# COMPANY RESEARCH AND ANALYSIS REPORT

# Sanki Engineering Co., Ltd.

## 1961

Tokyo Stock Exchange Prime Market

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# Contents

# Summary

## 1H FY3/25 operating profit rose 362.5% YoY; order balance carried forward to next period up 8.7% to reach 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. 1H FY3/25: Projects carried forward were steadily extinguished as operating profit rose 362.5% YoY and the order balance carried forward to the next period was also at a high level**

The Company reported 1H FY3/25 results, with net sales of ¥105,950mn (up 18.4% YoY), operating profit of ¥5,926mn (up 362.5%), ordinary profit of ¥6,639mn (up 253.5%) and profit attributable to owners of parent of ¥4,450mn (up 215.8%). The large increase in net sales was due to steadily carrying out existing projects. The gross profit margin increased significantly from 13.4% last year to 16.2% 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 5.5%, was nearly in line with budgets, so operating profit increased by a large margin YoY. Orders received were firm at ¥150,996mn (up 20.4% YoY), and the order balance carried forward to the next period was ¥243,948mn (up 8.7%), reaching an all-time high for the end of 1H.

**2. Outlook for FY3/25 results: Operating profit forecast to increase 42.4% YoY**

For FY3/25, the Company has raised its initial forecasts (net sales ¥225,000mn, operating profit ¥12,500mn). The revised forecasts are ¥230,000mn in orders received (down 1.0% YoY), ¥245,000mn in net sales (up 10.4%), ¥16,500mn in operating profit (up 42.4%), ¥17,000mn in ordinary profit (up 33.3%), and ¥11,600mn in profit attributable to owners of parent (up 29.6%). It forecasts a gross profit margin of 17.1% (up 1.5 percentage points (pp) YoY) and an increase of 10.6% in SG&A expenses. The Company needs to record roughly ¥140.0bn in net sales to achieve its full-year target of ¥245.0bn. The Company says this target is likely to be attained, as the Company expects to book around ¥120.0bn of the remaining ¥140.0bn from construction work in progress. We at FISCO see the possibility of a further upward revision to forecasts depending on progress with orders and construction projects during 2H.

### 3. The “Century 2025” Phase 3 medium-term management plan was achieved and completed one year ahead of schedule

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. Quantitative targets for the final year of the vision (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. However, because the Company’s forecasts for FY3/25 exceed the targets laid out in the “Century 2025” vision, the Company says that “it expects to achieve the ‘Century 2025’ targets one year ahead of schedule. For this reason, the Company has decided to end its ‘Century 2025’ vision in the current fiscal year. The Company is now formulating a new management plan, which it expects to announce in spring 2025.” Achieving the targets of the 10-year long-term vision a year early is highly commendable, but the focus now switches to its targets in the next plan.

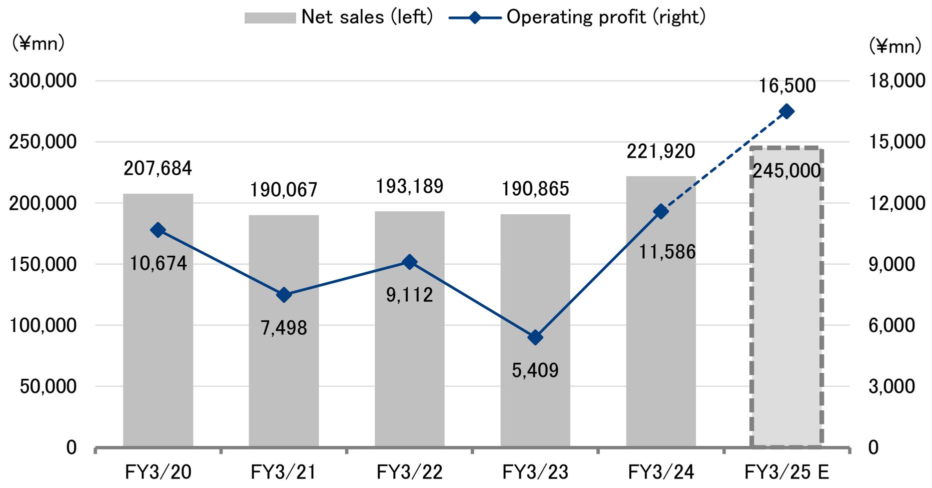
### 4. Actively returns profit to shareholders: Plans on dividend payout ratio of 50.4%, total return ratio of 85.2% in FY3/25

The Company is also actively returning profits to shareholders. It has been paying stable returns to shareholders in line with its shareholder return policy in the “Century 2025” Phase 3 medium-term management plan. The Company also raised its FY3/25 full-year dividend forecast to ¥110 per share in line with its revised earnings forecasts, giving a projected dividend payout ratio of 50.4%. It also plans to buy back 1.5mn shares by end of March 2025 and it retired 2mn shares on August 19, 2024. As a result, the projected total return ratio for FY3/25 is 85.2%. In our view, this proactive approach to shareholder returns, rather than simply aiming to improve earnings, is highly commendable.

**Key Points**

- A facilities construction company affiliated with Mitsui and a domestic leader. Currently promoting measures to improve its profit margin
- 1H FY3/25 operating profit up 362.5%; full-year forecast raised to growth of 42.4% YoY
- On track to achieve medium-term management plan one year early; releasing new plan in spring 2025
- Actively returns profits to shareholders. Plans to pay a dividend of ¥110 (dividend payout ratio: 50.4%) in FY3/25. Share buybacks are also planned

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, but with the Phase 3 targets expected to be achieved one year early, the Company has officially announced the end of the "Century 2025" vision. The Company is now formulating a new medium-term management plan, to be announced in spring 2025. We look forward to seeing the details of the next plan.

**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 ¥1.0bn |
| 1963 | Completed the Sagami Plant (currently, the Sanki Techno Center) |
| 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 the 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

## Main focus is Facilities Construction Business and Plants & Machinery Systems Business; strengths in building and 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.

The size of the orders varies widely from a few million yen to a few billion yen depending on the project, and it appears that some mega-sized projects worth more than ¥10.0bn have also started to emerge in recent years. 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 and plumbing for buildings, 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.

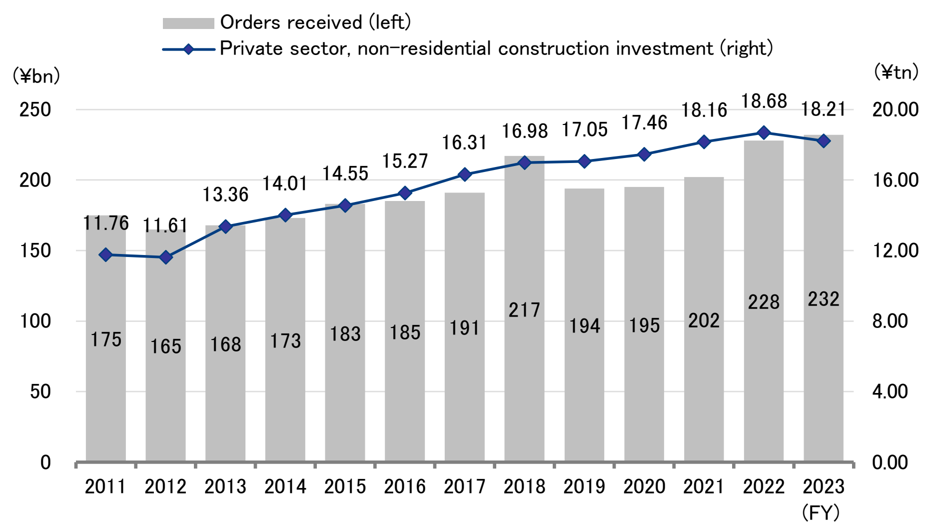
### 3. Main competitors

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

## 1H FY3/25 operating profit ¥5.9bn, more than triple YoY

### 1. 1H FY3/25 results overview

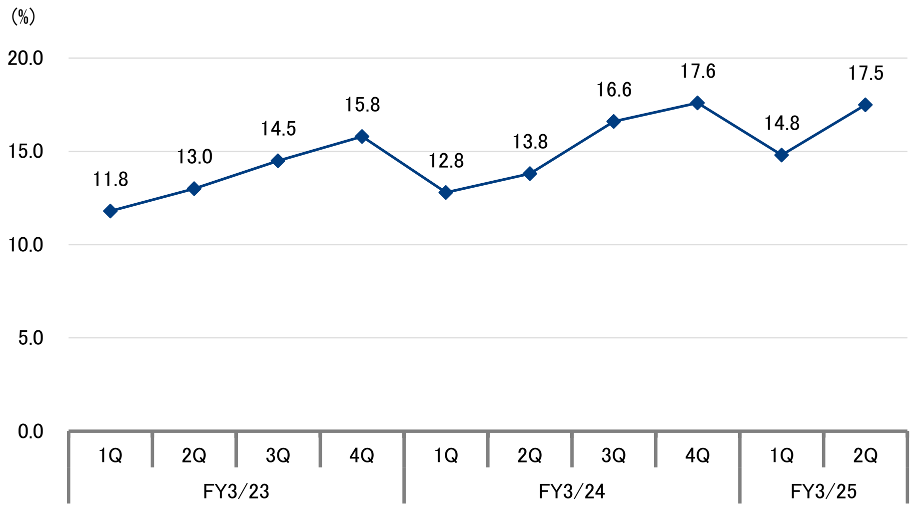
**(1) Earnings**

The Company reported 1H FY3/25 results, with net sales of ¥105,950mn (up 18.4% YoY), operating profit of ¥5,926mn (up 362.5%), ordinary profit of ¥6,639mn (up 253.5%) and profit attributable to owners of parent of ¥4,450mn (up 215.8%).

Orders received totaled ¥150,996mn (up 20.4% YoY), but the Company says there is a growing trend toward larger and longer construction projects. As a result, the order balance carried forward to the next period totaled ¥243,948mn (up 8.7%), a record-high for the end of 1H.

Net sales rose sharply as the Company steadily worked through its large backlog of construction work in progress. The gross profit margin also improved significantly to 16.2% (versus 13.4% in 1H FY3/24), reflecting internal efforts to improve the profit margin and progress on profitable projects, particularly industrial HVAC. We at FISCO note that the gross profit margin in 2Q FY3/25 was a high 17.5%.

Quarterly gross profit margin




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

Meanwhile, 1H SG&A expenses increased 5.5% YoY to ¥11,271mn, of which personnel expenses accounted for ¥5,958mn (up 9.2%). SG&A expenses were broadly in line with budget, contributing to the large rise in operating profit YoY.

### (2) Factors behind change in ordinary profit

There were two main factors behind the change in ordinary profit: an increase in gross profit of ¥2,207mn YoY due to higher net sales (gross profit up ¥1,864mn in HVAC and plumbing for buildings, industrial HVAC and electrical systems, down ¥196mn in facility systems, up ¥38mn in machinery systems, up ¥362mn in environmental systems, up ¥20mn in Real Estate Business, and up ¥119mn in Others), and an increase in gross profit of ¥3,022mn due to margin improvement (gross profit up ¥3,362mn in HVAC and plumbing for buildings, industrial HVAC and electrical systems, down ¥121mn in facility systems, up ¥115mn in machinery systems, down ¥162mn in environmental systems, up ¥35mn in Real Estate Business, and down ¥207mn in Others). In addition, higher SG&A expenses reduced ordinary profit by ¥583mn and an improvement in non-operating income and expenses lifted ordinary profit by ¥115mn.

1H FY3/25 results

(¥mn)

| | 1H FY3/24 | | 1H FY3/25 | | YoY | |
|---|---|---|---|---|---|---|
| | Results | Vs. net sales | Results | Vs. net sales | Amount | Change % |
| Orders received | 125,381 | - | 150,996 | - | 25,615 | 20.4% |
| Balance carried forward | 224,348 | - | 243,948 | - | 19,600 | 8.7% |
| Net sales | 89,459 | 100.0% | 105,950 | 100.0% | 16,491 | 18.4% |
| Gross profit | 11,969 | 13.4% | 17,198 | 16.2% | 5,228 | 43.7% |
| SG&A expenses | 10,688 | 11.9% | 11,271 | 10.6% | 583 | 5.5% |
| Operating profit | 1,281 | 1.4% | 5,926 | 5.6% | 4,645 | 362.5% |
| Ordinary profit | 1,878 | 2.1% | 6,639 | 6.3% | 4,761 | 253.5% |
| Profit attributable to owners of parent | 1,409 | 1.6% | 4,450 | 4.2% | 3,041 | 215.8% |

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

## By subsegment, HVAC and plumbing for buildings and industrial HVAC contributed significantly

**(3) Net sales and gross profit by segment**

Net sales in the Facilities Construction Business totaled ¥88,004mn (up 18.9% YoY). By subsegment, net sales from HVAC and plumbing for buildings rose a strong 35.5% YoY to ¥30,395mn, supported by steady completion of construction work in progress. In industrial HVAC, one of the Company's strengths, net sales increased 13.4% to ¥39,260mn due to the completion of large orders, centered on EV battery-related projects. Electrical systems also performed well, posting sales growth of 24.4% to ¥12,488mn due to the steady completion of large EV battery-related orders, which it secured with the industrial HVAC business. Facility systems reported sales of ¥5,860mn, down 15.4% YoY, largely reflecting a drop-off in demand related to office relocations from the previous year.

The Plants & Machinery Systems Business reported net sales of ¥16,834mn (up 18.6% YoY). By subsegment, net sales totaled ¥5,056mn (up 9.0%) in machinery systems and ¥11,778mn (up 23.3%) in environmental systems, mainly reflecting progress with a large-scale waste treatment facility construction project carried over from the previous fiscal year. Net sales were solid in the Real Estate Business, rising 4.2% YoY to ¥1,293mn, and in the Others segment, increasing 15.4% to ¥327mn.

Looking at profit (gross profit) by segment, the Facilities Construction Business reported ¥14,492mn (up 51.2% YoY). By subsegment, HVAC and plumbing for buildings, industrial HVAC and electrical systems posted gross profit of ¥13,533mn (up 62.9%), mainly on continued growth in industrial HVAC. In addition to higher net sales, the large rise in profit was driven by margin improvement at both the time of order and during construction, with the completion of an EV battery plant making a significant contribution. Facility systems reported gross profit of ¥958mn (down 24.9%), mainly reflecting a large impact from unprofitable construction projects in 1Q.

Gross profit was firm in the Plants & Machinery Systems Business, at ¥2,326mn (up 17.8%). By subsegment, machinery systems posted ¥570mn (up 36.4% YoY). While profitability remained weak in machinery systems, the gross profit margin improved due to progress with passing on higher costs to customers. Environmental systems reported firm gross profit of ¥1,756mn (up 12.9%). Gross profit in the Real Estate Business and the Others segment was ¥544mn (up 11.4%) and ¥32mn (up 86.9%), respectively.

Net sales and gross profit by segment

(¥mn)

| | 1H FY3/24 | | 1H FY3/25 | | Change | |
|---|---|---|---|---|---|---|
| | Results | Vs. net sales | Results | Vs. net sales | Amount | % |
| Net sales | 89,459 | 100.0% | 105,950 | 100.0% | 16,491 | 18.4% |
| Facilities Construction Business | 74,014 | 82.7% | 88,004 | 83.1% | 13,990 | 18.9% |
| HVAC and plumbing for buildings | 22,431 | 25.1% | 30,395 | 28.7% | 7,964 | 35.5% |
| Industrial HVAC | 34,623 | 38.7% | 39,260 | 37.1% | 4,636 | 13.4% |
| Electrical systems | 10,035 | 11.2% | 12,488 | 11.8% | 2,453 | 24.4% |
| Facility systems | 6,923 | 7.7% | 5,860 | 5.5% | -1,063 | -15.4% |
| Plants & Machinery Systems Business | 14,193 | 15.9% | 16,834 | 15.9% | 2,641 | 18.6% |
| Machinery systems | 4,637 | 5.2% | 5,056 | 4.8% | 418 | 9.0% |
| Environmental systems | 9,556 | 10.7% | 11,778 | 11.1% | 2,222 | 23.3% |
| Real Estate Business | 1,242 | 1.4% | 1,293 | 1.2% | 51 | 4.2% |
| Others | 283 | 0.3% | 327 | 0.3% | 43 | 15.4% |
| Adjustments | -274 | - | -509 | - | -235 | - |
| Gross profit | 11,969 | 13.4% | 17,198 | 16.2% | 5,228 | 43.7% |
| Facilities Construction Business | 9,583 | 12.9% | 14,492 | 16.5% | 4,908 | 51.2% |
| HAVC and plumbing for buildings, industrial HVAC, and electrical systems | 8,308 | 12.4% | 13,533 | 16.5% | 5,225 | 62.9% |
| Facility systems | 1,275 | 18.4% | 958 | 16.4% | -317 | -24.9% |
| Plants & Machinery Systems Business | 1,974 | 13.9% | 2,326 | 13.8% | 352 | 17.8% |
| Machinery systems | 417 | 9.0% | 570 | 11.3% | 152 | 36.4% |
| Environmental systems | 1,556 | 16.3% | 1,756 | 14.9% | 200 | 12.9% |
| Real Estate Business | 488 | 39.3% | 544 | 42.1% | 55 | 11.4% |
| Others | 17 | 6.1% | 32 | 9.9% | 15 | 86.9% |
| Adjustments | -93 | - | -196 | - | -102 | - |

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

## Orders proceeding steadily; projects getting larger

### (4) Orders received by segment

Orders received in the Facilities Construction Business totaled ¥129,704mn (up 36.1% YoY). By subsegment, orders for HVAC and plumbing for buildings totaled ¥39,778mn (up 47.0%), reflecting orders for large-scale construction projects such as urban redevelopment work. Industrial HVAC orders were ¥55,726mn (up 30.2%), also supported by large orders, centered on EV battery-related projects. Electrical system orders remained strong at ¥26,543mn (up 56.7%), driven by large orders for EV battery-related projects. Facility system orders totaled ¥7,656mn (down 10.3%), but the level of orders remained high.

Orders received in the Plants & Machinery Systems Business totaled ¥20,505mn (down 29.0% YoY). By subsegment, machinery systems orders were ¥4,199mn (down 16.5%), with material handling-related orders weak. Environmental systems orders totaled ¥16,306mn (down 31.6%), partly reflecting intentional steps to slightly curb order activity so as not to overload the construction system. The business already has a large backlog of orders carried over after winning multiple large orders in the previous fiscal year. Orders received were ¥1,293mn (up 4.2%) in the Real Estate Business and ¥336mn (up 11.8%) in the Others segment.

As a result, total orders received in 1H FY3/25 (including adjusted amounts) was ¥150,996mn (up 20.4% YoY), and the balance carried forward to the next period as of end-1H FY3/25 was ¥243,948mn (up 8.7%), reaching a record-high for the end of 1H. The strongest order growth was in the electrical machinery, automobile, pharmaceutical, and real estate sectors.

Orders received by segment

(¥mn)

| | 1H FY3/24 | | 1H FY3/25 | | YoY | |
|---|---|---|---|---|---|---|
| | Results | Vs. net sales | Results | Vs. net sales | Amount | Change % |
| Orders received | 125,381 | 100.0% | 150,996 | 100.0% | 25,615 | 20.4% |
| Facilities Construction Business | 95,333 | 76.0% | 129,704 | 85.9% | 34,370 | 36.1% |
| HVAC and plumbing for buildings | 27,063 | 21.6% | 39,778 | 26.3% | 12,714 | 47.0% |
| Industrial HVAC | 42,792 | 34.1% | 55,726 | 36.9% | 12,934 | 30.2% |
| Electrical systems | 16,938 | 13.5% | 26,543 | 17.6% | 9,604 | 56.7% |
| Facility systems | 8,539 | 6.8% | 7,656 | 5.1% | -882 | -10.3% |
| Plants & Machinery Systems Business | 28,885 | 23.0% | 20,505 | 13.6% | -8,380 | -29.0% |
| Machinery systems | 5,028 | 4.0% | 4,199 | 2.8% | -829 | -16.5% |
| Environmental systems | 23,856 | 19.0% | 16,306 | 10.8% | -7,550 | -31.6% |
| Real Estate Business | 1,242 | 1.0% | 1,293 | 0.9% | 51 | 4.2% |
| Others | 301 | 0.2% | 336 | 0.2% | 35 | 11.8% |
| Adjustments | -381 | - | -843 | - | - | - |

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

## Equity ratio rising due to balance sheet streamlining

### 2. Financial condition

Looking at the Company's financial condition at the end of 1H FY3/25, current assets totaled ¥117,539mn (down ¥14,025mn compared to the end of FY3/24). This was mainly due to increases of ¥5,750mn in cash and deposits and ¥3,999mn in investment securities, along with a decrease of ¥25,347mn 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 ¥62,124mn (down ¥8,472mn). This was primarily because of decreases of ¥381mn in property, plant and equipment due to depreciation, ¥137mn in intangible assets, and ¥7,954mn in investments and other assets due to a decrease in investment securities (decline in stock prices and sale of strategic shareholdings). As a result, total assets at the end of 1H FY3/25 were ¥179,664mn (down ¥22,497mn).

Current liabilities were ¥64,507mn (down ¥17,090mn compared to the end of FY3/24). This was mainly due to decreases of ¥14,734mn in accounts payable (accounts payable on construction contracts, including electronic record liabilities), ¥27mn in short-term loans payable, and ¥2,499mn in income taxes payable. Noncurrent liabilities were ¥14,038mn (down ¥1,903mn), with the main factors including a decrease of ¥513mn in long-term loans payable, an increase of ¥411mn in liability for retirement benefits, and a decrease of ¥2,187mn in deferred tax liabilities. As a result, total liabilities at the end of 1H FY3/25 were ¥78,545mn (down ¥18,994mn). Total net assets totaled ¥101,118mn (down ¥3,503mn), mainly due to decreases of ¥1,358mn in retained earnings due to the payment of dividends, ¥3,041mn in treasury shares accompanying retirement of shares, and ¥5,357mn in unrealized gains on securities. As a result, the equity ratio at the end of 1H FY3/25 was 56.2% (versus 51.7% at the end of FY3/24). The Company is making progress with streamlining the balance sheet, including reducing holdings of investment securities and buying back shares.

### Balance sheet

(¥mn)

| | End of FY3/24 | End of 1H FY3/25 | YoY change |
|---|---|---|---|
| Cash and deposits | 23,500 | 29,250 | 5,750 |
| Investment securities | 1,000 | 4,999 | 3,999 |
| Notes and accounts receivable, electronic record claims, notes and accounts receivable on completed construction contracts and other and contract assets | 97,548 | 72,201 | -25,347 |
| Costs on construction contracts in progress | 2,541 | 4,144 | 1,603 |
| Current assets | 131,564 | 117,539 | -14,025 |
| Property, plant and equipment | 12,966 | 12,585 | -381 |
| Intangible noncurrent assets | 2,045 | 1,908 | -137 |
| Investments and other assets | 55,584 | 47,630 | -7,954 |
| (Of which, investment securities) | 40,539 | 32,923 | -7,616 |
| Noncurrent assets | 70,596 | 62,124 | -8,472 |
| Total assets | 202,161 | 179,664 | -22,497 |
| Electronic record liabilities, accounts payable on construction contracts | 44,439 | 29,705 | -14,734 |
| Short-term loans payable | 6,386 | 6,359 | -27 |
| Income taxes payable | 4,344 | 1,845 | -2,499 |
| Current liabilities | 81,597 | 64,507 | -17,090 |
| Long-term loans payable | 2,374 | 1,861 | -513 |
| Liability for retirement benefits | 3,357 | 3,768 | 411 |
| Deferred tax liabilities | 4,097 | 1,910 | -2,187 |
| Noncurrent liabilities | 15,941 | 14,038 | -1,903 |
| Total liabilities | 97,539 | 78,545 | -18,994 |
| Total net assets | 104,621 | 101,118 | -3,503 |

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

### 3. Cash flow conditions

In 1H FY3/25 net cash provided by operating activities was ¥12,802mn. The main inflows included profit before income taxes of ¥6,476mn, depreciation of ¥933mn, and a ¥25,402mn decrease in trade receivables and contract assets, while the main outflows were a decrease of ¥14,758mn in trade payables. Net cash used in investing activities was ¥727mn. The main inflows included ¥386mn in proceeds from maturity of insurance funds, while the main outflows included ¥1,000mn for the purchase of securities (net) and ¥266mn for the purchase of property, plant and equipment. Net cash used in financing activities was ¥3,520mn. The main outflows were ¥539mn in proceeds from long- and short-term loans payable, ¥262mn for the purchase of treasury shares, and ¥2,654mn for dividends paid.

Cash and cash equivalents hence increased ¥8,748mn in 1H FY3/25 to a period-end balance of ¥32,249mn.

Statement of cash flows

(¥mn)

| | 1H FY3/24 | 1H FY3/25 |
|---|---|---|
| Cash flows from operating activities | 9,402 | 12,802 |
| Profit before income taxes | 2,148 | 6,476 |
| Depreciation | 886 | 933 |
| Change in trade receivables and contract assets (- indicates increase) | 14,386 | 25,402 |
| Change in notes and accounts payable on construction contracts and other (- indicates decrease) | -3,353 | -14,758 |
| Cash flows from investment activities | -612 | -727 |
| Purchase of securities (net) | -1,000 | -1,000 |
| Purchase of property, plant and equipment | -458 | -266 |
| Proceeds from maturity of insurance funds | 421 | 386 |
| Cash flows from financing activities | -2,930 | -3,520 |
| Change in short- and long-term loans payable (net) | -617 | -539 |
| Purchase of treasury shares | -79 | -262 |
| Cash dividends paid | -2,177 | -2,654 |
| Change in cash and cash equivalents (- indicates decrease) | 5,989 | 8,748 |
| Cash and cash equivalents at end of period | 30,939 | 32,249 |

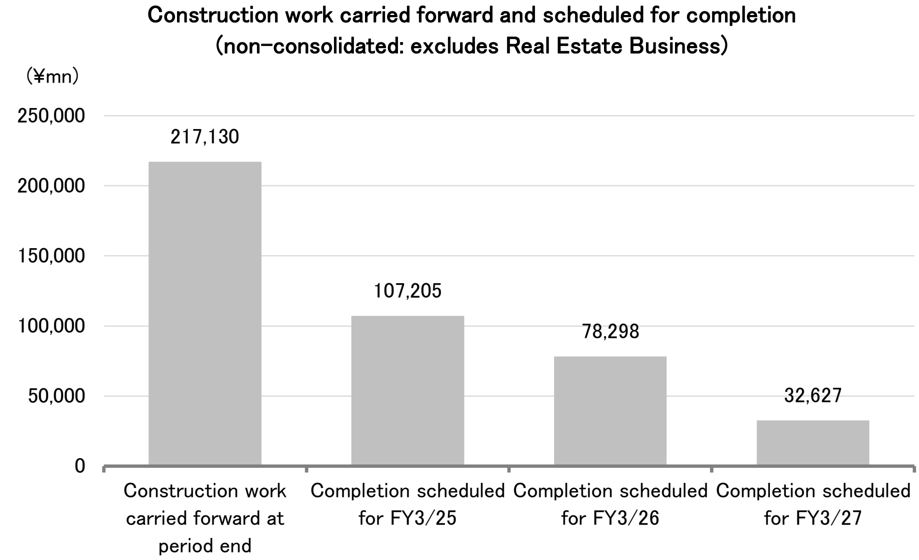
Source: Prepared by FISCO from the Company's financial results

# Outlook

## For FY3/25, operating profit expected to rise 42.4% as many projects carried forward are extinguished

For FY3/25, the Company is forecasting orders received of ¥230,000mn (down 1.0% YoY), ¥183,902mn in balance carried forward to the next period (down 7.5% compared to the end of FY3/24), net sales of ¥245,000mn (up 10.4%), operating profit of ¥16,500mn (up 42.4%), ordinary profit of ¥17,000mn (up 33.3%), and profit attributable to owners of parent of ¥11,600mn (up 29.6%). The Company sharply raised its initial forecasts (net sales ¥225,000mn, operating profit ¥12,500mn) in light of the strong 1H results.

The gross profit margin is expected to be 17.1% (a 1.5pp increase YoY) and SG&A expenses are projected to increase by 10.6%. 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, we at FISCO believe 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, while also considering the need to avoid overloading the construction system.



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

The Company forecasts net sales of ¥201,000mn (up 10.1% YoY) in the Facilities Construction Business. By subsegment, it forecasts net sales will: increase 15.3% to ¥70,000mn in HVAC and plumbing for buildings as construction work in progress is completed; increase 10.5% to ¥88,000mn in industrial HVAC, supported by progress with large-scale projects; increase 9.1% to ¥30,000mn in electrical systems due to a large backlog of major orders, including EV battery-related projects; and increase 11.5% to ¥13,000mn in facility systems, supported by a recovery in 2H.

Net sales in the Plants & Machinery Systems Business are forecast at ¥42,000mn (up 13.5% YoY). By subsegment, the initial forecast for machinery systems has been revised down in light of progress on sales in 1H, with sales expected to rise 13.3% to ¥12,000mn. Environmental systems are expected to see sales increase 13.6% to ¥30,000mn 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.

Orders received are expected to be ¥230,000mn (down 1.0% YoY) due to the past two years being strong and construction work in progress being at a high level, but they are still projected to top the ¥200,000mn mark. In the mainstay Facilities Construction Business, the Company raised its order forecast to ¥192,000mn (up 4.6%) to reflect the current favorable order environment and growing customer acceptance of its pricing. By subsegment, it forecasts orders will increase 20.7% YoY to ¥64,000mn in HVAC and plumbing for buildings amid continued strong demand, and contract 11.7% to ¥80,000mn in industrial HVAC, partly in reaction to high order levels in the previous fiscal year. With demand still firm in electrical systems, it forecasts order growth of 36.6% to ¥35,000mn, but it sees orders contracting 9.2% to ¥13,000mn in facility systems, albeit remaining at a high level.

In the Plants & Machinery Systems Business, the Company forecasts orders received of ¥36,000mn (down 22.8% YoY). By subsegment, it anticipates a recovery in machinery systems, led by material handling-related orders, but it has revised down its initial forecast to ¥12,000mn (up 6.7% YoY). In environmental systems, it sees orders contracting, down 32.2% to ¥24,000mn, partly reflecting a pullback from large orders in the previous fiscal year and intentional steps to slightly curb order activity so as not to overload the construction system. However, the order level still looks healthy compared with previous years. Orders received in the Real Estate Business and the Others segment are forecast to be ¥2,500mn (up 0.7%) and ¥600mn (down 5.4%) respectively.

The Company forecasts the gross profit margin will improve to 17.1%, supported by improving margins on orders received in the previous fiscal year and continued rigorous management of construction projects. It forecasts gross profit of ¥42,000m (up 21.2%). Despite plans for higher investment in DX and in personnel as part of work style reforms, it sees SG&A expenses increasing only 10.6% YoY to ¥25,500mn. As a result, operating profit is projected to increase 42.4% to ¥16,500mn.

**FY3/25 forecast**

(¥mn)

| | FY3/24 | | FY3/25 | | Change | |
|---|---|---|---|---|---|---|
| | Results | Component ratio | Forecast | Component ratio | Amount | % |
| Orders received | 232,396 | 100.0% | 230,000 | 100.0% | -2,396 | -1.0% |
| Facilities Construction Business | 183,606 | 79.0% | 192,000 | 83.5% | 8,394 | 4.6% |
| HVAC and plumbing for buildings | 53,028 | 22.8% | 64,000 | 27.8% | 10,972 | 20.7% |
| Industrial HVAC | 90,636 | 39.0% | 80,000 | 34.8% | -10,636 | -11.7% |
| Electrical systems | 25,617 | 11.0% | 35,000 | 15.2% | 9,383 | 36.6% |
| Facility systems | 14,323 | 6.2% | 13,000 | 5.7% | -1,323 | -9.2% |
| Plants & Machinery Systems Business | 46,626 | 20.1% | 36,000 | 15.7% | -10,626 | -22.8% |
| Machinery systems | 11,242 | 4.8% | 12,000 | 5.2% | 758 | 6.7% |
| Environmental systems | 35,383 | 15.2% | 24,000 | 10.4% | -11,383 | -32.2% |
| Real Estate Business | 2,482 | 1.1% | 2,500 | 1.1% | 18 | 0.7% |
| Others | 634 | 0.3% | 600 | 0.3% | -34 | -5.4% |
| Adjustments | -953 | - | -1,100 | - | -147 | - |
| Net sales | 221,920 | 100.0% | 245,000 | 100.0% | 23,080 | 10.4% |
| Facilities Construction Business | 182,545 | 82.3% | 201,000 | 82.0% | 18,455 | 10.1% |
| HVAC and plumbing for buildings | 60,729 | 27.4% | 70,000 | 28.6% | 9,271 | 15.3% |
| Industrial HVAC | 79,658 | 35.9% | 88,000 | 35.9% | 8,342 | 10.5% |
| Electrical systems | 27,498 | 12.4% | 30,000 | 12.2% | 2,502 | 9.1% |
| Facility systems | 11,658 | 5.3% | 13,000 | 5.3% | 1,342 | 11.5% |
| Plants & Machinery Systems Business | 37,007 | 16.7% | 42,000 | 17.1% | 4,993 | 13.5% |
| Machinery systems | 10,591 | 4.8% | 12,000 | 4.9% | 1,409 | 13.3% |
| Environmental systems | 26,415 | 11.9% | 30,000 | 12.2% | 3,585 | 13.6% |
| Real Estate Business | 2,482 | 1.1% | 2,500 | 1.0% | 18 | 0.7% |
| Others | 632 | 0.3% | 600 | 0.2% | -32 | -5.1% |
| Adjustments | -747 | - | -1,100 | - | -353 | - |
| Gross profit | 34,642 | 15.6% | 42,000 | 17.1% | 7,358 | 21.2% |
| SG&A expenses | 23,055 | 10.4% | 25,500 | 10.4% | 2,445 | 10.6% |
| Operating profit | 11,586 | 5.2% | 16,500 | 6.7% | 4,914 | 42.4% |
| Ordinary profit | 12,750 | 5.7% | 17,000 | 6.9% | 4,250 | 33.3% |
| Profit attributable to owners of parent | 8,951 | 4.0% | 11,600 | 4.7% | 2,649 | 29.6% |

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

# Medium-term management plan

## On track to achieve "Century 2025" targets one year early; new plan due out next spring

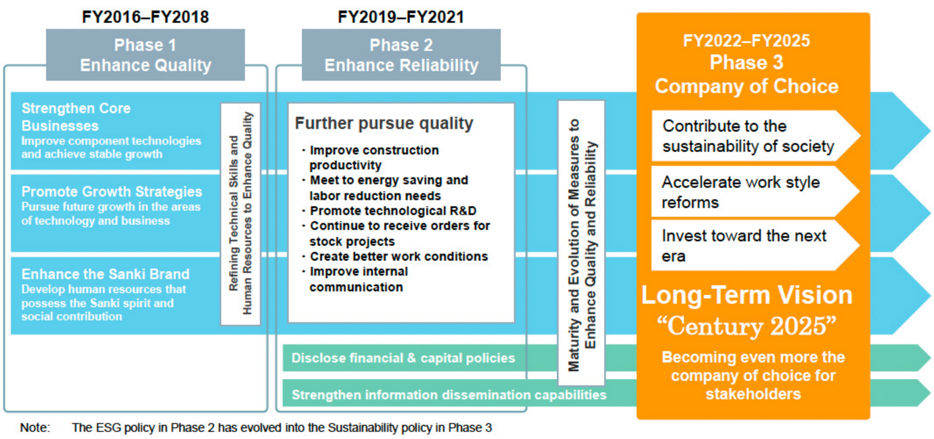
### 1. What is the "Century 2025" long-term vision?

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. In FY3/23 the Company moved into Phase 3, the final phase of its "Century 2025" long-term vision. However, with the Company on track to attain its Phase 3 targets in FY3/25, one year ahead of schedule, it officially announced the end of "Century 2025" instead of waiting until FY3/26.

### 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




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 targets and actual results**

Quantitative targets for the final year of the vision (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. As shown in the table below, the Company expects to achieve these targets in FY3/25.

Phase 3 (FY3/26) results targets

(¥bn)

| | |
|---|---|
| Net sales | 220.0 |
| Gross profit | 36.0 |
| (%) | 16.5% |
| Ordinary profit | 12.0 |
| (%) | 5.5% |

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

Phase 3 (FY3/26) management targets

| | |
|---|---|
| Ordinary profit margin | 5.0% or above (final year) |
| Dividend policy | Dividend payout ratio of 50% or above<br>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 results briefing materials

### 4. Progress with medium-term management plan

#### (1) Strengthening core businesses

#### 1) Facilities Construction Business

- The newly established Design & Engineering Division has reinforced the Company's ability to handle larger-scale and special projects, mainly in industrial HVAC, leading to strong growth in large-scale construction orders in the semiconductor and EV battery sectors. The division is also working with design departments at each business site to reinforce the design review process from the initial estimate stage. This is expected to reduce the need for design rework and further improve quality.
- The facility systems business is working with a startup company to develop an application that improves the efficiency of office design work.

#### 2) Machinery systems business

- Increased sales headcount in the Chubu region to improve ability to capture automotive-related building orders.
- Melis Bianca® automatic sorting system wins Good Design Award 2024.

#### 3) Environmental systems business

- Received an order for a Digestion Gas Power Generation Project at the Morigasaki Water Reclamation Center, the largest water reclamation center in Japan (DBO method*). Reinforcing systems to support stable, long-term business.

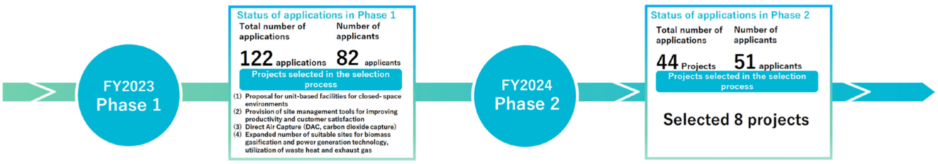
* DBO (Design Build Operate): a PPP (Public-Private Partnership) method of engaging a single private contractor to undertake the entire task of designing, construction, operation, and maintenance. In this project, the Company has been contracted to build the facility by March 2027 and maintain and operate it for 20 years.

### (2) Implementing growth strategies

Promoting the Earth MIRAI Project.

- An in-house project to explore new technologies and business fields to create the Company's next century. All Group employees are invited to submit ideas under the theme of "unique, new comfort for the future," with the aim of making their ideas reality. The Company is now refining and exploring the feasibility of projects selected in Phase 1 and Phase 2.

**Earth MIRAI Project**




Source: The Company's results briefing materials

### (3) Enhancing the Sanki Engineering brand

Recognized as an Environmentally Sustainable Company* by Japan's Ministry of the Environment.

- Recognized as an Antarctic Research Partner Company of the National Institute of Polar Research for ongoing contributions to Antarctic observation projects.

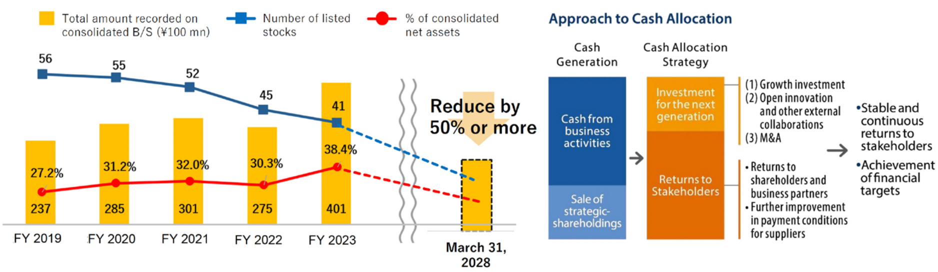
* The Ministry of the Environment's ESG Finance Awards Japan recognizes companies that incorporate "material environmental opportunities and risks" into their management strategies and that work to enhance corporate value in conjunction with environmental initiatives.

### (4) Disclosing financial and capital policies

Disclosed policy of reducing cross-shareholdings.

- The Company plans to cut the number and value of listed shareholdings on its balance sheet by 50% or more from end of March 2024 in order to reduce cross-shareholdings to less than 20% of consolidated net assets by end of March 2028.
- Cash generated from the sale of cross-shareholdings will be used to invest in the Company's next era, supporting growth in corporate value.

**Financial and capital policies**




Source: The Company's results briefing materials

### (5) Improving communication

- Participated in One Day School on the Environment event for elementary school students.
  The Company participated as a special sponsor in the One Day School on the Environment, an event for elementary school students run by The Asahi Shimbun Company. The Company held classes on the global environment for approximately 120 elementary school students and visited elementary schools nationwide.
- Strengthening communication of the Sanki Engineering brand through TV, newspapers, and other media.
  The Company ran TV ads to coincide with the July 21, 2024 broadcast of a TV Tokyo program, "On Board the SHIRASE Antarctic Research Vessel" (employees appeared in the program as members of the 64th and 65th Antarctic research expeditions).
  The Company also featured in a TV Tokyo program, "Any Reason Why You Don't Quit Your Company?," broadcast on 15 September 2024. The archived video is available on the Company's YouTube channel.

### (6) Contributing to a sustainable society

- Participated in the Okinawa Institute of Science and Technology Graduate University (OIST) Coral Project as a special partner.
  In addition to its ongoing support for tree planting and cultivation to create forest areas, the Company began supporting activities to protect coral reefs, also called "sea forests," as part of a more wide-ranging environmental protection program.
- Sanki Environmental Garden*1 designated as a Nature Coexistence Site for the first half of FY2024*2 by the Ministry of the Environment.
- Science Based Targets (SBT) certification received for greenhouse gas reduction targets.
  The Science Based Targets initiative (SBTi), an international collaboration that helps companies set science-based medium- and long-term greenhouse gas reduction targets, recognized the validity of the Company's Net Zero Target (achieve effectively net zero greenhouse gas emissions by 2050) and its 1.5°C Scenario target (reduce greenhouse gas emissions by 2030) with SBT certification.

*1 Roughly 0.23ha of green space within the Sanki Techno Center (Yamato City, Kanagawa Prefecture), based on the concept of symbiosis between people and the natural environment.
*2 Areas where the private sector is implementing measures to protect biodiversity, recognized by the government as contributing to the 30by30 international target, which aims to protect and conserve at least 30% of the world's land and oceans by 2030.

### (7) Accelerating work style reforms

- Promoting the Smile Project – internal project launched in FY2015 to create comfortable work environments across the Company.
- Stepping up monitoring of working hours and PC usage time and improving business processes.

### (8) Invest toward the third generation

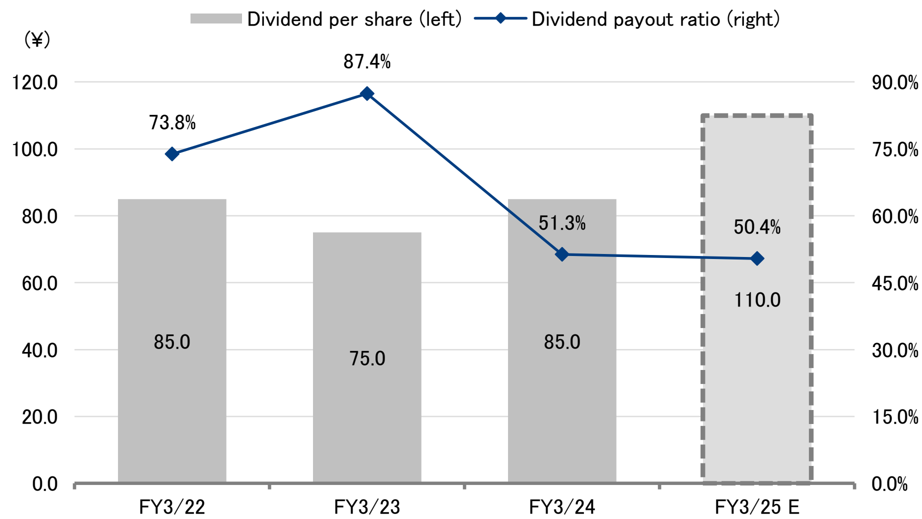
- Accelerating DX in facilities construction work (launched versatile application of robot technology).
  The Company is improving productivity and the quality of construction work by employing robotics to solve two challenges faced by the construction industry – a labor shortage and long working hours.
- Using expertise gained from an automated robotic airflow meter developed in-house in 2020, the Company aims to reduce man-hours by using robots to measure noise and light, and carry out other measurement tasks, which have typically been carried out by hand.
- Developed BB Sorter™ (sorting device equipment), derived from Branch Ball (three-way sorting system), and exhibited at Logis-Tech Tokyo 2024 at Tokyo Big Sight. The sorting device is capable of gently transporting and sorting not only cardboard boxes, but also thin items such as envelopes, bagged items such as apparel, and small items. It can also handle the transportation of mixed packages with different contents.
- To expand production of AEROWING (energy-saving aeration system), the Company enhanced functions at overseas plants and added production capacity at plants in Japan.

# Shareholder return policy

## Planning to pay a dividend of ¥110.0 and acquire 1,500,000 shares of treasury stock in FY3/25

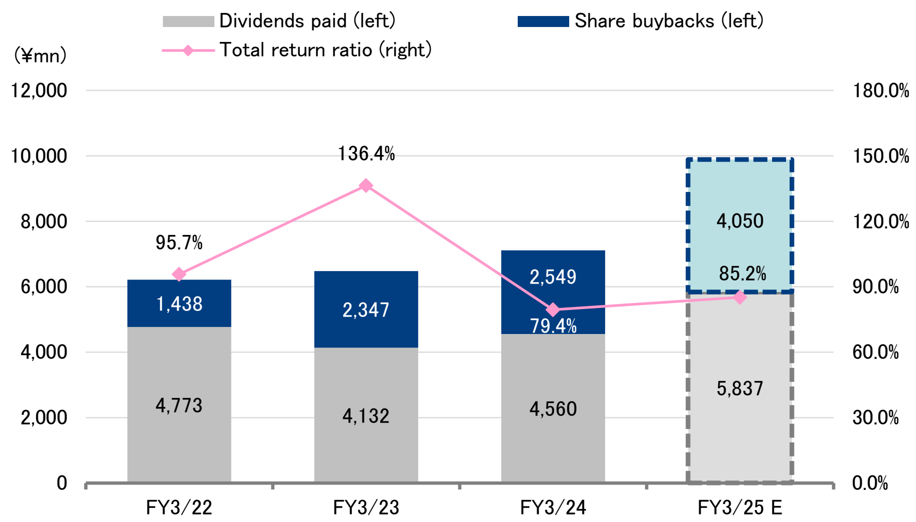
The Company is also actively returning profits to shareholders. It has been paying stable returns to shareholders in line with its shareholder return policy in the "Century 2025" Phase 3 medium-term management plan. The Company raised its FY3/25 full-year dividend forecast to ¥110.0 per share in line with the revised earnings forecasts, giving a projected dividend payout ratio of 50.4%. It also plans to buy back 1.5mn shares by end of March 2025 and it retired 2mn shares on August 19, 2024. As a result, the projected total return ratio for FY3/25 is 85.2%.

Dividend per share and dividend payout ratio




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

Total return ratio (dividends + share buybacks)




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

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.

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