

Steady progress in synergy creation; Unfavorable Forex Moves to Dampen FY2023/12 Profit

SUMMARY

FY22/12 results were better than the revised plan, and the year-end dividend was revised upward. The company guided for lower profit on higher sales in FY2023/12, primarily driven by the negative impact of foreign exchange rates and weakness in overseas earnings in the mainstay Machinery & Tools segment, while the company is expected to steadily improve earnings and create synergies excluding the exchange-rate effect.

FY2022/12 Full year results

Operating profit rose 85.5% on and adjusted basis, to ¥5.89 bn, on sales growth of 13.4%, to ¥162.4 bn. (We adjusted the growth rate by comparing the most recent results of the combined entity with the combined sales of the two previously separate groups at the end of the previous year). Results exceeded the revised plan announced in August 2022. In the machinery and Tools, and Construction Products segments, the company passed on increases raw material prices more than expected, contributing to improved profitability. In line with the upward revision and the company's shareholder return policy of a payout ratio of around 35%, the year-end dividend per share was revised upward to ¥103.0, from ¥97.0, bringing the total per share dividend for the year to ¥113.0, from ¥107.0, including a commemorative dividend of ¥50.

One of the highlights of these results is the quantitative disclosure of the progress on two main thrusts of the medium-term management plan: 1) strengthening of group synergies and 2) strategic expansion. The company claims to have generated ¥130 mn from measures related to group synergies, such as cross-selling, strengthening of cross-division effort in strategic end markets such as electronic vehicles, and reduction in overhead costs. An additional ¥80 mn in operating profit came from strategic expansion measures, including the introduction of new products such as compact braces and laser KEREN, a laser cleaning tools. The target is to add ¥1bn - ¥2bn in operating profit from each source by FY2026/12, with most of the gains scheduled to come in the later half of the plan.

FY ¥mn,%	Net sales	YoY	OP	YoY	RP	YoY	NP	YoY	EPS ¥	DPS ¥
2019/12	175,395				6,892		5,620			
2020/12	145,028	-17.3		-17.3	4,539	-34.1	2,996			
2021/12	143,180	-1.3		-1.3	3,178	-30.0	3,065			
2022/12CE	158,000			10.4	5,500	73.1	4,100	33.8	161.9	107.0
2022/12	162,416			13.4	5,895	85.5	4,531	47.8	178.9	113.0
2023/12CE	170,000			4.7	5,700	-3.3	4,380	-3.3	172.9	61.0

Source: SIR from the company materials

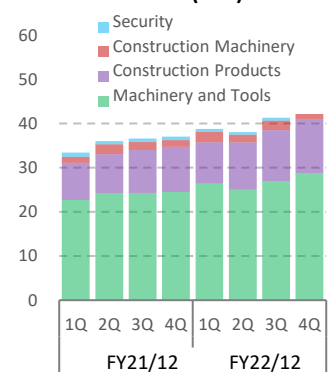
Note: Before FY2021, The adjusted amount of the two groups' revenues for the period.

The DPS for FY22/12 includes a commemorative dividend of ¥50.

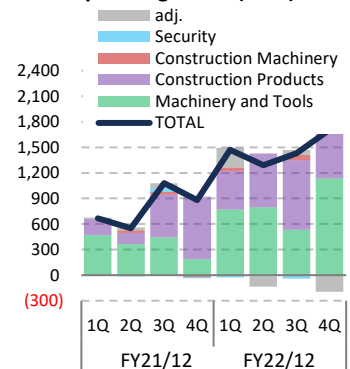
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Net Sales (¥bn)



Operating Profit (¥mn)



Source: Compiled by SIR from the company IR material.

Note: Before FY2021, The adjusted amount of the two groups' revenues for the period.

Shohei Hasegawa

Analyst

research@sessapartners.co.jp



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FY2023/12 plan

The company guided for a 3.3% decline in operating profit, to ¥5.70 bn, on a 4.7% rise in sales, to ¥170 bn. In the mainstay Machinery & Tools segment, operating profit is expected to fall 14.4% on a 6.4% rise in sales, to ¥ 113.9 bn. The decline in profitability is primarily a result of an unfavorable move in exchange rates. The segment generates just under 30% of its sales from overseas, of which over 60% is from the Americas. As shown in the chart on the right, quarterly earnings have been rising steadily, and the company is expected to further expand earnings excluding the effect of the exchange rate. However, it should be noted that the number of enquiries is declining in North America due to increased uncertainty over the economic outlook, and that momentum in the order backlog is weakening. The company plans a full-year dividend of ¥61.0 per share. as the commemorative dividend will be stripped out.

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Sessa Partners Inc.

#5a i-o Azabu, 2-8-14
Azabujyuban, Minato-ku, Tokyo
info@sessapartners.co.jp