Sumitomo Forestry Group

Financial Results for the Fiscal Year Ending December 31, 2025

Conference Call with Analysts and Institutional Investors ー Transcript

Progress on Medium-Term Management Plan and Initiatives for the Future

Time and date: 13:00–14:30, Friday, August 8, 2025

Briefer: Toshiro Mitsuyoshi, President and Representative Director, Sumitomo Forestry Co., Ltd.

[Introduction]

Thank you very much for taking the time out of your busy schedules to attend our briefing today.

I will focus on an overview of the second quarter results of FY2025, our plan for this full-year, and the initiatives we are implementing toward achieving our Medium-Term Management Plan. Details on our financial results and full-year outlook will be provided later by Managing Executive Officer Otani.

[Slide 3 – Second Quarter Financial Results]

Please turn to slide 3. Here are our financial results for the second quarter of FY2025. In the first half, net sales increased due to the consolidation effect of Australia's Metricon, but the U.S. businesses faced a challenging business environment, and recurring income and net income decreased year-on-year. In the U.S. housing business and U.S. real estate business, rapid price increases over the past few years and persistently high interest rates have led to a decline in affordability, and uncertainty over political and economic prospects has become more pronounced, resulting in a clear slowdown in demand in many markets.

Meanwhile, the Japan and Australia housing businesses have been progressing at a pace that is above our initial forecasts, which has partially offset the slowdown in the U.S. businesses.

[Slide 4 – Full-Year Earnings Forecast]

Please turn to slide 4. This slide shows our full-year earnings forecast. We expect the Japan and Australia businesses to remain strong in the second half. On the other hand, while it is difficult to accurately predict market trends at this time, we anticipate that a full recovery in the U.S. housing market will occur in the next fiscal year. As a result, we have unfortunately revised our full-year earnings forecast downward.

Regarding the annual dividend forecast, we have applied the minimum dividend under the shareholder return policy set forth in our current Medium-Term Management Plan, setting the dividend forecast at ¥150 per share on a pre-stock-split basis. This equates to a dividend payout ratio of 32% based on the revised net income forecast.

[Slide 5 – Medium-Term Management Plan]

Please turn to slide 5. As shown in the graph, our Medium-Term Management Plan targets recurring income of ¥280.0 billion in FY2027, and this target remains unchanged. With regards to the U.S. housing business and U.S. real estate development business which we have revised downward the earnings forecasts, we need to prepare for the short-term risks by improving inventory turnover and by other measures in current situation where uncertainty persists. However, we believe that medium- to long-term demand remains solid, and that once the current uncertainty is resolved, we will be able to achieve the targets in the Medium-Term Management Plan. We will be very strict in selecting and executing strategic growth investments with an eye toward medium- to long-term growth, such as acquiring high-quality land.

[Slide 6 – U.S. Single-family Homes Business]

Please turn to slide 6. First, I will talk about the market environment surrounding the U.S. housing business, which is a key driver of our Group’s earnings, as I explained earlier.

Affordability has declined due to the prolonged high level of mortgage rates and soaring housing prices, and some markets are now entering a phase of price adjustments. However, as we have explained in the past, there remains a housing shortage caused by the decline in housing starts following the Lehman Shock and the Global Financial Crisis, while the population of homebuying generations, such as Millennials and Generation Z, continues to grow. Against this backdrop of a structural supply-demand gap, we expect stable demand to continue over the medium- to long-term.

[Slide 7 – U.S. Single-family Homes Business]

Please turn to slide 7. This slide outlines our business policy for maintaining both unit sales and profitability, while responding to current market conditions and preparing for near-term risks. Although the outlook for market conditions is difficult to predict in the current environment, our basic approach is to prioritize sales promotion in areas where market prices are weakening, even if it means a slight reduction in profit margins, while aiming to maintain profit margins in areas where market prices are stable.

In order to stimulate demand, we begin by offering incentives effectively, such as rate buydowns, to help drive a recovery in order volume. In a market environment that changes daily, sales strategies require detailed updates, and even in regions where demand has generally been strong and incentives were previously unnecessary, we are now finding it necessary to offer some incentives.

In competitive markets such as Texas and Florida, we are also making price adjustments as needed, while closely monitoring competitors' actions. By tailoring settings to the conditions of each subdivision or property, we aim to strike a balance between inventory turnover and profitability, thereby optimizing investment efficiency.

As for housing starts, in July alone we kept the overall pace for our Group builders to about 70% of the initial plan, with some builders operating at less than half of the initial plan. We are carefully supporting each subdivision according to inventory levels and sales pace.

[Slide 8 – U.S. Single-family Homes Business]

Please turn to slide 8. As explained on the previous slide, while we are implementing measures to address current market conditions, we are also advancing initiatives aimed at medium- to long-term profit growth and strengthening our competitive edge.

At DRB and Brightland, which underwent management integration in April, we are working to maximize its integration synergies. We are introducing DRB's management methods for efficiently operating multiple locations, integrating core systems, conducting joint sales training, and negotiating price reductions with suppliers etc.

We are also expanding the area coverage of the FITP business, and we plan to further strengthen collaboration with our Group builders going forward. In addition, as I will explain in more detail later, we have acquired a sawmill in the state of Louisiana in the U.S., and are working to build a stronger supply chain, including our own production base for supplying lumber products.

Furthermore, with an eye toward future growth, we are continuing to secure land needed for home construction and are currently holding approximately 83,000 lots, including both purchased and optioned lots. This translates to about 7.8 years' worth of sales units.

The ability to identify and secure high-quality subdivisions ahead of competitors is one of the sources of competitive strength that underpins the sustainable growth of our Group builders. We will continue to advance this as a core part of our medium- to long-term growth strategy, while maintaining financial discipline.

[Slide 9 – U.S. Real Estate Development Business]

Please turn to slide 9. In the U.S. real estate development business, leasing has remained relatively steady; however, cap rates have stayed elevated, and completions of projects developed during the low interest rate era have progressed, pushing supply volumes to their peak. On the other hand, current housing starts have returned to pre-COVID levels, and we expect the supply-demand balance to gradually improve, but for the time being we will operate the business with greater attention to risk.

At the same time, in order to establish a revenue model that does not overly depend on gains from property sales, we are working to build a stable revenue base that includes fee income from our general contractor division and rental income, while transitioning to a business structure that is conscious of the balance sheet.

Leveraging our Group's expertise in wooden construction and collaborating with partners, we will advance project development globally with a focus on mid- to large-scale mass timber buildings that contribute to the Wood Cycle.

[Slide 10 – Medium- to Large-Scale Wooden Constructions]
Please turn to slide 10. In both Japan and overseas, we are promoting wooden construction that contributes to global decarbonization by creating a Wood Cycle across the fields of "Forests," "Wood," and "Construction," and by driving a shift from steel-frame and reinforced concrete structures to wooden structures.

[Slide 11 – Australian Housing Business]
Please turn to slide 11. As mentioned at the outset, the Australian housing business is smoothly progressing at a pace exceeding our initial expectations. Last year, we welcomed Metricon into our Group, making us the largest homebuilder in Australia. To solidify this position, we are moving forward with initiatives aimed at further growth and improved profitability.
The Australian housing market has seen gradual improvement in customer sentiment and a recovery in traffic, supported by the second policy interest rate cut this year in May and housing measures by the Labor Party. In addition, the post-COVID surge in material costs, labor shortages, and construction delays are gradually being resolved, leading to improved profitability.
The Australian housing business, which is centered on order homes, has a cash flow advantage compared with the U.S. business, which focuses on spec homes. However, recurring income to net sales ratio have remained low, and we believe there is significant potential for improvement. As shown in this graph, recurring income to net sales ratio are improving steadily for the three existing builders, but we expect Metricon's recurring income to net sales ratio to achieve particular improvement this year. I will now explain our initiatives for improving profitability going forward.
In addition to improving profitability at Metricon, we will strengthen the management foundations of all four Group companies by integrating core systems and by expanding our product lineup to include affordable housing. We will also focus on generating group synergies through joint procurement of materials, as well as the development of components and construction methods, leveraging our scale advantages.
Furthermore, we will diversify our business in Australia by leveraging Group expertise to expand the FITP business already underway in the U.S., expand multi-family rental housing, and expand into land development and landscaping. This will allow us to broaden our business base in Australia and address housing demand arising from population growth.

[Slide 12 – Domestic Housing Business: Custom-Built Houses]
Please turn to slide 12. Next, I will explain our Japan business, beginning with the custom-built houses

business. Since last year, while major housing manufacturers have struggled to win orders, our orders have remained strong. We attribute this to the success of our differentiation strategy that leverages our strengths in design capabilities and product strength.

In Japan, new housing starts for the one-year period through March 2025 increased to 816,000 units, partly due to last-minute demand ahead of a reduction in the scope of Item 4 Special Exceptions. However, Japan's owner-occupied housing market will inevitably shrink due to population decline.

In the custom-built houses business, our differentiation strategy and our sales strategy based on price ranges are functioning effectively, leveraging our competitive strengths. Going forward, we will maintain an annual construction start scale of 8,000 units, expand our market share, and work to further improve profitability.

[Slide 13 – Domestic Housing Business: Rental Housing]

Please turn to slide 13. Against the backdrop of declining affordability for homeownership and an increase in the number of single-person households, the rental housing market remains strong. To strengthen our so-called "land set" business, which involves selling land and rental housing as a package, and to expand our rental housing business, we made LeTech Co., Ltd. a subsidiary through a public tender offer.

Amidst soaring construction costs, wooden construction is attracting attention in the mid- to low-rise income-producing property segment, as it is more cost-competitive than steel-frame or reinforced concrete construction. In this environment, acquiring LeTech, which carries out the entire process from land acquisition for rental housing through to planning and development, leasing, and property sales, secures an important function for our land set business expansion strategy. For LeTech, becoming part of our Group enables the development of wooden rental properties in suburban areas. We judged that this acquisition would enhance the corporate value of both companies. In addition, synergies can be expected with our spec homes business and our real estate brokerage and management businesses.

In FY2024, our sales volume for rental housing and spec homes combined was 1,045 units. Including the impact of this acquisition, we aim to increase sales to 2,300 units by FY2027.

[Slide 14 – Timber and Building Materials Business]

Please turn to slide 14. In the timber and building materials business, in July we acquired the Teal Jones Plain Dealing sawmill in the state of Louisiana in the U.S.. I will now explain the background and purpose for this acquisition.

This sawmill uses Southern Yellow Pine, a plantation-grown species widely distributed throughout the southeastern United States. Ample forest resources have already been accumulated, and the volume is expected to continue increasing going forward.

The sawmill is also located near markets such as Dallas, Texas, where we are actively developing our housing business, and has good access to the facilities of the truss manufacturing companies that handle our FITP business. Furthermore, under the Trump administration, there is a growing trend toward reshoring U.S. manufacturing, and with its abundant timber resources, U.S.-produced timber products are expected to gain in competitiveness.

This acquisition will enable us to secure a stable supply of raw material that is less susceptible to external factors such as tariff issues related to timber products. Through the FITP business, we will provide a stable supply of timber products to our single-family homes and real estate development businesses, with synergies expected for our existing operations.

From this month, we have begun commercial production of dimension timber for housing construction, with plans to produce the equivalent of approximately 14,000 homes worth of dimension timber per year.

In the future, we also plan to manufacture engineered wood products such as CLT and LVL, positioning this facility as a production base for structural materials for mass timber construction in developing our global operations.

In addition, we are considering the use of chips and sawmill residues generated during production as biomass power generation fuel and in biorefineries. By maximizing wood value through the cascade utilization of timber, we will expand our timber industrial complex business in the U.S.

[Slide 15 – Shareholder Returns]

Please turn to slide 15. I will now explain our shareholder returns. Regarding dividends, in light of our projection that net income for the fiscal year will be ¥96.0 billion, we will apply the minimum dividend under the shareholder return policy set in our current Medium-Term Management Plan, and revise our annual dividend forecast, on a pre-stock-split basis, from ¥182.5 per share to ¥150 per share. Based on the revised net income forecast, this represents a payout ratio of 32%.

We regret having to lower the dividend from our initial forecast and apologize to our shareholders. While this still represents an increase of ¥5 per share compared to the previous fiscal year on a pre-stock-split basis, from the next fiscal year onward we aim to further increase dividends in the future through earnings recovery.

As stated in our new Medium-Term Management Plan launched this year, our capital allocation policy is to "secure funds for investment necessary for sustainable growth through maximization of operating cash flow from achievement of profit targets and flexible financing based on maintained financial discipline."

In addition to organic growth investments such as the acquisition of real estate for sale, we will execute M&A and other investment opportunities without delay. We believe this approach will lead to the maximization of corporate value over the medium- to long- term, and we ask for our shareholders' understanding.

[Slide 16 – Long-Term Vision]
Please turn to slide 16. I would like to take this opportunity to once again explain our Long-Term Vision, which we are currently working toward.
2030 is the target year for the SDGs, and, with that in mind, we have set forth our Long-Term Vision of "Mission TREEING 2030," which outlines our ideal future. In this Long-Term Vision, we aim to simultaneously realize three types of value through our business activities: "Value for our planet," "Value for people and society," and "Value for the market economy."

[Slide 17 – Long-Term Vision]
Please turn to slide 17. By driving the Wood Cycle in the fields of "Forests," "Wood," and "Construction," and by making proactive growth investments in each area based on our unique expertise, we aim to achieve recurring income of ¥350.0 billion by 2030. In our current Medium-Term Management Plan, we plan to invest a total of ¥713.0 billion over three years, which includes the net increase in real estate for sale, as well as growth investments and facility updates.
Since 2013, through M&A, including the acquisition of four U.S. homebuilders, and proactive investment in real estate for sale after these acquisitions, our ROE has risen from 8.8% in FY3/2013 to 13.9% in FY12/2024, consistently exceeding our cost of equity. We will continue to manage with a strong awareness of capital cost and strive to enhance corporate value over the medium to long term.

This concludes my presentation. Thank you for your attention.