

Sumitomo Forestry Group
Financial Results for the First Quarter Ending December 31, 2020
Conference Call with Analysts and Institutional Investors - Q&A

Time and date: 16:30-17:30 p.m., Wednesday, August 12, 2020

Respondents: Tatsumi Kawata, Director and Managing Executive Officer

Q

The U.S. housing business is strong, but there are concerns about the impact of the second wave of COVID-19 in the future. Can you tell us about the current situation, including the impact of your business area?

A

Although the number of contracted units declined significantly in April due to Curfew (stay-at-home order) , it recovered sharply thereafter, and in May and June, it exceeded the previous year's level. In addition to continuing low interest rates, there is a trend of housing demand shifting to new homes due to restrictions on the sales activities of existing homes by the impact of COVID-19. This is one of the reasons why the housing business in the U.S. is doing well. At present, COVID-19 has not had a significant impact on our business, but we will continue to monitor the situation as the number of cases in Texas is increasing.

Q

Can you tell us the factors behind the upward revisions of the forecasts of orders received and sales in the domestic custom-built detached housing business?

A

The full-year plan announced on May 29 had been based on self-restraint in sales activities due to the "state of emergency" and a decline in the number of visitors to housing display centers during Golden Week holidays. On the other hand, we revised our forecasts upward for both orders received and sales, reflecting steady orders from first-time home buyers, who have relatively strong desire to buy homes, and from the high-end demographic, which is less susceptible to economic trends, as well as an increase in the number of requests for information from the website and the impact of the extension of the deadline for applying tax deductions for home loans.

Q

Regarding the upward revision of full-year sales for the domestic custom-built detached housing

business, which of recovering orders received and improving delayed construction starts will more affect the revision?

A

Orders received in the fiscal year under review accounted for a small proportion of the total amount of construction completed in the fiscal year under review, and the main reason for the upward revision was an improvement in the delay in construction starts. In line with the "state of emergency", construction starts were delayed due to the impact of restrictions of attendance in subsidiaries engaged in CAD design work. However, the development of infrastructure has improved work efficiency at home, and the delays in the start of construction have been largely eliminated.

Q

The number of units sold in the U.S. housing business from April to December has been revised upward by about 600 units. Are there any regional trends? What was the reason for the upward revision of the profit margin?

A

Orders received in Utah remained robust, but the number of units sold did not grow significantly due to delays in construction approval and other factors. On the other hand, sales in Texas and the east coast are strong. In terms of profit margins, although some material costs are on an upward trend, labor costs have stabilized, so increases in selling prices due to improvements in affordability have a positive impact.

Q

Can you tell us the reason that SG&A expenses in the first quarter declined by about ¥1.3 billion?

A

The main reason was that goodwill amortization for some overseas subsidiaries was completed and the amount of goodwill amortization was down by about ¥1.3 billion year-on-year.

Q

In term of Overseas Housing and Real Estate Business's performance, are there any differences when comparing profitability in the same period, from April to June?

A

Compared to gross profit for the same period, those of five U.S. housing companies increased by

around 2% year-on-year.

Q

The full-year forecast for the U.S. housing business appears to incorporate the impact of the second wave of COVID-19. Is it likely to exceed the forecast further?

A

Although the company's current results are favorable, the number of COVID-19 cases in the U.S. is on the rise and the outlook is uncertain due to the impact of the second wave of it and other factors. As a result, the number of units sold from April to December is expected to be around the same level as in the same period in the previous fiscal year. We will continue to keep a close watch on trends in contracts.

Q

What is the reason for the recovery of recent orders received in the domestic custom-built detached housing business?

A

Orders received from first-time home buyers, which has a relatively strong desire to buy homes, seem to be trending steadily even in the case of COVID-19 pandemic, due to the fact that the ratio of select-style products to orders received is increasing. The extension of the deadline for applying tax deductions for home loans also seems to be a factor behind the increase in orders received.

Q

Can you tell us the reason for the recurring income of the U.S. housing business in first quarter increased by 5.2 billion yen compared to the same period of the previous year? Does it include the contribution from January to March results, which are excluded from the accounting period due to the change of accounting period, as well as the increase in profits due to the decrease in amortization of goodwill?

A

These figures are for individual companies only and do not include amortization of goodwill. In addition, the portion of profits from overseas subsidiaries from January to March associated with the change of accounting period is not included in recurring income because it is directly reflected in the B/S as retained earnings.

Q

Can you tell us the breakdown of the increase in real estate for sale in progress of ¥9.7 billion? If most of the increase is related to the U.S. housing business, please tell us about the situation of purchase prices.

A

Approximately 80% of the total is related to the U.S. housing business. Of the remaining 20%, about two-thirds are related to Japan and about one-third to Australia. The purchase price is not rising in the U.S., but the new housing market is growing vigorously even in the case of COVID-19 pandemic, so we will keep a close watch on future trends.

Q

Single family homes demand appears to be strong in both the U.S. and Australia. What is the supply-side situation?

A

In terms of the COVID-19 pandemic, since housing construction is an essential business in the U.S. and Australia, it has not had a major impact on construction, and we do not think there are any problems on the supply side.

Q

Are you leveraging your company's strengths, including the know-how cultivated in the domestic housing business, in developing Overseas Housing and Real Estate Business?

A

In Australia, where custom-built houses is the main business, the company is utilizing some of its expertise in designing Sumitomo Forestry homes, and is also increasing synergies with the Sumitomo Forestry Group by outsourcing the work to a subsidiary that designs CAD in Dalian, China. In the U.S., housing for sale is the mainstream, and our design has not been incorporated because the characteristics of the preferred housing differ according to area. However, the synergy effect as a group is emerging, such as joint purchasing of materials among U.S. subsidiaries.

Q

I would like to know the situation of collaboration with Kumagai Gumi.

A

Although there are differences in each field, the company has built up a track record in the greening and civil engineering field and in the medium- and large- scale wooden architectural structures field. The period ending December 2020 will be nine months, but we plan to receive orders of ¥10 billion, which is the same as in the fiscal year ended March 2020.