

SANKI SERVICE CORPORATION

6044

Tokyo Stock Exchange First Section

9-Sept.-2021

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FISCO Ltd.

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

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Summary

Engages in the business of providing total maintenance services as a contractor, based on the concept of realizing environmental improvements centered on maintenance

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. Through total maintenance, it solves the problems of “cost reductions” and “environmental improvements” for social infrastructure facilities that are essential to economic and social activities, such as offices and buildings, commercial facilities and chain stores, hotels, hospitals and care facilities for the elderly, and government buildings and schools.

2. Overview of the FY5/21 results

In the FY5/21 consolidated results, net sales decreased 1.3% year-on-year (YoY) to ¥11,525mn, operating profit decreased 29.0% to ¥288mn, ordinary profit declined 28.0% to ¥293mn, and profit attributable to owners of parent fell 35.5% to ¥175mn. There were some plus factors, including starting to provide services to new large customers and expanding the scope of maintenance services provided to existing customers, but net sales declined due to factors including a decline in sales of regular maintenance centered on food and drink establishments due to the impact of the COVID-19 pandemic, as well as postponements of energy-saving work projects for hospitals and other elderly health care facilities, along with sluggishness in new facility and facility upgrade construction work. However, the Company upwardly revised its earnings forecast twice after issuing its initial forecasts, due to the fact that it acquired new projects that it did not initially expect, such as energy-saving work projects and new installations and upgrades of air conditioning equipment, and also based on the fact that it increased work efficiency by introducing a new core system and made efforts to keep costs down. Operating profit increased by 172.5% compared to the initial forecast, and net sales were close to a record high.

3. FY5/22 results forecast

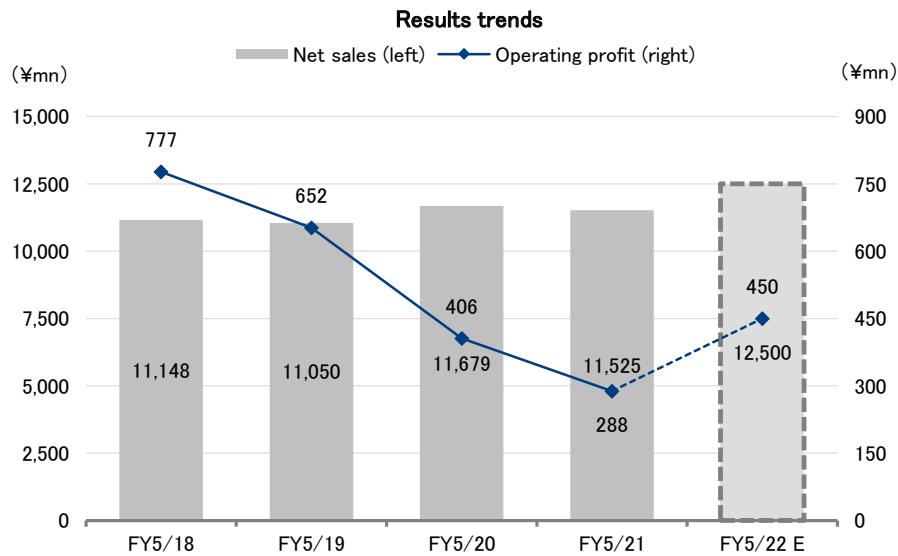
For its FY5/22 results forecast, the Company is forecasting net sales to increase 8.5% YoY to ¥12,500mn, operating profit to increase 55.8% to ¥450mn, ordinary profit to rise 53.8% to ¥452mn, and profit attributable to owners of parent to increase 63.0% to ¥286mn. The Company is forecasting ROE of 9.4% (6.0% in the previous fiscal year). Based on a business concept of realizing “environmental improvements centered on maintenance,” the Company will continue to not only repair equipment and devices, but also plans to proactively propose preventative maintenance to reduce the occurrence of sudden and unexpected failures, centered on retailers with many stores and many buildings, food and drink establishments, healthcare, nursing care, social welfare 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. Meanwhile, in order to reduce costs, the Company will continue to work on the multi-skill development of its engineers to strengthen in-house production.

Summary

Looking ahead to the period after the COVID-19 pandemic settles down, the Company plans to use the skills and expertise it has accumulated over the years to grow horizontally into other sectors and to develop the environmental business into its third business pillar. Elsewhere, the Company will strengthen its management base by continuing to focus on IT investment and personnel development.

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
- Forecasting record-high net sales and 55.8% YoY increase in operating profit in FY5/22
- Aims to turn the environmental business into the third business pillar through the horizontal growth based on expertise related to eco-friendly energy-saving



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 Business for companies managing many stores. Through total maintenance, it solves the problems of “cost reductions” and “environmental improvements” for social infrastructure facilities that are essential for economic and corporate activities, such as offices and buildings, commercial facilities and chain stores, hotels, hospitals and care facilities for the elderly, and government buildings and schools.

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

On June 1, 2020, company founder Yoshikane Nakashima left the position of President and Representative Director and was appointed Chairman, while Tatsuo Kitakoshi was promoted to be the President and Representative Director. This was the first time that the Company President had changed. President Kitakoshi accumulated experienced in various business departments, including the large air-conditioning equipment department that is the Company's core operation, and also worked as the head of the main centers in Kansai. Subsequently, after serving as the call center executive officer, from 2013 he engaged in management as the supervisor of the head office management department, while conducting the IPO. He has also been the driving force behind reforms inside and outside the Company, including announcing its first medium-term business plan “SANKI2022,” introducing a new core system, and strengthening internal controls.

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

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Company overview

History

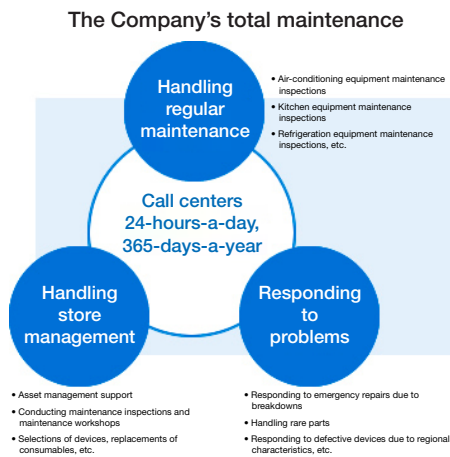
October 1976	As one part of the machinery business department of HYOGO KIKO, CO., LTD., started outsourcing work for the assembly, installation, trial runs, and maintenance management of large heating and cooling equipment through a business partnership with Sanyo Air Conditioning System Services Co., 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
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

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

Business concept is to realize “environmental improvements” centered on maintenance

2. Business overview

The Company’s business concept is to realize “environmental improvements” centered on maintenance. The Company engages in an outsourcing business through providing total maintenance in order to create an environment that eliminates the need to handle cumbersome work like maintenance management and repairs, thereby allowing facility managers to focus on their core operations. For its customer companies with many stores and buildings, it responds to maintenance requests for air-conditioning equipment and all other equipment and devices, regardless of equipment manufacturer, and centralizes information management online as a call center function. This enables it to make proposals to increase the profitability of customer companies by realizing total cost reductions not only of direct maintenance costs, but also total costs including equipment maintenance management costs. The Company is involved in a single segment – the maintenance business – and its main businesses are the Total Maintenance Business, in which it improves the asset value of equipment by handling all aspects of maintenance for customers, the Air Conditioning Maintenance Service as a manufacturer designated provider, and the Energy-Saving Service, in which it contributes to environmental improvements through the use of inverters and other means.



Source: Prepared by FISCO from the Company's website

(1) The Total Maintenance

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

Company overview

The Company receives inquiries at 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 250 service engineers and its network of nationwide collaborative partners and various manufacturers. One feature and 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. Through coordinating with a database, it ascertains the equipment details on the customer side and provides a total service which involves not only responding to emergency problems with devices, but also conducting preventive maintenance for other devices. Furthermore, by dispatching partners, which are the contractors for the maintenance work, to customers' stores, the Company has built a system that allows it to provide maintenance services nationwide, and the Company is responding to the various needs of its customers. The Company has a wide range of customers, including retailers with many stores and many buildings, food and drink establishments, event facilities, and healthcare, nursing care and social welfare facilities.

The Company's main services are as follows.

a) Maintenance

In addition to emergency repair services through the call centers, the Company provides regular maintenance for equipment such as air-conditioning, electrical, kitchen, water supply and drainage, and sanitation equipment. The Company also provides preventative maintenance services, whereby maintenance engineers spot and repair problem areas at an early stage before they cause problems, thereby reducing the occurrence of sudden and unexpected emergency repairs.

b) Installation and construction work

By ascertaining the condition of equipment and devices through maintenance, the Company and customers are able to accurately determine the timing for upgrading or repairing equipment, and the Company both proposes and carries out renovation work and new store construction work, repair work for building equipment (including air conditioning, electrical, kitchen, water supply and drainage and sanitation equipment, etc.).

c) Energy-saving

The Company widely engages in operations that contribute to environmental improvements, including energy improvements by installing inverter controls, making proposals and conducting installation work to help customers comply with the Revised Energy Conservation Law, proposing and installing LED lighting, proposing and promoting sales of SEMS (store energy management system: a system that recommends the optimal energy-saving plan).

(2) Air Conditioning Maintenance

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

Company overview

(3) Energy-saving Service

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

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

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

3. Main services

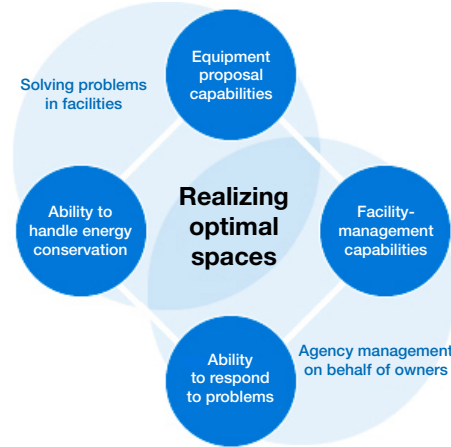
(1) Equipment consulting

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.

Company overview

The Company's consulting

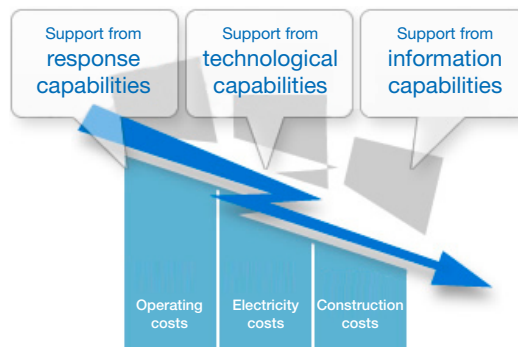


Source: Prepared by FISCO from the Company's website

(2) Energy conservation and cost reductions

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

The Company's services and solutions



Source: Prepared by FISCO from the Company's website

a) Response capabilities

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

Company overview

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.

c) Information proposal capabilities

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

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

In offices, buildings, and condominiums, based on the total maintenance approach, the Company's specialists carry out surveys, analyses, and verifications of the structure of energy consumed by the facilities' equipment (air-conditioning equipment, lighting equipment etc.), and propose the optimal maintenance and management methods, such as the priority points and cost-reduction measures. In hospitals and facilities for the elderly, the Company proposes collective maintenance management plans tailored to conditions in each facility so as not to cause stress to their users. In hotels, it conducts total building management, including equipment maintenance management, construction, various types of maintenance, and emergency call center reception and dispatch operations. In addition, by prioritizing cost effectiveness and maintenance management cost reductions, it supports environments that can provide their users with peace of mind. In commercial facilities and chain stores, it provides a total service for store design planning, construction work, emergency call center reception and dispatch operations, and equipment maintenance management work, mainly for nationwide commercial facilities and chain stores.

(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. With this, the Company is able to respond to maintenance requests regardless of the equipment's manufacturer, and at FISCO we view this as a strength in the maintenance industry.

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, because they are able to centrally manage many stores and facilities located in many regions, customer companies are able to manage costs appropriately, demand for this is likely large for companies with many stores and buildings.

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

Results trends

Posted near record high net sales despite struggling to acquire projects due to the COVID-19 pandemic

1. Overview of the FY5/21 results

In the FY5/21 consolidated results, net sales decreased 1.3% year-on-year (YoY) to ¥11,525mn, operating profit decreased 29.0% to ¥288mn, ordinary profit declined 28.0% to ¥293mn, and profit attributable to owners of parent decreased 35.5% to ¥175mn. Net sales were helped by starting to provide services to new large customers and expanding the scope of maintenance services provided to existing customers, but net sales declined due to factors including a decline in sales of regular maintenance centered on food and drink establishments due to the impact of the COVID-19 pandemic, as well as postponements of energy-saving work projects for hospitals and elderly health care facilities, as well as sluggishness in new installations and upgrade work. Profit declined due to the drop in the gross profit margin resulting from the dip in energy-saving work projects that have high profit margins, as well as due to an increase in SG&A caused by increases in depreciation expenses and survey costs related to overseas subsidiaries. However, the Company upwardly revised its earnings forecast twice after issuing its initial forecasts, due to the fact that it acquired new projects that it did not initially expect, including energy-saving projects and new installations and upgrades of air conditioning equipment, and also based on the fact that it increased work efficiency by introducing a new core system and made efforts to keep costs down. Operating profit increased by 172.5% compared to the initial forecast.

FY5/21 consolidated results

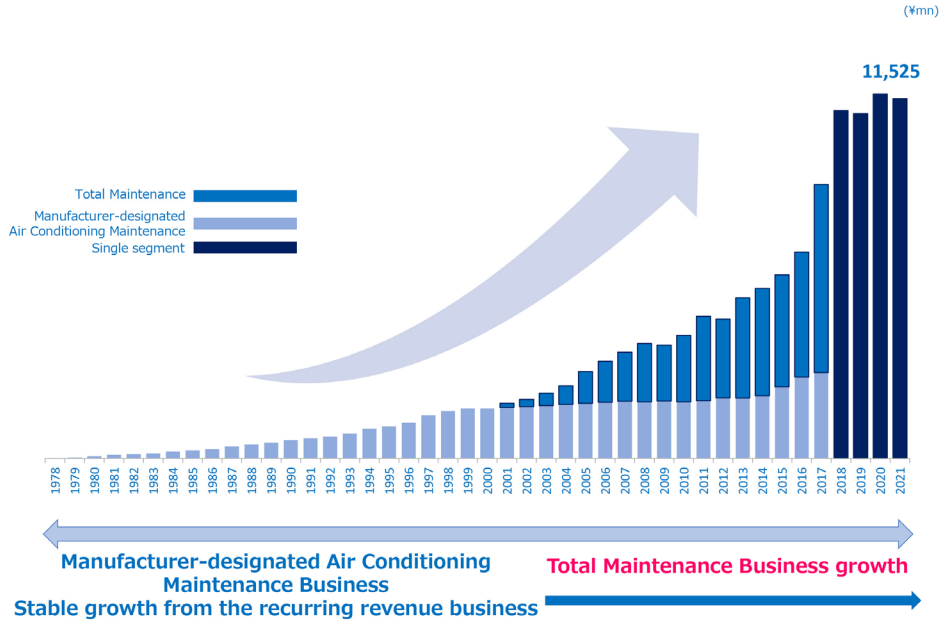
	FY5/20		Initial forecast	FY5/21			
	Results	% of net sales		Results	% of net sales	YoY	Vs. initial forecast
Net sales	11,679	-	11,800	11,525	-	-1.3%	-2.3%
Gross profit	2,663	22.8%	-	2,628	22.8%	-1.3%	-
SG&A expenses	2,256	19.3%	-	2,340	20.3%	3.7%	-
Operating profit	406	3.5%	106	288	2.5%	-29.0%	172.5%
Ordinary profit	408	3.5%	105	293	2.6%	-28.0%	179.9%
Profit attributable to owners of parent	272	2.3%	64	175	1.5%	-35.5%	174.7%

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

With respect to the business environment in FY5/21, the COVID-19 pandemic spread worldwide, the pace of infections once again grew in Japan from the fall of 2020, and the economy slowed down. Projects at hospitals and elderly health care facilities were postponed or suspended due to entry restrictions, and regular inspections of food and drink establishments were suspended or otherwise impacted by business suspensions during the state of emergency declaration period. Also, in the retail sector, which accounts for a large percentage of the Company's sales, in addition to restrictions on customer visits, there were impacts from postponements of construction work projects initially expected due to the suspension of new store openings and regular maintenance. Meanwhile, new demand materialized amid the new normal, including increased demand for services such as "COVID-19 disinfecting" as a countermeasure to COVID-19, and "mold prevention measures" to prevent mold from growing as a result of mandatory ventilation. In FY5/21, the Company posted near record-high net sales despite project acquisitions being impacted by the COVID-19 pandemic. This was due to stable sales from manufacturer designated air conditioning maintenance, as well as the acceleration of sales growth based on the Company's entry into the total maintenance business since 2000 and subsequent growth in this field.

Results trends

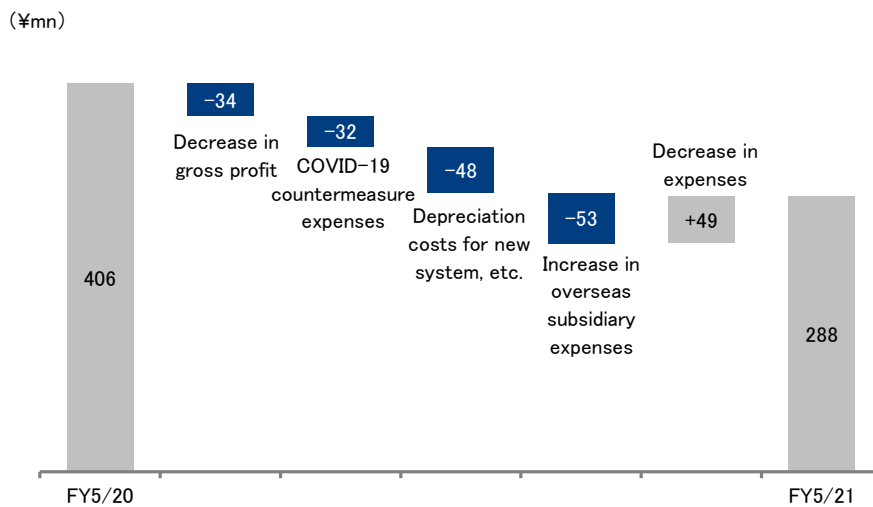
Trend in consolidated net sales



Source: The Company's financial results briefing materials

As for factors causing operating profit to change in FY5/21, the gross profit margin declined due to the decrease in net sales, and SG&A expenses increased 3.7% YoY due to the increase in depreciation expenses for the new core IT system introduced in the previous fiscal year as well as the increase in overseas subsidiary expenses. With respect to the increase in depreciation expenses for the new core IT system, we will keep a watch on the fact that this is up-front investment targeting further growth acceleration. Also, the Company booked ¥32mn in expenses for COVID-19 countermeasures, while there was a large decline in hiring costs and other expenses.

FY5/21 operating profit change factors



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

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Results trends

2. Net sales by service

In construction projects, work suspensions for upgrades and energy-saving projects resulted in net sales decreasing by 8.6% YoY to ¥2,975mn. The percentage of total net sales from construction projects declined 2.3pp to 26.5%. Net sales of regular maintenance projects increased 11.6% YoY to ¥2,813mn, as projects suspended in the previous fiscal year resumed and there was also an increase in projects. The percentage of total net sales from regular maintenance projects increased 2.7pp to 25.0%. Net sales of repair projects decreased 1.4% to ¥5,450mn, and the percentage of total net sales from repair projects decreased 0.4pp to 48.5%.

Net sales by type of service

	FY5/19		FY5/20		FY5/21		YoY
	Results	%	Results	%	Results	%	
Construction	2,548	23.9%	3,255	28.8%	2,975	26.5%	-8.6%
Regular	2,691	25.2%	2,520	22.3%	2,813	25.0%	11.6%
Repairs	5,427	50.9%	5,526	48.9%	5,450	48.5%	-1.4%

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

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

The Company provides centralized management for machines on a nationwide scale with uniform standards by concluding packaged contracts with major retail companies that have nationwide chain networks. As a result, net sales to retail companies increased 16.0% YoY to ¥6,824mn, and accounted for 60.7% of total net sales, a 8.7pp YoY increase. Meanwhile, due to the impacts of the COVID-19 pandemic, net sales to food and drink establishments declined 54.1% to ¥291mn, and the percentage of net sales fell 3.0pp to 2.6%. Net sales to medical, nursing care, and social welfare facilities declined 5.4% to ¥349mn, and the percentage of net sales dropped 0.2pp to 3.1%.

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

	FY5/19		FY5/20		FY5/21		YoY
	Results	%	Results	%	Results	%	
Food and drink	779	7.3%	634	5.6%	291	2.6%	-54.1%
Retail	5,778	54.2%	5,881	52.0%	6,824	60.7%	16.0%
Equipment, management, and real estate	2,157	20.2%	2,113	18.7%	2,030	18.1%	-3.9%
Event facilities	44	0.4%	39	0.3%	45	0.4%	15.4%
Medical, nursing, and welfare	406	3.8%	369	3.3%	349	3.1%	-5.4%
Others (leases, etc.)	1,504	14.1%	2,264	20.0%	1,699	15.1%	-25.0%

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

4. Financial condition

As of May 31, 2021, current assets totaled ¥3,958mn, a ¥295mn increase compared to the end of the previous fiscal year. The main factors included a ¥744mn increase in cash and deposits, and a ¥468mn decrease in accounts receivable.

Current liabilities totaled ¥1,489mn, a ¥133mn decline from the end of the previous fiscal year. The main factors included a ¥91mn decline in accounts payable for construction contracts and a ¥39mn decline in accrued consumption taxes. Non-current liabilities increased ¥293mn to ¥639mn, mainly due to a ¥295mn increase in long-term borrowings.

Results trends

Net assets were ¥2,964mn, a ¥86mn increase versus the end of the previous fiscal year. The main factors included a ¥28mn increase in retained earnings and a ¥25mn increase in both equity and capital surplus.

As a result, the equity ratio was 58.2% (versus 59.2% a year earlier). This was due to the increase in equity following the issuance of new shares, the increase in retained earnings due to profit attributable to owners of parent, and an increase in borrowings, among other factors. ROE was 6.0% (compared to 9.7% a year earlier). This was due to the decline in profit attributable to owners of parent, along with an increase in shareholders' equity due to the issuance of new shares and profit attributable to owners of parent.

■ Outlook

For FY5/22, the Company forecasts record high net sales and a 55.8% YoY increase in operating profit. Plans to develop the environmental business into the third business pillar by horizontally growing its expertise related to eco-friendly energy-saving

1. FY5/22 outlook

For its FY5/22 consolidated results forecast, the Company is forecasting net sales to increase 8.5% YoY to ¥12,500mn, operating profit to increase 55.8% to ¥450mn, ordinary profit to rise 53.8% to ¥452mn, and profit attributable to owners of parent to increase 63.0% to ¥286mn. The Company is forecasting ROE of 9.4% (6.0% in the previous fiscal year).

Based on a business concept of realizing “environmental improvements centered on maintenance,” the Company will continue to not only repair equipment and devices, but also plans to proactively propose preventative maintenance to reduce the occurrence 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. Meanwhile, in order to reduce costs, the Company will continue to work on the multi-skill development of its engineers to strengthen in-house production.

FY5/22 consolidated results outlook

	FY5/21		FY5/22		
	Results	% of net sales	Forecast	% of net sales	YoY
Net sales	11,525	-	12,500	-	8.5%
Operating profit	288	2.5%	450	3.6%	55.8%
Ordinary profit	293	2.6%	452	3.6%	53.8%
Profit attributable to owners of parent	175	1.5%	286	2.3%	63.0%
ROE	6.0%	-	9.4%	-	3.4pt

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

Outlook

2. Initiatives looking ahead to the post-COVID-19 period

Looking ahead to the period after the COVID-19 pandemic settles down, the Company plans to use the skills and expertise it has accumulated over the years to develop horizontally beyond the maintenance industry, and to develop the environmental business into its third business pillar. Elsewhere, the Company will strengthen its management base by continuing to focus on IT investment and personnel development.

As measures to bolster the business base, for food and drink establishments, the Company will work on handling the resumption of regular maintenance projects. For supermarkets and other retailers, in addition to cultivating new customers for which the Company can utilize the expertise and knowledge accumulated through providing services to existing customers, the Company will horizontally expand based on the expertise related to eco-friendly energy-saving accumulated through proposals to hospitals, etc., and work to further enhance the products handled and provide fine-tuned proposals.

In terms of strengthening the management base, as an initiative to make the system more competitive, in order to further bolster the competitiveness in the market, the Company will carry out investments, including adding necessary functions to the core system, as the Company aims to further improve work efficiency. Also, in terms of efforts to develop and secure personnel, the Company will strengthen the multi-skill development of personnel, and bolster their ability to handle projects. In addition, in order to secure talented personnel, the Company plans to carry out work style reform and introduce a strategic personnel system.

CSR initiatives

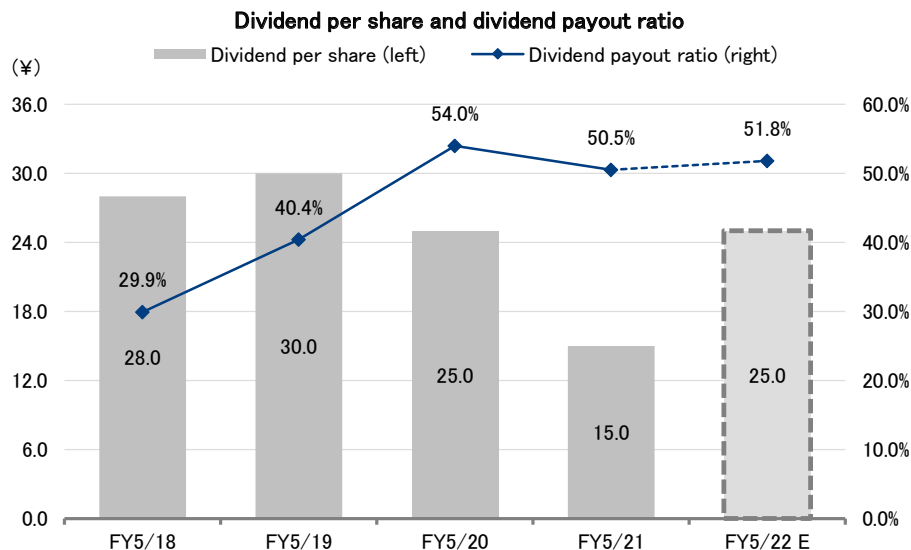
From aspects such as national standards, social conditions, and CSR, needs are rising in society as a whole for energy saving, power saving, and cost reductions. In this situation, the Company proposes and provides full support for cost reductions not only by investing in new equipment, but also by using 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.

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.

Shareholder return policy

Expects to increase the annual dividend in FY5/22 to ¥25.0, 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. As a dividend policy, the Company aims to continuously pay stable dividends. For the dividend per share in FY5/21, after taking into account factors such as results and the possibilities for the COVID-19 pandemic, the Company had been planning a dividend of ¥10.0 per share (down ¥15.0 YoY), but following the upward revision to earnings, the Company increased the dividend to ¥15.0 per share (down ¥10.0 YoY). Regarding the dividend forecast for FY5/22, the Company plans to increase the dividend to ¥25.0 per share (up ¥10.0 YoY).



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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