Sumitomo Forestry Group
Financial Results for the Fiscal Year Ending December 31, 2023
Conference Call with Analysts and Institutional Investors －Transcript
3Q FY12/2023 Financial Overview and FY12/2023 Forecast

Time and date: 16:00‐17:00, Tuesday, October 31, 2023

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

[Slide 3-4]
I will explain the key point of Q3 financial results and our full-year forecast.

First, regarding the US housing market, our view of the market environment remains unchanged. In the US housing market, against the backdrop of a growing population of housing buyers, and a shortage of pre-owned homes in circulation, the tight supply-demand situation is expected to continue for the present and the market is expected to grow over the medium- to long-term.

Sumitomo Forestry is making steady progress in strategies toward realizing its target sales volume of 23,000 units in 2030.

In Florida State, a new market for Sumitomo Forestry this fiscal year, in addition to the business expansion of Southern Impression Homes and Brightland Homes, DRB entered the new market of Orlando (Florida State) with the establishment of a new branch. The Group will work as one to accelerate sales in Florida.

In the FITP business, which aims to reduce construction time, strengthen cost competitiveness, and achieve stable construction, the second manufacturing plant under the FITP business is scheduled to commence operation in North Carolina State in 2024. We plan to continue expanding the operational areas of our FITP business going forward.

Sumitomo Forestry in the U.S. received 2,410 housing orders in the third quarter (July - September). This exceeds the 2,191 orders received between July and September 2021 when mortgage rates were around 3.0%. This reaffirms the solid demand for housing in the US housing market. Recurring income ratio for the five US housing companies in the same quarter also remained strong at 15.2%.

We will continue to aim toward achieving the recurring income forecast of 101 billion yen for FY12/2023 for the five US housing companies.

On the other hand, mortgage rates have recently risen to the high 7% range, and customers seem to be adopting a wait-and-see attitude. With regard to the projection for the US Single Family Homes Business for FY12/2024, our policy is to secure more orders and sales units than in FY12/2023 by providing incentives to customers where necessary, such as by taking on a part of the mortgage burden or offering discounts.

Although the financing environment remains challenging in the US real estate development market, leasing has remained generally strong in the multi-family housing sector on the back of housing shortage.

In November 2023, we plan to make JPI a consolidated subsidiary of Sumitomo Forestry. JPI is engaged in the development of multi-family housing mainly in the states of Texas and California, and this business combination is aimed at expanding the profitable real-estate business and building a stable earnings portfolio in the U.S. In addition to multi-family housing, we will also continue to structure property projects with high added value that will contribute to future profit growth, such as medium- to large-scale wooden office buildings, logistics facilities, and life science facilities.

With solid housing demand on new single-family homes and multi-family housing, we will steadily implement our strategy and aim to achieve further growth toward the realization of our 2030 targets.

About the domestic housing business, sales of custom-built houses exceeded the same period in the previous fiscal year in terms of both amount and number of units. Non-consolidated gross profit margin also improved, partly due to the effect of price revisions. On the order side, we will continue to strengthen our web strategy and enhance the appeal of high value-added housing such as ZEH.

With regard to the full year forecast, we expect consolidated results, segment results, as well as domestic and overseas orders and sales to remain at the same level as the previous forecast.

[Slide 6]
In Q3, while the depreciation of the yen had a positive impact on earnings, in the US single family homes business, the number of units sold and the profit margin declined, and in the US real estate development business, there were fewer properties sold, resulting in net sales of JPY1,232.9 billion, up 2.2% YoY; recurring income of JPY99.6 billion, down 29.8% YoY and recurring income of JPY99.6 billion, down 22.9% YoY.

[Slide 7]
In the timber and building materials business, both sales and income declined because of sluggish growth in timber sales volume due to a decline in the number of new housing starts in Japan, as well

as a drop-in sales prices as timber prices, which had remained high in the previous fiscal year, declined.

In the housing business, both sales and income increased in the mainstay custom-built detached housing business due to higher unit sales prices in line with an increase in the ZEH ratio and price revisions, as well as lower materials costs because of declining lumber prices.

In the overseas housing, construction, and real estate business, sales increased due to an increase in the number of detached houses sold in Australia and the impact of the yen's depreciation. On the other hand, income decreased due to price discounting in the single-family homes business in the US, lower profit margins resulting from the provision of incentives and a decrease in the number of properties sold in the real estate development business in the US.

In the environment and resources business, sales increased in the forestry business in New Zealand due to an increase in export sales to China. Still, recurring income decreased due to a decline in profit margins in the domestic biomass power generation plant business because of soaring fuel prices.

[Slide 8]
This is the change in recurring income by segment, excluding the effect of foreign exchange rates. While the domestic housing business performed well YoY, the overseas housing, construction, and real estate business saw a decline in income, resulting in an overall decrease in income.

[Slide 9]
Custom-built detached housing orders declined YoY in value and number of units. Still, the unit price rose 6.7% YoY to JPY41.9 million in a challenging order environment because of price revisions and efforts to promote high-value-added housing, including expanded sales of ZEH housing.

In addition to higher unit prices for the same reasons, the number of houses sold also exceeded that of the same period last year, resulting in a YoY increase of 5.8% on a monetary basis.

The gross profit margin for the housing business on a non-consolidated basis improved by 4.5 percentage points YoY to 23.3% due to higher unit sales prices and lower material costs.

[Slide 10]
The US housing company maintained a strong level of sales, although it fell short of the previous year, which was one of the strongest periods in recent years.

About the sales of real estate development properties, the US real estate company sold eight properties, including a large property, in the same period of the previous year but has not sold any properties so far, this fiscal year as of the end of Q3, thus plans to sell properties in Q4.

The Australian housing company continues to face a difficult business environment due to rising material prices and interest rates. Still, the extended construction time is gradually improving, and the number of units sold increased in Q3, resulting in net sales of JPY100.3 billion, an increase of 51.7% YoY.

[Slide 11-13]
For Q3, orders received by US housing companies totaled to 8,292 units, a 51% increase YoY. Although July through September is the summer season when orders tend to quiet down, the average for a single month exceeded 800 units, accumulating orders for 2,410 units over the three months. Unit selling prices and recurring income margin have also remained steady, exceeding the initial forecast as in Q2.

We continue to hold approximately 70,000 lots in inventory, including purchased lots options. We will continue to manage inventory risk appropriately in response to changes in market conditions by adjusting the schedule for construction work, utilizing options, and carefully selecting new acquisitions.

The above is a summary of our Q3 financial results.

[Slide 16-20]
There are no changes from the previously announced forecasts, including consolidated results, segment results, and domestic and global orders and sales.

Please see slide 18. This is the forecast for the domestic housing business.

Given the current progress, orders are still facing a high hurdle for the full year, but we will continue to promote ZEH homes and expand sales of forest selection to win orders. The gross profit margin of the housing business on a non-consolidated basis improved to 23.3% on a cumulative Q3 basis. We will continue our efforts to improve the profit margin. However, we expect some factors to increase costs in the future, such as soaring prices of imported timber due to the depreciation of the yen.

Please see slide 19 and 20. This is the overseas housing, construction & real estate business forecast. The US housing company forecasts sales of 10,500 units for the full year. In this fiscal year, we have been working to increase the number of housing starts since the spring in line with improved market conditions.

In Q4, we expect to sell approximately 3,400 units as the handover of those properties progresses. There are no changes to our full-year forecasts for unit sales and recurring income margin on a foreign currency basis. Generally, we expect the cumulative Q3 basis level to continue.

The US real estate company currently plans to sell five properties in Q4. The decrease of two properties from the previous forecast of seven properties is because of rescheduling the timing of the sale of both properties to the next fiscal year based on the wishes of our joint venture partners.

Thank you very much for your attention.

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