

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

Time and date: 1:00 p.m. – 2:00 p.m., Tuesday, February 16, 2021

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

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Regarding the Fiscal Years 12/21 plans of five United States housing companies, net sales were up by 20.5% and recurring income were down by 0.9% compared to from January to December 2020. What are the factors behind the increase in sales and the decrease in profits? Also, what are the effects of Knight Homes and Wonderland Homes businesses acquisition?

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Recurring income ratio from January to December 2020 reached an extremely high level of 14.6%, on a par with the top-ranked housing companies listed in the United States, thanks to the ability to pass on surging prices for timber and structural materials to sales prices. Conversely, in Fiscal Year 12/21, compared to the sales plan of 11,000 units, while the Company has secured many backlogs of orders received at term end and is aiming for an increase in sales, it is forecasting a decrease in profits due to a risk factor of soaring prices for structural materials and other materials at properties that have not yet started construction. However, recurring income rate of 12.0% in Fiscal Year 12/21 is not necessarily at a low level due to historical trends. Together with labor costs, which are not currently seeing significant increases, we will closely monitor material price trends and work in collaboration with local management to achieve the plan. In terms of the effects of the business transfer, Knight Homes sells 800 to 900 units and Wonderland Homes sells 160 units per year, and in Fiscal Year 12/21 plan for five United States housing companies, we incorporates sales growth due to higher unit sales.

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In Fiscal Year 12/21, domestic custom-built detached houses orders received is planned to be 7,800 units, down by 4.2% year-on-year. Please tell us about the annual trends and outlook for orders received based on government policies related to housing.

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Efforts to promote home purchase of the government can be expected to benefit from "Special Extension of Tax Deductions for Home Loans," "Expansion of Housing Benefits," "Expansion of tax-exemption limits for funds such as housing acquisitions," and "Establishment of the Green Housing

Points System." In particular, orders received are expected to be firm toward the end of September 2021, the deadline for the application of the special extension of tax deductions for home loans, which has the greatest impact. The starting point for customer home building has shifted greatly from housing display center to online due to the COVID-19 pandemic. We promoted sales activities in response to this, and offered product proposals that adapt to New Normal. As a result, custom-built detached houses orders received increased compared to the same month last year for six consecutive months since July 2020. In Fiscal Year 12/21, we will thoroughly implement these initiatives. At the same time, through appealing the efforts to promote home purchase by the government, we aims to win orders received that exceed plan.

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Regarding the United States detached housing business, why Edge Homes' sales volume in Fiscal Year 12/20 decreased by 186 units compared to the previous year? Gehan's unit sales in Fiscal Year 12/21, which is planned to remain at 3,050 units, are the same level as in the previous fiscal year. Will the sales volume not grow significantly?

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In Fiscal Year 12/20, Edge Homes sold fewer units than in the previous fiscal year due to the fact that the timetables for developing housing lots did not match sales timing. In Fiscal Year 12/21, the company is purchasing new land and acquired 70 to 80% of backlogs of orders received plan for the number of units sold at the end of December 2020. The number of units sold is planned to be 1,600, which is the higher than the quantity in each of the past two fiscal years. Number of Gehan's units sold in Fiscal Year 12/20 reached a record high of 3,053 units, which was better than expected. In Fiscal Year 12/21, in addition to the increase in the number of units sold due to the transfer of the Wonderland Homes business in the Denver area, the backlog of orders received at the end of December 2020 is about half of the planned number of units sold. As a results, the sales volume is expected to stably exceed 3,000 units. Five United States detached housing companies in Fiscal Year 12/21 believe they can achieve 11,000 units sold by steadily responding to each company's business model if there are no major changes in the market, such as a rise in interest rates.

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Please tell us about the current situation and future outlook for the detached housing business in Australia.

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In Fiscal Year 12/20, the impact of lockdowns accompanying the spread of COVID-19 continued to be significant and severe, but the housing market is on a recovery track, partly due to the addition of independent subsidies in some states in addition to a housing purchase subsidy from the federal

government. In particular, Scott Park, which operates in Pars, is performing well. In Fiscal Year 12/21 the number of units sold is expected to be 1,050 units. Henley is also planning sales of 2,100 units, which is higher than the previous fiscal year. The three housing companies in Australia will steadily achieve sales of 3,550 units.

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Please tell us your approach to equity ratio.

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The medium-to long-term target of equity ratio is 40% or more, but at present it is divergent. However, while the equity ratio was 32.8% in Fiscal Year 3/19 at the time of the formulation of Medium-Term Management Plan 2021, it is on an upward trend at 34.6% in Fiscal Year 12/21, when net income is planned to be ¥48 billion. Going forward, the company aims to achieve 40% or more by balancing investment that will lead to future growth and enhancing equity.

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This fiscal year will be regarded as the "first year of decarbonization." Please tell us what specific initiatives you are assuming.

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We are working to achieve our environmental goals by reducing Science Based Targets certified greenhouse gases and joining RE100, which aims to achieve 100% use of renewable energy in our own businesses. On the other hand, in formulating the next medium-term plan, we are considering initiatives that will lead to specific businesses. Trees as natural capital have a variety of value, not only in absorbing carbon dioxide, but also in cultivating water sources and protecting the soil and preventing damage from landslides. It is also said that when the public benefit of about 25 million hectare of Japanese forests is converted into money, it is about ¥70 trillion. One of the purposes of the industry-academia co-creation agreement concluded last year with the University of Tokyo is to visualize the "public benefit value" of forest resources, which consists of "environmental value" and "social value," as a prerequisite for business, and to clarify the academic advantage of wood as a material. Recently, ZEH and ZEB have been noticed from the viewpoint of the control of the emission of greenhouse gas in the dwelling of buildings, but the greenhouse gas generated in the construction process is also noticed. The conversion of reinforced concrete (RC) structures and steel-framed houses to wooden houses can be expected to reduce greenhouse gas emissions by about half in the construction process. In addition, timber used in structural framework can be expected to stabilize carbon dioxide for a long period of time, demonstrating wooden architectural structures's advantage. In addition to the wood biomass power generation, we are considering wind power generation and geothermal power generation as renewable energy.

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In Fiscal Year 12/20, the company raised its earnings forecasts by a total of three times. Can we consider the plan for this term to be accurate to some extent?

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At the beginning of the previous fiscal year, we considered the impact of COVID-19 to be considerable both domestically and overseas. However, in addition to the stronger than expected housing market in the United States, we were able to quickly improve the working environment at home in Japan, such as improving the IT environment, and the recovery of orders received in the custom-built detached housing business was quick. In this way, the business environment improved more than expected. As a result, the earnings forecast was revised three times. Regarding the plan for the detached housing business in the United States, which largely exceeded expectations in the previous fiscal year, we are closely examining the plan proposals submitted by each subsidiaries in the United States in close cooperation with the division, as in the other businesses.

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As of the beginning of Fiscal Year 12/21, backlogs of orders received of the United States detached housing business is about 70 to 80% of the total number of units sold in the full year plan. Considering that the initial backlogs of orders received for Fiscal 12/20 was around 35%, we think the number of units sold and the results forecast for sales for Fiscal Year 12/21 are highly certain compared to the previous fiscal year.

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Timber prices in the United States are rising. What measures should be taken in the United States detached housing business? Please also tell us about the impact on custom-built detached housing business in Japan and the impact on Timber and Building Materials Business.

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In the United States, the price of dimension lumber (structural timber) fell below USD200/m³ in April 2020 against the backdrop of the spread of COVID-19. Thereafter, however, in response to the rapid increase in demand for new detached housing, it temporarily rose to a level exceeding USD600/m³ in September of the same year, and after temporarily falling for a period, prices continued to fluctuate and fluctuate until USD600/m³ at the end of the last year and toward the beginning of this year. Timber prices are expected to stabilize in the future, partly due to the reduction of import tariffs on Canadian timber in the United States. Our group is working to reduce the impact of price fluctuations by changing the pricing of purchased materials through auctions, which had previously been conducted on a quarterly basis, to monthly implementation. The impact on the domestic custom-built houses business is not particularly apparent at this time, partly due to the use of European materials. Future

concerns include the global container shortage and the impact of increased demand for European materials for the United States. Timber and Building Materials Business has not been adversely affected. It is rather positively recognized as it could be an opportunity for domestic timber to be exported to the United States.

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Please tell us about the Crescent's sales plan in Fiscal Year 12/21 in conjunction with the business environment.

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In Fiscal Year 12/21, the company is planning to sell a total of nine properties, five multi-family housings and four commercial and mixed use complexes. In the previous fiscal year, the occupancy rate did not rise in the entire rental market due in part to the impact of COVID-19, and Crescent also did not proceed with property sales. However, at present, leasing conditions have recovered. While proceeding with the sale of properties in the current fiscal year, the company will expand its business by including logistics facilities such as delivery centers in the pipeline, as well as multi-family housing and commercial and mixed use complexes.

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Regarding Timber and Building Materials Business, you are working to improve the profitability of distribution business and expand businesses that are not linked to new housing starts. What concrete measures will you take?

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In addition to its conventional business model of purchasing and selling products, we will accelerate our business model of providing problem-solving value-added products using IoT and DX. For example, the structural design support services offered by Home Express, which is one of the subsidiaries, will enhance the added value and streamline the design and CAD operations of builders and precut factories, where labor shortages are an issue. As for businesses not linked to new housing starts, we will promote the export of domestic timber to the Chinese market, where strong demand for timber is expected. In addition, we will promote the provision of wood biomass fuel to coal boiler users, and this initiative will also lead to the provision of environmental value in the form of reduced CO2 emissions.