

# **Earnings Briefing for the Second Quarter of the Fiscal Year Ending March 31, 2014 Earnings Summary and Business Strategy**

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## **The Power of Forests Empowers the Future**

- **Business Conditions**
- **Second Quarter of FYE March 2014 Results**
- **Full Year Forecast of FYE March 2014**
- **Housing Business**
- **Timber and Building Materials/Overseas Businesses**
- **Overseas Housing Business**
- **New Business**
- **Construction of Structure for Net Sales of ¥1 trillion and Recurring Income of ¥30 billion**
- **Return to Shareholders**

## Domestic and Overseas Economic Climates

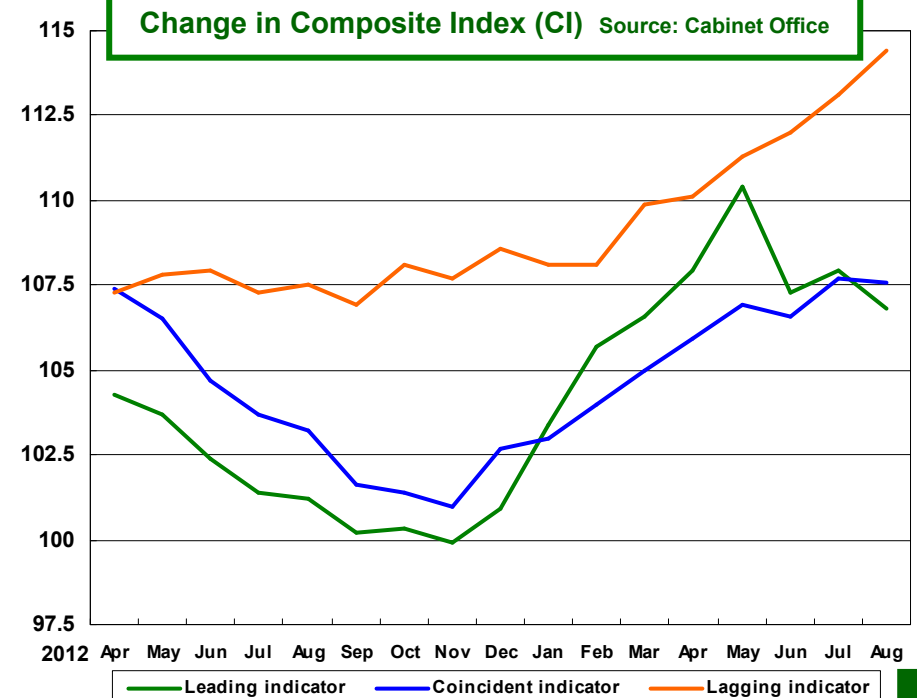
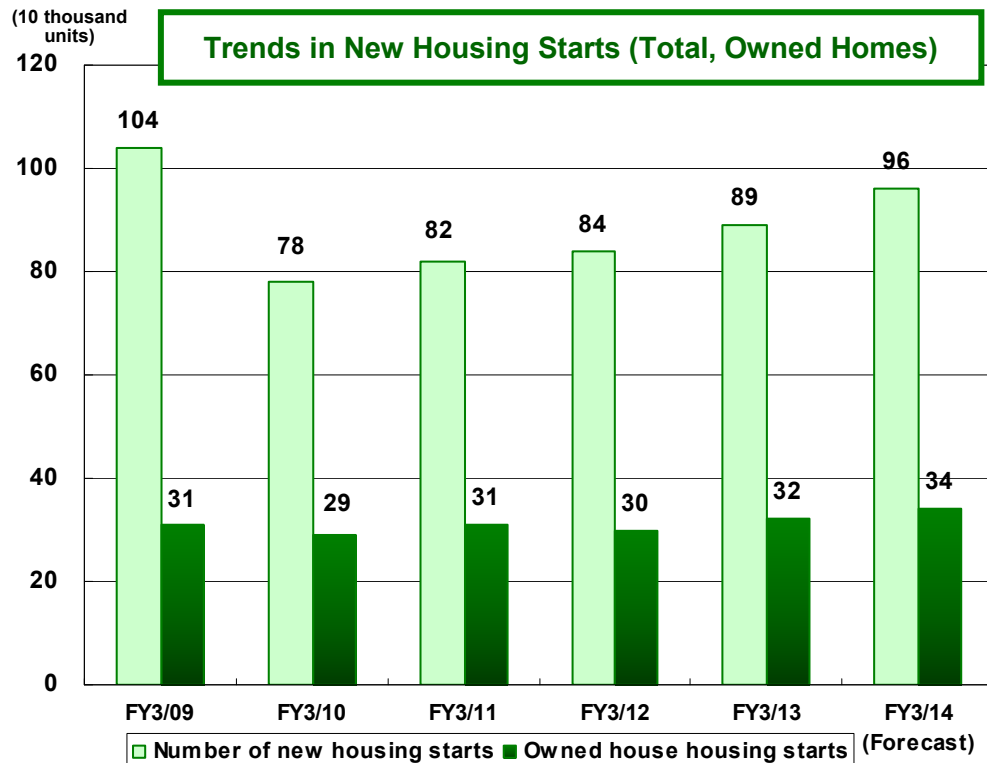
- The domestic economy was boosted by effects of Abenomics, positive consumer confidence and a positive corporate earnings trend.
- While the economic picture overseas, beginning with the recovery trend in the U.S., is improving overall, causes of concern including a sense of a slowdown in newly emerging countries such as China and India and other issues such as the federal government debt problem in the U.S. remain.

## Housing Market

- We have revised our initial forecast to 960,000 new housing starts and 340,000 owner-occupied housing starts.
- The effect of the consumption tax increase is difficult to project because the increase is intertwined with other factors, including business sentiment and interest rate movements.

## The Company's Stance

- We will pursue our business strategy based on the assumption of a reactionary drop in surge demand due to the increase in consumption tax.



# Our Main Businesses are Driving Sales and Profits Growth, against the Backdrop of a Strong Domestic Housing Market

- First half operating performance was driven by the business results in our main businesses against the backdrop of the strong domestic housing market, and exceeded our initial forecast.
- Orders received for custom-built detached housing are holding steady as well, affected not only by external factors such as a potential future increases in interest rates, improved consumer confidence and the consumption tax increase, but by the effects of measures we've implemented as well, including our new housing display center strategy.



Proto-housing display center

## 2Q FY3/14 Results

(Consolidated)	2Q FY3/13	2Q FY3/14	Pct.	(Billion yen)	
				2Q FY3/14 Initial forecast	Over forecast
Net sales	392.1	434.9	+10.9%	420.0	+3.6%
Operating income	6.8	10.3	+50.9%	8.0	+29.0%
Recurring income	7.5	10.8	+44.8%	7.8	+39.0%
Net income	3.6	11.1	+206.9%	4.1	+170.1%

# Based on the Upswing in First Half Business Results, We Revised our Full Year Earnings Forecast Upward.

- Based on the upswing in first half business results compared to our initial forecast, we revised our full year forecast upward.
- Because it is difficult to project the effect of the consumption tax increase, we have not revised the initial forecast in our full-year plan for orders received and will use the full year plan as our minimum objective.



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## FY3/14 Full Year Forecast

(Consolidated)	FY3/13	FY3/14 Forecast	Pct.
Net sales	845.2	935.0	+10.6%
Operating income	25.3	30.0	+18.4%
Recurring income	27.0	30.0	+11.2%
Net income	15.9	21.0	+31.9%

(Billion yen)

FY3/14 Initial forecast	Over forecast
900.0	+3.9%
27.5	+9.1%
28.0	+7.1%
16.0	+31.3%

# We will Improve the Group's Presence in the Market by Pursuing a Precise Strategy

## Custom-Built Detached Housing Business

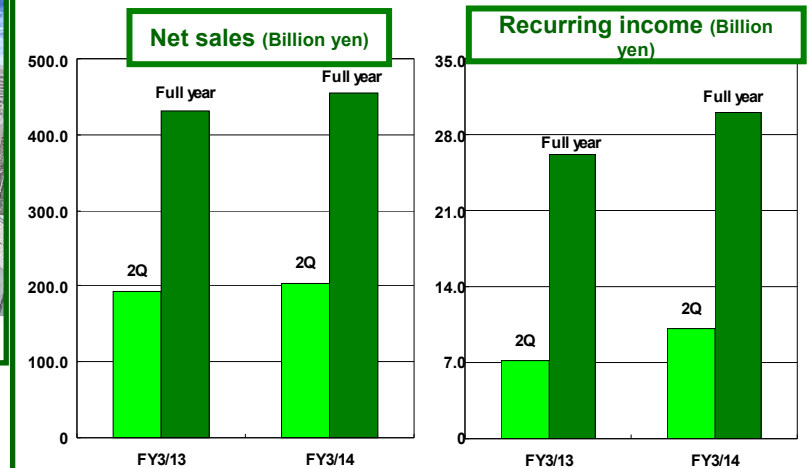
- In the custom-built detached housing business, the number of units sold for the full year is projected to exceed the initial forecast because the number of orders received is greater than our assumption at the start of the period.
- In the second half we will focus on expanding orders received with an eye on the next fiscal year, including our Umeda "Sumai Haku" housing fair, which will be held for one month.



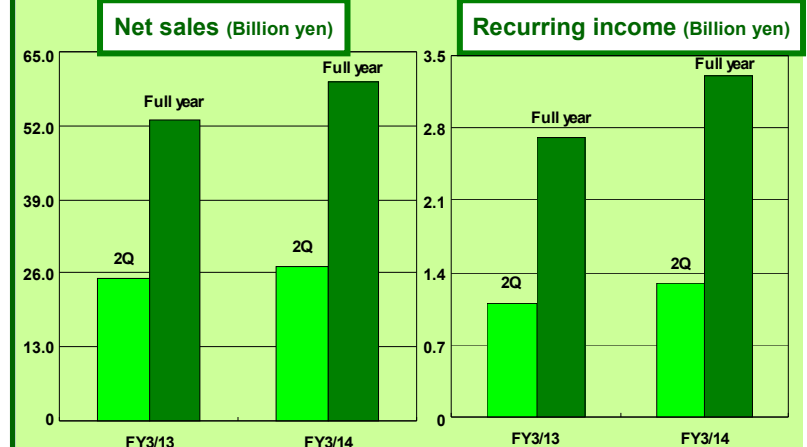
## Renovation and Leasing Housing Business

- Renovation, our main business in the renovation and leasing housing business, is expanding well. Business results also are improving steadily.

### <Housing Business>



### <Renovation Business (Sumitomo Forestry Home Tech)>



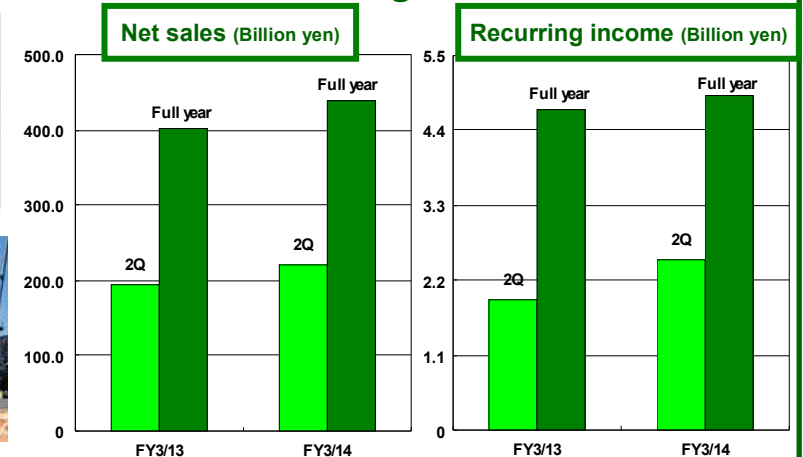
**The Timber and Building Materials Business is Maintaining and Expanding its Leading Market Share in Japan.  
In our Overseas Business, Business Results overall are Improving and we are within Range of Becoming Profitable.**

## Timber and Building Materials Businesses

- We have been able to incorporate the growth in demand, which reflects the robust housing market.
- We are concentrating on sales of products that give care to environmental and renovation materials, where market expansion can be expected.



## <Timber and Building Materials Business>

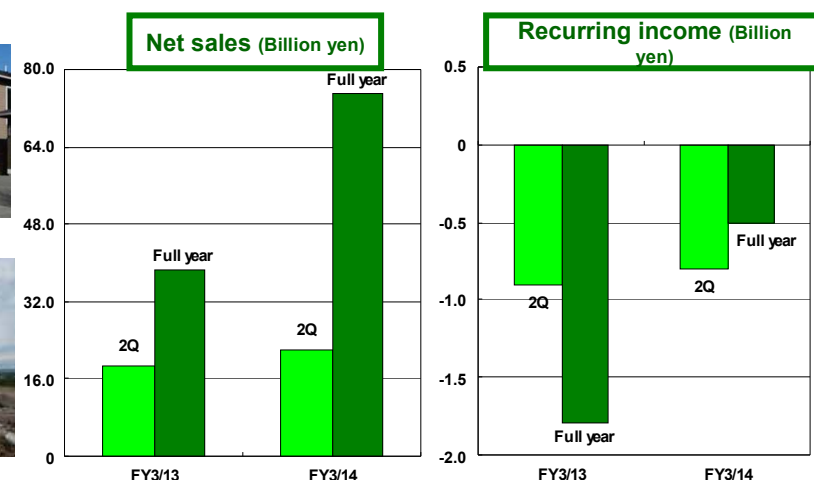


## Overseas Business

- While still in the red as a whole, partly due to the impact of up-front investment in the new operation, we are expanding this business with an eye on the future and results are improving.
- We are within range of becoming profitable in the next fiscal year, and we will actively invest management resources in the future as a critical growth business.



## <Overseas Business>





**In the U.S. we are expanding our business domain steadily, and business results are robust in Australia as well despite a difficult business environment.**

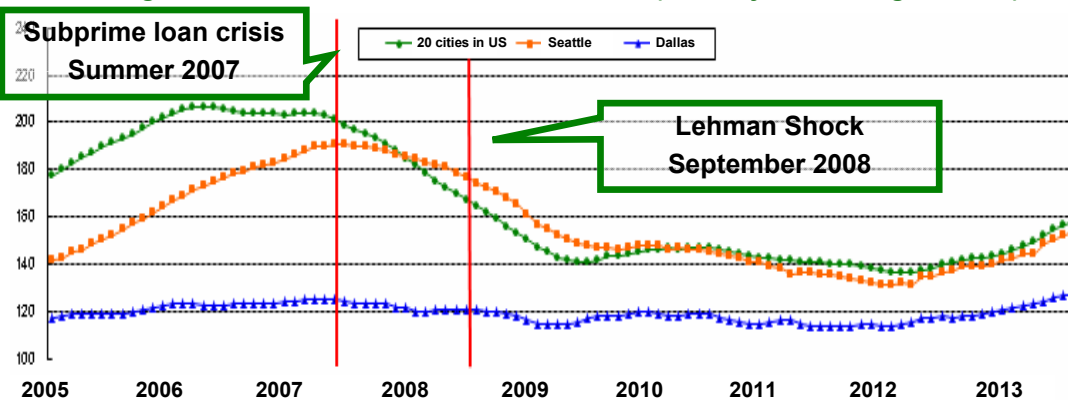
**U.S. Housing Business**

- We acquired a 50% stake in a housing company in Texas in June 2013. The business area around Dallas has not been greatly affected by influences such as the Lehman Brothers collapse.
- Over the medium term, we are seeking to build a sales organization capable of selling 1,500 houses annually across the U.S.



Model house in Texas

<Change in the Case Shiller House Price Index (January 2005 - August 2013)>



Change in number of homes sold (units)	FY3/12		FY3/13		FY3/14	
	2Q	Full year	2Q	Full year	2Q	Full year forecast
Seattle area	42	83	103	229	122	260
Texas	-	-	-	-	-	300
U.S. Total	42	83	103	229	122	560

**Australia Housing Business**

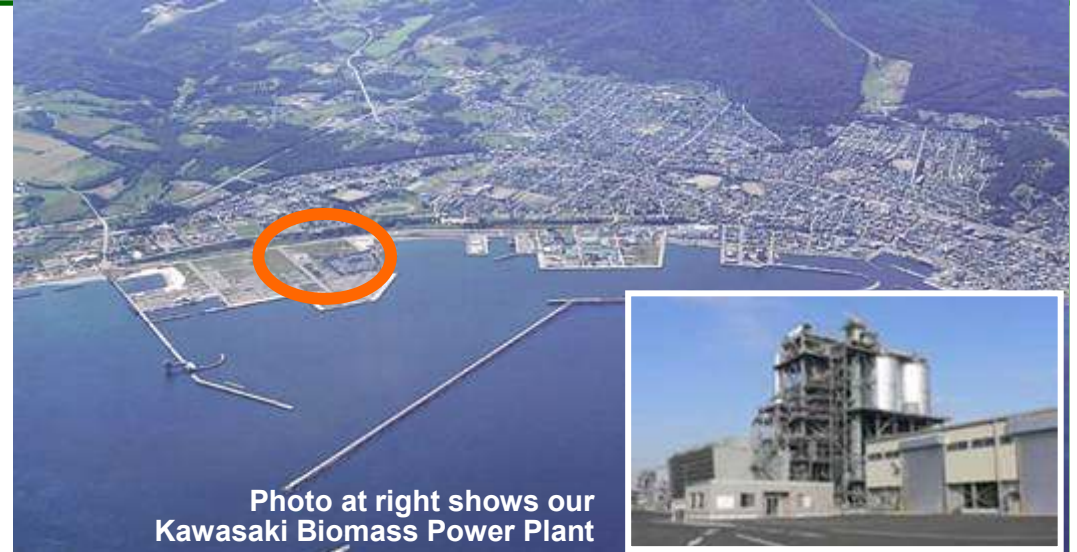
- In September 2013 we acquired an additional stake in the Henley Group and made the group a subsidiary.
- This group's business results are robust despite a market environment that is having a difficult time sustaining a recovery.

Change in number of homes sold (units)	FY3/12		FY3/13		FY3/14	
	2Q	Full year	2Q	Full year	2Q	Full year forecast
Australia	792	1,689	821	1,820	802	1,750



**We have decided to launch a power-generation business in Mombetsu City, with commercial operation to begin in December 2016**

- This business will lead to effective use of stumps and roots and thinnings.
- Moreover, it is a business that will enable us to increase forest values by using wood resources while also producing social significance by helping to revitalize forestry and contribute to the region by creating employment.



## **Biomass Power Generation Business**

## **the MOCCA (wood use integration) Business**

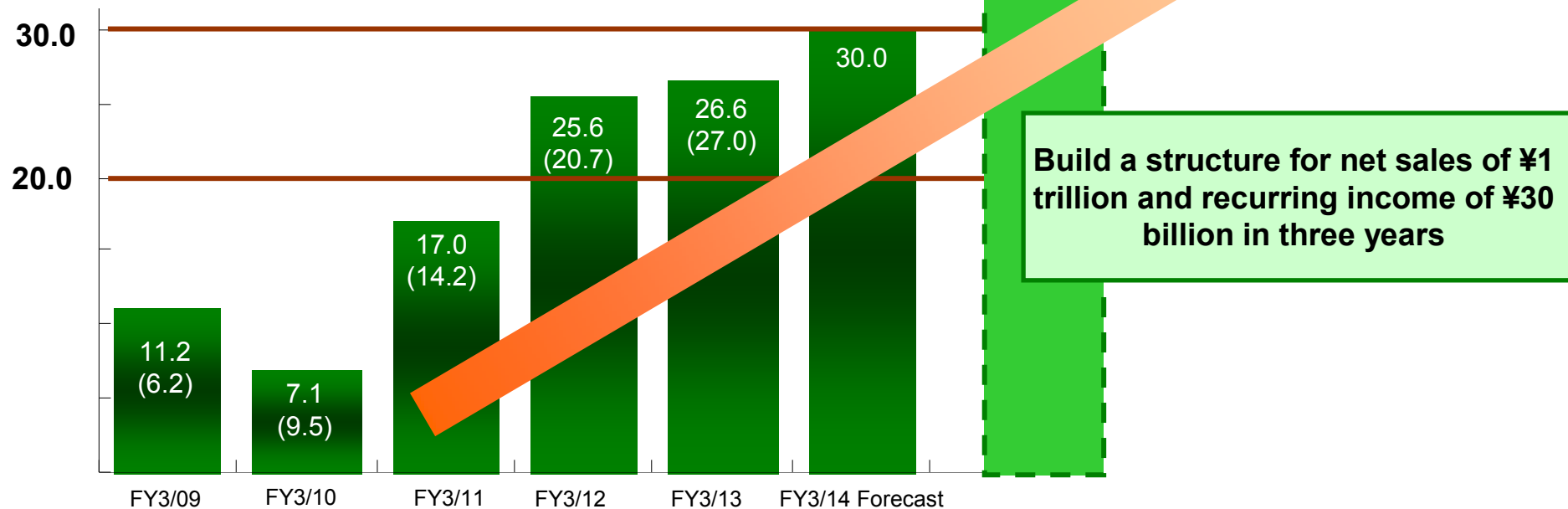


**Chosen as a wooden building technology leadership business project for fiscal 2013**

- A private-pay nursing home and adult daycare center exceeding 5,000m<sup>2</sup> for which we will be in charge of designing and building was selected.
- Using our proprietary technology will enable fire-resistant performance and insulation efficiency to be achieved while simultaneously reducing costs.

## FYE March 2014 Set New Objectives at the Start of the Fiscal Year

Recurring income: Billion yen (Without actuarial differences)  
Figures in parentheses ( ) include actuarial differences



## Construct a Balanced Earnings Portfolio that does not Rely Excessively on the Number of Domestic New Housing Starts

- Our basic policy is to undertake a continuous and stable return of profits to our shareholders comprehensively taking into consideration revenue levels, the state of retained earnings and future business development.

### FY3/13 Dividend Record

Interim Dividend	¥7.5/share	
Year-end Dividend	¥9.5/share	<u>Annual dividend ¥17/share</u>

### FY3/14 Forecasted Dividend

Interim Dividend	¥9.5/share	
Year-end Dividend	¥9.5/share	<u>Annual dividend ¥19/share</u>

**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.**