Sumitomo Forestry Group
Financial Results for the Fiscal Year Ending December 31, 2025
Conference Call with Analysts and Institutional Investors ー Transcript
2Q FY12/2025 Financial Overview and FY12/2025 Forecast

Time and date: 13:00-14:30, Friday, August 8, 2025
Briefer: Nobuyuki Otani, Director, Managing Executive Officer, Sumitomo Forestry Co., Ltd.

My name is Nobuyuki Otani. Thank you for taking time out of your busy schedules to attend this briefing today. I will now explain the overview of our financial results for the second quarter of FY2025 and our full-year forecast.

[Slide 4]
First, please take a look at slide 4. This shows our consolidated results for the second quarter.

In the second quarter, net sales increased 9.5% year-on-year to ¥1,074.8 billion thanks to the effects of the consolidation of Metricon, which we acquired in September last year. With regard to income, the slowdown in the U.S. single-family homes market alongside the increases in income for the domestic housing business and Australian housing business, among other factors, have led to a year-on-year decrease in recurring income of 5.9% to ¥87.5 billion, and quarterly net income attributable to owner of parents fell by 10.3% to ¥48.6 billion.

[Slide 5]
Next, slide 5 shows performance by segment.
In the Timber and Building Materials business, the distribution business experienced sluggish growth in the sale of building materials and timber due to a decrease in the number of new housing starts in Japan, while the manufacturing business overseas saw a drop in sales volume as well as reduced profitability due to rising electricity costs and other costs. As a result, both sales and income decreased.

In the domestic housing business, within our flagship custom-built detached housing business, the number of units sold, unit sales price, and recurring income to net sales ratio rose against the backdrop of robust orders in the previous fiscal year. In addition, strong results achieved by the renovation business and other Group businesses contributed to increases in both sales and income.

In the Global Construction and Real Estate Business, the effects of the consolidation of Metricon along with the improved profitability of existing Group companies contributed to significant growth in both net sales and recurring income of our housing business in Australia. On the other hand, the U.S. business recorded sluggish sales in the core single-family homes business, coupled with the delay in property sales in the real estate development business, among other factors. As a result, the overall segment recorded an increase in sales but a decrease in income.

[Slide 6]
Moving on, please look at slide 6, which shows the status of orders and sales in the domestic housing business.

Strong order performance for custom-built detached houses in the previous fiscal year has translated to steady construction starts. This resulted in significant growth across the figures, with the number of units increasing 6.0% to 3,755, unit sales price rising 4.6% to ¥48.1 million, and recurring income to net sales ratio going up 1.2 percentage points to 6.9%.

With regard to order status, proposals that were tailored to our customers' needs, including the high price-range Grand Estate Design Project that leverages our design and proposal capabilities, and semi-customized "Forest Selection" products and single-story houses for the mid-price market, saw both the value and units of orders received, as well as unit price, exceeding those of the previous fiscal year.

[Slide 7]
Next, please take a look at slide 7. This slide shows the results of the Global Construction and Real Estate business.

Amid a severe business environment, the U.S. single-family homes business saw a decline in recurring income to net sales ratio due to a fall in the number of units sold and the provision of incentives such as rate buydowns, resulting in a drop in both sales and income.

The U.S. real estate development business recorded a recurring income loss due to lackluster sales, amid a prolonged environment of high expected yields by investors and difficulty in closing property sales.

The FITP business made upfront investments such as expanding the business area with a view to the future, but recurring income fell due to a decline in demand amid sluggish housing starts as well as intensifying competition.

On the other hand, the Australia housing business recorded significant year-on-year increases in both sales and recurring income due to the effects of the acquisition of Metricon and improved profitability for existing Group companies.

[Slide 8]
Now, please take a look at page 8. It shows the status of the global single-family homes business and construction business.

The cumulative number of units ordered in the U.S. in Q2 decreased 11.6% year-on-year to 5,312 as customers maintained a wait-and-see attitude amid persistently high mortgage rates and an uncertain economic outlook. While the period between the first and second quarters includes the spring season, which is usually a high-demand period for housing in the U.S., the market did not show signs of a pick-up this fiscal year. As a result, orders were lower than the previous fiscal year.

We currently hold about 83,000 lots of land in our inventory, including purchased lots and option lots. Amid the challenging business environment, we are cautiously assessing the timing for land development works and construction starts while also purchasing new land with a view to the future. We will continue to carry out thorough inventory management.

Despite a slowdown in the previously strong market in Western Australia, orders for Australia's order homes business increased significantly year-on-year due to the uplift from Metricon's orders.

[Slides 9-10]
Slides 9 to 10 show the quarterly trends for the U.S. single-family homes business. Despite the severe business environment, recurring income to net sales ratio remained stable at a certain level until now.

[Slide 11]
Slide 11 shows sales and recurring income for the Timber and Building Materials business and the Environment and Resources business.

The Timber and Building Materials business saw slow growth due to sluggish sales in the distribution business associated with a decline in the number of new housing starts in Japan, an increase in costs in the building materials manufacturing business overseas, and other factors.

In the Environment and Resources business, profitability declined due to factors such as rising fuel costs in the biomass power generation business, in addition to sluggish sales in the forestry business.

[Slides 12-13]
Slides 12 to 13 show our balance sheet as of the end of Q2. Total assets decreased by ¥13.9 billion from the end of December 2024. However, as the impact of the stronger yen contributed to a decrease of ¥122.6 billion, the effective increase was about ¥100 billion. With regard to liabilities, interest-bearing debt increased ¥57.8 billion, and for net assets, foreign currency translation adjustment was down ¥67.1 billion.

[Slide 14]
Next, please look at slide 14 concerning our investments. Cumulative investments in the second quarter of FY2025 were ¥76.2 billion. The main components included investments in real estate development in the U.S. and the acquisition of LeTech in the Housing Business.

This concludes the overview of our financial results for the second quarter of the year ending December 31, 2025.

[Slide 16]
Next, I will talk about our full-year forecast. Please look at slide 16.

As President Mitsuyoshi explained earlier, we have revised our full-year business plans downward in light of the second quarter results and future outlook. Net sales forecast is down ¥236 billion from the previous forecast to ¥2,320 billion, recurring income is down ¥35 billion from the previous forecast to ¥170 billion, and net income is down ¥27 billion from the previous forecast to ¥96 billion.

Note that the exchange rate used in the full-year forecast is the same as the average rate for the period from January to June used in the second quarter financial results.

[Slide 17]
Slide 17 shows the forecasts by segment.

For the Timber and Building Materials business, we expect the forecasts for sales and recurring income to fall below the forecasts to date in light of the second quarter results and expectations that the market environment will remain challenging going forward. As domestic new housing starts continue to decline year on year, the timber and building materials distribution business is expected to continue facing rough waters. Although we will keep up efforts to improve performance in the overseas building materials manufacturing business in the second half of the fiscal year, results are expected to fall short of the initial forecast.

In the Housing Business, forecasts for both sales and recurring income were raised with the expectation that we will be able to continue performing above forecast in the second half of the fiscal year, thanks to strong orders in the previous fiscal year for custom-built detached housing and the steady construction of orders received this fiscal year for which work could be started early. We do not expect significant downward risks going forward for any Group companies, including the renovation business.

In the Global Construction and Real Estate business, the forecasts for both sales and recurring income were lowered in light of the slowdown in the market for the U.S. single-family homes business, and the current situation in the U.S. real estate development business. The details are shown on slide 19.

In the U.S. housing business, customer sentiment toward home purchases is weakening due to persistently high interest rates and political and economic uncertainty, and we expect competition to intensify going forward. Although recurring income to net sales ratio exceeded the initial forecast until the second quarter, we have drawn up our forecasts for the third quarter and beyond with caution as we anticipate that it will still be necessary to provide a certain level of incentives.

In the U.S. real estate development business, we anticipate expected returns to stay high and sales of development properties to remain lackluster.

On the other hand, the Australian housing business is expected to see continued improvements in profitability in addition to the effects of the Metricon acquisition. Therefore, its recurring income forecast has been revised upward.

[Slide 18]
Next, please take a look at slide 18. It shows the forecasts for orders and sales in the domestic housing business.

Orders for custom-built detached houses are expected to perform as planned in the second half of the fiscal year, with product strategies and sales measures producing results despite the severe business environment.

On the other hand, the forecast of units sold for the full fiscal year has been revised downward due to delays in starting work, resulting from the extension of the period until the start of construction since April due to the amendment to the Building Standards Act to abolish Item 4 Special Exemption. However, full-year sales and recurring income have been revised upward due to an increase in unit price.

[Slide 19]
Now, please look at slide 19 for details of the Global Construction and Real Estate Segment, as I have explained earlier with regard to the segment results.

[Slide 20]
Please take a look at slide 20 for details of the global single-family homes business.

The number of units sold for the U.S. single-family homes business over the full year has been revised from 12,740 to 10,750 in light of current market conditions. Unit price in the second quarter, on a local currency basis, exceeded the forecast at the beginning of the fiscal year, but is expected to remain generally on par with the initial forecast for the full year. With an expected increase in incentives due to sales conditions in the third quarter and beyond, recurring income to net sales ratio has been revised downward.

On the other hand, regarding the Australian housing business, recurring income to net sales ratio is expected to exceed expectations, and recurring income has been revised upward.

[Slide 21]
Due to the appreciation of the yen and increase in interest-bearing debt, equity ratio fell and net D/E ratio rose. However, we aim to make efforts to improve profitability through the implementation of appropriate, future-ready investments while maintaining financial discipline.

This concludes the explanation. Thank you very much.

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