

Sumitomo Forestry Group
Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2024
Conference Call with Analysts and Institutional Investors – Q&A

Time and date: 10:30 a.m. – 11:30 a.m., Wednesday, May 1, 2024

Answers: Nobuyuki Otani, Director and Managing Executive Officer, Sumitomo Forestry Co., Ltd.

Q

Regarding the US single family homes business, despite the granting of incentives, recurring income to net sales ratio for the first quarter of FY12/2024 was 17.9%, exceeding that for the same period in the previous fiscal year. Could you tell us the reason for that? Also, major builders in the U.S. have not achieved a similar level of recovery in their recurring income to net sales ratio as Sumitomo Forestry. What are the reasons for Sumitomo Forestry's strong performance in comparison with other companies?

A

For the first quarter of FY12/2024, recurring income to net sales ratio exceeded that of the same period in the previous fiscal year due to the strong market for new housing, partly due to a decline in the number of pre-owned homes in circulation, as well as the lower-than-expected use of incentives, among other factors.

As for the difference between the recovery in recurring income to net sales ratio between Sumitomo Forestry and major builders in the U.S., we believe this could be attributed to the difference in our areas of operation. While major builders operate across the entire U.S. including the northeastern parts of the country, Sumitomo Forestry's operations are focused on the Sun Belt.

Q

Could you tell us about the current market environment of the real estate development business in the U.S.? The full year forecast for FY12/2024 is 14 property sales and 12.5 billion yen in recurring income. Is this forecast achievable?

A

With regard to the market environment for the US real estate business, the market for commercial real estate, such as offices, remains challenging. In the area of multi-family housing, while leasing remains steady, it is difficult to be optimistic about the environment for property sales due to an increase in cap rate associated with rising interest rates.

As to whether the FY12/2024 full year forecast is achievable, if the number of property sales falls below the forecast, there is a possibility that recurring income for the US real estate development

business may fall below the forecast of 12.5 billion yen. However, the percentage of profits from property sales makes up less than half of the 12.5 billion yen of recurring income, and this percentage is even smaller against the 132.5 billion yen recurring income of the Construction and Real Estate segment as a whole. Therefore, we expect that it can be covered by the strong performance of the single family homes business.

Q

With the emerging possibility of an upswing in the full year forecast due to the strong business performance, could you tell us the Company's stance with regard to shareholder return policy? The dividend payout ratio, at about 25%, is relatively low compared to other companies in the same industry, so please tell us about Sumitomo Forestry's shareholder return policy again.

A

Sumitomo Forestry has adopted a basic policy of paying stable and continuous returns. Until now, we have consistently increased dividends when business performance improves, without reducing dividends even when profits have declined.

While we recognize that our dividend payout ratio is relatively lower than other companies in the same industry, we have positioned the current Medium-Term Management Plan period as a period for prioritizing investments toward achieving our profit targets, which is the goal of our long-term vision. Therefore, we aim to respond to our shareholders through profits.

We plan to reaffirm our stance on shareholder returns when we announce our new Medium-Term Management Plan from 2025.

Q

Although Sumitomo Forestry aims to achieve sales of 5,000 units in Florida State by 2030. Could you tell us about how many units have been sold as of now? At what pace do you anticipate expansion to take place going forward?

A

We plan to sell about 800 units in Florida State in FY12/2024.

In Florida State, we acquired equity interests in Southern Impression Homes (SIH), which engages in the development and management of build-to-rent housing, in January 2023, and our existing subsidiaries, DRB and Brightland, also opened their respective branch offices in the same year. Furthermore, with the acquisition of Biscayne Homes with its abundant housing pipelines in March 2024, we are strengthening our business foundation in Florida State.

First, we aim to sell more than 1,000 units.

Going forward, in addition to the organic growth of each Group company, we will also set our sights on new M&A projects and build a system to realize target sales of 5,000 units.

Q

Could you tell us the reasons why Biscayne Homes had transferred its business in Florida State, where the market is growing?

A

Biscayne Homes made the decision to transfer its business as its owner was considering retirement. Sumitomo Forestry believes it can accelerate the expansion of Biscayne Homes, which possesses abundant land pipelines, by providing an operational boost to DRB and Brightland, which already have a large number of branch offices and is accustomed to expanding their businesses in new regions.

Q

What is the future outlook for the US single family homes business in the U.S.?

A

We plan to sell about 600 units in FY12/2024 through Southern Impression Homes, which is engaged in the build-to-rent housing business. With the impact of high interest rates, the business of build-to-rent housing for investment is not growing significantly.

Q

Amidst continuing yen depreciation, what is the extent of the impact of exchange rate fluctuations on business results? Could you also tell us if exchange rate fluctuations have any impact when carrying out M&A?

A

Depreciation of one yen against the US dollar has an effect of increasing recurring income by approximately 1 billion yen. We do not think that exchange rate fluctuations have had a significant impact on M&A projects so far.

Q

Could you tell us the April order status for the US single family homes business? Also, with mortgage rates currently on a rising trend, is there any impact on the price range of products and business areas?

A

While the aggregate results are not out yet, we expect orders in April to be at the average level for the first quarter of FY12/2024. Despite the rising interest rates at present, there is an overall recovery trend on the back of robust housing demand, and no particular differences have emerged with regard to price range and business areas.

Q

What is the extent of intercompany transactions in the FITP business?

A

Through the FITP business, the Sumitomo Forestry Group aims to reduce construction time and costs by rationalizing construction work in each Group company that is engaged in the spec home business. As we had taken companies that had originally focused on external sales under the umbrella of our Group, intercompany sales remain a small percentage of our recurring income of 7.5 billion yen for this fiscal year. Moreover, rather than shifting completely to in-house production for the FITP business, we aim to expand in-house production by collaborating with building companies within the Group, while also expanding external sales at the same time.

Q

While the order environment of the US single family homes business is currently trending favorably, is there a risk that the rate buydown, which is one of the key sales promotion measures, may fail to function in the future if mortgage rates remain persistently high over the long term?

A

While the rate buydown mechanism is currently functioning for housing sales in the U.S., many home buyers who are using rate buydown expect interest rates to fall in the future. Going forward, we recognize that it may be necessary to consider new sales promotion measures if mortgage rates were to rise or become persistently high over the long term.

Q

At the financial results briefing session of D.R. Horton, I heard that home insurance prices are rising rapidly in Florida. Is Sumitomo Forestry also aware of the related issues?

A

We are not aware of such increases in home insurance prices in Florida.

Q

With regard to the custom-built housing business in Japan, an increase in unit selling price against the backdrop of sluggish sales volume has contributed to an increase in sales and profit. Are strategies targeted at the mid-price range and other measures working?

A

With regard to custom-built housing, the implementation of price revisions has contributed to an increase in unit selling price, which is manifesting in the form of an increase in the amount of sales. Our product strategy is to refocus on expanding the sale of our planned product, “Forest Selection,” from this fiscal year. We are strengthening sales promotion efforts through campaigns with set conditions such as starting construction within a certain period of time. These are proving popular among customers, and we hope that these efforts will ultimately boost products in the 35 million yen price range.

Q

With regard to the Forest Fund established in 2023, what is the specific status for the acquisition of forest assets?

A

We have successfully closed on forest assets in the state of New York. Including projects that are currently under negotiation, we expect to acquire about a quarter of the surface area we had initially planned for. As such, we believe that asset purchase is proceeding smoothly.

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