Sumitomo Forestry Group

Financial Results for the Fiscal Year Ending December 31, 2024

Conference Call with Analysts and Institutional Investors －Transcript

1Q FY12/2024 Financial Overview and FY12/2024 Forecast

Time and date: 10:30‐11:30, Wednesday, May 1, 2023

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

[Slide 3]
Our group's performance is greatly affected by the US housing market, but we see that the market will basically continue to grow. Although the market may fluctuate in the short term due to interest rate trends, economic trends, and the volume of pre-owned homes in the market, we expect the market to continue to grow in the medium to long term as the tight supply-demand relationship continues due to the growing population of homebuyers, such as Millennials and Gen Z.

The housing business in the US performed well in Q1, with the number of units sold increasing 21.6% YoY and exceeding the initial unit price and profit margin levels that were set at the beginning of the period. With 30-year fixed mortgage rates rising to 7% in February, the business environment was not optimistic. However, we were able to keep costs, including incentive grants, within the expected range and secure a high profit margin.

Next, we plan to build a system to sell 23,000 detached houses in the US by 2030. In Florida, one of our priority areas, we have established branches in the state, starting with Southern Impression Homes, which builds and sells detached rental housing, becoming part of our group company in 2023. Also, the existing housing group companies, Brightland and DRB, have established branches in the state.

In the fiscal year ending December 31, 2024, DRB will take over the business of Biscayne Homes, which has an ample land pipeline because they have a good relationship with Metro Development Group, the number one residential land developer in Florida. We will continue to expand our business in the state in earnest.

In the FITP business, we are expanding the area and scale of our operations, including plans to start operations at a new plant in North Carolina. We plan to generate JPY7.5 billion in recurring income this fiscal year by undertaking the work of companies outside the Group, in addition to our group's single-family homes business. As the scale of our business has expanded, we are disclosing earnings from the FITP business in our financial results presentation materials and in the Factbook starting from this fiscal year.

[Slide 4]
On the other hand, in the real estate development business, which builds and sells offices, commercial real estate, and multi-family housings, the supply-demand and financing environments remain difficult, and there are no clear signs of improvement. Leasing of multi-family housing handled by our group companies, Crescent and JPI, has been generally favorable against the backdrop of a housing shortage, but the environment for the sale of properties is not optimistic. Although the current business environment is difficult, we will continue to build up our pipeline with an eye to when the environment improves.

In the domestic housing business, the number of houses sold and the sales amount were negative YoY due to a decrease in the number of orders received in the previous fiscal year. The gross profit margin improved due to the effect of the price review, and we achieved an increase in recurring income base.

In terms of orders, as a result of strengthening land policies and expanding sales of Forest Selection, a planning-type product, the number of orders received, unit price per order, and order-to-income ratio all exceeded the results of the same period of the previous fiscal year.

In the overall full-year forecast, we believe that profit will be added on if the current trend continues, as the global construction and real estate business and the domestic housing business are currently performing well. However, due to many uncertainties, including trends in interest rates in the US, we have left our initial forecast unchanged. We will review the situation and will consider reviewing the full-year results again at the time of the Q2 results.

[Slide 6]
In Q1, the single-family homes business in the US performed well, and in addition to the impact of the yen's depreciation, net sales increased 20.5% YoY to JPY453.6 billion, recurring income rose 55.4% to JPY39.8 billion, and net income attributable to owners of the parent rose 54.4% to JPY22.2 billion.

[Slide 7]
In the timber and building materials business, while the performance of the overseas manufacturing business recovered, the domestic distribution business experienced sluggish growth in building materials and lumber sales volume due to a decline in new housing starts, resulting in lower sales and income.

In the housing business, the number of houses sold during the period under review declined due to a decrease in the number of orders received in the previous year in the custom-built detached housing business. On the other hand, higher unit selling prices from price revisions and lower cost of sales due to lower wood prices resulted in lower sales and higher income.

In the global construction and real estate business, both sales and income increased significantly due to strong sales in the single-family home business in the US, as well as the impact of the yen's depreciation.

In the environment and resources business, sales and income increased due to a recovery in sales in the New Zealand forestry business and fee income from the forest fund set up in June of the previous year.

[Slide 8]
This is the change in recurring income by segment excluding the effect of foreign exchange rates.

The global construction and real estate business, especially the single-family home business in the US, performed well.

[Slide 9]
Next is the status of orders and sales in the domestic housing business.

Sales of custom-built detached houses decreased from the previous period, but the unit price increased 7.2% YoY to JPY45.7 million, partly due to the effect of price revisions that have been implemented to date. The gross profit margin for the housing business on a non-consolidated basis improved significantly, rising 3.4 percentage points from the previous year to 23.9%, due to higher unit prices as well as lower cost of sales.

Orders received exceeded those of the previous period in terms of both amount and number of houses due to strengthened land policies and expanded sales of Forest Selection, a planned housing product, as well as steady orders in the mid- to high-priced range.

[Slide 10]
Performance of the global construction and real estate business.

Despite mortgage interest rate levels remaining high at around 7% in the US, the single-family homes business grew significantly, supported by firm housing demand and improved housing market conditions, including steady customer activity.

In the real estate development business, sales increased due to the new consolidation of JPI in December of the previous year. However, recurring income loss was recorded due to weak revenue recognition related to JPI's construction contracts and the fact that Crescent did not sell any properties in Q1, as the sales were scheduled mainly in H2.

From this time onward, the results of the FITP business are disclosed separately. The FITP business, which seeks to rationalize and stabilize construction, is steadily strengthening its structure by expanding manufacturing bases. Recurring income for Q1 is JPY1.3 billion.

In Australia, both net sales and recurring income exceeded those of the previous year due to progress in resolving the lengthening of the construction time, ongoing sales price increases, and a lull in the pace of cost increases.

[Slide 11]
This is the status of the global single-family homes business and construction business.

The number of orders received in the US has been strong since January, exceeding 3,000 units against the backdrop of improved housing purchase sentiment and other factors. The situation remained favorable in April. The backlog of orders received was 3,982 units, up 643 units from 3,339 units at the end of the previous period. We are on track to achieve our full-year sales target of 11,785 units.

We have an inventory of approximately 70,000 blocks for land, including purchased lots and optioned blocks. We will promote appropriate management of inventory risk through initiatives in response to changes in market conditions, such as carefully selected new acquisitions, including adjustments to the schedule for building construction and take-down of option blocks.

Orders in the single-family homes business in Australia exceeded those of the previous fiscal year due to favorable housing market conditions in Western Australia, where housing land prices are relatively low. Also, campaigns in the sales spec homes business were successful.

[Slide 12] [Slide 13]
Quarterly trends in the US single-family homes business.

Both unit sales prices and recurring income margins have exceeded the full-year forecast for the current fiscal year.

This is a summary of the financial results for Q1 of the fiscal year ending December 31, 2024.

[Slide 16] [Slide 17] [Slide 18] [Slide 19] [Slide 20]
Full-year forecasts.

Both full-year results, segment results, and domestic and global housing orders and sales remain unchanged from the initial forecasts.

We expect the performance of the global construction and real estate business to continue to be strong, especially in the single-family homes business in the US.

Despite the level of mortgage interest rates in the US going back and forth, rising to the mid-7% range in April, we will continue to expand orders and sales by offering appropriate incentives in response to market trends amid firm housing demand due to structural housing shortage.

Specific revisions to the forecast will be determined based on future progress.

[Slide 21] [Slide 22]
We would like to supplement our recent announcement regarding the acquisition of Biscayne Homes' business in the US.

In March 2024, we acquired the business of Biscayne Homes, through our existing subsidiary DRB, which operates the single-family homes business mainly in the Tampa area, to strengthen our business base in Florida.

Although Biscayne sells about 120 units per year, they developed a good relationship with Metro Development Group, the number one residential land developer in Florida, and has the advantage of owning a residential land pipeline. By taking over Biscayne's business and residential land pipeline, DRB will strengthen their business base in the area by leveraging their sales, construction, and material procurement functions.
We aim to sell 23,000 units in the US by 2030. Florida is an area that is expected to continue to see increased demand for housing based on population growth and job growth. Growth in Florida is a key to achieving 23,000 units sold in 2030. We plan to continue to expand the number of units supplied, not only through organic growth, but also through new M&A, with the goal of selling 5,000 units per year in Florida for 2030.

This concludes the presentation. Thank you very much.

-END-