COMPANY RESEARCH AND ANALYSIS REPORT

SAKAI HEAVY INDUSTRIES, LTD.

6358

Tokyo Stock Exchange Prime Market

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Index

Summary

For FY3/24, demand recovered for operating profit, increasing by 32.4% YoY. For FY3/25, uncertainties in the construction market are behind a forecast decrease of 17.7% in operating profit. Planned annual dividend of ¥215.0

SAKAI HEAVY INDUSTRIES, LTD. <6358> (hereinafter also referred to as "the Company") is a manufacturer specializing in road rollers for road paving and other road construction equipment. It has a long history in this field, and boasts the industry's leading market share in Japan at over 70%. In recent years, the Company has been focusing on developing overseas markets, especially in North America and Southeast Asia.

1. Outline of results for FY3/24

In the consolidated results for FY3/24, net sales increased 5.0% year on year (YoY) to ¥33,020mn, operating profit increased 32.4% to ¥3,318mn, ordinary profit rose 42.8% to ¥3,324mn, and profit attributable to owners of parent increased 44.0% to ¥2,440mn. Despite somewhat of a slowdown in results from the outset of 2H, the Company achieved higher earnings for the full year. Although net sales in Japan (consolidated, by region) decreased by 5.8% YoY amid a scenario in 2H of waning appetite for investment among construction equipment rental enterprises, the Company's primary customers, sales in North America rose by 25.1% given expanding investment in road construction due to the Infrastructure Investment and Jobs Act. In Asia, sales decreased by 2.9% amid sluggish performance in Vietnam, China and other countries, despite the Company having maintained strong results in Indonesia. The gross margin improved by 2.4 points overall amid progress achieved by the Company in reforming its profit structure by revising prices and reducing costs. Although SG&A expenses increased by 6.9% accompanying resumption of business activities, the increase in gross profit (up 14.8% YoY) driven by sales growth led to a large increase in operating profit. Due to these results, the Company increased its annual dividend to ¥285.0 (compared to ¥200.0 in the previous fiscal year).

2. Outlook for FY3/25

For FY3/25 consolidated results, the Company forecasts net sales of ¥33,000mn (down 0.1% YoY), operating profit of ¥2,730mn (down 17.7%), ordinary profit of ¥2,700mn (down 18.8%), and profit attributable to owners of parent of ¥1,830mn (down 25.0%). In Japan, the temporary slowdown in business is likely to persist as a result of companies making structural adjustments across their entire supply chains due to rising costs and the "2024 problem" in the nation's construction and logistics industries. Overseas, supply chain risks and resource and logistics costs are expected to remain high amid persisting fragmentation of the global economy due to escalating tensions in Ukraine and the Middle East. Given this situation, the Company envisions declining sales and profits for the full year in FY3/25 given the likelihood of it continuing to face challenges with respect to its financial results during 1H at the very least. However, the Company plans to review its progress on a quarterly basis and disclose such findings as necessary.

3. Medium-term growth strategy

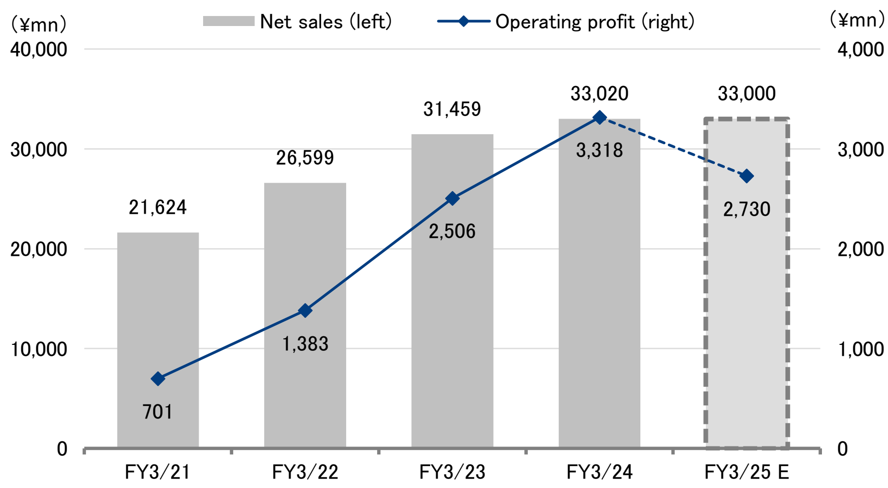
In June 2021, the Company released its Medium-Term Management Policy which runs through FY3/26. The ultimate goal is to increase corporate value and shareholder value, and in order to achieve this, the Company will promote a business growth strategy and an efficient capital strategy. In terms of numerical targets, in FY3/26, the Company is aiming for net sales of ¥30.0bn, operating profit of ¥3.1bn, ROE (return on equity) of 8.0%, and will aim to maintain a stable dividend payout ratio of 50%. The Company has already surpassed its target for net sales, but has nonetheless opted to leave its numerical targets unchanged at this point in time given that it forecasts a decrease in operating profit in FY3/25. Meanwhile, the Company paid annual dividends of ¥200.0 (dividend payout ratio of 49.9%) and ¥285.0 (dividend payout ratio of 49.6%) for FY3/23 and FY3/24, respectively, and furthermore maintains its plans to pay an annual dividend of ¥215.0 (dividend payout ratio of 49.9%) in FY3/25*. As such, the Company deserves high marks for its stance of announcing a clear capital policy to improve ROE and then furnishing shareholder returns in line with that policy.

* These figures are based on data prior to a 1:2 split of the Company's shares to be carried out at the end of September 2024 (effective from October 1st), as announced by the Company on May 21, 2024.

Key Points

- Japan's leading manufacturer of road rollers with a long history. Domestic market share is over 70%, and the Company aims to grow by expanding its overseas market share
- In FY3/24 results, 32.4% increase YoY in operating profit, operating profit forecast to decrease 17.7% in FY3/25
- Medium-term numerical targets aiming for net sales of ¥30.0bn, operating profit of ¥3.1bn and ROE of 8.0% for FY3/26

Results trends



Note: The Accounting Standard for Revenue Recognition, etc., has been applied from FY3/22
Source: Prepared by FISCO from the Company's financial results

Company profile

The leading manufacturer of road rollers with a long history. Characterized by high market share and technological capabilities

The Company has a long history, dating back to 1918 when founded by Kinnosuke Sakai. At the time, the Company manufactured and repaired parts for automobiles, internal combustion engines, and steam locomotives. After starting to manufacture locomotives in 1927, in 1929 the Company started manufacturing road rollers for road rolling compaction. Since then, the Company has continued to develop as a specialized manufacturer of road rollers for paving roads and other road construction equipment. Currently, the Company is the leading manufacturer in Japan, and boasts a market share of over 70%. In 1970, the Company established a joint venture in Indonesia, as part of the Company's effort to expand business overseas at an early stage. As of the end of FY3/24, the Company has four domestic subsidiaries, and four overseas subsidiaries (U.S., China, two in Indonesia).

The Company listed its shares on the Second Section of the Tokyo Stock Exchange (TSE) in 1964, and its shares were reclassified to the First Section of TSE in 1981. In conjunction with the TSE's market recategorization in April 2022, it moved to the Prime Market.

History

Year	Description
1918	Founded by Kinnosuke Sakai with the aim of manufacturing and repairing parts for automobiles, internal combustion engines and steam locomotives
1927	Production of locomotives begins
1929	Starts producing road rollers for road rolling compaction
1949	Company is incorporated to establish SAKAI WORKS Co., Ltd.
1964	Listed on Second Section of Tokyo Stock Exchange
1967	Renamed SAKAI HEAVY INDUSTRIES, LTD.
1970	Joint venture, P.T. SAKAI SAKTI, established in Jakarta, Indonesia, to assemble and repair road rollers
1976	SAKAI AMERICA, INC. established in Delaware, U.S., for the purpose of importing/exporting and selling construction equipment
1981	Listed on First Section of Tokyo Stock Exchange
1996	Acquired ISO9001 certification, meeting international standards for quality assurance stipulated by the International Organization for Standardization
2004	Developed the world's first vibratory pneumatic tired roller (GW750)
2018	Celebrated its 100th anniversary
2019	Consolidated the three bases in Indonesia, including P.T. SAKAI INDONESIA, and established a new factory in order to bolster the local production system targeting an expansion of overseas business domains and to build a supply platform to achieve medium- to long-term growth
2022	In conjunction with the Tokyo Stock Exchange's market recategorization, moved to the Prime Market

Source: Prepared by FISCO from the Company's annual securities report and website

Business overview

The leading manufacturer of road rollers with a domestic market share of over 70%. Will seek growth by offering high added value and expanding overseas market share

1. Business description

The Company's main business is the manufacture and sale of road rollers used in road paving and other applications, and road roller-related net sales account for approximately 95% of all net sales. Also, the Company's corporate philosophy is to "Contribute to the social project of global land development through the road construction equipment business."

The term "road roller" actually covers quite a wide range of machines in terms of capabilities and size, among other features. The Company has roughly 20 platforms alone for road rollers, and when different variations are added the total number of products is in the 70-80 range. There is also a wide range in sizes, from 0.5 tons to 20 tons (for large civil engineering projects). The core price range is from ¥5mn (medium-size rollers) to ¥10mn (large rollers), but the Company also has road cutters and other machines that cost tens of millions of yen. Production is carried out on an expected production basis, and the Company does not manufacture machines based on individual orders. The useful lives of the Company's products are in the 20-30 years range, but very few customers use a machine until the end of its useful life. In most cases, they replace it after statutory depreciation (6-7 years) with a new one. Most of the depreciated equipment is resold as used machines to overseas customers (especially in developing countries).

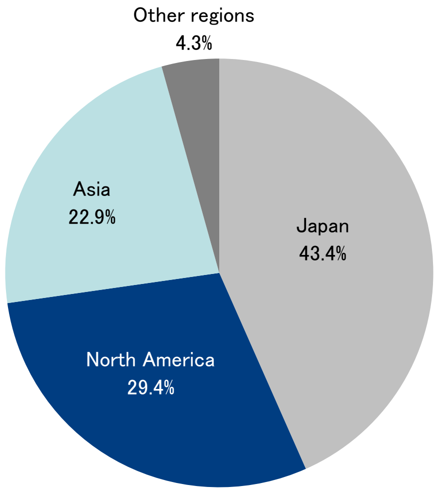
The Company's road equipment

Source: From the Company's Medium-Term Management Policy

In terms of net sales by region* in FY3/24, net sales in Japan were ¥14,320mn (43.4% of total net sales), net sales in North America were ¥9,700mn (29.4%), net sales in Asia were ¥7,566mn (22.9%), and net sales in other regions totaled ¥1,432mn (4.3%).

* Net sales by region is the amount of products actually sold to customers, classified by customer location, and differs from the reportable segment "Net Sales by Location" in the financial results.

Ratio of net sales by region in FY3/24



Source: Prepared by FISCO from the Company's financial results

In Japan, approximately 70% of the Company's sales are to construction equipment rental companies (Kanamoto Co., Ltd. <9678>, NISHIO HOLDINGS CO., LTD. <9699>, etc.), while the remaining 30% of sales are to end users (large and small- and medium-sized general contractors, roadwork companies, etc.). Sales to end users include sales via finance companies due to credit management issues. Overseas, sales are mainly to end users via distributors, but in North America some sales are through rental companies.

2. Characteristics and strengths

As mentioned above, the Company is a specialized manufacturer of road rollers and other road construction equipment, and the Company has the following special characteristics and strengths.

(1) Long history as a specialized manufacturer

The Company's greatest strength is its long history as a specialized manufacturer of road rollers and other road construction equipment. In other words, by deploying a global niche strategy through selection and concentration, the Company has increased its level of expertise and accumulated its own unique technologies. It has raised its technological capabilities and credibility through experience gained over this long history.

(2) Technological capabilities

When it comes to hardening and paving roads, the necessary pressure, torque, and other variables (compaction technology) differ depending on the specific land, land quality, soil, and other conditions. Therefore, roadwork companies often require different types of road rollers to match individual worksites (ground, etc.). According to the Company, the work function of a road roller itself determines the final quality of the road or embankment (density, flatness, lifespan). Generally speaking, a 1% rise in rolling compaction density extends the life of a road by 10%. For this reason, for companies that order roadwork as well as for roadwork companies, not only the price of the road roller, but the product quality (performance) is extremely important. Because the Company has been a specialized manufacturer of road rollers and other road construction equipment for many years, it boasts a high level of technological capabilities with respect to compaction technology, and it is not easy for its competitors to catch up to it.

The Company's technological capabilities can be summed up by the phrase "Expertise in products and services." In other words, it is the Company's engineering capabilities covering the entire roadwork process and the ability to handle a variety of materials. Specifically, combining the various technologies makes it possible to increase the quality and efficiency of roadwork. Such technologies include kneading by tires, increased rolling compaction power by vertical vibration, rubbing by horizontal vibration, thick layer compaction by vertical vibration, further high-density compaction by tire vibration, and eliminating difficult compaction issues with high-frequency vibration.

One example of the Company's strong technological capabilities is its ability to control the relationship between mechanical vibration technology and the technology to prevent this vibration. For road rollers, one important means of increasing functionality is various mechanical vibrations, but on the other hand, vibration itself can cause machine failure, and it also greatly influences operator comfort. Therefore, the ability (technology) to control the opposing relationship between enhancing vibration compaction power and machine quality is important, and this is not something that can be amassed quickly.

(3) Credibility

Credibility backed by experience engineering and track record is also a strength of the Company. The technology to ensure underground compaction quality is a black box, and is not something that is easy for late-arriving manufacturers and non-specialized manufacturers to copy. For example, asphalt mixture brought in at high temperatures must be worked on within a limited time, and if the work is of poor quality, it must be redone which involves a large price. Also, work quality issues for roads and embankments are slow to emerge, and the compaction quality at the time that work is completed tends to be a black box. For this type of experience engineering, the Company's strength lies in the fact that it is a brand which customers have used for many years and that has accumulated long-term insight due to abundance of worksite experiences, and these are points that have earned the trust of many customers.

3. Market share and competitors

According to data from the Japan Construction Equipment Manufacturers Association, in FY2023 domestic construction equipment shipment value including exports was ¥3.7tn, and road roller and other road construction equipment (the Company's main products) account for 2.3% of this amount. The Company has a share of over 70% in the road roller market within this road equipment market, making it the leading manufacturer in Japan. Competitors include companies such as Hitachi Construction Machinery Co., Ltd. <6305>, but none of these companies are specialized manufacturers. Some overseas manufacturers have entered the market in Japan, but none have much of a presence. In Japan, the Company's earnings rise and fall along with the ups and downs of the market.

In the global market, although there are no accurate statistics, the Company's market share (on a units produced basis) is estimated to be in the 5-6% range. However, this is on a global basis, and if we limit the scope to the main markets that the Company operates in (Japan, ASEAN, North America), the Company's market share appears to be around 15%. The Company's main competitors in the global market include Caterpillar <CAT>, FAYAT SAS, WIRTGEN GROUP, and Volvo Personvagnar AB, but none of these companies are manufacturers that specialize in road rollers.

Results trends

Operating profit up by 32.4% for the full year of FY3/24 despite slowdown in 2H

1. Outline of results for FY3/24

In the consolidated results for FY3/24, net sales increased 5.0% YoY to ¥33,020mn, operating profit increased 32.4% to ¥3,318mn, ordinary profit rose 42.8% to ¥3,324mn, and profit attributable to owners of parent increased 44.0% to ¥2,440mn

Net sales in Japan were down by 5.8% due to waning appetite for investment among construction equipment rental companies, the Company's primary customers, from the outset of 2H. Meanwhile, net sales overseas were up by 15.1%, largely driven by results in North America. In regard to profits, the gross margin improved by 2.4 points YoY overall amid progress achieved by the Company in reforming its profit structure by revising prices and reducing costs. Meanwhile, although SG&A expenses increased by 6.9% accompanying resumption of business activities, the increase in gross profit (up 14.8% YoY) driven by sales growth led to a large increase in operating profit.

Analyzing the change factors for operating profit, the increase in net sales had a positive ¥405mn impact, the improvement in the cost of sales ratio had an impact of plus ¥800mn, and the increase in SG&A expenses had an in impact of minus ¥391mn. Breaking down the increase in SG&A expenses, personnel expenses had a positive ¥300mn impact, travel and transportation expenses had a positive ¥49mn impact, sales commission had a positive ¥27mn impact, and other SG&A expenses had a positive ¥17mn impact.

Overview of FY3/24 consolidated results

(¥mn)

	FY3/23		FY3/24		Change	
	Results	% of net sales	Results	% of net sales	Amount	%
Net sales	31,459	100.0%	33,020	100.0%	1,560	5.0%
Gross profit	8,165	26.0%	9,369	28.4%	1,204	14.8%
Selling, general and administrative expenses	5,659	18.0%	6,050	18.3%	391	6.9%
Operating profit	2,506	8.0%	3,318	10.1%	812	32.4%
Ordinary profit	2,327	7.4%	3,324	10.1%	996	42.8%
Profit attributable to owners of parent	1,694	5.4%	2,440	7.4%	746	44.0%

Source: Prepared by FISCO from the Company's financial results

2. Trends by region

In Japan, although sales related to public investments such as road and civil engineering projects were relatively strong in 1H against a backdrop of measures to accelerate the national resilience plan, net sales for the full year decreased to ¥14,320mn (down 5.8% YoY) amid waning appetite for investment among the Company's primary customers (construction equipment rental companies) from the outset of 2H given concerns regarding frequent sales price revisions and the "2024 problem." Overseas, net sales were ¥18,699mn (up 15.1%) mainly as a result of strong demand for construction machinery in North America, while foreign exchange (weaker yen) also had a positive impact. Of this amount, in North America net sales greatly increased to ¥9,700mn (up 25.1%) due to increasing investment in road construction due to the Infrastructure Investment and Jobs Act amid a decrease in new housing starts, as well as the effects of sales activities aimed at increasing market share. In Asia, net sales were ¥7,566mn (down 2.9%) amid sluggish performance in Vietnam and China, despite the Company having maintained relatively strong results in Indonesia. In other markets (Africa, Oceania, Central and South America, etc.) net sales were ¥1,432mn (up 103.8%).

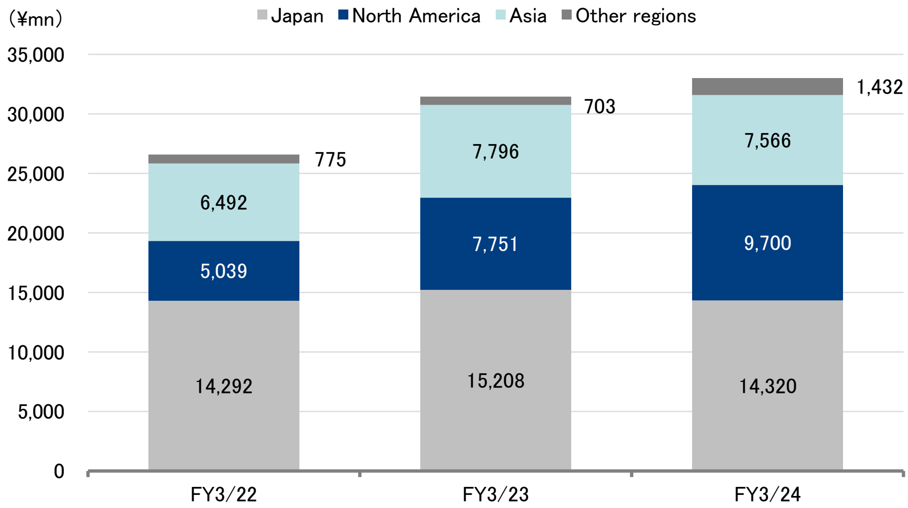
Net sales by region

(¥mn)

	FY3/22		FY3/23		FY3/24		Change	
	Results	% of net sales	Results	% of net sales	Results	% of net sales	Amount	%
Japan	14,292	53.7%	15,208	48.3%	14,320	43.4%	-888	-5.8%
Overseas	12,306	46.3%	16,251	51.7%	18,699	56.6%	2,448	15.1%
North America	5,039	19.0%	7,751	24.7%	9,700	29.4%	1,948	25.1%
Asia	6,492	24.4%	7,796	24.8%	7,566	22.9%	-229	-2.9%
Other regions	775	2.9%	703	2.2%	1,432	4.3%	729	103.8%
Total	26,599	100.0%	31,459	100.0%	33,020	100.0%	1,560	5.0%

Source: Prepared by FISCO from the Company's financial results

Net sales by region



Source: Prepared by FISCO from the Company's financial results

Stable financial condition, ample cash and deposits of ¥8,383mn.

3. Financial condition

In terms of the Company's financial condition as of the end of FY3/24, current assets were ¥28,637mn (up ¥1,196mn from the end of the previous fiscal year). The main factors included an ¥899mn increase in cash and deposits, a ¥965mn decrease in notes and accounts receivable - trade (including electronically recorded monetary claims - operating), and a ¥1,206mn increase in inventories. Non-current assets were ¥15,600mn (up ¥2,235mn). The main factors include a ¥190mn increase in property, plant and equipment mainly due to capital investment, a ¥52mn decrease in intangible assets, and a ¥2,097mn increase in investments and other assets. Investments and other assets grew because of an increase of ¥2,209mn in investment securities in the robust stock market. As a result, total assets were ¥44,237mn (up ¥3,432mn).

Meanwhile, total liabilities were ¥15,071mn (down ¥437mn from the end of the previous fiscal year). The main factors among current liabilities included a ¥1,021mn decrease in payables (notes and accounts payable – trade and electronically recorded obligations – operating), a ¥121mn decrease in short-term borrowings, and in non-current liabilities, a ¥97mn increase in long-term borrowings and a ¥657mn increase in deferred tax liabilities. Total net assets stood at ¥29,165mn (up ¥3,870mn), with the main factors including a ¥1,549mn increase in retained earnings due mainly to booking profit attributable to owners of parent, and a ¥1,542mn increase in valuation difference on available- for-sale securities. As a result, the equity ratio as of the end of FY3/24 was 65.8% (61.8% at the end of the previous fiscal year).

Consolidated balance sheet

(¥mn)

	End of FY3/23	End of FY3/24	Change amount
Cash and deposits	7,484	8,383	899
Notes and accounts receivable - trade (including electronically recorded monetary claims - operating)	9,464	8,498	-965
Inventories	9,452	10,658	1,206
Total current assets	27,440	28,637	1,196
Property, plant and equipment	7,383	7,573	190
Intangible assets	307	255	-52
Investments and other assets	5,673	7,771	2,097
Total non-current assets	13,364	15,600	2,235
Total assets	40,804	44,237	3,432
Notes and accounts payable - trade (including electronically recorded obligations – operating)	7,146	6,125	-1,021
Short-term borrowings	4,751	4,629	-121
Total current liabilities	14,377	13,180	-1,197
Long-term borrowings	58	155	97
Retirement benefit liability	486	1,144	657
Total non-current liabilities	1,130	1,890	759
Total liabilities	15,508	15,071	-437
Retained earnings	12,642	14,191	1,549
Valuation difference on available for-sale securities	1,837	3,380	1,542
Total net assets	25,295	29,165	3,870

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Although the Company has been working to streamline its balance sheet, net working capital (trade receivables + inventories – trade payables) at the end of FY3/24 increased to ¥13,031mn (up 10.7%, ¥1,261mn YoY). Inventory turnover ratio decreased 0.23 times YoY to 3.10 times per year, due to steady sales, as well as a ¥1,206mn (up 12.8%) increase in inventories driven by increased production and measures to reduce the risk of part shortages. As a results, the net working capital to net sales ratio was 39.5% (37.4% at the previous fiscal year-end), meaning that the Company's working capital framework is stably maintaining it at an appropriate level.

Net working capital

(¥mn)

	FY3/23 Results	FY3/24 Results	Change	
			Amount	%
Consolidated net sales (annualized consolidated net sales)	31,459	33,020	1,560	5.0%
Trade receivables	9,464	8,498	-966	-10.2%
Inventories	9,452	10,658	1,206	12.8%
Trade payables	-7,146	-6,125	1,021	-14.3%
Net working capital	11,770	13,031	1,261	10.7%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

4. Cash flows

In FY3/24, net cash provided by operating activities was ¥2,482mn. The main revenue factors included recording ¥3,324mn in profit before income taxes, ¥679mn in depreciation, and a decrease of ¥1,227mn in trade receivables. The main expenditure factors included a ¥530mn increase in inventories and ¥1,383mn decrease in trade payables.

Net cash used in investing activities was ¥353mn. This was mainly due to ¥284mn in expenditure from the purchase of property, plant and equipment. Net cash used in financing activities was ¥1,422mn. The main expenditures were ¥358mn from the decrease (net) in long- and short-term borrowings, and ¥890mn in dividends paid. As a result, cash and cash equivalents increased ¥827mn from the end of the previous fiscal year, and the balance of cash and cash equivalents at the end of FY3/24 was ¥8,244mn.

Consolidated statements of cash flows

(¥mn)

	FY3/23	FY3/24
Net cash provided by (used in) operating activities	1,893	2,482
Profit before income taxes	2,329	3,324
Depreciation	714	679
Change in trade receivables (- denotes increase)	-683	1,227
Change in inventories (- denotes increase)	-1,864	-530
Change in trade payables (- denotes decrease)	1,003	-1,383
Net cash provided by (used in) investing activities	-399	-353
Purchase of property, plant and equipment	-361	-284
Net cash provided by (used in) financing activities	-2,242	-1,422
Change in long- and short-term borrowings (net)	-1,292	-358
Dividends paid	-780	-890
Change in cash and cash equivalents (- denotes decrease)	-509	827
Cash and cash equivalents at end of period	7,416	8,244

Source: Prepared by FISCO from the Company's financial results

Outlook

Forecast envisioning sluggish performance in 1H amid concerns of the “2024 problem” in construction and logistics. Full-year outlook for 0.1% decrease in sales and 17.7% decline in operating profit YoY

● Outlook for FY3/25

For FY3/25 consolidated results, the Company forecasts net sales of ¥33,000mn (down 0.1% YoY), operating profit of ¥2,730mn (down 17.7%), ordinary profit of ¥2,700mn (down 18.8%), and profit attributable to owners of parent of ¥1,830mn (down 25.0%).

Despite the ongoing likelihood of a stable market environment in Japan, North America, and Asia, the Company has left its net sales forecast largely unchanged from the previous fiscal year at ¥33,000mn, amid a scenario of the temporary slowdown persisting in Japan as a result of companies making structural adjustments across their entire supply chains due to rising costs and the “2024 problem” in the nation’s construction and logistics industries. In Japan, prices, wages, and interest rates are poised to increase, thereby narrowing the gap with respective levels overseas. Meanwhile worldwide, supply chain risks as well as resource and logistics costs are expected to remain high amid persisting fragmentation of the global economy due to escalating tensions in Ukraine and the Middle East. Given these factors, the Company projects a 17.7% YoY decrease in operating profit to ¥2,730mn. The Company projects decreases in sales and operating profit of 7.7% and 46.6% YoY, respectively, given the remaining prospect of persistently sluggish appetite for investment among customers, particularly in 1H. Although a trajectory toward recovery seems likely in 2H, it will be necessary to monitor developments going forward with the Company having stated that it will make revisions as necessary when quarterly results are announced.

Consolidated outlook for FY3/25

(¥mn)

	FY3/24		FY3/25		Change	
	Results	% of net sales	Forecast	% of net sales	Amount	%
Net sales	33,020	100.0%	33,000	100.0%	-20	-0.1%
Operating profit	3,318	10.1%	2,730	8.3%	-588	-17.7%
Ordinary profit	3,324	10.1%	2,700	8.2%	-624	-18.8%
Profit attributable to owners of parent	2,440	7.4%	1,830	5.5%	-610	-25.0%

Source: Prepared by FISCO from the Company’s financial results

Medium-term growth strategy

Medium-term growth strategy aims for operating profit of ¥3.1bn, and ROE of 8.0%. No change in these plan targets at this point in time

In June 2021, the Company released its Medium-Term Management Policy which runs through FY3/26. The ultimate goal is to increase corporate value and shareholder value, and in order to achieve this the Company will promote a business growth strategy and an efficient capital strategy. In terms of numerical targets, the Company is aiming for net sales of ¥30.0bn, operating profit of ¥3.1bn, ROE of 8.0% in FY3/26, and will aim to maintain a stable dividend payout ratio of 50%. The Company has already achieved its net sales target, but has nonetheless opted to leave its numerical targets unchanged at this point in time given that it maintains its forecast projecting that operating profit will decrease to ¥2,730mn in FY3/25.

1. Business strategy

(1) Domestic market: Create added value through stabilization and developing next-generation businesses
The domestic market for road rollers is already in its mature phase and the Company's market share is large. Therefore, the Company will aim to grow by adding new value to existing products (high-performance, etc.), in other words, by developing next-generation businesses. Specifically, the Company plans to do the following.

a) To enhance safety, the Company will horizontally roll out models equipped with automatic emergency brake systems. This performs an emergency stop of operating equipment if a person or obstacle is in the movement path of the equipment. This function has already been added as an optional setting to the main models in Japan (the rate of emergency brake attachment is approximately 30% for medium-size rollers), and the Company's policy going forward is to horizontally roll out this function to overseas markets.

b) The Company aims to improve compaction quality with a compaction management system (with CCV). This system remotely links work managers with worksites, allowing compaction quality to be confirmed and managed (e.g., number of rolling compactions) in real time. In October 2022, it was certified as ICT Construction Machinery by Japan's Ministry of Land, Infrastructure, Transport and Tourism.

c) The Company aims to improve productivity by commercializing autonomous vibratory (unmanned) rollers. In the autonomous driving industry standard equipment development project, the Company is advancing commercialization through worksite implementation testing with multiple general contractors. Specifically, through unmanned construction work, the Company aims to create safe worksites, improve productivity through efficient compaction operations, reduce CO_2 emissions at job sites and stabilize and improve quality, independent of operator skill.

(2) Overseas markets: Increase market share and expand business domains
In overseas markets, there are many regions (countries) where demand is increasing, and there is significant room for growth given the Company's low market shares. Therefore, the Company will seek growth through the two strategies of more fully cultivating existing markets and expanding its business domains by deploying road maintenance equipment to overseas markets.

a) In Asia, the Company aims to cultivate the market and increase its product domain. Specifically, it will move ahead on deepening market activities within Indonesia as well as the ASEAN region as a central hub for sales, manufacturing and services for the Indonesian hub where a new plant began operating in 2019.

b) In North America, aiming to expand its market share, the Company will strengthen its North America distribution strategy and advance measures to increase its market share. Specifically, the Company will seek to expand its market share through a niche marketing strategy by selection and concentration and through engineering sales focused on improved pavement quality.

c) Aiming to expand overseas business domains, the Company will promote a strategy of cultivating markets for road maintenance equipment in ASEAN markets and ODA, along with other markets. Local production began at the plant in Indonesia from FY3/24.

(3) Numerical targets

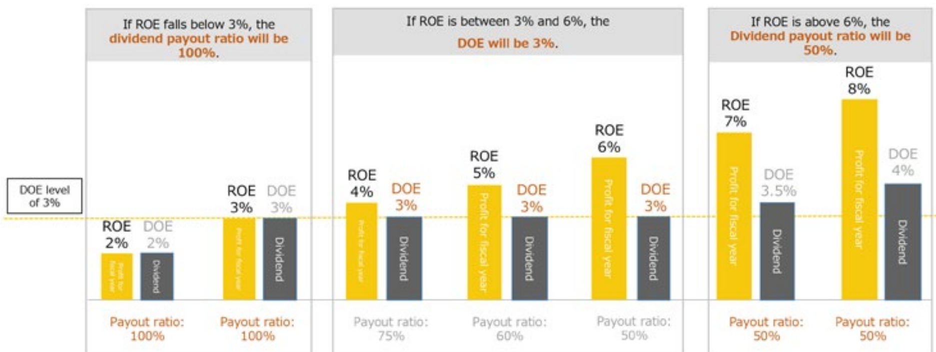
As numerical targets, the Company aims for net sales of ¥30.0bn, operating profit of ¥3.1bn, and ROE of 8% in FY3/26.

2. Capital strategy

As its basic policy for capital strategy, the Company will return profits to shareholders at a level that supports the Company's objective of ROE of 8%, and will increase shareholder value (improve capital efficiency). As a final target for FY3/26, the Company will strive to achieve ROE of 8% and a 50% dividend payout ratio.

Generally, two things need to be improved in order to increase ROE. One is of course increasing profit attributable to owners of parent, while the other is suppressing shareholders' equity (not increasing shareholders' equity more than necessary, or decreasing it). In order to increase operating profit, the Company plans to promote the business strategies discussed above, but at the same time, in order to keep from increasing shareholders' equity more than needed, the Company plans to execute a dividend policy in which, if ROE falls below 3%, the dividend payout ratio will be 100%, if ROE is between 3% and 6%, the DOE (dividend on equity) will be 3%, and if ROE is above 6%, the dividend payout ratio will be 50%.

Basic capital policy approach



Source: Medium-Term Management Policy

In terms of share buybacks, through FY3/26 the Company will consider flexible share buybacks with an upper limit of ¥0.5bn to ¥2.0bn (conducted a ¥340mn buyback in FY3/22). With respect to investment securities, the Company will review investment securities from the perspective of business strategy. Also, concerning growth investment, the Company will consider utilizing leverage with an emphasis on return on invested capital (ROIC).

3. Sustainability initiatives

The Company is proactively working on sustainability initiatives, and is advancing a variety of measures. Currently, it is focusing in particular on the following measures.

(1) Initiatives for achieving carbon neutrality through use of new technologies

a) Autonomous rollers reduce CO_2 emissions at work sites due to efficient compaction*

The Company made arrangements to provide equipment through paid, short-term rental for the first time ever at the Shin-Maruyama Dam construction site in Yaotsu-cho, Gifu Prefecture. The Company will focus on developing business involving autonomous rollers given the prospect of customers increasingly resorting to unmanned construction going forward.

* Test data has shown that autonomous rollers enable approximately 20% more labor-saving than manned work.

Autonomous roller

Source: Reprinted from Company's results briefing materials

b) EV rollers reduce construction equipment CO_2 emissions

The Company has performed field trials of electric combined rollers and electric walk-behind rollers at actual construction sites. The Company plans to initiate sales of electric walk-behind rollers during FY3/25. During FY3/26, the Company seeks to gain certification under the green transformation (GX) construction machinery certification scheme (eligible for subsidies from Japan's Ministry of the Environment) accredited by Japan's Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

EV roller

Source: Reprinted from Company's results briefing materials

(2) Initiatives for respecting human rights

The Company established its Human Rights Policy in April 2024. The Company plans to administer surveys to its suppliers as the next step to be taken after having established its Human Rights Policy in promoting business activities that are mindful of respecting human rights.

Initiatives for respecting human rights

Basic Approach	SAKAI HEAVY INDUSTRIES, LTD. and its affiliated companies (the "Group") contribute to the social business of global land development through the road construction equipment business as the basic management policy. Based on this basic policy, the Group will contribute to the realization of sustainable society through initiatives for the respect of human rights.
Human Rights to be Respected	The Group respects the "International Bill of Human Rights" (Note 1) and the "ILO Declaration on Fundamental Principles and Rights at Work" (Note 2) as the international standards of human rights.
Scope of Application	The Group applies this Human Rights Policy to all officers and employees of the Group. In addition, the Group requires its business partners in the supply chain to respect and not infringe upon human rights.
Initiatives for Respecting Human Rights	The Group respects human rights in all its business activities. Should it become evident that the Group has participated in an infringement of human rights, it will work swiftly to remedy the situation. Moreover, in the event where an infringement of human rights has clearly arisen at a business partner in the supply chain, the Group will engage in dialogue with those involved and take an appropriate response.

Source: Reprinted from Company's results briefing materials

Shareholder return policy

In FY3/24, paid a ¥285.0 annual dividend, up ¥85.0 YoY. Plans to pay a ¥215.0 dividend in FY3/25, targeting a dividend payout ratio of 50.0%

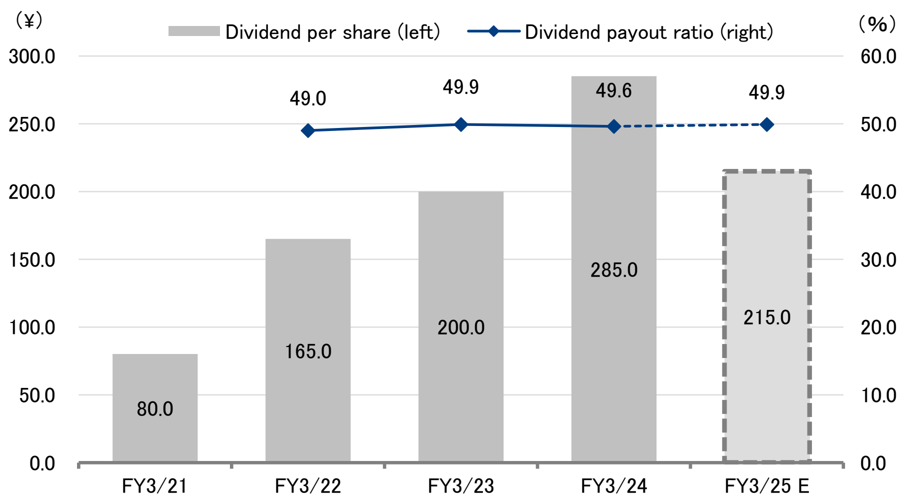
The Company works to secure a stable management base over the long term, and also places importance on the continuation of stable dividends, and makes it a basic policy to distribute results that are supported by business performance and a sound financial structure. Based on this basic policy, the Company decides dividends and conducts share buybacks. As discussed above, the Company's medium-term shareholder return policy is as follows. If ROE falls below 3%, the dividend payout ratio will be 100%, if ROE is between 3% and 6%, the DOE will be 3%, and if ROE is above 6%, the dividend payout ratio will be 50%. With respect to share buybacks, the Company is considering flexible share buybacks with an upper limit of ¥0.5bn to ¥2.0bn by FY3/26.

Based on the above dividend policy, for FY3/24, the Company paid a ¥285.0 annual dividend (a dividend payout ratio of 49.6%). Based on this basic policy, the Company maintains its plans to pay a ¥215.0 annual dividend in FY3/25 (a planned dividend payout ratio of 49.9%)* as it forecasts reduced profits in the year under review. Furthermore, with regard to the share buybacks, it conducted a buyback of 130,000 shares (¥340mn) in FY3/22, but currently has no plans to conduct buybacks going forward.

The Company's stance of announcing a clear policy to improve ROE and carrying out shareholder return policy in line with that is commendable, and attention should be given to its shareholder return policy going forward.

* On May 21, 2024, the Company announced its intentions to carry out a 1:2 split of the Company's shares on the effective date of October 1, 2024. Although the Company's dividend estimates in actual terms consist of an interim dividend of ¥85.0 and a year-end dividend of ¥65.0, the annual dividend amount equates to ¥215.0 when calculated on the basis of pre-split standards.

Dividend per share and dividend payout ratio



Note: FY3/21 dividend payout ratio is not shown due to the fact that it was 8,602.2%.
Source: Prepared by FISCO from the Company's financial results

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