

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

Time and date: 16:30 p.m.–17:30 p.m., Friday, October 29, 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 for the nine-month period from April to December, while the results 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 third quarter of the fiscal year under review is made against April to December 2020, which was 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 third quarter financial results for the fiscal year ending December 2021.

During the third quarter, in addition to the continued favorable performance of the Overseas Housing and Real Estate Business, driven by the detached housing business in the United States, the Housing and Construction businesses recovered from the sluggishness caused by COVID-19 the previous year. As a result, overall net sales were up 15.3% from the previous year to 968.1 billion yen, recurring income was up 72.4% to 88.4 billion yen, and net income was up 76.7% to 53.7 billion yen.

Excluding the 4.8 billion yen actuarial gain included in the previous year's results, recurring income was up 90.3% from the previous year.

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These are the results by segment.

In the Timber and Building Materials Business, both sales and income were up owing to improved profitability of imported lumber products and plywood against a backdrop of a sharp rise in timber prices worldwide.

In the Housing and Construction Business, construction in the main custom-built detached housing

business progressed. On top of that, the real estate brokerage business recovered, and COHNAN KENSETSU INC., which was added to the Group this year, contributed to performance. As a result, both sales and income were up.

In the Overseas Housing and Real Estate Business, both the number of units sold and the selling prices were up in the United States against the backdrop of a new housing market that remains strong. In addition, seven real estate development properties by Crescent sold as compared to three the previous year. As a result, both sales and income were up.

In the Environment and Resources Business, sales and income were up owing to favorable performance of the overseas forestry business, including in New Zealand, along with the contribution of the Kanda biomass power generation business, an equity method affiliate which began commercial operations in June.

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

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Here you can see orders received and sales in the domestic housing business.

We continued to focus on online marketing and expanding ZEH, and there was some surge demand for custom-built detached housing associated with the end of the tax breaks on home loans. Both the amount and number of units were up compared to the previous year. From July to September, the amount was down year on year, due in part to the higher level of the previous year, but compared to the July to September period of 2019 prior to COVID-19, orders were up 19.0% on a monetary basis. Sales were up 5.0% year on year on a monetary basis owing to an increase in construction properties.

On page 6, you will see a year-on-year comparison with the period from January to September 2020, provided for your reference.

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This is the renovation business.

Both orders received and construction completed were up in the renovation business, primarily for owner-occupied housing.

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This is the Overseas Housing and Real Estate Business.

Mortgage interest rates have recently been rising in the United States, but they are still at historically low levels, so sales remain strong at each company. Timber prices, which had been rising sharply

through May, dropped in June. They have been rising again recently but are expected to come back down. Our selling prices remained at high levels despite the drop in timber prices, so recurring income also increased.

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 have also increased, so income was down from the previous year.

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This is the balance sheet summary.

Total assets were up 179.5 billion yen from the end of the previous fiscal year to 1.2707 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 real estate development in the United States. Liabilities were up 69.4 billion yen from the end of the previous fiscal year to 761.1 billion yen. This was due mainly to an increase in borrowings. Net assets came to 509.5 billion yen owing to an increase in net income and the issuance of new shares through public offering and third-party allotment, and the equity ratio came to 36.7%.

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

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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.

The Overseas Housing and Real Estate Business, especially in the United States, performed well through the third quarter. In light of this, the forecasts from August 10 have been revised upward. Net sales have been revised upward 57.0 billion yen to 1.367 trillion yen, recurring income 26.0 billion yen to 126.0 billion yen, and net income 15.0 billion yen to 75.0 billion yen. We expect a substantial increase over the previous record-high income.

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These are the forecasts by segment.

Sales are expected to be down but income up in the Timber and Building Materials Business due to an improvement in profitability despite a decrease in the volume handled compared to the fiscal year ended March 2020 due to the so-called Wood Shock, which put a squeeze on timber supply and demand worldwide. At the same time, imported plywood and domestic timber selling prices remain at high levels in Japan, and domestic demand has been stronger than anticipated at the announcement of first half results, so the forecasts for both net sales and recurring income have been revised upward.

In the Housing and Construction Business, we expect sales to be up compared to the fiscal year ended March 2020 owing to an increase in the number of houses sold and the addition of COHNAN KENSETSU INC. to the Group, but due primarily to rising timber costs, income will be down. On the other hand, both net sales and recurring income revised upward from the previous forecast based on recent progress on construction. There is some concern about late deliveries caused by short supply of water heaters and dishwashers from production facilities primarily in Southeast Asia, but for the properties to be handed over this year, procurement is fairly likely, so there will not be a significant impact on construction progress.

In the Overseas Housing and Real Estate Business, both net sales and recurring income have been revised upward owing to a higher-than-anticipated number of units sold and profit margin in US detached housing business and higher selling prices in real estate development business.

In the Environment and Resources Business, recurring income was revised upward owing to favorable progress in the overseas forestry business and the contribution of the Kanda biomass power generation business, an equity method affiliate which began commercial operation in June, being higher than initially planned.

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

Orders received for custom-built detached housing have been revised upward in light of the recent favorable situation. We will continue to focus on digital marketing and promote ZEH while also paying attention to tax revision trends in the next fiscal year, including tax breaks on home loans, as we work on our marketing activities.

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These are the forecasts for the renovation business.

The situation remains difficult, especially for large properties, so net sales are expected to fall below the most recent forecast. However, we expect to improve profitability by focusing more on quick renovations for owners of Sumitomo Forestry houses, and we plan to reduce expenses, so the forecast for recurring income has been left as-is.

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

In the detached housing business in the United States, there are delivery delays for windows, trusses, cabinets, and other materials, but we expect the number of units sold to surpass the most recent forecast and for selling prices to remain favorable. In addition, we expect an increase in income in the United States as some properties of Crescent, which is engaged in real estate development, are selling for higher prices than anticipated.

In Australia, construction has been delayed in some areas due to restrictions on movement imposed in response to the resurgence of COVID-19, so we have revised the number of detached houses sold downward. However, selling prices are expected to be higher than they were from January to December 2020 with the market recovering against a backdrop of low-interest policy.

This month, we issued a press release on our participation in a wooden office development project in Melbourne, Australia. The project utilizes funds from the capital increase this year, and we aim to obtain net zero carbon certification based on Australian standards. Under the plan, we aim to complete construction in 2023. It will not affect the results for the current fiscal year, but the Group will continue expand its business and contribute to the realization of a decarbonized society.

On page 16, you will see the trends in the quarterly number of units sold provided for your reference.

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This concludes the briefing. Thank you.

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