

The 3rd Quarter FY2019 Summary of Financial Results

February 7, 2020

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

<Net Sales & Profit>

Although net sales in the Facilities Construction Business fell below those of the previous fiscal year due to factors such as large-scale projects in Industrial HVAC sold in the same period of the previous fiscal year, they remained mostly level year on year thanks to steady progress in the large amount of construction carried forward, particularly large-scale construction.

In the Plant & Machinery Systems Business, both Machinery Systems and Environmental Systems showed 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. All profit items increased.

<Results Forecast>

No changes from the midterm forecast revised upward from the initial forecast on November 8, 2019

<Shareholder Returns>

○The annual dividend forecast is as follows:

Forecast interim dividend: 35 yen, year-end dividend: 35 yen, annual dividend: 70 yen (+10 yen year on year)

○2,000,000 shares of treasury stock to be acquired by the end of fiscal 2019.

Retirement 2,000,000 shares of treasury stock conducted on August 19, 2019.

Acquisition of 1,958,000 shares of treasury stock was completed on January 29, 2020

(1,400,000 shares of treasury stock acquired by the end of December 2019).

【Overall Results】

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FY2019 3Q Results – Cumulative Results (Consolidated)

(Millions of yen)

	December 2017	December 2018	December 2019	Year on year	Rate of change(%)
Orders received	139,657	155,048	150,933	(4,114)	(2.7)
Balance carried forward	147,805	157,714	157,084	(630)	(0.4)
Net sales	115,608	142,046	143,678	1,631	1.1
Completed construction contracts	114,182	140,521	141,912	1,390	1.0
Real estate and others	1,425	1,524	1,766	241	15.8
Gross profit	15,315	19,425	20,628	1,203	6.2
Completed construction contracts	14,788	18,914	19,998	1,083	5.7
Real estate and others	526	510	630	119	23.4
Gross profit margin (%)	13.2	13.7	14.4	0.7 _{pt.}	—
Selling, general and administrative expenses	13,022	14,609	15,040	430	2.9
Operating income	2,292	4,815	5,588	772	16.1
Non-operating income and loss (expenses)	753	573	559	(13)	(2.4)
Ordinary income	3,045	5,388	6,148	759	14.1
Extraordinary income (loss)	(1,515)	(1,317)	158	1,476	—
Profit attributable to owners of parent	1,023	2,540	4,300	1,760	69.3

* 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	December 2017	December 2018	December 2019	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	43,564	46,375	48,170	1,795	3.9
Industrial HVAC	41,421	60,046	44,250	(15,796)	(26.3)
Electrical Systems	17,417	17,588	20,363	2,775	15.8
Facility Systems	7,489	8,406	9,325	919	10.9
Total of Facilities Construction Business	109,893	132,416	122,110	(10,305)	(7.8)
Machinery Systems	8,293	9,526	8,245	(1,280)	(13.4)
Environmental Systems	20,355	12,674	19,197	6,523	51.5
Total of Plant & Machinery Systems Business	28,649	22,200	27,443	5,242	23.6
Sub-total	138,542	154,617	149,554	(5,063)	(3.3)
Real Estate Business	1,311	1,409	1,628	218	15.5
Others	465	575	476	(98)	(17.1)
Adjustments *	(662)	(1,554)	(725)	829	—
Total	139,657	155,048	150,933	(4,114)	(2.7)

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

【Net Sales】

Net Sales by Segment (Consolidated)

(Millions of yen)

Segment	December 2017	December 2018	December 2019	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	43,909	46,847	49,305	2,458	5.2
Industrial HVAC	32,583	52,653	48,298	(4,354)	(8.3)
Electrical Systems	13,859	15,147	15,543	396	2.6
Facility Systems	5,348	6,984	7,030	45	0.7
Total of Facilities Construction Business	95,700	121,632	120,178	(1,454)	(1.2)
Machinery Systems	6,696	7,089	7,882	792	11.2
Environmental Systems	12,165	12,778	14,303	1,524	11.9
Total of Plant & Machinery Systems Business	18,862	19,868	22,185	2,317	11.7
Sub-total	114,562	141,500	142,363	863	0.6
Real Estate Business	1,311	1,409	1,628	218	15.5
Others	435	461	606	145	31.5
Adjustments*	(700)	(1,325)	(920)	405	—
Total	115,608	142,046	143,678	1,631	1.1

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

【Profit】

<Reference> Gross Profit by Segment (Consolidated)

(Millions of yen)

Segment		December 2017	December 2018	December 2019	Year on year	Rate of Change (%)
Ordinary Gross Profit by Segment (Consolidated)	HVAC and Plumbing for Buildings Industrial HVAC Electrical Systems	11,048	14,845	15,889	1,044	7.0
	Facility Systems	648	1,036	1,152	115	11.2
	Total of Facilities Construction Business	11,696	15,882	17,041	1,159	7.3
	Machinery Systems	1,352	1,298	1,530	232	17.9
	Environmental Systems	1,849	2,089	1,494	(595)	(28.5)
	Total of Plant & Machinery Systems Business	3,201	3,388	3,024	(363)	(10.7)
	Sub-total	14,898	19,270	20,066	796	4.1
	Real Estate Business	427	410	496	86	21.0
	Others	157	117	145	28	24.2
	Adjustments	(167)	(372)	(79)	292	—
Total	15,315	19,425	20,628	1,203	6.2	

【Overall Results】 Quarterly Results (Consolidated)

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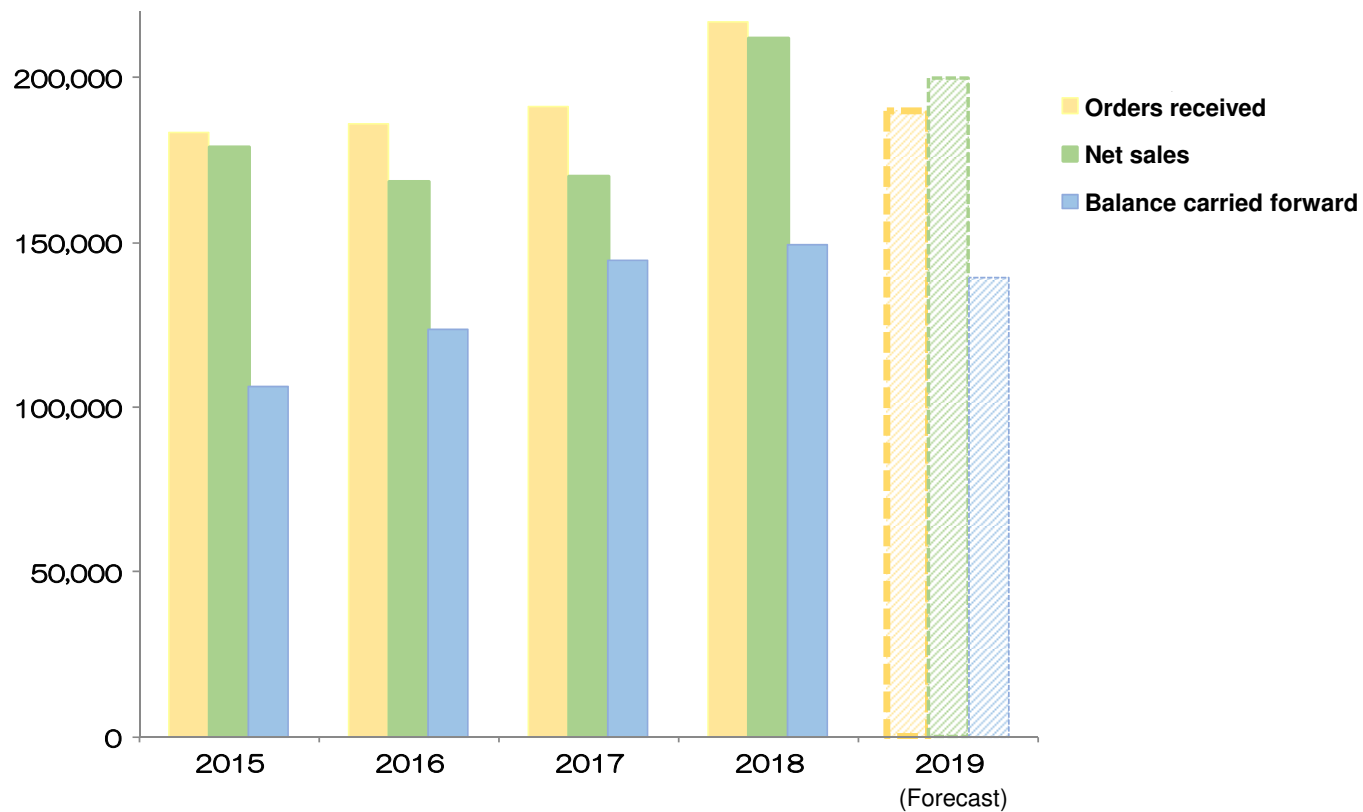
(Millions of yen)

	FY 2017				FY 2018				FY 2019		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Orders received	38,209	57,566	43,881	51,456	50,885	52,934	51,228	62,048	46,697	54,204	50,031
Net sales	32,933	39,573	43,102	54,548	35,252	45,470	61,323	70,267	40,882	50,962	51,833
Gross profit	3,482	5,837	5,995	9,744	4,329	6,442	8,654	12,258	5,305	7,862	7,460
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
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
Operating income (loss)	(960)	1,450	1,802	4,300	(242)	1,369	3,688	5,821	322	2,869	2,396
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
Ordinary income (loss)	(593)	1,546	2,093	4,388	92	1,447	3,848	5,815	547	2,955	2,644
Extraordinary income (loss)	(327)	(806)	(381)	536	(147)	(3)	(1,167)	1,439	24	84	49
Profit attributable to owners of parent (loss)	(604)	508	1,119	2,882	(66)	862	1,743	6,505	428	2,057	1,815

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

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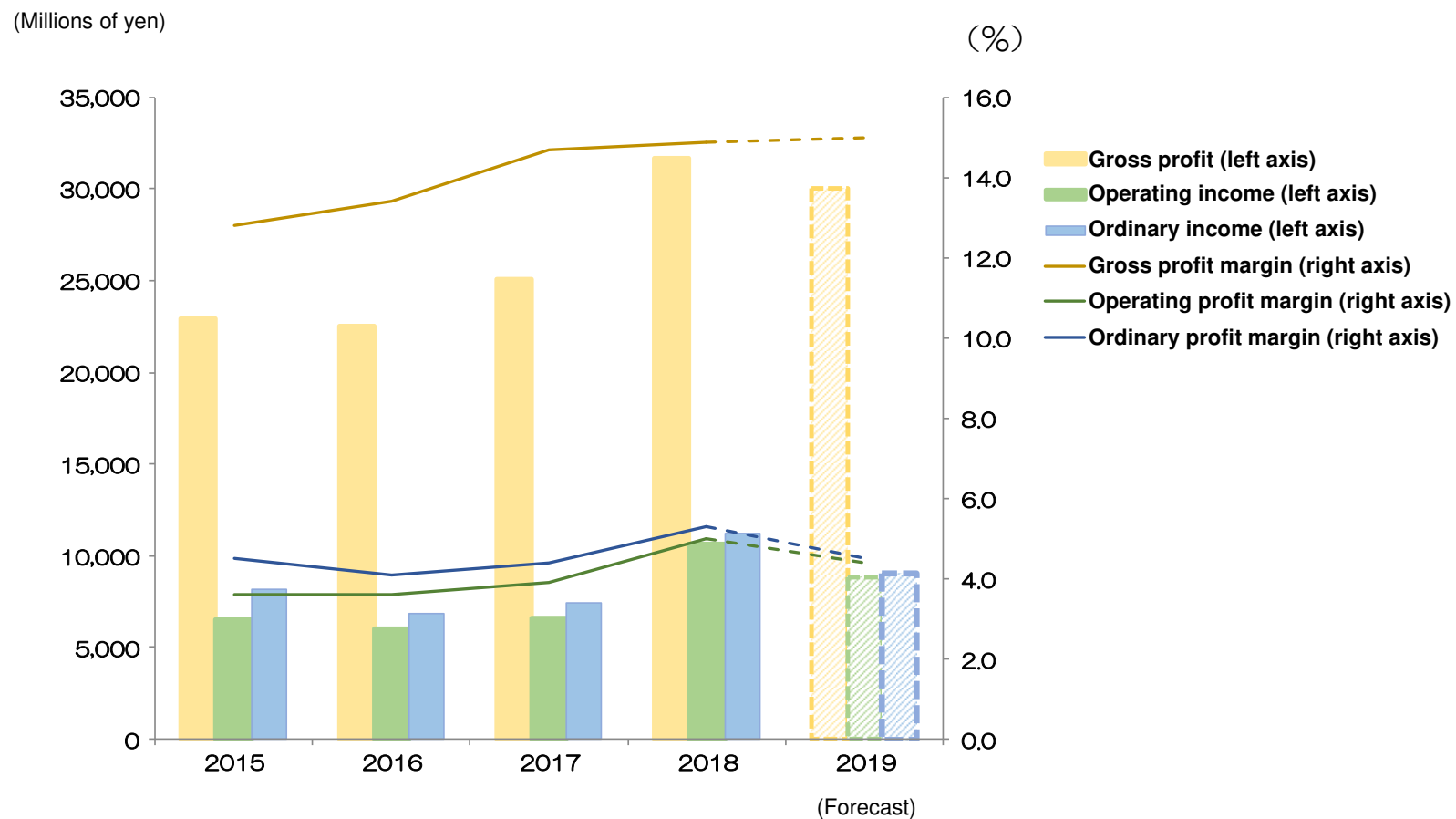
(Millions of yen)



【Operating Results】

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

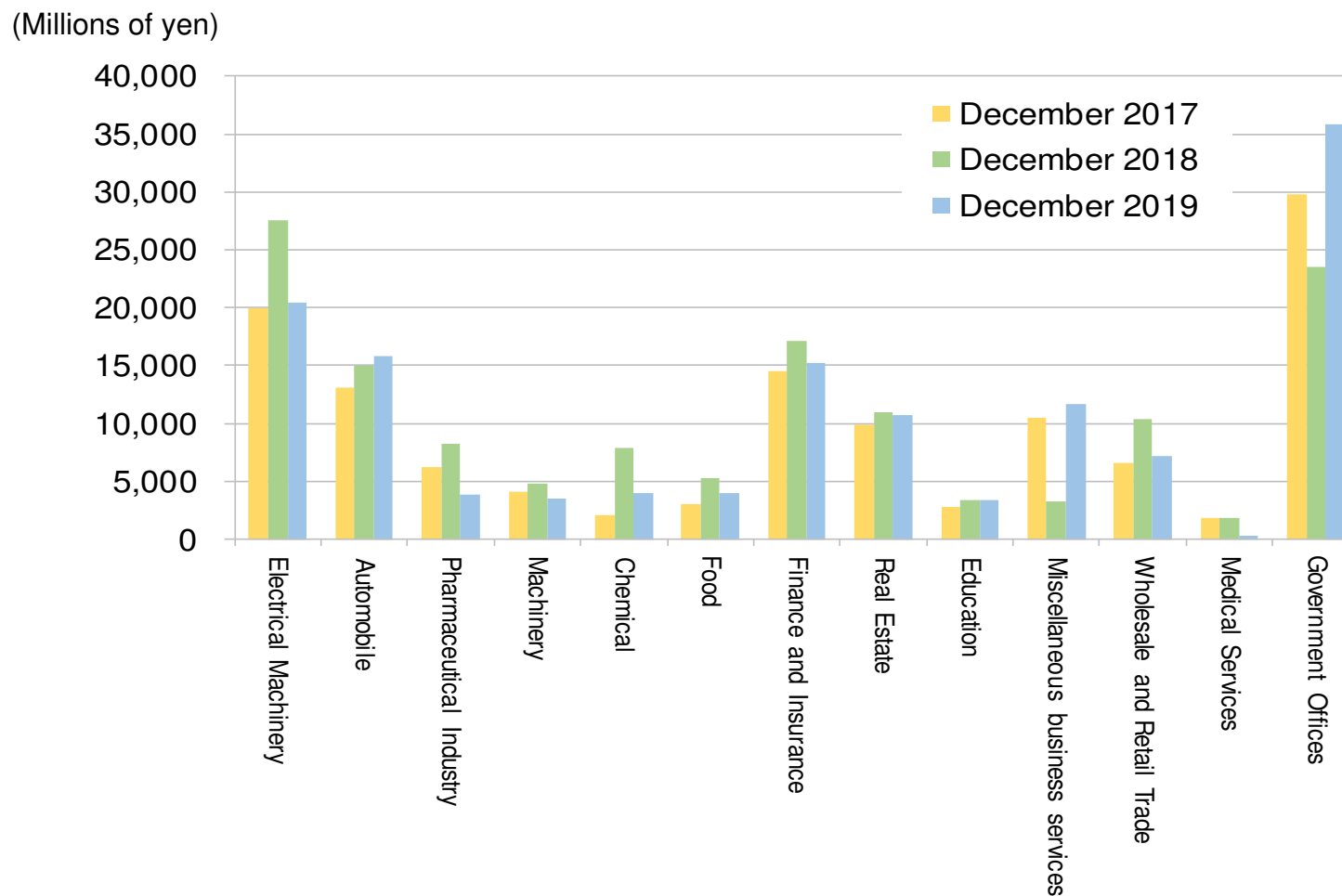
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【Orders Received】

Orders Received by Industry (Consolidated)

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【Orders Received】

Orders Received by Type

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(Millions of yen)

	FY 2016	FY 2017	FY 2018	December 2018 A	December 2019 B	Diff. B-A
Orders received (Non-consolidated: Facilities Construction Business)	139,997	147,013	173,553	125,883	114,711	(11,171)
Orders received from general contractors (Non-consolidated: Facilities Construction Business)	61,493	67,345	78,304	54,560	35,824	(18,735)
Rate of orders received from general contractors (Non-consolidated: Facilities Construction Business) (%)	43.9	45.8	45.1	43.3	31.2	(12.1) pt.
Orders received (Consolidated)	185,880	191,113	217,096	155,048	150,933	(4,114)
Orders received from overseas projects (Consolidated)	1,612	1,246	2,379	2,211	2,006	(204)
Rate of orders received from overseas projects (Consolidated) (%)	0.9	0.7	1.1	1.4	1.3	(0.1) pt.
Orders received for renewal construction (Consolidated)	101,114	101,597	117,619	89,589	88,831	(757)
Rate of orders received for renewal construction (Consolidated) (%)	54.4	53.2	54.2	57.8	58.9	1.1 pt.
<Ref.> Net sales for renewal construction (Consolidated)	93,602	94,601	116,627	77,759	76,484	(1,274)

【Orders Received】 Main Large-Scale Projects Received

○ 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

4 other projects

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

【Net Sales】

Main Large-Scale Completed Construction 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
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 systems	Renovation	Osaka
Ajinomoto Tokai Plant: Construction of new factory	HVAC and Plumbing systems	New construction work	Mie
Park Hyatt Niseko HANAZONO	HVAC systems	New construction work	Hokkaido

4 other projects

* 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)

	December 2017		December 2018		December 2019	
Offices	1	14 projects (27,332 million yen) *Orders received from customers: 6 projects *Orders received from general Contractor : 8 projects	1	15 projects (31,293 million yen) *Orders received from customers: 7 projects *Orders received from general Contractor : 8 projects	1	10 projects (25,958 million yen) *Orders received from customers: 7 projects *Orders received from general Contractor : 3 projects
Hotels and inns	1		1		—	
Factory	3		8		2	
Research institute	1		1		2	
Logistics Center	—		1		—	
Hospitals and clinics	—		1		1	
Multiple – dwelling complex	2		—		—	
Gymnasium	1		1		—	
Other building interiors	2		—		2	
Railway, Airport	1		1		—	
Power station, Substation	—		—		—	
Waste processing facility	2		—		1	
Water treatment plants and sewage plants	—		—		1	

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

- 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	December 2019	Year on year	Rate of change (%)	December 2018
Current assets	141,342	119,544	(21,798)	(15.4)	121,637
Noncurrent assets	53,979	54,772	793	1.5	54,164
Current liabilities	91,317	70,726	(20,590)	(22.5)	75,457
Noncurrent liabilities	14,232	14,460	228	1.6	16,647
Total net assets	89,772	89,129	(642)	(0.7)	83,696
Total assets	195,321	174,316	(21,004)	(10.8)	175,802
Book-value per share	1,502.53	1,526.42	23.89	1.6	1,395.39
Equity ratio (%)	45.8	51.0	5.2 pt.	—	47.5
Interest-bearing liabilities (consolidated)	12,094	10,287	(1,806)	(14.9)	11,670

【CF】

Statement of Cash Flows (Consolidated)

- The balance of cash and cash equivalents decreased from the end of the previous fiscal year (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, expenditure from the purchase of treasury stock, and the payment of dividends

(Millions of yen)

	FY 2015	FY 2016	FY 2017	FY 2018	December 2019	December 2018
Cash flows from operating activities	5,220	10,845	6,306	6,786	4,583	(74)
Cash flows from investing activities	5,520	(1,644)	(2,510)	(3,775)	(670)	(3,778)
Cash flows from financing activities	(1,826)	(2,458)	1,814	(5,215)	(8,477)	(5,319)
Cash and cash equivalents at end of period	32,501	39,187	44,866	42,612	38,659	35,678

【Overall Forecast】

FY2019 Full-Year Forecast (Consolidated)

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(Millions of yen)

	2019 full-year forecast (Initial forecast)	2019 full-year forecast (November 8, 2019 mid-term forecast) A	2019 full-year forecast (February 7, 2020 mid-term forecast) B	Difference B-A
Orders received	190,000	200,000	200,000	—
Balance carried forward	139,829	139,829	139,829	—
Net sales	200,000	210,000	210,000	—
Gross profit	30,000	32,000	32,000	—
Gross profit margin (%)	15.0	15.2	15.2	—
Operating income	8,800	9,800	9,800	—
Ordinary income	9,000	10,000	10,000	—
Profit attributable to owners of parent	6,200	7,000	7,000	—

【Forecast of Orders Received and Net Sales】

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

SANKI

(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
Total of Facilities Construction Business		163,000	171,000
	Machinery Systems	12,000	12,000
	Environmental Systems	23,000	25,000
Total of Plant & Machinery Systems Business		35,000	37,000
Sub Total		198,000	208,000
Real Estate Business		2,000	2,000
Others		800	800
Adjustments*		(800)	(800)
Total		200,000	210,000

* Adjustments eliminate internal 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 February 7, 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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