

SANKI SERVICE CORPORATION

6044

Tokyo Stock Exchange Standard market

22-Sept.-2022

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FISCO Ltd.

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

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■ Summary

For FY5/23, is forecasting record high net sales from the further growth of total maintenance services

1. Company profile

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. It is working on environmental improvements, focused on total maintenance, for infrastructure facilities that are essential for economic and corporate activities, such as offices and buildings, commercial facilities and chain stores, hotels, hospitals and care facilities for the elderly, and government buildings and schools.

2. Results trends

In the FY5/22 consolidated results, net sales increased 0.5% year-on-year (YoY) to ¥11,581mn, operating profit decreased 23.4% to ¥221mn, ordinary profit declined 23.6% to ¥224mn, and profit attributable to owners of parent fell 12.3% to ¥154mn. In hospitals, which are the main target of energy-saving proposals, alongside the intermittent application of the declarations of a state of emergency and semi-state of emergency measures due to the novel coronavirus pandemic (hereafter, COVID-19), some proposals, including field surveys, and also starts of construction work, were delayed. Also, in addition to the supply shortages of semiconductors, resin materials, and other items from the previous period, the delivery dates of inverters, breakers, and other products were further delayed by the impact of the increased instability in global conditions, and the situation is that although there is a lot of demand for energy-saving proposals, the starts of construction work are being delayed. In this situation, the Company provided proposals mainly for products with comparatively short delivery times, and as a result, net sales increased. Conversely, profits decreased as although it reviewed SG&A expenses, including personnel expenses, the profit margin fell because of the changes in contract details with customers.

For the FY5/23 consolidated results, the Company is forecasting net sales to increase 24.1% YoY to ¥14,370mn, operating profit to grow 108.2% to ¥460mn, ordinary profit to rise 105.9% to ¥462mn, profit attributable to owners of parent to increase 99.4% to ¥307mn, and ROE of 9.8% (5.2% in the previous period). Through the further growth of total maintenance services, net sales are expected to set a new record high for the first time since FY5/20. In FY5/22, construction projects increased due to device upgrades for retail projects and acquisitions of new energy-saving projects, and their percentage of total sales also rose. Based on the features of total maintenance services, we at FISCO think that the increase in construction projects will increase the regular projects and repair project from FY5/23 onwards and that in the long-term, the Company will develop a stock-type (recurring income-type) earnings structure. Profits can also be expected to improve with the addition of measures to achieve the targets in the new medium-term management plan.

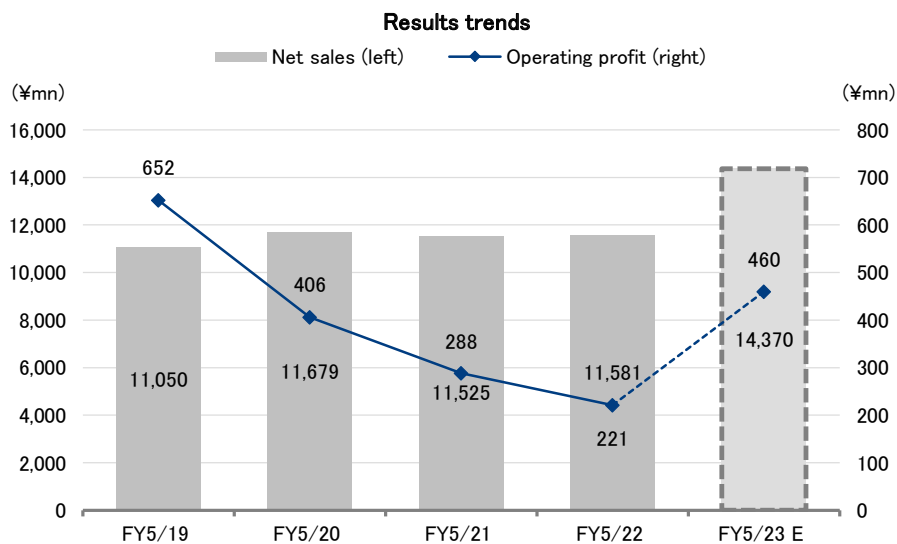
Summary

3. The new medium-term management plan

In July 2022, the Company formulated SANKI NEXT STAGE 2025, its new medium-term management plan. Based on the changes to the business environment due to COVID-19 and other factors, it has positioned the period from FY5/23 to FY5/25 as the period in which to strengthen the earnings foundation for growth in the medium- to long-term, and its policy is to rebuild the management base and business base. Also, the plan's numerical targets for FY5/25 are net sales of ¥21,450mn (¥11,581mn in FY5/22) and operating profit of ¥1,034mn (¥221mn). Specifically, it has positioned the period up to FY5/25 as the "period to strengthen the earnings foundation," and toward "further improving quality x technological capabilities," it is promoting the in-house manufacturing of important technologies, improve the productivity of key industries, increases sales in the environment business, and establish a DX promotion structure. It has also positioned the period from FY5/26 onwards as the "development period," and in order to "strengthen our presence in the markets," it is aiming to expand scale and increase sales in the environment business through expanding the customer base and M&A (including alliances and collaborations). It has positioned the period from 2030 onwards as the "sustainable growth period" and is targeting net sales of ¥50bn, an operating profit margin of 10%, and ROE of 28.2% as the business scale it wants to achieve by 2030 through progressing reforms to become a company "that provides added value" and that "produces environments."

Key Points

- Provides total maintenance services for all equipment and devices, primarily through its call centers that operate 24-hours-a-day, 365-days-a-year
- In FY5/22, recorded close to record high net sales through the recovery of projects delayed due to the impact of COVID-19 and developments of new services
- In FY5/23, the forecast is for record high net sales through the further growth of total maintenance services
- Has formulated SANKI NEXT STAGE 2025, the new medium-term management plan. Is aiming to strengthen the earnings foundation by rebuilding the management base and the business base



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

■ Company overview

Provides total maintenance services for all equipment and devices, primarily through its call centers that operate 24-hours-a-day, 365-days-a-year

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 services for companies managing many stores throughout Japan. It is working on environmental improvements, focused on total maintenance, for infrastructure facilities that are essential for economic and corporate activities, such as offices and buildings, commercial facilities and chain stores, hotels, hospitals and care facilities for the elderly, and government buildings and schools.

The Company's main customers include Panasonic Commercial Equipment Systems Co., Ltd., LIFE CORPORATION <8194>, SEVEN-ELEVEN JAPAN CO., LTD., OKUWA Co., Ltd. <8217>, Sumitomo Realty & Development Co., Ltd. <8830>, Alpen Co., Ltd. <3028>, ELECTROLUX PROFESSIONAL JAPAN LIMITED, and Keiyo Co., Ltd. <8168>.

On June 1, 2020, company founder Yoshikane Nakashima left the position of President and Representative Director and was appointed Chairman, while Tatsuo Kitakoshi was promoted to be the President and Representative Director. President Kitakoshi accumulated experienced in various business departments, including the large air-conditioning equipment department that is the Company's core operation, and also worked as the head of the main centers in Kansai. Subsequently, after serving as the call center executive officer, from 2013 he engaged in management as the supervisor of the head office management department, while conducting the IPO. He has also been the driving force behind reforms inside and outside the Company, including introducing a new core system and strengthening internal controls, while in July 2019, he formulated SANKI 2022 as the Company's first medium-term management plan, and then in July 2022, SANKI NEXT STAGE 2025, its new medium-term management plan.

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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 (currently, the Tokyo business office)
April 1978	Established the Nagoya Center (currently the Tokai Center)
June 1983	Started a software development business
October 1983	Established the Shizuoka Center
January 1986	Entered into a business partnership with AMADA METRECS CO., LTD. (currently AMADA CO., LTD.<6113>) for industrial machinery maintenance work
May 1986	Established the Kobe Center
October 1987	Concluded an agency contract with Sanyo Electric Co, Ltd., and began sales of air-conditioning equipment and electrical products
May 1990	Entered into a business partnership with DAIKIN PLANT CO., LTD. (currently, DAIKIN APPLIED SYSTEMS CO., LTD.) for air-conditioning equipment maintenance management
November 1991	Registered for a "plumbing business" Ordinary Construction License
December 1995	Established Hamamatsu Station (currently Hamamatsu Center)
November 1996	Registered for a "piping work business" Special Construction License
September 1998	Established Shanghai Sanki Building Facility Service Co., Ltd. (currently a consolidated subsidiary) in Shanghai, China, in order to conduct air-conditioning equipment maintenance work
September 2000	Established a call center in Tokyo able to respond 24-hours-a-day, 365-days-a-year and started developing the Total Maintenance Business nationwide
October 2001	Established the Sapporo sales office (currently the Sapporo Center)
June 2002	Established the Hyogo Business Development Department (currently the Hyogo Center)
September 2003	Registered for a "construction engineering business" Special Construction License
March 2007	Registered for a "electrical work business" Ordinary Construction License
February 2012	Established a call center in Shanghai, China, able to respond 24-hours-a-day, 365-days-a-year
April 2015	Listed on the Tokyo Stock Exchange (TSE) JASDAQ (standard) market
June 2015	Split the Tokyo Center and established the Yokohama Center
March 2016	Relocated the Head Office to Abo, Himeji-shi, Hyogo Prefecture, and acquired security industry certification
April 2016	Opened a call center and training center in Himeji and the listing was changed to the TSE Second Section
August 2016	Registered for an "interior finishing business" Special Construction License
April 2017	Listing was upgraded to the TSE First Section
February 2018	Established the Takasaki sales office
May 2019	Established SANKI – SONADEZI JOINT STOCK COMPANY, as a joint venture with SONADEZI GIANG DIEN SHAREHOLDING COMPANY, in Dong Nai Province, Vietnam
January 2020	The Tokyo business office acquired ISO14001 certification
February 2020	Established the Wakayama sales office
June 2020	Tatsuo Kitakoshi became the Company's President
April 2022	Listing was transferred to the Standard market following the Tokyo Stock Exchange's (TSE) reorganization of market categories

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

In advance of the Company's 45th anniversary in July 2022, in January of the same year it renewed its corporate logo design. With a logo mark in which "three" in the Company's name resembles a building, it expresses the Company's enthusiasm for its ability to undertake all building maintenance in an integrated form. Also, making the logo a darker blue than before expresses its resolve of aiming to be a company that gives customers' a sense of security and trust.

Corporate logo design



Source: Reprinted from the Company's press release

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Is providing high quality maintenance services based on the technologies and expertise it has accumulated, mainly in the call centers

2. Business overview

Based on the business concept of realizing “environmental improvements focused on maintenance,” to provide customers with pleasant spaces and time and with peace of mind, the Company will continue to not only repair equipment and devices, but it also plans to proactively propose preventative maintenance to reduce the occurrences of sudden and unexpected failures, centered on retailers with many stores and buildings; food and drink establishments; medical, nursing care, and social welfare facilities; and the equipment management industry. Also, in addition to equipment maintenance, the Company widely supports all equipment issues related to store operations, including work to upgrade equipment and devices, store renovation work, and energy-saving proposals.

The Company has a single business segment, the maintenance business, which is comprised of its main businesses of the Total Maintenance, in which it provides integrated management of all facilities and equipment, mainly for customers operating multiple stores and buildings; the Air Conditioning Maintenance Service, in which it provides maintenance services mainly for the air conditioners of customers operating multiple stores; the Equipment and Environment Solutions, in which it proposes, designs, and conducts construction work for energy-saving solutions and other solutions, mainly for schools and hospitals; and the Maintenance Services, in which it provides maintenance services mainly for large-scale air conditioner equipment in large facilities.

(1) The Total Maintenance

Through the one-stop, integrated maintenance management of all the stores and business offices of companies with multiple stores and buildings, it realizes cost reductions and environmental improvements. In addition, regular maintenance management, which is one part of the Total Maintenance, entails conducting inspections from the viewpoint of “preventative maintenance” for building equipment (air-conditioning, electricity, kitchen, fire prevention, water supply and drainage, sanitation equipment, etc.,) to prevent accidents and problems before they occur. It also aims to prolong the useful lives of equipment by always keeping a building’s equipment and devices in the best possible condition.

A feature of the Total Maintenance is its call centers, which can respond 24-hours-a-day, 365-days-a-year. Operators are always ready to take calls, and the Company conducts total maintenance work for its customers by utilizing its approximately 200 service engineers (as of May 2022) and its nationwide network comprised of 2,500 collaborative partner companies (same) and various manufacturers. A strength of the Company is that it has established an environment in which its service engineers can respond regardless of the device or the manufacturer. Specifically, it provides a total service that involves not only responding to emergency problems with devices, but also conducting preventive maintenance for other devices through database coordination ascertaining the customer’s equipment details. Furthermore, by dispatching partners, the contractors for maintenance work, to customers’ stores and other buildings, the Company has established a system that enables providing maintenance services throughout Japan and enables it to respond to various customer needs. The Company has a wide range of customers, including retailers with multiple stores and buildings, food and drink establishments, event facilities, and healthcare, nursing care and social welfare facilities.

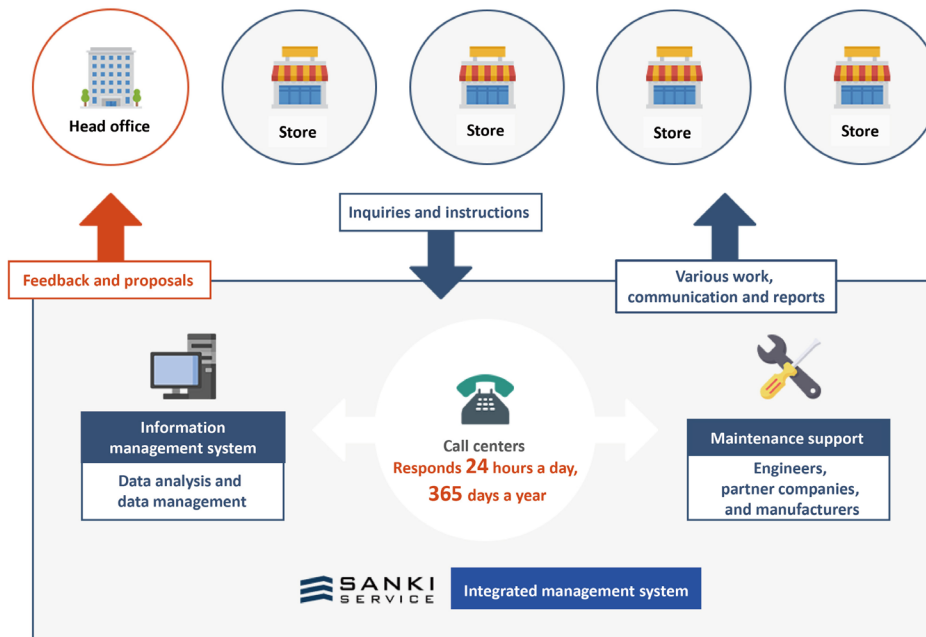
Company overview

Summary of the Total Maintenance

Integrated management of all facilities and of equipment maintenance
Can respond 24-hours-a-day, 365-days-a-year, when a problem occurs
Integrated management, from work attendance through to progress confirmation and invoicing
According to the details of the request received, allocates various personnel from device manufacturers, partner companies, and the Company itself (kitchen equipment, air-conditioning equipment, water supply and drainage equipment, sanitation equipment, signs, electrical equipment, interior and exterior damage related, fire prevention equipment defects, etc.)
Creates an equipment management table based on the maintenance inspection data and repairs history, and manages funds appropriately
Through an online system, can ascertain in real time the repair-arrangement conditions and monetary amounts
Proposes effective measures by analyzing the repairs history and extracting equipment problem points (conducts maintenance inspections and maintenance classes)
Gives advice to new stores on selecting devices and creates measures for optimized device selection and after-sales follow-up maintenance
Through integrated management, including regular cleaning, it conducts all maintenance outsourced management and serves as the single contact point for all facilities and the head office
Realizes cost reductions, including of indirect costs

Source: Prepared by FISCO from the Company's website

Image of maintenance work integrated management



Source: Prepared by FISCO from the Company's website

(2) The Air Conditioning Maintenance Service

Since it was founded, the Company has 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 provides maintenance services nationwide regardless of the equipment manufacturer, mainly of air conditioning and water supply and drainage equipment, primarily to retail customers with many stores. For these services also, the call centers respond to inquiries 24-hours-a-day, 365-days-a-year. The Company provides repair analyses and proposals to reduce the number of repairs and costs, while it also conducts fluorocarbon emission inspections for devices that are subject to the Act on the Rational Use and Proper Management of Fluorocarbons and supports the management of emission amounts of fluorocarbons generated when conducting repairs and at other times.

Company overview

Summary of the Air Conditioning Maintenance Service

	Before an installation	After an installation
Data management	Manufacturers respond for repairs and conduct management through daily reports When manufacturers respond, analysis data is not generated	Integrated management of data for each company Can analyze repair data and conduct a fair analysis as a third party
Fees system	There are price differences between the various companies There are uncertainties, such as the prices of parts	Responds with uniform fees Makes visible the prices of parts
Progress management	Ascertains conditions through a daily Excel report Inspection schedule is notified by postcard	Progress management through an online system Can also confirm the inspection schedule through the online calendar

Source: Prepared by FISCO from the Company's website

(3) The Equipment and Environment Solutions

The Company proposes solutions to save energy and costs and to reduce CO₂, mainly to facilities such as hospitals and schools, and carries out work from design through to construction. The specialist energy staff diagnose the customer's building equipment and devices, clarify the problems points, and propose various and specific measures to resolve these problem points, including selections of required equipment and improvement values. In addition, it provides information on subsidies that will lead to energy saving and cost reductions and proposes construction projects for new installations and upgrades of air conditioning equipment and for improvements. It also responds for electrical construction projects alongside installations of equipment and devices and provides proposals to improve electrical equipment.

(4) The Maintenance Services

The Company's specialist engineers can even undertake maintenance work for the manufacturers of overseas products and it also provides maintenance support for equipment and devices from various manufacturers, regardless of genre. The main work includes undertaking manufacturers' front work, work to construct equipment maintenance systems, alliance work for manufacturers' Japanese subsidiaries, and agency work to create technical materials for devices.

The Company accumulates and manages in its own online database the information on incidents that occurred in its customers' various stores and facilities, and conducts data analyses of histories in order to greatly reduce problems, such as responding to emergencies. Regardless of the equipment maintenance management costs, this can increase cost-reduction effects by leading to the elimination of profit losses, such as opportunity losses.

As an example of an introduction of maintenance services at an overseas manufacturer, the Company provides maintenance services to Electrolux, which is a leading home appliances company whose head office is in Sweden, North Europe, for devices including food-services devices and coin-laundry devices. It also provides technical consultations and remote support for defects to its nationwide sales stores and end users. In addition, should a repair visit be required, it uses its nationwide service network to conduct the repair visit on the shortest possible schedule.

Provides a wide range of high-quality services as “environmental 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.

(2) Energy conservation and cost reductions

The Company provides energy conservation and cost reductions by utilizing its proprietary systems and expertise in response capabilities, technological capabilities and information capabilities to install the optimal equipment and carry out construction as well as maintenance management.

a) Response capabilities

Through the proprietary systems in its call centers, the Company can provide collective management for equipment maintenance within all facilities. Furthermore, it can conduct unified management of the process from the moment when operators, who are always on standby 24-hours-a-day, 365-days-a-year, receive the request to dispatching engineers, confirming the progress, and submitting an invoice. Unifying maintenance in this way makes it easier to manage the maintenance histories of each store, and as a result, saves time and effort for 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.

Company overview

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. Specifically, in addition to providing information and preparations made in advance, including proposals to utilize subsidies to fund some of the costs to upgrade and maintain equipment, centralized management of maintenance history and other information can also prevent emergency problems.

(3) Maintenance, management, and construction (maintenance)

In offices, buildings, and condominiums, based on the total maintenance approach, the Company's specialists carry out surveys, analyses, and verifications of the structure of energy consumed by the facilities' equipment (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.

(4) Products

The Company handles products to provide total support in facilities, buildings, and equipment maintenance work sites. This includes introductions of inverter controls to reduce wasteful power consumption of pumps that are used with air-conditioning equipment and converting lighting to LED.

Provides maintenance services for all equipment regardless of manufacturer or type, primarily through its call centers operating 24-hours-a-day, 365-days-a-year. Has concluded bulk contracts with major retail companies

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. <4658> and Shin Maint Holdings Co., Ltd. <6086>. 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, and the Company has also moved faster than its competitors in creating systems, including online systems. In addition, the Company is focusing its efforts into personnel training and multi-skills development*, and it conducts skills training at a training center adjoining the head office.

* It can handle various types of air conditioning equipment, including large-scale absorption-type chillers and heaters and small-scale package air conditioners.

Company overview

One of the Company's strengths is that it contracts in collective equipment management and equipment maintenance management work, including for air-conditioning equipment, water supply and drainage, and sanitation equipment, electrical equipment, fire prevention equipment, security and safety equipment, and kitchen equipment, regardless of the manufacturer or machine model, for companies with many stores and many buildings, centered on retail chain stores and food and drink establishments, which are the Company's main customers. In addition, the Company has 13 centers nationwide, staffed with the Company's service engineers who possess highly-specialized technological abilities, and these centers also dispatch contracting maintenance partners to customers' stores, thereby putting in place a system that allows the Company to provide maintenance services throughout Japan, and it responds to customers' diverse needs. Moreover, by using the online management system developed in house, customers' store managers are able to ascertain the maintenance status of equipment in real-time, which allows them to lessen the cumbersome hassles in management work. With these strengths, the Company is able to centrally manage many stores and facilities located in many regions, which leads to appropriate cost management for companies with multiple stores and buildings.

Also, as a manufacturer service designated store of Panasonic Commercial Equipment Systems, which is part of the Panasonic Group, it conducts regular inspections and responds to requests for repairs, including commercial-use, large air-conditioning equipment. The Company has carried out maintenance of air-conditioning equipment manufactured by Panasonic since it was founded, so its strong relationship with the Panasonic Group is a strength. 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 services, including installing energy-saving inverters peripheral to large air-conditioning equipment, maintenance of equipment other than large air-conditioning equipment, like electrical equipment and water supply, drainage, and sanitation equipment, and renewal of large-scale equipment.

Results trends

Recorded close to record high net sales through the recovery of projects delayed due to the impact of COVID-19 and developments of new services

1. Overview of the FY5/22 results

In the FY5/22 consolidated results, net sales increased 0.5% YoY to ¥11,581mn, operating profit decreased 23.4% to ¥221mn, ordinary profit declined 23.6% to ¥224mn, and profit attributable to owners of parent fell 12.3% to ¥154mn. In hospitals, which are the main target of energy-saving proposals, alongside the intermittent application of the declarations of a state of emergency and semi-state of emergency measures due to COVID-19, some proposals, including field surveys, and also starts of construction work, were delayed. Also, in addition to the supply shortages of semiconductors, resin materials, and other items from the previous period, the delivery dates of inverters, breakers, and other products were further delayed by the impact of the increased instability in global conditions, and the situation is that although there is a lot of demand for energy-saving proposals, the starts of construction work are being delayed. In this situation, the Company provided proposals mainly for products with comparatively short delivery times, and as a result, net sales increased. Conversely, profits decreased because although it reviewed SG&A expenses, including personnel expenses, the profit margin fell because of changes in contract details with customers.

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Results trends

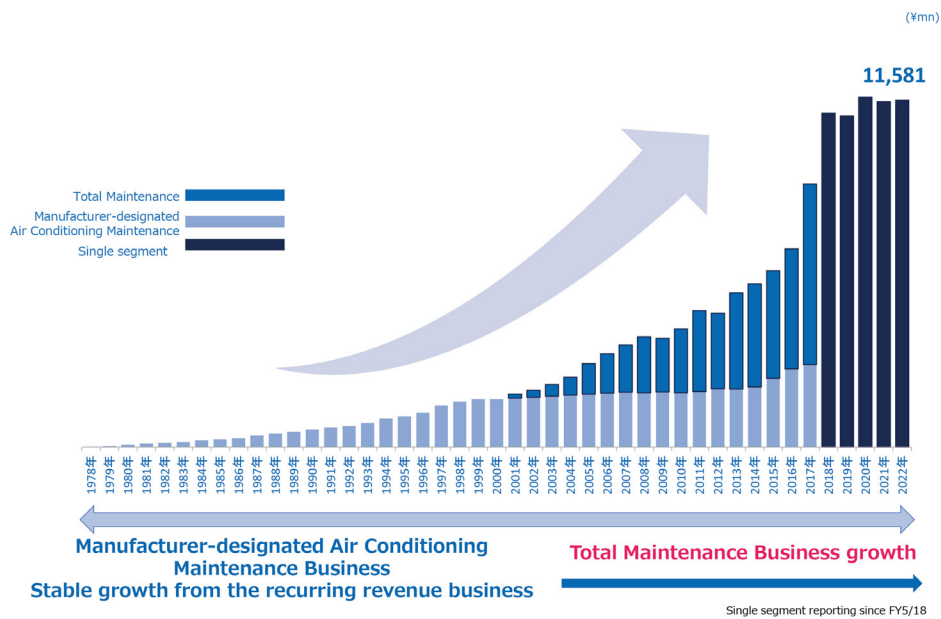
FY5/22 consolidated results

	FY5/21		Initial forecast	FY5/22		YoY	Vs. initial forecast
	Results	% of net sales		Results	% of net sales		
Net sales	11,525	-	12,500	11,581	-	0.5%	-7.3%
Gross profit	2,628	22.8%	-	2,454	21.2%	-6.6%	-
SG&A expenses	2,340	20.3%	-	2,233	19.3%	-4.6%	-
Operating profit	288	2.5%	450	221	1.9%	-23.4%	-50.8%
Ordinary profit	293	2.6%	452	224	1.9%	-23.6%	-50.3%
Profit attributable to owners of parent	175	1.5%	286	154	1.3%	-12.3%	-46.1%

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

The Company recorded net sales that were close to their record high (¥11,679mn in FY5/20) due to the recovery of projects that were delayed because of the impact of COVID-19 and developments of new services. In terms of trends in net sales since the Company's foundation, in addition to stable sales of manufacturer's designated air conditioning maintenance services, the Total Maintenance Business since 2000 is also growing.

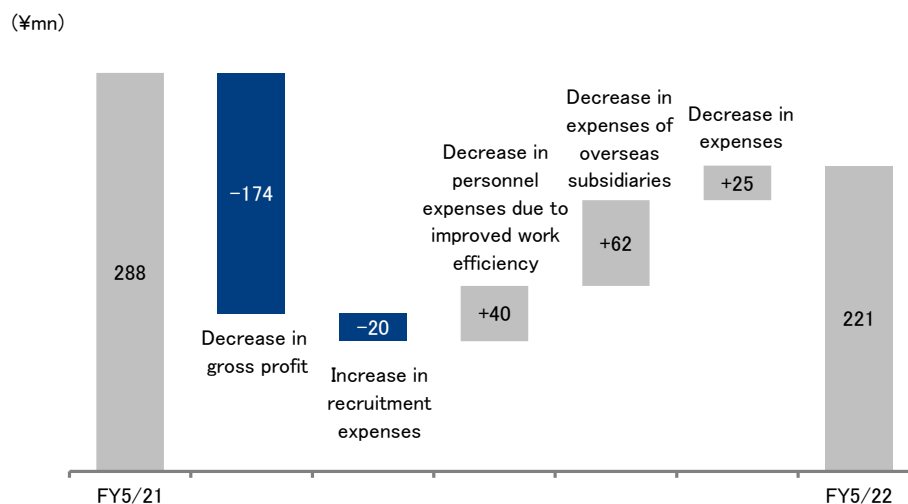
Trend in consolidated net sales



Source: The Company's financial results briefing materials

Looking at the factors increasing and decreasing operating profit, the main decrease factor was that gross profit declined ¥174mn following changes to the details of contracts with retail customers. Also, although recruitment expenses increased ¥20mn due to the strengthened recruitment, personnel expenses declined ¥40mn, mainly because of the progress made in improving work efficiency. Other than these, SG&A expenses decreased ¥106mn, including because expenses of overseas subsidiaries declined ¥62mn. To reduce costs, the Company's policy is to continue to progress the multi-skills development of its in-house maintenance engineers and to increase the in-house manufacturing rate, while at the same time, it is targeting business expansion by developing human resources, including through training that uses the actual equipment and devices. Therefore, we at FISCO expect profits to improve in the future.

Results trends

FY5/22 operating profit change factors


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

2. Net sales by service

For construction services, net sales increased 19.4% YoY to ¥3,551mn due to upgrades of devices in retail projects and acquisitions of new energy-saving projects, and their percentage of total net sales also rose 5.0 percentage points (pp) to 31.5%. Conversely, net sales of regular services decreased 10.1% to ¥2,528mn, and their percentage of total net sales fell 2.6 pp to 22.4%. Also, net sales of repair services decreased 4.8% to ¥5,190mn and their percentage of total net sales fell 2.4 pp to 46.1%.

Net sales by type of service

	FY5/20		FY5/21		FY5/22		YoY
	Results	%	Results	%	Results	%	
Construction	3,255	28.8%	2,975	26.5%	3,551	31.5%	19.4%
Regular	2,520	22.3%	2,813	25.0%	2,528	22.4%	-10.1%
Repairs	5,526	48.9%	5,450	48.5%	5,190	46.1%	-4.8%

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

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

Net sales of retail customers declined 6.1% YoY to ¥6,405mn due to changes in the details of customers' contracts, and their percentage of total net sales fell 3.9 pp to 56.8%. Conversely, through entering-into new markets, net sales of others increased 15.4% to ¥1,960mn and their percentage of total net sales rose 2.3 pp to 17.4%. For the changes in the details of retail customers' contracts, although the base is decreasing, the Company intends to grow through other retail customers. It has been two years since the start of the COVID-19 pandemic and the Company has been acquiring new customers, and we at FISCO think that the retail industry is highly likely to recover from FY5/23 onwards.

Results trends

Percentage of total net sales by customer attribute (stand-alone basis)

	FY5/20		FY5/21		FY5/22		YoY
	Results	%	Results	%	Results	%	
Food and drink	634	5.6%	291	2.6%	372	3.3%	27.8%
Retail	5,881	52.0%	6,824	60.7%	6,405	56.8%	-6.1%
Equipment, management, and real estate	2,113	18.7%	2,030	18.1%	1,923	17.1%	-5.3%
Event facilities	39	0.3%	45	0.4%	78	0.7%	73.3%
Medical, nursing, and welfare	369	3.3%	349	3.1%	531	4.7%	52.1%
Others (leases, etc.)	2,264	20.0%	1,699	15.1%	1,960	17.4%	15.4%

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

4. Financial condition

At the end of FY5/22, total assets had decreased ¥12mn from the end of the previous period to ¥5,081mn. Current assets increased ¥96mn to ¥4,054mn, due mainly to an increase in notes and accounts receivable - trade and contract assets of ¥71mn while cash and deposits decreased ¥108mn. Non-current assets decreased ¥109mn to ¥1,026mn. Total liabilities declined ¥65mn to ¥2,063mn. Current liabilities increased ¥61mn to ¥1,551mn, mainly as accounts payable for construction contracts rose ¥129mn. Non-current liabilities declined ¥127mn to ¥512mn. Total net assets increased ¥53mn to ¥3,017mn, including because retained earnings rose ¥65mn.

As a result of the above, the equity ratio was 59.4% (58.2% in the previous period). However, ROE (Return on Equity) declined to 5.2% (6.0% in the previous period) because of the decrease in profit attributable to owners of parent and the increase in shareholders' equity.

Financial condition

	(¥mn)		
	End of FY5/21	End of FY5/22	Increase/decrease
Current assets	3,958	4,054	96
Non-current assets	1,135	1,026	-109
Total assets	5,093	5,081	-12
Current liabilities	1,489	1,551	61
Non-current liabilities	639	512	-127
Total liabilities	2,129	2,063	-65
Total net assets	2,964	3,017	53

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

■ Outlook

For FY5/23, the forecast is for record high net sales from the further growth of total maintenance services

1. FY5/23 outlook

For the FY5/23 consolidated results, the Company is forecasting net sales to increase 24.1% YoY to ¥14,370mn, operating profit to grow 108.2% to ¥460mn, ordinary profit to rise 105.9% to ¥462mn, profit attributable to owners of parent to increase 99.4% to ¥307mn, and ROE of 9.8% (5.2% in the previous period). Through the further growth of total maintenance services, net sales are expected to set a new record high for the first time since FY5/20.

FY5/23 consolidated results outlook

	FY5/22		FY5/23		
	Results	% of net sales	Forecast	% of net sales	YoY
Net sales	11,581	-	14,370	-	24.1%
Operating profit	221	1.9%	460	3.2%	108.2%
Ordinary profit	224	1.9%	462	3.2%	105.9%
Profit attributable to owners of parent	154	1.3%	307	2.1%	99.4%
ROE	5.2%	-	9.8%	-	-

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

With regards to the impact of COVID-19, the main customers in the retail business primarily operate as supermarkets and convenience stores that have a business structure that secures lifelines, so we at FISCO think its impact will be minimal. Also, with regards to the supply shortages of semiconductors, resin materials, and other items, progress is being made in securing inventory of products with comparatively long delivery times, so we think that its impact on results in FY5/23 may be eliminated.

In FY5/22, construction projects increased due to device upgrades for retail projects and acquisitions of new energy-saving projects, and their percentage of total sales also rose. Based on the features of total maintenance services, we at FISCO think that the increase in construction projects will increase the regular projects and repair projects and that in the long-term, the Company will develop a stock-type (recurring income-type) earnings structure. For developments of new markets as well, which expanded in FY5/22, we can expect further growth from FY5/23 onwards. In addition, as there continues to be a lot of demand for energy-saving proposals, orders with the Company are forecast to increase. Profits can also be expected to improve from the measures to achieve the targets in the new medium-term management plan.

Outlook

Has formulated SANKI NEXT STAGE 2025, the new medium-term management plan. Is aiming to strengthen the earnings foundation by rebuilding the management base and the business base

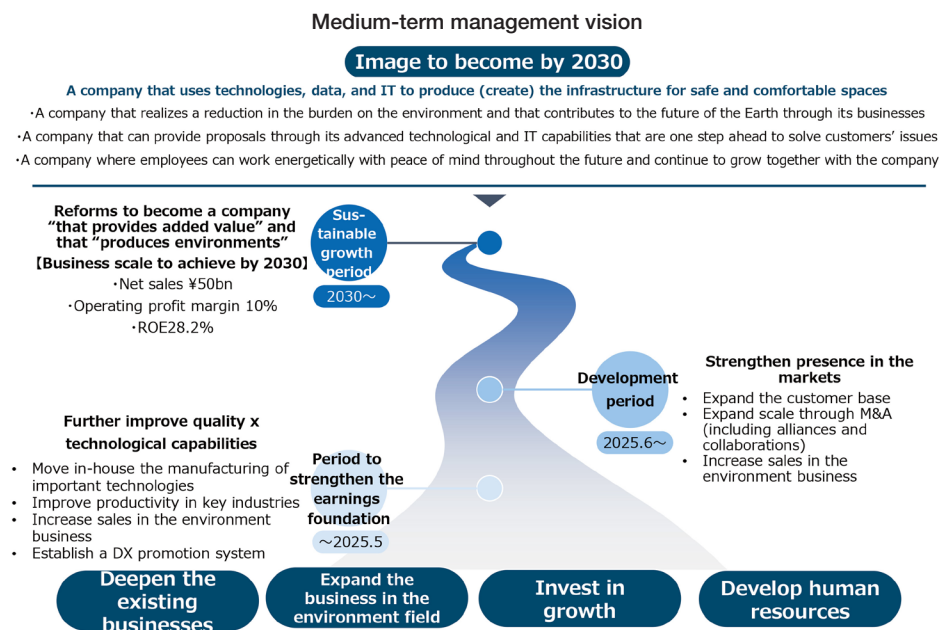
2. The new medium-term management plan SANKI NEXT STAGE 2025

In July 2022, the Company formulated SANKI NEXT STAGE 2025, its new medium-term management plan. Based on the changes to the business environment due to COVID-19 and other factors, it has positioned the period from FY5/23 to FY5/25 as the period in which to strengthen the earnings foundation for growth in the medium- to long-term, and its policy is to rebuild the management base and the business base.

(1) The medium- to long-term management vision

The image that the Company is aiming to be in 2030 is “a company that uses technologies, data, and IT to produce (create) the infrastructure for safe and comfortable spaces,” “a company that realizes a reduction in the burden on the environment and that contributes to the future of the Earth through its businesses,” “a company that is one step ahead in solving customers’ issues and can provide proposals through its advanced technological and IT capabilities,” and “a company where employees can work energetically with peace of mind throughout the future and continue to grow together with the company.” It has positioned the period from 2030 onwards as the “sustainable growth period” in which it will progress reforms to become a company “that provides added value” and that “produces environments.” It also targeting net sales of ¥50bn, an operating profit margin of 10%, and ROE of 28.2% as the business scale it wants to achieve by 2030.

In order to achieve this vision, its basic policies are “Deepen the existing businesses,” “Expand the business in the environment field,” “Invest in growth,” and “Develop human resources.” It has set the period from FY5/23 to FY5/25 as the “period to strengthen the earnings foundation,” the period from FY5/26 onwards as the “development period,” and the period from 2030 onwards as the “sustainable growth period.”



Source: The Company's financial results briefing materials

We encourage readers to review our complete legal statement on “Disclaimer” page.

Outlook

(2) Key policies and numerical targets

As the direction that the Company is aiming for, it will increase quality and technological capabilities and shift to become a company that provides total solutions in the vertical direction. Also, as its key policies, in addition to the four policies of expand the business scale (approximately double net sales in the development period from FY5/26 onwards), invest in growth (conduct M&A and strengthen internally), improve added value (increased ROE by 10% in the development period from FY5/26 onwards), and develop human resources (strengthen technological capabilities, sales capabilities, and interpersonal capabilities, and improve work engagement), for its sustainability (ESG) management as well, the Company will contribute to reducing CO₂ and realize health management. As for the business structure, it is anticipated that the percentages of business as a whole constituted by total maintenance and environment solutions will increase, in addition to manufacturers' demand for maintenance services remaining basically unchanged in the future due to improved product performance.

The numerical targets for FY5/25, which is the plan's final fiscal year, are net sales of ¥21,450mn (¥11,581mn in FY5/22) and operating profit of ¥1,034mn (¥221mn).

The new medium-term management plan's numerical targets

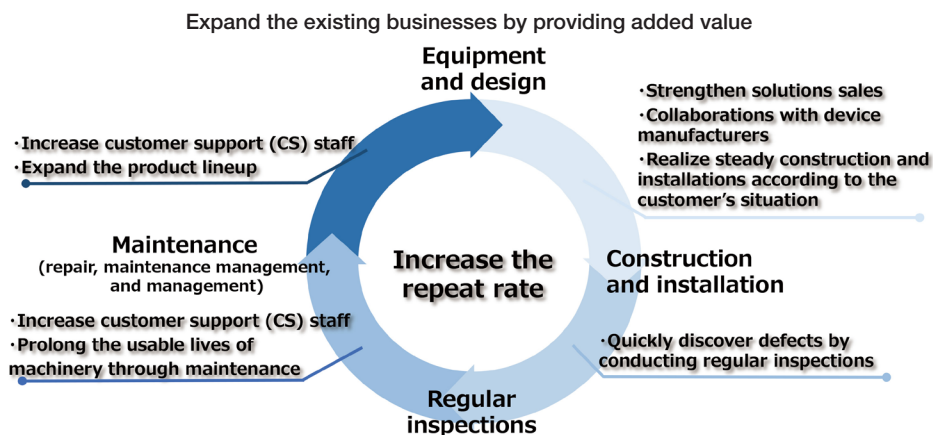
	FY5/22 Result	FY5/23 Target	FY5/24 Target	FY5/25 Target	CAGR (compound annual growth rate)
Net sales	11,581	14,370	17,900	21,450	16.7%
Operating profit	221	461	729	1,034	52.7%

Source: Prepared by FISCO from the Company's news release

a) Expand the business scale

The Company is aiming to approximately double net sales in the development period by expanding the existing businesses by providing added value and expanding the environment business.

Within these efforts, to expand the existing businesses by providing added value, as the image the Company wants to be in 2025, it intends to expand the business areas through utilizing its strength, of the expertise it has accumulated up to the present time, and provide support for the future that customers want to be realized through proposals that are one step ahead. Specifically, it will strengthen the solutions business so that customers are involved from the equipment design stage, and also steadily rotate the cycle of equipment design, construction, installation, regular inspection, and maintenance, and moreover expand this cycle. It will also collaborate with device manufacturers in order to capture demand for the construction, installation, inspection, and maintenance of devices.



Source: The Company's financial results briefing materials

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Outlook

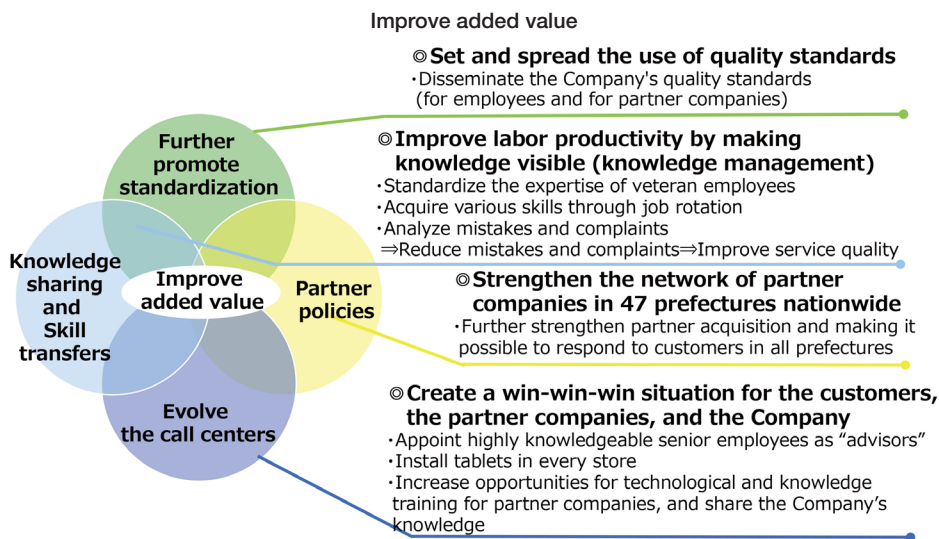
For the expansion of the environment business, as the image the Company wants to be in 2025, it will deepen solutions that have a greater awareness of SDGs, while also proposing high-value-added solutions with a view to being carbon neutral, to make the environment business the third business pillar. Specifically, toward increasing sales of energy-saving systems, it will increase sales not only to large-scale hospitals, but to other industries as well, and it will work to expand and deepen its proposals menu. In order to enhance its ability to propose solutions, it will strengthen human resources in the environment field and increase solutions and staff that can respond to and resolve customers' issues instantly. It will also strengthen subsidy-applications work through registering as an energy management systems business. In addition, as new initiatives, the Company will expand the scope of services, propose replacing heat source and air conditioning equipment with highly efficient devices (moving from heavy oil to electric use, etc.), and plan horizontal business development into a new industry (distribution centers).

b) Invest in growth

As the image the Company wants to be in 2025, it will invest alongside funding and related (for alliances and M&A) and to strengthen internally, while its policy is also to conduct growth investment, promote DX, and respond to the spread of smart devices and to digitization. Specifically, it intends to strengthen M&A and alliances through investment to execute strategic M&A and to acquire knowledge and technologies. It also plans to strengthen internally by enhancing training content and training facilities, recruiting and developing human resources, and responding to the spread of smart devices and to digitization.

c) Improve added value

The Company is aiming to increase ROE by 10% during the development period by progressing policies to improve quality and to reduce cost prices. Specifically, its policies are to further promote standardization (setting and spreading the use of quality standards), conduct knowledge sharing and skill transfers (improve labor productivity by making knowledge visible), implement partner policies (strengthening the nationwide network of partner companies), and evolve the call centers (aiming to create a win-win-win situation for the customers, the partner companies, and the Company).



Source: The Company's financial results briefing materials

Outlook

d) Develop human resources

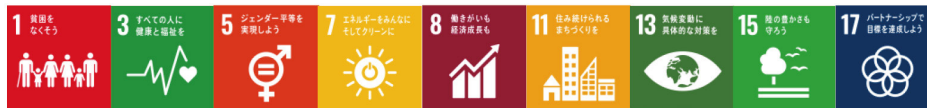
The Company will evolve its human-resources portfolio by working to strengthen the sales system, training and developing in-house specialist engineers. As the image the Company wants to be in 2025, it will develop engineers to make them air conditioning and cooler equipment specialists, while for sales, it will strengthen solutions sales, and for customer support, it will develop and increase staff. In addition, through disseminating the new corporate philosophy and establishing the new personnel system, it intends to discover and develop the next generation of management human resources that are able to work themselves to create new value. It is also promoting knowledge management and strengthening the training system and recruitment.

e) Sustainability management

The Company has set sustainability (ESG) management as one of the key policies in the new medium-term management plan, and it is aiming to contribute to reducing CO₂ and to realize health management. For E (Environment), as its contribution to customers' CO₂ reduction targets, in FY5/22 it contributed to a CO₂ reduction of approximately 550,000* units. For FY5/25, it has set a CO₂ reduction target of around 1.87mn units*. It also continues to actively collaborate with other companies, such as for their energy-saving and renewable-energy activities. For S (Social), in order to promote health management, to secure diverse workstyles, and to promote diversity, its policies include increasing the percentage of women in management positions from the current 7% to 12% in the next 5 years. For G (Governance), the Company is progressing a corporate government system to increase the trust placed in it by society and stakeholders. It is also expanding its scope of application with the aim of being listed on the TSE Prime market.

* 1 unit is calculated as 14kg of absorbed CO₂.

Progressing sustainability management



Source: The Company's financial results briefing materials

CSR initiatives

From aspects such as national standards, social conditions, and CSR, needs are rising in society as a whole for energy saving, power saving, and cost reductions. In this situation, the Company proposes and provides full support for cost reductions 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,” the Company promotes environmental measures together with customers, centered on handling laws and regulations, providing advice, and energy-saving proposals, and provides them with total support to improve operations and equipment. Moreover, as a “heat source replacement” solution, the Company proposes introductions of heat source equipment and provides advice on utilizing subsidies applied to projects like equipment upgrades. It also proposes designs and recommends ways of selecting products in order to save electricity when introducing LED lighting.

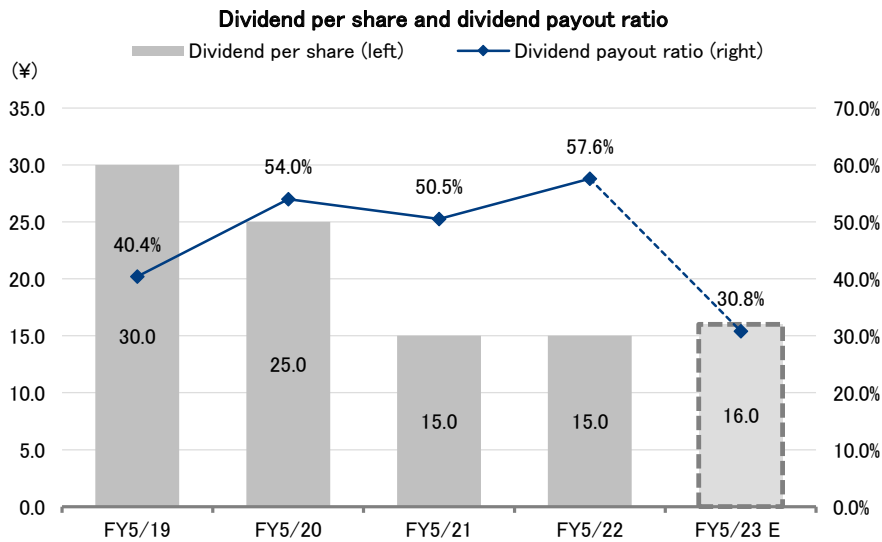
CSR initiatives

The Company carries out the Sanki Service Forest project as a CSR activity for the beautification and preservation of the forest environment. As one part of its CSR activities with the goals of reducing CO₂ emissions in its business activities and protecting the future global environment, in September 2017, on the 40th anniversary of its foundation, the Company carried out tree planting on the coastal area of Futtsu City, Chiba Prefecture (0.21ha). Every year, employees nationwide gather at this location to conduct forest preservation activities, including pruning and weeding. As previously explained, “Promoting sustainability management” is one of the key policies in the new medium-term management plan.

Shareholder return policy

Expects to increase the annual dividend in FY5/23 to ¥16.0, 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, and it aims to continuously pay stable dividends. For the dividend in FY5/22, it paid the same dividend per share as in the previous period of ¥15.0 for a dividend payout ratio of 57.6%. Also, for FY5/23 it is forecasting a dividend per share of ¥16.0, an increase of ¥1.0 YoY, for a forecast dividend payout ratio of 30.8%.



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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