

*Engineering
for the Future*

FY2019 Summary of Financial Results

May 15, 2020



SANKI ENGINEERING CO., LTD.

☆Key Points of Financial Results

<Orders received> 194.0 billion yen (217.0 in the previous fiscal year)

- Orders received by the Facilities Construction Business fell short of the previous fiscal year, mainly due to the effect of orders for large-scale projects received for Industrial HVAC in the previous fiscal year
Orders received by the Plant & Machinery Systems Business increased, mainly due to orders for large-scale projects received for Environmental Systems

<Net sales> 207.6 billion yen (212.3 billion yen in the previous fiscal year)

- In the Facilities Construction Business, net sales for HVAC and Plumbing for Buildings, Electrical Systems, and Facility Systems firmed over the previous fiscal year
Net sales for Industrial HVAC declined due to the impact of a favorable previous fiscal year
The Plant & Machinery Systems Business generated increased net sales, mainly due to net sales for large-scale projects received in Environmental Systems

<Gross profit> Gross profit margin of 15.5% (14.9% in the previous fiscal year)

- The gross profit margin improved over the previous fiscal year, due to initiatives such as ongoing thorough cost management and improved work efficiency
Irrespective of a decline in revenue, gross profit, operating income, and ordinary income increased, and profit attributable to owners of parent remained at a high level
- All profit items exceeded the mid-term forecasts released on February 7, 2020, in spite of a slight decline in net sales

<Medium-term management plan “Century 2025” Phase 2 targets>

- Targets for fiscal 2019, which is the first fiscal year of the plan, were all achieved (nets sales: 200.0 billion yen, gross profit: 30.0 billion yen, gross profit margin:15.0%, ordinary income: 9.0 billion yen, ordinary profit margin: 4.5%)

*The impact of the novel coronavirus pandemic was minimal in fiscal 2019

<FY2020 results forecasts>

- Maintain “Century 2025” Phase 2 targets

☆Stakeholder Returns

<Shareholders>

- Conducted shareholder returns according to medium-term management plan “Century 2025” Phase 2 financial and capital policies
- Annual dividends of 95 yen (regular dividends: 70 yen, extra dividends: 25 yen), which is an increase of 35 yen over the previous fiscal year
- Acquisition of 1,958,000 shares of treasury stock and retirement of 2,000,000 shares of treasury stock
- Payout ratio: 73.9%, total return ratio: 111.4%

<Partner companies>

- Review of payment terms
Review of payment terms for partner companies with a capital of 40.00 million yen (payments made entirely in cash)

<Response to social circumstances>

- Commitment line agreements
Plan to conclude commitment line agreements for the purpose of securing funds to support partner companies and preparing to short-term demand for operating capital

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FY2019 RESULT



FY2019 Results (Consolidated)

(Millions of yen)

	FY2017	FY2018	FY2019	Year on year	Rate of change(%)
Orders received	191,113	217,096	194,018	(23,077)	(10.6)
Balance carried forward	144,712	149,495	136,163	(13,332)	(8.9)
Net sales	170,157	212,314	207,684	(4,629)	(2.2)
Completed construction contracts	168,266	210,245	205,247	(4,997)	(2.4)
Real estate and others	1,890	2,069	2,437	368	17.8
Gross profit	25,060	31,684	32,110	426	1.3
Completed construction contracts	24,403	30,990	31,224	233	0.8
Real estate and others	656	694	886	192	27.7
Gross profit margin (%)	14.7	14.9	15.5	0.6 pt.	—
Selling, general and administrative expenses	18,466	21,046	21,436	389	1.9
Operating income	6,593	10,637	10,674	36	0.3
Non-operating income and loss	841	566	550	(16)	(2.9)
Ordinary income	7,434	11,204	11,224	20	0.2
Extraordinary income (loss)	(979)	122	(110)	(232)	—
Profit attributable to owners of parent (loss)	3,906	9,046	7,576	(1,469)	(16.2)

Quarterly Results (Consolidated)

(Millions of yen)

	FY 2017				FY 2018				FY 2019			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Orders received	38,209	57,566	43,881	51,456	50,885	52,934	51,228	62,048	46,697	54,204	50,031	43,085
Net sales	32,933	39,573	43,102	54,548	35,252	45,470	61,323	70,267	40,882	50,962	51,833	64,006
Gross profit	3,482	5,837	5,995	9,744	4,329	6,442	8,654	12,258	5,305	7,862	7,460	11,482
Gross profit margin (%)	10.6	14.8	13.9	17.9	12.3	14.2	14.1	17.4	13.0	15.4	14.4	17.9
Selling, general and administrative expenses	4,442	4,386	4,193	5,443	4,571	5,072	4,965	6,437	4,983	4,992	5,063	6,396
Operating income (loss)	(960)	1,450	1,802	4,300	(242)	1,369	3,688	5,821	322	2,869	2,396	5,085
Operating profit margin (%)	(2.9)	3.7	4.2	7.9	(0.7)	3.0	6.0	8.3	0.8	5.6	4.6	7.9
Ordinary income (loss)	(593)	1,546	2,093	4,388	92	1,447	3,848	5,815	547	2,955	2,644	5,076
Extraordinary income (loss)	(327)	(806)	(381)	536	(147)	(3)	(1,167)	1,439	24	84	49	(269)
Profit attributable to owners of parent (loss)	(604)	508	1,119	2,882	(66)	862	1,743	6,505	428	2,057	1,815	3,276

Orders Received by Segment (Consolidated)

(Millions of yen)

Segment	FY 2017	FY 2018	FY 2019	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	62,274	65,639	62,095	(3,543)	(5.4)
Industrial HVAC	58,907	82,729	58,391	(24,338)	(29.4)
Electrical Systems	22,675	23,342	25,000	1,658	7.1
Facility Systems	9,585	10,821	12,171	1,349	12.5
Total of Facilities Construction Business	153,443	182,533	157,659	(24,874)	(13.6)
Machinery Systems	12,100	12,049	10,351	(1,698)	(14.1)
Environmental Systems	24,247	21,705	24,247	2,542	11.7
Total of Plant & Machinery Systems Business	36,347	33,755	34,599	843	2.5
Sub-total	189,791	216,288	192,258	(24,030)	(11.1)
Real Estate Business	1,755	1,926	2,210	284	14.7
Others	587	960	917	(42)	(4.4)
Adjustments *	(1,020)	(2,078)	(1,367)	710	—
Total	191,113	217,096	194,018	(23,077)	(10.6)

*“Adjustments” eliminate internal transactions included in each segment.

Net Sales by Segment (Consolidated)

(Millions of yen)

Segment	FY 2017	FY 2018	FY 2019	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	63,782	71,558	70,756	(802)	(1.1)
Industrial HVAC	46,556	73,493	67,736	(5,756)	(7.8)
Electrical Systems	20,653	23,214	21,889	(1,325)	(5.7)
Facility Systems	8,695	11,033	11,119	85	0.8
Total of Facilities Construction Business	139,688	179,300	171,501	(7,798)	(4.3)
Machinery Systems	9,254	11,791	11,169	(621)	(5.3)
Environmental Systems	19,909	20,471	23,261	2,789	13.6
Total of Plant & Machinery Systems Business	29,164	32,263	34,431	2,167	6.7
Sub-total	168,853	211,563	205,932	(5,630)	(2.7)
Real Estate Business	1,755	1,926	2,210	284	14.7
Others	578	718	931	213	29.7
Adjustments*	(1,030)	(1,893)	(1,389)	503	—
Total	170,157	212,314	207,684	(4,629)	(2.2)

* “Adjustments” eliminate internal transactions included in each segment.

Gross Profit by Segment (Consolidated)

(Millions of yen)

Segment		FY 2017	FY 2018	FY 2019	Year on year	Rate of Change (%)
Gross Profit by segment	HVAC and Plumbing for Buildings/Industrial HVAC /Electrical Systems	17,656	23,712	23,610	(102)	(0.4)
	Facility Systems	1,465	1,877	2,170	293	15.6
	Total of Facilities Construction Business	19,122	25,590	25,781	190	0.7
	Machinery Systems	1,749	2,136	2,316	180	8.4
	Environmental Systems	3,666	3,622	3,314	(308)	(8.5)
	Total of Plant & Machinery Systems Business	5,416	5,759	5,631	(128)	(2.2)
	Sub-total	24,538	31,349	31,412	62	0.2
	Real Estate Business	543	567	673	106	18.8
	Others	192	178	200	22	12.4
	Adjustments	(213)	(411)	(176)	234	—
Total	25,060	31,684	32,110	426	1.3	

Profit Improvement Factors and Measures

- Strong business environment
(The impact of the novel coronavirus pandemic was minimal in fiscal 2019)
- Thorough cost management (thorough internal control processes)
- Developing site support systems
 - Improved support for purchasing operations by the Procurement Division (web-based procurement system)
 - Expanded support for on-site document creation at each branch office
 - Expanded support for design work by the Design and Engineering Support Center
 - Support and guidance for on-site operations by the Technology Support Center (established in fiscal 2018)
 - ICT support at work sites (introduction of tablet devices to all sites)
 - Quality audits by technical experts
- Strengthening relationships with business partners
 - Conducting the Liaison Meeting for subcontractor groups
 - Implementing the Sanki Super Meister System
 - Implementing the Sanki Best Partners System
 - Reviewing payment terms for partner companies with a capital of 40.00 million yen (payments made entirely in cash)

**FY2019
BALANCE SHEET AND
STATEMENT OF CASH FLOWS**



Balance Sheet (Consolidated)

(Millions of yen)

	End of FY 2018	End of FY 2019	Year on year	Rate of change (%)
Current assets	141,342	130,765	(10,576)	(7.5)
Notes and accounts receivable on completed construction contracts and other	85,243	71,739	(13,503)	(15.8)
Noncurrent assets	53,979	50,040	(3,939)	(7.3)
Investment securities	27,879	24,017	(3,862)	(13.9)
Current liabilities	91,317	79,705	(11,612)	(12.7)
Notes and accounts payable on construction contracts and other	68,286	52,489	(15,796)	(23.1)
Noncurrent liabilities	14,232	13,735	(496)	(3.5)
Total net assets	89,772	87,364	(2,407)	(2.7)
Treasury stock	(3,700)	(4,187)	(487)	—
Total assets	195,321	180,805	(14,516)	(7.4)
Book-value per share	1,502.53	1,510.59	8.06	0.5
Equity ratio (%)	45.8	48.2	2.4	—
Interest-bearing liabilities (consolidated)	12,094	10,719	(1,375)	(11.4)

Statement of Cash Flows (Consolidated)

- The balance of cash and cash equivalents increased year on year
 - The increase in cash flows from operating activities is mainly due to the inclusion of income before taxes and other adjustments.
 - The decrease in cash flows from investment activities is mainly due to the acquisition of property, plant and equipment
 - The decrease in cash flows from financing activities is mainly due to the repayment of long-term loans payable, expenditure from the purchase of treasury stock, and the payment of dividends

(Millions of yen)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Cash flows from operating activities	5,220	10,845	6,306	6,786	11,940
Cash flows from investing activities	5,520	(1,644)	(2,510)	(3,775)	(303)
Cash flows from financing activities	(1,826)	(2,458)	1,814	(5,215)	(8,955)
Cash and cash equivalents at end of period	32,501	39,187	44,866	42,612	45,946

Capital investment (including intangible assets)	855	1,015	3,772	6,110	2,197
Depreciation and amortization	723	718	818	1,340	1,643

SHAREHOLDER RETURNS



Dividends and Others

- Conducted shareholder returns according to medium-term management plan “Century 2025” Phase 2 financial and capital policies.
- An extra dividends of 25 yen has been paid in addition to the regular dividends of 70 yen, resulting in a total annual dividends of 95 yen, which is an increase of 35 yen from the previous fiscal year.
- Acquired 1,958,000 shares of treasury stock in fiscal 2019. Retirement of 2,000,000 shares of treasury stock conducted on August 19, 2019.

	FY 2015	FY 2016	FY 2017	FY 2018
Earnings per share (yen)	83.84	73.91	63.02	150.02
Cash dividends per share: regular dividends (yen)	18	20	20	40
Cash dividends per share: extra dividends (yen)	12	10	15	20
Cash dividends per share (yen)	30	30	35	60
Payout ratio (consolidated) (%)	35.8	40.6	55.5	40.0
Total return ratio (%)	35.8	40.6	148.9	52.9
Number of shareholders at end of FY	3,397	3,157	3,243	3,381
Stock price at end of FY (yen)	901	958	1,188	1,210
Acquisition of treasury stock (thousand shares)	—	—	3,000	1,000
Retirement of treasury stock (thousand shares)	—	—	3,000	1,000

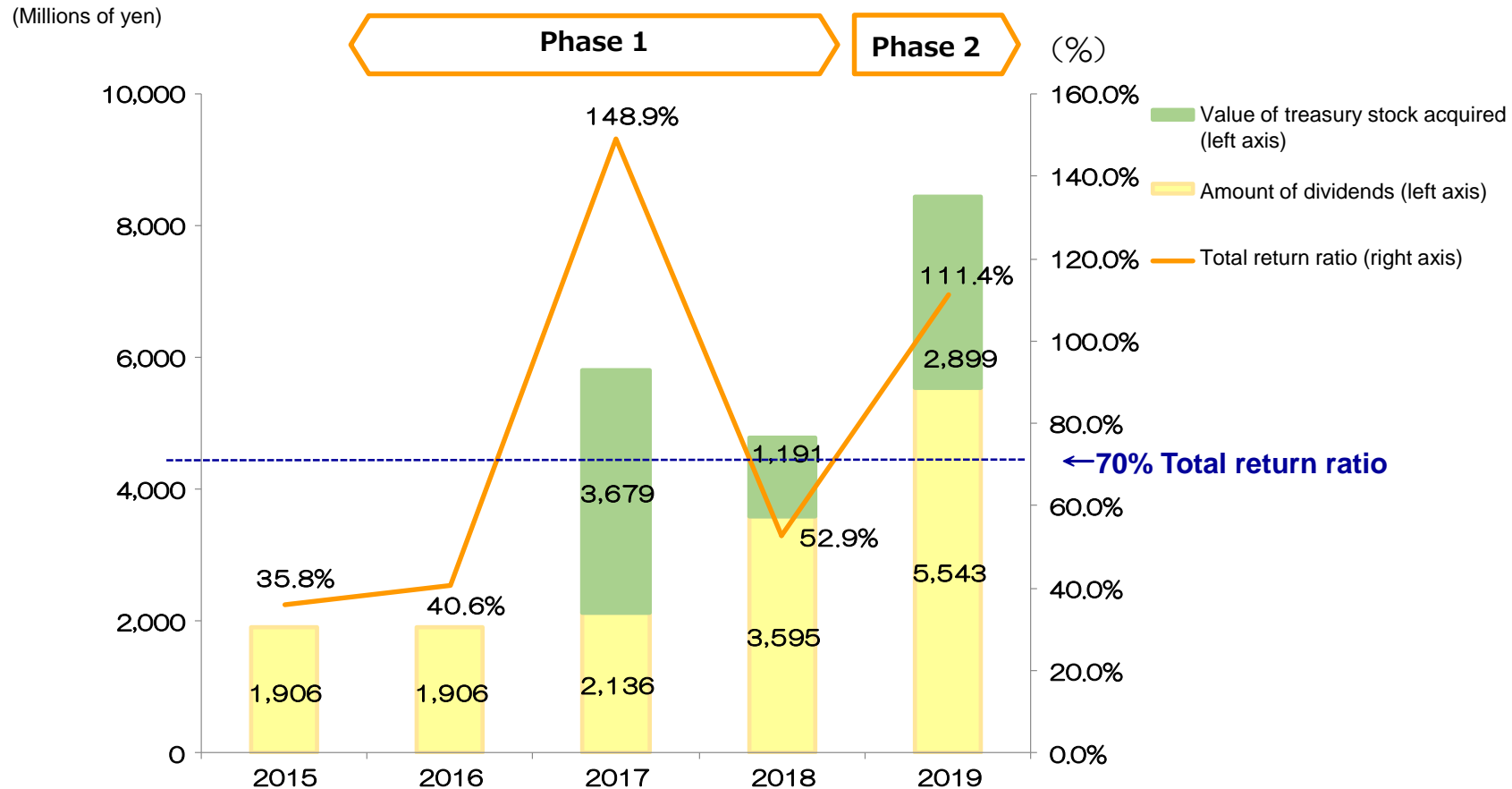
September 2019	FY 2019
41.71	128.51
35	70
—	25
35	95
	73.9
	111.4
3,357	4,216
1,280	1,211
—	1,958
2,000	2,000

ROE (Return on Equity) (%)	6.3	5.5	4.5	10.3
ROA (Return on Assets) (%)	4.7	4.1	4.3	6.0

	8.6
	6.0

Total Return Ratio

- Achieved at least 70% shareholder returns according to medium-term management plan “Century 2025” Phase 2 financial and capital policies.



FY2020 FORECAST



FY2020 Full-Year Forecast (Consolidated)

(Millions of yen)

	FY 2016	FY 2017	FY 2018	FY 2019 A	Initial forecast for FY 2020 B	Increase/ Decrease B-A	Rate of change (%)
Orders received	185,880	191,113	217,096	194,018	190,000	(4,018)	(2.1)
Balance carried forward	123,756	144,712	149,495	136,163	126,163	(10,000)	(7.3)
Net sales	168,512	170,157	212,314	207,684	200,000	(7,684)	(3.7)
Gross profit	22,538	25,060	31,684	32,110	31,000	(1,110)	(3.5)
Gross profit margin (%)	13.4	14.7	14.9	15.5	15.5	—	—
Operating income	6,012	6,593	10,637	10,674	9,000	(1,674)	(15.7)
Ordinary income (loss)	6,880	7,434	11,204	11,224	9,500	(1,724)	(15.4)
Profit attributable to owners of parent	4,698	3,906	9,046	7,576	6,500	(1,076)	(14.2)
Regular dividends per share (yen)	20	20	40	70	70	—	—
Extra dividends per share (yen)	10	15	20	25	—	(25)	—
Dividends per share (yen)	30	35	60	95	70	(25)	—

* Although results have been incorporated, which take into account the impact of novel coronavirus pandemic on business of our group, business results may be further impacted due to future spread of the impact of novel coronavirus pandemic.

FY2020 Forecast of Orders Received and Net Sales by Segment (Consolidated)

(Millions of yen)

Segment		FY 2020 Orders Received Forecast	FY 2020 Net sales Forecast
	HVAC and Plumbing for Buildings	65,000	60,000
	Industrial HVAC	57,000	66,000
	Electrical Systems	22,000	25,000
	Facility Systems	11,000	11,000
Total of Facilities Construction Business		155,000	162,000
	Machinery Systems	12,000	11,000
	Environmental Systems	21,000	25,000
Total of Plant & Machinery Systems Business		33,000	36,000
Sub Total		188,000	198,000
Real Estate Business		2,000	2,000
Others		500	500
Adjustments*		(500)	(500)
Total		190,000	200,000

* Adjustments eliminate inter-segment transactions included in each segment.

SUPPLEMENTARY MATERIALS



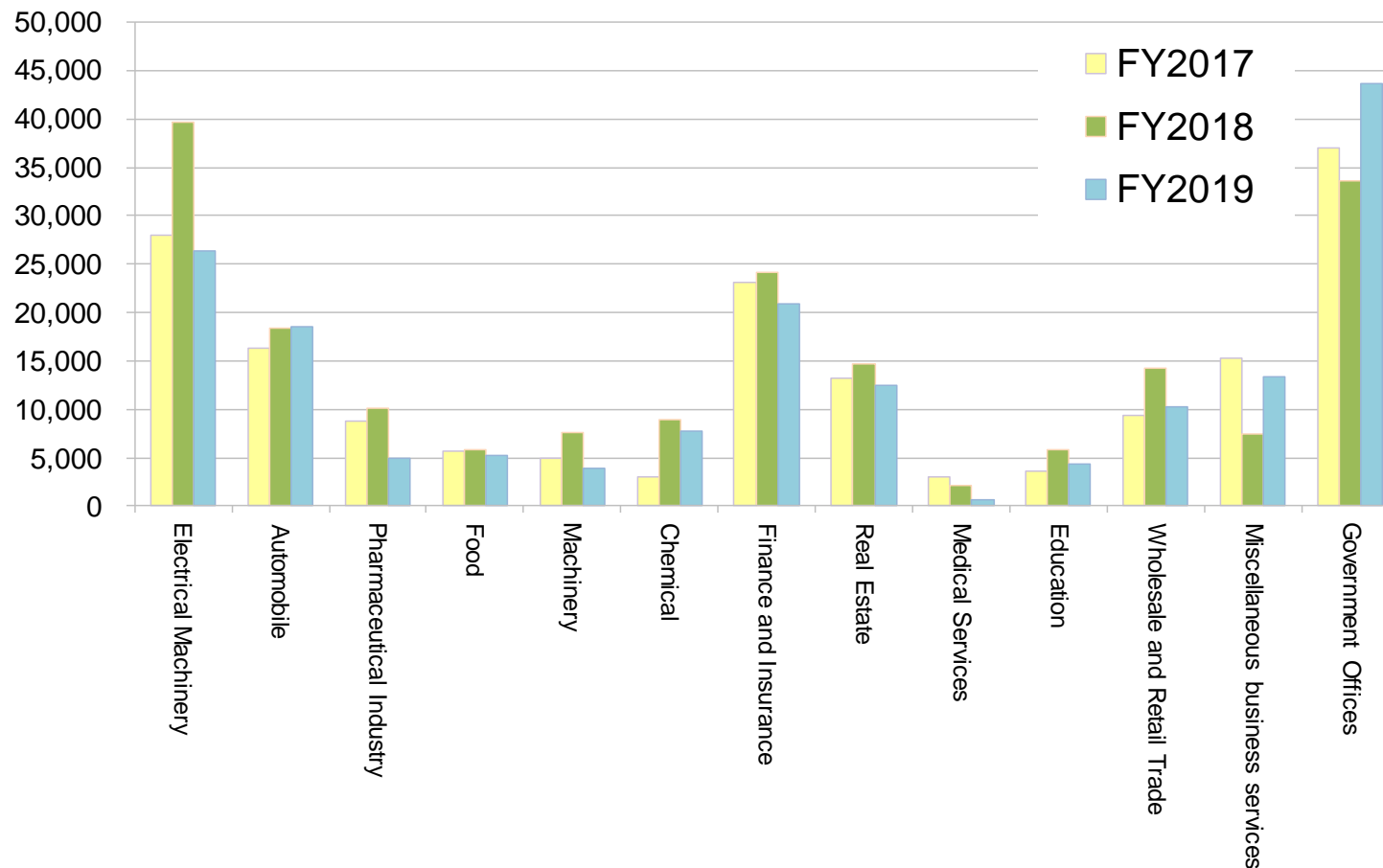
Orders Received by Type

(Millions of yen)

	FY 2016	FY 2017	FY 2018 A	FY 2019 B	Diff. B-A
Orders received (Non-consolidated: Facilities Construction Business)	139,997	147,013	173,553	147,191	(26,361)
Orders received from general contractors (Non-consolidated: Facilities Construction Business)	61,493	67,345	78,304	48,238	(30,066)
Rate of orders received from general contractors (Non-consolidated: Facilities Construction Business) (%)	43.9	45.8	45.1	32.8	(12.3)
Orders received (Consolidated)	185,880	191,113	217,096	194,018	(23,077)
Orders received from overseas projects (Consolidated)*	1,612	1,246	2,379	3,143	763
Rate of orders received from overseas projects (Consolidated) (%)	0.9	0.7	1.1	1.6	0.5
Orders received for renewal construction (Consolidated)	101,114	101,597	117,619	112,909	(4,709)
Rate of orders received for renewal construction (Consolidated) (%)	54.4	53.2	54.2	58.2	4.0
<Ref.> Net sales for renewal construction (Consolidated)	93,602	94,601	116,627	114,208	(2,418)

Orders Received by Industry (Consolidated)

(Millions of yen)



Main Large-Scale Projects Received

Property name	Item of construction	Type of construction	Location
DENSO Corporation Headquarters PT Development Center	HVAC systems	New construction work	Aichi
Kasai Water Reclamation Center: Construction of sludge dewatering equipment	Construction of water supply and sewer system	Renewal	Tokyo
Ishikawa Regional Association of Community Facilities: Work to improve core equipment at waste treatment facility	Construction of waste treatment system	Renewal	Fukushima
Bank of Japan Head Office Fuchu Branch Machinery Building	HVAC and Plumbing systems	Expansion	Tokyo
Reconstruction of Toyota Motor Technical Department	HVAC, Plumbing and Electrical systems	New construction work	Aichi
Toyota Technical Center Shimoyama	HVAC, Plumbing and Electrical systems	New construction work	Aichi

7 other projects

* The property name is the name being used by the Company. This may differ from the name used on the construction contract.

Main Large-Scale Completed Construction Projects

Property name	Item of construction	Type of construction	Location
Kintetsu Hakata Building	HVAC systems	New construction work	Fukuoka
Sony Semiconductor Manufacturing Corporation Yamagata Technology Center	HVAC and Electrical systems	Renovation	Yamagata
NISSAY Logistics Center YOKOHAMA-MACHIDA	HVAC, Plumbing and Electrical systems	New construction work	Kanagawa
Nihon Shokken Holdings Co., Ltd. Schönbrunn Palace Factory	HVAC systems	New construction work	Ehime
Daimaru Shinsaibashi: Main Building reconstruction project	HVAC systems	New construction work	Osaka
Takashimaya Osaka: Eastern annex renovation project	HVAC and Plumbing for Buildings	Renovation	Osaka
Ajinomoto Tokai Plant: Construction of new factory	HVAC and Plumbing for Buildings	New construction work	Mie
Park Hyatt Niseko HANAZONO	HVAC systems	New construction work	Hokkaido
Toranomon Hills Business Tower new construction project	HVAC systems	New construction work	Tokyo
Yoyogi National Gymnasium 1 st Gymnasium	HVAC, Plumbing and Electrical systems	Renovation	Tokyo
Otemachi One Tower new construction project	HVAC systems	New construction work	Tokyo
Works to enhance facilities for a next-generation ultra-high-speed computer system in fiscal 2018	HVAC systems	Renovation	Hyogo
Tenzan area energy recovery waste treatment facilities	Construction of waste treatment system	New construction work	Saga
Tsushima Clean Center renovation project	Construction of waste treatment system	Renovation	Nagasaki
Sendai Clean Center renovation project	Core equipment renovation project	Renovation	Kagoshima

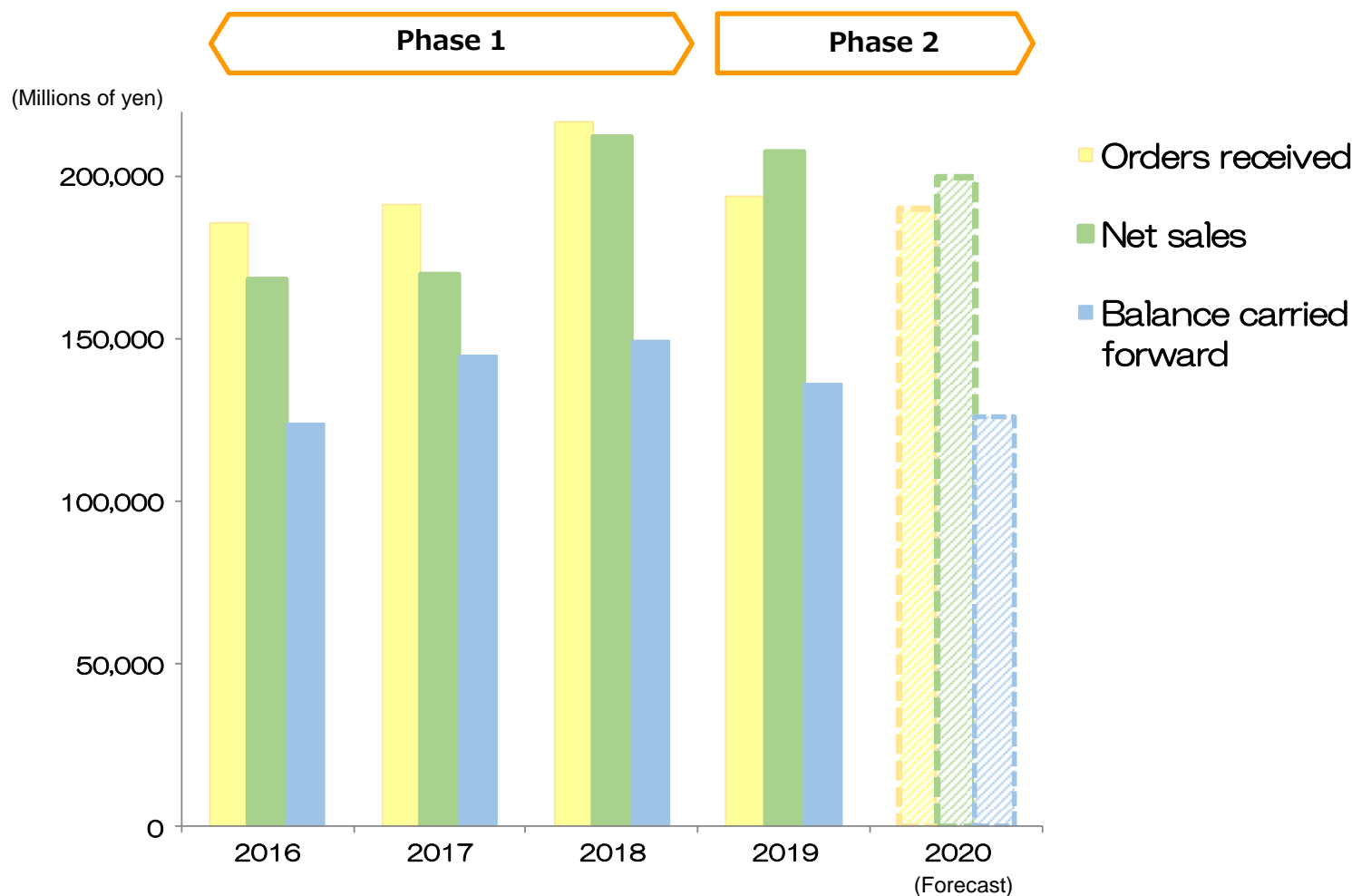
6 other projects

* The property name is the name being used by the Company. This may differ from the name used on the construction contract.

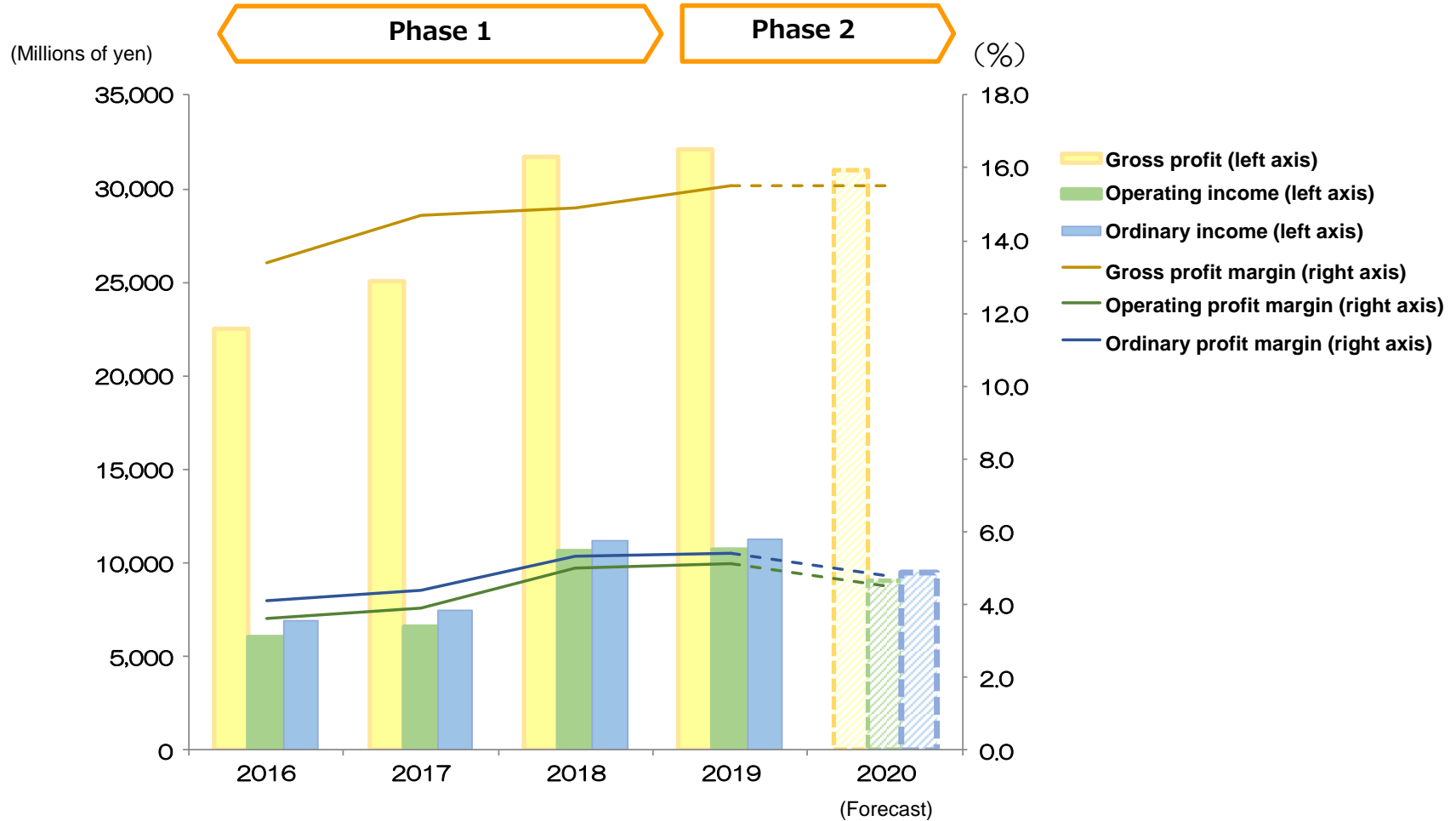
Main Large-Scale Projects Received over 1 Billion Yen (by Industry)

	FY2017		FY2018		FY2019	
Office	2	20 Projects (40,822 million yen) *Orders received from customers: 9 Projects *Orders received from general Contractors : 11 Projects	2	23 Projects (55,118 million yen) *Orders received from customers: 10 Projects *Orders received from general Contractors : 13 Projects	1	13 Projects (31,945 million yen) *Orders received from customers: 9 Projects *Orders received from general Contractors : 4 Projects
Complex building	—		1		—	
Hotel	1		1		—	
Factory	6		10		3	
Logistics Center	—		1		—	
Multiple – dwelling complex	2		1		—	
Hospital and Clinics	1		1		1	
Research institute	1		1		2	
General government buildings	—		1		1	
Gymnasium	1		1		—	
Other building interiors	3		1		2	
Railway, Airport	1		1		—	
Power station, Substation	—		—		1	
Waste processing facility	2	1	1			
Water treatment plants and sewage plants	—	—	1			

Operating Results over the most recent 5 years (Consolidated) <Orders Received/Net Sales>



Operating Results over the most recent 5 years (Consolidated) <Profit>



Remarks on Business Forecast

The descriptions contained in these materials, except for those as to past or present facts, are based on anticipations, assumptions, evaluations and estimations in light of the information available as of May 15, 2020.

Therefore, the actual results may differ from those presented herein as a consequence of various factors, including uncertainties and prospective changes in the economic environment.

<Major factors>

- Credit exposures of client companies.
- Sudden changes in material and equipment cost and labor cost.
- Stock Market fluctuations.
- Increase in retirement benefits or debts.
- Country risk.
- Accident or disaster in facilities construction and other.
- Outbreak of the unprofitable project.
- Risk in the Real Estate Business.
- Risk of legal action.
- Risk of legal regulation.
- Outbreak to the natural disasters.
- Fluctuations in private capital investment

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