Sumitomo Forestry Group
Financial Results for the Fiscal Year Ended December 31, 2024
Conference Call with Analysts and Institutional Investors －Transcript
FY12/2024 Financial Results and FY12/2025 Forecast

Time and date: 13:00‐14:30, Friday, February 14, 2025

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

I am Otani. Thank you all for taking the time to attend our briefing today. I will explain the overview of our FY12/2024 financial results and FY12/2025 forecast.

[Slide P.2]

First, please look at page 2. Here are the points to note regarding the FY12/2024 financial results. In November 2024, our Group acquired shares of Metricon Group, an Australian housing company, making it a consolidated subsidiary. For FY12/2024, while their balance sheet has been consolidated, their profit and loss results have not been included. Additionally, for FY12/2023, as shown in the table below, we have reflected revisions to the initial purchase price allocation due to the finalization of provisional accounting treatment related to business combinations.

[Slide P.4]

Next, please turn to page 4, which shows an overview of our FY12/2024 financial results.

In FY12/2024, driven by strong performance in the U.S. single-family housing business, recovery in the Australian housing business, and the impact of yen depreciation, our Group achieved net sales of ¥2,053.7 billion (up 18% year-on-year), recurring income of ¥198.0 billion (up 25%), and net income of ¥116.5 billion (up 14%), marking record-high profits.

Regarding actuarial differences in retirement benefits, which we record as a lump sum at fiscal year-end, we recorded a profit of ¥9.8 billion in FY12/2024, primarily due to an increase in the discount rate used for calculating retirement benefit obligations. Excluding actuarial differences, recurring income was ¥188.2 billion (up 22% year-on-year).

[Slide P.5]

Please look at page 5, which shows our performance by segment.

In the Timber and Building Materials business, despite focusing on growth areas such as biomass fuel sales and overseas manufacturing operations, we faced challenging business conditions with owner-occupied housing starts declining year-on-year for 34 consecutive months, resulting in decreased profits.

The Housing business achieved increased sales and income due to the full-year contribution from Sasazawa Construction, which we acquired in July 2023, along with the effects of price revisions in custom-built detached housing and growth in the renovation business.

The Global Construction and Real Estate business saw increased sales and income due to higher unit prices and increased unit sales volume in the U.S. housing business, while the Australian housing business also improved in terms of unit prices and profit margins.

The Environment and Resources business, while seeing increased sales from forest fund-related operations, experienced overall profit decline due to reduced profit margins in the biomass power generation business from rising fuel prices.

[Slide P.6]
Page 6 shows the breakdown of year-on-year changes in recurring income. The total year-on-year increase was ¥39.0 billion, of which ¥11.4 billion was attributable to foreign exchange effects.

[Slide P.7]
Page 7 shows orders and sales status for our Domestic Housing business.

For custom-built detached housing orders, we achieved an 11% increase in units and 15% increase in value year-on-year, benefiting from the full-year effect of price revisions implemented in April 2023, strong performance of our cost-effective planned product "Forest Selection," and enhanced support for customers seeking land, who represent about 50% of total orders.

While unit sales volume and value decreased due to low order backlog at the beginning of the period, operating profit increased as gross profit margins reached their highest levels since before COVID-19 and the wood shock, driven by continued price revision effects and improved construction materials costs.

[Slide P.8]
Pages 8 and 9 show the status of our Global Construction and Real Estate segment.

In the U.S. single-family housing business, we achieved increased sales and income with both orders and sales exceeding the previous year in both unit volume and value, by securing spec homes in anticipation of solid demand while effectively utilizing incentives such as rate buy-downs.

The U.S. real estate development business saw decreased profits due to delayed property sales amid challenging market conditions, including persistently high interest and cap rates.

The Australian housing business achieved increased sales and income due to improved profitability from unit price increases, despite the continued shortage of materials and craftsmen.

[Slide P.10]
Pages 10 and 11 show quarterly performance of our core U.S. single-family housing business.
At the beginning of 2024, mortgage rates decreased, leading to strong orders. However, as rates subsequently rose again to 7%, the lack of clear direction in interest rates led to a wait-and-see attitude among customers toward the end of the year.

[Slide P.11]
While sales prices have increased compared to the previous year, operating profit margins have shown a declining trend in the latter half of the year due to factors such as rising land costs, including development expenses, and the impact of incentives.

[Slide P.12]
Next, please look at page 12, which shows our investment status.

Investment in FY12/2024 totaled ¥147.7 billion, with cumulative investments over the three years of the previous Medium-Term Plan Phase 1 reaching ¥326.4 billion. Decarbonization-related investments, including forest funds and timber industrial complexes, fell short of the three-year plan target. While this was due to longer-than-expected launch periods for these initiatives, some are beginning to contribute to earnings, and we will accelerate their implementation in the next medium-term management plan.

[Slide P.13]
Page 13 shows our balance sheet status. Total assets have increased significantly due to the impact of yen depreciation and an increase in real estate for sale.

This concludes the overview of our FY12/2024 results.

[Slide P.15]
Next, I will explain our FY12/2025 forecast.

For FY12/2025, positive factors such as increased housing unit sales volume in both the U.S. and Australia, and increased sales and income in Timber and Building materials and Housing businesses, lead to our forecast of net sales of ¥2,556.0 billion (up 24% year-on-year), recurring income of ¥205.0 billion (up 4%), and net income of ¥123.0 billion (up 6%).

The USD/JPY exchange rate assumption remains around ¥150, similar to FY12/ 2024.

Regarding dividends, we plan to increase the annual dividend by ¥37 to ¥182 per share.

[Slide P.16]
Let me explain our segment forecasts on page 16.

The Timber and Building Materials business plans to achieve increased sales and income by focusing on growth markets such as biomass fuel while expanding domestic timber distribution and manufacturing operations.

The Housing business plans increased sales and income by steadily converting the high order backlog from strong FY12/2024 orders into deliveries.

The Global Construction and Real Estate business expects increased sales and income overall, with reduced profits in the U.S. housing business due to cost increases being offset by increased property sales in the U.S. real estate development business and the effect of Metricon Group consolidation in the Australian housing business.

The Environment and Resources business forecasts decreased profit due to upfront expenses related to the tropical peatland pilot project in Indonesia.

[Slide P.17]
Page 17 shows our Housing business order and sales forecast.

For FY12/2025, we will maintain our system capable of receiving over 8,000 orders. For orders, we will continue expanding sales of our well-received planned product "Forest Selection" and enhancing high-end market coverage through the grand estate design project, while also implementing new initiatives to improve contact conversion rates using customer data.

For sales, while profit margins are expected to decline due to rising labor costs and land acquisition costs for spec homes, we forecast increased profit due to higher unit sales volume supported by high order backlog at the beginning of the period.

[Slide P.18]
Pages 18 and 19 show our Global Construction and Real Estate segment forecast.

In the U.S. housing business, while we expect profit margins to decline due to rising land acquisition costs and intensifying competition amid anticipated continued high interest rates from inflation countermeasures, we plan to increase unit sales volume through strategic use of incentives such as rate buy-downs.

The U.S. real estate development business, while anticipating continued challenging business conditions under high cap rates, plans to increase profit by steadily selling accumulated development projects.

In the FITP business, we will continue pursuing construction rationalization and building cost reduction for the single-family housing business, including area expansion within the U.S.

The Australian housing business forecasts increased sales and income due to the new consolidation of Metricon Group. Leveraging our scale as the nationwide top share builder, we will work to improve unit sales volume and profitability by pursuing synergies such as process rationalization and material cost reductions.

[Slide P.20]
Finally, please look at page 20.

In FY12/2025, we plan to increase sales and income despite a decrease in the recurring income margin primarily due to cost increase in our U.S. housing business which account for a large portion of our overall profits. While ROE has been trending downward partly due to increased foreign currency translation adjustment from yen depreciation, we will pursue improved profitability through appropriate investment execution with our ROE target of 15% or higher in mind.

This concludes my presentation. Thank you for your attention.

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