

Consolidated Financial Results for the Three Months Ended June 30, 2020 [IFRS]



August 7, 2020

Company name: Shinwa Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange and Nagoya Stock Exchange

Code number: 3447

URL: <http://www.shinwa-jp.com/en/relation/index.html>

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Scheduled date of filing the quarterly securities report: August 7, 2020

Scheduled date of commencing dividend payments: —

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended June 30, 2020 (April 1, 2020 to June 30, 2020)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2020	2,756	(36.1)	205	(56.7)	188	(58.7)	121	(59.6)
June 30, 2019	4,313	5.2	474	8.7	456	8.5	299	14.6

	Profit attributable to owners of parent		Comprehensive income	
Three months ended	Million yen	%	Million yen	%
June 30, 2020	121	(59.6)	120	(59.7)
June 30, 2019	299	14.6	299	14.7

	Basic earnings per share		Diluted earnings per share	
Three months ended	Yen		Yen	
June 30, 2020	8.60		8.57	
June 30, 2019	21.44		21.29	

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Equity attributable to owners of parent to total assets
	Million yen	Million yen	Million yen	%
As of June 30, 2020	20,844	13,303	13,255	63.6
As of March 31, 2020	21,620	13,788	13,740	63.6

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2020	Yen —	Yen 0.00	Yen —	Yen 44.00	Yen 44.00
Fiscal year ending March 31, 2021	—				
Fiscal year ending March 31, 2021 (Forecast)		0.00	—	23.00	23.00

Note: Revision to the dividends forecast announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First half	6,130	(34.6)	367	(70.0)	331	(72.1)	215	(73.6)
Full year	13,900	(18.6)	1,230	(44.3)	1,158	(45.9)	804	(45.2)

	Profit attributable to owners of parent		Basic earnings per share	
	Million yen	%	Yen	
First half	215	(73.6)	15.26	
Full year	797	(45.7)	56.57	

Note: Revision to the financial results forecast announced most recently: No

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in change in scope of consolidation): No
- (2) Changes in accounting policies and changes in accounting estimates
 - 1) Changes in accounting policies required by IFRS: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
- (3) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
 - June 30, 2020: 14,089,200 shares
 - March 31, 2020: 14,089,200 shares
 - 2) Total number of treasury shares at the end of the period:
 - June 30, 2020: - shares
 - March 31, 2020: - shares
 - 3) Average number of shares during the period:
 - Three months ended June 30, 2020: 14,089,200 shares
 - Three months ended June 30, 2019: 13,988,800 shares

*These consolidated financial results are outside the scope of quarterly review by Certified Public Accountants or auditing corporations.

*Explanation of the proper use of financial results forecast and other notes

Financial results forecasts were prepared based on information available at the time of the announcement of this document, and actual results may differ from the forecasts owing to a wide range of factors. For the conditions that form the assumptions for the financial results forecasts, please refer to (4) Explanation of Consolidated Financial Results Forecast and Other Forward-Looking Information in 1. Qualitative Information on Quarterly Financial Results for the Period under Review on page 5 of the Attachment.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

During the three months ended June 30, 2020, the Japanese economy faced extremely challenging conditions, with the spread of the novel coronavirus infection causing a serious slowdown not only in consumption, but across socioeconomic activity.

In the construction industry, which is the supply destination of products manufactured by the Company, the impact of the government's declaration of a state of emergency included the suspension and postponement of work at construction sites, and the suppression of new investment due to uncertainty about the future.

In these extraordinary circumstances, the Group has placed the highest priority on the health of its employees and customers. In addition to measures such as the temporary closure of its Tokyo Branch, where infection risk was high, and the temporary suspension of operations at manufacturing plants, the Group has also endeavored to prevent the spread of the disease by promoting working from home at all its facilities, and requesting its sales representatives to refrain from customer visits.

The Group has also endeavored to reduce costs and control expenditure through all sorts of measures such as reducing directors' compensation and other fixed costs and reviewing new investment projects, in preparation for a decrease in revenue.

As a result of the above, revenue for the three months ended June 30, 2020 amounted to ¥2,756 million (down 36.1% year on year). The gross profit ratio came to 24.2% (improved by 0.3 percentage points year on year). Operating profit was ¥205 million (down 56.7% year on year) and the operating profit ratio was 7.4% (fell by 3.6 percentage points year on year). Profit before tax amounted to ¥188 million (down 58.7% year on year), and profit attributable to owners of parent amounted to ¥121 million (down 59.6% year on year).

As the Group is comprised of a single business segment, information regarding the revenue of each Division is provided below.

1) Scaffolding Equipment Division

Our initial revenue forecast for the Scaffolding Equipment Division for the three months ended June 30, 2020, in the context of the spread of the novel coronavirus infection, was for a decline of roughly 50% year on year, as a result of a rapid decline in demand due to the growing impact mainly caused by the suspension and postponement of work at existing construction sites, and postponement of new construction investment projects. However, activity at construction sites declined less than expected, and demand for the Company's products exceeded expectations. As a result, revenue for the Scaffolding Equipment Division for the three months ended June 30, 2020 amounted to ¥2,290 million, down 38.6% year on year.

2) Logistics Equipment Division

In the Logistics Equipment Division, products involved in overseas distribution, including pallets for the automobile industry and bulk containers for liquid shipping, were affected by the decline in distribution overseas due to the spread of the novel coronavirus infection. Distribution warehouses and others were also affected by the postponement of construction works in Japan, and we initially forecast that the revenue of the Logistics Equipment Division would decline by roughly 10%. However, the impact of the decline in demand was larger than anticipated, and revenue of the Logistics Equipment Division for the three months ended June 30, 2020 amounted to ¥466 million (down 20.1% year on year).

(Thousand yen)

Name of product and service		For the three months ended June 30, 2019	For the three months ended June 30, 2020
Scaffolding equipment	Wedge binding type scaffolding	2,230,843	1,180,886
	Next generation scaffolding	575,346	391,667
	Other scaffolding equipment	924,025	718,133
	Subtotal	3,730,215	2,290,686
Logistics equipment	Pallets	583,109	466,163
	Subtotal	583,109	466,163
Total		4,313,325	2,756,850

(2) Explanation of Financial Position

(Assets)

Current assets at the end of the first quarter of the fiscal year under review decreased by ¥696 million from the end of the previous fiscal year to ¥7,649 million, mainly due to factors such as a decrease in trade and other receivables of ¥425 million and a decrease in inventories of ¥263 million. Additionally, non-current assets decreased by ¥80 million from the end of the previous fiscal year to ¥13,194 million. The decrease was primarily attributable to factors such as a decrease in property, plant and equipment of ¥100 million. As a result, total assets decreased by ¥776 million from the end of the previous fiscal year to ¥20,844 million.

(Liabilities)

Current liabilities at the end of the first quarter of the fiscal year under review decreased by ¥323 million from the end of the previous fiscal year to ¥1,695 million, mainly due to factors such as a decrease in income taxes payable of ¥354 million. Additionally, non-current liabilities increased by ¥31 million from the end of the previous fiscal year to ¥5,845 million. As a result, total liabilities decreased by ¥291 million from the end of the previous fiscal year to ¥7,540 million.

(Equity)

Total equity at the end of the first quarter of the fiscal year under review decreased by ¥484 million from the end of the previous fiscal year to ¥13,303 million. This was mainly attributable to factors such as the posting of profit of ¥121 million and dividends paid of ¥619 million leading to a decrease in retained earnings of ¥498 million.

(3) Overview of Cash Flows

Cash and cash equivalents (hereinafter “cash”) at the end of the first quarter of the fiscal year under review was ¥3,073 million, a decrease of ¥46 million from the end of the previous fiscal year.

Cash flows from each activity for the three months ended June 30, 2020 and their primary factors are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities for the three months ended June 30, 2020 was ¥593 million, an increase of ¥5 million year on year. The main factors affecting cash inflows are related to profit before tax of ¥188 million, depreciation and amortization of ¥176 million, a decrease in trade and other receivables of ¥382

million and a decrease in inventories of ¥263 million. The main factors affecting cash outflows are related to income taxes paid of ¥432 million.

(Cash flows from investing activities)

Net cash used in investing activities for the three months ended June 30, 2020 was ¥43 million, a decrease of ¥46 million year on year. The main factor affecting cash outflows is purchase of property, plant and equipment of ¥45 million.

(Cash flows from financing activities)

Net cash used in financing activities for the three months ended June 30, 2020 was ¥595 million, a decrease of ¥25 million year on year. The main factor affecting cash outflows is dividends paid of ¥600 million.

(4) Explanation of Consolidated Financial Results Forecast and Other Forward-Looking Information

With regard to the consolidated financial results forecast for the fiscal year ending March 31, 2021, no change has been made to the first half and full-year consolidated financial results forecasts, which were announced in the consolidated financial results on May 15, 2020.

With regard to the forecast for the fiscal year ending March 31, 2021, the situation is expected to begin to improve, with phased increases in the level of economic activity, subject to precautions to prevent the spread of the novel coronavirus infection. There remain a considerable number of uncertainties however, including the trend of infections in Japan and overseas, trade issues overseas and economic trends. Notwithstanding these extremely uncertain conditions, we have formulated the financial results forecast for the fiscal year based on the following assumptions.

1) Scaffolding Equipment Division

Despite expectations for a recovery in demand for scaffolding equipment following the lifting of the declaration of a state of emergency, with the resumption of construction work that had been suspended or postponed, the volume of overall demand is predicted to remain low, and the Company expects the revenue of the Scaffolding Equipment Division to decline about 30% in the second quarter (July to September) year on year.

From the third quarter on, we expect revenue to be down approximately 20% year on year in the third quarter (October to December), continuing on a moderate recovery trend to reach roughly the previous year's level in the fourth quarter (January to March), on the premise that construction demand such as house renovation, maintenance and repair works for social infrastructure would gradually recover during the third quarter, and investment demand in scaffolding equipment would return to the previous year's level in the fourth quarter.

Based on these assumptions, the Company expects revenue of the Scaffolding Equipment Division in full year to amount to ¥11,018 million (down 24.2% year on year).

2) Logistics Equipment Division

The Logistics Equipment Division offers made-to-order products to wide range of industries, led by the construction industry, including pallets for the automobile industry as well as for the electrical machinery and precision machinery industries, racks for distribution warehouses, and those for the agriculture and fishery industries and chemical industry.

Among these, products involved in overseas distribution, including pallets for the automobile industry and bulk containers for liquid shipping, continue to be affected by the decline in distribution due to the spread of the novel coronavirus infection. In Japan, distribution warehouses and others are also affected by the postponement of construction works.

We are assuming the decline in demand for logistics equipment continues to affect revenue for the second quarter through the end of September. We expect revenue of the Logistics Equipment Division in the first and second quarters to be roughly 30% lower than the previous year's level, due to expected postponement of a large-scale warehouse construction project to the third quarter.

Meanwhile, the Company anticipates distributions overseas and investment in logistics equipment to normalize from October onwards, and also given the planned large-scale distribution warehouse project, revenue of the Division in the third quarter (October to December) is expected to increase approximately 50% year on year, and revenue in the fourth quarter (January to March) is expected to increase approximately 30% year on year.

Based on these assumptions, the Company expects revenue of the Logistics Equipment Division in full year to come to ¥2,882 million (up 13.6% year on year).

The Company will continue to endeavor to reduce costs through all sorts of measures such as reducing

directors' compensation and other fixed costs and reviewing new investment projects.

Based on the above, the Company expects revenue of ¥13,900 million (down 18.6% year on year) for the fiscal year ending March 31, 2021, operating profit of ¥1,230 million (down 44.3% year on year), profit before tax of ¥1,158 million (down 45.9% year on year), and profit attributable to owners of parent of ¥797 million (down 45.7% year on year).

The above forecasts were prepared based on the information available at the time of the announcement of this document and include much uncertain factors such as the impact of the novel coronavirus infection and changes in industry conditions such as demand trend. The actual results, therefore, may substantially differ from the forecasts due to changes in various factors.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousand yen)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and cash equivalents	3,120,411	3,073,952
Trade and other receivables	2,777,446	2,351,888
Inventories	2,405,597	2,142,355
Other current assets	42,132	81,327
Total current assets	8,345,587	7,649,524
Non-current assets		
Property, plant and equipment	2,370,577	2,269,682
Right-of-use assets	353,196	381,639
Goodwill	9,221,769	9,221,769
Intangible assets	1,258,021	1,252,041
Other financial assets	59,617	58,187
Other non-current assets	11,760	11,208
Total non-current assets	13,274,943	13,194,529
Total assets	21,620,530	20,844,053

(Thousand yen)

	As of March 31, 2020	As of June 30, 2020
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	739,649	699,928
Borrowings	495,430	495,933
Income taxes payable	432,829	78,500
Other financial liabilities	83,340	80,328
Other current liabilities	267,084	340,318
Total current liabilities	<u>2,018,335</u>	<u>1,695,011</u>
Non-current liabilities		
Borrowings	5,202,637	5,206,205
Provisions	45,561	45,565
Other financial liabilities	240,131	273,169
Deferred tax liabilities	321,913	316,957
Other non-current liabilities	3,900	3,900
Total non-current liabilities	<u>5,814,144</u>	<u>5,845,799</u>
Total liabilities	<u>7,832,479</u>	<u>7,540,810</u>
Equity		
Share capital	150,125	150,125
Capital surplus	6,951,814	6,966,121
Retained earnings	6,640,266	6,141,549
Other components of equity	(1,534)	(1,799)
Total equity attributable to owners of parent	<u>13,740,672</u>	<u>13,255,996</u>
Non-controlling interests	47,378	47,247
Total equity	<u>13,788,051</u>	<u>13,303,243</u>
Total liabilities and equity	<u>21,620,530</u>	<u>20,844,053</u>

(2) Condensed Quarterly Consolidated Statements of Profit or Loss and Comprehensive Income
Condensed Quarterly Consolidated Statement of Profit or Loss
For the Three-Month Period

(Thousand yen)

	For the three months ended June 30, 2019	For the three months ended June 30, 2020
Revenue	4,313,325	2,756,850
Cost of sales	(3,283,139)	(2,089,839)
Gross profit	1,030,186	667,011
Selling, general and administrative expenses	(555,369)	(474,335)
Other income	631	14,520
Other expenses	(1,321)	(2,116)
Operating profit	474,127	205,080
Finance income	53	20
Finance costs	(17,945)	(16,723)
Profit before tax	456,235	188,377
Income tax expense	(156,275)	(67,060)
Profit	299,959	121,317
Profit attributable to		
Owners of parent	299,959	121,207
Non-controlling interests	—	110
Profit	299,959	121,317
Earnings per share		
Basic earnings per share (yen)	21.44	8.60
Diluted earnings per share (yen)	21.29	8.57

Condensed Quarterly Consolidated Statement of Comprehensive Income
For the Three-Month Period

(Thousand yen)

	For the three months ended June 30, 2019	For the three months ended June 30, 2020
Profit	299,959	121,317
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	–	(506)
Total of items that may be reclassified to profit or loss	–	(506)
Other comprehensive income	–	(506)
Comprehensive income	299,959	120,810
Comprehensive income attributable to		
Owners of parent	299,959	120,942
Non-controlling interests	–	(131)
Comprehensive income	299,959	120,810

(3) Condensed Quarterly Consolidated Statement of Changes in Equity
For the Three Months Ended June 30, 2019 (From April 1, 2019 to June 30, 2019)

(Thousand yen)

	Share capital	Capital surplus	Retained earnings	Total equity attributable to owners of parent	Total equity
Balance at beginning of period	150,125	6,915,576	5,793,305	12,859,007	12,859,007
Cumulative effect of accounting change	–	–	(4,805)	(4,805)	(4,805)
Restated balance	150,125	6,915,576	5,788,499	12,854,201	12,854,201
Profit	–	–	299,959	299,959	299,959
Comprehensive income	–	–	299,959	299,959	299,959
Dividends	–	–	(615,507)	(615,507)	(615,507)
Share-based remuneration transactions	–	18,445	–	18,445	18,445
Total transactions with owners	–	18,445	(615,507)	(597,061)	(597,061)
Balance at end of period	150,125	6,934,022	5,472,952	12,557,099	12,557,099

For the Three Months Ended June 30, 2020 (From April 1, 2020 to June 30, 2020)

(Thousand yen)

	Share capital	Capital surplus	Retained earnings	Other components of equity		Total equity attributable to owners of parent	Non-controlling interests	Total equity
				Exchange differences on translation of foreign operations	Total other components of equity			
Balance at beginning of period	150,125	6,951,814	6,640,266	(1,534)	(1,534)	13,740,672	47,378	13,788,051
Profit	–	–	121,207	–	–	121,207	110	121,317
Other comprehensive income	–	–	–	(265)	(265)	(265)	(241)	(506)
Comprehensive income	–	–	121,207	(265)	(265)	120,942	(131)	120,810
Dividends	–	–	(619,924)	–	–	(619,924)	–	(619,924)
Share-based remuneration transactions	–	14,306	–	–	–	14,306	–	14,306
Total transactions with owners	–	14,306	(619,924)	–	–	(605,618)	–	(605,618)
Balance at end of period	150,125	6,966,121	6,141,549	(1,799)	(1,799)	13,255,996	47,247	13,303,243

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousand yen)

	For the three months ended June 30, 2019	For the three months ended June 30, 2020
Cash flows from operating activities		
Profit before tax	456,235	188,377
Depreciation and amortization	159,764	176,478
Finance income and finance costs	17,891	16,702
Share-based remuneration expenses	18,445	14,306
Decrease (increase) in inventories	(293,041)	263,216
Decrease (increase) in trade and other receivables	114,074	382,448
Increase (decrease) in trade and other payables	223,682	(73,027)
Other	96,294	67,192
Subtotal	793,347	1,035,695
Interest and dividends received	53	20
Interest paid	(10,409)	(9,657)
Income taxes paid	(195,043)	(432,829)
Net cash provided by (used in) operating activities	587,947	593,229
Cash flows from investing activities		
Purchase of property, plant and equipment	(88,925)	(45,152)
Purchase of intangible assets	(1,255)	-
Other	(141)	1,430
Net cash provided by (used in) investing activities	(90,321)	(43,721)
Cash flows from financing activities		
Payments of financial expenditures	(1,416)	(3,481)
Capital contribution from non-controlling interests	-	32,447
Dividends paid	(591,946)	(600,697)
Repayments of lease liabilities	(27,704)	(23,848)
Net cash provided by (used in) financing activities	(621,066)	(595,580)
Effect of exchange rate changes on cash and cash equivalents	-	(386)
Net increase (decrease) in cash and cash equivalents	(123,440)	(46,458)
Cash and cash equivalents at beginning of period	1,742,662	3,120,411
Cash and cash equivalents at end of period	1,619,221	3,073,952

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Significant subsequent events)

There is no relevant information.