

Engineering
the Future
**The 3rd Quarter FY2020
Summary of Financial Results**

February 8, 2021



SANKI ENGINEERING CO., LTD.

☆Key Points of Financial Results

- [1] Impact of the COVID-19 pandemic: Decline in orders received, net sales, and gross profit for small and miscellaneous projects
- [2] Large-scale projects: Orders received were favorable, particularly for industrial HVAC. Net sales declined due to being between projects, particularly for HVAC and plumbing for buildings
- [3] Gross profit: Gross profit was down due to decreased revenue; however, profitability remained at a high level

<Orders received> 146,447 million yen (150,933 million yen in the same period of the previous fiscal year)

- Net sales fell short of the same period of the previous fiscal year due to a decline in small and miscellaneous projects as a result of the impact of the COVID-19 pandemic
- Large-scale industrial HVAC projects, particularly relating to semiconductors, were favorable

<Net sales> 129,215 million yen (143,678 million yen in the same period of the previous fiscal year)

- In addition to there being a decline in net sales due to large-scale projects, particularly HVAC and plumbing for buildings, being at the end of their cycles, net sales also fell short of the same period of the previous fiscal year due to a decline in small and miscellaneous projects as a result of the impact of the COVID-19 pandemic.

<Gross profit> Gross profit margin of 14.1% (14.4% in the same period of the previous fiscal year)

- Although gross profit margin fell slightly short of cumulative results in the third quarter of the previous fiscal year, we maintained a high level of profitability, exceeding the same period of the previous fiscal year in the third quarter (October – December)

<FY2020 consolidated results forecasts> (comparison with initial forecasts)

- Orders received of 190,000 million yen (no change), net sales of 192,000 million yen (-8,000 million yen), and ordinary income of 8,500 million yen (-1,000 million yen)

* Net sales and gross profit were downwardly adjusted in light of the impact of the protracted COVID-19 pandemic. Although, at this stage, results of our consideration have been incorporated, business results may be further impacted due to altered circumstances in the future

<Shareholder returns>

- Conduct shareholder returns according to medium-term management plan “Century 2025” Phase 2 financial and capital policies
- Annual shareholder return of 70 yen (interim dividend: 35 yen, year-end dividend: 35 yen) *no change from initial forecast
- Cancellation of 1 million shares of treasury stock was conducted on August 17, 2020
1 million shares of treasury stock were acquired by October 27, 2020
- Payout ratio: 69.1%; total return ratio: 89.2%

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FY2020 3Q RESULTS



FY2020 3Q Results – Cumulative Results (Consolidated)

(Millions of yen)

	December 2018	December 2019	December 2020	Year on year	Rate of change (%)
Orders received	155,048	150,933	146,447	(4,485)	(3.0)
Balance carried forward	157,714	157,084	153,395	(3,689)	(2.3)
Net sales	142,046	143,678	129,215	(14,462)	(10.1)
Completed construction contracts	140,521	141,912	127,366	(14,545)	(10.2)
Real estate and others	1,524	1,766	1,849	83	4.7
Gross profit	19,425	20,628	18,172	(2,456)	(11.9)
Completed construction contracts	18,914	19,998	17,421	(2,576)	(12.9)
Real estate and others	510	630	750	119	19.0
Gross profit margin (%)	13.7	14.4	14.1	(0.3) _{pt.}	—
Selling, general and administrative expenses	14,609	15,040	15,315	275	1.8
Operating income	4,815	5,588	2,856	(2,732)	(48.9)
Non-operating income	573	559	514	(45)	(8.1)
Ordinary income	5,388	6,148	3,370	(2,777)	(45.2)
Extraordinary income (loss)	(1,317)	158	(366)	(524)	—
Profit attributable to owners of parent	2,540	4,300	2,469	(1,831)	(42.6)

Quarterly Results (Consolidated)

(Millions of yen)

	FY2018				FY2019				FY2020		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Orders received	50,885	52,934	51,228	62,048	46,697	54,204	50,031	43,085	47,660	55,575	43,211
Net sales	35,252	45,470	61,323	70,267	40,882	50,962	51,833	64,006	38,253	42,611	48,351
Gross profit	4,329	6,442	8,654	12,258	5,305	7,862	7,460	11,482	5,120	5,637	7,414
Gross profit margin (%)	12.3	14.2	14.1	17.4	13.0	15.4	14.4	17.9	13.4	13.2	15.3
Selling, general and administrative expenses	4,571	5,072	4,965	6,437	4,983	4,992	5,063	6,396	5,274	4,976	5,064
Operating income (loss)	(242)	1,369	3,688	5,821	322	2,869	2,396	5,085	(154)	660	2,350
Operating profit margin (%)	(0.7)	3.0	6.0	8.3	0.8	5.6	4.6	7.9	(0.4)	1.5	4.9
Ordinary income	92	1,447	3,848	5,815	547	2,955	2,644	5,076	66	776	2,527
Extraordinary income (loss)	(147)	(3)	(1,167)	1,439	24	84	49	(269)	(82)	(243)	(40)
Profit attributable to owners of parent (loss)	(66)	862	1,743	6,505	428	2,057	1,815	3,276	11	809	1,647

Orders Received by Segment (Consolidated)

(Millions of yen)

Segment	December 2018	December 2019	December 2020	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	46,375	48,170	45,520	(2,650)	(5.5)
Industrial HVAC	60,046	44,250	49,032	4,782	10.8
Electrical Systems	17,588	20,363	16,649	(3,714)	(18.2)
Facility Systems	8,406	9,325	7,998	(1,327)	(14.2)
Total of Facilities Construction Business	132,416	122,110	119,201	(2,909)	(2.4)
Machinery Systems	9,526	8,245	6,169	(2,075)	(25.2)
Environmental Systems	12,674	19,197	19,412	214	1.1
Total of Plant & Machinery Systems Business	22,200	27,443	25,582	(1,861)	(6.8)
Sub-total	154,617	149,554	144,783	(4,770)	(3.2)
Real Estate Business	1,409	1,628	1,777	149	9.2
Others	575	476	432	(44)	(9.3)
Adjustments *	(1,554)	(725)	(545)	180	—
Total	155,048	150,933	146,447	(4,485)	(3.0)

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

Net Sales by Segment (Consolidated)

(Millions of yen)

Segment	December 2018	December 2019	December 2020	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	46,847	49,305	36,670	(12,635)	(25.6)
Industrial HVAC	52,653	48,298	44,855	(3,442)	(7.1)
Electrical Systems	15,147	15,543	17,643	2,100	13.5
Facility Systems	6,984	7,030	7,169	138	2.0
Total of Facilities Construction Business	121,632	120,178	106,339	(13,838)	(11.5)
Machinery Systems	7,089	7,882	6,617	(1,264)	(16.0)
Environmental Systems	12,778	14,303	14,713	410	2.9
Total of Plant & Machinery Systems Business	19,868	22,185	21,331	(854)	(3.9)
Sub-total	141,500	142,363	127,671	(14,692)	(10.3)
Real Estate Business	1,409	1,628	1,777	149	9.2
Others	461	606	567	(39)	(6.5)
Adjustments*	(1,325)	(920)	(799)	120	—
Total	142,046	143,678	129,215	(14,462)	(10.1)

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

Gross Profit by Segment (Consolidated)

(Millions of yen)

Segment		December 2018	December 2019	December 2020	Year on year	Rate of Change (%)
Ordinary Gross Profit by Segment	HVAC and Plumbing for Buildings/Industrial HVAC/Electrical Systems	14,845	15,889	13,298	(2,591)	(16.3)
	Facility Systems	1,036	1,152	1,107	(44)	(3.9)
	Total of Facilities Construction Business	15,882	17,041	14,406	(2,635)	(15.5)
	Machinery Systems	1,298	1,530	1,071	(459)	(30.0)
	Environmental Systems	2,089	1,494	2,133	639	42.8
	Total of Plant & Machinery Systems Business	3,388	3,024	3,204	180	6.0
	Sub-total	19,270	20,066	17,610	(2,455)	(12.2)
	Real Estate Business	410	496	685	189	38.1
	Others	117	145	44	(101)	(69.5)
	Adjustments	(372)	(79)	(168)	(88)	—
Total	19,425	20,628	18,172	(2,456)	(11.9)	

Initiatives to Improve Profits

- **Thorough cost management (thorough internal control processes)**
- **Enhancement of the site support system through promotion of the Smile Site Plan***
 - Procurement Division: Purchasing support and introducing web-based procurement support system
 - Design and Engineering Support Center: support for design work
 - Technology Support Center: support and instruction for construction sites
 - Quality Management Center: Construction audits and quality management by the chief engineer and technical experts
 - Branch office and branch site support divisions: support for on-site document creation
 - Information systems office: ICT support at work sites
- **Development of ICT technology that enables energy-saving construction and introduction to sites**
 - Improved work efficiency through use of autonomous airflow measurement robots
 - Improved construction management efficiency through use of digital information such as building information modeling (BIM)
- **Strengthening relationships with business partners**
 - Reviewing payment conditions for partner companies with capital of less than 40 million yen (payments made entirely in cash)
 - Conclusion of commitment line agreements for the purpose of catering to short-term demand for financing and working capital in order to support the stable operation of partner companies

* A specialist committee established in fiscal 2017 to reduce the burden on construction managers and promote business efficiency.

**FY2020 3Q
BALANCE SHEET AND
STATEMENT OF CASH
FLOWS**



【Financial Conditions】

SANKI

Balance Sheet (Consolidated)

(Millions of yen)

	End of FY2019	End of December 2020	Vs. end of FY2019	Rate of change (%)	End of December 2019
Current assets	130,765	103,168	(27,597)	(21.1)	119,544
Notes and accounts receivable on completed construction contracts and other	71,739	55,347	(16,392)	(22.8)	62,556
Noncurrent assets	50,040	53,089	3,048	6.1	54,772
Investment securities	24,017	28,011	3,994	16.6	29,452
Current liabilities	79,705	58,990	(20,714)	(26.0)	70,726
Notes and accounts payable on construction contracts and other	52,489	38,922	(13,566)	(25.8)	52,805
Noncurrent liabilities	13,735	10,874	(2,860)	(20.8)	14,460
Total net assets	87,364	86,391	(972)	(1.1)	89,129
Treasury stock	(4,187)	(3,859)	328	—	(3,330)
Total assets	180,805	156,257	(24,548)	(13.6)	174,316
Book-value per share (yen)	1,510.59	1,518.18	7.59	0.5	1,526.42
Equity ratio (%)	48.2	55.1	6.9 pt.	—	51.0
Interest-bearing liabilities (consolidated)	10,719	8,585	(2,133)	(19.9)	10,287

Statement of Cash Flows (Consolidated)

- The balance of cash and cash equivalents decreased from the end of the previous fiscal year (also a year-on-year decrease)
- The decrease in cash flows from operating activities is due to contribution to retirement benefit funds and payment of bonuses and corporation tax, etc., despite recovery of receivables exceeding payment of accounts payable.
 - 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 acquisition of treasury stock and the payment of dividends.

(Millions of yen)

	FY2016	FY2017	FY2018	FY2019	December 2020	December 2019
Cash flows from operating activities	10,845	6,306	6,786	11,940	(4,045)	4,583
Cash flows from investing activities	(1,644)	(2,510)	(3,775)	(303)	(1,432)	(670)
Cash flows from financing activities	(2,458)	1,814	(5,215)	(8,955)	(8,934)	(8,477)
Cash and cash equivalents at end of period	39,187	44,866	42,612	45,946	31,530	38,659

FY2020 FORECAST



FY2020 Full-Year Forecast (Consolidated)

(Millions of yen)

	FY2017	FY2018	FY2019	FY2020 forecast (Interim forecast from November 13, 2020) A	FY2020 forecast (Interim forecast from February 8, 2021) B	Difference B—A
Orders received	191,113	217,096	194,018	190,000	190,000	—
Balance carried forward	144,712	149,495	136,163	126,163	134,163	8,000
Net sales	170,157	212,314	207,684	200,000	192,000	(8,000)
Gross profit	25,060	31,684	32,110	31,000	29,500	(1,500)
Gross profit margin (%)	14.7	14.9	15.5	15.5	15.4	(0.1)
Operating income	6,593	10,637	10,674	9,000	8,000	(1,000)
Ordinary income	7,434	11,204	11,224	9,500	8,500	(1,000)
Profit attributable to owners of parent	3,906	9,046	7,576	6,500	5,800	(700)
Cash dividends per share: regular dividends (yen)	20	40	70	70	70	—
Cash dividends per share: extra dividends (yen)	15	20	25	—	—	—
Cash dividends per share (total) (yen)	35	60	95	70	70	—

* Although results have been incorporated, which take into account the impact of the spread of the novel coronavirus (COVID-19) on the Group's business, business results may be further impacted due to altered circumstances in the future.

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

(Millions of yen)

Segment		FY2020 Orders Received Forecast	FY2020 Net sales Forecast
	HVAC and Plumbing for Buildings	60,000	55,000
	Industrial HVAC	60,000	65,000
	Electrical Systems	23,000	25,000
	Facility Systems	12,000	12,000
	Total of Facilities Construction Business	155,000	157,000
	Machinery Systems	9,000	9,000
	Environmental Systems	24,000	24,000
	Total of Plant & Machinery Systems Business	33,000	33,000
	Sub-total	188,000	190,000
	Real Estate Business	2,000	2,000
	Others	1,000	1,000
	Adjustments*	(1,000)	(1,000)
	Total	190,000	192,000

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

SHAREHOLDER RETURNS

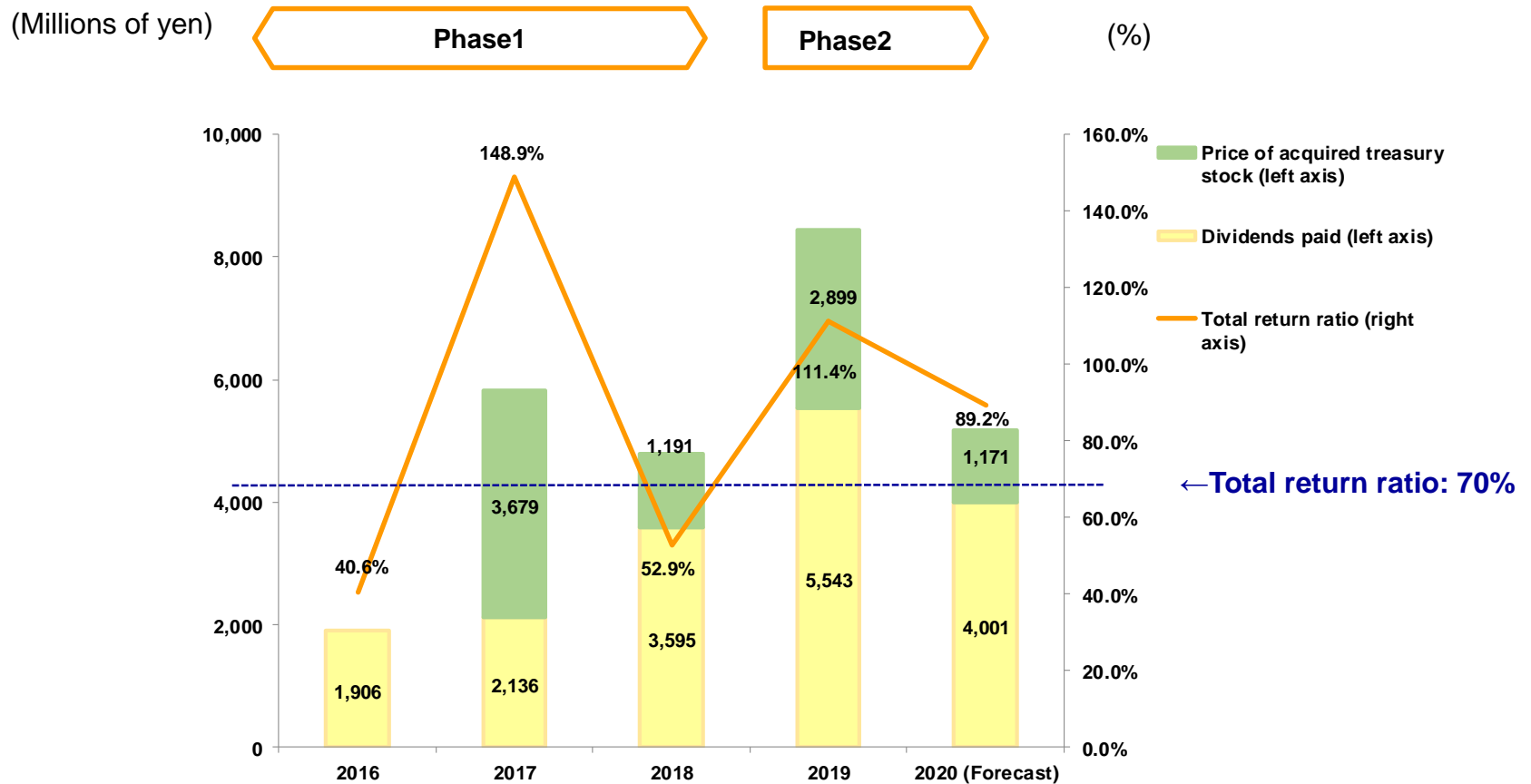


Dividends and Others

- Conducted shareholder returns according to medium-term management plan “Century 2025” Phase 2 financial and capital policies.
- Annual shareholder return of 70 yen (interim dividend: 35 yen, year-end dividend: 35 yen) *No change from initial forecast.
- Retirement of 1 million shares of treasury stock was conducted on August 17, 2020.
- Acquisition of 1 million shares of treasury stock was conducted by October 27, 2020.

	FY2016	FY2017	FY2018	FY2019	FY2020 (Forecast)
Earnings per share (yen)	73.91	63.02	150.02	128.51	101.34
Cash dividends per share: regular dividends (yen)	20	20	40	70	70
Cash dividends per share: extra dividends (yen)	10	15	20	25	—
Cash dividends per share (total) (yen)	30	35	60	95	70
Payout ratio (%)	40.6	55.5	40.0	73.9	69.1
Total return ratio (%)	40.6	148.9	52.9	111.4	89.2
Number of shareholders at end of period	3,157	3,243	3,381	4,216	
Share price at end of period (yen)	958	1,188	1,210	1,211	
Acquisition of treasury stock (thousand shares)	—	3,000	1,000	1,958	1,000
Retirement of treasury stock (thousand shares)	—	3,000	1,000	2,000	1,000
ROE (Return on Equity) (%)	5.5	4.5	10.3	8.6	
ROA (Return on Assets) (%)	4.1	4.3	6.0	6.0	

Total Return Ratio



SUPPLEMENTARY MATERIALS



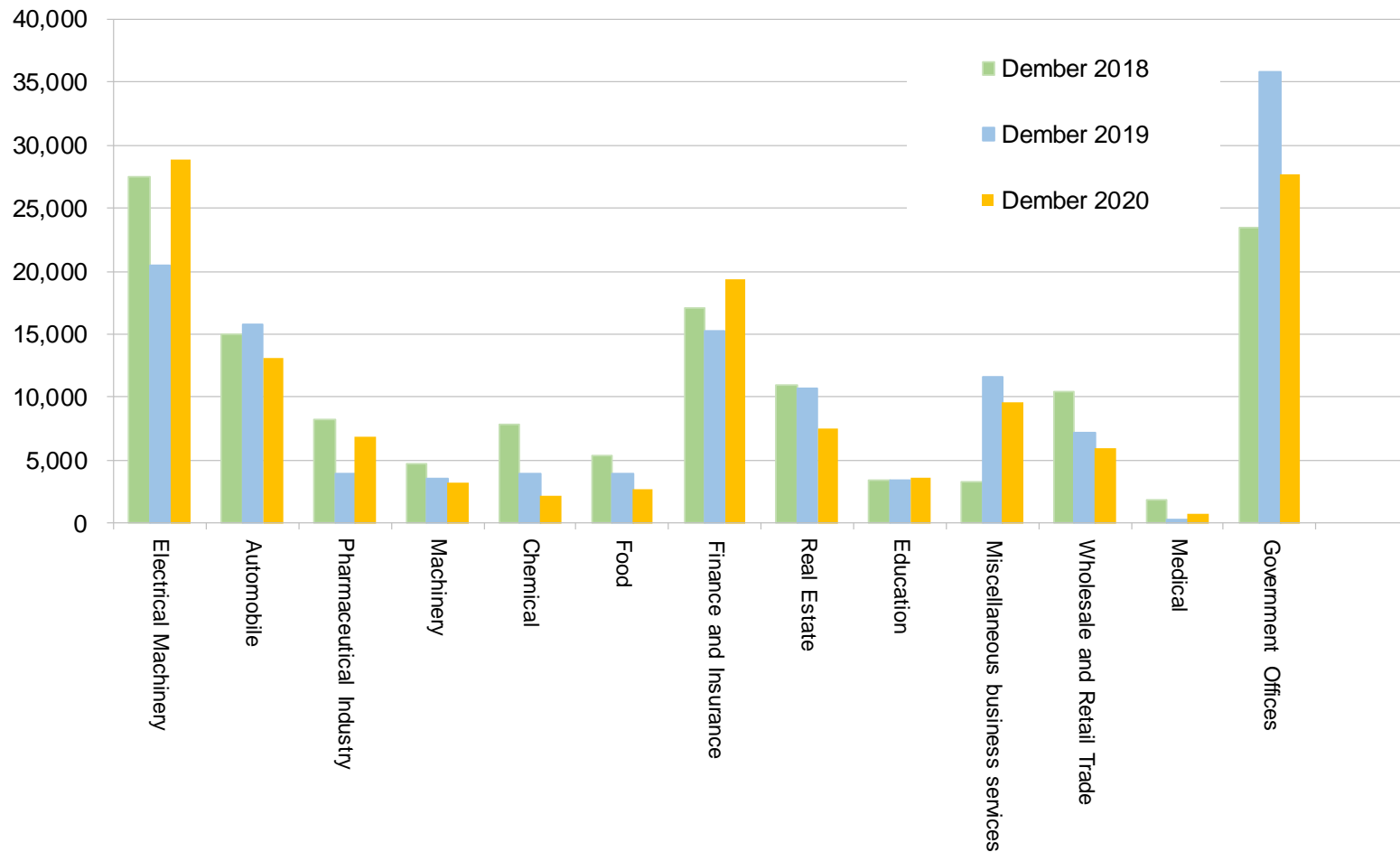
Orders Received by Type

(Millions of yen)

	FY2017 Full-year	FY2018 Full-year	FY2019 Full-year	December 2019 A	December 2020 B	Difference B-A
Orders received (Non-consolidated: Facilities Construction Business)	147,013	173,553	147,191	114,711	114,032	(679)
Orders received from general contractors (Non-consolidated: Facilities Construction Business)	67,345	78,304	48,238	35,824	49,533	13,708
Rate of orders received from general contractors (Non-consolidated: Facilities Construction Business) (%)	45.8	45.1	32.8	31.2	43.4	12.2 pt.
Orders received (Consolidated)	191,113	217,096	194,018	150,933	146,447	(4,485)
Orders received from overseas projects (Consolidated)	1,246	2,379	3,143	2,006	1,781	(225)
Rate of orders received from overseas projects (Consolidated) (%)	0.7	1.1	1.6	1.3	1.2	(0.1) pt.
Orders received for renewal construction (Consolidated)	101,597	117,619	112,909	88,831	80,723	(8,107)
Rate of orders received for renewal construction (Consolidated) (%)	53.2	54.2	58.2	58.9	55.1	(3.8) pt.
<Ref.> Net sales for renewal construction (Consolidated)	94,601	116,627	114,208	76,484	66,896	(9,588)

Orders Received by Industry (Consolidated)

(Millions of yen)



Main Large-scale Received Construction Projects

Property name	Item of construction	Type of construction	Location
Kurita Water Industries Ltd. New Research and Development Facility Construction Project (provisional name)	HVAC systems	New construction work	Tokyo
Kanae Tochigi Factory No. 3 Building	HVAC and Plumbing systems	New construction work	Tochigi
Kawanishi City General Medical Center Development Project (provisional name)	Plumbing system	New construction work	Hyogo
Toyota Technical Center Shimoyama Plumbing and Electrical Systems Project	Plumbing and electrical systems	New construction work	Aichi
Kitatama Water Reclamation Center No. 1 Sludge Incineration Systems Construction Project	Water and sewage treatment systems	Expansion	Tokyo
Toyota Industries Corporation Higashiura Plant No. 2	HVAC and Plumbing systems	New construction work	Aichi
Kiyose Water Reclamation Center Sludge Transport Equipment Reconstruction Project	Water and sewage treatment systems	Renovation	Tokyo

11 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
Nissay Training Center	HVAC systems	Renovation	Chiba
DENSO Corporation Headquarters PT Development Center	HVAC systems	New construction work	Aichi
Tokyo Metropolitan Higashiyamato Medical Center for the Severely Disabled	Plumbing systems	Renovation	Tokyo
The Jikei University School of Medicine New Outpatient Building, etc.	Electrical systems	New construction work Renovation	Tokyo
Chiba University (Hospital) Center for Treatment and Care New Building and Other Mechanical Systems Project	HVAC and plumbing systems	New construction work	Chiba
Toyota Technical Center Shimoyama	HVAC, plumbing and electrical systems	New construction work	Aichi
Shiseido Osaka-ibaraki Factory/West Japan Distribution Center	HVAC and plumbing systems	New construction work	Osaka
Denka NVP-42 Construction Project	HVAC systems	New construction work	Niigata

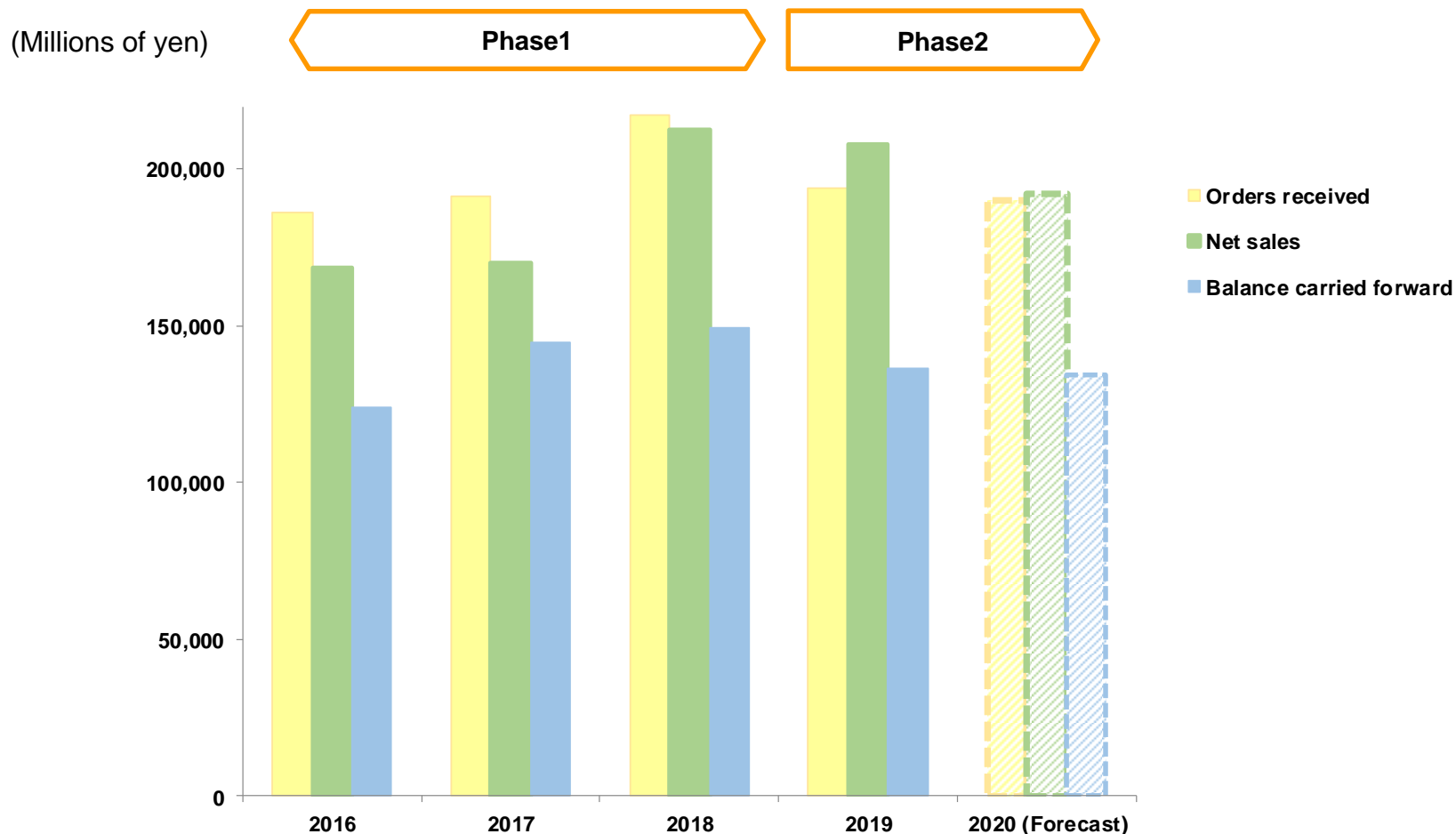
4 other projects

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

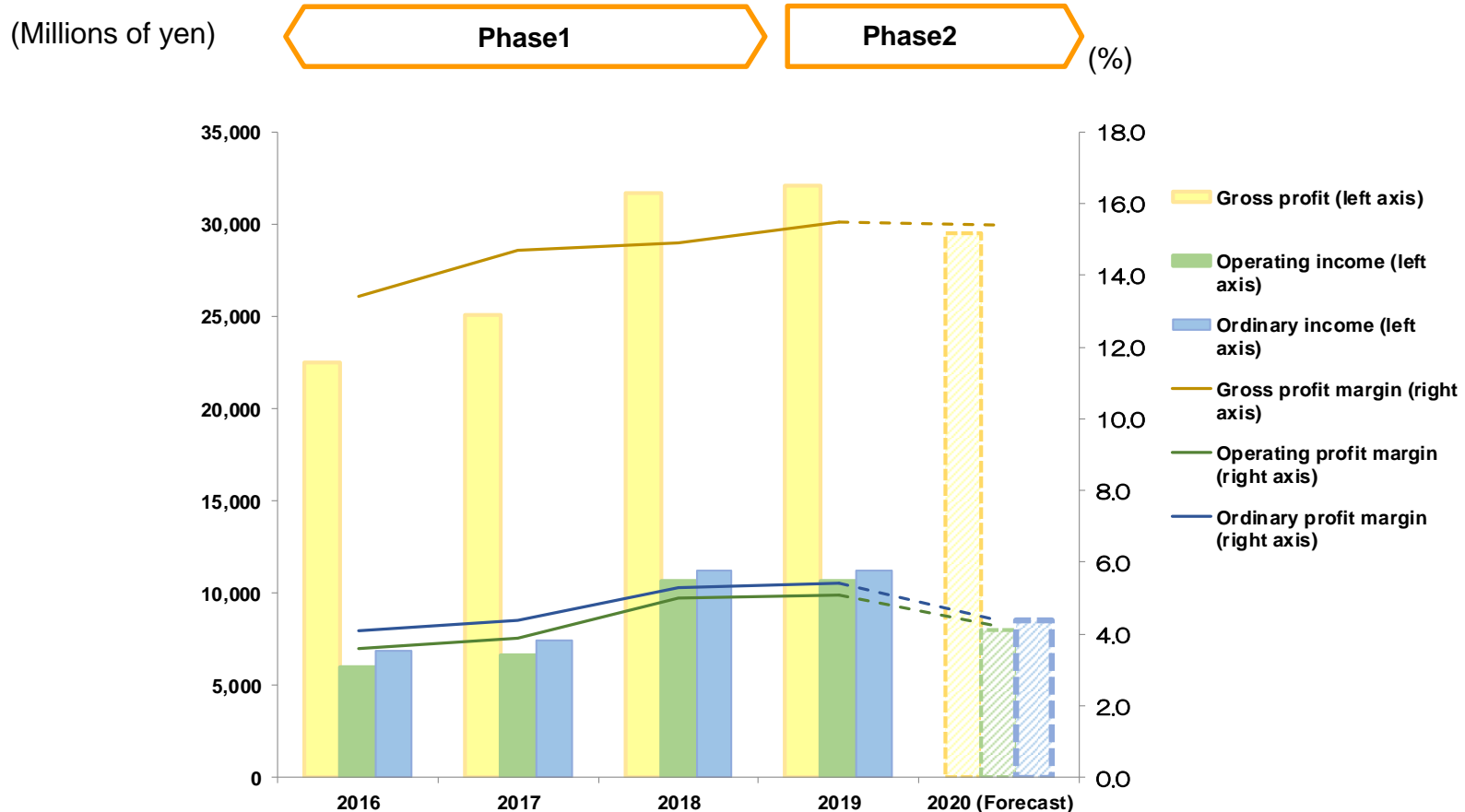
Main Large-scale Projects Received over 1 Billion Yen (by Industry)

	December 2018		December 2019		December 2020	
Office	1	15 Projects (31,293 million yen) * Orders received from customers: 7 Projects * Orders received from general contractors: 8 Projects	1	10 Projects (25,958 million yen) * Orders received from customers: 7 Projects * Orders received from general contractors: 3 Projects	3	18 Projects (34,559 million yen) * Orders received from customers: 8 Projects * Orders received from general contractors: 10 Projects
Hotels and inns	1		—		—	
Factory	8		2		5	
Research institute	1		2		3	
Logistics Center	1		—		—	
Hospitals and clinics	1		1		1	
Gymnasium	1		—		—	
Other building interiors	—		2		2	
Railway, Airport	1		—		1	
Waste processing facility	—		1		1	
Water treatment plants and sewage plants	—	1	2			

Operating Results over the Most Recent 5 Years (Consolidated) <Orders Received/Net Sales>



Operating Results over the Most Recent 5 Years (Consolidated) <Profit>





Statements about the future, such as results forecasts included in these materials, are based on judgements made according to the information available to the Company as of February 8. Actual results may differ from the figures contained herein due to a number of factors.

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