

Consolidated Financial Results for the Nine Months Ended December 31, 2022

SAKAI HEAVY INDUSTRIES, LTD.

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

February 14, 2022

Summary of Consolidated Financial Results

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 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
Nine months ended December 31, 2022	22,125	11.8	1,585	36.0	1,586	31.5	1,172	40.2	277.45	—
Nine months ended December 31, 2021	19,793	28.7	1,165	189.0	1,206	286.2	836	—	197.01	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2022	41,342	25,214	60.8
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 Nine Months Ended December 31, 2022

1) Consolidated net sales: ¥22,125 million, up 11.8% YoY

Overseas sales was expanded by handling supply chain issues.

2) Operating profit : ¥1,585 million, up 36.0% YoY

Profit structure reform made progress, especially in overseas business.

3) Sales in Japan : ¥10,864 million, down 2.0% YoY

Net sales decreased slightly due to a shortage in manufacturing components amid continuing firm sales.

4) Sales in North America: ¥5,028 million, up 56.2% YoY

Strong recovery in demand continued to make progress against the backdrop of robust investment in construction.

5) Sales in Asia : ¥5,703 million, up 17.1% YoY

Market environment remained firm overall, although there were slowdowns in growth in some markets.

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%

Nine Months ended December 31, 2022: Net sales of ¥22.12 billion, operating profit of ¥1.58 billion, ROE of 6.5%

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 including human capital investment.

2) Adaptability to change

(1) Dealing with volatile demand

- Inventories of ¥9,800 million (up 33.8% YoY, inventory turnover was reduced by 0.60 times)
- Increasing inventory levels to increase production and reduce the risk of parts stockout

(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

- Further 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

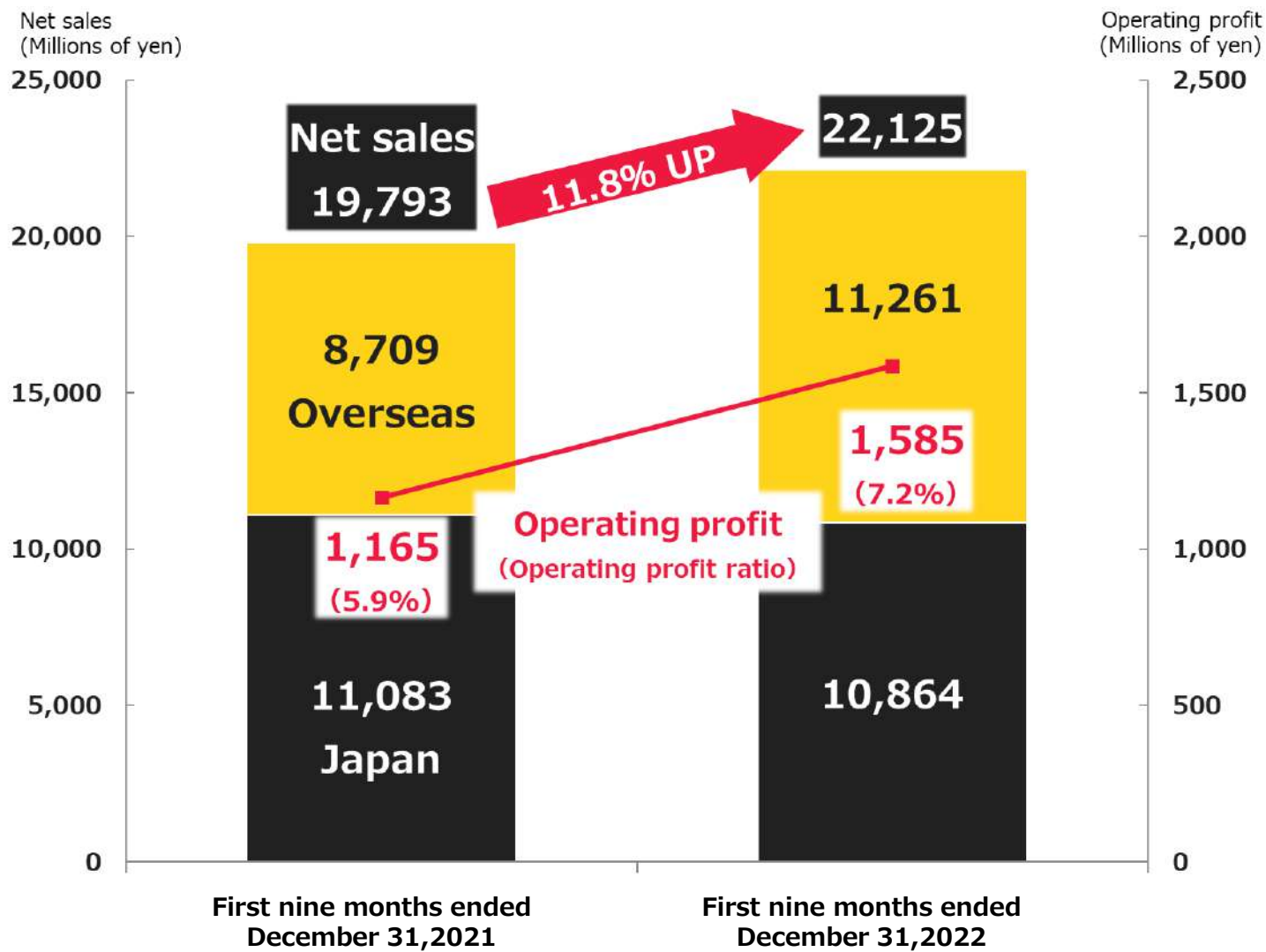
Overseas construction machinery demand is firm with infrastructure investment totaling \$1.2 trillion planned in the U.S., infrastructure investment and mine development becoming active in ASEAN and emerging countries, among other factors, although the demand has repeatedly fluctuated amid a rapidly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

Consolidated Business Performance

(Millions of yen)

	First nine months ended December 31, 2021	First nine months ended December 31, 2022	YoY change	
			Amount	%
Net sales	19,793	22,125	2,332	11.8%
Japan	11,083	10,864	▲ 219	▲ 2.0%
Overseas	8,709	11,261	2,551	29.3%
Operating profit	1,165	1,585	419	36.0%
<i>Operating profit ratio</i>	(5.9%)	(7.2%)		
Ordinary profit	1,206	1,586	379	31.5%
Profit attributable to owners of parent	836	1,172	336	40.2%
Cost-of-sales ratio	(75.1%)	(74.4%)		

Consolidated Business Performance (Graph)



Sales by Region in Which Customers Are Located

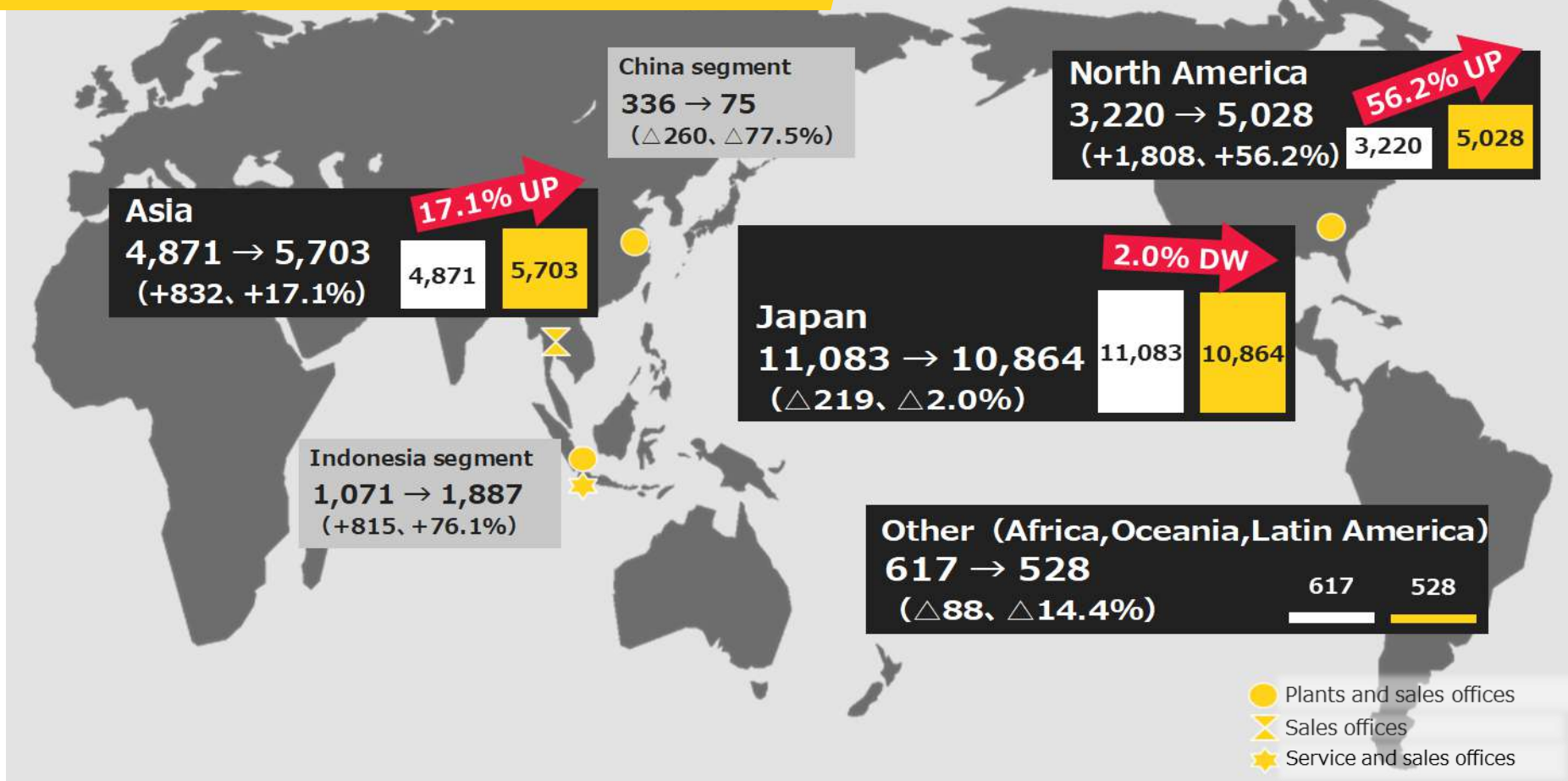
(Millions of yen)

	First nine months ended December 31, 2021	First nine months ended December 31, 2022	YoY change	
			Amount	%
Japan	11,083	10,864	▲ 219	▲ 2.0%
Overseas	8,709	11,261	2,551	29.3%
North America	3,220	5,028	1,808	56.2%
Asia	4,871	5,703	832	17.1%
Other regions	617	528	▲ 88	▲ 14.4%
Total	19,793	22,125	2,332	11.8%

Sales by Region (Map)

(Millions of yen)	First nine months ended December 31, 2021	First nine months ended December 31, 2022	YoY change
Japan	11,083	10,864	(▲219、▲2.0%)
Overseas	8,709	11,261	(+2,551、+29.3%)
Total	19,793	22,125	(+2,332、+11.8%)

() YoY change



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

(Millions of yen)

Japan	First nine months ended December 31, 2021	First nine months ended December 31, 2022	YoY change	
			Amount	%
Sales to external customers	15,165	15,133	▲ 31	▲0.2%
Intercompany sales	1,607	2,690	1,082	67.4%
Total net sales	16,772	17,824	1,051	6.3%
Operating profit	914	516	▲ 398	▲43.6%

(Millions of yen)

North America	First nine months ended December 31, 2021	First nine months ended December 31, 2022	YoY change	
			Amount	%
Sales to external customers	3,220	5,028	1,808	56.2%
Intercompany sales	29	46	16	56.8%
Total net sales	3,249	5,075	1,825	56.2%
Operating profit	129	437	308	238.5%

(Millions of yen)

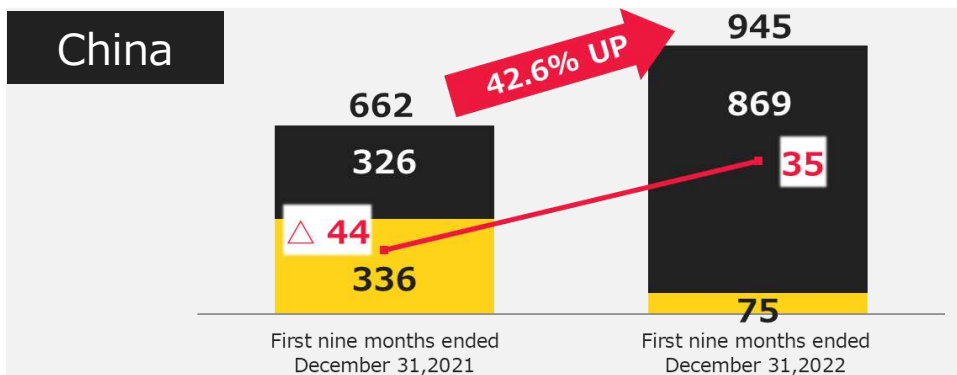
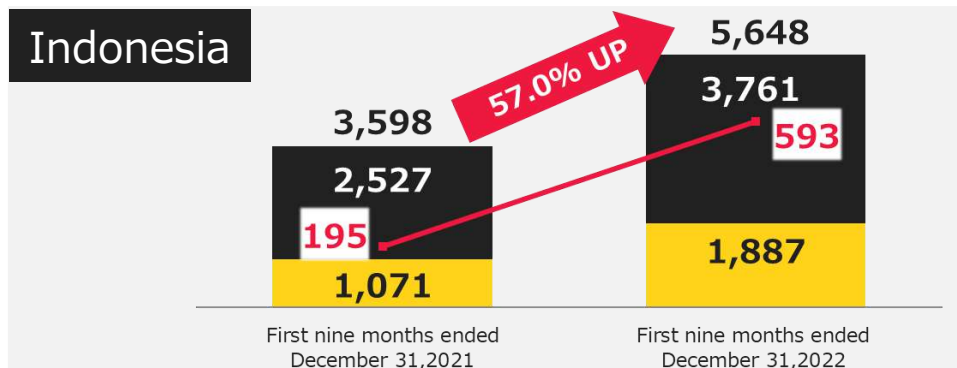
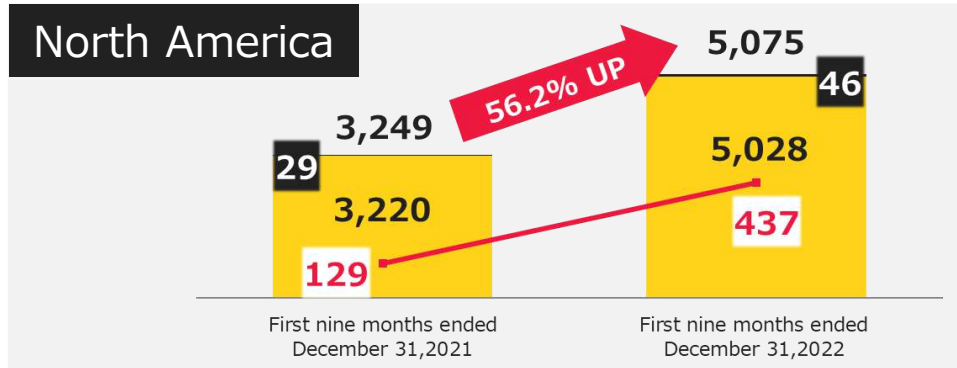
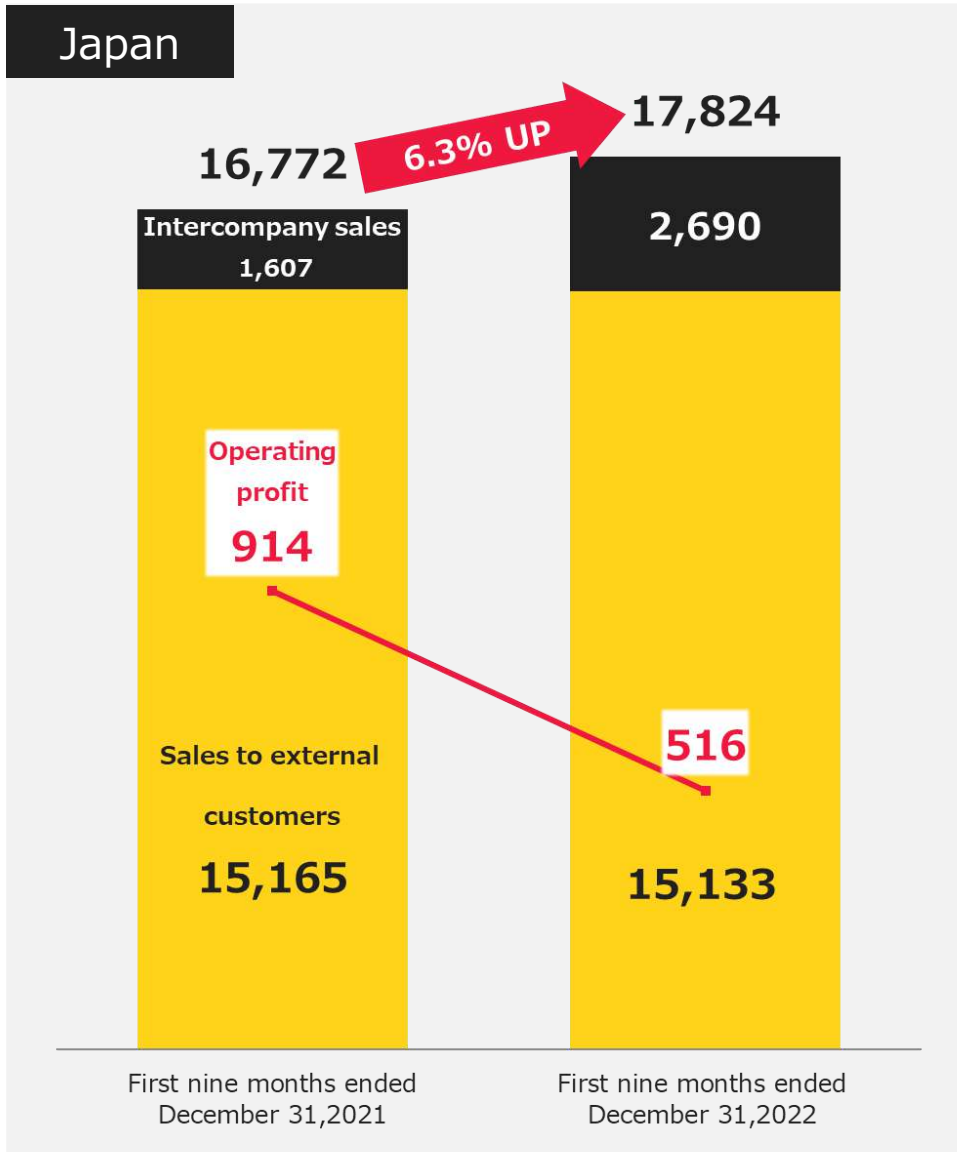
Indonesia	First nine months ended December 31, 2021	First nine months ended December 31, 2022	YoY change	
			Amount	%
Sales to external customers	1,071	1,887	815	76.1%
Intercompany sales	2,527	3,761	1,234	48.8%
Total net sales	3,598	5,648	2,050	57.0%
Operating profit	195	593	398	203.7%

(Millions of yen)

China	First nine months ended December 31, 2021	First nine months ended December 31, 2022	YoY change	
			Amount	%
Sales to external customers	336	75	▲ 260	▲77.5%
Intercompany sales	326	869	543	166.5%
Total net sales	662	945	282	42.6%
Operating profit	▲ 44	35	80	– %

Segment Information by Region (Graph)

(Millions of yen)



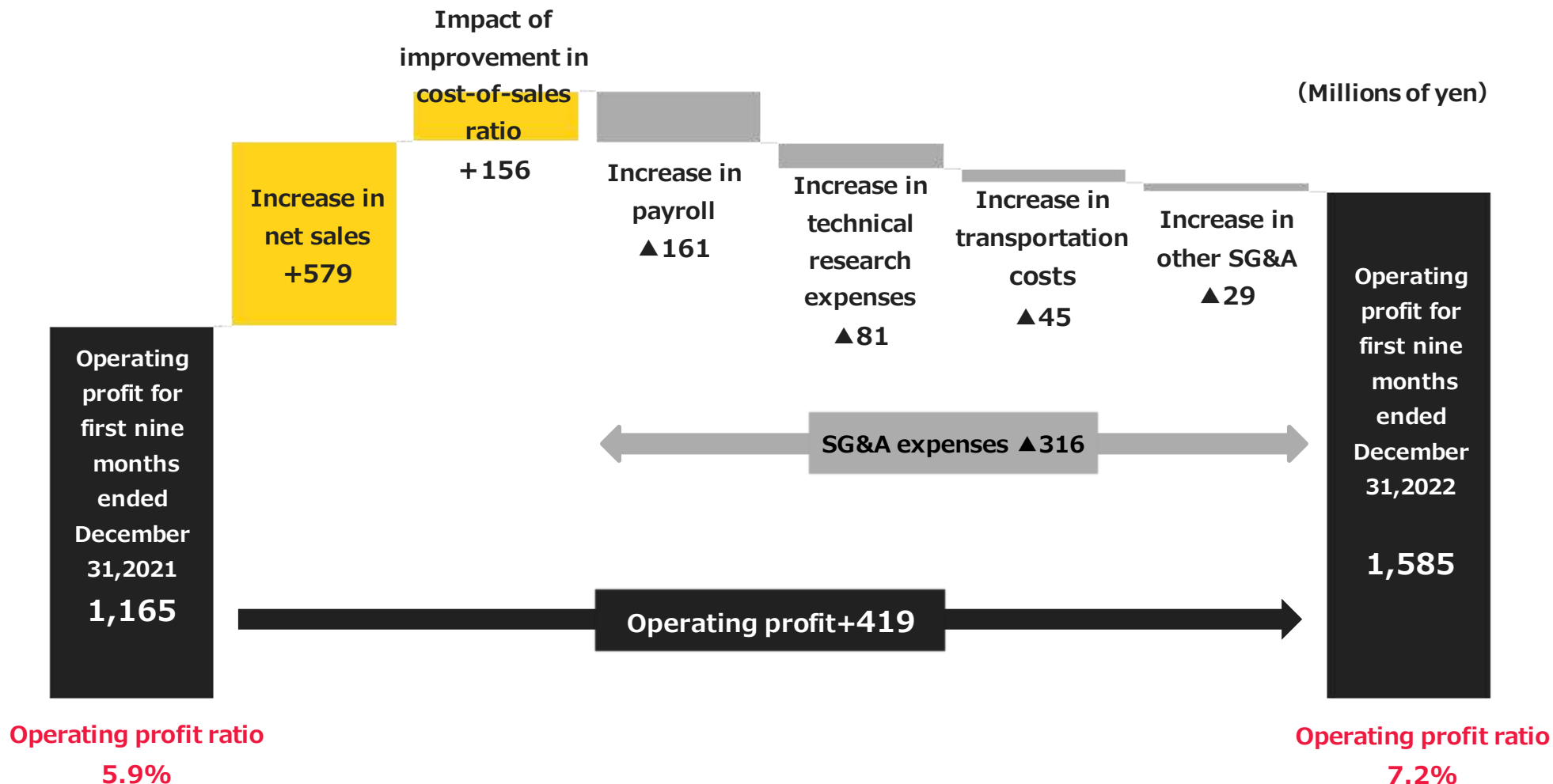
Breakdown of YoY Changes in Operating Profit

- Gross profit increased by ¥579 million, in line with YoY increase in sales of ¥2,332 million.
- Cost-of-sales ratio decreased by 0.71% and gross profit increased by ¥156 million through sales price revisions and logistics streamlining in overseas business.
- 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 ¥419 million YoY to ¥1,585 million.

(Millions of yen)

	First nine months ended December 31,2021	First nine months ended December 31,2022	YoY change	Impact on operating profit	Note
Net sales	19,793	22,125	2,332	+579	2,332 x (1 - 75.1%)
Cost-of-sales ratio	75.1%	74.4%	▲0.71%	+156	22,125 x ▲0.71%
Gross profit	4,918	5,654	735		
SG&A expenses	3,753	4,069	316	▲ 316	payroll: up 161; Technical research expenses: up 81 Transportation costs: up 45; Other SG&A: up 29
Operating profit	1,165	1,585		+419	

Breakdown of YoY Changes in Operating Profit (Graph)



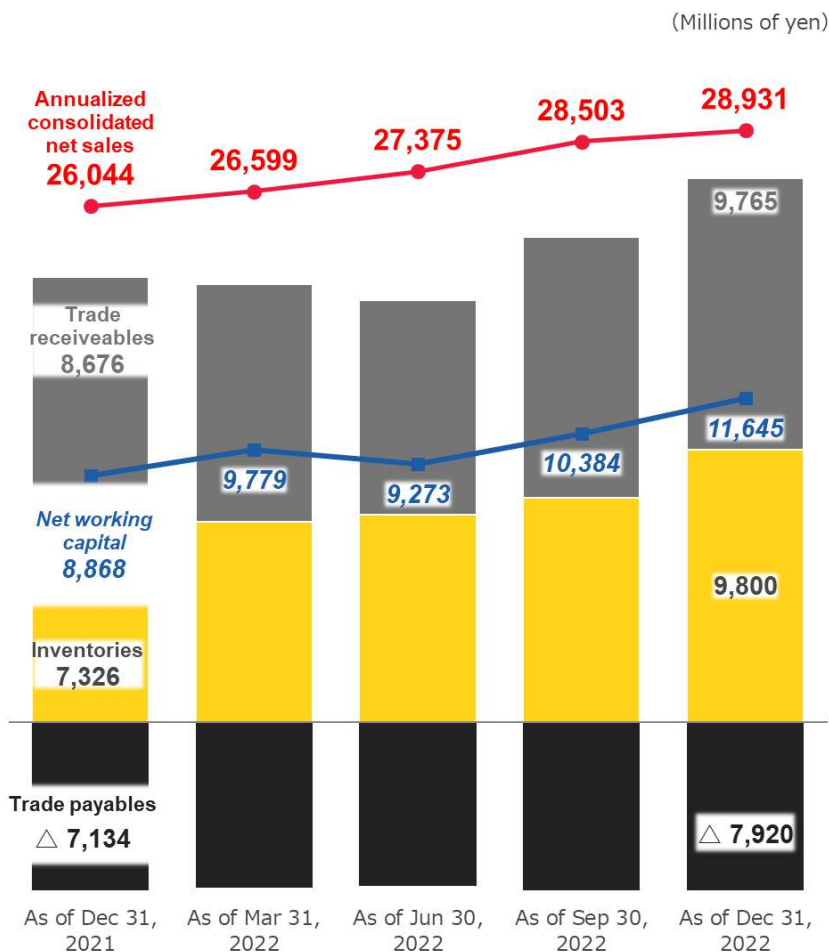
Net Working Capital (Trade Receivables + Inventories – Trade Payables)

- Net working capital invested in sales activities increased by ¥2,777 million YoY to ¥11,645 million.
- Inventories increased by ¥2,474 million YoY to ¥9,800 million by increasing production and reducing the risk of parts stockout.
- Sales/Inventory turnover decreased by 0.60 times YoY to 2.95 times for the year.

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022	YoY change	
			Amount	%
Annualized consolidated net sales	26,044	28,931	2,887	11.1%
Trade receivables	8,676	9,765	1,089	12.6%
Inventories	7,326	9,800	2,474	33.8%
Trade payables	▲7,134	▲7,920	▲786	11.0%
Net working capital	8,868	11,645	2,777	31.3%

Inventories turnover 3.56 times 2.95 times ▲0.60 times



Consolidated Business Forecast

No change from the previous forecast

(We have upwardly revised at the time of the announcement of Consolidated Financial Results for the Six Months Ended September 30, 2022)

- We anticipate firm demand in Japan, North America and Southeast Asia.
- Although costs continue to rise due to supply chain issues and surging material prices, we continue to address the penetration of sales price revisions and logistical efficiency gains.

(The assumed exchange rate used in the consolidated business forecast is ¥135 per US\$. If the exchange rate remains at ¥125 per US\$ in the months from February to March, the full-year average rate on consolidated financial results is expected to be about ¥134 per US\$.)

(Millions of yen)

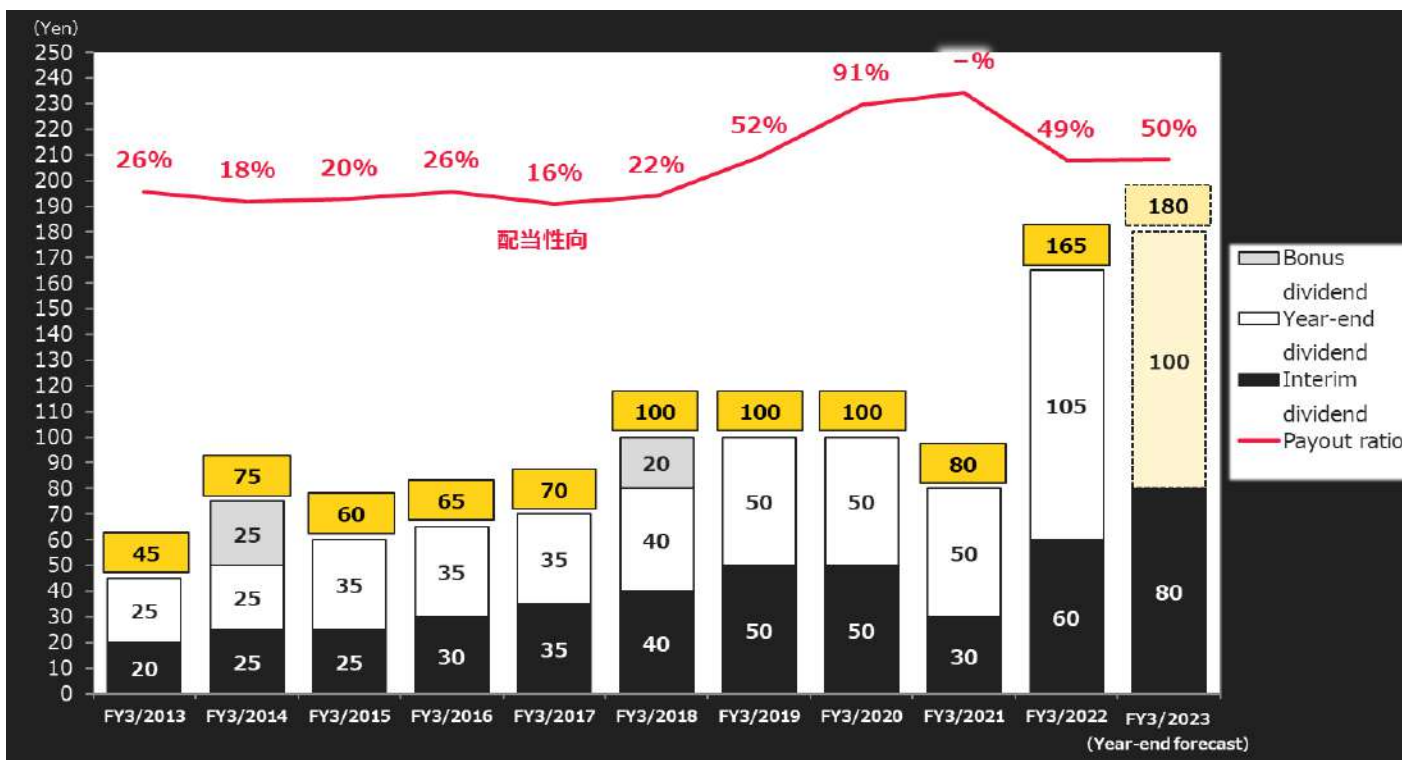
	First nine months				Full year			
	First nine months ended December 31,2021 (results)	First nine months ended December 31,2022 (results)	YoY change		Fiscal year ended March 31,2022 (Results)	Fiscal year ending March 31,2023 (Forecast)	YoY change	
			Amount	%			Amount	%
Net sales	19,793	22,125	2,332	11.8%	26,599	30,000	3,400	12.8%
Operating profit	1,165	1,585	419	36.0%	1,383	2,020	636	46.0%
Ordinary profit	1,206	1,586	379	31.5%	1,407	2,050	642	45.6%
Profit attributable to owners of parent	836	1,172	336	40.2%	1,427	1,520	92	6.5%
Earnings per share (Yen)	¥197.01	¥277.45	¥80.43	40.8%	¥336.87	¥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% at the time of the announcement of Consolidated Financial Results for the Six Months Ended September 30, 2022.



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 further sales price revisions and cost reductions.

(Millions of yen)

	First nine months ended December 31,2021 (results)	First nine months ended December 31,2022 (results)	Fiscal year ending March 31,2023 (Forecast)	Target for the fiscal year ending March 31,2024	Target for the fiscal year ending March 31,2026
Net sales	19,793	22,125	30,000	26,500	30,000
Operating profit	1,165	1,585	2,020	2,000	3,100
Annualized return on equity(ROE)^{※1}	5.0%	6.5%	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 February 14, 2023.

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

SAKAI

MASTERS OF COMPACTION

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Performance forecasts and other forward-looking statements in this document are based on Information available at the time of this writing, as well as certain assumptions deemed reasonable. Actual performance and other results may differ depending on a variety of factors.