

Consolidated Financial Results for the Three Months Ended June 30, 2022

SAKAI HEAVY INDUSTRIES, LTD.

Stock code: 6358

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

August 10, 2022

Summary of Consolidated Financial Results

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	Yen
Three months ended June 30, 2022	6,865	12.7	448	121.7	516	140.8	402	160.9	95.60	-
Three months ended June 30, 2021	6,089	33.4	202	451.0	214	-	154	-	35.85	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2022	38,436	23,568	61.2
As of March 31, 2022	37,858	23,161	61.1

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 ending March 31, 2022	-	60.00	-	105.00	165.00
Year ending March 31, 2023	-	-	-	-	-
Year ending March 31, 2023 (Forecast)	-	80.00	-	85.00	165.00

3. Forecast of consolidated financial results for the year ending March 31, 2022 (from April 1, 2022 to March 31, 2023)

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
Six months ending September 30, 2022	14,000	7.8	650	Δ10.4	625	Δ14.7	400	Δ21.4	94.41
Full year	29,300	10.2	1,500	8.4	1,450	3.0	950	Δ33.4	224.22

Highlights of Consolidated Business Performance

1. Summary of Consolidated Business Performance for the Three Months Ended June 30, 2022

- 1) Consolidated net sales : ¥6,865 million, up 12.7% YoY**
Overseas sales was expanded by handling supply chain issues.
- 2) Operating profit : ¥448 million, up 2.2 times YoY**
Profit structure reform made progress, especially in overseas business.
- 3) Sales in Japan : ¥2,811 million, up 1.7% YoY**
Sales remain firm against the backdrop of measures to accelerate national land resilience.
- 4) Sales in North America: ¥1,729 million, up 25.6% YoY**
Strong recovery in demand made progress against the backdrop of robust investment in construction.
- 5) Sales in Asia : ¥2,184 million, up 22.6% YoY**
In addition to the shift to demand recovery in the Indonesian market, Vietnam market was strong.

Highlights of Consolidated Business Performance

2. Adapting to a Changing Business Environment

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

(1) Formulating the medium-term management policy with the goals of achieving net sales of ¥30 billion, operating profit of ¥3.1 billion, ROE of 8%

Three Months ended June 30,2022 : Net sales of ¥6.8 billion, Operating profit of ¥0.4 billion, ROE of 6.9%

(2) Building a sustainable management structure by ESG and DX

2) Adaptability to change

(1) Dealing with volatile demand

- Inventories of ¥7,458 million (up 10.2% YoY, sales/inventory turnover was improved by 0.25times to 3.67times)

Reducing parts stockout risk by reviewing inventory levels of long delivery parts

(2) Strengthening product supply capabilities

- Enhancement of supply chain (review of suppliers and dual sourcing)
- Expansion of domestic production capacity (Increasing in production lines)

(3) Reforming our profit structure in the wake of rising of manufacturing component prices and transportation costs

- Penetration of sales price revisions
- Transportation cost reductions through improving efficiency

Highlights of Consolidated Business Performance

3. Mid- to Long-Term Growth Strategy

1) Make more significant inroads into the Asian market:

Expand the ASEAN market centered on our Indonesian hub

2) Expand the scope of overseas business:

Enter the overseas market for road maintenance equipment

3) Pursue business opportunities in North America:

Increase our market share through niche marketing

4) Start developing next-generation businesses:

Focus on developing emergency brakes, compaction management systems, 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 national land resilience over the next five years to prevent and mitigate natural disasters.

2) Overseas

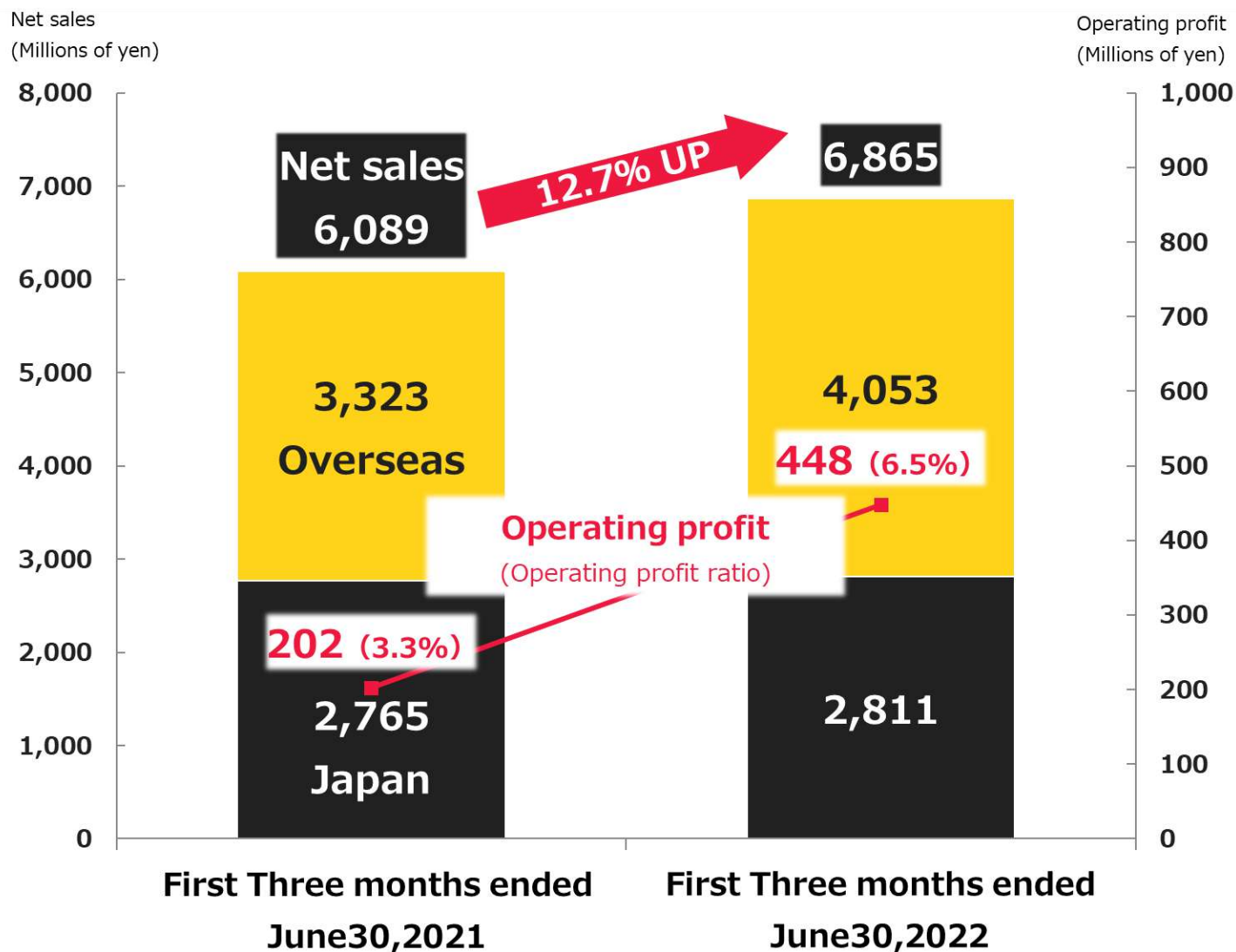
Overseas construction machinery demand is also expected to maintain a firm recovery trend, with infrastructure investment totaling \$1.2 trillion planned in the U.S., and ASEAN and emerging countries expanding infrastructure investment as an economic stimulus measure, among other factors.

Consolidated Business Performance

(Millions of yen)

	First Three months ended June30, 2021	First Three months ended June30, 2022	YoY change	
			Amount	%
Net sales	6,089	6,865	775	12.7%
Japan	2,765	2,811	45	1.7%
Overseas	3,323	4,053	729	22.0%
Operating profit	202	448	246	121.7%
<i>Operating profit ratio</i>	(3.3%)	(6.5%)		
Ordinary profit	214	516	302	140.8%
Profit attributable to owners of parent	154	402	248	160.9%
Cost-of-sales ratio	(76.3%)	(74.4%)		

Consolidated Business Performance (Graph)



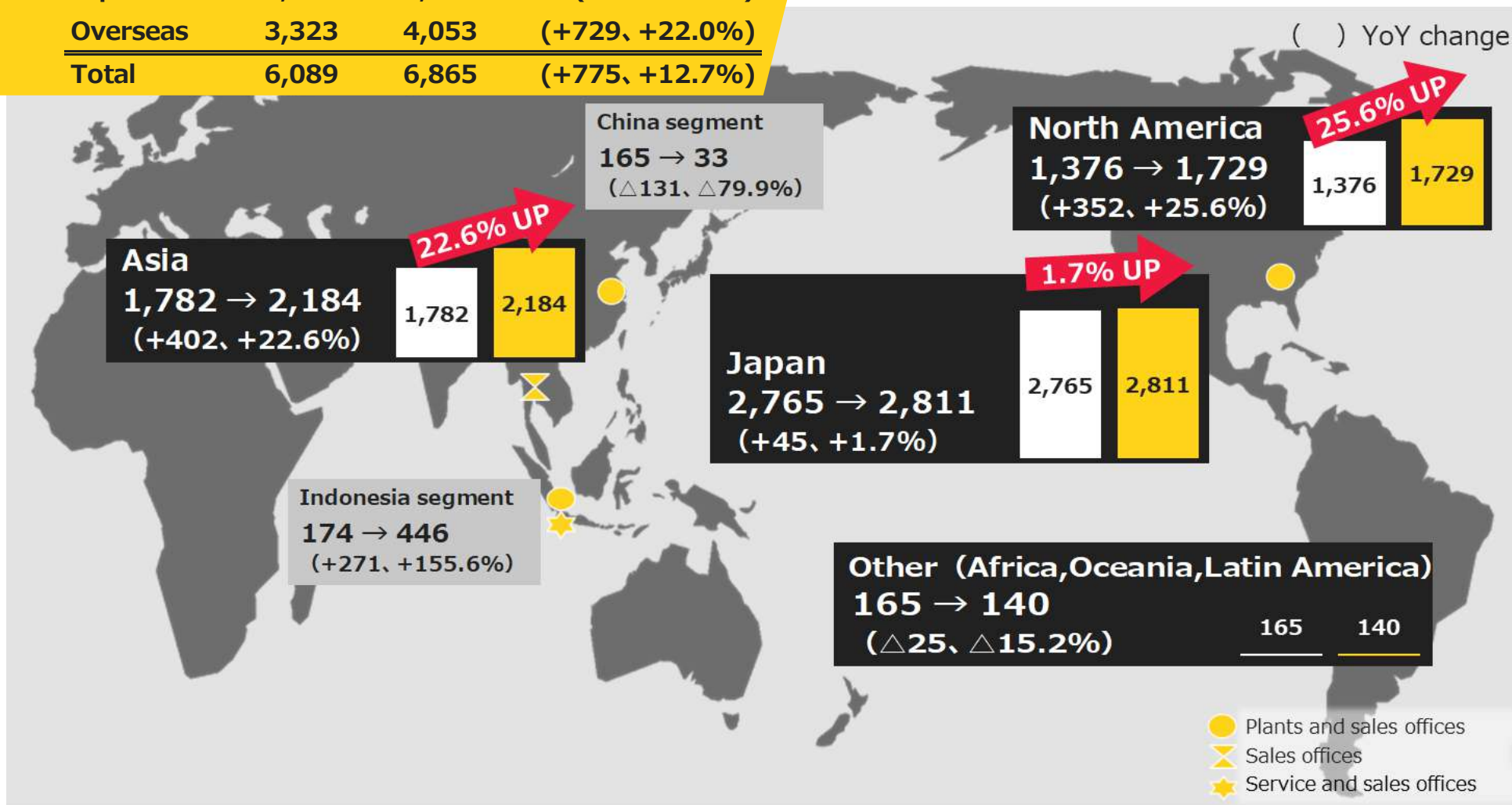
Sales by Region in Which Customers Are Located

(Millions of yen)

	First Three months ended June30,2021	First Three months ended June30,2022	YoY change	
			Amount	%
Japan	2,765	2,811	45	1.7%
Overseas	3,323	4,053	729	22.0%
North America	1,376	1,729	352	25.6%
Asia	1,782	2,184	402	22.6%
Other regions	165	140	▲ 25	▲15.2%
Total	6,089	6,865	775	12.7%

Sales by Region (Map)

(Millions of yen)	First Three months ended June30,2021	First Three months ended June30,2022	YoY change
Japan	2,765	2,811	(+45, +1.7%)
Overseas	3,323	4,053	(+729, +22.0%)
Total	6,089	6,865	(+775, +12.7%)



Segment Information by Region in Which Our Manufacturing Facilities and Sales Offices Are Located

(Millions of yen)

Japan	First Three months ended June30,2021	First Three months ended June30,2022	YoY change	
			Amount	%
Sales to external customers	4,373	4,656	282	6.5%
Intercompany sales	412	705	293	71.2%
Total net sales	4,785	5,362	576	12.0%
Operating profit	100	90	▲ 9	▲9.2%

(Millions of yen)

North America	First Three months ended June30,2021	First Three months ended June30,2022	YoY change	
			Amount	%
Sales to external customers	1,376	1,729	352	25.6%
Intercompany sales	16	7	▲ 8	▲52.1%
Total net sales	1,392	1,737	344	24.7%
Operating profit	90	228	137	151.4%

(Millions of yen)

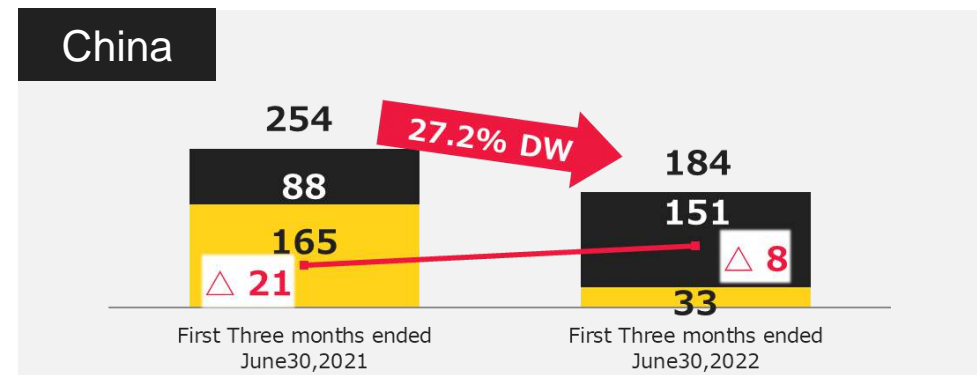
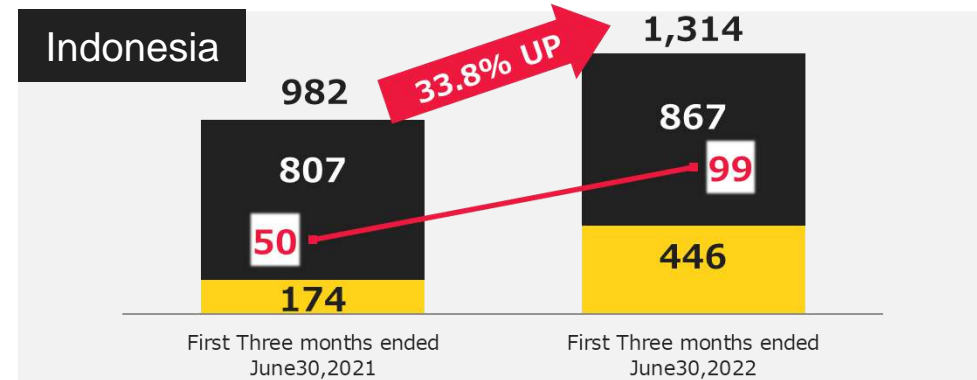
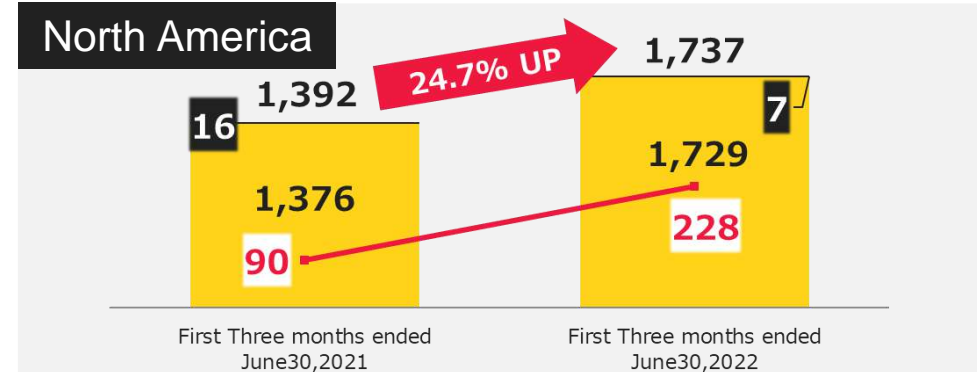
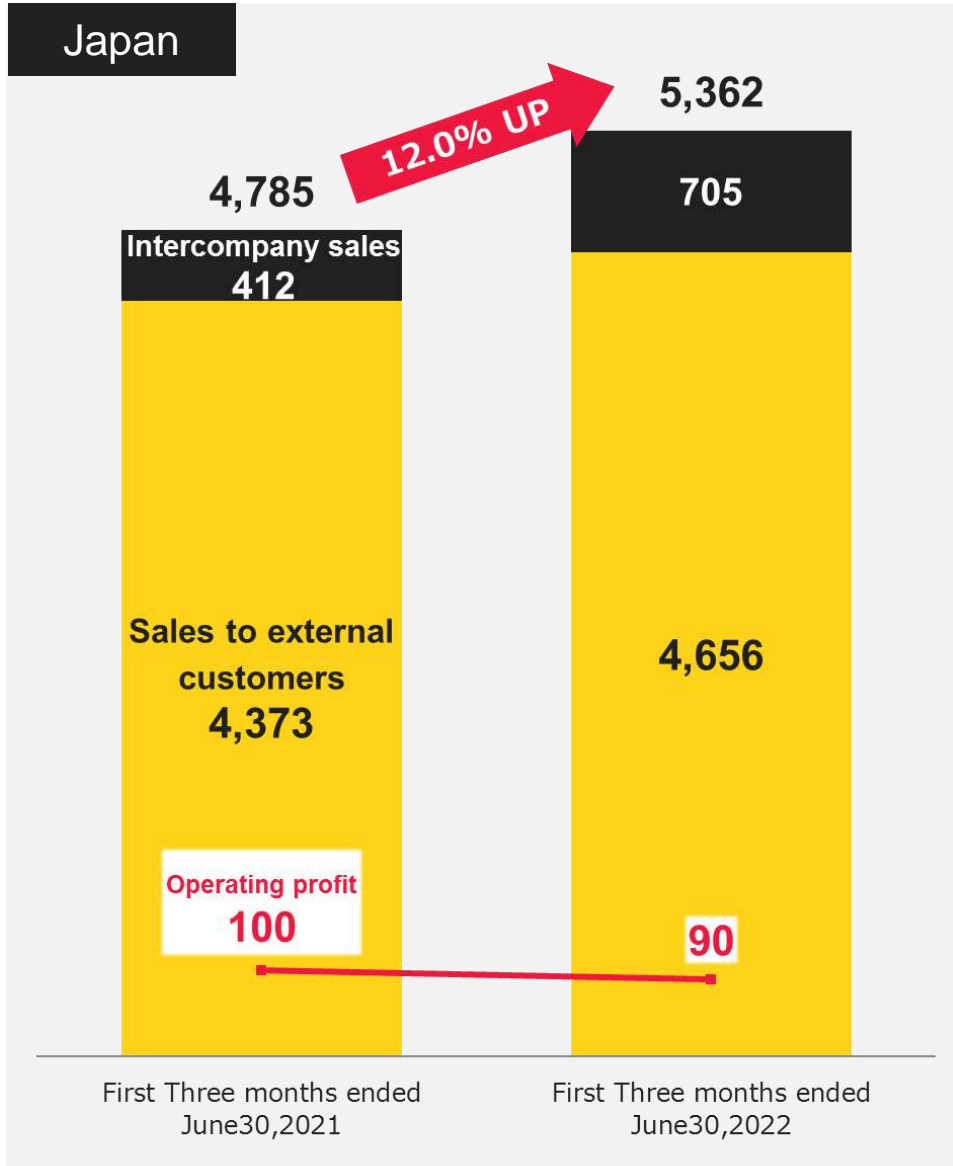
Indonesia	First Three months ended June30,2021	First Three months ended June30,2022	YoY change	
			Amount	%
Sales to external customers	174	446	271	155.6%
Intercompany sales	807	867	59	7.4%
Total net sales	982	1,314	331	33.8%
Operating profit	50	99	48	96.1%

(Millions of yen)

China	First Three months ended June30,2021	First Three months ended June30,2022	YoY change	
			Amount	%
Sales to external customers	165	33	▲ 131	▲79.9%
Intercompany sales	88	151	62	70.5%
Total net sales	254	184	▲ 69	▲27.2%
Operating profit	▲ 21	▲ 8	13	– %

Segment Information by Region (Graph)

(Millions of yen)



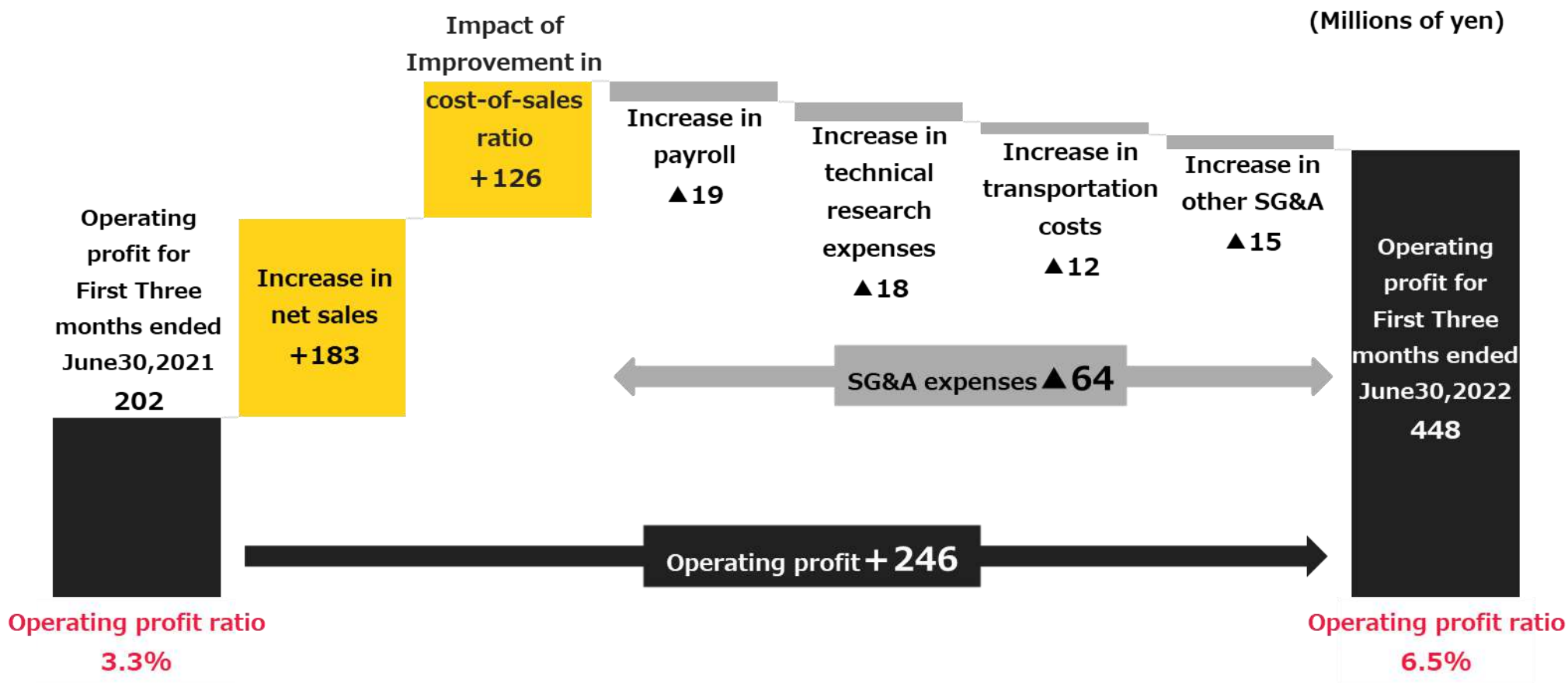
Breakdown of YoY Changes in Operating Profit

- Gross profit increased by ¥183 million, in line with YoY increase in sales of ¥775 million.
- Cost-of-sales ratio decreased by 1.84% and gross profit increased by ¥126 million through sales price revisions and logistics streamlining.
- SG&A expenses increased by ¥64 million as we came out of restricted operational conditions and resumed business activities.
- As a result, Operating profit rose by ¥246 million YoY to ¥448 million.

(Millions of yen)

	First Three months ended June30,2021	First Three months ended June30,2022	YoY change	Impact on operating profit	Note
Net sales	6,089	6,865	775	+183	775 x (1 - 76.3%)
Cost-of-sales ratio	76.3%	74.4%	▲1.84%	+126	6,865 x ▲1.84%
Gross profit	1,443	1,754	310		
SG&A expenses	1,241	1,305	64	▲ 64	payroll: up 19; Technical research expenses: up 18 Transportation costs: up 12; Other SG&A: up 15
Operating profit	202	448		+246	

Breakdown of YoY Changes in Operating Profit (Graph)



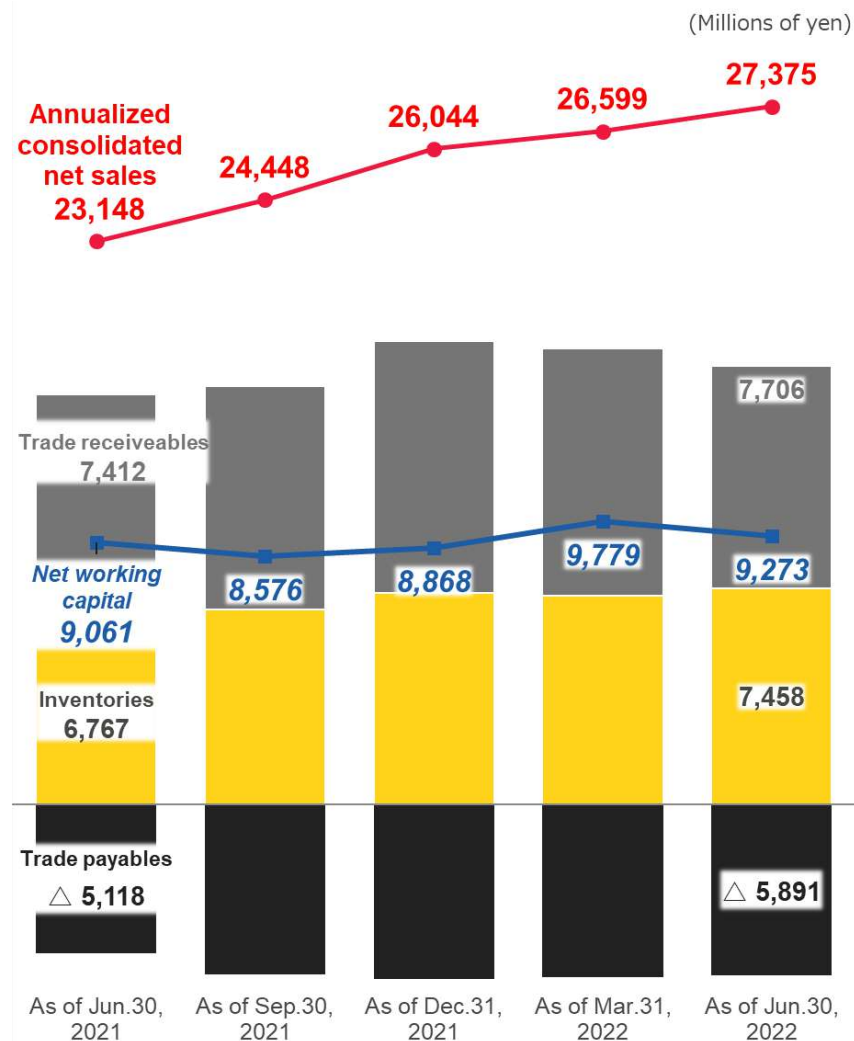
Net Working Capital (Trade Receivables + Inventories – Trade Payables)

- Net working capital invested in sales activities increased by ¥212 million YoY to ¥9,273 million.
- Inventories increased by ¥691 million YoY to ¥7,458 million.
- Sales/Inventory turnover was improved by 0.25 times YoY to 3.67 times for the year.

(Millions of yen)

	As of June 30, 2021	As of June 30, 2022	YoY change	
			Amount	%
Annualized consolidated net sales	23,148	27,375	4,227	18.3%
Trade receivables	7,412	7,706	294	4.0%
Inventories	6,767	7,458	691	10.2%
Trade payables	▲5,118	▲5,891	▲773	15.1%
Net working capital	9,061	9,273	212	2.3%

Inventories turnover	3.42 times	3.67 times	0.25 times
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Consolidated Business Forecast

No change from the earlier forecast

- Firm recovery trend in global construction machinery demand amid global infrastructure investment growth
- Further increase in material prices and pressure to revise supply chains
- Promote profit structure reform through penetration of sales price revisions and cost cuts
- Strengthening product supply capabilities by enhancement of supply chain and expansion of domestic production capacity
- Profit to reflect the absence of temporary boost from deferred tax assets of ¥381 million

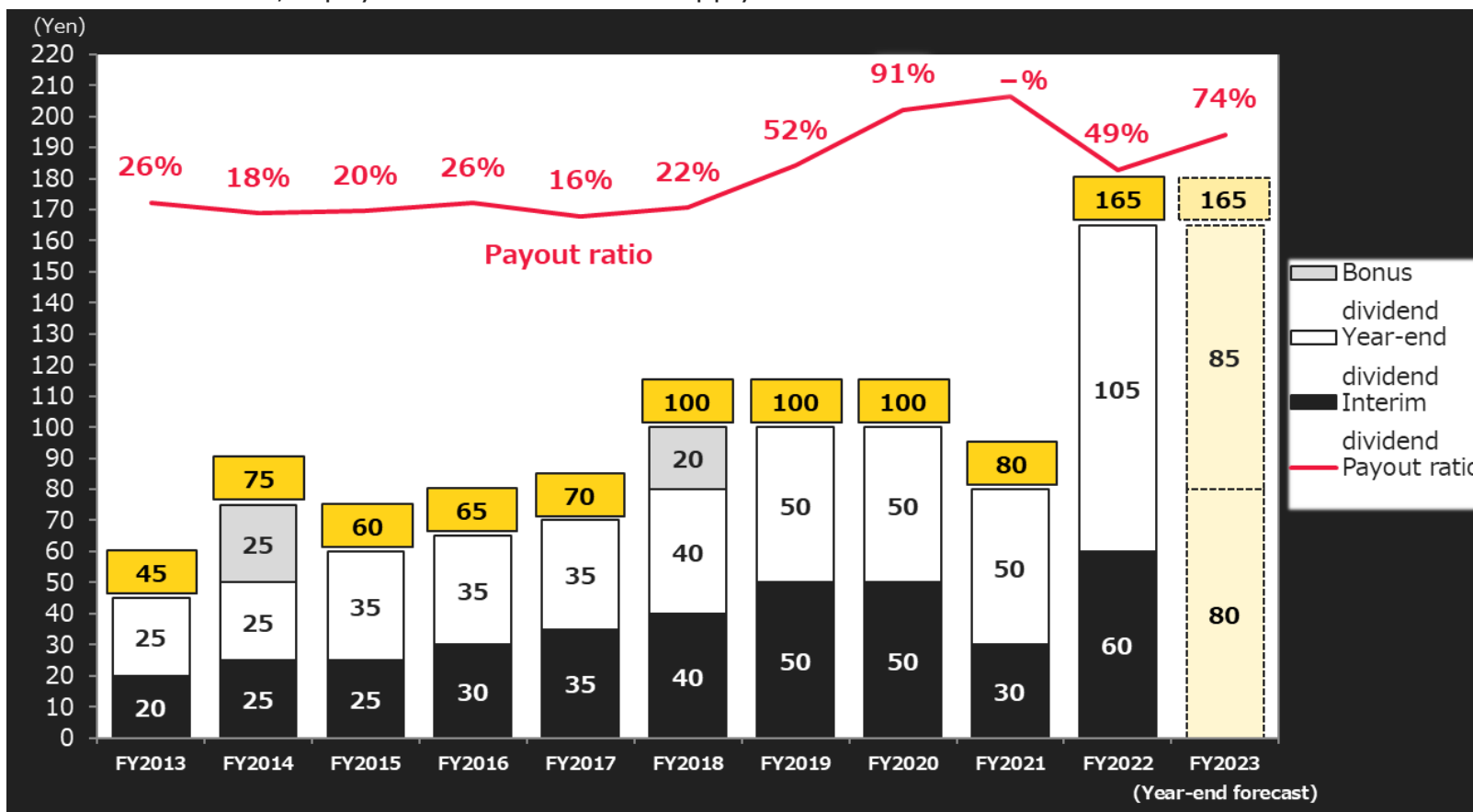
(Millions of yen)

	First half				Full year			
	Six months ended September 30, 2021 (Results)	Six months ended September 30, 2022 (Forecast)	YoY change		Fiscal year ended March 31, 2022 (Results)	Fiscal year ended March 31, 2023 (Forecast)	YoY change	
			Amount	%			Amount	%
Net sales	12,987	14,000	1,012	7.8%	26,599	29,300	2,700	10.2%
Operating profit	725	650	▲ 75	▲10.4%	1,383	1,500	116	8.4%
Ordinary profit	732	625	▲ 107	▲14.7%	1,407	1,450	42	3.0%
Profit attributable to owners of parent	509	400	▲ 109	▲21.4%	1,427	950	▲ 477	▲33.4%
Earnings per share	119.52円	94.41円	▲ 25.11	▲21.0%	336.87円	224.22円	▲ 112.65	▲33.4%

Dividends per Share

Since the announcement of the Medium-Term Management Policy on June 2, 2021, we have set a dividend policy as follows, with a target of 8% ROE:

- 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.

KPIs Established in the Medium-Term Management Policy

- Net sales on pace to exceed the plan in the second year of the medium-term management policy.
- Faced with profit structure deterioration due to structural increases in energy and material prices and high logistics costs, improvement in operating margin is lagging, and we are now promoting profit structure reform through sales price revisions and cost reductions.

(Millions of yen)

	First Three months ended June30,2021 (Results)	First Three months ended June30,2022 (Results)	Fiscal year ended March 31,2023 (Forecast)	Target for fiscal year ending March 31,2024	Target for fiscal year ending March 31,2026
Net sales	6,089	6,865	29,300	26,500	30,000
Operating profit	202	448	1,500	2,000	3,100
Annualized return on equity (ROE) ※1	2.8%	6.9%	4.1%	5.5%	8.0%
Share buybacks (through March 31, 2026)	—	—	340※2	500 ~ 2,000※3	

※1 The annualized ROEs were calculated based on the year-to-date results of the corresponding fiscal year.

※2 The amount of share buybacks projected for the fiscal year ending March 31, 2023, represents the amount of buybacks conducted for the year-to-date as of August 10, 2022.

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

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.