Sumitomo Forestry Group

Financial Results for the Fiscal Year Ended December 31, 2021

Conference Call with Analysts and Institutional Investors －Transcript

FY12/2021 Financial Overview and FY12/2022 Forecast

Time and date: 10:30 a.m.–12:00 p.m., Tuesday, February 15, 2022

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The Sumitomo Forestry Group unified our fiscal year-end as of FY12/2020. The results for FY12/2020 are for the nine-month period from April to December, while the results for FY12/2021 are for the one-year period from January to December 2021.

For that reason, except where noted, the year-on-year comparison for FY12/2021 is made against FY3/2020, which was the fiscal year before the previous fiscal year.

In addition, we have completely revamped the format and content of the Fact Book this year. In particular, we have expanded data to include orders received, inventories and information by area so as to promote greater understanding of the Overseas Housing and Real Estate Business, which has seen its presence grow larger within our business portfolio. We hope this will foster understanding of the Group's businesses.

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This is an overview of the financial results for the fiscal year ended December 2021.

During FY12/2021, thanks to the continued favorable performance of the Overseas Housing and Real Estate Business, driven by the detached housing business in the United States, overall net sales were up 25.5% from FY3/2020 to 1,385.9 billion yen, recurring income was up 134.2% to 137.8 billion yen, and net income was up 213.0% to 87.2 billion yen, marking record high profitability.

Actuarial differences related to retirement benefit accounting are booked in their entirety as expenses at the end of each fiscal year. Actuarial differences in FY12/2021 resulted in a gain of 3.3 billion yen mainly from improvements in pension asset investment returns. Recurring income excluding actuarial differences was 134.5 billion yen, up 119.1% from FY3/2020.

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These are the results by segment.

In the Timber and Building Materials Business, income was up owing to improved selling price and profitability of imported lumber products and plywood along with domestic timber against a backdrop of a sharp rise in timber prices worldwide caused by tight supply-demand conditions.

In the Housing and Construction Business, construction in the main custom-built detached housing business progressed, and COHNAN KENSETSU, which was added to the Group this year, contributed to performance. As a result, net sales was up compared to FY3/2020. However, profit margin in the custom-built detached housing business was dampened by rising construction materials costs, mainly timber, leading to a downturn in income.

In the Overseas Housing and Real Estate Business, both the number of units sold and selling prices were up in the United States against the backdrop of a new housing market that remains strong. In addition, Crescent sold 10 real estate development properties compared to 8 in FY3/2020 and profits per property rose. As a result, both sales and income were up significantly.

In the Environment and Resources Business, sales and income were up owing to favorable performance of the overseas forestry business in New Zealand and Indonesia, along with the contribution of the Kanda biomass power generation business, an equity method affiliate which began commercial operations in June.

In Other Businesses, equity in earnings were up due to completion of the amortization of goodwill at Kumagai Gumi, resulting in increased income.

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These are the situation of the domestic housing business.

Orders received of custom-built detached houses increased over FY3/2020 in both value and number amid rush-in demand ahead of the expiration of the tax breaks on home loans, in addition to focusing on digital marketing and expanding sales of ZEH. As a result, orders received hit a new record high.

Sales were up 4.8% compared to FY3/2020 on a value basis due to an increase in construction properties.

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These are a year-on-year comparison with the period from January to December 2020, provided for your reference.

[Slide 7]
This is the renovation business.

Both orders received and construction completed declined compared to FY3/2020 in the renovation business due to the impacts of COVID-19. However, orders received and construction completed greatly improved year on year mainly on the recovery in renovation sales to owners of Sumitomo Forestry homes.

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This is the Overseas Housing and Real Estate Business.

Mortgage interest rates have recently been rising in the United States, but they are still at historically low levels, so sales remain strong at each company. Timber prices, which had been rising sharply through May, dropped sharply in June. They have been rising again recently but our selling prices remained at high levels, so both sales and income were up largely compared to FY3/2020.

In Australia, sales and income were both up compared to FY3/2020 amid progress with the sales of ordered properties boosted by government home buying subsidies and low interest rates.

Amortization of goodwill declined in Other, Consolidated Adjustments, etc.

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This provides the situation of the overseas detached housing business.

In the United States, orders received in 2021 declined year on year because orders were held back due to tight construction conditions, but the housing market remained strong, driving sales significantly higher year on year.

Our backlog of orders as of the end of FY12/2021 remained high at over 7,000 units. The combination of purchased lots and Lots under purchase contract exceeds 70,000 plots. We expect this will contribute to earnings in FY12/2022 and beyond.

In Australia, orders received in 2021 experienced a reactionary drop from the rush-in demand caused by the government’s home buying subsidies. However, sales were strong.

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This provides the situation of the US profit earning real estate development business.

In FY12/2021, we sold properties as planned, including properties for which sale was postponed due to COVID-19, and we sold some properties ahead of schedule given robust demand. As a result, 10 properties were sold, greatly contributing to earnings.

Currently, we have started construction at 42 properties, which is expected to contribute to earnings in FY12/2022 and beyond.

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Page 11 covers capital investment. Capital investment totaled 28.2 billion yen in FY12/2021. The main breakdown of these investments included US profit earning real estate development, domestic and overseas housing display centers, IT investment, and production facilities in manufacturing.

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This is the balance sheet summary.

Total assets were up 223.1 billion yen from the end of the previous fiscal year to 1,314.2 billion yen. This was mainly a result of an increase in real estate for sale in the Overseas Housing and Real Estate Business and an increase in cash deposits from the issuance of new shares, etc.

Liabilities were up 82.4 billion yen from the end of the previous fiscal year to 774.1 billion yen. This was due mainly to an increase in payables associated with rising transactional values in Timber and Building Materials and an increase in advances received from customers in the US housing business included in other current liabilities.

Net assets came to 540.1 billion yen owing to an increase in net income and the issuance of new shares through public offering and third-party allotment, and an increase in foreign currency translation adjustment from the weaker yen. The equity ratio came to 37.7%.

Furthermore, free cash flow was up significantly by 51.3 billion yen on the increase in profit.

This concludes the summary of the financial results for the fiscal year ended December 2021.

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We turn our attention to the forecast for the fiscal year ending December 2022.

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For FY12/2022, we forecast net sales of 1,524.0 billion yen, up 10.0% over FY12/2021, recurring income of 135.0 billion yen, down 2.0%, and net income of 86 billion yen, down 1.3%.

Recurring income excluding actuarial differences is forecast to total 135.0 billion yen, up 0.4%. As a result, sales and income are expected to rise over the previous year.

FY12/2022 will be the first fiscal year of the new Medium-Term Management Plan.

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These are the forecasts by segment.

With the positive impacts from soaring timber prices in the distribution business expected to wane, we will aim to maintain recurring income of the Timber and Building Materials Business at a level similar to FY12/2021 by reorganizing overseas manufacturing, which had seen its utilization rate declined due to the COVID-19 pandemic. Also, we will take steps to further promote initiatives for utilizing domestic timber, which has seen its value attract attention again due to the so-called Wood Shock.

In the Housing and Construction Business, the backlog of orders of custom-built detached houses at the beginning of FY12/2022 remains elevated at 306.3 billion yen, which is up 13% year on year, buoyed by the strong performance in orders received in FY12/2021. We believe that the impacts of higher construction costs, especially timber, will persist in 2022. Nevertheless, we will aim to increase profits year over year by steadily linking the backlog of orders with construction starts, and by working to improve profitability by raising selling prices.

In the Overseas Housing and Real Estate Business, we expect profits will decline in the United States real estate development business because of progress made with property sales ahead of schedule completed in FY12/2021, but units sold in the United States detached housing business should increase underpinned by the continuing elevated backlog of orders, while selling prices are expected to rise given robust demand in the marketplace. Rising construction costs, too, have been partially reflected in our forecast, but overall the segment is forecast to record an increase in sales and income. We will work toward greater growth in the same market following similar efforts in FY12/2021, which proved to be a banner year.

In the Environment and Resources Business, income is forecast to decline due mainly to rising fuel costs and repair costs in the renewable energy business and higher research costs for new businesses. The Environment and Resources Business is a focal point of our decarbonization efforts, which will be explained a little later in our long-term vision. We will speed up these efforts led by the Forest Carbon Sink Business Department, newly established in FY12/2022.

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These are the forecasts for orders received and sales in the domestic housing business.

Orders received for custom-built detached housing are expected to decline slightly to 8,300 units, down 4.2% over the previous fiscal year, but the number of houses sold is forecast to reach 8,340 units, which is on par with the previous fiscal year. Regarding unit prices, we expect improvements in both orders received and sales. We will continue to propose plans based on changes in customer lifestyles utilizing our design strengths, to promote digital marketing and to expand sales of ZEH.

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The renovation business is forecast to see a year-over-year increase in both orders received and construction completed as we seek to expand orders using a differentiation strategy that includes stepping up marketing targeting owners of Sumitomo Forestry homes and promoting earthquake-resistant renovations of existing home renovation utilizing our technical prowess.

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These are the forecasts for the Overseas Housing and Real Estate Business.

In the detached housing business in the United States, as I explained earlier, we forecast sales and income will both rise amid the increase in units sold. However, profit will only grow slightly due to the decline in the number of properties sold in the real estate development business.

In Australia, we forecast that recurring income will be on par with the previous fiscal year. While net sales are expected to rise substantially from construction on our backlog of orders which was boosted by government subsidies, costs, too, will rise. These include increasing construction costs, increasing headcount of sales and construction staff, and increasing advertising.

On page 19, you will see the trends of units sold, sales, and Sales unit price for the United States and Australia.

[Slide 20]
Page 20 contains performance trends for US housing companies, US real estate companies, and Australia housing companies for your reference.

[Slide 21]
Next is capital investment. The forecast for FY12/2022 is 53.9 billion yen. The main details of these investments are presented here. In addition to regular investments in US profit earning real estate development, housing display centers and manufacturing facilities, we plan to also pursue strategic investments, such as new investment in the domestic timber business.

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Finally, have a look at page 22 for P/L and various financial indicators.

The trend in net sales and recurring income is presented here. As you can see, recurring income excluding actuarial differences in FY12/2021 was more than double that of FY3/2020. We forecast that this level continue in FY12/2022.

ROE is forecast to maintain at a high level in the 16% range, despite declining compared to FY12/2021 due to an increase in shareholders' equity.

Going forward, we will continue to focus on improving profitability while striking a balance between increasing ROE and enhancing shareholders' equity.

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This concludes the briefing. Thank you.

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