

Summary of Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2020 [Japan GAAP] (Consolidated)

Name of Company:	Sumitomo Forestry Co., Ltd.	Stock Exchange Listing:	Tokyo
Stock Code	1911	URL:	http://sfc.jp/english/
Representative	Title: President / Representative Director	Name:	Toshiro Mitsuyoshi
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Scheduled Date of Filing Quarterly Securities Report:	November 13, 2020		
Scheduled Date to commence dividend payments:	December 8, 2020		
Supplementary Documents on Financial Results:	Yes		
Quarterly Financial Results Briefing:	Yes (for analysts and institutional investors, in Japanese)		

(Note: Amounts are rounded to nearest million yen.)

1. Consolidated financial results for the second quarter of the FY ending December 31, 2020 (April 1, 2020 – September 30, 2020)

(1) Consolidated results of operations (Cumulative total) (%: change from the same period of the previous year)

	Net sales		Operating income		Recurring income		Profit for the year attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2Q FY Ending December 2020	525,947	-0.7	26,865	7.5	28,725	11.8	16,261	29.1
2Q FY Ended March 2020	529,748	-10.6	24,992	44.4	25,689	37.2	12,591	18.4

Note: Comprehensive income 2Q FY Ending December 2020 21,945 million yen (131.0%)
2Q FY Ended March 2020 9,502 million yen (7.0%)

	Net income per share	Net income per share fully diluted
	Yen	Yen
2Q FY Ending December 2020	89.62	87.38
2Q FY Ended March 2020	69.41	67.67

Note: Following the approval of Partial Amendments of the Articles of Incorporation at the 80th Annual General Meeting of Shareholders held on June 23, 2020, the Company has changed its fiscal term end from March 31 to December 31 from the current fiscal year and unified the fiscal year end of our Group on December 31. Profits and losses of the company and its consolidated subsidiaries with a fiscal year ended March from April 1, 2019 to September 30, 2019 and profits and losses of consolidated subsidiaries with a fiscal year ended December from January 1, 2019 to June 30, 2019 were previously consolidated into the consolidated statements of operations for the six months ended September 30, 2019 respectively. However, as a result of the above change, profits and losses of the company and all consolidated subsidiaries for the period from April 1, 2020 to September 30, 2020 were consolidated into the consolidated statements of operations for the six months ended September 30, 2020. Meanwhile, profits and losses of consolidated subsidiaries with a fiscal year ending December for the period from January 1, 2020 to March 31, 2020 are adjusted in retained earnings.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2020	1,042,953	372,734	32.7
As of March 31, 2020	1,004,768	357,064	32.1

Note: Shareholders' equity As of September 30, 2020 340,562 million yen
As of March 31, 2020 322,496 million yen

2. Dividends

	Cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
FY Ended March 2020	–	20.00	–	20.00	40.00
FY Ending December 2020	–	10.00			
FY Ending December 2020 (Forecast)			–	20.00	30.00

Note: Revised dividend forecast for the quarter under review: None

3. Forecast of the consolidated financial results for the FY ending December 31, 2020 (Consolidated, April 1, 2020- December 31, 2020)

(%: change from the previous year)

	Net sales		Operating income		Recurring income		Profit for the year attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	821,000	–	35,000	–	37,500	–	20,500	–	112.99

Note: Revised forecast for the quarter under review: Yes

Note: 1 The Company has changed its fiscal term end from March 31 to December 31 from the fiscal year ending December 31, 2020 and unified the fiscal year end of our Group on December 31. The current fiscal year, which is the transition period, is the nine months starting on April 1, 2020 and ending on December 31, 2020, assuming the change of fiscal year end. Therefore, the forecast of the consolidated financial results for the fiscal year ending December 31, 2020 above shows the forecast figures for nine months. As a result, full-year changes from the previous corresponding period have not been provided.

2 Adjusted changes

As described above, the current fiscal year is the nine months starting on April 1, 2020 and ending on December 31, 2020. For reference, the rate of increase or decrease compared to the forecast for the current fiscal year is as follows, in accordance with the nine months of the previous fiscal year (from April 1, 2019 to December 31, 2019).

	Net sales		Operating income		Recurring income		Profit for the year attributable to owners of the parent	
		(million yen)						
Full year (April 1, 2020 to December 31, 2020)	821,000	2.3%	35,000	-8.5%	37,500	-12.9%	20,500	-9.3%

* Notice

(1) Changes in main subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None

(2) Application of accounting treatment specific to the preparation of the consolidated quarterly financial statements: None

(3) Changes in accounting policies, accounting estimates, and restatements

(a) Changes in accounting policies due to revision of accounting standards: None

(b) Changes in accounting policies other than those in (a): None

(c) Changes in accounting estimates: None

(d) Restatements: None

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury stock)

As of September 30, 2020	182,778,336	As of March 31, 2020	182,752,036
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(b) Treasury stock

As of September 30, 2020	1,327,184	As of March 31, 2020	1,326,898
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(c) Average number of shares during the term (cumulative for the quarter)

As of September 30, 2020	181,438,160	As of September 30, 2019	181,393,907
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* Financial results summaries not subject to audit.

* Cautionary statement regarding business results forecasts and special notes

(Caution regarding forward-looking statements)

Earnings forecasts and other forward-looking statements in this release are based on data currently available to the Company and certain assumptions that the Company believes are reasonable and are not intended to as a promise by the Company to achieve those forecasts. Actual results may differ substantially due to various factors.

(Method of Obtaining Supplemental Explanatory Material)

The Company will hold a conference call for securities analysts and institutional investors on Friday, November 13, 2020. The explanatory material on the financial results will be published on the website afterwards. Additionally, the Supplementary Information that has heretofore been provided in the summaries of financial results is provided in the Financial Factbook, and the material will be published on the website.

<http://sfc.jp/english/ir/>

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Quarterly Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

(million yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	92,774	111,966
Notes and accounts receivable-trade	123,030	108,750
Accounts receivable from completed construction contracts	34,766	37,244
Marketable securities	3,658	204
Finished goods, logs and lumber, boards, others	18,949	15,129
Work in process	1,254	1,656
Raw materials and supplies	8,188	8,108
Costs on uncompleted construction contracts	14,164	15,104
Developed land and housing for sale	66,734	60,934
Real estate for sale in process	185,405	202,520
Short-term loans receivable	20,461	30,375
Accounts receivable-other	46,377	45,131
Other	20,845	22,285
Allowance for doubtful accounts	(545)	(473)
Total current assets	636,059	658,935
Non-current assets		
Property, plant and equipment		
Buildings and structures	100,932	105,662
Accumulated depreciation	(42,496)	(44,047)
Buildings and structures, net	58,436	61,614
Machinery, equipment and vehicles	76,946	75,311
Accumulated depreciation	(51,583)	(51,434)
Machinery, equipment and vehicles, net	25,362	23,877
Land	39,603	40,069
Forest assets	34,243	33,010
Leased assets	11,211	10,760
Accumulated depreciation	(4,138)	(3,571)
Leased assets, net	7,073	7,189
Construction in progress	9,399	9,529
Other	17,537	18,074
Accumulated depreciation	(12,207)	(12,786)
Other, net	5,330	5,289
Total property, plant and equipment	179,446	180,577
Intangible assets		
Goodwill	7,588	5,447
Other	14,886	14,457
Total intangible assets	22,474	19,905
Investments and other assets		
Investment securities	137,845	152,580
Long-term loans receivable	4,165	5,067
Net defined benefit assets	92	104
Deferred tax assets	5,983	6,661
Other	19,564	19,977
Allowance for doubtful accounts	(860)	(852)
Total investments and other assets	166,789	183,536
Total noncurrent assets	368,709	384,018
Total assets	1,004,768	1,042,953

(million yen)

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable-trade	109,179	98,321
Accounts payable for construction contracts	83,281	74,201
Short-term debt	39,403	46,373
Commercial papers	–	20,000
Lease obligation	495	552
Income taxes payable	4,862	3,003
Advances received on uncompleted construction contracts	35,224	35,084
Provision for employees' bonuses	15,337	15,090
Provision for directors' bonuses	143	–
Provision for warranties for completed construction	5,388	5,434
Assets retirement obligation	857	989
Other	68,721	57,291
Total current liabilities	362,892	356,338
Long-term liabilities		
Bond issued	90,000	90,000
Convertible bonds	10,070	10,060
Long-term debt	120,537	141,236
Lease obligation	7,986	8,048
Deferred tax liabilities	6,262	10,185
Provision for directors' retirement benefits	125	111
Net defined benefit liabilities	22,574	22,912
Asset retirement obligation	1,378	1,519
Other	25,880	29,809
Total long-term liabilities	284,811	313,880
Total liabilities	647,704	670,219
Net assets		
Shareholders' equity		
Common stock	32,786	32,803
Capital surplus	21,290	21,307
Retained earnings	255,545	271,103
Treasury stock	(2,339)	(2,339)
Total shareholders' equity	307,282	322,874
Accumulated other comprehensive income		
Valuation difference on available-for-sale-securities	16,842	25,793
Deferred gains or losses on hedges	2,531	2,429
Foreign currency translation adjustment	(4,240)	(10,625)
Remeasurements of defined benefit plans	82	91
Total accumulated other comprehensive income	15,215	17,688
Subscription rights to shares	120	120
Non-controlling interests	34,448	32,053
Total net assets	357,064	372,734
Total liabilities and net assets	1,004,768	1,042,953

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

For the second quarter cumulative period (consolidated)

(million yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net sales	529,748	525,947
Cost of sales	413,791	408,715
Gross profit	115,957	117,232
Selling, general and administrative expenses	90,965	90,368
Operating income	24,992	26,865
Non-operating income		
Interest income	206	150
Purchase discounts	182	153
Dividends income	776	769
Equity in earnings of affiliates	864	1,062
Other	1,166	1,856
Total non-operating income	3,194	3,989
Non-operating expenses		
Interest expenses	1,476	1,227
Sales discounts	345	292
Foreign exchange losses	65	17
Other	611	592
Total non-operating expenses	2,497	2,128
Recurring income	25,689	28,725
Extraordinary gains		
Gain on sales of non-current assets	32	–
Total extraordinary gains	32	–
Extraordinary losses		
Loss on sales of noncurrent assets	3	–
Loss on retirement of noncurrent assets	102	–
Disaster losses	1,578	–
Loss on liquidation of subsidiaries and affiliates	53	–
Total extraordinary losses	1,736	–
Income before income taxes	23,985	28,725
Income taxes-current	7,637	6,737
Income taxes-deferred	(809)	(440)
Total income taxes	6,828	6,297
Net income	17,157	22,428
Profit attributable to non-controlling interests	4,566	6,168
Profit attributable to owners of parent	12,591	16,261

Consolidated Statements of Comprehensive Income

For the second quarter cumulative period (consolidated)

(million yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net income	17,157	22,428
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,062)	9,055
Deferred gains or losses on hedges	489	(102)
Foreign currency translation adjustment	(6,090)	(7,513)
Share in equity method affiliates	(992)	(1,923)
Total other comprehensive income (loss)	(7,655)	(483)
Comprehensive income	9,502	21,945
(Breakdown)		
Comprehensive income attributable to owners of the parent	5,949	18,734
Comprehensive income attributable to non-controlling interests	3,552	3,211

(3) Quarterly Consolidated Statements of Cash Flows

(million yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net cash provided by (used in) operating activities		
Income before income taxes	23,985	28,725
Depreciation and amortization	6,758	7,603
Amortization of goodwill	3,227	608
Provision for (reversal of) doubtful accounts	(61)	14
Provision for (reversal of) employees' bonuses	(365)	1,518
Provision for (reversal of) directors' bonuses	(143)	(143)
Provision for (reversal of) warranties for completed construction	(636)	197
Provision for (reversal of) directors' retirement benefits	(16)	(14)
Net defined benefit liability	230	489
Interest and dividends income	(983)	(918)
Interest expenses	1,476	1,227
Equity in (earnings) losses of affiliates	(864)	(1,062)
Disaster losses	1,578	–
Loss on liquidation of subsidiaries and affiliates	53	–
Loss (gains) on sales/disposal of fixed assets	72	(69)
Decrease (increase) in notes and accounts receivable-trade	(6,966)	12,829
Inventories	(14,364)	(6,309)
Other current assets	(3,594)	(1,137)
Notes and accounts payable- trade	(7,579)	(21,833)
Advances received	163	1,482
Advances received on uncompleted construction contracts	(1,596)	(376)
Accrued consumption taxes	(565)	923
Other current liabilities	(1,408)	2,268
Other	989	1,571
Subtotal	(608)	27,595
Interest and dividends income received	2,399	3,211
Interest paid	(1,433)	(1,306)
Income taxes paid	(8,490)	(10,277)
Net cash provided by (used in) operating activities	(8,132)	19,224

(million yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net cash provided by (used in) investment activities		
Payments into time deposits	(5,057)	(225)
Proceeds from withdrawal of time deposits	5,091	2,167
Decrease (increase) in short-term loans receivable	(977)	635
Proceeds from sales and redemption of marketable securities	300	544
Payments for purchases of fixed assets	(11,420)	(16,946)
Proceeds from sales of fixed assets	2,109	1,689
Payments for purchases on intangible assets	(1,235)	(1,178)
Payments for purchase of investment securities	(6,605)	(5,108)
Proceeds from sales of investment securities	–	0
Payments of long-term loans payable	(25)	(1,075)
Repayments of long-term loans receivable	219	30
Other payments	(1,298)	(1,942)
Other proceeds	1,653	1,165
Net cash provided by (used in) investment activities	(17,246)	(20,242)
Net cash provided by (used in) financing activities		
Net increase (decrease) in commercial papers	–	20,000
Net increase (decrease) in short-term debt	(8,720)	(22,026)
Repayments of finance lease obligations	(754)	(867)
Proceeds from long-term debt	30,138	38,330
Repayments of long-term debt	(14,395)	(9,560)
Proceeds from stock issuance to non-controlling interests	158	75
Cash dividends paid	(3,648)	(3,649)
Cash dividends paid to non-controlling interests	(5,545)	(4,667)
Payments for purchase of shares of subsidiaries not resulting in change in scope of consolidation	–	(1,349)
Net decrease (increase) in deposits with withdrawal and usage restrictions	39	(618)
Other proceeds	0	–
Other payments	(2)	(0)
Net cash provided by (used in) financing activities	(2,730)	15,669
Effect of exchange rate change on cash and cash equivalents	(740)	317
Net increase (decrease) in cash and cash equivalents	(28,848)	14,968
Cash and cash equivalents at the beginning of period	105,102	112,565
Net increase (decrease) in cash and cash equivalents resulting from change in fiscal year	–	13,170
Cash and cash equivalents at the end of period	76,254	140,703

(4) Note to Consolidated Financial Statements

(Notes related to the Assumption of a Going Concern)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Segment Information)

I For the six months ended September 30, 2019 (consolidated)

1. Information regarding Sales and Income (Loss) for each Reporting Segment

(million yen)

	Reporting segment					Other (Note 1)	Total	Adjustment (Note 2)	Total shown in the quarterly consolidated financial statement (Note 3)
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Total				
Net sales									
(1) Unaffiliated customers	106,541	233,186	176,085	7,401	523,212	6,241	529,454	295	529,748
(2) Intersegment sales/transfers	10,387	479	280	1,663	12,810	5,092	17,902	(17,902)	–
Total	116,928	233,665	176,365	9,064	536,022	11,333	547,355	(17,607)	529,748
Segment income (loss)	2,885	12,206	10,893	1,763	27,748	402	28,150	(2,462)	25,689

- Notes: 1. "Other" is business segments not included in the reporting segments. Such segments include private-pay elderly care facilities business, insurance agency business, and civil engineering/construction contracting business.
2. The adjusted business loss of ¥2,462 million includes ¥194 million in eliminated intersegment transactions and ¥2,268 million in corporate losses which are not allocated to any of the reporting segments. Corporate income (loss) is primarily selling, general and administrative expenses, non-operating income or non-operating expenses not belonging to any reporting segments.
3. Total segment income (loss) is adjusted against recurring income in the quarterly consolidated statements of income.

2. Information on Impairment Loss on Noncurrent Assets, Goodwill, etc., for each Reporting Segment

Not applicable

II For the six months ended September 30, 2020 (Consolidated)

1. Information regarding Sales and Income (Loss) for each Reporting Segment

(million yen)

	Reporting segment					Other (Note 1)	Total	Adjustment (Note 2)	Total shown in the quarterly consolidated financial statement (Note 3)
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Total				
Net sales									
(1) Unaffiliated customers	84,339	208,330	216,450	9,820	518,939	6,704	525,643	304	525,947
(2) Intersegment sales/transfers	10,112	230	361	526	11,229	5,129	16,358	(16,358)	–
Total	94,451	208,560	216,810	10,346	530,168	11,833	542,001	(16,054)	525,947
Segment income (loss)	1,713	3,469	24,599	1,940	31,720	(78)	31,642	(2,917)	28,725

- Notes: 1. “Other” is business segments not included in the reporting segments. Such segments include private-pay elderly care facilities business, insurance agency business and civil engineering/construction contracting business.
2. The adjusted business loss of ¥2,917 million includes ¥253 million in eliminated intersegment transactions and ¥2,665 million in corporate losses which are not allocated to any of the reporting segments. Corporate income (loss) is primarily selling, general and administrative expenses, non-operating income or non-operating expenses not belonging to any reporting segments.
3. Total segment income (loss) is adjusted against recurring income in the quarterly consolidated statements of income.

2. Information on Impairment Loss on Non-current Assets, Goodwill, etc., for each Reporting Segment

Not applicable

(Additional Information)

(Impact of COVID-19 on Accounting Estimates)

Concerning the determination of recoverability of deferred tax assets and recognition of impairment loss at the end of previous consolidated fiscal year, we have prepared our best estimates based on information available to us at the time of preparing our consolidated financial statements, assuming that there would be an impact during the fiscal year under review.

No material changes have been made to the conditions or assumptions of these estimates in the second quarter.

We have prepared our best estimates based on information available to us at the time of preparing our quarterly consolidated financial statements.

(Significant Subsequent Events)

(Business Transfer by Consolidated Subsidiary)

At the Board of Directors meeting held on September 30, 2020, the Company resolved to take over the business of US-based Builders Professional Group, LLC through our consolidated subsidiary DRB Group, and the Business Acquisition Agreement was signed on October 16, 2020 (US time).

1. Overview of business combination

(1) Name of company

Builders Professional Group, LLC

(2) Description of acquired business

Construction and sales of spec homes

(3) Main reason(s) for business combination

The Company is taking over the business of Builders Professional Group, LLC, which is engaged in the spec homes business under the brand Knight Homes in the Atlanta, Georgia area, the third largest housing market in the United States, in order to enter that market.

(4) Date of business combination

December 1, 2020 (planned)

(5) Legal form of business combination

Cash-based business transfer

(6) Name of company after business combination

DRB Group (DRB Group Georgia, LLC and DRB Group Alabama, LLC)

(7) Grounds for determining acquiring company

Our consolidated subsidiary, DRB Group, is the acquiring company because it is paying cash for the business transfer.

2. Matters related to calculation of acquisition cost

Consideration: Cash	16,695 million yen (estimate)
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Acquisition cost	16,695 million yen (estimate)
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Note: The above amount is an estimate as of the time of contract signing. The actual amount may differ based on future price adjustments.

3. Description and amount of main expense related to acquisition

To be determined

4. Amounts and breakdown of assets and liabilities taken over on date of business combination

To be determined

The assets to be taken over consist primarily of real estate for sale. Interest-bearing debts are not to be taken over.

5. Amount of goodwill arising from acquisition, reason for goodwill, and method and period of amortization

To be determined