

Consolidated Financial Results for the Six Months Ended September 30, 2023

SAKAI HEAVY INDUSTRIES, LTD.

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

November 9, 2023

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, 2023 (from April 1, 2023 to September 30, 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
Six months ended September 30, 2023	16,785	12.7	1,966	84.2	2,109	92.6	1,534	87.4	361.64	–
Six months ended September 30, 2022	14,891	14.7	1,067	47.2	1,095	49.5	818	60.8	193.92	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2023	45,263	28,131	62.0
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 Six Months Ended September 30, 2023

- 1) Consolidated net sales : ¥16,785 million, up 12.7% YoY**
Overseas sales expanded, particularly in North America and Indonesia.
- 2) Operating profit : ¥1,966 million, up 84.2% YoY**
Upside factors included the weak yen, in addition to profit structure reform through the penetration of sales price revisions and normalization of transportation costs.
- 3) Sales in Japan : ¥7,447 million, up 3.7% YoY**
Sales remain firm against the backdrop of measures to accelerate national land resilience.
- 4) Sales in North America : ¥4,511 million, up 36.4% YoY**
Demand continues to expand due to increased investment in road construction against the backdrop of the Infrastructure Investment and Jobs Act.
- 5) Sales in Asia : ¥3,973 million, down 3.6% YoY**
Signs of slowdown in China and slowing growth in ASEAN market, despite continuing recovery in demand in Indonesia.

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 six months ended September 30, 2023: Net sales of ¥16.78 billion, operating profit of ¥1.96 billion, ROE of 11.5%

(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 September 2023: PBR 0.81 times (Share price ¥5,320)

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: 70.1%, improvement of 4.2% 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: 3.00 times, down 0.53 times/15% YoY

Increase in parts for increased production and safety stock. Currently adjusting to an optimized inventory level due to easing of supply constraints.

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 3.6% 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 36.4% 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

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 continued global inflation, rapidly escalating geopolitical risks, and societal change in line with technological evolutions and decarbonization policies. 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)

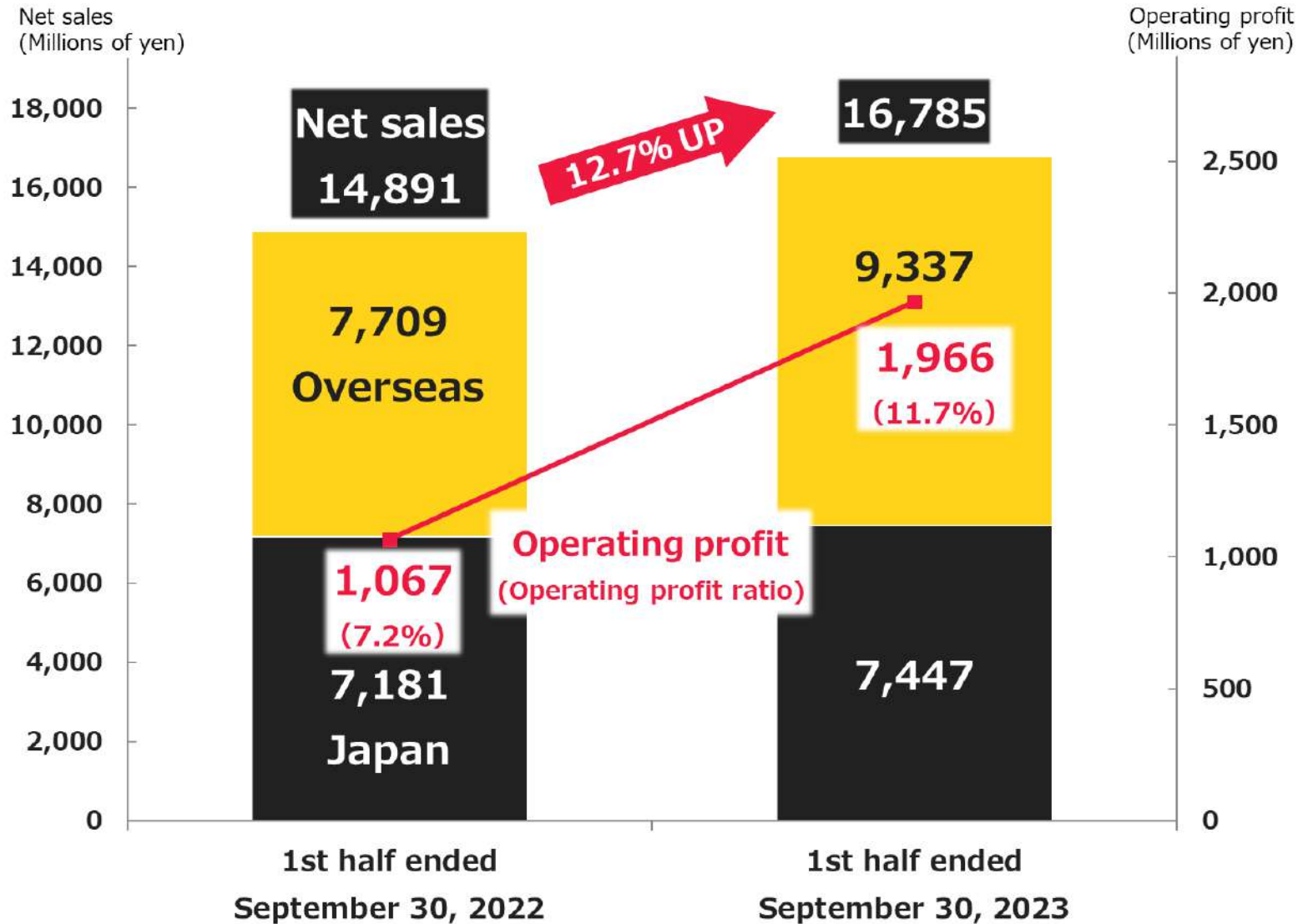
	1st half ended September 30, 2022	1st half ended September 30, 2023	YoY change	
			Amount	%
Net sales	14,891	16,785	1,894	12.7%
Japan	7,181	7,447	266	3.7%
Overseas	7,709	9,337	1,628	21.1%
Operating profit	1,067	1,966	899	84.2%
<i>Operating profit ratio</i>	(7.2%)	(11.7%)		
Ordinary profit	1,095	2,109	1,014	92.6%
Profit attributable to owners of parent	818	1,534	715	87.4%

Cost-of-sales ratio

(74.3%)

(70.1%)

Consolidated Business Performance (Graph)



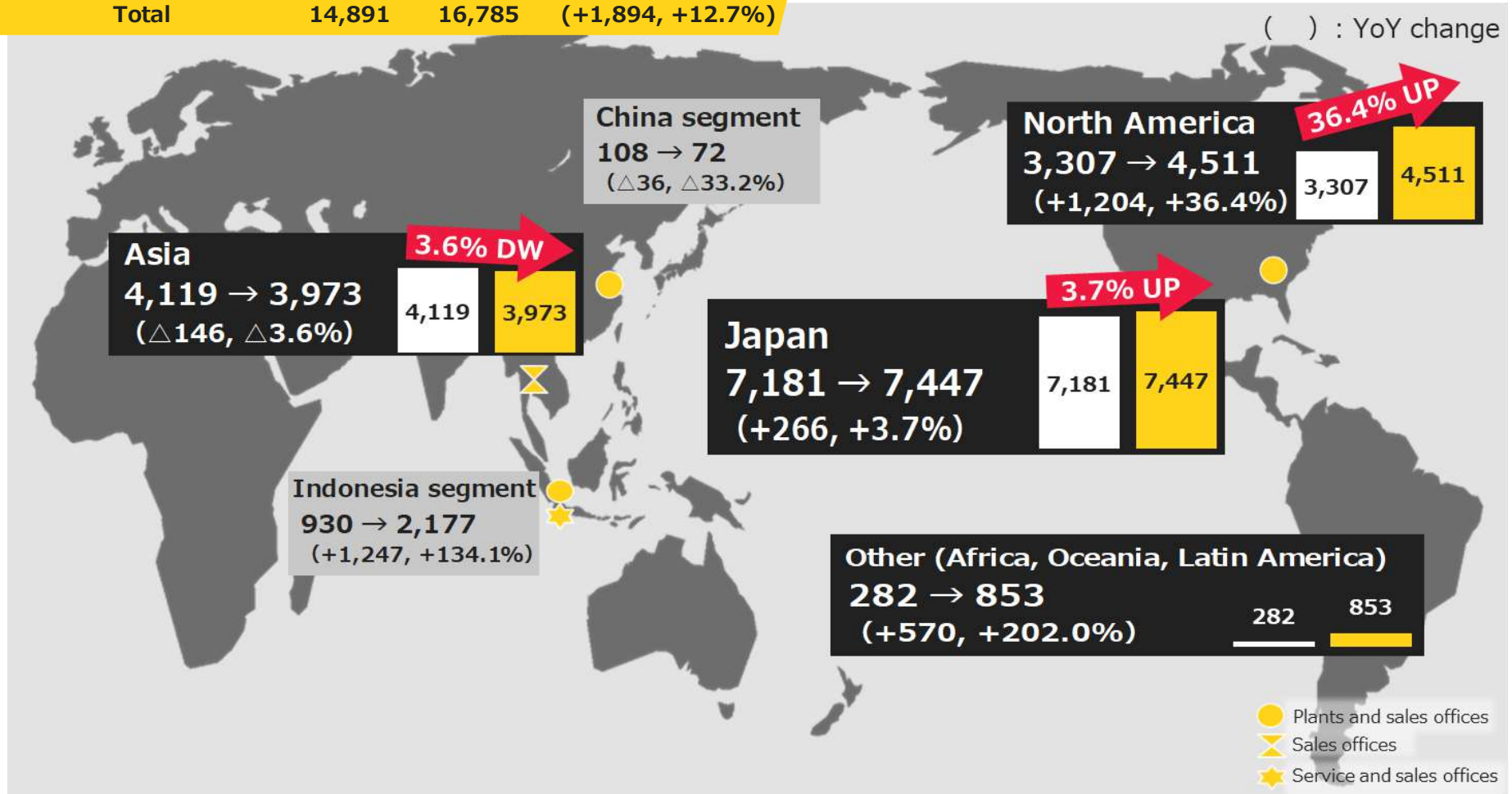
Sales by Region in Which Customers Are Located

(Millions of yen)

	1st half ended September 30, 2022	1st half ended September 30, 2023	YoY change	
			Amount	%
Japan	7,181	7,447	266	3.7%
Overseas	7,709	9,337	1,628	21.1%
North America	3,307	4,511	1,204	36.4%
Asia	4,119	3,973	▲ 146	▲ 3.6%
Other regions	282	853	570	202.0%
Total	14,891	16,785	1,894	12.7%

Sales by Region (Map)

(Millions of yen)	1st half ended September 30, 2022	1st half ended September 30, 2023	YoY change
Japan	7,181	7,447	(+266, +3.7%)
Overseas	7,709	9,337	(+1,628, +21.1%)
Total	14,891	16,785	(+1,894, +12.7%)



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

(Millions of yen)

Japan	1st half ended September 30, 2022	1st half ended September 30, 2023	YoY change	
			Amount	%
Sales to external customers	10,545	10,024	▲ 521	▲4.9%
Intercompany sales	1,637	2,295	658	40.2%
Total net sales	12,182	12,319	137	1.1%
Operating profit	415	630	215	52.0%

(Millions of yen)

North America	1st half ended September 30, 2022	1st half ended September 30, 2023	YoY change	
			Amount	%
Sales to external customers	3,307	4,511	1,204	36.4%
Intercompany sales	11	3	▲ 8	▲69.5%
Total net sales	3,318	4,514	1,196	36.0%
Operating profit	286	533	246	85.9%

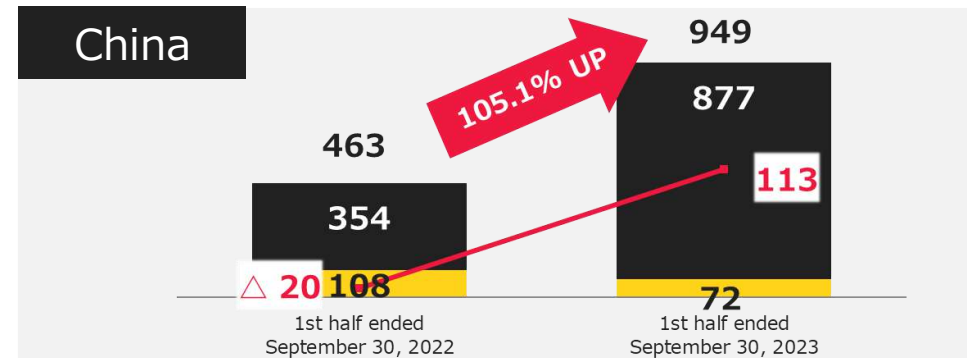
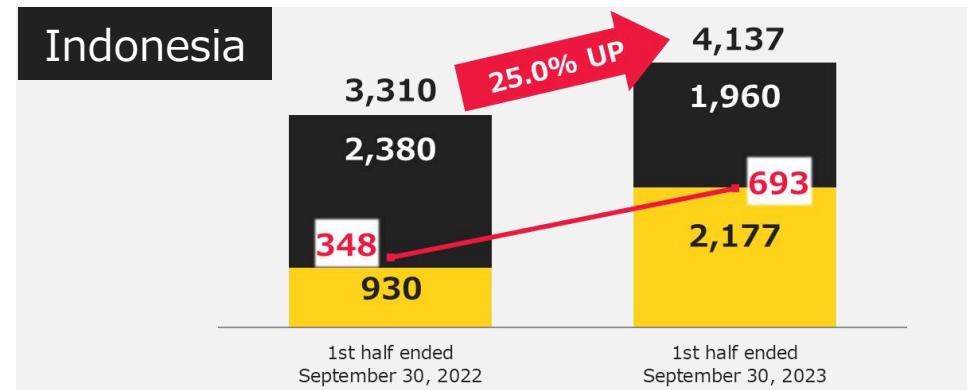
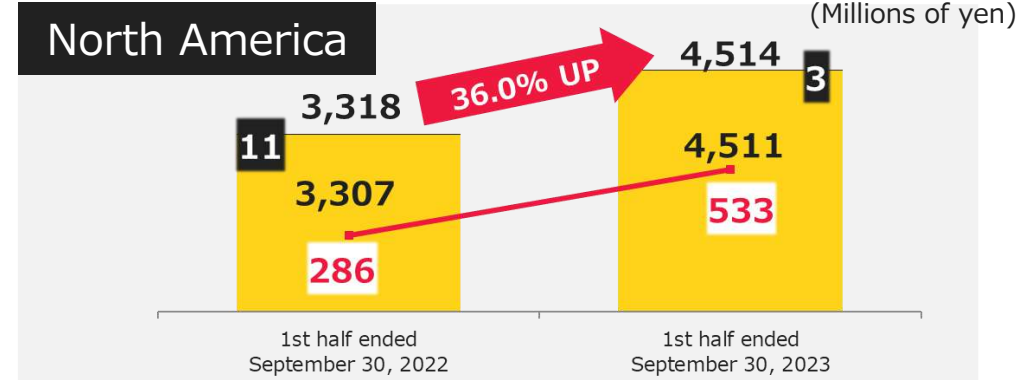
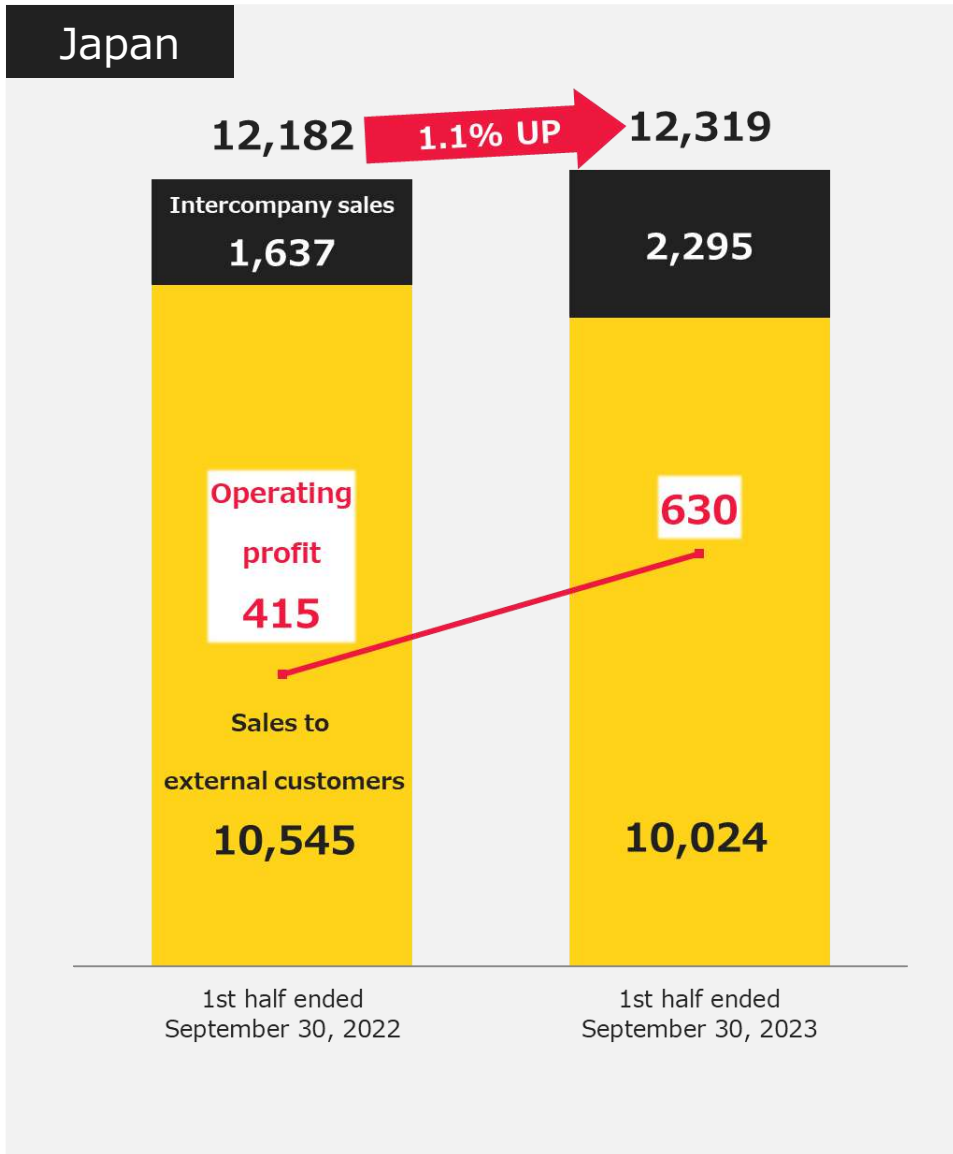
(Millions of yen)

Indonesia	1st half ended September 30, 2022	1st half ended September 30, 2023	YoY change	
			Amount	%
Sales to external customers	930	2,177	1,247	134.1%
Intercompany sales	2,380	1,960	▲ 420	▲17.6%
Total net sales	3,310	4,137	827	25.0%
Operating profit	348	693	345	99.2%

(Millions of yen)

China	1st half ended September 30, 2022	1st half ended September 30, 2023	YoY change	
			Amount	%
Sales to external customers	108	72	▲ 36	▲33.2%
Intercompany sales	354	877	522	147.5%
Total net sales	463	949	486	105.1%
Operating profit	▲ 20	113	133	– %

Segment Information by Region (Graph)



Breakdown of YoY Changes in Operating Profit

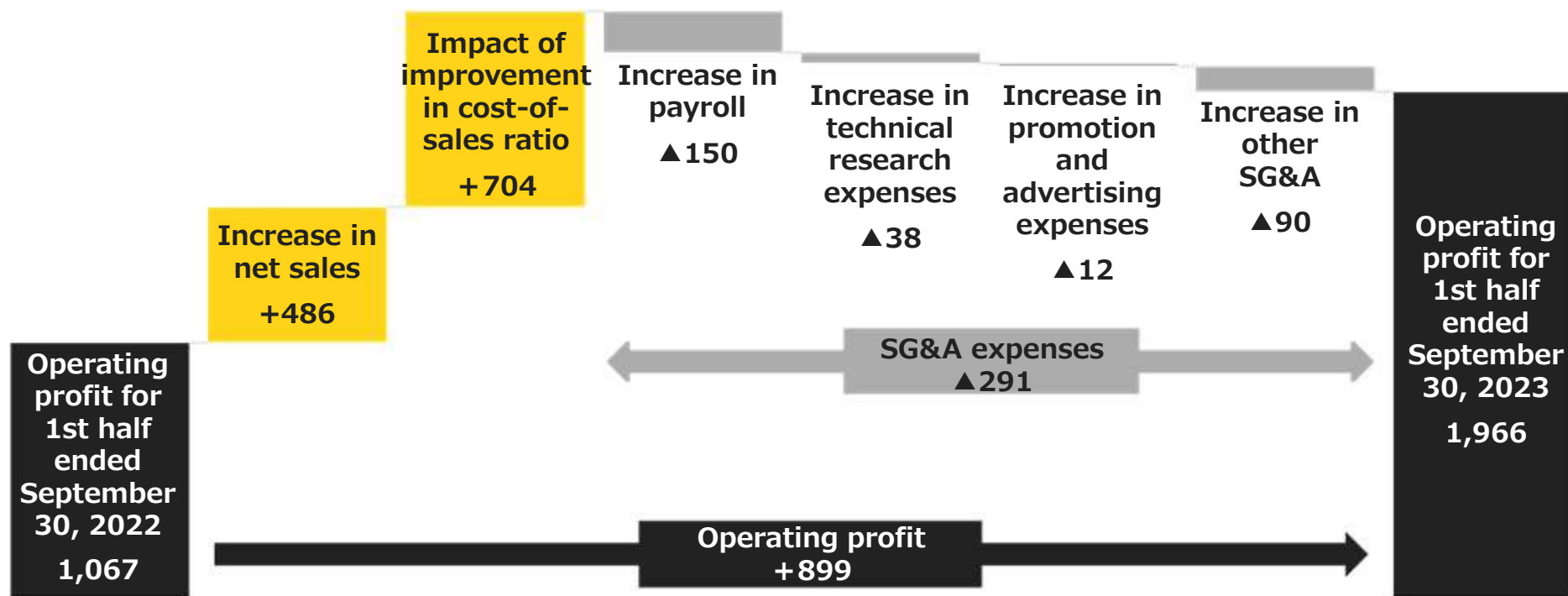
- Gross profit increased by ¥486 million, in line with a YoY increase in sales of ¥1,894 million.
- The cost-of-sales ratio improved by 4.2% and gross profit rose by ¥704 million, with upward factors such as the weak yen in addition to the penetration of sales price revisions and the normalization of transportation costs.
- SG&A expenses increased by ¥291 million following the increased investment in human capital (increased payroll) and increased business activities.
- As a result, operating profit rose by ¥899 million YoY to ¥1,966 million.

(Millions of yen)

	1st half ended September 30, 2022	1st half ended September 30, 2023	YoY change	Impact on operating profit	Note
Net sales	14,891	16,785	1,894	+486	1,894 x (1 - 74.3%)
Cost-of-sales ratio	74.3%	70.1%	▲4.2%	+704	16,785 x ▲4.2%
Gross profit	3,821	5,012	1,190		
SG&A expenses	2,754	3,045	291	▲ 291	Payroll: up 150; Technical research expenses: up 38 Promotion and advertising expenses: up 12; Other SG&A: up 90
Operating profit	1,067	1,966		+899	

Breakdown of YoY Changes in Operating Profit (Graph)

(Millions of yen)



Operating profit ratio
7.2%

Operating profit ratio
11.7%

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

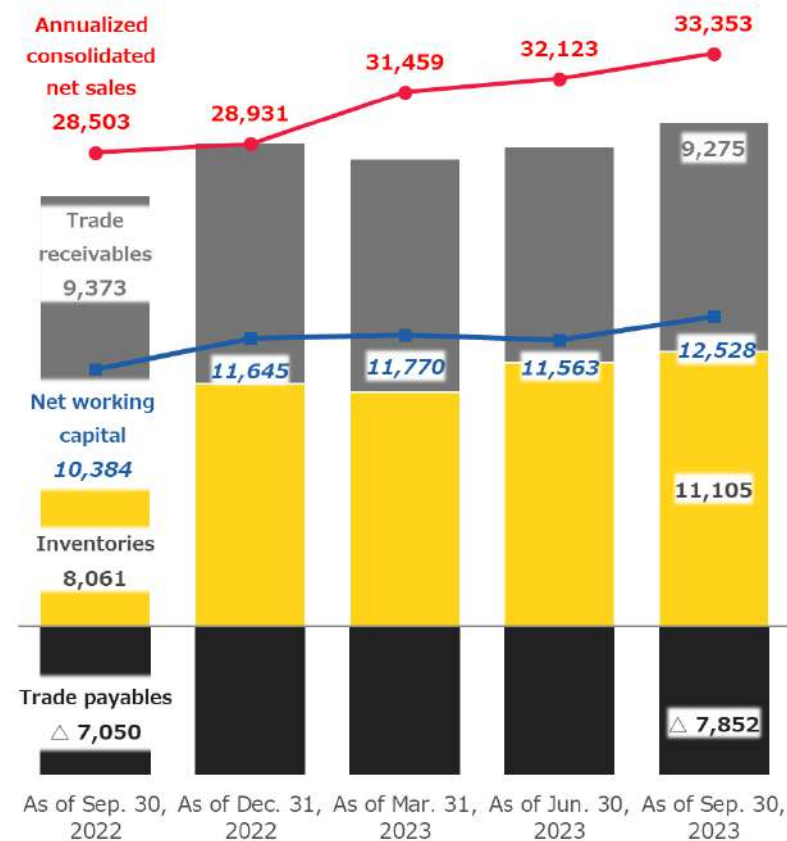
- Net working capital invested in sales activities increased by ¥2,144 million YoY to ¥12,528 million. As a result, the net working capital/sales ratio increased by 1.1% to 37.6%.
- Inventories increased by ¥3,044 million YoY to ¥11,105 million through increase in parts for increased production and safety stock.

As a result, net sales/inventory turnover decreased by 0.53 times (down 15%) to 3.00 times.

Currently making adjustments to optimize inventory levels.

(Millions of yen)

	As of September 30, 2022	As of September 30, 2023	YoY change	
			Amount	%
Annualized consolidated net sales	28,503	33,353	4,850	17.0%
Trade receivables	9,373	9,275	▲98	▲1.0%
Inventories	8,061	11,105	3,044	37.8%
Trade payables	▲7,050	▲7,852	▲802	11.4%
Net working capital	10,384	12,528	2,144	20.6%
Inventory turnover	3.54 times	3.00 times	▲0.53 times	
Net working capital/Sales ratio	36.4%	37.6%	1.1%	



Consolidated Business Forecast

- In line with the upward revision of the consolidated business forecast for the six months ending September 30, 2023, and in consideration of the current market situation, the consolidated business forecast for the fiscal year has been revised upward.
- 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 Asia 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\$.)

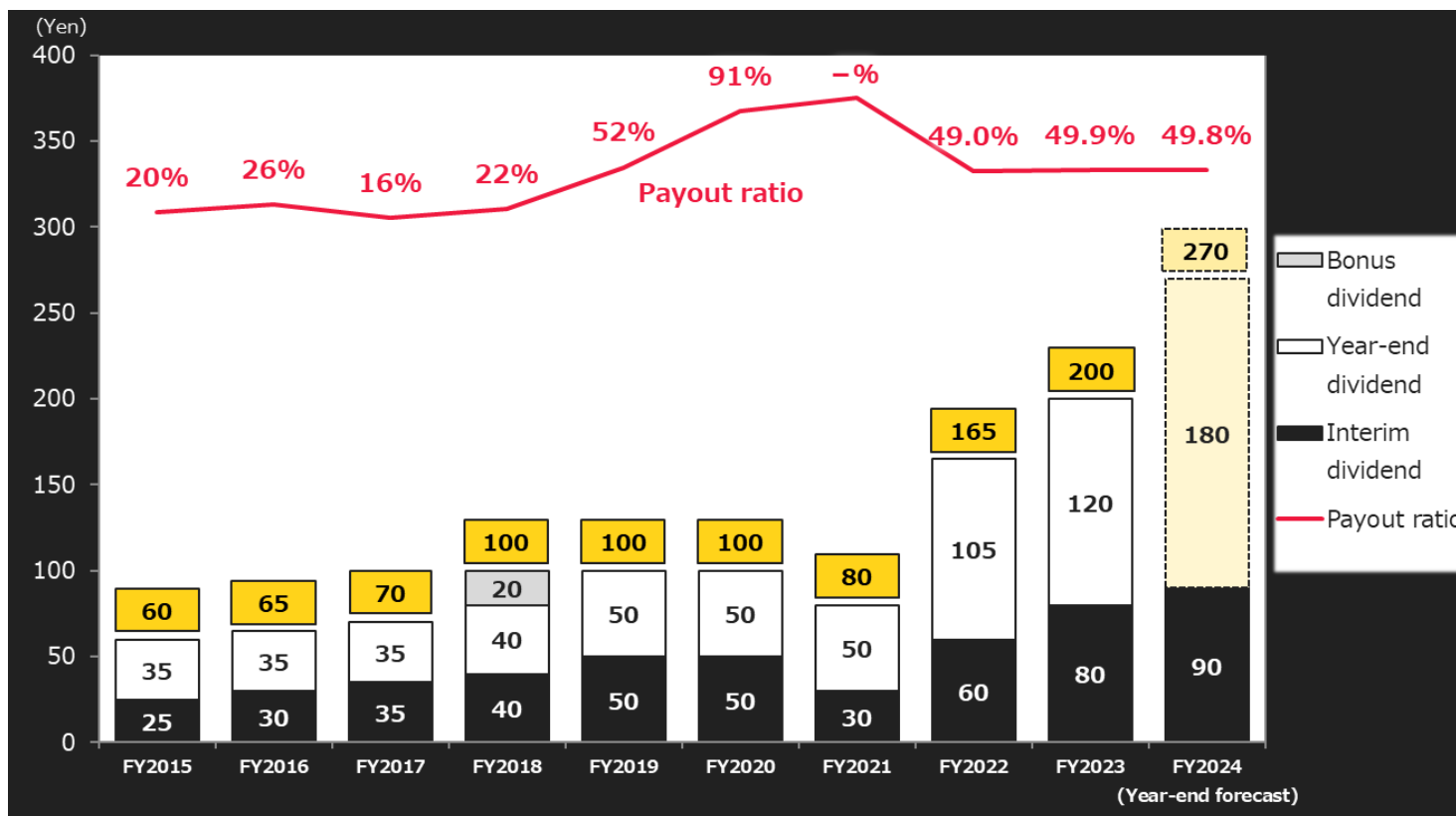
(Millions of yen)

	First half					Full year				
	Six months ended September 30, 2022 (Results)	Six months ended September 30, 2023 (Previous forecast)	Six months ended September 30, 2023 (Results)	YoY change		Fiscal year ended March 31, 2023 (Results)	Fiscal year ending March 31, 2024 (Previous forecast)	Fiscal year ending March 31, 2024 (Revised forecast)	YoY change	
				Amount	%				Amount	%
Net sales	14,891	16,100	16,785	1,894	12.7%	31,459	33,000	33,100	1,640	5.2%
Operating profit	1,067	1,300	1,966	899	84.2%	2,506	2,950	3,300	793	31.7%
Ordinary profit	1,095	1,250	2,109	1,014	92.6%	2,327	2,800	3,300	972	41.8%
Profit attributable to owners of parent	818	770	1,534	715	87.4%	1,694	1,830	2,300	605	35.7%
Earnings per share (Yen)	¥193.92	¥182.12	¥361.64	¥167.72	86.5%	¥400.75	¥432.82	¥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)

	Six months ended September 30, 2022 (Results)	Six months ended September 30, 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	14,891	16,785	33,100	26,500	30,000
Operating profit	1,067	1,966	3,300	2,000	3,100
Annualized return on equity (ROE) ^{*1}	6.8%	11.5%	8.6%	5.5%	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 9, 2023.

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

Sustainability Initiatives

Providing added value by contributing to the realization of a decarbonized society

Autonomous rollers: Labor savings and improved efficiency in overall construction operations*



Autonomous roller / SV514

The introduction of our autonomous rollers (SV514D) at actual construction sites is scheduled to take place within the current fiscal year. This is expected to contribute to reducing CO₂ emissions at construction sites through efficient compaction.

* Experimental data has shown that autonomous rollers can reduce labor by approximately 20% compared to manned work.

Resolving social issues and expanding the scope of business

SAKAI stabilizer method and products selected by JICA for business validation survey in Indonesia



Road stabilizer / PM550-s

Through the use of our stabilizer method (road repair technology) and products (PM550-s road stabilizers), this project aims to contribute to infrastructure development in Indonesia while also expanding the use and sale of our products.

Documentation released by JICA regarding this project:
<https://www.sakainet.co.jp/en/news/item/sdgs20231005.pdf>

Human capital management initiatives

Initiatives to increase the percentage of women in management positions and reduce the gender pay gap

Ratio of women in management positions

March 2023 (Result)	September 2023 (Result)	March 2026 (Target)
3.0%	5.0%	15.0%

Female worker earnings as percentage of male worker earnings (fiscal year ended March 31, 2023)

All workers	Permanent workers	Permanent workers (excluding management positions)
67.4%	75.1%	82.4%

We have set a target of having a percentage of women in management positions of 15% by March 2026.* Among permanent workers, excluding those in management positions, earnings by women are 82.4% of those of men, and the low percentage of women in management positions can be considered one factor behind the gender pay gap.

The policy of actively working to increase the percentage of women in management positions is also intended to reduce the gender pay gap.

* This target was set on the basis of raising the percentage of women in management positions to approximately match the percentage of management positions among all employees. Consequently, this target may be subject to change in future due to changes affecting factors such as the number of employees and the number of employees in management positions.

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.