

Consolidated Financial Results for the Six Months Ended September 30, 2022

SAKAI HEAVY INDUSTRIES, LTD.

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

November 11, 2022

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, 2022 (from April 1, 2022 to September 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
Six months ended September 30, 2022	14,891	14.7	1,067	47.2	1,095	49.5	818	60.8	193.92	–
Six months ended September 30, 2021	12,987	27.8	725	279.2	732	332.8	509	–	119.52	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2022	41,212	24,762	59.9
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 ended March 31, 2022	–	60.00	–	105.00	165.00
Year ending March 31, 2023	–	80.00	–	–	–
Year ending March 31, 2023 (Forecast)	–	–	–	100.00	180.00

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
Full year	30,000	12.8	2,020	46.0	2,050	45.6	1,520	6.5	360.08

Highlights of Consolidated Business Performance

1. Summary of Consolidated Business Performance for the Six Months Ended September 30, 2022

1) Consolidated net sales : ¥14,891 million, up 14.7% YoY

Overseas sales was expanded by handling supply chain issues.

2) Operating profit : ¥1,067 million, up 47.2% YoY

Profit structure reform made progress, especially in overseas business.

3) Sales in Japan : ¥7,181 million, up 3.1% YoY

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

4) Sales in North America: ¥3,307 million, up 43.9% YoY

Strong recovery in demand made progress against the backdrop of robust investment in construction.

5) Sales in Asia : ¥4,119 million, up 24.9% 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 ¥30.0 billion, operating profit of ¥3.1 billion, ROE of 8%

Six Months ended September 30, 2022 : Net sales of ¥14.89 billion, operating profit of ¥1.06 billion, ROE of 6.8%

Fiscal year ending March 31, 2023 (Forecast): Net sales of ¥30.0 billion, operating profit of ¥2.02 billion, ROE of 6.4%

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

2) Adaptability to change

(1) Dealing with volatile demand

- Inventories of ¥8,061 million (up 19.7% YoY, inventory turnover was reduced by 0.10 times)
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

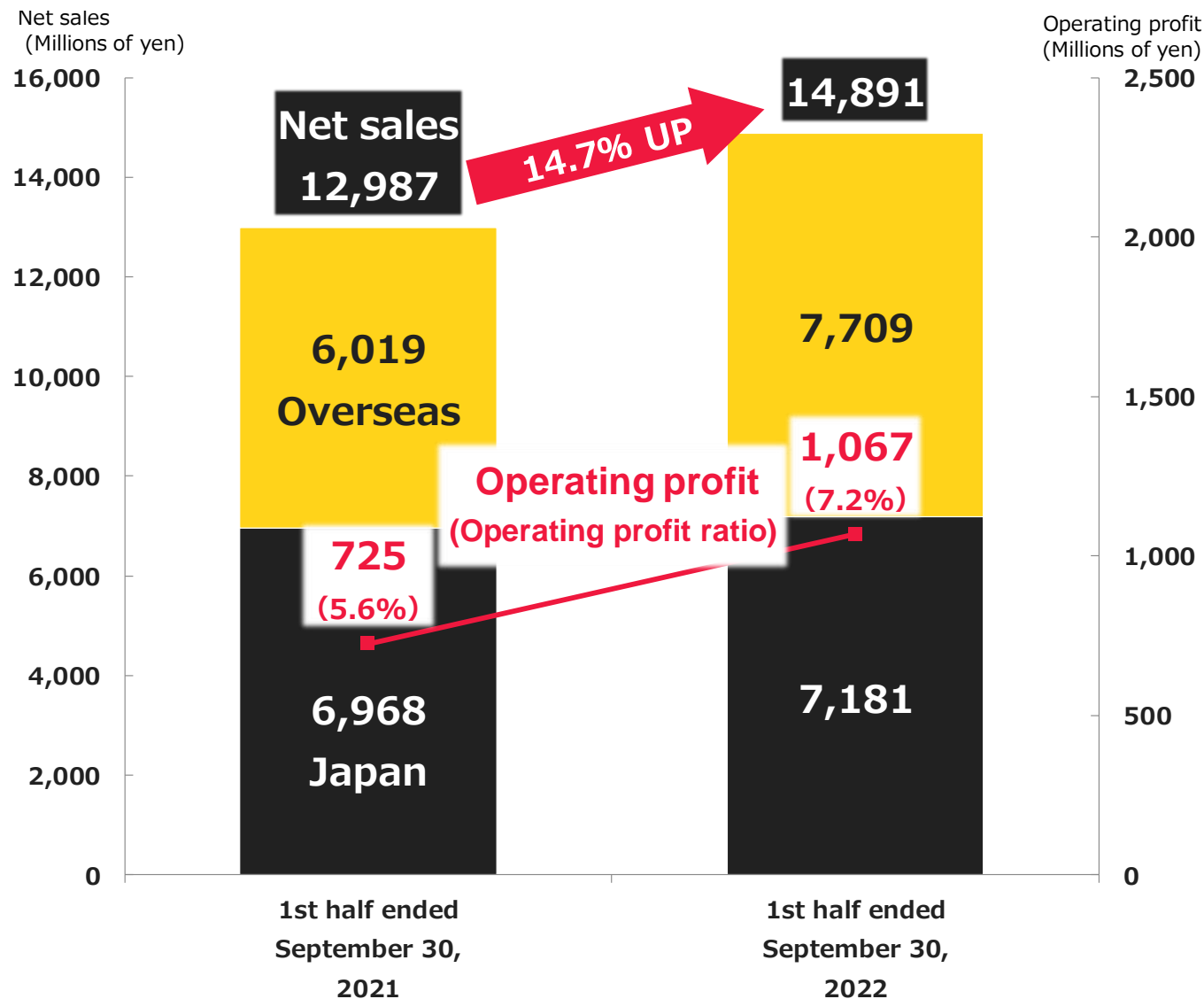
Overseas construction machinery demand is firm with infrastructure investment totaling \$1.2 trillion planned in the U.S., infrastructure investment and mine development becoming active in ASEAN and emerging countries, among other factors, although the demand has repeatedly fluctuated amid a rapidly changing global situation.

Consolidated Business Performance

(Millions of yen)

	1st half ended September 30, 2021	1st half ended September 30, 2022	YoY change	
			Amount	%
Net sales	12,987	14,891	1,903	14.7%
Japan	6,968	7,181	213	3.1%
Overseas	6,019	7,709	1,690	28.1%
Operating profit	725	1,067	342	47.2%
<i>Operating profit ratio</i>	(5.6%)	(7.2%)		
Ordinary profit	732	1,095	362	49.5%
Profit attributable to owners of parent	509	818	309	60.8%
Cost-of-sales ratio	(75.2%)	(74.3%)		

Consolidated Business Performance (Graph)



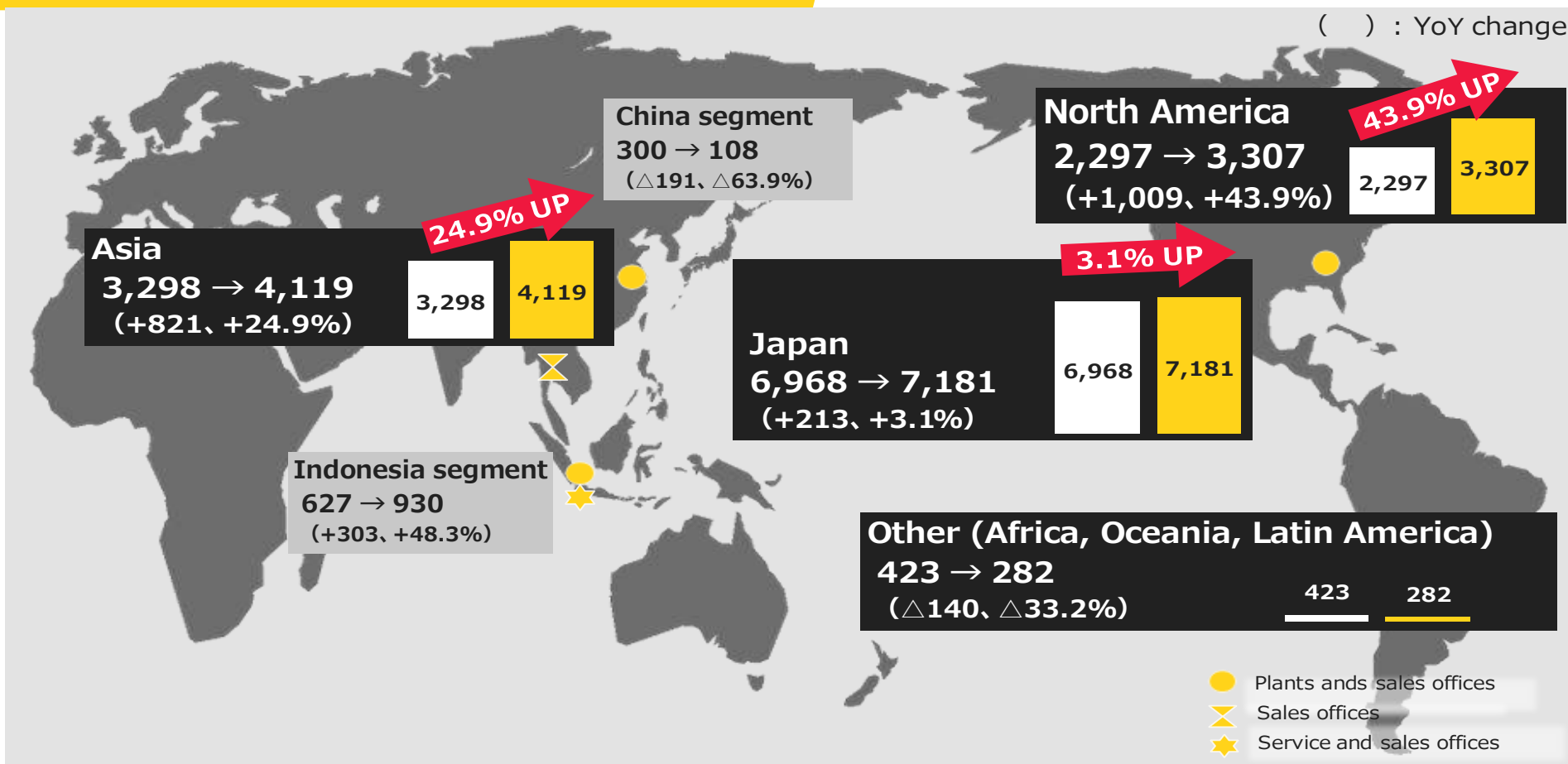
Sales by Region in Which Customers Are Located

(Millions of yen)

	1st half ended September 30, 2021	1st half ended September 30, 2022	YoY change	
			Amount	%
Japan	6,968	7,181	213	3.1%
Overseas	6,019	7,709	1,690	28.1%
North America	2,297	3,307	1,009	43.9%
Asia	3,298	4,119	821	24.9%
Other regions	423	282	▲ 140	▲ 33.2%
Total	12,987	14,891	1,903	14.7%

Sales by Region (Map)

(Millions of yen)	1st half ended September 30, 2021	1st half ended September 30, 2022	YoY change
Japan	6,968	7,181	(+213, +3.1%)
Overseas	6,019	7,709	(+1,690, +28.1%)
Total	12,987	14,891	(+1,903, +14.7%)



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

(Millions of yen)

Japan	1st half ended September 30, 2021	1st half ended September 30, 2022	YoY change	
			Amount	%
Sales to external customers	9,761	10,545	783	8.0%
Intercompany sales	1,104	1,637	532	48.2%
Total net sales	10,866	12,182	1,315	12.1%
Operating profit	562	415	▲ 147	▲26.2%

(Millions of yen)

North America	1st half ended September 30, 2021	1st half ended September 30, 2022	YoY change	
			Amount	%
Sales to external customers	2,297	3,307	1,009	43.9%
Intercompany sales	25	11	▲ 14	▲55.0%
Total net sales	2,323	3,318	994	42.8%
Operating profit	133	286	153	114.7%

(Millions of yen)

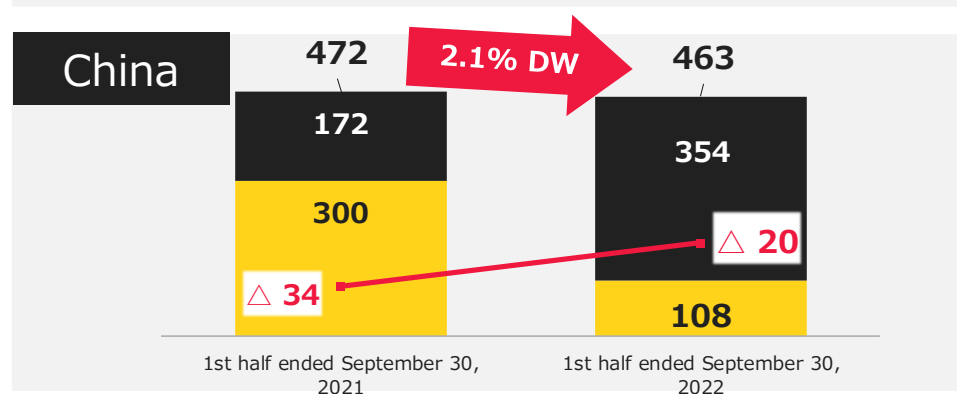
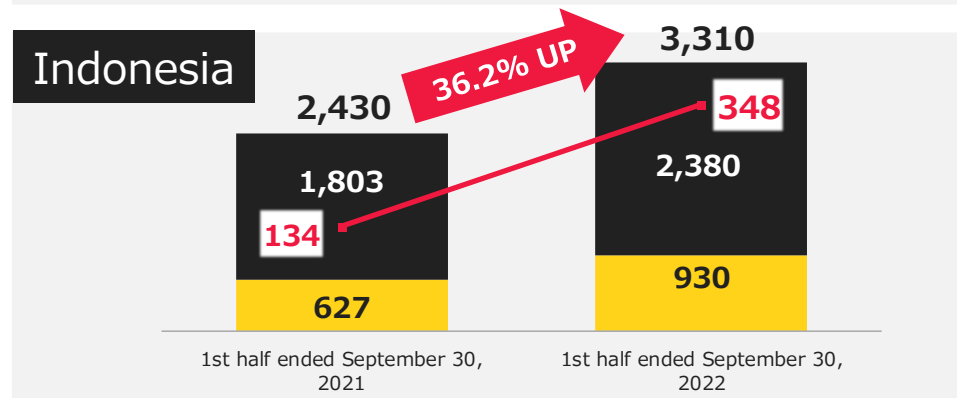
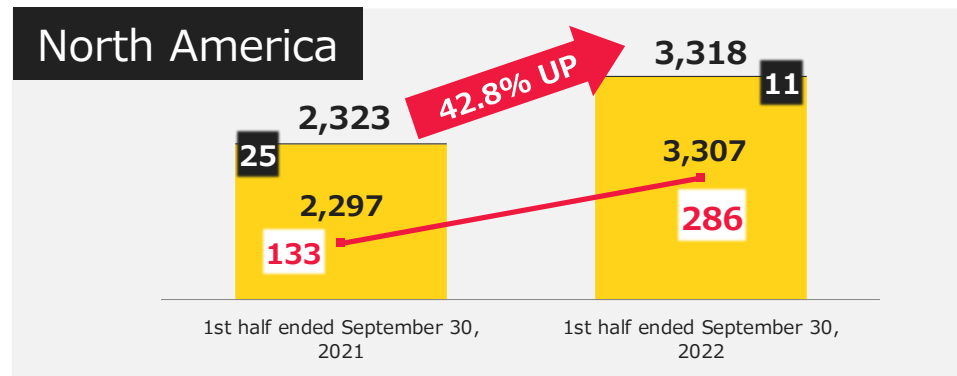
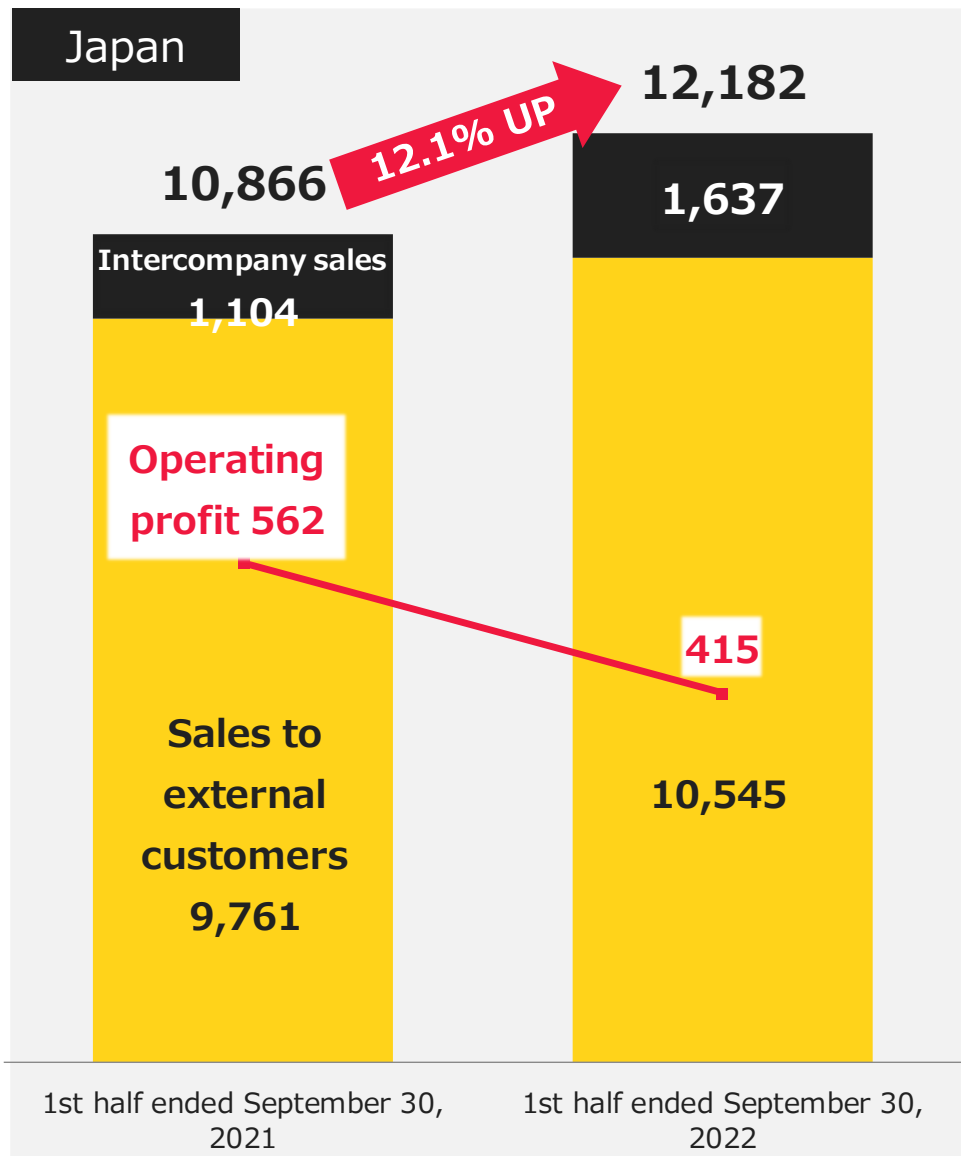
Indonesia	1st half ended September 30, 2021	1st half ended September 30, 2022	YoY change	
			Amount	%
Sales to external customers	627	930	303	48.3%
Intercompany sales	1,803	2,380	576	32.0%
Total net sales	2,430	3,310	879	36.2%
Operating profit	134	348	213	158.2%

(Millions of yen)

China	1st half ended September 30, 2021	1st half ended September 30, 2022	YoY change	
			Amount	%
Sales to external customers	300	108	▲ 191	▲63.9%
Intercompany sales	172	354	181	105.4%
Total net sales	472	463	▲ 9	▲2.1%
Operating profit	▲ 34	▲ 20	14	– %

Segment Information by Region (Graph)

(Millions of yen)



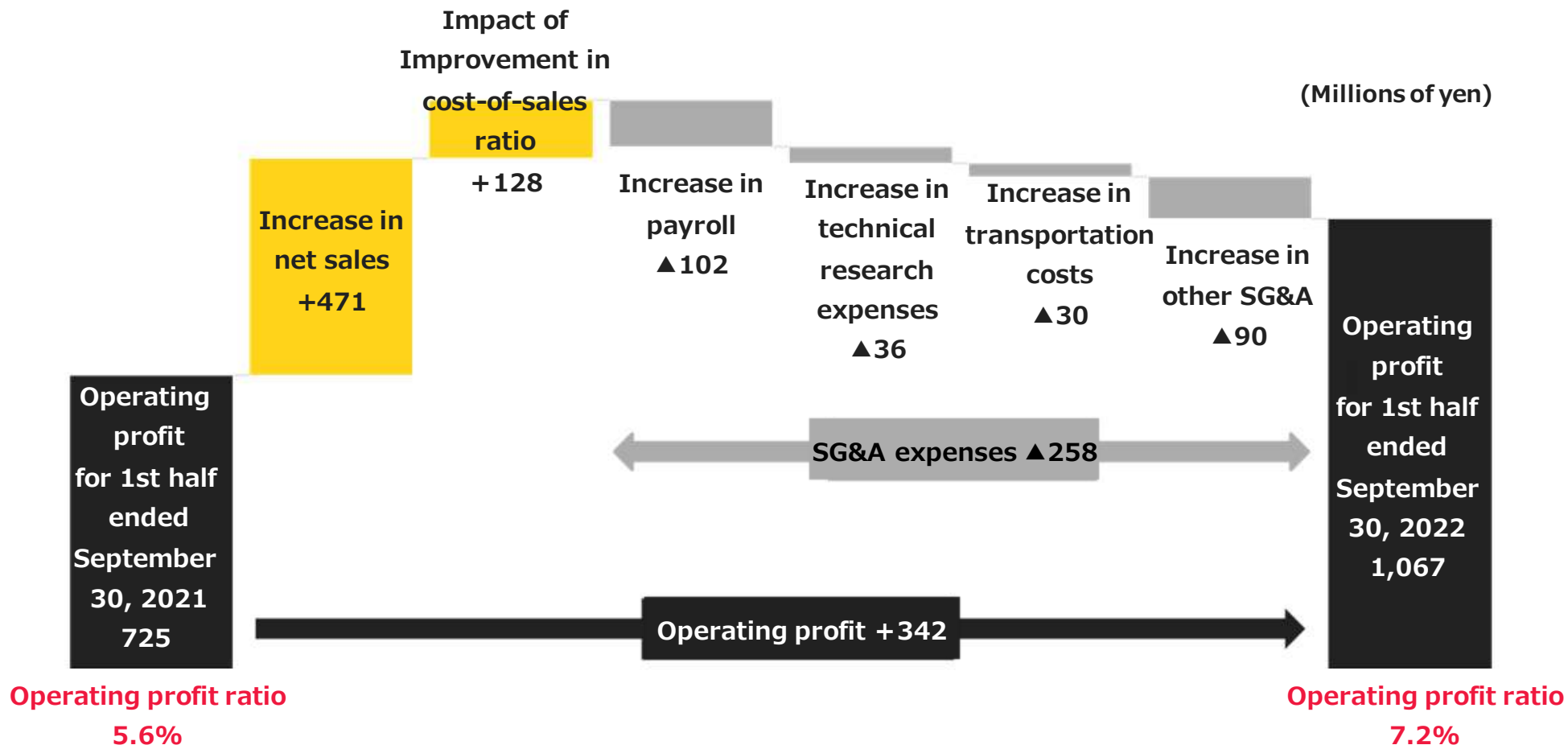
Breakdown of YoY Changes in Operating Profit

- Gross profit increased by ¥471 million, in line with YoY increase in sales of ¥1,903 million.
- Cost-of-sales ratio decreased by 0.86% and gross profit increased by ¥128 million through sales price revisions and logistics streamlining.
- SG&A expenses increased by ¥258 million as we came out of restricted operational conditions and resumed business activities.
- As a result, operating profit rose by ¥342 million YoY to ¥1,067 million.

(Millions of yen)

	1st half ended September 30, 2021	1st half ended September 30, 2022	YoY change	Impact on operating profit	Note
Net sales	12,987	14,891	1,903	+471	1,903 x (1 - 75.2%)
Cost-of-sales ratio	75.2%	74.3%	▲0.86%	+128	14,891 x ▲0.86%
Gross profit	3,220	3,821	600		
SG&A expenses	2,495	2,754	258	▲ 258	Payroll: up 102; Technical research expenses: up 36 Transportation costs: up 30; Other SG&A: up 90
Operating profit	725	1,067		+342	

Breakdown of YoY Changes in Operating Profit (Graph)



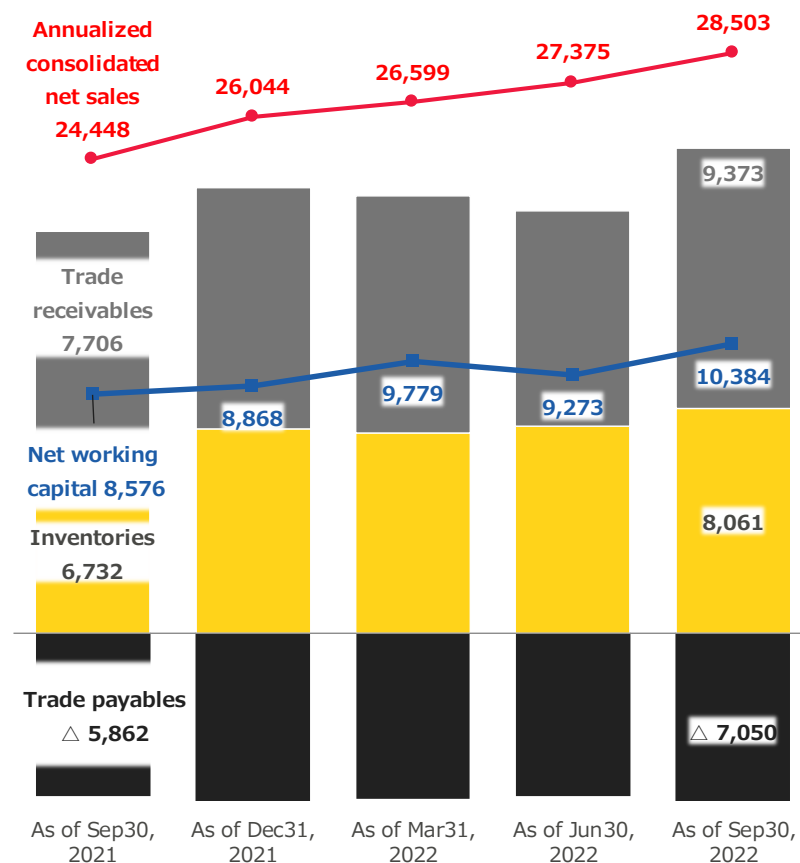
Net Working Capital (Trade Receivables + Inventories – Trade Payables)

- Net working capital invested in sales activities increased by ¥1,808 million YoY to ¥10,384 million.
- Inventories increased by ¥1,329 million YoY to ¥8,061 million.
- Sales/Inventory turnover decreased by 0.10 times YoY to 3.54 times for the year.

(Millions of yen)

	As of September 30, 2021	As of September 30, 2022	YoY change	
			Amount	%
Annualized consolidated net sales	24,448	28,503	4,055	16.6%
Trade receivables	7,706	9,373	1,667	21.6%
Inventories	6,732	8,061	1,329	19.7%
Trade payables	▲5,862	▲7,050	▲1,188	20.3%
Net working capital	8,576	10,384	1,808	21.1%
Inventories turnover	3.63 times	3.54 times	▲0.10 times	

(Millions of yen)



Consolidated Business Forecast

- **Sales Forecast for the Full Year:** We anticipate firm demand in Japan, North America and Southeast Asia even in the second half of the FY, so we have upwardly revised from the previous forecast of ¥29,300 million to ¥30,000 million.
- **Profit Forecast for the Full Year:** Although costs continue to rise due to supply chain issues and surging material prices, in light of the continuing penetration of sales price revisions and logistical efficiency gains, we have upwardly revised the previous forecast of ¥950 million to ¥1,520 million.
 (The assumed exchange rate used in the consolidated business forecast is ¥135 per US\$.)

(Millions of yen)

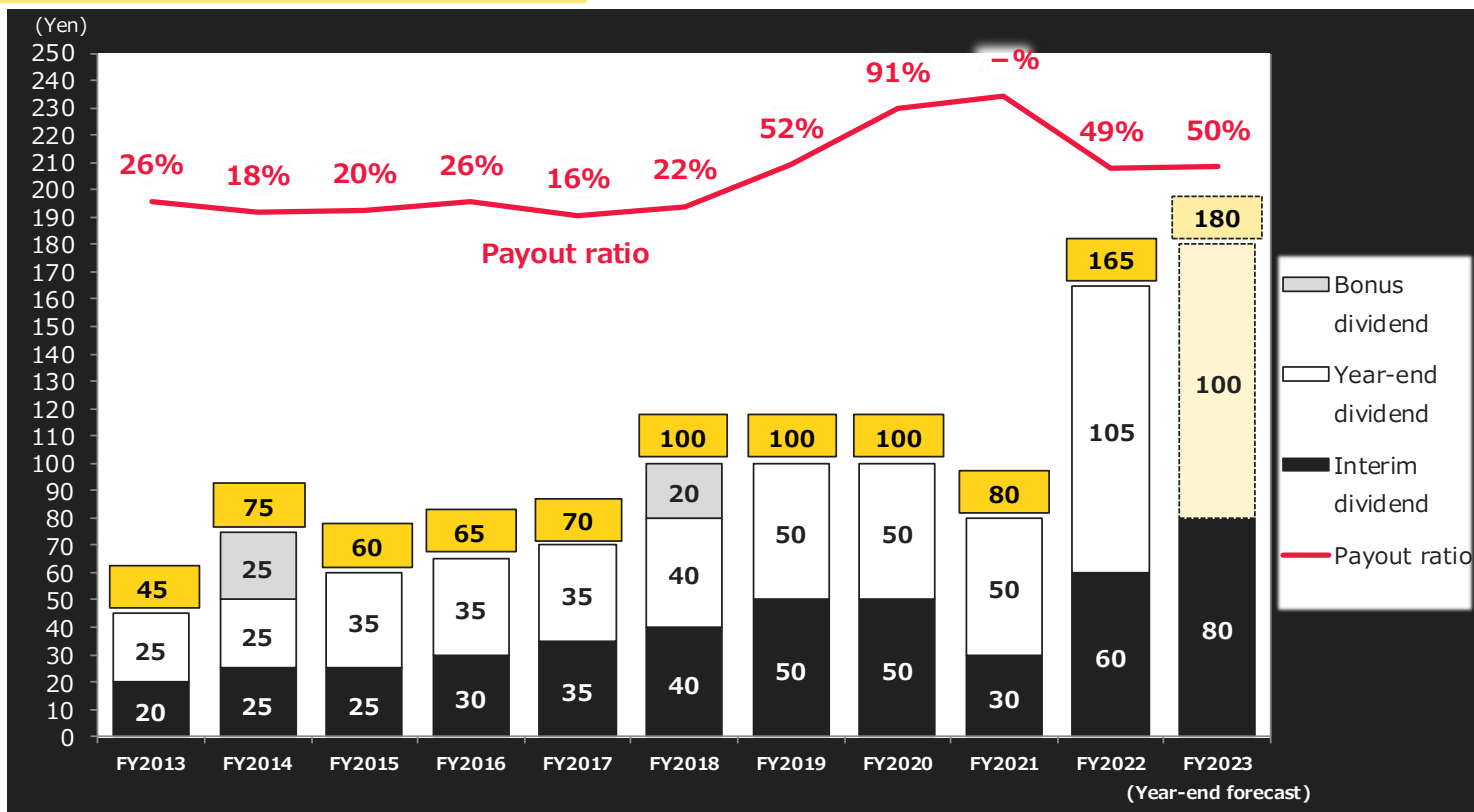
	First half					Full year				
	Six months ended September 30, 2021 (Results)	Six months ended September 30, 2022 (Previous forecast)	Six months ended September 30, 2022 (Results)	YoY change		Fiscal year ended March 31, 2022 (Results)	Fiscal year ending March 31, 2023 (Previous forecast)	Fiscal year ending March 31, 2023 (Revised forecast)	YoY change	
				Amount	%				Amount	%
Net sales	12,987	14,000	14,891	1,903	14.7%	26,599	29,300	30,000	3,400	12.8%
Operating profit	725	650	1,067	342	47.2%	1,383	1,500	2,020	636	46.0%
Ordinary profit	732	625	1,095	362	49.5%	1,407	1,450	2,050	642	45.6%
Profit attributable to owners of parent	509	400	818	309	60.8%	1,427	950	1,520	92	6.5%
Earnings per share (Yen)	¥119.52	¥94.41	¥193.92	¥74.40	62.2%	¥336.87	¥224.22	¥360.08	¥23.21	6.9%

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.

- Since the ROE for the full year business forecast is anticipated to exceed 6%, we have upwardly revised the dividend forecast to ¥180 for a payout ratio of 50%.



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 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)

	Six months ended September 30,2021 (Results)	Six months ended September 30,2022 (Results)	Fiscal year ending March 31,2023 (Forecast)	Target for the fiscal year ending March 31, 2024	Target for fiscal year ending March 31,2026
Net sales	12,987	14,891	30,000	26,500	30,000
Operating profit	725	1,067	2,020	2,000	3,100
Annualized return on equity (ROE) ※1	4.6%	6.8%	6.5%	5.5%	8.0%
Share buybacks	340	-	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 November 11, 2022.

※3 The amount represents the targets of the cumulative amount of share buybacks through March 31, 2026.

ESG Initiatives – Both Addressing Climate Change and Providing Added Value



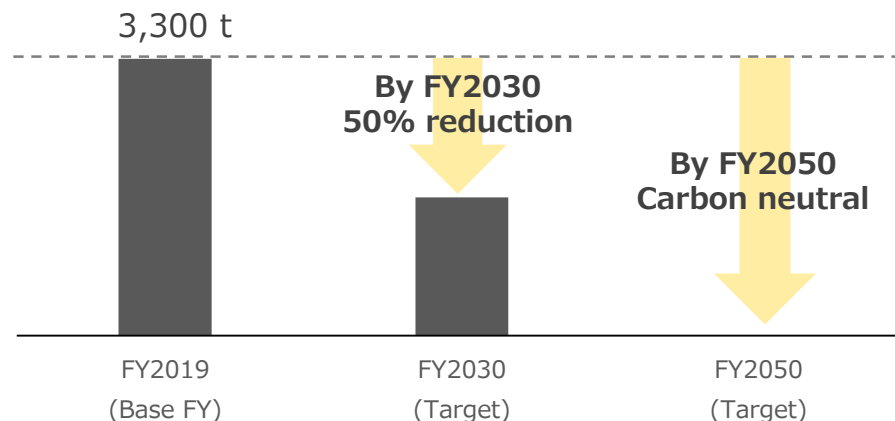
Implementation of information disclosure based on the TCFD recommendations

Metrics and Targets

- ▶ A target has been set to achieve “50% reduction by FY2030” and “Carbon neutral by FY2050” relative to Japan’s FY2019 Scope 1+2 CO₂ emissions of 3,300 t.

Status of response

- ▶ In Japan, we have already implemented reduction measures by switching approximately 1,000 t of the 2,000 t in CO₂ emissions from factories to renewable energy.
- ▶ For the remaining CO₂ emissions in Japan, we are considering and planning to implement measures such as the expansion of renewable energy use, electrification of vehicles and energy savings at facilities.



Providing added value by contributing to the reduction of CO₂ emissions at construction sites

Electric roller: Reducing CO₂ emissions of construction machinery



Demo vehicle to be completed. Shifting from the research and development stage to the practical test stage involving implementation in actual paving sites.

Autonomous roller: Labor savings and improved efficiency in overall construction operations



We are currently conducting demonstration test at sites with the participation of multiple leading general contractors for the development of industry standardized equipment.

ESG Initiatives – Strengthen Corporate Governance



Formulation of basic sustainability policies

The SAKAI Group aims to contribute to a sustainable society, the Group’s sustainable growth and medium- to long-term increase in corporate value through implementation of ESG management based on our basic management policies of contributing to the social business of global land development through the road construction equipment business.

Environment	Together with our initiatives to reduce our own CO ₂ emissions we contribute to a decarbonized society through the creation of added value by developing new technologies.
Society	We engage in resolving social issues and creating social value through our road construction equipment business.
Human rights	We do not discriminate based on personal attributes such as gender, nationality or age and we respect the human rights of all stakeholders involved in our business activities.
Human resources	Human resources are the driving force behind corporate development and we prepare a safe and secure work environment while recognizing diversity and we strive to secure and train human resources.
Corporate governance	We strive to build a relationship of trust with all stakeholders, promoting the creation of a management structure based on the Corporate Governance Code.



Diversification of the Board of Directors

▶ Appointment of a female Director

For the purpose of ensuring diversity and to strengthen the function of the Board of Directors, **Kaori Sato is appointed the Company’s first female outside Director.**

Career

Jan. 1993 Joined SATO Co., Ltd.
 Jan. 2007 Senior Managing Director of SATO Co., Ltd.
 Nov. 2012 Representative Director of SATO Co., Ltd. (current position)
 June 2022 Director (Audit and Supervisory Committee Member) of the Company (current position)

Reason for appointment

Kaori Sato is a female manager who has extensive experience in management of construction machinery rental and overseas business. She also has extensive insight on the Company’s road equipment business, and the Company believes she is suitable to serve as an outside Director who is an Audit and Supervisory Committee Member.

▶ Disclosure of skill matrix items

The skills to be possessed by our Board of Directors, composed of each Directors and Executive Officers, are set out in the following 7 items and listed in the notice of general meeting of shareholders from this fiscal year.

- | | |
|------------------|------------------|
| ① Management | ⑤ Administration |
| ② Road equipment | ⑥ Manufacturing |
| ③ Global | ⑦ Marketing |
| ④ Capital market | |

Notice of the 74th Annual General Meeting of Shareholders (held on June 29, 2022)

https://www.sakainet.co.jp/en/ir/item/220615_74th_gms.pdf

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.