

# **SAKAI HEAVY INDUSTRIES, LTD.**

**6358**

Tokyo Stock Exchange Prime Market

27-Jun.-2023

FISCO Ltd. Analyst

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<https://www.fisco.co.jp>

## ■ Index

■ <b>Summary</b> .....	01
1. Outline of results for FY3/23 .....	01
2. Outlook for FY3/24 .....	01
3. Medium- to long-term growth strategy .....	02
■ <b>Company profile</b> .....	03
■ <b>Business overview</b> .....	04
1. Business description .....	04
2. Characteristics and strengths .....	05
3. Market share and competitors .....	06
■ <b>Results trends</b> .....	07
1. Outline of results for FY3/23 .....	07
2. Trends by region .....	08
3. Financial condition .....	09
4. Cash flows .....	10
■ <b>Outlook</b> .....	11
● Outlook for FY3/24 .....	11
■ <b>Medium- to long-term growth strategy</b> .....	12
1. Business strategy .....	12
2. Capital Strategy .....	13
3. Initiatives for ESG .....	14
■ <b>Shareholder return policy</b> .....	15

## Summary

**Demand continued to recover in both domestic and overseas markets, for FY3/23 operating profit increased by 81.2% YoY. Operating profit forecast to increase in FY3/24 as well by 17.7% YoY. Planned annual dividend of ¥215.0**

Sakai Heavy Industries, Ltd. <6358> (herein after also referred to as “the Company”) is a manufacturer specializing in road rollers for road paving and other road construction equipment. It has a long history in this field, and boasts the industry’s highest market share in Japan at over 70.0%. In recent years, the Company has been focusing on developing overseas markets, especially in North America and Southeast Asia.

### 1. Outline of results for FY3/23

In the consolidated results for FY3/23, net sales increased 18.3% year on year (YoY) to ¥31,459mn, operating profit increased 81.2% YoY to ¥2,506mn, ordinary profit rose 65.4% to ¥2,327mn, and profit attributable to owners of parent increased 18.7% to ¥1,694mn. In Japan, net sales (consolidated, by region) were strong, increasing 6.4% against a backdrop of measures to accelerate the national resilience plan. U.S. sales rose 53.8% due to increasing investment in road construction following the passing of the Infrastructure Investment and Jobs Act amid a decrease in new housing starts. In Asia, the stable market environment continued, particularly in Indonesia and Vietnam, and sales increased by 20.1%. The Company continued efforts to reform its profit structure by revising prices and reducing costs, resulting in an improvement of 1.9 points in overall gross margin. Although SG&A expenses increased by 12.6% accompanying the resumption of business activities, the increase in gross profit (up 27.4% YoY) driven by sales growth led to a large increase in operating profit. Due to these results, the Company increased its annual dividend to ¥200.0 (compared to ¥165.0 in the previous fiscal year).

### 2. Outlook for FY3/24

For FY3/24 consolidated results, the Company forecasts for net sales of ¥33,000mn (up 4.9% YoY), operating profit of ¥2,950mn (up 17.7%) ordinary profit of ¥2,800mn (up 20.3%), and profit attributable to owners of parent of ¥1,830mn (up 8.0%). The outlook for net sales and profit by region has not been disclosed, but the Company’s policy is to pursue sales increases in all regions. Demand for construction equipment is forecast to remain stable as infrastructure investments increases globally. Although concerns regarding further increases in material prices still remain, the Company expects profit margins to improve due to factors such as the further penetration of pricing revisions, and it is forecasting that the operating profit margin will increase by 0.9 points YoY. However, it plans to revise its outlook each quarter depending on the progress being made and these revisions will be disclosed as necessary.

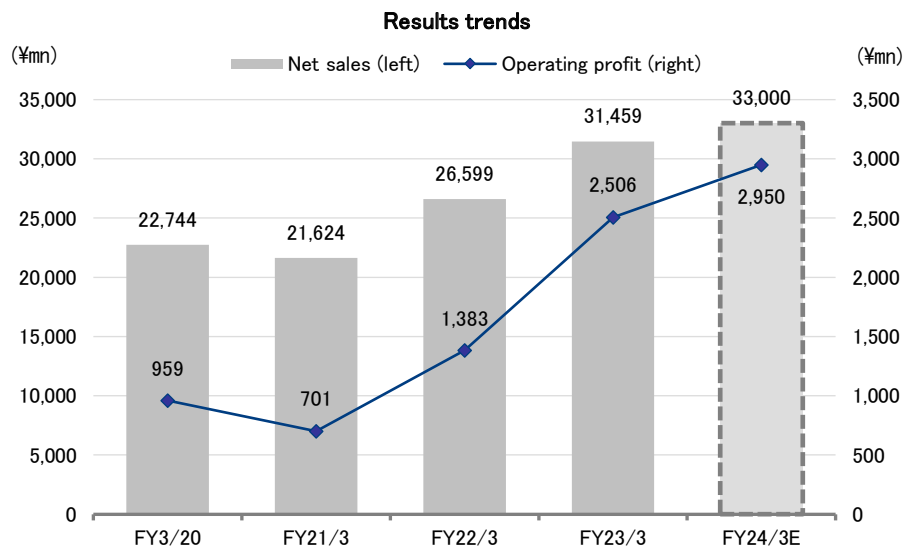
Summary

**3. Medium- to long-term growth strategy**

In June 2021, the Company released its “Medium-Term Management Policy” which runs through FY3/26. The ultimate goal is to increase corporate value and shareholder value, and in order to achieve this, the Company will promote a “business growth strategy” and an “efficient capital strategy.” In terms of numerical targets, in FY3/26, the Company is aiming for net sales of ¥30.0bn, operating profit of ¥3.1bn, ROE (return on equity) of 8%, and will aim to maintain a stable dividend payout ratio of 50%. The Company has already surpassed its target for net sales and the operating profit target for FY3/24, the current year, is ¥2.95bn, so there is a strong probability that it will achieve this. However, its policy currently remains the same, and it has kept these numerical targets unchanged. The Company paid an annual dividend of ¥165.0 (dividend payout ratio 49.0%) in FY3/22 and ¥200.0 (49.9%) in FY3/23, and it is planning to pay a dividend of ¥215.0 (49.7%) for FY3/24. The Company should be rated highly for announcing a clear capital policy to improve ROE and then implementing shareholder returns in accordance with that policy. Also, it is currently listed on the Tokyo Stock Exchange Prime Market and as of March 31, 2023, it was acknowledged as meeting all of the Continued Listing Criteria.

**Key Points**

- Japan’s leading manufacturer of road rollers with a long history. Domestic market share is over 70%, and the Company aims to grow by expanding its overseas market share
- Demand continued to recover in both domestic and overseas markets, and FY3/23 operating profit was up 81.2% YoY. Operating profit forecast to increase in FY3/24 as well by 17.7% YoY
- As medium-term numerical targets, the Company is aiming for net sales of ¥30.0bn, operating profit of ¥3.1bn, and ROE of 8% in FY3/26



Note: The Accounting Standard for Revenue Recognition, etc., has been applied from FY3/22  
Source: Prepared by FISCO from the Company’s financial results

## Company profile

### The top manufacturer of road rollers with a long history. Meeting the Continued Listing Criteria for the Prime Market

The Company has a long history, dating back to 1918 when the Company was founded by Kinnosuke Sakai. At the time, the Company manufactured and repaired parts for automobiles, internal combustion engines, and steam locomotives. After starting to manufacture locomotives in 1927, in 1929 the Company started manufacturing road rollers for road rolling compaction. Since then, the Company has continued to develop as a specialized manufacturer of road rollers for paving roads and other road construction equipment. Currently, the Company is the top manufacturer in Japan, and boasts a market share of over 70%. In 1970, the Company established a joint venture in Indonesia, as part of the Company's effort to expand business overseas at an early stage. As of March 31, 2023, the Company has four domestic subsidiaries, and four overseas subsidiaries (U.S., China, two in Indonesia).

The Company listed its shares on the Second Section of the Tokyo Stock Exchange in 1964, and its shares were reclassified to the First Section of the Tokyo Stock Exchange in 1981. In conjunction with the Tokyo Stock Exchange's market recategorization in April 2022, it moved to the Prime Market. As of March 31, 2023, it was meeting all of the Continued Listing Criteria.

#### History

Year	Description
1918	Founded by Kinnosuke Sakai with the aim of manufacturing and repairing parts for automobiles, internal combustion engines and steam locomotives
1927	Production of locomotives begins
1929	Starts producing road rollers for road rolling compaction
1949	Company is incorporated to establish SAKAI WORKS Co., Ltd.
1964	Listed on Second Section of Tokyo Stock Exchange
1967	Renamed SAKAI HEAVY INDUSTRIES, LTD.
1970	Joint venture, P.T. SAKAI SAKTI, established in Jakarta, Indonesia, to assemble and repair road rollers
1976	SAKAI AMERICA, INC. established in Delaware, U.S., for the purpose of importing/exporting and selling construction equipment
1981	Listed on First Section of Tokyo Stock Exchange
1996	Acquired ISO9001 certification, meeting international standards for quality assurance stipulated by the International Organization for Standardization
2004	Developed the world's first vibratory pneumatic tired roller (GW750)
2018	Celebrated its 100th anniversary
2019	Consolidated the three bases in Indonesia, including P.T. SAKAI INDONESIA, and established a new factory in order to bolster the local production system targeting an expansion of overseas business domains and to build a supply platform to achieve medium- to long-term growth
2022	In conjunction with the Tokyo Stock Exchange's market recategorization, moved to the Prime Market

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

## Business overview

**The top manufacturer of road rollers with a domestic market share of over 70%.**

**Will seek growth by offering high value-added and expanding overseas market share**

### 1. Business description

The Company's main business is the manufacture and sale of road rollers used in road paving and other applications, and road roller-related net sales account for approximately 95% of all net sales. Also, the Company's corporate philosophy is to "Contribute to the social project of global land development through the road construction equipment business."

The term "road roller" actually covers quite a wide range of machines in terms of capabilities and size, among other features. The Company has roughly 20 platforms alone for road rollers, and when different variations are added the total number of products is in the 70-80 range. There is also a wide range in sizes, from 1 ton to 20 tons (for large civil engineering projects). The core price range is from ¥5mn (medium-size rollers) to ¥10mn (large rollers), but the Company also has road planers and other machines that cost tens of millions in yen. Production is carried out on an expected production basis, and the Company does not manufacture machines based on individual orders. The useful lives of the Company's products are in the 20-30 years range, but very few customers use a machine until the end of its useful life. In most cases, they replace it after statutory depreciation (6-7 years) with a new one. Most of the depreciated equipment are resold as used machines to overseas customers (especially in developing countries).

#### The Company's road equipment



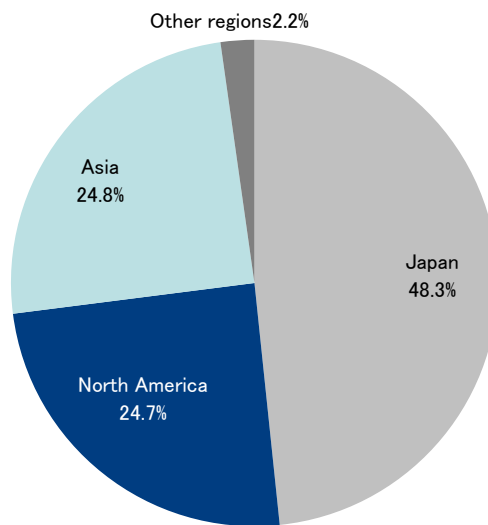
Source: From the Company's Medium-Term Management Policy

Business overview

In terms of net sales by region in FY3/23\*, net sales in Japan were ¥15,208mn (48.3% of total net sales), net sales in North America were ¥7,751mn (24.7%), net sales in Asia were ¥7,796mn (24.8%), and net sales to other regions totaled ¥703mn (2.2%).

\* Net sales by region is the amount of products actually sold to customers, classified by customer location, and differs from the reportable segment "Net Sales by Location" in the financial results.

**Ratio of net sales by region in FY3/23**



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

In Japan, approximately 70% of the Company's sales are to construction equipment rental companies (Kanamoto Co., Ltd. <9678>, NISHIO RENT ALL CO., LTD. <9699>, etc.), while the remaining 30% of sales are to end users (large and small- and medium-sized general contractors, roadwork companies, etc.). Sales to end users include sales via finance companies due to credit management issues. Overseas, sales are mainly to end users via distributors, but in North America some sales are through rental companies.

**2. Characteristics and strengths**

As mentioned above, the Company is a specialized manufacturer of road rollers and other road construction equipment, and the Company has the following special characteristics and strengths.

**(1) Long history as a specialized manufacturer**

The Company's greatest strength is its long history as a specialized manufacturer of road rollers and other road construction equipment. In other words, by deploying a global niche strategy through selection and concentration, the Company has increased its level of expertise and accumulated its own unique technologies. Based on this long history and its experience, the Company has boosted its technological capabilities and credibility as follows.

SAKAI HEAVY INDUSTRIES, LTD.

6358 Tokyo Stock Exchange Prime Market

27-Jun.-2023

<https://www.sakainet.co.jp/en/ir/>

## Business overview

**(2) Technological capabilities**

When it comes to hardening and paving roads, the necessary pressure, torque, and other variables (compaction technology) differ depending on the specific land, land quality, soil, and other conditions. Therefore, roadwork companies often require different types of road rollers to match individual worksites (ground, etc.). According to the Company, the work function of a road roller itself determines the final quality of the road or embankment (density, flatness, lifespan). Generally speaking, a 1% rise in rolling compaction density extends the life of a road by 10%. For this reason, for companies that order roadwork as well as for roadwork companies, not only the price of the road roller, but the product quality (performance) is extremely important. Because the Company has been a specialized manufacturer of road rollers and other road construction equipment for many years, it boasts a high level of technological capabilities with respect to compaction technology, and it is not easy for its competitors to catch up to it.

The Company's technological capabilities can be summed up by the phrase "Expertise in products and services." In other words, it is the Company's engineering capabilities covering the entire roadwork process and the ability to handle a variety of materials. Specifically, combining the various technologies makes it possible to increase the quality and efficiency of roadwork. Such technologies include kneading by tires, increased rolling compaction power by vertical vibration, rubbing by horizontal vibration, thick layer compaction by vertical vibration, further high-density compaction by tire vibration, and eliminating difficult compaction issues with high-frequency vibration.

One example of the Company's strong technological capabilities is its ability to control the relationship between mechanical vibration technology and the technology to prevent this vibration. For road rollers, one important means of increasing functionality is various mechanical vibrations, but on the other hand, vibration itself can cause machine failure, and it also greatly influences operator comfort. Therefore, the ability (technology) to control the opposing relationship between enhancing vibration compaction power and machine quality is important, and this is not something that can be amassed quickly.

**(3) Credibility**

Credibility backed by experience engineering and track record is also a strength of the Company. The technology to ensure underground compaction quality is a black box, and is not something that is easy for late-arriving manufacturers and non-specialized manufacturers to copy. For example, asphalt mixture brought in at high temperatures must be worked on within a limited time, and if the work is of poor quality, it must be redone which involves a large price. Also, work quality issues for roads and embankments are slow to emerge, and the compaction quality at the time that work is completed tends to be a black box. For this type of experience engineering, the Company's brand which customers have used for many years and the long-term insight due to variety of worksite experiences are strengths, and these are points that have earned the trust of many customers.

**3. Market share and competitors**

According to data from the Japan Construction Equipment Manufacturers Association, in FY2022 domestic construction equipment shipment value was ¥3.5tn, and road roller and other road construction equipment (the Company's main products) account for 2.3% of this amount. The Company has a share of over 70% in the road roller market within the road equipment market, making it the top manufacturer in Japan. Competitors include companies such as Hitachi Construction Machinery Co., Ltd. <6305>, but none of these companies are specialized manufacturers. Some overseas manufacturers have entered the market in Japan, but none have much of a presence. In Japan, the Company's earnings rise and fall along with the ups and downs of the market.



## Business overview

In the global market, although there are no accurate statistics, the Company's market share (on a units produced basis) is estimated to be in the 5-6% range. However, this is on a global basis, and if we limit the scope to the main markets that the Company operates in (Japan, ASEAN, North America), the Company's market share is around 20%. The Company's main competitors in the global market include Caterpillar <CAT>, FAYAT SAS, Deere & Company <DE>, and Volvo Personvagnar AB, but none of these companies are manufacturers that specialize in road rollers.

## Results trends

### Demand recovered in both domestic and overseas markets, and operating profit increased greatly in FY3/23

#### 1. Outline of results for FY3/23

In the consolidated results for FY3/23, net sales increased 18.3% YoY to ¥31,459mn, operating profit increased 81.2% YoY to ¥2,506mn, ordinary profit increased 65.4% to ¥2,327mn, and profit attributable to owners of parent increased 18.7% to ¥1,694mn.

In Japan, net sales were strong against a backdrop of measures to accelerate the national resilience plan. U.S. sales rose significantly YoY due to increasing investment in road construction following the passing of the Infrastructure Investment and Jobs Act amid a decrease in new housing starts. In Asia, although performance was lackluster in some countries, the stable market environment continued, particularly in Indonesia and Vietnam, and sales increased. In regard to profits, the gross margin improved to 26.0% (up 1.9 points YoY) following price revisions and efforts to reduce transportation costs, particularly in the overseas business. Furthermore, an increase in gross profit (up 27.4% YoY) driven by sales growth and improved profit margin led to a large increase in operating profit, despite a 12.6% increase in SG&A expenses accompanying the resumption of business activities.

Analyzing the change factors for operating profit, the improvement in sales had a positive ¥1,170mn impact, the increase in the cost of goods sold ratio had an impact of plus ¥587mn, and the increase in SG&A expenses had an in impact of minus ¥635mn. Breaking down the increase in SG&A expenses, personnel expenses had a positive ¥256mn impact, technology and research expenses had a positive ¥110mn impact, travel and transportation expenses had a positive ¥63mn impact, and other expenses had a positive ¥205mn impact.

#### Overview of FY3/23 consolidated results

	FY3/22		FY3/23		Change	
	Results	% of net sales	Results	% of net sales	Amount	
						%
Net sales	26,599	100.0%	31,459	100.0%	4,860	18.3%
Gross profit	6,407	24.1%	8,165	26.0%	1,757	27.4%
Selling, general and administrative expense	5,023	18.9%	5,659	18.0%	635	12.6%
Operating profit	1,383	5.2%	2,506	8.0%	1,122	81.2%
Ordinary profit	1,407	5.3%	2,327	7.4%	920	65.4%
Profit attributable to owners of parent	1,427	5.4%	1,694	5.4%	267	18.7%

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

Results trends

2. Trends by region

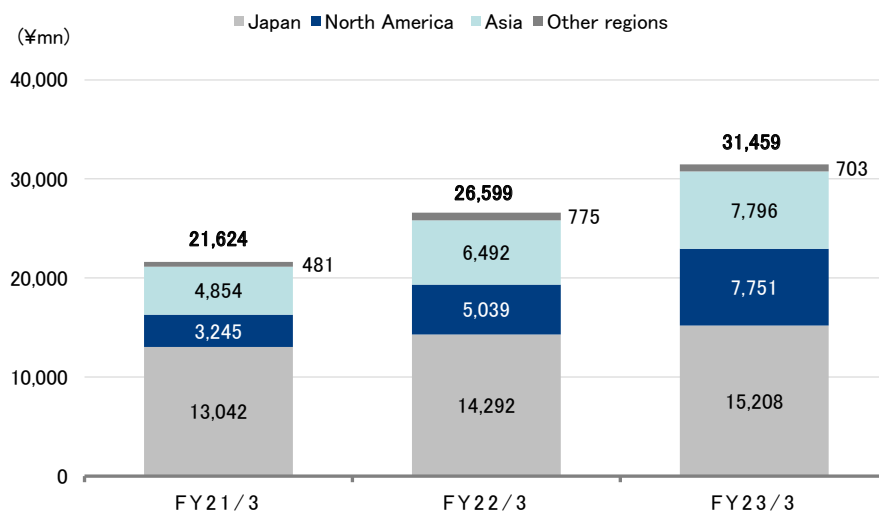
Domestically, sales related to public investments such as road and civil engineering projects were relatively strong against a backdrop of measures to accelerate the national resilience plan. Net sales were ¥15,208mn (up 6.4% YoY). Overseas, net sales totaled ¥16,251mn (up 32.0% YoY) because of continued recovery of demand for construction equipment in the main markets, while foreign exchange (weaker yen) also had a positive impact. Of this amount, in North America net sales greatly increased to ¥7,751mn (up 53.8%) due to increasing investment in road construction following the passing of the Infrastructure Investment and Jobs Act amid a decrease in new housing starts, as well as the effects of sales activities aimed at increasing market share. In Asia, although performance was slightly lackluster in some countries, the stable market environment continued, particularly in the major markets of Indonesia and Vietnam, resulting in net sales of ¥7,796mn (up 20.1%). In other regions (Africa, Oceania, Central and South America, etc.), net sales totaled ¥703mn (down 9.3%), which had a minor impact on overall earnings as the amount involved was negligible.

Net sales by region

	FY3/21		FY3/22		FY3/23		Change	
	Results	% of total	Results	% of total	Results	% of total	Amount	%
Japan	13,042	60.3%	14,292	53.7%	15,208	48.3%	916	6.4%
Overseas	8,582	39.7%	12,306	46.3%	16,251	51.7%	3,944	32.0%
North America	3,245	15.0%	5,039	19.0%	7,751	24.7%	2,712	53.8%
Asia	4,854	22.5%	6,492	24.4%	7,796	24.8%	1,303	20.1%
Other regions	481	2.2%	775	2.9%	703	2.2%	-72	-9.3%
<b>Total</b>	<b>21,624</b>	<b>100%</b>	<b>26,599</b>	<b>100%</b>	<b>31,459</b>	<b>100%</b>	<b>4,860</b>	<b>18.3%</b>

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

Trends in net sales by region



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

## Results trends

## Stable financial condition, ample cash and deposits of ¥7,484mn

### 3. Financial condition

In terms of the Company's financial condition as of the end of FY3/23, current assets were ¥27,440mn (up ¥2,364mn from the end of the previous fiscal year). The main factors included a ¥509mn decrease in cash and deposits, a ¥926mn increase in notes and accounts receivable - trade (including electronically recorded monetary claims - operating), and a ¥2,244mn increase in inventories. Non-current assets were ¥13,364mn (up ¥581mn). The main factors include a ¥398mn increase in property, plant and equipment mainly due to capital investment, a ¥173mn decrease in intangible assets, and a ¥356mn increase in investments and other assets. As a result, total assets were ¥40,804mn (up ¥2,946mn).

Meanwhile, total liabilities were ¥15,508mn (up ¥811mn from the end of the previous fiscal year). The main factors among current liabilities included a ¥1,179mn increase in payables (notes and accounts payable – trade and electronically recorded obligations – operating), a ¥937mn decrease in short-term borrowings, and in non-current liabilities, a ¥41mn increase in long-term borrowings and a ¥40mn decrease in retirement benefit liability. Total net assets stood at ¥25,295mn (up ¥2,134mn), with the main factors including a ¥913mn increase in retained earnings due mainly to booking profit attributable to owners of parent, and an ¥273mn increase in valuation difference on available-for-sale securities. As a result, the equity ratio as of the end of FY3/23 was 61.8% (61.1% at the end of the previous fiscal year).

#### Consolidated balance sheet

	(¥mn)		
	End of FY3/22	End of FY3/23	Change amount
Cash and deposits	7,993	7,484	-509
Notes and accounts receivable – trade (including electronically recorded monetary claims – operating)	8,538	9,464	926
Inventories	7,207	9,452	2,244
<b>Total current assets</b>	<b>25,075</b>	<b>27,440</b>	<b>2,364</b>
Property, plant and equipment	6,985	7,383	398
Intangible assets	480	307	-173
Investments and other assets	5,316	5,673	356
<b>Total non-current assets</b>	<b>12,782</b>	<b>13,364</b>	<b>581</b>
<b>Total assets</b>	<b>37,858</b>	<b>40,804</b>	<b>2,946</b>
Notes and accounts payable – trade (including electronically recorded obligations – operating)	5,966	7,146	1,179
Short-term borrowings	5,688	4,751	-937
<b>Total current liabilities</b>	<b>13,530</b>	<b>14,377</b>	<b>847</b>
Long-term borrowings	17	58	41
Retirement benefit liability	173	132	-40
<b>Total non-current liabilities</b>	<b>1,166</b>	<b>1,130</b>	<b>-35</b>
<b>Total liabilities</b>	<b>14,697</b>	<b>15,508</b>	<b>811</b>
Retained earnings	11,728	12,642	913
Valuation difference on available for-sale securities	1,564	1,837	273
<b>Total net assets</b>	<b>23,161</b>	<b>25,295</b>	<b>2,134</b>

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

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## Results trends

Although the Company has been working to streamline its balance sheet, net working capital (trade receivables + inventories – trade payables) at the end of FY3/23 increased to ¥11,770mn (up 20.4%, ¥1,991mn YoY). Inventory turnover ratio decreased 0.36 times YoY to 3.33 times per year, due to steady sales, as well as a ¥2,245mn (up 31.2%) increase in inventories driven by increased production and measures to reduce the risk of part shortages. However, the net working capital to net sales ratio was 37.4%, roughly level with the previous fiscal year (36.8%), meaning that the Company's working capital framework is stably maintaining it at an appropriate level of around 37%.

## Net working capital

	FY3/22 Results	FY3/23 Results	Change	
			Amount	%
Consolidated net sales (annualized consolidated net sales)	26,599	31,459	4,860	18.3%
Trade receivables	8,538	9,464	926	10.8%
Inventories	7,207	9,452	2,245	31.2%
Trade payables	-5,966	-7,146	-1,180	19.8%
<b>Net working capital</b>	<b>9,779</b>	<b>11,770</b>	<b>1,991</b>	<b>20.4%</b>

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

## 4. Cash flows

In FY3/23, net cash provided by operating activities was ¥1,893mn. The main revenue factors included ¥2,329mn in profit before income taxes, ¥714mn in depreciation, and ¥1,003mn in increase in trade payables. The main expenditure factors included ¥683mn in increase in trade receivables and ¥1,864mn from increase in inventories.

Net cash used in investing activities was ¥399mn. This was mainly due to ¥361mn in expenditure from the purchase of property, plant and equipment. Net cash used in financing activities was ¥2,242mn. The main expenditures were ¥1,292mn from the decrease (net) in long- and short-term borrowings, and ¥780mn in dividends paid. As a result, cash and cash equivalents decreased ¥509mn from the end of the previous fiscal year, and the balance of cash and cash equivalents at the end of FY3/23 was ¥7,416mn.

## Consolidated statements of cash flows

	FY3/23	
	FY3/22	FY3/23
Net cash provided by (used in) operating activities	2,359	1,893
Profit before income taxes	1,470	2,329
Depreciation	680	714
Change in trade receivables (- denotes increase)	-369	-683
Change in inventories (- denotes increase)	237	-1,864
Change in trade payables (- denotes decrease)	1,103	1,003
Net cash provided by (used in) investing activities	-263	-399
Net cash provided by (used in) financing activities	-1,227	-2,242
Change in long- and short-term borrowings (net)	-267	-1,292
Acquisition of treasury shares	-341	-1
Dividends paid	-468	-780
Change in cash and cash equivalents	1,079	-509
Cash and cash equivalents at end of FY3/23	7,926	7,416

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

## ■ Outlook

### Forecasts a 4.9% sales increase and 17.7% operating profit increase YoY as global demand for construction equipment is expected to remain firm

#### ● Outlook for FY3/24

For FY3/24 consolidated results, the Company is forecasting net sales of ¥33,000mn (up 4.9% YoY), operating profit of ¥2,950mn (up 17.7%) ordinary profit of ¥2,800mn (up 20.3%), and profit attributable to owners of parent of ¥1,830mn (up 8.0%).

The outlook for net sales and profit by region has not been disclosed, but the Company's policy is to pursue sales increases in all regions. Demand for construction machinery is forecast to remain stable as infrastructure investments increase globally. On the other hand, there are many uncertain factors, including further increases in energy and material prices and the heightening of pressure to reorganize supply chains, in addition to the impact of the situation in Russia and Ukraine. Even so, the Company will make further efforts to reform its profit structure by revising prices and reducing costs, and is expecting operating profit margin to improve by 0.9 points YoY. The Company aims to achieve its targets by promoting profit structure reform through sales price revisions, cost reductions and enhancement to its product supply capabilities. It has stated that in the future, it will make revisions going as needed when it discloses quarterly financial results, so attention must be given to future developments.

#### Consolidated outlook for FY3/24

	FY3/23		FY3/24		Change	
	Results	% of net sales	Forecast	% of net sales	Amount	%
	(¥mn)					
Net sales	31,459	100.0%	33,000	100.0%	1,540	4.9%
Operating profit	2,506	8.0%	2,950	8.9%	443	17.7%
Ordinary profit	2,327	7.4%	2,800	8.5%	472	20.3%
Profit attributable to owners of parent	1,694	5.4%	1,830	5.5%	135	8.0%

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

## ■ Medium- to long-term growth strategy

**As its medium-term growth strategy, the Company will seek to grow its overseas market share, expand overseas business domains, and create added value by developing next-generation businesses. FY3/26 targets include net sales of ¥30.0bn, operating profit of ¥3.1bn, and ROE of 8%**

In June 2021, the Company released its “Medium-Term Management Policy” which runs through FY3/26. The ultimate goal is to increase corporate value and shareholder value, and in order to achieve this the Company will promote a “business growth strategy” and an “efficient capital strategy.” In terms of numerical targets, the Company is aiming for net sales of ¥30.0bn, operating profit of ¥3.1bn, ROE of 8% in FY3/26, and will aim to maintain a stable dividend payout ratio of 50%. Net sales are accumulating at a pace that exceeds the target for the first year of the plan and the operating profit target for FY3/24, the current year, is ¥2.95bn, so there is a strong probability that it will achieve this ahead of schedule. However, its policy currently remains the same, and it has kept these numerical targets unchanged. Going forward, it plans to steadily advance the following strategy.

### 1. Business strategy

#### (1) Domestic market: Create added value through stabilization and developing next-generation businesses

The domestic market for road rollers is already in its mature phase and the Company's market share is large. Therefore, the Company will aim to grow by adding new value to existing products (high-performance, etc.), in other words, by developing next-generation businesses. Specifically, the Company plans to do the following.

- a) To enhance safety, the Company will horizontally roll out models equipped with automatic emergency brake systems. This performs an emergency stop of operating equipment if a person or obstacle is in the movement path of the equipment. This function has already been added as an optional setting to the main models in Japan (the rate of emergency brake attachment is approximately 30% for medium-size rollers), and the Company's policy going forward is to horizontally roll out this function to overseas markets.
- b) The Company aims to improve compaction quality with a compaction management system (with CCV). This system remotely links work managers with worksites, allowing compaction quality to be confirmed and managed (e.g., number of rolling compactions) in real time. In October 2022, it was certified as ICT Construction Machinery by Japan's Ministry of Land, Infrastructure, Transport and Tourism.
- c) The Company aims to improve productivity by commercializing autonomous vibratory (unmanned) rollers. In the autonomous driving industry standard equipment development project, the Company is advancing commercialization through worksite implementation testing with multiple general contractors. Specifically, through unmanned construction work, the Company aims to create safe worksites, improve productivity through efficient compaction operations, reduce CO<sub>2</sub> emissions at job sites and stabilize and improve quality, independent of operator skill.

#### (2) Overseas markets: Increase market share and expand business domains

In overseas markets, there are many regions (countries) where demand is increasing, and there is significant room for growth given the Company's low market shares. Therefore, the Company will seek growth through the two strategies of more fully cultivating existing markets and expanding its business domains by deploying road maintenance equipment to overseas markets.

Medium- to long-term growth strategy

- a) In Asia, the Company aims to cultivate the market and increase its product domain. Specifically, it will move ahead on deepening market activities within Indonesia as well as the ASEAN region as a central hub for sales, manufacturing and services for the Indonesian hub where a new plant began operating in 2019.
- b) In North America, aiming to expand its market share, the Company will strengthen its North America distribution strategy and advance measures to increase its market share. Specifically, the Company will seek to expand its market share through a niche marketing strategy by selection and concentration and through engineering sales focused on improved pavement quality.
- c) Aiming to expand overseas business domains, the Company will promote a strategy of cultivating markets for road maintenance equipment in ASEAN markets and ODA, along with other markets. At the plant in Indonesia, preparations are underway to begin local production.

**(3) Numerical targets**

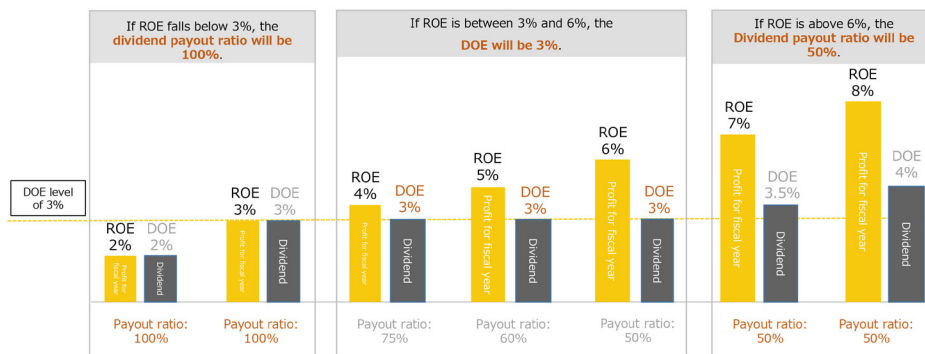
As numerical targets, the Company aims for net sales of ¥30.0bn, operating profit of ¥3.1bn, and ROE of 8% in FY3/26.

**2. Capital Strategy**

As its basic policy for capital strategy, the Company will return profits to shareholders at a level that supports the Company’s objective of ROE of 8%, and will increase shareholder value (improve capital efficiency). As a final target for FY3/26, the Company will strive to achieve ROE of 8% and a 50% dividend payout ratio.

Generally, two things need to be improved in order to increase ROE. One is of course increasing profit attributable to owners of parent, while the other is suppressing shareholders’ equity (not increasing shareholders’ equity more than necessary, or decreasing it). In order to increase operating profit, the Company plans to promote the business strategies discussed above, but at the same time, in order to keep from increasing shareholders’ equity more than needed, the Company plans to execute a dividend policy in which, if ROE falls below 3%, the dividend payout ratio will be 100%, if ROE is between 3% and 6%, the DOE (dividends on equity) will be 3%, and if ROE is above 6%, the dividend payout ratio will be 50%.

**Basic capital policy approach**



Source: Medium-Term Management Policy

In terms of share buybacks, through FY3/26 the Company will consider flexible share buybacks with an upper limit of ¥0.5bn to ¥2.0bn. With respect to investment securities, the Company will review investment securities from the perspective of business strategy. Also, concerning growth investment, the Company will consider utilizing leverage with an emphasis on return on capital (ROIC).

Medium- to long-term growth strategy

**3. Initiatives for ESG**

The Company is proactively addressing ESG through various initiatives. Currently, it is particularly focusing on the following initiatives.

**(1) Initiatives contributing to carbon neutrality**

The Company is looking at the potential of electric vehicles (EV) to reduce CO<sub>2</sub> emissions at construction sites. It has already completed a demonstration electric roller and it plans to carry out practical tests at actual road paving sites in the near future. It will use these to collect data aimed at realizing commercialization.

It has also created a concept model for an Electric Walk Behind Roller equipped with portable and swappable batteries made by Honda Motor Co., Ltd. <7267>.

**Initiatives contributing to carbon neutrality**

**CO<sub>2</sub> emissions reduction at construction sites (shift to EVs)**

**Electric roller**

Demo machine completed.  
Practical tests will be conducted at actual paving sites.  
Data will be collected for commercialization purposes.



Source: The Company's results briefing materials

Exhibit at CSPI-EXPO Construction & Survey Productivity Improvement Expo (May 24 to 26, 2023, at Makuhari Messe)

**Electric Walk Behind Roller**

Created a concept model using portable and swappable batteries made by Honda Motor Co., Ltd.



**(2) Initiatives solving social issues through business activities**

The Company is scheduled to start producing road planers in Indonesia from January 2024. The aim is to contribute to road infrastructure in Southeast Asia while also expanding the area covered by the Company's business.

**(3) Initiatives strengthening corporate governance**

In order to strengthen corporate governance, the Company plans to appoint Haruyasu Asakura, whose experience includes positions at the Innovation Network Corporation of Japan and Marunouchi Capital Inc., as an outside director at the Annual General Meeting of Shareholders to be held in June 2023. The Company believes he is suitable to serve as an outside director due to his extensive experience in private equity funds, which has helped him develop broad insight into capital markets and corporate value improvement.



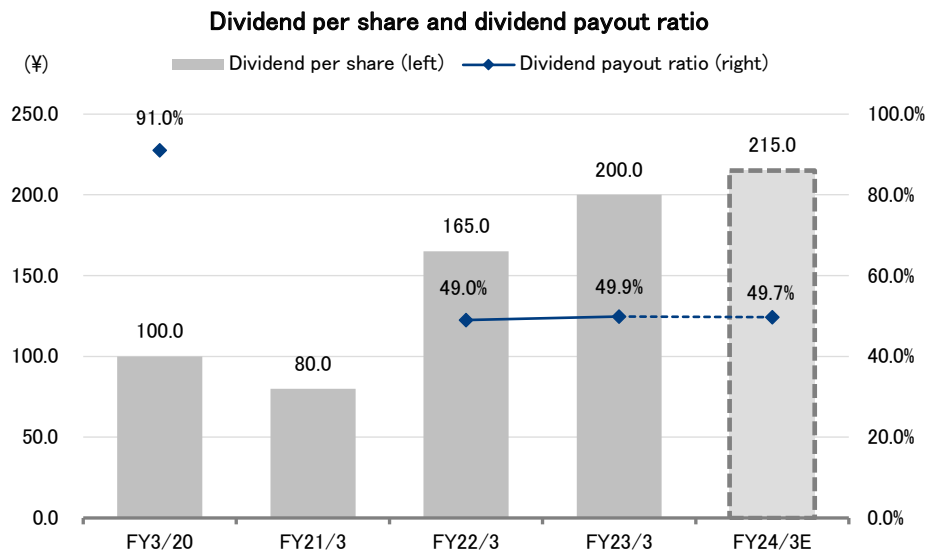
## Shareholder return policy

**In FY3/23, paid a ¥200.0 annual dividend, up ¥35.0 YoY.  
Plans to pay a ¥215.0 dividend in FY3/24 as well, targeting a dividend payout ratio of 50.0%**

The Company works to secure a stable management base over the long term, and also places importance on the continuation of stable dividends, and makes it a basic policy to distribute results that are supported by business performance and a sound financial structure. Based on this basic policy, the Company decides dividends and conducts share buybacks. As discussed above, the Company’s medium-term shareholder return policy is as follows. If ROE falls below 3%, the dividend payout ratio will be 100%, if ROE is between 3% and 6%, the DOE will be 3%, and if ROE is above 6%, the dividend payout ratio will be 50%. With respect to share buybacks, the Company is considering flexible share buybacks with an upper limit of ¥0.5bn to ¥2.0bn by FY3/26.

Based on the above dividend policy, for FY3/22, the Company paid a ¥165.0 annual dividend (a dividend payout ratio of 49.0%), and a ¥200.0 annual dividend (a dividend payout ratio of 49.9%) for FY3/23. Based on this basic policy, the Company maintains its plans to pay a ¥215.0 annual dividend in FY3/24 (a planned dividend payout ratio of 49.7%). Furthermore, with regard to the share buybacks, it conducted a buyback of 130,000 shares (¥340mn) in FY3/22, but currently has no plans to conduct buybacks going forward.

The Company’s stance of announcing a clear policy to improve ROE and carrying out shareholder return policy in line with that is commendable, and attention should be given to its shareholder return policy going forward.



Note: FY3/21 dividend payout ratio is not shown due to the fact that it was 8,602.2%.  
Source: Prepared by FISCO from the Company’s financial results



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