

Consolidated Financial Results for the Three Months Ended June 30, 2023

SAKAI HEAVY INDUSTRIES, LTD.

Stock code: 6358
URL: <https://www.sakainet.co.jp/en/>

August 10, 2023

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, 2023 (from April 1, 2023 to June 30, 2023)

(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, 2023	7,529	9.7	551	22.8	692	34.0	471	17.2	111.33	—
Three months ended June 30, 2022	6,865	12.7	448	121.7	516	140.8	402	160.9	95.60	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2023	42,434	26,010	61.1
As of March 31, 2023	40,804	25,295	61.8

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, 2023	—	80.00	—	120.00	200.00
Year ending March 31, 2024	—				
Year ending March 31, 2024 (Forecast)		90.00	—	125.00	215.00

3. Forecast of consolidated financial results for the year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

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, 2023	16,100	8.1	1,300	21.8	1,250	14.1	770	(5.9)	182.12
Full year	33,000	4.9	2,950	17.7	2,800	20.3	1,830	8.0	432.82

Highlights of Consolidated Business Performance

1. Summary of Consolidated Business Performance for the Three Months Ended June 30, 2023

1) Consolidated net sales : ¥7,529 million, up 9.7% YoY

Overseas sales was expanded, especially in North America.

2) Operating profit : ¥551 million, up 22.8% YoY

Progress was made with profit structure reform through penetration of price revisions in Japan and overseas.

3) Sales in Japan : ¥2,798 million, down 0.4% YoY

Sales remain firm against the backdrop of measures to accelerate national land resilience.

4) Sales in North America : ¥2,301 million, up 33.1% YoY

Demand continues to expand due to increased investment in road construction against the backdrop of the Infrastructure Investment and Jobs Act.

5) Sales in Asia : ¥2,092 million, down 4.2% YoY

Signs of slowing growth in some of the markets, despite a strong recovery in demand in Indonesia.

Highlights of Consolidated Business Performance

2. Adapting to a Changing Business Environment

1) Initiatives for enhancing the profitability of capital

(1) Progress of medium-term management policy

Five-year medium-term management plan: Net sales of ¥30 billion, operating profit of ¥3.1 billion, ROE of 8.0%

Forecast for the current fiscal year (third year): Net sales of ¥33 billion, operating profit of ¥2.95 billion, ROE of 7.1%

Results of the three months ended June 30, 2023: Net sales of ¥7.5 billion, operating profit of ¥0.55 billion, ROE of 7.0%

(2) Measures to comply with the Continued Listing Criteria for the Tokyo Stock Exchange Prime Market

Tradable share market capitalization: Achieved ¥10.3 billion at the end of March 2023, up 63% compared to June 2021, compliant with all the criteria

(3) Progress of enhancing corporate value (PBR above 1)

At the end of March 2023: PBR 0.67 times (Share price ¥4,010)

At the end of June 2023: PBR 0.88 times (Share price ¥5,380)

2) Profit structure reform through sales price revisions and high added value

Cost-of-sales ratio improvement: 73.1%, improvement of 1.3% YoY

Profit structure reform progressed with penetration of sales price revisions in Japan and overseas.

3) Strengthening product supply capabilities

(1) Enhancement of supply chain (review of suppliers and dual sourcing)

(2) Modification of global business activities (expansion of production capacity at domestic plants, expansion of parts business at Chinese plants)

4) Dealing with volatile demand

Inventory turnover: 3.01 times, down 0.66 times/18% YoY

Increase in parts for increased production and safety stock. Currently adjusting to an optimized inventory level due to easing of supply constraints.

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 (net sales down 4.2% YoY)

2) Expand the scope of overseas business:

Develop the overseas market for road maintenance equipment (start the local production in Indonesia)

3) Pursue business opportunities in North America:

Increase our market share through niche marketing (net sales up 33.1% YoY)

4) Start developing next-generation businesses:

Focus on market development for emergency brakes, compaction management systems, and road cutting management systems.

Research and development on autonomous vibratory rollers and EV rollers is underway.

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 resilience over the next five years to prevent and mitigate natural disasters.

2) Overseas

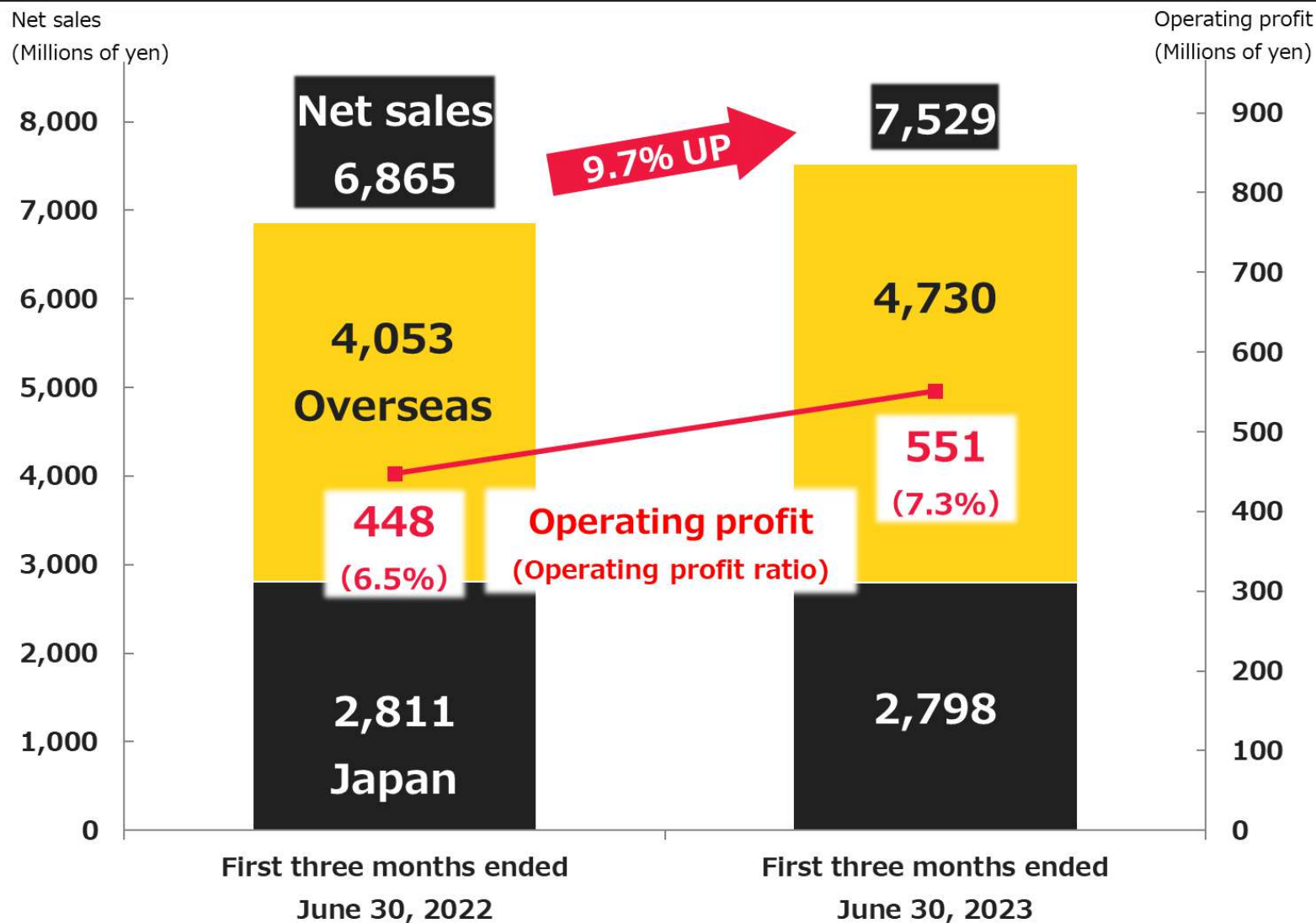
Demand in overseas construction machinery market is expected to remain stable with infrastructure investment totaling \$1.2 trillion planned in the U.S., becoming active in infrastructure investment and mine development in emerging countries, and renewal of aging infrastructure and disaster countermeasures.

Consolidated Business Performance

(Millions of yen)

	First three months ended June 30, 2022	First three months ended June 30, 2023	YoY change	
			Amount	%
Net sales	6,865	7,529	664	9.7%
Japan	2,811	2,798	▲ 12	▲0.4%
Overseas	4,053	4,730	676	16.7%
Operating profit	448	551	102	22.8%
<i>Operating profit ratio</i>	(6.5%)	(7.3%)		
Ordinary profit	516	692	175	34.0%
Profit attributable to owners of parent	402	471	69	17.2%
Cost-of-sales ratio	(74.4%)	(73.1%)		

Consolidated Business Performance (Graph)



Sales by Region in Which Customers Are Located

(Millions of yen)

	First three months ended June 30, 2022	First three months ended June 30, 2023	YoY change	
			Amount	%
Japan	2,811	2,798	▲ 12	▲0.4%
Overseas	4,053	4,730	676	16.7%
North America	1,729	2,301	572	33.1%
Asia	2,184	2,092	▲ 92	▲4.2%
Other regions	140	337	197	140.5%
Total	6,865	7,529	664	9.7%

Sales by Region (Map)

(Millions of yen)	First three months ended June 30, 2022	First three months ended June 30, 2023	YoY change
Japan	2,811	2,798	(▲12, ▲0.4%)
Overseas	4,053	4,730	(+676, +16.7%)
Total	6,865	7,529	(+664, +9.7%)

() : YoY change

China segment
 33 → 54
 (+21, +64.1%)

North America
 1,729 → 2,301
 (+572, +33.1%)

33.1% UP

Asia
 2,184 → 2,092
 (△92, △4.2%)

4.2% DW

Japan
 2,811 → 2,798
 (△12, △0.4%)

0.4% DW

Indonesia segment
 446 → 994
 (+548, +122.7%)

Other (Africa, Oceania, Latin America)
 140 → 337
 (+197, +140.5%)

- Plants and sales offices
- ✂ Sales offices
- ★ Service and sales offices

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

(Millions of yen)

Japan	First three months ended June 30, 2022	First three months ended June 30, 2023	YoY change	
			Amount	%
Sales to external customers	4,656	4,179	▲ 477	▲10.2%
Intercompany sales	698	1,042	344	49.3%
Total net sales	5,354	5,221	▲ 132	▲2.5%
Operating profit	90	121	30	33.7%

(Millions of yen)

North America	First three months ended June 30, 2022	First three months ended June 30, 2023	YoY change	
			Amount	%
Sales to external customers	1,729	2,301	572	33.1%
Intercompany sales	7	3	▲ 4	▲55.2%
Total net sales	1,737	2,304	567	32.7%
Operating profit	228	194	▲ 33	▲14.8%

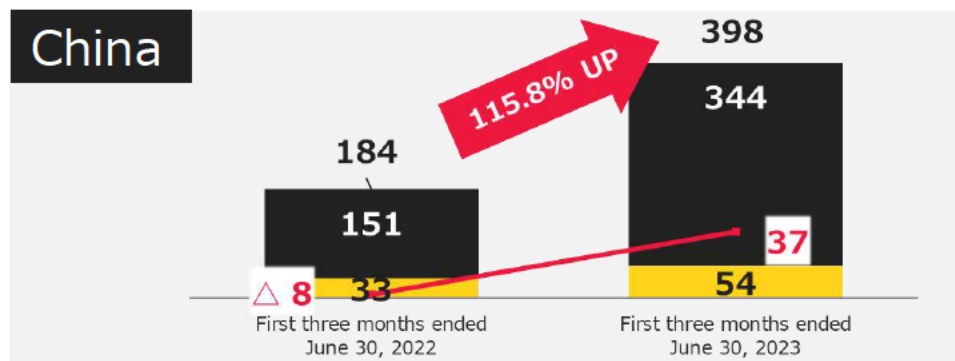
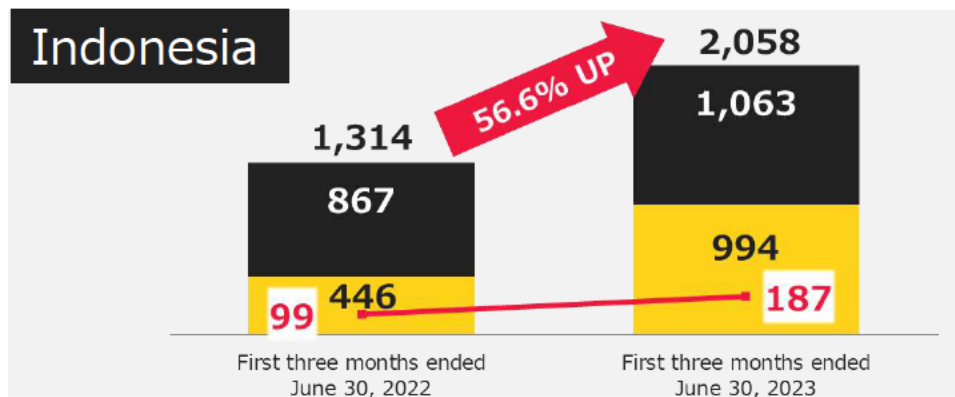
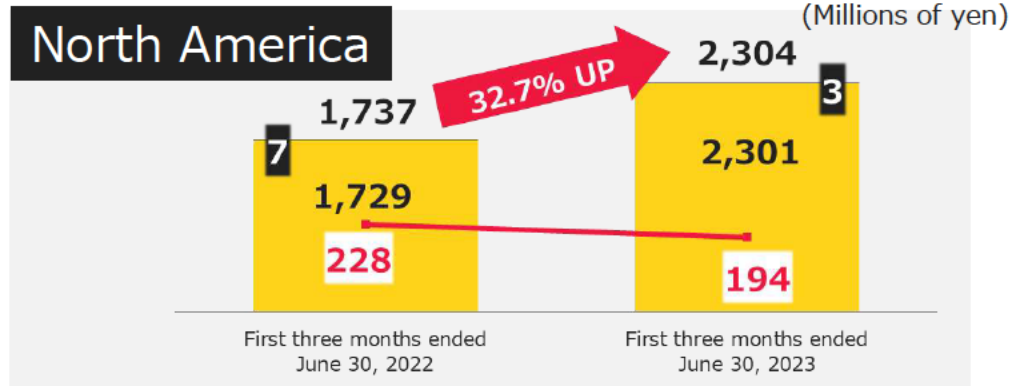
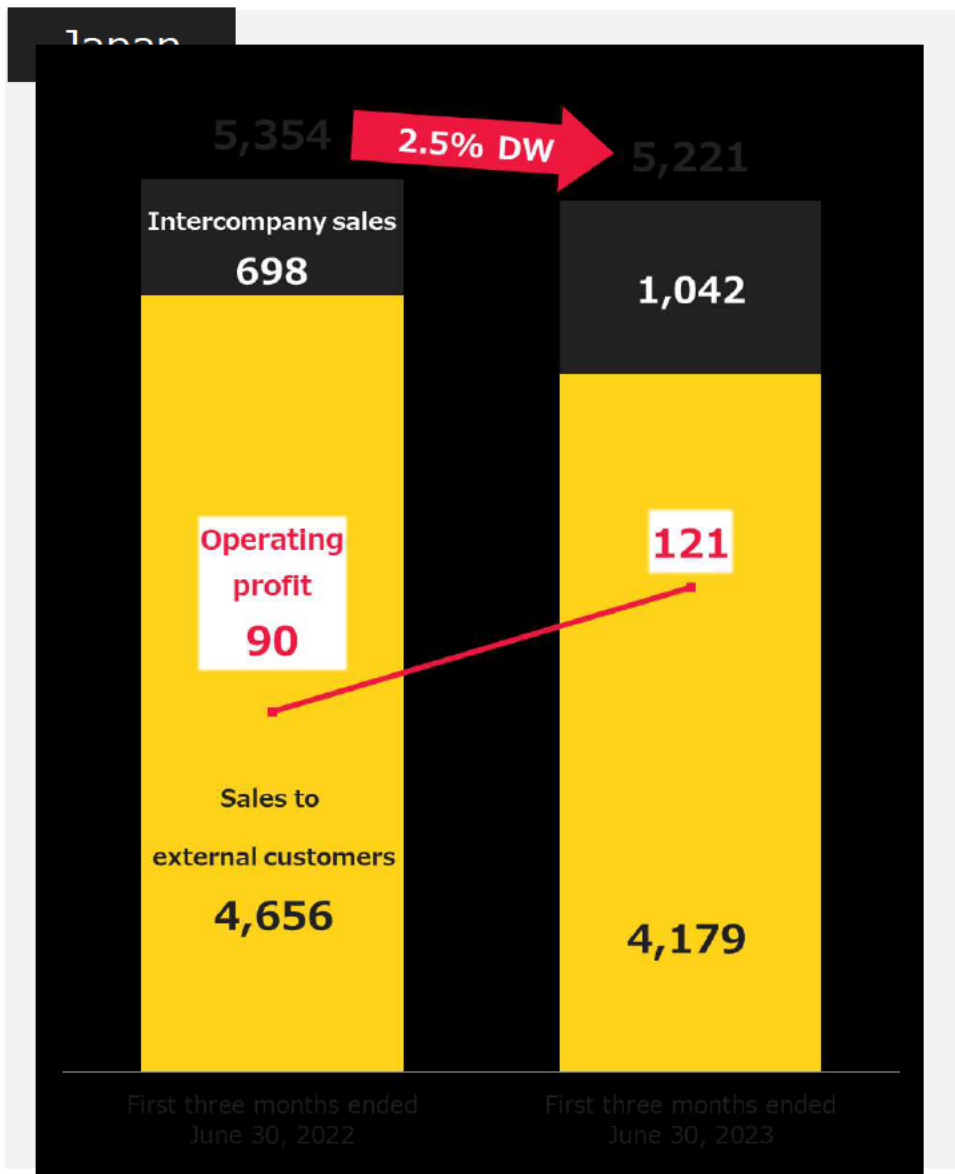
(Millions of yen)

Indonesia	First three months ended June 30, 2022	First three months ended June 30, 2023	YoY change	
			Amount	%
Sales to external customers	446	994	548	122.7%
Intercompany sales	867	1,063	196	22.6%
Total net sales	1,314	2,058	744	56.6%
Operating profit	99	187	87	88.0%

(Millions of yen)

China	First three months ended June 30, 2022	First three months ended June 30, 2023	YoY change	
			Amount	%
Sales to external customers	33	54	21	64.1%
Intercompany sales	151	344	192	127.1%
Total net sales	184	398	213	115.8%
Operating profit	▲ 8	37	46	– %

Segment Information by Region (Graph)



Breakdown of YoY Changes in Operating Profit

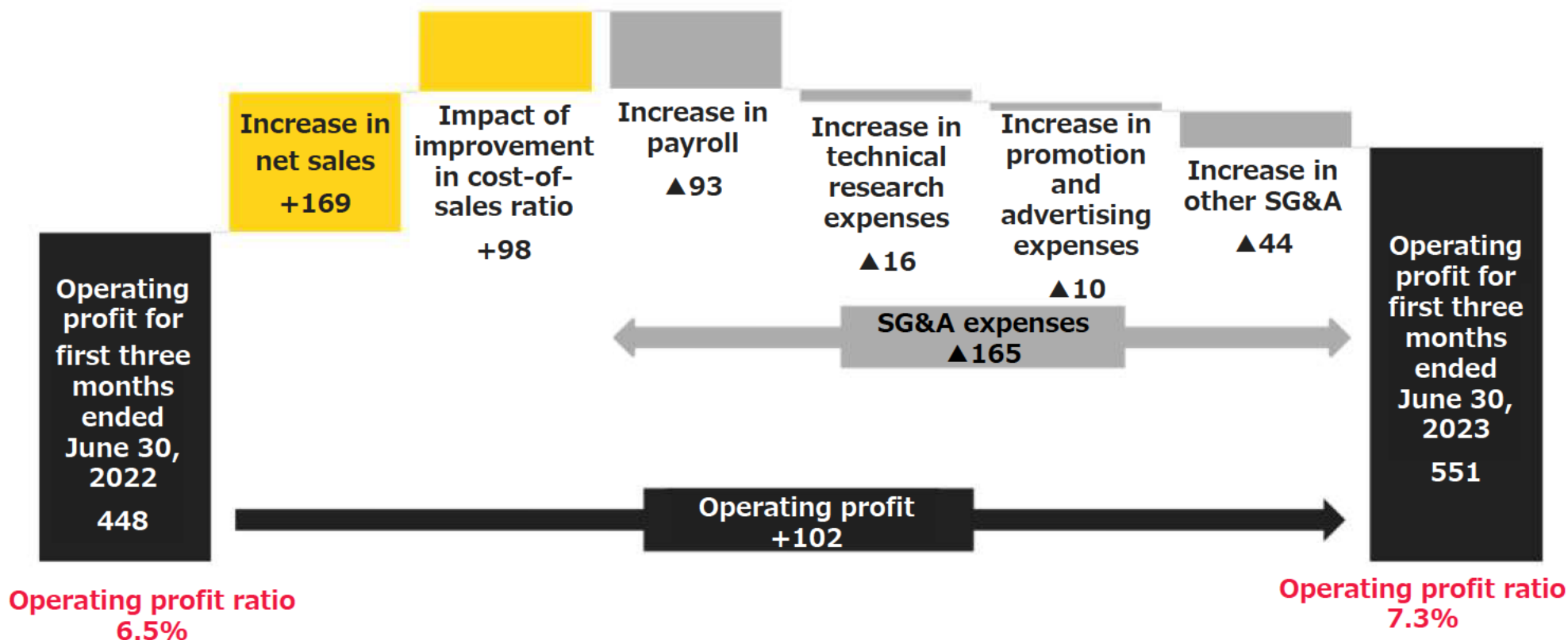
- Gross profit increased by ¥169 million, in line with YoY increase in net sales of ¥664 million.
- Cost-of-sales ratio decreased by 1.3% and gross profit increased by ¥98 million through penetration of sales price revisions in Japan and overseas.
- SG&A expenses increased by ¥165 million following the increased investment in human capital (increased payroll) and increased business activities.
- As a result, operating profit rose by ¥102 million to ¥551 million.

(Millions of yen)

	First three months ended June 30, 2022	First three months ended June 30, 2023	YoY change	Impact on operating profit	Note
Net sales	6,865	7,529	664	+169	664 x (1 - 74.4%)
Cost-of-sales ratio	74.4%	73.1%	▲1.3%	+98	7,529 x ▲1.3%
Gross profit	1,754	2,022	267		
SG&A expenses	1,305	1,470	165	▲ 165	Payroll: up 93; Technical research expenses: up 16 Promotion and advertising expenses: up 10; Other SG&A: up 44
Operating profit	448	551		+102	

Breakdown of YoY Changes in Operating Profit (Graph)

(Millions of yen)

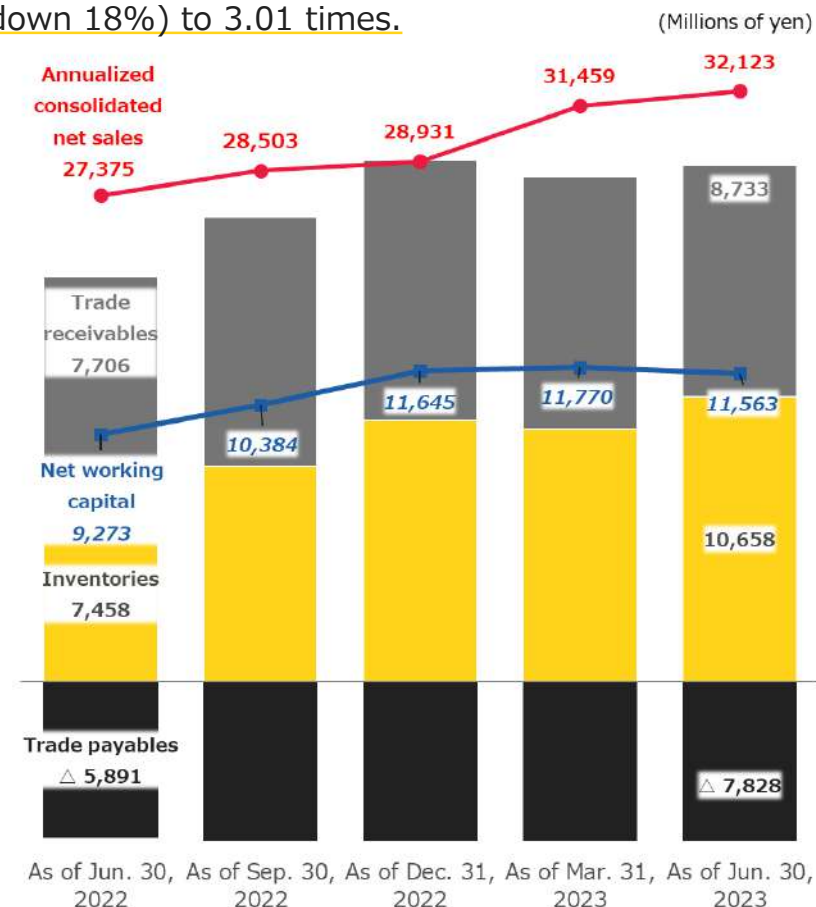


Net Working Capital (Trade Receivables + Inventories – Trade Payables)

- Net working capital invested in sales activities increased by ¥2,290 million YoY to ¥11,563 million.
As a result, net working capital/sales ratio increased by 2.1% to 36.0%.
- Inventories increased by ¥3,200 million YoY to ¥10,658 million through increase in parts for increased production and safety stock.
As a result, net sales/inventory turnover decreased by 0.66 times (down 18%) to 3.01 times.
Currently making adjustments to optimize inventory levels.

(Millions of yen)

	As of June 30, 2022	As of June 30, 2023	YoY change	
			Amount	%
Annualized consolidated net sales	27,375	32,123	4,748	17.3%
Trade receivables	7,706	8,733	1,027	13.3%
Inventories	7,458	10,658	3,200	42.9%
Trade payables	▲5,891	▲7,828	▲1,937	32.9%
Net working capital	9,273	11,563	2,290	24.7%
Inventory turnover	3.67 times	3.01 times	▲0.66 times	
Net working capital/Sales ratio	33.9%	36.0%	2.1%	



Consolidated Business Forecast

No change from the previous forecast.

- We anticipate firm demand in Japan, North America and Asia, so the net sales forecast is set at ¥33,000 million, representing a YoY increase of 4.9%.
- Amidst further price revisions, rationalization, increased business activities, and planned investments in human capital and digital transformation (DX), the operating profit forecast is set at ¥2,950 million, a YoY increase of 17.7%.

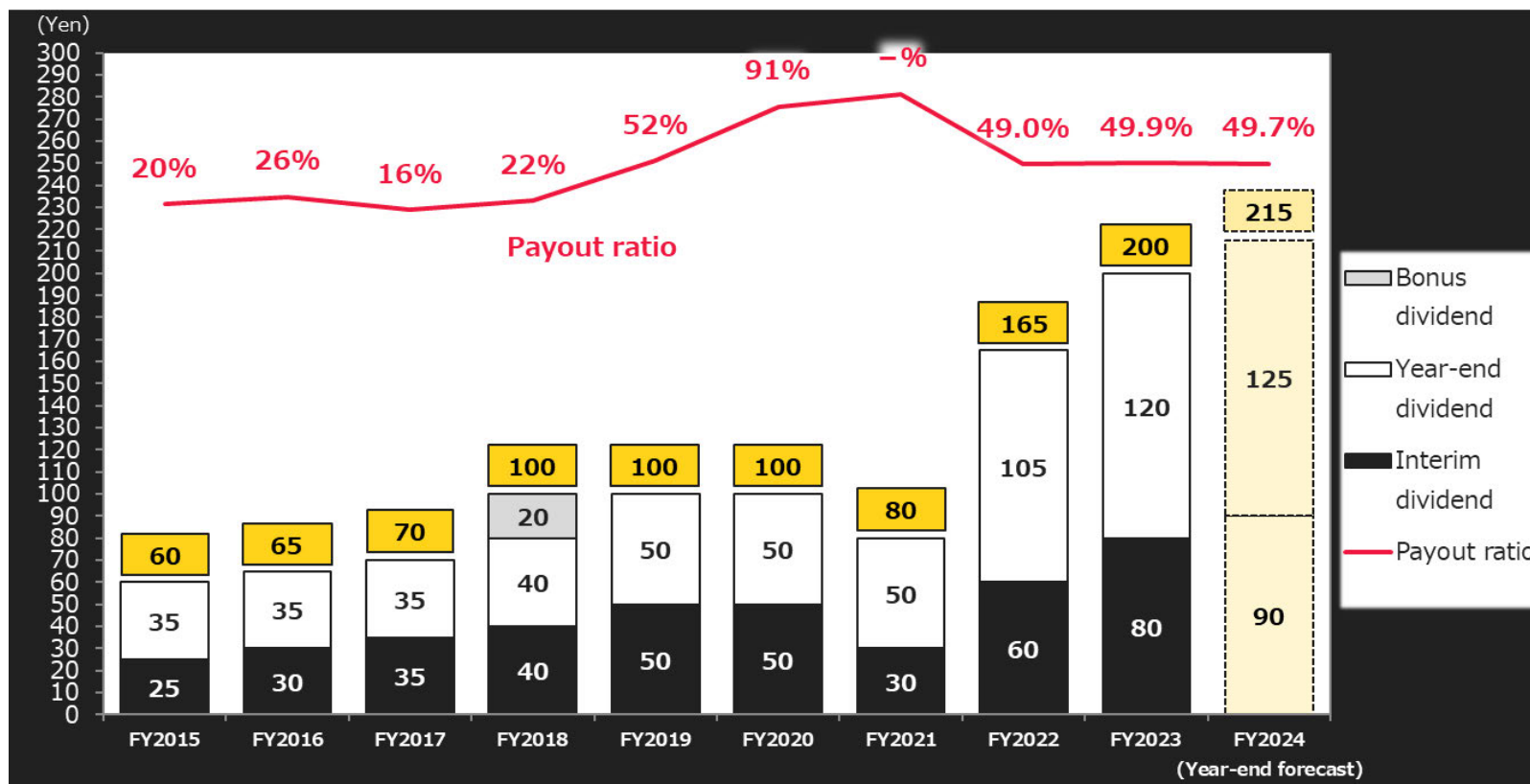
(Millions of yen)

	First half				Full year			
	Six months ended September 30, 2022 (Results)	Six months ending September 30, 2023 (Forecast)	YoY change		Fiscal year ended March 31, 2023 (Results)	Fiscal year ending March 31, 2024 (Forecast)	YoY change	
			Amount	%			Amount	%
Net sales	14,891	16,100	1,208	8.1%	31,459	33,000	1,540	4.9%
Operating profit	1,067	1,300	232	21.8%	2,506	2,950	443	17.7%
Ordinary profit	1,095	1,250	154	14.1%	2,327	2,800	472	20.3%
Profit attributable to owners of parent	818	770	▲ 48	▲ 5.9%	1,694	1,830	135	8.0%
Earnings per share (Yen)	¥193.92	¥182.12	▲ ¥11.80	▲ 6.1%	¥400.75	¥432.82	¥32.07	8.0%

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

(Millions of yen)

	First three months ended June 30, 2022 (Results)	First three months ended June 30, 2023 (Results)	Fiscal year ending March 31, 2024 (Forecast)	Target for the fiscal year ending March 31, 2024	Target for the fiscal year ending March 31, 2026
Net sales	6,865	7,529	33,000	26,500	30,000
Operating profit	448	551	2,950	2,000	3,100
Annualized return on equity (ROE) ^{*1}	6.9%	7.0%	7.1%	5.5%	8.0%
Share buybacks	—	—	Cumulative amount of share buybacks		
			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 represents the cumulative amount of share buybacks that had been executed as of August 10, 2023.

*3 The amount represents the targets of the cumulative amount of share buybacks 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.