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Consolidated Financial Results for the First Quarter of Fiscal Year Ending March 31, 2020 [Japanese GAAP]



July 31, 2019

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 7022
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 Scheduled date of filing quarterly securities report: August 9, 2019
 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 First Quarter of Fiscal Year Ending March 31, 2020 (April 1, 2019 to June 30, 2019)

(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	%
Three months ended								
June 30, 2019	10,776	(8.1)	(1,081)	–	(1,086)	–	(1,092)	–
June 30, 2018	11,727	(2.1)	850	148.6	955	177.8	973	116.0

(Note) Comprehensive income: First Quarter of fiscal year ended March 31, 2020: ¥(871) million [–%]

First Quarter of fiscal year ended March 31, 2019: ¥1,200million [96.8%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2019	(33.54)	–
June 30, 2018	29.89	29.69

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
June 30, 2019	64,259	13,624	21.1
March 31, 2019	67,110	14,654	21.7

(Reference) Equity: As of June 30, 2019: ¥13,555 million
 As of March 31, 2019: ¥14,590 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2019	Yen —	Yen 0.00	Yen —	Yen 5.00	Yen 5.00
Fiscal year ending March 31, 2020	—				
Fiscal year ending March 31, 2020 (Forecast)	—	0.00	—	5.00	5.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(% 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	48,000	(0.3)	(400)	—	(400)	—	(400)	—	(12.28)

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

* 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):
 - June 30, 2019: 32,606,800 shares
 - March 31, 2019: 32,606,800 shares
 - 2) Total number of treasury shares at the end of the period:
 - June 30, 2019: 20,715 shares
 - March 31, 2019: 20,715 shares
 - 3) Average number of shares during the period:
 - Fiscal Year Ended June 30, 2019: 32,586,085 shares
 - Fiscal Year Ended June 30, 2018: 32,579,885 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, “twin surpluses” of shipping tonnage and shipbuilding capacity continues structurally and in China and Korea, which are our competitors, their governments support the shipbuilding industry as their policies. The situation is still tough in the Shipbuilding & Engineering business. The market of bulk carriers has weakened since the beginning of 2019. Although the market has been showing a moderate recovery trend since April 2019, the level of charter fee has been severe and the newbuilding shipping price has not recovered yet.

In the Shipbuilding business, new 82,000 DWT type PANAMAX bulk carriers and new 64,000 DWT type ULTRAMAX bulk carriers have been developed. These vessels are applied IMO NOx Tier III regulation and IACS Harmonized Common Structural Rules and further improved fuel consumption. In addition, 41,000 DWT type HANDY SIZE bulk carriers have been developed newly. This type of vessel with wide beam and shallow draft has larger cargo hold capacity and applies new regulations. We carry out sales promotion. On the other hand, under the severe shipbuilding market situation, we are also working on adding new item on our menu and receive building orders of special vessels and working ships following the order of ferries. As to the marine and gas tank business that we have been working on to complement the Shipbuilding business, we established "Gas Tank Sales Department" and "Gas Tank Design Department" as new dedicated organizations which are independent of the existing departments on April 1, 2019. Regarding LPG tank business, we decided to manufacture in the Mizushima Shipyard (Kurashiki City, Okayama Prefecture) which is our main shipyard in addition to the Osaka Shipyard (Osaka City, Osaka Prefecture), and we started to enhance the business.

We had regarded the M & T (Machinery & Technology) business as “second core business” and promoted various business portfolios. We recognize it is important and urgent issue to make our group business stable and sustainable and we promoted reorganization of the M & T group. Sanoyas Engineering Corporation and DAICHU CO., LTD. which are mainly engaged in manufacturing and maintenance service of industrial machinery merged on April 1, 2019. By reorganizing the functional activity in the new company, we have further promoted improvement of management efficiency and the best allocation of human resources. In addition, Sanoyas Engineering Corporation is scheduled to merge with Sanoyas Construction Machinery Corporation which is mainly engaged in sales and rental business of construction-use elevator on April 1, 2020. We intend to strengthen and expand the business structure by pursuing of synergies on sharing their factories. Furthermore, for the aim of promoting IT development in our businesses activities, we are going to assign smoothly and effectively system engineers to our group companies from SANOTEC Corporation which is engaged in software development and calculation/information processing business on April 1, 2019. At the same time, SANOTEC Corporation and Sanoyas Business Partner Corporation merged.

Consolidated net sales in the three months ended June 30, 2019 decreased by ¥950 million (8.1%) over the same period of the previous fiscal year, to ¥10,776 million. Operating loss was ¥1,081 million (operating profit of the same period of the previous fiscal year was ¥850 million), ordinary loss was ¥1,086 million (ordinary profit of the

same period of the previous fiscal year was ¥955 million), and loss attributable to owners of parent was ¥1,092 million (profit attributable to owners of parent of the same period of the previous fiscal year was ¥973 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 the newbuilding shipping price has not been recovered, but there were no records of new orders. We delivered 1 vessel of 64,000 DWT type ULTRAMAX bulk carriers, and the number of backlog of orders has been 15 vessels as of June 30, 2019. We will continue to focus on the sales with the policy of securing the backlog orders of approximately 2.5 years responding flexibly to the market trends. As marine business and gas tank business, we focused on sales of repairing services for vessels and LPG tanks. As a result of the business activities, the segment backlog of orders was ¥ 35,765 million on a percentage of completion method.

The segment net sales in the three months ended June 30, 2019 decreased by ¥650 million (9.0%) over the same period of the previous fiscal year, to ¥6,618 million. The evaluated net sales of the backlog of shipbuilding orders on a US dollar basis decreased because the yen strengthened against the US dollar during the first quarter ending March 31, 2020. The allowance for future loss on construction contracts increased. As a result, the operating loss was ¥1,177 million (operating profit of the same period of the previous fiscal year was ¥787 million).

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

Regarding the M & T business, the number of visitors to the amusement park increased due to an increase of inbound tourists to Japan and the Golden Week holiday for 10 days. As a result, the location business, which operates and manages amusement parks in Japan, performed well and drove overall sales and profits in the M & T Group. In addition, being based on brisk of construction works in Tokyo area, steady results were seen in such sectors as rental of construction-use elevators, works related to air-conditioning, drainage and sanitation facilities. As a result of the business activities, the segment backlog of orders was ¥8,435 million. The segment net sales in the three months ended June 30, 2019 decreased by ¥299million (6.7%) over the same period of the previous fiscal year, to ¥4,158 million. The operating profit increased by ¥56 million (35.1%), to ¥216 million.

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

We have not updated the consolidated financial results forecast announced in May 2019 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, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	20,108	17,093
Notes and accounts receivable - trade	15,305	15,355
Electronically recorded monetary claims - operating	465	561
Securities	500	500
Merchandise and finished goods	251	254
Work in process	1,117	1,708
Raw materials and supplies	659	698
Other	2,725	2,183
Allowance for doubtful accounts	(21)	(31)
Total current assets	41,112	38,323
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,175	6,083
Machinery and equipment, net	3,410	3,144
Land	4,980	4,398
Other, net	2,193	2,134
Total property, plant and equipment	16,760	15,760
Intangible assets		
Software	362	362
Goodwill	357	340
Other	31	31
Total intangible assets	752	734
Investments and other assets		
Investment securities	6,997	7,187
Long-term loans receivable	475	472
Deferred tax assets	247	260
Net defined benefit asset	277	309
Other	591	1,313
Allowance for doubtful accounts	(103)	(103)
Total investments and other assets	8,485	9,441
Total non-current assets	25,997	25,935
Total assets	67,110	64,259

(Million yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,950	12,006
Short-term loans payable	4,830	4,730
Current portion of long-term loans payable	3,853	3,835
Income taxes payable	273	64
Advances received	4,505	3,976
Provision for bonuses	495	241
Provision for construction warranties	167	141
Provision for loss on construction contracts	3,109	3,238
Lease obligations	165	167
Other	1,879	1,267
Total current liabilities	31,229	29,668
Non-current liabilities		
Long-term loans payable	12,699	12,224
Lease obligations	1,222	1,191
Deferred tax liabilities	2,322	2,361
Net defined benefit liability	4,501	4,708
Asset retirement obligations	451	452
Other	28	27
Total non-current liabilities	21,226	20,966
Total liabilities	52,456	50,634
Net assets		
Shareholders' equity		
Capital stock	2,538	2,538
Capital surplus	402	402
Retained earnings	8,739	7,483
Treasury shares	(5)	(5)
Total shareholders' equity	11,675	10,419
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,308	3,423
Deferred gains or losses on hedges	(2)	6
Foreign currency translation adjustment	(169)	(92)
Remeasurements of defined benefit plans	(221)	(201)
Total accumulated other comprehensive income	2,915	3,136
Share acquisition right	63	69
Total net assets	14,654	13,624
Total liabilities and net assets	67,110	64,259

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

Quarterly Consolidated Statements of Income [Japanese GAAP]

(Million yen)

	Three Months ended June 30, 2018	Three Months ended June 30, 2019
Net sales	11,727	10,776
Cost of sales	9,591	10,548
Gross profit	2,135	227
Selling, general and administrative expenses	1,284	1,309
Operating profit (loss)	850	(1,081)
Non-operating income		
Interest income	3	1
Dividend income	60	72
Share of profit of entities accounted for using equity method	16	26
Foreign exchange gains	87	–
Other	19	18
Total non-operating income	187	119
Non-operating expenses		
Interest expenses	66	64
Foreign exchange losses	–	45
Other	15	14
Total non-operating expenses	82	123
Ordinary profit (loss)	955	(1,086)
Profit (loss) before income taxes	955	(1,086)
Income taxes – current	38	37
Income taxes – deferred	(56)	(30)
Total income taxes	(18)	6
Profit (loss)	973	(1,092)
Profit (loss) attributable to owners of parent	973	(1,092)

Quarterly Consolidated Statements of Comprehensive Income [Japanese GAAP]

(Million yen)

	Three Months ended June 30, 2018	Three Months ended June 30, 2019
Profit (loss)	973	(1,092)
Other comprehensive loss (income)		
Valuation difference on available-for-sale securities	291	114
Deferred gain (loss) on hedges	(9)	9
Foreign currency translation adjustment	(92)	81
Remeasurements of defined benefit plans, net of tax	26	19
Comprehensive loss (income) of affiliates accounted for by the equity method attributable to the Company	10	(4)
Total other comprehensive loss (income)	226	220
Comprehensive income	1,200	(871)
Comprehensive income (loss) attributable to		
Owners of the parent	1,200	(871)
Non-controlling interests	–	–

(Segment Information)

I Three months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)

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	7,269	4,457	11,727	—	11,727
Internal sales or transfers	5	251	256	(256)	—
Total	7,274	4,709	11,983	(256)	11,727
Segment profit (loss)	787	159	947	(96)	850

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

Adjustments for the segment profit or loss of ¥96 million include corporate cost of ¥103 million not allocated to each reportable segment, allowance for doubtful accounts of ¥(1) million and elimination of inter-segment transaction of ¥(5) million.

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

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

II Three months Ended June 30, 2019 (April 1, 2019 to June 30, 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	6,618	4,158	10,776	—	10,776
Internal sales or transfers	2	131	134	(134)	—
Total	6,621	4,289	10,911	(134)	10,776
Segment profit (loss)	(1,177)	216	(961)	(120)	(1,081)

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

Adjustments for the segment profit of ¥120 million include corporate cost of ¥126 million not allocated to each reportable segment, allowance for doubtful accounts of ¥(0) million and elimination of inter-segment transaction of ¥(5) 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.

3. Supplementary information

Status of sales and orders

Segmental sales

Segment	Three months ended June 30, 2018 (April 1, 2018 to June 30, 2018)		Three months ended June 30, 2019 (April 1, 2019 to June 30, 2019)	
	(Million yen)	Composition ratio (%)	(Million yen)	Composition ratio (%)
Shipbuilding & Engineering Business	7,269	62.0	6,618	61.4
Machinery & Technology Business	4,457	38.0	4,158	38.6
Total	11,727	100.0	10,776	100.0

Order status and backlog of orders

Segment	Three months ended June 30, 2018 (April 1, 2018 to June 30, 2018)		Three months ended June 30, 2019 (April 1, 2019 to June 30, 2019)	
	Orders (Million yen)	Backlog of orders (Million yen)	Orders (Million yen)	Backlog of orders (Million yen)
Shipbuilding & Engineering Business	9,998	41,815	1,470	35,765
Machinery & Technology Business	3,180	6,784	4,182	8,435
Total	13,179	48,600	5,652	44,200

(Note) The backlog of orders of shipbuilding in the Shipbuilding & Engineering Business as of June 30, 2019 is stated on the percentage of completion method and the number of backlog of orders is 15 on delivery basis.