Sumitomo Forestry Group

Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2022

Conference Call with Analysts and Institutional Investors －Transcript

Second Quarter Financial Results and Full Year Forecast

Time and date: 13:30 p.m.–14:30 p.m., Wednesday, August 10, 2022

Briefer: Tatsumi Kawata, Director and Senior Managing Executive Officer, Sumitomo Forestry Co., Ltd.

＜Slide P.2＞

This is the summary of financial results for Q2 of the fiscal year ending December 31, 2022.

In Q2, the Overseas Housing and Real Estate Business, mainly in the US, remained strong, and the Timber and Building Materials Business remained solid. Net sales increased 24% from the previous year to 782.8 billion yen, recurring income increased 81% from the previous year to JPY93.6 billion yen, net income increased 70% from the previous year to JPY49.6 billion yen and a record high for Q2.

＜Slide P.3＞

In the Timber and Building Materials Business, both sales and profit margins remained high in the domestic distribution business due to soaring prices for imported and domestic wood, and improved profitability in the manufacturing business in Indonesia and New Zealand also contributed to higher sales and profit.

In the Housing and Construction Business, sales of custom-built detached houses, the mainstay of the business, exceeded the previous year's level due to an increase in unit sales prices, mainly reflecting a rise in the ZEH ratio. On the other hand, the profit margin declined due to the significant impact of higher costs for wood and other building materials, resulting in an overall decrease in profits for the segment.

As to the Overseas Housing and Real Estate Business, in the US single family homes business, despite soaring material and labor costs, the effective implementation of price increases while keeping an eye on market trends was successful, resulting in a significant increase in unit sales prices and profit margins. In addition, sales of real estate development properties were strong, resulting in a significant increase in both sales and income.

In the Environment and Resources Business, both sales and profits declined. This was due to the sluggish performance of the New Zealand forestry business, as export prices fell due to the economic slowdown in China, a major log export destination, and the impact of lower electricity sales prices at some power plants in the wood biomass power generation business after the termination in March 2021 of mitigation measures to cope with sudden rate fluctuations under the feed-in tariff system.

＜Slide P.4＞

The changes in recurring income by segment for Q2 are shown below.
There was a positive impact of JPY10.2 billion from the depreciation of the yen, but even excluding this impact, the substantial increase in income from the Overseas Housing and Real Estate Business offset the weakness in the Housing and Construction Business and the Environment and Resources Business, resulting in a substantial overall increase in income.

＜Slide P.5＞

This is the status of orders and sales in the domestic housing business.
Orders for custom-built detached houses did not reach the level of the previous period in terms of the number of houses built, but rose 2.8% YoY in terms of value due to higher unit prices resulting from value-added proposals, such as ZEH and price revisions in response to soaring material prices.
Sales were up from the previous period in terms of both number of buildings and value, but gross profit was down from the previous period due largely to the impact of increased costs.

＜Slide P.6＞

This is the renovation business.
Orders received were up from the previous fiscal year due to steady orders from Sumitomo Forestry homes owners.
Completions were slightly lower than the previous year due to delayed delivery of housing equipment.

＜Slide P.7＞

This is the performance of the Overseas Housing and Real Estate Business.
In the US, in addition to the strong performance of the single family homes business, the real estate development business also achieved a significant increase in both sales and income, as the sale of properties scheduled for H2 of the fiscal year was brought forward and the amount of sales was much higher than planned.
In Australia, sales and profits declined due to higher costs and longer construction time caused by material labor shortages, as well as intermittent construction delays caused by heavy rains and flooding in New South Wales and Queensland.
In other residential real estate, real estate development projects in Vietnam performed well.

＜Slide P.8＞

This is the status of orders and sales in the overseas single family homes business.
Orders for the US single family homes business have shown a noticeable slowdown as customers have taken a wait-and-see attitude in response to the sharp rise in mortgage rates.

Although the number of units sold was lower than the previous period due to the extended construction time caused by material supply delays and other factors, effective price increases led to a significant increase in unit sales price and value compared to the previous period.
The backlog of orders received remained high at 6,475 units at the end of June, although it has decreased compared to the previous period.
In addition, the number of blocks in inventory, including purchased lots and option blocks, exceeds 77,000.
Orders and sales in the detached housing business in Australia were negative YoY, excluding unit sales prices, due to higher costs, longer construction time, and delays in the government’s licensing process.

＜Slide P.9＞
Next is capital investment.
Investment in domestic and overseas model homes, investment in the development of Crescent’s income-producing real estate in the US, and IT-related investments totaled JPY19.1 billion.

＜Slide P.10＞
A summary of the balance sheet is shown below.
Total assets increased by JPY189.8 billion from the end of the previous fiscal year to JPY1,504.1 billion, mainly due to an increase in the yen value of overseas subsidiaries resulting from the weaker yen and an increase in inventories in the Overseas Housing and Real Estate Business.
Net assets increased significantly from the end of the previous period to JPY655.2 billion. In addition to the accumulation of profit, this was due to an increase in accumulated other comprehensive income because of an increase in foreign currency translation adjustments of approximately JPY66 billion from the end of the previous fiscal year as a result of the yen’s depreciation.
This is a summary of Q2 results.

＜Slide P.12＞
Next, we will explain our full-year forecast for the fiscal year ending December 31, 2022.
Based on Q2 results and future outlook, we have made upward revisions from the figures announced in Q1 results.
Net sales are expected to reach JPY1,613 billion, up JPY89 billion from the previous forecast, recurring income JPY175 billion, up JPY40 billion, and net income JPY100 billion, up JPY14 billion.
The exchange rate applied to the full-year forecast is the same as the average rate for the period from January to June, which is applied to Q2 results, because it is difficult to expect and forecast the future trend. Conversion rates for US dollars and Australian dollars are as shown on the slide.

＜Slide P.13＞

We have revised upward the recurring income forecast for Timber and Building Materials and Overseas Housing and Real Estate Businesses, and lowered slightly for the Environment and Resources Business and Other Business, compared to the previous forecast.
In the Timber and Building Materials Business, we revised upward both net sales and recurring income based on results through Q2. Although the tight wood supply-demand balance has begun to settle, overall material prices remain high due to the weak yen and other factors. On the other hand, the market environment is beginning to show signs of slowdown, as the number of new housing starts in Japan has declined YoY for two consecutive months, and we will focus on securing profit margins by closely monitoring inventory level trends.
In the Housing and Construction Business, we have revised upward net sales forecast from the previous forecast due to higher unit sales prices of custom-built detached houses, et cetera. However, recurring income was left unchanged from the previous forecast due to material price hikes that have lasted longer than expected.
In the Overseas Housing and Real Estate Business, income, mainly due to higher-than-expected unit sales prices and profit margins for single family homes in the US, and higher-than-expected property sales prices in the real estate development business, as well as the effect of yen depreciation.
In the Environment and Resources Business, we have revised downward recurring income forecast due to the time required to improve the profitability of the overseas forestry business, and a review of expenses related to the creation of businesses for decarbonization.
In Other Businesses, we have reviewed the forecast of equity in earnings of affiliates, and have revised downward recurring income.

＜Slide P.14＞
This is a breakdown of the change in the full-year recurring income forecast from the previous forecast.
We have revised upward recurring income by JPY40 billion from the full-year forecast announced on April 27. Of this amount, JPY10.3 billion is the increase due to the revision of the yen conversion rate. Excluding this increase, the upward revision on an actual basis is JPY29.7 billion, resulting in a significant increase in profit forecast, mainly for the US housing business.

＜Slide P.15＞
Next is the forecast for orders and sales in the domestic Housing and Construction Business.
We have revised forecasts for both orders and sales in light of current conditions.
We have revised upward orders for custom-built detached houses from the previous forecast in terms of both the number and value of orders received, reflecting the penetration of the Web strategy and an expected increase in unit prices. We will continue to win orders by proposing our unique high environmental performance and woody spaces, such as LCCM homes and ZEH homes, which we began selling as our environmental flagship model in April this year.
We have raised sales amount in anticipation of higher unit prices.

With regard to custom-built detached houses, in addition to promoting orders, we are working to drastically reduce costs, particularly production costs. In addition to the pre-cutting and panelization of components, which we have already started, we aim to raise the level of profitability by establishing an appropriate construction system for each area and promoting digitalization.

＜Slide P.16＞
There are no revisions to the forecast for the renovation business. We will continue to focus on sales to Sumitomo Forestry homes owners and to win orders for large-scale properties.

＜Slide P.17＞
This is the forecast for the Overseas Housing and Real Estate Business.
In the single family homes business, we have significantly raised the full-year forecasts for net sales and recurring income, as unit sales prices and profit margins have been trending upward from the previous forecasts.
Meanwhile, the US housing market has entered an adjustment phase and is slowing down, and companies are implementing countermeasures. We will take measures appropriate to the situation in each region, such as partially covering interest rates, offering various incentives, or lowering sales prices, in order to promote orders.
We have raised the full-year forecast for the US real estate development business due to strong performance through H1 of the fiscal year and steady leasing of multi-family housing. Incidentally, we have revised recurring income forecast upward for the US as a whole by JPY40.6 billion from the previous forecast, of which JPY10 billion is attributable to foreign exchange effects.
On the other hand, we have raised forecasts downward both net sales and recurring income for the Australia’s detached housing business due to a severe shortage of material labor and delays in the government’s permitting process.

＜Slide P.18＞
We show the forecast for the number of units sold, sales amount, and unit sales price in the US and Australia.
As for single family homes in the US, we lowered our forecast for the number of homes sold by 940 units from the previous forecast due to the current situation.
On the other hand, the unit sales price per unit is expected to be JPY62 million, approximately JPY10 million higher than the previous forecast, due in part to the weaker yen. The impact of this increase in unit price is expected to far exceed the negative impact of the reduction in the forecast number of units sold, and the sales amount is expected to increase by JPY65 billion compared to the previous forecast.
We have revised downward the forecast for the detached housing business in Australia, partly due to a delay in improvement in the lengthening of construction time in order homes.

＜Slide P.19＞

This is capital investment. The full-year plan is JPY47.3 billion, which will mainly consist of development of income-producing real estate in the US and investment in model homes in Japan and overseas.

This concludes the explanation. Thank you very much.

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