Sumitomo Forestry Group

Financial Results for the Fiscal Year Ended December 31, 2023

Conference Call with Analysts and Institutional Investors －Transcript

FY12/2023 Financial Results and FY12/2024 Forecast

Time and date: 13:00–14:30, Thursday, February 15, 2024

Briefer: Tatsumi Kawata, Representative Director and Executive Vice President, Sumitomo Forestry Co., Ltd.

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Consolidated results for the year ended December 31, 2023. In the fiscal year that ended December 31, 2023, net sales increased 4% from the previous year to JPY1,733.2 billion, ordinary income decreased 18% to JPY159.4 billion, and net income decreased 6% to JPY102.5 billion, due to a decline in the profit margin in the US single family homes business caused by a fall in unit sales prices in local currency and a decrease in properties sold in the real estate development business in the United States, while revenue increased due to the impact of yen depreciation. Net income was JPY102.5 billion, a decrease of 6%.

The Company recognizes actuarial gains and losses related to accounting for employee retirement benefits as a lump-sum expense at the end of the year in which they are incurred. Actuarial gains and losses for the year ended December 31, 2023 amounted to a gain of JPY5 billion, mainly due to investment results exceeding initial expectations. Ordinary income, excluding actuarial gains and losses, was JPY154.4 billion, a 17% decrease compared to the year ended December 31, 2022.

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Next, on page five are the results by segment. The timber and building materials business posted declines in both revenue and earnings due to sluggish sales volume growth stemming from a decline in new housing starts in Japan and 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 due to higher unit sales prices resulting from a price review in the custom-built detached housing business and lower material costs resulting from lower timber prices. In the Global housing, construction, and real estate business, revenue increased due to an increase in the number of units sold in the detached housing business in Australia and the impact of the yen's depreciation.

Profits, on the other hand, declined due to a lower profit margin in the US single family homes business as a result of a fall in unit sales prices in local currency terms and a decrease in the number of properties sold in the US real estate development business. In the environment and resources business, the New Zealand forestry business posted higher revenue due to an increase in export sales to China, while the domestic biomass power generation business saw a decline in profit margin due to soaring fuel prices, resulting in a decrease in profit.

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Please see page six. This shows the change in ordinary income by segment for the fiscal year ended December 31, 2023, excluding the effect of foreign exchange rates. While the housing business performed well compared to the previous year, the global housing, construction, and real estate business saw a decrease in earnings, resulting in an overall decrease in earnings.

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Next, page seven shows orders and sales in the domestic housing business. Orders for custom-built detached houses were negative YoY in terms of both the number of units and value, due in part to stagnant market conditions caused by soaring prices and a sense that interest rates are rising ahead of schedule. On the other hand, the unit price of orders received increased 8% from the previous year to JPY42.5 million due to price revisions and expanded sales of ZEH housing. For the same reason, sales were up 4% from the previous year in value terms due to higher unit prices. The gross profit margin for the housing business on a non-consolidated basis rose 4.2 percentage points from the previous year to 23.4%, thanks to higher unit sales prices and lower material costs due to improved timber market conditions.

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This is the status of the global housing and construction business. Orders received by US housing companies totaled 10,334 units, up 71% from the previous term. Mortgage rates rose to the high 7% range last October, but unlike in 2022, when a sharp spike in interest rates caused a sharp drop in orders, the company continued to receive orders for 2,042 units in Q4 of October through December. The recent expectation of policy rate cuts has also been a positive factor, and housing demand has remained firm.

Although the ordinary income margin was lower than in the previous fiscal year, which was one of the strongest in recent years, it remained steady and exceeded our initial projection. The US real estate company sold 12 properties, including large properties, in the previous fiscal year, while it sold six properties in the current fiscal year, resulting in lower ordinary income than in the previous fiscal year. Although the fund-raising environment remains challenging, leasing of the multi-family housing properties in which the Group is engaged has generally been strong, and the pipeline is steadily building up.

In the Australian housing company, orders received were lower than the previous year due to rising mortgage rates and high housing prices in key areas. In sales, on the other hand, the number of units sold increased due to a gradual improvement in the lengthening of construction time, and ordinary income increased approximately five-fold from the previous period to JPY5.5 billion.

Our land inventory continues to hold approximately 70,000 blocks in the US, including purchased lots and optioned blocks. We will continue to manage inventory appropriately in response to changing market conditions by utilizing options, carefully selecting quality properties, and meticulously managing construction starts.

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This is about investment and financing. The total amount for the fiscal year that ended December 31, 2023 was JPY116.1 billion, which together with the previous year's amount represents 60% of the total amount of investments and loans planned for the three years of the medium-term management plan, which totals approximately JPY300 billion. Major activities include the development of income-producing real estate in the US, acquisitions such as JPI, Southern Impression Homes, US truss manufacturer, and investments in overseas wooden office building projects.

That completes the summary of the financial results for the fiscal year that ended December 31, 2023.

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I will discuss our plans for the year ending December 31, 2024. Effective from the fiscal year to December 31, 2024, the global housing, construction & real estate business division has been renamed the global construction & real estate business division.

For the fiscal year ending December 31, 2024, we plan to continue to increase both sales and income, with net sales of JPY2,065 billion (up 19% YoY), ordinary income of JPY173 billion (up 9% YoY), and net income of JPY105.5 billion (up 3% YoY), mainly due to solid growth of the single family homes business in the US and the consolidation effect of companies acquired in the previous fiscal year. The dollar to yen exchange rate is assumed to be JPY140 per dollar, unchanged from the previous year.

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The segments are explained on page 17. The timber and building materials business continues to face a difficult business environment, as the number of owner-occupied housing starts in Japan has declined on-year for 25 consecutive months, but the excess inventory in the market is returning to an appropriate level, and we expect a recovery in sales volume for a wide range of products, including

biomass fuel and logs. The plan also incorporates further improvement in earnings in the manufacturing business through investments in labor savings and other measures, resulting in higher earnings.

While the housing business incorporates the effects of the price revision implemented in April last year, the company plans for a decrease in income due to a decrease in the order backlog caused by sluggish order growth in the previous fiscal year and anticipated continuous increases in materials and labor costs. The construction and real estate business plans to increase both sales and income due to growth in the single family homes business in the US, as well as an increase in sales projects in the real estate development business and the consolidation effect of a truss manufacturing company. JPI, which became a consolidated subsidiary in December of the previous year, is expected to make only a minor contribution this fiscal year due to the significant impact of deferring a portion of its earnings to future periods as unrealized income.

In the environment and resources business, we plan to increase both sales and income by incorporating an increase in sales volume of forestation business in New Zealand and profit contribution from the North American forest fund business, as well as stable operation of Biomass Power Generation Plants.

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This is the forecast for order sales in the domestic housing business. The number of orders for custom-built detached houses is planned to be 7,800 units, up approximately 500 units from the previous year. We will strengthen our response to customers who start with land, which accounts for less than 50% of all orders, by assigning dedicated staff to strengthen land procurement, introducing a dedicated system, and expanding the number of plans for planning-type products, in order to improve the closing rate for the volume zone of around JPY35 million per unit.

In the mid- to high-end price range, we will expand our market share by appealing more than ever to our strength in design, especially in metropolitan areas, through such measures as the establishment of the Osaka Architectural Design Center. We plan to maintain the overall order unit price at JPY42.5 million, the same level as the previous period.

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This is the forecast for orders and sales in the overseas single family homes and construction business. In the US housing business, the ordinary profit margin is planned to be 14.5%, down 0.8 percentage points from the previous year, due to an expected decline in unit sales prices and an increase in incentives as mortgage rates remain high.

On the other hand, the number of units sold is projected to be 11,785 units, up 15% from the previous term, reflecting a significant increase in the number of housing starts in Q1 on the back of firm demand, improved construction times, and the development of the spec-home business in the state of Florida. We will continue to conduct business activities in response to changing market conditions and maintain sales in excess of 10,000 units while controlling construction starts to avoid excess inventory.

In the Australian housing business, the number of units sold is expected to remain flat, but both unit sales prices and profit margins are expected to improve due to the increase in sales prices implemented since the previous year and the shortening of construction times through rationalization of building processes, resulting in an increase in profit.

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Finally, here is the profit/loss trend and various financial indicators.The trends in net sales and ordinary income are shown in the table. Although ROE is in a downward trend, partly due to the impact of foreign currency translation adjustments, we will focus on improving profitability by making effective investments for the future, with a target of 15% or more in mind.

This concludes the explanation. Thank you very much.

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