings announcement, p. 14

- The level of both net sales and income trended higher year on year and compared to the initial plan. This was a result of expansion of the overseas housing business and an increase in completed custom-built detached housing projects.
- Quarterly net income dropped year on year, but it is being boosted by the impact of special factors from the same period of the previous year (gain on step acquisition of the Henley Group and gain on reversal of deferred tax liabilities in conjunction with the amendment to the tax treaty between Japan and New Zealand).

(Billion yen)

(Consolidated)	2Q FY3/14	2Q FY3/15	Change	Pct.	2Q FY3/15 Initial plan	Change	Pct.
Net sales	434.9	469.6	+34.6	+8.0%	465.0	+4.6	+1.0%
Gross profit	69.5	77.8	+8.3	+12.0%	77.0	+0.8	+1.1%
SG&A expenses	59.2	65.6	+6.4	+10.9%	67.0	(1.4)	(2.1%)
Operating income	10.3	12.2	+1.9	+18.4%	10.0	+2.2	+22.2%
Recurring income	10.8	13.3	+2.5	+22.8%	10.5	+2.8	+26.8%
Net income	11.1	7.3	(3.8)	(34.3%)	6.0	+1.3	+21.3%

## Second Quarter of FYE March 2015 Results

### 2. Segment Sales and Recurring Income

◇ See earnings announcement, p.14

(Billion yen)

(Consolidated)	Net sales				Recurring Income			
	2Q FY3/14	2Q FY3/15	Change	Pct.	2Q FY3/14	2Q FY3/15	Change	Pct.
Timber and Building Materials	220.8	212.6	(8.3)	(3.7%)	2.5	2.2	(0.3)	(12.6%)
Housing	204.5	212.8	+8.3	+4.1%	10.1	10.8	+0.7	+7.2%
Overseas	22.1	57.6	+35.5	+160.6%	(0.8)	1.1	+1.9	—
Other	8.1	7.9	(0.1)	(1.4%)	0.5	0.6	+0	+7.6%
Adjustment	(20.5)	(21.3)	(0.8)	—	(1.5)	(1.4)	+0.2	—
Total	434.9	469.6	+34.6	+8.0%	10.8	13.3	+2.5	+22.8%

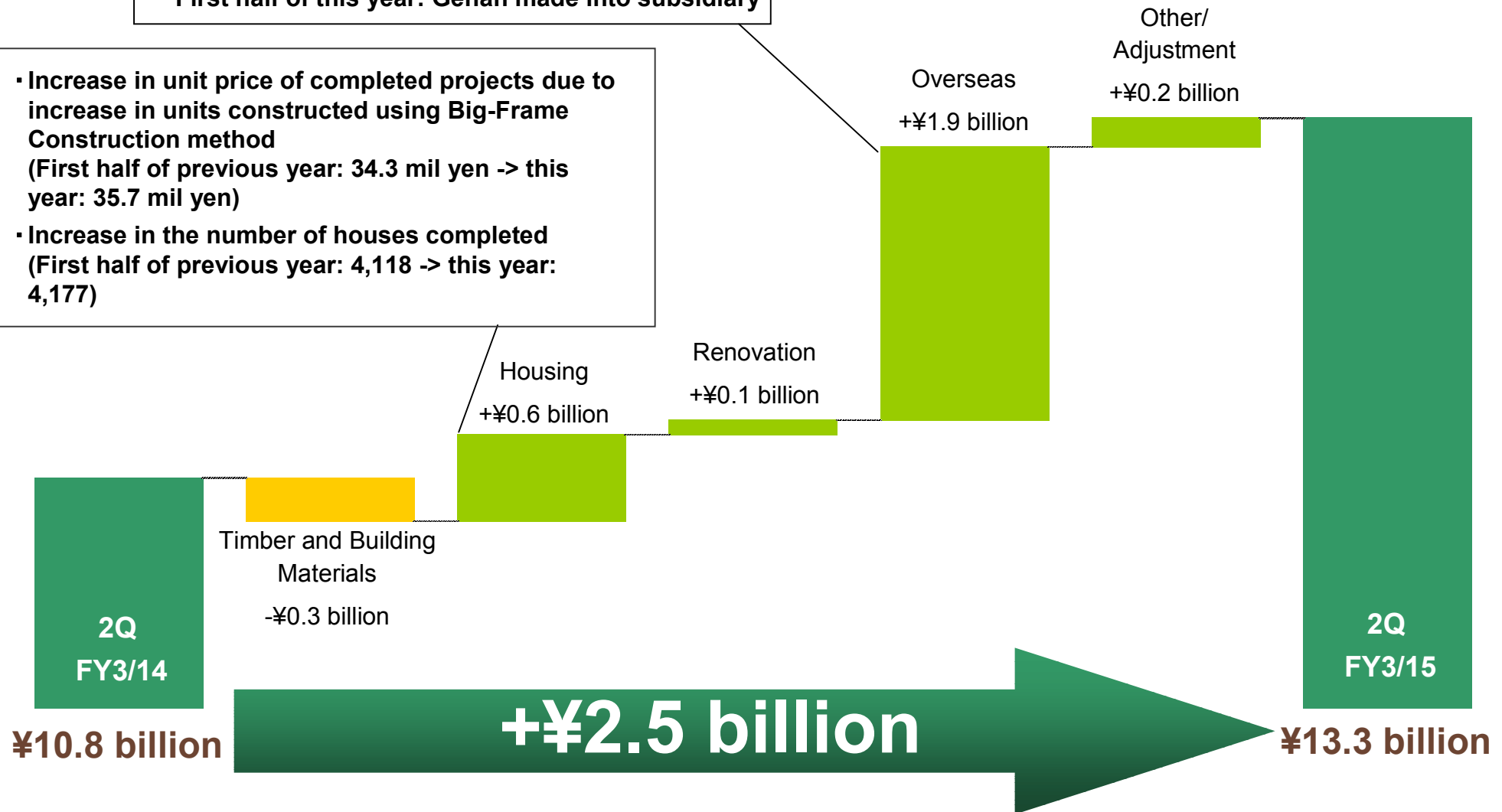
- Timber and building materials:  
Decrease in volume handled due to sluggishness of domestic housing market.
- Housing:  
Number of custom-built detached housing units and unit prices both increased. Renovation and greening works also contributed.
- Overseas:  
Expansion of housing business in Australia and America contributed to improved profitability.

# Second Quarter of FYE March 2015 Results

## 3. Changes in Recurring Income (YoY)

Second half of previous year: Henley Group made into subsidiary  
 First half of this year: Gehan made into subsidiary

- Increase in unit price of completed projects due to increase in units constructed using Big-Frame Construction method (First half of previous year: 34.3 mil yen -> this year: 35.7 mil yen)
- Increase in the number of houses completed (First half of previous year: 4,118 -> this year: 4,177)



## Second Quarter of FYE March 2015 Results

### 4. Housing Business Orders Received and Sales (Non-consolidated)

◇ See earnings announcement, p.15

- Custom-built detached houses: Sharp reactive decline in surge demand accompanying the consumption tax hike was larger than expected, so both the number and the amount of orders received fell below that of the previous year, but the orders received unit price increased due to an increase in the rate of units constructed using the Big-Frame construction method.
- Gross profit ratio declined due to increased labor and materials costs.

(Billion yen)

(Billion yen)		Orders received				Sales			
		2Q FY3/14	2Q FY3/15	Change	Pct.	2Q FY3/14	2Q FY3/15	Change	Pct.
Contract Business	Custom-built Detached houses	224.3	143.7	(80.6)	(35.9%)	141.1	149.2	+8.1	+5.7%
	Units	5,944	3,904	(2,040)	(34.3%)	4,118	4,177	+59	+1.4%
	Unit Price	32.5 mil. yen	32.8 mil. yen	+0.3 mil. yen	+0.7%	34.3 mil. yen	35.7 mil. yen	+1.4 mil. yen	+4.2%
	Wooden apartments	10.5	9.8	(0.8)	(7.3%)	4.6	5.0	+0.4	+7.9%
	Other contracts	2.0	0.4	(1.7)	(82.3%)	0.6	0.9	+0.3	+52.6%
	Detached spec homes					4.5	3.3	(1.2)	(26.6%)
	Land for custom-built housing					2.4	2.0	(0.4)	(17.6%)
	Existing home renovation (Resale of renovated homes)					2.2	2.9	+0.7	+31.1%
	Other					5.3	4.0	(1.3)	(24.0%)

Net Sales Total	160.8	167.4	+6.6	+4.1%
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Profit Ratio	25.2%	24.5%	(0.7%)	
Gross Profit	40.5	41.0	+0.5	+1.2%

- Orders received are the sum of orders received each FY less the amount of orders that were cancelled during the FY.

## Second Quarter of FYE March 2015 Results

### 5. Renovation Business Orders Received and Sales

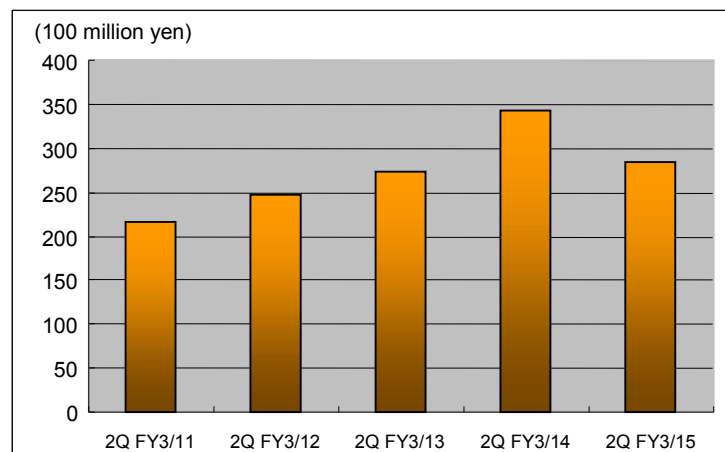
◇See earnings announcement, p.15

#### <Sumitomo Forestry Home Tech>

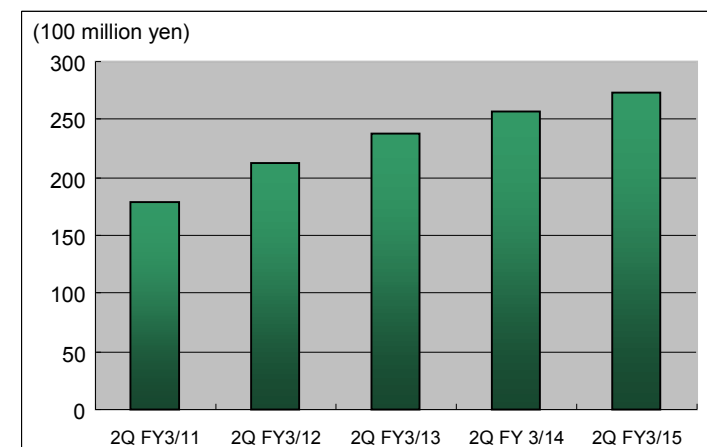
- Orders received were sluggish due to the impact of the sharp reactive decline in surge demand accompanying the consumption tax hike, but we are aiming for expansion as a future growth business.
- Completions increased as completed units from the backlog of orders that accumulated from surge demand were delivered.

(Billion yen)	2Q FY3/14	2Q FY3/15	Change	Pct.
Orders received	<b>34.3</b>	<b>28.5</b>	<b>(5.9)</b>	<b>(17.0%)</b>
Construction completed	<b>25.8</b>	<b>27.3</b>	<b>+1.6</b>	<b>+6.1%</b>
Backlog of orders received at term end	<b>30.0</b>	<b>24.3</b>	<b>(5.7)</b>	<b>(19.1%)</b>

#### ◆Trends in Orders Received



#### ◆Construction Completed





## Second Quarter of FYE March 2015 Results

### 6. Overseas Segment Sales and Recurring Income

(Billion yen)

Overseas Segment	Net sales				Recurring Income			
	2Q FY3/14	2Q FY3/15	Change	Pct.	2Q FY3/14	2Q FY3/15	Change	Pct.
Resources and Manufacturing	21.1	24.1	+ 3.0	+14.4%	(0)	0.3	+0.3	—
Housing and Real Estate	1.9	34.2	+ 32.3	—	0.2	2.8	+2.7	—
Other, Consolidated Adjustments, etc.	(0.9)	(0.7)	+0.2	—	(0.9)	(2.0)	(1.1)	—
Total	22.1	57.6	+ 35.5	+160.6%	(0.8)	1.1	+1.9	—

Resources and manufacturing:

Solid earnings performance in the building materials manufacturing business in Indonesia (KTI) contributed to increased revenues and earnings.

Housing and real estate:

Revenues and earnings were up substantially due to conversion of Henley Group and Gehan into subsidiary, profit contribution of Bloomfield.

## Second Quarter of FYE March 2015 Results

### 7. Investments

#### ◆ Capital Expenditures

<\*when acquired>

(Billion yen)

(Consolidated)	2Q FY3/14	2Q FY3/15	Change	Pct.
Tangible Fixed Assets	4.4	4.9	+0.5	+11.6%
Intangible Fixed Assets	0.7	0.6	(0.1)	(15.4%)
Other	0.1	0.2	+0.1	+52.3%
Total	5.2	5.7	+0.5	+8.8%

#### ◆ Main investments

Domestic and overseas housing display centers ... ¥2.2 billion

Factory equipment of domestic and overseas manufacturing business  
... ¥1.5 billion

IT investments ... ¥1.1 billion

# Second Quarter of FYE March 2015 Results

## 8. Balance Sheets and Cash Flows

◇See earnings announcement, p.6, 7, 10,11

(Billion yen)

	End of March 2014	End of Sep. 2014	Change		End of March 2014	End of Sep. 2014	Change
Cash, deposits, securities	118.7	86.5	(32.2)	Payables	191.4	175.0	(16.4)
Receivables	132.9	124.5	(8.4)	Short-term debt	26.4	35.0	8.6
Finished goods	26.9	27.2	0.3	Advances received on uncompleted construction contracts	55.1	56.2	1.1
Developed land and housing for sale	31.5	38.7	7.2	Other current liabilities	43.1	40.0	(3.2)
Real estate for sale in process	11.1	30.5	19.3	Long-term debt/bonds issued	61.6	50.1	(11.5)
Costs on uncompleted construction contracts	24.4	30.3	5.9	Net defined benefit liabilities	11.0	12.6	1.5
Other current assets	101.2	96.4	(4.8)	Other long-term liabilities	30.3	30.6	0.2
<b>Total current assets</b>	<b>446.9</b>	<b>434.1</b>	<b>(12.8)</b>	<b>Liabilities</b>	<b>419.1</b>	<b>399.5</b>	<b>(19.6)</b>
Noncurrent assets	103.7	103.5	(0.2)	Shareholders' equity	200.9	205.9	5.0
Intangible assets	11.7	14.8	3.1	Accumulated other comprehensive income	17.8	19.3	1.6
Investment securities	82.9	83.4	0.5	Minority interests	7.4	11.0	3.6
<b>Total noncurrent assets</b>	<b>198.3</b>	<b>201.7</b>	<b>3.4</b>	<b>Net assets</b>	<b>226.1</b>	<b>236.3</b>	<b>10.2</b>
<b>Total assets</b>	<b>645.2</b>	<b>635.8</b>	<b>(9.4)</b>	<b>Total liabilities and net assets</b>	<b>645.2</b>	<b>635.8</b>	<b>(9.4)</b>

	2Q FY3/14	2Q FY3/15
Operating CF	13.4	(9.3)
Investing CF	(15.5)	(13.2)
Free CF	(2.1)	(22.6)
Financial CF	12.2	(16.7)

# **FY3/15 Full Year Earnings Forecast**



# FY3/15 Full Year Earnings Forecast

## 1. Summary

◇ See earnings announcement, p.14

- There are no changes in recurring income of our forecast of full-year consolidated financial results from the initial figures announced on May 8.
- The key factors behind higher expenses are conversion of Henley Group and Gehan to a consolidated subsidiary and an increase in strategic expenses in the housing business.

(Billion yen)

(Consolidated)	FY3/14 Actual	FY3/15 Forecast	Change	Pct.	FY3/15 Initial plan	Change	Pct.
Net sales	973.0	990.0	+17.0	+1.8%	990.0	-	-
Gross profit	160.2	167.0	+6.8	+4.3%	168.0	(1.0)	(0.6%)
SG&A expenses	126.7	136.0	+9.3	+7.3%	137.0	(1.0)	(0.7%)
Operating income	33.4	31.0	(2.4)	(7.2%)	31.0	-	-
Recurring income	33.6	32.0	(1.6)	(4.7%)	32.0	-	-
Net income	22.5	18.0	(4.5)	(20.1%)	18.0	-	-

\*Without actuarial differences

SG&A expenses	125.7	136.0	+10.3	+ 8.2%
Recurring income	34.6	32.0	(2.6)	(7.5%)

# FY3/15 Full Year Earnings Forecast

## 2. Segment Sales and Recurring Income

◇ See earnings announcement, p.14

(Billion yen)

(Consolidated)	Net sales					Recurring Income				
	FY3/14	FY3/15 Forecast	Change	Pct.	Change from initial plan	FY3/14	FY3/15 Forecast	Change	Pct.	Change from initial plan
Timber and Building Materials	458.6	420.0	(38.6)	(8.4%)	—	5.0	4.2	(0.8)	(15.2%)	—
Housing	465.4	455.0	(10.4)	(2.2%)	(15.0)	32.2	27.5	(4.7)	(14.6%)	(1.0)
Overseas	76.3	136.0	+59.7	+78.2%	+8.0	(0.1)	3.5	+3.6	—	+1.0
Other	17.3	15.0	(2.3)	(13.2%)	—	0.8	0.7	(0.1)	(14.8%)	—
Adjustment	(44.6)	(36.0)	+8.6	—	+7.0	(4.3)	(3.9)	+0.4	—	—
Total	973.0	990.0	+17.0	+1.8%	—	33.6	32.0	(1.6)	(4.7%)	—

### ◆ Second half and full year forecasts

#### ➤ Timber and Building Materials:

The domestic housing market struggled, but results were according to plan for the most part, so full year recurring income is unchanged from the initial forecast of ¥4.2 billion.

#### ➤ Housing:

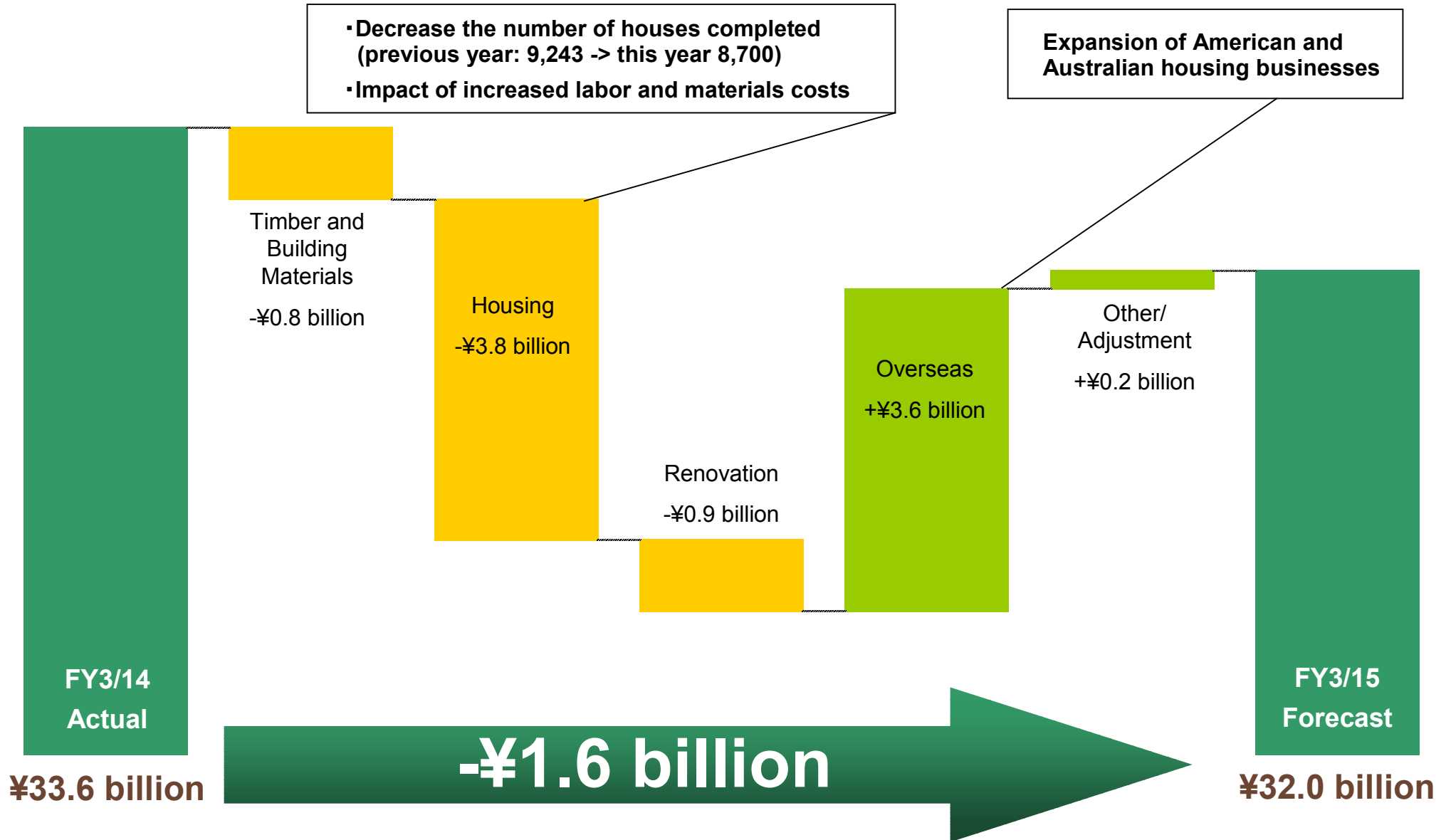
The full year recurring income forecast is down ¥4.7 billion from the previous year, and it was revised to ¥27.5 billion, or -¥1 billion compared to the initial plan due to the impact of recent sluggishness in orders received.

#### ➤ Overseas:

The American and Australian housing businesses are going strong, so the recurring income forecast was revised up ¥1 billion from the initial forecast to ¥3.5 billion.

# FY3/15 Full Year Earnings Forecast

## 3. Changes in Recurring Income (YoY)



# FY3/15 Full Year Earnings Forecast

## 4. Housing Business Orders Received and Sales

◇ See earnings announcement, p.15

◆ Custom-built detached houses: In light of 1H results and the recent orders received environment, the forecast for the number of unit orders received was revised down 500 from the initial plan to 8,500 units. The forecast for the number of houses completed was also revised down 300 from the initial plan to 8,700 units.

◆ Orders received and sales of wooden apartments expected to exceed the prior term.

(Billion yen)

(Billion yen)		Orders received				Sales			
		FY3/14	FY 3/15 Forecast	Change	Pct.	FY3/14	FY 3/15 Forecast	Change	Pct.
Contract Business	Custom-built detached houses	339.9	305.5	(34.4)	(10.1%)	320.3	310.0	(10.3)	(3.2%)
	Units	9,364	8,500	(864)	(9.2%)	9,243	8,700	(543)	(5.9%)
	Unit price	32.1 mil. yen	32.5 mil. yen	+0.4 mil. yen	+1.3%	34.6 mil. yen	35.6 mil. yen	+1.0 mil. yen	+2.8%
	Wooden apartments	15.5	16.5	+1.0	+6.4%	13.1	14.8	+1.7	+12.7%
	Other contracts	2.6	1.5	(1.1)	(41.4%)	1.4	2.6	+1.2	+89.0%
	Detached spec homes					9.7	9.5	(0.2)	(2.3%)
	Land for custom-built housing					5.6	5.7	+0.1	+2.2%
	Existing home renovation (Resale of renovated homes)					9.0	8.0	(1.0)	(11.1%)
	Other					9.6	7.5	(2.1)	(22.1%)
Net sales Total		368.7	358.1	(10.6)	(2.9%)				
Profit ratio		24.7%	24.4%	(0.3%)					
Gross profit		91.2	87.5	(3.7)	(4.1%)				

\* Orders received are the sum of orders received each FY less the amount of orders that were cancelled during the FY.



# FY3/15 Full Year Earnings Forecast

## 5. Renovation Business Orders Received and Sales

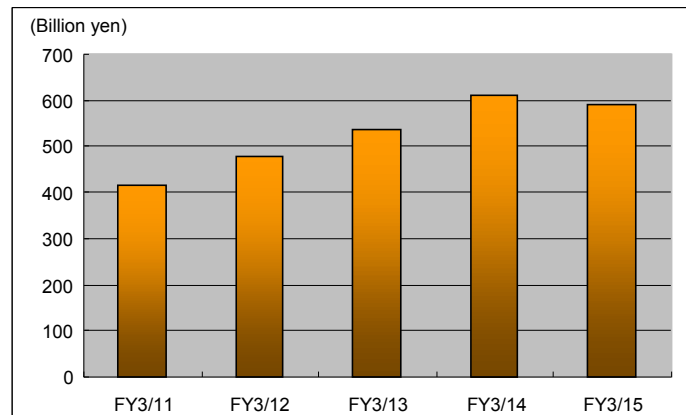
◇ See earnings announcement, p.15

### <Sumitomo Forestry Home Tech>

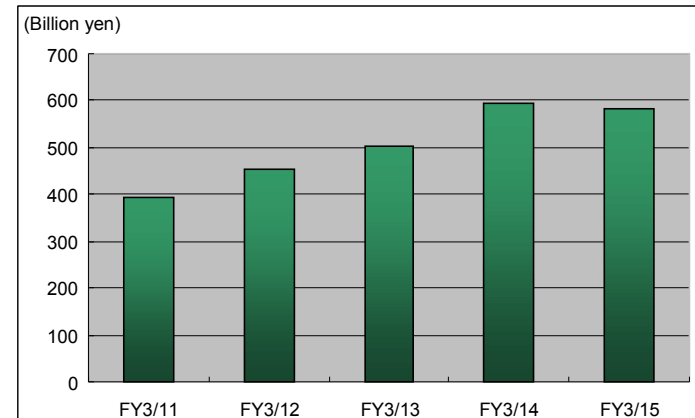
- In 2H, two bases and 70 employees will be added to strengthen sales capabilities.
- Construction completed is expected to be down 3% and recurring income down 22% compared to the previous year to ¥3.2 billion due to the impact of sluggish orders in 1H.

(Billion yen)	FY3/14	FY3/15 Forecast	Change	Pct.
Orders received	<b>61.0</b>	<b>59.0</b>	<b>(2.0)</b>	<b>(3.3%)</b>
Construction completed	<b>59.3</b>	<b>58.2</b>	<b>(1.1)</b>	<b>(1.9%)</b>
Backlog of orders received at term end	<b>23.1</b>	<b>23.9</b>	<b>+0.8</b>	<b>+3.5%</b>

#### ◆ Trends in Orders Received



#### ◆ Construction completed



# FY3/15 Full Year Earnings Forecast

## 6. Overseas Segment Sales and Recurring Income

(Billion yen)

Overseas Segment	Net sales				Recurring Income			
	FY3/14	FY3/15 Forecast	Change	Pct.	FY3/14	FY3/15 Forecast	Change	Pct.
Resources and Manufacturing	45.1	48.0	+2.9	+6.4%	0.8	0.7	(0.1)	(15.2%)
Housing and Real Estate	32.9	89.7	+56.8	+172.9%	2.3	7.1	+4.8	+208.8%
Other, Consolidated Adjustments, etc.	(1.7)	(1.7)	(0)	—	(3.3)	(4.3)	(1.1)	—
Total	76.3	136.0	+59.7	+78.2%	(0.1)	3.5	+3.6	—

Resources and manufacturing:

The manufacturing business in Indonesia performed favorably, and revenue was up, but the worsening of NPIL due to appreciation of the local currency resulted in decreased income.

Housing and real estate:

Conversion of Henley Group and Gehan into subsidiary, and profit contribution of Bloomfield will result in substantial increase in revenues and earnings.

# FY3/15 Full Year Earnings Forecast

## 7. Investments

### ◆ Capital Expenditures

<when acquired>

(Billion yen)

<b>(Consolidated)</b>	FY 3/14	FY 3/15 Forecast	Change	Pct.	FY 3/13
Tangible Fixed Assets	14.7	<b>13.2</b>	<b>(1.6)</b>	<b>(10.6%)</b>	<b>7.1</b>
Intangible Fixed Assets	2.4	<b>2.9</b>	<b>+5</b>	<b>+19.9%</b>	<b>2.9</b>
Other	0.3	<b>0.4</b>	<b>+2</b>	<b>+77.8%</b>	<b>0.3</b>
<b>Total</b>	<b>17.4</b>	<b>16.5</b>	<b>(0.9)</b>	<b>(5.1%)</b>	<b>10.3</b>

### ◆ Main investments

Domestic and overseas housing display centers ...¥5.1 billion

Capital expenditures in domestic and overseas manufacturing business  
...¥4.3 billion

IT investments ... 3.5 billion

**The forecast figures in this presentation are based on projections deemed logical at the time when it was prepared.  
Actual performance may differ materially from these projections.**

