Sumitomo Forestry Group

Financial Results for the Fiscal Year Ending December 31, 2023

Conference Call with Analysts and Institutional Investors －Transcript

1Q FY12/2023 Financial Overview and FY12/2023 Forecast

Time and date: 16:30‐17:30, Thursday, April 27, 2023

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

[Slide 2]
Today, I will provide an overview of our Q1 results and our full-year forecast, focusing on our US Housing and Real Estate Business.

Please review the notes on this slide at the beginning. Effective from the current fiscal year, the construction business, which had been classified in the Housing and Construction segment, was transferred to the Overseas Housing and Real Estate segment, and the names of both segments were changed to the Housing segment, and the Global Housing, Construction, and Real Estate segment respectively.
The impact of the transfer on P&L will be negligible. The Q1 results are compared with the previous year's results after reclassification, and the full-year forecast is compared with the previous year's results in the former segment classification.

[Slide 3]
Please refer to slides three and four for the summary of the key points today.

Although the US housing market is currently being affected by rising interest rates, there is basically no change in our view of market conditions. Signs of recovery have been seen, and the market is expected to grow over the medium to long term as the tight supply-demand relationship will continue for the time being against the backdrop of a growing population of homebuyers, including millennials and Generation Z, and a shortage of used homes in the market.

In addition, the current housing market has maintained a healthy market environment, with no major increases in mortgage delinquency rates or other factors.

The number of units ordered in the US in Q1 remained strong at a pace exceeding our initial projection. For the single month of March, it turned positive on a YoY basis, and on a quarterly basis, it recovered to the level of Q4 FY2021 to Q1 FY2022, when mortgage rates were hovering in the low 3% range.

The current level of mortgage rates is being accepted as the new normal, and there are indications of an improvement in the purchase mindset of customers who had been waiting to see how things would turn out.

Our sales strategies tailored to market conditions and customer trends in each region, such as offering incentives as needed and setting appropriate sales prices, have been successful and have resulted in orders.

Unit sales prices also exceeded those of the same period of the previous year on a local currency basis due in part to price increases in some regions, and the recurring profit margin for the US housing subsidiary as a whole was 14.9%, a level that exceeded expectations.

The strong order situation has also led to an increase in monthly housing starts, and the company is on track to steadily achieve its full-year sales target of 9,000 units.

Sales are also progressing at Southern Impression Homes, which became a consolidated subsidiary in January of this year and sells single family rentals, and we will accelerate the expansion of our business in Florida, our newest state.

[Slide 4]
For the FITP business, which provides integrated panel design, manufacturing, delivery, and installation services, synergies with existing subsidiaries in the Group are expanding.
We will continue to promote rationalization of construction, shortening construction time and strengthening cost competitiveness.

In the US real estate development business, there were no property sales in Q1, as we assumed at the beginning of the period, and our assumption to proceed with property sales mainly in H2 remains unchanged.

The detached housing business is currently unaffected by financial instability. Although the financing environment for real estate development may be affected in the future, we will continue to focus on stable project origination in order to secure future property sales.

In the domestic custom-built houses business, we are continuing our efforts to strengthen our web strategy and promote value-added housing such as ZEH.
The effect of price revisions is expected to become more apparent in H2, and profit margins are expected to improve.

The full-year forecast was left unchanged from the initial plan in light of uncertainties in the financial markets and geopolitical risks.

[Slide 6]
Now, please see page six. This is the consolidated results for Q1.

In Q1, while the yen's depreciation had an impact, the single family homes business in the US performed particularly well in Q1 of the previous year, and the sale of a large real estate development property in the US in the same period of the previous year had an impact. As a result, sales were JPY376.3 billion, up 6.3% YoY, ordinary income was JPY25.6 billion, down 28.7%, and net income was JPY14.4 billion, down 36.3%.

[Slide 7]
Please see page seven. This shows the results by business segment.

In the Timber and Building Materials Business, both sales and profits declined as wood prices, which had been high last year, trended downward and sales prices fell, while sales volume was also sluggish.

In the Housing Business, both sales and income increased in the mainstay custom-built detached housing business, as unit sales prices rose due to an increase in the ZEH ratio and the effect of price revisions.

In the Overseas Housing, Construction and Real Estate Business, although the number of single family homes units sold in the US decreased, revenue increased due to the impact of the yen's depreciation.
Profit declined due to higher material costs and the sale of a large real estate development property in the US in the same period of the previous year.

In the Environmental and Resources Business, while sales increased in the domestic biomass power generation business, the profit margin declined due to soaring fuel prices, resulting in an increase in both sales and profit.

[Slide 9]
Please see page nine. This shows the status of orders received and sales in the domestic housing business.
In custom-built detached housing, unit prices increased due to ongoing implementation of value-added proposals such as ZEH and previous price revisions, which responded to soaring materials

prices. As a result, both orders and sales increased from the previous year on a value basis.
Gross profit in the housing business alone rose 2.2 percentage points YoY to 20.5%, mainly due to higher unit prices for custom-built detached houses.

[Slide 11]
Please see page 11. This is the performance of the Global Housing, Construction, and Real Estate Business.

Although recurring profit in the US housing business declined due to a decrease in the number of units sold compared to the same period last year, when mortgage rates were before the sharp rise, the business performed well compared to the assumption at the beginning of the period, which incorporated a certain decline from the previous period.

With mortgage rates levels in the 6% range becoming more acceptable to buyers of new homes in the current fiscal year, the provision of incentives and discounting, which are factors that increase costs, were not as necessary as expected, and price increases were also implemented in some areas for sale, resulting in an ordinary income margin of 14.9% for the current fiscal year, higher than the full-year forecast of 12.9% for the current fiscal year.

Ordinary income in the US real estate development business declined because, while there were three sales in the same period of the previous year, including a large property, no sales were expected in Q1 of this fiscal year from the beginning.

Australia posted an ordinary loss due to the inability to pass on higher costs for materials, labor, and other items, as well as the impact of longer construction periods. However, the overall construction situation improved compared to the previous period, as the shortage of materials has generally been resolved and the shortage of craftsmen is also beginning to be resolved.

[Slide 12]
Please see page 12. This is the status of the overseas single family homes business and construction business.

The number of orders received in the US single family homes business remained at 70% to 90% of the previous year's level in January and February and turned positive in March compared to the same month last year, due to improved order purchase sentiment as well as a lower cancellation rate.

Orders improved significantly compared to the Q2 through Q4 of 2022, when orders were depressed

due to a sharp rise in mortgage rates, and on a quarterly basis, orders have exceeded Q4 of the fiscal year ending December 2021, when orders were strong.
Unit sales prices also exceeded those of the same period of the previous year on a local currency basis, thanks to the success of our sales strategies, such as setting appropriate prices according to market conditions and customer trends in each region.

Although the backlog of orders has decreased YoY, mainly due to the short lead time from contract to sale of built-for-sale homes, it has steadily increased compared to the 2,899 units ordered at the beginning of this fiscal year on the back of strong orders.

We have approximately 70,000 inventory blocks, including purchased lots and option lots.
We will promote appropriate management of inventory risk by adjusting construction schedules, taking down option lots, carefully selecting new acquisitions, and taking other actions in response to changing market conditions.
In terms of financing for land acquisition, the financial instability in the US has not had any impact at this time, and we will continue to purchase land in accordance with market conditions.

In the Australian single family home business, orders received were sluggish due to customers' wait-and-see attitude as policy interest rates continued to rise, and the effects of longer loan approval periods and poor financing due to higher mortgage rates.
The number of units sold increased YoY, and unit sales prices also exceeded those of the previous year due to progress in passing on rising materials costs and other prices.

[Slide 13] [Slide 14]
Please see pages 13 and 14.

Quarterly trends in the US single family home business are shown. You can see a significant improvement in orders received, and unit sales prices and ordinary profit margins are on pace to exceed the full-year forecast.

[Slide 15]
Please see page 15. The summary of the balance sheet is as shown.

This is the summary of the financial results for Q1 of the fiscal year ending March 2023.

[Slide 17]
Pages 17 to 23 show the forecast for the full year. Consolidated and segment results, as well as domestic and overseas housing orders and sales, remain unchanged from the initial forecast.

The Company recently acquired Southern Impression Homes Group, which is engaged in the development and management of single family rental housing in Florida, USA, as a subsidiary. Please note that the impact on our P&L, including amortization of goodwill, is currently under scrutiny and has not been incorporated in the current forecast.

[Slide 19]
Now, let's move on to page 19. This is the forecast for orders and sales in the domestic housing business.

The gross profit margin of the domestic housing business on a non-consolidated basis is expected to continue to improve in Q2 and beyond due to the decline in wood prices and the effect of the price revision implemented in June last year.

In addition, prices for materials other than wood have remained high, and we are conducting an additional price review beginning with new orders received in April of this year. We will continue our efforts to improve profitability in the next fiscal year and beyond.

[Slide 23]
Please see page 23. This is the forecast for the number of units to be sold in the US single family home business for the current fiscal year.
Our goal is to sell 9,000 units, unchanged from the plan at the beginning of the period, and we are making steady progress in receiving orders and starting construction, both of which are necessary to achieve this goal.

The total of 2,142 units sold through Q1 and the 3,535 units backlogged as of the end of Q1 is 5,677 units. The number of units on order needed to sell 9,000 units in the future is approximately 4,000 units, assuming that approximately 20% of the backlog will be cancelled.
Orders received from January through March of this year averaged approximately 900 units per month. Considering that Q1 is the home sales season and contracts are favorable, we expect to secure orders for approximately 4,000 units during the current fiscal year.

We are making steady progress in construction as well. As of the end of Q1, the total number of units delivered, completed, or under construction was approximately 7,000.
In order to sell 9,000 units, approximately 2,000 new units would need to be started to be constructed

by the end of June, given the improving construction schedule. Based on the current strong order situation, we have already increased the housing starts and expect to start the construction of more than 2,000 units during the period from April to June. We aim to sell 9,000 units by steadily accumulating contracts and beginning construction.

This concludes my explanation.
Thank you.

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