

# Consolidated Financial Results for the Six Months Ended September 30, 2021

## SAKAI HEAVY INDUSTRIES, LTD.

Stock code: 6358

URL <https://www.sakainet.co.jp/en>

November 11, 2021

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# 1. Summary of Consolidated Financial Results for the Six Months Ended September 30, 2021

# Summary of Consolidated Financial Results

(Amounts less than one million yen are rounded down)

## 1. Consolidated financial results for the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

## (1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2021	12,987	27.8	725	279.2	732	332.8	509	–
Six months ended September 30, 2020	10,163	(16.0)	191	(72.7)	169	(73.4)	(373)	–

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2021	119.52		–	
Six months ended September 30, 2020	(87.01)		–	

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2021	36,454	22,234	60.9
As of March 31, 2021	35,101	22,038	62.7

## 2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2021	–	30.00	–	50.00	80.00
Year ending March 31, 2022	–	60.00			
Year ending March 31, 2022 (Forecast)			–	60.00	120.00

## 3. Forecast of consolidated financial results for the year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	25,000	15.6	900	28.3	800	21.4	520	–	120.57

# Highlights of Consolidated Business Performance

## 1. Summary of Consolidated Business Performance for the Six Months Ended September 30, 2021

### (1) Consolidated net sales: ¥12,987 million, up 27.8% YoY

- Solid recovery of major overseas markets, in addition to a strong domestic market, against the backdrop of global economic recovery
- Overseas sales rose 49.2% YoY to ¥6,019 million.
- Overseas sales ratio went up 6.6 points YoY to 46.3%.

### (2) Operating profit: ¥725 million, up 3.8 times YoY

### (3) Sales in Japan: ¥6,968 million, up 13.7% YoY

Sales were strong, fueled by robust public works executed under the Fundamental Plan for National Resilience

### (4) Sales in North America: ¥2,297 million, up 61.5% YoY

Demand for construction machinery back on track to recovery as robust investment in construction projects continues

### (5) Sales in Asia: ¥3,298 million, up 38.1% YoY

Following Thailand, Vietnam, South Korea, and China, economic activities in Indonesia also showing signs of recovery

## 2. Adapting to a Changing Business Environment

### (1) Shifting to business management with a focus on a sound capital policy

Formulating the medium-term management policy with the goals of achieving net sales of ¥30 billion, an ROE of 8%, a dividend payout ratio of 50%, a DOE of 4%, and buying back treasury shares flexibly.

### (2) Becoming more agile in dealing with volatile demand

Reduced inventory by 18.1% YoY to ¥6.732 billion.

## Highlights of Consolidated Business Performance

### 3. Mid- to long-term Growth Strategy

- (1) Make more significant inroads into the Asian market:** Step up marketing and sales efforts centering on the Indonesian market. Grow Indonesian domestic sales to 2.1 times current level.
- (2) Expand the scope of overseas business:** Enter the road-maintenance machinery segment. Secure ODA business for African countries.
- (3) Pursue business opportunities in North America:** Increase our market share through stepped-up niche marketing. Increasing the number of service and maintenance agents.
- (4) Start developing next-generation businesses:** Focus on developing emergency brakes, compaction management system and autonomous vibratory rollers.

### 4. Outlook for Business Environment

#### (1) Japan

Demand for construction machinery is projected to remain strong, buoyed by the Japanese government's ¥15-trillion initiative to accelerate the pace of building national resilience to prevent and mitigate natural disasters over the next five years.

#### (2) Overseas

Global demand for construction machinery is on a steady recovery trend, led by infrastructure investment and major economic packages to drive green growth strategy, particularly in the United States and the EU. The US Congress passed the Infrastructure Investment and Jobs Act, expected to spend US\$ 1.2 trillion in the next 5 years.

#### (3) Business risks

- Structural appreciation of energy and components costs as a side effect of transformation of industry structure in regard to decarbonization
- Delay in procuring manufacturing components due to surge in container shipping costs and shortage of semi-conductors, caused by the rapid economic recovery

#### (4) Social requirements

We need to transform our business management with a focus on DX, SDGs/ESG, and a sound capital policy to better respond to social requirements for adopting digital solutions and green business practices.

# Consolidated Business Results

(Millions of yen)

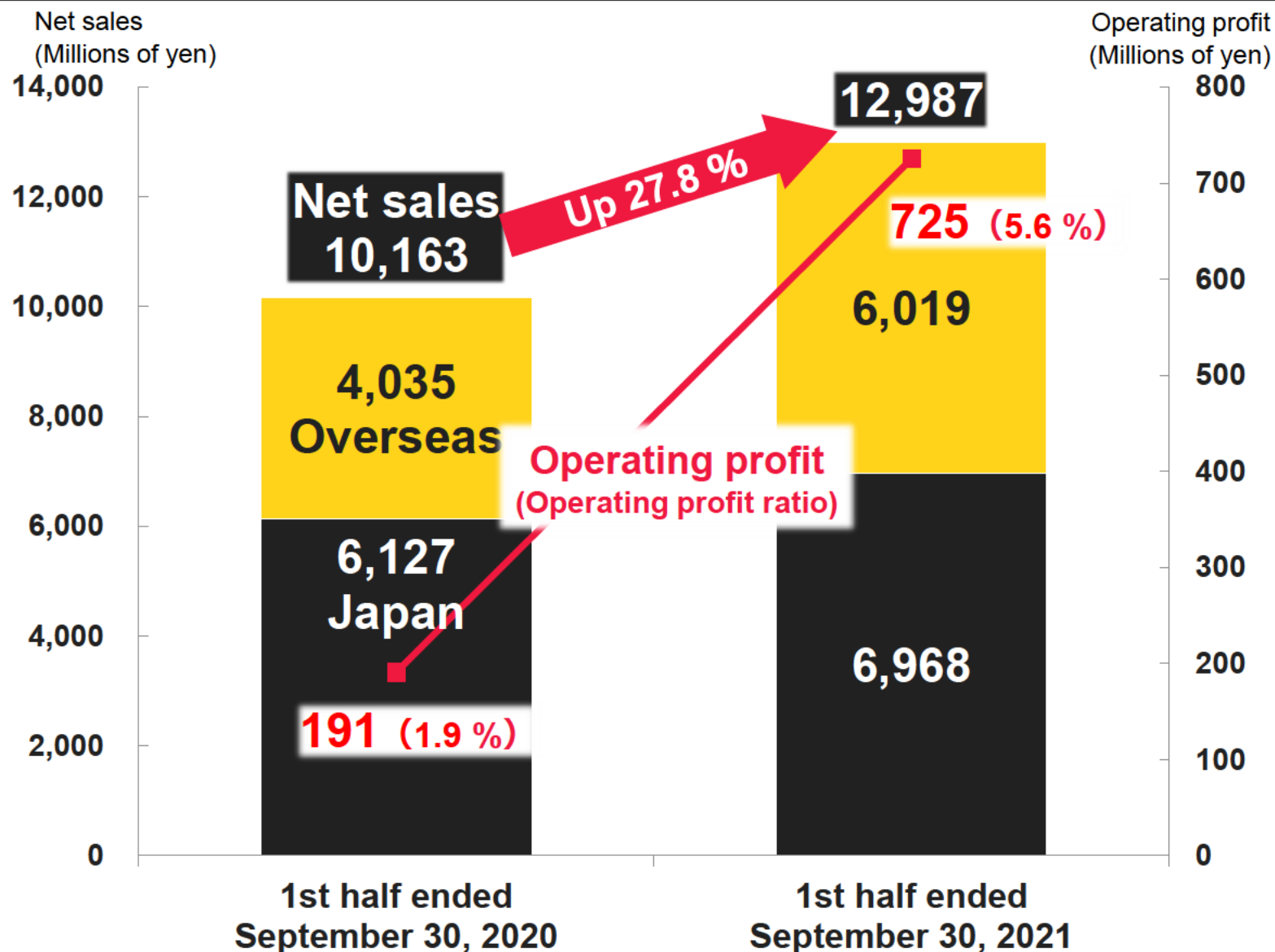
	1st half ended September 30, 2020	1st half ended September 30, 2021	YoY change	
			Amount	%
<b>Net sales</b>	<b>10,163</b>	<b>12,987</b>	<b>+2,824</b>	<b>+27.8%</b>
Japan	6,127	6,968	+840	+13.7%
Overseas	4,035	6,019	+1,983	+49.2%
<b>Operating profit</b>	<b>191</b>	<b>725</b>	<b>+534</b>	<b>+279.2%</b>
Operating profit ratio	1.9%	5.6%		
<b>Ordinary profit (loss)</b>	<b>169</b>	<b>732</b>	<b>+563</b>	<b>+332.8%</b>
<b>Profit (loss) attributable to owners of parent</b>	<b>(373)</b>	<b>509</b>	<b>+882</b>	<b>—</b>

Cost-of-sales ratio

75.1%

75.2%

# Consolidated Business Results





## Sales by Region in which customers are located

(Millions of yen)

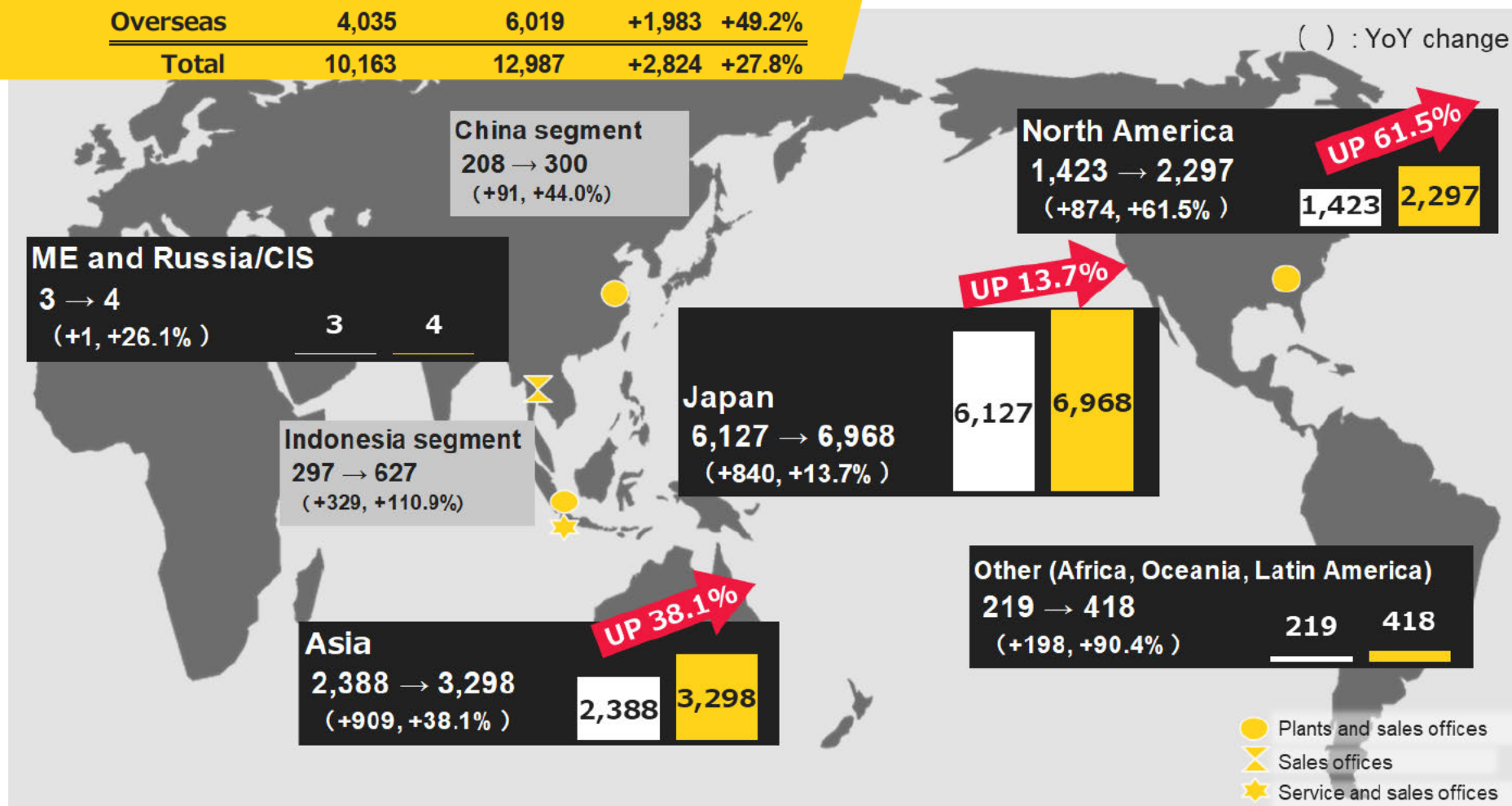
	1st half ended September 30, 2020	1st half ended September 30, 2021	YoY change	
			Amount	%
<b>Japan</b>	6,127	6,968	+840	+13.7%
<b>Overseas</b>	4,035	6,019	+1,983	+49.2%
North America	1,423	2,297	+874	+61.5%
Asia	2,388	3,298	+909	+38.1%
ME and Russia/CIS	3	4	+1	+26.1%
Other regions	219	418	+198	+90.4%
<b>Total</b>	<b>10,163</b>	<b>12,987</b>	<b>+2,824</b>	<b>+27.8%</b>

# Sales by Region

(Millions of yen)	1st half ended September 30, 2020	1st half ended September 30, 2021	YoY change	
Japan	6,127	6,968	+840	+13.7%
Overseas	4,035	6,019	+1,983	+49.2%
<b>Total</b>	<b>10,163</b>	<b>12,987</b>	<b>+2,824</b>	<b>+27.8%</b>

(Amounts less than one million yen are rounded down)

( ) : YoY change



# Segment Information by Region

in which our manufacturing facilities and sales offices are located

(Millions of yen)

(Millions of yen)

Japan	1st half ended September 30, 2020	1st half ended September 30, 2021	YoY change	
			Amount	%
Sales to external customers	8,234	9,761	+1,527	+18.6%
Intercompany sales	447	1,104	+657	+146.9%
<b>Total net sales</b>	<b>8,681</b>	<b>10,866</b>	<b>+2,185</b>	<b>+25.2%</b>
<b>Operating profit</b>	<b>272</b>	<b>562</b>	<b>+289</b>	<b>+106.4%</b>

North America	1st half ended September 30, 2020	1st half ended September 30, 2021	YoY change	
			Amount	%
Sales to external customers	1,423	2,297	+874	+61.5%
Intercompany sales	12	25	+13	+103.5%
<b>Total net sales</b>	<b>1,435</b>	<b>2,323</b>	<b>+887</b>	<b>+61.8%</b>
<b>Operating profit</b>	<b>(60)</b>	<b>133</b>	<b>+194</b>	<b>— %</b>

(Millions of yen)

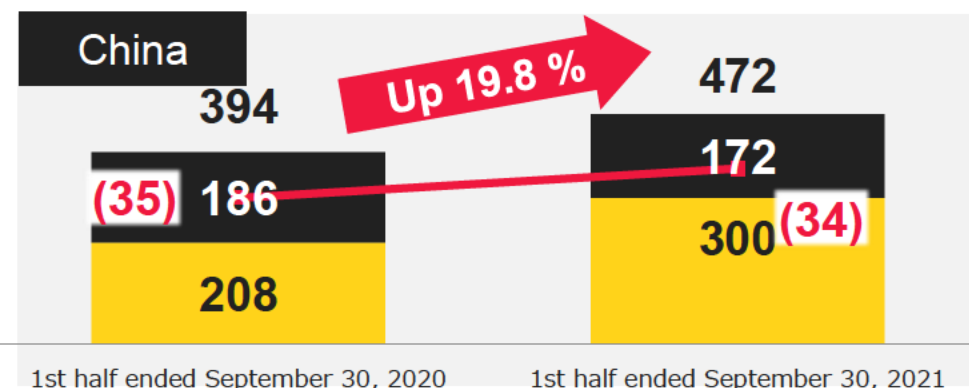
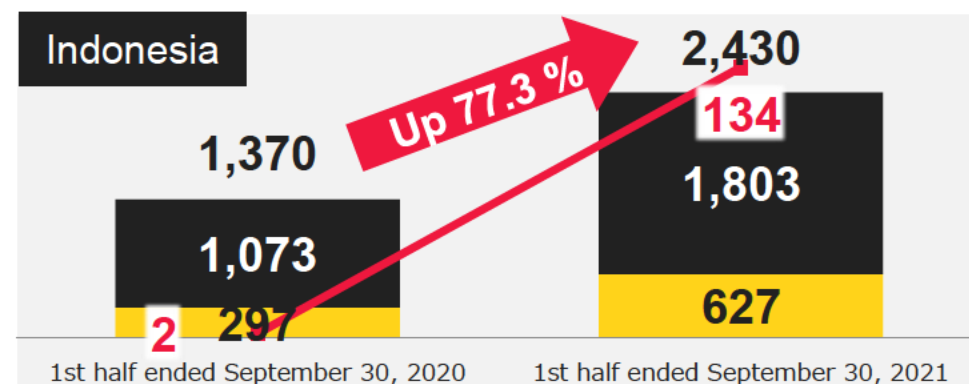
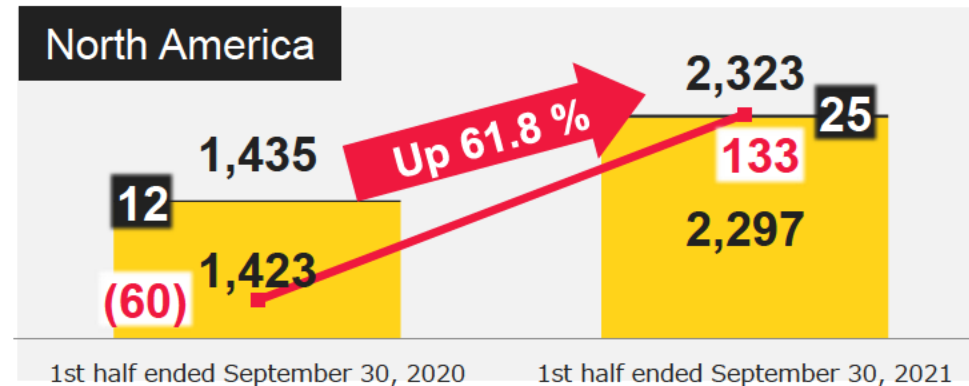
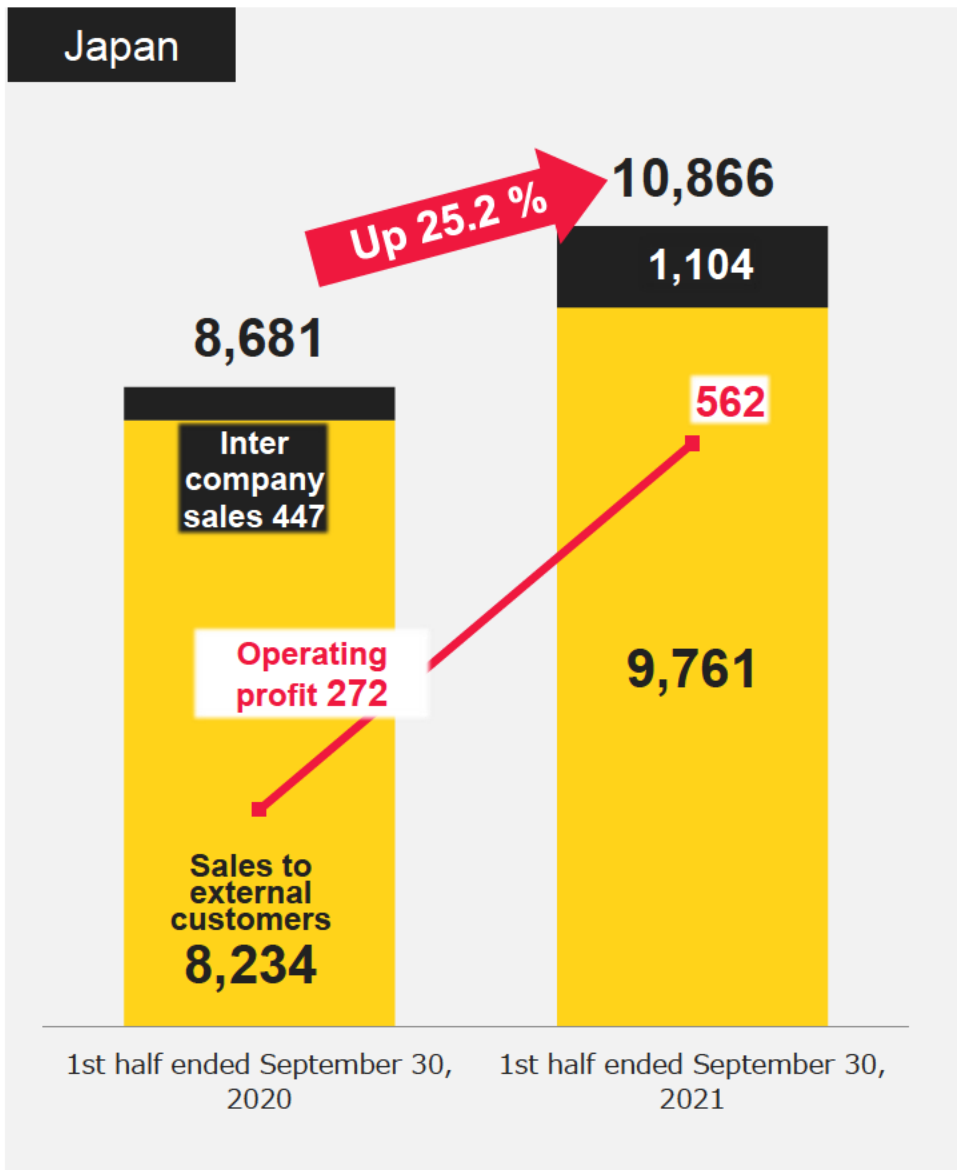
(Millions of yen)

Indonesia	1st half ended September 30, 2020	1st half ended September 30, 2021	YoY change	
			Amount	%
Sales to external customers	297	627	+329	+110.9%
Intercompany sales	1,073	1,803	+730	+68.0%
<b>Total net sales</b>	<b>1,370</b>	<b>2,430</b>	<b>+1,060</b>	<b>+77.3%</b>
<b>Operating profit</b>	<b>2</b>	<b>134</b>	<b>+132</b>	<b>— %</b>

China	1st half ended September 30, 2020	1st half ended September 30, 2021	YoY change	
			Amount	%
Sales to external customers	208	300	+91	+44.0%
Intercompany sales	186	172	(13)	(7.3%)
<b>Total net sales</b>	<b>394</b>	<b>472</b>	<b>+78</b>	<b>+19.8%</b>
<b>Operating profit</b>	<b>(35)</b>	<b>(34)</b>	<b>0</b>	<b>— %</b>

# Segment Information by Region

(Millions of yen)



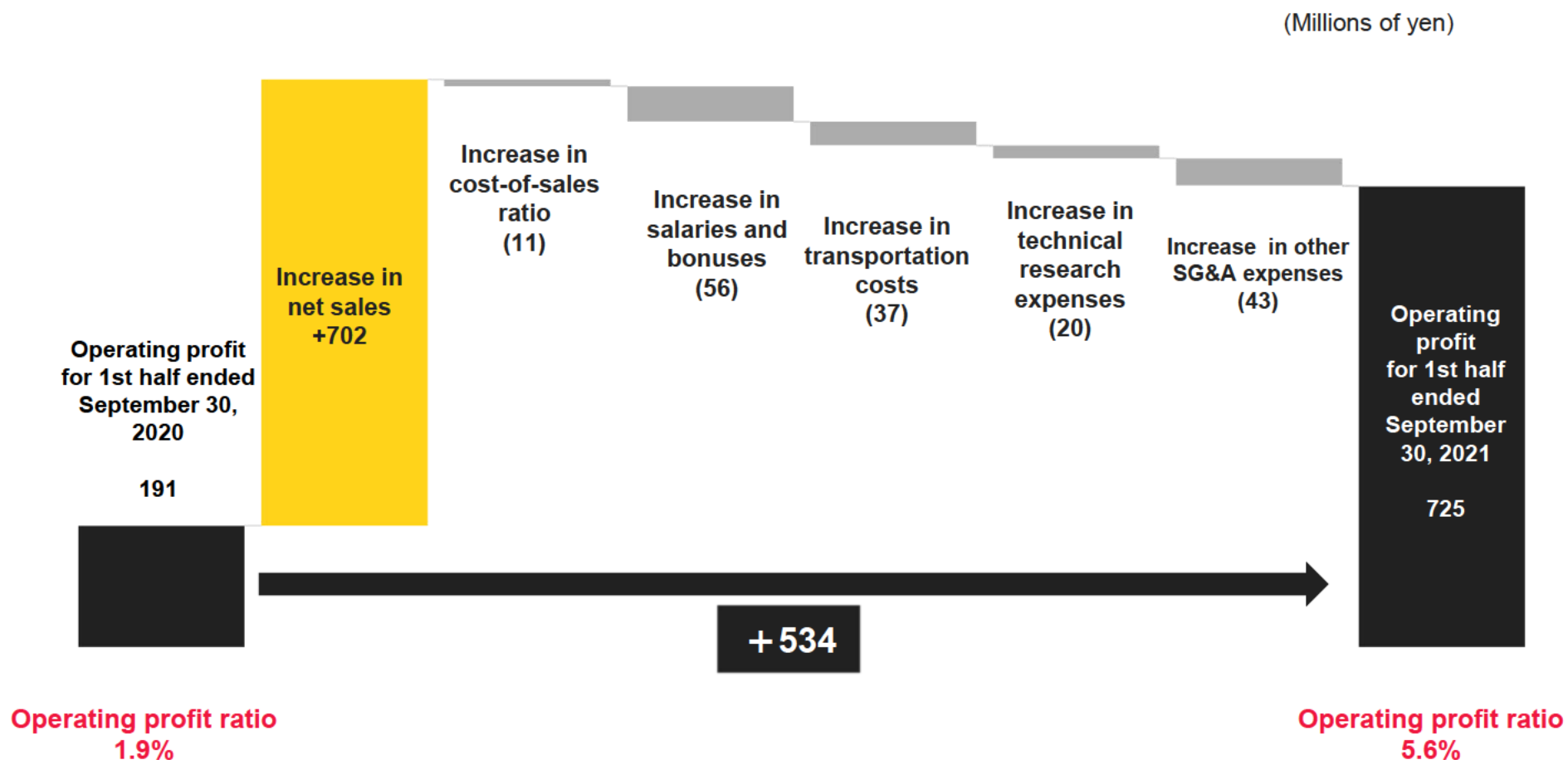
## Breakdown of YoY Changes in Operating Profit

- Gross Profit increased by ¥702 million, in line with YoY increase in sales of ¥2,824 million.
- SG&A Expenses increased by ¥157 million as we came out of restricted operational conditions and resumed business activities.
- As a result, Operating Profit rose 3.8 times YoY to ¥725 million.

(Millions of yen)

	1st half ended September 30, 2020	1st half ended September 30, 2021	YoY change	Impact on operating profit	Note
Net sales	10,163	12,987	+2,824	<b>+702</b>	2,824 x (1 - 75.1%)
Cost-of-sales ratio	75.1%	75.2%	+0.09%	<b>(11)</b>	12,987 x 0.09%
Gross profit	2,529	3,220	+691		
SG&A expenses	2,338	2,495	+157	<b>(157)</b>	Salaries and bonuses: up 56; Transportation costs: up 37; Technical research expenses: up 20; Other SG&A expenses: up 43
Operating profit	<b>191</b>	<b>725</b>		<b>+534</b>	

# Breakdown of YoY Changes in Operating Profit



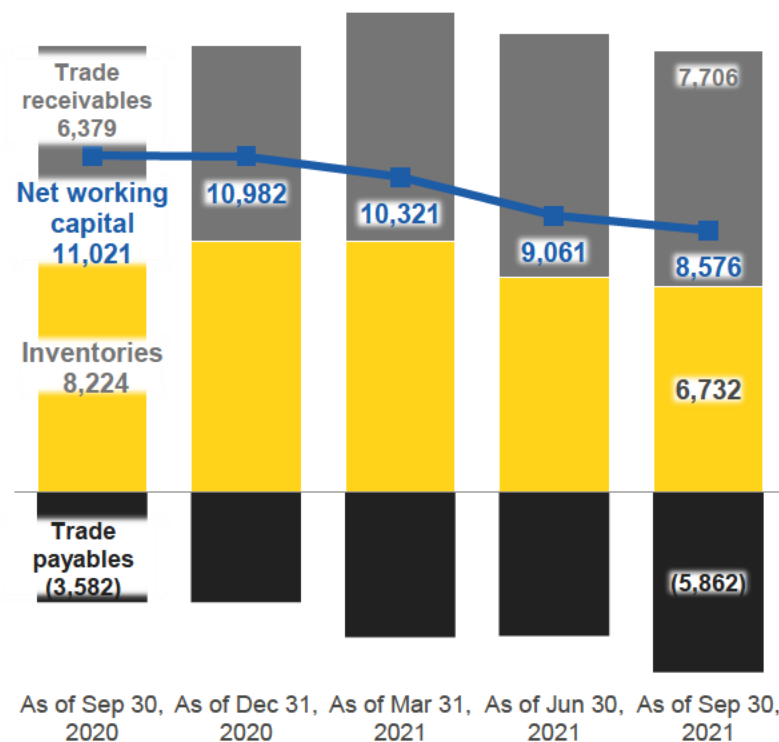
## Net Working Capital (Trade receivables + Inventories – Trade payables)

- We managed to decrease working capital appropriated for business operations by ¥2,445 million YoY to ¥8,576 million.
- The main reason for the decrease was increased efficiency of inventory management, bringing down inventory by ¥1,492 million YoY to ¥6,732 million.
- Inventory/Sales turnover improved by 1.1 times YoY to an annual 3.6 times.



(Millions of yen)

	As of September 30, 2020	As of September 30, 2021	YoY change	
			Amount	%
Annualized consolidated net sales	20,809	24,448	+3,639	+17.5%
Trade receivables	6,379	7,706	+1,327	+20.8%
Inventories	8,224	6,732	(1,492)	(18.1%)
Trade payables	(3,582)	(5,862)	(2,280)	+63.7%
<b>Net working capital</b>	<b>11,021</b>	<b>8,576</b>	<b>(2,445)</b>	<b>(22.2%)</b>



## Consolidated Business Forecast

- **Sales Forecast for the Full Year:** Amid the continued trend of global recovery of demand for construction machinery, we anticipate robust sales to continue into the second half of the FY. We therefore have upwardly revised our forecast from that of ¥23,500 million, made at the beginning of the FY, to ¥25,000 million.
- **Profit Forecast for the Full Year:** As we anticipate cost increases of approximately ¥500 million in the second half of the FY, due to price increases in components such as steel products and a surge in container shipping costs, we are maintaining our profit forecasts made at the beginning of the FY.

(Millions of yen)

	First half					Full year				
	Six months ended September 30, 2020 (Results)	Six months ended September 30, 2021 (Original forecast)	Six months ended September 30, 2022 (Results)	YoY change (amount)	YoY change (%)	Fiscal year ended March 31, 2021 (Results)	Fiscal year ending March 31, 2022 (Forecast)	Fiscal year ending March 31, 2022 (Amended forecast)	YoY change (amount)	YoY change (%)
Net sales	10,163	11,600	12,987	+2,824	+27.8%	21,624	23,500	25,000	+3,375	+15.6%
Operating profit	191	300	725	+534	+279.2%	701	900	900	+198	+28.3%
Ordinary profit	169	250	732	+563	+332.8%	659	800	800	+140	+21.4%
Profit (loss) attributable to owners of parent	(373)	180	509	+882	—	4	520	520	+515	—
Earnings per share (Yen)	(87.01)	¥41.74	¥119.52	—	—	¥0.93	¥120.57	¥120.57	—	—



## 2. Implementing Key Initiatives Outlined in the Medium-Term Management Policy

## KPIs Established in the Medium-Term Management Policy

- Results on all KPIs in the First Half outstripped Medium-Term Plan levels.
- We continue to promote the restructuring of our profit structure through review of sales prices and increased manufacturing efficiency in order to address the anticipated structured appreciation of component costs etc. from the second half onward.

(Millions of yen)

	1st half ended September 30, 2020 (Results)	1st half ended September 30, 2021 (Results)	Fiscal year ending March 31, 2022 (Forecast)	Target for fiscal year ending March 31, 2024	Target for fiscal year ending March 31, 2026
<b>Net sales</b>	10,163	12,987	25,000	26,500	30,000
<b>Operating profit</b>	191	725	900	2,000	3,100
<b>Annualized return on equity (ROE) <sup>1</sup></b>	(3.4%)	4.6%	—	5.5%	8.0%
<b>Share buybacks (through March 31, 2026)</b>	—	340	340 <sup>2</sup>	500 ~ 2,000 <sup>3</sup>	

1. The annualized ROEs were calculated based on the results of the corresponding fiscal year.

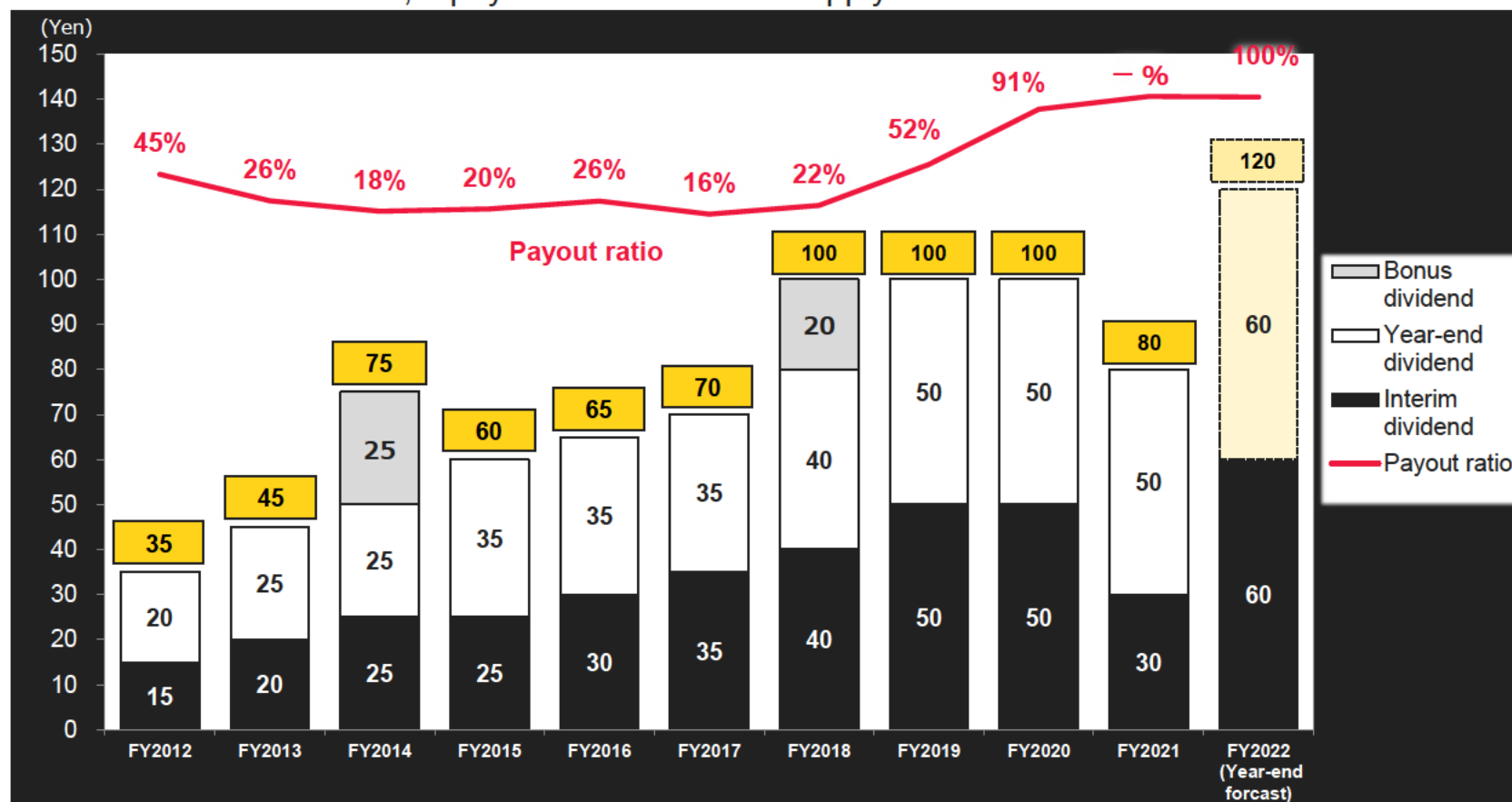
2. The amount of share buybacks projected for the fiscal year ending March 31, 2022, represents the amount of buybacks conducted for the year to date as of November 11, 2021.

3. The cumulative amount of buybacks projected through March 31, 2026

## Dividends per Share

Setting a goal of an ROE of 8%, for each fiscal year until the end of March 2026, we have set a dividend policy as follows:

- When ROE falls below 3%, a payout ratio of 100% will apply.
- When ROE is between 3% and 6%, a DOE of 3% will apply.
- When ROE exceeds 6%, a payout ratio of 50% will apply.



Note: We made a ten-for-one share consolidation effective October 1, 2017. Dividend payouts for the periods prior to the share consolidation are adjusted to be in line with the post-consolidation payouts.

## Progress in the Key Medium-Term Management Initiatives

### **(1) Share buybacks**

Completed the first round of share buybacks with a ceiling of 130,000 shares for ¥500 million:

June 17 to July 15: Bought back 130,000 shares for ¥340.4 million

### **(2) Implementing a medium-term dividend policy**

Announced a dividend forecast for the fiscal year ending March 31, 2022:

- ¥120 per share (up 50% YoY)
- Payout ratio: 100% (an estimated ROE of 2.3%)

### **(3) Disclosing financial information in English**

- ① Convocation notice of general meeting of shareholders
- ② Medium-Term Management Policy
- ③ Annual Report
- ④ Quarterly earnings announcements

## 3. Implementing ESG Initiatives

# Achieve Carbon Neutrality

## Goal: Cut the Group's CO2 Emissions **By 50%**

- The Group's manufacturing plants in Japan emit an estimated 2,000 metric tons of CO2 a year.
- The Group's annual CO2 emissions are determined by combining the Scope 1 and Scope 2 emissions. The Group has decided to reduce indirect CO2 emissions from electricity use by switching to renewable energy.



	Scope 1*	Scope 2**	Carbon neutrality
Consumed energy	Fossil fuels	Electricity	
Annual CO2 emissions (t)***	1,000	1,000	
Total of Scopes 1 and 2 emissions (t)	2,000		
<p><b>Reduce CO2 emissions</b> by switching to renewable energy</p>			

\* Scope 1: Direct CO2 emissions from on-site fuel-burning equipment that the Group owns and operates, such as gas boilers, vehicles, and air conditioners

\*\* Scope 2: Indirect CO2 emissions from the use of electricity, heat, refrigeration, and steam that the Group sources from external providers

\*\*\* CO2 emissions are calculated using the CO2 emission coefficient for electricity consumption, published by the Ministry of the Environment of Japan.

# Become Compliant with the Revised Corporate Governance Code

## Determination of Policies

### Skill Matrix of the Board of Directors

We have established our Medium-Term Policy to "Become a world-class niche company specializing in road-construction machinery".

The Company appoints Directors and Executive Officers who are capable of making sound and objective management decisions so that the Company can operate on globally-recognized management standards and increase its corporate value as well as shareholder value.

In compliance with the recently revised Corporate Governance Code, the Company has determined that the skills to be possessed by our Board of Directors, composed of Directors and Executive Officers, are in the areas of corporate management, road-construction machinery, global perspective, capital market, manufacturing, marketing, and administration. The Company is working to disclose these skills as a skill matrix of its Board of Directors.

### Nomination and Remuneration Committee

The Company has determined to establish, under the Board of Directors, a Nomination and Remuneration Committee, the majority of whose members are Outside Directors. This is to ensure greater independence, objectivity, and accountability of the Board of Directors when nominating and compensating Directors.

## Future Actions

### Promote workplace diversity and inclusion

Half of the Group's employees are non-Japanese because a growing number of its manufacturing plants are located outside Japan. The Group's plants and offices in Japan proactively hire employees of non-Japanese nationality every year. The Company is working to establish a quota for female managers, as well as a policy to ensure diversity when promoting key employees.

### Use the TCFD Guidelines to manage climate-change risks

The Company is working to disclose TCFD-compliant climate-related financial information.

# SAKAI

## MASTERS OF COMPACTION

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Performance forecasts and other forward-looking statements in this document are based on Information available at the time of this writing, as well as certain assumptions deemed reasonable. Actual performance and other results may differ depending on a variety of factors.