

# The 2nd Quarter FY2019 Summary of Financial Results

November 8, 2019

Sanki Engineering Co., Ltd.

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# Key Points of Financial Results

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## <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, orders received declined year on year, but remained at a high level.

## <Net Sales & Profit>

Net sales in the Facilities Construction Business increased year on year for all businesses due to progress being steady for the large amount of construction carried forward, particularly large-scale construction.

In the Plant & Machinery Systems Business, both Machinery Systems and Environmental Systems showed great increase in net sales.

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.

## <Results Forecast>

In the first half of fiscal 2019, orders received, sales, and profit all exceeded the August 9, 2019 forecast due to strong results, resulting in upward revisions to full-year forecasts for orders received, sales, and profit.

## <Shareholder Returns>

- The annual dividend forecast is now for 70 yen due to a 10 yen increase in regular dividends (+10 yen year on year).  
(Forecast interim dividend: 35 yen, year-end dividend: 35 yen, annual dividend: 70 yen)
- 2,000,000 shares of treasury stock to be acquired by the end of fiscal 2019.  
2,000,000 shares of treasury stock retired on August 19, 2019.

# 【Overall Results】

## FY2019 2Q Results – Cumulative Results (Consolidated)

(Millions of yen)

	September 2017	September 2018	September 2019	Year on year	Rate of change(%)
Orders received	95,775	103,819	100,901	(2,918)	(2.8)
Balance carried forward	147,026	167,809	158,885	(8,924)	(5.3)
Net sales	72,506	80,723	91,845	11,122	13.8
Completed construction contracts	71,561	79,710	90,685	10,975	13.8
Real estate and others	944	1,012	1,159	146	14.5
Gross profit	9,319	10,771	13,168	2,396	22.3
Completed construction contracts	8,972	10,407	12,744	2,336	22.5
Real estate and others	346	363	424	60	16.6
Gross profit margin (%)	12.9	13.3	14.3	1.0 pt.	—
Selling, general and administrative expenses	8,829	9,644	9,976	331	3.4
Operating income (loss)	489	1,126	3,191	2,065	183.3
Non-operating income and loss (expenses)	462	413	311	(101)	(24.5)
Ordinary income (loss)	952	1,540	3,503	1,963	127.5
Extraordinary income (loss)	(1,134)	(150)	109	259	—
Profit attributable to owners of parent (loss)	(95)	796	2,485	1,688	212.0

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

# 【Orders Received】

## Orders Received by Segment (Consolidated)

(Millions of yen)

Segment	September 2017	September 2018	September 2019	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	28,860	32,385	32,810	425	1.3
Industrial HVAC	27,060	38,495	28,741	(9,753)	(25.3)
Electrical Systems	10,394	12,013	12,198	185	1.5
Facility Systems	5,487	5,350	5,905	555	10.4
<b>Total of Facilities Construction Business</b>	<b>71,803</b>	<b>88,244</b>	<b>79,656</b>	<b>(8,587)</b>	<b>(9.7)</b>
Machinery Systems	6,506	6,536	5,479	(1,057)	(16.2)
Environmental Systems	16,634	8,776	14,933	6,156	70.1
<b>Total of Plant &amp; Machinery Systems Business</b>	<b>23,141</b>	<b>15,313</b>	<b>20,413</b>	<b>5,099</b>	<b>33.3</b>
<b>Sub-total</b>	<b>94,945</b>	<b>103,557</b>	<b>100,070</b>	<b>(3,487)</b>	<b>(3.4)</b>
Real Estate Business	860	923	1,050	126	13.7
Others	305	320	324	4	1.3
Adjustments *	(335)	(982)	(543)	438	—
<b>Total</b>	<b>95,775</b>	<b>103,819</b>	<b>100,901</b>	<b>(2,918)</b>	<b>(2.8)</b>

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

# 【Net Sales】

## Net Sales by Segment (Consolidated)

(Millions of yen)

Segment	September 2017	September 2018	September 2019	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	27,802	27,111	32,580	5,468	20.2
Industrial HVAC	20,898	29,774	30,849	1,075	3.6
Electrical Systems	8,785	8,647	9,845	1,197	13.9
Facility Systems	3,687	4,460	4,962	502	11.3
Total of Facilities Construction Business	61,173	69,993	78,237	8,244	11.8
Machinery Systems	4,522	4,377	5,294	916	20.9
Environmental Systems	6,139	6,132	7,413	1,281	20.9
Total of Plant & Machinery Systems Business	10,662	10,509	12,707	2,198	20.9
Sub-total	71,835	80,502	90,945	10,442	13.0
Real Estate Business	860	923	1,050	126	13.7
Others	291	295	443	147	50.1
Adjustments*	(482)	(998)	(593)	404	—
Total	72,506	80,723	91,845	11,122	13.8

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

## 【Profit】

## &lt;Reference&gt; Ordinary Gross Profit by Segment (Consolidated)

(Millions of yen)

Segment		September 2017	September 2018	September 2019	Year on year	Rate of Change (%)
Ordinary Gross Profit by Segment (Consolidated)	HVAC and Plumbing for Buildings Industrial HVAC Electrical Systems	6,931	8,529	10,565	2,035	23.9
	Facilities Construction	487	641	824	182	28.5
	Total of Facilities Construction Business	7,419	9,171	11,390	2,218	24.2
	Machinery Systems	885	798	998	200	25.0
	Environmental Systems	707	713	386	(327)	(45.9)
	Total of Plant & Machinery Systems Business	1,592	1,512	1,384	(127)	(8.4)
	Sub-total	9,011	10,683	12,774	2,091	19.6
	Real Estate Business	272	287	318	31	10.9
	Others	114	96	124	27	28.3
	Adjustments	(79)	(296)	(49)	247	—
Total	9,319	10,771	13,168	2,396	22.3	

# 【Overall Results】 Quarterly Results (Consolidated)

(Millions of yen)

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

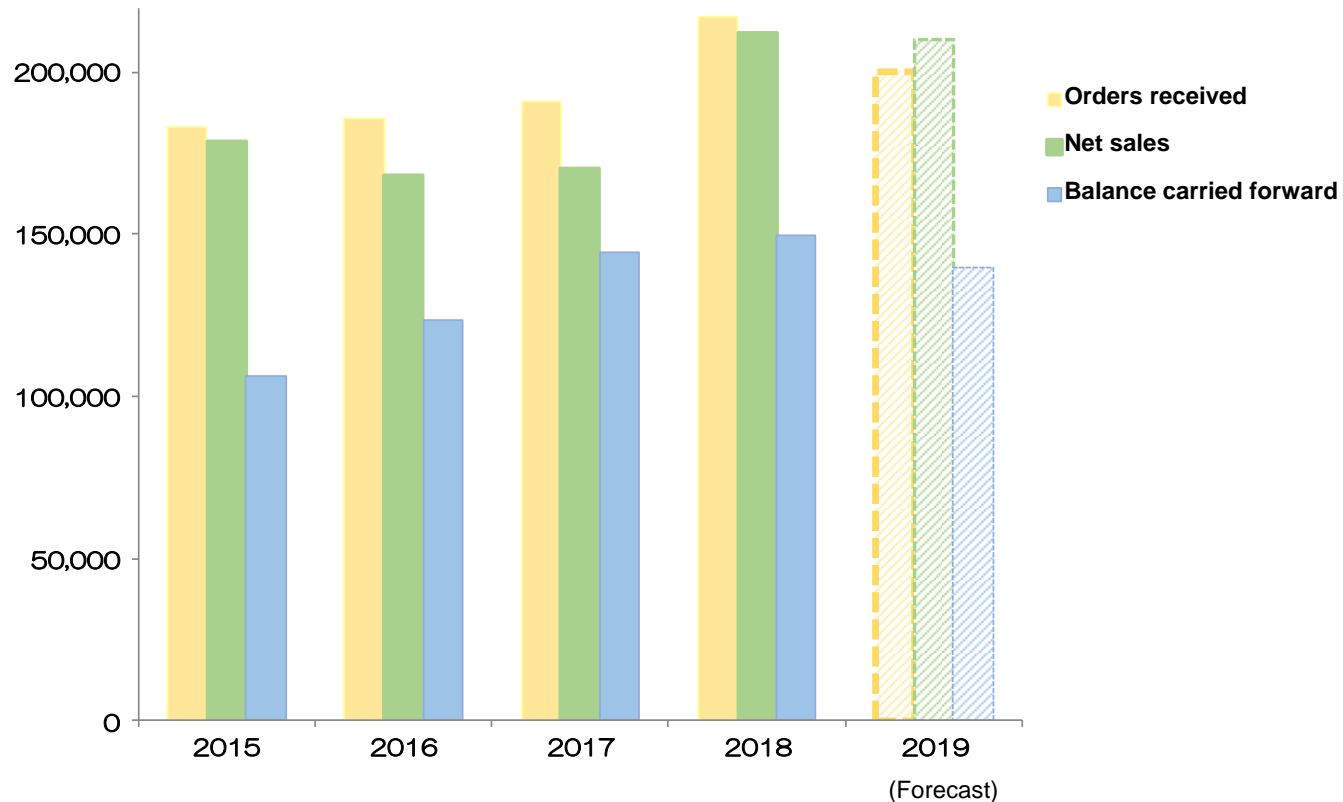


# 【Operating Results】

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

SANKI

(Millions of yen)



# 【Operating Results】

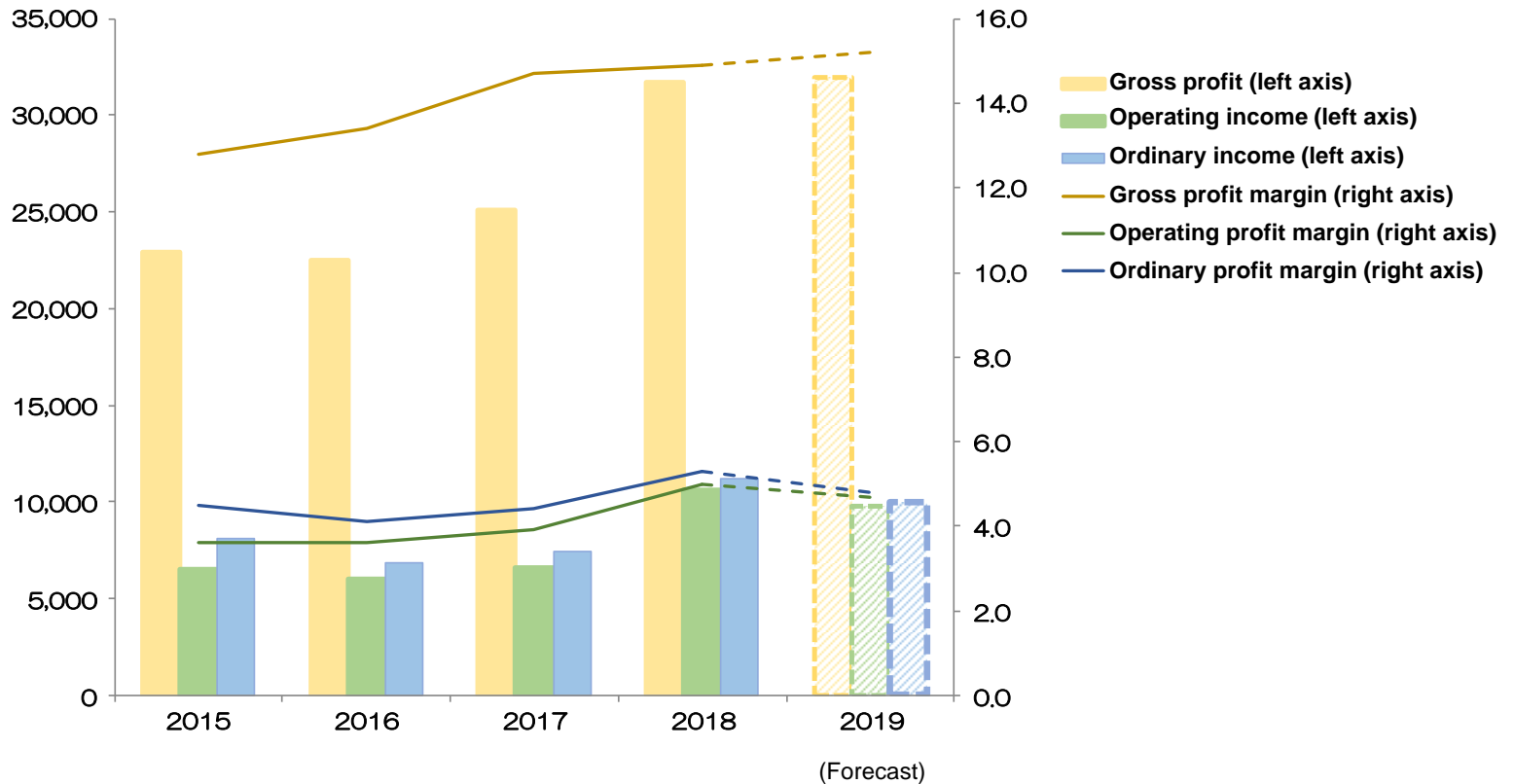
## Operating Results over the most recent 5 years

### (Consolidated) <Profit>



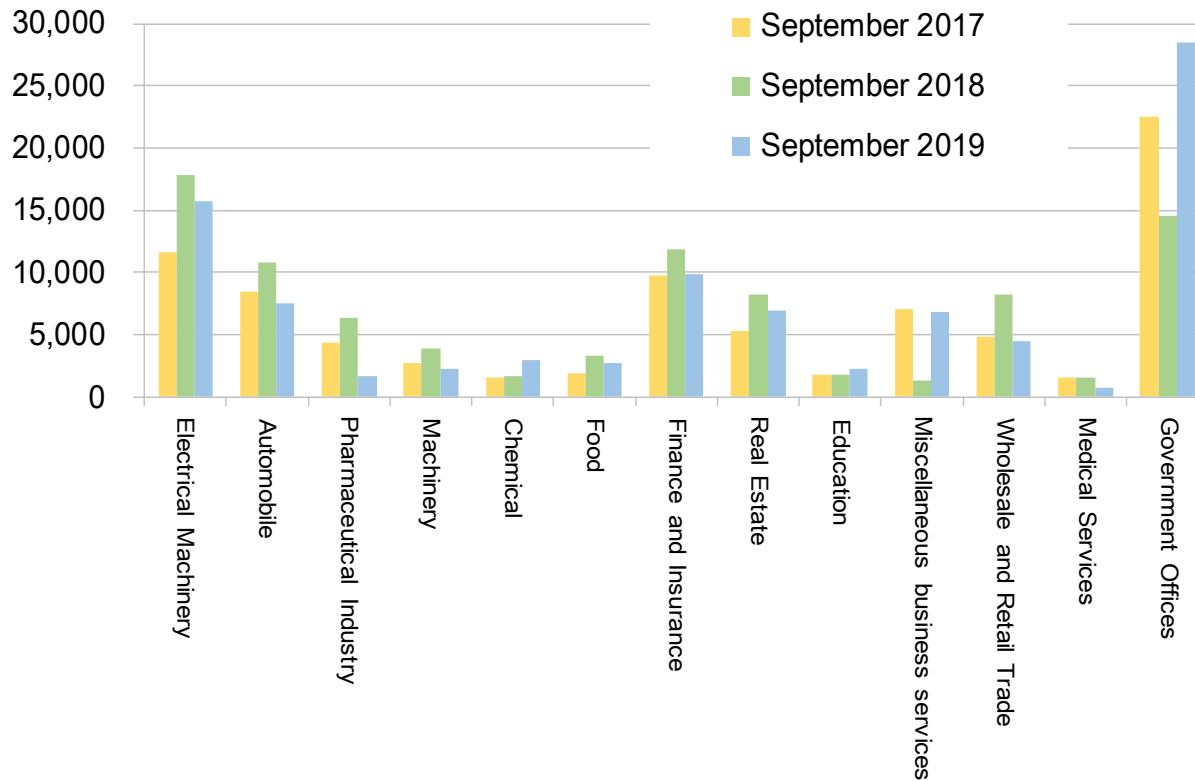
(Millions of yen)

(%)



## 【Orders Received】 Orders Received by Industry (Consolidated)

(Millions of yen)



# 【Orders Received】

## Orders Received by Type

(Millions of yen)

	FY 2016	FY 2017	FY 2018	September 2018 A	September 2019 B	Diff. B-A
Orders received (Non-consolidated: Facilities Construction Business)	139,997	147,013	173,553	83,942	74,498	(9,444)
Orders received from general contractors (Non-consolidated: Facilities Construction Business)	61,493	67,345	78,304	36,415	19,141	(17,274)
Rate of orders received from general contractors (Non-consolidated: Facilities Construction Business) (%)	43.9	45.8	45.1	43.4	25.7	(17.7) pt.
Orders received (Consolidated)	185,880	191,113	217,096	103,819	100,901	(2.8)
Orders received from overseas projects (Consolidated)	1,612	1,246	2,379	1,588	1,352	(235)
Rate of orders received from overseas projects (Consolidated) (%)	0.9	0.7	1.1	1.5	1.3	(0.2) pt.
Orders received for renewal construction (Consolidated)	101,114	101,597	117,619	62,119	60,808	(1,310)
Rate of orders received for renewal construction (Consolidated) (%)	54.4	53.2	54.2	59.8	60.3	0.5 pt.
<Ref.> Net sales for renewal construction (Consolidated)	93,602	94,601	116,627	43,488	48,343	4,854

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

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## ○ 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

3 other projects

## ○ 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

3 other projects

## 【Orders Received】

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

	September 2017		September 2018		September 2019	
Offices	1	<b>8 Projects</b> (19,052 million yen)  *Orders received from customers: 6 Project *Orders received from general Contractor : 2 Project	1	<b>9 Projects</b> (15,873 million yen)  *Orders received from customers: 4 Projects *Orders received from general Contractor : 5 Projects	—	<b>7 Projects</b> (18,952 million yen)  *Orders received from customers: 6 Projects *Orders received from general Contractor : 1 Project
Hotels and inns	—		1		—	
Factory	2		5		2	
Research and institute	1		—		—	
Logistics Center	—		1		—	
Hospitals and clinics	—		1		1	
Other building interiors	1		—		2	
Railway and Airport	1		—		—	
Waste processing facility	2		—		1	
Water treatment plants and sewage plants	—		—		1	

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

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- Strong business environment
- Thorough cost management (thorough internal control processes)
- Establishment of a company-wide HR system
- 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

## 【Financial Conditions】

### Balance Sheet (Consolidated)

(Millions of yen)

	End of FY 2018	September 2019	Year on year	Rate of change (%)	September 2018
Current assets	141,342	115,368	(25,973)	(18.4)	111,664
Noncurrent assets	53,979	53,235	(744)	(1.4)	58,446
Current liabilities	91,317	64,503	(26,814)	(29.4)	65,731
Noncurrent liabilities	14,232	13,951	(280)	(2.0)	17,414
Total net assets	89,772	90,149	377	0.4	86,965
Total assets	195,321	168,603	(26,717)	(13.7)	170,110
Book-value per share	1,502.53	1,507.67	5.14	0.3	1,431.40
Equity ratio (%)	45.8	53.3	7.5 pt.	—	51.0
Interest-bearing liabilities (consolidated)	12,094	11,400	(694)	(5.7)	12,790



# 【CF】

## Statement of Cash Flows (Consolidated)

- The balance of cash and cash equivalents increased from the end of the previous fiscal year (also a year-on-year increase).
- 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 and sales of property, plant and equipment.
- The decrease in cash flows from financing activities is mainly due to the repayment of long-term loans payable and the payment of dividends.

(Millions of yen)

	FY 2015	FY 2016	FY 2017	FY 2018	September 2019	September 2018
Cash flows from operating activities	5,220	10,845	6,306	6,786	5,369	1,434
Cash flows from investing activities	5,520	(1,644)	(2,510)	(3,775)	(584)	(2,051)
Cash flows from financing activities	(1,826)	(2,458)	1,814	(5,215)	(3,184)	(2,007)
Cash and cash equivalents at end of period	32,501	39,187	44,866	42,612	44,865	42,195

Capital investment	855	1,015	3,772	6,110	1,449	4,842
Depreciation	723	718	818	1,340	814	531

## 【Shareholder Returns】 Dividends and Others

- The annual dividend forecast is now for 70 yen due to a 10 yen increase in regular dividends (+10 yen year on year).
- 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 2015	FY 2016	FY 2017	FY 2018
Net income 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: commemorative dividends (yen)	–	–	–	–
Cash dividends per share: extra dividends (yen)	12	10	15	20
Cash dividends per share (yen)	30	30	35	60
Payout ratio (%)	35.8	40.6	55.5	40.0
Number of shareholders at end of period (people)	3,397	3,157	3,243	3,381
Share price at end of period (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 (Full-year forecast)
41.71	117.46
35	70
–	–
–	–
35	70
	59.6
3,357	
1,280	
–	2,000
2,000	2,000

### < Reference >

ROE (return on equity) (%)	6.3	5.5	4.5	10.3
ROA (return on assets) (%)	4.7	4.1	4.3	6.0

	7.7
	5.5

# 【Overall Forecast】

## FY2019 Full-Year Forecast (Consolidated)

- The FY2019 full-year forecast has been upwardly revised for all items, including orders received, due to exceeding values stated in the initial forecast.

(Millions of yen)

	August 9, 2019 mid-term forecast (same as May 14, 2019 initial forecast)			November 8, 2019 mid-term forecast (current revision)			Difference		
	1H	2H	Full-year	1H (Cumulative results)	2H (Forecast)	Full-year (Forecast)	1H	2H	Full-year
Orders received	93,000	97,000	190,000	100,901	99,099	200,000	7,901	2,099	10,000
Balance carried forward	152,829	139,829	139,829	158,885	139,829	139,829	6,056	—	—
Net sales	90,000	110,000	200,000	91,845	118,155	210,000	1,845	8,155	10,000
Gross profit	12,500	17,500	30,000	13,168	18,832	32,000	668	1,332	2,000
Gross profit margin (%)	13.9	15.9	15.0	14.3	15.9	15.2	0.4	—	0.2
Operating income	2,200	6,600	8,800	3,191	6,609	9,800	991	9	1,000
Ordinary income	2,400	6,600	9,000	3,503	6,497	10,000	1,103	(103)	1,000
Profit attributable to owners of parent	1,600	4,600	6,200	2,485	4,515	7,000	885	(85)	800

# 【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	67,000	71,000
	Industrial HVAC	61,000	65,000
	Electrical Systems	23,000	24,000
	Facility Systems	12,000	11,000
<b>Total of Facilities Construction Business</b>		<b>163,000</b>	<b>171,000</b>
	Machinery Systems	12,000	12,000
	Environmental Systems	23,000	25,000
<b>Total of Plant &amp; Machinery Systems Business</b>		<b>35,000</b>	<b>37,000</b>
<b>Sub Total</b>		<b>198,000</b>	<b>208,000</b>
Real Estate Business		2,000	2,000
Others		600	600
Adjustments*		(600)	(600)
<b>Total</b>		<b>200,000</b>	<b>210,000</b>

\* 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 November 8, 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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