COMPANY RESEARCH AND ANALYSIS REPORT

Sanki Engineering Co., Ltd.

1961

Tokyo Stock Exchange Prime Market

8-Jul.-2025

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Contents

Summary

A comprehensive engineering company for facility construction, centered on industrial HVAC. The Company has maintained a high profit margin based on thorough construction management and other measures, and achieved its highest level of profit

Sanki Engineering Co., Ltd. <1961> (hereafter, also "the Company") is an engineering company whose main business is the planning, design, manufacture, supervision, installation, sale and consultation of systems and equipment for construction facilities (mainly HVAC systems) and plant facilities (mainly water and sewage treatment and disposal plants, etc.) in office buildings, schools, hospitals, shopping centers, industrial plants, R&D centers and other facilities. The Company's strengths include comprehensive engineering capabilities across a diverse range of business operations, combined with advanced technology and credibility accumulated over a history of more than 100 years.

1. Overview of FY3/25 results: Operating profit rose 88.9% YoY, setting a new record high

The Company reported FY3/25 results, with net sales of ¥253,136mn (up 14.1% year on year (YoY)), operating profit of ¥21,893mn (up 88.9%), ordinary profit of ¥23,071mn (up 80.9%) and profit attributable to owners of parent of ¥17,203mn (up 92.2%). Operating profit was a record high since the Company began announcing consolidated results (since 1983). Net sales increased significantly as construction projects carried over from the previous fiscal year were completed smoothly. In terms of profits, internal efforts to improve profit margins and progress on profitable construction projects led to a significant improvement in the gross profit margin to 18.8% (15.6% in the previous fiscal year), and gross profit increased 37.1% YoY. Meanwhile, SG&A expenses increased 11.0%, mainly due to increased personnel expenses (improvements in compensation, etc.), but as they remained roughly in line with forecast, operating profit increased significantly YoY. Orders received were also solid, reaching ¥264,965mn (up 14.0%), and the balance carried forward at the end of FY3/25 reached a record high of ¥210,731mn (up 5.9% from the end of the previous fiscal year).

2. FY3/26 forecasts: Expecting operating profit to increase 11.9% YoY due to improvement in profit margin

For FY3/26, the Company is forecasting ¥240,000mn in orders received (down 9.4% YoY), ¥250,000mn in net sales (down 1.2%), ¥24,500mn in operating profit (up 11.9%), ¥25,000mn in ordinary profit (up 8.4%), and ¥19,500mn in profit attributable to owners of parent (up 13.3%). The Company expects a gross profit margin of 20.6% (up 1.8 percentage points (pp)) due to the details of construction work in progress and other factors, and expects an increase of 5.5% in SG&A expenses. According to the Company, of the ¥189.2bn in individual construction work carried forward at the end of the fiscal year, approximately ¥130.0bn is scheduled to be completed during FY3/26, so there is a strong possibility that this earnings forecast will be achieved. FISCO believes that there is a possibility of further upward revisions depending on the status of orders received during FY3/26 and the progress on construction work.

3. Announced a new Medium-Term Management Plan 2027 and aiming for operating profit of ¥30.0bn in FY3/28

The Company announced "Century 2025" in March 2016 as its long-term vision for the 10-year period to FY3/26, the 100th anniversary of its foundation. However, in FY3/25 the Company achieved most of the targets it had set in "Century 2025." As a result, the Company has now announced a new plan, the Medium-Term Management Plan 2027, which will run through FY3/28. Under the key theme of "Enhancement and Co-Creation," the Company has established the following strategic frameworks: Business Strategy, Financial and Capital Strategy, Growth Investment Strategy, R&D Strategy, Human Resources Strategy, and DX Strategy, and has set quantitative targets of ¥300.0bn in net sales, ¥30.0bn in operating profit, and an ROE of 16.0% or more for FY3/28. Going forward, it will be interesting to see how the Company will achieve both its quantitative and qualitative targets.

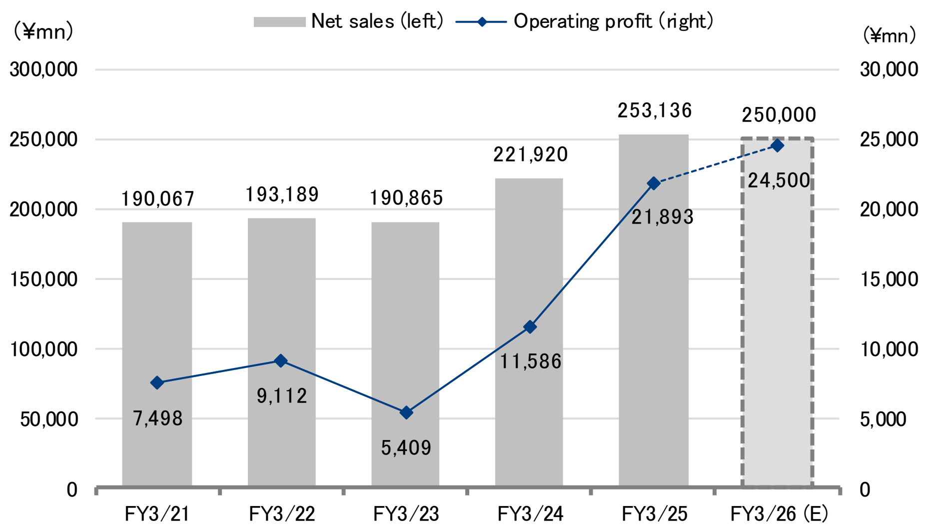
4. Actively returns profit to shareholders: Plans on an annual dividend of ¥165 also for FY3/26

The Company is also actively returning profits to shareholders. It has been paying stable returns to shareholders in line with its shareholder return policy in the prior "Century 2025" Phase 3 medium-term management plan. In the completed FY3/25, the Company paid an annual dividend of ¥165 based on its strong results and bought back 1.41 million shares. With this, the FY3/25 dividend payout ratio was 50.6%, while the total return ratio was 73.6%. For the in-progress FY3/26, the Company has announced it will pay an annual dividend of ¥165 (interim dividend of ¥82.5; year-end dividend of ¥82.5; expected dividend payout ratio of 43.8%). This proactive approach to shareholder returns, rather than simply aiming to improve earnings, is highly commendable.

Key Points

- A top-class domestic facilities construction company affiliated with Mitsui. Promoting measures to improve its profit margin
- Operating profit increased 88.9% in FY3/25, while the Company expects operating profit to rise 11.9% YoY in FY3/26
- Announced a new medium-term management plan, aiming for ¥300.0bn in net sales and ¥30.0bn in operating profit in FY3/28
- Actively returns profits to shareholders. Plans to pay an annual dividend of ¥165 (dividend payout ratio: 43.8%) also for FY3/26

Results trends



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

Company profile

A Mitsui-affiliated comprehensive engineering company conducting the Facilities Construction Business and the Plants & Machinery Systems Business with strengths in advanced technology and credibility cultivated over a long history

The Company is a facilities company that was established in 1925 as a spin-off of the machinery division of the former Mitsui & Co., Ltd. The first large projects for the Company started with the Shiga manufacturing plant of Toyo Rayon Co., Ltd. (currently, Toray <3402>), and a refrigerated warehouse for Aomori Seihyo Co., Ltd. Initially, the Company engaged in heating, plumbing, and the supply of construction materials. It has subsequently branched out into electrical work, developing integrated facilities construction planning, design and installation as its main operations.

After World War II, the Company steadily grew on robust construction demand and surpassed ¥1.0bn in capital in 1958. In subsequent years, the Company participated in projects undertaken in preparation to host the Tokyo Olympic Games in 1964, and grew in tandem with the expansion of the Japanese economy. The Company diversified from the Facilities Construction Business, such as air-conditioning, plumbing, and electrical systems, into other types of facilities, such as transport equipment, conveyance systems, water treatment facilities and waste treatment facilities. Today, it is a leading comprehensive facilities construction company in Japan. The Company's shares were listed on the Tokyo Stock Exchange (TSE) in 1950. Currently it is listed on the TSE Prime Market.

Prior to the 90th anniversary of its foundation in FY3/16, the Company announced the "Century 2025" long-term vision headed toward its 100th anniversary in 2025. The Company had planned for the final fiscal year of this plan to be FY3/26, but the main KPIs (numerical targets) were already achieved one year ahead of schedule, in FY3/25. As a result, the Company has now announced a new Medium-Term Management Plan 2027 and has started out toward achieving new goals.

History

1925	Sanki Engineering Co., Ltd. established as a spin-off of the machinery division of the former Mitsui & Co., Ltd.
1935	10th anniversary of its foundation. Had 5 branches, 6 sub-branch offices, 3 affiliated companies, and around 300 employees
1958	Capital exceeded ¥1.0bn
1963	Completed the Sagami Plant (currently, the Sanki Techno Center)
1964	Participated in projects relating to the Tokyo Olympic Games, including the Yoyogi National Gymnasium, and the NHK Broadcast Center
1982	Newly established Technical R&D Institute in Yamato City, Kanagawa Prefecture, equipped with facilities for basic research and for large-scale experiments
2000	Opened the Shonan Training Center (Yokosuka City, Kanagawa Prefecture) and strengthened human resource development
2011	Relocated its head office to the current location in the Tsukiji area of Tokyo
2016	Announced its long-term vision "Century 2025"
2018	Opened the Sanki Techno Center, a comprehensive training and research facility (Yamato City, Kanagawa Prefecture)
2019	Opened the Yamato Product Center, and completed the STeP (Sanki Techno Park) project
2025	100th anniversary of foundation

Source: Prepared by FISCO from the Company's website, etc.

Business overview

Main focus is Facilities Construction Business and Plants & Machinery Systems Business; particular strengths in building and industrial HVAC

1. Outline of business by segment

The Company's main businesses come under three segments—Facilities Construction Business, Plants & Machinery Systems Business, and Real Estate Business. Its main activities are design and construction management of various facilities. The Company obtains about half of its orders directly from facility owner clients and half indirectly through general contractors.

The size of the orders varies widely from a several million yen to a several billion yen depending on the project, and it appears that some mega-sized projects worth more than ¥10.0bn have also started to emerge in recent years. The order completion time (from order receipt to sales) varies from a few weeks to a few years for longer orders. The profitability of an order varies depending on factors such as labor and material costs and the management construction schedule, and some orders end up more or less profitable than originally planned.

(1) Facilities Construction Business

The Facilities Construction Business engages in activities including planning, design, installation, maintenance, and repair of facilities including office buildings, schools, hospitals, shopping centers, factories, R&D centers, and other facilities. The scope of activities handled by this business is extensive and can be further divided into the following subsegments.

a) HVAC and plumbing for buildings

The HVAC and plumbing for buildings business provides HVAC, water supply and wastewater systems, plumbing, area heating and cooling systems, kitchen systems, and disaster readiness systems for general buildings and facilities, such as office buildings, schools, hospitals, department stores, hotels, and warehouses.

b) Industrial HVAC

The industrial HVAC business provides HVAC for factories and research facilities of all industries, especially clean room systems for semiconductor plants and pharmaceutical and food processing plants as well as special air-conditioning systems and appurtenances for chemicals manufacturers, and manufacturers of medical equipment and the like, in addition to environmental control systems and so forth for automobile manufacturers. This is a particularly strong field for the Company, partly because of its historical background.

c) Electrical systems

The electrical systems business provides electrical equipment systems, communications-related systems, electrical civil works, and so forth.

d) Facility systems

The facility systems business offers project management and consulting services for the construction or relocation of offices and dealing rooms of financial institutions and other industries. It also provides central monitoring and automatic control systems, internet protocol (IP) solutions, network solutions, business continuity plan (BCP) solutions and other services for large-scale buildings.

(2) Plants & Machinery Systems Business

The Plants & Machinery Systems Business encompasses machinery systems and environmental systems as two subsegments.

a) Machinery systems

The machinery systems business supplies materials handling systems, including various transportation equipment (conveyors, sorting systems, etc.), and conveyance systems for factories and automated warehouses. Demand is centered on private-sector companies and is affected by capital investment trends.

b) Environmental systems

The environmental systems business provides facilities such as for water treatment (including water and sewage treatment and disposal, industrial wastewater disposal, and sludge treatment and incineration), waste treatment (including waste incineration and landfill wastewater treatment), and others. Customers are mainly local government entities and so forth.

(3) Real Estate Business

The Real Estate Business utilizes vacant land, such as former factory sites, and manages the real estate lease business and building management business.

2. Distinguishing traits, strengths, and competitors

(1) Broad business domain and one-stop solutions

Many companies in Japan provide similar facilities construction services, but the Company's strength lies in the wide range of its businesses, which includes HVAC and plumbing for buildings, industrial HVAC, electrical systems, facility systems, automated control systems for buildings, transportation systems, and water treatment facilities. The Company can provide services for many types of facilities and solutions covering all phases from planning and design to installation, maintenance, repair, and replacement, depending on the life cycle of the building. This capability allows its customers to place one-stop orders to resolve their problems. Making use of "total engineering" and "life-cycle engineering," which combines a wide variety of businesses horizontally, enables the Company to provide optimal systems with high added value, which is its notable feature and the Company's strength.

(2) Top-class technology and high-quality customer base

One of the Company's main strengths is the advanced technology it has accumulated since before World War II, and this top-class technology spans a wide range of fields. The Company has earned a reputation for reliability over decades of business, which underpins its extensive, high-quality customer base. This can also be considered a strength of the Company. It can be said that the Company's numerous achievements, not to mention its prewar track record, including the Tokyo Olympics during the period of rapid postwar growth, led to the awarding of large projects such as ABENO HARUKAS and Tokyo Midtown Hibiya.

3. Main competitors

The Company's competitors precisely vary in each business area. Its main competitors among the comprehensive facilities construction companies are other large companies such as Takasago Thermal Engineering <1969>, Shinryo Corporation, Dai-Dan <1980>, and Taikisha <1979>. Compared to these competitors, the Company's strengths can be said to lie in its broad business domain and its superiority in industrial HVAC systems, such as clean rooms and other factory air conditioning.

Results trends

FY3/25 operating profit rose 88.9% YoY, a record high level. Orders received and the balance of construction work carried over stayed at high levels

1. Overview for FY3/25 results

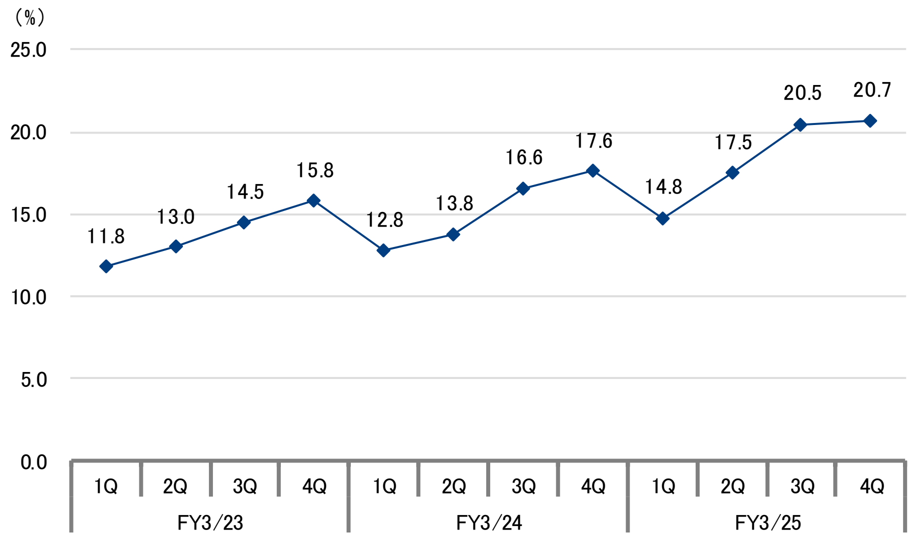
(1) Earnings

The Company reported FY3/25 results, with net sales of ¥253,136mn (up 14.1% YoY), operating profit of ¥21,893mn (up 88.9%), ordinary profit of ¥23,071mn (up 80.9%) and profit attributable to owners of parent of ¥17,203mn (up 92.2%).

Net sales increased significantly as the Company steadily worked through its construction work carried over from the previous fiscal year. In terms of profits, internal efforts to improve the profit margin and progress on profitable projects led to a significant improvement in the gross profit margin to 18.8% (15.6% in FY3/24), and gross profit increased 37.1% YoY. Meanwhile, SG&A expenses increased 11.0%, mainly due to increased personnel expenses based on improvements in compensation, but as SG&A expenses remained roughly in line with forecast, operating profit increased significantly YoY.

Orders received were also solid, reaching ¥264,965mn (up 14.0% YoY), and the order balance carried forward at the end of FY3/25 reached a record high of ¥210,731mn (up 5.9% from the end of FY3/24).

Quarterly gross profit margin



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

FY3/25 results

(¥mn)

	FY3/24		FY3/25		YoY	
	Results	vs. net sales	Results	vs. net sales	Change amount	% change
Orders received	232,396	-	264,965	-	32,568	14.0%
Balance carried forward	198,902	-	210,731	-	11,828	5.9%
Net sales	221,920	100.0%	253,136	100.0%	31,215	14.1%
Gross profit	34,642	15.6%	47,495	18.8%	12,852	37.1%
SG&A expenses	23,055	10.4%	25,602	10.1%	2,546	11.0%
Operating profit	11,586	5.2%	21,893	8.6%	10,306	88.9%
Ordinary profit	12,750	5.7%	23,071	9.1%	10,320	80.9%
Profit attributable to owners of parent	8,951	4.0%	17,203	6.8%	8,252	92.2%

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

By segment, HVAC and plumbing for buildings and industrial HVAC contributed significantly

(2) Net sales and gross profit by segment

Net sales in the Facilities Construction Business totaled ¥208,981mn (up 14.5% YoY). By subsegment, net sales from HVAC and plumbing for buildings rose a strong 21.5% to ¥73,782mn, supported by steady completion of construction work in progress. In industrial HVAC, one of the Company's strengths, net sales increased 14.6% to ¥91,264mn due to the completion of large orders, centered on EV battery-related projects. Electrical systems also performed well, posting sales growth of 11.1% to ¥30,553mn due to the steady completion of large EV battery-related orders, which it secured with the industrial HVAC business. Facility systems reported sales of ¥13,381mn, down 8.7%, reflecting a rebound from the previous fiscal year.

The Plants & Machinery Systems Business reported net sales of ¥42,235mn (up 14.1% YoY). By subsegment, net sales totaled ¥10,934mn (up 3.2%) in machinery systems and ¥31,300mn (up 18.5%) in environmental systems, exceeding ¥30.0bn for the first time, mainly reflecting progress with a large-scale waste treatment facility construction project carried over from the previous fiscal year. Net sales were solid in the Real Estate Business, rising 4.4% to ¥2,592mn, and in the Others segment, increasing 16.9% to ¥739mn.

Looking at profit (gross profit) by segment, the Facilities Construction Business reported ¥39,279mn (up 39.6%). By subsegment, HVAC and plumbing for buildings, industrial HVAC and electrical systems posted gross profit of ¥36,508mn (up 44.4%), mainly on continued growth in building and industrial HVAC. In addition to the increase in sales, the large increase in profit was driven by progress and completion of projects with good profit margin at the time of order receipt and an improvement in profit margin during installation work, with the completion of an EV battery plant making a significant contribution. Facility systems reported gross profit of ¥2,770mn (down 3.2%), mainly reflecting an impact from unprofitable construction projects in 1Q.

Gross profit was firm in the Plants & Machinery Systems Business, at ¥7,544mn (up 32.0%). By subsegment, machinery systems posted ¥1,535mn (up 62.7%). While profitability remained weak in machinery systems, the gross profit margin improved YoY due to progress with passing on higher costs to customers, resulting in an increase in profit compared to the previous fiscal year. Environmental systems reported firm gross profit of ¥6,008mn (up 25.9%) partly due to the completion of a large project. Gross profit in the Real Estate Business and the Others segment was ¥987mn (up 1.3%) and ¥119mn (up 42.4%), respectively.

Net sales and gross profit by segment

(¥mn)

	FY3/24		FY3/25		Change	
	Results	vs. net sales	Results	vs. net sales	Amount	%
Net sales	221,920	100.0%	253,136	100.0%	31,215	14.1%
Facilities Construction Business	182,545	82.3%	208,981	82.6%	26,436	14.5%
HVAC and plumbing for buildings	60,729	27.4%	73,782	29.1%	13,053	21.5%
Industrial HVAC	79,658	35.9%	91,264	36.1%	11,605	14.6%
Electrical systems	27,498	12.4%	30,553	12.1%	3,054	11.1%
Facility systems	14,658	6.6%	13,381	5.3%	-1,277	-8.7%
Plants & Machinery Systems Business	37,007	16.7%	42,235	16.7%	5,228	14.1%
Machinery systems	10,591	4.8%	10,934	4.3%	342	3.2%
Environmental systems	26,415	11.9%	31,300	12.4%	4,885	18.5%
Real Estate Business	2,482	1.1%	2,592	1.0%	109	4.4%
Others	632	0.3%	739	0.3%	106	16.9%
Adjustments	-747	-	-1,413	-	-665	-
Gross profit	34,642	15.6%	47,495	18.8%	12,852	37.1%
Facilities Construction Business	28,139	15.4%	39,279	18.8%	11,139	39.6%
HAVC and plumbing for buildings, industrial HVAC, and electrical systems	25,275	15.1%	36,508	18.7%	11,232	44.4%
Facility systems	2,863	19.5%	2,770	20.7%	-93	-3.2%
Plants & Machinery Systems Business	5,715	15.4%	7,544	17.9%	1,828	32.0%
Machinery systems	943	8.9%	1,535	14.0%	591	62.7%
Environmental systems	4,771	18.1%	6,008	19.2%	1,236	25.9%
Real Estate Business	974	39.3%	987	38.1%	12	1.3%
Others	83	-	119	-	35	42.4%
Adjustments	-271	-	-434	-	-163	-

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

Orders received rose 14.0% YoY and set a new record high, with particularly robust EV battery-related orders. The balance of construction work carried forward rose 5.9% versus the end of FY3/24

(3) Orders received by segment

Orders received in the Facilities Construction Business totaled ¥218,590mn (up 19.1% YoY). In particular, there was a significant increase due to orders received in 1H for urban redevelopment projects and EV battery plants. By subsegment, orders for HVAC and plumbing for buildings increased significantly to ¥69,564mn (up 31.2%), reflecting orders for large-scale construction projects such as urban redevelopment work. Industrial HVAC orders were ¥94,137mn (up 3.9%), also supported by large orders, centered on EV battery-related projects. The Company has received large-scale orders over the past few years, so the growth rate over the full fiscal year contracted, but the level itself remained high. Electrical system orders increased significantly with the receipt of large-scale projects related to EV batteries, at ¥40,447mn (up 57.9%). Facility system orders totaled ¥14,441mn (up 0.8%), which was basically on par with the previous fiscal year, but the level itself rose.

Orders received in the Plants & Machinery Systems Business totaled ¥44,300mn (down 4.9% YoY). By subsegment, machinery systems orders were ¥10,933mn (down 2.8%), with material handling-related orders somewhat weak. Environmental systems orders totaled ¥33,396mn (down 5.6%), partly reflecting intentional steps to slightly curb order activity so as not to overload the construction system. The business already has a large backlog of orders carried over after winning multiple large orders in the previous fiscal year. Orders received were ¥2,592mn (up 4.4%) in the Real Estate Business and ¥730mn (up 15.0%) in the Others segment, both solid.

As a result, total orders received in FY3/25 (including adjusted amounts) was ¥264,965mn (up 14.0% YoY), and the balance carried forward to the next period as of the end of FY3/25 was ¥210,731mn (up 5.9%), reaching a record-high since the announcement of consolidated financial results. The strongest order growth was in the electrical machinery, automobile, pharmaceutical, and real estate sectors.

Orders received by segment

(¥mn)

	FY3/24		FY3/25		Change	
	Results	vs. orders received	Results	vs. orders received	Amount	%
Orders received	232,396	100.0%	264,965	100.0%	32,568	14.0%
Facilities Construction Business	183,606	79.0%	218,590	82.5%	34,983	19.1%
HVAC and plumbing for buildings	53,028	22.8%	69,564	26.3%	16,535	31.2%
Industrial HVAC	90,636	39.0%	94,137	35.5%	3,500	3.9%
Electrical systems	25,617	11.0%	40,447	15.3%	14,830	57.9%
Facility systems	14,323	6.2%	14,441	5.5%	117	0.8%
Plants & Machinery Systems Business	46,626	20.1%	44,330	16.7%	-2,296	-4.9%
Machinery systems	11,242	4.8%	10,933	4.1%	-309	-2.8%
Environmental systems	35,383	15.2%	33,396	12.6%	-1,987	-5.6%
Real Estate Business	2,482	1.1%	2,592	1.0%	109	4.4%
Others	634	0.3%	730	0.3%	95	15.0%
Adjustments	-953	-	-1,278	-	-	-

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

The equity ratio increased to 52.9% due to the increase in profit and other factors, while cash and deposits on hand are robust at ¥31.8bn

2. Financial position

Looking at the Company's financial position at the end of FY3/25, current assets totaled ¥138,834mn (up ¥7,270mn compared to the end of FY3/24). This was mainly due to increases of ¥8,356mn in cash and deposits, a decrease of ¥12,742mn in trade receivables (notes and accounts receivable, electronic record claims, notes and accounts receivable on completed construction contracts and other and contract assets), and an increase of ¥10,992mn in investment securities. Noncurrent assets were ¥62,005mn (down ¥8,591mn). This was primarily because of decreases of ¥451mn in property, plant and equipment due to depreciation, ¥215mn in intangible assets, and ¥7,924mn in investments and other assets due to a decrease in investment securities (decline in stock prices and sale of cross-shareholdings). As a result, total assets at the end of FY3/25 were ¥200,839mn (down ¥1,322mn).

Current liabilities were ¥82,283mn (down ¥686mn compared to the end of FY3/24). This was mainly due to a decrease of ¥5,373mn in accounts payable (accounts payable on construction contracts, including electronic record liabilities), a decrease of ¥627mn in short-term loans payable, an increase of ¥1,630mn in income taxes payable, and a decrease of ¥2,086mn in contract liabilities. Noncurrent liabilities were ¥12,175mn (down ¥3,766mn), with the main factors including a decrease of ¥1,026mn in long-term loans payable, an increase of ¥1,256mn in liability for retirement benefits, and a decrease of ¥4,043mn in deferred tax liabilities. As a result, total liabilities at the end of FY3/25 were ¥94,458mn (down ¥3,081mn).

Total net assets totaled ¥106,380mn (down ¥1,759mn), mainly due to increases of ¥8,476mn in retained earnings due to the recording of net profit, ¥746mn in treasury shares, and a decrease of ¥6,263mn in unrealized gains on securities. As a result, the equity ratio at the end of FY3/25 was 52.9% (51.7% at the end of FY3/24). The Company is making progress with streamlining the balance sheet, including reducing holdings of investment securities and buying back shares.

Balance sheets

(¥mn)

	End of FY3/24	End of FY3/25	Change amount
Cash and deposits	23,500	31,856	8,356
Notes and accounts receivable, electronic record claims, notes and accounts receivable on completed construction contracts and other and contract assets	97,548	84,806	-12,742
Investment securities	1,000	11,992	10,992
Total current assets	131,564	138,834	7,270
Property, plant and equipment	12,966	12,515	-451
Intangible assets	2,045	1,830	-215
Investments and other assets	55,584	47,660	-7,924
Total noncurrent assets	70,596	62,005	-8,591
Total assets	202,161	200,839	-1,322
Electronic record liabilities, accounts payable on construction contracts	44,439	39,066	-5,373
Short-term loans payable	6,386	5,759	-627
Income taxes payable	4,344	5,974	1,630
Contract liabilities	14,058	11,972	-2,086
Total current liabilities	81,597	82,283	686
Long-term loans payable	2,374	1,348	-1,026
Liability for retirement benefits	3,357	4,613	1,256
Deferred tax liabilities	4,097	54	-4,043
Total noncurrent liabilities	15,941	12,175	-3,766
Total liabilities	97,539	94,458	-3,081
Total net assets	104,621	106,380	1,759

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

3. Cash flow conditions

In FY3/25, net cash provided by operating activities was ¥29,725mn. The main inflows included profit before income taxes of ¥23,225mn, depreciation of ¥1,904mn, and a ¥12,816mn decrease in trade receivables and contract assets, while the main outflows were a decrease of ¥5,858mn in trade payables. Net cash used in investing activities was ¥1,897mn. The main inflows included ¥1,000mn in proceeds from redemption of securities (net) and ¥1,544mn in proceeds from sale of investment securities (net), while the main outflows included ¥791mn in purchase of property, plant and equipment. Net cash used in financing activities was ¥11,398mn. The main outflows were ¥1,652mn in repayments of short- and long-term loans payable, ¥4,050mn in purchase of treasury shares, and ¥5,573mn in dividends paid.

As a result, cash and cash equivalents increased ¥20,348mn in FY3/25 to a period-end balance of ¥43,848mn.

Statement of cash flows

(¥mn)

	FY3/24	FY3/25
Cash flows from operating activities	1,285	29,725
Profit before income taxes	13,157	23,225
Depreciation	1,919	1,904
Change in trade receivables and contract assets (- indicates increase)	-20,326	12,816
Change in notes and accounts payable (- indicates decrease)	7,671	-5,858
Cash flows from investment activities	3,174	1,897
Proceeds from redemption of securities (net)	3,000	1,000
Purchase of property, plant and equipment	-1,337	-791
Proceeds from sale of investment securities (net)	864	1,544
Cash flows from financing activities	-6,069	-11,398
Change in short- and long-term loans payable (net)	674	-1,652
Purchase of treasury shares	-2,549	-4,050
Dividends paid	-4,083	-5,573
Change in cash and cash equivalents (- indicates decrease)	-1,449	20,348
Cash and cash equivalents at end of period	23,500	43,848

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

Outlook

For FY3/26, the Company is forecasting an 11.9% increase in operating profit due to improved profit margin, despite a decline in net sales. Taking the installation system into consideration, the Company is conservatively expecting orders received to decline YoY

●FY3/26 forecasts

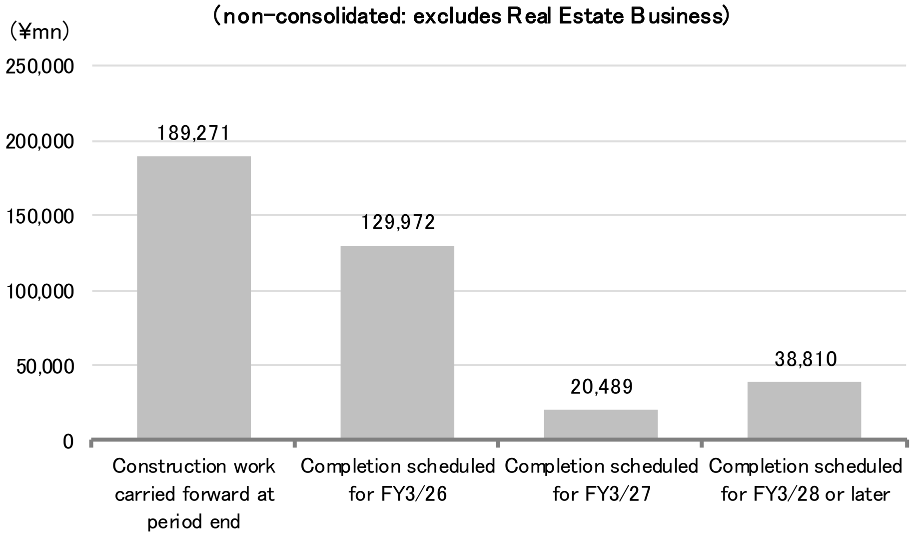
(1) Profit forecast

For FY3/26, the Company is forecasting ¥250,000mn in net sales (down 1.2% YoY), ¥24,500mn in operating profit (up 11.9%), ¥25,000mn in ordinary profit (up 8.4%), and ¥19,500mn in profit attributable to owners of parent (up 13.3%). Despite a decline in sales, profitable construction projects will be completed, so the Company expects to see an increase in operating profit due to improved profit margin.

The Company is expecting orders received to be ¥240,000mn (down 9.4% YoY), and the balance carried forward to the next period to be ¥200,731mn (down 4.7% compared to the end of the previous fiscal year). The amount of orders received is expected to decrease YoY. However, this is not because the Company expects the business environment to deteriorate, but because of there is a possibility that the Company will take intentional steps to slightly curb order activity so as not to overload the construction system, as the Company's construction work in progress is at full capacity.

The Company expects a gross profit margin of 20.6% (up 1.8pp YoY) due to the fact that the improvement in the order environment has led to a YoY increase in the profitability of construction work in progress, and the Company expects even further improvement versus the previous fiscal year. Meanwhile, the Company expects SG&A expenses to increase 5.5%, not as much as in the previous fiscal year. As a result, the Company is forecasting an increase in operating profit despite a decline in sales. According to the Company, of the ¥189.2bn in individual construction work carried forward at the end of FY3/25, approximately ¥130.0bn is scheduled to be completed during FY3/26, so there is a strong possibility that this earnings forecast will be achieved. Depending on amount of orders received and the value of projects completed during FY3/26, as well as the progress on projects going forward, FISCO believes there is a possibility that forecasts will be upwardly revised.

Construction work carried forward and scheduled for completion
(non-consolidated: excludes Real Estate Business)



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

(2) Outlook by segment

The Company forecasts net sales of ¥204,000mn (down 2.4% YoY) in the Facilities Construction Business. By subsegment, it forecasts net sales will: decrease 5.1% to ¥70,000mn in HVAC and plumbing for buildings as the Company is mostly at full capacity with construction work in progress; decrease 5.8% to ¥86,000mn in industrial HVAC due to the same kind of trend; increase 11.3% to ¥34,000mn in electrical systems due to a large backlog of major orders, including EV battery-related projects; and increase 4.6% to ¥14,000mn in facility systems, due to expectations for strong sales.

Net sales in the Plants & Machinery Systems Business are forecast at ¥44,000mn (up 4.2% YoY). By subsegment, for machinery systems the Company expects net sales to rise 28.0% to ¥14,000mn based on forecasts for progress completing construction work in progress. Environmental systems are expected to see sales decline 4.2% to ¥30,000mn, partly due to the recoil decline from the previous fiscal year, but it expects sales to remain in the ¥30,000mn range. The Real Estate Business and Others are expected to be ¥2,500mn (down 3.5%) and ¥700mn (down 5.4%), respectively.

Orders received are expected to be ¥240,000mn (down 9.4% YoY) due to the past two years being strong and construction work in progress being at a high level, but this is not because the Company expects the business environment to deteriorate, rather it is a conservative outlook in light of the Company's installation capacity, given the high level construction work in progress. In the mainstay Facilities Construction Business, the Company is forecasting orders of ¥198,000mn (down 9.4%). By subsegment, it forecasts orders will increase 20.8% YoY to ¥84,000mn in HVAC and plumbing for buildings amid continued strong demand, and decline 26.7% to ¥69,000mn in industrial HVAC, partly in reaction to high levels of orders for large projects in the previous two years. In electrical systems, the Company forecasts order contraction of 28.3% to ¥29,000mn due to similar trends, but it sees orders increasing 10.8% to ¥16,000mn in facility systems, with strong demand.

In the Plants & Machinery Systems Business, the Company forecasts orders received of ¥40,000mn (down 9.8% YoY). By subsegment, it anticipates a recovery in machinery systems, led by material handling-related orders, and is forecasting orders of ¥13,000mn (up 18.9% YoY). In environmental systems, the Company expects orders to contract 19.2% to ¥27,000mn, partly reflecting a pullback from large orders in the previous fiscal year and intentional steps to slightly curb order activity so as not to overload the construction system. However, the order level still looks healthy compared with previous years. Orders received in the Real Estate Business and the Others segment are forecast to be ¥2,500mn (down 3.6%) and ¥700mn (down 4.1%), respectively.

FY3/26 forecast

(¥mn)

	FY3/25		FY3/26		Change	
	Results	Component ratio	Forecast	Component ratio	Amount	%
Orders received	264,965	100.0%	240,000	100.0%	-24,965	-9.4%
Facilities Construction Business	218,590	82.5%	198,000	82.5%	-20,590	-9.4%
HVAC and plumbing for buildings	69,564	26.3%	84,000	35.0%	14,436	20.8%
Industrial HVAC	94,137	35.5%	69,000	28.8%	-25,137	-26.7%
Electrical systems	40,447	15.3%	29,000	12.1%	-11,447	-28.3%
Facility systems	14,441	5.5%	16,000	6.7%	1,559	10.8%
Plants & Machinery Systems Business	44,330	16.7%	40,000	16.7%	-4,330	-9.8%
Machinery systems	10,933	4.1%	13,000	5.4%	2,067	18.9%
Environmental systems	33,396	12.6%	27,000	11.3%	-6,396	-19.2%
Real Estate Business	2,592	1.0%	2,500	1.0%	-92	-3.6%
Others	730	0.3%	700	0.3%	-30	-4.1%
Net sales	253,136	100.0%	250,000	100.0%	-3,136	-1.2%
Facilities Construction Business	208,981	82.6%	204,000	81.6%	-4,981	-2.4%
HVAC and plumbing for buildings	73,782	29.1%	70,000	28.0%	-3,782	-5.1%
Industrial HVAC	91,264	36.1%	86,000	34.4%	-5,264	-5.8%
Electrical systems	30,553	12.1%	34,000	13.6%	3,447	11.3%
Facility systems	13,381	5.3%	14,000	5.6%	619	4.6%
Plants & Machinery Systems Business	42,235	16.7%	44,000	17.6%	1,765	4.2%
Machinery systems	10,934	4.3%	14,000	5.6%	3,066	28.0%
Environmental systems	31,300	12.4%	30,000	12.0%	-1,300	-4.2%
Real Estate Business	2,592	1.0%	2,500	1.0%	-92	-3.5%
Others	739	0.3%	700	0.3%	-39	-5.4%
Adjustments	-1,413	-	-1,200	-	213	-
Gross profit	47,495	18.8%	51,500	20.6%	4,005	8.4%
SG&A expenses	25,602	10.1%	27,000	10.8%	1,398	5.5%
Operating profit	21,893	8.6%	24,500	9.8%	2,607	11.9%
Ordinary profit	23,071	9.1%	25,000	10.0%	1,929	8.4%
Profit attributable to owners of parent	17,203	6.8%	19,500	7.8%	2,297	13.3%

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

Medium-term management plan

The Company's targets for FY3/28 include net sales of ¥300.0bn, operating profit of ¥30.0bn, and ROE of 16% or higher. The Company will advance six key strategies to achieve these targets

1. Long-term vision: MIRAI 2030

The Company announced its new management vision, "MIRAI 2030," following the achievement of its previous management vision, "Century 2025," one year ahead of schedule. This plan outlines the Company's vision for FY3/31, and also sets out the first three years as the first step in the medium-term management plan. The targets and outline of the new medium-term management plan are as follows:

(1) Review of previous management vision "Century 2025"

Through the nine years of "Century 2025," the quantitative targets of increased net sales and operating profit were achieved, and the most recent ROE significantly exceeded 8%.

Review of "Century 2025"

(¥mn)

	FY3/17		FY3/25
Net sales	168,512	→	253,136
Operating profit	6,012	→	21,893
ROE	5.5%	→	16.3%

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

In terms of results, the Company was able to advance efforts to expand into cutting-edge fields and technological exploration, strengthen external partnerships and promote sustainability, and achieve organizational and digital transformation (DX). Meanwhile, the Company experienced challenges in the areas of strategic investment and business structure reforms, bolstering human capital and co-creation, and enhancing stakeholder value.

(2) MIRAI 2030: Vision for 2030

The Company's long-term targets for FY3/31 (quantitative targets) are net sales of ¥350.0bn, ROE of 16.0% or higher, and 3,000 employees.

Furthermore, the Company announced its Medium-Term Management Plan 2027 as the first step (three years from FY3/26 to FY3/28) in order to achieve these long-term targets.

2. Medium-Term Management Plan 2027

(1) Numerical targets

The numerical targets for FY3/28 are net sales of ¥300.0bn, operating profit of ¥30.0bn, ROE of 16.0% or higher*, DOE of 5.0% or higher (revised the dividend policy), and having 2,900 employees.

* ROE excludes gains from the sale of cross-shareholdings.

(2) Key Theme and Important Strategies

The key theme is “Enhancement and Co-Creation,” while the core strategies are the six strategies of Business Strategy, Financial and Capital Strategy, Growth Investment Strategy, R&D Strategy, Human Resources Strategy, and DX Strategy. Furthermore, the Company has announced “Optimization of Management Control” and “Corporate Value Enhancement Indicators” in order to advance these strategies.

Among these important strategies, the Company is placing particular focus on Business Strategy, Financial and Capital Strategy, and Human Resources Strategy, and is advancing the following types of initiatives.

(3) Business Strategy

In Business Strategy, the Company is making progress mainly on the following strategies.

1) Strategic enhancement of core businesses
2) Promotion of decarbonization businesses through environmental technologies
3) Business evolution through digital technologies
4) Co-creation and business expansion through strategic alliances

(4) Financial and Capital Strategy

As the top priority, the Company will engage in management that is conscious of cost of capital and stock price and aim to further enhance corporate value through the sustained improvement of ROE and EPS.

The Company will strive to improve ROE with a focus on equity spread. Recognizing that the standard Capital Asset Pricing Model (CAPM) approach tends to fall below investor expectations, the Company is factoring in a size premium* based on market capitalization, and is recognizing shareholder equity cost that is higher than normal.

* Additional returns sought by investors from companies with smaller market capitalization due to their stocks typically having lower liquidity and higher price volatility

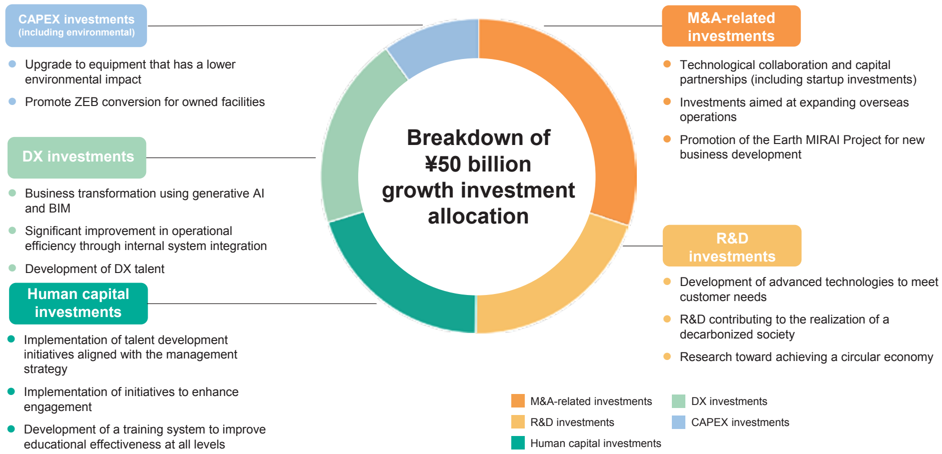
With respect to EPS, the Company will advance growth investments such as M&A-related investment, human capital investment, DX investment, R&D investment, and capital investment (including environmental), while also providing stakeholder returns, introducing and embedding ROIC management on a per-business basis, and reducing cross-shareholdings, with the aim of improving capital efficiency. Meanwhile, the Company will provide shareholder returns and make further improvements to payment terms with business partners with the goal of enhancing ROE.

The numerical targets by FY3/28 for the Financial and Capital Strategy are ROE of 16.0% or higher, EPS of ¥430 or higher, growth investments of approximately ¥50.0bn, while a dividend policy is DOE of 5.0% or higher, and a share buyback of about 4 million shares.

(5) Growth Investment Strategy

For its ¥50.0bn in growth investments, the Company has a plan to actively invest in five key areas.

Growth investment strategy



Source: The Company's Medium-Term Management Plan

(6) R&D Strategy

The R&D Vision is to "Create a sustainable future through a harmonious balance between people, technology, and nature." The Company plans to advance R&D aligned with the main themes of "Integrated innovation," "Pursuit of sustainability," and "Human-centered technology development."

(7) Human Resources Strategy

As the Sanki Engineering Group's strengths, the Company prides itself on the fact that "By engaging in close, thoughtful communication with various stakeholders, addressing challenges with sincerity, approaching tasks with creativity and innovation, and maintaining a steadfast commitment to seeing them through to completion, we have enhanced value, earned our customers' trust, and consistently remained their Company of Choice."

Based on this, the Company's basic policy for its human resources strategy going forward is the following three efforts: to attract human resources (acquire talent to shape the Group's future), foster and develop human resources (enhance the ability of employees to create value), and retain human resources (create an environment where employees want to continue working and make a contribution).

Furthermore, in order to acquire the adaptability to execute the management strategy, the Company plans to bolster talent adaptability and leverage human resources. In terms of talent adaptability, the Company aims to acquire and strengthen the capabilities required for securing large orders, driving DX, and executing M&A. In terms of leveraging human resources, the Company will leverage human resources to develop cutting-edge technologies aimed at decarbonization and future sustainability, as well as to expand global business.

(8) DX Strategy

The Company will deliver tangible outcomes for the three reform initiatives (business process reform, establishment of digital infrastructure, and development and enhancement of digital talent) as the Key Success Factors laid out in the Sanki DX Vision. Specifically, the Company will execute the following initiatives.

1) Strengthening the organizational foundation
By standardizing operations, the Company will transition from reliance on specific individuals to having an organizational response. Additionally, the implementation of a Company-wide optimized system will maintain the automation of 30% of routine tasks.

2) Optimal operation of Company-wide IT systems
Bolstering the IT governance framework has enabled integrated management of IT assets—from planning and oversight of investments to operations—which will result in the continued optimal performance of Company-wide systems.

3) Enhancement of added value
By leveraging advanced digital technologies such as BIM and AI to enhance productivity and quality, the Company will maximize added value and establish strong partnerships with customers to build the future together.

4) Fostering individual motivation for growth
By applying acquired skills in practice and receiving proper recognition for their outcomes, the Company will maintain an environment in which all employees embrace self-directed learning, equipping themselves with the ability to expand their own potential.

5) Enhancing the spirit of challenge and driving organizational evolution
The Company will enhance opportunities for challenges and cultivate 100 core DX personnel. Centering on these core individuals, the Company aims to foster a virtuous cycle of taking on challenges and providing support, driving continuous evolution across the entire organization.

(9) Optimization of Management Control

The Company will develop a framework for transparent, fair, timely, and decisive decision-making through ongoing dialogue with stakeholders. This will enable flexible adaptation to future changes in the business environment. As main activities, the Company will strengthen governance, ensure thorough compliance, enhance risk management systems, and enrich stakeholder communication.

(10) Corporate value enhancement indicators (end of FY3/28)

The Sanki Engineering Group has set the following KPIs to enhance corporate value.

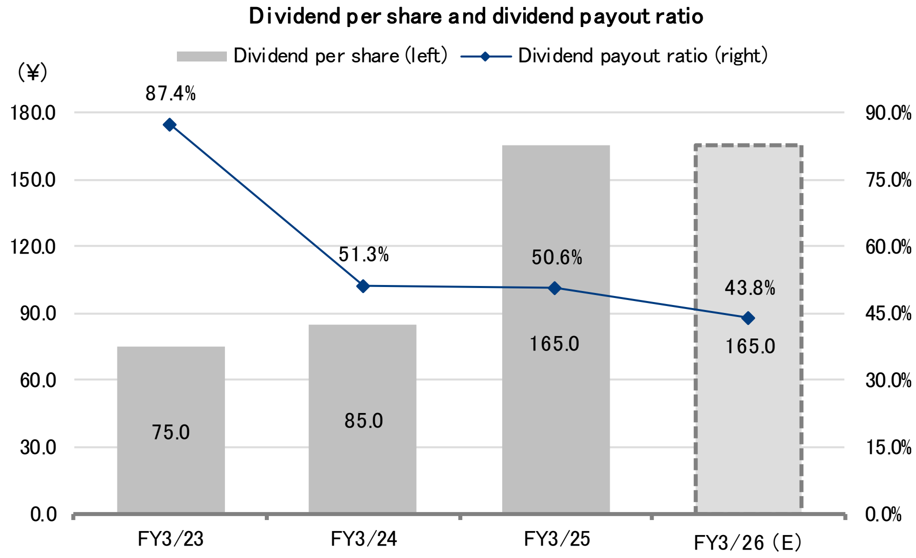
- Maintain the labor accident frequency rate at 0.55 or below
- 12 or more co-creation business proposals through external collaboration (FY3/28)
- 10 robotics technology development projects (3-year cumulative total)
- 20% YoY increase in the number of initiatives for improving productivity
- 85% or higher BIM adoption rate in large-scale projects
- 80% or higher front-loading rate in large-scale projects
- 20 or more co-creation research projects through external collaboration (FY3/28)
- Consolidation of procurement operations (from 70% → 80% or more)

Shareholder return policy

Planning to pay a dividend of ¥165 (dividend payout ratio of 43.8%) in FY3/26. There is a possibility the Company will increase the dividend going forward depending on its financial results

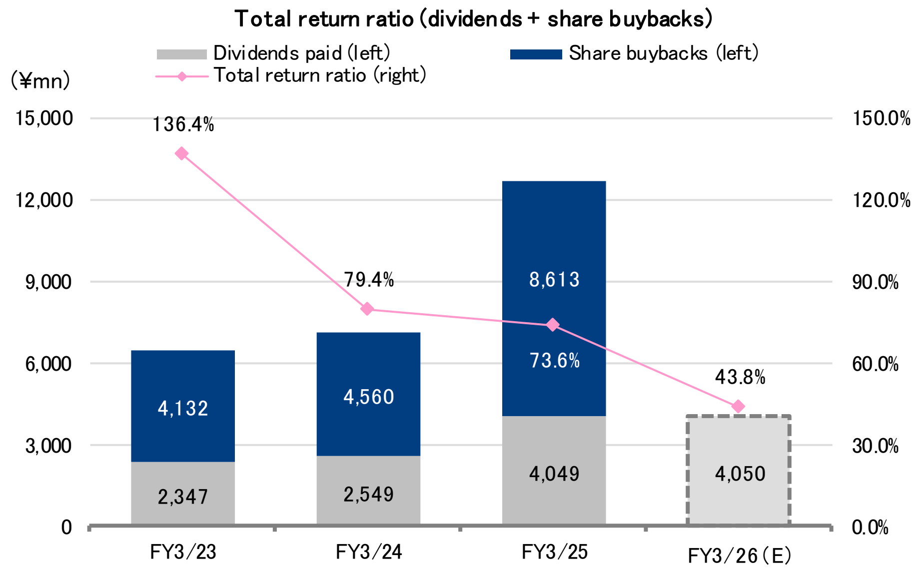
The Company is also actively returning profits to shareholders. It has been paying stable returns to shareholders in line with its shareholder return policy in the "Century 2025" Phase 3 medium-term management plan. In line with this policy, the Company paid a FY3/25 full-year dividend of ¥165 per share (dividend payout ratio of 50.6%). The Company also bought back 1.41 million shares during FY3/25, and it retired 2 million shares on August 19, 2024. As a result, the total return ratio for FY3/25 was 73.6%.

For the in-progress FY3/26, the Company has announced it will pay an annual dividend of ¥165 (interim dividend of ¥82.5; year-end dividend of ¥82.5). The Company has changed its dividend policy to a DOE of 5% or more from FY3/26, with the aim of paying stable and sustainable dividends, and the dividend for FY3/26 is expected to exceed this level. In addition, despite the change in dividend policy, the Company has not denied the possibility of increasing dividends depending on future business performance.



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

Shareholder return policy



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

The Company actively responds to stakeholders other than shareholders. For the payment terms for partner companies, it had required entirely cash payments for partner companies with capital of less than ¥40.00mn from FY3/20, and for suppliers with capital of ¥40.00mn or more who received invoices after November 2022, it also shortened payment terms from 120 days to 60 days. In the medium-term management plan discussed above, the Company stated that it will further improve payment terms, etc. with business partners going forward.

In addition to its strong performance, the Company should be favorably assessed for its positive stance on shareholder returns and relationships with various stakeholders.

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