



President Akihiko Sakurai

## Seika Corporation (8061)



## Company Information

|            |   |
|------------|---|
| Market     | TSE 1st Section   |
| Industry   | Wholesale   |
| President  | Akihiko Sakurai   |
| HQ Address | Shin-Tokyo Bldg, 3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo |
| Year-end   | End of March  |
| Homepage   | <a href="https://seika.com/en/">https://seika.com/en/</a>   |

## Stock Information

| Share Price | Shares Outstanding  | Total market cap | ROE Act. | Trading Unit |          |
|-------------|---------------------|------------------|----------|--------------|----------|
| ¥1,785      | 12,820,650 shares   | ¥22,884 million  | 10.0%    | 100 shares   |          |
| DPS Est.    | Dividend yield Est. | EPS Est.         | PER Est. | BPS Act.     | PBR Act. |
| ¥55.00      | 3.1%                | ¥162.93          | 11.0 x   | ¥2,365.06    | 0.75 x   |

\*The share price is the closing price on June 18. Shares Outstanding, DPS and EPS were taken from the brief financial report for the term ended March 2021.

ROE and BPS are based on the results in the term ended March 2021.

## Earnings Trend

| Fiscal Year          | Sales   | Operating Income | Ordinary Income | Net Income | EPS     | DPS   |
|----------------------|---------|------------------|-----------------|------------|---------|-------|
| March 2018 (Actual)  | 165,585 | 2,598            | 2,877           | 1,655      | 128.38  | 55.00 |
| March 2019 (Actual)  | 157,145 | 2,118            | 2,418           | 1,587      | 125.50  | 45.00 |
| March 2020 (Actual)  | 140,677 | 2,809            | 3,122           | -1,262     | -100.73 | 45.00 |
| March 2021 (Actual)  | 136,273 | 2,581            | 2,906           | 2,721      | 221.87  | 45.00 |
| Match 2022(Forecast) | 88,500  | 2,850            | 3,100           | 1,950      | 162.93  | 55.00 |

\*Unit: million yen or yen. The company implemented a reverse stock split at 1:5 on October 1, 2017. EPS and DPS adjusted retroactively. Net income is profit attributable to owners of the parent. Hereinafter the same shall apply.

This report outlines the overview of Seika Corporation for the fiscal year March 2021 earnings results.

## Table of Contents

### [Key Points](#)

#### [1. Company Overview](#)

#### [2. Fiscal Year March 2021 Earnings Results](#)

#### [3. Fiscal Year March 2022 Earnings Forecasts](#)

#### [4. Conclusions](#)

#### [5. Progress of the Mid-term Management Plan, Re-SEIKA 2023](#)

#### [6. Initiatives in the Energy Business](#)

[<Reference: Regarding Corporate Governance>](#)

## Key Points

- The orders received in the term ended March 2021 was 141,840 million yen, up 17.1% year on year. Although marketing activities were restricted amid the COVID-19 crisis, the company carried out careful marketing activities by holding online meetings, etc. in each business, and increased the number of orders received. Sales declined 3.1% year on year to 136,273 million yen. Despite the contribution of the Power Plant and Global Businesses, sales decreased, due to the postponement of investment in power generation equipment for general industry in the Chemicals and Energy Plant Business. Operating income declined 8.1% year on year to 2,581 million yen. In addition to the drop of sales in the Chemicals and Energy Plant Business, the significant drop in profit due to additional expenses, etc. could not be offset, despite the contribution from the shrinkage of deficits in the Industrial Machinery and Global Businesses. Net income improved 3,983 million yen year on year to positive 2,721 million yen, thanks to the decrease in corporate income taxes through the withdrawal of the business of manufacturing and selling printed circuit boards in Thailand and the transfer of shares.
- As for the earnings forecasts for the term ending March 2022, it is estimated that sales will be 88.5 billion yen, operating income will rise 10.4% year on year to 2,850 million yen, and net income will drop 28.4% year on year to 1,950 million yen. As for sales, the Accounting Standard for Revenue Recognition was adopted this term, so the company will post only commission fees of agency transactions rather than the total amount. The conventional sales are called trade volume in the new standard. For this term, trade volume is projected to decline 4.6% year on year to 130 billion yen, because the downward risk under the COVID-19 pandemic was taken into account. Net income is estimated to decrease, because there are no longer temporary factors that existed in the previous term. The dividend is to be 55 yen/share, up 10 yen/share from the previous term. The estimated payout ratio is 33.8%.
- Due to the COVID-19, the mid-term management plan Re-SEIKA 2023 made a bad start. There is a significant gap between the earnings forecasts for the term ending March 2022 and the goals for the final term of the mid-term plan. It is noteworthy whether they can put each marketing project (renewable energy, life science, and mobility) into practice. The key to achieving the goals is the growth of revenues from relatively healthy affiliated companies in addition to the maintenance of revenues from the Power Plant Business and the Chemicals and Energy Plant Business and the expansion of revenues from the Industrial Machinery Business. In the medium/long term, the actualization of power generation from hydrogen in the energy business (the Power Plant Business and the Chemicals and Energy Plant Business), which is the revenue base of the company, for realizing a decarbonized society may become a new revenue source. Accordingly, their future performance is noteworthy.

## 1. Company Overview

Under the corporate philosophy “To Contribute to Society Through the Expansion of Business,” Seika Corporation sells equipment, devices, etc. and offers services in the fields of electric power, chemistry, energy and industrial machinery, as a general machinery trading company.

Its three characteristics and strengths are sales capability thoroughly versed in fields, extensive expertise in each business, and a wide network including 103 business bases both inside and outside Japan.

### 1-1 Corporate History

In July 1947, after the Pacific War, Mr. Douglas MacArthur, Supreme Commander for the Allied Powers, ordered the dissolution of the old Mitsubishi Corporation with a memorandum. In October 1947, the first president Koji Nakabayashi and staff of the machinery division of Moji Branch played a central role in founding Seika Corporation in Moji-ku, Kitakyushu-shi.

The corporate name is derived from “Essence of commerce: To pursue the quintessence of commerce, and offer benefits to others while earning money,” “Star company of the west: To aim to become a star company in western Japan,” and “China: It may become helpful if the trade with China increases.”

The company expanded business actively, establishing branches throughout Japan, including Tokyo and Osaka, and an overseas office in Dusseldorf, Germany (old West Germany), where only a few Japanese people resided around that time, in November 1954. The company was listed in the first section of Tokyo Stock Exchange in October 1961.

Then, it has grown as a general machinery trading company, by fortifying the sales base mainly in western Japan and establishing footholds in the U.S., Europe, and Asia.

The company is currently implementing the long-term management vision “Envisioned Seika Group 10 years from now” and its second step 3-year plan “Mid-term Management Plan Re-SEIKA 2023,” in preparation for 2027, which will mark the 80th anniversary of the company’s founding.

### 1-2 Corporate Philosophy, etc.

Seika Corporation set up the following corporate philosophy and code of conduct.

|                      |   |
|----------------------|---|
| Corporate Philosophy | <p>“Our Philosophy is to Contribute to Society Through the Expansion of Business.”</p> <p>No matter how society changes, we are committed to conducting business that rewards all stakeholders and being a Valuable Business that contributes to the realization of an affluent society.</p>  |
| Code of conduct      | <ol style="list-style-type: none"> <li>1. Being trustworthy is a priceless asset.</li> <li>2. To always have a high appreciation of the significance of existence is the basis of the business activities of a trading company.</li> <li>3. Fast and accurate information activities and effective responses win everything.</li> <li>4. To make decisions and handle things using objective consideration and pursue necessity and rationality without being influenced by intuition.</li> <li>5. To be driven by a pioneering spirit, be challenged, and be proud to overcome all difficulties, barriers, and turbulent times.</li> </ol> |

In order to promote unity and group management, Seika Corporation has also established the “Group Policy,” “Code of Conduct,” and “Group Mission,” and each company belonging to the Group and each employee working therein share these policies and link them to daily actions, aiming to improve the corporate value of the entire Group.

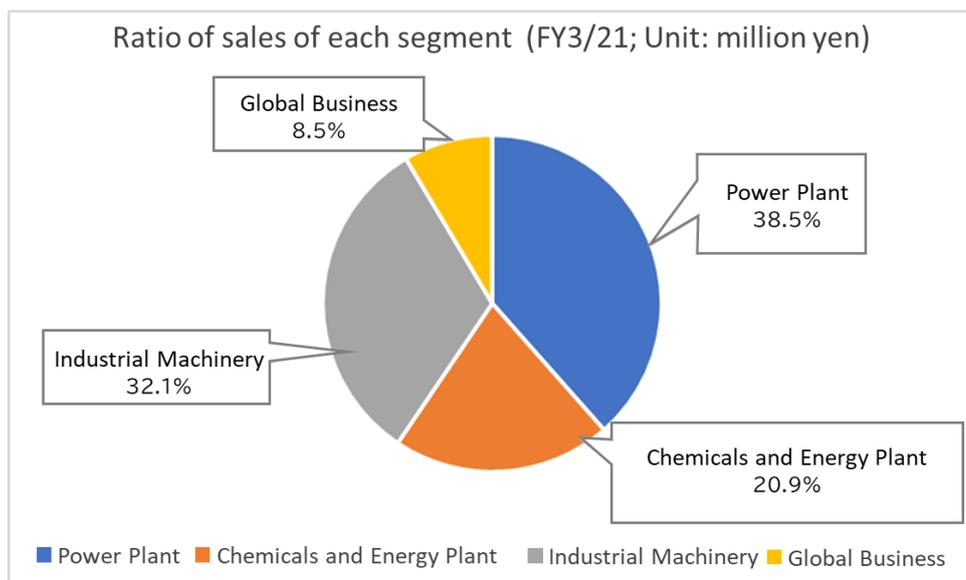
|                 |  |
|-----------------|--|
| Group Policy    | Strive for excellence and foster a sustainable society with corporate integrity. |
| Code of Conduct | Comply with laws and act with ethical standards to gain the trust of society     |
| Group Mission   | Create a fulfilling society together   |

### 1-3 Business Description

#### (1) Business segments

As a general machinery trading company, Seika Corporation sells machinery, equipment, devices, and ancillary products and offers services in the fields of electric power, chemistry, energy and industrial machinery.

The segments to be reported are 4 segments, which are “Power Plant,” “Chemicals and Energy Plant,” “Industrial Machinery,” and “Global Business”, from the fiscal year ending March 2021.



#### ① Power Plant

The clients of Seika Corporation are electric power companies in western Japan, including The Kansai Electric Power, Kyushu Electric Power, The Chugoku Electric Power, Shikoku Electric Power, Power Development Electric Power Company, and joint electric power companies, such as Wakayama Kyodo Power. The company sells and provides after-sales services for industrial power generation equipment, such as boilers and gas turbines, as well as environmental conservation equipment for treating discharged water and exhaust gas.

The company also sells anti-crime and anti-disaster equipment, such as security equipment and fire extinguishing equipment for nuclear plants.

Furthermore, the company provides power-generation equipment for renewable energies such as small-sized water, wind, and biomass, and after-sales services.

The suppliers include Mitsubishi Power, which is a group company of Mitsubishi Heavy Industries (MHI), and Seika Corporation possesses the distributorship for thermal power generation equipment of Mitsubishi Power.



(taken from the company's material)

**BRIDGE REPORT**



**② Chemicals and Energy Plant**

Seika Corporation sells in-house power generation equipment, such as boilers and turbines, environmental conservation equipment for treating discharged water and exhaust gas, etc. and offers after-sales services to companies in oil refining, chemical, paper, and steel industries. As in the power plant business, the company procures these from Mitsubishi Power.

In addition, the company sells products that reduce environmental burdens, as well as equipment and fuel for biomass power generation.



Chemicals Plant



Fuels for biomass power generation equipment

(taken from the company’s material)

**③ Industrial Machinery**

Seika Corporation provides clients in a broad range of industries with textile equipment, food processing equipment, brewing equipment, various plant machinery, liquid crystal-related equipment, environment-related apparatus, uninterruptible power systems (UPS), printed circuit boards for electronic me, etc. produced by Japanese or foreign manufacturers. The company also supplies measurement instruments that make full use of advanced technology, such as laser measurement instruments and pore size measurement equipment, to government agencies and research institutes.

In addition, the company sells lithium ion battery-related equipment and motor manufacturing equipment for electronic vehicles (EVs) in China.

The company’s subsidiary Nippon Daiya Valve Co., Ltd. manufactures and sells various industrial valves.



EV-related equipment such as lithium-ion battery manufacturing lines



NIPPON DAIYA VALVE Diaphragm valve

(taken from the company’s material)

④ Global Business

(Europe)

While selling industrial robots to automotive customers in the automotive field, Seika Corporation sells and leases submersible pumps used in public construction, etc. in the social infrastructure field. These products are procured mainly from Japanese manufacturers.

(North America)

As for the automotive field, the company sells Japanese-made industrial machinery in the PCB surface mount production line mainly to the automotive parts industry.

(Asia)

As for the industrial machinery field, the company sells Japanese-made machinery and equipment to companies within the automotive, textile, chemical industries, and also procures raw materials outside Japan and sells them to textile manufacturers.

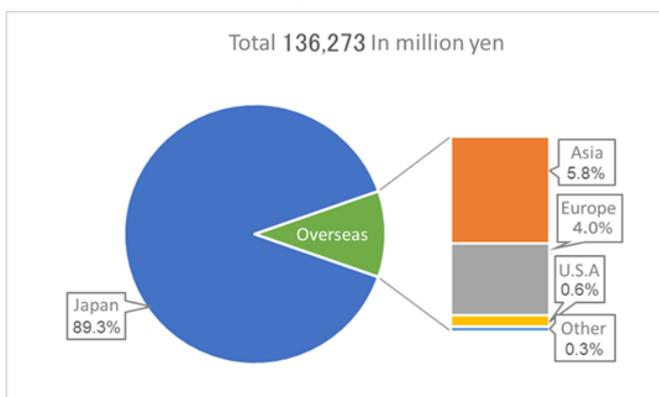


(taken from the company's material)

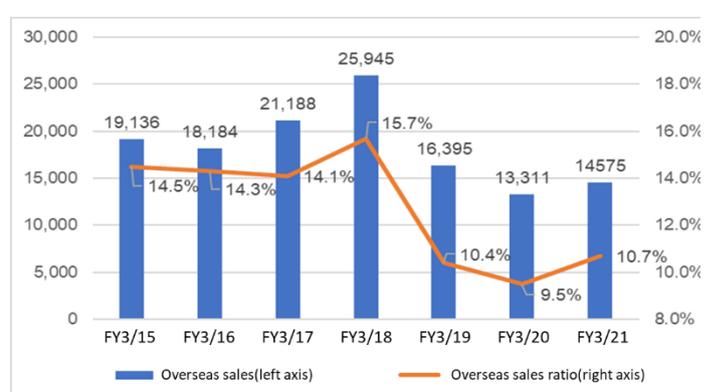
(2) Sales in each region

Domestic sales account for about 90%, however, the development of overseas markets where there is significant room for growth and expanding overseas sales ratio are challenges for the company.

Ratio of sales in each region in term ended March 2021



Variation in overseas sales



## 1-4 Characteristics and strengths

### (1) Hands-on sales capability

The capability of hands-on sales nurtured in their more than 70 years' history is the company's greatest strength.

By building relationships of trust through meticulous customer services and forming personal connections, Seika Corporation is able to obtain a steady stream of orders.

### (2) High level of expertise in each business

Seika Corporation has garnered excellent reputation as an essential business partner with a high level of expertise, including profound information gathering capabilities and the ability to develop proposals that stay one step ahead of clients.

### (3) Extensive network comprised of 103 bases in Japan and overseas

Ten years ago, the company only had thirty bases, but, thanks to M&A, they did not only expand their bases domestically, but also have been rapidly expanding the number of bases in Europe and Southeast Asia in anticipation of globalization. The speed and comprehensiveness of information have increased further, and by utilizing this, the company hopes to further improve its corporate value.

### (4) Measures to strengthen employee education and sales capabilities

Seika Corporation primarily uses on-the-job training to develop its employees. Senior staff and those with more experience teach newer employees the essentials for business, and the company also focuses on overseas training programs and seminars for each skill level.

Nowadays, the company requests the former staff of manufacturers and client companies to provide its employees with consultation services and hands-on support for sales.

The advice the company receives allows them to further improve their expertise and sales capabilities.

## 1-5 ROE analysis

|                          | FY 3/16 | FY 3/17 | FY 3/18 | FY 3/19 | FY 3/20 | FY 3/21 |
|--------------------------|---------|---------|---------|---------|---------|---------|
| <b>ROE (%)</b>           | 6.6     | 7.9     | 5.9     | 5.6     | -4.7    | 10.0    |
| Net income margin (%)    | 1.38    | 1.42    | 1.00    | 1.01    | -0.90   | 2.00    |
| Total asset turnover (x) | 1.52    | 1.45    | 1.53    | 1.71    | 1.58    | 1.40    |
| Leverage (x)             | 3.13    | 3.82    | 3.83    | 3.42    | 3.32    | 3.67    |

In the term ended March 2021, ROE recovered to positive. According to the conventional accounting method, net income margin in the term ending March 2022 is estimated to decrease to 1.5%, but we would like to expect that profit margin will rise as leverage is relatively high.

If the target net income of 2.5 billion yen for the term ending March 2023 is achieved in the mid-term management plan "Re-SEIKA 2023," ROE will be 8% or more.

## 1-6 Efforts for ESG

### <E: Environment>

The environmental policy of the company is to "make efforts to protect the earth environment and contribute to the realization of a sustainable society."

Under this policy, the company obtained the ISO14001 certificate in 2005, and is promoting environmentally-friendly products.

The environmentally friendly products handled by the company are diverse, including equipment for treating exhaust gas from boilers and incinerators and organic solvent recovery equipment for chemical and semiconductor factories. The amount of orders in the term ended March 2021 were 12,473 (down 7.5% from the previous year) and 88.6 billion yen (down 6.5% from the previous year), as mentioned below.

The company will continue to contribute to the conservation of the earth environment through business activities, and not merely from the perspective of social contribution.

| Expand sales of environmentally friendly products                       |                        |   |
|---|------------------------|---|
| Orders for environmentally friendly products in the term ended Mar.2021 | No. of orders received | Amount of orders received (billion yen) |
| Energy saving/resource saving/efficiency improving                      | 10,800                 | 80.3                                    |
| Pollution control   | 985                    | 7.1                                     |
| Recycling/reuse   | 688                    | 1.2                                     |
| Total   | 12,473                 | 88.6                                    |

### <S: Social Responsibility>

To fulfill its “social responsibility,” Seika Corporation engages in work-style reforms as follows.

“Promotion of women’s active participation in the workplace”

- To recruit more women in the main career track
- To support female employees in developing their careers
- To appoint female managers

“Enhancement of health of employees”

- To adopt Premium Friday (Casual day at the same time)
- To promote the use of paid holidays
- The company bears the expense for cancer screening (tumor marker option) in a health checkup
- The company bears the cost of influenza vaccinations

“Personnel development”

- Training at each level
- Overseas training system

“Initiatives amid the COVID-19 pandemic”

- To recommend telework
- To provide employees with portable PCs
- To reduce the use of paper, etc.

### <G: Governance>

The website of the company discloses the activities for each item of the Corporate Governance Code.

The effectiveness of the board of directors in the term ended March 2021 was evaluated by an external organization, and the Nomination Examination Committee and the Remuneration Examination Committee, which are composed of outside directors and outside auditors, were established under the board of directors as an arbitrary system for following the corporate governance code.

The company fully follows the corporate governance code before its revision in June 2021.

In addition, the company translated some convocation notices into English, produced the English versions of reference material for briefing financial results and fact books, and adopted a platform for electronic exercise of voting rights.

In order to grow sustainably and improve its corporate value in the mid-to-long term, the company will strive to strengthen corporate governance, and pursue a sound, transparent management system.

### 1-7 Shareholder return

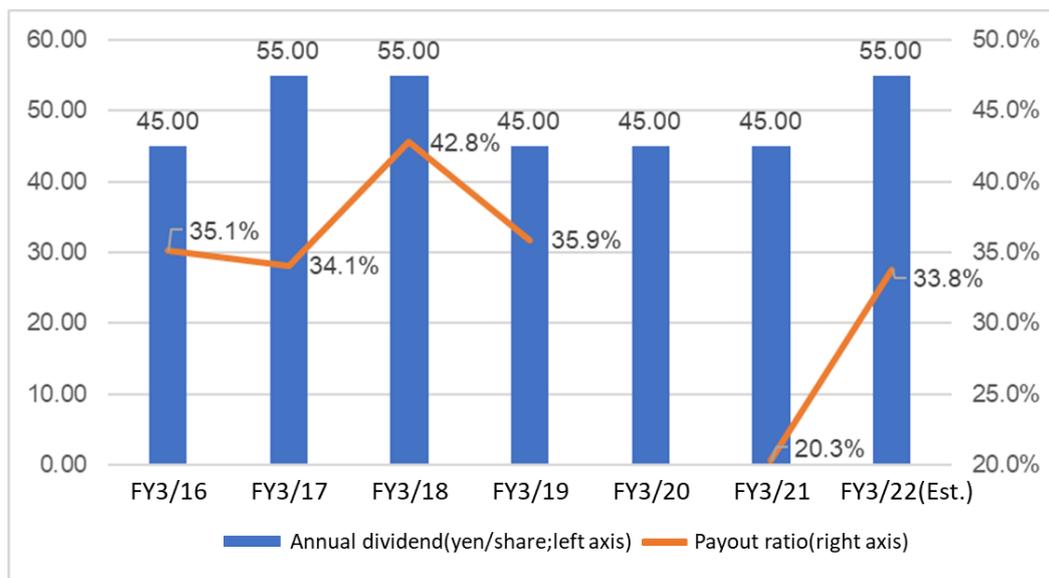
The primary managerial mission of the company is to return profit to shareholders, and its basic policy is stable dividend payment.

Through the efficient business operation from the marketing and financial aspects, the company aims to fortify the management base. While dealing with the demand for funds for developing new businesses, etc., the company plans to achieve a consolidated payout ratio of 35%.

For the term ending March 2022, the company plans to pay an interim dividend of 25 yen/share and a term-end dividend of 30 yen/share, that is, a total of 55 yen/share, and the estimated payout ratio is 33.8%.

The company will actively return profit to shareholders while comprehensively considering the dividend policy, full-year results, etc.

## BRIDGE REPORT



## 2. Fiscal Year March 2021 Earnings Results

### (1) Consolidated Business Results

|                  | FY 3/20 | Ratio to sales | FY 3/21 | Ratio to sales | YoY   | FY 3/21(Plan) | Compared with the plan |
|------------------|---------|----------------|---------|----------------|-------|---------------|------------------------|
| Sales            | 140,677 | 100.0%         | 136,273 | 100.0%         | -3.1  | 135,000       | +0.9%                  |
| Gross profit     | 14,906  | 10.6%          | 14,672  | 10.8%          | -1.6% | -             | -                      |
| SG&A             | 12,096  | 8.6%           | 12,091  | 8.9%           | -0.0% | -             | -                      |
| Operating Income | 2,809   | 2.0%           | 2,581   | 1.9%           | -8.1% | 2,400         | +7.5%                  |
| Ordinary Income  | 3,122   | 2.2%           | 2,906   | 2.1%           | -6.9% | 2,700         | +7.6%                  |
| Net Income       | -1,262  | -              | 2,721   | 2.0%           | -%    | 1,650         | +64.9%                 |

\*Unit: million yen. Net Income is profit attributable to owners of parent.

### Sales dropped, but profit turned positive.

The orders received in the term ended March 2021 was 141,840 million yen, up 17.1% year on year. Although marketing activities were restricted amid the COVID-19 crisis, the company carried out careful marketing activities by holding online meetings, etc. in each business, and increased the number of orders received. Sales declined 3.1% year on year to 136,273 million yen. Despite the contribution of the Power Plant and Global Businesses, sales decreased, due to the postponement of investment in power generation equipment for general industry in the Chemicals and Energy Plant Business. Operating income declined 8.1% year on year to 2,581 million yen. In addition to the drop of sales in the Chemicals and Energy Plant Business, the significant drop in profit due to additional expenses, etc. could not be offset, despite the contribution from the shrinkage of deficits in the Industrial Machinery and Global Businesses. Net income improved 3,983 million yen year on year to positive 2,721 million yen, thanks to the decrease in corporate income taxes through the withdrawal of the business of manufacturing and selling printed circuit boards in Thailand and the transfer of shares.

### (2) Overview of business performance in each segment

The company has used new business segments from the term ended March 2021.

Out of the previous five segments (Power Plant, Chemicals and Energy Plant, Industrial Machinery, Advanced Materials and Measuring Instruments, and Global Business), the Industrial Machinery business and the Advanced Materials and Measuring Instruments business have been integrated to form the new Industrial Machinery business.

As a result, the company has four segments from the term ended March 2021: Power Plant, Chemicals and Energy Plant, Industrial Machinery, and Global Business. Accordingly, for overview of business performance in each segment, the results for the term ended March 2020 have been converted to those of the new segments.

In addition, the company has changed the method of calculating segment income by allocating “corporate expenses and amortization of goodwill,” which has been an adjustment item for the difference from total segment income, to each segment in accordance with reasonable standards.

### ◎Sales and Profit

|                                | FY 3/20 | Ratio to sales | FY 3/21 | Ratio to sales | YoY    |
|--------------------------------|---------|----------------|---------|----------------|--------|
| <b>Sales</b>                   |         |                |         |                |        |
| Power Plant                    | 39,965  | 28.4%          | 52,494  | 38.5%          | +31.3% |
| Chemicals and Energy Plant     | 42,970  | 30.5%          | 28,494  | 20.9%          | -33.7% |
| Industrial Machinery           | 46,312  | 32.9%          | 43,677  | 32.1%          | -5.7%  |
| Global Business                | 11,428  | 8.1%           | 11,608  | 8.5%           | +1.6%  |
| Total Sales                    | 140,677 | 100.0%         | 136,273 | 100.0%         | -3.1%  |
| <b>Profits in each segment</b> |         |                |         |                |        |
| Power Plant                    | 1,416   | 3.5%           | 1,325   | 2.5%           | -6.4%  |
| Chemicals and Energy Plant     | 525     | 1.2%           | 84      | 0.3%           | -84.0% |
| Industrial Machinery           | 1,033   | 2.2%           | 1,179   | 2.7%           | +14.1% |
| Global Business                | -207    | -              | -7      | -              | -      |
| Total profit in all segments   | 2,767   | 2.0%           | 2,581   | 1.9%           | -6.7%  |

\*Unit: million yen. Sales to external clients. The composition ratio of profit means the rate of profit to sales.

#### ① Power Plant

Sales grew, but profit dropped.

Sales grew, thanks to the increase in sales from large-scale projects, including renewal of power generation equipment for maintaining social infrastructure. Operating income declined, because small and medium-scale projects for thermal power generation equipment decreased, despite projects for enhancing safety, etc. in accordance with new standards for nuclear power plants increased.

#### ② Chemicals and Energy Plant

Sales declined, and profit decreased considerably.

Sales declined, as the investment in power generation equipment for general industries, including chemical and steel industries, was put off. Profit dropped significantly, due to the expenses for additional work in some transactions, etc. as well as the drop of sales.

#### ③ Industrial Machinery

Sales decreased, but profit increased.

Sales declined, because the sales of equipment for lithium ion batteries for the Chinese market dropped, despite the sales of machinery for plants, food products, and textiles increased. Operating income rose, thanks to the sales of large-scale installation of power distribution equipment for semiconductor makers, the steady performance of Nippon Daiya Valve Co., Ltd., and the improvement in performance of Seika Digital Image Corporation.

#### ④ Global Business

Sales grew, and deficit shrank.

Sales grew, thanks to the favorable sales of subsidiaries in Europe, the U.S., and Southeast Asia, such as Tsurumi (Europe) GmbH. Operating loss shrank, because the performance of subsidiaries in Europe and the U.S. was healthy, despite the performance of some overseas subsidiaries, such as Seika YKC Circuit (Thailand) Co., Ltd., was sluggish.

## BRIDGE REPORT



## (3) Financial standing and cash flows

## ◎Main BS

|                          | March 2020 | March 2021 |   | March 2020 | March 2021 |
|--------------------------|------------|------------|---|------------|------------|
| <b>Current Assets</b>    | 79,417     | 81,371     | <b>Current liabilities</b>              | 62,141     | 64,536     |
| Cash                     | 15,062     | 15,763     | Payables                                | 32,883     | 32,730     |
| Receivables              | 38,693     | 36,159     | ST Interest-Bearing Liabilities         | 7,026      | 7,565      |
| Inventories              | 5,540      | 7,636      | Advance received                        | 19,103     | 21,913     |
| Advance payment          | 18,823     | 20,639     | Fixed Liabilities                       | 4,616      | 3,032      |
| <b>Noncurrent Assets</b> | 13,251     | 16,087     | LT Interest-Bearing Liabilities         | 1,963      | 53         |
| Tangible Assets          | 2,473      | 2,816      | <b>Total Liabilities</b>                | 66,757     | 67,568     |
| Intangible Assets        | 467        | 834        | <b>Net Assets</b>                       | 25,911     | 29,889     |
| Investment, Others       | 10,310     | 12,436     | Retained earnings                       | 15,738     | 17,907     |
| <b>Total assets</b>      | 92,668     | 97,458     | <b>Total liabilities and net assets</b> | 92,668     | 97,458     |

\*Unit: million yen. Interest-bearing debt does not include lease obligations.

Total assets increased 4,789 million yen from the end of the previous term to 97,458 million yen, because advance payment and investments & other assets augmented, despite receivables decreased. Total liabilities rose 811 million yen from the end of the previous term to 67,568 million yen, because advances received increased.

Net assets increased 3,978 million yen from the end of the previous term to 29,889 million yen, due to the rise in retained earnings, etc. Capital-to-asset ratio rose 2.6 points from the end of the previous term to 29.8%.

## ◎Cash Flow

|                     | FY 3/20 | FY 3/21 | Increase and Decrease |
|---------------------|---------|---------|-----------------------|
| Operating cash flow | 3,400   | 4,137   | +737                  |
| Investing cash flow | -299    | -1,566  | -1,267                |
| Free cash flow      | 3,101   | 2,571   | -530                  |
| Financing cash flow | -1,211  | -1,903  | -692                  |
| Cash and equivalent | 13,346  | 14,035  | +689                  |

\*Unit: million yen.

Pretax profit rose significantly, but free CF declined, because investing CF was negative. Despite the reduction of interest-bearing liabilities, financing CF worsened. The cash position deteriorated.

## 3. Fiscal Year March 2022 Earnings Forecasts

## ◎Consolidated Earnings Forecasts

|                  | FY 3/21 | Ratio to sales | FY 3/22 Est. | Ratio to sales | YoY    |
|------------------|---------|----------------|--------------|----------------|--------|
| Sales            | 136,273 | 100.0%         | 88,500       | 100.0%         | -      |
| Operating Income | 2,581   | 1.9%           | 2,850        | 3.2%           | +10.4% |
| Ordinary Income  | 2,906   | 2.1%           | 3,100        | 3.5%           | +6.6%  |
| Net Income       | 2,721   | 2.0%           | 1,950        | 2.2%           | -28.4% |

\*Unit: million yen. The estimates were announced by the company.

### **Change of accounting standards**

As for the earnings forecasts for the term ending March 2022, it is estimated that sales will be 88.5 billion yen, operating income will rise 10.4% from the previous term to 2,850 million yen, and net income will drop 28.4% from the previous term to 1,950 million yen. As for sales, the Accounting Standard for Revenue Recognition was adopted this term, so the company will post only commission fees of agency transactions rather than the total amount. The conventional sales are called trade volume in the new standard. For this term, trade volume is projected to decline 4.6% from the previous term to 130 billion yen, because the downward risk under the COVID-19 pandemic was taken into account. Net income is estimated to decrease, because there are no longer temporary factors that existed in the previous term. The dividend is to be 55 yen/share, up 10 yen/share from the previous term. The estimated payout ratio is 33.8%.

## **4. Conclusions**

Due to the COVID-19, the mid-term management plan Re-SEIKA 2023 made a bad start. There is a significant gap between the earnings forecasts for the term ending March 2022 and the goals for the final term of the mid-term plan. It is noteworthy whether they can put each marketing project (renewable energy, life science, and mobility) into practice. The key to achieving the goals is the growth of revenues from relatively healthy affiliated companies in addition to the maintenance of revenues from the Power Plant Business and the Chemicals and Energy Plant Business and the expansion of revenues from the Industrial Machinery Business. In the medium/long term, the actualization of power generation from hydrogen in the energy business (the Power Plant Business and the Chemicals and Energy Plant Business), which is the revenue base of the company, for realizing a decarbonized society may become a new revenue source. Accordingly, their future performance is noteworthy.

## **5. Progress of the Mid-term Management Plan, Re-SEIKA 2023**

According to the mid-term management plan, whose final term is the term ending March 2023, the company aims to achieve a consolidated operating income of 3.7 billion yen and a net income of 2.5 billion yen. However, in the term ended March 2021, operating income was 2,581 million yen and a net income was 2,721 million yen. For the term ending March 2022, it is estimated that operating income will be 2,805 million yen and net income will be 1,950 million yen. This indicates a significant gap from the goals in the final term of the mid-term plan. However, it can be expected that the revenues from the Chemicals and Energy Plant Business, including affiliated companies, will improve and the revenues from the Industrial Machinery Business and overseas subsidiaries, whose performance is relatively healthy, will expand.

## **6. Initiatives in the Energy Business**

For actualizing a decarbonized society, the company will grow the energy business (the Power Plant Business and the Chemicals and Energy Plant Business), which is a stable revenue base, into a growing revenue business. As people became aware of climate changes, the criticism against coal-fired thermal power intensified, so the outlook is uncertain. Meanwhile, the company has been contributing to the stable supply of electric power since it was founded. It has the mission to keep our society free from blackouts. To do so, the company will use the energy cloud based on IoT and AI, and give various feasible proposals for solving social issues and yielding economic returns, such as power generation from co-combustion of ammonia and hydrogen. In parallel, the company will accelerate the initiatives for renewable energy, including biomass and hydraulic power, and maintain business revenues. Although the power generation from hydrogen, which would contribute to decarbonization, has many problems, the company is actively making efforts to solve the problems, for example, by joining Japan Hydrogen Association.

If it becomes possible to generate power from hydrogen, new power generation businesses, which will produce significant revenues, will emerge.

The company considers the energy business as a stable revenue business, but if hydrogen-based power generation becomes possible, that business will become a growing revenue business.

## <Reference: Regarding Corporate Governance>

### ◎Organization type, and the composition of directors and auditors

|                   |   |
|-------------------|---|
| Organization type | Company with an audit and supervisory board |
| Directors         | 8 directors, including 3 outside ones       |
| Auditors          | 4 directors, including 2 outside ones       |

At the annual general meeting of shareholders held in June 2020, the number of independent outside directors increased by one (to a total of three), securing more than one-third of the board of directors. The company is working to strengthen its governance.

### ◎Corporate Governance Report

Last update date: June 25, 2021

#### < Basic Stance on Corporate Governance >

Our corporate philosophy is “To Contribute to Society Through the Expansion of Business.” We are committed to improving corporate value over the mid-to-long term while establishing a good relationship with all stakeholders. We believe that “soundness and transparency of management” and “prompt decision-making and action” are critical for achieving these goals, and we continually strive to strengthen corporate governance.

In addition, our company intends to strengthen its supervisory structure by appointing independent outside directors and independent outside corporate auditors.

#### <Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

| Principles   | Disclosure contents   |
|--|---|
| 【Principle 1-4 The so-called strategically held shares】            | <p>“Policy for strategically held shares”</p> <p>Considering the details, scales, periods, etc. of transactions with business partners, we hold their shares as necessary, in order to maintain and strengthen the relationships with them.</p> <p>Our company's basic policy is to dispose of and reduce held shares that are deemed to have little strategic purpose. Every year, the Board of Directors decides whether there is an appropriate reason for holding each share. We investigate whether the benefits and risks associated with holding a share are commensurate with the cost of capital, and disclose our findings in the securities report.</p> <p>Our company sold a portion of its held shares during the term ended March 2021.</p> <p>“Policy on exercising voting rights regarding strategically held shares”</p> <p>Regarding the exercise of voting rights for shares held by our company, while respecting these companies' management policy, we will confirm whether each proposal contributes to the improvement of our corporate value over the mid-to-long term, and make a comprehensive decision.</p> |
| 【Principle 5-1 Policy for constructive dialogue with shareholders】 | <p>In order to improve our corporate value in the mid-to-long term through active dialogue with shareholders and institutional investors, the president explains the financial results and the progress of the mid-term management plan at a session for briefing financial results, which is held twice a year, and a general meeting of shareholders has sufficient time for questions and answers, to answer questions from shareholders carefully.</p> <p>The sections of general affairs and personnel affairs deal with the applications for dialogue (interview) from individual shareholders, while the planning section replies to applications from corporate shareholders, including institutional ones.</p>   |

## BRIDGE REPORT



This report is intended solely for information purposes, and is not intended as a solicitation for investment. The information and opinions contained within this report are provided by our company based on data made publicly available, and the information within this report comes from sources that we judge to be reliable. However, we cannot wholly guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

Copyright(C) Investment Bridge Co.,Ltd. All Rights Reserved.

To view back numbers of Bridge Reports on Seika Corporation (8061) and other companies and to see IR related seminars of Bridge Salon, please go to our website at the following url: [www.bridge-salon.jp/](http://www.bridge-salon.jp/)