Sumitomo Forestry Group

Financial Results for the Fiscal Year Ending December 31, 2025

Conference Call with Analysts and Institutional Investors －Transcript

1Q FY12/2025 Financial Overview and FY12/2025 Forecast

Time and date: 10:30‐11:30, Thursday, May 1, 2025

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

Good morning, everyone. My name is Nobuyuki Otani. Thank you for taking time out of your busy schedules to attend this briefing. I would now like to explain the overview of our financial results for the first quarter of FY2025 and our full-year forecast.

[Slide 4]
Please take a look at slide 4. This slide summarizes the key points of today's presentation.

First, regarding the U.S. single-family home market, sales lacked momentum as homebuyers continued to maintain a wait-and-see attitude due to persistently high mortgage rates and uncertainty surrounding the outlook for the U.S. economy stemming from various economic policies under the Trump administration.

The U.S. housing market has structurally solid housing demand driven by population growth and a shortage of housing, particularly among the homebuying demographic known as Generation Z and Millennials, and our fundamental view is that the market will continue to grow in the future.
While the market is in a difficult phase at the moment, we believe that demand will recover once the outlook for the economy, including for financial markets, becomes clearer.

Against this backdrop – and as noted in the latter part of the materials under the "Topics" section – on March 28, we carried out a reorganization in which Brightland Homes, one of our five major U.S. housing subsidiaries, was placed under the umbrella of DRB, another of our major subsidiaries. As I will explain later, the objective of this reorganization is to improve overall efficiency and enhance profitability.

Next, in the U.S. real estate development business, financing costs remain high, and investors' expected yields, or cap rates, are also high, making it difficult to conclude transactions between buyers on the sale of developed properties.

On the other hand, leasing of rental apartment complexes, which is the main focus of our Group, has generally remained firm. As such, we will carefully assess timing and other sale conditions in making decisions regarding sales of properties.

As for the Australian housing business, the upward pressure on costs has somewhat eased, and profit margins have been improving through measures such as price increases. In addition to strong order performance continuing in Western Australia, Metricon, the industry-leading home builder that became our subsidiary last year, has been steadily increasing both orders and sales, achieving profit margins that exceed expectations.

Meanwhile, in Japan, although the business environment remains challenging due to the continued decline in the number of owner-occupied housing starts, our custom-built detached housing business has succeeded in raising the unit prices, such as by increasing adoption rates for ZEH, and in increasing the number of orders. We have also been able to secure a wide range of orders, from high-end price ranges to those around ¥35 million.

As for the impact the Trump administration's policies on the U.S. housing and real estate business, many housing-related items from Canada and Mexico, including wood, will be exempted from both additional tariffs and reciprocal tariffs under the United States-Mexico-Canada Agreement (USMCA). As a result, we believe that the impact to date has been limited.

Regarding our full-year results forecast, the future business environment is extremely uncertain and we have therefore left our initial plan unchanged at this time.

[Slide 5]
Now, please take a look at slide 5. This slide shows our consolidated results for the first quarter.

In the first quarter, while the acquisition of Metricon, Australia's largest home builder, contributed to higher sales, we also made upfront investments such as increasing personnel for business expansion. As a result, net sales rose 12.8% year-on-year to ¥511.6 billion, while recurring income declined 3.6% year-on-year to ¥37.3 billion, and quarterly net income attributable to owners of the parent decreased 5.9% year-on-year to ¥20.2 billion. The impact of foreign exchange on recurring income was a positive ¥0.6 billion.

[Slide 6]
Moving on, slide 6 shows performance by segment.

In the Timber and Building Materials business, sales volume of building materials in the domestic distribution business was sluggish due to a decline in new housing starts. Additionally, cost increases and lower sales volume in the manufacturing business led to a decrease in both sales and profits.

In the Housing business, sales and profits increased as a result of higher unit volume, unit prices, and profit margins in the custom-built detached housing business, supported by strong orders received in the previous year.

In the Global Construction and Real Estate business, sales increased due in part to newly consolidating Metricon in the Australian housing business. However, in the U.S. single-family homes business, profits declined due to a decrease in the number of units sold, lower profit margins caused by rising costs such as for land, and an increase in personnel as an upfront investment.

In the Environment and Resources business, both sales and profits decreased due to lower export volume and unit prices for wood exported to Asia in the forestry business, as well as due to increased repair costs in the biomass power generation business.

[Slide 7]
Next is the order and sales status for the domestic housing business. Please take a look at slide 7.

Sales of custom-built detached houses increased to ¥87.8 billion, up 7.5% year-on-year, as unit prices rose and the number of units also exceeded the previous year's level, supported by a high order backlog at the beginning of the period following strong orders in the previous fiscal year. In addition, the detached spec homes business and rental apartment business also grew, thanks to strengthened land acquisition strategies, while the renovation business, which focuses on proposals to existing Sumitomo Forestry customers, also saw an increase in sales. Orders for custom-built detached houses exceeded the previous year in both unit price and volume, driven by expanded orders in the high-end price range through our strengths in design and proposal capabilities, including the Grand Estate Design Project, as well as increased orders in the volume zone – around ¥35 million – through the semi-customized "Forest Selection" product.
Furthermore, as we were able to control cost of sales and SG&A expenses relative to the rise in unit prices, the segment's RI/Net sales ratio improved by 2.6 percentage points year-on-year to 6.1%.

[Slide 8]
Please look at slide 8, which shows the results for the Global Construction and Real Estate business.

In the U.S., the housing market faced heightened uncertainty about the future as mortgage rates remained elevated at around 7%, and policies introduced by the Trump administration – which took office in January – such as tariffs, caused disruptions within the country. The housing demand season,

which typically gains momentum from late February, continued to lack the usual level of activity.
In the real estate development business, financing conditions have remained tight, and persistently high cap rates made it difficult to proceed with property sales. Although one property was sold during the first quarter, recurring income was in the red.
In the FITP business, while there was an increase in sales due to expanding our facilities, both unit volume and unit price declined due to sluggish housing starts for both single-family and multi-family homes. In addition, profitability deteriorated due to rising costs and increased upfront investment expenses.

In Australia, newly consolidating Metricon made a significant contribution, and existing Group companies also saw substantial improvements in profit margins. As a result, both net sales and recurring income significantly exceeded the previous year.

[Slide 9]
Next, please look at slide 9. This slide outlines the status of the Global Single-Family Home business.

In the U.S. single-family home business, the number of units ordered fell short of the previous year's results due to a decline in homebuying sentiment stemming from growing uncertainty about the future. In the first quarter of last year, mortgage rates had just come down from nearly 8% to the 6% range after the beginning of the year, which resulted in a strong rebound, and this makes the decline in this year’s first-quarter results appear more pronounced in comparison. While seasonal factors played a role to some extent, when compared to quarterly order results from previous years, we believe performance this quarter was solid given the challenging environment. The cancellation rate also remained low, indicating a healthy situation.

On the other hand, the number of units sold in the U.S. single-family home business fell short of the previous year's results due to the deteriorating business environment.
The average home price rose 6.2% year-on-year to $504,000. This was primarily due to a decrease in the proportion of homes priced in the low $400,000 range in areas such as Texas. On the profit side, increases in SG&A expenses due to upfront hiring for business expansion, along with rising land and other costs, led to a RI/Net sales ratio that was approximately 2 percentage points below the same period last year.

We currently have approximately 80,000 lots, including both owned and option lots. We will continue to appropriately manage inventory risk in line with market conditions through measures such as adjusting land development schedules, taking down option lots, and carefully making new acquisitions.

In the Australian single-family home business, the number of units ordered increased significantly due to consolidating Metricon, which became a subsidiary in November of last year, as well as increased orders from existing Group companies.
Sales also grew due to consolidating Metricon, and profit margins steadily recovered as cost increases began to ease compared to previous levels. As a result, we achieved a RI/Net sales ratio exceeding the level of the full-year plan.

[Slides 10-11]
Slides 10 and 11 show quarterly trends in the U.S. single-family home business, so please refer to those slides for the trends.

[Slide 12]
Slide 12 summarizes the performance of the Timber and Building Materials business, as well as of the Environment and Resources business.
In the Timber and Building Materials business, we made progress in efforts such as increasing the volume of wood fuel handled for domestic biomass power generation, where there is high demand. However, due to the continued stagnation in housing starts, overall distribution of wood and building materials struggled to gain traction.
We will continue working on initiatives such as the timber industrial complex business and solutions geared towards small- and medium-sized contractors, including JUCORE Estimations and structural design services through Home Express.

In the Environment and Resources business, various fee income was recorded in line with progress in securing forest land for the forestry fund, but sales and profits in the forestry business were sluggish due to factors such as sluggish timber exports to Asia due to the slowdown of the Chinese economy.

[Slides 13-14]
Slides 13 and 14 present a comparison of the balance sheet with the end of the previous fiscal year.
Total assets amounted to ¥2,205.8 billion, a decrease of ¥55.3 billion from the end of December 2024. However, the foreign exchange impact from the stronger yen accounted for a ¥81.4 billion decline, so excluding that, there was a net increase of ¥26.1 billion.
On the liabilities side, short- and long-term borrowings increased by ¥34.7 billion, while on the net assets side, the foreign currency translation adjustment account decreased by ¥46.7 billion.

[Slide 15]
Slide 15 shows the trends in our target indicators: equity ratio, ROE, and net D/E ratio.
The equity ratio, which reflects financial stability, stood at 39.7%, maintaining our target level of 40%. The net D/E ratio, an indicator of financial discipline, was 0.5 – also within our target of below 0.7.

We will continue to manage our business in a way that improves efficiency while maintaining financial soundness, and will aim to achieve the goals of the Medium-Term Management Plan that we started this fiscal year, as well as our long-term vision toward 2030.

This concludes the overview of our financial results for the first quarter of FY2025.

[Slides 17-21]
Slides 17 through 21 cover our full-year forecast. For consolidated performance, segment performance, and domestic and overseas housing orders and sales projections, we have maintained our initial forecasts across the board.

[Slides 20-21]
Slides 20 and 21 provide a summary of the housing businesses in the U.S. and Australia.
The U.S. housing business, which has a significant impact on overall performance, had a slow start relative to the plan. We view this as a transitional period associated with the launch of the new U.S. administration, and we believe that the current uncertain market conditions will eventually reverse, allowing the market to regain its underlying strength. To avoid falling behind when that time comes, we will continue making thorough preparations to ensure we achieve our targets.

[Slide 23]
Please take a look at slide 23. This slide highlights a key topic: the integration of our U.S. single-family home builder subsidiaries, DRB and Brightland Homes, which was announced on March 28. Among our U.S. home builder subsidiaries, DRB operates 11 branches and Brightland operates 8, both maintaining an extensive branch network, and, through their integration, we will form a home builder with a total of 19 branches – ranking approximately 16th nationwide in scale. By promoting management efficiency through this integration, we aim to enhance profitability and drive further business expansion.
Specifically, we plan to strengthen the management structure by expanding regional management functions, reinforce procurement capabilities through increased scale, and reduce costs through system integration.

[Slide 24]
Finally, slide 24 lists the major IR-related external announcements that we made between January and March of this year. Please refer to this page as supplementary information.

At present, the global political and economic landscape is highly volatile, making it extremely difficult to forecast the future. In particular, the excessive tariff measures imposed on other countries by the Trump administration in the U.S. are further deepening uncertainty around the world, including for the U.S. economy.

Given that our Group's performance is heavily influenced by the housing and real estate business in the U.S., it is difficult to make precise projections, including exchange rate fluctuations. However, we aim to enhance our corporate value by taking the necessary strategic actions from a medium- to long-term perspective.

That concludes today’s presentation. Thank you very much.

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