COMPANY RESEARCH AND ANALYSIS REPORT

SAKAI HEAVY INDUSTRIES, LTD.

6358

Tokyo Stock Exchange Prime Market

2-Jul.-2025

FISCO Ltd. Analyst

Noboru Terashima

FISCO Ltd.

https://www.fisco.co.jp

Contents

Summary — 01

1. Overview of FY3/25 results ... 01
2. FY3/26 forecasts ... 01
3. Medium- to long-term growth strategy ... 02

Company profile — 03

Business overview — 04

1. Business description ... 04
2. Features and strengths ... 05
3. Market share and competitors ... 06

Results trends — 07

1. Overview of FY3/25 results ... 07
2. Trends by region ... 08
3. Financial position ... 09
4. Cash flows ... 11

Outlook — 11

● FY3/26 forecasts ... 11

Medium- to long-term growth strategy — 12

1. Business strategy ... 12
2. Capital strategy ... 14
3. ESG initiatives ... 14

Shareholder return policy — 16

Summary

Operating profit decreased 52.3% YoY in FY3/25 due to customer inventory adjustments. Operating profit is expected to decrease 21.1% in FY3/26 amid uncertain outlook. Annual dividend is expected to be ¥105.0 based on DOE of 3.0%

SAKAI HEAVY INDUSTRIES, LTD. <6358> (hereafter, also “the Company”) is a manufacturer specializing in road rollers for road paving and other road construction equipment. It has a long history in this field, and boasts the industry’s leading market share in Japan at over 70%. In recent years, the Company has been focusing on developing overseas markets, especially in North America and Southeast Asia.

1. Overview of FY3/25 results

For the FY3/25 consolidated results, net sales were ¥27,854mn (down 15.6% YoY), operating profit was ¥1,583mn (down 52.3%), ordinary profit was ¥1,494mn (down 55.0%), and profit attributable to owners of parent was ¥1,435mn (down 41.2%). These results reflect challenging conditions attributable to ongoing adjustments to distribution inventories by customers in Japan and abroad. Despite firm government construction investment, domestic net sales declined 16.2% year on year (YoY) due to persisting inventory adjustments by construction equipment rental companies, which are major customers. Sales in North America decreased 21.9% YoY due to expanding inventory adjustments at the dealer level amid persistently high interest rates, despite continued investment in road construction against a backdrop of the Infrastructure Investment and Jobs Act. Sales in Asia declined 7.2% YoY due to sluggish demand across the overall ASEAN market, partly due to the effect of the election, despite signs of the downturn having bottomed out in Thailand and Malaysia. The gross margin fell 0.8 percentage points (pp) partially due to production adjustments accompanying weak demand. Although the Company held growth in SG&A expenses to an increase of 0.7%, operating profit dropped sharply YoY due to lower sales and decrease in profit margins.

2. FY3/26 forecasts

For the FY3/26 consolidated results, the Company forecasts net sales of ¥30,000mn (up 7.7% YoY), operating profit of ¥1,250mn (down 21.1%), ordinary profit of ¥1,250mn (down 16.4%), and profit attributable to owners of parent of ¥900mn (down 37.3%). This outlook reflects factors that include the notion that inventory adjustments being carried out by customers in Japan and abroad still show no signs of bottoming out, uncertainties regarding the indirect impact of tariffs imposed under the Trump administration in the US, and the likelihood that the average exchange rate of the yen will appreciate relative to FY3/25. With respect to its results for FY3/26, the Company projects a decline in profits over the full fiscal year amid the ongoing prospect of challenging conditions persisting through 1H at the very least. However, the Company plans to review its progress on a quarterly basis and disclose such findings as necessary going forward.

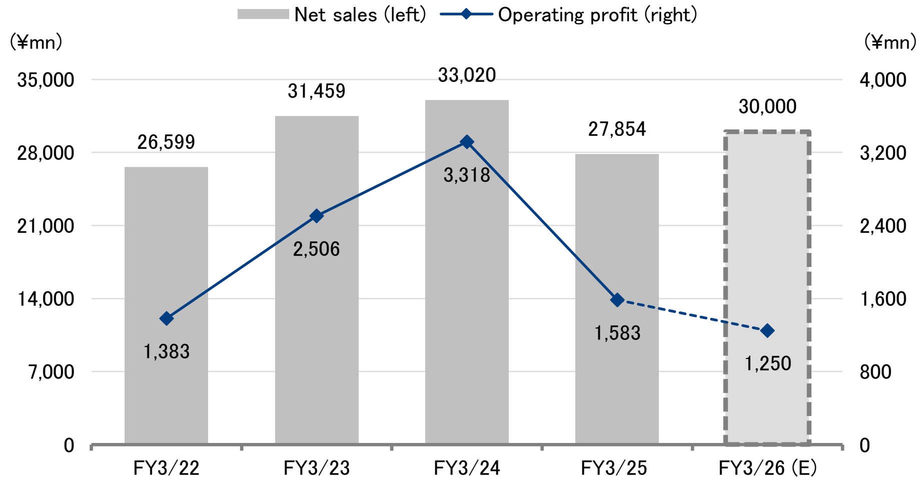
3. Medium- to long-term growth strategy

In June 2021, the Company released its Medium-Term Management Policy which runs through FY3/26. The ultimate goal is to increase corporate value and shareholder value, and in order to achieve this, the Company is promoting a business growth strategy and an efficient capital strategy. In terms of quantitative targets, in FY3/26, the Company is aiming for net sales of ¥30.0bn, operating profit of ¥3.1bn, return on equity (ROE) of 8.0%, and will aim to maintain a stable dividend payout ratio of 50%. Although the Company achieved its targets for net sales, operating profit, and ROE already in FY3/24, it has opted to leave these numerical targets unchanged at this point in time given persisting challenges with respect to the current business environment. The status of a business plan going forward appears to be undecided. With regard to annual dividends, the Company paid an annual dividend of ¥103.0 per share for FY3/25 based on DOE of 3.0% given that ROE fell below 6.0%. Also, for ongoing FY3/26, it furthermore plans to pay an annual dividend of ¥105.0 (dividend payout ratio 99.4%) based on DOE of 3.0% given the prospect of ROE falling below 6.0%. Despite its currently sluggish financial results, the Company deserves high marks for its stance of furnishing shareholder returns in line with its capital policy toward improving ROE.

Key Points

- Japan's leading manufacturer of road rollers with a long history. Domestic market share is over 70%, and the Company aims to grow by expanding its overseas market share
- Operating profit decreased 52.3% YoY in FY3/25 with projections for a decrease of 21.1% again in FY3/26
- The Company has already achieved its targets set under the medium-term management policy, but has yet to release a new business policy

Results trends



Note: The Accounting Standard for Revenue Recognition, etc. has been applied from FY3/22.
Source: Prepared by FISCO from the Company's financial results

Company profile

The leading manufacturer of road rollers with a long history. The Company's characteristics and strengths are high market share and technological capabilities

The Company has a long history, dating back to 1918 when founded by Kinnosuke Sakai. At the time, the Company manufactured and repaired parts for automobiles, internal combustion engines, and steam locomotives. After starting to manufacture locomotives in 1927, in 1929 the Company started manufacturing various types of road rollers for road rolling compaction. Since then, the Company has continued to develop as a specialized manufacturer of road rollers for paving roads and other road construction equipment. Currently, the Company is the leading manufacturer in Japan, and boasts a market share of over 70%. In 1970, the Company established a joint venture in Indonesia, as part of the Company's effort to expand business overseas at an early stage. As of the end of FY3/25, the Company has four domestic subsidiaries, and four overseas subsidiaries (US, China, two in Indonesia).

The Company listed its shares on the Second Section of the Tokyo Stock Exchange (TSE) in 1964, and its shares were reclassified to the First Section of TSE in 1981. In conjunction with the TSE's market recategorization in April 2022, it moved to the Prime Market.

History

Year	Description
1918	Founded by Kinnosuke Sakai with the aim of manufacturing and repairing parts for automobiles, internal combustion engines and steam locomotives
1927	Started production of locomotives
1929	Started production of road rollers for road rolling compaction
1949	Company is incorporated to establish SAKAI WORKS Co., Ltd.
1964	Listed on Second Section of Tokyo Stock Exchange
1967	Renamed SAKAI HEAVY INDUSTRIES, LTD.
1970	Established Joint venture P.T. SAKAI SAKTI in Jakarta, Indonesia, to assemble and repair road rollers
1976	Established SAKAI AMERICA, INC. in Delaware, U.S., for the purpose of importing/exporting and selling construction equipment
1981	Listed on First Section of Tokyo Stock Exchange
1996	Acquired ISO9001 certification, an international standard for quality assurance stipulated by the International Organization for Standardization
2004	Developed the world's first vibratory pneumatic tired roller (GW750)
2018	Celebrated its 100th anniversary
2019	Consolidated the three bases in Indonesia, including P.T. SAKAI INDONESIA, and established a new factory in order to bolster the local production system targeting an expansion of overseas business domains and to build a supply platform to achieve medium- to long-term growth
2022	In conjunction with the Tokyo Stock Exchange's market recategorization, moved to the Prime Market
2023	Relocated the head office with the aims of achieving a comfortable workplace environment, enhancing communication, and streamlining operations
2024	Macadam Roller SAKAI R1 gains Mechanical Engineering Heritage designation for fiscal 2024 by the Japan Society of Mechanical Engineers

Source: Prepared by FISCO from the Company's annual securities report and website

Business overview

The leading manufacturer of road rollers with a domestic market share of over 70%. Will seek growth by offering high added value and expanding overseas market share

1. Business description

The Company's main business is the manufacture and sale of road rollers used in road paving and other applications, and road roller-related net sales account for approximately 95% of all net sales. Also, the Company's corporate philosophy is to "Contribute to the social project of global land development through the road construction equipment business."

The term "road roller" actually covers quite a wide range of machines in terms of capabilities and size, among other features. The Company has roughly 20 platforms alone for road rollers, and when different variations are added the total number of products is in the 70–80 range. There is also a wide range in sizes, from approximately 0.5 tons to 20 tons (for large civil engineering projects). The core price range is from ¥5mn (medium-size rollers) to ¥10mn (large rollers), but the Company also has road cutters and other machines that cost tens of millions of yen. Production is carried out on an expected production basis, and the Company does not manufacture machines based on individual orders. The useful lives of the Company's products are in the 20–30 years range, but very few customers use a machine until the end of its useful life. In most cases, they replace it after statutory depreciation (6–7 years) with a new one. Most of the depreciated equipment is resold as used machines to overseas customers (especially in developing countries).

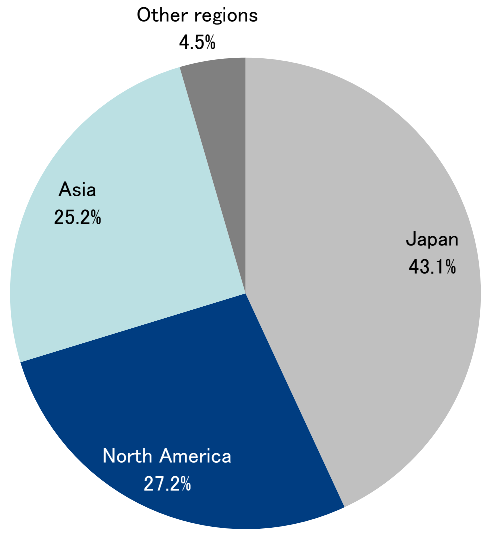
The Company's road equipment

Source: The Company's Medium-Term Management Policy

In terms of net sales by region* in FY3/25, net sales in Japan were ¥12,000mn (43.1% of total net sales), net sales in North America were ¥7,574mn (27.2%), net sales in Asia were ¥7,021mn (25.2%), and net sales in other regions totaled ¥1,257mn (4.5%).

* Net sales by region are the amount of products actually sold to customers, classified by customer location, and differs from the reportable segment “Net Sales by Location” in the financial results.

Ratio of net sales by region in FY3/25



Source: Prepared by FISCO from the Company’s financial results

In Japan, approximately 70% of the Company’s sales are mainly to construction equipment rental companies (Kanamoto <9678>, NISHIO HOLDINGS <9699>, etc.), while the remaining 30% of sales are to end users (large and small- and medium-sized general contractors, roadwork companies, etc.). Sales to end users include sales via finance companies due to credit management issues. Overseas, sales are mainly to end users via distributors, but in North America some sales are through rental companies.

2. Features and strengths

As mentioned above, the Company is a specialized manufacturer of road rollers and other road construction equipment, and the Company has the following special characteristics and strengths.

(1) Long history as a specialized manufacturer

The Company’s greatest strength is its long history as a specialized manufacturer of road rollers and other road construction equipment. In other words, by deploying a global niche strategy through selection and concentration, the Company has increased its level of expertise and accumulated its own unique technologies. It has raised its technological capabilities and credibility through experience gained over this long history.

(2) Technological capabilities

When it comes to hardening and paving roads, the necessary pressure, torque, and other variables (compaction technology) differ depending on the specific land, land quality, soil, and other conditions. Therefore, roadwork companies often require different types of road rollers to match individual worksites (ground, etc.). According to the Company, the work function of a road roller itself determines the final quality of the road or embankment (density, flatness, lifespan). Generally speaking, a 1% rise in rolling compaction density extends the life of a road by 10%. For this reason, for companies that order roadwork as well as for roadwork companies, not only the price of the road roller, but the product quality (performance) is extremely important. Because the Company has been a specialized manufacturer of road rollers and other road construction equipment for many years, it boasts a high level of technological capabilities with respect to compaction technology, and it is not easy for its competitors to catch up to it.

The Company's technological capabilities can be summed up by the phrase "Expertise in products and services." In other words, it is the Company's engineering capabilities covering the entire roadwork process and the ability to handle a variety of materials. Specifically, combining the various technologies makes it possible to increase the quality and efficiency of roadwork. Such technologies include kneading by tires, increased rolling compaction power by vertical vibration, rubbing by horizontal vibration, thick layer compaction by vertical vibration, further high-density compaction by tire vibration, and eliminating difficult compaction issues with high-frequency vibration.

One example of the Company's strong technological capabilities is its ability to control the relationship between mechanical vibration technology and the technology to prevent this vibration. For road rollers, one important means of increasing functionality is various mechanical vibrations, but on the other hand, vibration itself can cause machine failure, and it also greatly influences operator comfort. Therefore, the ability (technology) to control the opposing relationship between enhancing vibration compaction power and machine quality is important, and this is not something that can be amassed quickly.

(3) Credibility

Credibility backed by abundant worksite experience and a track record is also a strength of the Company. The technology to ensure underground compaction quality is a black box and is not something that is easy for late-arriving manufacturers and non-specialized manufacturers to copy. For example, asphalt mixture brought in at high temperatures must be worked on within a limited time, and if the work is of poor quality, it must be redone which involves a large price. Also, work quality issues for roads and embankments are slow to emerge, and the compaction quality at the time of completion tends to be a black box. When it comes to this type of experience engineering, the Company has earned the trust of many customers due to its strengths consisting of its brand used by customers over many years and its insight derived from its range of worksite experience.

3. Market share and competitors

According to data from the Japan Construction Equipment Manufacturers Association, in FY2024 the total construction equipment shipment value including domestic and exports was approximately ¥3.39tn, and road roller and other road construction equipment (the Company's main products) account for about 2.6% of this amount. The Company has a share of over 70% in the road roller market within the road machinery market, making it the leading manufacturer in Japan. Competitors include companies such as Hitachi Construction Machinery <6305>, but none of these companies are specialized manufacturers. Some overseas manufacturers have entered the market in Japan, but none have much of a presence. In Japan, the Company's earnings rise and fall along with the ups and downs of the market.

In the global market, although there are no accurate statistics, the Company's market share (on a units produced basis) is estimated to be in the 5–6% range. However, this is on a global basis, and if we limit the scope to the main markets that the Company operates in (Japan, ASEAN, North America), the Company's market share appears to be around 12%. The Company's main competitors in the global market include Caterpillar <CAT>, FAYAT SAS, WIRTGEN GROUP, and Volvo Personvagnar AB, but none of these companies are manufacturers that specialize in road rollers.

Results trends

Operating profit decreased 52.3% in FY3/25 due to customer inventory adjustments

1. Overview of FY3/25 results

In the consolidated results for FY3/25, net sales decreased 15.6% YoY to ¥27,854mn, operating profit decreased 52.3% to ¥1,583mn, ordinary profit declined 55.0% to ¥1,494mn, and profit attributable to owners of parent decreased 41.2% to ¥1,435mn.

Domestic net sales (consolidated, by region) declined 16.2% YoY due to persisting inventory adjustments by construction equipment rental companies, which are major customers, despite firm government construction investment. Sales in North America decreased 21.9% YoY due to expanding inventory adjustments at the dealer level amid persistently high interest rates, despite relatively strong investment in road construction against a backdrop of the Infrastructure Investment and Jobs Act. In Asia, sales decreased 7.2% YoY due to weak demand in the ASEAN market overall as public investment was postponed due to the election year. However, the downturn seems to have bottomed out in Thailand and Malaysia.

The Company also adjusted its own production due to weak global demand, which caused the gross margin to decrease 0.8pp YoY to 27.6%. Meanwhile, whereas the Company held overall growth in SG&A expenses to an increase of 0.7% amid factors such as rising personnel expenses, operating profit dropped sharply YoY due to the decrease in sales and the gross margin.

Analyzing the change factors for operating profit, the decrease in net sales had a negative ¥1,466mn impact, deterioration in the cost of sales ratio had a ¥229mn negative impact, and the increase in SG&A expenses had a ¥39mn negative impact. Breaking down the increase in SG&A expenses, reduced transportation costs had a positive impact on operating profit of ¥63mn, lower depreciation had a positive impact of ¥35mn, increased technical research expenses had a negative impact of ¥40mn, and other SG&A expenses had a negative impact of ¥97mn.

Overview of FY3/25 consolidated results

(¥mn)

	FY3/24		FY3/25		YoY change	
	Results	% of net sales	Results	% of net sales	Change amount	% change
Net sales	33,020	100.0%	27,854	100.0%	-5,166	-15.6%
Gross profit	9,369	28.4%	7,674	27.6%	-1,695	-18.1%
SG&A expenses	6,050	18.3%	6,090	21.9%	39	0.7%
Operating profit	3,318	10.0%	1,583	5.7%	-1,735	-52.3%
Ordinary profit	3,324	10.1%	1,494	5.4%	-1,829	-55.0%
Profit attributable to owners of parent	2,440	7.4%	1,435	5.2%	-1,004	-41.2%

Source: Prepared by FISCO from the Company's financial results

2. Trends by region

In Japan, sales related to public investments such as road and civil engineering projects were relatively strong against a backdrop of measures to accelerate the national resilience plan. However, net sales for the full year decreased 16.2% YoY to ¥12,000mn due to sluggish demand amid ongoing adjustments to excess inventories of construction equipment, which was a response to a scenario of recoiling demand in wake of a surge of purchases ahead of successive price revisions, along with overtime restrictions imposed in the logistics and construction sectors. Overseas sales decreased 15.2% to ¥15,853mn due to sluggish performance overall in overseas markets as well. Of this amount, net sales in North America declined 21.9% YoY to ¥7,574mn due to accelerating inventory adjustments at the dealer level amid persistently high interest rates, despite expansion of investment in road construction against a backdrop of the Infrastructure Investment and Jobs Act. In Asia, net sales decreased 7.2% to ¥7,021mn due to weak demand in the ASEAN market overall caused by delayed progress in public investment amid the election year. However, the downturn seems to have bottomed out in Thailand and Malaysia. In other markets (mainly Central and South America, Oceania, Africa, etc.), net sales were down 12.2% to ¥1,257mn.

Net sales by region

(¥mn)

	FY3/24		FY3/25		YoY	
	Results	% of total	Results	% of total	Change amount	% change
Japan	14,320	43.4%	12,000	43.1%	-2,320	-16.2%
Overseas	18,699	56.6%	15,853	56.9%	-2,846	-15.2%
North America	9,700	29.4%	7,574	27.2%	-2,125	-21.9%
Asia	7,566	22.9%	7,021	25.2%	-545	-7.2%
Other regions	1,432	4.3%	1,257	4.5%	-175	-12.2%
Total	33,020	100.0%	27,854	100.0%	-5,166	-15.6%

Source: Prepared by FISCO from the Company's financial results

Stable financial foundation along with ample cash and deposits on hand of ¥7.6bn. Progressive contraction of inventory on a quarterly basis

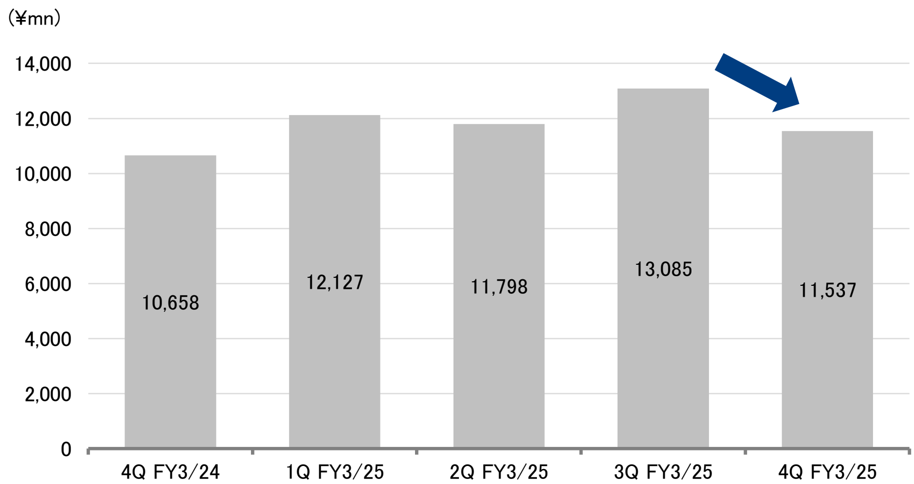
3. Financial position

In terms of the Company's financial condition as of the end of FY3/25, current assets were ¥26,611mn (down ¥2,026mn from the end of the previous fiscal year). The main factors included a ¥715mn decrease in cash and deposits, a ¥2,422mn decrease in notes and accounts receivable - trade (including electronically recorded monetary claims - operating), and a ¥879mn increase in inventories. Non-current assets were ¥16,013mn (up ¥413mn). The main factors include a ¥310mn increase in property, plant and equipment mainly due to capital investment, a ¥263mn increase in intangible assets, and a ¥161mn decrease in investments and other assets (includes a ¥374mn decrease in investment securities). As a result, total assets were ¥42,624mn (down ¥1,612mn).

Inventory at the end of FY3/25 was slightly higher relative to that of the end of FY3/24, but lower relative to the end of 3Q FY3/25. This was due to significant production adjustments made during 4Q FY3/25, which in turn led to a sharp drop in the gross margin to 23.0% in 4Q (26.3% in 4Q FY3/24) along with a lower gross margin for the full year.

The Company needs to carry a certain level of inventory given that its production is based on forecasts for the most part, rather and orders received. Going forward, it will be important to closely monitor inventory to determine when such levels have bottomed out.

Inventory at end of quarter



Source: Prepared by FISCO from the Company's results briefing materials

Meanwhile, total liabilities were ¥12,494mn (down ¥2,577mn from the end of the previous fiscal year). The main factors in current liabilities included a ¥2,649mn decrease in trade payables (notes and accounts payable – trade and electronically recorded obligations – operating), a ¥175mn increase in short-term borrowings, and in non-current liabilities, a ¥38mn decrease in long-term borrowings and an ¥85mn decrease in deferred tax liabilities. Total net assets stood at ¥30,130mn (up ¥964mn), with the main factors including a ¥244mn increase in retained earnings due mainly to booking profit attributable to owners of parent, a ¥198mn decrease in valuation difference on available-for-sale securities, and an ¥819mn increase in foreign currency translation adjustment. As a result, the equity ratio as of the end of FY3/25 was 70.5% (65.8% at the end of the previous fiscal year).

Consolidated balance sheet

(¥mn)

	FY3/24	FY3/25	Change amount
Cash and deposits	8,383	7,668	-715
Notes and accounts receivable - trade (including electronically recorded monetary claims - operating)	8,497	6,075	-2,422
Inventories	10,658	11,537	879
Total current assets	28,637	26,611	-2,026
Property, plant and equipment	7,573	7,884	310
Intangible assets	255	518	263
Investments and other assets	7,771	7,609	-161
Of which, investment securities	6,036	5,661	-374
Total non-current assets	15,600	16,013	413
Total assets	44,237	42,624	-1,612
Notes and accounts payable - trade (including electronically recorded obligations – operating)	6,125	3,475	-2,649
Short-term borrowings	4,629	4,804	175
Total current liabilities	13,180	10,429	-2,751
Long-term borrowings	155	117	-38
Deferred tax liabilities	1,144	1,058	-85
Total non-current liabilities	1,890	2,064	173
Total liabilities	15,071	12,494	-2,577
Retained earnings	14,191	14,436	244
Valuation difference on available-for-sale securities	3,380	3,181	-198
Foreign currency translation adjustment	2,027	2,846	819
Total net assets	29,165	30,130	964

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Although the Company has been working to streamline its balance sheet, net working capital (trade receivables + inventories – trade payables) at the end of FY3/25 increased to ¥14,138mn (up 8.5%, ¥1,107mn YoY). Inventory turnover ratio decreased 0.68 times YoY to 2.41 times per year, due to an ¥879mn (up 8.2%) increase in inventories although the Company proceeded with production adjustments due to sluggish performance. As a results, the net working capital to net sales ratio was 50.8% (39.5% at the end of the previous fiscal year).

Net working capital

(¥mn)

	FY3/24 Results	FY3/25 Results	YoY	
			Change amount	% change
Annualized consolidated net sales	33,020	27,854	-5,166	-15.6%
Trade receivables	8,498	6,076	-2,422	-28.5%
Inventories	10,658	11,537	879	8.2%
Trade payables	-6,125	-3,475	2,650	-43.3%
Net working capital	13,031	14,138	1,107	8.5%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

4. Cash flows

In FY3/25, net cash provided by operating activities was ¥399mn. The main cash inflow factors included recording of ¥1,861mn in profit before income taxes, ¥713mn in depreciation, and a decrease of ¥2,558mn in trade receivables. The main cash outflow factors included a ¥632mn increase in inventories and ¥2,731mn decrease in trade payables.

Net cash provided by investing activities was ¥39mn. The main cash outflow factors included ¥324mn in purchase of property, plant and equipment. The main cash inflow factors included ¥449mn in sale of investment securities. Net cash used in financing activities was ¥1,220mn. The main cash inflow factors included a ¥136mn increase in long- and short-term borrowings (net). The main cash outflow factors consisted of ¥1,191mn in dividends paid. As a result, cash and cash equivalents decreased ¥645mn from the end of the previous fiscal year, and cash and cash equivalents at the end of FY3/25 was ¥7,599mn.

Consolidated statements of cash flows

(¥mn)

	FY3/24	FY3/25
Cash flows from operating activities	2,482	399
Profit before income taxes	3,324	1,861
Depreciation	679	713
Change in trade receivables (- denotes increase)	1,227	2,558
Change in inventories (- denotes increase)	-530	-632
Change in trade payables (- denotes decrease)	-1,383	-2,731
Cash flows from investing activities	-353	39
Purchase of property, plant and equipment	-284	-324
Sale of investment securities	-	449
Cash flows from financing activities	-1,422	-1,220
Change in long- and short-term borrowings (net)	-358	136
Dividends paid	-890	-1,191
Change in cash and cash equivalents (- denotes decrease)	827	-645
Cash and cash equivalents at end of period	8,244	7,599

Source: Prepared by FISCO from the Company's financial results

Outlook

Operating profit expected to decline 21.1% YoY amid substantial uncertainty particularly due to inventory adjustments and the impact of tariffs imposed under the Trump administration in the US

● FY3/26 forecasts

For the FY3/26 consolidated results, the Company forecasts net sales of ¥30,000mn (up 7.7% YoY), operating profit of ¥1,250mn (down 21.1%), ordinary profit of ¥1,250mn (down 16.4%), and profit attributable to owners of parent of ¥900mn (down 37.3%).

Operating profit is projected to decline again in FY3/26 due to factors that include the notion that inventory adjustments being carried out by customers in Japan and abroad still show no signs of bottoming out, uncertainties regarding the indirect impact of tariffs imposed under the Trump administration in the US, and the prospect of an average exchange rate of ¥140 (¥152 in FY3/25). Operating profit is projected to fall by more than 55% YoY, particularly amid the ongoing prospect of challenging conditions persisting through 1H. However, the Company plans to review its progress on a quarterly basis and disclose such findings as necessary going forward, in part given expectations of recovery in 3Q and beyond.

Consolidated forecasts for FY3/26

(¥mn)

	FY3/25		FY3/26		YoY	
	Results	% of net sales	Forecast	% of net sales	Change amount	% change
Net sales	27,854	100.0%	30,000	100.0%	2,145	7.7%
Operating profit	1,583	5.7%	1,250	4.2%	-333	-21.1%
Ordinary profit	1,494	5.4%	1,250	4.2%	-244	-16.4%
Profit attributable to owners of parent	1,435	5.2%	900	3.0%	-535	-37.3%

Source: Prepared by FISCO from the Company's financial results

Medium- to long-term growth strategy

Current medium-term management policy remains unchanged with status of a new medium-term management policy yet to be determined

In June 2021, the Company released its Medium-Term Management Policy which runs through FY3/26. The ultimate goal is to increase corporate value and shareholder value, and in order to achieve this, the Company has been promoting a business growth strategy and an efficient capital strategy. In addition, the Company has maintained quantitative targets to be achieved in FY3/26 encompassing ¥30.0bn in net sales, ¥3.1bn in operating profit, ROE of 8.0%, and a stable dividend payout ratio of 50%, but it has been encountering challenging conditions with respect to its near-term earnings outlook. However, the Company achieved these numerical targets once in FY3/24, the basic policy of this medium-term management policy has not been changed at this time, and the numerical targets remain unchanged. The status of a new management policy has yet to be determined at this point in time.

Meanwhile, the Company has been making steady progress in implementing the following measures.

1. Business strategy

(1) Domestic market: Create added value through stabilization and developing next-generation businesses
The domestic market for road rollers is already in its mature phase and the Company's market share is large. Therefore, the Company will aim to grow by adding new value to existing products (high-performance, etc.), in other words, by developing next-generation businesses. Specifically, the Company plans to do the following.

a) To enhance safety, the Company will horizontally roll out models equipped with automatic emergency brake systems.

This performs an emergency stop of operating equipment if a person or obstacle is in the movement path of the equipment. This function has already been added as an optional setting to the main models in Japan (the rate of emergency brake attachment is approximately 50% for large-size rollers, 30% for medium-size rollers), and the Company's policy going forward is to horizontally roll out this function to overseas markets.

b) The Company aims to improve compaction quality with a compaction management system (with CCV).

This system remotely links work managers with worksites, allowing compaction quality to be confirmed and managed (e.g., number of rolling compactions) in real time. In October 2022, it was certified as ICT Construction Machinery by Japan's Ministry of Land, Infrastructure, Transport and Tourism.

c) The Company aims to improve productivity by commercializing autonomous (unmanned) rollers.

In the autonomous driving industry standard equipment development project, the Company is advancing commercialization through worksite implementation testing with multiple general contractors. Specifically, through unmanned construction work, the Company aims to create safe construction sites, improve productivity through efficient compaction operations, reduce CO_2 emissions at construction sites and stabilize and improve quality, independent of operator skill.

(2) Overseas markets: Increase market share and expand business domains

In overseas markets, there are many regions (countries) where demand is increasing, and there is significant room for growth given the Company's low market shares. Therefore, the Company will seek growth through the two strategies of more fully cultivating existing markets and expanding its business domains by deploying road maintenance equipment to overseas markets.

a) In Asia, the Company aims to cultivate the market and increase its product domain.

It will move ahead on deepening market activities in Indonesia as well as the ASEAN region through utilizing the Indonesian base, where a new plant began operating in 2019, as a central hub for sales, manufacturing, and services.

b) In North America, aiming to expand its market share, the Company will strengthen its North America distribution strategy and advance measures to increase its market share.

The Company will seek to expand its market share through a niche marketing strategy by selection and concentration and through engineering sales focused on improved pavement quality.

c) Aiming to expand overseas business domains, the Company will promote a strategy of cultivating markets for road maintenance equipment in ASEAN markets and ODA, along with other markets.

Local production began at the plant in Indonesia from FY3/24.

(3) Quantitative targets

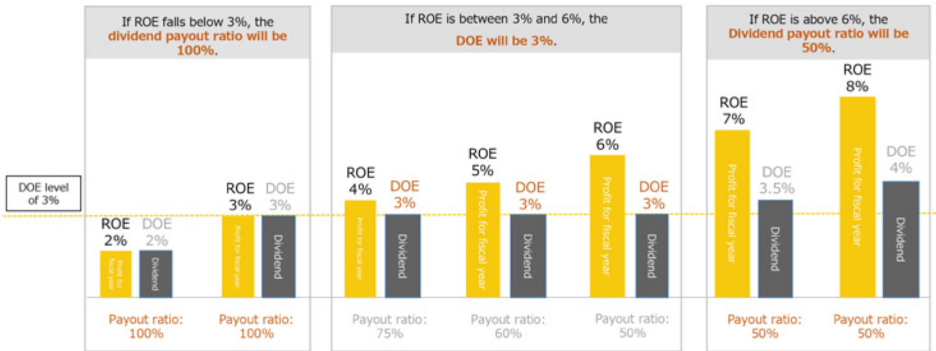
As numerical targets, the Company aims for net sales of ¥30.0bn, operating profit of ¥3.1bn, and ROE of 8% in FY3/26.

2. Capital strategy

As its basic policy for capital strategy, the Company will return profits to shareholders at a level that supports the Company's objective of ROE of 8.0%, and will increase shareholder value (improve capital efficiency). As a final target for FY3/26, the Company will strive to achieve ROE of 8.0% and a dividend payout ratio of 50%.

Generally, two things need to be improved in order to increase ROE. One is of course increasing profit attributable to owners of parent, while the other is suppressing shareholders' equity (not increasing shareholders' equity more than necessary, or decreasing it). In order to increase operating profit, the Company plans to promote the business strategies discussed above, but at the same time, in order to keep from increasing shareholders' equity more than needed, the Company plans to execute a dividend policy in which, if ROE falls below 3%, the dividend payout ratio will be 100%, if ROE is between 3% and 6%, the dividend on equity (DOE) will be 3%, and if ROE is above 6%, the dividend payout ratio will be 50%.

Basic policy of capital management



Source: The Company's Medium-Term Management Policy

In terms of share buybacks, through FY3/26 the Company will consider flexible share buybacks with an upper limit of ¥0.5bn to ¥2.0bn (conducted a ¥340mn share buyback in FY3/22). With respect to investment securities, the Company will review investment securities from the perspective of business strategy. Also, concerning growth investment, the Company will consider utilizing leverage with an emphasis on return on invested capital (ROIC).

3. ESG initiatives

The Company is proactively working on ESG initiatives, and is advancing a variety of measures. Currently, it is focusing in particular on the following measures.

(1) Reduce CO_2 emissions at construction sites through efficient compaction*
Rental of autonomous rollers (automatic operation) to Tamashima-Kasaoka road improvement project in Okayama Prefecture

This is the second rental project after Shin-Maruyama Dam in Gifu Prefecture. This is the first-ever use of an autonomous roller in a road construction project in Japan, the Company is focusing both on engaging in carbon neutral initiatives and providing added value through new technologies. The Company provided machinery on the basis of short-term rental for the first time ever at the Shin-Maruyama Dam construction site in Yaotsu-cho, Kamo-gun, Gifu Prefecture. As unmanned construction is expected to expand in the future, the Company will focus on commercializing this business.

* Test data has shown that autonomous rollers enable approximately 20% more labor-saving than manned work.

Autonomous roller

Source: The Company's results briefing materials

(2) Contribution to road construction and expansion of business domain in Indonesia

Indonesia's Ministry of Public Works has officially certified the Company's road repair technology Cement-Asphalt Emulsion Stabilization Method (CAE method) through a JICA Business Validation Survey as the standardized method in Indonesia. The Company will contribute to developing road infrastructure and also improving the quality and longevity of road pavement in Indonesia, while focusing on expanding sales of road maintenance equipment stabilizers that use this method (completed local production in Indonesia).

Road maintenance machinery stabilizers


Source: The Company's results briefing materials

(3) Initiatives for reducing cross-shareholdings

Upon having released its Policy on Cross-shareholdings as part of its efforts to improve asset efficiency in June 2024, the Company has been making progress in reducing its cross-shareholdings enlisting the target of keeping its balance of cross-shareholdings at less than 20% of consolidated net assets.

In line with this policy, the balance of cross-shareholdings as of March 31, 2025 was ¥5,625mn (¥5,993mn on March 31, 2024), which constitutes 18.7% of consolidated net assets of ¥30,130mn (20.5% of ¥29,165mn on March 31, 2024). The Company intends to maintain a balance of cross-shareholdings of less than 20% of consolidated net assets going forward.

Shareholder return policy

The Company paid an annual dividend of ¥103.0 per share for FY3/25 in alignment with dividend policy, and plans to pay an annual dividend of ¥105.0 per share for FY3/26 (3% DOE, 99.4% dividend payout ratio)

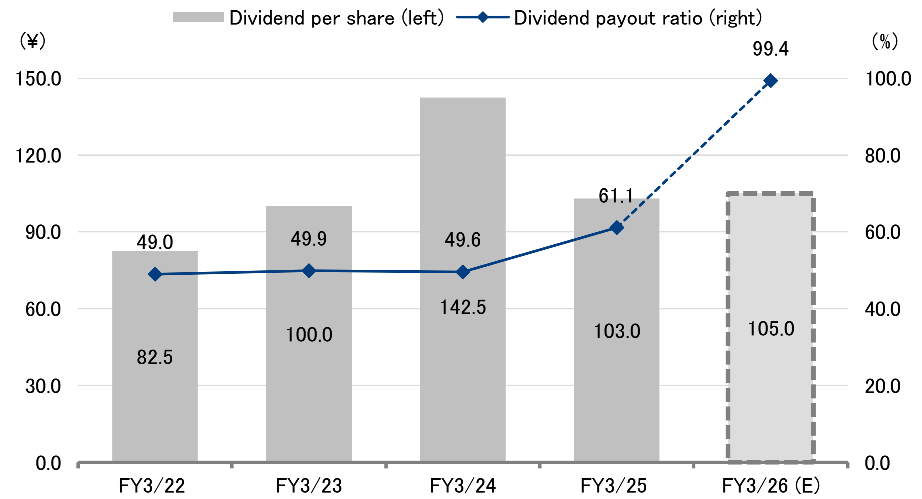
The Company works to secure a stable management base over the long term and also places importance on the continuation of stable dividends and makes it a basic policy to distribute results that are supported by business performance and a sound financial structure. Based on this basic policy, the Company decides dividends and conducts share buybacks. As discussed above, in terms of the Company's medium-term shareholder return policy, the Company has declared that it will provide returns as follows: if ROE falls below 3%, the dividend payout ratio will be 100%, if ROE is between 3% and 6%, the DOE will be 3%, and if ROE is above 6%, the dividend payout ratio will be 50%. With respect to share buybacks, the Company is considering flexible share buybacks with an upper limit of ¥0.5bn to ¥2.0bn by FY3/26.

Based on the above dividend policy, the Company paid an annual dividend of ¥103.0* in FY3/25 (61.1% dividend payout ratio), and plans to pay an annual dividend of ¥105.0 in FY3/26, reflecting a projected ROE of 3.0% and a DOE of 3% (payout ratio of 99.4%). Furthermore, with regard to the share buybacks, it conducted a buyback of 130,000 shares (¥340mn) in FY3/22, but currently has no plans to conduct buybacks going forward.

* On October 1, 2024, the Company conducted a two-for-one stock split of its common shares. Prior dividends have been retrospectively adjusted to reflect this stock split.

The Company's stance of announcing a clear policy to improve ROE and carrying out shareholder return policy in line with that is commendable, and attention should be given to its shareholder return policy going forward.

Dividend per share and dividend payout ratio



Note: On October 1, 2024, the Company conducted a two-for-one stock split. Figures prior to the stock split are presented on a post-split basis.
Source: Prepared by FISCO from the Company's financial results

FISCO

Disclaimer

■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp