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

Time and date: 17:00 – 18:00, Friday, October 31, 2025
Answers: Nobuyuki Otani, Director, Managing Executive Officer, Sumitomo Forestry Co., Ltd

Q

Could you tell us more about the status of the number of units ordered and sold in the U.S. housing business? What were the factors that led to the number of units ordered in the third quarter of FY12/2025 exceeding the results in the second quarter? Are there signs of improvement, such as an increase in recent visitor numbers to model homes due to falling mortgage rates? As for the full-year sales target of 10,750 units, is the company on track to achieve this goal?

A

The current order environment remains challenging, showing no clear signs of solid recovery. While orders in the third quarter were higher than in the same period last year, this was due to an exceptional reason—approximately 160 units that had previously been handled as contracted work and therefore not counted as orders, were reclassified as orders for sale in accordance with the accountant's recommendation. If this were not taken into account, orders would be slightly lower than the same period last year. We believe the target number of sales units for the full year is achievable as we also have inventory.

Q

Regarding the recurring income to net sales ratio of 12.8% for the U.S. Single-Family Homes Business in the third quarter (July-September) of FY12/2025, there were comments made in second-quarter financial results announcement about a decline to the 11% range in the second half of the fiscal year. What is the current outlook? Is there a possibility of a significant drop in the fourth quarter, or could there be an upswing in profit margins due to conservative planning?

A

We are providing incentives while monitoring market conditions, but fewer incentives were provided than anticipated. As a result, recurring income to net sales ratio for the third quarter (July-September) of FY12/2025 exceeded expectations. Since the full-year forecast remains unchanged, this would imply that recurring income to net sales ratio will decline in the fourth quarter (October-December). However, we have set an ambitious target for the number of sales units, and the amount of incentives could potentially be increased in order to achieve this target. Therefore, we have established a conservative forecast.

$\boxed{\text{Q}}$

With no clear signs of recovery for the U.S. Single-family Homes Business and mortgage rates trending downward, could you please share what measures and preparations are currently underway in anticipation of the future market recovery?

$\boxed{\text{A}}$

We are currently engaged in discussions within the company regarding next fiscal year's budget and business plan for the U.S. Single-family Homes Business. In addition to securing land with an eye toward future growth, we also plan to boost our workforce expansion efforts. Meanwhile, while we have been controlling housing starts in areas with poor housing sales this fiscal year, we will now also be advancing preparations to respond swiftly to a recovery in demand, establishing a system to enable us to begin construction at any time while remaining conscious of balancing profit margins and inventory turnover in anticipation of future recovery in demand.

$\boxed{\text{Q}}$

Concerning the U.S. Real Estate Business, the company has assessed that it is not an appropriate timing for selling given the current market conditions. Could you tell us what countermeasures the company will put in place next fiscal year?

$\boxed{\text{A}}$

We consider the U.S. Real Estate Business to be highly susceptible to interest rate levels, and we believe that lower interest rates will drive property sales. Amid a current downward trend in interest rates, we have received inquiries for multiple properties and are progressing with sales negotiations. We plan to sell nine properties this fiscal year. As for next fiscal year, we aim to build a stable revenue structure that includes fee income.

$\boxed{\text{Q}}$

With mortgage rates in the U.S. falling to the low-6% range, are there any particularly noteworthy factors aside from loan rates, such as additional tariffs?

$\boxed{\text{A}}$

Although mortgage rates have fallen in the U.S., we believe that consumer sentiment affected by concerns over the impact of tariffs and other factors on the domestic economy has a greater effect on the overall economy. We are also paying attention to immigration policy, with particular concerns that housing demand from workers in sectors such as the tech industry could decline as a result of policy decisions.

Q

Could you tell us about the factors behind the continued strong performance of the domestic housing business? Is the robust domestic stock market also a contributing factor to the strong order performance?

A

This is likely the result of customers accepting the selling points and features of Sumitomo Forestry's products, such as the Grand Estate Design Project and Forest Selection series.

Q

With a gradual increase in the number of existing homes listed for sale in the U.S., are there more cases of competing for sales with existing homes? Also, will there be any bold price cuts on housing sale prices in the future for inventory adjustment purposes?

A

Regarding the competition environment with existing homes, customers aspiring to purchase new builds often prioritize the quality of the subdivision (community), so competition is not intensifying at this point. It is true that housing sale prices have been rising sharply recently. While some major builders are advancing strategies to secure sales volume through price reductions, Sumitomo Forestry is responding based on the specific circumstances of each community.

Q

In view that it will be difficult to achieve the Medium-term Management Plan, are you considering reviewing or revising it? Are there any specific targets that the company is particularly focusing on?

A

Discussions are ongoing within the company regarding our plans for next fiscal year. This includes deliberations on how we will approach the targets for 2027. As these discussions are still ongoing, we will provide further explanations at the financial results announcement next year.

Q

Despite the falling mortgage rates in the U.S., the order environment remains challenging. Could you tell us more about the situation in each area, such as in Texas and Florida?

A

Currently, we can say that areas with relatively lower price ranges, such as Texas and Florida, are struggling. This is likely due not only to mortgage rate levels, but also to the fact that housing prices had risen significantly compared to income growth.

Q

Among major listed U.S. builders, some companies have projected profit growth of around 10% for the next fiscal year. Could you tell us what Sumitomo Forestry is discussing and planning with regard to the extent of profit growth for next fiscal year?

A

We are not currently at a stage where we can see the outlook clearly, and we believe that we should present highly reliable short-term forecasts. Therefore, we intend to announce our plans for next fiscal year after carefully assessing changes in the situation.

Q

With mortgage rates remaining persistently high in the U.S. housing market, I believe conditions are especially challenging for sales of affordable homes. However, given the robust stock market in the U.S., are there differences in sales performance by customer segments, such as stronger sales in the high-end range?

A

Affordability is fundamentally the greatest challenge in the U.S. housing market, while the wealth effect is not quite pronounced. The buyer's mindset is to determine the timing for making a purchase based on expectations of a further drop in home prices, and I believe this is having an effect on purchasing behavior.

Q

Could you share more about the factors behind the strong performance of the Australian housing business and its future continuity? What is the situation regarding improvement in Metricon's performance and synergy creation following the acquisition?

A

As our core business in Australia is the order home business, there is a lengthy period from receiving an order to delivery. For this reason, at the time of the acquisition of Metricon, inflation-driven cost increases after securing orders were having an impact on its profits. Subsequently, it has made progress in delivering unprofitable properties, and the effects of new, increased-priced contracts are beginning to materialize. The current strong performance is the result of fundamental business improvements rather than synergies, but we plan to realize synergy effects going forward.

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