

Sumitomo Forestry Group
Financial Results for the Fiscal Year Ending December 31, 2024
Conference Call with Analysts and Institutional Investors – Transcript
2Q FY12/2024 Financial Overview and FY12/2024 Forecast

Time and date: 13:00-14:30, Friday, August 9, 2024

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

[Slide 4]

I will now give an overview of Q2 results and the full-year forecast.

This shows the consolidated results for H1. In Q2, the single-family homes business in the US performed well, and the further depreciation of the yen had a positive impact, resulting in net sales of JPY981.4 billion, up 20.2% YoY, recurring income of JPY95.2 billion, up 41.3%, and profit attributable to owners of the parent of JPY55.7 billion, up 24.3%, for the quarter.

[Slide 5]

This shows segment performance.

In the Timber and Building Materials Business, sales volume and value of building materials and lumber were sluggish due to a decline in the number of new housing starts in the domestic distribution business, but increased sales of biomass fuel and a recovery in the performance of the overseas manufacturing business contributed to higher sales. In terms of profit, sales increased but profit decreased due to an increase in expenses and other factors.

In the domestic Housing Business, both sales and profits declined due to a decrease in the number of custom-built detached houses and detached spec homes sold.

Meanwhile, in the Global Construction and Real Estate Business, both sales and profit increased due to strong sales in the spec home business in the US, a recovery in earnings in the housing business in Australia, and the effect of newly consolidated JPI, which was acquired at the end of the previous fiscal year.

The Environment and Resources Business posted lower profit due to poor performance in the forestry business and lower profitability of the Biomass Power Generation Plant due to soaring fuel prices.

[Slide 6]

Changes in recurring income by segment are shown separately for foreign exchange effects and excluding those effects. The Global Construction and Real Estate Business, especially the single-

family homes business in the US, contributed significantly to the increase in profit. The JPY27.8 billion difference in recurring income from the previous year includes approximately JPY7.8 billion in foreign exchange effects due to yen depreciation.

[Slide 7]

This is the status of orders and sales in the domestic Housing Business. In sales of custom-built detached houses, unit price increased 7.2% from the previous period to JPY46 million and gross profit margin rose 1.5 percentage points from the previous period to 24.3%, due in part to the effect of price revisions.

Orders increased YoY in terms of both value and number of houses, thanks to solid performance by strengthening land policies and expanding sales of Forest Selection, a planning-type product.

[Slide 8]

This shows the performance of the Global Construction and Real Estate Business. In the US, although the level of mortgage rates remained high in the upper 6% range, the earnings of the single-family homes business grew significantly due to the effects of rate buy-downs and other sales measures against a backdrop of firm housing demand, as well as the ongoing depreciation of the yen. The real estate development business posted an ordinary loss due to delays in the sale of properties, despite the effect of newly consolidated JPI.

The FITP business has been affected by market conditions for office and multifamily housing, but we are steadily strengthening our structure, including the startup of a new plant in North Carolina. In Australia, both sales and recurring income increased YoY due to cost reductions resulting from higher unit sales prices and the elimination of longer construction time.

[Slide 9]

This is the status of the overseas single-family homes and construction business. The number of orders received in the US was 6,010 units in H1, up from the previous year, due to strong sales from the beginning of the period against the backdrop of a shortage of existing home inventory.

On the other hand, looking only at Q2 period, the pace slowed somewhat in April as mortgage rates temporarily exceeded 7%, and the number of homes ordered was lower than the previous quarter. Mortgage rates have recently begun to fall, and we are working to achieve our full-year sales target of 11,675 houses.

The Company has an inventory of approximately 80,000 blocks of land, including purchased lots and optioned blocks. The Company will promote appropriate management of inventory risk by responding to changes in market conditions, such as adjusting the timing of land development and buildings starts, and acquiring carefully selected land.

Orders in the single-family homes business in Australia were significantly higher than in the previous fiscal year due to particularly favorable market conditions in Western Australia and successful campaigns in the residential property sales business.

[Slide 10] [Slide 11]

Pages 10 to 11 show quarterly trends in the US housing business. Both unit sales prices and recurring profit margins have exceeded the full-year forecast.

[Slide 12]

This is about investment and financing. The cumulative results for H1 of 2024 are JPY77.6 billion, and the cumulative results for the three-year period of the current medium-term plan are JPY256.3 billion. This represents 86% progress toward the three-year medium-term plan of JPY297 billion.

In Q2 of the current fiscal year, the main activities included the development of income-producing real estate in the US, the acquisition of Biscayne Homes, and the startup of a domestic timber business.

The above is a summary of the financial results for Q2 of the fiscal year ending December 31, 2024.

[Slide 15]

Next, I will explain our full-year forecast. As explained by Mr. Mitsuyoshi earlier, based on Q2 results and future outlook, the figures have been revised upward from those announced in Q1 results.

Net sales are expected to be JPY2,095 billion, up JPY30 billion from the previous forecast, recurring income JPY193 billion, up JPY20 billion, and net income JPY115 billion, up JPY9.5 billion.

The Company plans to increase the annual dividend by JPY15 from the initial forecast to JPY145 per share.

The exchange rate applied to the full-year forecast is the same level as the average rate for the period from January to June applied to Q2 results.

[Slide 16]

I'll explain by segment.

The recurring profit forecast for the Timber and Building Materials Business has been revised based on the results through Q2. Despite the positive impact of improvements in overseas manufacturing business and the ongoing depreciation of the yen, recurring profit is expected to be at the same level as the previous fiscal year due to difficult market conditions in the sales of wood and building materials, including a 31st consecutive month YoY decline in owner-occupied housing starts in Japan.

In the Housing Business, orders for custom-built detached houses have been favorable, but this has not offset the decline in the number of units ordered in the previous fiscal year, and the number of units sold is expected to decline. On the other hand, we have left the net sales forecast unchanged and revised the recurring income forecast upward in light of the higher profit margin due to the effect of price revisions.

The construction and real estate business raised both net sales and recurring income, mainly due to growth in the single-family homes business in the United States.

[Slide 18]

The breakdown is shown on page 18. The number of units sold by the US housing company has been revised downward, but the Company expects growth in unit prices and profit margins.

On the other hand, the downward revision for the US real estate company takes into account the possibility of a delay in the timing of the sale, taking into account the impact of the current increase in cap rates and other factors.

In the FITP business, we have revised our targets for both net sales and recurring income due to the impact of market conditions in the office and multifamily housing sectors.

The Australian housing company revised upward due to growth in unit prices and profit margins, but the number of units sold has been revised downward due to a lack of construction starts caused by bad weather and other factors.

In the Environment and Resources Business, recurring income has been revised downward, factoring in the poor performance of the forestry business and the decline in profitability of the Biomass Power Generation Plant due to soaring fuel prices.

[Slide 17]

This is the forecast for orders and sales in the domestic Housing Business. In Japan, both orders and sales forecasts have been revised. Although the custom-built detached houses business is facing a tough business environment, product strategies and sales measures are maintaining strong performance, which is raising the number of orders received.

On the other hand, the number of units sold has been revised as it was not enough to absorb the impact of the decrease in the number of units ordered in the previous fiscal year. However, gross profit is expected to exceed the forecast as the effect of the price revision will absorb the impact of the decrease in the number of units sold.

[Slide 19]

This is the order sales forecast for the global single-family homes business and construction business. The number of units sold in the US single-family homes business has been revised back to 11,675 units, but unit prices have increased even in local currency terms, leading to an upward revision of the sales value.

Although the number of units sold in Australia has been revised, the sales amount is expected to be higher than expected based on higher unit prices.

[Slide 20]

Finally, ROE is on a declining trend, partly due to an increase in foreign currency translation adjustments caused by the weak yen, but we will strive to improve profitability by executing appropriate investments with an eye to the future, with a target of 15% in mind.

This concludes the explanation. Thank you very much.

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