

Sumitomo Forestry Group
Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2022
Conference Call with Analysts and Institutional Investors — Transcript
Second Quarter Financial Results and Full Year Forecast

Time and date: 13:30 p.m.–14:30 p.m., Wednesday, August 10, 2022

Briefer: Tatsumi Kawata, Director and Managing Executive Officer, Sumitomo Forestry Co., Ltd.

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This is the summary of financial results for Q2 of the fiscal year ending December 31, 2022. In Q2, the overseas housing and real estate business, mainly in the US, remained strong, and the timber and building materials business remained solid. Net income for the quarter was JPY49.6 billion, an increase of 70% YoY and a record high for Q2.

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These are the results by segment.

In the Timber and Building Materials Business, sales and income were up owing in part to improved profitability in the Overseas Manufacturing Business on top of increases in sales and the profit ratio in the Distribution Business resulting from soaring prices of imported and domestic timber.

In the Housing and Construction Business, overall sales were up, but income was down in the segment due to increased costs arising from timber and other material prices remaining high, despite sales growth in the main custom-built detached housing business.

In the Overseas Housing and Real Estate Business, both sales and income were up significantly. This was due in part to selling of real estate development properties on top of an increase in unit selling prices and the profit ratio in the Detached Housing Business in the United States against a backdrop of robust housing demand.

In the Environment and Resources Business, both sales and income were down overall. This was due to the impact of the termination in March of the previous year of measures to ease the drastic changes in feed-in tariffs in the Wood Biomass Power Generation Business, despite steady performance of the Forestry Business in Japan and overseas.

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These are the orders received and sales in the Domestic Housing and Construction Business.

Orders for custom-built detached housing business was down in both value and number due to such factors as a decrease in visitors to housing display centers, despite the number of material requests being on par with the previous year. Unit prices of orders were higher year on year and remained at a high level owing to such factors as an increase in the percentage of zero-energy homes. Sales were up from the previous year owing to an increase in completed housing unit prices despite some construction delays arising from material supply shortages. On the other hand, the non-consolidated gross profit ratio was down due to the impact of soaring timber and other material prices.

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This is the Remodeling and Renovation Business.

Orders were up from the previous year owing to landing orders from owners of Sumitomo Forestry houses and large-scale renovations. The amount of construction completed was also up from the previous year owing to an increase in renovation work for owners of Sumitomo Forestry houses.

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This is the Overseas Housing and Real Estate Business.

In the United States, the Detached Housing Business grew, and some property sales scheduled for the second half closed early in the Real Estate Development Business, with the selling amount higher than anticipated. As a result, both sales and income were up significantly. In Australia, sales were down due to delays in the administrative approval process and the impact of heavy rains and flooding in New South Wales and Queensland.

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This is the situation in the Overseas Detached Housing Business.

Orders for detached housing in the United States were down year on year due to limits placed on new contracts at some subsidiaries to control the risk of soaring material prices and particularly favorable performance from January to March of the previous year. However, the situation remained favorable as demand stayed strong. The number of units sold was down compared to the previous year due to delays in the supply of materials and some cold waves. The backlog of orders received increased to 7,707 units. In addition to the backlog of orders received, the number of properties on which construction is progressing without contract in order to properly reflect material prices in selling prices is around 1,500 units. As such, achievement of the full-year forecast of 11,790 units sold is mostly within reach.

Combining purchased lots and lots under purchase contract, there are more than 70,000 lots in inventory.

Orders received and sales in the Detached Housing Business in Australia were down compared to the previous year due to a decrease in the number of spec homes available for sale arising from construction delays.

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This is the balance sheet summary.

Total assets increased ¥58.9 billion from the end of the previous fiscal year to ¥1,373.1 billion owing primarily to an increase in inventory assets in the Overseas Housing and Real Estate Business.

Liabilities increased ¥20.6 billion from the end of the previous fiscal year to ¥794.7 billion due mainly to an increase in borrowings. In addition, net assets totaled ¥578.4 billion, and the equity ratio was 38.7%.

This concludes the summary of the financial results for the first quarter of the fiscal year ending December 2022.

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

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There are no changes to consolidated results from the initial plan.

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These are the forecasts by segment.

In the Housing and Construction Business, timber prices remain unexpectedly high, and we expect higher costs of timber and other materials to continue to have an impact in the second quarter and beyond, so we have revised recurring income downward.

In the Overseas Housing and Real Estate Business, full-year recurring income has been revised upward owing to an improved profit ratio in the first quarter. There are no changes to net sales or recurring income in other segments.

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Next, you will see the forecasts for orders received and sales in the Domestic Housing and Construction Business.

There are no changes to orders received from the initial plan. They were down in the first quarter, but the number of material requests remains at a high level, and unit prices are also on the rise. In April, we launched our LCCM houses, which reduce the carbon budget throughout their lifecycle by taking advantage of the wooden construction. Together with ZEH, they will lead to the acquisition of orders through unique proposals featuring advanced environmental performance and

wood designs. The gross profit ratio has been revised downward based on soaring material prices, but no change has been made to the number of units sold or the sales amount.

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No changes have been made to the forecasts in the Remodeling and Renovation Business. We will continue to focus on marketing to owners of Sumitomo Forestry houses.

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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, we reviewed the profit ratio and revised recurring income upward. Mortgage interest rates are rising, but the housing market is expected to remain strong as the number of home buyers increases, especially among Millennials and Generation Z, and the supply-demand balance remains tight against a backdrop of low inventory. It is unclear how material prices will move as timber prices continue fluctuating up and down, but the profit ratio in the second quarter and beyond is expected to be on par with the full-year result from the previous year, which was favorable.

In the Real Estate Development Business in the United States, selling prices of development properties ticked upward in the first quarter, but the full-year forecast remains unchanged as the timing of future property sales is difficult to predict.

The initial plan also remains unchanged in the Detached Housing Business in Australia.

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You will see the forecasts for the number of units sold, the sales amount, and unit selling prices in the United States and Australia. There are no changes from the initial plan.

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This concludes the briefing. Thank you.

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