

(Securities code: 3447)

FY2019

Supplementary Document
(May 15, 2020)

 **信和株式会社**

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Features of Shinwa

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1

Features of Shinwa

**Leader of scaffolding
equipment technology**

**Top share in Japan for
system scaffolding products**

**High flexibility and quality
owing to first-class production
capacity in Japan**

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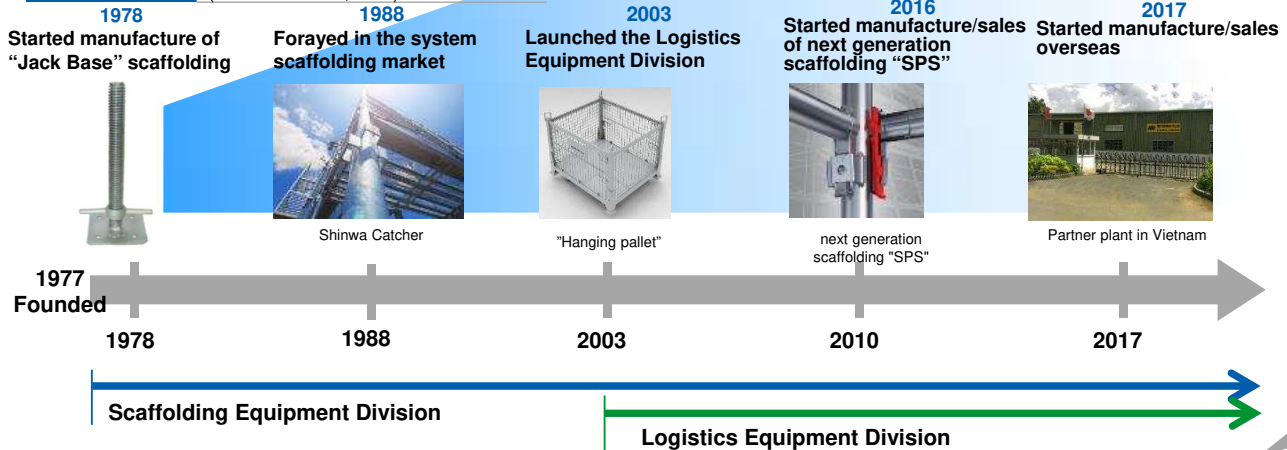
2

Corporate Outline

Top share company in the system scaffolding market

Name	Shinwa Co., Ltd.
Head office	30-7 Hiratacho Bushigawa, Kaizu-shi, Gifu 503-0311 Japan
President and Representative Director	Hiroshi Yamada
Founded	September 1977
Established	August 1979
Capital	150 million yen
Employees	161 (As of March 31, 2020)
Number of shares issued	14,089,200 shares (As of March 31, 2020)

2018
Listed on the Tokyo Stock Exchange and the Nagoya Stock Exchange



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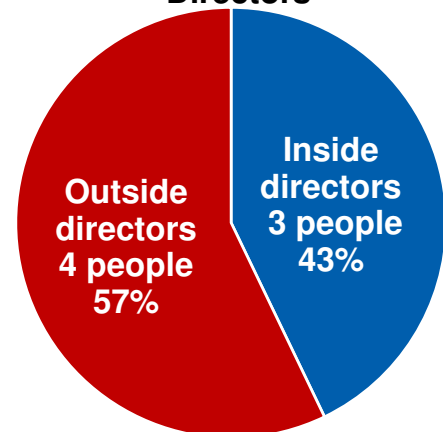
3

Directors (as of June 26, 2020)

Directors

Title		Name
President and Representative Director	Re-Appointment	Hiroshi Yamada
Executive Vice President and Director Executive Officer General Manager of Sales	Re-Appointment	Kurio Noritake
Director Executive Officer General Manager of Production	Re-Appointment	Shinichi Hirano
Independent Outside Director	New-Appointment	Hiroshi Serizawa
Independent Outside Director (Audit and Supervisory Committee member)		Sae Ito
Independent Outside Director (Audit and Supervisory Committee member)		Tetsuichi Taniguchi
Independent Outside Director (Audit and Supervisory Committee member)		Tomoko Achiwa

Ratio of Independent Outside Directors



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4

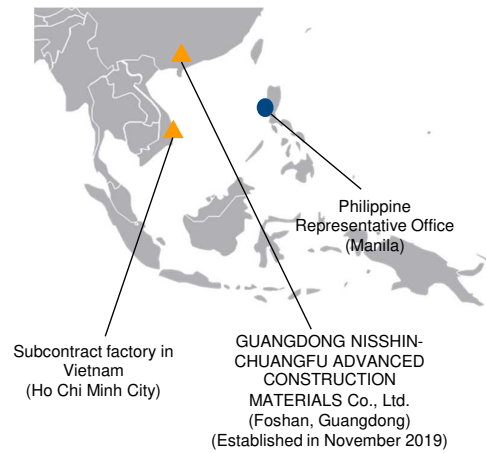
Company Network

Eleven in Japan and three overseas

In Japan



Overseas



- : Sales offices
Six in Japan, one overseas
- ▲ : Production sites and Equipment Centers
Five in Japan, two overseas

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Business Activities

The **Scaffolding Equipment Division** that produces and sells the system scaffolding products is our main revenue earner.

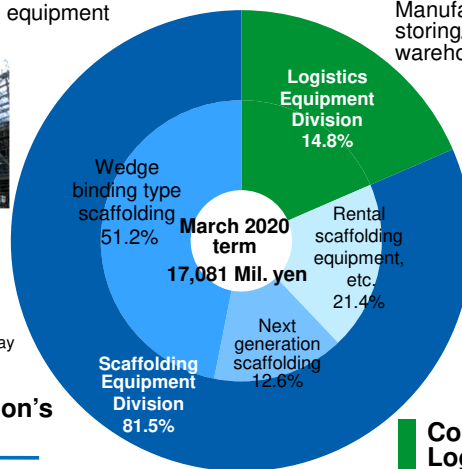
Scaffolding Equipment Division

Manufacture/sales/rental of scaffolding equipment used in construction sites

Large-scale warehouse/roof forming construction work



Shin-Tomei Expressway pier construction



Logistics Equipment Division

Manufacture/sales of logistics equipment used for storing/conveying, etc. goods at plants, warehouses, construction sites, etc.



Bulk Container Cage for Liquid Shipping

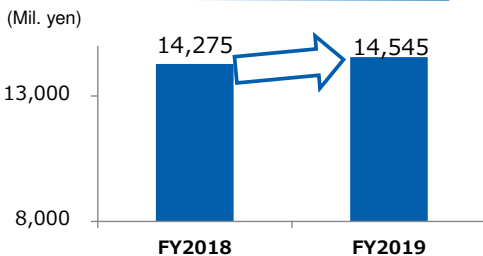


Pallets for automobile manufacturers

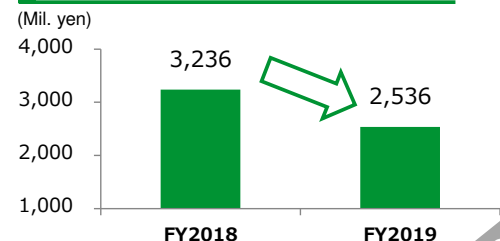


Racks for large-scale warehouses

Scaffolding Equipment Division's Consolidated Revenue



Consolidated Sales Revenue of Logistics Equipment Division



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* IFRS

What is System Scaffolding?

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7

Housing Construction



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Renovation



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9

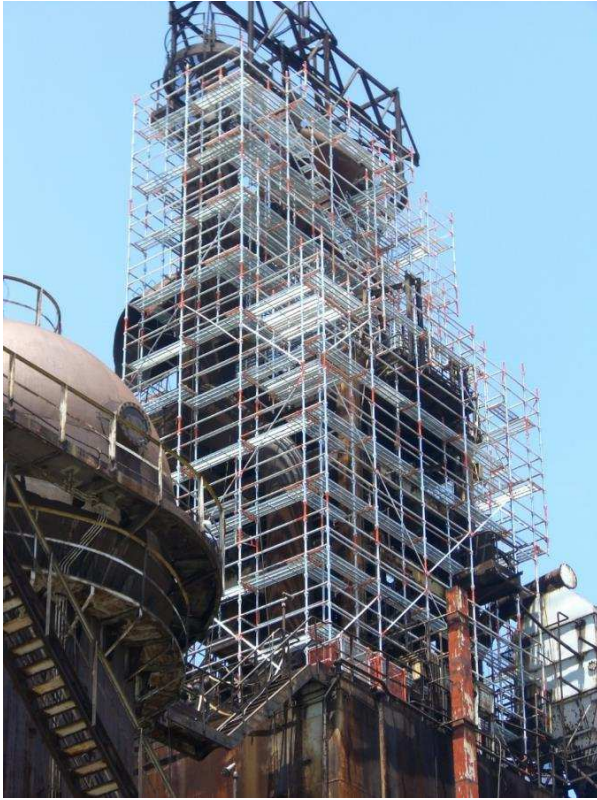
Large-scale Residential Building Repair



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Plant Maintenance



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Civil Engineering Work



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Road Construction, Maintenance, and Repair



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Inspection of Important Cultural Property



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The New National Stadium, Japan



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15

System scaffolding is indispensable at construction sites



**System scaffolding
sales share:**

No. 1

In terms of the total amount of shipments in FY2018 according to our survey

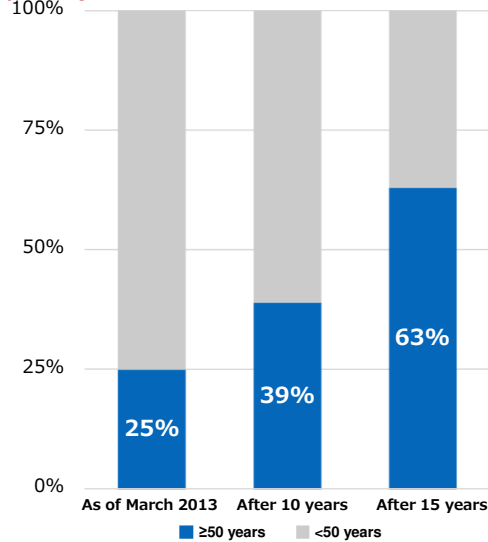
16

Business Environment for Scaffolding Equipment Division

Infrastructure maintenance, repair, and renovation are being strategically promoted

Percentage of social infrastructure 50 years or more after construction

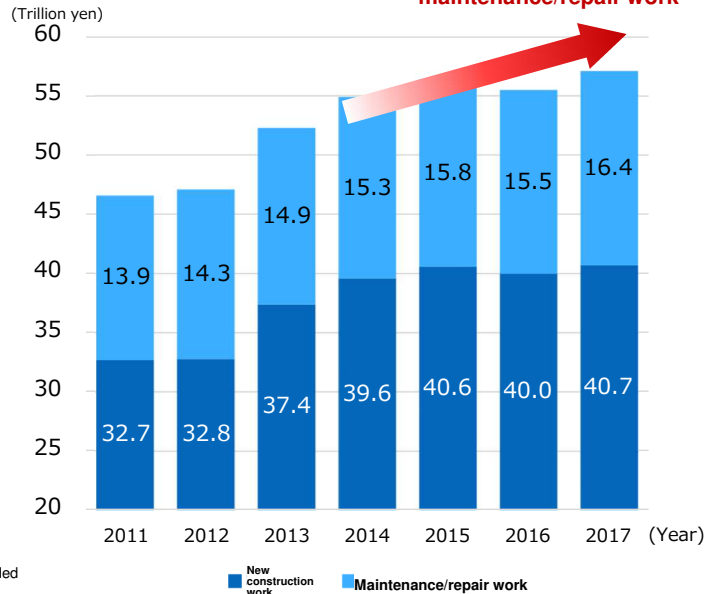
Road bridges [About 400,000 bridges* (Of about 700,000 bridges which are 2 m long or more)]
In, 2033, about 250,000 bridges will have been built 50 years ago or more



* About 300,000 bridges for which the date of construction are unknown are excluded in the calculation of the percentages
 Source: Japan Federation of Construction Contractors "Construction Handbook 2019"

Construction Investment: Changes in new construction work and maintenance/repair work

Increasing trends for both new construction work and maintenance/repair work



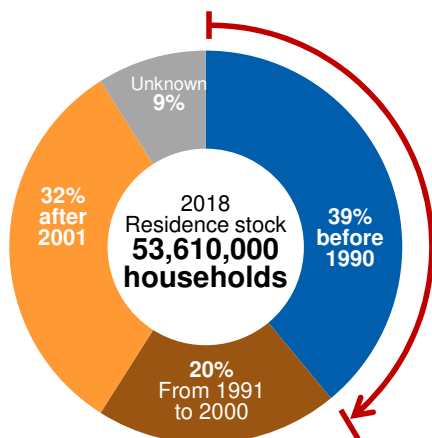
Source: Japan Federation of Construction Contractors "Construction Handbook 2019"

Business Environment for Scaffolding Equipment Division

Expected Increase in renovation demand for houses built 30 years ago or more

No. of occupied houses by date of construction

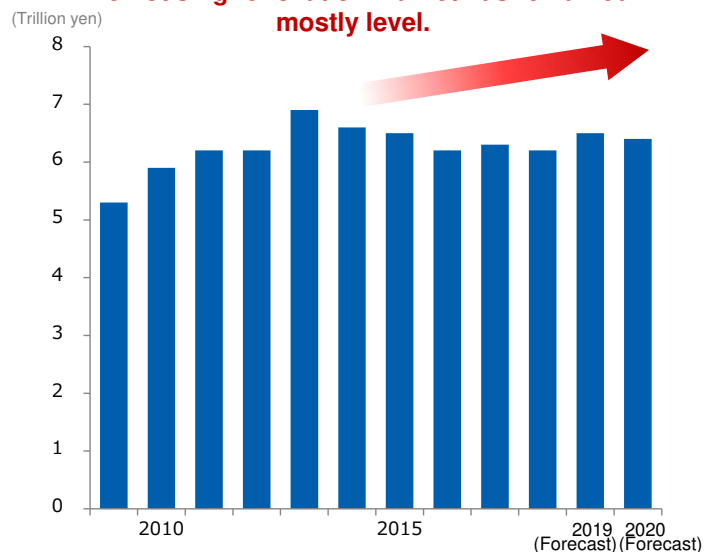
Houses built before 1990 represent 39% (21,130,000 households) of all houses



Source: Ministry of Internal Affairs and Communications "2018 Housing and Land Survey"

Forecasted increase in size of house renovation market

The housing renovation market has remained mostly level.



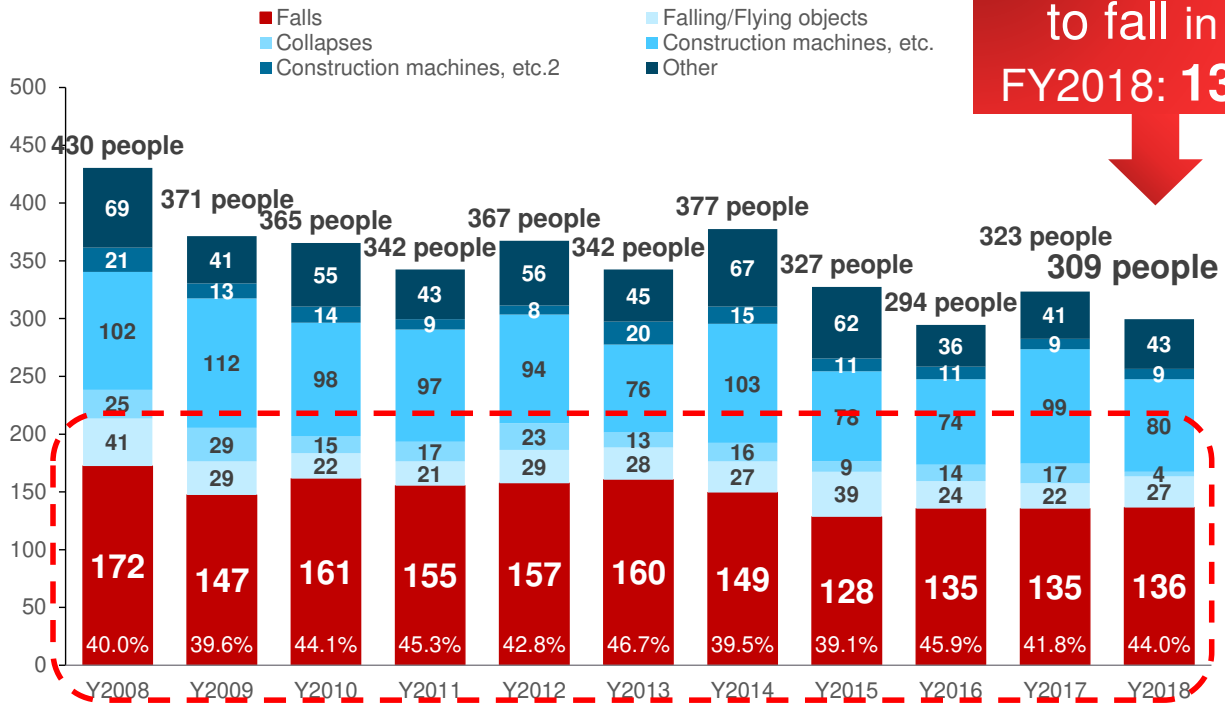
Source: Yano Research Institute Ltd. estimate based on Ministry of Land, Infrastructure, Transport and Tourism "Statistical Survey of Construction Starts," Ministry of Internal Affairs and Communications "Family Income and Expenditure Survey," Ministry of Internal Affairs and Communications "Basic Resident Register," and National Institute of Population and Social Security Research "Future Forecast of Number of Households in Japan (Nationwide Estimate)" (July 8, 2019 estimate)

Labor-related Deaths in the Construction Industry

Number of deaths related to construction work in Japan

Some 40% of deaths are caused by headfirst or tumbled falls

Deaths due to fall in FY2018: 136



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Top Production Capacity in Japan

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21

Production Sites



Site area: 40,642 m²

Boasts leading production ability through production of diverse products and speedy launch of products

Reduces procurement costs of raw materials and outsourcing costs

Able to respond flexibly to customer orders

10-ton cargo truck

Approx. **4,280** trucks
(FY2019)

Number of welding robots

132 robots
(As of May 1, 2020)



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22

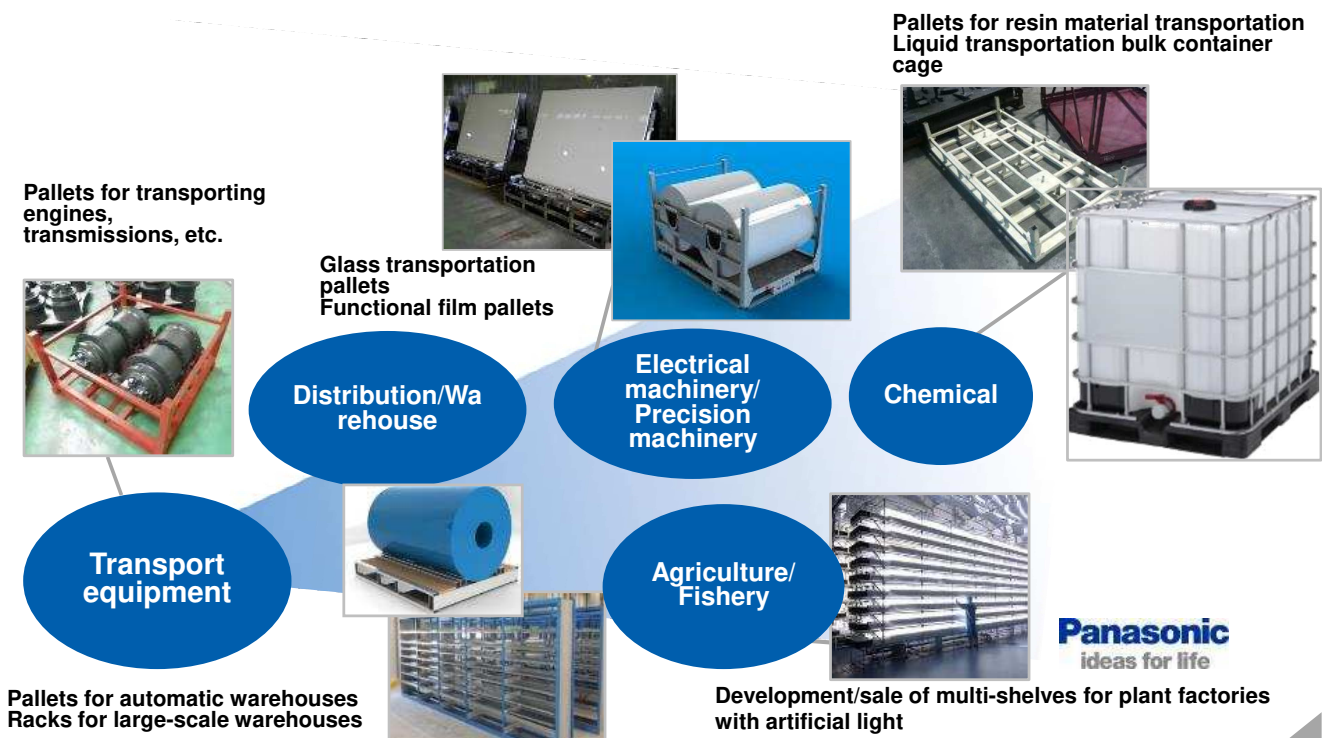
About the Logistics Equipment Division

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23

Expansion of Logistics Equipment Division

Aim at further growth by expanding to a wide variety of businesses



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[Car] Engine/Transmission Transport Pallets



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[Chemical] Liquid Bulk Containers



(For illustrative purpose only)



Capable of containing a five-drum bulk in a four-drum area

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26

[Logistics/Warehouse] Storage Racks for E-commerce Retailers



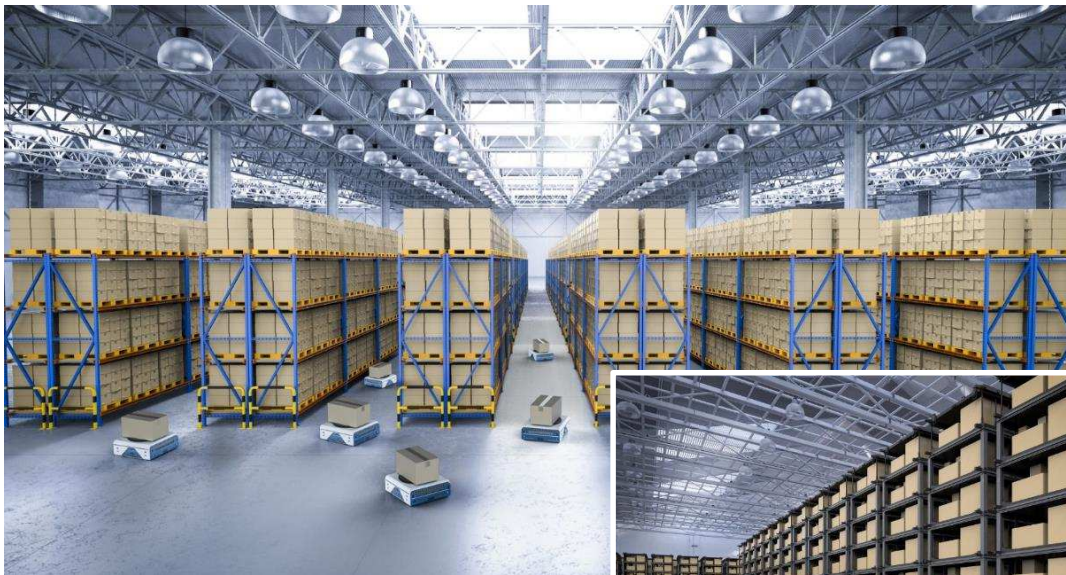
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27

[Logistics/Warehouse] Storage Racks for E-commerce Retailers



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28

[Agriculture] Artificial Light Racks for Plant Factories



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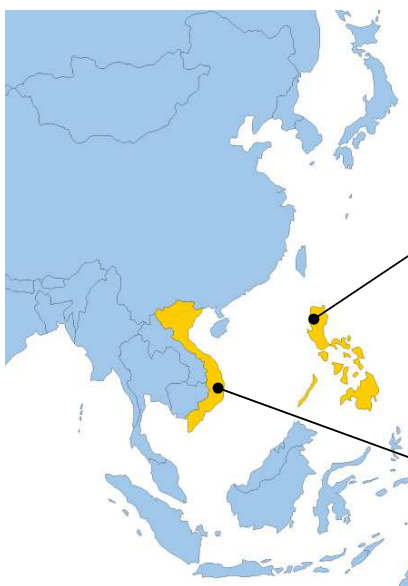
Overseas Business Expansion

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31

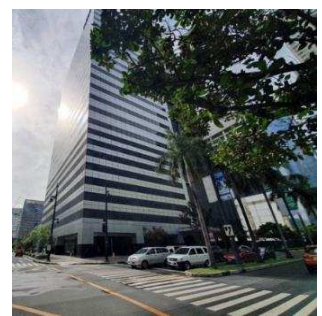
Overseas Expansion: Steps Made So Far

Present operations in South-East Asia



Philippines

- Launched a rep. office in June 2017
- Sales to the country's top elevator installation company



Vietnam

- Launched a subcontract factory in October 2017
- Manufactures system scaffolding products of Japanese standards and quality



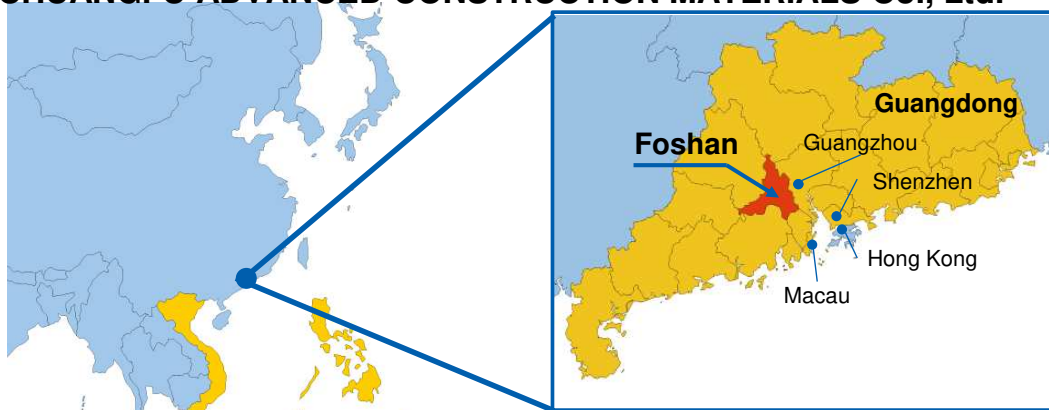
Reinforcing the operations and activities to expand the sales and rental of products excelling in workability, durability, and safety

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32

Overseas Expansion: Launch of Joint Venture Company

November 2019: Launch of a joint venture company “**GUANGDONG NISSHIN-CHUANGFU ADVANCED CONSTRUCTION MATERIALS Co., Ltd.**”



- A joint venture company launched in Foshan, Guangdong
- Foshan is part of the Chinese government’s economic development and promotion area called “**Guangdong-Hong Kong-Macau Greater Bay Area**”
- It’s one of the most economically growing areas in China, with the area population of 67 million and **GDP** amounting to **\$1,340 billion** (in 2018)

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33

Outline of the Joint Venture Company in China

Company name	GUANGDONG NISSHIN-CHUANGFU ADVANCED CONSTRUCTION MATERIALS CO., LTD.	Registered capital	RMB 25 million (Equivalent to approx. 400 million yen)
Representative	Kurio Noritake (Executive Vice President and Director, Shinwa Co., Ltd.)	Major shareholders	Shinwa Co., Ltd. 51.0%
Location	Foshan, Guangdong, China		Guangdong Chuangfu Metal Products Co., Ltd. 34.0%
Established	November 5, 2019		ALCONIX CORPORATION 15.0%
Business	Import, manufacture and sale of scaffolding equipment used at construction sites		



As we do in Japan, we strive to “protect valuable lives through our products and services.”

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34

Fiscal Year Ended March 31, 2020 (FY2019) Financial Overview



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Financial Highlights

Revenue	17,081 million yen (year on year rate ▲ 2.5%) <ul style="list-style-type: none">• Revenue was maintained at the same level as in the previous year, thanks to increased revenue from the Scaffolding Equipment Division
Gross profit	4,329 million yen (year on year rate + 7.4%) <ul style="list-style-type: none">• Material cost-cutting initiatives worked well, driving down the cost below the target.
Operating profit	2,210 million yen (year on year rate + 12.5%) <ul style="list-style-type: none">• Operating profit increased YoY; gross profit absorbed increases in personnel expenses and in shipping and delivery prices.
Profit attributable to owners of parent	1,467 million yen (year on year rate + 10.2%) <ul style="list-style-type: none">• Profit attributable to owners of parent increased YoY.

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Summary of Consolidated P/L Statement

(IFRS-based; million yen)	FY2018	FY2019	Increase/ Decrease	Year-on-year rate
Revenue	17,512	17,081	▲430	▲2.5%
Cost of sales	13,482	12,751	▲730	▲5.4%
Gross profit	4,030	4,329	+299	+7.4%
Selling, general and administrative expenses, etc.	2,066	2,119	+53	+2.6%
Operating profit	1,963	2,210	+246	+12.5%
Profit before tax	1,894	2,139	+244	+12.9%
Profit	1,331	1,467	+136	+10.2%

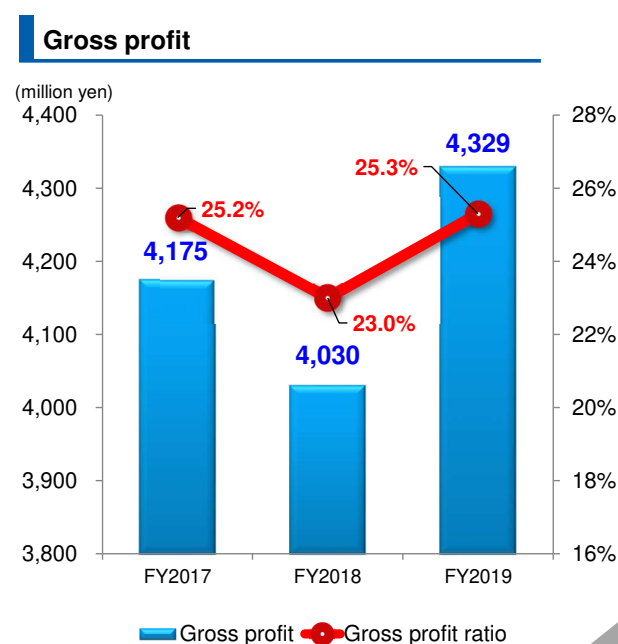
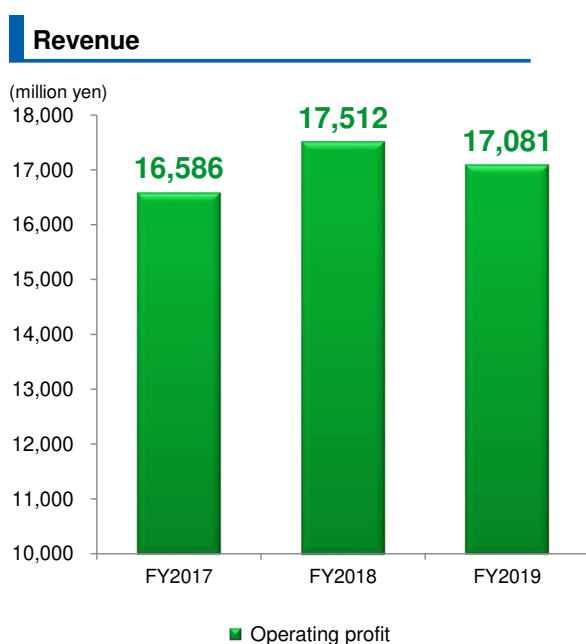
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37

Net Sales and Gross Profit

Revenue was maintained at the same level as in the previous year, thanks to the performance of the Scaffolding Equipment Division.

Gross profit **turned around** thanks to wider use of raw material procurement channels and continuous sales price revisions.



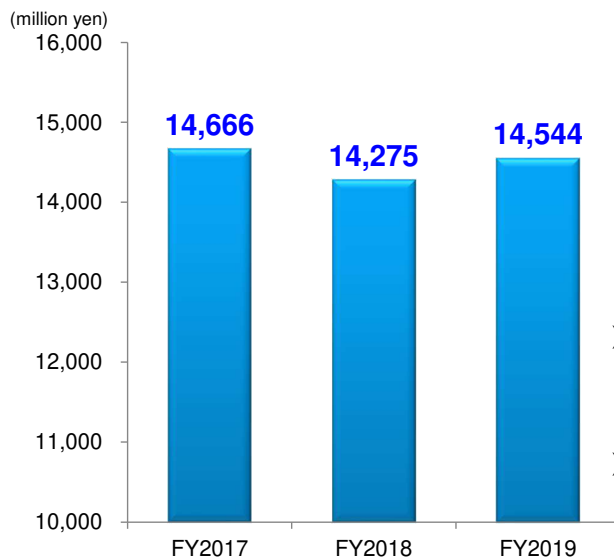
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38

Performance by Division: Scaffolding Equipment

Scaffolding Equipment Division's revenue increased by **+1.9%** year-on-year.

Scaffolding Equipment Division's Revenue



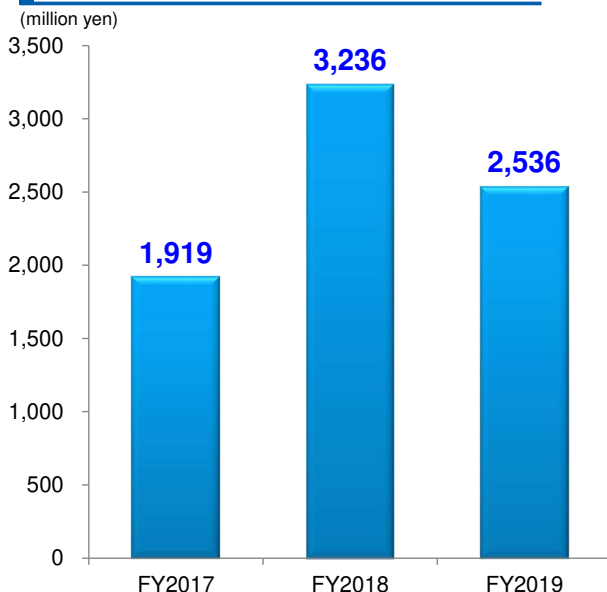
Demand increased for fall-prevention structures aimed at enhancing construction site safety (e.g., leading handrails, skirting boards).

- Demand remained strong mainly for wedge binding-type scaffolding products.
- Activities to expand the sales of next-generation scaffolding products continued to be carried out in rural areas.

Performance by Division: Logistics Equipment

Revenue by the Logistics Equipment Division dropped due to decrease in logistics warehouse projects.

Logistics Equipment Division's Revenue

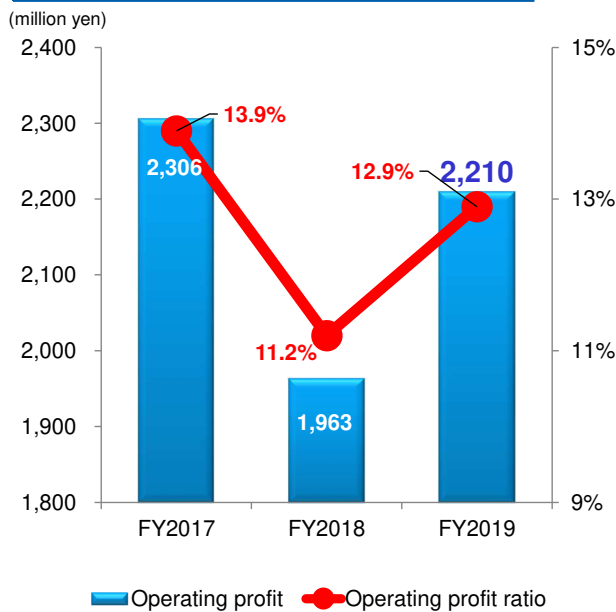


- The sales of high value-added products were favorable, mainly those to a major scaffolding leasing company.
- The number of completed large-scale logistics warehouses declined just as expected, which drove down the revenue.

Trend in Operating Profit

Operating profit increased by **+12.5%** year-on-year, and operating profit ratio rose by **+1.7 percentage points** to **12.9%**.

Operating profit & Operating profit ratio



<Positive factors>

Gross profit grew thanks to increased sales by the Scaffolding Equipment Division and **reduced cost of sales**.

<Negative factors>

Selling, general, and administrative expenses grew due to increases in personnel expenses and in taxes and dues

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41

Summary of Consolidated Statement of Financial Position

(IFRS-based; million yen)	FY2018	FY2019	Increase/Decrease	Factors contributing to increase/decrease
Current assets	8,064	8,345	+281	Cash and cash equivalents +1,377 million yen
Non-current assets	13,108	13,274	+166	Right-of-use assets in line with the application of IFRS 16 "Leases": +353 million yen
Total assets	21,172	21,620	+448	
Current liabilities	2,177	2,018	▲159	Income taxes payable: +257 million yen Trade and other liabilities ▲440 million yen
Non-current liabilities	6,136	5,814	▲322	Other financial liabilities due to the application of IFRS 16 (Leases): +197 million yen Debts payable: ▲483 million yen
Total liabilities	8,313	7,832	▲481	
Total equity	12,859	13,788	+929	Comprehensive income: +1,464 million yen Dividends paid: ▲615 million yen
Total liabilities and equity	21,172	21,620	+448	

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42

Summary of Consolidated Statement of Cash Flows

Balance of cash and cash equivalents at the end of period reached 3,120 million yen, an increase of 1,377 million yen compared with the opening balance.

Cash flow from operating activities	+3,121 million yen	
	<Main inflows>	
	• Profit before tax	+2,139 million yen
	• Decrease (increase) in trade and other receivables	+1,002 million yen
	• Depreciation and amortization	+ 674 million yen
<Main outflows>		
• Income taxes paid	▲ 486 million yen	
Cash flow from investing activities	▲515 million yen	
	Purchase of property, plant and equipment	▲ 570 million yen
Cash flow from financing activities	▲1,227 million yen	
	Cash dividends paid	▲ 612 million yen

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43

Business Forecast for FY2020



Business Forecast for FY2020

As for the forecast for the fiscal year ending March 31, 2021, given the uncertainties regarding the future due to the effects of the novel coronavirus infection, the Company expects economic activities to resume one by one from around June and the demand for its products in the construction industry to continue declining through the end of September. We, therefore, formulated the financial results forecast for the fiscal year on the assumption that the demand would gradually start recovering from the third quarter, reaching the previous year's level in the fourth quarter.

(IFRS-based; million yen)	FY2019	Forecast for FY2020	Increase/Decrease	Year-on-year rate
Revenue	17,081	13,900	▲3,181	▲18.6%
Operating profit	2,210	1,230	▲980	▲44.3%
Profit before tax	2,139	1,158	▲981	▲45.9%
Profit for FY2019	1,467	804	▲663	▲45.2%
Profit attributable to owners of parent	1,467	797	▲670	▲45.7%
EPS (yen)	104.21	56.57	▲47.64	▲45.7%
Annual dividend per share (yen)	44.00	23.00		
Dividend ratio	42.0%	40.7%		

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45

Business Forecast for FY2020: Balances for 1H and 2H

(IFRS-based; million yen)	FY2019 1H	FY2020 1H (Forecast)	YoY rate	FY2019 2H	FY2020 2H (Forecast)	YoY rate
Revenue	9,370	6,130	▲34.6%	7,711	7,770	+0.8%
Operating profit	1,222	367	▲70.0%	987	863	▲12.6%
Operating profit ratio	13.0%	6.0%	▲7.0pt	12.8%	11.1%	▲1.7pt

The impact from COVID-19 will linger until the end of the first half.

Revenue forecast:
1Q: expected to decrease by about 40%
2Q: expected to decrease by about 30%

Gradual recovery in the demand will be seen in the second half.

Revenue forecast:
3Q: expected to decrease by about 10%
4Q: the same level as in the previous year

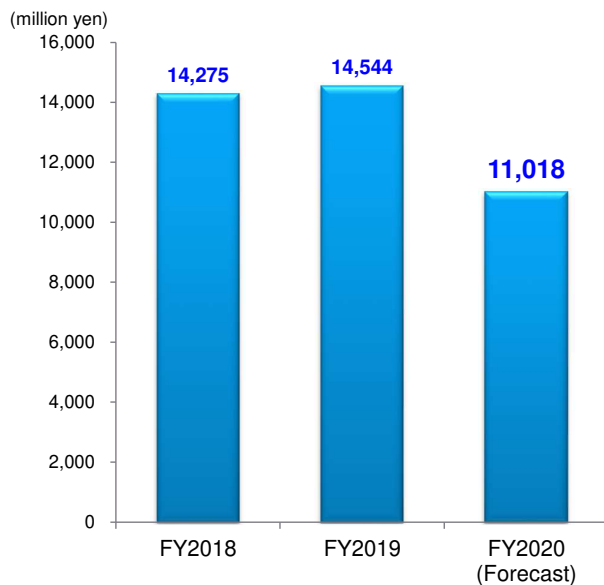
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46

Business Forecast: Scaffolding Equipment Division

Revenue of the Scaffolding Equipment Division will decrease year-on-year by **▲24.2%**.

Scaffolding Equipment Division's Revenue



<Positive factors>

In 3Q and thereafter:

- Growth in the demand for renovation works
- Increase in the demand for infrastructure maintenance/repair works
- Growth in the demand for fall-prevention structures aimed at enhancing safety at construction sites (e.g., leading handrails, skirting boards)

<Negative factors>

- Sudden slump in the demand due to discontinuation/postponement of construction projects following the emergency declaration

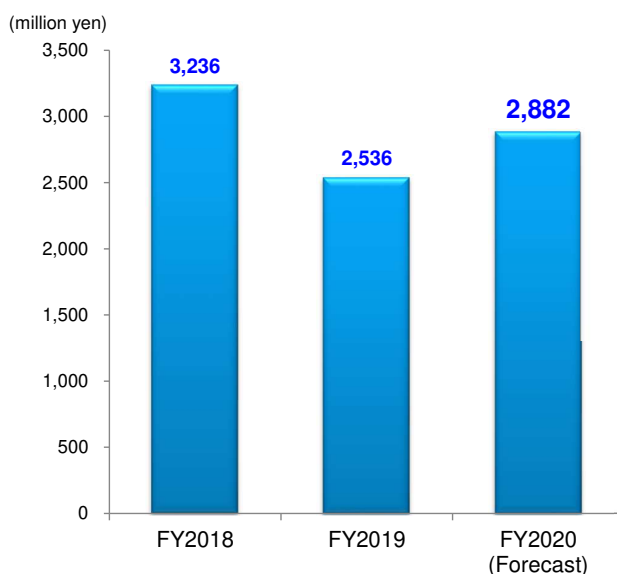
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47

Business Forecast: Logistics Equipment Division

Revenue of the Logistics Equipment Division will increase year-on-year by **+13.6%**.

Logistics Equipment Division's Revenue



<Positive factors>

In 3Q and thereafter:

- Normality back in exports and imports and the resultant recovery in the demand for pallets for the auto industry and liquid bulk container gauges
- Resurgence of investments in logistics warehouses, etc.

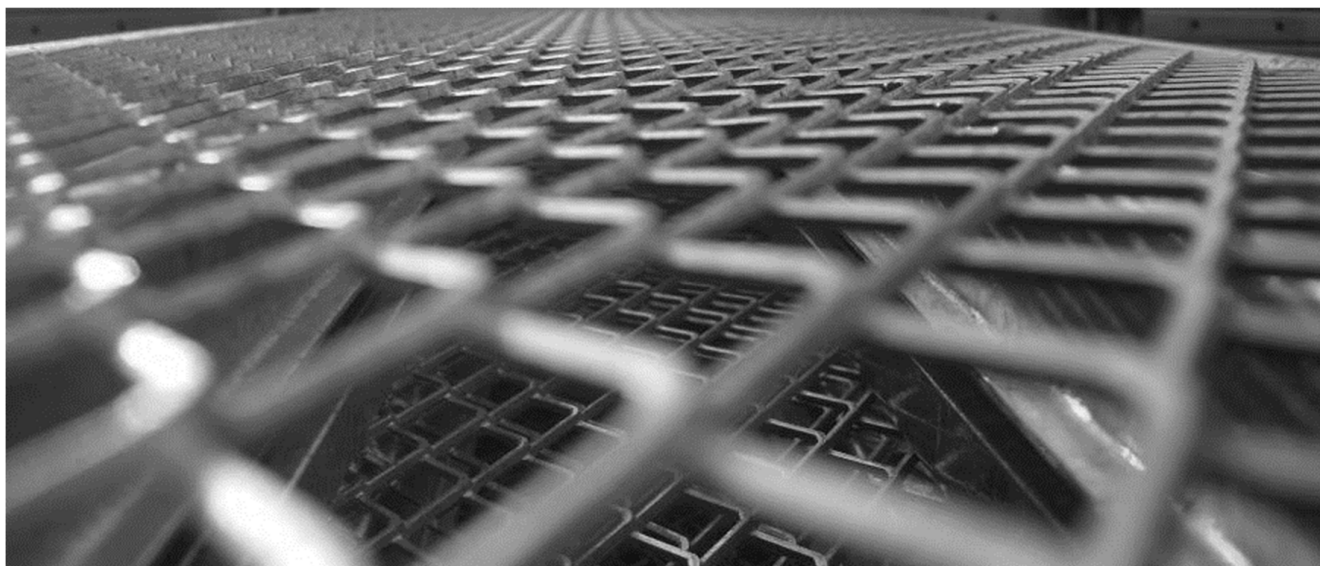
<Negative factors>

- Decreased exports and imports due to the COVID-19 worldwide pandemic and the resultant slump in the demand for pallets for the auto industry and liquid bulk container gauges
- Decline in the demand due to the suspension of construction projects for logistics warehouses

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48

Shareholder Return



Dividend Policies

In Shinwa's Group, redistribution of profits to shareholders is positioned as an important task in business management.

Dividend Policy

Basic policy

Based on our basic policy to secure internal reserves required for stable corporate growth in the future and respond to changes in the business environment, and carry out profit redistribution according to business performance,

we are aiming for a consolidated dividend payment ratio of 40% or more.

Estimated dividend for FY2020

The Company expects to pay an annual dividend of **23.00 yen per share (payout ratio: 40.7%)** for the fiscal year ending March 31, 2021, taking into account the payout ratio target of 40% or more and the outlook for the fiscal year including the impact of the coronavirus pandemic, but the dividend amount may change depending on when the pandemic subsides, the economic trend, and the Company's business performance.

Use of internal reserves

For internal reserves, we are planning to reinforce our financial structure, and use internal reserves as effective investment funds such as facility investments and toward personnel development for further expanding our business, with the aim to enhance corporate value.

Personnel
Development

Facility
Investment

Reinforcement of Financial
Infrastructure

**Enhancement of
Corporate Values**

Disclaimer

The plans, estimates, strategies, etc. stated in this document are all forecasts based on the information available at the time of this documentation and hence contain risks and uncertainties inherent to such forecasts. Due to such risks and uncertainties, the actual results may differ from the forecasts, etc. herein.

The information concerning companies other than our company contained in this document is all extracted from publicly available sources; we have not verified the accuracy, adequacy, etc. of such information, and we do not guarantee the accuracy, adequacy, thereof, either.

<Contact Information>

Shinwa Co., Ltd. (Address: 30-7 Hiratacho Bushigawa, Kaizu-shi, Gifu Pref.)

Department: Corporate Planning Dept.

Persons in charge: Niwa; Aoki

TEL: 0584-66-4436

e-mail: ir@shinwa-jp.com