Sumitomo Forestry Group
Financial Results for the Fiscal Year Ended December 31, 2022
Conference Call with Analysts and Institutional Investors －Transcript
FY12/2022 Financial Overview and FY12/2023 Forecast

Time and date: 13:30–14:30, Wednesday, February 15, 2023

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

[Slide 2]
Please review the notes on this slide at the beginning.
Effective from the fiscal year ending December 31, 2023, the construction business, which had been classified in the housing and construction segment, was transferred to the overseas housing and construction segment, and the names of both segments were changed to the housing segment and the global housing, construction and real estate segment.

Since the impact of the transfer on profit and loss is negligible, the forecast for the fiscal year ending December 2023 is compared with the actual results for the fiscal year ended December 2022 under the former segment classification.

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Now, please see page four.
This is a summary of the financial results for the fiscal year ended December 2022.
In the fiscal year ended December 31, 2022, the rise in the gross profit margin of the single family homes business in the US, and the yen's depreciation, contributed to the Group's income. Net sales increased 20% YoY to JPY1,669.7 billion, recurring income increased 42% YoY to JPY195.0 billion, and profit for the year attributable to owners of the parent increased 25% YoY to JPY108.7 billion, with the income items reaching record highs.

The Company recognizes actuarial gains and losses related to retirement benefit accounting as a lump-sum expense at the end of the fiscal year in which they occur. The actuarial gain for the year ended December 31, 2022 was JPY8.0 billion, mainly due to an increase in the discount rate used to calculate retirement benefit differences. Recurring income excluding the actuarial gain was JPY187.0 billion, a YoY increase of 39% over the fiscal year ended December 2021.

Extraordinary losses included JPY4.6 billion in windmill removal costs and other expenses associated with the cancellation of a planned wind power generation project in Tsu City, Mie Prefecture, and a JPY1.3 billion impairment loss on trademark rights associated with a name change of a consolidated subsidiary.

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Next, please see page five.
This shows the results by business segment.

In the Timber and Building Materials Business, both sales and recurring income, increased YoY due to generally high prices for imported and domestic timber, higher sales and income in the domestic distribution business, and improved profitability in the manufacturing business in Indonesia and New Zealand.

In the Housing and Construction Business, in the mainstay custom-built detached housing business, unit sales prices rose due to an increase in the ZEH ratio, the effect of price revisions, and construction progress exceeded that of the previous year, resulting in higher revenues. On the other hand, the segment as a whole posted lower income due to the significant impact of rising costs for lumber and other building materials.

In the Overseas Housing and Real Estate Business, in the single family homes business in the US, the number of units sold declined due to the impact of rising interest rates and other factors. However, the effective implementation of price hikes, while closely monitoring market trends was successful, resulting in increases in unit sales prices and profit margins. In addition, the depreciation of the yen contributed to a significant YoY increase in both sales and income.

In the Environment and Resources Business, both sales and income declined due to weak export sales in the New Zealand forestry business as a result of the slowdown in the Chinese economy, higher fuel procurement costs in domestic biomass power generation, and increased expenses related to new projects.

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Please see page six.
This shows YoY changes in recurring income by segment for the fiscal year ended December 2022.
The impact of yen depreciation worked as a positive factor worth JPY26.6 billion. Excluding this effect, recurring income increased sharply as the increase in income from the Overseas Housing and Real Estate Business offset the weakness in the Housing and Construction Business and the Environment and Resources Business.

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Please see page seven.
This shows the status of orders received and sales in the domestic housing business.
Orders for custom-built, detached houses were lower than in the previous fiscal year in terms of both

the number of houses and value, partly because the demand for detached houses generated by the COVID-19 pandemic has diminished, and partly in reaction to the last-minute demand in September 2021, in line with a government review of the tax deductions for home loans.

Unit prices rose 5.4% YoY due to value-added proposals, such as ZEH and price revisions in response to soaring timber and other materials prices. Sales increased in value YoY due to the higher unit prices, and an increase in construction volume, but the number of houses delivered decreased due to the prolonged construction time and other factors.
In addition, the gross profit margin of the Housing Construction Business on a stand-alone basis declined due to the significant impact of rising costs.

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Please see page eight.
This shows the renovation business.
Orders from Sumitomo Forestry home owners continued to be strong, with both sales and orders up YoY. In addition, the recurring income margin improved 1.7 percentage points from 3.2% in the previous fiscal year to 4.9%, thanks to a rise in the profit margin at the order stage and cost reductions achieved through standardization of operations.

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Please see page nine.
Next is the performance of the Overseas Housing and Real Estate Business.
In the US, both sales and income increased significantly due to higher unit sales prices and profit margins in the single family homes business. In the real estate development business, while the number of properties sold exceeded that of the previous year, income in local currency terms was at the same level as the previous year, due in part to the effect of the sale of highly profitable properties in the previous year.

In Australia, earnings declined due to higher costs for materials and labor, as well as longer construction time caused by heavy rains and flooding.
In other regions, real estate development projects in Vietnam continued to perform well.

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Please see page 10.
This is the status of orders received and sales in the overseas single family homes business.
Orders in the single family homes business in the US were more severe, as customers took a stronger wait-and-see attitude in response to rising mortgage rates. Although the number of units sold was lower than that in the previous year due to the extended construction time and other factors, the unit price per home was higher than in the previous year as a result of effective price increases.

The backlog of orders received was 2,899 units at the end of December, a significant YoY decrease. Whereas in the previous year, there was a particular increase in the number of building lots for sale that had been contracted before construction began.

Since Q2 of the fiscal year under review, the level of order backlog has been on a downward trend as built-for-sale housing, which has a short lead time from contract to sale, has become dominant.
Similarly, before the COVID-19 pandemic, when built-for-sale houses were dominant, the number of order backlog was 3,158 units at the end of December 2019, and 2,653 at the end of December 2018, and the level for the year under review was generally on par with those.

We have approximately 70,000 inventory blocks, including purchased lots and option blocks. We will promote appropriate management of inventory risk by adjusting construction schedules, carefully selecting new acquisitions, and taking other actions in response to the changing market conditions.

In the single family homes business in Australia, while unit sales prices rose, both orders and the number of units sold were down YoY due to factors such as higher mortgage rates, longer construction time caused by bad weather and other factors, and delays in the government's permitting process, resulting in lower sales in local currency terms than in the previous year.

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Please see page 11.
This is the status of the US real estate development business.
In the fiscal year ended December 2022, the number of sales was 12, mainly due to accelerated sales of some properties in response to strong demand.
Construction has already begun on 54 projects, and the Company plans to make these projects contribute to earnings from the fiscal year ending December 2023 onward.

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Next is investments and lending.
In the fiscal year ended December 2022, we achieved JPY62.6 billion in investments and loans, which accounted for 21% of the total investment and loan plan of about JPY300.0 billion for the three years of the medium-term management plan.

Major achievements include the development of income-producing real estate in the US, acquisition of a panel manufacturing company to realize the FITP business, domestic and international model homes, and IT-related investments.

Although progress in decarbonization-related investments was less than expected, we will continue to invest aggressively in 2023, making progress on projects, such as ESG-conscious offices near Atlanta in the US, a seven-story wooden office building near Dallas, built by the mass timber construction method, and forest fund project**s.**

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Please see page 13.
This is a summary of the consolidated balance sheet.
Total assets increased by JPY223.4 billion from the end of December 2021 to JPY1,537.6 billion, mainly due to an increase in the yen value of overseas subsidiaries, resulting from the weaker yen, and an increase in inventories in the overseas housing and real estate business.

Liabilities increased by JPY80.9 billion from the end of December 2021 to JPY855.0 billion, mainly due to an increase in borrowings for the acquisition of real estate for sale in the US. Net assets increased by JPY142.5 billion from the end of December 2021 to JPY682.6 billion, due to the accumulation of net income and a significant increase in foreign currency translation adjustments resulting from yen depreciation.

Free cash flows were a positive JPY2.9 billion due to an increase in inventories and investment amounts, despite the significant increase in income.
These were the financial results for the fiscal year ended December 31, 2022.

[Slide 14] [Slide 15]
I will now explain the full year forecast for the fiscal year ending December 2023.
The Company recently acquired Southern Impression Homes Group, which is engaged in the development and management of single family rental housing in Florida, USA, as a subsidiary. The impact on our profit and loss, including amortization of goodwill, is currently under scrutiny and has not been incorporated in the current forecast.

Please see page 15. For the fiscal year ending December 31, 2023, we expect net sales of JPY1,598 billion, down 4% YoY, recurring income of JPY120.0 billion, down 38% YoY, and net income of JPY77.0 billion yen, down 29%, showing significant YoY declines in income.

In the US, where the majority of our income is generated, housing market conditions are softening, and we expect a decline in unit sales prices and a decrease in the number of units sold, as it is expected to take more time for the market conditions to fully recover.

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Please see page 16.
This shows the forecast by segment.

In the Timber and Building Materials Business, amid declining prices for imported and domestic timber, we expect to secure recurring income at the same level as in the previous year, mainly due to strengthened sales of fiberboards and biomass fuel, for which demand is firm, further improvement in profitability of manufacturing business companies, and the effect of the completion of goodwill amortization related to an equity-method affiliate in Vietnam.

In the Housing Business, the construction business was transferred to the Global Housing, Construction and Real Estate Business from the fiscal year ended December 2022, resulting in a decrease of approximately JPY25.0 billion in net sales and JPY500 million in recurring income for this business segment. Excluding this effect, the plan is for net sales to increase by JPY10.0 billion and recurring income by JPY8.0 billion.

In the mainstay custom-built detached housing business, profitability is expected to improve due to lower material costs resulting from the softening lumber market and the effects of price revisions implemented up to the previous year.

In the Global Housing, Construction, and Real Estate Business, we expect a significant decrease in both sales and income in the single family homes business in the US due to a slowdown in the housing market and rising costs of land and construction materials.

The real estate development business is also not expected to be as brisk as in the previous fiscal year, and we plan to report a decrease in income due to a decline in the number of property sales.

In the Environment and Resources Business, the renewable energy business will see a decrease in income due to rising fuel procurement costs worldwide, but the forestry business in Indonesia and New Zealand will see an increase in unit sales prices due to a recovery in the market in China, a major export destination, and lower transportation costs due to stable marine transportation market conditions, etc. As a result, the segment as a whole is expected to post YoY increases in both sales and income.

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Page 17 shows the forecast for orders and sales in the domestic housing business.
In custom-built detached housing, we plan to receive orders for 8,350 units, up 4% YoY, and sell 8,300 units, flat from the previous year.

Regarding the unit price, while the price revision in June last year will contribute throughout the year, the overall unit price per order is expected to remain flat YoY due to the plan to expand sales of Forest Selection, a semi-custom type of product.

We expect that the unit sales price will increase 4% YoY, reflecting the increase in the unit price per order received in the previous fiscal year. We will continue to leverage our design capabilities to propose plans that respond to customers' changing lifestyles, promote web marketing and the use of real data, and expand ZEH sales.

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Please see page 18.
In the renovation business, the Company plans to continue to increase orders by developing sales activities that accurately grasp the needs of customers, particularly owners of Sumitomo Forestry homes, and to achieve YoY growth in both orders and completed work.

The recurring income margin will be slightly down due to system investments to further improve operational efficiency, but we will continue our efforts to improve our sales structure and reduce costs.

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Please see page 19.
This is the forecast for the Global Housing, Construction and Real Estate Business.
The newly transferred construction business is a business that we will focus on nurturing in the future. Since the scale of profit/loss is not large at this point, it is included in others and consolidation adjustments.

In the US, as explained earlier, we expect a significant decrease in income due to a decline in unit sales prices, and the number of units sold in the single family homes business, and a decrease in the number of properties sold in the real estate development business.

In Australia, the number of units for sale is planned to increase as the extended construction time due to bad weather is resolved.

In the other regions, the Company plans a decrease in income due to the impact of the almost completed real estate development project in Vietnam in the previous fiscal year, and up-front costs for new development projects.

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Page 20 shows the number of units sold, sales amounts, and unit sales prices in the US and Australia, as well as the amount of orders received and sales in the domestic construction business.

Although the housing market conditions in the US are unpredictable, we will secure contracts by offering effective incentives and control construction starts to avoid excess inventory, while achieving the delivery of 9,000 units.

[Slide 21]
Finally, I will discuss the changes in profit/loss and various financial indicators. Please see page 21. The trends in net sales and recurring income are shown in the table below.

Although ROE will be lower than in the fiscal year ended December 2022. due to the decrease in net income, we will focus on improving profitability by making effective investments with an eye to the future.

This concludes my explanation.
Thank you.

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