

SANKI SERVICE CORPORATION

6044

Tokyo Stock Exchange First Section

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Summary

Provides total maintenance services not only for air-conditioning equipment, but for all equipment and devices, primarily through its call centers that operate 24-hours-a-day, 365-days-a-year

Sanki Service Corporation <6044> (hereafter, “the Company”) provides total maintenance services from design, construction, and maintenance management to repairs, not only for air-conditioning equipment, but also for all equipment and devices such as electrical, kitchen, water supply and drainage, and sanitation equipment, primarily through its call centers that operate 24-hours-a-day, 365-days-a-year. Through total maintenance, it solves the problems of “cost reductions” and “environmental improvements” for social infrastructure facilities that are essential to economic and social activities, such as offices and buildings, commercial facilities and chain stores, hotels, hospitals and care facilities for the elderly, and government buildings and schools.

1. Company profile

The Company’s business concept is to realize “environmental improvements” centered on maintenance. For its customer companies with many stores and buildings, it responds to maintenance requests for equipment and devices, including air-conditioning equipment, regardless of equipment manufacturer, and centralizes information management (data analysis) online as a function of its call center. This enables it to make proposals to increase the profitability of customer companies by realizing reductions not only to direct maintenance costs, but total costs including equipment maintenance management costs. The main business segments are the Total Maintenance Business (regular maintenance management business), the Air Conditioning Maintenance Business, the Maintenance Services Business, and the Environment Solutions Business.

The Company’s strengths include that it provides total maintenance services that utilize the technological capabilities and maintenance expertise that it has cultivated over many years as a manufacturer designated store, such as in air-conditioning maintenance technologies, centered on its call centers that operate 24-hours-a-day, 365-days-a-year. Another strength is that for its main customers, which include retail chain stores, it provides centralized management on a nationwide scale with unified standards through package contracts. Its main customers include the approximately 60 stores in the Kansai area of LIFE CORPORATION <8194>, the approximately 20,000 stores nationwide of SEVEN-ELEVEN JAPAN CO., LTD., and the approximately 150 stores of OKUWA Co., Ltd.<8217>.

2. Overview of the FY5/20 results

In the FY5/20 consolidated results, net sales increased 5.7% year-on-year (YoY) to ¥11,679mn, operating profit decreased 37.7% to ¥406mn, ordinary profit declined 38.0% to ¥408mn, and profit attributable to owners of parent fell 36.8% to ¥272mn. Net sales reached a new record high due to the increases in energy-saving construction projects and orders for total maintenance contracts. The Company provides centralized management for various devices on a nationwide scale according to unified standards by providing package contracts to major retail companies that conduct businesses nationwide, so sales for retail continue to trend at above 50% of total sales and drive growth. Other sales (leases) also grew, mainly due to the increase in energy-saving construction projects.

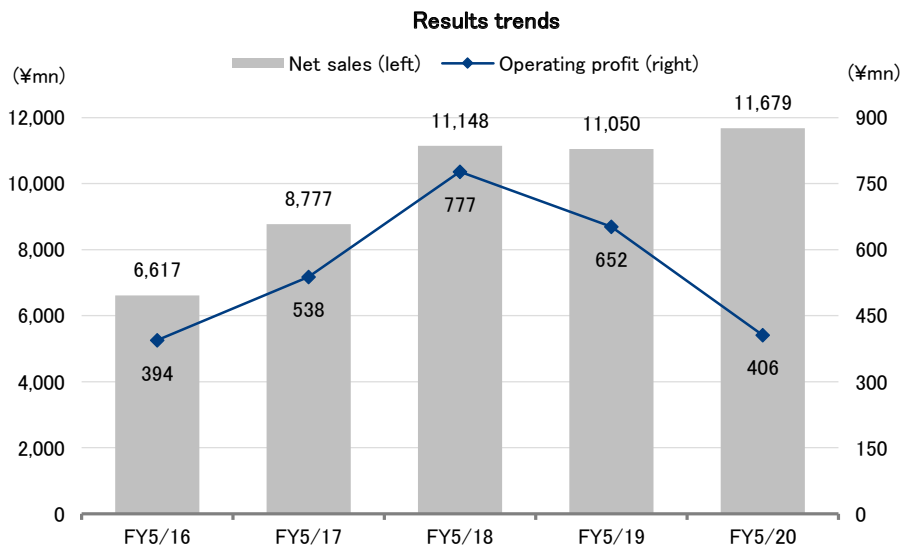
Summary

3. Medium-term Business Plan (FY2020-2022)

In July 2019, the Company announced its Medium-term Business Plan (FY2020 to FY2022) based on the theme of “Innovation and Sustainable Growth.” It includes measures to strengthen public relations activities with the aim of disseminating the new corporate philosophy, to strengthen in-house production through short-term training and multi-skill development of engineers by utilizing training centers, to strengthen the competitiveness of its IT system by introducing a new core system, and to strengthen the sales structure by newly establishing a corporate sales department. Following the recent novel coronavirus pandemic, it has become extremely difficult to forecast the economic conditions in the future. So although the Company will continue to promote the Medium-term Business Plan, it will review the published numerical targets and once again announce them at the time in the future when it can make a judgment to a certain extent about the outlook of the market environment, including the impact that the anticipated second wave of the novel coronavirus will have on the Company Group.

Key Points

- Provides maintenance services for all equipment, not only air-conditioning equipment, on a nationwide scale with unified standards, through package contracts, primarily through its call centers that operate 24-hours-a-day, 365-days-a-year
- In FY5/20, net sales reached a new record high
- Has concluded package contracts with major retail companies, including LIFE CORPORATION and SEVEN-ELEVEN JAPAN



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

■ Company overview

Realizes cost reductions and environmental improvements through total maintenance

1. Company history

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 Business for companies managing many stores. Through total maintenance, it solves the problems of “cost reductions” and “environmental improvements” for social 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, SEVEN-ELEVEN JAPAN CO., LTD., OKUWA Co., Ltd., AMADA CO., LTD.<6113>, TOKYO GAS Co., Ltd. <9531>, and Sanyo Special Steel Co., Ltd. <5481>.

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. This was the first time that the Company President had changed. 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 of the Company, including announcing its first Medium-term Business Plan, introducing the new core system, and strengthening internal controls. The aims of this personnel change are to build a new management structure, promote reforms, and strengthen the Medium-term Business Plan.

In 2015, the Company was listed on the JASDAQ market and its listing designation was changed to the Tokyo Stock Exchange (TSE) Second Section in 2016 and the TSE First Section in 2017.

Company overview

History

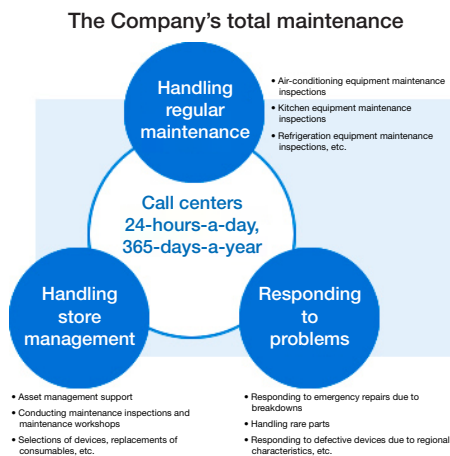
October 1976	As one part of the machinery business department of HYOGO KIKO, CO., LTD., started outsourcing work for the assembly, installation, trial runs, and maintenance management of large heating and cooling equipment through a business partnership with Sanyo Air Conditioning System Services Co., Ltd. (currently, Panasonic Commercial Equipment Systems Co., Ltd.)
July 1977	Separated from HYOGO KIKO and established Sanki Service in Shikitocho, Himeji City, Hyogo Prefecture The Company established its Osaka Center within the office of the Osaka Center of Sanyo Air Conditioning System Services
October 1977	Established the Tokyo Center
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

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

Realizes “environmental improvements” by responding to maintenance requests for air conditioning and other equipment, regardless of equipment manufacturer, for customer companies operating multiple stores and multiple buildings

2. Business overview

The Company’s business concept is to realize “environmental improvements” centered on maintenance. For its customer companies with many stores and buildings, it responds to maintenance requests for air-conditioning equipment and all other equipment and devices, regardless of equipment manufacturer, and centralizes information management online as a call center function. This enables it to make proposals to increase the profitability of customer companies by realizing total cost reductions not only of direct maintenance costs, but also total costs including equipment maintenance management costs. The main business segments are the Total Maintenance Business (regular maintenance management business), the Air Conditioning Maintenance Business, the Maintenance Services Business, and the Environment Solutions Business.



Source: Prepared by FISCO from the Company’s website

(1) The Total Maintenance Business (regular maintenance management business)

Through the collective management of equipment in all the stores and all the business offices of customer companies, the Company reduces the work burden and costs relating to various issues and supports management. As one part of the Total Maintenance Business, regular maintenance management entails conducting inspections from the viewpoint of “preventative maintenance” for building equipment (air-conditioning, electricity, kitchen, fire prevention, water supply and drainage, sanitation equipment, etc.) to prevent accidents and problems before they occur. It also considers prolonging the useful lives of equipment by always keeping a building’s equipment and devices in the best possible condition.

The Company receives inquiries at its call centers, which can respond 24-hours-a-day, 365-days-a-year. Operators are always in place, and the Company conducts total maintenance work for its more than 100,000 customer stores by utilizing its approximately 200 service engineers and its network of nationwide collaborative partners and various manufacturers. One feature is that the Company has put in place an environment in which its service team can respond regardless of the device or the manufacturer. Through coordinating with a database, it ascertains the equipment details on the customer side and provides a total service which involves not only responding to emergency problems with devices, but also conducting preventive maintenance for other devices.

Company overview

(2) The Air Conditioning Maintenance Business

This business provides maintenance services, mainly for air-conditioning equipment, for companies like SEVEN-ELEVEN that manage many stores nationwide. In recent years, it has also been conducting maintenance for water supply and drainage equipment and installing and maintaining refrigeration equipment.

(3) The Maintenance Services Business

When it was first founded, the Company conducted maintenance focused on large air-conditioning equipment (mainly absorption-type chillers and heaters) as a designated manufacturer service store for the Panasonic Group. It currently responds to requests nationwide, but is focused on the regions of Tokyo, Nagoya and Osaka. The main service content is regular inspections outsourced by Panasonic Commercial Equipment Systems that conducts sales, construction, and services for commercial-use equipment, devices, and systems. It also responds to requests for repairs and conducts preventative maintenance to prevent problems before they occur. In recent years, this business has additionally been utilizing the expertise cultivated over many years in order to conduct work including installing energy-saving inverters for devices peripheral to large air-conditioning equipment and upgrading devices including large air-conditioning equipment.

(4) The Environment Solutions Business

From the Company's track record of handling projects for infrastructure facilities, including hospitals and care facilities for the elderly, this business has realized environmentally-conscious proposals such as reduction of CO2 emissions. It conducts CM (Construction Management) operations*. The Company's construction managers, who have been involved in the construction of more than 1,000 stores, manage aspects like "design" and "construction" on behalf of the ordering party. They also conduct collective construction work for electricity, water supply and drainage, and sanitation, but particularly for air-conditioning, which is said to constitute approximately half of a building's energy consumption.

* A method of managing all of a project through a specialized third party, rather than separately through the "designer" and the "builder."

Needs are rising for energy conservation, power conservation, and cost reductions. In this situation, the Company proposes and provides full support for cost reductions not only by investing in new equipment, but also by using existing equipment through its environmental improvements business. One feature of the Company is that it allocates specialists for each commodity such as pump inverters, heat source replacements, sales of energy-saving products, energy-saving consulting, energy monitoring devices, LED lighting, and solar power generation.

(5) Overseas business

Looking to enter into overseas markets, the Company established Shanghai Sanki Building Facility Service Co., Ltd. in 1998 as an overseas sales business with the aims of establishing information and customer networks. In February 2012, it established the "call center business" as the overseas business, establishing a structure aimed at the optimal development of the call center business from a local perspective. Additionally, in May 2019, it established SANKI – SONADEZI JOINT STOCK COMPANY, as a joint venture with state-owned SONADEZI GIANG DIEN SHAREHOLDING COMPANY, in Dong Nai Province, Vietnam. However, on August 17, 2020, it announced it had withdrawn from this venture due to the impact of the novel coronavirus.

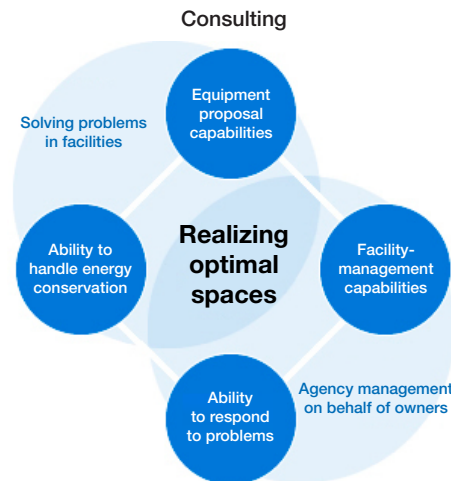
Provides a wide range of high-quality services as “environmental improvement business centered on maintenance”

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 the content of the 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 and to make equipment energy saving, which are the most important issues for the management of buildings and facilities. From this, in addition to energy-saving measures, 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. 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 for possessing both call center staff and maintenance professionals.

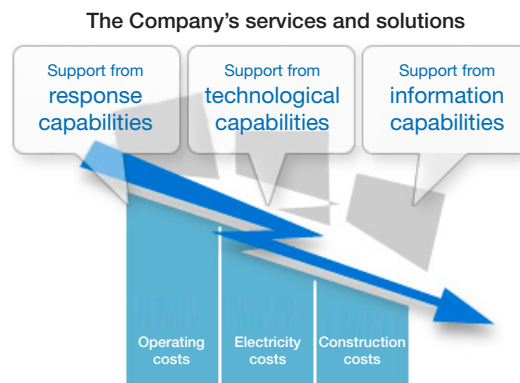


Source: Prepared by FISCO from the Company’s website

(2) Energy conservation and cost reductions

The Company provides energy conservation and cost reductions by utilizing its proprietary systems and expertise to install the optimal equipment and conduct construction as well as maintenance management. It realizes energy conservation and cost reductions from three services; response capabilities, technological capabilities, and information capabilities. It also conducts collective management, such as management of maintenance histories, which enables it to prevent emergency problems.

Company overview



Source: Prepared by FISCO from the Company's website

(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, receive the request to dispatching engineers, confirming the progress, and submitting an invoice. Unifying maintenance in this way makes it easier to manage the maintenance histories of each store, and as a result, saves time and effort for managers and contributes to reducing total costs of maintenance and management.

(b) Technological capabilities

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

(c) Information proposal capabilities

The Company reduces initial investment costs by providing the knowledge and expertise it has accumulated for environmental improvements to prevent problems before repairs are needed and for equipment overall, as well as information on various subsidies. It provides information for preparations made in advance, including proposals to utilize subsidies to fund some of the costs to upgrade and install equipment.

(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 (air-conditioning equipment, lighting equipment etc.), 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 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.

Company overview

(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, mainly for air-conditioning equipment, on a nationwide scale with unified standards, through package contracts, primarily through its call centers that operate 24-hours-a-day, 365-days-a-year**4. Strengths**

One strength of the Company is that it utilizes the technological capabilities and maintenance expertise it has accumulated as a manufacturer-designated store over many years, including air-conditioning maintenance technologies, to provide a total maintenance service, centered on its call centers that operate 24-hours-a-day, 365-days-a-year. Among listed companies, its competitors include Nippon Air Conditioning Services Co., Ltd. and Shin Maint Holdings Co., Ltd. However, compared to these competitors, the Company's strengths include that it has nationwide emergency response capabilities from its in-house services engineers and call centers that operate 24-hours-a-day, 365-days-a-year; that it has gone ahead of its competitors in creating systems, including online systems; that it is focusing its efforts into human-resources training and multi-skills development; and that through technologies training at the head office, which includes a training center, it is able to respond to maintenance requests regardless of the device's manufacturer.

For its main customers, which include retail chain stores, the Company conducts maintenance management work, including for air-conditioning equipment, kitchen devices, refrigeration equipment, electrical equipment, water supply and drainage equipment, sanitation equipment, and fire-prevention equipment, and one of its strengths is that it can undertake collective management regardless of the manufacturer or the type of device. Many chain stores request repairs, inspections, and responses to problems for every respective device individually at the chain store's head office and for individual stores. However, the Company concludes a package contract with the chain's head office to provide collective management on a nationwide scale with unified standards for each device. As it can offer unified management for many stores and facilities spread across various regions, customer companies are able to optimize their cost management. The main customers are the approximately 60 stores in the Kansai area of LIFE CORPORATION, the approximately 2,000 stores nationwide of SEVEN-ELEVEN JAPAN, and since January 2020, the approximately 150 stores of OKUWA. It has concluded package contracts with these major retail companies.

Also, as a manufacturer services 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. The Company has carried out maintenance of air-conditioning equipment manufactured by Panasonic since it was founded, so its relationship with the Panasonic Group appears to be strong. In addition, needs for energy saving are rising due to environmental problems. Therefore, we at FISCO think opportunities to capture demand are also increasing through the expansion of the Total Maintenance Business, 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, drainage, and sanitation equipment, and renewal of large-scale equipment.

5. CSR Activities

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 not only by investing in new equipment, but also by using existing equipment through its environmental improvements business. As an example of a proposal to reduce equipment costs, for “a pump inverter control” solution, it installs inverter controls on pumps to limit the amount of waste water and reduce power consumption according to the load capacity, thereby achieving energy conservation. Additionally, for “energy-saving consulting”, it deals with the relevant laws and regulations, provides advice, and promotes environmental measures together with customers, mainly for 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, including equipment upgrades. It also proposes designs and ways of selecting products in order to save electricity when introducing LED lighting.

In addition, in January 2020, the Tokyo business office became the Company’s first office to acquire ISO14001 certification. ISO14001 is one of the international standards for “environment management systems” to promote voluntary and proactive measures for environmental conservation toward addressing global environment issues and to “reduce the environmental load” of corporate activities to achieve sustainable development.

The Company carries out the Sanki Service Forest project as a CSR activity for the beautification and preservation of the forest environment. It constitutes one part of its CSR activities with the goals of reducing CO₂ emissions in its business activities and preserving the global environment for future generations. In September 2017, on the 40th anniversary of its foundation, it carried out tree planting on the coastal area of Futtsu City, Chiba Prefecture (0.21ha). Every year, employees nationwide mobilize locally to conduct forest preservation activities, including pruning and weeding.

Results trends

In FY5/20, net sales reached a new record high due to the increases in orders for energy-saving construction projects and total maintenance contracts

1. Overview of the FY5/20 results

In the FY5/20 consolidated results, net sales increased 5.7% year-on-year (YoY) to ¥11,679mn, operating profit decreased 37.7% to ¥406mn, ordinary profit declined 38.0% to ¥408mn, and profit attributable to owners of parent decreased 36.8% to ¥272mn. Net sales reached a new record high due to the increases in energy-saving construction projects and orders for total maintenance contracts.

Results trends

Meanwhile, the impact of the novel coronavirus pandemic drove profits down in 4Q FY5/20. Within Japan, impacts included the cancellation and postponement of energy-saving construction projects in hospitals and care facilities for the elderly, the suspension of regular operations due to the temporary closure of eating and drinking establishments, and cancellation of regular inspections and air-conditioning construction by customer companies including retail. The Company also carried out energy-saving proposals at its overseas subsidiaries, mainly for Japanese companies, using new products. However, progress was not made as originally planned due to the effect of lockdown measures (city-wide lockdowns) in various countries. A series of projects scheduled for FY5/20 4Q have been suspended, including energy-saving construction projects for hospitals and care facilities for the elderly that have high profit margins, as well as regular inspections.

FY5/20 results

	FY5/19		Initial forecast	FY5/20			
	Results	% of net sales		Results	% of net sales	YoY	vs. forecast
Net sales	11,050	-	12,100	11,679	-	105.7%	96.5%
Gross profit	2,411	21.8%	-	2,663	22.8%	110.5%	-
SG&A expenses	1,758	15.9%	-	2,256	19.3%	128.3%	-
Operating profit	652	5.9%	600	406	3.5%	62.3%	67.8%
Operating profit margin	5.9%	-	-	3.5	-	-2.4pt	-
Ordinary profit	659	6.0%	597	408	3.5%	62.0%	68.4%
Profit attributable to owners of parent	431	3.9%	392	272	2.3%	63.2%	69.5%

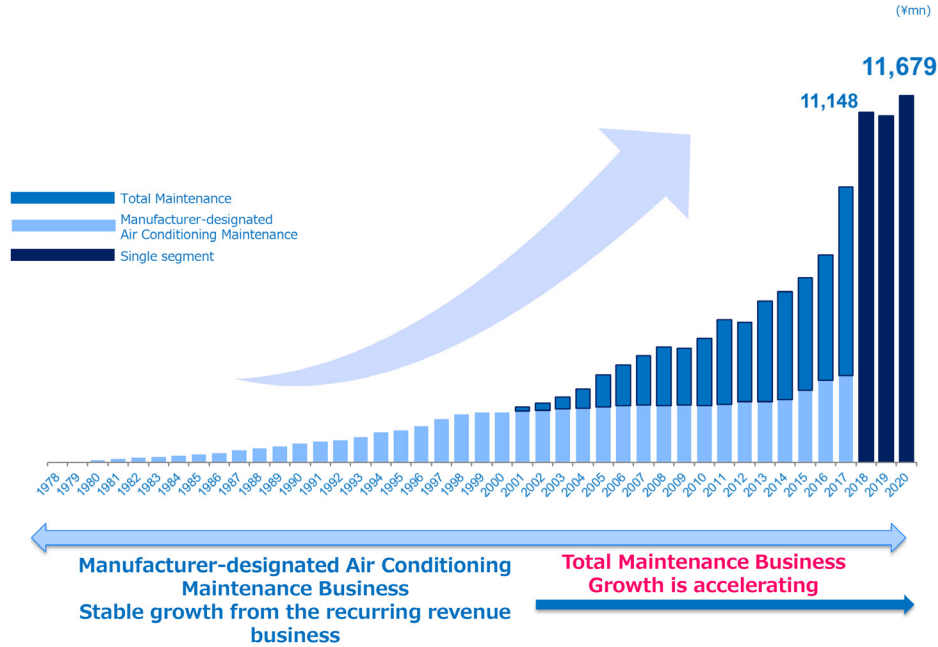
(¥mn)

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

Since April 2020, the novel coronavirus has affected results to a certain extent, causing postponement of work on energy-saving construction projects and preventing the Company from carrying out work such as preventative maintenance due to self-imposed restrictions on movement following the declaration of a state of emergency. However, in this situation, the Company has been focusing on uncovering potential customer needs by actively providing them with sales proposals that consider preventative maintenance, device replacements, and environment improvements. As a result, sales of energy-saving construction projects increased and orders were acquired for new total maintenance contracts. While net sales were 96.5% of the initial forecast, they still exceeded the FY5/18 result of ¥11,148mn and were a new record high. This was from the continued stable growth of its recurring revenue business, manufacturer-designated Air Conditioning Maintenance Business, which the Company has conducted since its foundation. However, it can also be said to be from the accelerated speed of growth since the start of the Total Maintenance Business.

Results trends

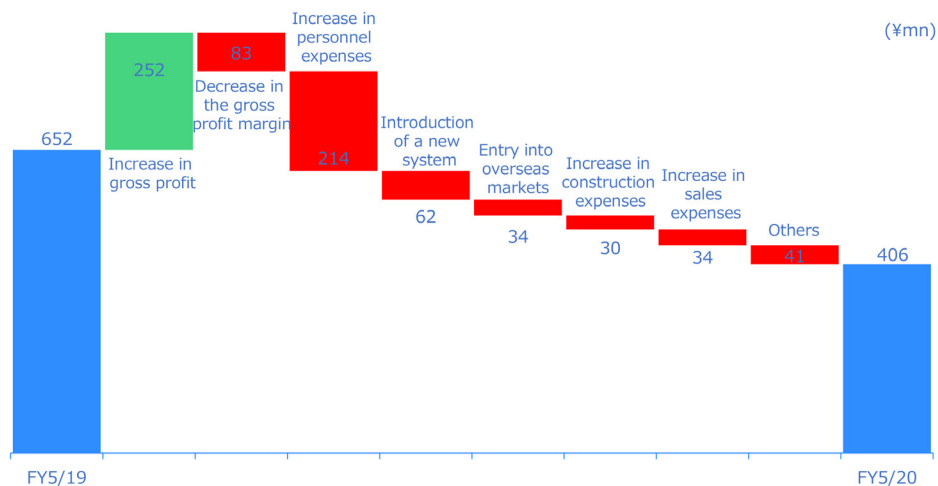
Trend in consolidated net sales



Source: The Company's financial results briefing materials

As for factors causing operating profit to change in FY5/20, gross profit increased in conjunction with an increase in sales, but the gross profit margin declined, mainly due to the reduction in projects with high profit margins. In addition, the novel coronavirus pandemic impacted business activities, while depreciation expenses increased for the new core IT system introduced in this period. SG&A expenses also increased, including personnel expenses following a rise in the number of personnel to strengthen the ability to respond to large customers, based on the Medium-term Business Plan. However, the increase in depreciation expenses for the new core IT system and the rise in personnel and other expenses to strengthen the personnel structure, based on the Medium-term Business Plan, constitute upfront investment in order to further accelerate the pace of growth.

FY5/20 operating profit change factors

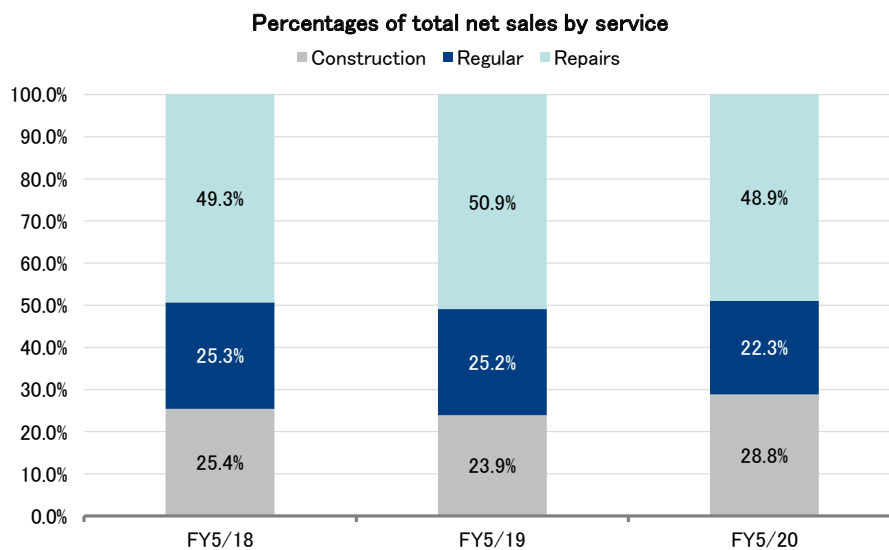


Source: The Company's financial results briefing materials

Results trends

2. Net sales by service

In construction projects, orders for energy-saving construction projects were steady, resulting in a net sales increase by 27.7% YoY to ¥3,255mn. The percentage of total net sales also rose 4.9% to 28.8%. Net sales of regular projects decreased 6.4% to ¥2,520mn, mainly due to the suspension of regular maintenance work scheduled for 4Q FY5/20, while the percentage of total net sales decreased 2.9% to 22.3%. Although net sales of repair projects increased 1.8% to ¥5,526mn, the percentage of total net sales decreased 2.0% to 48.9%.

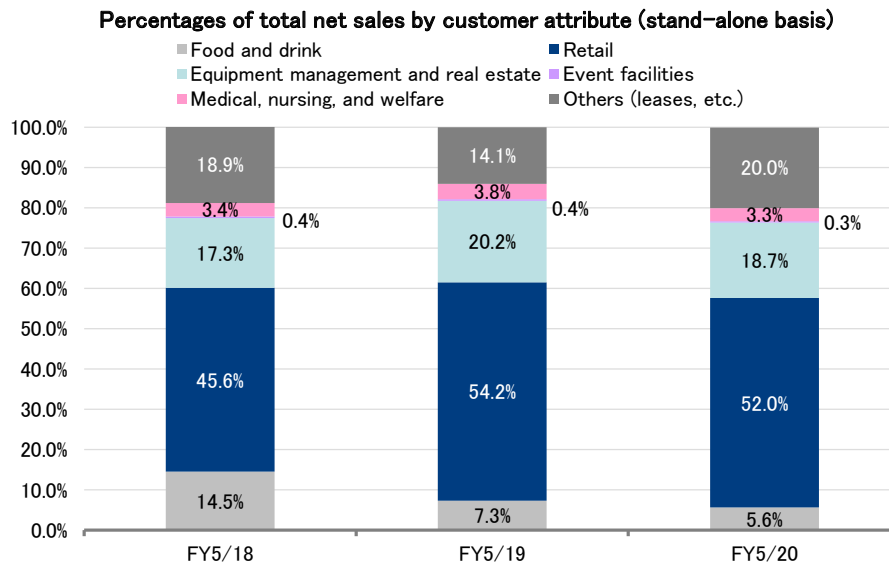


Source: Prepared by FISCO from the Company's financial results briefing materials

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

The Company provides centralized management for various devices on a nationwide scale with unified standards through concluding package contracts with its main customers of major retail companies. These include the approximately 60 stores in the Kansai area of LIFE CORPORATION, the approximately 20,000 stores nationwide of SEVEN-ELEVEN JAPAN, and also from January 2020, the approximately 150 stores of OKUWA. Therefore, sales for retail continue to trend at more than 50% of total sales and are driving growth. Other sales (leases) are also growing, mainly from the increase in energy-saving construction projects.

Results trends



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

■ Outlook

We advanced the Medium-term Business Plan on the theme of "Innovation and Sustainable Growth."

1. FY5/21 outlook

The Company has not yet decided the FY5/21 results forecasts because it has judged that it is difficult to rationally calculate values due to the impact of the novel coronavirus at this time. While observing trends, going forward it plans to disclose them quickly at the time when it is possible to calculate them. It seems that the Company is continuing to conduct ongoing upfront investment, but it is thought that the large-scale investment, including recruitment of more engineers for SEVEN-ELEVEN JAPAN and for systems investment, has passed its peak. We at FISCO think will be a factor pushing up the level of profits in the future.

2. Medium-term Business Plan (FY2020-2022)

In July 2019, the Company announced the Medium-term Business Plan (FY2020 to FY2022) based on the theme of "Innovation and Sustainable Growth." It includes 8 basic policies; (1) disseminate the new corporate philosophy, (2) reform the personnel structure, (3) strengthen the in-house production of services, (4) improve the quality of total maintenance services, (5) create a new environment business, (6) strengthen the sales structure, (7) strengthen the profitability of the overseas business, and (8) increase the competitiveness of the IT system. Based on these policies, the Company is conducting measures including strengthening public relations activities with the aim of disseminating the new corporate philosophy, strengthening in-house production through short-term training and multi-skill development of engineers by utilizing the training center, strengthening the competitiveness of the IT system by introducing the new core system, and strengthening the sales structure through newly establishing the corporate sales department.

Outlook

Basic strategy for the Medium-term Business Plan 2022

Management foundation	1 Disseminate the new corporate philosophy	<ul style="list-style-type: none"> Use various tools to disseminate the new corporate philosophy within the Company and conduct PR for external parties as well Based on the new corporate philosophy, conduct employee training and new recruitment, and increase employees' ability to embody the philosophy
	2 Reform the personnel structure	<ul style="list-style-type: none"> Build and manage a structure that assumes a shift from quantitative judgments centered on attribute elements, of the value of labor and time and experience, to qualitative elements centered on expectations and results for work Establish a framework to create employees with "the ability to act" in ways that embody the corporate philosophy
Business growth	3 Strengthen the in-house production of services	<ul style="list-style-type: none"> Aim to improve the profit margin by utilizing the accumulated technological capabilities and maintenance expertise to strengthen the in-house production of services Utilize the head office training center and progress the short-term training and the multi-skills development of the Company's maintenance engineers
	4 Improve the quality of the total maintenance services	<ul style="list-style-type: none"> Through training and guidance for call center operators, improve their knowledge and response capabilities and provide customers with a diverse service menu by standardizing management work Acquire new partners and strengthen quality management
	5 Create a new environment business	<ul style="list-style-type: none"> Create a business, including through alliances with other companies' businesses, such as in the environmental and energy-saving fields, and develop it to be the Company's new growth driver
	6 Strengthen the sales structure	<ul style="list-style-type: none"> Newly establish a corporate sales promotion department, analyze the industry structures and issues of potential customers, and clarify the targets Accurately ascertain customers' needs and issues, promote solutions activities, and improve customer satisfaction
	7 Strengthen the profitability of the overseas business	<ul style="list-style-type: none"> Newly establish an overseas business department, manage the management resources of the subsidiaries and joint venture, and optimize the allocation of resources In addition, support the business by developing new products by expanding the customer base and alliances
	8 Increase the competitiveness of the IT system	<ul style="list-style-type: none"> In order to continue business expansion and to differentiate the Company from its competitors, continuously invest in the sales core system and further improve the work efficiency of the total maintenance services and proposal capabilities

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

(1) Total maintenance services

For total maintenance services for all equipment, the Company aims to improve quality and to strengthen value-added proposals. Specifically, by advancing customer acquisition through strengthening of the sales structure, it aims to acquire customers from a new order for a water supply and drainage construction project for SEVEN-ELEVEN and to continue the contract with OKUWA. Also, by strengthening call center training, it intends to improve the levels of satisfaction among existing customers. Moreover, by introducing the new core system, it aims to increase the competitiveness of the IT system by improving quality.

(2) Environment business and maintenance services

The Company will create a new environment business, utilizing IoT and alliances with other companies for the environmental and energy-saving businesses, and will develop it to be the new growth driver. In addition, it will strengthen the in-house production of air-conditioning services by utilizing the technological capabilities and maintenance expertise it has accumulated. It will also bolster training by making use of the head office training center, with the aim of strengthening the in-house production of services through promoting the acquisition of qualifications by multi-skills development.

(3) Other measures

The Company is aiming to disseminate the new corporate philosophy by conducting PR activities and in-house public relations. It also intends to further strengthen the business foundation, by optimizing the allocation of resources to overseas in order to, for instance, reform the personnel structure.

Outlook

(4) Numerical targets

Due to the current novel coronavirus pandemic, it is extremely difficult to forecast future economic conditions in these circumstances. Therefore, while the Company will continue to progress the Medium-term Business Plan, it is reviewing the published numerical targets and plans to announce them again once when it is able to judge to a certain extent the outlook for the market environment in the future, including the impact which the of the anticipated second wave of the novel coronavirus will have on the Company Group.

3. Future business environment

On April 7, 2020, the Japanese Government announced a declaration of a state of emergency as a measure to prevent the spread of the novel coronavirus. The declaration of a state of emergency itself has been lifted, but currently there appears little prospect for the fully fledged resumption of economic activities as the number of people contracting the novel coronavirus is increasing. Conversely, among the Company's main customers of retail companies, it seems that the impact of the coronavirus on businesses that handle daily necessities, such as supermarkets and convenience stores, has been limited. As these stores are essential services that cannot be stopped, at FISCO we think that demand for the Company's total maintenance services will continue to be strong.

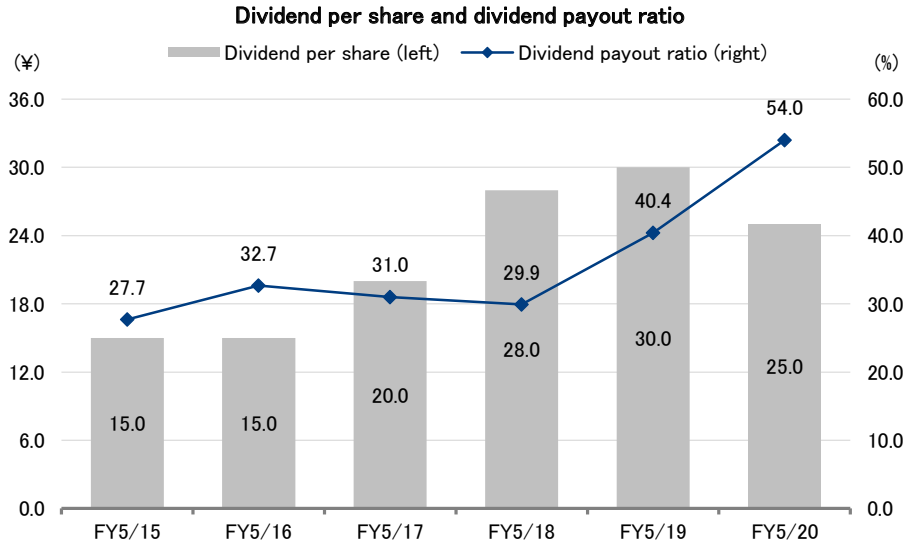
Furthermore, due to the suspension of economic activities because of the novel coronavirus pandemic, cost management is likely to become the most important issue in order to survive the competition. Further, from perspectives such as national standards, social conditions, and CSR, needs are rising in society as a whole for energy conservation, power conservation, and cost reductions. In addition, due to labor shortages, it is forecast that demand will rise for outsourcing undertaken through collective maintenance management in order to promote efficiency improvements. From these viewpoints, at FISCO we think that demand for the Company's businesses will continue to be strong.

■ Shareholder return policy

Pay dividends targeting a dividend payout ratio of around 30% and also implement a shareholder benefits program

The Company's basic dividend policy is to actively return profits to shareholders while also maintaining a sound financial structure. Specifically, it pays dividends targeting a dividend payout ratio of around 30%, while it also flexibly acquires treasury shares in consideration of the share price and financial conditions. For the dividend per share in FY5/20, after taking into account factors such as results and the possibility of a novel coronavirus second wave, it determined that strengthening the financial foundation was the most important issue and paid a dividend per share of ¥25.0 (down ¥5.0 YoY). Also, for the dividend forecast for FY5/21, based on a judgment of elements including results in the future and the financial condition, as of now it has not yet decided on the year-end dividend.

Shareholder return policy



Note: in December 2015, conducted a 3-for-1 share split. Figures in FY5/15 have been retroactively adjusted.
Source: Prepared by FISCO from the Company's financial results

The Company also implements a shareholder benefits program, and shareholders who are registered in the shareholders' registry at the end of May each year or hold at least one unit of shares (100 shares) receive a QUO card worth ¥1,000.



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