

SANKI SERVICE CORPORATION

6044

Tokyo Stock Exchange Standard Market

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■ Summary

For FY5/23, record high net sales from the strong performance of total maintenance services

1. Company overview

SANKI SERVICE CORPORATION <6044> (hereafter, “the Company”) provides total maintenance services from design, construction, and maintenance management to repairs, not only for air-conditioning equipment, but also for all equipment and devices such as electrical, kitchen, water supply and drainage, and sanitation equipment, primarily through its call centers that operate 24-hours-a-day, 365-days-a-year. It is working on environmental improvements by providing total maintenance, for infrastructure facilities that are essential for economic and corporate activities, such as offices and buildings, commercial facilities and chain stores, hotels, hospitals and care facilities for the elderly, and government buildings and schools.

2. Results for FY5/23

In the FY5/23 consolidated results, net sales increased 27.2% year-on-year (YoY) to ¥14,733mn, operating profit increased 160.0% to ¥575mn, ordinary profit increased 157.9% to ¥579mn and profit attributable to owners of parent increased 193.7% to ¥452mn. Social and economic activities headed toward normalization following the easing of restrictions on behavior and other limitations accompanying the spread of the novel coronavirus (hereafter, COVID-19) pandemic, and there was an increase in energy-saving construction projects, mainly for hospitals and care facilities for the elderly, that had been temporarily halted due to COVID-19. The total maintenance performed strongly due to factors including the start of business with a new, large customer in the retail industry. Net sales achieved a new record high due to the December 2022 consolidation of subsidiary HYOGO KIKO, CO., LTD., a manufacturer of steel fittings such as metal doors, shutters and sashes, and related fixtures work, and purchase and sale of fittings. On the profit front, meanwhile, gross profit increased as a result of an increase in energy-saving construction projects in the high value-added environment solutions services, an increase in the rate of in-house production due to multi-skills development* of maintenance engineers and raised productivity. Operating profit increased by 2.6 times YoY, covering increased personnel and other expenses from proactive recruiting to respond to the expansion in services.

* It can handle various types of air-conditioning equipment, including large-scale absorption-type chillers and heaters and small-scale package air conditioners.

Summary

3. Results forecast for FY5/24

For FY5/24 consolidated results, the Company plans net sales to increase 21.5% YoY to ¥17,900mn, operating profit to rise 26.7% to ¥729mn, ordinary profit to increase 26.4% to ¥732mn and profit attributable to owners of parent to go up 3.9% to ¥470mn. Demand for energy-saving construction projects and total maintenance services in environment solutions services is expected to continue to increase against the backdrop of the removal of restrictions on behavior due to COVID-19, surging energy costs, growing interest in carbon neutrality and customers' labor shortages. The contribution of HYOGO KIKO's results over a full year will also be incorporated and the Company expects to break its record for consolidated net sales for consecutive years. Construction projects increased and with that so has their percentage of total net sales, but based on the features of total maintenance services, we at FISCO think that the increase in construction projects will increase the regular projects and repair projects and that in the long-term, the Company will develop a stock-type (recurring income-type) earnings structure. From a profit aspect, the Company plans to increase profits by increasing rate of in-house production and raising productivity by aggressively hiring mainly of engineers and reinforced training, such as in multi-skills development.

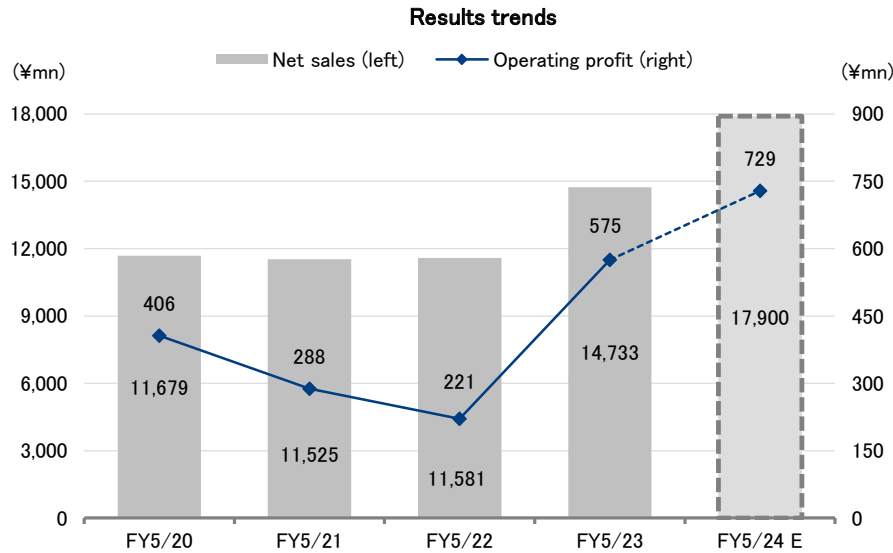
4. The new medium-term management plan

In July 2022, the Company formulated SANKI NEXT STAGE 2025, its new medium-term management plan. Based on the changes to the business environment due to COVID-19 and other factors, it has positioned the period from FY5/23 to FY5/25 as the period in which to strengthen the earnings foundation for growth in the medium- to long-term, and its policy is to rebuild the management base and business base. Also, the plan's numerical targets for FY5/25 are net sales of ¥21,450mn (¥14,733mn in FY5/23) and operating profit of ¥1,034mn (¥575mn in FY5/23). Specifically, it has positioned the period up to FY5/25 as the "period to strengthen the earnings foundation," and toward "further improving quality x technological capabilities," it is promoting the in-house manufacturing of important technologies, improve the productivity of key industries, increases sales in the environment business, and establish a DX promotion structure. It has also positioned the period from FY5/26 onwards as the "development period," and in order to "strengthen our presence in the markets," it is aiming to expand scale and increase sales in the environment business through expanding the customer base and M&A (including alliances and collaborations). It has positioned the period from 2030 onwards as the "sustainable growth period" and is targeting net sales of ¥50bn, an operating profit margin of 10%, and ROE of 28.2% as the business scale it wants to achieve by 2030 through progressing reforms to become a company "that provides added value" and that "produces environments."

Key Points

- In FY5/23, energy-saving construction projects for hospitals, etc. began to move after being temporarily on hold due to COVID-19
- In FY5/24, increased sales and profits expected as demand increases for energy-saving construction projects and HYOGO KIKO makes a full-year contribution
- Is aiming to strengthen the earnings foundation by rebuilding the management base and the business base under the new medium-term management plan
- "Human Capital Approach and Initiatives" clarified in FY5/23 Securities Report
- Certified under the 2023 Certified Health & Productivity Management Outstanding Organization to promote health management as one aspect of enhancing human capital

Summary



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

Company overview

Provides total maintenance services for all equipment and devices

1. Company overview

The Company provides total maintenance services for design, construction, maintenance management, and repairs for all equipment and devices such as air-conditioning, electrical, kitchen, water supply and drainage, and sanitation equipment, primarily through its call centers that operate 24-hours-a-day, 365-days-a-year. When it was founded in 1977, it focused on a maintenance business for large air-conditioning equipment as the designated store of Sanyo Air Conditioning System Services Co., Ltd. (currently Panasonic Commercial Equipment Systems Co., Ltd.) Then in 2000, it transformed its business and expanded the maintenance areas to equipment as a whole, including air supply and exhaust equipment, kitchen equipment, electrical equipment, and water supply and drainage equipment. Moreover, by establishing a structure of operating 24-hours-a-day, 365-days-a-year, it expanded the scope of its business, including launching the total maintenance services for companies managing many stores throughout Japan. It is working on environmental improvements, focused on total maintenance, for infrastructure facilities that are essential for economic and corporate activities, such as offices and buildings, commercial facilities and chain stores, hotels, hospitals and care facilities for the elderly, and government buildings and schools.

The Company's main customers include Panasonic Commercial Equipment Systems Co., Ltd., LIFE CORPORATION <8194>, SEVEN-ELEVEN JAPAN CO., LTD., OKUWA Co., Ltd. <8217>, and Sumitomo Realty & Development Co., Ltd. <8830>.

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Company overview

On June 1, 2020, company founder Yoshikane Nakashima left the position of President and Representative Director and was appointed Chairman, while Tatsuo Kitakoshi was promoted to be the President and Representative Director. President Kitakoshi accumulated experienced in various business departments, including the large air-conditioning equipment department that is the Company's core operation, and also worked as the head of the main centers in Kansai. Subsequently, after serving as the call center executive officer, from 2013 he engaged in management as the supervisor of the head office management department, while conducting the IPO. He has also been the driving force behind reforms inside and outside the Company, including introducing a new core system and strengthening internal controls, while in July 2019, he formulated SANKI 2022 as the Company's first medium-term management plan, and then in July 2022, SANKI NEXT STAGE 2025, its new medium-term management plan.

History

October 1976	As one part of the machinery business department of HYOGO KIKO, CO., LTD., started outsourcing work for the assembly, installation, trial runs, and maintenance management of large heating and cooling equipment through a business partnership with Sanyo Air Conditioning System Services Co., Ltd. (currently, Panasonic Commercial Equipment Systems Co., Ltd.)
July 1977	Separated from HYOGO KIKO and established Sanki Service in Shikitocho, Himeji City, Hyogo Prefecture The Company established its Osaka Center within the office of the Osaka Center of Sanyo Air Conditioning System Services
October 1977	Established the Tokyo Center (currently, the Tokyo business office)
April 1978	Established the Nagoya Center (currently the Tokai Center)
June 1983	Started a software development business
October 1983	Established the Shizuoka Center
January 1986	Entered into a business partnership with AMADA METRECS CO., LTD. (currently AMADA CO., LTD.<6113>) for industrial machinery maintenance work
May 1986	Established the Kobe Center
October 1987	Concluded an agency contract with Sanyo Electric Co, Ltd., and began sales of air-conditioning equipment and electrical products
May 1990	Entered into a business partnership with DAIKIN PLANT CO., LTD. (currently, DAIKIN APPLIED SYSTEMS CO., LTD.) for air-conditioning equipment maintenance management
November 1991	Registered for a "plumbing business" Ordinary Construction License
December 1995	Established Hamamatsu Station (currently Hamamatsu Center)
November 1996	Registered for a "piping work business" Special Construction License
September 1998	Established Shanghai Sanki Building Facility Service Co., Ltd. (currently a consolidated subsidiary) in Shanghai, China, in order to conduct air-conditioning equipment maintenance work
September 2000	Established a call center in Tokyo able to respond 24-hours-a-day, 365-days-a-year and started developing the Total Maintenance Business nationwide
October 2001	Established the Sapporo sales office (currently the Sapporo Center)
June 2002	Established the Hyogo Business Development Department (currently the Hyogo Center)
September 2003	Registered for a "construction engineering business" Special Construction License
March 2007	Registered for a "electrical work business" Ordinary Construction License
February 2012	Established a call center in Shanghai, China, able to respond 24-hours-a-day, 365-days-a-year
April 2015	Listed on the Tokyo Stock Exchange (TSE) JASDAQ (standard) market
June 2015	Split the Tokyo Center and established the Yokohama Center
March 2016	Relocated the Head Office to Abo, Himeji-shi, Hyogo Prefecture, and acquired security industry certification
April 2016	Opened a call center and training center in Himeji and the listing was changed to the TSE Second Section
August 2016	Registered for an "interior finishing business" Special Construction License
April 2017	Listing was upgraded to the TSE First Section
February 2018	Established the Takasaki sales office
May 2019	Established SANKI – SONADEZI JOINT STOCK COMPANY, as a joint venture with SONADEZI GIANG DIEN SHAREHOLDING COMPANY, in Dong Nai Province, Vietnam
January 2020	The Tokyo business office acquired ISO14001 certification
February 2020	Established the Wakayama sales office
June 2020	Tatsuo Kitakoshi became the Company's President
April 2022	Listing was transferred to the Standard market following the Tokyo Stock Exchange's (TSE) reorganization of market categories
December 2022	Made HYOGO KIKO, CO., LTD. a consolidated subsidiary through a share exchange

Source: Prepared by FISCO from the Company's securities report and other Company materials

Is providing high quality maintenance services based on the technologies and expertise it has accumulated

2. Business overview

Based on the business concept of realizing “environmental improvements focused on maintenance,” the Company provides not only repair equipment and devices, but to offer customers pleasant spaces and time and with peace of mind it also proactively proposes preventative maintenance to reduce the occurrences of sudden and unexpected failures, centered on customers operating multiple stores and buildings, such as retailers, food and drink establishments, medical, nursing care and social welfare facilities, and the equipment management industry. Also, in addition to equipment maintenance, the Company’s wide support applies to all equipment issues related to store operations, including work to upgrade equipment and devices, store renovation work, and energy-saving proposals.

The Company has a single business segment, the Maintenance Business, which is comprised of its main businesses of the total maintenance, in which it provides integrated management of all facilities and equipment, mainly for customers operating multiple stores and buildings; the air conditioning maintenance service, in which it provides maintenance services mainly for the air conditioners of customers operating multiple stores; the equipment and environment solutions, in which it proposes, designs, and conducts construction work for energy-saving solutions and other solutions, mainly for schools and hospitals; and the maintenance services, in which it provides maintenance services mainly for large-scale air conditioner equipment in large facilities.

(1) The total maintenance

Through the one-stop, integrated maintenance management of all the stores and business offices of companies with multiple stores and buildings, it realizes cost reductions and environmental improvements. In addition, regular maintenance management, which is one part of the total maintenance, entails conducting inspections from the viewpoint of “preventative maintenance” for building equipment (air-conditioning, electricity, kitchen, fire prevention, water supply and drainage, and sanitation equipment, etc.) to prevent accidents and problems before they occur. It also aims to prolong the useful lives of equipment by always keeping a building’s equipment and devices in the best possible condition.

A feature of the total maintenance is its call centers, which can respond 24-hours-a-day, 365-days-a-year. Operators are always ready to take calls, and the Company conducts total maintenance work for its customers by utilizing its approximately 200 service engineers and its nationwide network comprised of 2,500 collaborative partner companies and various manufacturers. A strength of the Company is that it has established an environment in which its service engineers can respond regardless of the device or the manufacturer. Specifically, it provides a total service that involves not only responding to emergency problems with devices, but also conducting preventive maintenance for other devices through database coordination ascertaining the customer’s equipment details. Furthermore, by dispatching partners, the contractors for maintenance work, to customers’ stores and other buildings, the Company has established a system that enables providing maintenance services throughout Japan and enables it to respond to various customer needs. The Company has a wide range of customers, including retailers; food and drink establishments; event facilities; and medical, nursing care and social welfare facilities that is developed in multiple stores and buildings.

Company overview

Summary of the Total Maintenance

Integrated management of all facilities and of equipment maintenance
Can respond 24-hours-a-day, 365-days-a-year, when a problem occurs
Integrated management, from work attendance through to progress confirmation and invoicing
According to the details of the request received, allocates various personnel from device manufacturers, partner companies, and the Company itself (kitchen equipment, air-conditioning equipment, water supply and drainage equipment, sanitation equipment, signs, electrical equipment, interior and exterior damage related, fire prevention equipment defects, etc.)
Creates an equipment management table based on the maintenance inspection data and repairs history, and manages funds appropriately
Through an online system, can ascertain in real time the repair-arrangement conditions and monetary amounts
Proposes effective measures by analyzing the repairs history and extracting equipment problem points (conducts maintenance inspections and maintenance classes)
Gives advice to new stores on selecting devices and creates measures for optimized device selection and after-sales follow-up maintenance
Through integrated management, including regular cleaning, it conducts all maintenance outsourced management and serves as the single contact point for all facilities and the head office
Realizes cost reductions, including of indirect costs

Source: Prepared by FISCO from the Company's website

(2) The air conditioning maintenance

Since it was founded, the Company has conducted a business focused on maintenance of large air-conditioning equipment (mainly absorption-type chillers and heaters) as a designated manufacturer service store for the Panasonic Group. It currently provides maintenance services nationwide regardless of the equipment manufacturer, mainly of air conditioning and water supply and drainage equipment, primarily to retail customers with many stores. For these services also, the call centers respond to inquiries 24-hours-a-day, 365-days-a-year. The Company provides repair analyses and proposals to reduce the number of repairs and costs, while it also conducts fluorocarbon emission inspections for devices that are subject to the Act on the Rational Use and Proper Management of Fluorocarbons and supports the management of emission amounts of fluorocarbons generated when conducting repairs and at other times.

Summary of the air conditioning maintenance service

	Before an installation	After an installation
Data management	Manufacturers respond for repairs and conduct management through daily reports As manufacturers respond, analysis data is not produced	Integrated management of data for each company Can analyze repair data and conduct a fair analysis as a third party
Fees system	There are price differences between the various companies There are uncertainties, such as the prices of parts	Responds with uniform fees Makes visible the prices of parts
Progress management	Ascertains conditions through a daily Excel report Inspection schedule is notified by postcard	Progress management through an online system Can also confirm the inspection schedule through the online calendar

Source: Prepared by FISCO from the Company's website

(3) The equipment and environment solutions

The Company proposes solutions to save energy and costs and to reduce CO₂, mainly to facilities such as hospitals and schools, and carries out work from design through to construction. The specialist energy staff diagnose the customer's building equipment and devices, clarify the problems points, and propose various and specific solutions for these problem points, including selections of required equipment and improvement values. In addition, it provides information on subsidies that will lead to energy saving and cost reductions and proposes construction projects for new installations and upgrades of air-conditioning equipment and for improvements. It also responds for electrical construction projects alongside installations of equipment and devices and provides proposals to improve electrical equipment.

Company overview

(4) The maintenance services

The Company's specialist engineers provide maintenance support for equipment and devices from various manufacturers regardless of genre and can even undertake maintenance work for the products of overseas manufacturers. The main work includes undertaking manufacturers' front work, work to construct equipment maintenance systems, alliance work for manufacturers' Japanese subsidiaries, and agency work to create technical materials for devices.

The Company accumulates and manages in its own online database the information on incidents that occurred in its customers' various stores and facilities, and conducts data analyses of histories in order to greatly reduce problems, such as responding to emergencies. In addition to the equipment maintenance management costs, this can increase cost-reduction effects by leading to the elimination of profit losses, such as opportunity losses.

As an example of an introduction of maintenance services for an overseas manufacturer's products, the Company provides maintenance services to Electrolux <ELUX>, which is a leading home appliances company whose head office is in Sweden, North Europe, for devices including food-services devices and coin-laundry devices. It also provides technical consultations and remote support for defects to its nationwide sales stores and end users. In addition, should a repair visit be required, it uses its nationwide service network to conduct the repair visit on the shortest possible schedule.

Provides a wide range of high-quality services as “environmental improvements focused on maintenance”

3. Main services

(1) Equipment consulting

With the aim of realizing excellent spaces, the Company provides consulting according to the facilities' scale and business configuration including equipment environment improvements, legal measures, and maintenance management. Its features include that it provides proposals for measures to improve the internal company environment which add value, tailored to the customer's conditions, and that it reduces costs through the total maintenance of equipment.

In terms of equipment consulting, the Company solves problems in facilities by utilizing its expertise and track record through its “equipment proposal capabilities” from various perspectives, including for equipment proposals, measures utilizing laws and regulations. The Company has “the ability to handle energy conservation” through which it provides energy conservation and cost reductions by, for instance, introducing the inverter-control products it handles and converting lighting to LED, as well as energy-saving measures for equipment which are the most important issues for the management of buildings and facilities. In addition, the Company boasts “facility management capabilities” with which it maintains a work environment for comprehensive facility management in place of the owner and the “ability to respond to problems” which is possessed by the Company's call centers. The call centers are highly regarded by customer companies, not just for possessing call center staff, but also maintenance professionals.

(2) Energy conservation and cost reductions

The Company provides energy conservation and cost reductions by utilizing its proprietary systems and expertise in response capabilities, technological capabilities and information capabilities to properly install the optimal equipment and carry out construction as well as maintenance management.

Company overview

a) Response capabilities

Through the proprietary systems in its call centers, the Company can provide collective management for equipment maintenance within all facilities. Furthermore, it can conduct unified management of the process from the moment when operators, who are always on standby 24-hours-a-day, 365-days-a-year, receive the request to dispatching engineers, confirming the progress, and submitting an invoice. Unifying maintenance in this way makes it easier to manage the maintenance histories of each store, and as a result, saves time and effort for managers and contributes to reducing total costs of maintenance and management.

b) Technological capabilities

The Company utilizes its own service engineers and the expertise it has accumulated over many years as a manufacturer designated store to conduct energy-saving projects for devices peripheral to large air-conditioning equipment. It aims to reduce electricity costs through its technological capabilities, controlling wasteful air flow by introducing inverter pumps for air conditioners and limiting the power consumed by outdoor machinery by introducing commercial-use air-conditioning power-saving products.

c) Information proposal capabilities

The Company reduces initial investment costs by providing the knowledge and expertise it has accumulated for environmental improvements of equipment overall to prevent problems before repairs are needed. Specifically, in addition to providing information and preparations made in advance, including proposals to utilize subsidies to fund some of the costs to upgrade and maintain equipment, centralized management of maintenance history and other information can also prevent emergency problems.

(3) Maintenance, management, and construction (maintenance)

In offices, buildings, and condominiums, based on the total maintenance approach, the Company's specialists carry out surveys, analyses, and verifications of the structure of energy consumed by the facilities' equipment such as air-conditioning equipment and lighting equipment, and propose the optimal maintenance and management methods, such as the priority points and cost-reduction measures. In hospitals and facilities for the elderly, the Company proposes collective maintenance management plans tailored to conditions in each facility so as not to cause stress to their users. In hotels, it conducts total building management, including equipment maintenance management, construction, various types of maintenance, and emergency call center reception and dispatch operations. In addition, by prioritizing cost effectiveness and maintenance management cost reductions, it supports facility environments that can provide their users with peace of mind. In commercial facilities and chain stores, it provides a total service for store design planning, construction work, emergency call center reception and dispatch operations, and equipment maintenance management work, mainly for nationwide commercial facilities and chain stores.

(4) Products

The Company handles products to provide total support in facilities, buildings, and equipment maintenance work sites. This includes introductions of inverter controls to reduce wasteful power consumption of pumps that are used with air-conditioning equipment and converting lighting to LED.

Provides maintenance services for all equipment regardless of manufacturer or machine model

4. Strengths

One strength of the Company is that it utilizes the technological capabilities and maintenance expertise it has accumulated as a manufacturer designated store over many years, including air-conditioning maintenance technologies, to provide a total maintenance service, centered on its call centers that operate 24-hours-a-day, 365-days-a-year. Among listed companies, its competitors include Nippon Air Conditioning Services Co., Ltd. <4658> and Shin Maint Holdings Co., Ltd. <6086>. However, compared to these competitors, the Company's strengths include that it has nationwide emergency response capabilities from its in-house service engineers and call centers that operate 24-hours-a-day, 365-days-a-year, and the Company has also moved faster than its competitors in creating systems, including online systems. In addition, the Company is focusing its efforts into personnel training and multi-skills development, and it conducts skills training at a training center adjoining the head office.

One of the Company's strengths is that it contracts in collective equipment management and equipment maintenance management work, including for air-conditioning equipment, water supply and drainage, and sanitation equipment, electrical equipment, fire prevention equipment, security and safety equipment, and kitchen equipment, regardless of the manufacturer or machine model, for companies with many stores and many buildings, centered on retail chain stores and food and drink establishments, which are the Company's main customers. In addition, the Company has 13 centers nationwide, staffed with the Company's service engineers who possess highly-specialized technological abilities, and contracting maintenance partners are also dispatched to customers' stores, thereby putting in place a system that allows the Company to provide maintenance services throughout Japan, and it responds to customers' diverse needs. Moreover, by using the online management system developed in house, customers' store managers are able to ascertain the maintenance status of equipment in real-time, which allows them to lessen the cumbersome hassles in management work. With these strengths, the Company is able to centrally manage many stores and facilities located in many regions, which leads to appropriate cost management for companies with multiple stores and buildings.

Also, the Company has carried out maintenance of air-conditioning equipment manufactured by Panasonic since it was founded, so its strong relationship with the Panasonic Group is a strength. As a manufacturer service designated store of Panasonic Commercial Equipment Systems, which is part of the Panasonic Group, it conducts regular inspections and responds to requests for repairs, including commercial-use, large air-conditioning equipment. In addition, needs for energy saving are rising due to environmental problems. Therefore, we at FISCO think opportunities to capture demand are also broadening through the expansion of the total maintenance services, including installing energy-saving inverters peripheral to large air-conditioning equipment, maintenance of equipment other than large air-conditioning equipment, like electrical equipment and water supply and drainage, and sanitation equipment, and renewal of large-scale equipment. The Company's greatest strength is possibly its circular business model. There is a greater chance of repeat business due to its cycle of equipment design to construction and installation to periodic inspection to maintenance (repairs, maintenance management, operation) and back to equipment design.

Results trends

Net sales recorded new record high, operating income rose 2.6 times due to multi-skills development of engineers

1. Overview of the FY5/23 results

In the FY5/23 consolidated results, net sales increased 27.2% YoY to ¥14,733mn, operating profit increased 160.0% to ¥575mn, ordinary profit increased 157.9% to ¥579mn and profit attributable to owners of parent increased 193.7% to ¥452mn. Social and economic activities headed toward normalization following the easing of restrictions on behavior and other limitations accompanying the spread of COVID-19, and there was an increase in energy-saving construction projects, mainly for hospitals and care facilities for the elderly, that had been temporarily halted due to the pandemic. There was a steady increase in energy-saving construction projects in environment solutions services as a result of efforts to strengthen technical capabilities and sales activities to propose energy-saving and other solutions. Especially energy-saving construction projects for hospitals and care facilities for the elderly began to move after they had been temporarily put on hold due to the supply shortage of equipment and devices caused by COVID-19 and the shortage of semiconductors. Total maintenance performed strongly due to factors including the start of business with a new, large customer in the retails industry. Furthermore, net sales reached a new record as in December 2022 the Company made a consolidated subsidiary of HYOGO KIKO, CO., LTD., a manufacturer of steel fittings such as metal doors, shutters and sashes, and related fixtures work, and purchase and sale of fittings.

From a profit aspect, in addition to an increase in energy-saving construction projects in the high value-added environment solutions services, an increase in the rate of in-house production due to multi-skills development of service engineers and rapid development of new employees due to training on actual equipment at training centers raised productivity, and as a result the gross profit margin increased by 1.8 percentage points (pp) YoY to 23.0%. On the other hand, aggressive recruiting activities to address the expansion of services led to an increase in personnel and other expenses. SG&A expenses increased 25.8%, but this was covered by the increase in gross profit and operating profit was 2.6 times higher YoY. Furthermore, profit attributable to owners of parent was about 3 times higher YoY due to recording gain on bargain purchase of ¥73mn under extraordinary income from a business combination.

FY5/23 consolidated results

	FY5/22		Initial forecast	FY5/23			
	Results	% of net sales		Results	% of net sales	YoY	Vs. initial forecast
Net sales	11,581	-	14,370	14,733	-	27.2%	2.5%
Gross profit	2,454	21.2%	-	3,383	23.0%	37.9%	-
SG&A expenses	2,233	19.3%	-	2,808	19.1%	25.8%	-
Operating profit	221	1.9%	460	575	3.9%	160.0%	25.0%
Ordinary profit	224	1.9%	462	579	3.9%	157.9%	25.4%
Profit attributable to owners of parent	154	1.3%	307	452	3.1%	193.7%	47.5%

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

Results trends

Recognizing that the expansion of human resources is indispensable for business expansion, in FY5/23 the Company recruited over 100 employees including mid-career hires, mainly engineers, despite being in an industry where it is difficult to secure personnel, going into triple-digit hiring for the first time ever. This can be attributed to the steady progress made in initiatives to expand human capital, including 1) human resource development through education and training; 2) securing and retention of human resources through enhanced recruitment and engagement; 3) health and safety; 4) diversity and inclusion; and 5) fairness in the work environment. The Company has been focusing particularly on health management to establish a 24-hours-a-day, 365-days-a-year call center consultation system, and three years ago, announced the Sanki Service Health Declaration. This sets specific numerical targets for the health checkup rate, turnover rate, overtime hours and paid leave utilization rate every year, and has been implementing improvement measures. In recognition of this, the Company was recognized in March 2023 under the 2023 Certified Health & Productivity Management Outstanding Organization large enterprise category under the Certified Health & Productivity Management Outstanding Organizations Recognition Program run by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi.

Until now, the Sanki Service Group had operated under a single segment business, the Maintenance Business, but with the consolidation of HYOGO KIKO, it has added the Construction Products Service Business as a new segment. Results from the Construction Products Service Business is reflected in results from the date of HYOGO KIKO's business combination (deemed acquisition date) on December 20 until the end of the fiscal period on March 31. Segment profit was a loss of ¥44mn due to recording ¥34mn in costs related to the acquisition of stocks in a business combination (advisory expenses, etc.) Furthermore, gain on bargain purchase of ¥73mn was recorded as extraordinary income in the consolidated financial statements. The Company split off from HYOGO KIKO in 1977 and thereafter both companies were involved in business independently. Through this grouping, the Company plans to utilize HYOGO KIKO's technologies related to fixtures and firefighting-related equipment, evolving the services offered by the Group, and cross-selling the existing services and products of both companies to their respective existing customers, enhancing the value of the corporate Group.

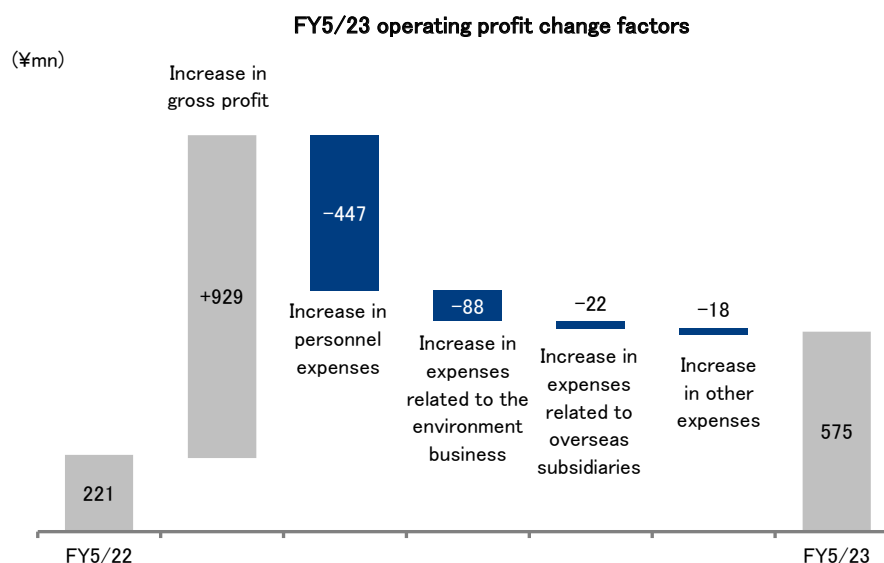
Net sales by segment

	FY5/22 Results	FY5/23	
		Results	YoY
			(¥mn)
Net sales	11,581	14,733	27.2%
Maintenance Business	11,581	14,389	24.2%
Construction Products Service Business	-	343	-
Operating profit	221	575	160.0%
Maintenance Business	221	619	180.1%
Construction Products Service Business	-	-44	-

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

Looking at the factors increasing and decreasing operating profit, gross profit increased ¥929mn due to factors such as improved productivity through the increased rate of in-house production caused by the advance of multi-skilling maintenance engineers in addition to the increased in high added-value, energy-saving construction projects. Meanwhile, SG&A expenses increased ¥575mn due to increases of ¥447mn in personnel and other expenses because of enhanced recruitment, ¥88mn in expenses related to the environment business and ¥22mn in expenses related to overseas subsidiaries.

Results trends



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

2. Net sales by service

For construction projects, net sales increased 34.8% YoY to ¥4,785mn due to increases in energy-saving construction for hospitals and other facilities and construction on existing air-conditioning, etc., and the percentage of total net sales also rose 2.5 pp to 34.0%. For regular projects, net sales increased 16.5% to ¥2,946mn due to starting total maintenance services for a new major business partner and other factors, while the percentage of total net sales decreased 1.4 pp to 21.0%. For repair projects, net sales increased 21.8% to ¥6,323mn and the percentage of total net sales decreased 1.1 pp to 45.0%.

Net sales by type of service

	FY5/21		FY5/22		FY5/23		YoY
	Results	%	Results	%	Results	%	
Construction	2,975	26.5%	3,551	31.5%	4,785	34.0%	34.8%
Regular	2,813	25.0%	2,528	22.4%	2,946	21.0%	16.5%
Repairs	5,450	48.5%	5,190	46.1%	6,323	45.0%	21.8%

Note: Figures on a stand-alone basis

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

3. Trends in percentages of total net sales by customer attributes

Net sales of retail customers, which account for more than 50% of total net sales, increased 13.6% YoY to ¥7,276mn due to starting total maintenance services for a new major business partner and other factors, and the percentage of total net sales dropped 5.0 pp to 51.8%. Others, which centers on the handling of leases, increased net sales by 91.0% to ¥3,743mn, and the percentage of total net sales rose 9.2 pp to 26.6% due to an increase in equipment upgrade construction needed for building maintenance, including energy-saving construction for hospitals, etc., and upgrade construction on large-scale air-conditioning for schools, etc.

Results trends

Percentage of total net sales by customer attribute (stand-alone basis)

	FY5/21		FY5/22		FY5/23		YoY
	Results	%	Results	%	Results	%	
Others (leases, etc.)	1,699	15.1%	1,960	17.4%	3,743	26.6%	91.0%
Medical, nursing, and welfare	349	3.1%	531	4.7%	346	2.5%	-34.8%
Event facilities	45	0.4%	78	0.7%	149	1.1%	91.0%
Equipment, management, and real estate	2,030	18.1%	1,923	17.1%	2,105	15.0%	9.5%
Retail	6,824	60.7%	6,405	56.8%	7,276	51.8%	13.6%
Food and drink	291	2.6%	372	3.3%	435	3.1%	16.9%

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

4. Financial condition

At the end of FY5/23, total assets had increased ¥3,271mn from the end of the previous period to ¥8,353mn. Current assets increased ¥2,897mn to ¥6,952mn. This was mainly due a decrease of ¥247mn in cash and deposits, and increases of ¥2,692mn in notes and accounts receivable - trade and contract assets and ¥342mn in costs on construction contracts in progress. Non-current assets increased ¥374mn to ¥1,400mn, mainly due to increases of ¥83mn in land and ¥93mn in investment securities. Total liabilities increased ¥2,455mn to ¥4,519mn. Of this, current liabilities increased ¥2,024mn to ¥3,575mn, mainly due to increases of ¥920mn in trade payables and ¥415mn in accrued income taxes and consumption taxes. Non-current liabilities increased ¥430mn to ¥943mn, mainly because of an increase of ¥343mn in long-term borrowings. Total net assets increased ¥816mn to ¥3,833mn due to an increase of ¥452mn in profit, dividends paid of ¥88mn, and increases of ¥576mn in capital surplus from share issuance costs from share exchanges and ¥135mn in purchase of treasury shares from share exchanges.

As a result of the above, the equity ratio was 45.9% (59.4% in the previous period). Meanwhile, ROE (Return on Equity) rose to 13.2% (5.2% in the previous period) because of the increase in profit attributable to owners of parent.

Financial condition

	(¥mn)		
	End of FY5/22	End of FY5/23	Increase/decrease
Current assets	4,054	6,952	2,897
Non-current assets	1,026	1,400	374
Total assets	5,081	8,353	3,271
Current liabilities	1,551	3,575	2,024
Non-current liabilities	512	943	430
Total liabilities	2,063	4,519	2,455
Total net assets	3,017	3,833	816

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

■ Outlook

In FY5/24, further growth forecast for environment solutions and total maintenance services

1. FY5/24 outlook

For the FY5/24 consolidated results, the Company is planning net sales to increase 21.5% YoY to ¥17,900mn, operating profit to grow 26.7% to ¥729mn, ordinary profit to rise 26.4% to ¥732mn and profit attributable to owners of parent to increase 3.9% to ¥470mn. It projects ROE of 12.3% (13.2% in the previous period). The Company is planning a new record high in net sales, forecasting continued increases in energy-saving construction in environment solution services and demand for total maintenance services against a backdrop of the likes of abolition of behavioral restrictions due to COVID-19, surging energy costs and rising interest in carbon neutrality and customers' labor shortages, as well as a full-year contribution to results of HYOGO KIKO. Based on the features of total maintenance services, we at FISCO think that the increase in construction projects will increase the regular projects and repair projects and that in the long-term, the Company will develop a stock-type (recurring income-type) earnings structure. The Company is strengthening its organizational structure in such ways as concentrating sales organizations that were previously separated by business segment, such as the environment solutions services, air-conditioning maintenance services and total maintenance services, sharing customer information between business and offering multiple services. The Company's strategy is to raise the rate of repeat business through synergies of each business with a business cycle connecting a start with equipment design, moving on to construction and installation, periodic inspections and maintenance. From a profit aspect, in combination with the expansion in business, the Company is moving forward on par with the previous fiscal year to aggressively recruit human resources focusing on engineers and is increasing the rate of in-house production by strengthening human resource development through multi-skills development, etc.

Average net sales over the past three years at HYOGO KIKO have been ¥1,875mn and operating profit of ¥79mn, and though net sales have varied from ¥1.7bn to ¥2.1bn due to fluctuations in orders, the Company has a strong tailwind to achieve its forecast.

FY5/24 consolidated results outlook

	FY5/23		FY5/24		YoY
	Results	% of net sales	Forecast	% of net sales	
Net sales	14,733	-	17,900	-	21.5%
Operating profit	575	3.9%	729	4.1%	26.7%
Ordinary profit	579	3.9%	732	4.1%	26.4%
Profit attributable to owners of parent	452	3.1%	470	2.6%	3.9%
ROE	13.2%	-	12.3%	-	-

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

Aiming to strengthen the earnings foundation by rebuilding the management base and business base

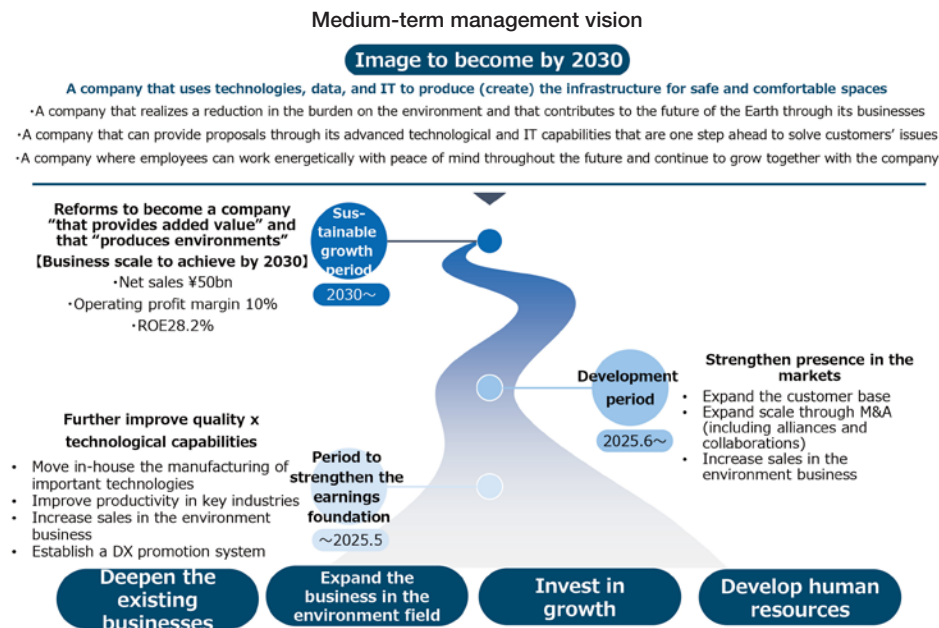
2. The new medium-term management plan SANKI NEXT STAGE 2025

In July 2022, the Company formulated SANKI NEXT STAGE 2025, its new medium-term management plan for FY5/23 to FY5/25. Based on the changes to the business environment due to COVID-19 and other factors, it has positioned the period from FY5/23 to FY5/25 as the period in which to strengthen the earnings foundation for growth in the medium- to long-term, and its policy is to rebuild the management base and the business base.

(1) The medium- to long-term management vision

The image that the Company is aiming to be in 2030 is “a company that uses technologies, data, and IT to produce (create) the infrastructure for safe and comfortable spaces,” “a company that realizes a reduction in the burden on the environment and that contributes to the future of the Earth through its businesses,” “a company that is one step ahead in solving customers’ issues and can provide proposals through its advanced technological and IT capabilities,” and “a company where employees can work energetically with peace of mind throughout the future and continue to grow together with the company.” It has positioned the period from 2030 onwards as the “sustainable growth period” in which it will progress reforms to become a company “that provides added value” and that “produces environments.” It also targeting net sales of ¥50bn, an operating profit margin of 10%, and ROE of 28.2% as the business scale it wants to achieve by 2030.

In order to achieve this vision, its basic policies are “Deepen the existing businesses,” “Expand the business in the environment field,” “Invest in growth,” and “Develop human resources.” It has set the period from FY5/23 to FY5/25 as the “period to strengthen the earnings foundation,” the period from FY5/26 onwards as the “development period,” and the period from 2030 onwards as the “sustainable growth period.”



Source: The Company’s financial results briefing materials

Outlook

(2) Key policies and numerical targets

As the direction that the Company is aiming for, it will increase quality and technological capabilities and shift to become a company that provides total solutions in the vertical direction. Also, as its key policies, in addition to the four policies of expand the business scale (approximately double net sales in the development period from FY5/26 onwards), invest in growth (conduct M&A and strengthen internally), improve added value (increased ROE by 10% in the development period from FY5/26 onwards), and develop human resources (strengthen technological capabilities, sales capabilities, and interpersonal capabilities, and improve work engagement), for its sustainability (ESG) management as well, the Company will contribute to reducing CO₂ and realize health management. As for the business structure, it is anticipated that the percentages of business as a whole constituted by total maintenance and environment solutions will increase, in addition to manufacturers' demand for maintenance services remaining basically unchanged in the future due to improved product performance.

The numerical targets for FY5/25, which is the plan's final fiscal year, are net sales of ¥21,450mn (¥14,733mn in FY5/23) and operating profit of ¥1,034mn (¥575mn in FY5/23).

The new medium-term management plan's numerical targets

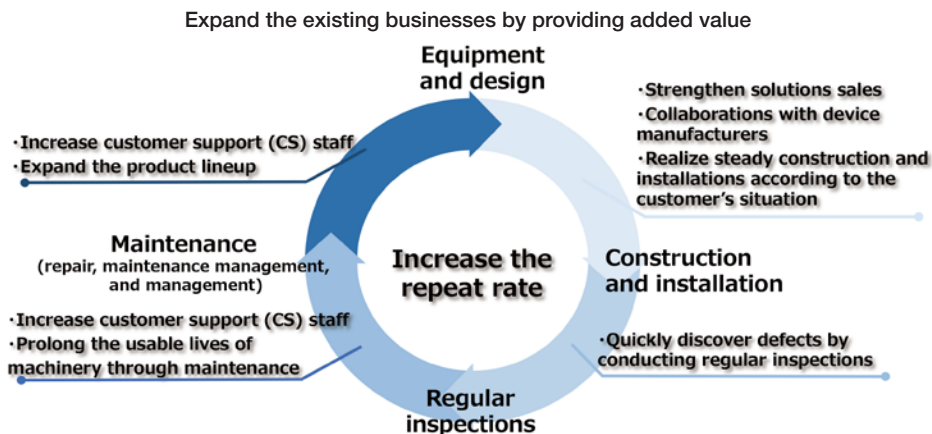
	(¥mn)				
	FY5/22	FY5/23	FY5/24	FY5/25	CAGR (compound annual growth rate)
Net sales	11,581	14,733	17,900	21,450	22.8%
Operating profit	221	575	729	1,034	67.3%

Source: Prepared by FISCO from the Company's news release

a) Expand the business scale

The Company is aiming to approximately double net sales in the development period by expanding the existing businesses by providing added value and expanding the environment business.

Within these efforts, to expand the existing businesses by providing added value, as the image the Company wants to be in 2025, it intends to expand the business areas by utilizing its strength of expertise accumulated up to the present time, and provide support for the future that customers want to be realized through proposals that are one step ahead. Specifically, it will strengthen solution sales so that customers are involved from the equipment design stage, and also steadily rotate the cycle of equipment design, construction, installation, regular inspection, and maintenance, and moreover expand this cycle. It will also collaborate with device manufacturers in order to capture demand for the construction, installation, inspection, and maintenance of devices.



Source: The Company's financial results briefing materials

Outlook

For the expansion of the environment business, as the image the Company wants to be in 2025, it will deepen solutions that have a greater awareness of SDGs, while also proposing high-value-added solutions with a view to being carbon neutral, to make the environment business the third business pillar. Specifically, toward increasing sales of energy-saving systems, it will increase sales not only to large-scale hospitals, but to other industries as well, and it will work to expand and deepen its proposals menu. In order to enhance its ability to propose solutions, it will strengthen human resources in the environment field and increase solutions and staff that can respond to and resolve customers' issues instantly. It will also strengthen subsidy-applications work through registering as an energy management systems business. In addition, as new initiatives, the Company will expand the scope of services, propose replacing heat source and air-conditioning equipment with highly efficient devices (moving from heavy oil to electric use, etc.), and plan horizontal business development into a new industry (distribution centers).

b) Invest in growth

As the image the Company wants to be in 2025, it will invest alongside funding and related (for alliances and M&A) and to strengthen internally, while its policy is also to conduct growth investment, promote DX, and respond to the spread of smart devices and to digitization. Specifically, it intends to strengthen M&A and alliances to execute strategic M&A and acquire knowledge and technologies to make investments. It also plans to strengthen internally by enhancing training content and training facilities, recruiting and developing human resources, and responding to the spread of smart devices and to digitization.

c) Improve added value

The Company is aiming to increase ROE by 10pp during the development period by progressing policies to improve quality and to reduce cost prices. Specifically, its policies are to further promote standardization (setting and spreading the use of quality standards), conduct knowledge sharing and skill transfers (improving labor productivity by making knowledge visible), implement partner policies (strengthening the nationwide network of partner companies), and evolve the call centers (aiming to create a win-win-win situation for the customers, the partner companies, and the Company).

d) Develop human resources

The Company will evolve its human-resources portfolio by working to strengthen the sales system, training and developing in-house specialist engineers. As the image the Company wants to be in 2025, it will develop engineers to make them air conditioning and cooler equipment specialists, while for sales, it will strengthen solutions sales, and for customer support, it will develop and increase staff. In addition, through disseminating the new corporate philosophy and establishing the new personnel system, it intends to discover and develop the next generation of management human resources that are able to work themselves to create new value. It is also promoting knowledge management and strengthening the training system and recruitment.

e) Sustainability management

The Company has set sustainability (ESG) management as one of the key policies in the new medium-term management plan, and it is aiming to contribute to reducing CO₂ and to realize health management. For E (Environment), in FY5/22 it realized a CO₂ reduction of approximately 550,000 units* and contributed to customers' CO₂ reduction targets. It also continues to actively collaborate with other companies, such as for their energy-saving and renewable-energy activities. For S (Social), in order to promote health management, to secure diverse workstyles, and to promote diversity, its policies include increasing the percentage of women in management positions from the current 6% to 12% in the next 5 years. For G (Governance), the Company is building a corporate government system to increase the trust placed in it by society and stakeholders. It is also expanding its scope of application with the aim of being listed on the TSE Prime market.

| * 1 unit is calculated as 14kg of absorbed CO₂. |

■ CSR initiatives

From aspects such as national standards, social conditions, and CSR, needs are rising in society as a whole for energy saving, power saving, and cost reductions. In this situation, the Company proposes and provides full support for cost reductions through its environmental improvements business, not only by investing in new equipment, but also by using existing equipment. The Company is expanding sales of Eco Plate, an energy-saving product that cuts air-conditioning power consumption by 10% to 25% by improving intake air velocity and heat exchange efficiency simply by installing it on air-conditioning intake. Installing one plate is expected to have the effect of reducing CO₂ emissions by the equivalent of about 20 cedar trees yearly.

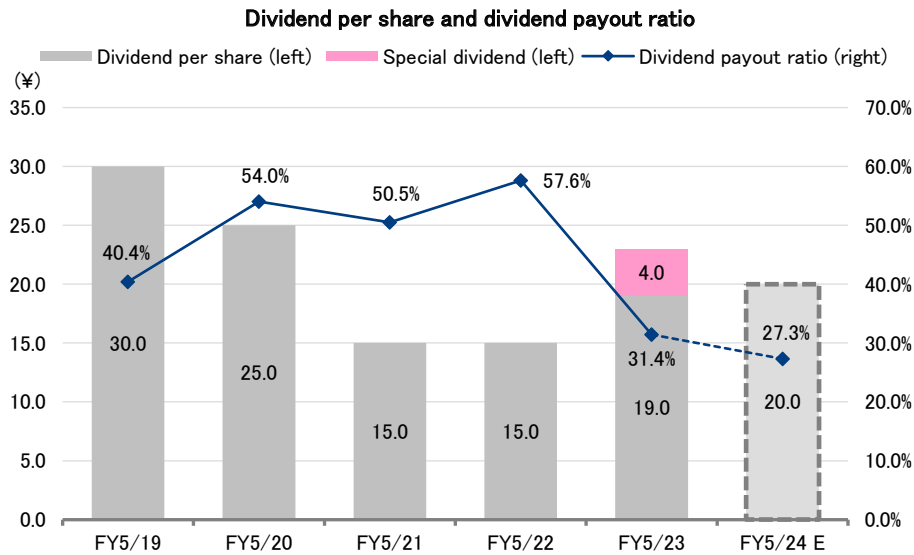
An example of a proposal to reduce equipment costs is the “pump inverter control” solution. It installs inverter controls on pumps to limit the amount of waste water and at the same time reduce power consumption according to the load capacity, thereby achieving energy conservation. Additionally, for “energy-saving consulting,” the Company promotes environmental measures together with customers, centered on handling laws and regulations, providing advice, and energy-saving proposals, and provides them with total support to improve operations and equipment. Moreover, as a “heat source replacement” solution, the Company proposes introductions of heat source equipment and provides advice on utilizing subsidies applied to projects like equipment upgrades. It also proposes designs and recommends ways of selecting products to contribute to saving electricity when introducing LED lighting. From January 2023, the Company has been taking part in the Ecolio Station Project, a circular, recycling energy project that collects and processes fried batter scraps that domestic food manufacturers generate, then converts them into feed, fuel or electricity. The Company plans to be in charge of the installation, maintenance and upkeep of the separators that Ecolio Co., Ltd., planner and operator of environment-related businesses, produced for installation at food manufacturers throughout Japan.

Shareholder return policy

Expects to increase the annual dividend in FY5/24 to ¥20.0, second consecutive increase in dividends

The Company’s basic dividend policy is to actively return profits to shareholders while also maintaining a sound financial structure, and it aims to continuously pay stable dividends. For the dividend in FY5/23, it raised the dividend by ¥3.0 per share to ¥19.0 per share from the previously planned ¥16.0 per share, an increase of ¥1.0 per share compared to the previous year due to a strong performance, and added a special dividend of ¥4.0 per share, making the total dividend ¥23.0 per share, ¥8.0 per share more than the previous year. The dividend payout ratio was 31.4%. For FY5/24 it is forecasting a dividend per share of ¥20.0, an increase of ¥1.0 YoY, for a forecast dividend payout ratio of 27.3% excluding the special dividend.

The Company also implements a shareholder benefits program, and shareholders who are registered in the shareholders’ registry at the end of May each year or have held at least one unit of shares (100 shares) as stated or recorded in the Company’s shareholders’ registry as of May 31 each year receive a QUO card worth ¥1,000.



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



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