

The 1st Quarter FY2019 Summary of Financial Results

August 9, 2019

Sanki Engineering Co., Ltd.

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Key Points of Financial Results

<Orders Received>

In the Facilities Construction Business, orders received fell below those of the previous fiscal year due to factors such as orders for large-scale projects in Industrial HVAC received in the same period of the previous fiscal year. The Plant & Machinery Systems Business saw great improvements, thanks to factors such as an order for a large-scale project in Environmental Systems. As a result, overall orders received remained at a high level, but declined year on year.

<Net Sales & Profit>

Net sales in the Facilities Construction Business increased year on year for all businesses. In the Plant & Machinery Systems Business, both Machinery Systems and Environmental Systems showed great improvements, resulting in increased net sales overall.

The gross profit margin improved year on year thanks to initiatives such as ongoing thorough cost management and improved work efficiency. Furthermore, all profit items increased due to the effects of increased revenue.

【Overall Results】 FY2019 1Q Results (Consolidated)

(Millions of yen)

	June 2017	June 2018	June 2019	Year on year	Rate of change(%)
Orders received	38,209	50,885	46,697	(4,187)	(8.2)
Balance carried forward	129,032	160,345	155,644	(4,701)	(2.9)
Net sales	32,933	35,252	40,882	5,629	16.0
Completed construction contracts	32,447	34,730	40,270	5,539	16.0
Real estate and others	485	522	612	90	17.2
Gross profit	3,482	4,329	5,305	976	22.5
Completed construction contracts	3,298	4,113	5,028	914	22.2
Real estate and others	183	215	277	62	28.8
Gross profit margin (%)	10.6	12.3	13.0	0.7 pt.	—
Selling, general and administrative expenses	4,442	4,571	4,983	411	9.0
Operating income (loss)	(960)	(242)	322	564	—
Non-operating income and loss	366	335	225	(109)	(32.6)
Ordinary income (loss)	(593)	92	547	455	490.7
Extraordinary income (loss)	(327)	(147)	24	171	—
Profit attributable to owners of parent (loss)	(604)	(66)	428	494	—

* Due to increased importance, SANKI CONSTRUCTION ENGINEERING (SHANGHAI) CO., LTD., was included within the scope of consolidation starting in the first quarter of FY2019.

【Orders Received】

Orders Received by Segment (Consolidated)

(Millions of yen)

Segment	June 2017	June 2018	June 2019	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	13,346	14,211	13,018	(1,193)	(8.4)
Industrial HVAC	11,552	21,136	11,052	(10,083)	(47.7)
Electrical Systems	3,259	6,506	7,469	962	14.8
Facility Systems	2,410	2,842	2,921	78	2.8
Total of Facilities Construction Business	30,568	44,697	34,461	(10,236)	(22.9)
Machinery Systems	3,720	2,240	2,257	16	0.7
Environmental Systems	3,520	4,005	9,451	5,446	136.0
Total of Plant & Machinery Systems Business	7,240	6,246	11,709	5,462	87.5
Sub-total	37,809	50,944	46,170	(4,773)	(9.4)
Real Estate Business	419	452	525	72	16.0
Others	178	184	195	11	6.1
Adjustments *	(198)	(695)	(193)	501	—
Total	38,209	50,885	46,697	(4,187)	(8.2)

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

【Net Sales】 Net Sales by Segment (Consolidated)

(Millions of yen)

Segment	June 2017	June 2018	June 2019	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	13,134	13,345	15,253	1,908	14.3
Industrial HVAC	9,437	11,906	13,615	1,709	14.4
Electrical Systems	3,983	3,831	3,958	127	3.3
Facility Systems	1,355	1,392	1,867	475	34.1
Total of Facilities Construction Business	27,912	30,475	34,695	4,220	13.8
Machinery Systems	2,230	2,114	2,601	487	23.0
Environmental Systems	2,487	2,396	3,143	746	31.2
Total of Plant & Machinery Systems Business	4,718	4,511	5,745	1,233	27.4
Sub-total	32,630	34,986	40,440	5,453	15.6
Real Estate Business	419	452	525	72	16.0
Others	159	169	233	64	38.0
Adjustments*	(276)	(356)	(317)	38	—
Total	32,933	35,252	40,882	5,629	16.0

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

【Profit】

<Reference> Ordinary Gross Profit by Segment (Consolidated)

(Millions of yen)

Segment		June 2017	June 2018	June 2019	Year on year	Rate of Change (%)
Ordinary Gross Profit by Segment (Consolidated)	HVAC and Plumbing for Buildings Industrial HVAC Electrical Systems	2,702	3,613	4,152	539	14.9
	Facilities Systems	(19)	87	240	153	176.5
	Total of Facilities Construction Business	2,683	3,700	4,393	692	18.7
	Machinery Systems	468	337	541	203	60.3
	Environmental Systems	182	203	113	(90)	(44.2)
	Total of Plant & Machinery Systems Business	650	541	654	113	20.9
	Sub-total	3,333	4,241	5,048	806	19.0
	Real Estate Business	123	153	192	38	25.1
	Others	75	71	94	22	32.2
	Adjustments*	(50)	(137)	(29)	108	—
Total	3,482	4,329	5,305	976	22.5	

**【Overall Results】
Quarterly Results (Consolidated)**

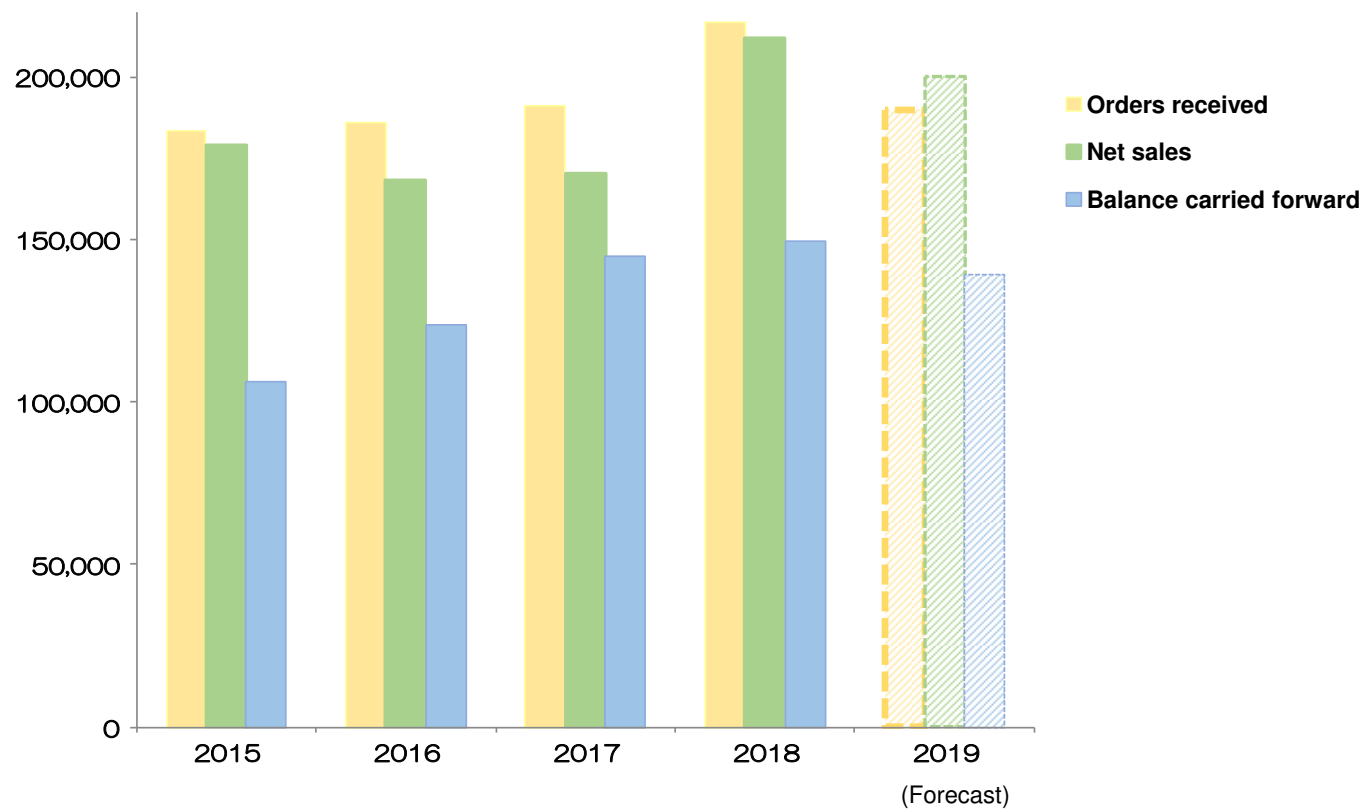
(Millions of yen)

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

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

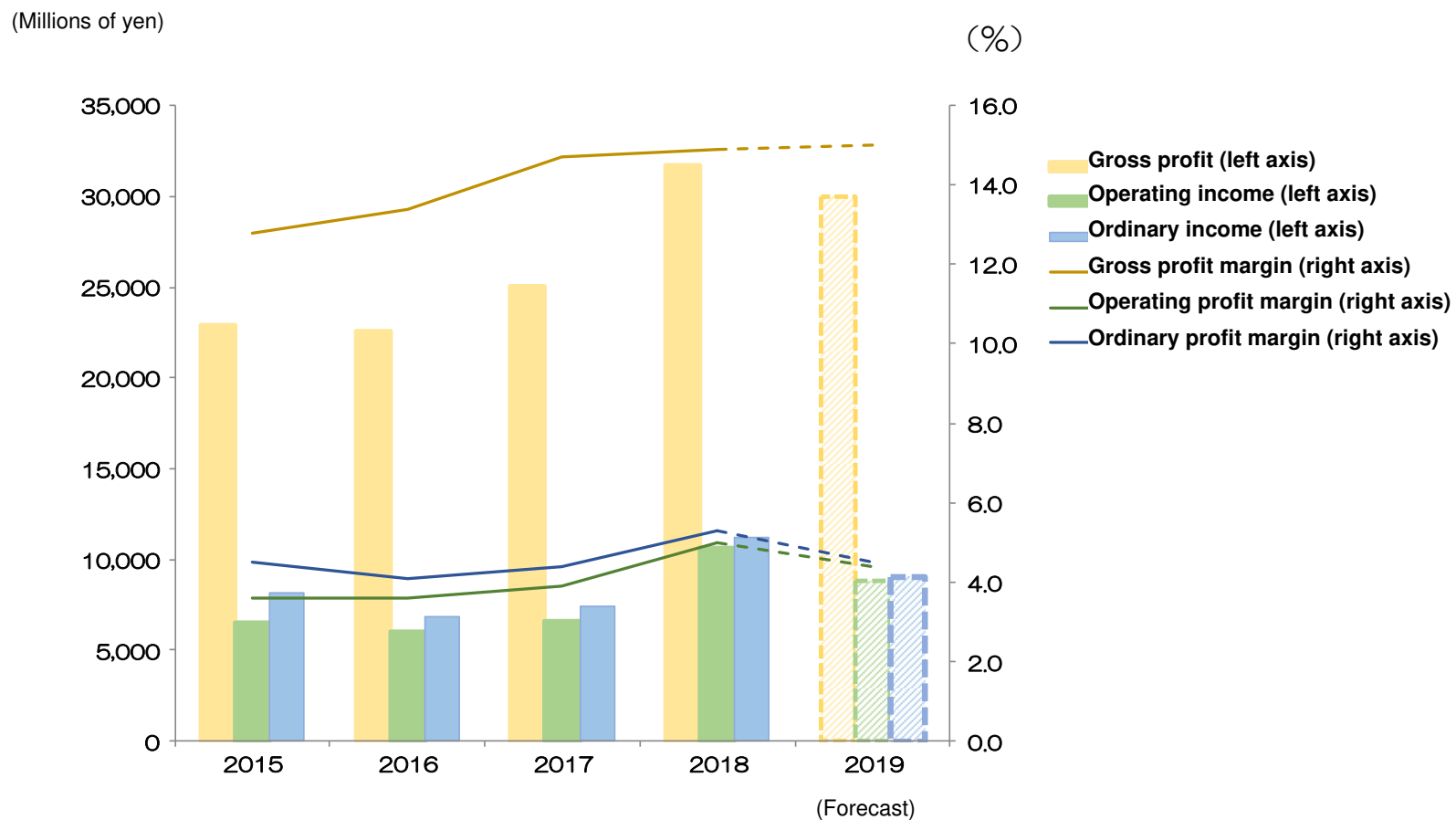
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(Millions of yen)

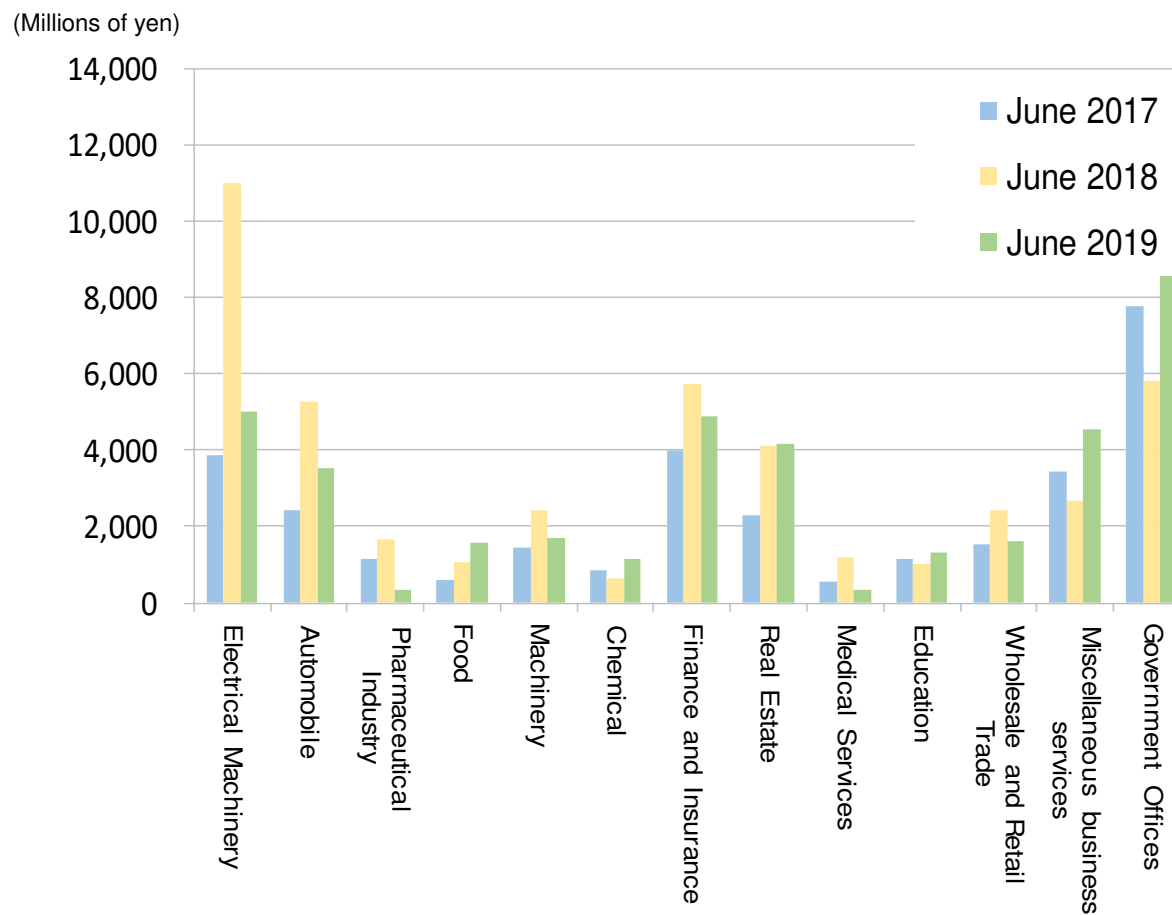


【Operating Results】

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



【Orders Received】 Orders Received by Industry (Consolidated)



【Orders Received】 Orders Received by Type

(Millions of yen)

	FY 2016	FY 2017	FY 2018	June 2018 A	June 2019 B	Diff. B-A
Orders received (Non-consolidated: Facilities Construction Business)	139,997	147,013	173,553	42,067	31,782	(10,284)
Orders received from general contractors (Non-consolidated: Facilities Construction Business)	61,493	67,345	78,304	15,855	9,161	(6,693)
Rate of orders received from general contractors (Non-consolidated: Facilities Construction Business) (%)	43.9	45.8	45.1	37.7	28.8	(8.9) pt.
Orders received (Consolidated)	185,880	191,113	217,096	50,885	46,697	(4,187)
Orders received from overseas projects (Consolidated)	1,612	1,246	2,379	640	704	64
Rate of orders received from overseas projects (Consolidated) (%)	0.9	0.7	1.1	1.3	1.5	0.2 pt.
Orders received for renewal construction (Consolidated)	101,114	101,597	117,619	32,177	29,736	(2,440)
Rate of orders received for renewal construction (Consolidated) (%)	54.4	53.2	54.2	63.2	63.7	0.5 pt.
<Ref.> Net sales for renewal construction (Consolidated)	93,602	94,601	116,627	18,827	21,132	2,305

【Orders Received】 Main Large-Scale Projects Received and Main Large-Scale Completed Construction Projects



○ 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	Water treatment and sewage systems	Renewal	Tokyo
Ishikawa Regional Association of Community Facilities: Work to improve core equipment at waste treatment facility	Waste treatment systems	Renewal	Fukushima

1 other project

○ 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

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

【Orders Received】

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

	June 2017		June 2018		June 2019	
Logistics Center	—	2 Projects (4,110 million yen) *Orders received from customers: 1 Project *Orders received from general Contractor : 1 Project	1	4 Projects (8,080 million yen) *Orders received from customers: 2 Projects *Orders received from general Contractor : 2 Projects	—	4 Projects (8,884 million yen) *Orders received from customers: 3 Projects *Orders received from general Contractor : 1 Project
Factory	—		3		1	
Research institute	1		—		—	
Railway, Airport	1		—		—	
Other building interiors	—		—		1	
Water treatment plants and sewage plants	—		—		1	
Waste treatment facility	—		—		1	

【Profit】**Profit Improvement Factors and Measures (Consolidated)**

- Strong business environment
- 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)
 - Company-wide promotion of BIM* by the BIM Promotion Center (established in fiscal 2019)
 - 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

* BIM (Building Information Modeling): a process that integrates information from design to construction in order to improve quality and streamline operations

【Financial Conditions】 Balance Sheet (Consolidated)

(Millions of yen)

	End of FY 2018	June 2019	Year on year	Rate of change (%)	June 2018
Current assets	141,342	121,886	(19,455)	(13.8)	109,516
Noncurrent assets	53,979	53,535	(444)	(0.8)	55,098
Current liabilities	91,317	73,874	(17,442)	(19.1)	62,789
Noncurrent liabilities	14,232	14,228	(3)	(0.0)	16,804
Total net assets	89,772	87,319	(2,453)	(2.7)	85,020
Total assets	195,321	175,422	(19,899)	(10.2)	164,614
Book-value per share	1,502.53	1,461.37	(41.16)	(2.7)	1,400.34
Equity ratio (%)	45.8	49.6	3.8 pt.	—	51.5
Interest-bearing liabilities (consolidated)	12,094	10,975	(1,119)	(9.3)	12,366

【CF】 Statement of Cash Flows (Consolidated)

- The balance of cash and cash equivalents increased from both the end of the same period in the previous fiscal year and the end of the previous fiscal year.
- The increase in cash flows for operating activities is mainly due to the fact that accounts receivable turnover progressed beyond the decrease in accounts payable.
- The decrease in cash flows from investing 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 short-term/long-term loans payable and the payment of dividends.

(Millions of yen)

	FY 2015	FY 2016	FY 2017	FY 2018	June 2018	June 2019
Cash flows from operating activities	5,220	10,845	6,306	6,786	5,349	7,999
Cash flows from investing activities	5,520	(1,644)	(2,510)	(3,775)	(1,435)	(840)
Cash flows from financing activities	(1,826)	(2,458)	1,814	(5,215)	(2,389)	(3,557)
Cash and cash equivalents at end of period	32,501	39,187	44,866	42,612	46,364	46,896

【Shareholder Returns】 Dividends and Others

- Dividends remain unchanged from the initial forecast (midterm dividend of 30 yen and term-end dividend of 30 yen, for a total forecasted annual dividend of 60 yen).
- Acquisition of 2 million shares of treasury stock is planned by the end of FY 2019.
- Retirement of 2 million shares of treasury stock is scheduled for August 19, 2019.

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 (Forecast)
Cash dividends per share: regular dividends (yen)	15	18	20	20	40	60
Cash dividends per share: commemorative dividends (yen)	5	—	—	—	—	—
Cash dividends per share: extra dividends (yen)	—	12	10	15	20	—
Cash dividends per share (yen)	20	30	30	35	60	60
Acquisition of treasury stock (thousand shares)	2,000	—	—	3,000	1,000	2,000
Retirement of treasury stock (thousand shares)	3,000	—	—	3,000	1,000	2,000

【Overall Forecast】 FY2019 Full-Year Forecast (Consolidated)

- No changes from initial forecast

(Millions of yen)

	FY 2018 results			FY 2019 forecast (Interim forecast from August 9)			Year on year		
	1H	2H	Total	1H	2H	Total	1H	2H	Total
Orders received	103,819	113,276	217,096	93,000	97,000	190,000	(10,819)	(16,276)	(27,096)
Net sales	80,723	131,591	212,314	90,000	110,000	200,000	9,277	(21,591)	(12,314)
Gross profit	10,771	20,912	31,684	12,500	17,500	30,000	1,729	(3,412)	(1,684)
Operating income	1,126	9,510	10,637	2,200	6,600	8,800	1,074	(2,910)	(1,837)
Ordinary income	1,540	9,664	11,204	2,400	6,600	9,000	860	(3,064)	(2,204)
Profit attributable to owners of parent	796	8,249	9,046	1,600	4,600	6,200	804	(3,649)	(2,846)

【Forecast of Orders Received and Net Sales】

FY2019 Forecast of Orders Received and Net Sales by Segment (Consolidated)

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(Millions of yen)

Segment		FY 2019 Orders Received Forecast	FY 2019 Net sales Forecast
	HVAC and Plumbing for Buildings	62,000	66,000
	Industrial HVAC	59,000	63,000
	Electrical Systems	23,000	24,000
	Facility Systems	11,000	10,000
Total of Facilities Construction Business		155,000	163,000
	Machinery Systems	12,000	12,000
	Environmental Systems	21,000	23,000
Total of Plant & Machinery Systems Business		33,000	35,000
Sub Total		188,000	198,000
Real Estate Business		2,000	2,000
Others		600	600
Adjustments*		(600)	(600)
Total		190,000	200,000

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

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 August 9, 2019.

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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