

Sumitomo Forestry Group
Financial Results for the Fiscal Year Ending December 31, 2023
Conference Call with Analysts and Institutional Investors – Transcript
2Q FY12/2023 Financial Overview and FY12/2023 Forecast

Time and date: 13:00-14:30, Wednesday, August 9, 2023

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

[Slide 4]

This shows the cumulative consolidated results for Q2.

While the yen's depreciation had a positive impact, the decrease in the number of units sold and lower profit margin in the US single family home business compared to the same period last year and the decrease in properties sold in the US real estate development business caused net sales to increase 4.3% YoY to JPY816.5 billion, ordinary income to decline 28% to JPY67.4 billion, and net income to decline 9.6% to JPY44.8 billion in the cumulative Q2 total.

[Slide 5]

Next, page five is the details of performance by 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 single family homes business due to higher unit sales prices resulting from price revisions and cost reductions resulting from improved wood market conditions.

In the Global Housing, Construction and Real Estate Business, although the number of single family homes units sold in the US decreased, revenue increased due to rising unit price and the impact of the yen's depreciation.

Profit margins declined as a result of higher material costs and the sale of properties for which price reductions and incentive offers were implemented in response to the slower pace of contracts signed in the same period of the previous fiscal year, resulting in lower profits.

In addition, while the US real estate development business sold six properties, including a large real estate development property, in the same period of the previous year, the current period saw a decrease in earnings because the sales were not expected in the January to June period from the beginning of the current fiscal year.

As for the Environment and Resource Business, although sales in the overseas forestry business were

positive YoY, profits declined due to higher costs. The domestic biomass power generation business saw its profit margin decline due to soaring fuel prices, resulting in an overall increase in sales and a decrease in profits.

[Slide 6]

The changes in ordinary income by segment for Q2 is as shown.

While the Housing Business performed well compared to the same period last year, overall income decreased mainly due to lower income in the Global Housing, Construction, and Real Estate Business.

[Slide 7]

Page seven shows the status of orders and sales in the domestic housing business.

For custom-built detached house, the number of orders received decreased compared to the same period of the previous year, and as a result, the order value did not reach the level of the same period of the previous year. However, unit prices rose significantly compared to the same period of the previous year due to price revisions.

Sales increased YoY in value terms due to higher unit prices for the same reasons. In addition to this, lower material costs due to improved wood market conditions resulted in a 4 percentage point YoY increase in the gross profit margin for the Housing Business on a non-consolidated basis, to 22.8%.

[Slide 10]

This is the status of overseas single family homes business and construction business.

US housing companies are seeing a significant improvement in orders from the order situation from April to December of the previous year, when orders were depressed due to the sharp rise in mortgage rates, due to the recovery in the market conditions as mortgage rates have generally stabilized in the 6% range and the policy rate hike is expected to end.

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 blocks, including purchased lots and option blocks. We will promote appropriate management of inventory risk in response to changing market conditions by adjusting construction schedules, taking down option blocks, carefully selecting new acquisitions.

[Slide 13]

This is about investment and loans.

The cumulative Q2 results amounted to JPY98.7 billion. Combined with the result of the previous year, progress rate is 33% to JPY300 billion, the total of the investment and loan plan of three-year medium term management plan. Major activities include income-producing real estate development in the US, acquisition of Southern Impression Homes, and investment in overseas wooden office projects.

The above is a summary of the financial results for Q2 of the fiscal year ended March 2023.

[Slide 16]

Next, I will explain our full-year forecast.

Based on the Q2 results and future outlook, the figures have been revised upward from those announced in the Q1 results. In comparison with the previous forecast, net sales are expected to increase JPY128 billion to JPY1.726 trillion, ordinary income is expected to increase JPY30 billion to JPY150 billion, and net income is expected to increase JPY15 billion to JPY92 billion.

The exchange rate applied to the full-year forecast is the same level as the average rate for the period from January to June, which is applied to the Q2 results.

[Slide 17]

Page 17 provides an explanation by segment.

In the Timber and Building Materials Business, forecast for both net sales and recurring income were revised downward based on results through Q2. Market conditions have slowed as the number of owner-occupied housing starts in Japan has declined for 19 consecutive months compared with previous year, resulting in a drop in pre-cut factory operations and excess inventory as builder demand declines.

From H2 onward, we will build a structure that is less susceptible to market conditions by expanding sales of environmentally friendly products and other high value-added products.

In the Housing Business, forecast for both net sales and recurring income was revised upward from the previous forecast due to lower material costs associated with improved wood market conditions, and price revision effects that has exceeded our initial expectations.

In the Global Housing, Construction, and Real Estate Business, the Company forecasts a significant increase in both sales and profit expecting growth in the number of units sold, unit prices, and profit margins of single family home in the US.

On the other hand, for US real estate development, forecast for recurring income has been revised downward in light of the revised timing of the sale of one office property and the cooling down of the US capital market.

In the Environment and Resource Business, forecast for recurring profit has been revised downward due to the fact that it is taking time to improve profitability of the overseas forestry business, soaring fuel prices in the biomass power generation business, and the impact of temporary facility inspections at some power plants.

[Slide 18]

The changes in the full-year forecast for ordinary income by segment is as shown.

The forecast was revised upward mainly due to a significant increase in profit in the Global Housing, Construction, and Real Estate Business and an increase in profit in the Housing Business.

[Slide 19]

This is the forecast for order and sales in the domestic housing business.

The forecast for Japan has been revised in light of current conditions for both orders and sales. Although the number of orders received for custom-built detached housing has been revised downward in light of the business environment in which owner-occupied housing starts continue to fall below the year-ago level, the sales amount and profit margin have been revised upward due to improvements in the lumber market and the effects of price revisions exceeding initial expectations.

[Slide 22]

This is the forecast for order and sales for the overseas single family homes and construction business.

In the US housing business, as explained by Mitsuyoshi, we have revised upward our unit sales forecast to 10,500 units, factoring in the recent significant improvement in the number of units ordered and the sales of the Southern Impression Homes group acquired at the beginning of the year. In addition, the unit sales price and ordinary income margin forecasts were also revised upward based on the fact that the results through Q2 have exceeded the forecasts and assumptions made at the beginning of the fiscal year.

[Slide 24 to 26]

This is a recognition of the current state of affairs and the Company's approach to achieving cost of capital and stock price conscious management. Page 24 provides a summary.

We recognize that our cost of equity is generally around 7%, and our ROE has been well above our cost of equity.

On the other hand, we see the need for continuous improvement in PER, which has been on an improving trend but has had periods of low levels.

P/B ratio is currently around 1x, and we recognize that steady implementation and penetration of our medium- to long-term growth strategy is even more important to further enhance our corporate value.

Based on this recognition of the current situation, the Group is moving forward with specific initiatives while setting ROE of 15% or more and other financial targets as KPIs in the current medium term management plan.

[Slide 23]

Part of this, the progress of investments and loans and the executive compensation system, is outlined on pages 27 and 28.

We aim to create our corporate value over the medium to long term through growth in our US housing and real estate business, realizing initiatives that contribute to the realization of a decarbonized society, investment in growth areas and stable shareholder returns, pursuing capital efficiency including reduction of strategic shareholdings, introducing an executive compensation system that is linked to increases in corporate value, and expanding opportunities for dialogue with our shareholders and investors.

This concludes the presentation.

Thank you very much for listening.

-END-