

Consolidated Financial Results for the Fiscal Year Ended March 31, 2022

SAKAI HEAVY INDUSTRIES, LTD.

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

May 12, 2022

Summary of Consolidated Financial Results

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(1) Consolidated operating results

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	%
Year ended March 31, 2022	26,599	23.0	1,383	97.3	1,407	113.6	1,427	–
Year ended March 31, 2021	21,624	(4.9)	701	(26.9)	659	(20.6)	4	(99.1)

	Earnings per share	Profit attributable to owners of parent/equity	Ordinary profit/total assets	Operating profit/net sales
	Yen	%	%	%
Year ended March 31, 2022	336.87	6.3	3.9	5.2
Year ended March 31, 2021	0.93	0.0	1.9	3.2

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2022	37,858	23,161	61.1	5,489.91
As of March 31, 2021	35,101	22,038	62.7	5,100.49

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2022	2,359	(263)	(1,227)	7,926
Year ended March 31, 2021	1,525	(508)	(812)	6,847

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2021	–	30.00	–	50.00	80.00	345	8,602.2	1.6
Year ended March 31, 2022	–	60.00	–	105.00	165.00	694	49.0	3.1
Year ending March 31, 2023 (Forecast)	–	80.00	–	85.00	165.00		73.6	

3. Forecast of consolidated financial results for the year ending March 31, 2023 (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	(10.4)	625	(14.7)	400	(21.4)	94.41
Full year	29,300	10.2	1,500	8.4	1,450	3.0	950	(33.4)	224.22

Highlights of Consolidated Business Performance

1. Summary of Consolidated Business Performance for the Fiscal Year Ended March 31, 2022

- (1) Consolidated net sales: ¥26,599 million, up 23.0% YoY**
 - Amid a rapidly changing global situation, global construction machinery demand is on a recovery trend
 - Overseas sales rose 43.4% YoY to ¥12,306 million (overseas sales ratio 46.3%)
- (2) Operating profit: ¥1,383 million, up 97.3% YoY**
- (3) Profit: ¥1,427 million (Recorded deferred tax assets of ¥381 million at a North American subsidiary, ROE 6.3%)**
- (4) Dividend: ¥165 per share (dividend payout ratio approx. 50%, up ¥15 from forecast, up ¥85 YoY)**

2. Net Sales by Major Region

- (1) Sales in Japan: ¥14,292 million, up 9.6% YoY; due to firm demand for public projects under the national resilience plan**
- (2) Sales in North America: ¥5,039 million, up 55.3% YoY; reflecting rapid demand recovery due to expanding investment in construction**
- (3) Sales in Asia: ¥6,492 million, up 33.7% YoY; demand recovered in Indonesian market**

Highlights of Consolidated Business Performance

3. Adapting to a Changing Business Environment

(1) Rising raw material prices and logistics costs

Mitigate impact of forecasted rise of costs of approximately ¥0.5 billion by revising sales prices and improving logistics efficiency

(2) Supply-chain disruptions

Strengthen ability to supply products by strengthening the procurement structure and cooperation between manufacturing and sales divisions

(3) Listing on the TSE Prime Market

- Submit plan for compliance with continued listing criteria (tradable share market capitalization at end of period of ¥8.5 billion, P/B ratio of 0.6)
- Shift to a two-pillar management focused on business growth and capital policy
- Formulate five-year medium-term management policy (net sales of ¥30.0 billion, operating profit of ¥3.1 billion, ROE of 8%, DOE of 4%)

(4) Building of ESG management structure

- Reduce volume of CO2 emissions from domestic plants by 50%. Establish CN Committee. Currently preparing TCFD reporting structure
- Board of Directors structure with 1/3 Outside Directors, establish Nomination & Compensation Committee, elect female Directors, formulate a skill matrix
- Carry out ESG briefing

(5) Becoming more agile in dealing with volatile demand

Inventories of ¥7,207 million (increase inventory turnover by 0.6 times to 3.69 times)

Highlights of Consolidated Business Performance

4. 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

5. Outlook for Business Environment

(1) Japan

Firm business environment projected to continue against the backdrop of the government's ¥15 trillion, five-year national resilience plan to speed up measures for disaster prevention and mitigation.

(2) Overseas

Overseas construction machinery demand is also expected to follow 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.

(3) Business risks

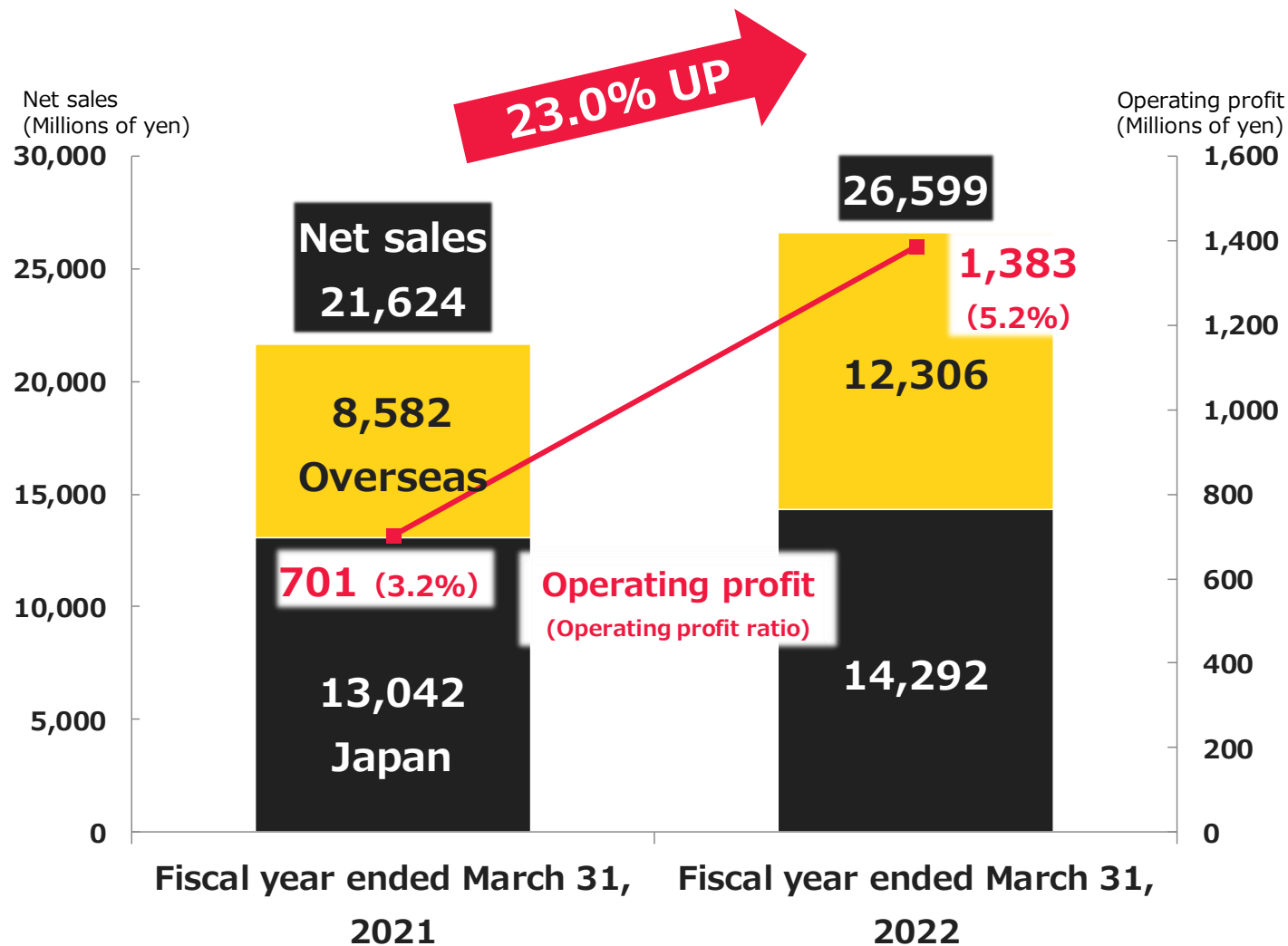
Amid accelerating decarbonization policies and development of global economic blocs, further increases in energy and material prices are expected, along with increasing pressure to reorganize global supply chains.

Consolidated Business Performance

(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	YoY change	
			Amount	%
Net sales	21,624	26,599	4,974	23.0%
Japan	13,042	14,292	1,249	9.6%
Oversaes	8,582	12,306	3,724	43.4%
Operating profit	701	1,383	682	97.3%
<i>Operating profit rate</i>	(3.2%)	(5.2%)		
Ordinary profit (loss)	659	1,407	748	113.6%
Profit (loss) attributable to owners of parent	4	1,427	1,423	– %
Cost-of-sales ratio	(75.0%)	(75.9%)		

Consolidated Business Performance (Graph)



Sales by Region in Which Customers Are Located

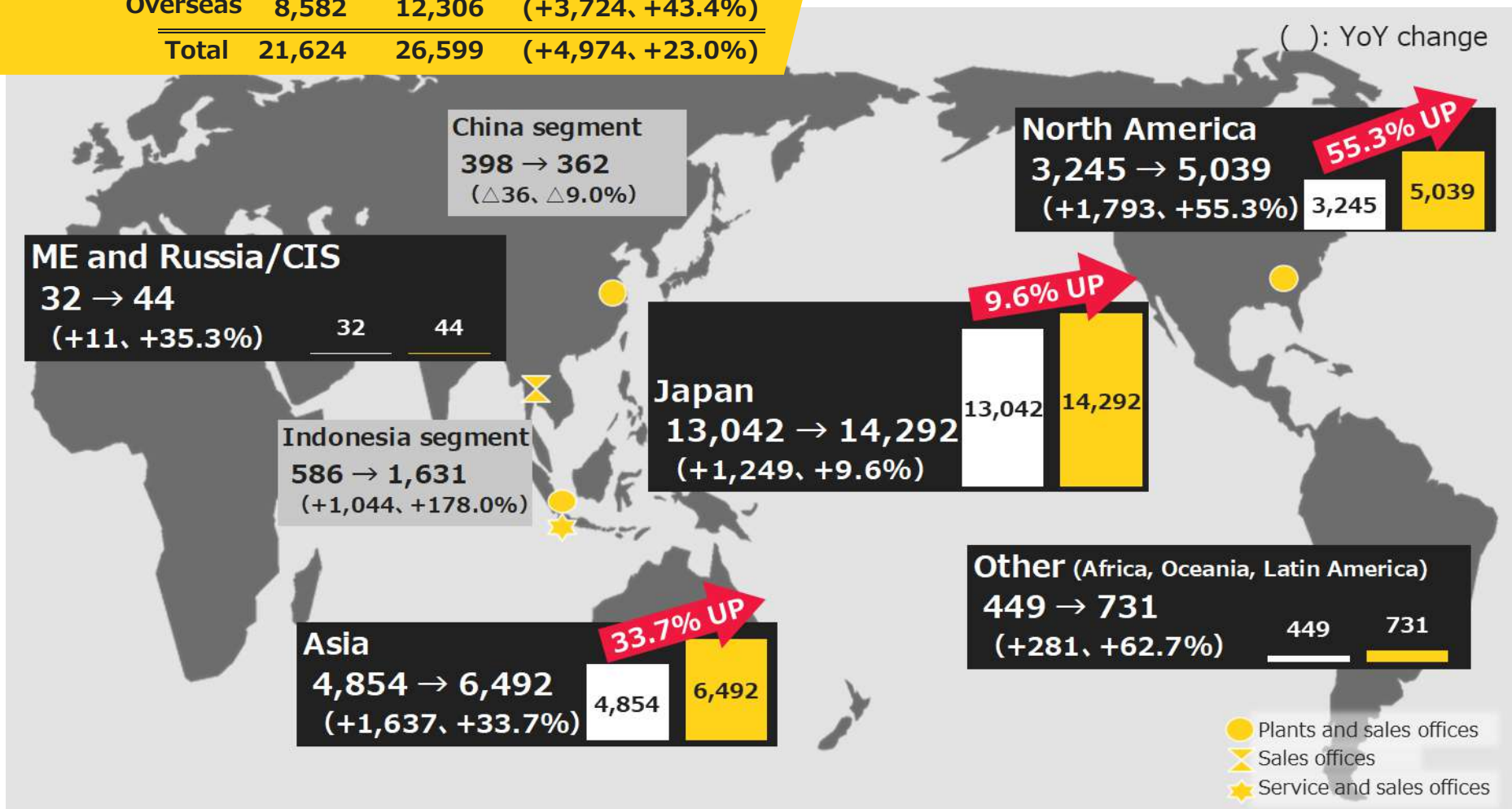
(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	YoY change	
			Amount	%
Japan	13,042	14,292	1,249	9.6%
Overseas	8,582	12,306	3,724	43.4%
North America	3,245	5,039	1,793	55.3%
Asia	4,854	6,492	1,637	33.7%
ME and Russia/CIS	32	44	11	35.3%
Other regions	449	731	281	62.7%
Total	21,624	26,599	4,974	23.0%

Sales by Region (Map)

(Millions of yen)	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	YoY change
Japan	13,042	14,292	(+1,249, +9.6%)
Overseas	8,582	12,306	(+3,724, +43.4%)
Total	21,624	26,599	(+4,974, +23.0%)

(): YoY change



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

(Millions of yen)

Japan	Year ended March 31, 2021	Year ended March 31, 2022	YoY change	
			Amount	%
Sales to external customers	17,394	19,566	2,172	12.5%
Intercompany sales	1,110	1,801	690	62.1%
Total net sales	18,505	21,367	2,862	15.5%
Operating profit	739	884	144	19.6%

(Millions of yen)

North America	Year ended March 31, 2021	Year ended March 31, 2022	YoY change	
			Amount	%
Sales to external customers	3,245	5,039	1,793	55.3%
Intercompany sales	27	45	18	66.6%
Total net sales	3,272	5,085	1,812	55.4%
Operating profit	0	328	327	– %

(Millions of yen)

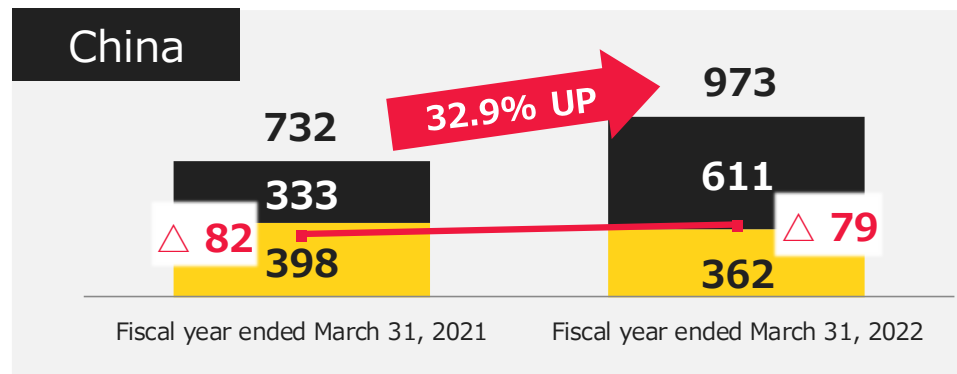
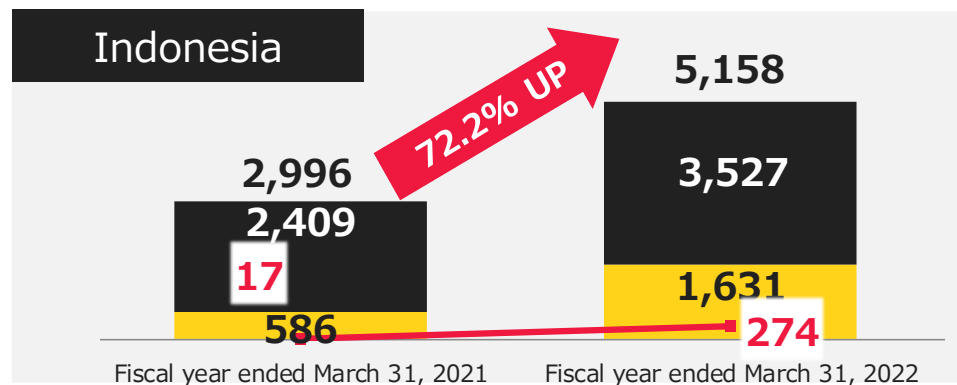
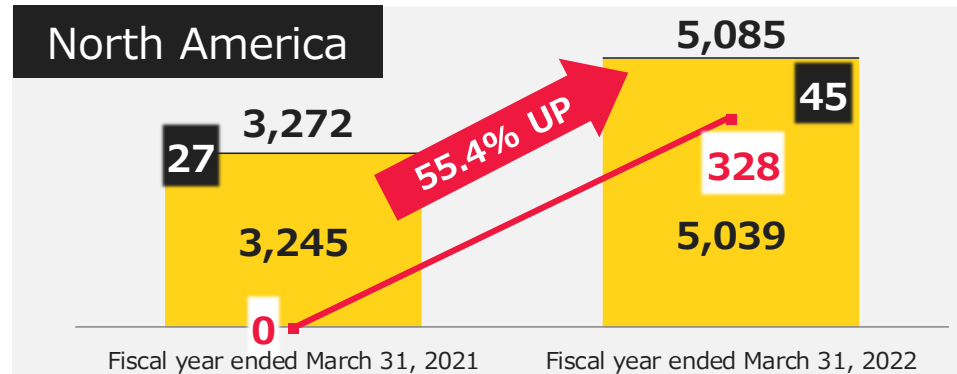
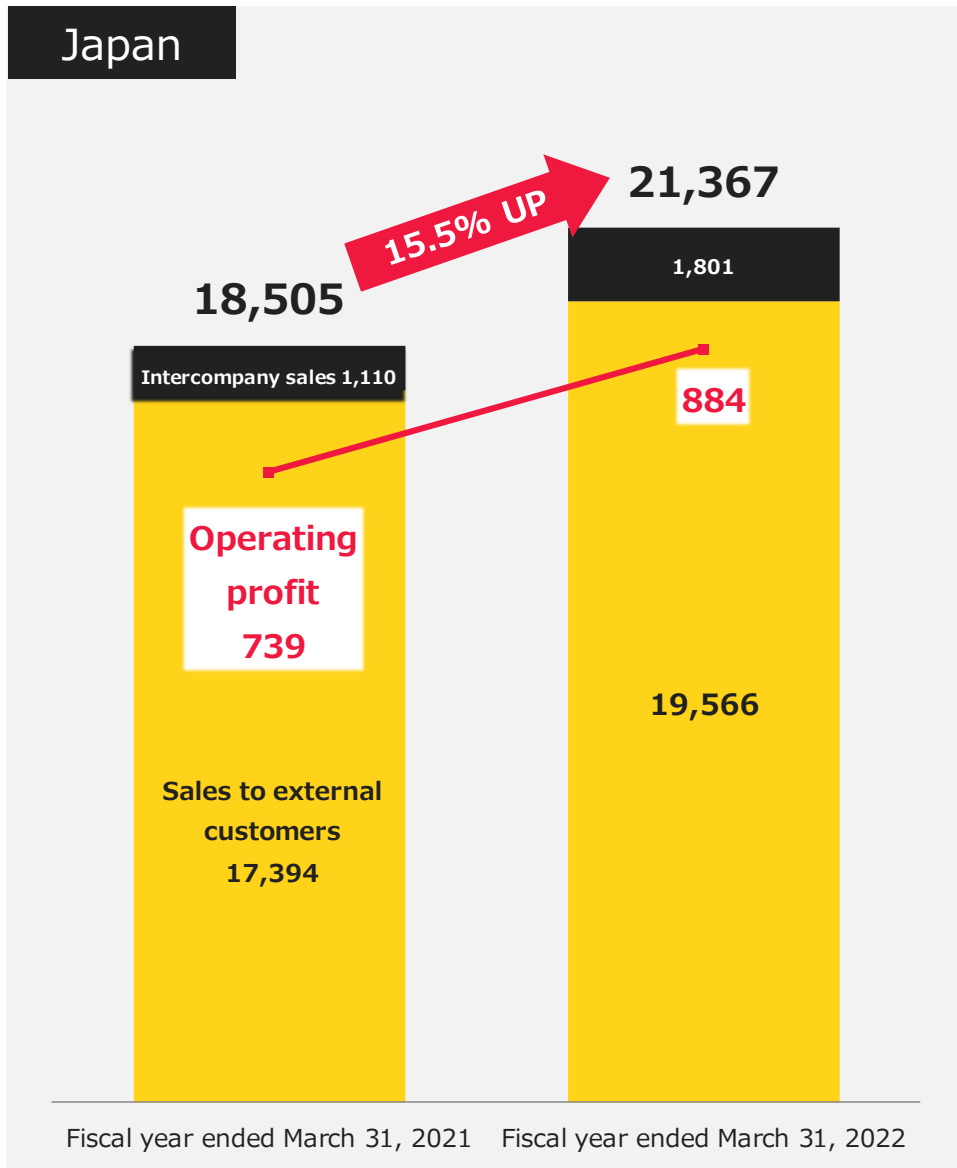
Indonesia	Year ended March 31, 2021	Year ended March 31, 2022	YoY change	
			Amount	%
Sales to external customers	586	1,631	1,044	178.0%
Intercompany sales	2,409	3,527	1,118	46.4%
Total net sales	2,996	5,158	2,162	72.2%
Operating profit	17	274	256	– %

(Millions of yen)

China	Year ended March 31, 2021	Year ended March 31, 2022	YoY change	
			Amount	%
Sales to external customers	398	362	▲ 36	▲ 9.0%
Intercompany sales	333	611	277	83.0%
Total net sales	732	973	241	32.9%
Operating profit	▲ 82	▲ 79	2	– %

Segment Information by Region (Graph)

(Millions of yen)



Breakdown of YoY Changes in Operating Profit

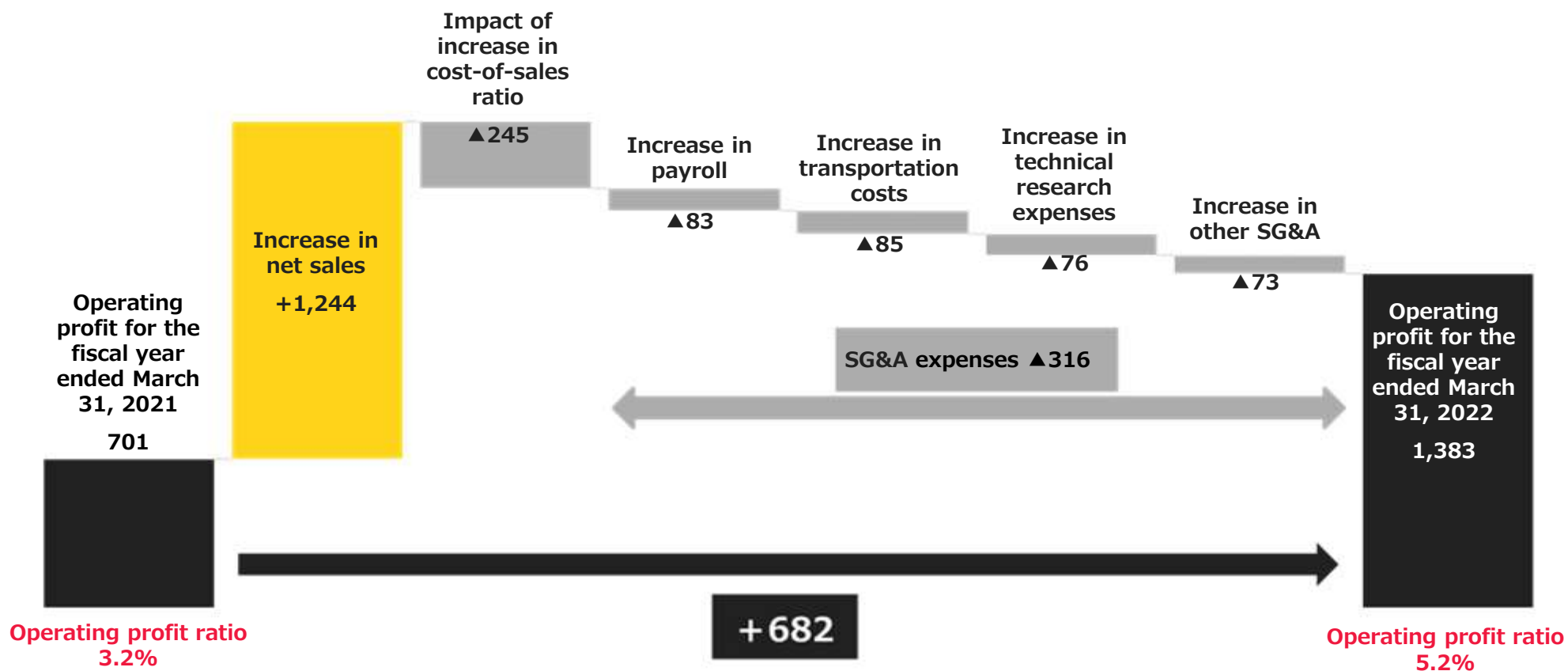
- Gross Profit increased by ¥1,244 million, in line with YoY increase in sales of ¥4,974 million.
- Against estimated cost increase of ¥0.5 billion, measures were taken such as sales price revisions and logistics streamlining, resulting in a cost-of-sales ratio increase of 0.92%, which reduced gross profit by ¥245 million.
- SG&A Expenses increased by ¥316 million as we came out of restricted operational conditions and resumed business activities.
- As a result, Operating Profit rose by ¥682 million YoY to ¥1,383 million.

(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	YoY change	Impact on operating profit	Note
Net sales	21,624	26,599	4,974	+1,244	4,974 x (1 - 75.0%)
Cost-of-sales ratio	75.0%	75.9%	0.92%	▲ 245	26,599 x 0.92%
Gross profit	5,408	6,407	998		
SG&A expenses	4,707	5,023	316	▲ 316	Payroll: up 83; Transportation costs: up 85; Technical research expenses: up 76; Other SG&A: up 73
Operating profit	701	1,383		+682	

Breakdown of YoY Changes in Operating Profit (Graph)

(Millions of yen)



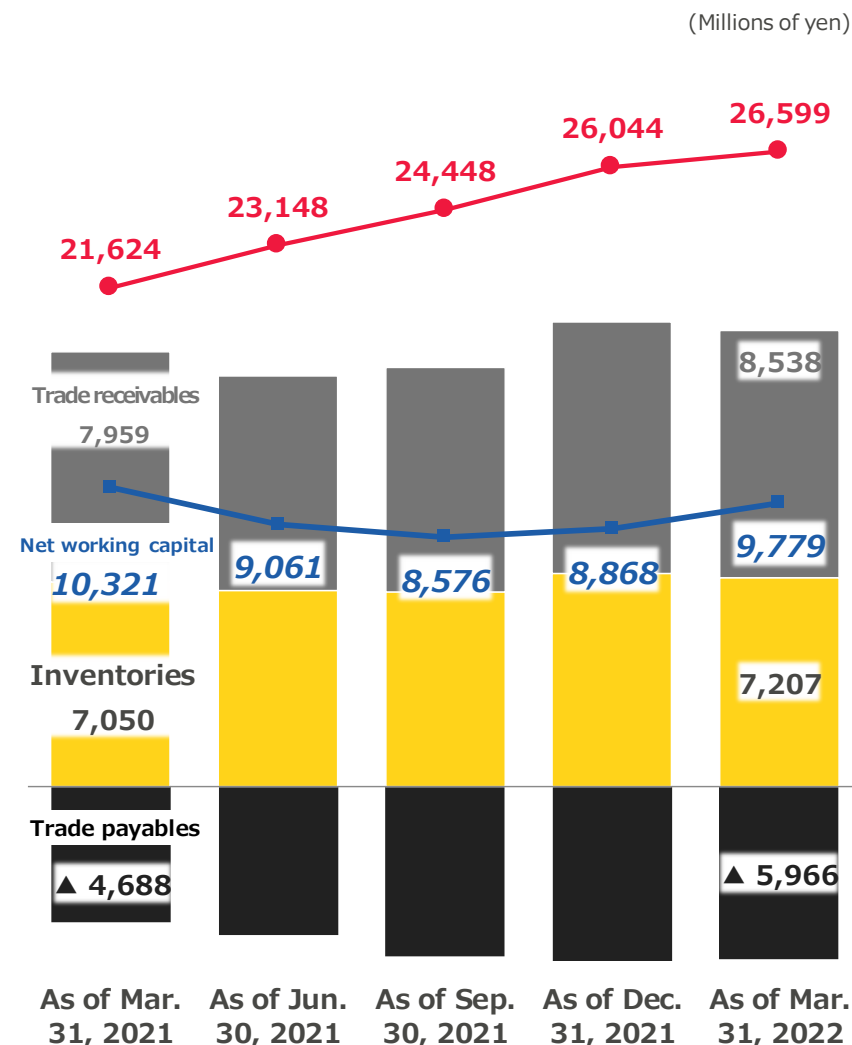
Net Working Capital (Trade Receivables + Inventories – Trade Payables)

- Net working capital invested in sales activities decreased ¥542 million YoY to ¥9,779 million.
- Inventories were ¥7,207 million, the increase contained to ¥157 million YoY despite a 23% increase in net sales.
- Inventory/Sales turnover was improved by 0.62 times YoY to 3.69 times for the year.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022	YoY change	
			Amount	%
Annualized consolidated net sales	21,624	26,599	4,974	23.0%
Trade receivables	7,959	8,538	579	7.3%
Inventories	7,050	7,207	157	2.2%
Trade payables	▲4,688	▲5,966	▲1,278	27.3%
Net working capital	10,321	9,779	▲542	▲5.3%

Inventory turnover	3.07 times	3.69 times	0.62 times
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Consolidated Business 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 sales price revision, cost cuts, and increased product supply capacity
- Profit to reflect the absence of temporary boost from deferred tax assets of ¥381 million

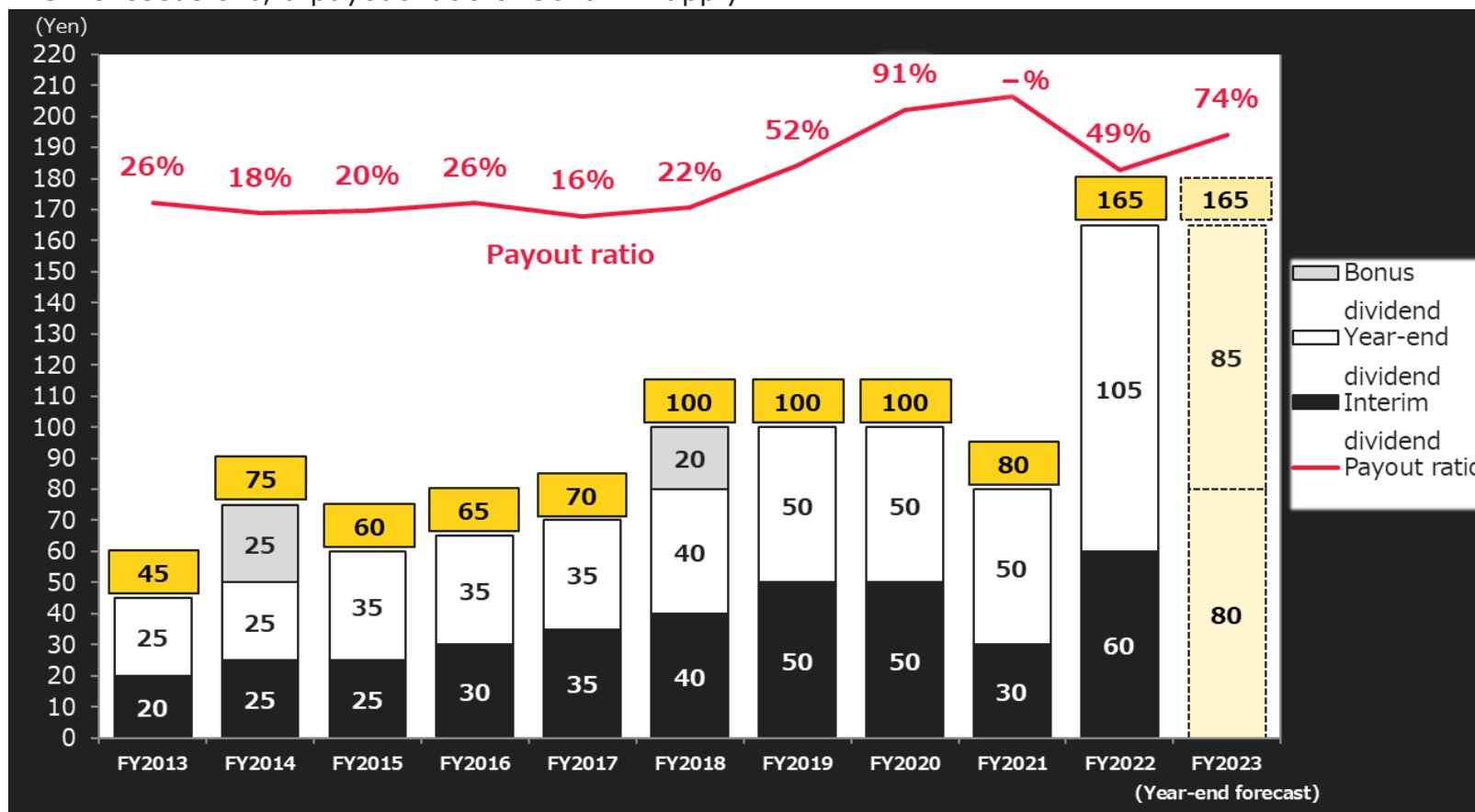
(Millions of yen)

	Fiscal year ended March 31, 2021 (results)	Fiscal year ended March 31, 2022 (results)	Fiscal year ending March 31, 2023 (forecast)	YoY change	
				Amount	%
Net sales	21,624	26,599	29,300	2,700	10.2%
Operating profit	701	1,383	1,500	116	8.4%
Ordinary profit	659	1,407	1,450	42	3.0%
Profit (loss) attributable to owners of parent	4	1,427	950	▲ 477	—
Earnings per share (Yen)	¥0.93	¥336.87	¥224.22	▲ 112.65	—

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 first year of the medium-term management policy.
- Faced with earnings 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 revision and cost reduction.
- Although ROE reached 6.3% due to recording deferred tax assets of ¥380 million at our U.S. subsidiary, this was a temporary accounting profit from tax effect accounting. Profit structure reform must continue.
- Completed share buybacks of 130,000 shares / ¥340 million.

(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	Forecast for the fiscal year ending March 31, 2023	Target for the fiscal year ending March 31, 2024	Target for the fiscal year ending March 31, 2026
Net sales	21,624	26,599	29,300	26,500	30,000
Operating profit	701	1,383	1,500	2,000	3,100
Annualized return on equity (ROE)	0.0%	6.3%	4.1%	5.5%	8.0%
Share buybacks (through March 31, 2026)	—	340	—	500 ~ 2,000*	

* 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.