

Sumitomo Forestry Group
Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2020
Conference Call with Analysts and Institutional Investors - Transcript
Second quarter Financial Results and Full Year Forecast

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

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As already noted, the Sumitomo Forestry Group is unifying our fiscal year-end as of this year, and this fiscal year is the nine-month period from April to December.

In this material, the results for the second quarter of the fiscal year ending December 31, 2020 are compared with the results from the second quarter of the fiscal year ended March 31, 2020. As such, for those overseas subsidiaries that already had fiscal years ending in December, the numbers from April to September 2020 are compared to the numbers from January to June 2019.

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Overview of the Second Quarter Financial Results for the fiscal year ending December 31, 2020

In the second quarter, the timber and building materials distribution business, manufacturing business, and domestic housing business saw sluggish results due to COVID-19. On the other hand, the increased sales volume and improved profitability of the spec homes business in the United States contributed significantly. As a result, overall net sales were down 0.7% year on year to ¥525.9 billion, recurring income was up 11.8% to ¥28.7 billion, and net income was up 29.1% to ¥16.3 billion.

<Page 4> Second Quarter Financial Results by segment

In the Timber and Building Materials Business, there were some positive factors as well, such as the variable costs of raw wood material trending at lower levels than anticipated in the overseas MDF manufacturing business, but overall, the slowdown in distribution continued due to COVID-19, creating a difficult business environment, which resulted in a decline in both revenues and earnings.

In the Housing and Construction Business, delays in construction of custom-built detached houses as a result of COVID-19, a decrease in the number of units completed in the renovation business, and other factors resulted in a decline in both revenues and earnings.

In the Overseas Housing and Real Estate Business, record low mortgage rates and a shortage of existing home inventory in the United States, home buying subsidies in Australia, and other such factors created a favorable situation. There was also a decrease in amortization of goodwill, so both revenues and earnings were up substantially. As mentioned previously, please note that the

comparison is between April to September 2020 and January to June 2019.

In the Environment and Resources Business, performance of the wood biomass power generation business was strong, resulting in an increase in both revenues and earnings.

In other businesses, Elegano Nishinomiya, services-added homes for the elderly opened in May, helped increase revenues, but the number of new tenants failed to grow due to factors such as the suspension of tours as a result of COVID-19. As such, the heavy burden of fixed expenses caused a decrease in earnings.

<Page 5> Orders Received and Sales in the Domestic Housing Business

Orders received in the custom-built detached housing business were up 7% year on year in terms of monetary amount. Although the number of visitors to our housing display centers was down due to COVID-19, the number of online materials requests greatly surpassed that of the previous year, so both the number of units and the amount have been up year on year since July. Sales were down 8% year on year in terms of monetary amount. Although we worked on construction while implementing thorough measures to prevent viral spread, the decrease in orders received in the first quarter and the lower operating rate at subsidiaries engaged in design support resulted in a shortage of construction starts.

<Page 6> Orders Received and Sales in the Renovation Business

Due to concerns about the spread of COVID-19, customers were hesitant to have construction performed in their homes while they continued living there, and non-essential, non-urgent construction contracts were put off into the future. The business continued to struggle in July and thereafter, especially at large-scale properties, so the amount of orders received was down a steep 27% year on year.

The number of units completed was down 34% year on year. This was due to the drop in construction completed for new orders as well as the smaller backlog of orders received at the beginning of the year resulting from sluggish orders received the previous year.

<Pages 7 & 8> Overseas Housing and Real Estate Business

Results have been favorable in the United States since economic activity gradually resumed in May. Both the number of units sold and the margin were higher than they were the previous year, resulting in increased revenues and earnings. In Australia, government subsidies for home buying provided a boost to help increase revenues, but earnings fell short of the previous year due to the absence of equity in earnings of affiliates in conjunction with residential land development that was recorded in the previous year.

On page 8, you will see a year-on-year comparison of segment profit and loss for April to September, provided for your reference.

<Page 9> Capital Expenditures

These expenditures were up ¥3.2 billion from the previous year to ¥16.7 billion. They consisted mainly of investment in profit-earning real estate development by Crescent, housing display centers in Japan and other countries, and production equipment in the manufacturing business.

< Page 10> Balance Sheet Summary

Total assets at the end of the first half were up ¥38.2 billion from the end of the fiscal year ended March 31, 2020 to ¥1.043 trillion. This was mainly a result of an increase in real estate for sale, primarily in the US housing business, and an increase in cash and cash equivalents for the purpose of securing cash on hand. Liabilities were up ¥22.5 billion from the end of the previous year to ¥670.2 billion. This was due mainly to an increase in issuance of commercial papers and borrowings despite a decrease in accounts payable for construction contracts in conjunction with payment of construction costs for properties completed the previous year in the custom-built detached housing business. Additionally, net assets came to ¥372.7 billion, and the equity ratio was 32.7%. Free cash flow was down ¥1.0 billion, a substantial improvement year on year as a result of an improvement in working capital and a smaller increase in real estate for sale.

<Page 12> Full-year Forecasts for the fiscal year ending December 31, 2020.

The numbers have been revised upward from the previous announcement made on August 12, primarily because of the favorable sales in the spec homes businesses in the United States and Australia and improvements made in the renovation business and real estate distribution business. Net sales have been revised upward ¥44.0 billion to ¥821.0 billion, recurring income ¥13.5 billion to ¥37.5 billion, and net income ¥9.5 billion to ¥20.5 billion.

Note that these numbers do not include actuarial difference associated with retirement benefits.

<Page 13> Forecasts by segment

Recurring income has been revised upward in the Timber and Building Materials Business due to the improving margin in the overseas manufacturing business as a result of lower variable expenses in the MDF manufacturing business and favorable sales of building materials to Europe.

Both net sales and recurring income were revised upward in the Housing and Construction Business. This was due to the number of construction starts being on the rise in conjunction with a recovery in the design support structure and the certain degree of recovery expected in the current market conditions in the renovation business and real estate distribution business.

The number of units sold, net sales, and recurring income were all revised upward in the Overseas Housing and Real Estate Business, reflecting the favorable conditions in the spec homes business in the United States and improvements in the business environment in Australia.

The forecasts in the Environment and Resources Business are unchanged.

Some improvements are expected in other businesses. Sales activities are being rolled out in the elderly care business that take into account COVID-19 concerns, such as reservation-based individual tours, and the number of tenants is increasing steadily.

In the adjustment segment, we have revised recurring income downward after carefully reviewing expenses.

<Page 14> Forecasts for Orders Received and Sales in the Domestic Housing Business

The full-year forecast for orders received in the custom-built detached housing business has been revised upward 900 units from the previous forecast to 5,500 units in terms of units and ¥36.0 billion to ¥212.0 billion in terms of monetary amount. This reflects the favorable orders received brought about by our web strategy. The above revisions bring this year's number of units and amount to around the same level as the previous year's results.

<Page 15> Forecasts for the Renovation Business

Based on the current circumstances, both the amount of orders and the number of units completed have been revised upward. However, the difficult business environment persists, especially with large-scale properties that have long construction periods, so we expect a substantial recurring loss. The number of inquiries related to small and medium-sized properties with short construction periods is bouncing back, so we will strengthen our relationship with owners of Sumitomo Forestry houses to bring in more orders.

<Pages 16, 17, & 18> Forecasts for the Overseas Housing and Real Estate Business

The market for new home construction in the United States remains favorable as mortgage rates are at record low levels, existing home inventory remains low, and demand is up to relocate to the suburbs in conjunction with the expansion of telecommuting. In response to this situation, we have revised the forecast for the number of units sold from January to December in the United States upward 650 units from the previous forecast to 8,900 units. As a result, the forecast for the number of units sold from April to December is 7,187 units.

In Australia, there are government subsidies for home buying, and an announcement was made concerning expansion of preferential stamp tax treatment for first-time buyers. Additionally, the lockdown in the Melbourne metropolitan area that was cause for concern is being steadily relaxed. In response to this situation, we have revised the forecast for the number of units sold from January to December upward 200 units from the previous forecast to 2,700 units. As a result, the forecast for the number of units sold from April to December is 2,157 units.

On pages 17 and 18, you will see a year-on-year comparison of segment profit and loss for April to

December and the trends in the number of units sold by country, provided for your reference.

<Page 19> Capital Expenditures

The plan is for ¥24.1 billion, and the main breakdown is as you see here. Constant investments such as housing display centers and equipment and machinery for the manufacturing business account for most of it, but we will make careful decisions on projects that are in the planning stage as well.