Consolidated Financial Results for the Six Months Ended September 30, 2024

SAKAI HEAVY INDUSTRIES, LTD.

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

November 13, 2024

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, 2024 (from April 1, 2024 to September 30, 2024)

(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, 2024	14,385	(14.3)	1,231	(37.4)	1,178	(44.1)	1,302	(15.1)	152.97	–
Six months ended September 30, 2023	16,785	12.7	1,966	84.2	2,109	92.6	1,534	87.4	180.82	–

Note: The Company made a two-for-one share split of its common shares effective October 1, 2024. Earnings per share have been calculated assuming that the share split was conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2024	43,167	30,126	69.6
As of March 31, 2024	44,237	29,165	65.8

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, 2024	–	90.00	–	195.00	285.00
Year ending March 31, 2025	–	85.00			
Year ending March 31, 2025 (Forecast)			–	60.50	–

Note: For the fiscal year-end dividend per share for the year ending March 31, 2025 (forecast), the figure shown is the amount that takes into account the effect of the share split. Without taking into account the share split, the fiscal year-end dividend per share for the year ending March 31, 2025 (forecast) would have been ¥121.00 with annual dividends per share of ¥206.00.

3. Forecast of consolidated financial results for the year ending March 31, 2025 (from April 1, 2024 to March 31, 2025)

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	27,200	(17.6)	1,740	(47.6)	1,700	(48.9)	1,700	(30.3)	199.67

Note: For the earnings per share in the full-year forecast of consolidated financial results for the year ending March 31, 2025, the figure shown is the amount that takes into account the effect of the share split.
Without taking into account the share split, the earnings per share in the full-year forecast of consolidated financial results for the year ending March 31, 2025 would have been ¥399.34.

Highlights of Consolidated Business Performance

1. Summary of Consolidated Business Performance for the Six Months Ended September 30, 2024

1) Consolidated net sales: ¥14,385 million, down 14.3% YoY
The Global Construction Machinery Market remained in the decelerating trend due to passing a peak of the economic expansion period after the COVID-19 pandemic and entering a period of adjustments.

2) Operating profit: ¥1,231 million, down 37.4% YoY
Operating profit declined due to decreased sales, despite cost-of-sales ratio improvement through the profit structure reform.

3) Profit: ¥1,302 million, down 15.1% YoY
Posted gain on sale of investment securities of ¥280 million.

4) Sales in Japan: ¥6,628 million, down 11.0% YoY
Although government construction investment remained strong against the backdrop of measures to accelerate national land resilience, repeated price revisions and the overtime cap on construction and logistics brought investment in construction machinery to a continued restraint.

5) Sales in North America: ¥3,782 million, down 16.2% YoY
Adjustments to inventory by dealers accelerated while interest rates remained high, despite the continued investment in road construction against the backdrop of the Infrastructure Investment and Jobs Act.

6) Sales in Asia: ¥3,451 million, down 13.1% YoY
Demand stagnated in the ASEAN markets overall.

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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 policy: Net sales of ¥30 billion, operating profit of ¥3.1 billion, ROE of 8.0%
Results for the previous fiscal year (third year): Net sales of ¥33 billion, operating profit of ¥3.31 billion, ROE of 9.0%
Results for six months ended September 30, 2024: Net sales of ¥14.3 billion, operating profit of ¥1.23 billion, ROE of 8.8%
Forecast for the current fiscal year (fourth year): Net sales of ¥27.2 billion, operating profit of ¥1.74 billion, ROE of 5.8%

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

Timely disclosure of policies regarding initiatives has been provided in the Status of Initiatives for Enhancing Profitability of Capital, dated April 13, 2023.
https://www.sakainet.co.jp/en/news/item/2023april25.pdf
At the end of March 2024: PBR 0.98 times (Share price ¥3,340) ← Share split considered
At the end of September 2024: PBR 0.69 times (Share price ¥2,420) ← Share split considered

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

Cost-of-sales ratio improvement: 69.9%, improvement of 0.2% YoY

Progress in profit structure reform and the effect of yen depreciation

3) Increased investment in human capital

(1) Wage improvement and stabilized employment: Rise in wages (5.1% in the fiscal year ended March 31, 2024, 6.0% in the fiscal year ending March 31, 2025)
(2) Increasing on-site skilled labors and improving working conditions: Enhance factories and service areas, and establish healthy working environments.

4) Dealing with volatile demand

Inventory turnover: 2.6 times, down 0.41 times/13% YoY
Currently making adjustments to optimize inventory levels, as the Construction Machinery Market entered a period of adjustments amid slowdowns in the world economy.

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 (sales development in mine and pavement markets)

2) Expand the scope of overseas business:

Develop the overseas market for road maintenance equipment (ODA initiative, start local production, create a market for the cement and asphalt emulsion stabilizer method)

3) Pursue business opportunities in North America:

Increase our market share through niche marketing (strengthen technical sales with differentiated products)

4) Develop next-generation businesses:

Focus on market development for emergency brakes, compaction management systems, and Automatic Cutter Control System.
Commercialization of autonomous rollers and EV rollers started.

4. Outlook for Business Environment

1) Global Construction Machinery Market

In the short term, the Global Construction Machinery Market is expected to bottom out through an economic cycle, although a phase of adjustments continues due to passing the period of the increased demand after the COVID-19 pandemic. In the medium term, potential demand for construction machinery is expected to remain stable due to factors such as large-scale infrastructure investment plans in Japan and the U.S., infrastructure investment and mine development becoming active in emerging countries, together with renewal of aging infrastructure and disaster-related countermeasures.

2) Risks and Countermeasures

The future direction of the world economy is unpredictable, due to factors such as global economic slowdowns, further tensions in the security situation, and rapid changes in the social structure.
Under these circumstances, the Group will transition to a management structure adapted to changes in the times by promoting profit structure reform and increasing investment in human capital.

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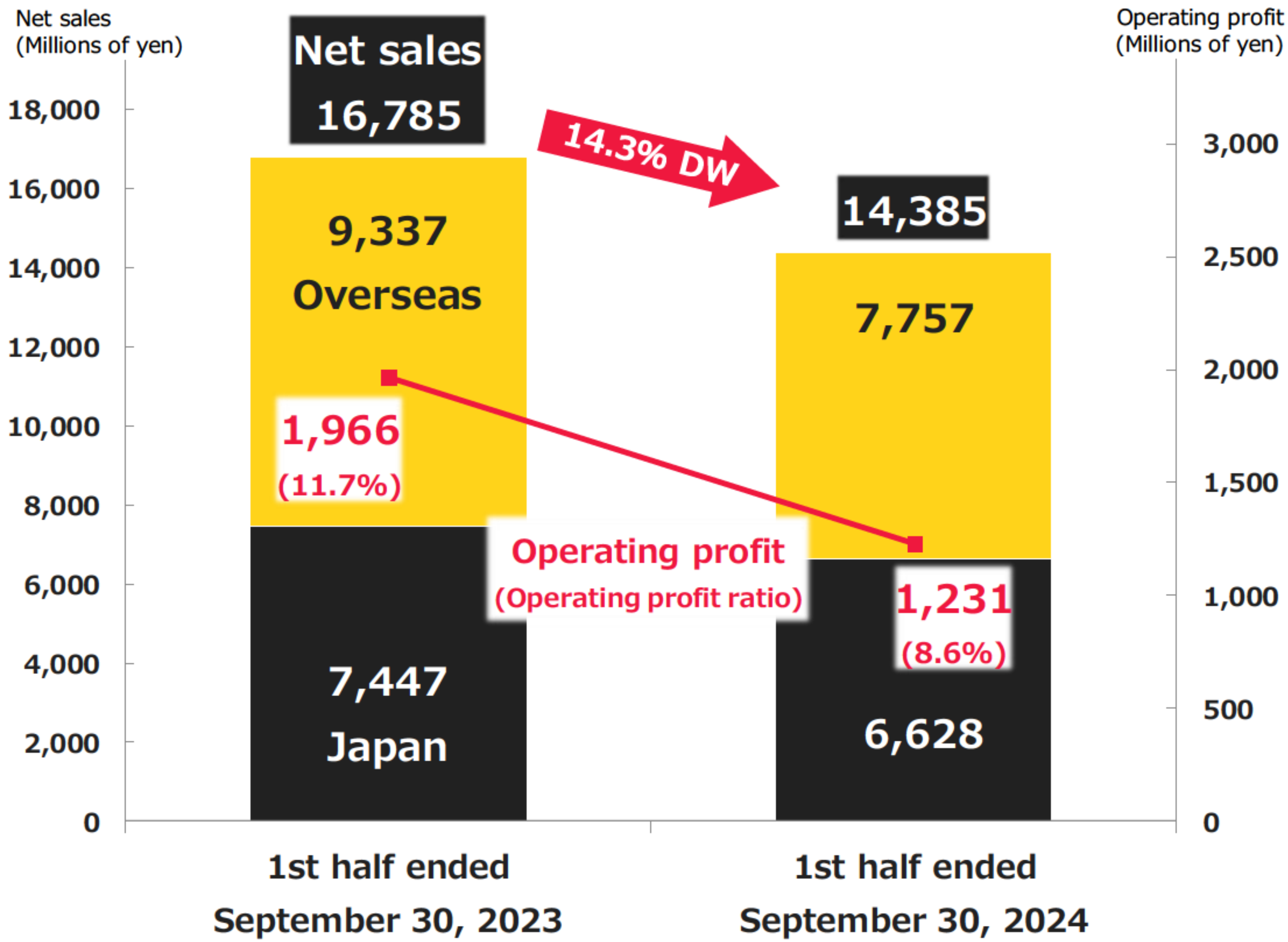
Consolidated Business Performance

(Millions of yen)

	1st half ended September 30, 2023	1st half ended September 30, 2024	YoY change	
			Amount	%
Net sales	**16,785**	**14,385**	**▲ 2,399**	**▲14.3%**
Japan	**7,447**	**6,628**	**▲ 819**	**▲11.0%**
Overseas	**9,337**	**7,757**	**▲ 1,580**	**▲16.9%**
Operating profit	**1,966**	**1,231**	**▲ 735**	**▲37.4%**
Operating profit ratio	(11.7%)	(8.6%)		
Ordinary profit	**2,109**	**1,178**	**▲ 931**	**▲44.1%**
Profit attributable to owners of parent	**1,534**	**1,302**	**▲ 231**	**▲15.1%**
Cost-of-sales ratio	(70.1%)	(69.9%)		

Consolidated Business Performance (Graph)



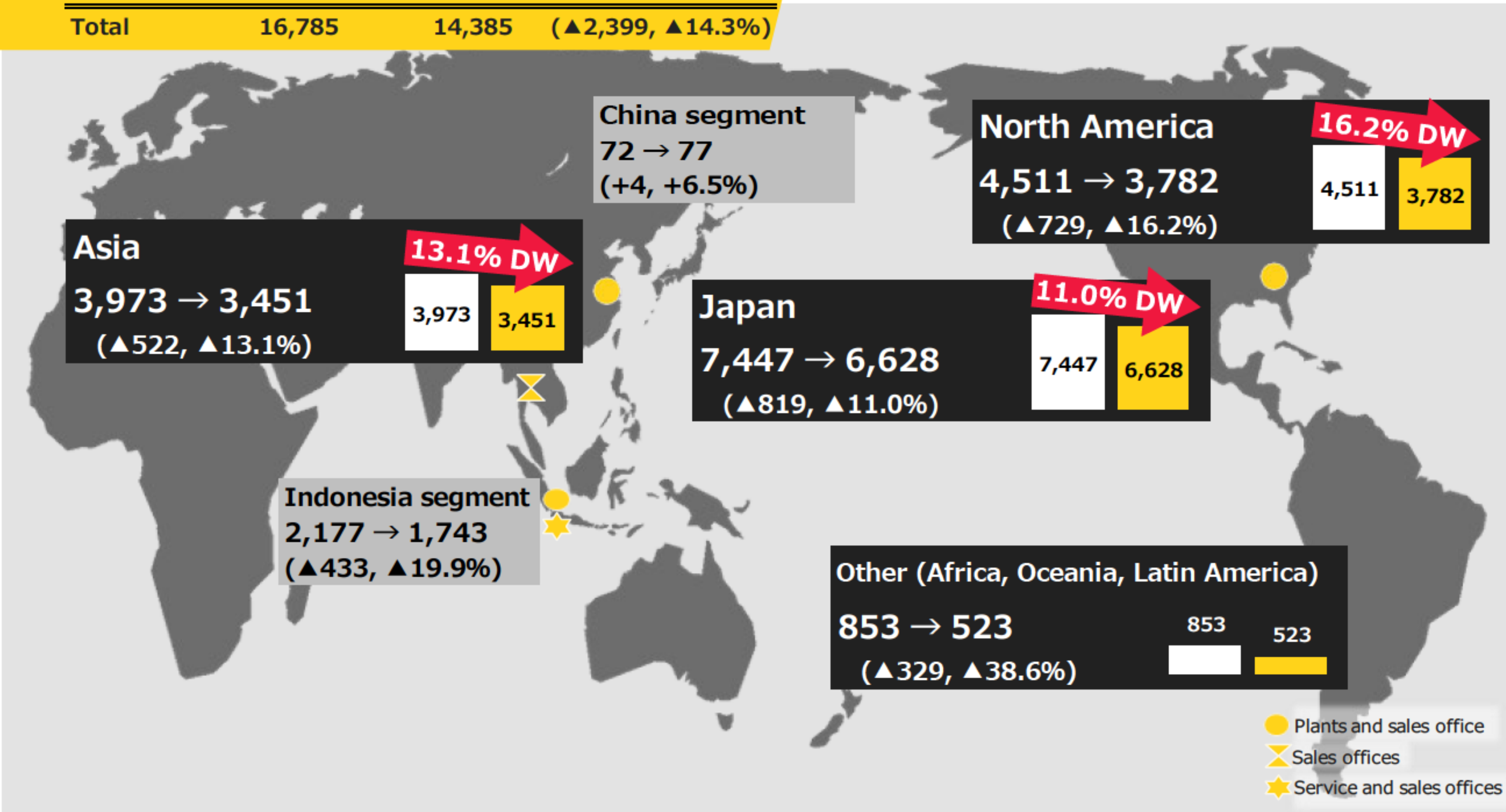
Sales by Region in Which Customers Are Located

(Millions of yen)

	1st half ended September 30, 2023	1st half ended September 30, 2024	YoY change	
			Amount	%
Japan	7,447	6,628	▲ 819	▲11.0%
Overseas	9,337	7,757	▲ 1,580	▲16.9%
North America	4,511	3,782	▲ 729	▲16.2%
Asia	3,973	3,451	▲ 522	▲13.1%
Other regions	853	523	▲ 329	▲38.6%
Total	16,785	14,385	▲ 2,399	▲14.3%

Sales by Region (Map)

(Millions of yen)	1st half ended September 30, 2023	1st half ended September 30, 2024	YoY change
Japan	7,447	6,628	(▲ 819, ▲11.0%)
Overseas	9,337	7,757	(▲1,580, ▲16.9%)
Total	16,785	14,385	(▲2,399, ▲14.3%)



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

(Millions of yen)

Japan	1st half ended September 30, 2023	1st half ended September 30, 2024	YoY change	
			Amount	%
Sales to external customers	10,024	8,782	▲ 1,241	▲12.4%
Intercompany sales	2,295	2,049	▲ 245	▲10.7%
Total net sales	**12,319**	**10,832**	**▲ 1,487**	**▲12.1%**
Operating profit	**630**	**291**	**▲ 339**	**▲53.8%**

(Millions of yen)

North America	1st half ended September 30, 2023	1st half ended September 30, 2024	YoY change	
			Amount	%
Sales to external customers	4,511	3,782	▲ 729	▲16.2%
Intercompany sales	3	5	2	67.8%
Total net sales	**4,514**	**3,788**	**▲ 726**	**▲16.1%**
Operating profit	**533**	**611**	**78**	**14.6%**

(Millions of yen)

Indonesia	1st half ended September 30, 2023	1st half ended September 30, 2024	YoY change	
			Amount	%
Sales to external customers	2,177	1,743	▲ 433	▲19.9%
Intercompany sales	1,960	1,246	▲ 713	▲36.4%
Total net sales	**4,137**	**2,989**	**▲ 1,147**	**▲27.7%**
Operating profit	**693**	**280**	**▲ 413**	**▲59.5%**

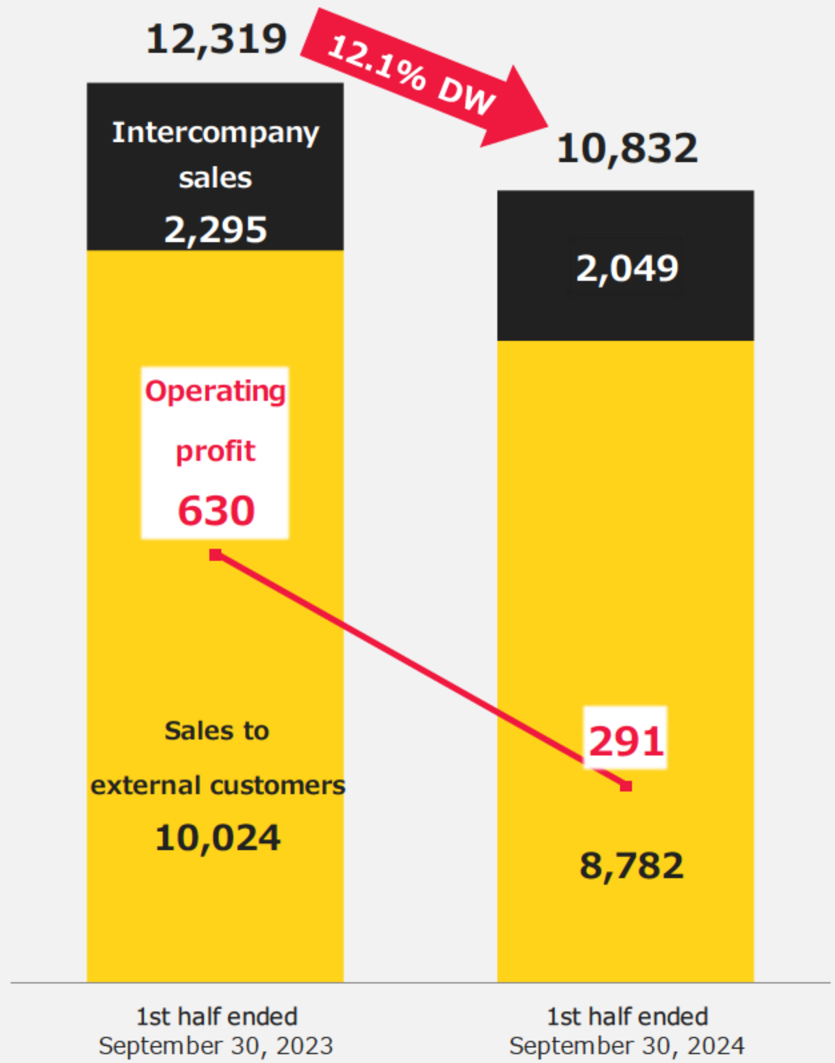
(Millions of yen)

China	1st half ended September 30, 2023	1st half ended September 30, 2024	YoY change	
			Amount	%
Sales to external customers	72	77	4	6.5%
Intercompany sales	877	732	▲ 144	▲16.5%
Total net sales	**949**	**809**	**▲ 140**	**▲14.8%**
Operating profit	**113**	**67**	**▲ 46**	**▲41.0%**

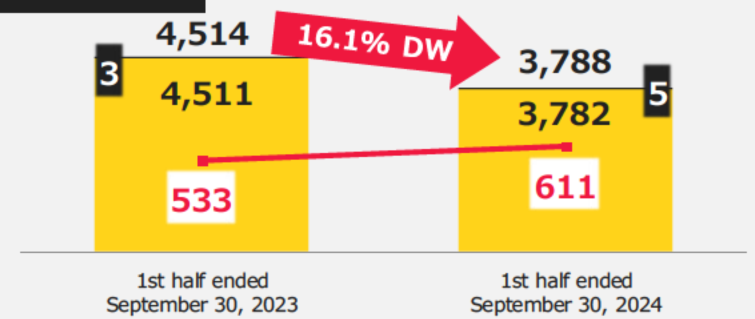
Segment Information by Region (Graph)

(Millions of yen)

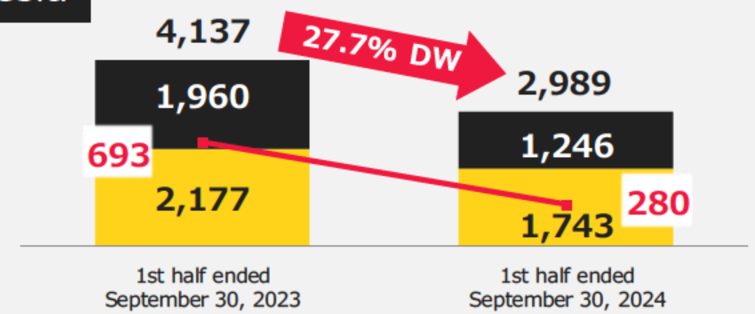
Japan



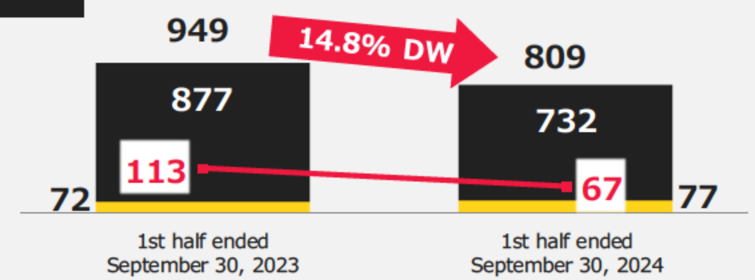
North America



Indonesia



China



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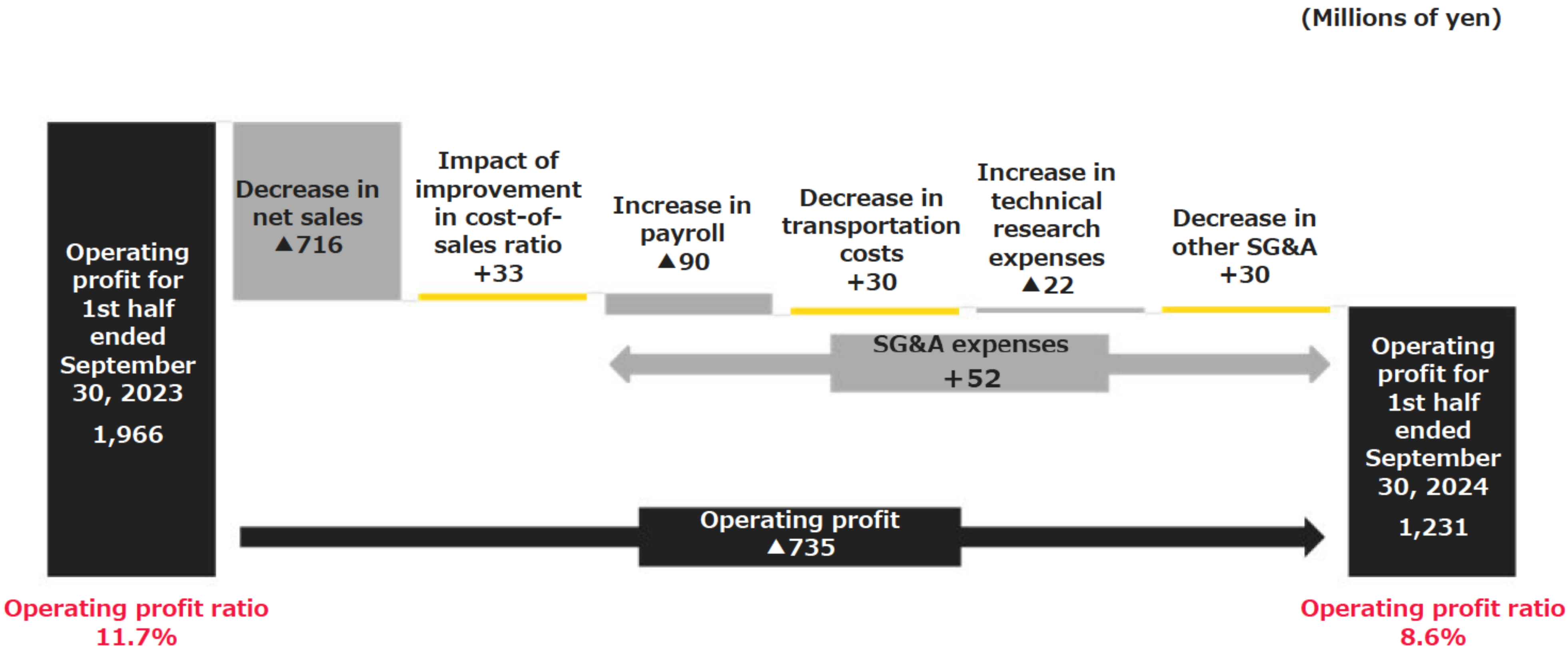
Breakdown of YoY Changes in Operating Profit

- Gross profit decreased by ¥716 million, in line with YoY decrease in net sales of ¥2,399 million.
- The cost-of-sales ratio improved by 0.2% and gross profit rose by ¥33 million through the progress in profit structure reform and the effect of yen depreciation.
- SG&A expenses increased by ¥52 million following the increased investment in human capital (increased payroll) and increased business activities.
- As a result, operating profit decreased by ¥735 million YoY to ¥1,231 million.

(Millions of yen)

	1st half ended September 30, 2023	1st half ended September 30, 2024	YoY change	Impact on operating profit	Note
Net sales	16,785	14,385	▲ 2,399	▲ 716	▲2,399 x (1 - 70.1%)
Cost-of-sales ratio	70.1%	69.9%	▲0.2%	+33	14,385 x ▲0.2%
Gross profit	5,012	4,329	▲ 682		
SG&A expenses	3,045	3,097	52	▲ 52	Payroll: up 90; Transportation costs: down 30; Technical research expenses: up 22; Other SG&A: down 30
Operating profit	1,966	1,231		▲ 735	

Breakdown of YoY Changes in Operating Profit (Graph)



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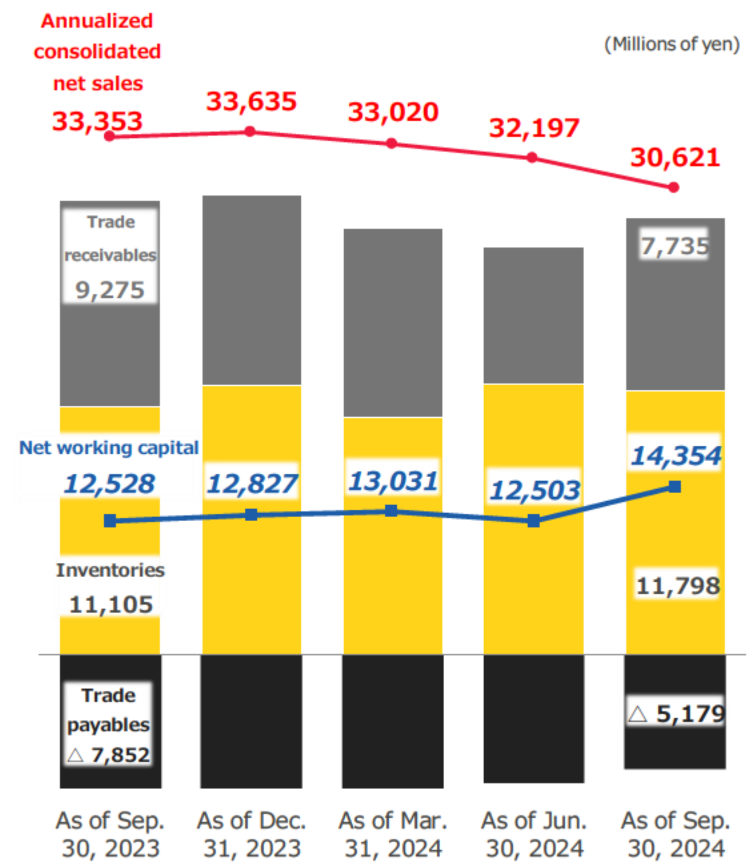
Net Working Capital (Trade Receivables + Inventories - Trade Payables)

- Net working capital invested in sales activities increased by ¥1,826 million, up 14.6% YoY to ¥14,354 million, in line with a YoY decrease in trade receivables of ¥1,540 million, a YoY increase in inventories of ¥693 million, and a YoY decrease in trade payables of ¥2,673 million.
- Inventory turnover decreased by 0.41 times (down 13%) YoY to 2.6 times. Currently making adjustments to optimize inventory.
- The significant decrease in trade payables is due to production adjustments and adoption of the 60-day rule under the Subcontract Act.

(Millions of yen)

	As of September 30, 2023	As of September 30, 2024	YoY change	
			Amount	%
Annualized consolidated net sales	33,353	30,621	▲2,732	▲8.2%
Trade receivables	9,275	7,735	▲1,540	▲16.6%
Inventories	11,105	11,798	693	6.2%
Trade payables	▲7,852	▲5,179	2,673	▲34.0%
Net working capital	12,528	14,354	1,826	14.6%
Inventory turnover	3.00 times	2.60 times	▲0.41 times	
Net working capital/Sales ratio	37.6%	46.9%	9.3%	



Consolidated Business Forecast

- The period of the increased demand after the COVID-19 pandemic has passed its peak, and the Global Construction Machinery Market entered a period of adjustments. Against this backdrop, a phase of adjustments is expected to continue in the second half of the current fiscal year. Accordingly, the previously announced full-year forecast of financial results for the year ending March 31, 2025 has been revised downward.

  (The assumed exchange rate for the second half of the current fiscal year used in the consolidated business forecast is ¥140 per US$.)

(Millions of yen)

	First half					Full year				
	Six months ended September 30, 2023 (Results)	Six months ended September 30, 2024 (Previous forecast)	Six months ended September 30, 2024 (Results)	YoY change		Fiscal year ended March 31, 2024 (Results)	Fiscal year ending March 31, 2025 (Previous forecast)	Fiscal year ending March 31, 2025 (Revised forecast)	YoY change	
				Amount	%				Amount	%
Net sales	16,785	15,500	14,385	▲ 2,399	▲14.3%	33,020	33,000	27,200	▲ 5,820	▲17.6%
Operating profit	1,966	1,050	1,231	▲ 735	▲37.4%	3,318	2,730	1,740	▲ 1,578	▲47.6%
Ordinary profit	2,109	1,050	1,178	▲ 931	▲44.1%	3,324	2,700	1,700	▲ 1,624	▲48.9%
Profit attributable to owners of parent	1,534	700	1,302	▲ 231	▲15.1%	2,440	1,830	1,700	▲ 740	▲30.3%
Earnings per share (Yen)	¥180.82	¥82.42	¥152.97	▲¥27.85	▲15.4%	¥287.37	¥215.48	¥199.67	▲¥87.70	▲30.5%

Note: We made a two-for-one share split effective October 1, 2024. Earnings per share have been calculated assuming that the share split was conducted at the beginning of the previous fiscal year.

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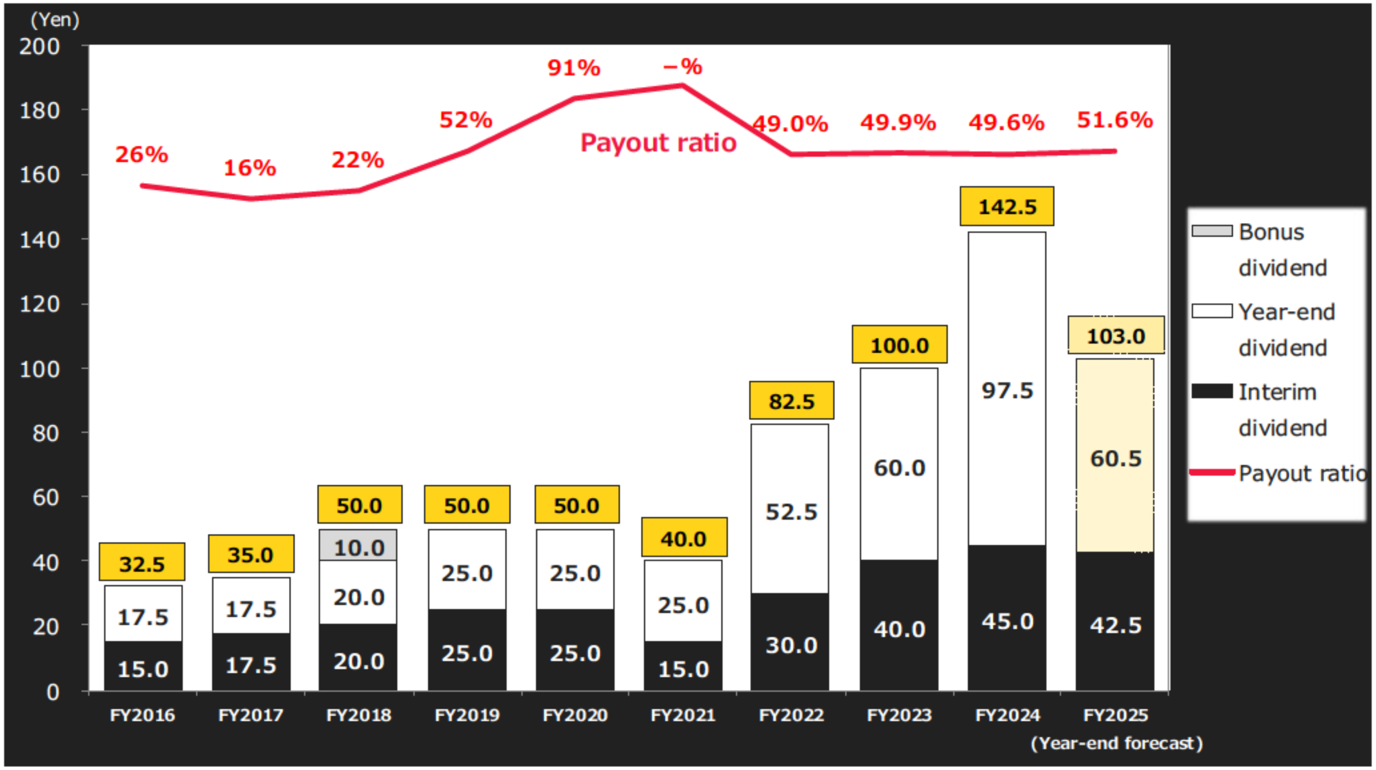
Dividends per Share

- 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.

- ROE in the revised full-year forecast of financial results for the year ending March 31, 2025 is expected to fall to 5.8%. In accordance with the dividend policy described at left, we set a full-year dividend forecast at DOE of 3%, and revised the dividend per share downward from ¥107.50 to ¥103.



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.
We made a two-for-one share split effective October 1, 2024. Dividend payouts for the periods prior to the share split are adjusted to be in line with the post-split payouts.

KPIs Established in the Medium-Term Management Policy

- ROE is expected to fall to 5.8% for the current fiscal year while the Global Construction Machinery Market entered a phase of adjustments, despite achievement of the KPIs established in the Medium-Term Management policy for the previous fiscal year due to upside factors other than actual performance.
- We will aim for the profit structure to be able to continuously achieve ROE of 8% or more for achieving PBR 1 or above in a phase of changes for the next fiscal year and beyond.

(Millions of yen)

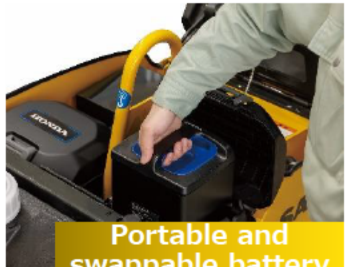
	Six months ended September 30, 2023 (Results)	Six months ended September 30, 2024 (Results)	Fiscal year ended March 31, 2024 (Results)	Fiscal year ending March 31, 2025 (Forecast)	Target for the fiscal year ending March 31, 2026
Net sales	16,785	14,385	33,020	27,200	30,000
Operating profit	1,966	1,231	3,318	1,740	3,100
Return on equity (ROE) *1	11.5%	8.8%	9.0%	5.8%	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 November 13, 2024.
*3 The amount represents the targets of the cumulative amount of share buybacks through March 31, 2026.

ESG Initiatives

Reduce CO_2 emissions from construction equipment

HV620evo



Portable and swappable battery

The **electric walk-behind roller HV620evo** with the portable and swappable batteries made by Honda Motor Co., Ltd. went on sale in October 2024.
To promote the widespread use of our products, we aim to obtain certification for the “GX Construction Machinery Certification System*” established by the Ministry of Land, Infrastructure, Transport and Tourism in the next fiscal year.

* GX (Green Transformation) Construction Machinery Certification System
A system initiated by the Ministry of Land, Infrastructure, Transport and Tourism for the purpose of promoting the widespread use of GX construction machinery contributing to carbon neutrality, reducing CO_2 emissions from construction operations, and contributing to global environmental conservation. This is eligible for subsidies from the Ministry of the Environment.

Contribute to road construction and expand the scope of business in Indonesia

Road stabilizers / PM550-s

Seminar for the standardization of the CAE method

For a business validation survey by JICA, we take initiatives to obtain the standardization certification for the cement and asphalt emulsion stabilizer method (CAE method), which is Japanese road repair technology, in Indonesia. Actions are underway to obtain the certification from the Indonesian government by the end of the current fiscal year. We aim to contribute to road infrastructure development in Indonesia while also expanding sale of the stabilizers manufactured by P.T. SAKAI INDONESIA used in the CAE method.

[Project seminar for the standardization of the CAE method held in Indonesia]
https://www.sakainet.co.jp/en/news/2024/september5.html

Initiatives for reducing cross-shareholdings

In the first quarter of the fiscal year ending March 31, 2025, we reviewed the “Policy on Cross-shareholdings,” stipulated our policy of keeping the balance of cross-shareholdings at less than 20% of consolidated net assets, and sold a portion of the cross-shareholdings (amount sold: ¥332 million).

(Millions of yen)

	As of Mar. 31, 2024	As of Jun. 30, 2024	As of Sep. 30, 2024
Balance of cross-shareholdings (Note)	5,993	5,886	5,358
Consolidated net assets	29,165	29,677	30,126
Ratio to consolidated net assets	20.5%	19.8%	17.8%

Note: Includes unlisted shares.

[Policy on Cross-shareholdings]
https://www.sakainet.co.jp/en/ir/item/sustainability/20241202.pdf

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