

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

Time and date: 4:30p.m.-5:30p.m., Wednesday, August 12, 2020

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**<Page 1> Points to Consider**

From this fiscal year, we have unified the fiscal year-end within the Group into December. Therefore, the current fiscal year will be a 9-month period from April to December.

The following diagram shows the method of incorporating profits and losses in the consolidated financial results for the current fiscal year. Group companies in Japan, including Sumitomo Forestry itself, change their account closing period from March to December, and profits and losses for the 9 months from April to December 2020 will be included in consolidated result. For overseas companies whose fiscal year ends in December, profits and losses for the period from January to March 2020 are included as changes in retained earnings at the beginning of the fiscal year. Similar to domestic companies, profits and losses for the 9 months from April to December 2020 are included in consolidated profits and losses. The amount included in retained earnings at the beginning of the fiscal year was approximately ¥2.9 billion.

As a result of this change, the consolidated fiscal year and the profit and loss incorporation periods of the Group companies will completely coincide. This document compares the forecast for the period ending December 2020 with the results for the third quarter of the period ended March 2020. Therefore, for overseas companies whose fiscal year ends in December, we should note that the figures from January to March 2019 and April to June 2020 are compared.

**<Page 3> Summary of First Quarter Financial Results**

In the first quarter, sales were ¥245.6 billion, up 4.5% year-on-year, and recurring income was ¥10.3 billion, up 107.4% year-on-year, mainly due to growth in detached housing business in the United States. Net income increased significantly, partly due to an extraordinary loss on forest fires that occurred in plantation forest operations, New Zealand in the previous fiscal year.

#### **< Page 4 > Segment performance**

Sales and profits of Timber and Building Materials Business decreased due to a decline in sales of imported plywood and other wood building materials products as a result of sluggish domestic market conditions caused by COVID-19, as well as the impact of production adjustments including temporary shutdowns at some manufacturing business outside Japan.

Housing and Construction Business delayed the start of construction work in custom-built houses, which uses the percentage-of-completion method for all units, due to delays in designing discussions with customers in response to voluntary restraints on going outside, delays in related work at subsidiaries involved in CAD work, etc. But completed construction amount remained at the same level as the previous fiscal year due to the minimization of the impact on properties under construction. As a whole, sales and profits declined due to sluggish sales of Renovation Business and Real estate brokerage business.

In Overseas Housing and Real Estate Business, sales and profits increased significantly due to increasing in the number of units sold, reflecting a rapid recovery in the housing market for newly buildings since May, when economic activities resumed in the U.S., and a decrease in amortization of goodwill. Please note that the comparison is made between "April to June 2020" and "January to March 2019" as mentioned at the beginning of this report.

In the Resources & Environment segment, sales and profits increased due to strong performance of wood Biomass Power Generation Business.

#### **< Page 5 > Status of Orders Received and Sales in the Domestic Housing Business**

About orders received for custom-built detached houses, number of unit declined 27.8% YoY and amount declined 21.7% YoY due to a sharp decline in the number of visitors to housing display centers and the postponement or cancellation of sales negotiations during "state of emergency".

Meanwhile, sales increased 1.4% YoY, due to promoting construction work with effort to prevent infections during "state of emergency".

#### **< Page 6 > Renovation Business**

Orders received declined 42.5% YoY sharply, due to the impact of diminished face-to-face sales and stagnant demand for construction projects due to concerns about renovation's peculiar construction while living.

Net sales of completed construction contracts decreased to 22.5% of the previous fiscal year due to a decline in backlog orders at the beginning of the previous fiscal year due to sluggish orders in the previous fiscal year, as well as a decline in contributions from newly ordered.

### <Page 7> Overseas Housing and Real Estate Business

In the U.S. and Australia, housing construction was possible under Curfew (stay-at-home order) because of the "essential business". The U.S. saw higher sales and profits thanks to an increase in the number of units sold, while the Australian market saw higher sales. However, profits remained unchanged from the previous fiscal year due to the impact of the recording of equity in earnings of affiliates associated with developing housing lots in the previous fiscal year.

Note that recurring income of 5 U.S. housing companies totaled about ¥9 billion for the period from January to March 2020, which was about ¥3 billion positive compared to the same period of the previous year. For overseas companies whose fiscal year ends in December, net income for the period from January to March 2020 are included as changes in retained earnings at the beginning of the fiscal year.

### <Page 8> Balance Sheet

Total assets at the end of the first quarter amounted to ¥1.0421 trillion, an increase of ¥37.4 billion from the end of the fiscal year ended March 31, 2020. Although notes and accounts receivable-trade decreased due to a decline in sales of Timber and Building Materials Business, cash and deposits increased to secure liquidity.

Liabilities increased by ¥35.5 billion from the end of the previous fiscal year to ¥683.2 billion, mainly due to the issuance of commercial paper and an increase in borrowings, despite a decrease in accounts payable for completed construction contracts at custom-built detached houses which delivered in the previous fiscal year.

Net assets totaled ¥358.9 billion, and the equity ratio was 31.5%.

### <Page 10> Summary of Full-year Earnings Forecast

The full-year forecasts have been revised upward from the previous forecast announced on May 29, mainly because the U.S. housing market has been steadily expanding and the number of units sold has been increasing, as well as due to resolution in delay on construction by Housing and Construction's systems infrastructures improvement, and orders received for custom-built detached houses have recovered.

Net sales increased by 4.4% from the previous forecast to ¥777 billion, recurring income increased by 60.0% to ¥24 billion, and net income increased by 214.3% to ¥11 billion.

### <Page 11> Forecast by Segment

Timber and Building Materials Business remains unchanged from the previous forecast. As anticipated at the beginning of the fiscal year, sales are expected to gradually decline toward the second half of the fiscal year due to the impact of the decline in new housing starts.

"Housing and Construction Business has upwardly revised its sales and recurring income forecast due to improvement of delays in the CAD-design work of its subsidiaries and recovering current orders received. In addition, some construction work from new orders received are expected to contribute to profits and losses."

Overseas Housing and Real Estate Business expects results to improve from the initial plans, mainly for detached homes business in the United States. Orders received in the U.S. declined at the beginning of the period due to COVID-19, but recovered rapidly thereafter, and recently exceeded the level of the same month of the previous year. Although the outlook for the future remains uncertain due to the re-expansion of the worldwide COVID-19, net sales and recurring income have been revised upward because some upward revisions are expected from the initial plan.

The forecasts for the Resources & Environment Business and other businesses are not revised.

#### < Page 12 > **Status of Orders Received and Sales in the Domestic Housing Business (Forecast)**

Orders received in custom-built detached houses have recovered, and at present they are trending at a pace exceeding the initial expectations. We will continue to seek further orders by promoting sales activities that combine face-to-face and web-based services, and by offering floor plans solutions that incorporate workspaces.

The forecast for full-year orders is revised to 4600 units, which is +21.1% compared to the previous forecast, and ¥176 billion, which is +18.9% compared to the previous forecast. We are expecting a certain amount of rush towards September, which is the contract deadline for extension of housing loan deductions, and a sharp reactive decline from October. However, there is no change in the point that the full-year forecast will be negative year on year, and the decline in orders received due to COVID-19 is expected to have an impact on the results for the next fiscal year.

#### < Page 13 > **Renovation Business (Forecast)**

We have upwardly revised our initial plans for both the amount of orders received and the amount of completed construction based on the current situation, but we still expect a very severe outlook for an ordinary loss.

From the perspective of preventing the COVID-19 infections, customers who are not hurry tend to postpone their contracts and construction decisions. The business environment will remain difficult due to continued weakness of demand for renovation than new-building for some time.

**<Page 14&15> Overseas Housing and Real Estate Business (Forecast)**

The U.S. new-construction detached housing market has recovered rapidly since May, reflecting the lowest housing loan interest rates in recent years and the low inventory level of pre-owned homes. On the other hand, there are some regions where COVID-19 has spread again, the business may be affected again by the end of the fiscal year. Based on these factors, we have upwardly revised our forecast for the number of units sold in the U.S. from January to December to 8250 units, resulting in a number of units sold from April to December of 6537 units.

Following the resumption of economic activities in Australia, the number of custom-built houses applications has been recovering thanks to government measures to support housing purchases. However, such as lockdown throughout Melbourne until September 13 because of increasing the number of infectious persons again, the outlook remains uncertain. The forecast for the number of units sold from January to December has been left unchanged from the beginning of the fiscal year.