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Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2021 [Japanese GAAP]



January 29, 2021

Company name: Sanoyas Holdings Corporation
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 7022
 URL: <http://www.sanoyas.co.jp/>
 Representative: Takashi Ueda, President & CEO
 Contact: Naoya Fukui, General Manager, Accounting Department
 Phone: +81-6-4803-6171
 Email: info@sanoyas.co.jp
 Scheduled date of filing quarterly securities report: February 10, 2021
 Scheduled date of commencing dividend payments: –
 Availability of supplementary briefing material on annual financial results: Not available
 Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2021 (April 1, 2020 to December 31, 2020)

(1) Consolidated Operating Results (Cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Profit (loss) attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
December 31, 2020	33,392	(5.5)	(3,925)	–	(3,810)	–	(5,163)	–
December 31, 2019	35,353	2.3	(1,221)	–	(1,090)	–	(392)	–

(Note) Comprehensive income: Third Quarter of fiscal year ended March 31, 2021: ¥(6,423) million [–%]

Third Quarter of fiscal year ended March 31, 2020: ¥(178)million [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
December 31, 2020	(157.71)	–
December 31, 2019	(12.06)	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of			
December 31, 2020	63,557	5,148	7.9
March 31, 2020	63,681	11,660	18.2

(Reference) Equity: As of December 31, 2020: ¥5,050 million

As of March 31, 2020: ¥11,571 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2020	—	0.00	—	5.00	5.00
Fiscal year ending March 31, 2021	—	0.00	—		
Fiscal year ending March 31, 2021 (Forecast)				—	—

(Note 1) Revision to recently disclosed projected cash dividends: No

(Note 2) Annual dividend for the Fiscal Year Ending March 31, 2021 has not yet been determined.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Profit (loss) attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	45,000	(9.6)	(4,000)	—	(4,100)	—	(6,300)	—	(192.62)

(Note 1) Revision to recently disclosed projected consolidated financial results: No

(Note 2) The exchange rate used for unified foreign currency items in assuming the Company's earnings forecast is 104.78 yen to the U.S dollar.

* Notes:

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Adoption of special accounting methods for preparing quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

December 31, 2020: 32,848,066 shares

March 31, 2020: 32,637,500 shares

2) Total number of treasury shares at the end of the period:

December 31, 2020: 20,715 shares

March 31, 2020: 20,715 shares

3) Average number of shares during the period:

Six months ended December 31, 2020: 32,743,124 shares

Six months ended December 31, 2019: 32,586,085 shares

* These consolidated financial results are outside the scope of audit

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available and certain assumptions deemed reasonable. Actual results may differ significantly from these forecasts due to a wide range of factors.

1. Qualitative Information

(1) Summary of Business Results

In the business environment surrounding the Sanoyas Group, our Shipbuilding & Engineering business is still facing difficult circumstances reflecting continuous “twin surpluses” of shipping tonnage and shipbuilding capacity, government subsidies to our competing Chinese and South Korean shipyards and sluggish shipping market caused by global economic slump. The shipping market for bulk carriers remained weak since the beginning of 2020. In this situation, business negotiations of shipbuilding have stopped since April 2020. Though some dry bulk shipping indices are showing an upward trend, time charter rates remain at a low level and the price of new ships has not recovered yet.

In the Shipbuilding business, we have developed new 82,000 DWT type PANAMAX bulk carriers and new 64,000 DWT type ULTRAMAX bulk carriers. These vessels are in accordance with IMO NOx Tier III regulation and IACS Harmonized Common Structural Rules and further improved fuel consumption. In addition, we have newly developed 41,000 DWT type HANDY SIZE bulk carriers. This type of vessel with wide beam and shallow draft has larger cargo hold capacity and applies new regulations. We mainly carry out sales promotion for these vessels. On the other hand, we are working on diversification of the construction menu by promoting sales of passenger ferries, special purpose vessels and work vessels, etc. in addition to commercial vessels. As to the gas tank business that we have been working on expanding to complement the Shipbuilding business, we reorganized our gas tank business structure by placing "Gas Tank Sales Department" and "Gas Tank Design Department" under newly formed “Gas Tank Business Department” and we have been constructing gas tank production facilities in the Mizushima Shipyard (Kurashiki City, Okayama Prefecture) in addition to the Osaka Shipyard (Osaka City, Osaka Prefecture) in the beginning of this fiscal year in order to expand and strengthen our gas tank business. Besides, as previously announced in a timely disclosure on November 9, 2020, we decided to transfer the ownership of Sanoyas Shipbuilding Corporation which is our subsidiary of Shipbuilding & Engineering business to SHIN KURUSHIMA DOCKYARD CO.,LTD. in order for Sanoyas Shipbuilding Corporation to continue its shipbuilding business far into the future in light of the recent business environment and company scale and financial strength necessary to survive on its own.

We regard the Machinery & Technology business as “second core business” and are promoting various business portfolios and strengthening the management base of our subsidiaries. We are currently constructing new business strategy and organizational structure based on the premise that we will continue our business as a union of existing nine medium-sized companies after the transfer of the shipbuilding business mentioned above. In particular, we will aim to create a company that places even greater emphasis on "demonstrating comprehensive strengths of our group," "differentiating and adding value to products and services through technological innovation and the accumulation of know-how," and "focusing on growth by developing and incorporating new businesses”. In addition, we transferred the plant division of Sanoyas Shipbuilding Corporation to the newly established Sanoyas Plant Industry Corporation, and all shares of the newly established company were transferred from Sanoyas Shipbuilding Corporation to Sanoyas MTG Corporation on January 4, 2021. Moreover, we decided to merge Sanoyas Plant Industry Corporation with MIZUHO INDUSTRIAL CO., LTD., our consolidated subsidiary, as of April 1, 2021, with the aim of creating synergy effects by consolidating the management resources of both companies, strengthening the business

foundation and mutually complementing their respective technologies and know-how, as well as expanding their business domains.

Consolidated net sales in the third quarter ended December 31, 2020 decreased by ¥1,960 million (5.5%) over the same period of the previous fiscal year, to ¥33,392 million. Operating loss was ¥3,925 million (operating loss of the same period of the previous fiscal year was ¥1,221 million), ordinary loss was ¥3,810 million (ordinary loss of the same period of the previous fiscal year was ¥1,090 million), and quarterly net loss attributable to parent company shareholder was ¥5,163 million (quarterly net loss attributable to parent company shareholder of the same period of the previous fiscal year was ¥392 million).

Quarterly results may not necessarily be linked to annual results because these are significantly affected by the followings; 1.the nature of order-receiving industry in which Sanoyas group are engaged, especially trends in newbuilding shipping price that are strongly affected by shipping market and presence of new orders, 2.individual profitability of shipbuilding on the basis of percentage of completion method, and 3.exchange rates at the end of each quarter.

(2) Segment Results

[1] Shipbuilding & Engineering business

We tried to secure new orders for vessels under the market in which newbuilding prices have not been recovered with unusual economic climate affected by COVID-19, with the result that we received new orders of 2 vessels of new 64,000 DWT type ULTRAMAX bulk carriers and 2 vessels of new 82,000 DWT type PANAMAX bulk carriers. The number of backlog of orders was 13 vessels as of December 31, 2020. We will try to get orders flexibly responding to demanding marketing conditions and focus on our business policy of securing an order backlog for about two years. As to marine business and gas tank business, we focused on sales of repairing services for vessels of public and private sectors and LPG tanks and we received our first order for a large-scale tank of over 7,500 m³ in addition to conventional LPG tanks. As a result, the segment backlog of orders for shipbuilding business including marine business, gas tank business and plant business was ¥31,502 million on a percentage of completion method. The segment net sales in the second quarter ended September 30, 2020 decreased by ¥455 million (2.1%) over the same period of the previous fiscal year, to ¥21,662 million due to slowing down of the building pace of new ships following current situation on new orders received. The evaluated net sales of the backlog of shipbuilding orders on a US dollar basis decreased because Japanese Yen has been stronger against the US dollar continuingly during the third quarter ending December 31, 2020. The allowance for future loss on construction contracts including the newly ordered vessels increased. As a result, the profitability of the vessels deteriorated and the operating loss was ¥3,127 million (operating loss of the same period of the previous fiscal year was ¥1,970 million).

[2] M & T (Machinery & Technology) business

Regarding the Machinery & Technology business, COVID-19 have had a significant impact on its performance continuously. Precision machining for semiconductor manufacturing equipment continued to increase, and the

machining field was solid due to the recovery of parts for special vehicles. In addition, Mizuho Machine(Wuxi) Co., Ltd. won large orders and maintained strong performance. On the other hand, other businesses have been sluggish owing to decline in sales of shot blast machines, devices for cosmetic products, and construction of air conditioning and water supply/wastewater facilities. The amusement park business, which had been severely depressed due to the declaration of state of emergency and restrictions on overseas travel has shown some signs of recovery owing to easing of restrictions, but the future is not optimistic due to the arrival of the third wave of COVID-19. As a result of the business activities, the segment backlog of orders was ¥8,484 million. The segment net sales in the third quarter ended December 31, 2020 decreased by ¥1,505 million (11.4%) over the same period of the previous fiscal year, to ¥11,730 million. The operating loss was ¥483 million (operating profit of the same period of the previous fiscal year was ¥968 million).

(3) Information regarding Consolidated Financial Results Forecasts and other forward-looking statements

We have not updated the consolidated financial results forecast announced in November 9, 2020 at this point as we took into consideration the nature of the shipbuilding business, amounts of sales and provision for loss on construction contracts are strongly linked to the individual profitability of shipbuilding affected by exchange rates and shipbuilding market.

2. Quarterly Consolidated Financial Statements [Japanese GAAP]
(1) Quarterly Consolidated Balance Sheets [Japanese GAAP]

(Million yen)

	As of March 31, 2020	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	15,623	16,305
Notes and accounts receivable - trade	15,085	14,929
Electronically recorded monetary claims - operating	535	508
Securities	500	—
Merchandise and finished goods	179	175
Work in process	1,464	3,003
Raw materials and supplies	829	804
Other	3,656	3,540
Allowance for doubtful accounts	(33)	(24)
Total current assets	37,839	39,241
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,310	6,149
Machinery and equipment, net	3,003	2,990
Land	5,168	5,249
Other, net	1,883	2,233
Total property, plant and equipment	16,365	16,622
Intangible assets		
Software	550	1,228
Goodwill	901	830
Other	39	40
Total intangible assets	1,490	2,098
Investments and other assets		
Investment securities	5,894	3,782
Long-term loans receivable	401	400
Deferred tax assets	231	210
Net defined benefit asset	254	262
Other	1,346	1,040
Allowance for doubtful accounts	(143)	(102)
Total investments and other assets	7,984	5,593
Total non-current assets	25,841	24,315
Total assets	63,681	63,557

(Million yen)

	As of March 31, 2020	As of December 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,973	12,037
Short-term loans payable	5,442	5,500
Current portion of long-term loans payable	3,665	10,077
Income taxes payable	200	80
Advances received	2,696	2,793
Provision for bonuses	534	178
Provision for construction warranties	287	259
Provision for loss on construction contracts	2,286	3,778
Provision for removal cost of property and equipment	90	85
Provision for loss on sales of shares of subsidiaries and associates	—	5,343
Lease obligations	261	449
Other	1,845	1,402
Total current liabilities	28,284	41,987
Non-current liabilities		
Long-term loans payable	14,214	6,210
Lease obligations	1,823	2,905
Deferred tax liabilities	2,181	1,567
Provision for removal cost of property and equipment	8	—
Net defined benefit liability	5,024	5,269
Asset retirement obligations	450	441
Other	33	26
Total non-current liabilities	23,736	16,421
Total liabilities	52,020	58,408
Net assets		
Shareholders' equity		
Capital stock	2,542	2,559
Capital surplus	405	259
Retained earnings	6,364	1,232
Treasury shares	(5)	(5)
Total shareholders' equity	9,306	4,045
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,708	1,337
Deferred gains or losses on hedges	11	2
Foreign currency translation adjustment	(286)	(208)
Remeasurements of defined benefit plans	(169)	(126)
Total accumulated other comprehensive income	2,264	1,004
Share acquisition right	89	97
Total net assets	11,660	5,148
Total liabilities and net assets	63,681	63,557

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income [Japanese GAAP]

Quarterly Consolidated Statements of Income [Japanese GAAP]

(Million yen)

	Six Months ended December 31, 2019	Six Months ended December 31, 2020
Net sales	35,353	33,392
Cost of sales	32,928	33,180
Gross profit	2,424	212
Selling, general and administrative expenses	3,646	4,137
Operating loss	(1,221)	(3,925)
Non-operating income		
Interest income	9	6
Dividend income	129	103
Share of profit of entities accounted for using equity method	205	31
Foreign exchange gains	4	42
Other	33	251
Total non-operating income	382	434
Non-operating expenses		
Interest expenses	197	260
Other	53	59
Total non-operating expenses	251	319
Ordinary loss	(1,090)	(3,810)
Extraordinary income		
Gain on sales of investment securities	578	4,204
Gain on sale of non-current assets	296	—
Total extraordinary income	875	4,204
Extraordinary loss		
Provision for loss on sales of shares of subsidiaries and associates	—	5,343
Total extraordinary loss	—	5,343
Loss before income taxes	(214)	(4,950)
Income taxes – current	140	190
Income taxes – deferred	38	23
Total income taxes	178	213
Loss	(392)	(5,163)
Loss attributable to owners of parent	(392)	(5,163)

Quarterly Consolidated Statements of Comprehensive Income [Japanese GAAP]

(Million yen)

	Three Months ended December 31, 2019	Three Months ended December 31, 2020
Loss	(392)	(5,163)
Other comprehensive income loss (loss)		
Valuation difference on available-for-sale securities	222	(1,371)
Deferred gain (loss) on hedges	(15)	(13)
Foreign currency translation adjustment	(49)	78
Remeasurements of defined benefit plans, net of tax	59	42
Comprehensive loss (income) of affiliates accounted for by the equity method attributable to the Company	(1)	3
Total other comprehensive income (loss)	(214)	(1,260)
Comprehensive income	(178)	(6,423)
Comprehensive income (loss) attributable to		
Owners of the parent	(178)	(6,423)

Non-controlling interests

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(Segment Information)

I Six months Ended December 31., 2019 (April 1, 2019 to December 31, 2019)

Information concerning Net sales and Operating profit or loss by Reportable business segment

(Million yen)

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Shipbuilding & Engineering Business	Machinery & Technology Business			
Net sales					
External sales	22,117	13,235	35,353	—	35,353
Internal sales or transfers	106	10	117	(117)	—
Total	22,224	13,246	35,471	(117)	35,353
Segment profit (loss)	(1,970)	968	(1,001)	(219)	(1,221)

(Note 1) Details of “Adjustments” are as follows:

Adjustments for the segment profit or loss of ¥(219) million include corporate cost of ¥(242) million not allocated to each reportable segment, allowance for doubtful accounts of ¥2 million and elimination of inter-segment transaction of ¥20 million. Corporate cost consists of general and administrative expenses which do not belong to the reporting segment.

(Note 2) Segment profit or loss is adjusted with operating loss recorded in the quarterly consolidated statements of income.

(Note 3) Following the transfer of the shares and the business administration of SANOTEC Corporation from Sanoyas MTG Corporation to Sanoyas Shipbuilding Corporation in January 2020, we transferred SANOTEC Corporation from a part of Machinery & Technology Business to a part of Shipbuilding & Engineering Business. The segment information for the previous period is restated to current period presentation.

II Six months Ended December 31, 2020 (April 1, 2020 to December 31, 2020)

Information concerning Net sales and Operating profit or loss by Reportable business segment

(Million yen)

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Shipbuilding & Engineering Business	Machinery & Technology Business			
Net sales					
External sales	21,662	11,730	33,392	—	33,392
Internal sales or transfers	117	2	120	(120)	—
Total	21,780	11,732	33,512	(1205)	33,392
Segment profit (loss)	(3,127)	(483)	(3,611)	(314)	(3,925)

(Note 1) Details of “Adjustments” are as follows:

Adjustments for the segment loss of ¥(314) million include corporate cost of ¥(336) million not allocated to each reportable segment, allowance for doubtful accounts of ¥2 million and elimination of inter-segment transaction of ¥19 million.

Corporate cost consists of general and administrative expenses which do not belong to the reporting segment.

(Note 2) Segment loss is adjusted with operating loss recorded in the quarterly consolidated statements of income.

3. Supplementary information

Status of sales and orders

Segmental sales

Segment	Six months ended December 31, 2019 (April 1, 2019 to December 31, 2019)		Six months ended December 31, 2020 (April 1, 2020 to December 31, 2020)	
	(Million yen)	Composition ratio (%)	(Million yen)	Composition ratio (%)
Shipbuilding & Engineering Business	22,117	62.6	21,662	64.9
Machinery & Technology Business	13,235	37.4	11,730	35.1
Total	35,353	100.0	33,392	100.0

Order status and backlog of orders

Segment	Six months ended December 31, 2019 (April 1, 2019 to December 31, 2019)		Six months ended December 31, 2020 (April 1, 2020 to December 31, 2020)	
	Orders (Million yen)	Backlog of orders (Million yen)	Orders (Million yen)	Backlog of orders (Million yen)
Shipbuilding & Engineering Business	15,297	35,041	15,696	31,502
Machinery & Technology Business	9,850	7,764	11,048	8,484
Total	25,147	42,806	26,745	39,986

(Note) The backlog of orders of shipbuilding in the Shipbuilding & Engineering Business as of December 31, 2020 is stated on the percentage of completion method and the number of backlog of orders is 13 on delivery basis.