

Sumitomo Forestry Group
Financial Results for Second Quarter Fiscal Year Ending December 31, 2020
Conference Call with Analysts and Institutional Investors - Q&A

Time and date: 1:00 p.m. – 2:00 p.m., Friday, November 13, 2020

Respondents: Toshiro Mitsuyoshi, President and Representative Director, Sumitomo Forestry Co., Ltd.
Tatsumi Kawata, Director and Managing Executive Officer, Sumitomo Forestry Co., Ltd.

Q

What is your opinion on the business environment in the US housing and real estate business? Also, can you tell us the current situation and future outlook of your business from the standpoint of inventory, margin, and selling prices?

A

As for the business environment, even after the transition to the democratic Biden administration, it is hard to see an extreme shift in policy, since the Republicans maintain control of the Senate. As such, we anticipate that a certain economic level will be maintained through economic measures. On the other hand, a return to the Paris Agreement has been suggested, and we expect policies emphasizing the environment to work as a plus for our Group.

In regard to the Group's current circumstances, land purchases are proceeding smoothly, and we have secured a certain level of inventory. It is difficult to envision a situation in which our margin falls significantly below current levels, because the sharp rise in material costs has settled, and at this time, there has not been a significant increase in labor costs associated with the labor shortage. As for selling prices, we do not see them falling sharply due to excess housing supply, and the financial system is more stable now than it was at the time of the crisis in 2008, so we see our housing business in the US remaining strong.

Q

By taking over the Knight Homes business, the number of units sold in the detached housing business in the United States will increase further. What kind of synergy will there be within the Group?

A

We are looking into exchanging information between group companies, joint purchasing of materials, and introduction of a shared system as well as collaborating on shifting to precut materials and panels, albeit only in neighboring areas. We are also continuing to work on commonization in terms of

managing loans, title insurance, and other financial services. Housing is closely tied to local culture and customs, so we will leverage synergy within the Group to improve our competitiveness while providing housing according to area-specific needs.

Q

What is the current situation and outlook for the future of your collaboration with Kumagai Gumi?

A

This year, we have accumulated orders primarily in the field of landscaping and civil engineering. During the nine-month period from April to December, we expect combined orders in excess of 10.0 billion yen. Additionally, in Asia, we established a joint venture for collaborative real estate development, and in Jakarta, Indonesia, we have set to work on a high-rise condominium and commercial and mixed use complex development business with a local company. We are also looking into a renewable energy-related business.

Q

Since July, orders in your domestic custom-built detached housing business have been higher year on year. It appears that you are doing better than your competitors, too. What are the contributing factors?

A

We are focused on creating a structure for providing customers looking for land to build on with appropriate information. We are also promoting proposals of a designable product called “Forest Selection” that makes purchasing easier, even if the total budget is limited. As such, orders from first-time buyers remain strong. At the same time, orders for stylish properties with high added value are on the rise, especially in the Tokyo Metropolitan Area as our approach to diverse customers has been working well.

In addition, owing in part to our early work on a web strategy, the number of online materials requests has been more than double that of the previous year, and the percentage of customers coming to us via the Internet is around 13%, which is higher than it was in the same period of the previous year. Being able to draw attention to the appeal of our housing via rich web content, including MYHOME PARK, has led to orders even as the number of visitors to our housing display centers has dropped compared to the same period of the previous year.

Q

Was there surge demand in response to the special extension of tax deductions for home loans or a subsequent sharp reactive decline?

A

We saw a certain level of surge demand and sharp reactive decline. However, our land measures and careful proposals of study rooms and telecommuting spaces were successful, pushing October orders up 11% year on year and thereby making up for the sharp reactive decline.

Q

I have heard that there has been a delay in the sales schedule at Crescent due to COVID-19. Can you tell us about progress on its projects?

A

This year we plan to sell two multi-family housings, and the selling prices are expected to be higher than initially planned. As of December 31, 2020, we expect a combined total of 12 multi-family housing and commercial and mixed use complex construction starts, and construction is proceeding without incident even in the midst of the COVID-19 pandemic. On the other hand, there have been delays in finding tenants depending on the area, so we expect 14 properties to have begun renting as of December 31, 2020. As of September 30, 2020, we have 18 multi-family housings and 10 commercial and mixed use complexes secured, which is a relatively steady pipeline.

Q

Your investment in Morinomiya Biomass Energy in Sendai City brought you closer to the project-based target for total renewable energy-based power generation of 300 MW for the final year of the 2021 Medium-Term Management Plan. Are there any changes to the policy going forward?

A

Morinomiya Biomass Energy will have a capacity of 75 MW, which combined with the other five power plants up to now brings us to around 252 MW. There are currently several biomass power generation projects under review. We will promote commercialization based on certain conditions, such as that a steady supply of raw materials is available, permits and licenses can be obtained, and the scale is, for example, at least 50 MW. At the same time, we will also work on smaller power generation businesses and renewable energy businesses other than wood biomass and build a system

capable of generating 300 MW with partners in various fields.

Q

What is the current outlook with respect to achieving a positive free cash flow over the three-year period as put forward in the 2021 Medium-Term Management Plan?

A

We are currently reviewing the targets of the 2021 Medium-Term Management Plan, including the target of reaching 85.0 billion yen in recurring income in the final year. We hope to review the business plan from the standpoints of profit and loss and cash flow early next year and present the results at that time.