Consolidated Financial Results for the Nine Months Ended December 31, 2023

SAKAI HEAVY INDUSTRIES, LTD.

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

February 9, 2024

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, 2023 (from April 1, 2023 to December 31, 2023)

(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, 2023	24,301	9.8	2,580	62.7	2,676	68.7	1,947	66.1	458.78	–
Nine months ended December 31, 2022	22,125	11.8	1,585	36.0	1,586	31.5	1,172	40.2	277.45	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2023	44,871	28,431	63.2
As of March 31, 2023	40,804	25,295	61.8

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, 2023	–	80.00	–	120.00	200.00
Year ending March 31, 2024	–	90.00	–		
Year ending March 31, 2024 (Forecast)				180.00	270.00

3. Forecast of consolidated financial results for the year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

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	33,100	5.2	3,300	31.7	3,300	41.8	2,300	35.7	542.15

Highlights of Consolidated Business Performance

1. Summary of Consolidated Business Performance for the Nine Months Ended December 31, 2023

1) Consolidated net sales: ¥24,301 million, up 9.8% YoY
Overseas sales were strong albeit depending on the regions.

2) Operating profit: ¥2,580 million, up 62.7% YoY
Upside factors included the weak yen, in addition to profit structure reform.

3) Sales in Japan: ¥11,070 million, up 1.9% YoY
Under the firm market environment against the backdrop of measures to accelerate national land resilience, capital investment trends were at a standstill, faced with frequent sales price revisions and a broad range of cost increases.

4) Sales in North America: ¥6,626 million, up 31.8% YoY
Strong demand continues to expand against the backdrop of robust investment in construction.

5) Sales in Asia: ¥5,503 million, down 3.5% YoY
Slowdowns in the Chinese and major ASEAN markets, despite the strong Indonesian market.

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%
Forecast for the current fiscal year (third year): Net sales of ¥33.1 billion, operating profit of ¥3.3 billion, ROE of 8.6%
Results for nine months ended December 31, 2023: Net sales of ¥24.3 billion, operating profit of ¥2.58 billion, ROE of 9.7%

(2) Progress of enhancing corporate value (PBR above 1)
At the end of March 2023: PBR 0.68 times (Share price ¥4,010)
At the end of December 2023: PBR 0.90 times (Share price ¥5,990)
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/20230425EnhancingProfitabilityofCapital.pdf

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

Cost-of-sales ratio improvement: 70.9%, improvement of 3.6% YoY
Profit structure reform progressed with penetration of sales price revisions in Japan and overseas, and normalization of transportation costs.

3) Strengthening product supply capabilities

(1) Enhancement of supply chain (stabilization through review of suppliers and dual sourcing)
(2) Modification of global business activities (stabilization of business structure in Japan and overseas through expansion of production capacity at domestic plants and expansion of parts business at Chinese plants)

4) Dealing with volatile demand

Inventory turnover: 2.79 times, down 0.16 times/5% YoY
Increase in parts for increased production and safety stock. Currently adjusting to an optimized inventory level due to easing of supply constraints.

SAKAI MASTERS OF COMPACTION

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 (net sales down 3.5% YoY)

2) Expand the scope of overseas business:
Develop the overseas market for road maintenance equipment (start the local production in Indonesia)

3) Pursue business opportunities in North America:
Increase our market share through niche marketing (net sales up 31.8% YoY)

4) Develop next-generation businesses:
Focus on market development for emergency brakes, compaction management systems, and road cutting management systems.
Research and development on autonomous rollers and EV rollers is underway.

4. Outlook for Business Environment

1) Global Construction Machinery Market
Potential demand is expected to remain stable due to factors such as large-scale infrastructure investment plans in Japan and the U.S., infrastructure construction and mine development becoming active in emerging countries, together with renewal of aging infrastructure, and disaster-related countermeasures and reconstruction.

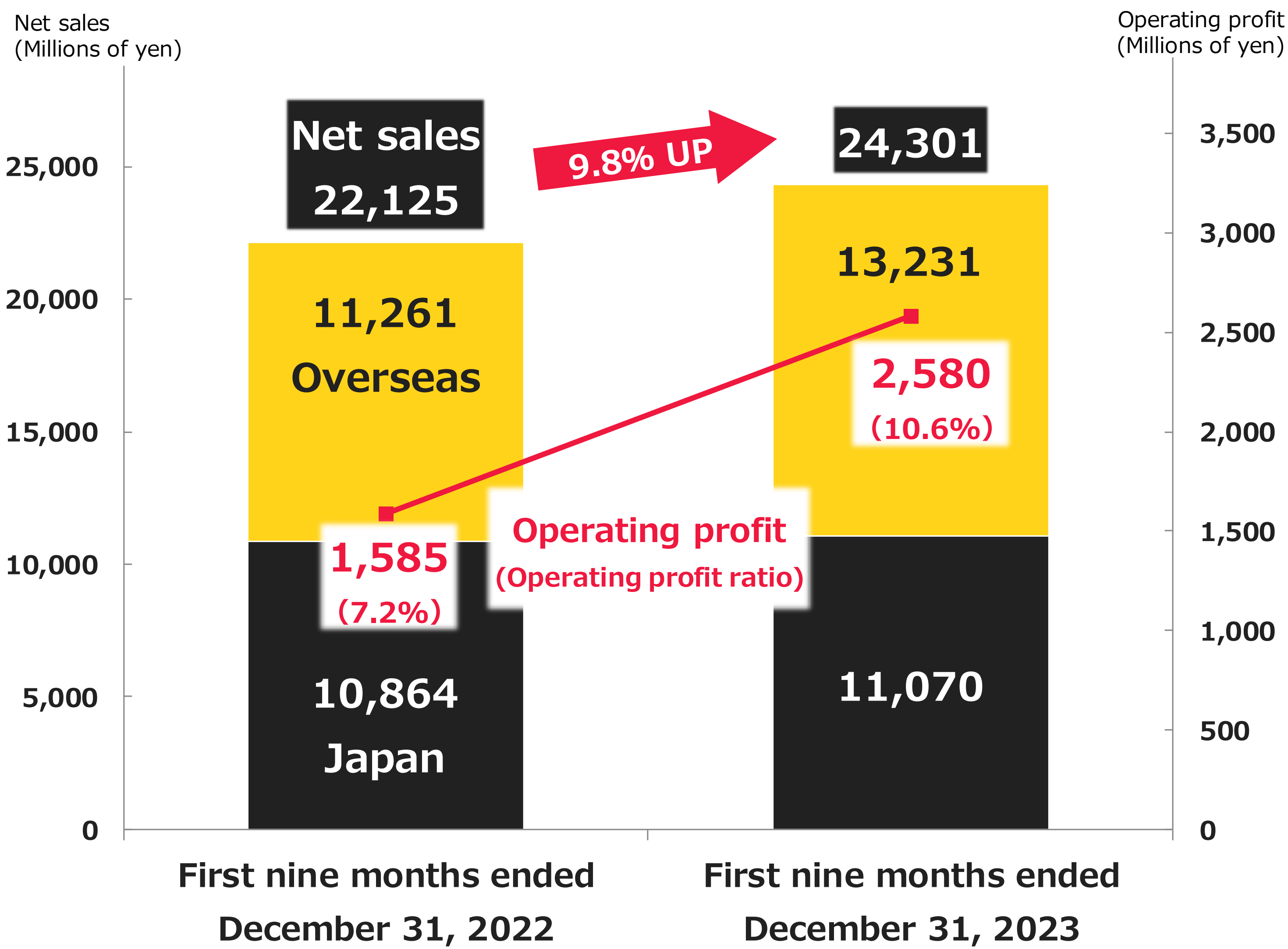
2) Risks and Countermeasures
The future direction of the world economy is unpredictable, due to factors such as the radicalization of the global security environment, formation of international community blocs, and rapid changes in the social structure by generative AI technology, amid a phase of change in the world economy, which has been recovering rapidly since the COVID-19 pandemic.
In order to transition to a management structure adapted to these changes in the times, we will move forward with the approach of adapting to a changing business environment.

Consolidated Business Performance

(Millions of yen)

	First nine months ended December 31, 2022	First nine months ended December 31, 2023	YoY change	
			Amount	%
Net sales	22,125	24,301	2,175	9.8%
Japan	10,864	11,070	205	1.9%
Overseas	11,261	13,231	1,970	17.5%
Operating profit	1,585	2,580	994	62.7%
Operating profit ratio	(7.2%)	(10.6%)		
Ordinary profit	1,586	2,676	1,089	68.7%
Profit attributable to owners of parent	1,172	1,947	775	66.1%
Cost-of-sales ratio	(74.4%)	(70.9%)		

Consolidated Business Performance (Graph)



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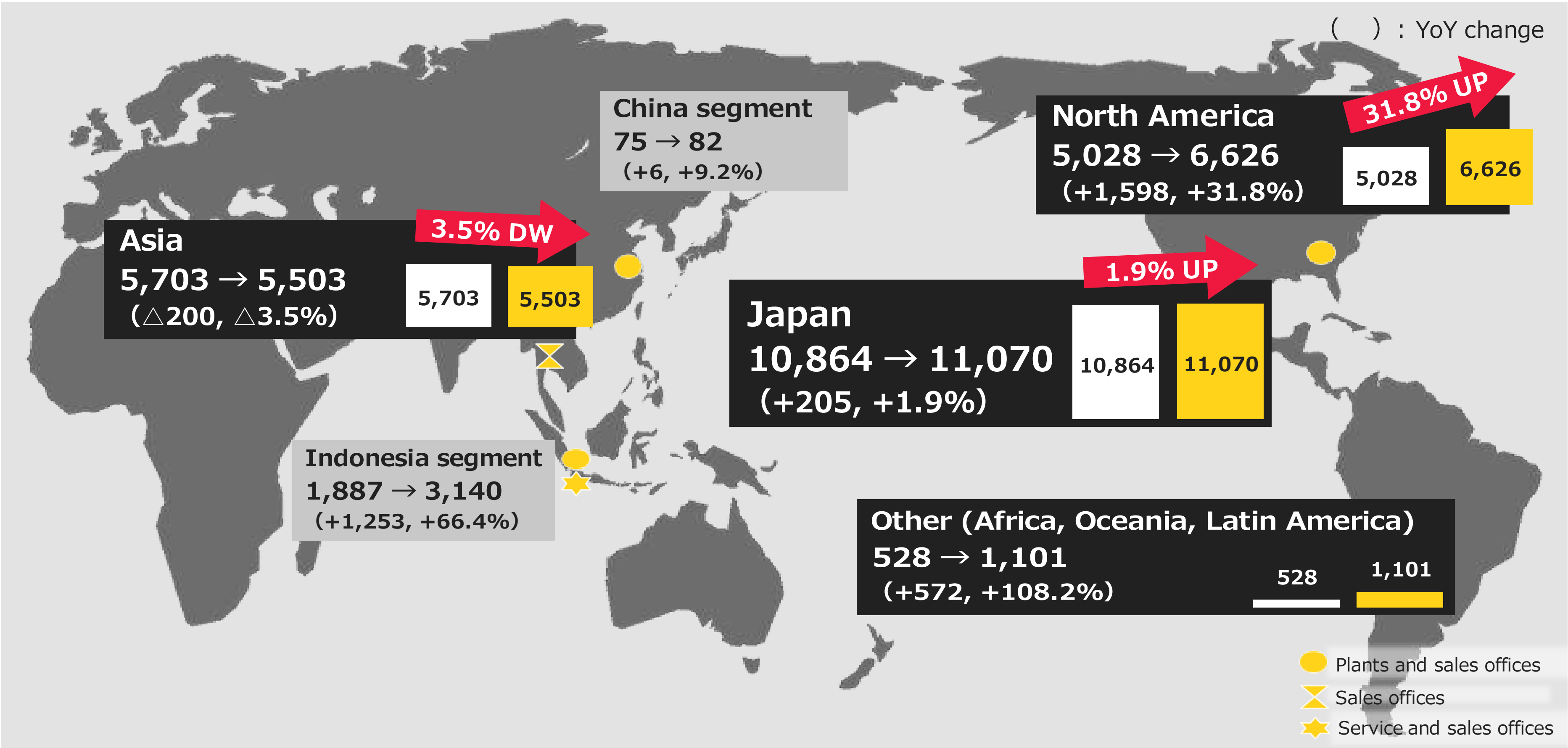
Sales by Region in Which Customers Are Located

(Millions of yen)

	First nine months ended December 31, 2022	First nine months ended December 31, 2023	YoY change	
			Amount	%
Japan	10,864	11,070	205	1.9%
Overseas	11,261	13,231	1,970	17.5%
North America	5,028	6,626	1,598	31.8%
Asia	5,703	5,503	▲ 200	▲3.5%
Other regions	528	1,101	572	108.2%
Total	22,125	24,301	2,175	9.8%

Sales by Region (Map)

(Millions of yen)	First nine months ended December 31, 2022	First nine months ended December 31, 2023	YoY change
Japan	10,864	11,070	(+205, +1.9%)
Overseas	11,261	13,231	(+1,970, +17.5%)
Total	22,125	24,301	(+2,175, +9.8%)



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

(Millions of yen)

Japan	First nine months ended December 31, 2022	First nine months ended December 31, 2023	YoY change	
			Amount	%
Sales to external customers	15,133	14,451	▲ 682	▲4.5%
Intercompany sales	2,690	3,324	634	23.6%
Total net sales	17,824	17,775	▲ 48	▲0.3%
Operating profit	516	843	327	63.5%

(Millions of yen)

North America	First nine months ended December 31, 2022	First nine months ended December 31, 2023	YoY change	
			Amount	%
Sales to external customers	5,028	6,626	1,598	31.8%
Intercompany sales	46	6	▲ 40	▲86.2%
Total net sales	5,075	6,633	1,558	30.7%
Operating profit	437	762	324	74.1%

(Millions of yen)

Indonesia	First nine months ended December 31, 2022	First nine months ended December 31, 2023	YoY change	
			Amount	%
Sales to external customers	1,887	3,140	1,253	66.4%
Intercompany sales	3,761	2,559	▲ 1,201	▲31.9%
Total net sales	5,648	5,700	51	0.9%
Operating profit	593	864	270	45.6%

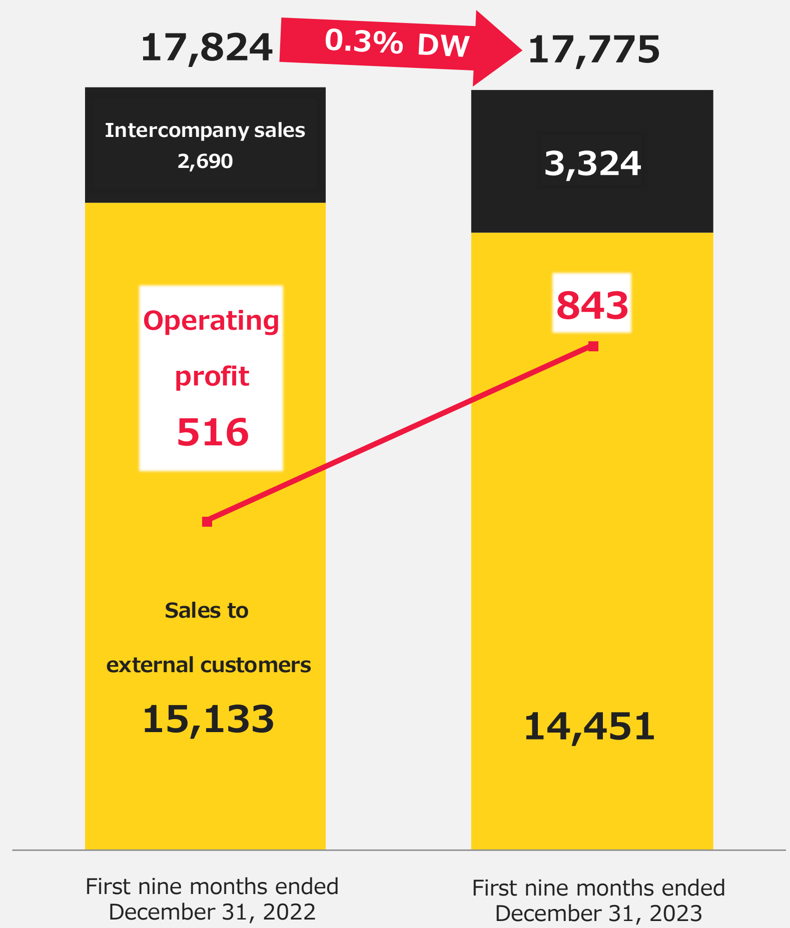
(Millions of yen)

China	First nine months ended December 31, 2022	First nine months ended December 31, 2023	YoY change	
			Amount	%
Sales to external customers	75	82	6	9.2%
Intercompany sales	869	1,352	483	55.6%
Total net sales	945	1,435	490	51.9%
Operating profit	35	183	148	421.4%

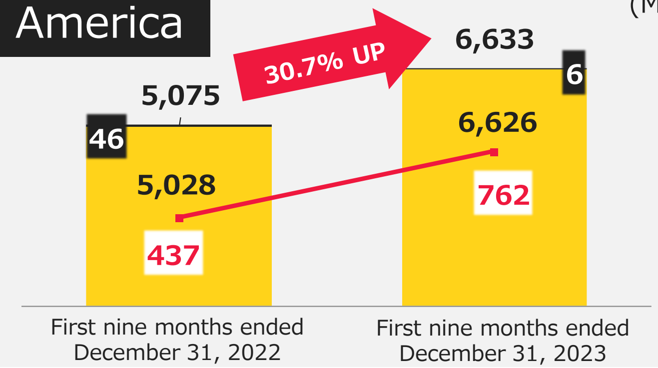
Segment Information by Region (Graph)

(Millions of yen)

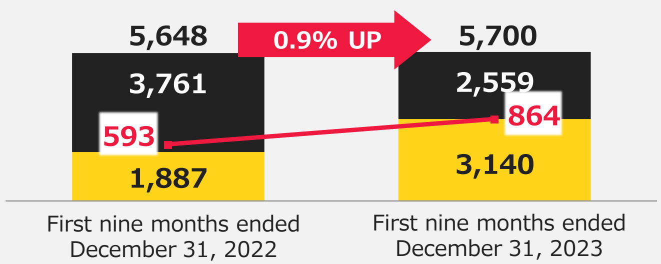
Japan



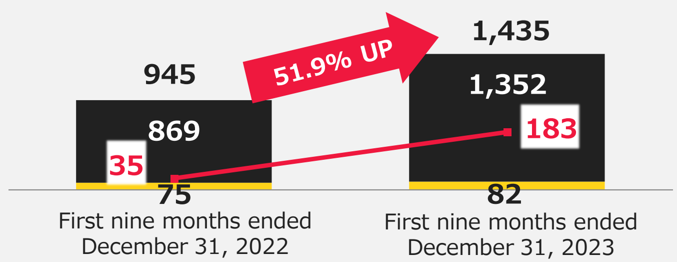
North America



Indonesia



China



Breakdown of YoY Changes in Operating Profit

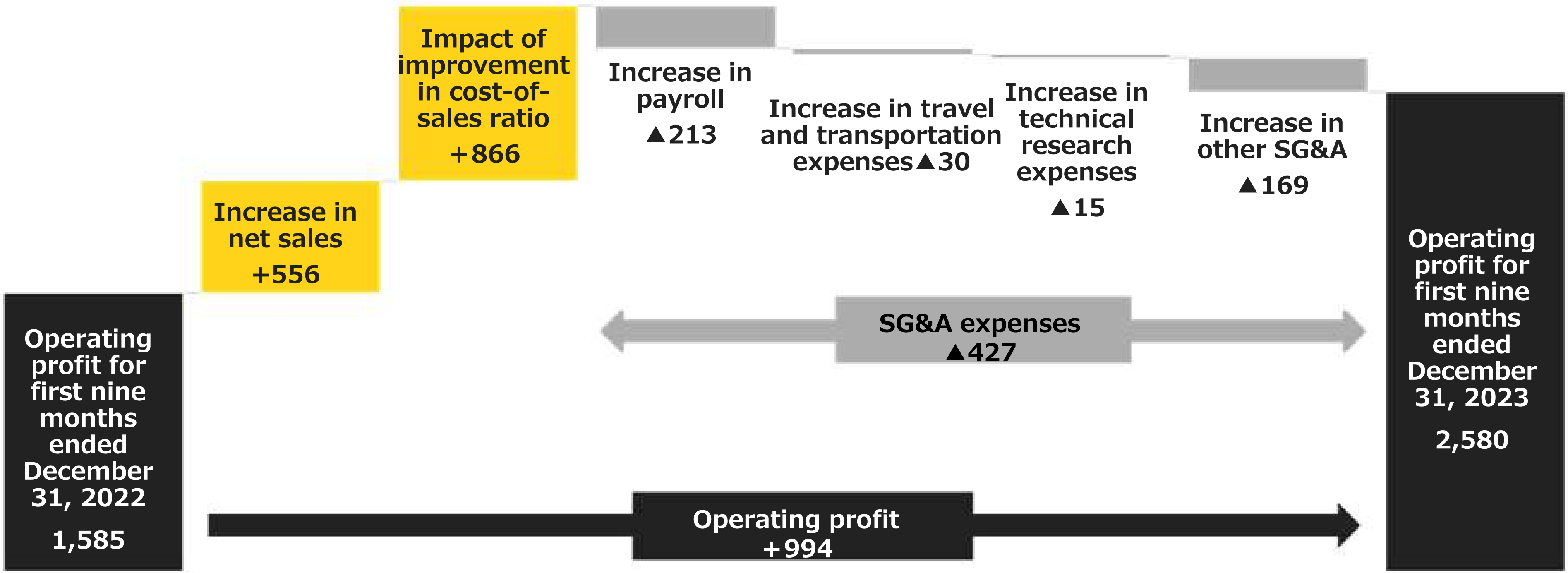
- Gross profit increased by ¥556 million, in line with a YoY increase in sales of ¥2,175 million.
- The cost-of-sales ratio improved by 3.6% and gross profit rose by ¥866 million, with upward factors such as the weak yen in addition to the penetration of sales price revisions and the normalization of transportation costs.
- SG&A expenses increased by ¥427 million following the increased investment in human capital (increased payroll) and increased business activities.
- As a result, operating profit rose by ¥994 million YoY to ¥2,580 million.

(Millions of yen)

	First nine months ended December 31, 2022	First nine months ended December 31, 2023	YoY change	Impact on operating profit	Note
Net sales	22,125	24,301	2,175	+556	2,175 x (1 - 74.4%)
Cost-of-sales ratio	74.4%	70.9%	▲3.6%	+866	24,301 x ▲3.6%
Gross profit	5,654	7,076	1,422		
SG&A expenses	4,069	4,496	427	▲ 427	Payroll: up 213; Travel and tarnsportation expenses: up 30; Technical research expenses: up 15; Other SG&A: up 169
Operating profit	1,585	2,580		+994	

Breakdown of YoY Changes in Operating Profit (Graph)

(Millions of yen)



Operating profit ratio
7.2%

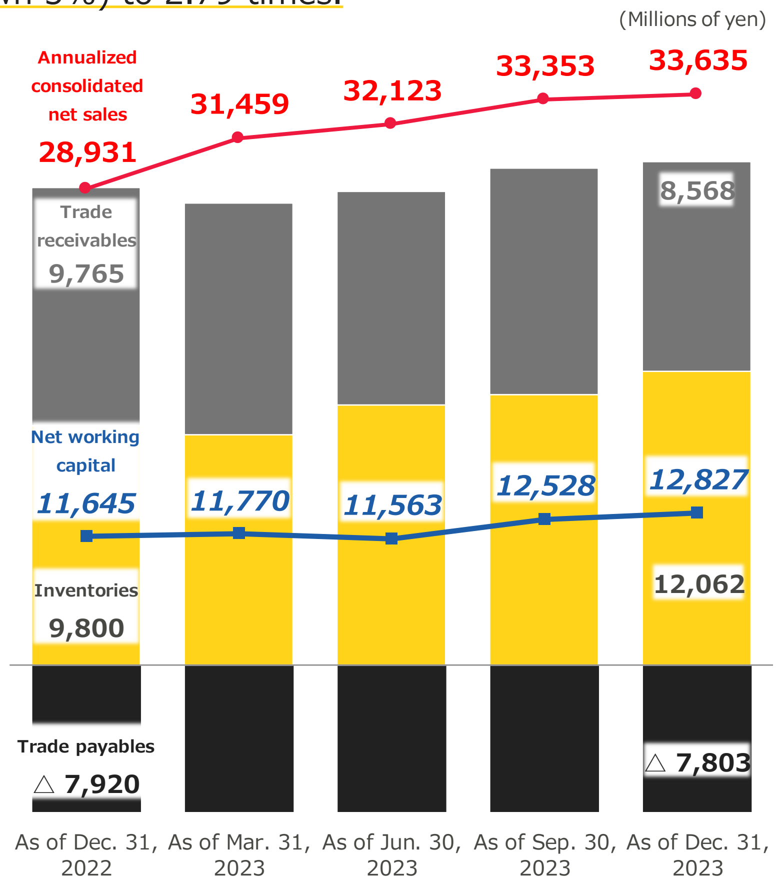
Operating profit ratio
10.6%

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

- Net working capital invested in sales activities increased by ¥1,182 million YoY to ¥12,827 million.
  As a result, the net working capital/sales ratio decreased by 2.1% to 38.1%.
- Inventories increased by ¥2,262 million YoY to ¥12,062 million through increase in parts for increased production and safety stock.
  As a result, net sales/inventory turnover decreased by 0.16 times (down 5%) to 2.79 times.
  Currently making adjustments to optimize inventory levels.

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023	YoY change	
			Amount	%
Annualized consolidated net sales	28,931	33,635	4,704	16.3%
Trade receivables	9,765	8,568	▲1,197	▲12.3%
Inventories	9,800	12,062	2,262	23.1%
Trade payables	▲7,920	▲7,803	117	▲1.5%
Net working capital	11,645	12,827	1,182	10.2%
Inventory turnover	2.95 times	2.79 times	▲0.16 times	
Net working capital/Sales ratio	40.3%	38.1%	▲2.1%	



Consolidated Business Forecast

- **Sales Forecast for the Full Year:** We upwardly revised the forecast on November 9, 2023, based on the consolidated financial results for the first half of the fiscal year.
- Moving forward, in addition to inflation in raw material prices, logistics costs are expected to increase and investment in human capital is expected to expand.
  Against this backdrop, while the North American market is expected to remain strong, there are signs that growth in the Asian and domestic markets is slowing due to frequent sales price revisions and uncertainty regarding the future.

(The assumed exchange rate used in the consolidated business forecast is ¥140 per US$.)

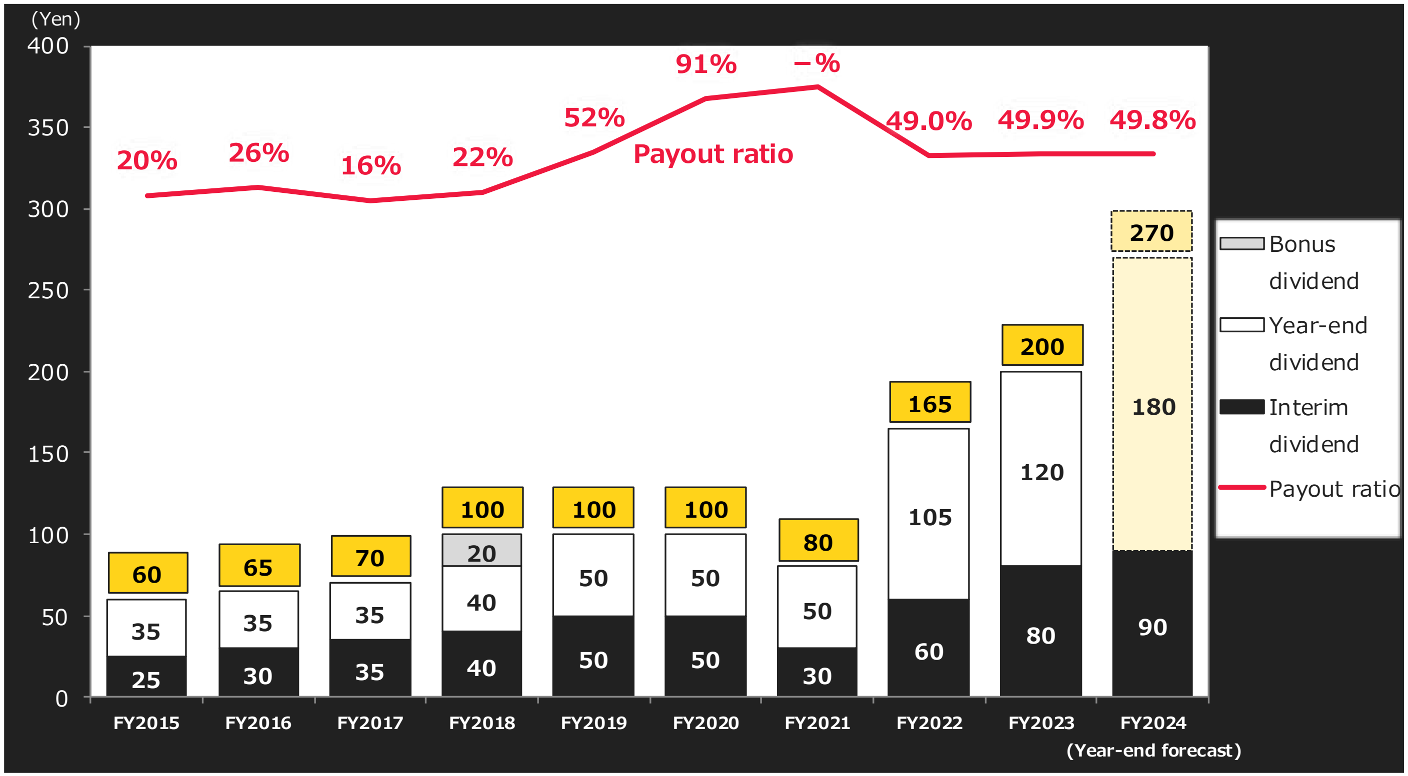
(Millions of yen)

	First nine months				Full year			
	Nine months ended December 31, 2022 (Results)	Nine months ended December 31, 2023 (Results)	YoY change Amount	YoY change %	Fiscal year ended March 31, 2023 (Results)	Fiscal year ending March 31, 2024 (Forecast)	YoY change Amount	YoY change %
Net sales	22,125	24,301	2,175	9.8%	31,459	33,100	1,640	5.2%
Operating profit	1,585	2,580	994	62.7%	2,506	3,300	793	31.7%
Ordinary profit	1,586	2,676	1,089	68.7%	2,327	3,300	972	41.8%
Profit attributable to owners of parent	1,172	1,947	775	66.1%	1,694	2,300	605	35.7%
Earnings per share (Yen)	¥277.45	¥458.78	¥181.33	65.4%	¥400.75	¥542.15	¥141.40	35.3%

Dividends per Share

- Since the announcement of the Medium-Term Management Policy on June 2, 2021, we have set a dividend policy as follows, with a target of 8% ROE:

When ROE falls below 3%: A payout ratio of 100% will apply.
When ROE is between 3% and 6%: A DOE of 3% will apply.
When ROE exceeds 6%: A payout ratio of 50% will apply.



Note: We made a ten-for-one share consolidation effective October 1, 2017. Dividend payouts for the periods prior to the share consolidation are adjusted to be in line with the post-consolidation payouts.

KPIs Established in the Medium-Term Management Policy

- In the forecast for the full fiscal year, net sales of ¥33.1 billion and ROE of 8.6% are expected, and we expect to achieve the values included in the medium-term management policy.
- Improvements to the profit structure in the current period include upside factors other than actual performance, such as the weak yen, in addition to penetration of sales price revisions and the normalization of transportation costs, and we will aim to solidify this profit structure and further improve business performance moving forward.

(Millions of yen)

	Nine months ended December 31, 2022 (Results)	Nine months ended December 31, 2023 (Results)	Fiscal year ending March 31, 2024 (Forecast)	Target for the fiscal year ending March 31, 2024	Target for the fiscal year ending March 31, 2026
Net sales	22,125	24,301	33,100	26,500	30,000
Operating profit	1,585	2,580	3,300	2,000	3,100
Annualized return on equity (ROE)*1	6.5%	9.7%	8.6%	5.5%	8.0%
Share buybacks	–	–	Cumulative amount of share buybacks: 340*2	Cumulative amount of share buybacks: 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 9, 2024.

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

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