Sumitomo Forestry Group
FY12/2025 First Quarter Financial Results
Conference Call with Analysts and Institutional Investors – Q&A

Time and date: 10:30 a.m. – 11:25 a.m., Thursday, May 1, 2025
Answers: Nobuyuki Otani, Director, Managing Executive Officer, Sumitomo Forestry Co., Ltd

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Q

Could you provide an update on the current status of orders and the RI/net sales ratio in the U.S. single-family home business? Orders in the first quarter were down 10.2% year-on-year, indicating a slow start – do you think you will be able to catch up? Also, while the first quarter RI/net sales ratio was 15.4%, down 2.5 percentage points year-on-year, it still exceeded the full-year forecast of 14.4%. Are you taking a wait-and-see approach by cautiously applying incentives rather than actively using rate buy-downs to promote sales?

A

Although orders in the first quarter were down 10.2% year-on-year and the overall environment is challenging, the result is not extremely poor. We believe that demand will remain sluggish unless there is greater clarity in the policy direction and the economic outlook going forward. Even amidst this uncertainty about the future, we are proceeding with housing starts and maintaining a certain level of spec inventory, so we are prepared to ramp up sales as soon as the economic situation improves.

As for the RI/net sales ratio, we formulated the 14.4% plan with the expectation of rising land prices, including development costs, but the current situation is not worse than anticipated. As for rate buy-downs, we have not significantly increased them. While there are regional and company-specific differences, the overall utilization rate is slightly above 40%.

Q

In the U.S. real estate business, only one property was sold in the first quarter, and recurring income was negative ¥2.4 billion. I believe the full-year plan assumes 20 property sales on the premise that mortgage rates will remain elevated. Could you share your outlook for the future?

A

While property sales are heavily impacted by mortgage rate trends, we believe that pent-up demand is increasing. While current business performance continues to be challenging, we are moving forward with leasing activities so that we can sell properties at the optimal timing once the market recovers. As for new projects, while paying careful attention to market conditions we are building a pipeline to ensure that we can continuously supply high-quality properties to the market.

Q

The profit margin in the domestic custom-built detached housing business improved in the first quarter. Could you share your thoughts on the initiatives contributing to the improved profit margins and on the outlook for profit levels going forward?

A

In the domestic custom-built detached housing business, the effects of past price revisions have contributed to improved profit margins, and order unit prices are also on an upward trend. On the sales strategy side, we have strengthened our approach to the high-end price range through the Grand Estate Design Project, and we have also focused on expanding sales in the volume zone – the range of ¥30 million or above – through our semi-customized "Forest Selection" products. As a result, both unit volume and unit prices have remained steady. We are currently targeting a full-year gross profit margin of 24.3%, and there is potential for us to exceed the plan.

Q

The Australian housing business has shown significant year-on-year growth, thanks in part to the effects of the Metricon acquisition. What are your thoughts on the outlook going forward, including the potential for upside?

A

We acquired Metricon in November 2024. At the time of the acquisition, Metricon was having significant struggles in terms of profitability when compared to its historical performance, but currently both its orders and sales are exceeding the plan. Appropriate price revisions reflecting the surge in material and labor costs have been effective, profitability is gradually returning to its original level, and there is potential for profits to exceed the initial plan. In addition, our existing Group companies in Australia have also increased both orders and units sold compared to the same period last year. Going forward, leveraging our expanded business foundation following the Metricon acquisition, we aim to further improve performance by generating synergistic effects, such as through joint procurement of materials.

Q

The U.S. single-family home business recorded a RI/net sales ratio of 15.4% in the first quarter, exceeding the plan of 14.4% for this fiscal year. Could you share your outlook for the first and second halves of the year, and whether there are any factors that could cause results to fall short of the plan going forward?

A

The full-year plan for a RI/net sales ratio of 14.4% was formulated with assumptions that included rising land and construction costs. At present, we believe that the direct impact of additional tariffs on our performance is limited, and we consider the likelihood of the RI/net sales ratio falling significantly below plan to be low. However, if the U.S. economic situation leads to continued and prolonged disruption and stagnation in the housing market, then it is possible we may consider measures such as lowering selling prices.

Q

What specific short- to medium-term synergies do you expect from integrating DRB and Brightland?

A

The two companies that we integrated are both builders operating multiple branches across several states, whereas our other three companies each closely focus on their respective regions. By integrating these two companies that have minimal overlap in business areas, our goal is to have the integration generate short- to medium-term synergies such as reducing indirect costs, including system-related expenses, and enhancing procurement capabilities. Post-integration, the combined company will rank approximately 16th in the U.S. market, which will allow us to reduce procurement costs through greater scale. In addition, we plan to expand the FITP business – which currently covers around 20% of DRB's properties – to Brightland as well, in order to drive further Group-wide synergies.

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The first quarter results for average selling price in the U.S. housing business started off above the full-year plan – what is your outlook going forward? You mentioned that the rise in the average selling price in the first-quarter was mainly due to fewer sales of relatively lower-priced homes in Texas. Are there any other regional factors contributing to this? Also, could you once again share your views on price reductions?

A

The average selling price in the U.S. housing business for the first quarter exceeded that of the same period last year, which was because, in relative terms, the proportion of our sales in higher-priced areas such as Seattle increased due to a decline in sales volume in comparatively lower-priced areas like Texas. However, this does not mean that home prices are trending upward across the U.S. housing market as a whole. As for price reductions, while we may implement them in the future, they can have a significant impact on the market and on customers. Therefore, we are currently choosing to promote sales through rate buy-downs.

Q

Could you explain the rationale behind maintaining the full-year forecast for FY12/2025?

A

Regarding the full-year results forecast, while the domestic housing business and the Australian housing business may exceed our plans, we believe that results for the U.S. housing business will be heavily influenced by mortgage rate trends. Additionally, there is a great deal of uncertainty around the business environment going forward, including from various policy developments under the Trump administration. We expect that we will be able to provide an updated outlook on the full-year forecast when we announce our second-quarter financial results.

Q

Regarding U.S. policies, there has been talk of income tax cuts, and some expect inflation to accelerate even further. In such a case, do you anticipate a surge in last-minute demand? Or, if inflation occurs, do you believe that rising mortgage rates would have a greater impact on home purchases than the benefits of tax cuts?

A

While it is important to carefully assess the likelihood of income tax cuts being implemented, we believe that the impact on our short-term business performance would be minimal because it would take a certain amount of time for such measures to take effect. Housing affordability is determined by three factors: home prices, mortgage rates, and incomes. Among these, we recognize that rising mortgage rates have the greatest impact.

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Could you comment on the impact of tariffs on wood and non-wood materials? Also, what is your view on the potential impact of the forced deportations of undocumented immigrants?

A

Regarding tariffs, about 20-30% of wood consumed in the U.S. is imported from Canada. However, under the USMCA* framework, wood products are excluded from the recent tariff increases, so we believe that the impact on our results will be minimal. Even if tariffs were to be imposed on Canadian wood, U.S. domestic sawmills have excess capacity, and we believe the supply could be covered with U.S.-produced wood. As for gypsum board imported into the U.S. from Mexico, it is also covered under the USMCA and is exempt from tariff increases. In cases where parts used in equipment are imported from China or other countries, there is a possibility of higher costs or delivery delay for parts and materials, but we expect that there would not be a large impact on our business performance. Regarding the forced deportation of undocumented immigrants, at this time we believe it is unlikely that the U.S. government would move forward with such policies on a large scale, as they would exacerbate the labor shortage in the country.

*The United States-Mexico-Canada Agreement (USMCA), a free trade agreement between the U.S., Mexico, and Canada.

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