

Hisaka Newsletter

The 92nd Fiscal Year (Interim)

April 1 to September 30, 2020



Liquid continuous sterilizer (tube type)

BUSINESS REPORT

To our shareholders,

The first half of our 92nd fiscal year has ended, and we would like to provide an overview report on this period.

Due to the spread of COVID-19 and the subsequent rapid decline in socioeconomic activity, the global economy in the first half of our fiscal year faced an extremely difficult situation. In Japan as well, temporary business closure requests and movement restrictions greatly suppressed economic activity, reduced personal consumption, and caused a rapid worsening of the economy. With recent gradual easing of restrictions on economic activity, there are signs of moderate recovery; however, the future remains unclear. Even in the industries of Hisaka Group customers, with the exception of a few, projects have been postponed or reduced in size due to capital investment cuts, and demand has been weakening.

In this sluggish economic environment, orders received by the Hisaka Group during the first half of the fiscal year reached 14,254 million yen (a 10.9% decrease compared with the same period of the previous fiscal year). Due to a slump in orders received, delivery postpone, and fewer large-scale projects, net sales were 13,888 million yen (a decrease of 14.4% compared with the same period of the previous fiscal year).

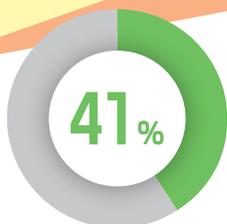
In terms of profit, the decrease in net sales led to an operating profit of 866 million yen (a decrease of 21.7% compared with the same period of the previous fiscal year), with an ordinary profit of 1,050 million yen (a decrease of 17.9% compared with the same period of the previous fiscal year). The net profit for the quarter attributable to shareholders of the parent company was 686 million yen (a decrease of 39.6% compared with the same period of the previous fiscal year), since we had recorded gains from negative goodwill as extraordinary income in the same period of the previous year.

We would like to ask all of our valued shareholders for their continued cooperation and support.



Yoshikazu Takeshita
President and CEO,
December 2020

Results by Segment

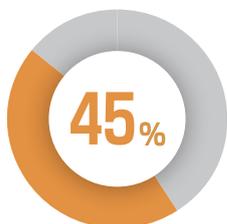
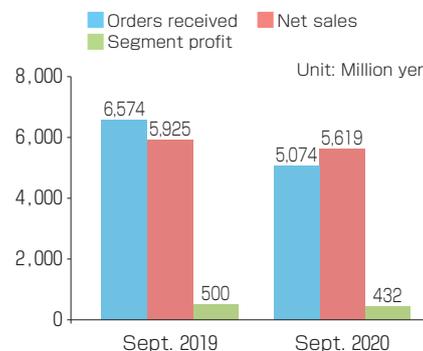


Heat Exchanger Segment

The Heat Exchanger Segment manufactures and sells plate heat exchangers that perform the heating and cooling of fluids, which are essential in various industries. Orders received reached 5,074 million yen (a 22.8% decrease compared with the same period of the previous fiscal year). New shipbuilding projects, steel, and small and medium-size general-purpose products for industrial equipment performed sluggishly, resulting in a decrease.

Net sales were 5,619 million yen (a decrease of 5.2% compared with the same period of the previous fiscal year). Although maintenance-related orders were steady, orders for small and medium-size general-purpose products for industrial equipment were sluggish, resulting in reduced revenue.

Segment profit was 432 million yen (a decrease of 13.6% compared with the same period of the previous fiscal year).

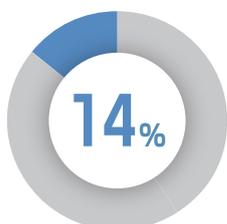
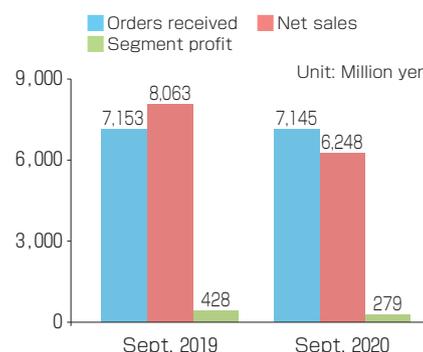
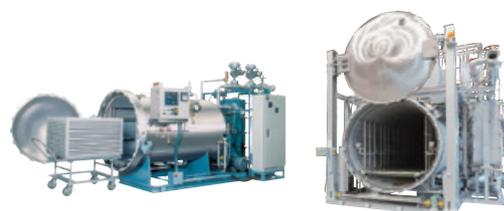


Process Engineering Segment

The Process Engineering Segment manufactures and sells cooking disinfecting devices used for retort pouch foods and the like, plus sterilizing and culturing devices for pharmaceuticals, and dyeing and finishing devices for fiber products. Orders received reached 7,145 million yen (a 0.1% decrease compared with the same period of the previous fiscal year). Orders for COVID-19 vaccine culture plants and other pharmaceutical equipment were strong, but new projects for food manufacturing equipment and inquiries for dyeing and finishing devices declined. As a result, the orders received were flat.

Net sales were 6,248 million yen (a decrease of 22.5% compared with the same period of the previous fiscal year). There were plant projects for pharmaceutical equipment and dyeing and finishing devices, but large projects for food manufacturing equipment declined and movement restrictions and delivery delays due to restrictions on visits resulted in reduced revenue.

Segment profit was 279 million yen (a decrease of 34.8% compared with the same period of the previous fiscal year).



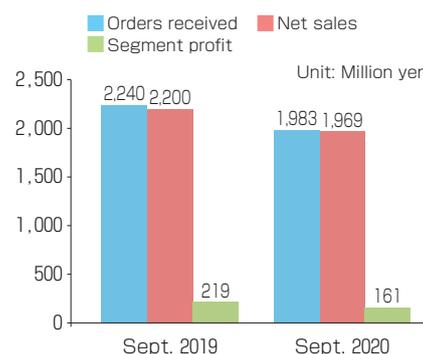
Valve Segment

The Valve Segment manufactures and sells ball valves and the like used in the control of various fluids.

Orders received reached 1,983 million yen (an 11.4% decrease compared with the same period of the previous fiscal year). Inquiries decreased due to a decrease in capital investment and reduction in plant project size.

Due to a reduction in orders received, net sales were 1,969 million yen (a decrease of 10.5% compared with the same period of the previous fiscal year).

Segment profit was 161 million yen (a decrease of 26.2% compared with the same period of the previous fiscal year).

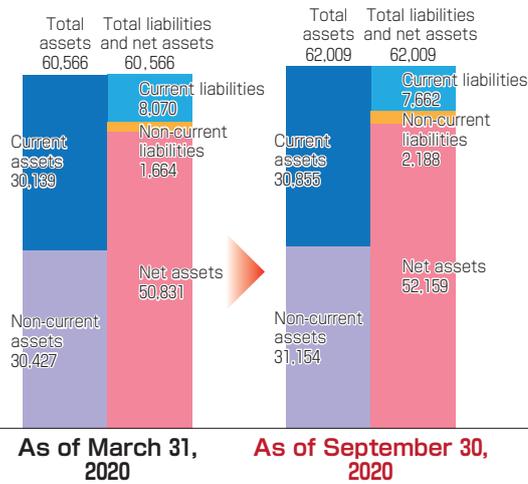


* Starting from the current period, subsidiary segments (operations) that conventionally had been included in "Other" segments have been assigned to the "Heat Exchanger," "Process Engineering," and "Valve" main segments according to the nature of the segment, and segments other than the main segments have been changed to the "Other" category. Segment information on comparison with the same period of the previous fiscal year has been prepared based on segment categories reported after the change.

Consolidated Financial Highlights

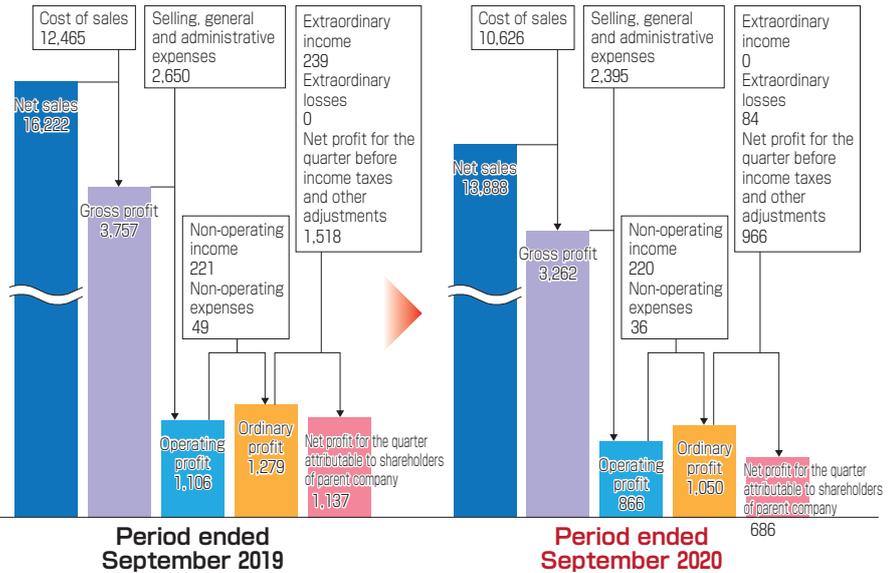
Summary of Consolidated Balance Sheets

Unit: Million yen



Summary of Consolidated Profit and Loss Statement

Unit: Million yen



Topics

G-20 Initiatives for Post- COVID-19

Impact of COVID-19 Pandemic

Due to the spread of COVID-19, it is expected that orders received, net sales, and profit will decline in Hisaka Group business areas as well, except in some industries, as planned projects have been postponed or reduced in size due to cuts in capital investment.

(Millions of yen)	Difference between initial and revised plans	Period ended March 2021 Initial plan Formulated before pandemic	Period ended March 2021 Revised plan (Announced Aug. 7, 2020)
Orders received	-4,500	33,000	28,500
Net sales	-3,500	32,000	28,500
Operating profit	-700	2,000	1,300
Ordinary profit	-660	2,200	1,540
Net profit for the current period attributable to shareholders of parent company	-490	1,500	1,010

Initiatives for Drastically Changing Social Environment and Social Issues

The Hisaka Group views this difficult business environment as an opportunity to solve social issues and expand business.

New vision of society	Value provided by Hisaka Group	Relevant segment
Conversion to sustainable society		
Reduce greenhouse gas emissions to zero	Supply heat exchangers for geothermal/biomass power plants and CO ₂ recovery systems	Heat Exchanger Segment
Reduce food loss	Extend expiration dates via food sterilization technology	Process Engineering Segment
Development of self-sufficient supply chain		
Produce vaccines domestically	Deliver culture tanks to vaccine production plants	Process Engineering Segment
Redevelop production bases	Design/construct plants that save manpower	Process Engineering Segment
Rapid digitization		
Accelerate DX	Design DX-supporting plants	Process Engineering Segment
Develop IoT, 5G, etc.	Increase semiconductor demand by increasing communication equipment, etc.	Heat Exchanger Segment, Valve Segment



Accelerating Cooperation within Group and Enhancing Pharmaceutical Equipment Segment Development

Background of Segment Development Enhancement

In the pharmaceutical industry, the target of development by pharmaceutical companies is shifting from small-molecule drugs by chemosynthesis, to biopharmaceuticals and other large-molecule drugs, and global market expansion is expected. As we monitor market trends like these, in April 2019 we welcomed Komatsugawa Chemical Engineering Co., Ltd., a company that owns engineering technology, machinery, and equipment for biopharmaceutical manufacturing, into our Group.

Value Provided by Hisaka Group

We handle pharmaceutical sterilization equipment, injection and solution preparation equipment, C/SIP (Cleaning/Sterilization in Place) equipment, heating and cooling equipment, and other equipment systems, and have the multidisciplinary engineering capability and plant construction capability to develop these pharmaceutical manufacturing processes.

Komatsugawa Chemical Engineering has an abundant delivery record and expertise in the manufacture of microorganism and animal cell culturing devices (culture tanks) used in the manufacture of antibody drugs, vaccines, and other biopharmaceuticals. From small jar fermenters (small culturing devices) for 30-liter processing, to large animal cell culture tanks exceeding 10 m³, Komatsugawa can support a broad range of sizes, and can design and manufacture plant units that combine these specifications.

Through value chain expansion utilizing these strengths of our two companies, we can propose a wide range of solutions to customers.

Future Initiatives

Our two companies plan to accelerate our system of collaboration even further. We aim to develop a sales and production system that can quickly meet the needs of our customers, and expand sales in the pharmaceutical equipment market.

Through the aforementioned initiatives, we plan to achieve at least 3 billion yen (about a 30% increase year-on-year) in net sales of pharmaceutical equipment during the fiscal year ending in March 2021, even in a difficult business environment.

Consolidated Results

Reference

Unit: Million yen

Category	Fiscal year	90th fiscal year interim (Period ended September 2018)	91st fiscal year interim (Period ended September 2019)	92nd fiscal year interim (Period ended September 2020)	90th fiscal year (Period ended March 2019)	91st fiscal year (Period ended March 2020)	92nd fiscal year (Period ended March 2021)
Orders received		14,279	16,001	14,254	30,669	31,952	28,500
Net sales		15,278	16,222	13,888	30,939	32,511	28,500
Operating profit		1,165	1,106	866	2,040	2,274	1,300
Ordinary profit		1,334	1,279	1,050	2,337	2,573	1,540
Net profit for the quarter (current period) attributable to shareholders of parent company		807	1,137	686	1,596	2,080	1,010
Net profit for the quarter (current period) per share (in yen)		27.04	39.78	24.44	53.48	73.39	35.94
Gross assets		63,707	61,565	62,009	63,041	60,566	-
Net assets		52,419	50,760	52,159	51,691	50,831	-
Net assets per share (in yen)		1,755.78	1,801.67	1,851.58	1,731.40	1,804.13	-
Annual dividend per share (in yen)		-	-	-	20.00	20.00	30.00
Dividend payout ratio (%)		-	-	-	37.4	27.3	79.5
Dividend on equity ratio (DOE) (%)		-	-	-	1.2	1.1	1.7

Company Profile (Current as of September 30, 2020)

Company name:	HISAKA WORKS, LTD.
Established:	May 1942
Capital:	4.15 billion yen
Number of employees:	Consolidated: 932, Non-consolidated: 648
Head office address:	2-12-7 Sonezaki, Kita-ku, Osaka City
Branch offices and plant:	Tokyo Branch Office (Chuo-ku, Tokyo) Nagoya Branch Office (Nagoya City, Aichi) Kyushu Branch Office (Fukuoka City, Fukuoka) Kitakyushu Branch Office (Kitakyushu City, Fukuoka) Konoike Plant (Higashiosaka City, Osaka) Ome Plant (Ome City, Tokyo)
Major subsidiaries:	MICROZERO CO., LTD. (Tachikawa City, Tokyo) ASAHI INDUSTRY CO., LTD. (Ome City, Tokyo) KOMATSUGAWA CHEMICAL ENGINEERING CO., LTD. (Chiyoda-ku, Tokyo) HISAKAWORKS S.E.A. SDN. BHD. (Malaysia) HISAKA WORKS (CHINA) CO., LTD. (China)

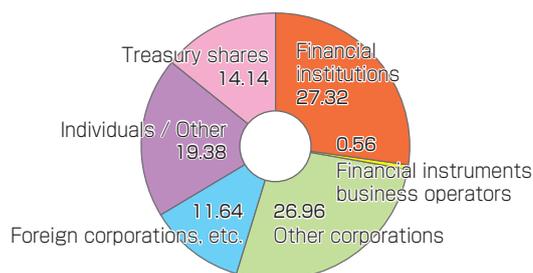
Directors

Director, President and Chief Executive Officer	Yoshikazu Takeshita
Director, Senior Managing Executive Officer	Tetsuya Inoue
Director, Managing Executive Officer	Koji Ohta
Director, Managing Executive Officer	Tadashi Iizuka
Director, Managing Executive Officer	Toshiyuki Funakoshi
Director (Outside)	Koji Mizumoto
Director (Outside)	Yuko Tsuno
Corporate Auditor	Mitsugu Nakamichi
Auditor (Outside)	Akira Nakai
Auditor (Outside)	Noriyuki Fujita

Share Status (as of September 30, 2020)

Total number of authorized shares: 129,020,000
Total number of shares issued: 32,732,800
Number of shareholders: 3,100

Shareholding ratio by owner (%)



Major shareholders (Top 10)

Shareholder name	Number of shares held	Shareholding ratio
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,128,900	7.57%
Custody Bank of Japan, Ltd. (Trust Account)	1,533,300	5.45%
NIPPON STEEL Stainless Steel Corporation	1,400,000	4.98%
Nippon Life Insurance Company	960,770	3.41%
MUFG Bank, Ltd.	912,640	3.24%
Inaba Denki Sangyo Co., Ltd.	910,802	3.24%
TAKUMA Co., Ltd.	642,000	2.28%
Mizuho Bank, Ltd.	612,640	2.17%
Hisaka Works Business Partners Shareholding Association	579,286	2.06%
STATE STREET BANK AND TRUST COMPANY 505103	527,974	1.87%

(Note) Treasury shares (4,628,511 shares) are excluded.

Shareholders' Memo

Business year	April 1 to March 31 of the following year
Record date for year-end dividends	March 31
Record date for interim dividends	September 30
Annual General Meeting of Shareholders	June every year
Keeper of shareholder register and account management institution for special account	Mitsubishi UFJ Trust and Banking Corporation
Contact information	Mitsubishi UFJ Trust and Banking Corporation, Osaka Securities Agency Division 3-6-3 Fushimimachi, Chuo-ku, Osaka, 541-8502 TEL: 0120-094-777 (Toll-free)
Listed stock exchange	First section of the Tokyo Stock Exchange
Public notice method	Electronic notices Public notice URL: https://www.hisaka.co.jp However, in the event of an accident or other unavoidable event that precludes electronic public notice, notices will be published in the Nikkei newspaper.

(Notice)

- Changes to a shareholder's address, requests for purchases, specifications of a transfer account for dividends, and other such procedures are, in principle, handled at the account management institution (securities firm or the like) where you have opened your account. Please inquire with the securities firm or institution where your account is set up. Please be aware that the keeper of the shareholder register (Mitsubishi UFJ Trust and Banking Corporation) does not handle such inquiries.
- For procedures related to shares registered in a special account, Mitsubishi UFJ Trust and Banking Corporation is the account management institution. Please inquire with the account management institution for special accounts listed to the left (Mitsubishi UFJ Trust and Banking Corporation). The Mitsubishi UFJ Trust and Banking Corporation main and branch offices also accept messages.
- For unreceived dividends, payments can be made at Mitsubishi UFJ Trust and Banking Corporation main and branch offices.