COMPANY RESEARCH AND ANALYSIS REPORT

Sanki Engineering Co., Ltd.

1961

Tokyo Stock Exchange Prime Market

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FISCO Ltd. Analyst

Noboru Terashima

FISCO

FISCO Ltd.

https://www.fisco.co.jp

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Summary

In FY3/24, the order backlog was steadily extinguished and operating profit rose 114.2% YoY. Balance carried forward to the next period increased 5.5% YoY and was a record high level

Sanki Engineering Co., Ltd. <1961> (hereafter, "the Company") is an engineering company whose main business is the planning, design, manufacture, supervision, installation, sale and consultation of systems and equipment for construction facilities (mainly HVAC systems) and plant facilities (mainly water and sewage treatment and disposal plants, etc.) in office buildings, schools, hospitals, shopping centers, industrial plants, R&D centers and other facilities. The Company's strengths include comprehensive engineering capabilities across a diverse range of business operations, combined with advanced technology and credibility accumulated over a history of nearly 100 years.

1. FY3/24: Order backlog steadily extinguished as operating profit rose 114.2% YoY and the balance carried forward to the next period was also at a high level

The Company reported FY3/24 results, with net sales of ¥221,920mn (up 16.3% YoY), operating profit of ¥11,586mn (up 114.2%), ordinary profit of ¥12,750mn (up 104.1%) and profit attributable to owners of parent of ¥8,951mn (up 88.4%). The large increase in net sales was from last year's net sales being at a low level due to schedule revisions for some projects and also as a result of steadily carrying out existing projects. The gross profit ratio increased significantly from 14.2% last year to 15.6% due to internal efforts to improve the profit margin and progress on profitable projects. At the same time, the increase in SG&A expenses, at 6.7%, was nearly in line with budgets, so operating profit increased by a large margin YoY. Orders received were firm at ¥232,396mn (up 1.7% YoY), and the balance carried forward to the next period maintained a high level at ¥198,902mn (up 5.6%).

2. Outlook for FY3/25 results: Operating profit forecast to increase 7.9% YoY

For FY3/25, the Company is forecasting ¥210,000mn in orders received (down 9.6% YoY), ¥183,902mn in balance carried over to the next period (down 7.5%), ¥225,000mn in net sales (up 1.4%), ¥12,500mn in operating profit (up 7.9%), ¥13,000mn in ordinary profit (up 2.0%), and ¥8,800mn in profit attributable to owners of parent (down 1.7%). The Company is expecting a gross profit margin of 15.8% (up 0.2ppt), and forecasting SG&A expenses to decrease 0.2%. The Company says nearly 70% of projected sales is expected to come from recording current existing projects, so there is a strong likelihood that this forecast is achieved. In FISCO's view, there is a chance that forecasts are upwardly revised due to orders during the period and the progress of projects going forward.

3. "Century 2025" moves on to the Phase 3 medium-term management plan: Steady progress

The Company announced "Century 2025" in March 2016 as its long-term vision for the 10-year period from FY3/17 to FY3/26, the 100th anniversary of its foundation. To achieve the targets of the vision, the Company has divided the 10-year period into three phases and promoted business strategies based on its medium-term management plans. The ultimate goal of the long-term vision (Phase 3 target), is to be the "Company of Choice" for even more stakeholders. The Company's quantitative targets for the final year, FY3/26, have not changed at this point in time, and are ¥220.0bn in net sales, gross profit margin of 16.5%, ¥12.0bn in ordinary profit, dividend payout ratio of 50% or higher, and ROE of 8.0% or above. The Company has almost achieved these goals in FY3/24 and stated that it is considering revising its plan. We at FISCO believe the important point is how the Company will change qualitatively in areas that cannot be seen, such as improvements in construction quality and productivity, work style reforms and growth investment. The further changes made by the Company going forward will be important to monitor.

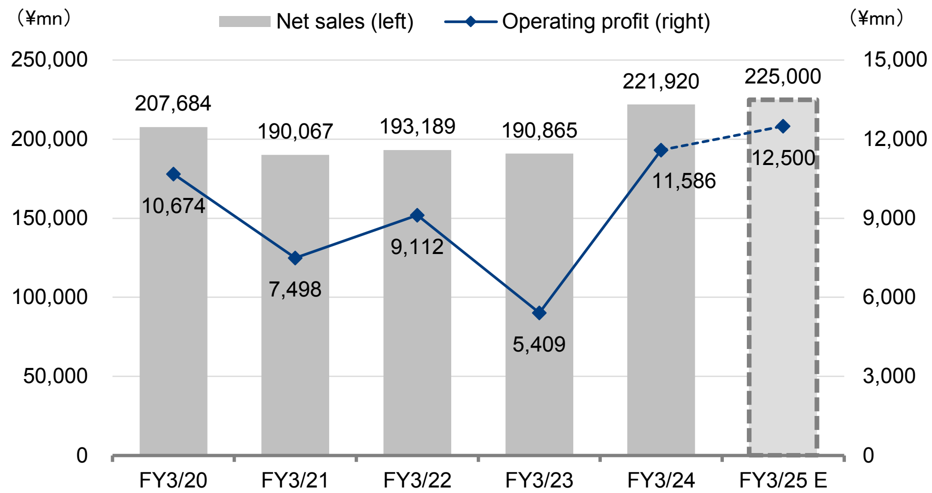
4. Actively returns profit to shareholders: Plans on dividend payout ratio of 51.3% in FY3/25

The Company has proactively conducted shareholder returns with stable dividends up to now, dividend hikes in recent years, and acquisition of treasury stock. The annual dividend (including a ¥5 extra dividend) was ¥75 in FY3/23 and ¥85 in FY3/24 (including a ¥15 extra dividend). With regard to treasury stock, the Company acquired 1,000,000 shares in FY3/22, acquired another 1,500,000 shares in FY3/23 and acquired a further 1,420,000 shares in FY3/24. As a result, the total return ratio over the past ten years (FY3/15 to FY3/24) on a weighted average basis reached 79.4%. For FY3/25, which is ongoing, the Company is planning a regular dividend of ¥85 (forecast dividend payout ratio of 51.3%), and plans to acquire 2,080,000 shares of treasury stock in two years, based on its medium-term management plan. As such, we at FISCO believe the Company is deserving of high marks for its proactive shareholder returns policy, rather than simply aiming to increase operating results.

Key Points

- A facilities construction company affiliated with Mitsui and a domestic leader. Is currently implementing measures to improve its profit margin
- Operating profit in FY3/24 increased 114.2% YoY and an increase of 7.9% is targeted for FY3/25
- Actively returns profits to shareholders. Plans to pay a dividend of ¥85 (dividend payout ratio: 51.3%) in FY3/25. Proactive regarding share buybacks

Results trends



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

Company outline

A comprehensive engineering company conducting the Facilities Construction Business and the Plants & Machinery Systems Business with strengths in advanced technology and credibility cultivated over a long history

Sanki Engineering is a facilities company that was established in 1925 as a spin-off of the machinery division of the former Mitsui & Co., Ltd. The first large projects for the Company started with the Shiga manufacturing plant of Toyo Rayon Co., Ltd. (currently, Toray Industries, Inc. <3402>), and a refrigerated warehouse for Aomori Seihyo Co., Ltd. Initially, the Company engaged in heating, plumbing, and the supply of construction materials. It has subsequently branched out into electrical work, developing integrated facilities construction planning, design and installation as its main operations.

After World War II, the Company steadily grew on robust construction demand and surpassed ¥1.0bn in capital in 1958. In subsequent years, the Company participated in projects undertaken in preparation to host the Tokyo Olympic Games in 1964, and grew in tandem with the expansion of the Japanese economy. The Company diversified from the Facilities Construction Business, such as air-conditioning, plumbing, and electrical systems, into other types of facilities, such as transport equipment, conveyance systems, water treatment facilities and waste treatment facilities. Today, it is a leading comprehensive facilities construction company. The Company's shares were listed on the Tokyo Stock Exchange (TSE) in 1950. Currently it is listed on the TSE Prime market.

Prior to the 90th anniversary of its establishment in FY3/16, the Company announced the "Century 2025" long-term vision headed toward its 100th anniversary in 2025. It completed Phase 1 in FY3/19, and since April 2020, it has been promoting Phase 2, and in FY3/22, it can be said to have mainly achieved the initial targets. The Company entered Phase 3, the final phase of "Century 2025," in FY3/23. The Company's activities going forward to its 100th anniversary in 2025 when this plan ends will be a focus point.

History

1925	Sanki Engineering Co., Ltd. established as a spin-off of the machinery division of the former Mitsui & Co., Ltd.
1935	10th anniversary of its establishment. Had 5 branches, 6 sub-branch offices, 3 affiliated companies, and around 300 employees
1958	Capital exceeded ¥1,000mn
1963	Completed the Sagami Plant (currently, the Yamato Plant)
1964	Participated in projects relating to the Tokyo Olympic Games, including the Yoyogi National Gymnasium, and the NHK Broadcast Center
1982	Newly established Technical R&D Institute in Yamato City, Kanagawa Prefecture, equipped with facilities for basic research and for large-scale experiments
2000	Opened the Shonan Training Center (Yokosuka City, Kanagawa Prefecture) and strengthened human resource development
2011	Relocated its head office to the current location in the Tsukiji area of Tokyo
2016	Announced its long-term vision "Century 2025"
2018	Opened Sanki Techno Center, a comprehensive training and research facility (Yamato City, Kanagawa Prefecture)
2019	Opened the Yamato Product Center, and completed the STeP (Sanki Techno Park) project

Source: Prepared by FISCO from the Company's website, etc.

Business description

Three main segments, particularly strong in industrial HVAC

1. Outline of business by segment

The Company's main businesses come under three segments – Facilities Construction Business, Plants & Machinery Systems Business, and Real Estate Business. Its main activities are design and construction management of various facilities. The Company obtains about half of its orders directly from facility owner clients and half indirectly through general contractors.

Just as the size of the orders varies widely from a few million yen to a few billion yen, the order completion time varies from a few weeks to a few years for longer orders. The profitability of an order varies depending on factors such as labor and material costs and the management construction schedule, and some orders end up more or less profitable than originally planned.

(1) Facilities Construction Business

The Facilities Construction Business engages in activities including planning, design, installation, maintenance, and repair of facilities including office buildings, schools, hospitals, shopping centers, factories, R&D centers, and other facilities. The scope of activities handled by this business is extensive and can be further divided into the following subsegments.

a) HVAC and plumbing for buildings

The HVAC and plumbing for buildings business provides HVAC, water supply and wastewater systems, plumbing, area heating and cooling systems, kitchen systems, and disaster readiness systems for general buildings and facilities, such as office buildings, schools, hospitals, department stores, hotels, and warehouses.

b) Industrial HVAC

The industrial HVAC business provides HVAC for factories and research facilities of all industries, especially clean room systems for semiconductor plants and pharmaceutical and food processing plants, which are areas of strength for the Company, as well as special air-conditioning systems and appurtenances for chemicals manufacturers, and manufacturers of medical equipment and the like, in addition to environmental control systems and so forth for automobile manufacturers. This is a particularly strong field for the Company, partly because of its historical background.

c) Electrical systems

The electrical systems business provides electrical equipment systems, communications-related systems, electrical civil works, and so forth.

d) Facility systems

The facility systems business offers project management and consulting services for the construction or relocation of offices and dealing rooms of financial institutions and other industries. It also provides central monitoring and automatic control systems, internet protocol (IP) solutions, network solutions, business continuity plan (BCP) solutions and other services for large-scale buildings.

(2) Plants & Machinery Systems Business

The Plants & Machinery Systems Business encompasses machinery systems and environmental systems as two subsegments.

a) Machinery systems

The machinery systems business supplies materials handling systems, including various transportation equipment (conveyors, sorting systems, etc.), and conveyance systems for factories and automated warehouses. Demand is centered on private-sector companies and is affected by capital investment trends.

b) Environmental systems

The environmental systems business provides facilities such as for water treatment (including water and sewage treatment and disposal, industrial wastewater disposal, and sludge treatment and incineration), waste treatment (including waste incineration and landfill wastewater treatment), and others. Customers are mainly local government entities and so forth.

(3) Real Estate Business

The Real Estate Business utilizes vacant land, such as former factory sites, and manages the real estate lease business and building management business.

2. Strengths, distinguishing traits, and competitors

(1) Broad business domain and one-stop solutions

Many companies in Japan provide similar facilities construction services, but the Company's strength lies in the wide range of its businesses, which includes HVAC for building, plumbing, industrial HVAC, electrical systems, facility systems, automated control systems for buildings, transportation systems, and water treatment facilities. The Company can provide services for many types of facilities and solutions covering all phases from planning and design to installation, maintenance, repair, and replacement, depending on the life cycle of the building. This capability allows its customers to place one-stop orders to resolve their problems. Making use of "total engineering" and "life-cycle engineering," which combines a wide variety of businesses horizontally, enables the Company to provide optimal systems with high added value, which is its notable feature and the Company's strength.

(2) Top-class technology and high-quality customer base

One of the Company's main strengths is the advanced technology it has accumulated since before World War II, and this top-class technology spans a wide range of fields. Sanki Engineering has earned a reputation for reliability over decades of business, which underpins its extensive, high-quality customer base. This can also be considered a strength of the Company. In addition to its prewar achievements, the Company's involvement in numerous post-war projects, including the construction of facilities for the Tokyo Olympic Games in 1964, has enabled it to obtain orders for recent large projects, such as the ABENO HARUKAS in Osaka and Tokyo Midtown Hibiya.

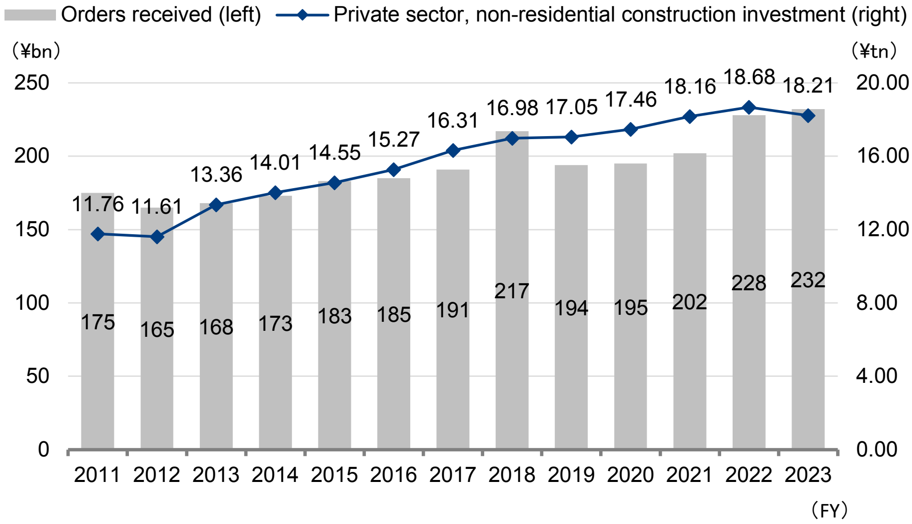
3. Main competitors

Strictly speaking, Sanki Engineering's competitors vary by project, but its main competitors among the comprehensive facilities construction companies are other large companies such as Takasago Thermal Engineering Co., Ltd. <1969>, Shinryo Corporation (unlisted), Dai-Dan Co., Ltd. <1980>, and Taikisha Ltd. <1979>. Compared to these competitors, Sanki Engineering's strengths can be said to lie in its broad business domain and its superiority in industrial HVAC systems, such as clean rooms and other factory air conditioning.

4. Trend in orders received and the economic environment

Orders received is the most important factor affecting results. Annual orders received are thought to be greatly affected by the Company's sales efforts, as well as the overall Japanese market, or the Japanese macro-economy. As the Company's main business is facilities construction, its orders received follows nearly the same trend as the macro indicator of private sector, non-residential construction investment. For this reason, the correlation between orders received and private sector, non-residential construction investment is arguably very high.

Orders received versus private sector, non-residential construction



Source: Prepared by FISCO from the Company's financial results and the Ministry of Land, Infrastructure, Transport and Tourism's "Estimate of Construction Investment"

Business trends

Posted operating profit up 114.2% in FY3/24. Orders received rose 1.7% YoY, while balance carried forward to the next period was the highest level ever

1. FY3/24 results overview

(1) Earnings

The Company reported FY3/24 results, with net sales of ¥221,920mn (up 16.3% YoY), operating profit of ¥11,586mn (up 114.2%), ordinary profit of ¥12,750mn (up 104.1%) and profit attributable to owners of parent of ¥8,951mn (up 88.4%).

Last year's net sales were at a low level due to schedule revisions for some projects, and existing projects were steadily completed, so net sales increased substantially YoY. The gross profit margin improved greatly, from 14.2% the previous year to 15.6% due to internal efforts to capture orders with an emphasis on profitability and improving profits in ongoing construction projects in addition to making progress in high-profitability projects. At the same time, SG&A expenses saw an increase in administrative expenses from higher personnel expenses and higher sales and increased depreciation related to DX investment, but the increase was kept to 6.7%, nearly as budgeted. As a result, operating profit increased by a large margin YoY.

Orders received came to ¥232,396mn (up 1.7% YoY) due to mainstay industrial HVAC performing well and to acquiring large orders for environmental systems. The balance carried forward to the next period was ¥198,902mn (up 5.6%), maintaining a high level.

Looking at the factors behind the change in ordinary profit, gross profit increased by ¥4,395mn due to higher revenue (increase of ¥3,161mn in HVAC for buildings, industrial HVAC and electrical systems, a ¥546mn increase in facility systems, a ¥295mn increase in machinery systems, an ¥211mn increase in environmental systems, and a ¥182mn increase in other business), an increase of ¥3,234mn in gross profit due to improving profit margins (increases of ¥3,062mn in HVAC for buildings, industrial HVAC and electrical systems and of ¥78mn in facility systems, and decreases of ¥124mn in machinery systems, ¥190mn in environmental systems and ¥28mn in other business), a decrease of ¥1,452mn from an increase in SG&A expenses (primarily personnel expenses and IT investment) and an increase of ¥326mn from improvement in the balance of non-operating income and expenses.

FY3/24 results

(¥mn)

	FY3/23		FY3/24		YoY	
	Results	Vs. net sales	Results	Vs. net sales	Amount	Change %
Orders received	228,554	-	232,396	-	3,842	1.7%
Balance carried forward	188,426	-	198,902	-	10,476	5.6%
Net sales	190,865	100.0%	221,920	100.0%	31,054	16.3%
Gross profit	27,012	14.2%	34,642	15.6%	7,629	28.2%
SG&A expenses	21,603	11.3%	23,055	10.4%	1,452	6.7%
Operating profit	5,409	2.8%	11,586	5.2%	6,177	114.2%
Ordinary profit	6,247	3.3%	12,750	5.8%	6,503	104.1%
Profit attributable to owners of parent	4,750	2.5%	8,951	4.0%	4,200	88.4%

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

(2) Earnings by segment

The Facilities Construction Business posted net sales of ¥182,545mn (up 17.2% YoY). By subsegment, net sales from HVAC and plumbing for buildings rose 2.3% to ¥60,729mn as a result of steadily completing existing projects. In the industrial HVAC business, a strength of the Company, an ample order backlog was extinguished centering on semiconductor-related applications, and sales rose significantly to ¥79,658mn (up 35.2% YoY). Electrical systems also steadily eliminated its backlog, centering on large data centers, with sales solid at ¥27,498mn (up 7.1%). Facility systems captured demand associated with office relocations, as sales rose substantially, to ¥14,658 (up 24.4%).

The Plants & Machinery Systems Business reported net sales of ¥182,545mn (up 17.2% YoY). By subsegment, machinery systems posted sales of ¥10,591mn (up 38.3%). This was primarily due to a reversal from the year-earlier period when sales were weak due to fewer orders of conveyance equipment construction projects. The level of sales returned to being generally on par with FY3/23 (¥9,666mn). Environmental systems were solid with sales of ¥26,415mn (up 4.8%). Real Estate Business sales totaled ¥2,482mn (up 0.5%) and Others sales were ¥632mn (up 13.8%).

Regarding profit (gross profit) by segment, the Facilities Construction Business reported ¥28,139mn (up 32.2% YoY). There was a reversal from the year-earlier period when profit declined due to a drop in sales, and it was 15.3% higher than FY3/22. In the subsegments, gross profit for HVAC and plumbing for buildings, industrial HVAC, and electrical systems increased 32.7% to ¥25,275mn, mainly due to ongoing growth in industrial HVAC. Facilities systems posted gross profit of ¥2,863mn (up 27.9%) due to strong sales resulting in higher profit.

The Plants & Machinery Systems Business reported gross profit of ¥5,715mn (up 11.1%), a strong result. By subsegment, machinery systems posted ¥943mn (up 22.2%), a high level of profit growth in conjunction with higher sales. This was mainly the result of the very low level of profit in the year-earlier period due to the impact of rising material prices for mainstay conveyors and other items, resulting in a 40.5% decrease compared to FY3/22. In addition, machinery systems posted a loss on an ordinary profit basis due to an inadequate transfer of rising costs and continuing sluggish profitability. Meanwhile, environmental systems posted a solid result, contributing ¥4,771mn (up 9.2%). Water treatment-related projects performed particularly well. In the Real Estate Business and Others, gross profit was ¥974mn (up 15.5%) and ¥83mn (up 62.7%), respectively.

Net sales and gross profit by segment

(¥mn)

	FY3/23		FY3/24		Change	
	Results	Vs. net sales	Results	Vs. net sales	Amount	%
Net sales	190,865	100.0%	221,920	100.0%	31,054	16.3%
Facilities Construction Business	155,778	81.6%	182,545	82.3%	26,766	17.2%
HVAC and plumbing for buildings	59,392	31.1%	60,729	27.4%	1,336	2.3%
Industrial HVAC	58,933	30.9%	79,658	35.9%	20,725	35.2%
Electrical systems	25,668	13.5%	27,498	12.4%	1,830	7.1%
Facility systems	11,784	6.2%	14,658	6.6%	2,874	24.4%
Plants & Machinery Systems Business	32,861	17.2%	37,007	16.7%	4,145	12.6%
Machinery systems	7,661	4.0%	10,591	4.8%	2,930	38.3%
Environmental systems	25,200	13.2%	26,415	11.9%	1,214	4.8%
Real Estate Business	2,471	1.3%	2,482	1.1%	11	0.5%
Others	556	0.3%	632	0.3%	76	13.8%
Adjustments	-802	-	-747	-	54	-
Gross profit	27,012	14.2%	34,642	15.6%	7,629	28.2%
Facilities Construction Business	21,291	11.2%	28,139	12.7%	6,847	32.2%
Building HVAC, industrial HVAC, and electrical systems	19,052	10.0%	25,275	11.4%	6,223	32.7%
Facility systems	2,239	1.2%	2,863	1.3%	624	27.9%
Plants & Machinery Systems Business	5,143	2.7%	5,715	2.6%	572	11.1%
Machinery systems	772	0.4%	943	0.4%	171	22.2%
Environmental systems	4,370	2.3%	4,771	2.2%	400	9.2%
Real Estate Business	844	0.4%	974	0.4%	130	15.5%
Others	51	-	83	-	32	62.7%
Adjustments	-317	-	-271	-	46	-

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

Orders proceeding steadily; projects getting larger

(3) Orders received by segment

In the Facilities Construction Business, overall orders received fell slightly by 5.8% YoY to ¥183,606mn, but increased by 14.4% compared to FY3/22, thus this can be said to have maintained a high level. By subsegment, HVAC and plumbing for buildings was ¥53,028mn (down 29.1% YoY). This was a reaction to having acquired large projects in 1H FY3/23, and was not cause for pessimism. Orders received for industrial HVAC continued to be high, centering on the semiconductor industry and EV fuel cell-related, so sales were ¥90,636mn (up 16.1%). Electrical systems was ¥25,617mn (down 10.2%). Although performance was down YoY, this was the due to a lull in sales for data centers, which have performed strongly in the past two years, and overall the segment has maintained the high level of the past. Facilities systems had orders received of ¥14,323 (up 7.0%) and continues to perform strongly.

The Plants & Machinery Systems Business reported orders received of ¥46,626mn (up 47.6% YoY), which was strong, and large-scale and long-term orders in environmental systems contributed to this result. By subsegment, machinery systems was decent, with orders received of ¥11,242mn (down 3.5%). Meanwhile, in environmental systems, orders received increased a significant 77.5% to ¥35,383mn. This can be said to be a very high level, as despite a rebound drop in the previous year due to an intentional curbing of orders received to a certain extent based on ample existing projects, it was higher than the level in FY3/22, when large orders were received and orders received totaled ¥21,331mn. In areas other than facilities work segments, orders received in the Real Estate Business totaled ¥2,482mn (up 0.5%) and in Others totaled ¥634mn (up 17.0%).

As a result, total orders received in FY3/24 (including adjusted amounts) was ¥232,396mn (up 1.7% YoY), and balance carried forward to the next period at the end of FY3/24 was ¥198,902mn (up 5.6%). By sector, automobile, medicine, machinery, finance and insurance, and government agencies also showed high growth.

Orders for large-scale projects (orders exceeding ¥1.0bn) included 16 projects totaling ¥69,786mn. Order volume declined from 25 projects in the previous period to 16 projects, but the order value increased 10.6% YoY, and the average value per deal was ¥4,362mn (compared to ¥2,524mn in the previous period), which shows that projects have gotten larger.

Orders received by segment

(¥mn)

	FY3/23		FY3/24		Change	
	Results	Vs. net sales	Results	Vs. net sales	Amount	%
Orders received	228,554	100.0%	232,396	100.0%	3,842	1.7%
Facilities Construction Business	194,809	85.2%	183,606	79.0%	-11,203	-5.8%
HVAC and plumbing for buildings	74,802	32.7%	53,028	22.8%	-21,773	-29.1%
Industrial HVAC	78,082	34.2%	90,636	39.0%	12,554	16.1%
Electrical systems	28,542	12.5%	25,617	11.0%	-2,924	-10.2%
Facility systems	13,383	5.9%	14,323	6.2%	940	7.0%
Plants & Machinery Systems Business	31,583	13.8%	46,626	20.1%	15,042	47.6%
Machinery systems	11,654	5.1%	11,242	4.8%	-411	-3.5%
Environmental systems	19,929	8.7%	35,383	15.2%	15,454	77.5%
Real Estate Business	2,471	1.1%	2,482	1.1%	11	0.5%
Others	542	0.2%	634	0.3%	92	17.0%
Adjustments	-853	-	-953	-	-	-

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

Breakdown of large-scale projects with orders exceeding ¥1.0bn

(projects)

	FY3/22	FY3/23	FY3/24
Offices	3	6	2
Factories	7	6	10
Research institutes	2	3	1
Other building interiors	5	2	-
Multipurpose building	1	1	-
Hospitals and clinics	1	1	-
Retail outlets	1	-	-
School buildings and auditoriums	-	2	-
Public halls and cultural centers	1	-	-
Hotels and inns	-	1	-
Railway and airport facilities	-	1	-
Waste processing facilities	2	-	2
Water and sewage treatment plants	2	2	1
Total	25	25	16
Amount (¥mn)	47,103	63,103	69,786

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

Accounts receivable and income taxes payable increased as a reflection of the strong results

2. Financial condition

Looking at the Company's financial condition at the end of FY3/24, current assets totaled ¥131,564mn (up ¥16,052mn compared to the end of FY3/23). This was mainly due to a decrease of ¥1,449mn in cash and deposits and a decrease of ¥3,000mn in investment securities, along with an increase of ¥20,407mn in sales receivables (notes and accounts receivable, electronic record claims, notes and accounts receivable on completed construction contracts and other and contract assets). Noncurrent assets were ¥70,596mn (up ¥13,803mn). This was primarily because of a decrease of ¥71mn in property, plant and equipment due to depreciation, a decrease of ¥257mn in intangible assets, and an increase of ¥14,131mn in investments and other assets due to an increase in investment securities. As a result, total assets at the end of FY3/24 were ¥202,161mn (up ¥29,856mn).

Current liabilities were ¥81,597mn (up ¥11,947mn compared to the end of FY3/23). This was mainly due to increases of ¥7,698mn in accounts payable (accounts payable on construction contracts, including electronic record liabilities) and ¥3,505mn in income taxes payable and decreases of ¥288mn in short-term loans payable and of ¥969mn in contract liabilities. Noncurrent liabilities were ¥15,941mn (up ¥4,199mn), with the main factors including an increase of ¥974mn in long-term loans payable, a decrease of ¥504mn in liability for retirement benefits, and an increase of ¥4,033mn in deferred tax liabilities. As a result, total liabilities at the end of FY3/24 were ¥97,539mn (up ¥16,147mn). Total net assets totaled ¥104,621mn (up ¥13,707mn), mainly due to an increase of ¥2,718mn in retained earnings due to recording net profit, a decrease of ¥295mn in treasury shares accompanying retirement of shares, and a ¥9,063mn increase in unrealized gains on securities. As a result, the equity ratio at the end of FY3/24 was 51.7% (versus 52.6% at the end of FY3/23).

Balance sheet

(¥mn)

	FY3/23	FY3/24	YoY change
Cash and deposits	24,949	23,500	-1,449
Investment securities	4,000	1,000	-3,000
Notes and accounts receivable on completed construction contracts and other, contract assets, and electronic record claims	77,141	97,549	20,407
Current assets	115,512	131,564	16,051
Tangible noncurrent assets	13,037	12,966	-71
Intangible noncurrent assets	2,302	2,045	-257
Investments and other assets	41,453	55,584	14,131
Noncurrent assets	56,793	70,596	13,803
Total assets	172,305	202,161	29,856
Accounts payable on construction contracts, electronic record liabilities	36,741	44,439	7,698
Short-term loans payable	6,674	6,386	-288
Income taxes payable	839	4,344	3,505
Contract liabilities	15,027	14,058	-969
Current liabilities	69,649	81,597	11,947
Long-term loans payable	1,400	2,374	974
Liability for retirement benefits	3,861	3,357	-504
Deferred tax liabilities	64	4,097	4,033
Noncurrent liabilities	11,742	15,941	4,199
Total liabilities	81,392	97,539	16,147
Total net assets	90,913	104,621	13,708

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

3. Cash flow conditions

In FY3/24 net cash provided by operating activities was ¥1,285mn. The main inflows included profit before income taxes of ¥13,157mn, depreciation of ¥1,919mn, and a ¥7,671mn increase in trade payables, while the main outflows were an increase of ¥20,326mn in trade receivables and contract assets. Net cash provided in investing activities was ¥3,174mn. The main inflows included ¥3,000mn from the proceeds from redemption of securities (net). Net cash used in financing activities was ¥6,069mn. The main inflow was ¥674mn in proceeds from long- and short-term loans payable, and the main outflows were ¥2,549mn for the purchase of treasury shares, and ¥4,083mn for dividends paid.

Cash and cash equivalents hence increased ¥1,449mn in FY3/24 to a period-end balance of ¥23,500mn.

Statement of cash flows

(¥mn)

	FY3/23	FY3/24
Cash flows from operating activities	-10,584	1,285
Profit before income taxes	6,935	13,157
Depreciation	1,511	1,919
Change in trade receivables and contract assets (- indicates increase)	-10,328	-20,326
Change in notes and accounts payable on construction contracts and other (- indicates decrease)	-3,793	7,671
Cash flows from investment activities	-969	3,174
Redemption of securities (net)	0	3,000
Cash flows from financing activities	-8,327	-6,069
Change in short- and long-term loans payable (net)	-1,132	674
Purchase of treasury shares	-2,347	-2,549
Cash dividends paid	-4,743	-4,083
Change in cash and cash equivalents (- indicates decrease)	-19,829	-1,449
Cash and cash equivalents at end of period	24,949	23,500

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

Outlook

For FY3/25, operating profit expected to rise 7.9% as existing projects are completed

For FY3/25, the Company is forecasting orders received of ¥210,000mn (down 9.6% YoY), ¥183,902mn in balance carried over to the next period (down 7.5%), net sales of ¥225,000mn (up 1.4%), operating profit of ¥12,500mn (up 7.9%), ordinary profit of ¥13,000mn (up 2.0%), and profit attributable to owners of parent of ¥8,800mn (down 1.7%).

The gross profit margin is expected to be 15.8% (a 0.2 percentage point increase YoY) and SG&A expenses are projected to fall by 0.2%. The Company says nearly 70% of projected sales is expected to come from recording current existing projects, so there is a strong likelihood that this forecast will be achieved. Depending on orders this term and the progress of projects going forward, FISCO believes there is a possibility that forecasts will be upwardly revised. Orders received are expected to decline YoY, but this is less to say that projects will go away or decrease than to say the past few years have been strong and the balance carried forward to the next period is at a high level, so the Company appears to be taking a cautious view.

In the Facilities Construction Business, the Company is forecasting net sales of ¥181,000mn (up 0.9% YoY). By subsegment, HVAC and plumbing for buildings is expected to rise 10.3% to ¥67,000mn as progress is made on existing projects. Industrial HVAC is expected to see sales decline by 4.6% to ¥76,000mn partly because sales were so high the previous term. It is true revenue will decline, but sales are expected to remain higher than building HVAC. Electrical systems are expected to drop 9.1% YoY to ¥25,000mn as systems for data centers run their course, but the level itself is high. Facility systems are projected to decrease 11.3% to ¥13,000mn even though orders will be solid.

Net sales in the Plants & Machinery Systems Business are forecast at ¥42,000mn (up 13.5% YoY). By subsegment, machinery systems are expected to see a recovery in material handling related applications, with sales expected to rise 32.2% to ¥14,000mn. Environmental systems are expected to see sales increase 6.0% to ¥28,000mn as progress is made on large-scale projects ordered in the previous fiscal year. The Real Estate Business and Others are expected to increase to ¥2,500mn (up 0.7%) and decrease to ¥600mn (down 5.1%) respectively and so stay nearly in line with the previous year.

Orders received are expected to be ¥210,000mn (down 9.6% YoY) due to the past two years being strong and existing projects being at a high level, but they are still projected to top the ¥200,000mn mark. In the mainstay Facilities Construction Business, the Company is expecting a figure of ¥172,000mn (down 6.3%) after the high levels of the prior two years. By subsegment, HVAC and plumbing for buildings is expected to increase 20.7% YoY to ¥64,000mn partly because it was at a low level the previous year, but industrial HVAC is projected to decline 22.8% to ¥70,000 due in part to the high level the previous year. Electrical systems are projected to decline 2.4% to ¥25,000mn, but the level is high. Facility systems is also expected to be down 9.2% with a forecast of ¥13,000mn, but projected to maintain a high level on a par with FY3/23. In the Plants & Machinery Systems Business, orders received are expected to be ¥36,000mn (down 22.8% YoY). By subsegment, machinery systems are expected to perform solidly centering on material handling related applications, with orders received expected to rise 15.6% to ¥13,000mn. Environmental systems are expected to see orders received decrease by 35.0% to ¥23,000mn in reaction to large projects the previous term, but compared to the past, the level is not bad. Orders received in the Real Estate Business and Others category are expected to be nearly the same as the previous year, increasing to ¥2,500mn (up 0.7%) and declining to ¥600mn (down 5.4%) respectively.

The gross profit margin is expected to increase slightly YoY to 15.8%. Along with the contribution from improving the profit margin of projects ordered in the previous fiscal year, the Company continues to conduct rigorous construction management and so is expecting improvement. Gross profit is expected to be ¥35,500mn (up 2.5% YoY). SG&A expenses are expected to mark time with the previous term at ¥23,000mn (down 0.2%). Though increases in personnel expenses from work style reforms and DX investment are expected, the Company is planning to reduce other administrative expenses. As a result, operating profit is projected to increase 7.9% to ¥12,500mn.

FY3/25 forecast

(¥mn)

	FY3/24		FY3/25		Change	
	Results	Component ratio	Forecast	Component ratio	Amount	%
Orders received	232,396	100.0%	210,000	100.0%	-22,396	-9.6%
Facilities Construction Business	183,606	79.0%	172,000	81.9%	-11,606	-6.3%
HVAC and plumbing for buildings	53,028	22.8%	64,000	30.5%	10,972	20.7%
Industrial HVAC	90,636	39.0%	70,000	33.3%	-20,636	-22.8%
Electrical systems	25,617	11.0%	25,000	11.9%	-617	-2.4%
Facility systems	14,323	6.2%	13,000	6.2%	-1,323	-9.2%
Plants & Machinery Systems Business	46,626	20.1%	36,000	17.1%	-10,626	-22.8%
Machinery systems	11,242	4.8%	13,000	6.2%	1,758	15.6%
Environmental systems	35,383	15.2%	23,000	11.0%	-12,383	-35.0%
Real Estate Business	2,482	1.1%	2,500	1.2%	18	0.7%
Others	634	0.3%	600	0.3%	-34	-5.4%
Adjustments	221,920	100.0%	225,000	100.0%	3,080	1.4%
Facilities Construction Business	182,545	82.3%	181,000	80.4%	-1,545	-0.9%
HVAC and plumbing for buildings	60,729	27.4%	67,000	29.8%	6,271	10.3%
Industrial HVAC	79,658	35.9%	76,000	33.8%	-3,658	-4.6%
Electrical systems	27,498	12.4%	25,000	11.1%	-2,498	-9.1%
Facility systems	14,658	6.6%	13,000	5.8%	-1,658	11.3%
Plants & Machinery Systems Business	37,007	16.7%	42,000	18.7%	4,993	13.5%
Machinery systems	10,591	4.8%	14,000	6.2%	3,409	32.2%
Environmental systems	26,415	11.9%	28,000	12.4%	1,585	6.0%
Real Estate Business	2,482	1.1%	2,500	1.1%	18	0.7%
Others	632	0.3%	600	0.3%	-32	-5.1%
Adjustments	-747	-	-1,100	-	-353	-
Gross profit	34,642	15.6%	35,500	15.8%	858	2.5%
SG&A expenses	23,055	10.4%	23,000	10.2%	-55	-0.2%
Operating profit	11,586	5.2%	12,500	5.6%	914	7.9%
Ordinary profit	12,750	5.8%	13,000	5.8%	250	2.0%
Profit attributable to owners of parent	8,951	4.0%	8,800	3.9%	-151	-1.7%

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

Medium-term management plan

Entered Phase 3, the final stage of "Century 2025" and target values are unchanged

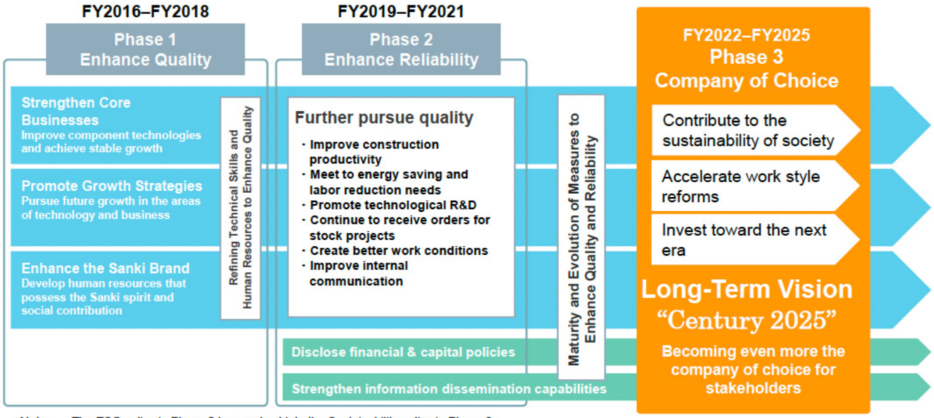
1. What is the "Century 2025" long-term vision?

In March 2016, the Company announced the long-term vision "Century 2025," which covers the 10-year period until the 100th anniversary of its establishment. The first three years of this plan (FY3/17 to FY3/19) are Phase 1, the next three years (FY3/20 to FY3/22) are Phase 2, and the final four years (FY3/23 to FY3/26) are Phase 3. In each phase, the Company has set various qualitative and quantitative goals, and it can be said to have mainly achieved these up to the completed Phase 2. The Company has entered Phase 3, starting from FY3/23, which is the finishing phase of "Century 2025."

2. Basic policy of Phase 3

Phase 3 is the finishing medium-term plan for the long-term vision "Century 2025." The basic policy of the plan is to further mature and evolve its existing strategies for increasing quality and reliability, adding the three new strategies of "contribute to the sustainability of society," "accelerate work style reforms," and "invest toward the next era," aiming to be the "Company of Choice" for even more stakeholders.

Overview of Phase 3 measures



Note: The ESG policy in Phase 2 has evolved into the Sustainability policy in Phase 3

Source: The Company's "Status of Business Progress in the Medium-Term Management Plan"

3. Phase 3 results and management targets

● "Century 2025" final year results and management targets

The Company's quantitative targets for the final year, FY3/26, are net sales of ¥220.0bn, a gross profit margin of 16.5%, ordinary profit of ¥12.0bn, a dividend payout ratio of 50% or higher, and ROE of 8.0% or higher. The Company has almost achieved these goals in FY3/24 and stated that it is considering revising its plan. We at FISCO believe that what is important is not just simply attaining the quantitative targets, but also how the Company goes about making qualitative changes that are out of sight, including construction quality and productivity enhancements, work style reforms, and growth investments.

Phase 3 (FY3/26) results targets

(¥bn)

	FY3/26
Net sales	2,200
Gross profit	360
(%)	16.5%
Ordinary profit	120
(%)	5.5%

Source: Prepared by FISCO from the Company's "Status of Business Progress in the Medium-Term Management Plan"

Phase 3 (FY3/26) management targets

Ordinary profit margin	5.0% or above (final year)
Dividend policy	Dividend payout ratio of 50% or above Annual dividend of ¥70 or above per share
Acquisition of treasury stock	Approximately 5,000,000 shares*
ROE	8.0% or more
Growth investment	Approximately ¥20.0bn*

* Accumulative over the period of the plan
Source: Prepared by FISCO from the Company's "Status of Business Progress in the Medium-Term Management Plan"

4. Phase 3 KPI

As KPIs for Phase 3, the Company has newly established the targets as follows.

(1) Facilities Construction Business

- Analyze the root cause of problems/complaints (within 5 years after the completion of construction): 100%, report the results of root cause analysis: 4 times/year
- Develop digital and robotic technologies related to construction: 5 projects/year, actual cases of application of developed technology: 5 projects/year

(2) Facility Systems Business

- Orders received for consulting/facility engineering: ¥400mn
- Orders received related to NeWSICT (Next Work Style with ICT): ¥500mn
- Orders received for project management and construction work stemming from consulting-related activities: ¥2.1bn

(3) Machinery Systems Business

- Net sales of robot systems: ¥5.0bn (cumulative)

(4) Environmental Systems Business

- Orders received (cumulative): AEROWING ¥3.6bn; G3 decanter centrifuge ¥2.0bn; fluidized bed incinerator 2 units

(5) E (environment)

- Scope 1 and 2: 40% reduction in CO_2 emissions from FY2020 levels
- Scope 3: 10% reduction in CO_2 emissions from FY2020 levels
- Reduce CO_2 emissions based on the SANKI YOU Eco Contribution Point system by an additional 30% compared to the 3-year average for FY2018-2020

(6) S (society)

- Rate of childcare leave taken: Men 50%, women 100%
- Ratio of women in managerial positions in April 2026: 3.0%

(7) Others

- Investments for the next era (decarbonization technology, energy-saving and labor-reduction technologies, LCE business, digital transformation (DX)): ¥20.0bn

5. Phase 3 results targets and progress

As of the completion of FY3/24, the progress on each quantitative target discussed above is as shown in the table below. Because Phase 3, the final stage, is four years long, the ongoing FY3/25 marks the second half. As some results have already exceeded targets, it can be said that progress towards these targets is solid at the current point in time.

Phase 3 targets and results

(¥bn)

	FY3/26 Final target	FY3/24 Results	Difference
Net sales	220.0	221.9	1.9
Gross profit	36.0	34.6	-1.4
(%)	16.5%	15.6%	-0.9pt
Ordinary profit	12.0	12.7	0.7
(%)	5.5%	5.7%	0.2pt

	Phase 3 targets FY3/23 - FY3/26	FY3/24 Results
Ordinary profit margin	5.0% or above (final year)	5.7%
Dividend policy	Dividend payout ratio of 50% or above Annual dividend of ¥70 or above per share	Dividend payout ratio 51.3% ¥85
Acquisition of treasury stock	Approximately 5,000,000 shares*	1.42 million shares (Cumulative total of 2.92 million shares)
ROE	8.0% or higher	9.2%
Growth investment	About ¥20.0bn*	¥2.7bn (Cumulative total of ¥5.9bn)

* Accumulative over the period of the plan
Source: Prepared by FISCO from the Company's "Status of Business Progress in the Medium-Term Management Plan"

Making progress on initiatives leading up to the final stage of the medium-term management plan

6. Update on progress of measures

Update on progress of key measures is as follows.

(1) Topics by segment

1) Facilities Construction Business

- Focused on projects for semiconductor and EV battery manufacturing facilities to build a legacy for the future
- Implemented initiatives in reducing overtime work by improving on-site operational efficiency with DX
- Developed next-generation cleanrooms for semiconductor and EV battery manufacturing facilities
- Established Design & Engineering Division to respond to larger-scale projects and special projects

2) Facility Systems Business

- Expand consulting service offerings
- Strengthened the total integration business of ICT
- Expand on-site information and communication infrastructure business
- Improved productivity in the office design operation in collaboration with a startup company

3) Machinery Systems Business

- Cultivated the automation and labor-saving market using technologies such as AI, IoT and robots
- Expand sales of sorting systems for the logistics market. Exhibited Branch Ball, a three-way sorting system, at the Smart Logistics EXPO 2024
- Developing new services aimed at expanding capacity in collaboration with a startup company
- Built a cleanroom in the Yamato Product Center, and started development and manufacturing of high-value-added products

4) Environmental Systems Business

- Concluded a basic agreement and a basic contract with the Tokyo Metropolitan Government Bureau of Sewerage with respect to a project at the largest water reclamation center in Japan, Morigasaki Water Reclamation Center Digestion Gas Power Generation Project. A project to generate power and secure hot water for heating digestion tanks through effective use of digestion gas (methane concentration of around 60%) generated from sewage sludge, a biomass resource. Sanki was selected as a contractor based on the DBO* method.
- Carried out restructuring of Group companies' businesses
- Private water and wastewater business, chemical engineering business, and sludge recycling business of Sanki Kako Kensetsu Co., Ltd. were transferred to Sanki Kankyo Service Co., Ltd. These two companies will enhance their respective expertise and aim to grow as companies having competitive advantage and operating more efficiently. At the same time, their respective trade names were changed as follows.

Sanki Kako Kensetsu Co., Ltd. → Sanki Greentech Co., Ltd.
Sanki Kankyo Service Co., Ltd. → Sanki Acquatech Co., Ltd.

* DBO (Design Build Operate): a method of engaging a single private contractor to undertake the entire task of designing, construction, operation, and maintenance.

(2) Technological Development

- Developed a BIM (Building Information Modeling) computation coordination platform for realizing automated labor-saving process of technical computing linked to BIM data
- Developed sewage biomarker sensors for real-time monitoring of infectious disease trends: Selected to continue in FY3/24 by the Ministry of Land, Infrastructure, Transport and Tourism for its B-DASH Project (Feasibility Study)
- Conducted research on the use of insects to convert sewage sludge into feed and fertilizer: Selected by the Ministry of Land, Infrastructure, Transport and Tourism for its FY2023 applied research in sewerage
- Continuous sterilization device and continuous sterilization method: Received the Chugoku Bureau of Economy, Trade and Industry Director's Award of the Chugoku Region Invention Awards for FY2023

(3) Sustainability

1) Environment

- Expanded recipients of support under the SANKI YOU Eco Contribution Point System: Planted trees in Wakayama, Shiga, and Kumamoto prefectures
- Named to CDP's Climate Change A List company (highest rating) for the second consecutive year, in recognition for outstanding initiatives and information disclosure on climate change
- Continued participation in the Ministry of Environment's 30by30 Alliance for Biodiversity
- Started operation of renewable energy (solar power) PPA business for the Sanki Techno Center and Yamato Product Center
- Started application process for obtaining SBT* accreditation

* Science Based Targets (SBT) are targets certified by the Science Based Targets initiative (SBTi), an international initiative, for reducing greenhouse gas emissions in line with the Paris Agreement goals to limit the global average temperature increase to 1.5°C above pre-industrial levels

2) Society and People

- Raised salary levels and increased allowances
- Formulated SANKI DX Vision and obtained certification as a DX-certified operator
- Continued to support environmental conservation in Antarctica: Dispatched 20 employees to the initiative since FY1991

3) Governance

- Action taken to implement management that is conscious of cost of capital and stock price as required by the Tokyo Stock Exchange: Disclosure of the cost of shareholders' equity
- Started operation of BCMS* in the 5 domestic subsidiaries

* BCMS: Business Continuity Management System

4) Invest toward the Next Era (human resources, DX, R&D, etc.)

- Launched capital investment both in Japan and overseas for the strategic product AEROWING, an aeration system
- Started operation of the cleanroom installed inside the Yamato Product Center to develop conveyors
- Made capital investments for decarbonization based on Sanki's carbon neutral declaration (These represented a total investment of ¥5.9bn out of the total 4-year investment budget of ¥20.0bn.)
- Launched the Earth MIRAI Project to explore new technologies: Called for applications from employees, with 122 employees applying

Shareholder return policy

Paid a dividend of ¥85 and acquired 1,420,000 shares of treasury stock in FY3/24. Total return ratio of 86.7% (weighted average) over the past 10 years

The Company actively returns profits to shareholders. While its basic annual dividend was ¥15 through FY3/14, a change in profit structure prompted a dividend increase beginning in FY3/15. In FY3/22 it paid an annual dividend of ¥85 (including an extra dividend of ¥15), and in FY3/23 it provided an annual dividend of ¥75 (including an extra dividend of ¥5). For the completed FY3/24, paid an annual dividend of ¥85 (including an extra dividend of ¥15, payout ratio of 51.3%). The Company is planning to pay a regular dividend of ¥85 (expected payout ratio of 51.3%) for FY3/25 in progress.

Additionally, the Company actively acquires its own shares in the market and retires them. In FY3/20, it acquired 1,958,000 shares and retired 2,000,000 shares of treasury stock. In FY3/21, it acquired 1,000,000 shares and retired 1,000,000 shares of treasury stock. In FY3/22, it acquired 1,000,000 shares of treasury stock. In FY3/23, it acquired 1,500,000 shares and retired 1,500,000 shares of treasury stock. For FY3/24, the Company acquired 1,420,000 shares and retired 1,500,000 shares of treasury stock. With these shareholder returns, the Company's total return ratio over the past 10 years (weighed average of FY3/15 to FY3/24) was 86.7%. There are no plans to acquire treasury stock in FY3/25 in progress, but if the above medium-term management plan is carried out, around 2,080,000 shares are expected to be bought back in the remaining two years.

The Company actively responds to stakeholders other than shareholders. For the payment terms for partner companies, it had required entirely cash payments for partner companies with capital of less than ¥40.00mn from FY3/20, and for suppliers with capital of ¥40.00mn or more who received invoices after November 2022, it also shortened payment terms from 120 days to 60 days.

We at FISCO think the Company should be favorably assessed for its positive stance on shareholder returns and relationships with various stakeholders.

Shareholder returns

(¥mn)

	Acquisition of treasury stock		Total dividend amount (B)	Amount of shareholder returns (C)=(A)+(B)	Profit attributable to owners of parent
	Number of shares	Amount (A)			
FY3/24	1,420,000	2,549	4,560	7,109	8,951
FY3/23	1,500,000	2,347	4,132	6,479	4,750
FY3/22	1,000,000	1,438	4,773	6,211	6,489
FY3/21	1,000,000	1,171	4,568	5,739	5,901
FY3/20	1,958,000	2,899	5,543	8,442	7,576
FY3/19	1,000,000	1,191	3,595	4,786	9,046
FY3/18	3,000,000	3,679	2,136	5,815	3,906
FY3/17	0	0	1,906	1,906	4,698
FY3/16	0	0	1,906	1,906	5,327
FY3/15	2,000,000	1,604	1,270	2,874	2,461
			Total	51,267	59,105
			Total return ratio (weighed average)		86.7%

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

Disclaimer

■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp