COMPANY RESEARCH AND ANALYSIS REPORT

SANKI SERVICE CORPORATION

6044

Tokyo Stock Exchange Standard Market

16-Dec.-2024

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Summary

For FY5/24, record high net sales from the strong performance of total maintenance services and other services

1. Company overview

SANKI SERVICE CORPORATION <6044> (hereafter, also "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 FY5/24

In the FY5/24 consolidated results, the Company posted higher sales and profits year-on-year (YoY). Net sales increased 31.9% YoY to ¥19,430mn, operating profit increased 28.1% to ¥736mn, ordinary profit increased 31.0% to ¥758mn and profit attributable to owners of parent increased 3.3% to ¥467mn. With the exception of profit attributable to owners of parent, the Company achieved all its forecasts. Net sales were 108.6% of the Company's forecast, operating profit 101.0%, ordinary profit 103.7%, and profit attributable to owners of parent 99.6%. Net sales hit a new high and profit attributable to owners of parent was the second-highest on record. The Company posted double-digit growth in net sales, supported by steady orders for total maintenance services and air conditioning equipment upgrade work, and by a large contribution from HYOGO KIKO CO., LTD., which became a consolidated subsidiary from FY5/24. The Company implemented measures to improve gross profit by developing multi-skill service engineers* and enhancing work efficiency. It also used M&A to improve productivity. The Company negotiated with customers for price hikes, but despite these efforts, the impact of cost pass-throughs on net sales was low compared with FY5/23. As a result, the gross margin was almost unchanged YoY at 21.3% (down 1.7 percentage points (pp)). Although the Company invested in human capital, the ratio of SG&A expenses to net sales was almost flat YoY at 17.5% (down 1.6pp) due to growth in net sales. As a result of the above, operating profit and ordinary profit both rose sharply YoY. Profit attributable to owners of parent increased only 3.3% YoY, reflecting the booking of provisions for loss on compensation and other one-time losses.

* Service engineers who are required to handle a wide range of air conditioning work, as well as equipment maintenance.

3. Results forecast for FY5/25

For FY5/25 consolidated results, the Company plans net sales to increase 10.4% YoY to ¥21,450mn, operating profit to rise 40.4% to ¥1,034mn, ordinary profit to increase 36.7% to ¥1,037mn and profit attributable to owners of parent to go up 35.3% to ¥633mn. Performance is tracking in line with the Company's targets for FY5/25, the final year of the current medium-term management plan. It aims to achieve its final-year targets by continuing to implement the plan's key policies. In environment solutions services, the Company expects demand for energy-saving construction work and total maintenance services to continue increasing due to the end of COVID-19 restrictions, soaring energy costs, rising interest in carbon neutrality, and labor shortages at customers. To capture this rising demand and grow sales, it plans to continue proactively proposing preventative maintenance to customers nationwide, as well as implement proposal activities related to equipment and devices, store renovation work, and energy-saving. It also plans to grow earnings through synergies with Naganuma Reidanbo Co., Ltd., which became a subsidiary in December 2023. In terms of profits, the Company aims to ensure higher labor and other costs are passed on to customers, while at the same time seizing every opportunity to negotiate and close deals. In terms of costs, it will continue to focus on increasing in-house work by developing multi-skill staff, as well as reduce costs by raising operational efficiency in various types of construction projects and work processes.

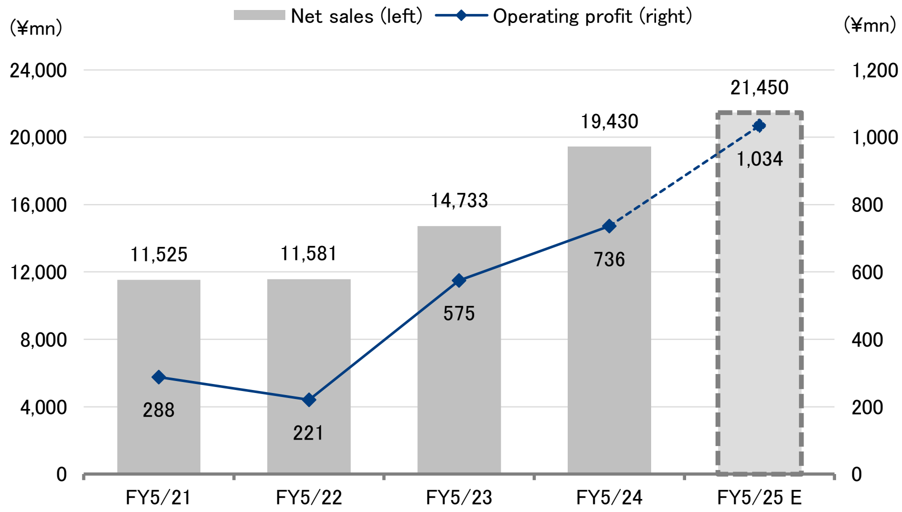
4. Progress on the medium-term management plan

In July 2022, the Company formulated SANKI NEXT STAGE 2025, its new medium-term management plan. Based on changes in the business environment due to the COVID-19 pandemic and other factors, it has positioned FY5/23-FY5/25 as a period to strengthen the earnings foundation to support growth over the medium to long term. To achieve this, its policy is to rebuild the Group's management base and business base. During the three years of the plan, the Company is targeting annualized net sales growth of 22.8%, and final-year net sales of ¥21,450mn (versus ¥14,733mn in FY5/23) and operating profit of ¥1,034mn (¥575mn). The Company achieved the plan's targets for net sales and operating profit in both FY5/23 and FY5/24. ROE in those years was 13.2% and 11.6%, respectively, higher than the average for listed companies. The Company's FY5/25 targets in the medium-term management plan are unchanged and it is on track to achieve them. Its sales breakdown forecast for FY5/25 is 65% for total maintenance, 26% for maintenance services, and 9% for the environment business. It aims to increase the ratio of net sales for total maintenance services by 7pp compared with FY5/22. The environment business, which the Company has positioned as its third business pillar, provides solutions in line with the SDGs. In this business it is targeting order growth by increasing sales of energy-saving systems and by proactively proposing high-value-added solutions to realize carbon neutrality.

Key Points

- FY5/24 net sales hit a new high and profit attributable to owners of parent was the second-highest on record
- The Company is targeting growth in net sales and profits in FY5/25 on increased demand for energy-saving construction work and contributions from the consolidation of HYOGO KIKO and Naganuma Reidanbo
- Solid progress with medium-term management plan and on track to achieve FY5/25 targets
- Certified under the 500 Certified Health & Productivity Management Outstanding Organization to promote health and productivity management as one aspect of enhancing human capital

Results trends



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 <8217>, and Sumitomo Realty & Development <8830>.

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 current 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 Co., Ltd.
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 TSE's reorganization of market categories
December 2022	Made HYOGO KIKO CO., LTD. a consolidated subsidiary through a share exchange
December 2023	Made Naganuma Reidanbo Co., Ltd. a consolidated subsidiary through a share exchange
September 2024	Launched maintenance business for medical equipment and ancillary facilities

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

Provides 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 previously had a single business segment, the Maintenance Business, but following the consolidation of HYOGO KIKO as a wholly owned subsidiary through a share exchange at the end of 3Q FY5/24, it created the Construction Products Services Business as a new reportable segment, resulting in two segments. The Maintenance Business 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. In the Construction Products Services Business, the Company mainly manufactures, sells and installs metal doors, shutters, and window sashes for various types of buildings.

(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.

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

	Current condition	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 CO_2, 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.

(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.

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 mangers 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 <4658> and Shin Maint Holdings <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 14 sales 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

Record-high net sales and second-highest net profit on record, driven mainly by the development of multi-skill engineers

1. Overview of the FY5/24 results

In the FY5/24 consolidated results, the Company posted higher sales and profits YoY. Net sales increased 31.9% YoY to ¥19,430mn, operating profit increased 28.1% to ¥736mn, ordinary profit increased 31.0% to ¥758mn, and profit attributable to owners of parent increased 3.3% to ¥467mn. With the exception of profit attributable to owners of parent, the Company achieved all its forecasts. Net sales were 108.6% of the Company's forecast, operating profit 101.0%, ordinary profit 103.7%, and profit attributable to owners of parent 99.6%. Net sales hit a new high and profit attributable to owners of parent was the second-highest on record. The Company's business climate was characterized by rising interest among customers about energy-saving measures to address elevated energy costs, as well as strong needs for reducing facility maintenance and management costs. During FY5/24, the Company proposed optimal energy-saving services tailored to the conditions of customer facilities and also stepped up its sales activities nationwide. The Company posted double-digit growth in net sales, driven by steady orders for total maintenance services and air conditioning equipment upgrade work, and by a large contribution from HYOGO KIKO, which became a consolidated subsidiary from FY5/24.

To improve profitability, the Company developed multi-skill service engineers, creating a stronger service support system that can handle not only maintenance work, but also various types of air conditioning work. It also implemented measures to improve gross profit by increasing the efficiency of maintenance and repair work and used M&A to lift productivity. Amid surging labor costs and other expenses, the Company negotiated with customers for price hikes, but despite these efforts, the impact of cost pass-throughs on net sales was low compared with FY5/23. As a result, the gross margin was almost unchanged YoY at 21.3% (down 1.7pp). Going forward, it plans to step up these measures to drive improvement. In terms of SG&A expenses, the Company strengthened its human capital and invested in hiring and training people, one of the goals of the medium-term management plan. However, the ratio of SG&A expenses to net sales was almost flat YoY at 17.5% (down 1.6pp) due to growth in net sales. As a result of the above, operating profit and ordinary profit both rose sharply YoY. Profit attributable to owners of parent increased only 3.3% YoY, reflecting the booking of provisions for loss on compensation and other one-time losses. However, it was the second-highest on record.

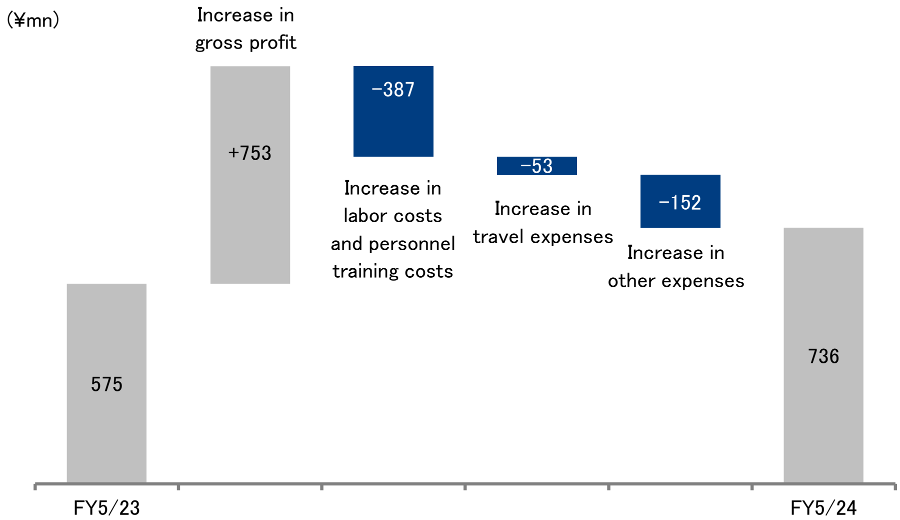
FY5/24 consolidated results

(¥mn)

	FY5/23		FY5/24				
	Results	% of net sales	Forecast	Results	% of net sales	YoY	Vs. forecast
Net sales	14,733	-	17,900	19,430	-	31.9%	8.6%
Gross profit	3,383	23.0%	-	4,137	21.3%	22.3%	-
SG&A expenses	2,808	19.1%	-	3,400	17.5%	21.1%	-
Operating profit	575	3.9%	729	736	3.8%	28.1%	1.0%
Ordinary profit	579	3.9%	732	758	3.9%	31.0%	3.7%
Profit attributable to owners of parent	452	3.1%	470	467	2.4%	3.3%	-0.4%

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

FY5/24 operating profit change factors



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

The Company believes that human capital management is the source of growth in corporate value. Recognizing that business growth is dependent on stronger human resources, the Company is rolling out measures to achieve the two pillars of its medium-term management plan: “training and developing in-house specialist engineers” and “strengthening the sales system.”

In construction projects such as electrical and plumbing work, Japan's Construction Business Act stipulates that a chief engineer and a managing engineer must be appointed at each site. It also stipulates that individuals with specialized qualifications relevant to the nature of the work must be involved in the project. As such, companies require qualified engineers in line with the scale of their business. Despite operating in an industry that currently faces hiring difficulties due to a labor shortage, the Company recruited more than 100 personnel in FY5/24, primarily in the construction maintenance department and the management department. It is also focusing on improving compensation for employees, with average annual income for FY5/25 expected to increase ¥380,000 YoY to ¥5.89mn. That is more than ¥1mn above the industry average of ¥4.72mn and is likely to be a factor in improving employee satisfaction. The Company is also active in encouraging employees to gain qualifications, providing allowances for roughly 100 different qualifications. In addition, the average age of employees is expected to decline one year YoY to 40.4 in FY5/25 (versus the industry average of 50.3), indicating the organization is being rejuvenated.

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. Moreover, the Company has been focusing on health and productivity management to establish a 24-hours-a-day, 365-days-a-year call center consultation system, and four 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 2024 under the 500 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.

2. Results by segment

The Group previously had a single business segment, the Maintenance Business, but as noted above, it has added a second segment, the Construction Products Services Business, following the consolidation of HYOGO KIKO in FY5/23.

The Maintenance Business covers the Company's existing maintenance services, which include building equipment maintenance, maintenance management, and solution proposals, as well as the maintenance business, which handles construction work related to these services. Sales in the Maintenance Business increased to ¥17,459mn (up 21.3% YoY) and segment profit rose to ¥696mn (up 12.5%). The Construction Products Services Business covers the manufacture, sale, and installation of metal doors, shutters, and window sashes for various types of buildings by HYOGO KIKO. In FY5/24, the first full year of results since HYOGO KIKO became a subsidiary, the segment reported strong growth in net sales to ¥1,971mn (up 474.0% YoY) and segment profit to ¥39mn (versus a loss of ¥44mn in the previous fiscal year).

Results by segment

(¥mn)

	FY5/23 Results	FY5/24	
		Results	YoY
Net sales	14,733	19,430	31.9%
Maintenance Business	14,389	17,459	21.3%
Construction Products Services Business	343	1,971	474.0%
Operating profit	575	736	28.1%
Maintenance Business	619	696	12.5%
Construction Products Services Business	-44	39	-

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

3. Net sales by service

In construction projects, net sales increased 13.9% YoY to ¥5,440mn, driven by an increase in large projects for schools, city halls and other government buildings. The share of net sales declined 1.5pp YoY to 32.5%. The Company's recent efforts to encourage employees to gain qualifications for government construction work and to recruit the necessary specialist engineers for these projects have proven successful, helping it secure a growing number of large government construction orders. Net sales from regular projects increased 10.0% YoY to ¥3,247mn, supported by steady growth in total maintenance services. The share of net sales fell 1.6pp to 19.4%. Net sales from repair projects rose 27.3% YoY to ¥8,051mn, reflecting an increase in the number of stores under maintenance contracts due to increased marketing efforts targeting convenience stores, and growth in repair project orders for upgrades to freezing and refrigeration equipment and air conditioning systems at existing customers. The share of net sales increased 3.1pp to 48.1%.

Net sales by type of service

(¥mn)

	FY5/22		FY5/23		FY5/24		
	Results	%	Results	%	Results	%	YoY
Construction	3,572	31.7%	4,778	34.0%	5,440	32.5%	13.9%
Regular	2,524	22.4%	2,951	21.0%	3,247	19.4%	10.0%
Repairs	5,172	45.9%	6,324	45.0%	8,051	48.1%	27.3%

Note: Figures on a stand-alone basis
Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

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

Net sales from customers in the retail sector, which accounted for 52.5% of total net sales, rose 21.8% YoY to ¥8,785mn and the retail sector's share of net sales increased 1.2pp, mainly due to the above-mentioned increase in orders from convenience stores. Net sales from equipment, management, and real estate customers totaled ¥2,690mn (up 22.7% YoY), accounting for 16.1% of total net sales (up 0.5pp), and net sales from medical, nursing, and welfare customers totaled ¥1,315mn (up 26.0%), accounting for 7.9% of total net sales (up 0.5pp). Sales growth was mainly driven by customers in these three sectors. Net sales from customers in the others category, which mainly handles leasing, rose 25.3% YoY to ¥1,708mn, reflecting an increase in large-scale air conditioning renewal work for schools and government offices, as well as other equipment renewal work for building maintenance. The others share of net sales rose 0.5pp to 10.2%.

Percentages of total net sales by customer attributes

(¥mn)

	FY5/22		FY5/23		FY5/24		
	Results	%	Results	%	Results	%	YoY
Others (leases, etc.)	1,237	11.0%	1,363	9.7%	1,708	10.2%	25.3%
Schools and education	154	1.4%	1,484	10.6%	1,252	7.5%	-15.6%
Medical, nursing, and welfare	603	5.4%	1,044	7.4%	1,315	7.9%	26.0%
Event facilities	294	2.6%	299	2.1%	381	2.3%	27.4%
Equipment management, and real estate	2,114	18.8%	2,192	15.6%	2,690	16.1%	22.7%
Retail	6,465	57.4%	7,213	51.3%	8,785	52.5%	21.8%
Food and drink	402	3.6%	459	3.3%	608	3.6%	32.5%

Note: Figures on a stand-alone basis
Source: Prepared by FISCO from the Company's financial results briefing materials

5. Financial condition

As of the end of FY5/24, total assets increased ¥259mn from the end of the previous fiscal year to ¥8,612mn, of which current assets increased ¥81mn to ¥7,033mn. This was mainly due to an increase of ¥549mn in cash and deposits, and decreases of ¥112mn in notes and accounts receivable - trade and contract assets, and ¥295mn in costs on construction contracts in progress. Non-current assets increased ¥177mn to ¥1,578mn, mainly due to increases of ¥34mn in machinery, equipment and vehicles, ¥120mn in land, and ¥71mn in investment securities, and a decrease of ¥39mn in intangible assets such as software. Total liabilities decreased ¥121mn to ¥4,398mn, of which current liabilities decreased ¥55mn to ¥3,520mn, mainly reflecting an increase of ¥142mn in trade payables (notes payable – trade and accounts payable for construction contracts) and a decrease of ¥210mn in accrued income taxes and consumption taxes. Non-current liabilities decreased ¥65mn to ¥877mn, mainly due to a decrease of ¥137mn in long-term borrowings. Total net assets increased ¥380mn to ¥4,214mn, primarily reflecting an increase of ¥467mn in net profit and dividends paid of ¥147mn, and a decrease of ¥9mn in treasury shares resulting from share exchanges.

As a result of the above, the equity ratio was 48.9%, up 3.0pp from the previous fiscal year. Meanwhile, ROE (Return on Equity) declined to 11.6%, down 1.6pp.

Financial condition

(¥mn)

	End of FY5/23	End of FY5/24	Increase/ decrease
Current assets	6,952	7,033	81
Non-current assets	1,400	1,578	177
Total assets	8,353	8,612	259
Current liabilities	3,575	3,520	-55
Non-current liabilities	943	877	-65
Total liabilities	4,519	4,398	-121
Total net assets	3,833	4,214	380

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

Outlook

Aiming to achieve the FY5/25 final-year targets of the medium-term management plan by implementing the plan's key policies

1. FY5/25 consolidated results outlook

For FY5/25 consolidated results, the Company plans net sales to increase 10.4% YoY to ¥21,450mn, operating profit to rise 40.4% to ¥1,034mn, ordinary profit to increase 36.7% to ¥1,037mn and profit attributable to owners of parent to go up 35.3% to ¥633mn. Performance is currently tracking in line with the Company's targets for FY5/25, the final year of the current medium-term management plan. It aims to achieve its final-year targets by continuing to implement the plan's key policies. In environment solutions services, the Company expects demand for energy-saving construction work and total maintenance services to continue increasing amid soaring energy costs, rising interest in carbon neutrality, and labor shortages at customers. To capture this rising demand and grow sales, it plans to continue proactively proposing preventative maintenance to customers nationwide, as well as implement proposal activities related to equipment and devices, store renovation work, and energy-saving.

The Company made Naganuma Reidanbo a subsidiary in December 2023 to acquire Naganuma Reidanbo's expertise, technical capabilities, and customer base in air conditioning, ventilation, plumbing, sanitation, and other facility construction work, and also to secure human resources in the Niigata region. The involvement of plumbing construction managing engineers, electrical construction managing engineers and other qualified personnel is essential for many types of construction projects, but the Company has struggled to move into the Niigata region due to a shortage of these personnel. The acquisition of Naganuma Reidanbo resolves that issue. We believe the new subsidiary has given the Company a significant foothold to expand its reach into the Hokuriku and Tohoku areas, which would drive growth in earnings. In addition, the Company is targeting further growth in earnings by combining its expertise, technical capabilities and human resources with those of Naganuma Reidanbo. In terms of profits, the Company aims to ensure rising labor costs and other expenses are passed on to customers. In maintenance services, customers tend to formulate cost budgets on an annual basis due to the nature of the contracts, which means in many cases, the results of price negotiations are not reflected in profits until the following year. The Company says it aims to seize the best opportunities for price negotiations to close deals. In terms of costs, it will continue to focus on increasing in-house work by developing multi-skill staff, as well as reduce costs by raising operational efficiency in various types of construction projects and work processes.

In total maintenance services, construction projects tend to lead to regular projects and repair projects. FISCO believes this type of recurring income business model will become the Company's earnings structure over the longer term. The Company is reinforcing its organizational structure by consolidating sales teams previously separated along business segment lines, such as environment solutions services, air-conditioning maintenance services, and total maintenance services. This will allow the sharing of customer information, supporting proposals for multiple services. The strategy is to leverage synergies between businesses to increase the ratio of repeat business across the whole business cycle, from equipment and design to construction and installation, and periodic inspections and maintenance. This is likely to be complemented by measures to strengthen the Company's business base in each area through the consolidation of HYOGO KIKO and Naganuma Reidanbo.

FY5/25 consolidated results outlook

(¥mn)

	FY5/24		FY5/25		
	Results	% of net sales	Forecast	% of net sales	YoY
Net sales	19,430	-	21,450	-	10.4%
Operating profit	736	3.8%	1,034	4.8%	40.4%
Ordinary profit	758	3.9%	1,037	4.8%	36.7%
Profit attributable to owners of parent	467	2.4%	633	3.0%	35.3%
ROE	11.6%	-	16.0%	-	-

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

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

2. Progress on the medium-term management plan

In July 2022, the Company formulated SANKI NEXT STAGE 2025, its new medium-term management plan, covering the period from FY5/23 to FY5/25. Based on changes in the business environment due to the COVID-19 pandemic and other factors, it has positioned FY5/23-FY5/25 as a period to strengthen the earnings foundation to support growth over the medium to long term. To achieve this, its policy is to rebuild the Group's management base and business base. During the three years of the plan, the Company is targeting annualized net sales growth of 22.8% and final-year net sales of ¥21,450mn (versus ¥14,733mn in FY5/23) and operating profit of ¥1,034mn (¥575mn). The Company remains committed to its original targets for the plan's final year of FY5/25.

(1) Progress on numerical targets

The Company achieved its targets for both net sales and operating profit in FY5/23 and FY5/24. ROE in those years was 13.2% and 11.6%, respectively, higher than the average for listed companies. The Company is making steady progress towards the plan's numerical targets.

For FY5/25, the Company assumes a net sales breakdown of 65% for total maintenance, 26% for maintenance services, and 9% for the environment business. It aims to increase the ratio of net sales for total maintenance services by 7pp compared with FY5/22. With customer needs in this business still high, we expect it to make a large contribution to earnings growth. For example, convenience stores typically have many different systems that require maintenance, such as electrical, air conditioning, and refrigeration equipment. The Company plans to step up sales activities in the total maintenance services business, which provides one-stop maintenance solutions for all this equipment and offers numerous advantages for customers struggling with labor shortages, such as improved business efficiency through the complete outsourcing of maintenance work. Convenience stores also tend to have chains over a wide area, which could potentially translate into more orders and expand the customer base. The Company therefore sees considerable room for growth in the convenience store market. With the environment business, which the Company has positioned as its third business pillar, the goal is to increase the share of net sales by 6pp from FY5/22. As a business providing solutions in line with the SDGs, it aims to grow orders by increasing sales of energy-saving systems and by proactively proposing high-value-added solutions to realize carbon neutrality.

Progress on the new medium-term management plan's numerical targets

(¥mn)

	FY5/22			FY5/23			FY5/24			FY5/25 Forecast	CAGR (compound annual growth rate)
	Forecast	Results	Achievement rate	Forecast	Results	Achievement rate	Forecast	Results	Achievement rate		
Net sales	12,500	11,581	92.7%	14,370	14,733	102.5%	17,900	19,430	108.6%	21,450	22.8%
Operating profit	450	221	49.2%	460	575	125.0%	729	736	101.0%	1,034	67.2%

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

(2) Progress with key policies

a) Expand the business scale

The key policy is to roughly double sales in the development period (from FY5/26) by growing existing businesses through the provision of added value and by expanding the environment business. To grow existing businesses by providing added value, the Company intends to expand its business reach by leveraging its accumulated expertise. In September 2024, the Company announced plans to launch a maintenance business for medical equipment and ancillary facilities. The business will handle the sale, lease, repair, and import/export of medical equipment, dental equipment, veterinary medical equipment, and nursing care medical equipment. The Company already has experience in providing maintenance services for equipment and facilities at hospitals and other medical institutions, but it aims to extend the scope of its services to include the new area of specialized medical equipment in order to capture demand and expand its revenue base. It is unclear at this stage how the business will be developed and what impact it will have on earnings, but we believe this is an initiative to watch for the development period. In the environment business, the Company continues to promote a proposal-based business that leverages its expertise in energy-saving and carbon neutrality, two areas where it has a strong position. We see the potential for even better results in this business in the final year of the medium-term management plan.

b) Invest in growth

The Company's vision for 2025 is to invest in alliances and M&A (investment stakes, etc.) and in reinforcing internal capabilities. Specifically, it plans to invest in growth, promote DX, and respond to the spread of smart devices and to digitization. In terms of strategic M&A, it made Naganuma Reidanbo a subsidiary in December 2023. The Company views M&A and business alliances as important tools for achieving its FY5/25 targets. We will be watching developments closely. To strengthen internal capabilities, the Company will focus on hiring and training human resources. In terms of recruitment, it hired more than 100 personnel in FY5/24, primarily in the construction maintenance department and the management department. It is also improving employee compensation with wage hikes and other measures. In terms of training, the Company provides allowances for employees to gain qualifications needed for construction and maintenance projects. It is also expanding its training programs to help engineers become multi-skilled. According to the Company, the recent employee turnover rate is well below the average for listed companies in the services industry, and it appears to have gained a reputation among employees as a rewarding place to work.

c) Improve added value

The Company is aiming to increase ROE by 10pp during the development period by implementing policies to improve quality and reduce costs. Gross profit is improving due to measures such as increasing in-house work by developing multi-skill service engineers, and by reducing work hours and costs through improved operational efficiency in maintenance and other work. It is also lifting productivity through collaboration with HYOGO KIKO and Naganuma Reidanbo. The impact of these measures has been factored into the FY5/25 forecasts. ROE in FY5/24 declined YoY to 11.6%, partly due to a rise in the equity ratio, but the Company is targeting ROE of 16.0% in FY5/25, the final year of the medium-term management plan.

d) Develop human resources

The Company will evolve its human-resources portfolio by training and developing in-house specialist engineers and by strengthening the sales system. The Company's vision for 2025 is to train engineers as air conditioning and cooler equipment specialists, strengthen solutions sales capabilities in sales teams, and develop and increase customer support staff. Also, by disseminating the new corporate philosophy and embedding the new personnel system, it intends to identify and develop human resources and the next generation of business leaders who can work independently to create new value. In addition, as part of efforts to improve employee engagement, the Company is implementing measures such as holding business plan briefings for employees and setting up an employee award system across 11 categories based on the business plan. It has also established a Compliance Office and is promoting the use of an "incident response workflow (SHL)" as a health and safety measure.

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 CO_2 and to realize health and productivity management. For E (Environment), in FY5/22 it realized a CO_2 reduction of approximately 550,000 units* and contributed to customers' CO_2 reduction targets. The goal is to reduce CO_2 emissions by approximately 1.87 million units in FY5/25. 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 and productivity 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 5 years from FY5/23. 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 14 kg of absorbed CO_2.

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 CO_2 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.

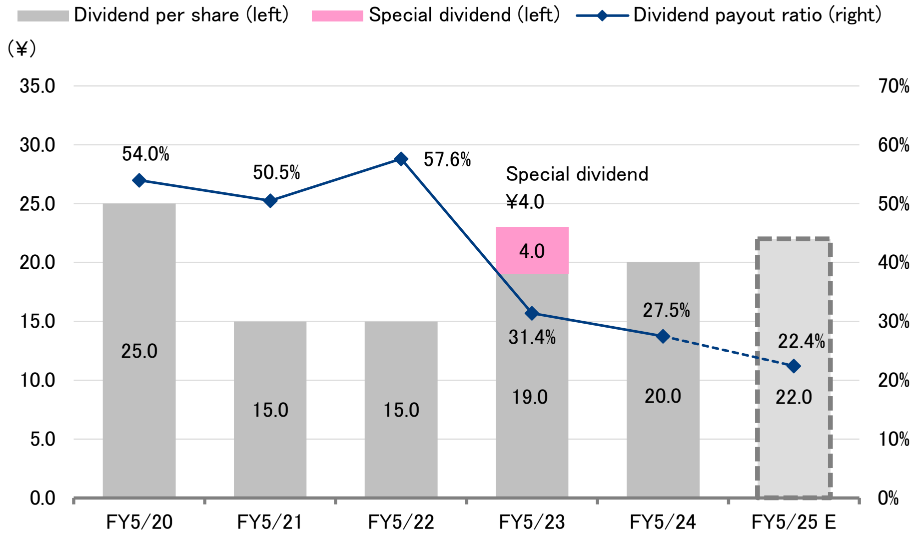
Shareholder return policy

Expects to increase the annual dividend in FY5/25 to ¥22.0, third 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 FY5/24, it increased the ordinary dividend per share by ¥1.0 to ¥20.0 amid strong earnings, resulting in a dividend payout ratio of 27.5%. Also, for FY5/25 it is forecasting a dividend per share of ¥22.0, an increase of ¥2.0 YoY, for a forecast dividend payout ratio of 22.4%.

The Company also implements a shareholder benefits program, and offers a QUO card worth ¥1,000 to shareholders who hold at least one unit (100 shares) of stock listed or recorded in the shareholders' register as of the last day of May each year.

Dividend per share and dividend payout ratio



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

Disclaimer

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