Consolidated Financial Results for the Three Months Ended June 30, 2024

SAKAI HEAVY INDUSTRIES, LTD.

Stock code: 6358

URL https://www.sakainet.co.jp/en/

August 9, 2024

SAKAI MASTERS OF COMPACTION

Summary of Consolidated Financial Results

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the three months ended June 30, 2024 (from April 1, 2024 to June 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
Three months ended June 30, 2024	6,706	(10.9)	449	(18.5)	503	(27.2)	690	46.3	162.35	–
Three months ended June 30, 2023	7,529	9.7	551	22.8	692	34.0	471	17.2	111.33	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2024	44,375	29,677	66.7
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	–				
Year ending March 31, 2025 (Forecast)		85.00	–	130.00	215.00

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
Six months ending September 30, 2024	15,500	(7.7)	1,050	(46.6)	1,050	(50.2)	700	(54.4)	164.85
Full year	33,000	(0.1)	2,730	(17.7)	2,700	(18.8)	1,830	(25.0)	430.96

Highlights of Consolidated Business Performance

1. Summary of Consolidated Business Performance for the Three Months Ended June 30, 2024

1) Consolidated net sales: ¥6,706 million, down 10.9% YoY
The Construction Machinery Market also entered a period of adjustments to inventory amid slowdowns in the world economy.

2) Operating profit: ¥449 million, down 18.5% YoY
Operating profit declined due to decreased sales and increased payroll, despite cost-of-sales ratio improvement of 3.3% YoY through the progress in profit structure reform and the effect of yen depreciation.

3) Profit: ¥690 million, up 46.3% YoY
Posted gain on sale of investment securities of ¥280 million.

4) Sales in Japan: ¥2,497 million, down 10.8% YoY
Although 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 standstill.

5) Sales in North America: ¥2,203 million, down 4.3% YoY
Showed a movement toward adjustments to inventory by dealers, despite continued high-level investment in road construction against the backdrop of the Infrastructure Investment and Jobs Act.

6) Sales in Asia: ¥1,650 million, down 21.1% YoY
Demand stagnated in Indonesia and Vietnam, our major markets.

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%
Forecast for the current fiscal year (fourth year): Net sales of ¥33 billion, operating profit of ¥2.73 billion, ROE of 6.2%
Results for three months ended June 30, 2024: Net sales of ¥6.7 billion, operating profit of ¥0.44 billion, ROE of 9.4%

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

At the end of March 2024: PBR 0.98 times (Share price ¥6,680)
At the end of June 2024: PBR 0.85 times (Share price ¥5,930)
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, high added value, and efficiency

Cost-of-sales ratio improvement: 69.8%, improvement of 3.3% 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: 2.65 times, down 0.36 times/12% YoY
Currently making adjustments to optimize inventory levels, as the Construction Machinery Market entered a period of adjustments to inventory 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 (net sales down 21.1% 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 down 4.3% YoY)

4) Develop next-generation businesses:
Focus on market development for emergency brakes, compaction management systems, and Automatic Cutter Control System.
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 investment and mine development becoming active in emerging countries, together with renewal of aging infrastructure and disaster-related countermeasures.

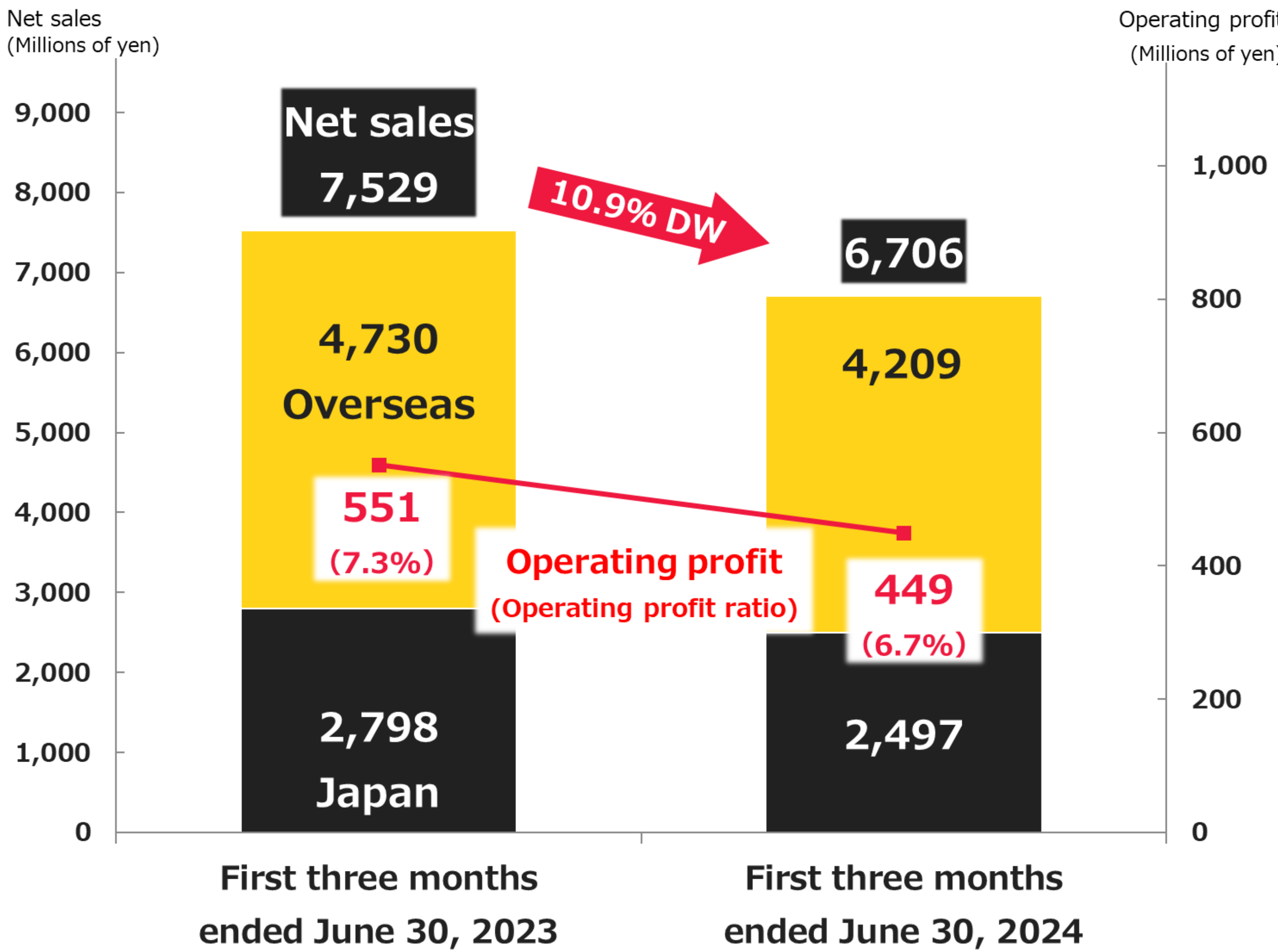
2) Risks and Countermeasures
The future direction of the world economy is unpredictable, due to factors such as global economic slowdowns, tensions in security issues, and rapid changes in the social structure.
In order to transition to a management structure adapted to these changes in the times, we will move forward with the approach of adapting to a changing business environment.

Consolidated Business Performance

(Millions of yen)

	First three months ended June 30, 2023	First three months ended June 30, 2024	YoY change	
			Amount	%
Net sales	**7,529**	**6,706**	**▲ 822**	**▲10.9%**
Japan	**2,798**	**2,497**	**▲ 301**	**▲10.8%**
Overseas	**4,730**	**4,209**	**▲ 521**	**▲11.0%**
Operating profit	**551**	**449**	**▲ 102**	**▲18.5%**
Operating profit ratio	(7.3%)	(6.7%)		
Ordinary profit	**692**	**503**	**▲ 188**	**▲27.2%**
Profit attributable to owners of parent	**471**	**690**	**218**	**46.3%**
Cost-of-sales ratio	(73.1%)	(69.8%)		

Consolidated Business Performance (Graph)



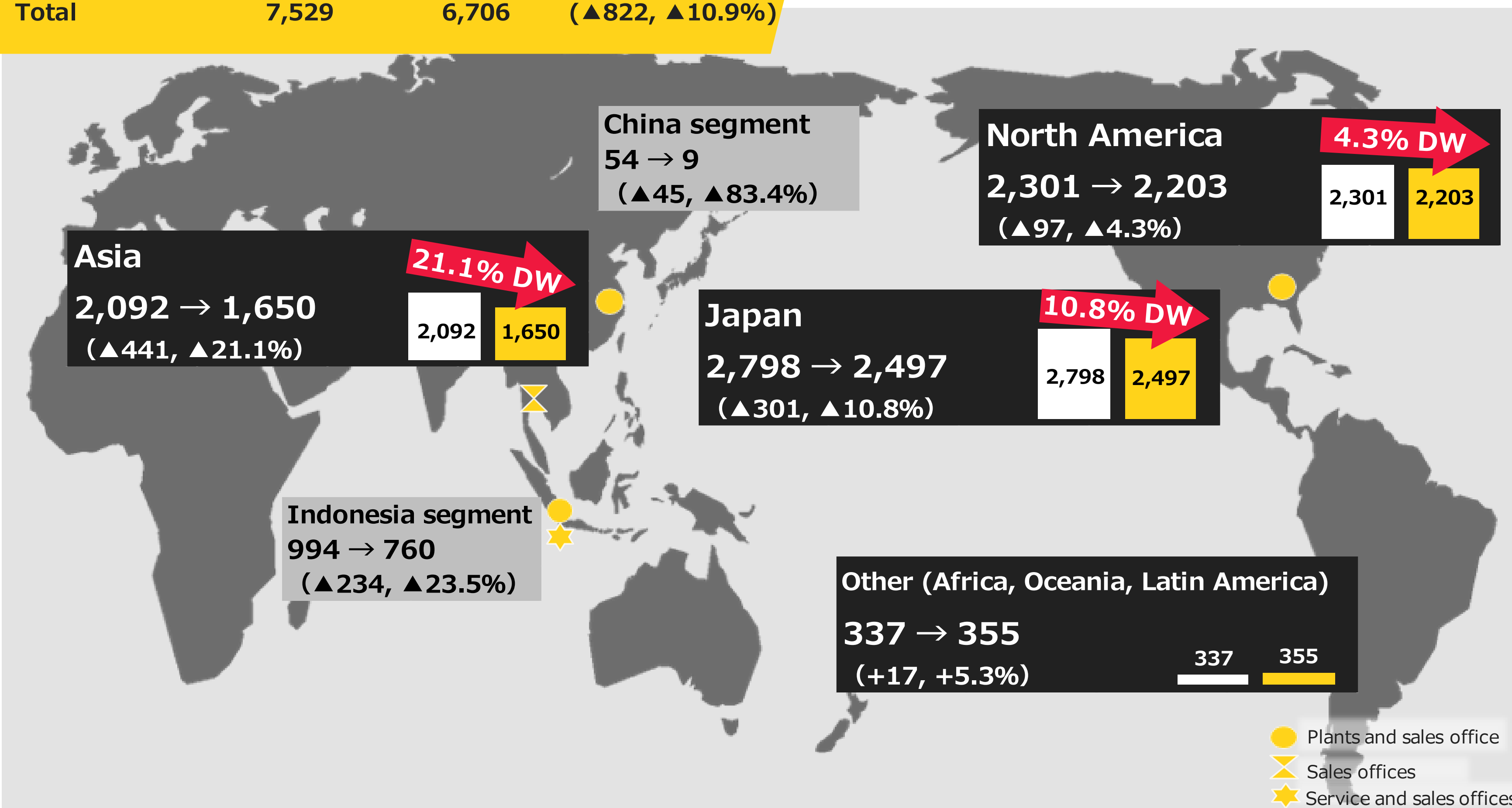
Sales by Region in Which Customers Are Located

(Millions of yen)

	First three months ended June 30, 2023	First three months ended June 30, 2024	YoY change	
			Amount	%
Japan	2,798	2,497	▲ 301	▲10.8%
Overseas	4,730	4,209	▲ 521	▲11.0%
North America	2,301	2,203	▲ 97	▲4.3%
Asia	2,092	1,650	▲ 441	▲21.1%
Other regions	337	355	17	5.3%
Total	7,529	6,706	▲ 822	▲10.9%

Sales by Region (Map)

(Millions of yen)	First three months ended June 30, 2023	First three months ended June 30, 2024	YoY change
Japan	2,798	2,497	(▲301, ▲10.8%)
Overseas	4,730	4,209	(▲521, ▲11.0%)
Total	7,529	6,706	(▲822, ▲10.9%)



SAKAI
MASTERS OF COMPACTION

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

(Millions of yen)

Japan	First three months ended June 30, 2023	First three months ended June 30, 2024	YoY change	
			Amount	%
Sales to external customers	4,179	3,733	▲ 445	▲10.7%
Intercompany sales	1,042	1,084	41	4.0%
Total net sales	5,221	4,817	▲ 403	▲7.7%
Operating profit	121	37	▲ 83	▲69.0%

(Millions of yen)

North America	First three months ended June 30, 2023	First three months ended June 30, 2024	YoY change	
			Amount	%
Sales to external customers	2,301	2,203	▲ 97	▲4.3%
Intercompany sales	3	2	▲ 1	▲41.8%
Total net sales	2,304	2,205	▲ 99	▲4.3%
Operating profit	194	387	192	98.6%

(Millions of yen)

Indonesia	First three months ended June 30, 2023	First three months ended June 30, 2024	YoY change	
			Amount	%
Sales to external customers	994	760	▲ 234	▲23.5%
Intercompany sales	1,063	747	▲ 316	▲29.7%
Total net sales	2,058	1,508	▲ 550	▲26.7%
Operating profit	187	79	▲ 107	▲57.5%

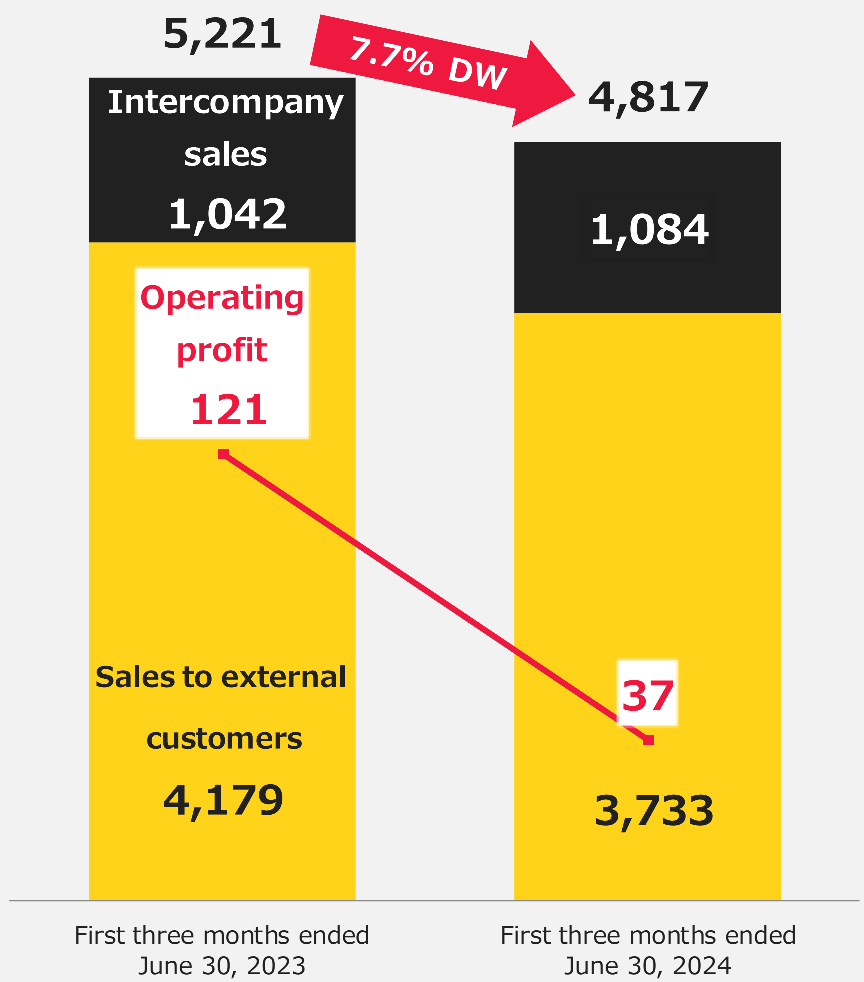
(Millions of yen)

China	First three months ended June 30, 2023	First three months ended June 30, 2024	YoY change	
			Amount	%
Sales to external customers	54	9	▲ 45	▲83.4%
Intercompany sales	344	372	27	8.1%
Total net sales	398	381	▲ 17	▲4.4%
Operating profit	37	35	▲ 1	▲5.1%

SAKAI MASTERS OF COMPACTION

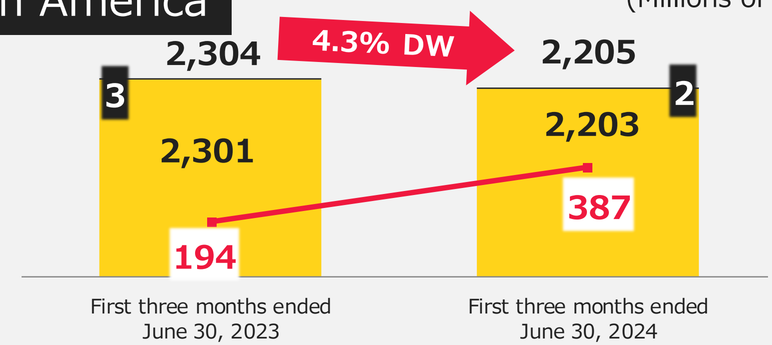
Segment Information by Region (Graph)

Japan

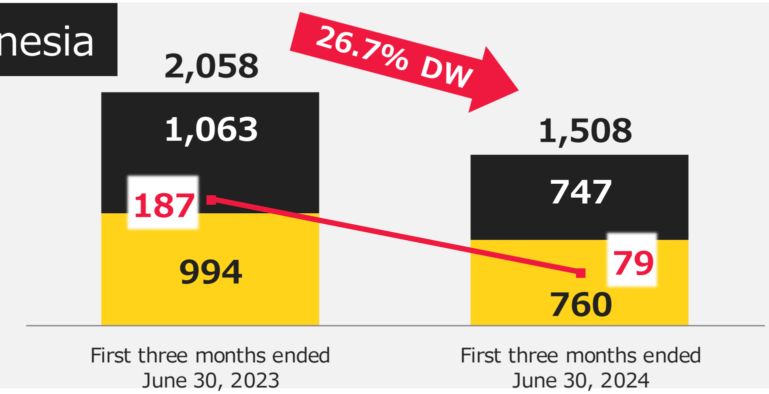


North America

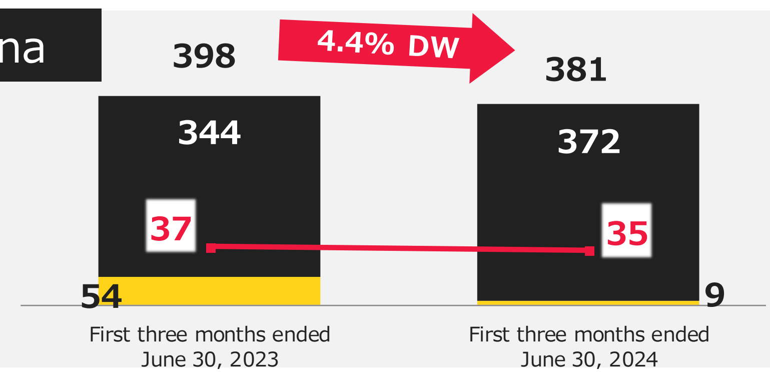
(Millions of yen)



Indonesia



China



Breakdown of YoY Changes in Operating Profit

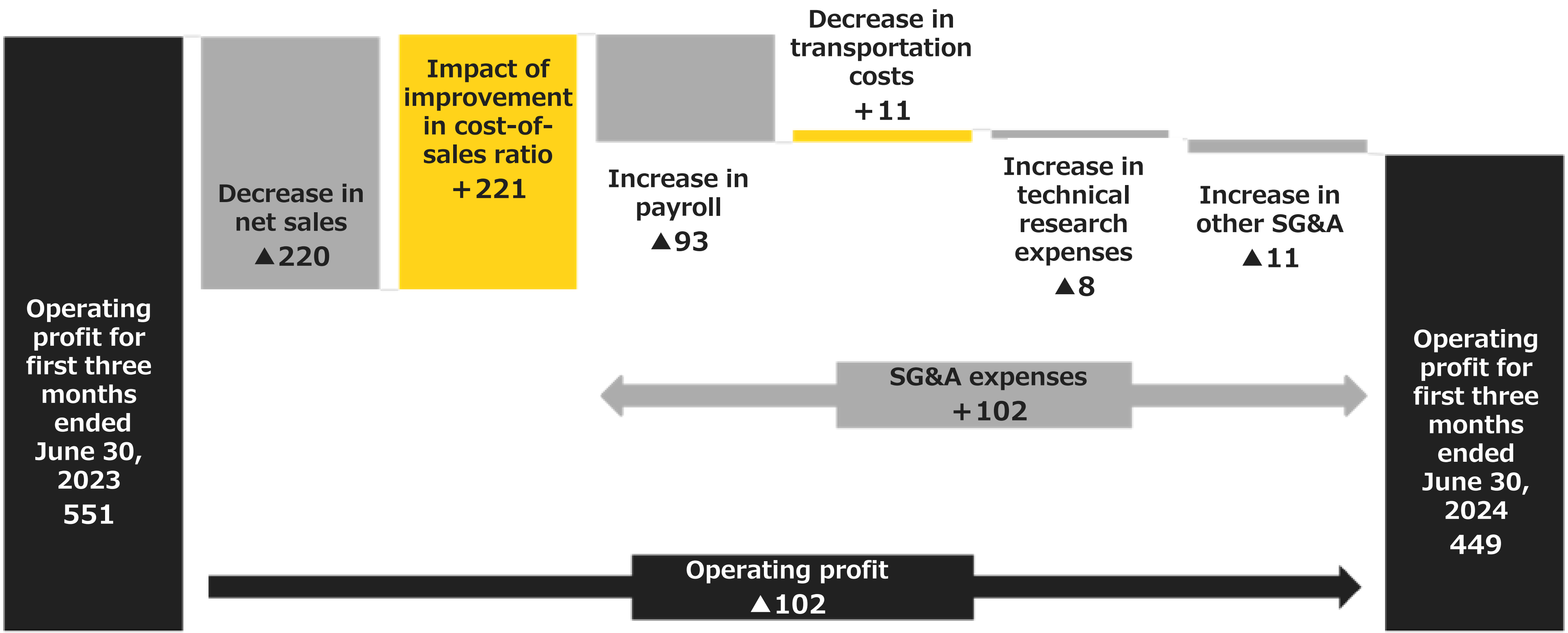
- Gross profit decreased by ¥220 million, in line with YoY decrease in net sales of ¥822 million.
- The cost-of-sales ratio improved by 3.3% and gross profit rose by ¥221 million through the progress in profit structure reform and the effect of yen depreciation.
- SG&A expenses increased by ¥102 million following the increased investment in human capital (increased payroll) and increased business activities.
- As a result, operating profit decreased by ¥102 million YOY to ¥449 million.

(Millions of yen)

	First three months ended June 30, 2023	First three months ended June 30, 2024	YoY change	Impact on operating profit	Note
Net sales	7,529	6,706	▲ 822	▲ 220	▲822 x (1 - 73.1%)
Cost-of-sales ratio	73.1%	69.8%	▲3.3%	+221	6,706 x ▲3.3%
Gross profit	2,022	2,022	0		
SG&A expenses	1,470	1,573	102	▲ 102	Payroll: up 93; Transportation costs: down 11; Technical research expenses: up 8; Other SG&A: up 11
Operating profit	551	449		▲ 102	

Breakdown of YoY Changes in Operating Profit (Graph)

(Millions of yen)



Operating profit ratio
7.3%

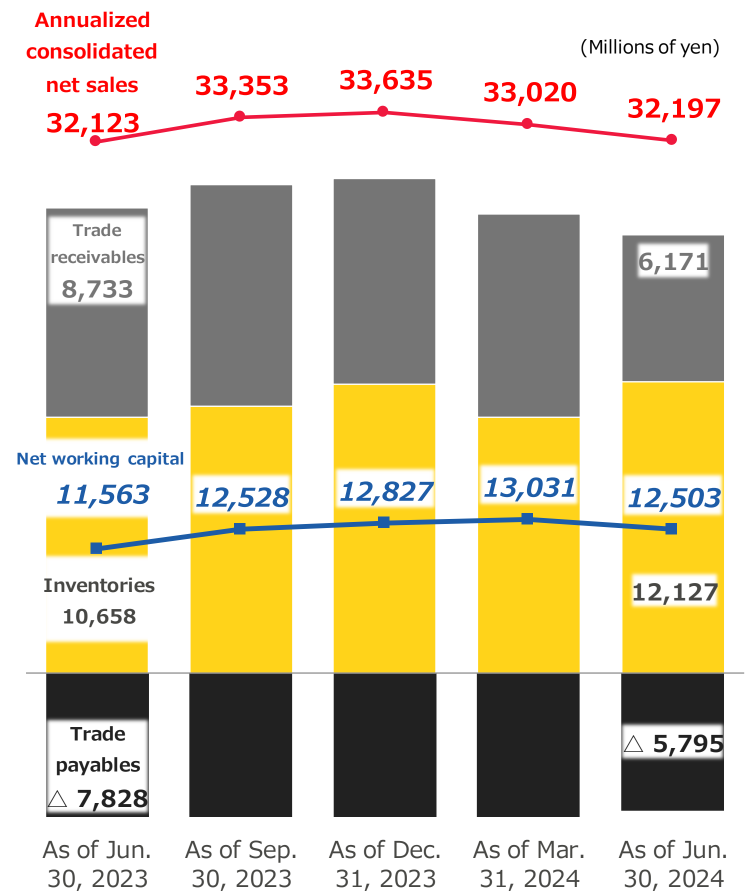
Operating profit ratio
6.7%

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

- Net working capital invested in sales activities increased by ¥940 million YoY to ¥12,503 million.
  As a result, the net working capital/sales ratio increased by 2.8% to 38.8%.
- Inventories increased by ¥1,469 million YoY to ¥12,127 million, as the Construction Machinery Market entered a period of adjustments to inventory.
  As a result, net sales/inventory turnover decreased by 0.36 times (down 12%) to 2.65 times.
  Currently making adjustments to optimize inventory levels.

(Millions of yen)

	As of June 30, 2023	As of June 30, 2024	YoY change	
			Amount	%
Annualized consolidated net sales	32,123	32,197	74	0.2%
Trade receivables	8,733	6,171	▲2,562	▲29.3%
Inventories	10,658	12,127	1,469	13.8%
Trade payables	▲7,828	▲5,795	2,033	▲26.0%
Net working capital	11,563	12,503	940	8.1%
Inventory turnover	3.01 times	2.65 times	▲0.36 times	
Net working capital/Sales ratio	36.0%	38.8%	2.8%	



SAKAI
MASTERS OF COMPACTION

Consolidated Business Forecast

No change from the previous forecast.

- Although the market environment in Japan, North America, and Asia is expected to hold firm, sales in Japan are expected to temporarily stall due to rising costs and structural adjustments in the entire supply chain caused by the 2024 construction and logistics issues and are therefore set at ¥33,000 million, the same level as the previous year.
- Domestically, prices, wages, and interest rates are expected to rise to balance the gap with those overseas. Globally, supply chain risks and resource and logistics costs are expected to remain high due to the ongoing fragmentation of the global economy caused by tensions in Ukraine and the Middle East, so operating income was set at ¥2,730 million, down 17.7% YoY.

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

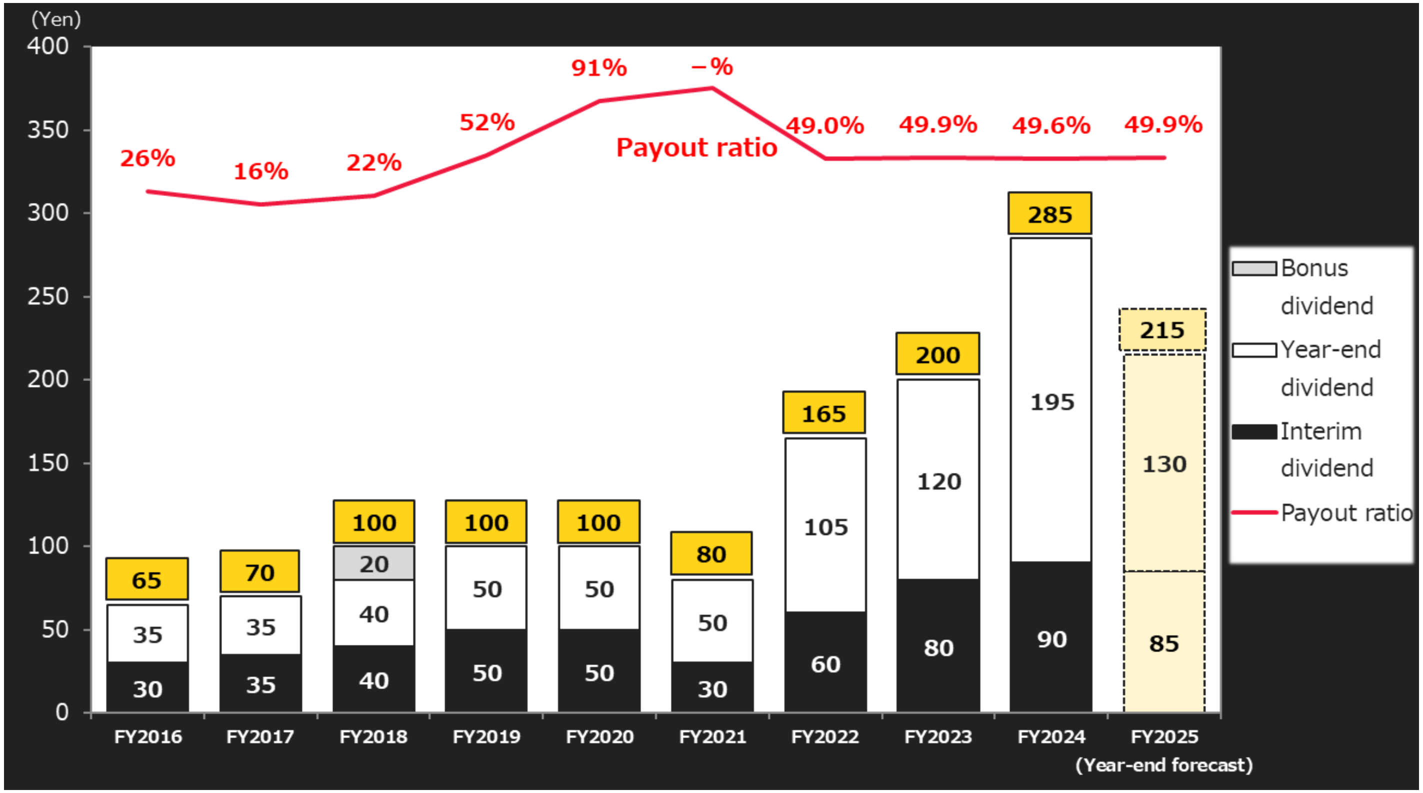
(Millions of yen)

	First half				Full year			
	Six months ended September 30, 2023 (Results)	Six months ending September 30, 2024 (Forecast)	YoY change		Fiscal year ended March 31, 2024 (Results)	Fiscal year ending March 31, 2025 (Forecast)	YoY change	
			Amount	%			Amount	%
Net sales	16,785	15,500	▲ 1,285	▲7.7%	33,020	33,000	▲ 20	▲0.1%
Operating profit	1,966	1,050	▲ 916	▲46.6%	3,318	2,730	▲ 588	▲17.7%
Ordinary profit	2,109	1,050	▲ 1,059	▲50.2%	3,324	2,700	▲ 624	▲18.8%
Profit attributable to owners of parent	1,534	700	▲ 834	▲54.4%	2,440	1,830	▲ 610	▲25.0%
Earnings per share (Yen)	¥361.64	¥164.85	▲¥196.79	▲54.4%	¥574.74	¥430.96	▲¥143.78	▲25.0%

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.

SAKAI MASTERS OF COMPACTION

KPIs Established in the Medium-Term Management Policy

- Improvements to the profit structure in the fiscal year ended March 31, 2024, 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, despite achievement of the KPIs established in the Medium-Term Management for the fiscal year ended March 31, 2024.
- We will aim to improve the profit structure to be able to continuously achieve ROE of 8% for maintaining PBR 1 in a new phase of change.

(Millions of yen)

	First three months ended June 30, 2023 (Results)	First three months ended June 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	7,529	6,706	33,020	33,000	30,000
Operating profit	551	449	3,318	2,730	3,100
Return on equity (ROE) *1	7.4%	9.4%	9.0%	6.2%	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 August 9, 2024.

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

SAKAI
MASTERS OF COMPACTION

Contact us

SAKAI HEAVY INDUSTRIES, LTD.
IR Office: Takao Yoshikawa

Email: sakai.ir@sakainet.co.jp
Telephone: +81-3-3434-3401 (from outside Japan)
Fax: +81-3-3436-6513 (from outside Japan)