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



January 31, 2020

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 7022
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 Scheduled date of filing quarterly securities report: February 10, 2020
 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, 2020 (April 1, 2019 to December 31, 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	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2019	35,353	2.3	(1,221)	–	(1,090)	–	(392)	–
December 31, 2018	34,558	(3.0)	589	57.9	518	29.3	427	(11.3)

(Note) Comprehensive income: Third Quarter of fiscal year ending March 31, 2020: ¥ (178) million [–%]

Third Quarter of fiscal year ended March 31, 2019: ¥89 million [(94.0) %]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2019	(12.06)	–
December 31, 2018	13.13	13.01

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
December 31, 2019	64,491	14,336	22.1
March 31, 2019	67,110	14,654	21.7

(Reference) Equity: As of December 31, 2019: ¥14,249 million As of March 31, 2019: ¥14,590 million

2. Cash Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Year ended March 31, 2019	Yen —	Yen 0.00	Yen —	Yen 5.00	Yen 5.00
Year ending March 31, 2020	—	0.00	—		
Year ending March 31, 2020 (Forecast)				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)	(2,900)	—	(2,800)	—	(2,500)	(76.72)

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

(Note 2) The exchange rate used for unfixed foreign currency items in assuming the Company's earnings forecast is 107 yen to the U.S dollar.

* Notes:

(1) Changes in significant subsidiaries during the current quarter (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 revision of accounting standards: No

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

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Number of issued shares (common shares)

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

As of December 31, 2019: 32,606,800 shares

As of March 31, 2019: 32,606, 800 shares

2) Number of treasury shares at the end of the period:

As of December 31, 2019: 20,715 shares

As of March 31, 2019: 20,715 shares

3) Average number of outstanding shares during the period:

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

Nine months ended December 31, 2018: 32,579,885 shares

* These quarterly 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. 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. The shipping market of bulk carriers has still been in a sluggish trend and newbuilding shipping price has been stagnant for a long time. At the same time, the shipbuilding industry is undergoing consolidation and restructuring both domestically and internationally.

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. At the same time, we are expanding the range of our products to passenger ferries, special vessels, working ships, etc., and we are working on adding new item on our menu. On December 3, 2019, we delivered a passenger and car ferry, which was built for the first time in the past about 20 years. 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 are constructing the production facilities in Mizushima.

We had regarded the Machinery & Technology business as “second core business” and promoted various business portfolios. Firstly, Sanoyas Engineering Corporation and DAICHU CO., LTD. which are mainly engaged in manufacturing and maintenance service of industrial machinery merged on April 1, 2019. 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. As for the sales strategy of shot blast machines, Sanoyas Engineering Corporation signed distributor agreement in Taiwanese markets with Taiwanese and Japanese trading companies on September 6, 2019 to expand the sales of paint stripping devices "Jig Stripper" to overseas markets. Secondly, 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. As a result of the business integration and consolidation of SANOTEC, the majority of the business domain has shifted to shipbuilding-related industries. We decided to transfer the shares and the business administration of SANOTEC Corporation from Sanoyas MTG Corporation to Sanoyas Shipbuilding Corporation that was effective on January 1, 2020. Thirdly, we decided to acquire all shares of Happiness Electric Corporation that is a manufacturer of power control boards, power distribution boards, power switch boards, etc. on December 12, 2019. The company became a wholly-owned subsidiary on January 6, 2020.

Consolidated net sales in the nine months ended December 31, 2019 increased by ¥795 million (2.3%) over the same period of the previous fiscal year, to ¥35,353 million. Operating loss was ¥1,221 million (operating profit of the same period of the previous fiscal year was ¥589 million), ordinary loss was ¥1,090 million (ordinary profit of the same period of the previous fiscal year was ¥518 million), and loss attributable to owners of parent was ¥392 million (profit attributable to owners of parent of the same period of the previous fiscal year was ¥427 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, and we received new orders of 3 vessels of new 82,000 DWT type PANAMAX bulk carriers. In addition, we delivered 2 vessels of 82,000 DWT type PANAMAX bulk carriers, 2 vessels of 64,000 DWT type ULTRAMAX bulk carriers, 1 vessel of 60,000 DWT type SUPRAMAX bulk carriers and 1 vessel of passenger and car ferries. The number of backlog of orders has been 13 vessels as of December 31, 2019.

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 ¥ 34,996 million on a percentage of completion method.

The segment net sales in the nine months ended December 31, 2019 increased by ¥629 million (3.1%) over the same period of the previous fiscal year, to ¥21,094 million. The costs of shipbuilding have remained high due to increasing material and construction costs. In addition, the evaluated net sales of the backlog of shipbuilding orders, including the newly ordered vessels, on a US dollar basis decreased because the yen has been stronger against the US dollar since April 2019. As a result, the profitability of the vessels deteriorated and the operating loss was ¥2,018 million (operating loss of the same period of the previous fiscal year was ¥62 million).

[2] Machinery & Technology business

Regarding the Machinery & Technology business, the number of visitors to the amusement park increased due to an increase of inbound tourists to Japan and favorable weather. As a result, the location business, which operates and manages amusement parks in Japan, performed well and drove overall sales and profits in the Machinery & Technology Group. In addition, being based on brisk of construction works in Tokyo area, steady results were seen in such sectors as sales and rental of construction-use elevators. The cosmetics market continues to expand every year, and sales of vacuum emulsifiers and stirrers for cosmetics continue to increase. As a result of the business activities, the segment backlog of orders was ¥7,810 million. The segment net sales in the nine months ended December 31, 2019 decreased

by ¥165 million (1.2%) over the same period of the previous fiscal year, to ¥14,258 million. The operating profit increased by ¥134 million (15.2%), to ¥1,017 million.

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

We have not updated the consolidated financial results forecast announced in October 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.

Quarterly Consolidated Financial Statements [Japanese GAAP]

(1) Quarterly Consolidated Balance Sheets [Japanese GAAP]

(Million yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	20,108	19,383
Notes and accounts receivable - trade	15,305	13,067
Electronically recorded monetary claims - operating	465	761
Securities	500	500
Merchandise and finished goods	251	199
Work in process	1,117	1,890
Raw materials and supplies	659	754
Other	2,725	2,792
Allowance for doubtful accounts	(21)	(22)
Total current assets	41,112	39,327
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,175	5,867
Machinery and equipment, net	3,410	3,002
Land	4,980	4,254
Other, net	2,193	2,130
Total property, plant and equipment	16,760	15,254
Intangible assets		
Software	362	401
Goodwill	357	305
Other	31	31
Total intangible assets	752	738
Investments and other assets		
Investment securities	6,997	7,016
Long-term loans receivable	475	401
Deferred tax assets	247	217
Net defined benefit asset	277	317
Other	591	1,319
Allowance for doubtful accounts	(103)	(103)
Total investments and other assets	8,485	9,170
Total non-current assets	25,997	25,164
Total assets	67,110	64,491

(Million yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,950	11,633
Short-term loans payable	4,830	4,249
Current portion of long-term loans payable	3,853	4,039
Income taxes payable	273	65
Advances received	4,505	4,137
Provision for bonuses	495	146
Provision for construction warranties	167	253
Provision for loss on construction contracts	3,109	1,967
Lease obligations	165	176
Other	1,879	1,337
Total current liabilities	31,229	28,006
Non-current liabilities		
Long-term loans payable	12,699	13,189
Lease obligations	1,222	1,223
Deferred tax liabilities	2,322	2,435
Net defined benefit liability	4,501	4,831
Asset retirement obligations	451	450
Other	28	18
Total non-current liabilities	21,226	22,149
Total liabilities	52,456	50,155
Net assets		
Shareholders' equity		
Capital stock	2,538	2,538
Capital surplus	402	402
Retained earnings	8,739	8,183
Treasury shares	(5)	(5)
Total shareholders' equity	11,675	11,119
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,308	3,531
Deferred gains or losses on hedges	(2)	(16)
Foreign currency translation adjustment	(169)	(221)
Remeasurements of defined benefit plans	(221)	(162)
Total accumulated other comprehensive income	2,915	3,130
Share acquisition right	63	86
Total net assets	14,654	14,336
Total liabilities and net assets	67,110	64,491

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

Quarterly Consolidated Statements of Income [Japanese GAAP]

(Million yen)

	Nine Months ended December 31, 2018	Nine Months ended December 31, 2019
Net sales	34,558	35,353
Cost of sales	30,362	32,928
Gross profit	4,195	2,424
Selling, general and administrative expenses	3,606	3,646
Operating profit (loss)	589	(1,221)
Non-operating income		
Interest income	13	9
Dividend income	111	129
Share of profit of entities accounted for using equity method	13	205
Foreign exchange gains	102	4
Other	64	33
Total non-operating income	305	382
Non-operating expenses		
Interest expenses	198	197
Commission for syndicate loan	102	—
Other	75	53
Total non-operating expenses	376	251
Ordinary profit (loss)	518	(1,090)
Extraordinary income		
Gain on sales of investment securities	—	578
Gain on sales of non-current assets	—	296
Total extraordinary income	—	875
Profit (loss) before income taxes	518	(214)
Income taxes – current	157	140
Income taxes – deferred	(67)	38
Total income taxes	90	178
Profit (loss)	427	(392)
Profit (loss) attributable to owners of parent	427	(392)

Quarterly Consolidated Statements of Comprehensive Income [Japanese GAAP]

(Million yen)

	Nine Months ended December 31, 2018	Nine Months ended December 31, 2019
Profit(loss)	427	(392)
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(284)	222
Deferred gain (loss) on hedges	5	(15)
Foreign currency translation adjustment	(141)	(49)
Remeasurements of defined benefit plans, net of tax	80	59
Comprehensive income (loss) of affiliates accounted for by the equity method attributable to the Company	0	(1)
Total other comprehensive income (loss)	(338)	214
Comprehensive income	89	(178)
Comprehensive income (loss) attributable to		
Owners of the parent	89	(178)
Non-controlling interests	—	—

(Segment Information)

I Nine months Ended December 31, 2018 (April 1, 2018 to December 31, 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 consolidated statements of income (Note 2)
	Shipbuilding & Engineering Business	Machinery & Technology Business			
Net sales					
External sales	20,465	14,092	34,558	—	34,558
Internal sales or transfers	7	720	728	(728)	—
Total	20,473	14,813	35,286	(728)	34,558
Segment profit (loss)	(62)	882	819	(230)	589

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

Adjustments for the segment profit or loss of ¥(230) million include corporate cost of ¥(247) million not allocated to each reportable segment, allowance for doubtful accounts of ¥0 million and elimination of inter-segment transaction of ¥16 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 profit recorded in the quarterly consolidated statements of income.

II Nine 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	21,094	14,258	35,353	—	35,353
Internal sales or transfers	4	425	429	(429)	—
Total	21,098	14,684	35,783	(429)	35,353
Segment profit (loss)	(2,018)	1,017	(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.

Supplementary information

Status of sales and orders

Segmental sales

Segment	Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)		Nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)	
	(Million yen)	Composition ratio (%)	(Million yen)	Composition ratio (%)
Shipbuilding & Engineering Business	20,465	59.2	21,094	59.7
Machinery & Technology Business	14,092	40.8	14,258	40.3
Total	34,558	100.0	35,353	100.0

Order status and backlog of orders

Segment	Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)		Nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)	
	Orders (Million yen)	Backlog of orders (Million yen)	Orders (Million yen)	Backlog of orders (Million yen)
Shipbuilding & Engineering Business	24,462	43,286	14,978	34,996
Machinery & Technology Business	10,140	7,247	10,169	7,810
Total	34,602	50,534	25,147	42,806

(Note) The backlog of orders of shipbuilding in the Shipbuilding & Engineering Business as of December 31, 2019 is stated on the percentage of completion method and the number of backlog of orders is 13 on delivery basis.