Sumitomo Forestry Group

Financial Results for the Fiscal Year Ending December 31, 2024

Conference Call with Analysts and Institutional Investors －Transcript

3Q FY12/2024 Financial Overview and FY12/2024 Forecast

Time and date: 16:30‐17:30, Thursday, October 31, 2024

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

[Slide 3] [Slide 4]

This is a summary of today's points.

First of all, in the US single-family homes market, while there has been a period of shortage of housing starts in the US since the Lehman shock, the population has continued to increase, and the housing demand is expected to remain firm, especially against the backdrop of an increase in the population of home-buyers among the so-called Gen Z and Millennials.

Therefore, although the housing business may be affected in the short term by factors such as the level of mortgage rates, which are influenced by changes in policy interest rates and other factors, and economic trends, we expect the housing business to continue to grow continuously over the medium to long term.

In Q3, the Group continued the high level it had maintained through Q2 in terms of unit price, profit margins, and the number of units sold, with the profit margins, in particular, far exceeding both the results for the same period last year and the full-year forecast.

The volume of existing homes in circulation remains low, and demand for new homes remains relatively strong.

With regard to orders, mortgage rates had been on a downward trend since mid-July but turned upward again at the end of September, with no clear direction and a wait-and-see attitude as customers became more cautious about making home-purchase decisions due to expectations for lower interest rates in the future.

Although this wait-and-see attitude is continuing at present, we expect this trend to subside once the outlook for mortgage rates stabilizes, and we will maintain the housing supply system of each group company so that we can capture firm demand at that time.

In addition, through the FITP business, we aim to capture demand from builders outside the Group and at the same time increase earnings through group synergies such as reducing construction times.

In the US real estate development business, in addition to still high financing costs, the expected yields demanded by investors, or so-called cap rates, have also become higher, making it persistently difficult to raise the selling prices of the real estate properties to be developed and sold.

Despite such circumstances, leasing of rental multi-family housing, which the Group mainly handles, has been generally strong for properties originated against the backdrop of a housing shortage in the US. It is our policy to carefully assess the terms of sales and timing before making sales decisions so that we can sell the property on better terms.

In the Australia single-family homes business, profit margins have improved as cost increases have stabilized and construction delays, caused by delays in administrative procedures and other reasons, are being resolved. In addition, Western Australia continues to see strong orders and the market as a whole is showing signs of gradual recovery.

As announced at the end of last month, September, the addition of Metricon, Australia's top builder, to the Group through M&A will broaden the scope of its business areas and product mix together with existing group companies and is expected to make it the leading corporate group in the Australian housing market. In the Australian market, which is expected to continue to grow, we intend to make it the second pillar of earnings after the US.

In Japan, the business environment remains severe with a continued decline in the number of housing starts for owner-occupied houses. Amid these conditions, our order homes have successfully won orders covering an extensive price range, from the high price range to around JPY35 million.

In addition to improved profit margins due to the effect of price revisions implemented starting with properties ordered in 2021, our high value-added proposals such as ZEH have contributed to continuous increases in unit order prices and unit selling prices.

The full-year forecast remains unchanged from the revised figure announced at the time of the Q2 results announcement, taking into account that sales in the mainstay US single-family homes business are generally progressing as expected.
Although actuarial differences related to retirement benefit obligations are currently trending positively against profits, they have not been factored into the full-year forecast.

[Slide 6]
Consolidated results for the first nine months of the fiscal year.

In Q3, Although the exchange rate swung toward a higher yen than the anticipated level, an increase in the number of units sold, higher unit sales prices, and improved profit margins in the US single-family homes business resulted in a 21% YoY increase in net sales to JPY1,492.3 billion, a 43.5% increase in recurring income to JPY142.9 billion, and a 34.1% increase in net income to JPY85.6 billion.

[Slide 7]
Performance by segment.
In the Timber and Building Materials Business, while the performance of overseas manufacturing business, particularly an Indonesian building materials manufacturing company, recovered, the sales volume of timber and building materials was sluggish due to a decline in the number of new housing starts. Net sales increased but income decreased YoY.

In the Housing Business, sales declined in the mainstay custom-built detached housing business, as the number of spec homes sold declined due to a small backlog of orders received at the beginning of the fiscal year, which resulted from a decrease in the number of houses ordered in the previous fiscal year. In addition to higher value-added products such as ZEH, unit prices increased due to the effect of price revisions implemented in the previous fiscal year. In addition, the soaring prices of materials such as wood have settled down, resulting in secured profit growth, with a decrease in sales and an increase in income.

In the Global Construction and Real Estate Business, the mainstay US single-family homes business reported an increase in revenue due to higher unit sales prices and an increase in the number of units sold. In terms of profit, in the US single family homes business, we were able to secure a profit margin that exceeded our initial projection despite aggressive sales promotion incentives for a market that slowed down in H2.
In addition, the Australian housing business was able to improve its profit margin as a result of price adjustments and cost increases finally subsiding.

In the Environment and Resources Business, net sales increased YoY due to higher fee revenue from the forestry fund and higher sales volume at overseas forest companies, but net sales increased and income declined mainly due to a drop in profit margins caused by soaring fuel costs for fuel chips pellets and other products in the biomass power generation business.

[Slide 8]
This is the change in recurring income by segment excluding the effect of foreign exchange rates.
Of the JPY43.4 billion increase in income, foreign exchange effects were positive JPY11.1 billion, and the global construction and real estate business accounted for most of the remaining JPY32.3

billion, covering the negative effects in the Timber and Building Materials Business and the environment and resource business, etc.

[Slide 9]
Page nine shows orders and sales in the domestic housing business. Orders for custom-built detached houses increased YoY on both unit and monetary basis. In addition to an increase in the number of high-unit-price properties by taking advantage of our high proposal capabilities, we focused on sales promotion of the planned product line, "Forest Selection," in the price range of around JPY35 million, which we have struggled with in the past, and were able to increase the number of units ordered.
In addition to the effect of price revisions, as a result of efforts to promote high value-added housing, such as sales expansion of ZEH housing, the unit price for orders received increased 6.3% YoY to JPY44.5 million.
Although the number of houses sold in the current fiscal year fell YoY due to a drop in the number of units ordered in the previous fiscal year, the unit price rose due in part to the effect of price revisions.
Gross profit to net sales ratio for the housing business on a non-consolidated basis improved by 1.3 percentage points YoY to 24.6%, due to higher unit sales prices and flat material and other costs.

[Slide 10]
The situation in the Global Construction and Real Estate segment.
The US single-family homes companies performed well, with the number of units sold, unit selling prices, and profit margins all exceeding those of the same period of the previous fiscal year.

The US real estate companies reported an increase in both revenue and income due to the sale of four development properties this fiscal year, compared to no property sales until the end of Q3 of the previous year, and the addition of fee revenue from JPI, which was made a group company last October.

Australia housing companies reported significant gains in Q3, with net sales up 11.8% YoY to JPY112.1 billion and recurring income up 207% YoY to JPY8.5 billion, as cost increases have subsided and the prolonged construction time has begun to normalize.

[Slide 11]
Orders received by the US housing companies for the first nine months of the fiscal year totaled 8,423 units, up 1.6% YoY.
As shown on page 12, in this quarter, the number of units ordered per quarter has gradually declined from the strong Q1.

This is partly due to seasonality, but we believe the main reason is an increase in the number of wait-and-see customers who want to ascertain the trend of mortgage rates. Mortgage rates had been relatively stable since the beginning of the year, but began to rise noticeably in mid-April and remained at high levels.
Although it gradually declined from July to September, it has been difficult to find a sense of direction, with the market rising again in October, linked to the firm economic situation in the US at present.
Although customer activity continues to be easily influenced by current interest rate trends, we believe that demand itself is still accumulating, and the Group intends to continue to expand its business.

The land inventory, including purchased lots and optioned blocks, continues to be approximately 80,000 blocks. We will continue to manage inventory risk appropriately in response to changing market conditions by adjusting construction schedules, utilizing options, and carefully selecting new acquisitions.

The above is a summary of the financial results for Q3 of the fiscal year ending December 2024.

[Slide 16]
Consolidated and segment results remain unchanged from the previous forecast.

[Slide 18]
This is the forecast for the domestic housing business.
We will promote strategies tailored to the characteristics of each area to capture further orders, ranging from around 35 million yen utilizing Forest Selection to the high-price bracket.

The gross profit margin of the housing business on a non-consolidated basis improved to 24.6% in cumulative Q3. We will continue our efforts to improve profit margins.

[Slide 19]
This is the forecast for the Global Construction and Real Estate Business. The US housing companies sold 11,675 units for the full-year. Currently, the environment for orders lacks momentum, but as I mentioned earlier, we believe that demand is structurally solid. Therefore, our current policy is to meet that demand by holding a certain amount of spec homes, or so-called built-for-sale homes, while keeping a firm grasp on demand.

The US real estate companies currently plan to sell six properties in Q4 and 10 properties for the full-

year.
The number of sales has been revised from the previous forecast of 11 for the full-year in consideration of market conditions. Both of these changes are due to the effect of changing the timing of the sale to the next fiscal year after discussions with the JV partners, with the aim of achieving better conditions for the sale.

[Slide 21]
I would like to add a supplementary note regarding the acquisition of Metricon.

[Slide 22]
Last month, we announced the acquisition of a 51% stake in Metricon, Australia's largest home builder. In addition to the single-family homes business in the US, which is the main earnings driver for the Group, we will expand our housing business in Australia to build a stable portfolio of overseas businesses.

Australia's population is growing due to immigration policies and is expected to increase to approximately 30.9 million by 2034. On the other hand, housing supply is insufficient for the growing population, and stable housing demand is expected in the future. Currently, delays in administrative procedures and shortened construction time that have occurred since the COVID-19 pandemic are improving.

In addition, rising housing prices are driving demand for more affordable housing.

[Slide 23]
Metricon is mainly engaged in the order home business in the eastern states of Victoria, Queensland, and New South Wales, which make up about 80 percent of Australia’s total population, and in South Australia. Metricon ranks first in Australia with a housing start scale of approximately 3,900 units per year. They have established high brand strength in each of the areas in which they operate, and their product lineup ranges from first-time home-buyers to luxury brands.

In recent years, they have been expanding their product lineup to meet the demand for rebuilding in existing urban areas and to respond to rising housing prices, including townhouses, social housing, and affordable housing, and they are also developing business areas that our existing subsidiaries do not own.

In addition, the custom-built housing business is the mainstay of the company's business, which is cash-first and highly cash-efficient. This is another feature.

Through the acquisition of Metricon, we aim to further increase our market share by expanding the range of products and areas of operation in Australia.

[Slide 24]
With the acquisition of Metricon, the Company group will achieve more than 7,000 housing starts a year for single-family homes in Australia, achieving the sales target of 5,500 units for 2030 set in the long-term vision six years ahead of schedule.

Going forward, we intend to incorporate Metricon's functions into the entire group and pursue group synergies, including reductions in material procurement costs. The Group's new goal is to double the initial planned target and supply 10,000 units per year by 2030 in Australia. At the same time, we will work to solve the housing shortage, a longstanding social issue in Australia, by providing high-quality housing that forms the core of people's daily lives.

This concludes the explanation. Thank you very much.

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