

Sumitomo Forestry Group
Financial Results for the Fiscal Year Ending December 31, 2025
Conference Call with Analysts and Institutional Investors — Transcript
3Q FY12/2025 Financial Overview and FY12/2025 Forecast

Time and date: 17:00-18:00, Friday, October 31, 2025

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

Good afternoon, everyone. 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 third quarter of FY2025 and our full-year forecast.

[Slides 4, 5]

Please take a look at slides 4 and 5, summarizing the key points I will be covering today.

Firstly, the U.S. single-family homes market remains in a period of adjustment as customers maintained a wait-and-see approach, with mortgage rates remaining persistently high despite finally falling recently after peaking from the continued rise since last year, as well as heightened uncertainty surrounding the future political and economic outlook on the Trump administration's policies related to tariffs and migration.

The Group has continued advancing its strategy of using incentives to secure a certain level of orders and number of units sold even under the challenging business conditions. As a result, although recurring income to net sales ratio and number of units sold for the third quarter fell year on year, we recorded recurring income to net sales ratio of 14.4%, exceeding the projected full-year profit margin of 13.3%.

While the U.S. single-family homes market remains sluggish, the population has continued to grow even while U.S. housing starts remained persistently low for an extended period following the Global Financial Crisis. Therefore, our view is that there is structurally robust housing demand.

Regarding the U.S. Real Estate Development Business, the expected returns sought by investors—that is, cap rates—remain high. The sales prices of real estate properties for development have not risen, causing delays in property sales and prolonging the difficult situation.

The Group's core business of multi-family rental housing developments has largely demonstrated steady leasing performance against the backdrop of a housing shortage in the U.S. We will proceed with property sales by persistently negotiating with buyers to secure more favorable terms, while

cautiously evaluating the terms of sale and timing.

As for the Australian Housing Business, the easing of inflation-driven cost increases alongside widespread and firmly established price hikes have created a business environment conducive to securing appropriate profits. Furthermore, performance in Western Australia remains robust.

In November 2024, Metricon, Australia's top builder, was added to the Group through M&A. Improved profitability at Metricon and existing Group companies has led to significant increases in both net sales and recurring income, above and beyond the effects of the new consolidation.

In Japan, despite the ongoing challenging environment with a continued decline in the number of owner-occupied housing starts, the Group's custom-built wooden housing business has steadily secured orders through a system that is capable of offering proposals across a wide range of price points to meet customer needs. These range from the Grand Estate Design Project for the high-end price range to the semi-customized "Forest Selection" products targeted at the mass market.

As a result, the business maintained its strong performance with year-on-year increases in both the number of ordered units and unit price.

Regarding the full-year forecast, while conditions remain challenging for the core U.S. single-family homes business, the revised figures announced at the second-quarter earnings release remain unchanged, reflecting the continued strong performance of the Australian housing business and the domestic custom-built housing business.

[Slide 6]

Next, please refer to slide 6, which shows our consolidated results for the third quarter.

In the third quarter, net sales increased 9.5% year on year to ¥1,633.9 billion, boosted by the acquisition effect of Metricon, Australia's largest home builder, as well as an increase in sales from the robust custom-built wooden housing business. On the other hand, recurring income decreased by 9.2% year on year to ¥126.7 billion and quarterly net income fell by 17.0% year on year to ¥69.1 billion. These were due to a decline in the number of units sold in our core U.S. Single-family Homes Business, falling profit margins, as well as increases in selling, general and administrative expenses, including the addition of Metricon's expenditures and increased personnel costs for Sumitomo Forestry and U.S. housing companies.

[Slide 7]

Please look at slide 7. It shows the results by segment.

The Timber and Building Materials Business recorded a decrease in both sales and income. This was

due to a decline in sales volume and sales prices in the wooden board manufacturing business in Indonesia and Vietnam, and sluggish income growth in the domestic distribution business due to a slump in the number of new housing starts.

In the Housing Segment, despite rising costs such as an increase in building contractor expenditures within our core custom-built detached housing business, both sales and income increased. This was driven by an increase in the number of units under construction, underpinned by the strong order performance in the previous fiscal year, as well as an increase in unit price boosted by Sumitomo Forestry's unique high value-added offerings such as high-quality original materials that highlight the appeal of wood.

The Global Construction and Real Estate Segment saw year-on-year decline in both sales and recurring income. This was due to the persistent wait-and-see attitude among customers in the core U.S. Single-family Homes Business, contributing to slow growth in the number of units sold, alongside a fall in profit margins due to the proactive provision of various incentives to customers to promote sales. Meanwhile, in the Australian Housing Business, profit margins improved including for existing Group companies. This could be attributed to the consolidation effect of Metricon, Australia's top builder acquired through an M&A in November 2024, as well as strong sales performance in Western Australia and higher unit prices. As a result, the segment recorded an increase in sales but a decrease in income.

In the Environment and Resources Business, sales decreased while the margin of losses increased due to weak earnings in the global forestry business, stemming from factors such as reduced sales volume and lower unit prices in Papua New Guinea.

[Slide 8]

Slide 8 shows the order and sales status in the domestic housing business.

Regarding orders for custom-built detached houses, both sales value and number of units sold increased year on year. This was the result of an increase in properties with high unit value that leverage our strong proposal capabilities, exemplified by the Grand Estate Design Project, as well as our strengthened proposals for products in the ¥35 million price range, including semi-customized "Forest Selection" products and single-story houses. This approach has allowed us to increase average unit price while also increasing the order volume. Accordingly, average unit price increased by 1.8% year on year to ¥45.3 million, and orders received also increased by 2.3% year on year to 6,254 units. Sales reflected the strong order intake from the previous fiscal year, with sales price increasing by 4.1% and the number of units sold increasing by 4.2% year on year. Recurring income to net sales ratio also increased by 0.6 percentage points year on year to 6.5%.

[Slide 9]

Next, please look at page 9, which shows the status of the Global Construction and Real Estate Segment.

U.S. single-family homes companies continued to face a severe business environment, with both sales and profit margins declining due to factors such as a decrease in the number of units sold and an increase in incentive payments on sales.

Among U.S. real estate companies, while net sales increased on the back of an increase in fee income, persistently high cap rates made it difficult to conclude price negotiations with property buyers and hindered property sales, resulting in increased sales but decreased income.

As for Australian housing companies, sales increased significantly with the incorporation of the results of Metricon, which has been newly consolidated. Additionally, both sales and income increased significantly due to the easing of cost increases for materials and the widespread, established price hike effect, making it possible to secure appropriate profits and leading to improvements in profit margins.

[Slide 10]

Next, please look at slides 10 to 12.

U.S. housing companies received orders for 7,857 units in the cumulative third quarter, down 6.7% year on year. We believe that the main causes include mortgage rates remaining elevated at levels above the mid-6% range, and an increase in the number of customers maintaining a wait-and-see attitude amid heightened uncertainty due to the impact of the U.S. government's tariff and migration policies. Amid intensifying competition in the housing sales sector, profit margins declined due to our proactive offering of various incentives.

Our land inventory remains at approximately 80,000 lots, consisting of both purchased lots and lots under option agreement. Although the market is currently in a slump, our policy is to secure the land required with an eye to the next several years. While actively utilizing option contracts, we will also advance efforts to secure carefully selected land plots and implement thorough risk management.

[Slide 13]

Slide 13 presents the third-quarter cumulative results for the Timber and Building Materials and Environment and Resources Segments. The details are as shown.

[Slides 14, 15]

Please refer to slides 14 and 15. They show the balance sheet as of the end of the third quarter.

Total assets increased year-on-year by ¥160.8 billion to ¥2,422 billion due to an increase in real estate for sale in the U.S. Single-family Homes Business and arising from the new consolidation of LeTech

Corporation in Japan, as well as increases in investment securities in the U.S. Real Estate Development Business and in association with township development investments in Indonesia. Regarding liabilities and net assets, while interest-bearing debt increased, the foreign currency translation adjustment decreased in the net assets section due to yen fluctuations.

[Slide 16]

Now, please take a look at slide 16, which sets out the financial indicators that our company uses as benchmarks.

The chart on the left shows the equity ratio. Due to an increase in interest-bearing debt accompanying the increase in real estate for sale, and investment securities related to the real estate development business, coupled with a decrease in foreign currency translation adjustment, equity ratio has fallen below the target of 40%. The chart on the right shows net D/E ratio. While this has risen due to increased borrowings, it remains within the target range of 0.7 or below. We will continue to improve profitability by maintaining financial discipline while continuing to pursue the necessary investments.

This concludes the overview of the third quarter results for FY12/2025.

[Slide 18]

Slide 18 contains a list of the key external IR announcements made in the third quarter from July to September this year. Please use it for your reference.

[Slide 19]

Please turn to slide 19. From among the topics for the third quarter, it features and summarizes information on the capital and business alliance agreement between Sumitomo Forestry and the GEOLIVE Group, announced on August 29.

Sumitomo Forestry has concluded a capital and business alliance agreement with GEOLIVE Group. In addition to acquiring about 30% stake in GEOLIVE Group, we are strategically advancing the alliance through business restructuring, by transferring all shares of our subsidiaries (namely Igeto, Sumirin Sash, Sumikyo Co., Ltd., and Sumikyo Wintec) to GEOLIVE Group.

In the timber and building materials distribution industry, which is facing a prominent medium- to long-term decline in the number of new housing starts against the backdrop of population decline, the two companies will collaborate across the boundaries of their respective business categories as a trading company and a wholesaler, beyond merely engaging in trade intermediary and the supply of timber and building materials, with the aim of enhancing profitability and productivity across the industry.

Sumitomo Forestry completed the acquisition of GEOLIVE's shares today, October 31. Moving forward, the two companies will establish a joint Collaboration Promotion Committee, and further, advance personnel exchanges between the two companies as part of this alliance and drive the collaboration forward with a focus on the four themes outlined in the presentation materials.

[Slides 21 – 25]

Slides 21 through 25 show our full-year forecast.

Our projections for consolidated results and segment results remain unchanged from the forecast announced along with the second quarter results announcement.

As I have explained previously, this fiscal year has been impacted by a business environment that was more challenging than initially anticipated for the U.S. housing and real estate market, which is the mainstay of the Group's earnings. With regard to single-family homes, while mortgage rates have finally fallen to the low 6% range and we can say that interest rate conditions have improved, there is currently still an absence of an optimistic outlook in the market environment.

Despite this business environment, the Group aims to continue pursuing growth with a long-term perspective with an eye to the potential growth of the U.S. market. Furthermore, by implementing thorough risk management and advancing appropriate business strategies that are aligned with the market conditions, we will continue achieving growth toward achieving our long-term vision.

We ask for your continued support and understanding.

This concludes the explanation. Thank you very much.

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