

Consolidated Financial Results for the Three Months Ended June 30, 2024 [IFRS]



August 9, 2024

Company name: Shinwa Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange and Nagoya Stock Exchange

Code number: 3447

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

Representative: Kurio Noritake, President and Representative Director

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Scheduled date of commencing dividend payments: –

Availability of supplementary briefing material on financial results: Yes

Schedule of 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, 2024

(April 1, 2024 to June 30, 2024)

(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, 2024	4,038	38.9	421	137.0	395	138.9	264	142.2
June 30, 2023	2,906	(33.5)	177	(67.5)	165	(68.7)	109	(70.3)

	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, 2024	265	139.6	264	139.8	19.17	–
June 30, 2023	110	(69.4)	110	(70.3)	7.96	–

(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, 2024	26,600	15,363	15,350	57.7
March 31, 2024	20,675	15,318	15,310	74.0

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2024	–	16.00	–	16.00	32.00
Fiscal year ending March 31, 2025	–				
Fiscal year ending March 31, 2025 (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, 2025 (April 1, 2024 to March 31, 2025)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First half	6,647	0.4	495	(4.9)	441	(11.2)	296	(13.6)
Full year	16,000	26.2	1,600	128.5	1,494	129.0	1,000	143.3

	Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Yen
First half	296	(12.9)	21.29
Full year	1,000	144.1	71.91

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

* Notes:

- (1) Significant changes in the scope of consolidation during the period: Yes
Newly included: 5 companies, CTR Corporation (currently Yagumi Corporation) and 4 others
Excluded: –
- (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, 2024: 14,103,000 shares
March 31, 2024: 14,103,000 shares
 - 2) Total number of treasury shares at the end of the period:
June 30, 2024: 193,484 shares
March 31, 2024: 193,484 shares
 - 3) Average number of shares outstanding during the period:
Three months ended June 30, 2024: 13,845,870 shares
Three months ended June 30, 2023: 13,910,482 shares

*Review of the attached quarterly consolidated financial statements by a certified public accountant or auditing firm:
None

*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 (3) Explanation of Consolidated Financial Results Forecast and Other Forward-Looking Information in 1. Qualitative Information on Quarterly Financial Results on page 3 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the first three months of the current fiscal year, the Japanese economy continued to recover gradually, with improvements in employment, although there were stalls in some activities, such as exports. However, the outlook remains uncertain as there is still a risk of an economic downturn due to the prolonged weakness of the yen, high prices of materials and resources, concerns about the outlook for the Chinese economy, and the protracted conflicts in the Middle East and Ukraine.

In the construction industry, which is the main source of demand for our products, construction investments were solid, amounting to ¥8.6 trillion between April and May 2024 (up 0.4% year on year), according to Comprehensive Construction Statistics published by the Ministry of Land, Infrastructure, Transport and Tourism. According to *Building Starts Statistics* by the said ministry, the number of residential and non-residential construction starts during the same period increased 3.4% from one year earlier to 151,996, and the total floor area of construction starts was down 4.6% to 17,156 thousand square meters. Although construction investments increased, the scale of construction starts was smaller. This is mainly the result of the shortage of construction workers and the surging prices of building materials.

In this business climate, scaffolding installation companies, which are the primary customers for wedge binding type scaffolding, continued to refrain from purchasing scaffolding equipment and rent it amid increases in overall costs, including materials. Against this backdrop, we took the following countermeasures: we focused on generating sales by fully leveraging our flexible sales proposals; we made the Yagumi Group, one of the largest scaffolding equipment installation companies in Japan, into our subsidiary in April 2024, which contributed to revenue from scaffolding installation works; and we promoted business integration to expand services and distribution channels, leading to increased revenue growth opportunities.

As a result of the above, revenue for the first three months amounted to ¥4,038 million (up 38.9% year on year). Operating profit was ¥421 million (up 137.0% year on year). Profit before tax amounted to ¥395 million (up 138.9% year on year), and profit attributable to owners of parent amounted to ¥265 million (up 139.6% year on year).

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

1) Scaffolding Equipment Division

Despite a solid demand for scaffolding equipment, customers continued to rent rather than purchase scaffolding equipment because of the high prices of materials and products. Under these circumstances, we focused on agile and flexible sales activities by combining the strengths of both sales and rentals while centering on rental services for next generation scaffolding and so on. In addition, the Yagumi Group, which became our subsidiary in April 2024, responded to firm construction demand with abundant human resources and steadily secured projects.

As a result, revenue for the first three months in the Scaffolding Equipment Division amounted to ¥3,342 million (up 44.2% year on year).

2) Logistics Equipment Division

In the Logistics Equipment Division, orders increased for logistics equipment dedicated to the building materials leasing industry, which is witnessing a growing demand. Additionally, the Division steadily received orders, primarily for bulk containers for shipping liquids and other repeated projects.

As a result, revenue for the first three months in the Logistics Equipment Division amounted to ¥696 million (up 18.1% year on year).

(Thousand yen)

Name of product and service		For the three months ended June 30, 2023	For the three months ended June 30, 2024
Scaffolding equipment	Wedge binding type scaffolding	977,886	1,325,557
	Next generation scaffolding	607,004	398,531
	Installation and rental	330,756	1,109,869
	Other sales	366,866	324,700
	Other	34,651	183,383
	Subtotal	2,317,165	3,342,040
Logistics equipment	Pallets	589,227	696,088
	Subtotal	589,227	696,088
Total		2,906,393	4,038,129

Note: Revenue stated in installation and rental and pallets includes revenue derived from leases under IFRS 16 of ¥100,703 thousand in the three months ended June 30, 2023, and ¥109,525 thousand in the three months ended June 30, 2024.

(2) Explanation of Financial Position

(Assets)

Current assets at the end of the first quarter of the current fiscal year increased by ¥802 million from the end of the previous fiscal year to ¥8,093 million, mainly due to factors such as an increase in inventories of ¥283 million and an increase in trade and other receivables of ¥1,135 million, despite a decrease in cash and cash equivalents of ¥709 million. Non-current assets increased by ¥5,123 million from the end of the previous fiscal year to ¥18,507 million, mainly due to an increase in property, plant and equipment of ¥1,413 million and an increase in goodwill of ¥3,299 million associated with making the Yagumi Group into a subsidiary. As a result, total assets increased by ¥5,925 million from the end of the previous fiscal year to ¥26,600 million.

(Liabilities)

Current liabilities at the end of the first quarter of the current fiscal year increased by ¥4,927 million from the end of the previous fiscal year to ¥7,871 million, mainly due to factors such as an increase in borrowing of ¥4,658 million associated with making the Yagumi Group into a subsidiary and an increase of trade and other payables of ¥234 million. Non-current liabilities increased by ¥952 million from the end of the previous fiscal year to ¥3,365 million. The increase was primarily attributable to an increase in borrowings of ¥675 million. As a result, total liabilities increased by ¥5,880 million from the end of the previous fiscal year to ¥11,237 million.

(Equity)

Total equity at the end of the first quarter of the current fiscal year increased by ¥45 million from the end of the previous fiscal year to ¥15,363 million. This was mainly attributable to factors such as the posting of profit attributable to owners of parent of ¥265 million.

(3) 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 10, 2024.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousand yen)

	As of March 31, 2024	As of June 30, 2024
Assets		
Current assets		
Cash and cash equivalents	1,843,324	1,133,856
Trade and other receivables	2,225,876	3,361,815
Inventories	3,182,833	3,466,256
Other financial assets	–	17,580
Other current assets	39,396	114,045
Total current assets	<u>7,291,430</u>	<u>8,093,554</u>
Non-current assets		
Property, plant and equipment	2,488,388	3,901,727
Right-of-use assets	204,761	384,828
Goodwill	9,221,769	12,521,306
Intangible assets	1,352,107	1,344,323
Other financial assets	105,080	209,886
Deferred tax assets	–	114,778
Other non-current assets	12,124	30,505
Total non-current assets	<u>13,384,232</u>	<u>18,507,357</u>
Total assets	<u><u>20,675,663</u></u>	<u><u>26,600,911</u></u>

(Thousand yen)

	As of March 31, 2024	As of June 30, 2024
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	1,045,596	1,280,541
Borrowings	1,490,914	6,149,012
Income taxes payable	59,503	108,043
Other financial liabilities	69,272	96,747
Other current liabilities	278,629	237,264
Total current liabilities	<u>2,943,917</u>	<u>7,871,609</u>
Non-current liabilities		
Borrowings	1,963,658	2,639,528
Provisions	44,236	97,143
Other financial liabilities	143,151	296,214
Deferred tax liabilities	258,339	271,266
Other non-current liabilities	3,900	61,650
Total non-current liabilities	<u>2,413,286</u>	<u>3,365,802</u>
Total liabilities	<u>5,357,204</u>	<u>11,237,411</u>
Equity		
Share capital	153,576	153,576
Capital surplus	6,918,207	6,916,895
Retained earnings	8,363,728	8,406,565
Treasury shares	(147,575)	(147,575)
Other components of equity	22,092	21,318
Total equity attributable to owners of parent	<u>15,310,028</u>	<u>15,350,780</u>
Non-controlling interests	8,430	12,719
Total equity	<u>15,318,459</u>	<u>15,363,499</u>
Total liabilities and equity	<u>20,675,663</u>	<u>26,600,911</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, 2023	For the three months ended June 30, 2024
Revenue	2,906,393	4,038,129
Cost of sales	(2,224,994)	(2,987,823)
Gross profit	681,399	1,050,305
Selling, general and administrative expenses	(503,338)	(631,576)
Other income	2,704	9,279
Other expenses	(2,962)	(6,650)
Operating profit	177,804	421,358
Finance income	24	2,914
Finance costs	(12,194)	(28,513)
Profit before tax	165,633	395,759
Income tax expense	(56,357)	(131,131)
Profit	109,276	264,628
Profit attributable to:		
Owners of parent	110,747	265,390
Non-controlling interests	(1,470)	(761)
Profit	109,276	264,628
Earnings per share:		
Basic earnings per share (yen)	7.96	19.17

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

(Thousand yen)

	For the three months ended June 30, 2023	For the three months ended June 30, 2024
Profit	109,276	264,628
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Financial assets measured at fair value through other comprehensive income	2,270	(1,251)
Total of items that will not be reclassified to profit or loss	2,270	(1,251)
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	304	936
Cash flow hedges	(1,636)	–
Total of items that may be reclassified to profit or loss	(1,332)	936
Other comprehensive income, net of tax	938	(315)
Comprehensive income	110,214	264,313
Comprehensive income attributable to:		
Owners of parent	111,536	264,616
Non-controlling interests	(1,321)	(302)
Comprehensive income	110,214	264,313

(3) Notes to Condensed Quarterly Consolidated Financial Statements

(Going concern assumption)

There is no relevant information.

(Significant changes in shareholders' equity)

There is no relevant information.

(Significant subsequent events)

There is no relevant information.

(Segment information)

The Group mainly engages in the business of manufacturing and sale of scaffolding equipment and logistics equipment. There is a single reportable segment of the manufacturing and sale of scaffolding equipment and logistics equipment.

Revenue from external customers for each product and service is as follows.

(Thousand yen)

Name of product and service		For the three months ended June 30, 2023	For the three months ended June 30, 2024
Scaffolding equipment	Wedge binding type scaffolding	977,886	1,325,557
	Next generation scaffolding	607,004	398,531
	Installation and rental	330,756	1,109,869
	Other sales	366,866	324,700
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	Subtotal	2,317,165	3,342,040
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	Subtotal	589,227	696,088
	Total	2,906,393	4,038,129

Note: Revenue stated in installation and rental and pallets includes revenue derived from leases under IFRS 16 of ¥100,703 thousand in the three months ended June 30, 2023, and ¥109,525 thousand in the three months ended June 30, 2024.

(Notes to consolidated statement of cash flows)

Condensed quarterly consolidated statement of cash flows for the three months ended June 30, 2024 is not prepared. Depreciation and amortization for the three months ended June 30, 2023 and 2024 are as follows.

(Thousand yen)

	For the three months ended June 30, 2023	For the three months ended June 30, 2024
Depreciation and amortization	139,034	182,166

(Business combinations)

(Business combination through acquisition)

At the Board of Directors meeting held on March 14, 2024, the Company resolved to acquire all shares of CTR Corporation (formerly Kisaragi Co., Ltd.; hereinafter referred to as “CTR”) and entered into a share transfer agreement as of the same date.

Based on this agreement, the Company acquired all shares of CTR on April 1, 2024, making it a subsidiary of the Company.

In conjunction with this share acquisition, Yagumi Corporation and Ikeda Koumuten, which are wholly owned subsidiaries of CTR, became second-tier subsidiaries of the Company, and Itabashi-gumi Y.K. and Itabashi Transport Y.K., which are second-tier subsidiaries of CTR, became third-tier subsidiaries of the Company.

1. Overview of the business combination

(1) Name of the acquired company and its line of business

Name of the acquired company: CTR Corporation

Line of business of the acquired company: Consulting services for corporate rehabilitation and corporate management, etc.

(2) Main reasons for the business combination

CTR is one of the largest scaffolding equipment installation companies in the Tokai region and one of the largest in Japan, with Yagumi Corporation as its core subsidiary (hereinafter collectively referred to as the “Yagumi Group” including CTR and its subsidiaries). By incorporating and developing various peripheral businesses, CTR engages in business operations with an eye toward achieving further business growth in the future.

While the Shinwa Group, as a manufacturer, upholds the purpose of “Protecting Lives and Supporting the Future,” the Yagumi Group, as users, prides themselves on being “safe workers who are instrumental in ensuring the safety of construction projects.” The participation of the Yagumi Group in the Shinwa Group is expected to lead to further business expansion and entry into new fields based on the high affinity of the two Groups. We expect that our mutual collaboration will further contribute to solving social issues surrounding construction, and therefore, we have decided to acquire the shares.

Taking the opportunity of making the Yagumi Group a subsidiary, we aim to create new value and further enhance corporate value by mutually generating synergies through the sharing of management resources and strengthening business collaboration within the Shinwa Group.

(3) Date of the business combination

April 1, 2024

(4) Ratio of voting rights acquired

100%

2. Consideration for the acquisition and the details thereof

Cash ¥3,000,000 thousand

3. Amount of acquisition-related expenses and the line item thereof

Acquisition-related expenses for this business combination amounted to ¥76 million and are included in “Selling, general and administrative expenses” in the consolidated statement of profit or loss in the previous fiscal year.

4. Amount of goodwill arising from the acquisition

¥3,299,536 thousand

As the allocation of acquisition cost has not been completed as of June 30, 2024, the amount of goodwill is a provisionally calculated amount.

(Transactions under common control, etc.)

At the Board of Directors meeting held on April 17, 2024, the Company resolved that Yagumi Corporation, our consolidated second-tier subsidiary, would absorb CTR Corporation, our consolidated subsidiary, and Yagumi Corporation completed the absorption on June 1, 2024.

1. Outline of the business combination

(1) Names of the constituent companies and their line of business

Combining company (Surviving company)

Name: Yagumi Corporation (Consolidated second-tier subsidiary of the Company)

Line of business: Contracting and brokering, etc. of scaffolding work

Combined company (Absorbed company)

Name: CTR Corporation (Consolidated subsidiary of the Company)

Line of business: Consulting services for corporate rehabilitation and corporate management, etc.

(2) Date of the business combination

June 1, 2024

(3) Legal form of the business combination

Absorption-type merger with Yagumi Corporation as the surviving company and CTR Corporation as the absorbed company

(4) Company name after the business combination

Yagumi Corporation

(5) Other items related to the transaction overview

This merger aims to streamline the Group's organizational structure and business operations, thereby improving overall management efficiency.

2. Overview of accounting process conducted

A business combination under common control is a business combination in which all of the combining companies or businesses are ultimately controlled by the same company or companies both before and after the business combination, and that control is not transitory. The Group continues to apply accounting treatment for all business combination transactions under common control based on book value.