

Consolidated Financial Results
for the Six Months Ended September 30, 2023
<Japanese GAAP>

Listed company: SANKI ENGINEERING CO., LTD.
Listed stock exchange: Tokyo
Securities code: 1961
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Scheduled date to file quarterly securities report: November 10, 2023

Scheduled date to commence dividend payments: December 8, 2023

Preparation of explanatory materials for quarterly financial results: Yes

Holding of a briefing on quarterly financial results: Yes (for securities analysts and institutional investors)

(Amounts of less than 1 million yen are truncated)

1. Consolidated Financial Results for the Six Months Ended September 30, 2023

(April 1, 2023 to September 30, 2023)

(1) Consolidated operating results (Cumulative)

(% figures show year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
September 30, 2023	89,459	21.7	1,281	—	1,878	—	1,409	—
September 30, 2022	73,510	(12.6)	(1,260)	—	(751)	—	(770)	—

(Note) Comprehensive income: Six months ended September 30, 2023: ¥ 5,783 million [—%]

Six months ended September 30, 2022: ¥(1,121 million) [—%]

	Profit per share	Profit per share – diluted
Six months ended	Yen	Yen
September 30, 2023	25.87	25.79
September 30, 2022	(13.79)	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of	Millions of yen	Millions of yen	%
September 30, 2023	171,592	94,538	55.0
March 31, 2023	172,305	90,913	52.6

(Reference) Shareholders' equity: As of September 30, 2023: ¥94,348 million As of March 31, 2023: ¥90,714 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	–	35.00	–	40.00	75.00
Fiscal year ending March 31, 2024	–	35.00			
Fiscal year ending March 31, 2024 (Forecast)			–	35.00	70.00

(Note) Amendment to forecasts of dividends recently announced: None

Breakdown of end-FY3/23 dividend: Ordinary dividend ¥35; Extraordinary dividend ¥5

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2024

(April 1, 2023 to March 31, 2024)

(% figures show year-on-year change for the full year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	215,000	12.6	9,500	75.6	10,000	60.1	6,700	41.0	123.02

(Note) Amendment to forecasts of consolidated financial results recently announced: Yes

*** Notes**

(1) Changes in significant subsidiaries during the six months ended September 30, 2023 (changes in specified subsidiaries resulting in the change in scope of consolidation): None

New: - (Company name:) Excluded: - (Company name:)

(2) Application of specific accounting for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies and estimates, and retrospective restatements

(i) Changes in accounting policies in accordance with revision of accounting standards: None

(ii) Changes in accounting policies other than item (i) above: None

(iii) Changes in accounting estimates: None

(iv) Retrospective restatements: None

(4) Number of shares issued (common stock)

(i) Number of shares outstanding at the end of the period (including treasury shares)

As of September 30, 2023	56,661,156 shares
As of March 31, 2023	58,161,156 shares

(ii) Number of treasury shares at the end of the period

As of September 30, 2023	2,197,458 shares
As of March 31, 2023	3,722,458 shares

(iii) Average number of shares during period

For the six months ended September 30, 2023	54,465,698 shares
For the six months ended September 30, 2022	55,872,641 shares

* Quarterly financial results are not subject to quarterly review by a certified public accountant or audit corporation.

* Proper use of earnings forecasts, and other special matters

We have amended the consolidated and non-consolidated earnings forecasts announced on May 12, 2023. For details, please refer to 1. (3) "Qualitative information on consolidated earnings forecasts" on page 3 of the Attached Materials.

The forward-looking statements such as earnings forecasts contained in these materials are based on the information available at the time they were prepared, and the actual results could differ from forecasts depending on a variety of factors.

(Reference) Forecast of Non-consolidated Financial Results for the Fiscal Year Ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(% figures show year-on-year change for the full year)

	Net sales		Operating profit		Ordinary profit		Profit		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	195,000	15.3	7,500	113.6	9,500	68.9	6,900	42.8	126.69

(Note) Amendment to forecasts of non-consolidated financial results during the quarter under review: Yes

Disclaimer: This is a Japanese–English translation of the summary of financial statements of the Company produced for your convenience. Officially, only the Japanese version is assumed to be the summary of financial statements of the Company. This summary does not constitute any guarantee and the Company will not compensate any losses and/or damage stemming from actions taken based on these statements. In the case that there is any discrepancy between the Japanese and English versions, the Japanese version is assumed to be correct.

[Attached Materials]

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1. Qualitative Information on the Quarter under Review

The Group aims to be the “Company of Choice” for even more stakeholders by further enhancing quality and reliability through our long-term vision “Century 2025.” The consolidated fiscal year under review is the second year of the four-year medium-term management plan “Century 2025” Phase 3, which is the final phase of the long-term vision “Century 2025.” Continuing its efforts from FY2022, the Group will strive to remain the enduring company of choice by pushing forward with Phase 1 initiatives focused on improving quality and Phase 2 efforts to enhance reliability, while also implementing new measures, including initiatives to contribute to the sustainability of society, accelerate work-style reforms, and invest toward the next generation. In addition, we will continue building a corporate structure that can flexibly respond to changes in the environment, while developing new technologies, strengthening corporate governance, and achieving sustainable growth and increased corporate value over the medium to long term based on thorough compliance.

The Board of Directors is currently discussing the requests issued by the Tokyo Stock Exchange under “Action to Implement Management that is Conscious of Cost of Capital and Stock Price” and considering how the Group will respond to these requests and engage in disclosure.

The Group’s financial position and operating results for the six months ended September 30, 2023, are as follows.

(1) Qualitative information on consolidated operating results

(Millions of yen)

	Q2 FY2022	Q2 FY2023	YoY change	YoY change (%)	Main factors behind YoY change
Orders received	118,914	125,381	6,466	5.4%	As stated in the next section, “Operating results of major segments”
Balance carried forward	196,142	224,348	28,205	14.4%	
Net sales	73,510	89,459	15,949	21.7%	
Gross profit	9,161	11,969	2,808	30.6%	
Margin (%)	12.5%	13.4%	0.9%		
Operating profit (loss)	(1,260)	1,281	2,541	—	
Margin (%)	(1.7%)	1.4%	3.1%		
Ordinary profit (loss)	(751)	1,878	2,629	—	
Margin (%)	(1.0%)	2.1%	3.1%		
Profit (loss) attributable to owners of parent	(770)	1,409	2,179	—	
Margin (%)	(1.0%)	1.6%	2.6%		

(Note) Profit or loss margins are the rate of return on net sales.

<Operating results of major segments>

○Facilities Construction Business

This business includes HVAC and Plumbing for Buildings, Industrial HVAC (centered on air-conditioning systems for factories), Electrical Systems and Facility Systems businesses, etc.

While orders received declined year on year, increases were recorded in both net sales and profit due largely to progress in the projects that were carried forward from FY2022.

(Millions of yen)

	Q2 FY2022	Q2 FY2023	YoY change	YoY change (%)
Orders received	100,893	95,333	(5,559)	(5.5%)
Net sales	59,208	74,014	14,805	25.0%
Segment profit (loss)	(1,235)	1,236	2,471	—

○Machinery Systems Business

This business mainly includes conveyance systems and manufacturing and sales business related to transportation equipment. While orders received declined year on year, net sales increased due largely to progress in the projects that were carried forward from FY2022. Segment loss improved due to the increase in net sales, but profitability was low.

(Millions of yen)

	Q2 FY2022	Q2 FY2023	YoY change	YoY change (%)
Orders received	5,353	5,028	(324)	(6.1%)
Net sales	3,151	4,637	1,485	47.1%
Segment profit (loss)	(711)	(518)	193	—

○Environmental Systems Business

This business mainly includes operations related to water and sewage facilities and waste treatment facilities ordered by government agencies.

Orders received increased with orders received for large-scale waste treatment facilities. Although net sales were flat year on year, segment loss improved, mainly due to an overall improvement in the profitability of projects.

(Millions of yen)

	Q2 FY2022	Q2 FY2023	YoY change	YoY change (%)
Orders received	11,667	23,856	12,188	104.5%
Net sales	9,916	9,556	(360)	(3.6%)
Segment profit (loss)	(416)	(203)	213	—

○Real Estate Business

This business mainly includes leasing operations for real estate holdings and building management.

Tenant rental income increased, resulting in higher sales and profits.

(Millions of yen)

	Q2 FY2022	Q2 FY2023	YoY change	YoY change (%)
Orders received	1,235	1,242	6	0.5%
Net sales	1,235	1,242	6	0.5%
Segment profit	450	477	27	6.0%

(2) Qualitative information on consolidated financial position

(Millions of yen)

	End-FY2022	End-Q2 FY2023	YoY change	YoY change (%)	Main factors behind YoY change
Current assets	115,512	109,562	(5,950)	(5.2%)	Accounts receivable from completed construction contracts and other declined from the end of FY2022 due to seasonal factors, while investment securities increased due to a rise in their market prices.
Non-current assets	56,793	62,030	5,236	9.2%	
Total assets	172,305	171,592	(713)	(0.4%)	
Current liabilities	69,649	63,126	(6,523)	(9.4%)	Accounts payable for construction contracts declined from the end of FY2022 due to seasonal factors.
Non-current liabilities	11,742	13,927	2,185	18.6%	
Total liabilities	81,392	77,053	(4,338)	(5.3%)	
Total net assets	90,913	94,538	3,625	4.0%	Valuation difference on available-for-sale securities increased due to a rise in their market prices.

(3) Qualitative information on consolidated earnings forecasts

We have amended the full-year consolidated and non-consolidated earnings forecasts announced on May 12, 2023, based on recent performance trends. For details, please see the “Notice Regarding Amendment of Earnings Forecasts” (Japanese only), released today (November 10, 2023).

2. Consolidated Financial Statements and Related Notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	24,949	29,939
Notes receivable - trade	407	498
Electronically recorded monetary claims - operating	4,603	3,949
Accounts receivable from completed construction contracts and other	48,286	32,791
Contract assets	23,843	25,596
Securities	4,000	5,999
Costs on construction contracts in progress	2,801	4,341
Raw materials and supplies	711	851
Other	5,908	5,594
Total current assets	115,512	109,562
Non-current assets		
Property, plant and equipment		
Buildings and structures	43,955	44,313
Accumulated depreciation	(34,672)	(35,206)
Buildings and structures, net	9,283	9,107
Machinery, vehicles, tools, furniture and fixtures	2,111	2,198
Accumulated depreciation	(1,687)	(1,736)
Machinery, vehicles, tools, furniture and fixtures, net	424	462
Land	3,035	3,035
Leased assets	538	534
Accumulated depreciation	(266)	(255)
Leased assets, net	271	278
Construction in progress	22	11
Total property, plant and equipment	13,037	12,895
Intangible assets		
Other	2,302	2,207
Total intangible assets	2,302	2,207
Investments and other assets		
Investment securities	28,010	33,493
Long-term loans receivable	64	60
Retirement benefit asset	7,190	7,293
Leasehold and guarantee deposits	1,636	1,813
Insurance funds	1,011	741
Deferred tax assets	849	837
Other	3,026	3,028
Allowance for doubtful accounts	(337)	(342)
Total investments and other assets	41,453	46,927
Total non-current assets	56,793	62,030
Total assets	172,305	171,592

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Electronically recorded obligations – operating	1,667	2,275
Accounts payable for construction contracts	35,074	31,137
Short-term borrowings	6,674	6,244
Lease obligations	97	101
Income taxes payable	839	445
Contract liabilities	15,027	15,813
Provision for bonuses	4,101	3,246
Provision for directors' bonuses	224	103
Provision for warranties for completed construction	1,405	1,407
Provision for loss on construction contracts	32	86
Other	4,505	2,264
Total current liabilities	69,649	63,126
Non-current liabilities		
Long-term borrowings	1,400	1,225
Lease liabilities	300	317
Retirement benefit liability	3,861	4,217
Provision for loss on business of subsidiaries and associates	440	288
Deferred tax liabilities	64	2,141
Other	5,675	5,738
Total non-current liabilities	11,742	13,927
Total liabilities	81,392	77,053
Net assets		
Shareholders' equity		
Share capital	8,105	8,105
Capital surplus	4,189	4,192
Retained earnings	73,051	70,133
Treasury shares	(5,335)	(3,160)
Total shareholders' equity	80,011	79,271
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,583	14,698
Foreign currency translation adjustment	101	307
Remeasurements of defined benefit plans	17	70
Total accumulated other comprehensive income	10,702	15,076
Share acquisition rights	199	190
Total net assets	90,913	94,538
Total liabilities and net assets	172,305	171,592

(2) Quarterly consolidated statements of income and comprehensive income

Second quarter of consolidated fiscal year

(Millions of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales		
Net sales of completed construction contracts	72,228	88,172
Net sales in real estate business and other	1,281	1,286
Total net sales	73,510	89,459
Cost of sales		
Cost of sales of completed construction contracts	63,599	76,730
Cost of sales in real estate business and other	749	758
Total cost of sales	64,348	77,489
Gross profit		
Gross profit on completed construction contracts	8,629	11,442
Gross profit on real estate business and other	532	527
Total gross profit	9,161	11,969
Selling, general and administrative expenses	10,422	10,688
Operating profit (loss)	(1,260)	1,281
Non-operating income		
Interest income	9	8
Dividend income	339	395
Other	279	341
Total non-operating income	628	746
Non-operating expenses		
Interest expenses	51	53
Construction repair expenses	2	34
Other	66	60
Total non-operating expenses	119	149
Ordinary profit (loss)	(751)	1,878
Extraordinary income		
Gain on sale of non-current assets	22	—
Gain on sale of investment securities	25	332
Gain on liquidation of subsidiaries and associates	—	25
Total extraordinary income	47	358
Extraordinary losses		
Loss on retirement of non-current assets	53	34
Loss on valuation of investment securities	—	52
Settlement payments	139	—
Total extraordinary losses	193	87
Profit (loss) before income taxes	(896)	2,148
Income taxes – current	199	487
Income taxes – deferred	(325)	252
Total income taxes	(125)	739
Profit (loss)	(770)	1,409
(Breakdown)		
Profit (loss) attributable to owners of parent	(770)	1,409
Profit attributable to non-controlling interests	—	—
Other comprehensive income		
Valuation difference on available-for-sale securities	(591)	4,114
Deferred gains or losses on hedges	(13)	—
Foreign currency translation adjustment	169	205
Remeasurements of defined benefit plans	83	53
Total other comprehensive income	(351)	4,373
Comprehensive income	(1,121)	5,783
(Breakdown)		
Comprehensive income attributable to owners of parent	(1,121)	5,783
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from operating activities		
Profit (loss) before income taxes	(896)	2,148
Depreciation	735	886
Loss on retirement of non-current assets	53	34
Office relocation expenses	—	8
Increase (decrease) in provision for loss on business of subsidiaries and associates	—	(152)
Increase (decrease) in allowance for doubtful accounts	0	2
Increase (decrease) in provision for bonuses	(937)	(854)
Increase (decrease) in retirement benefit liability	457	325
Increase (decrease) in provision for loss on construction contracts	101	53
Interest and dividend income	(348)	(404)
Interest expenses	51	53
Loss (gain) on sale of property, plant and equipment	(22)	0
Loss (gain) on sale of investment securities	(25)	(328)
Loss on valuation of investment securities	—	52
Gain on liquidation of subsidiaries and associates	—	(25)
Decrease (increase) in trade receivables and contract assets	19,201	14,386
Decrease (increase) in costs on construction contracts in progress	(1,434)	(1,525)
Increase (decrease) in trade payables	(12,235)	(3,353)
Increase (decrease) in contract liabilities	836	771
Increase (decrease) in other current liabilities	(4,365)	(2,325)
Settlement payments	139	—
Other	(60)	275
Subtotal	1,251	10,032
Interest and dividends received	348	404
Interest paid	(43)	(46)
Income taxes paid	(2,764)	(987)
Income taxes refund	6	0
Office relocation expenses paid	—	(0)
Cash flows from operating activities	(1,201)	9,402
Cash flows from investing activities		
Purchase of securities	(10,000)	(13,000)
Proceeds from redemption of securities	11,000	12,000
Purchase of property, plant and equipment	(245)	(458)
Proceeds from sale of property, plant and equipment	76	0
Payments for retirement of property, plant and equipment	(55)	(27)
Purchase of investment securities	(264)	(4)
Proceeds from sale of investment securities	109	566
Proceeds from liquidation of subsidiaries and associates	—	178
Proceeds from collection of loans receivable	6	19
Purchase of intangible assets	(238)	(163)
Proceeds from maturity of insurance funds	68	421
Other	(239)	(144)
Cash flows from investing activities	216	(612)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	0	(272)
Repayments of long-term borrowings	(695)	(345)
Purchase of treasury shares	(134)	(79)
Proceeds from exercise of share options	0	0
Repayments of lease obligations	(50)	(55)
Dividends paid	(2,788)	(2,177)
Cash flows from financing activities	(3,668)	(2,930)
Effect of exchange rate changes on cash and cash equivalents	113	129
Net increase (decrease) in cash and cash equivalents	(4,540)	5,989
Cash and cash equivalents at beginning of period	44,779	24,949
Cash and cash equivalents at end of period	40,238	30,939

(4) Notes on premise of going concern

Not applicable

(5) Segment information, etc.

I. Second quarter of fiscal year 2022 (April 1, 2022 to September 30, 2022)

1. Information on net sales and profit (loss) by reportable segment

(Millions of yen)

	Reportable segments					Other (Notes) 1	Total	Adjust- ments (Notes) 2	Quarterly consolidated profit/loss and comprehensive income posted (Notes) 3
	Facilities Construc- tion Busi- ness	Machinery Systems Business	Environ- mental Systems Business	Real Estate Business	Total				
Net sales									
Net sales to external customers	59,153	3,151	9,908	1,233	73,446	63	73,510	—	73,510
Intersegment sales or transfers	55	0	8	1	65	176	242	(242)	—
Total	59,208	3,151	9,916	1,235	73,512	240	73,752	(242)	73,510
Segment profit (loss)	(1,235)	(711)	(416)	450	(1,913)	(26)	(1,939)	1,188	(751)

(Notes) 1. The “Other” category is a business segment that is not included in reportable segments and includes the leasing business and insurance agency business, etc.

2. The adjustment amount of ¥1,188 million to segment profit/loss includes company-wide profit not allocated to each reportable segment of ¥895 million, the reversal amount of the interest burden allocated to each segment within the company of ¥122 million, and an adjustment amount of ¥171 million due to the recording of gain on sale of non-current assets, loss on retirement of non-current assets, and other items attributable to each segment as extraordinary income and losses. Differences in allocation of company-wide expenses, etc., are the main source of company-wide profit.

3. Segment profit or loss is adjusted with ordinary loss in the quarterly consolidated statements of income and comprehensive income.

II. Second quarter of fiscal year 2023 (April 1, 2023 to September 30, 2023)

1. Information on net sales and profit (loss) by reportable segment

(Millions of yen)

	Reportable segments					Other (Notes) 1	Total	Adjust- ments (Notes) 2	Quarterly consolidated profit/loss and comprehensive income posted (Notes) 3
	Facilities Construc- tion Busi- ness	Machinery Systems Business	Environ- mental Systems Business	Real Estate Business	Total				
Net sales									
Net sales to external customers	73,982	4,636	9,548	1,240	89,408	50	89,459	—	89,459
Intersegment sales or transfers	31	0	7	1	40	233	274	(274)	—
Total	74,014	4,637	9,556	1,242	89,449	283	89,733	(274)	89,459
Segment profit (loss)	1,236	(518)	(203)	477	992	(20)	972	906	1,878

(Notes) 1. The “Other” category is a business segment that is not included in reportable segments and includes the leasing business and insurance agency business, etc.

2. The adjustment amount of ¥906 million to segment profit/loss includes company-wide profit not allocated to each reportable segment of ¥666 million, the reversal amount of the interest burden allocated to each segment within the company of ¥209 million, and an adjustment amount of ¥30 million due to the recording of extraordinary income and losses such as loss on retirement of non-current assets attributable to each segment. Differences in allocation of company-wide expenses, etc., are the main source of company-wide profit.

3. Segment profit or loss is adjusted with ordinary loss in the quarterly consolidated statements of income and comprehensive income.

(6) Notes regarding significant changes in shareholders' equity [if any]

The Company has implemented the purchase and cancellation of treasury shares based on a resolution passed at the meeting of the Board of Directors on August 10, 2023. As a result, during the six months ended September 30, 2023, treasury shares increased by ¥79 million due to purchases, while treasury shares and retained earnings decreased by ¥2,149 million due to the cancellation of treasury shares. The balance of treasury shares as of September 30, 2023, was ¥3,160 million.