COMPANY RESEARCH AND ANALYSIS REPORT

Sanki Engineering Co., Ltd.

1961

Tokyo Stock Exchange First Section

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Summary

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

Sanki Engineering Co., Ltd. <1961> (hereafter, "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 and plant facilities, 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 nearly 100 years.

1. 1H FY3/22 results: Increases (YoY) of 4.0% in net sales and 102.8% in operating income

The Company reported 1H FY3/22 results with ¥84,070mn in net sales (up 4.0% YoY), ¥1,025mn in operating income (up 102.8%), ¥1,310mn in ordinary income (up 55.5%), and ¥863mn in profit attributable to owners of parent (up 5.1%), roughly in line with the plan. Tax effect in the previous fiscal year explains the low growth rate in profit attributable to owners of parent. Orders received were within the anticipated range at ¥96,506mn (down 6.5%). Balance carried forward to the next period stayed at a high level at ¥154,112mn (down 2.8%). Although the gross profit margin slipped 0.1 percentage points to 13.2%, it remained in the 13% range due to continued rigorous unit cost management and reinforcement of frontline support operations. Impact from the COVID-19 pandemic was mild on major long-term projects, but still weighed on orders received for small-scale repair work.

2. FY3/22 results outlook: Operating income is forecast to increase 26.7% YoY

The Company retained its initial forecasts for FY3/22 of ¥200,000mn in orders received (up 2.3% YoY), ¥200,000mn in net sales (up 5.2%), ¥9,500mn in operating income (up 26.7%), ¥10,000mn in ordinary income (up 22.0%), and ¥7,000mn in profit attributable to owners of parent (up 18.6%). These forecasts are calculated based on current orders received, etc., and are in line with the targets for the third year (final year) of medium-term management plan "Century 2025" Phase 2. The Company has stated that "The future impact of COVID-19 remains unclear and it may affect results, but we are resolutely progressing the "Century 2025" Phase 2 plan toward achieving the targets."

3. Promoting the targets in "Century 2025" Phase 2, the medium-term management plan

In March 2016, the Company announced "Century 2025" as its long-term vision projecting a 10-year goal toward the 100th anniversary of its foundation. It positioned the first three years of this plan as "Century 2025" Phase 1, and achieved the numerical targets set for FY3/19, the final fiscal year of that phase, of, which was net sales of ¥195bn and operating income of ¥7.5bn. Following on from this, it has announced Phase 2, and while the three key initiatives are a continuation of Phase 1, it has added "Disclose financial/capital policies and ESG policies" and "Reinforce information transmission." In addition to financial performance targets, it has set management targets as part of its quantitative targets for FY3/22, including an ordinary income margin of 5.0% or above, an annual dividend of ¥60 or above, acquisition of treasury stock of 5mn shares or more (over three years starting from FY3/20), total return ratio of 70% or above, and ROE of 8.0% or above. It is unclear for how long into the future the impact of COVID-19 will extend, but at the current point in time the Company has not changed its targets and its policy is to continue to progress the plan toward achieving them. It plans to announce a new plan and goals as it enters Phase 3 from FY3/23.

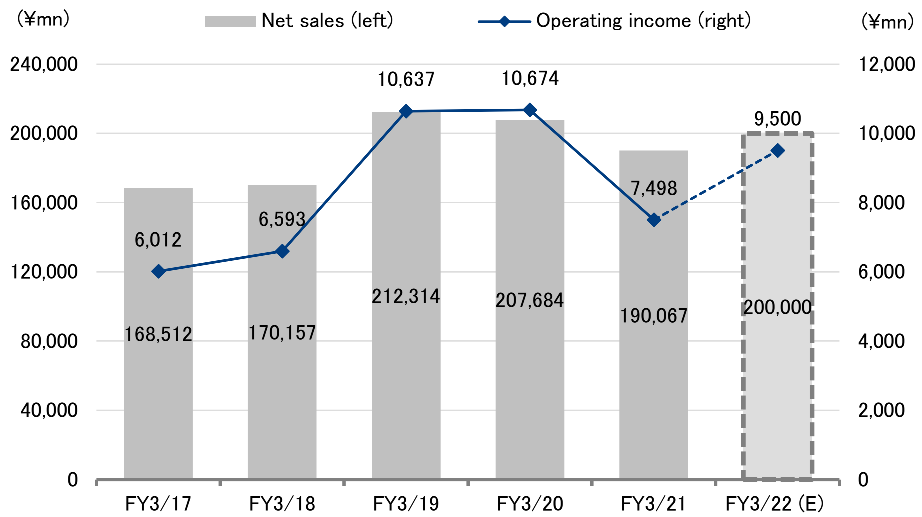
4. Actively returns profits to shareholders: Total return ratio (weighted average) for the last nine years is 84.8%

The Company has proactively conducted shareholder returns with stable dividends up to now, dividend hikes in recent years, and acquisition of treasury stock. Regarding annual dividends, it paid ¥60 in FY3/19 (including an extra dividend of ¥20), ¥95 in FY3/20 (including an extra dividend of ¥25), and ¥80 in FY3/21 (including an extra dividend of ¥10). In FY3/22, it plans to pay a regular dividend of ¥70. In treasury stock policy, the Company implemented retirement of treasury stock totaling 1,000,000 shares in August 2020 and acquisition of treasury stock totaling 1,000,000 shares through the end of October 2020. It has already announced a plan for acquisition of treasury stock totaling 1,000,000 shares in FY3/22 too. As a result, it expects to achieve a total return ratio (weighted average) for the past nine years of 84.8%, including the FY3/22 outlook. As such, we think the Company is deserving of high marks for its proactive shareholder return policy.

Key Points

- A facilities construction company affiliated with Mitsui and a domestic leader. Is currently implementing measures to improve its profit margin
- In FY3/22, operating income is forecast to increase 26.7% YoY. Is currently steadily progressing the medium-term management plan
- Favorable stance toward shareholder returns. Is planning a ¥70 annual dividend and acquisition of treasury stock totaling 1,000,000 shares in FY3/22

Results trends



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

Company outline

One of the largest facilities construction companies in Japan. As an affiliate of Mitsui, it has a history of nearly 100 years

1. Company outline

Sanki Engineering 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 were the Shiga manufacturing plant of Toyo Rayon (currently, Toray Industries, Inc. <3402>), and a refrigerated warehouse for Aomori Seihyo. Initially, the Company engaged in heating, plumbing, steel frame construction and the supply of construction materials. It has subsequently branched out into electrical work, developing integrated plant construction planning, design and installation as its main operations.

After the war, the Company steadily grew on robust construction demand and surpassed ¥1bn 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 heating, ventilation, air-conditioning (HVAC), 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 domestic facilities company. The Company's shares were listed on the Tokyo Stock Exchange (TSE) in 1950.

Recent major construction results include Toyota Technical Center Shimoyama (new construction work/HVAC, plumbing and electrical systems), Sony Semiconductor Manufacturing Corporation Yamagata Technology Center (renovation /HVAC and electrical systems), and Tokyo Midtown Hibiya (new construction work/plumbing systems).

Recent major construction results

Project name	Construction category	Construction type	Location	Completed fiscal year
Toyota Technical Center Shimoyama	HVAC, Plumbing and Electrical systems	New construction work	Aichi	2020
Sony Semiconductor Manufacturing Corporation Yamagata Technology Center	HVAC and Electrical systems	Renovation	Yamagata	2019
Tokyo Midtown Hibiya	Plumbing systems	New construction work	Tokyo	2017
Yoyogi National Gymnasium 1st Gymnasium	HVAC, Plumbing and Electrical systems	Renovation	Tokyo	2019
Chiba University (Hospital) Center for Treatment and Care New Construction and Other Mechanical Systems Project	HVAC and Plumbing systems	New construction work	Chiba	2020
Narita International Airport Works to Expand the T1S#53 Make-up Conveyor and Enhance BHS Capacity	Transportation	Renewal	Chiba	2020
Tenzan area energy recovery waste treatment facilities	Construction of waste treatment system	New construction work	Saga	2019
Otake City Comprehensive Business Consignment of Sewerage Equipment Maintenance and Management, etc.	Maintenance and management	Business consignment	Hiroshima	2020

Source: Prepared by FISCO from the Company's website

2. History

In April 2015, prior to the 90th anniversary of its establishment in FY3/16, the Company appointed Mr. Tsutomu Hasegawa as President and Representative Director. The Company subsequently announced the "Century 2025" long-term vision headed toward its 100th anniversary in 2025 in March 2016. It completed Phase 1 in FY3/19, the first step, reaching initial targets. Furthermore, since April 2020, it is promoting Phase 2 under Hirokazu Ishida as the new President. The Company plans to start Phase 3, the final phase of "Century 2025" in FY3/23.

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 establishment. Had 5 branches, 6 sub-branch offices, 3 affiliated companies, and around 300 employees
1958	Capital exceeded ¥1,000mn
1963	Completed the Sagami Plant (currently, the Yamato Plant)
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 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

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

Business description

Three main segments, particularly strong in industrial HVAC

1. Outline of business by segment

The Company's main businesses come under three segments – Facilities Construction Business, Plant & Machinery Systems Business, and Real Estate Business. An overview of each segment is set out below.

(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 sub-segments.

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 food processing plants, which are areas of strength for the Company, as well as special air-conditioning systems and appurtenances for manufacturers of medical systems and the like, in addition to environmental control systems and so forth for automobile manufacturers.

c) Electrical systems

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

d) Facility systems

The facility systems business offers project management and other 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) Plant & Machinery Systems Business

The Plant & Machinery Systems Business encompasses machinery systems and environmental systems as sub-segments.

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.

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.

(3) Real Estate Business

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

Sanki Engineering's main business is the provision of the facilities and solutions as described above. The Company obtains about half of its orders directly from facility owner clients and half indirectly through general contractors.

Just as the size of the orders varies widely from a few million yen to a few billion yen, the order completion time 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.

2. Strengths, distinguishing traits, 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 for building, plumbing, 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. Moreover, this top-class technology spans a wide range of fields. Furthermore, Sanki Engineering 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. In addition to its prewar achievements, the Company's involvement in numerous post-war projects, including the construction of facilities for the Tokyo Olympic Games in 1964, has enabled it to obtain orders for recent large projects, such as the ABENO HARUKAS in Osaka and Tokyo Midtown Hibiya.

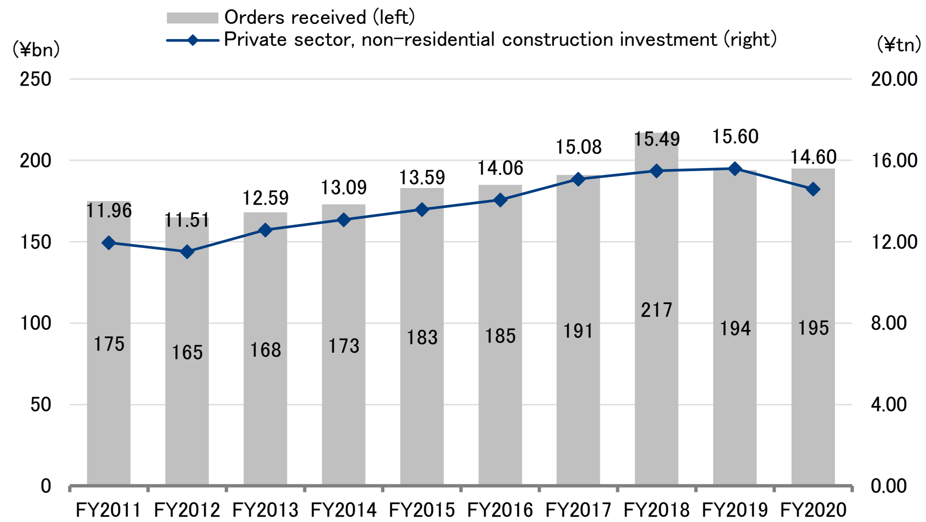
3. Main competitors

Sanki Engineering's competitors vary by project, but its main competitors among the comprehensive facilities construction companies are other large companies such as Takasago Thermal Engineering Co., Ltd. <1969>, Shinryo Corporation (unlisted), Dai-Dan Co., Ltd. <1980>, and Taikisha Ltd. <1979>. Compared to these competitors, Sanki Engineering's strengths lie in its broad business domain and its superiority in industrial HVAC systems, such as clean rooms.

4. Trend in orders received and the economic environment

Orders received is the most important factor affecting results. Annual orders received are greatly affected by the overall Japanese market, or the Japanese macro-economy. As the Company's main business is facilities construction, it is influenced by the macro indicator of private sector, non-residential construction investment. The correlation between orders received and private sector, non-residential construction investment is arguably very high.

Orders received versus private sector, non-residential construction



Source: Prepared by FISCO from the Company's financial results and the Ministry of Land, Infrastructure, Transport and Tourism's "Integrated Statistics on Construction Work"

Business trends

Increases of 4.0% in net sales and 102.8% in operating income in 1H FY3/22, balance carried forward to the next period holding at a high level of just over ¥150bn

1. 1H FY3/22 results overview

(1) Earnings

The Company reported 1H FY3/22 results with ¥84,070mn in net sales (up 4.0% YoY), ¥1,025mn in operating income (up 102.8%), ¥1,310mn in ordinary income (up 55.5%), and ¥863mn in profit attributable to owners of parent (up 5.1%), roughly in line with the plan.

Net sales posted an overall increase, despite declines in industrial HVAC and electrical systems sales due to difficult comparisons with the previous year and thanks to favorable progress in environmental systems projects. As a result of healthy trends in electrical systems and solid momentum in machinery systems and environmental systems, orders received were within the anticipated range at ¥96,506mn (down 6.5%), even with setbacks in building HVAC and hygiene system and industrial HVAC orders, for which large-scale deals were acquired in the previous year. Balance carried forward to the next period hence stayed at a high level at ¥154,112mn (down 2.8% YoY).

In earnings, although the gross profit margin slipped 0.1 percentage points YoY to 13.2% as a result of booking sales for large-scale projects with robust profitability in the previous fiscal year, it still remained in the 13% range, a healthy level, due to continued rigorous unit cost management and reinforcement of frontline support operations.

Conversely, SG&A expenses were ¥10,032mn (down 2.1% YoY). Operating income climbed significantly YoY, despite higher personnel costs and other spending, as overall expenses declined, including non-recurrence of costs for office relocation and COVID-19 measures from the previous fiscal year. Furthermore, ordinary income booked a robust 55.5% gain even with a decline in dividend income in non-operating income. Profit attributable to owners of parent only rose 5.1% YoY because of the tax effect in the previous fiscal year.

1H FY3/22 results

(¥mn)

	1H FY3/21		1H FY3/22			
	Result	Ratio	Result	Ratio	YoY change	YoY
Orders received	103,236	-	96,506	-	-6,729	-6.5%
Balance carried forward	158,534	-	154,112	-	-4,422	-2.8%
Net sales	80,864	100.0%	84,070	100.0%	3,205	4.0%
Gross profit	10,757	13.3%	11,058	13.2%	300	2.8%
SG&A expenses	10,251	12.7%	10,032	11.9%	-218	-2.1%
Operating income	505	0.6%	1,025	1.2%	519	102.8%
Ordinary income	842	1.0%	1,310	1.6%	468	55.5%
Profit attributable to owners of parent	821	1.0%	863	1.0%	41	5.1%

Source: Prepared by FISCO from the Company's financial results and Summary of Financial Results

(2) Earnings by segment

The Facilities Construction Business posted ¥67,065mn in net sales (down 1.1% YoY). In sub-segments, HVAC and plumbing for buildings posted ¥23,159mn (up 2.4%) in sales. Thanks to progress in existing large projects, the Company posted higher sales, even with a decline in sales for small-scale repair work at hotels, department stores, and other customers caused by the impact of COVID-19. While sales weakened YoY in industrial HVAC to ¥28,559mn (down 2.7%) and electrical systems to ¥11,033mn (down 3.6%), these are still at high levels. In facility systems, sales were maintained at the same level as in the previous year, at ¥4,313mn (down 1.9%).

Net sales in the Plant & Machinery Systems Business were ¥15,832mn (up 31.2% YoY). In sub-segments, machinery systems reported ¥4,952mn in sales (up 11.1%) with support from recovery in conveyor and other equipment sales. Environmental systems posted ¥10,879mn (up 43.0%) in sales mainly on progress in a major DBO* project booked as an order previously. Additionally, Real Estate Business sales totaled ¥1,197mn (up 1.5%) and Others sales were at ¥257mn (down 29.7%).

* DBO (Design Build Operate) is a method for publicly built, privately operated projects with a collective order made to private companies (such as the Company) for design, building, and operations and maintenance management.

The Company discloses gross profit and ordinary income as segment profit indicators from FY3/20. Our report uses gross profit. In 1H FY3/22, gross profit in the Facilities Construction Business decreased to ¥8,744mn (down 3.3% YoY for a decrease of ¥294mn). In the sub-segments, gross profit was ¥8,149mn (down 2.7%) in HVAC and plumbing for buildings, industrial HVAC, and electrical systems, and was ¥594mn (down 10.4%) in facility systems. Gross profit in the Plant & Machinery Systems Business was ¥1,878mn (up 37.9% for an increase of ¥516mn), which consisted of ¥819mn (up 15.9%) in machinery systems and ¥1,059mn (up 61.6%) in environmental systems. In the Real Estate Business and Others, gross profit was ¥504mn (up 13.8%) and ¥18mn (up 12.1%), respectively.

Net sales and gross profit by segment

(¥mn)

	1H FY3/21		1H FY3/22		YoY	
	Result	Ratio	Result	Ratio	YoY change	Change %
Net sales	80,864	100.0%	84,070	100.0%	3,205	4.0%
Facilities Construction Business	67,807	83.9%	67,065	79.8%	-741	-1.1%
HVAC and plumbing for buildings	22,614	28.0%	23,159	27.5%	544	2.4%
Industrial HVAC	29,355	36.3%	28,559	34.0%	-795	-2.7%
Electrical systems	11,440	14.1%	11,033	13.1%	-407	-3.6%
Facility systems	4,397	5.4%	4,313	5.1%	-83	-1.9%
Plant & Machinery Systems Business	12,069	14.9%	15,832	18.8%	3,762	31.2%
Machinery systems	4,459	5.5%	4,952	5.9%	493	11.1%
Environmental systems	7,610	9.4%	10,879	12.9%	3,269	43.0%
Real Estate Business	1,179	1.5%	1,197	1.4%	18	1.5%
Others	366	0.5%	257	0.3%	-108	-29.7%
Adjustments	-557	-	-282	-	275	-
Gross profit	10,757	13.3%	11,058	13.2%	300	2.8%
Facilities Construction Business	9,039	13.3%	8,744	13.0%	-294	-3.3%
Building HVAC, industrial HVAC, and electrical systems	8,375	13.2%	8,149	13.0%	-225	-2.7%
Facility systems	663	15.1%	594	13.8%	-69	-10.4%
Plant & Machinery Systems Business	1,362	11.3%	1,878	11.2%	516	37.9%
Machinery systems	707	15.9%	819	16.5%	112	15.9%
Environmental systems	655	8.6%	1,059	9.7%	403	61.6%
Real Estate Business	443	37.6%	504	42.1%	61	13.8%
Others	16	-	18	-	2	12.1%
Adjustments	-105	-	-88	-	16	-

Source: Prepared by FISCO from the Company's Summary of Financial Results

(3) Orders received by segment

The Facilities Construction Business booked orders received of ¥69,196mn (down 16.5% YoY). Orders slumped because of backlash from the previous year's strong performance, but the Company explained in follow-up contact that "content was not weak." HVAC and plumbing for buildings booked ¥26,814mn in orders (down 19.1%), though this is a lull phase after two straight years of high results and not a concern. Industrial HVAC had ¥21,947mn in orders (down 36.5%). This setback also reflects backlash from the strong performance in the previous fiscal year. Inquiries from semiconductor, 5G, and R&D areas remain robust, and the Company expects orders to head upward again in 2H. Electrical systems had a favorable ¥15,393mn in orders (up 57.0%). Facility systems posted ¥5,041mn in orders (down 6.5%). Orders eased, but stayed at a healthy level.

In the Plant & Machinery Systems Business, machinery systems reported orders received of ¥4,972mn (up 16.5% YoY), a healthy result, and environmental systems had orders received of ¥21,331mn (up 41.7%), a favorable level mainly driven by large-scale projects. As a result, orders received in the Plant & Machinery Systems Business totaled ¥26,304mn (up 36.2%), and together with the Facilities Construction Business, orders received for the facilities work segments overall reached ¥95,500mn (down 6.6%).

In areas other than facilities work segments, orders received in the Real Estate Business totaled ¥1,197mn (up 1.5%), and in Others totaled ¥275mn (up 0.5%). Total orders received in 1H FY3/22 (including adjusted amounts) was ¥96,506mn (down 6.5%). Balance carried forward to the next period at the end of 1H FY3/22 hence stayed at a high level at ¥154,112mn (down 2.8% YoY). Despite weakening YoY, it should be noted for remaining in the ¥150bn range. While orders declined in electric machinery, pharmaceutical industry, automobile, financial and insurance, and other areas, activity was robust (YoY gains) in services, education, government ministries and agencies, and other areas.

Orders for large-scale projects (orders exceeding ¥1,000mn) included seven projects totaling ¥19,863mn. Both orders volume and value narrowed YoY, but average value per deal rose to ¥2,838mn (compared to ¥1,888mn in the previous year).

Orders received by segment

(¥mn)

	1H FY3/21		1H FY3/22		YoY	
	Result	Ratio	Result	Ratio	YoY change	Change %
Orders received	103,236	100.0%	96,506	100.0%	-6,729	-6.5%
Facilities Construction Business	82,902	80.3%	69,196	71.7%	-13,706	-16.5%
HVAC and plumbing for buildings	33,153	32.1%	26,814	27.8%	-6,339	-19.1%
Industrial HVAC	34,553	33.5%	21,947	22.7%	-12,606	-36.5%
Electrical systems	9,802	9.5%	15,393	16.0%	5,590	57.0%
Facility systems	5,393	5.2%	5,041	5.2%	-351	-6.5%
Plant & Machinery Systems Business	19,318	18.7%	26,304	27.2%	6,986	36.2%
Machinery systems	4,268	4.1%	4,972	5.2%	704	16.5%
Environmental systems	15,049	14.6%	21,331	22.1%	6,282	41.7%
Real Estate Business	1,179	1.1%	1,197	1.2%	18	1.5%
Others	274	0.3%	275	0.3%	1	0.5%
Adjustments	-438	-	-467	-	-29	-

Source: Prepared by FISCO from the Company's Summary of Financial Results

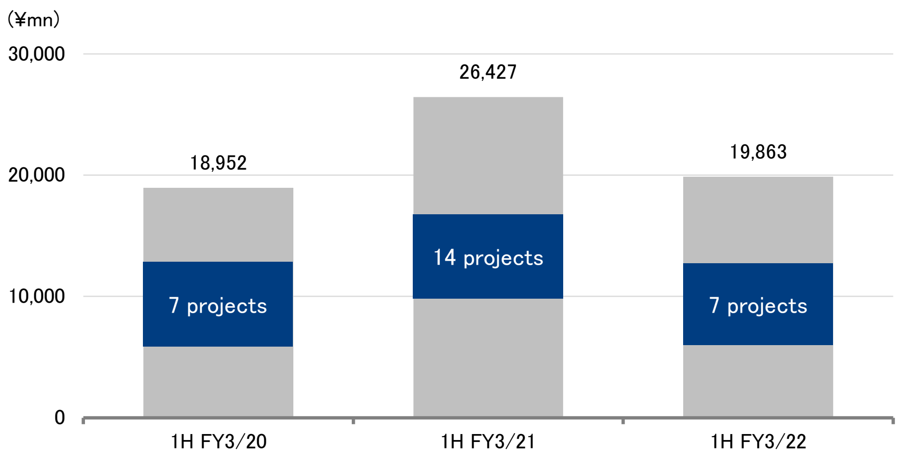
Breakdown of large-scale projects with orders exceeding ¥1,000mn

(projects)

	1H FY3/20	1H FY3/21	1H FY3/22
Offices	-	3	-
Factories	2	3	-
Research institutes	-	3	-
Hospitals and clinics	1	1	1
Other building interiors	2	1	2
Railways and airports	-	1	-
Waste processing facilities	1	1	2
Water and sewage treatment plants	1	1	2
Total (projects)	7	14	7
Total (¥mn)	18,952	26,427	19,863

Source: Prepared by FISCO from the Company's Summary of Financial Results

Breakdown of large-scale projects with orders exceeding ¥1,000mn



Source: Prepared by FISCO from the Company's Summary of Financial Results

2. Financial condition

Looking at financial conditions at the end of 1H FY3/22, current assets totaled ¥107,859mn (down ¥8,195mn compared to the end of FY3/21). This was mainly due to decreases of ¥3,345mn in cash and deposits and ¥65,598mn in notes and accounts receivable on completed construction contracts and other* and an increase of ¥53,064mn in notes and accounts receivable on completed construction contracts and other and contract assets*. Noncurrent assets were ¥56,258mn (up ¥999mn), which was primarily because of an increase of ¥1,076mn in investments and other assets from buying low-risk securities. As a result, total assets at the end of 1H FY3/22 were ¥164,118mn (down ¥7,195mn).

Current liabilities were ¥61,312mn (down ¥6,569mn compared to the end of FY3/21). This was mainly due to decreases of ¥7,743mn in accounts payable on construction contracts and other (including electronic record liabilities) and ¥8,580mn in advances received on uncompleted construction contracts* and an increase of ¥13,140mn in contract liabilities*. Noncurrent liabilities were ¥12,004mn (up ¥273mn), with the main factors including a decrease of ¥695mn in long-term loans payable and increases of ¥411mn in liability for retirement benefits and ¥464mn in deferred tax liabilities. As a result, total liabilities at the end of 1H FY3/22 were ¥73,317mn (down ¥6,296mn). Total net assets totaled ¥90,800mn (down ¥898mn), mainly due to a decrease of ¥1,702mn in retained earnings from paying dividends and an increase of ¥615mn in unrealized gains on available-for-sale securities.

* Due to category revision from a change in accounting standards.

Balance sheet

(¥mn)

	End of FY3/21	End of 1H FY3/22	YoY change
Cash and deposits	36,087	32,742	-3,345
Notes and accounts receivable on completed construction contracts and other	65,598	-	-65,598
Notes and accounts receivable on completed construction contracts and other and contract assets	-	53,046	53,064
Current assets	116,054	107,859	-8,195
Tangible noncurrent assets	13,972	13,705	-267
Intangible noncurrent assets	937	1,128	191
Investments and other assets	40,348	41,424	1,076
Noncurrent assets	55,258	56,258	999
Total assets	171,313	164,118	-7,195
Accounts payable on construction contracts, electronic record liabilities	41,709	33,966	-7,743
Short-term loans payable	7,135	7,134	-1
Advances received on uncompleted construction contracts	8,580	-	-8,580
Contract liabilities	-	13,140	13,140
Current liabilities	67,882	61,312	-6,569
Long-term loans payable	3,460	2,765	-695
Liability for retirement benefits	1,710	2,121	411
Noncurrent liabilities	11,731	12,004	273
Total liabilities	79,614	73,317	-6,296
Total net assets	91,699	90,800	-898

Source: Prepared by FISCO from the Company's financial results and Summary of Financial Results

3. Cash flow conditions

In 1H FY3/22, net cash provided by operating activities was ¥1,852mn. The main inflows were the recording of profit before income taxes of ¥1,320mn, depreciation and amortization of ¥796mn, and a decrease of ¥12,342mn in notes and accounts receivable on completed construction contracts and other. The main outflows included an increase of ¥957mn in costs on uncompleted construction contracts and decreases of ¥7,760mn in notes and accounts payable on construction contracts and other and ¥2,087mn in other current liabilities. Net cash used in investing activities was ¥1,832mn. The main outflows were ¥476mn in purchase of property, plant and equipment and ¥1,000mn in acquisition of securities (net basis). Net cash used in financing activities was ¥3,421mn. The main outflows were ¥695mn in long-term loans payable and ¥2,552mn in cash dividends paid.

Cash and cash equivalents hence decreased ¥3,344mn in 1H FY3/22 to a period-end balance of ¥33,742mn.

Statement of cash flows

(¥mn)

	1H FY3/21	1H FY3/22
Cash flows from operating activities	-7,258	1,852
Profit before income taxes	517	1,320
Depreciation and amortization	825	796
Change in notes and accounts receivable on completed construction contracts and other (- indicates increase)	22,686	12,342
Change in notes and accounts payable on construction contracts and other (- indicates decrease)	-20,035	-7,760
Cash flows from investment activities	-897	-1,832
Purchase of property, plant and equipment	-852	-476
Cash flows from financing activities	-4,390	-3,421
Change in short- and long-term loans payable (- indicates decrease)	-695	-696
Outlays for acquisition of treasury stock	-133	-71
Cash dividends paid	-3,458	-2,552
Change in cash and cash equivalents (- indicates decrease)	-12,568	-3,344
Cash and cash equivalents at end of period	33,378	33,742

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

4. Topics

(1) Requested the Prime Market, qualified under the listing criteria

The Company selected and submitted an application for the Prime Market in the TSE's transfer to new market categories planned for April 4, 2022. It already received approval from the TSE for having met the Prime Market listing criteria on July 9, 2021, and intends to proceed with the subject application procedure in accordance with the schedule stipulated by the TSE.

(2) Establishment of a Sustainability Committee and the TCFD recommendations

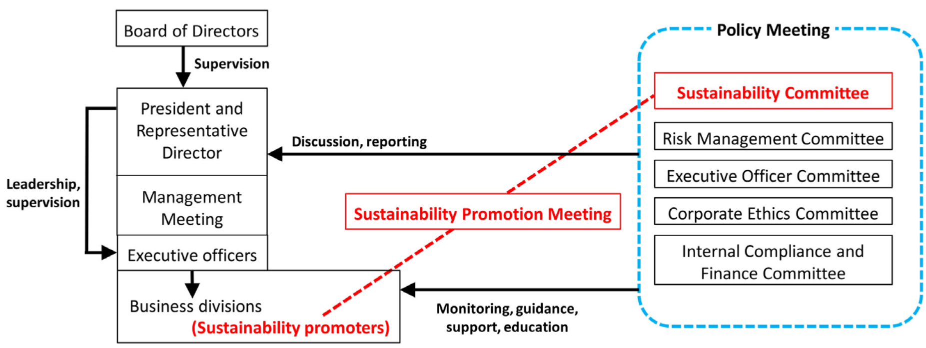
While the Company focused on improving society through business premised on "We create comfortable environments through engineering and widely contribute to social development" as its Group management philosophy, it created a Sustainability Committee as a new policy panel chaired by the President with the aim of accelerating group initiatives toward realizing a sustainable society.

The committee decides important issues for realizing sustainability management, such as contributing to a decarbonized society, aiding development of resilient communities, and promoting further inroads through respect for human rights and diversity, and actively promotes enhancement of enterprise value and environmental and social value. Initiatives in energy savings and energy creation related to decarbonization, in particular, also directly connect to the Group's main business of comprehensive engineering services. The Sustainability Promotion Meeting, which consists of practitioners from the Company's various segments, plans to continue companywide promotion activities and move forward with detailed initiatives and information disclosure, such as defining longer-term policies and materiality, and thereby realize a sustainable society, including carbon neutrality.

Furthermore, the Group approaches responses to climate change as an important theme and has expressed support for the TCFD* s. It intends to provide information disclosure by June 2022 on the four core elements of organization operation recommended by the TCFD: governance, strategy, indicators and goals, and risk management.

* TCFD summary: TCFD stands for Task Force on Climate-related Financial Disclosures. It is an organization established by the Financial Stability Board (FSB) in December 2015 to review climate-related information disclosures and responses of financial institutions to climate change.

Sustainability promotion structure



Source: From a news release

Outlook

In FY3/22, operating income is forecast to increase 26.7% YoY

Currently, the Company's initial forecasts for FY3/22 remains unchanged, despite uncertainty caused by the impact of COVID-19. These include ¥200,000mn in orders received (up 2.3% YoY), ¥200,000mn in net sales (up 5.2%), ¥9,500mn in operating income (up 26.7%), ¥10,000mn in ordinary income (up 22.0%), and ¥7,000mn in profit attributable to owners of parent (up 18.6%). These forecasts are calculated based on current orders received, etc., and are in line with the targets for the third year (final year) of the medium-term management plan "Century 2025" Phase 2.

Breaking down net sales, the Facilities Construction Business is expected to provide ¥161,000mn (up 3.5% YoY) with sub-segment forecasts of ¥66,000mn in HVAC and plumbing for buildings (up 19.4%), ¥58,000mn in industrial HVAC (down 9.6%), ¥25,000mn in electrical systems (up 0.2%), and ¥12,000mn in facility systems (up 8.0%). The Company projects ¥37,000mn in net sales in the Plant & Machinery Systems Business (up 13.7% YoY) with sub-segment forecasts of ¥10,000mn in machinery systems (up 11.4%) and ¥27,000mn in environmental systems (up 14.6%).

In the mainstay Facilities Construction Business, orders received are expected to increase slightly to ¥157,000mn (up 0.1% YoY) with sub-segment forecasts of ¥63,000mn in HVAC and plumbing for buildings (down 3.6%), ¥57,000mn in industrial HVAC (down 3.8%), ¥25,000mn in electrical systems (up 16.4%), and ¥12,000mn in facility systems (up 12.3%). The Company expects ¥41,000mn in orders in the Plant & Machinery Systems Business (up 12.1% YoY) with sub-segment forecasts of ¥12,000mn in machinery systems (up 52.7%) and ¥29,000mn in environmental systems (up 1.0%). As a result, overall orders received, including the Real Estate Business, is expected to be ¥200,000mn (up 2.3%).

The Company lowered its initial forecast for gross profit from ¥32,000mn to ¥31,000mn, mainly due to some deals being postponed until 2H, continued uncertainty related to COVID-19 in the future, and a reduction in the initial forecast for the gross profit margin from 16.0%, which was slightly high, to a realistic level (15.5%). Meanwhile, it kept its initial forecast for operating income of ¥9,500mn unchanged because SG&A expenses are likely to be roughly ¥1,000mn less than expected at the start of the period.

FY3/22 forecast

(¥mn)

	FY3/21		FY3/22 (E)			
	Result	Ratio	Amount	Ratio	YoY change	Change %
Orders received	195,580	100.0%	200,000	100.0%	4,420	2.3%
Facilities Construction Business	156,768	80.2%	157,000	78.5%	232	0.1%
HVAC and plumbing for buildings	65,371	33.4%	63,000	31.5%	-2,371	-3.6%
Industrial HVAC	59,234	30.3%	57,000	28.5%	-2,234	-3.8%
Electrical systems	21,472	11.0%	25,000	12.5%	3,528	16.4%
Facility systems	10,690	5.5%	12,000	6.0%	1,310	12.3%
Plant & Machinery Systems Business	36,569	18.7%	41,000	20.5%	4,431	12.1%
Machinery systems	7,858	4.0%	12,000	6.0%	4,142	52.7%
Environmental systems	28,710	14.7%	29,000	14.5%	290	1.0%
Real Estate Business	2,375	1.2%	2,400	1.2%	25	1.1%
Others	609	0.3%	500	0.3%	-109	-17.9%
Adjustments	-742	-	-900	-	-158	-
Net sales	190,067	100.0%	200,000	100.0%	9,933	5.2%
Facilities Construction Business	155,501	81.8%	161,000	80.5%	5,499	3.5%
HVAC and plumbing for buildings	55,293	29.1%	66,000	33.0%	10,707	19.4%
Industrial HVAC	64,152	33.8%	58,000	29.0%	-6,152	-9.6%
Electrical systems	24,941	13.1%	25,000	12.5%	59	0.2%
Facility systems	11,113	5.8%	12,000	6.0%	887	8.0%
Plant & Machinery Systems Business	32,533	17.1%	37,000	18.5%	4,467	13.7%
Machinery systems	8,973	4.7%	10,000	5.0%	1,027	11.4%
Environmental systems	23,560	12.4%	27,000	13.5%	3,440	14.6%
Real Estate Business	2,375	1.2%	2,400	1.2%	25	1.1%
Others	815	0.4%	500	0.3%	-315	-38.7%
Adjustments	-1,158	-	-900	-	258	-
Gross profit	28,754	15.1%	31,000	15.5%	2,246	7.8%
Operating income	7,498	3.9%	9,500	4.8%	2,002	26.7%
Ordinary income	8,196	4.3%	10,000	5.0%	1,804	22.0%
Profit attributable to owners of parent	5,901	3.1%	7,000	3.5%	1,099	18.6%

Source: Prepared by FISCO from the Company's Summary of Financial Results

Medium-term management plan

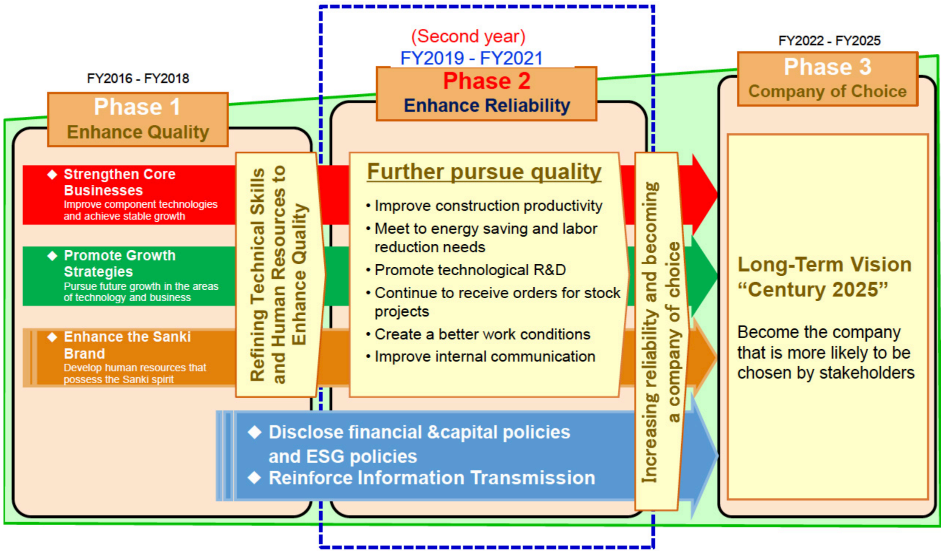
FY3/22 is the final fiscal year of "Century 2025" Phase 2

1. What is the "Century 2025" long-term vision?

The Company has announced the 10-year long-term vision "Century 2025" that covers from FY3/17 to FY3/26, the 100th anniversary of its establishment. The ultimate goal of this long-term vision is to be "The Company of Choice." The 10 years have been divided into 3 phases described below in order to achieve this goal, and the Company's policy is to implement business strategies promoted in each phase of the medium-term management plan.

Medium-term management plan

Long-term vision "Century 2025"



Source: Company's Status of Business Progress in the Medium-Term Management Plan

2. "Century 2025" Phase 2 results targets

The current fiscal year (FY3/22) is the final fiscal year of Phase 2 with quantitative goals of at least 5.0% in ordinary income margin, an annual dividend of at least ¥60, acquisition of treasury stock totaling about 5mn shares (over three years starting from FY3/20), total return ratio of at least 70%, and ROE of at least 8.0%. It is unclear how long the impact of COVID-19 will extend into the future, but the Company's policy at the current time is to leave the targets unchanged and continue to work toward achieving them.

3. Update on progress of measures

(1) Strengthen core businesses

1) Improved design/construction quality and promoted workstyle reforms through cooperation between branch offices/branches and headquarter organizations

- Strengthened division of labor operations through the Smile Site Plan
- Established a companywide collaboration system to handle large-scale projects
- Enhanced design review and actively rolled out into construction processes
- Optimized procurement costs and quality maintenance by gathering information at an early stage

2) Received an order for Southern Health Center garbage incineration systems from Futaba Regional Wide Area Municipal Area Association in Fukushima Prefecture

Contributed to earthquake reconstruction through the construction of waste treatment facilities

3) Developed and verified labor-saving construction management technology

- Entrance/exit temperature measurement system
- Remote confirmation system using 360° imagery
- Airflow measurement robots
- Construction management support systems

4) Conducted summer special joint health and safety patrol

5) Held safety and quality competitions at individual sites, including use of online connections

Strengthen relationships with subcontractors through awards such as the Sanki Super Meister and Sanki Best Partner Awards

6) Received the Technology Promotion Award from The Society of Heating, Air-Conditioning and Sanitary Engineers of Japan

Received recognition for Sapporo City Kita 4 Higashi 6 District Redevelopment's "Smart City Facilities Plan Considering Safety, Health and Energy Savings"

7) Employees received the Industrial Machinery Industry Achievement Award from The Japan Society of Industrial Machinery Manufacturers

(2) Promote growth strategies

1) Develop environmental test equipment for next-generation battery evaluation

Achieve precise controllability within 0.3°C over a wide range of temperature conditions from -40 to +100°C

2) Strengthen automatic transportation equipment and systems, including for the logistics market

- First delivery of a new sorting device (reverse sorter)
- Commercialization of the Transport Robot Operating System*

* Operation management system using multiple autonomous mobile transport robots (AMR).

3) Started joint R&D on a sewage monitoring system to realize a society that can adapt to infectious diseases in real time

Selected by the Ministry of Land, Infrastructure, Transport and Tourism for applied research on sewerage in FY2021

Collect epidemiological information on infectious diseases such as COVID-19 from sewer infrastructure

4) Established the Consulting Promotion Department within the Facility Systems Division

(3) Improve the Sanki brand

1) Established specialized departments and conference bodies for evolution toward a new era

- Established the Sustainability Promotion Department at the CSR Promotion Headquarters
- Established the Sustainability Committee with full-time directors as the main members
- Established the DX Promotion Section in the Information Systems Room
- Established the BCMS (Business Continuity Management System) Promotion Council

2) Formulate and disclose the Sanki Engineering Group Procurement Policies

3) Expressed support for the TCFD recommendations

4) Selected for listing on the TSE's new Prime Market segment, satisfied the Prime Market listing criteria

5) Made its 21st donation under the SANKI YOU Eco Contribution Point system

Contributed a cumulative 231,000 tons CO_2 reduction in customers business activities, more than 18,000 trees planted

6) Over 30,000 people have visited the Sanki Techno Center's Sanki Environmental Garden

Provides a place of relaxation for people in nearby Yamato City, Kanagawa Prefecture

7) Awarded in Europe for an original poster calendar

Received the Jury's Special Prize Award for its calendar "Nature Flows" at the largest calendar exhibition in Europe, the Gregor Calendar Award

(4) Reinforce information transmission

1) Continue to advertise on TV and the internet, in academic journals, and outdoors (just as in FY3/21)

2) Published the integrated SANKI REPORT 2021

3) Exhibited at Sewage Works Exhibition '21 Osaka

4) Published a booklet about Antarctica

Published the booklet "The Antarctic: Why We Go There," which contains interviews with the Company's Antarctic research expedition members

(5) Financial/capital policy (stakeholder returns)

1) Acquisition of treasury stock

Planning acquisition of treasury stock totaling 1,000,000 shares during FY3/22

Completed acquisition of treasury stock totaling 367,400 shares (at a cost of ¥537,479,192) through October 31, 2021

2) Dividends

Planning a ¥70 annual dividend including a ¥35 interim dividend and ¥35 year-end dividend (unchanged from the initial forecast)

(6) Initiatives from an ESG perspective

The Company has been promoting ESG policies for some time, including the following major initiatives. In the environment, it has expressed support for the TCFD recommendations and converts CO_2 reduction volume into Eco Contribution Points and makes donations to forestry projects based on the points under the SANKI YOU Eco Contribution Points system. In society, it intends to promote workstyle reforms and seek to build equal, fair, and transparent relationships with partners in accordance with the Sanki Engineering Group Procurement Policies. In governance, it responds to various issues, such as the updated Corporate Governance Code and TCFD recommendations, while consulting with external directors.

The Company's ESG activities

Item	Content
E (Environment)	• Expressed support for the TCFD recommendations • Made its 21st donation through the SANKI YOU Eco Contribution Point system, in which reductions in CO_2 emissions produced by solutions are converted into points when customers choose energy-saving proposals
S (Society)	• Formulation and disclosure of the Sanki Engineering Group Procurement Policies • Strengthen division of labor through the Smile Site Plan • Conducted employee surveys on compliance, sustainability, and work environment More than 90% of employees answered that they would like to continue working at the Sanki Engineering Group • Conducted workplace vaccination program for COVID-19, have vaccinated roughly 3,000 people • Decided to raise the retirement age from 60 to 65 from FY3/23
G (Governance)	• Over one-third of the Board of Directors are independent external directors • The Board of Directors held active discussions regarding the next medium-term management plan • Preparing to revise the Corporate Governance Code

Source: From the Company's Status of Business Progress in the Medium-Term Management Plan

Shareholder return policy

Proactive stance toward shareholder returns with dividend hikes and acquisition and retirement of treasury stock

The Company actively returns profits to shareholders. While its basic annual dividend was ¥15 through FY3/14, a change in profit structure prompted a dividend increase beginning in FY3/15. Due to strong results in FY3/19, the Company implemented an extra year-end dividend of ¥20 in addition to the regular ¥40 dividend, for a total annual dividend of ¥60 (a dividend payout ratio of 40.0%). In FY3/20, the Company had an initial annual dividend target of at least ¥60 and raised the dividend to ¥95 (¥35 interim, ¥60 year-end) including a ¥25 extra dividend to reflect robust earnings. In FY3/21, it paid an annual dividend of ¥80, comprised of a regular dividend of ¥70 and an extra dividend of ¥10. In FY3/22, it currently plans to sustain the regular dividend at ¥70.

The Company actively acquires its own shares in the market and retires them as part of the shareholder return policy. It acquired 1,958,000 shares and retired 2,000,000 shares of treasury stock during FY3/20. Meanwhile, thus far in FY3/21, the Company has already retired 1,000,000 shares and acquired another 1,000,000 shares of treasury stock. The Company has announced a plan for acquisition of treasury stock totaling 1,000,000 shares (up to ¥1,600mn) in FY3/22 too and already acquired 367,400 shares through October 31, 2021. If it completes the announced acquisition of treasury stock as planned, the total return ratio (weighted average) for the past nine years covering FY3/14 to FY3/22 works out to 84.8%, a high value.

Also, as previously stated, the Company actively responds to stakeholders other than shareholders. For the payment terms for partner companies, it has changed to entirely cash payments for partner companies with capital of less than ¥40mn. Looking to the future, it is preparing for uncertain social conditions due to COVID-19 by securing capital to support partner companies and to prepare for temporary demand.

We think the Company should be favorably assessed for its positive stance on shareholder returns and relationships with various stakeholders.

Shareholder returns

(¥mn)

	Acquisition of treasury stock		Dividend amount (B)	Amount of shareholder returns (C) = (A) + (B)	Profit attributable to owners of parent
	Number of shares	Amount (A)			
FY3/22 (E)	1,000,000	1,600	3,970	5,570	7,000
FY3/21	1,000,000	1,171	4,568	5,739	5,901
FY3/20	1,958,000	2,899	5,543	8,442	7,576
FY3/19	1,000,000	1,191	3,595	4,786	9,046
FY3/18	3,000,000	3,679	2,136	5,815	3,906
FY3/17	0	0	1,906	1,906	4,698
FY3/16	0	0	1,906	1,906	5,327
FY3/15	2,000,000	1,604	1,270	2,874	2,461
FY3/14	4,000,000	2,408	983	3,391	1,763
			Total	40,429	47,678
			Total return ratio (weighted average)		84.8%

Source: Prepared by FISCO from the Company's financial results and Summary of Financial Results

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