

Sumitomo Forestry Group
Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2021
Conference Call with Analysts and Institutional Investors – Transcript
Second Quarter Financial Results and Full Year Forecast

Time and date: 13:00 a.m.–14:00 a.m., Wednesday, August 11, 2021

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The Sumitomo Forestry Group unified our fiscal year-end as of the previous fiscal year. The results for the previous fiscal year are from the nine-month period from April to December, while the settlement of accounts for the fiscal year under review are for the one-year period from January to December 2021.

For that reason, the year-on-year comparison for the second quarter of the fiscal year under review is made against April to September 2020, which was the second quarter of the previous fiscal year.

In addition, the year-on-year comparison of full-year forecasts is made against the fiscal year two years prior, which ended on March 31, 2020.

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This is an overview of the second quarter financial results for the fiscal year ending December 2021.

During the second quarter, in addition to the continued favorable performance of the Overseas Housing and Real Estate Business, the Timber and Building Materials and Housing and Construction businesses, which had been sluggish the previous year due to COVID-19, recovered. As a result, overall net sales were up 20.3% from the previous year to 632.9 billion yen, recurring income was up 80.5% to 51.8 billion yen, and net income was up 79.5% to 29.2 billion yen.

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These are the results by segment.

In the Timber and Building Materials Business, some overseas manufacturing companies struggled, but both sales and income were up owing to the sharp rise in timber prices, which led to improved profitability of imported lumber and plywood.

In the Housing and Construction Business, construction of custom-built detached houses, the main product, went smoothly. On top of that, the renovation, real estate brokerage, and landscaping businesses recovered, and COHNAN KENSETSU INC., which became a consolidated subsidiary this

year, contributed to performance. As a result, both sales and income were up.

In the Overseas Housing and Real Estate Business, the market for new housing in the US remained favorable, and against that backdrop, the number of units sold and selling prices both increased. Although there was a sharp increase in timber prices, performance improved significantly, leading to increased sales and income.

In the Environment and Resources Business, sales of logs to China were firm in the New Zealand forestation business, and the Indonesian forestation business also performed well. As a result, both sales and income were up.

In Other Businesses, equity in earnings were up due to completion of the amortization of goodwill at Kumagai Gumi Co., Ltd., resulting in increased income.

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Orders received and sales in the domestic housing business.

While continuing to take advantage of both online marketing and display centers, we conducted a fair that provided gifts to visitors and expanded ZEH sales. New product MyForest BF, which uses our original PRIME WOOD parts made from high-quality wood, also contributed, so orders received for custom-built detached houses were up year on year in terms of both amount and number of units. Sales were up 9.7% year on year on a monetary basis as construction progressed on properties for which orders were received in the previous fiscal year.

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This is a year-on-year comparison with the period from January to June 2020, provided for your reference.

Sales of custom-built detached houses were up compared to January to June 2020 despite the construction backlog at the beginning of the year being smaller compared to the previous year. This is from construction starts on properties for which orders were received proceeding at full tilt following the recovery that began last July.

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This is the renovation business.

Both orders received and construction completed were up in the renovation business, primarily for owners.

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This is the Overseas Housing and Real Estate Business.

Mortgage interest rates began rising this year in the United States, but they are still at historically low levels, so sales remain strong at each company. In addition, we have been raising our selling prices against the backdrop of a favorable market environment. This has allowed us to make up for the increase in timber prices. In Australia, sales have been strong owing to an accumulation of orders received boosted by government home buying subsidies and low interest rates. However, personnel expenses, etc. have also increased, so income was down from the previous year.

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These are the trends in the quarterly number of units sold by country provided for your reference.

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Next is capital investment. We invested in housing display centers in Japan and overseas and profit-earning real estate development by Crescent Communities Group as well as production equipment in the manufacturing business. The total came to 9.8 billion yen.

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This is the balance sheet summary.

Total assets were up 91.3 billion yen from the end of the previous fiscal year to 1.1825 trillion yen. This was primarily a result of an increase in real estate for sale in the Overseas Housing and Real Estate Business, an increase in property, plant and equipment associated with bringing COHNAN KENSETSU INC. into the Group, an increase in the market value of listed shares held by the Company, and an increase in investment securities from investment in profit-earning real estate development by Crescent Communities Group. Liabilities were up 43.7 billion yen to 735.4 billion yen. This was due mainly to an increase in borrowings. Additionally, net assets came to 447.1 billion yen, and the equity ratio was 34.5%.

This concludes the summary of second quarter financial results for the fiscal year ending December 2021.

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Next, we turn our attention to the forecast for the fiscal year ending December 2021.

As mentioned at the beginning, the fiscal year ended December 2020 was a nine-month period due to a change in the fiscal year-end. For that reason, the forecast for the fiscal year ending December 2021 is compared to the results from the fiscal year ended March 2020.

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These are the full-year forecasts for the fiscal year ending December 2021.

We expect substantial increases in sales and income owing primarily to the contribution of the US housing business. No changes have been made to the figures announced previously on June 23.

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

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These are the forecasts by segment.

We expect sales and income to increase in the Overseas Housing and Real Estate Business against the backdrop of a vibrant US housing market. On the other hand, while we expect an increase in sales in the Housing and Construction Business, we expect a decrease in income due primarily to rising timber prices.

Here again, no changes have been made to the figures announced previously on June 23.

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These are the forecasts for orders received and sales in the domestic housing business.

The full-year forecast for orders received in the custom-built detached houses has been revised upward 500 units from the previous forecast on June 23 to 8,500 units in terms of units and 31.0 billion yen to 343.0 billion yen in terms of monetary amount. This reflects favorable orders received. The above revisions bring this year's number of units and amount to above the level of the previous year.

Although there is still concern about the timber supply in Japan, procurement through the Timber and Building Materials Business will ensure that our housing starts are not affected. We will continue to work steadily on construction.

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These are the forecasts for the renovation business.

There have been no changes from the figures announced with the first quarter results.

Although the environment remains harsh for orders received, especially for large-scale properties, we will build up orders by increasing our visits to owners and holding online seminars.

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These are the forecasts for the Overseas Housing and Real Estate Business.

We expect sales of detached houses in the United States to remain strong in the third quarter and beyond in terms of both the number of units sold and the selling price. In addition, we expect an increase in income from property sales at Crescent Communities Group., which is engaged in real estate development.

We also expect performance of the detached housing business in Australia to remain strong as construction begins on contracted properties against the backdrop of government home buying subsidies and low interest rates.

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This is capital investment. The plan is for 25.3 billion yen. Constant investments such as profit-

earning real estate development in the United States, display centers and equipment and machinery for the manufacturing business account for most of it.

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Last are the trends in profit and loss and various indicators.

We expect substantial increases in sales and income in the fiscal year ending December 2021 owing in part to contribution of the US housing business. At 14.7%, ROE excluding actuarial differences will also surpass the most recent peak of 12.0% from the fiscal year ended March 2017.

We recently increased our capital stock, and around 34.5 billion yen was paid in July and August, allowing us to enhance shareholders' equity. We will continue to focus on improving profitability while striking a balance between improving ROE and enhancing shareholders' equity.

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This concludes the briefing. Thank you.

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