

Summary of Financial Results for the Third Quarter of the Fiscal Year Ending March 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: Akira Ichikawa
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Date of filing of financial report:	February 10, 2020
Date of commencement of dividend payment (tentative):	–
Preparation of supplementary materials:	Yes
Convening of a first quarter results meeting:	Yes (for financial analysts and institutional investors)

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

1. Consolidated financial results for the third quarter of the FY ending March 2020 (April 1, 2019 – December 31, 2020)

(1) Consolidated results of operations (Cumulates 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	%
3Q FY Ending March 2020	802,741	-11.5	38,263	55.2	43,070	59.6	22,614	40.5
3Q FY Ended March 2019	906,981	5.9	24,651	4.6	26,984	-2.2	16,097	14.1

(Note) Comprehensive income 3Q FY Ending March 2020 21,861 million yen (131.6%)
 3Q FY Ended March 2019 9,439 million yen (-67.6%)

	Net income per share	Net income per share fully diluted
	Yen	Yen
3Q FY Ending March 2020	124.66	121.53
3Q FY Ended March 2019	88.77	85.48

(Note) The monetary amount as of the third quarter of the fiscal year ended March 2019 reflects adjustments of the purchase price allocation following the determination of the provisional accounting treatment.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2019	986,979	355,420	32.5
As of March 31, 2019	970,976	353,489	32.8

(Note) Shareholders' equity As of December 31, 2019 320,526 million yen
 As of March 31, 2019 318,320 million yen

2. Dividends

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Full year
	Yen	Yen	Yen	Yen	Yen
FY Ended March 2019	–	20.00	–	20.00	40.00
FY Ending March 2020	–	20.00			
FY Ending March 2020 (Est.)			–	20.00	40.00

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

**3. Forecast of the consolidated financial results for the FY ending March 2020
(Consolidated, April 1, 2019- March 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	1,117,000	-14.7	53,000	7.6	61,000	18.6	31,000	6.3	170.89

(Note) Revised forecast for the quarter under review: Yes

* 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): Yes

(c) Changes in accounting estimates: None

(d) Restatements: None

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury stock)

As of December 31, 2019	182,741,236	As of March 31, 2019	182,698,636
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(b) Treasury stock

As of December 31, 2019	1,326,635	As of March 31, 2019	1,325,804
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(c) Average number of shares during the term (cumulative for the quarter)

As of December 31, 2019	181,400,814	As of December 31, 2018	181,336,379
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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 be 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 Monday, February 3, 2020. The explanatory material on the financial results to be distributed at the briefing 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 simultaneously with the announcement of financial results.

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

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Quarterly Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

(million yen)

	Previous consolidated fiscal year (ended March 31, 2019)	Third quarter consolidated accounting period (ended December 31, 2019)
Assets		
Current assets		
Cash and time deposits	82,421	56,083
Notes and accounts receivable-trade	135,636	135,232
Accounts receivable from completed construction contracts	9,601	41,500
Marketable securities	5,304	5,549
Finished goods, logs and lumber, boards, others	20,588	18,908
Work in process	1,443	1,441
Raw materials and supplies	8,039	8,611
Costs on uncompleted construction contracts	26,945	17,603
Developed land and housing for sale	63,736	63,156
Real estate for sale in process	173,472	184,601
Short-term loans receivable	20,267	21,699
Accounts receivable-other	45,967	44,693
Other	16,756	21,815
Allowance for doubtful accounts	(355)	(355)
Total current assets	609,820	620,537
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	87,084	88,988
Accumulated depreciation	(39,850)	(41,652)
Buildings and structures, net	47,234	47,336
Machinery, equipment and vehicles	76,357	73,937
Accumulated depreciation	(49,245)	(48,968)
Machinery, equipment and vehicles, net	27,113	24,968
Land	39,513	40,424
Forest assets	34,956	31,958
Leased assets	8,535	11,344
Accumulated depreciation	(4,115)	(3,899)
Leased assets, net	4,419	7,446
Construction in progress	11,770	14,828
Other	15,811	16,711
Accumulated depreciation	(10,815)	(11,997)
Other, net	4,996	4,714
Total property, plant and equipment	170,000	171,674
Intangible assets		
Goodwill	12,651	8,948
Other	13,900	14,010
Total intangible assets	26,551	22,957
Investments and other assets		
Investment securities	140,968	148,528
Long-term loans receivable	2,501	2,545
Net defined benefit assets	238	217
Deferred tax assets	4,945	4,391
Other	16,991	17,039
Allowance for doubtful accounts	(1,039)	(909)
Total investments and other assets	164,605	171,811
Total noncurrent assets	361,156	366,442
Total assets	970,976	986,979

(million yen)

	Previous consolidated fiscal year (ended March 31, 2019)	Third quarter consolidated accounting period (ended December 31, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	118,547	121,508
Accounts payable for construction contracts	75,595	77,709
Short-term debt	61,506	37,444
Lease obligations	584	270
Income taxes payable	4,902	1,561
Advances received on uncompleted construction contracts	52,198	36,421
Provision for employees' bonuses	14,353	9,101
Provision for directors' bonuses	143	–
Provision for warranties for completed construction	3,733	3,248
Asset retirement obligation	853	814
Other	41,359	58,042
Total current liabilities	373,772	346,118
Long-term liabilities		
Bond issued	70,000	90,000
Convertible bonds	10,090	10,075
Long-term debt	102,269	120,399
Lease obligation	4,436	7,741
Deferred tax liabilities	11,474	9,903
Provision for directors' retirement benefits	127	115
Net defined benefit liabilities	19,822	20,125
Asset retirement obligation	1,157	1,236
Other	24,339	25,849
Total long-term liabilities	243,714	285,441
Total liabilities	617,486	631,559
Net assets		
Shareholders' equity		
Common stock	32,752	32,779
Capital surplus	22,247	22,273
Retained earnings	241,427	250,306
Treasury stock	(2,337)	(2,339)
Total shareholders' equity	294,088	303,020
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25,196	26,666
Deferred gains or losses on hedges	752	1,555
Foreign currency translation adjustment	(1,733)	(10,750)
Remeasurements of defined benefit plans	17	35
Total accumulated other comprehensive income	24,232	17,506
Subscription rights to shares	135	133
Non-controlling interests	35,034	34,762
Total net assets	353,489	355,420
Total liabilities and net assets	970,976	986,979

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

(Consolidated Statements of Income)

(For the third quarter cumulative period (consolidated))

(million yen)

	Previous 3Q Cumulative Period (Consolidated) (April 1, 2018 – December 31, 2018)	3Q Cumulative Period under Review (Consolidated) (April 1, 2019 – December 31, 2019)
Net sales	906,981	802,741
Cost of sales	751,701	627,342
Gross profit	155,280	175,399
Selling, general and administrative expenses	130,629	137,136
Operating income	24,651	38,263
Non-operating income		
Interest income	319	315
Purchase discounts	269	280
Dividends income	1,613	1,430
Equity in earnings of affiliates	1,202	5,053
Other	1,602	1,762
Total non-operating income	5,005	8,840
Non-operating expenses		
Interest expenses	1,463	2,076
Sales discount	532	528
Foreign exchange losses	61	162
Other	617	1,269
Total non-operating expenses	2,672	4,034
Recurring income	26,984	43,070
Extraordinary gains		
Gain on sales of noncurrent assets	71	45
Gain on sales of investment securities	4,299	–
Gain on step acquisitions	629	–
Gain on change in equity	16	–
Total extraordinary gains	5,016	45
Extraordinary loss		
Loss on sales of noncurrent assets	–	5
Loss on retirement of noncurrent assets	101	172
Impairment loss	126	–
Disaster losses	–	1,547
Loss on liquidation of subsidiaries and affiliates	–	245
Total extraordinary loss	228	1,968
Income before income taxes and non-controlling interests	31,772	41,147
Income taxes-current	6,982	10,147
Income taxes-deferred	1,182	1,005
Total income taxes	8,164	11,152
Net income	23,609	29,995
Profit attributable to non-controlling interests	7,511	7,381
Profit attributable to owners of parent	16,097	22,614

(Consolidated Statements of Comprehensive Income)

(For the third quarter cumulative period (consolidated))

(million yen)

	Previous 3Q Cumulative Period (Consolidated) (April 1, 2018 – December 31, 2018)	3Q Cumulative Period under Review (Consolidated) (April 1, 2019 – December 31, 2019)
Net income	23,609	29,995
Other comprehensive income		
Valuation difference on available-for-sale securities	(11,117)	1,444
Deferred gains or losses on hedges	386	802
Foreign currency translation adjustment	(3,765)	(9,448)
Share in equity method affiliates	326	(932)
Total other comprehensive income (loss)	(14,169)	(8,134)
Comprehensive income	9,439	21,861
Comprehensive income attributable to owners of the parent	2,605	15,888
Comprehensive income attributable to non-controlling interests	6,834	5,973

(3) Explanation Concerning Consolidated Financial Statements

(Notes related to the Assumption of a Going Concern)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

It became possible to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) from the beginning of the consolidated fiscal year starting on or after April 1, 2018. As such, the Accounting Standard for Revenue Recognition has been applied from the beginning of the first quarter of the fiscal year under review. The amount expected to be received in exchange for promised goods or services is recognized as revenue at the time control of those goods or services is transferred to the customer.

The main changes resulting from application of the Accounting Standard for Revenue Recognition are as follows:

(1) Recognition of revenue related to agent transactions

In regard to revenue related to the domestic distribution business, primarily in the Timber and Building Materials segment, the total amount of consideration received from the customer was recognized as revenue in the past. However, for transactions where the Company's role in providing the product to the customer is fulfilled by an agent, the method of revenue recognition has changed to one in which the net amount after the amount paid to the supplier is deducted from the amount received from the customer is recognized as revenue.

(2) Recognition of revenue related to construction contracts

In regard to construction contracts in the Housing and Construction segment and the Overseas Housing and Real Estate segment, the percentage-of-completion method was used if the outcome of a construction contract could be estimated reliably, and the completed contract method was used for other short-term construction contracts. However, the method has been changed to one in which revenue is recognized for all construction over a fixed period as performance obligations are fulfilled. Additionally, the method used for estimating progress on fulfillment of performance obligations is the input method based on costs incurred. An alternative treatment is applied for construction contracts where the period from the transaction start date to the expected date of complete fulfillment of performance obligations is very short. In these cases, revenue is not recognized over a fixed period but rather at the time of complete fulfillment of performance obligations.

(3) Recognition of revenue related to warranty service

In the Housing and Construction segment, a free inspection service is provided to customers after delivery based on construction or sales contracts for custom-built detached houses and other products. In the past, revenue was not recognized for this service, but the method has been changed to one in which performance obligations are identified in relation to delivery of the custom-built detached house or other product and in relation to the service, and revenue is recognized when those performance obligations are fulfilled.

Application of the Accounting Standard for Revenue Recognition is in accordance with the transitional treatment as provided in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retroactively applying new accounting policies prior to the beginning of the first quarter of the fiscal year under review is added to or deducted from retained earnings, and the balance was adjusted to apply the new standard from the beginning of the period under review. However, the Company has applied the method prescribed in proviso (1) of Paragraph 86 of the Accounting Standard for Revenue Recognition. For contract changes made before the beginning of the period under review, the treatment set forth in (1) to (3) below is implemented based on the contract conditions after all changes have been reflected, and the cumulative effect is added to or deducted from retained earnings at the beginning of the period under review.

(1) Classification as fulfilled or unfulfilled performance obligations

(2) Calculation of transaction price

(3) Allocation of transaction price to fulfilled or unfulfilled performance obligations

As a result, net sales in the third quarter cumulative period (consolidated) under review decreased by ¥158,722 million, and cost of sales decreased by ¥168,178 million. Operating income, recurring income, and quarterly net income before income taxes each increased by ¥9,455 million. Beginning of period retained earnings decreased by ¥6,437 million.

(Segment Information)

I Previous third quarter cumulative period (consolidated, April 1, 2018 – December 31, 2018)

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	348,355	291,725	246,266	10,914	897,260	9,263	906,523	458	906,981
(2) Intersegment sales/transfers	17,403	428	384	3,199	21,414	7,143	28,558	(28,558)	–
Total	365,758	292,153	246,650	14,113	918,674	16,407	935,081	(28,100)	906,981
Segment income (loss)	6,237	3,571	17,085	2,712	29,605	(181)	29,424	(2,440)	26,984

- 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 ¥2,440 million includes ¥588 million in eliminated intersegment transactions and ¥1,852 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 Third quarter cumulative period under review (Consolidated, April 1, 2019 – December 31, 2019)

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	157,523	344,176	279,773	11,588	793,060	9,225	802,285	456	802,741
(2) Intersegment sales/transfers	16,031	613	432	1,882	18,958	8,075	27,033	(27,033)	–
Total	173,554	344,790	280,204	13,470	812,018	17,300	829,318	(26,578)	802,741
Segment income (loss)	5,148	15,740	22,918	2,440	46,245	705	46,950	(3,881)	43,070

- 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 ¥3,881 million includes ¥294 million in eliminated intersegment transactions and ¥3,587 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. Changes to Reporting Segments

(Changes to Reporting Segments)

Beginning from the first quarter of the fiscal year under review, the reporting segments have been changed from “Timber and Building Materials,” “Housing and Construction,” and “Overseas Housing and Real Estate” to “Timber and Building Materials,” “Housing and Construction,” “Overseas Housing and Real Estate,” and “Environment and Resources.” The main change is that the biomass power generation business and overseas reforestation business, which had been included in “Other,” is included in “Environment and Resources” business.

Segment information for the previous third quarter cumulative period (consolidated) has been prepared based on the new reporting segments.

(Changes in Accounting Policies)

As detailed under Changes in Accounting Policies, the Accounting Standard for Revenue Recognition has been applied from the beginning of the first quarter of the fiscal year under review. The accounting method related to revenue recognition has changed, so the method of measuring segment profit and loss has likewise been changed.

As a result of this change, compared to the previous method, net sales in the Timber and Building Materials Business decreased by ¥189,397 million, net sales in the Housing and Construction Business increased by ¥31,181 million, segment income increased by ¥9,467 million, net sales in the Other decreased by ¥506 million, and segment income decreased by ¥12 million in the third quarter cumulative period (consolidated) under review.

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

Not applicable