

Consolidated Financial Results for the Three Months Ended June 30, 2023 [IFRS]



August 10, 2023

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 10, 2023

Scheduled date of commencing dividend payments: –

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: None

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

1. Consolidated Financial Results for the Three Months Ended June 30, 2023

(April 1, 2023 to June 30, 2023)

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

	Revenue		Operating profit		Profit before tax		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2023	2,906	(33.5)	177	(67.5)	165	(68.7)	109	(70.3)
June 30, 2022	4,368	12.5	546	15.7	529	16.6	368	18.1

	Profit attributable to owners of parent		Comprehensive income		Basic earnings per share	Diluted earnings per share
	Million yen	%	Million yen	%	Yen	Yen
Three months ended June 30, 2023	110	(69.4)	110	(70.3)	7.96	-
June 30, 2022	361	15.5	371	18.5	26.05	26.05

(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, 2023	21,191	15,227	15,221	71.8
As of March 31, 2023	21,294	15,552	15,545	73.0

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2023	Yen –	Yen 0.00	Yen –	Yen 32.00	Yen 32.00
Fiscal year ending March 31, 2024	–				
Fiscal year ending March 31, 2024 (Forecast)		16.00	–	16.00	32.00

Note: Revision to the dividends forecast announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024
(April 1, 2023 to March 31, 2024)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First half	7,332	(17.7)	695	(37.6)	668	(38.0)	460	(38.9)
Full year	15,100	2.3	1,371	(8.7)	1,317	(8.2)	907	(8.0)

	Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Yen
First half	460	(38.2)	33.09
Full year	907	(10.0)	65.24

Note: Revision to the financial results forecast announced most recently: None

*** Notes:**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): None
- (2) Changes in accounting policies and changes in accounting estimates
 - 1) Changes in accounting policies required by IFRS: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
- (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, 2023: 14,103,000 shares
 - March 31, 2023: 14,103,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - June 30, 2023: 192,518 shares
 - March 31, 2023: 192,518 shares
 - 3) Average number of shares during the period:
 - Three months ended June 30, 2023: 13,910,482 shares
 - Three months ended June 30, 2022: 13,895,766 shares

*These quarterly 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 on page 4 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the first quarter of the current fiscal year, overall social activity increased in Japan as the legal status of COVID-19 was downgraded to Class 5. Consumer spending, capital expenditures, jobs and other economic indicators are showing a recovery. However, the outlook remains uncertain as there are still risks of an economic downturn such as the prolonged Ukraine conflict, the extended weakness of the yen, inflation and the high cost of resources, and the continuation of monetary tightening worldwide.

In the construction industry, which is the main supply destination of our products, total construction investments amounted to 8.4 trillion yen in April and May 2023 (up 5.8% year on year), according to “Comprehensive Construction Statistics” published by the Ministry of Land, Infrastructure, Transport and Tourism. However, according to “Building Starts Statistics” by the said ministry, the number of residential and non-residential construction starts during the same period decreased 4.7% from one year earlier to 146,965 and the total floor area of construction starts was down 9.6% to 17,989 thousand square meters. The declines are caused by the continuing high cost of building materials and labor shortage. As a result, the business climate is very difficult. The Japanese government is firmly committed to making consistent and rapid progress with measures to increase the country’s resilience to disasters as abnormal weather becomes increasingly severe and frequent. Furthermore, large urban redevelopment projects are likely to continue for many more years.

Demand for safety equipment at scaffolding installation companies, which are the primary customers for wedge binding type scaffolding, continues to be strong. However, these companies are holding down purchases of equipment until at least the second quarter of this fiscal year, which is the beginning of the peak season for construction demand. Companies continued to rent scaffolding instead. In the first quarter of the previous fiscal year, there was a large volume of shipments of scaffolding equipment as companies made large purchases in part because this was prior to a price increase. In the first quarter of the current fiscal year, shipments decreased as expected despite the continuation of providing proposals to customers concerning sales as well as rentals of equipment. Despite these challenges, performance benefited from demand for replacing pipe-frame scaffolding with next generation scaffolding and from the ability to receive large orders from customers that are expecting to start large-scale construction projects. As a result, first quarter revenue was the second highest since Shinwa’s initial public offering.

Furthermore, Shinwa has started selling multi-level linked scaffolding, which is ideally suited to the placement of scaffolding on high-rise buildings. This scaffolding is already being used at construction projects. In addition, by working jointly with a large temporary construction equipment rental company, we developed a product that targets demand associated with Japan’s disaster resilience initiatives. Preparations are under way to start selling this product. Overall, we are making steady progress for supplying products to meet the expected medium to long-term demand and for increasing the sales of new products.

In the Logistics Equipment Division, as economic and corporate activities in Japan continue to recover, there are significant variations in different industries regarding the volume and timing of demand for transportation equipment. Demand for bulk containers for shipping liquids was strong in the previous fiscal year but is currently lower and the volume of shipments has decreased. Furthermore, there were shipments of pallets to transport materials for electrical equipment for a large one-time project in the first quarter of the previous fiscal year. There were no large orders in this category in the first quarter of the current fiscal year and consequently revenue in this division decreased. However, there were solid orders for large logistics warehouse equipment. Although there are still no sales from these orders because work was not completed as of the end of the first quarter, work is proceeding at these projects on schedule.

Activities to hold down expenses are continuing. However, to maintain sound relationships with partner companies and maintain a production framework capable of restoring the volume of products supplied, we

responded appropriately to requests from these companies to revise their prices in order to reflect their own increasing expenses. Selling, general and administration expenses decreased because of a big downturn in shipping and delivery expenses due to the smaller volume of products shipped. To maintain the soundness of our organization, we increased investments and benefits for employees. There were also expenses for the start of a shareholder benefit program as part of actions to distribute earnings to shareholders. Due to these activities, the operating margin was 6.1% in the first quarter, 6.4 percentage points lower than one year earlier.

As a result, first quarter revenue decreased 33.5% from one year earlier to ¥2,906 million. Operating profit was down 67.5% to ¥177 million, profit before tax was down 68.7% to ¥165 million, and profit attributable to owners of parent was down 69.4% to ¥110 million.

The following section explains the performance of business divisions because the Shinwa Group has one business segment.

1) Scaffolding Equipment Division

Customers are continuing to rent rather than purchase scaffolding equipment because of the high prices of materials and products since the third quarter of the previous fiscal year. Although demand for safety equipment has been consistently high, some customers are pushing back purchases of wedge binding type scaffolding prior to the peak season of scaffolding equipment use that begins in the second quarter. In addition, sales volume decreased year on year because there was a large volume of purchases in the first quarter of the previous fiscal year prior to price revisions. Despite these challenges, first quarter sales increased because performance benefited from demand for replacing pipe-frame scaffolding with next generation scaffolding and from the ability to receive a solid amount of orders from customers that are expecting start large-scale construction projects.

As a result, first quarter revenue in the Scaffolding Equipment Division decreased 25.2% to ¥2,317 million, which was as expected.

2) Logistics Equipment Division

The Logistics Equipment Division received orders, primarily for repeated projects, steadily during the first quarter because of a higher level of production in many industries. However, the volume of orders for bulk containers for shipping liquids decreased and sales from pallets to transport materials for electrical equipment was lower due to one-time sales of these pallets one year earlier.

As a result, first quarter revenue in the Logistics Equipment Division decreased 53.6% to ¥589 million.

Name of product and service		(Thousand yen)	
		For the three months ended June 30, 2022	For the three months ended June 30, 2023
Scaffolding equipment	Wedge binding type scaffolding	1,886,807	977,886
	Next generation scaffolding	491,038	607,004
	Other scaffolding equipment	720,390	732,274
	Subtotal	3,098,236	2,317,165
Logistics equipment	Pallets	1,270,388	589,227
	Subtotal	1,270,388	589,227
Total		4,368,625	2,906,393

Note: Revenue stated in other scaffolding equipment and pallets includes revenue derived from leases under IFRS 16 of ¥127,880 thousand in the three-months ended June 30, 2022 and ¥100,703 thousand in three-months ended June 30, 2023.

(2) Explanation of Financial Position

(Assets)

Current assets at the end of the first quarter of the current fiscal year increased by ¥60 million from the end of the previous fiscal year to ¥8,022 million, mainly due to factors such as an increase in inventories of ¥231 million and an increase in trade and other receivables of ¥103 million, despite a decrease in cash and cash equivalents of ¥265 million. Non-current assets decreased by ¥163 million from the end of the previous fiscal year to ¥13,168 million. The decrease was primarily attributable to a decrease in property, plant and equipment of ¥148 million. As a result, total assets decreased by ¥103 million from the end of the previous fiscal year to ¥21,191 million.

(Liabilities)

Current liabilities at the end of the first quarter of the current fiscal year increased by ¥270 million from the end of the previous fiscal year to ¥5,511 million, mainly due to factors such as an increase in trade and other payables of ¥168 million. Non-current liabilities decreased by ¥48 million from the end of the previous fiscal year to ¥452 million. As a result, total liabilities increased by ¥221 million from the end of the previous fiscal year to ¥5,964 million.

(Equity)

Total equity at the end of the first quarter of the current fiscal year decreased by ¥325 million from the end of the previous fiscal year to ¥15,227 million. This was mainly attributable to factors such as the posting of profit attributable to owners of parent of ¥110 million and dividends paid of ¥445 million.

(3) Overview of Cash Flows

Cash and cash equivalents (hereinafter “cash”) at the end of the first quarter of the current fiscal year was ¥1,798 million, a decrease of ¥265 million from the end of the previous fiscal year.

Cash flows from each activity for the first quarter of the current fiscal year and their primary factors are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities for the first quarter of the current fiscal year was ¥217 million (¥617 million used in the same period of the previous fiscal year). Main factors affecting cash inflows were an increase in trade and other payables of ¥181 million, profit before tax of ¥165 million, and depreciation and amortization of ¥139 million. The main factors affecting cash outflows were an increase in inventories of ¥231 million, income taxes paid of ¥122 million, and an increase in trade and other receivables of ¥108 million.

(Cash flows from investing activities)

Net cash used in investing activities for the first quarter of the current fiscal year was ¥21 million, a decrease of ¥349 million year on year. The main factors affecting cash outflows were purchase of property, plant and equipment of ¥15 million.

(Cash flows from financing activities)

Net cash used in financing activities for the first quarter of the current fiscal year was ¥461 million, an increase of ¥89 million year on year. The main factor affecting cash outflows was dividends paid of ¥436 million.

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

There are no revisions to the first half and full year consolidated financial results forecasts announced in the consolidated financial results on May 12, 2023.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

	(Thousand yen)	
	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and cash equivalents	2,063,796	1,798,330
Trade and other receivables	2,450,073	2,553,528
Inventories	3,406,646	3,637,818
Other current assets	41,560	33,168
Total current assets	<u>7,962,077</u>	<u>8,022,846</u>
Non-current assets		
Property, plant and equipment	2,403,561	2,254,568
Right-of-use assets	240,048	222,603
Goodwill	9,221,769	9,221,769
Intangible assets	1,387,641	1,378,162
Other financial assets	68,259	80,498
Other non-current assets	11,537	11,218
Total non-current assets	<u>13,332,817</u>	<u>13,168,821</u>
Total assets	<u><u>21,294,895</u></u>	<u><u>21,191,668</u></u>

(Thousand yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	664,207	833,109
Borrowings	4,242,189	4,244,252
Income taxes payable	122,676	106,000
Other financial liabilities	89,510	71,086
Other current liabilities	122,936	257,413
Total current liabilities	5,241,520	5,511,862
Non-current liabilities		
Provisions	45,122	45,138
Other financial liabilities	170,269	159,453
Deferred tax liabilities	281,743	244,116
Other non-current liabilities	3,900	3,900
Total non-current liabilities	501,035	452,609
Total liabilities	5,742,555	5,964,471
Equity		
Share capital	153,576	153,576
Capital surplus	6,918,346	6,918,346
Retained earnings	8,621,667	8,287,279
Treasury shares	(151,505)	(151,505)
Other components of equity	3,710	14,276
Total equity attributable to owners of parent	15,545,795	15,221,974
Non-controlling interests	6,543	5,222
Total equity	15,552,339	15,227,196
Total liabilities and equity	21,294,895	21,191,668

(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, 2022	For the three months ended June 30, 2023
Revenue	4,368,625	2,906,393
Cost of sales	(3,316,142)	(2,224,994)
Gross profit	1,052,483	681,399
Selling, general and administrative expenses	(508,942)	(503,338)
Other income	3,239	2,704
Other expenses	(516)	(2,962)
Operating profit	546,263	177,804
Finance income	70	24
Finance costs	(16,845)	(12,194)
Profit before tax	529,488	165,633
Income tax expense	(161,155)	(56,357)
Profit	368,332	109,276
Profit attributable to		
Owners of parent	361,972	110,747
Non-controlling interests	6,360	(1,470)
Profit	368,332	109,276
Earnings per share		
Basic earnings per share (yen)	26.05	7.96
Diluted earnings per share (yen)	26.05	—

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

(Thousand yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Profit	368,332	109,276
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	(663)	2,270
Total of items that will not be reclassified to profit or loss	(663)	2,270
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	3,990	304
Cash flow hedges	—	(1,636)
Total of items that may be reclassified to profit or loss	3,990	(1,332)
Other comprehensive income, net of tax	3,327	938
Comprehensive income	371,660	110,214
Comprehensive income attributable to		
Owners of parent	363,344	111,536
Non-controlling interests	8,315	(1,321)
Comprehensive income	371,660	110,214

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

For the Three Months Ended June 30, 2022 (From April 1, 2022 to June 30, 2022)

(Thousand yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity			Total	Total equity attributable to owners of parent	Non-controlling interests	Equity
					Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations					
Balance at beginning of period	153,576	6,919,802	8,211,397	(163,101)	(138)	9,203	9,065	15,130,740	27,840	15,158,581	
Profit	—	—	361,972	—	—	—	—	361,972	6,360	368,332	
Other comprehensive income	—	—	—	—	(663)	2,035	1,371	1,371	1,955	3,327	
Comprehensive income	—	—	361,972	—	(663)	2,035	1,371	363,344	8,315	371,660	
Dividends	—	—	(597,517)	—	—	—	—	(597,517)	—	(597,517)	
Total transactions with owners	—	—	(597,517)	—	—	—	—	(597,517)	—	(597,517)	
Balance at end of period	153,576	6,919,802	7,975,851	(163,101)	(801)	11,239	10,437	14,896,567	36,155	14,932,723	

For the Three Months Ended June 30, 2023 (From April 1, 2023 to June 30, 2023)

(Thousand yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity				Total	Total equity attributable to owners of parent	Non-controlling interests	Equity
					Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Cash flow hedges					
Balance at beginning of period	153,576	6,918,346	8,621,667	(151,505)	2,025	9,825	(8,140)	3,710	15,545,795	6,543	15,552,339	
Profit	—	—	110,747	—	—	—	—	—	110,747	(1,470)	109,276	
Other comprehensive income	—	—	—	—	2,270	155	(1,636)	788	788	149	938	
Comprehensive income	—	—	110,747	—	2,270	155	(1,636)	788	111,536	(1,321)	110,214	
Dividends	—	—	(445,135)	—	—	—	—	—	(445,135)	—	(445,135)	
Transfers to non-financial assets	—	—	—	—	—	—	9,777	9,777	9,777	—	9,777	
Total transactions with owners	—	—	(445,135)	—	—	—	9,777	9,777	(435,357)	—	(435,357)	
Balance at end of period	153,576	6,918,346	8,287,279	(151,505)	4,295	9,980	—	14,276	15,221,974	5,222	15,227,196	

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousand yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Cash flows from operating activities		
Profit before tax	529,488	165,633
Depreciation and amortization	151,801	139,034
Finance income and finance costs	16,775	12,170
Loss (gain) on sale of fixed assets	—	(349)
Loss on disposal of property, plant and equipment	0	0
Share-based payment expenses	775	1,184
Decrease (increase) in inventories	(531,193)	(231,171)
Decrease (increase) in trade and other receivables	(856,962)	(108,188)
Increase (decrease) in trade and other payables	460,106	181,373
Other	39,935	187,647
Subtotal	(189,273)	347,335
Interest and dividends received	70	24
Interest paid	(11,165)	(7,135)
Income taxes paid	(416,793)	(122,744)
Net cash provided by (used in) operating activities	(617,161)	217,479
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	—	350
Purchase of property, plant and equipment	(353,283)	(15,124)
Purchase of intangible assets	(15,300)	(3,850)
Payments for acquisition of financial assets	(2,969)	(2,962)
Other	(4)	(37)
Net cash provided by (used in) investing activities	(371,556)	(21,624)
Cash flows from financing activities		
Proceeds from short-term borrowings	247,596	—
Repayments of short-term borrowings	(2,296)	—
Payments of financial expenditures	(2,599)	(2,468)
Dividends paid	(580,874)	(436,509)
Repayments of lease liabilities	(34,086)	(22,709)
Net cash provided by (used in) financing activities	(372,260)	(461,687)
Effect of exchange rate changes on cash and cash equivalents	3,485	367
Net increase (decrease) in cash and cash equivalents	(1,357,493)	(265,465)
Cash and cash equivalents at beginning of period	3,460,569	2,063,796
Cash and cash equivalents at end of period	2,103,076	1,798,330

(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.