

TSE Securities Code Number: 5351

# Shinagawa Update

Results for Fiscal Year Ended March 2020

Published on Website

June 26, 2020



Sky is the Limit: Shaping the Future of Refractories

 SHINAGAWA REFRACTORIES CO.,LTD.

# 1. Consolidated Financial Highlights

(Unit: Million JPY)

	FY 2018 Results	FY 2019 Results	YoY
<b>Net Sales</b>	<b>119,067</b>	<b>118,973</b>	− 0.1%
<b>Operating Income</b>	<b>10,233</b>	<b>9,597</b>	− 6.2%
<b>Ordinary Income (ROS)</b>	<b>10,659 (9.0%)</b>	<b>9,844 (8.3%)</b>	− 7.6% ( − 0.7pt)
<b>Profit attributable to owners of parent</b>	<b>6,225</b>	<b>5,550</b>	− 10.8%

- Operating income decreased (- 6.2%) mainly due to less refractories sales in Japan
- Recorded sales of furnace construction business (Coke oven and Blast furnace hot stove) offset less refractories sales in Net Sales

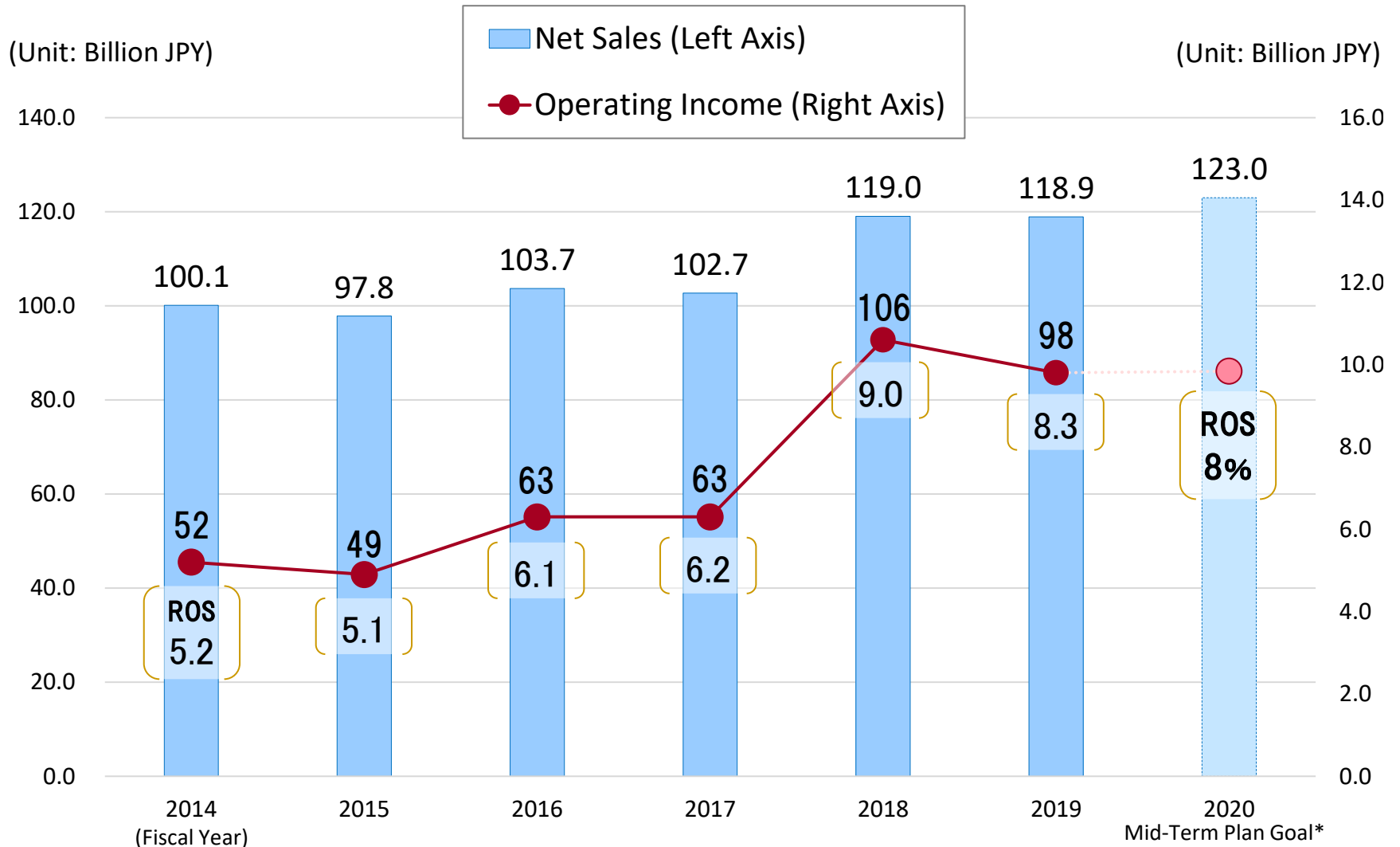
## 【Annual Crude Steel Production in Japan】

2017: 104.8 Million tons

2018: 102.9 Million tons ( - 1.9% over 2017)

2019: 98.4 Million tons ( - 4.3% over 2018) \*Less than 100 Million tons for the first time in 10 years

## 2. Consolidated Net Sales & Operating Income



Note: ROS is calculated by dividing Operating Income by Net Sales

\*Mid-Term Plan Goal for 2020 was announced on May 10, 2018

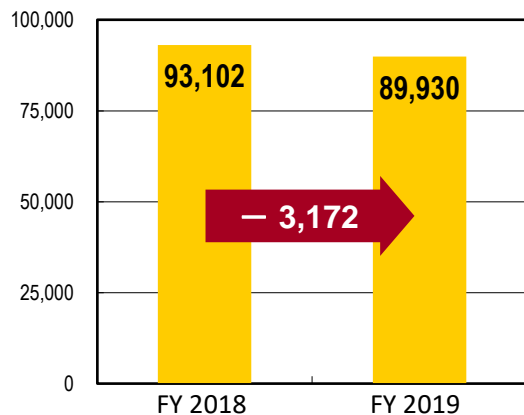
### 3. Net Sales by Business Segment

(Unit: Million JPY)

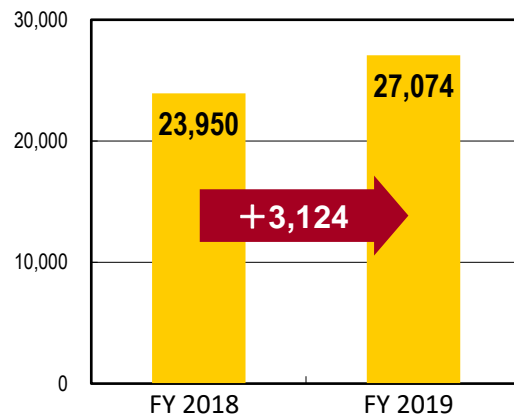
	FY 2018	FY 2019	YoY
	Results	Results	
Refractories & Related Products	<b>93,102</b> [ 78.2 ]	<b>89,930</b> [ 75.5 ]	- 3.4%
Furnace Construction & Engineering	<b>23,950</b> [ 20.1 ]	<b>27,074</b> [ 22.8 ]	+13.0%
Real Estate & Other Businesses	<b>2,014</b> [ 1.7 ]	<b>1,968</b> [ 1.7 ]	- 2.3%
<b>Total</b>	<b>119,067</b> [100.0 ]	<b>118,973</b> [100.0 ]	- 0.1%

Note: Figures in square brackets [ ] indicate net sales share (%) by business segment.

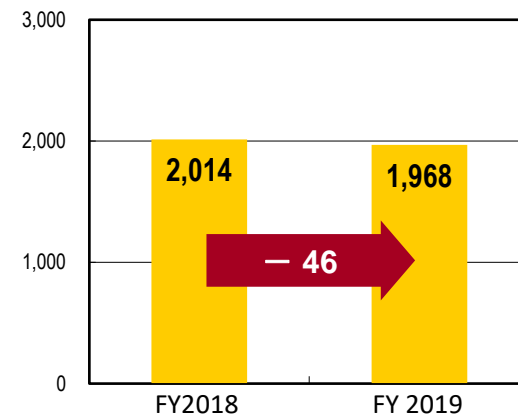
Refractories & Related Products



Furnace Construction & Engineering



Real Estate & Other Businesses



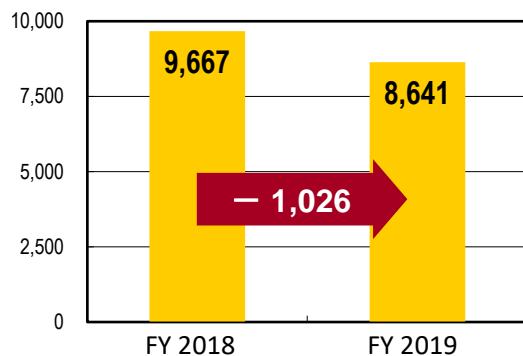
## 4. Operating Income by Business Segment

(Unit: Million JPY)

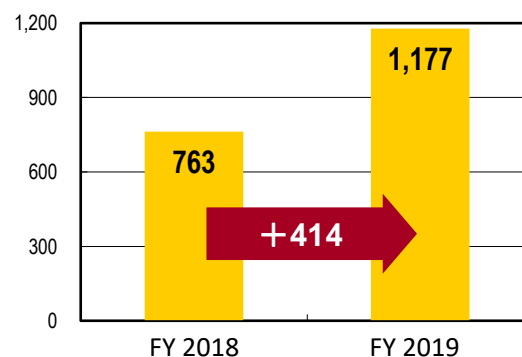
	FY 2018	FY 2019	YoY
	Results	Results	
Refractories & Related Products	9,667 [ 84.3 ]	8,641 [ 79.5 ]	- 10.6%
Furnace Construction & Engineering	763 [ 6.7 ]	1,177 [ 10.8 ]	+54.3%
Real Estate & Other Businesses	1,034 [ 9.0 ]	1,057 [ 9.7 ]	+2.2%
Total	11,464 [100.0 ]	10,877 [100.0 ]	- 5.1%
Adjustments	- 1,231	- 1,279	-
Total Operating Income	10,233	9,597	- 6.2%

Note: Figures in square brackets [ ] indicate net sales share (%) by business segment.

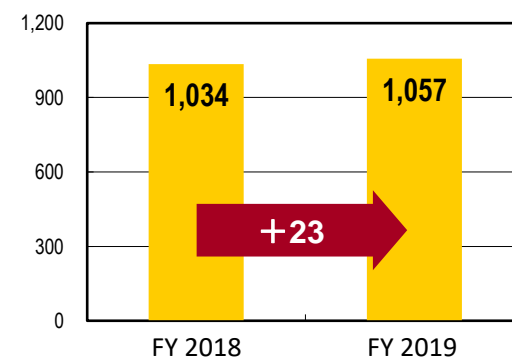
### Refractories & Related Products



### Furnace Construction & Engineering

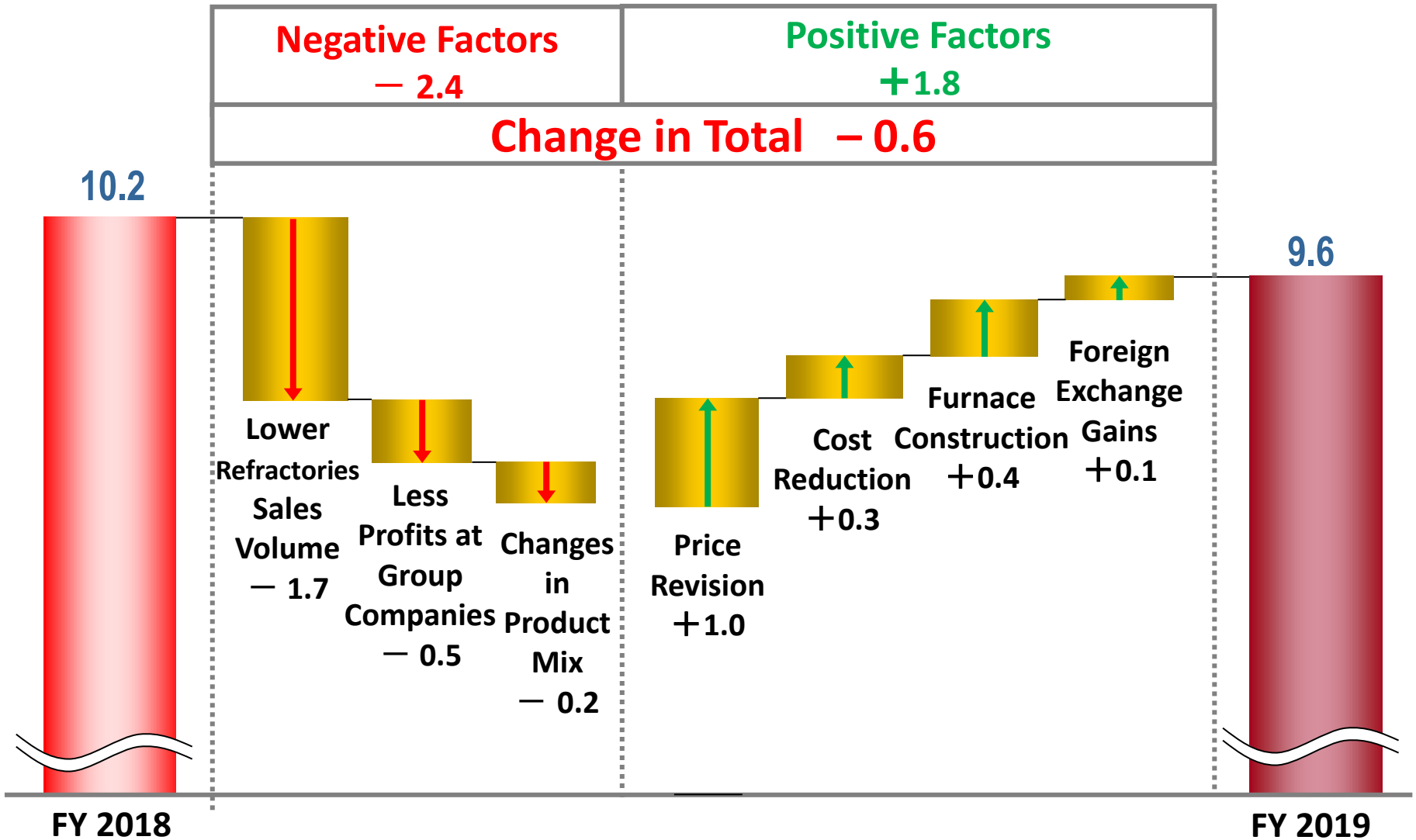


### Real Estate & Other Businesses



# 5. Factors Behind Changes in Operating Income (YoY)

(Unit: Billion JPY)



## 6. Consolidated Balance Sheet

(Unit: Million JPY)

	2019/3	2020/3	Changes	
<b>Current Assets</b>	72,167	<b>72,010</b>	− 157	▪ Cash & Deposits +1,424 ▪ Receivables - 1,195 ▪ Inventories - 423
<b>Fixed Assets</b>	39,059	<b>38,237</b>	− 822	▪ Tangible Fixed Assets +1,808 ▪ Investment Securities - 2,715
<b>Total Assets</b>	111,227	<b>110,247</b>	− 979	
<b>Current Liabilities</b>	37,526	<b>34,246</b>	− 3,280	▪ Accounts Payable - 1,172 ▪ Income Taxes Payable - 1,571
<b>Fixed Liabilities</b>	11,314	<b>9,286</b>	− 2,028	▪ Long-term loans payable - 923 ▪ Accumulated Retirement Benefit - 701
<b>Total Liabilities</b>	48,841	<b>43,532</b>	− 5,308	
<b>Shareholders' Equity</b>	53,966	<b>58,228</b>	+4,262	▪ Current Net Income +5,550
<b>Accumulated Other Comprehensive Incomes</b>	438	<b>- 219</b>	− 658	▪ Valuation Difference on Available-for-sale Securities - 738
<b>Non-controlling Interest</b>	7,980	<b>8,705</b>	+725	
<b>Total Net Assets</b>	62,385	<b>66,714</b>	+4,328	
<b>Total Liabilities &amp; Net Assets</b>	111,227	<b>110,247</b>	− 979	

	2019/3	2020/3
<b>ROE (Return on Equity)</b>	11.9%	<b>9.9%</b>

# 7. Consolidated Cash Flows

(Unit: Million JPY)

	FY 2018	FY 2019	Changes
Cash Flows from Operating Activities	4,288	<b>7,769</b>	+3,481
Cash Flows from Investing Activities	- 1,179	- <b>3,840</b>	- 2,661
Cash Flows from Financing Activities	- 2,286	- <b>2,549</b>	- 263
Cash and Cash Equivalents at the End of Period	11,347	<b>12,669</b>	+1,322

[Main contents of cash flows from operating activities]

- Income before Income Taxes + 8,102
- Depreciation + 2,538
- Changes in Receivables + 1,134
- Changes in Inventories + 370
- Changes in Accounts Payable - 1,147
- Income Taxes Paid - 3,245

[Main contents of cash flows from investing activities]

- Purchase of Tangible Fixed Assets  
- 4,250
- Sales of Investment Securities + 666

[Main contents of cash flows from financing activities]

- Repayments of Long-term Loans  
Payable - 1,179
- Cash Dividends Paid - 1,307

- Interest-bearing Debt/Cash Flow Ratio:  
2.1 Years  
(2.1 Years improvement YoY)



## 8. Area of Focus ① Domestic Market

# Sales Expansion in Japanese Domestic Market

～ Focus on New Market Development ～

### 1 Existing Market **Future Uncertain**

- Need time to recover as domestic crude steel production continues to fall  
⇒ Continue to provide our best supports while hoping for a quick recovery

“Challenges bring Opportunities”: Focus on New Markets Development

### 2 New Markets **Building New Customer Base**

Fully utilizing Shinagawa's  
Core Competencies for New  
Markets Development

- Technologies - Products
- Analytical Capacities
- Furnace Construction  
Expertise

Specialty  
Steel

Non  
Ferrous

Cement

Lime

Target Markets

## 8. Area of Focus ② Overseas Market

# Overseas Business Expansion

~ Existing Business Expansion & New Markets Development ~

## 1 Overseas Production Expansion

- **SAM (USA): Built a New Tower to produce Spray Dried Mold Powders for Continuous Casting**  
⇒ Commenced Operation in May 2019
- **SGSR (India): Established a New Company to produce Tap Hole Clay for Blast Furnaces (JV with Saint-Gobain)**  
⇒ Commence Operation in October 2020 (Plan)
- **Considering Other Production Opportunities Globally**

Shinagawa Advanced Materials Americas, Inc.

SG Shinagawa Refractories India



## 2 Sales and Services On Site: Expanding Global Footprints

- Shinagawa Employees available at all Overseas Locations

▶ Production Sites: 8  
▶ Sales Offices: 5

- Fully Utilize Global On Site Sales and Services Offices to Increase Shinagawa's Footprints Worldwide

【Existing Market】  
Iron & Steel



【New Markets】  
Cement, Glass & Non Ferrous

## 9. Financial Targets & Strategies

### 1 Capital Spending

#### Active Capital Spending to Enable Flawless Operation and Enhance Product Competitiveness

Capital Spending	FY 2018	FY 2019
Plan (a)	4,100	4,800
Results (b)	4,700	4,200
(b) – (a)	+ 600	– 600

(Unit: Million JPY)

Capital Spending of 8,900 Million JPY in 2 years is more than our original plan for 3 years (8,000 Million JPY).

#### 【 Fully Taking Advantages of Production Facilities Upgrade 】

##### 1 Enabling Flawless Operation

- Totally Revamping and Updating Aging Equipment (Various Presses & Furnaces)

##### 2 Enhancing Product Competitiveness

- Introducing New Processes & Products and Further Automation
  - New Products: Ceramic Fiber (Isolite) and Spray Dried Mold Powders (SAM)

# 9. Financial Targets & Strategies

## 2 Shareholder Returns

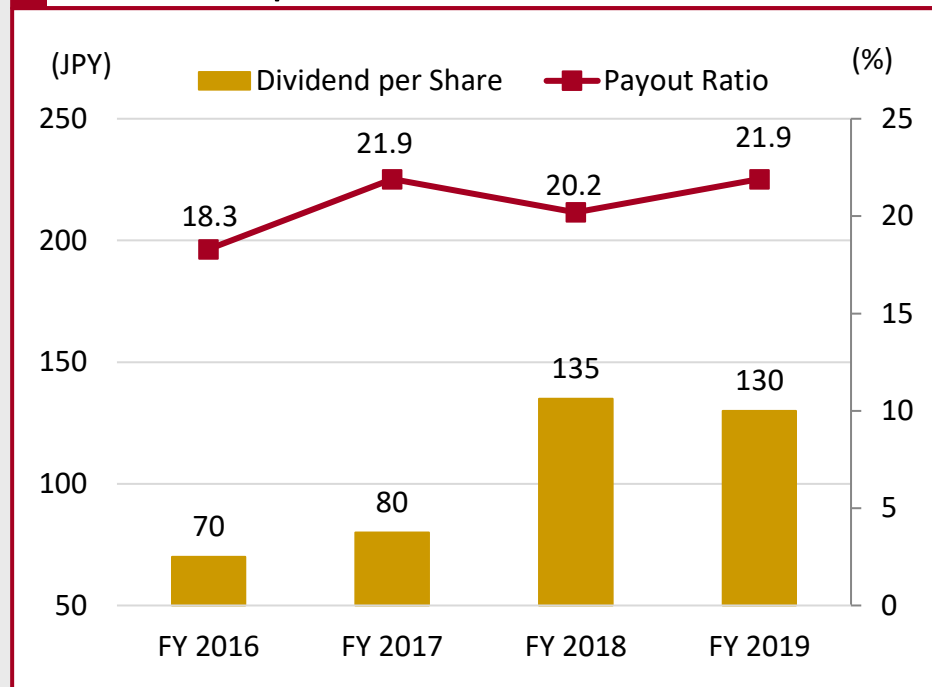
**Interim Dividend**  
**65 JPY**

**Year End Dividend**  
**65 JPY**

**Total Annual Dividend**  
**130 JPY**  
(On Budget)

**Payout Ratio**  
**21.9%**  
(YoY +1.7pt)

### Dividend per Share



\*A 10-for-1 reverse stock split of common shares was implemented, with an effective reverse split date of October 1, 2017. For the purpose of year-on-year comparisons for these financial statements, we retroactively implemented the reverse stock split to the start of FY 2015.

# 10. Future Outlook

As an ongoing global pandemic of COVID-19 is having a significant adverse impact on Japanese and global economic activities, it is widely believed that it will take considerable time for the outbreak to be contained and the economy to recover.

This is also seriously impacting Japanese steel industry, our largest customer base. Due to uncertainties about the recovery outlook for Japanese domestic crude steel production, which fell below 100 million tons in fiscal year 2019, it is unfortunately difficult to accurately predict the future performance of Shinagawa group companies.

Therefore, we have decided not to comment on the consolidated earnings and dividend forecast for the fiscal year ending March 2021 at this moment. We will certainly disclose earnings forecasts as soon as they become available.

In addition, Shinagawa is currently implementing our three-year medium-term management plan with the year ending March 2021. Considering the above situation, however, we are in the midst of revising its strategies and goals and, therefore, would like to refrain from making comments about its details.

## Disclaimer

This document is intended to provide information on the results for the fiscal year ended March 2020 (April 2019 – March 2020) and is not intended to solicit investment in securities issued by the Company.

The document was prepared based on data available as of June 26, 2020. Opinions, forecasts, etc. described herein are based on the Company's judgment at the time of the preparation of the document. The Company does not warrant or guarantee the accuracy or completeness of the information contained herein, and such information may change without notice in the future.

TSE Securities Code Number: 5351

# Shinagawa Update

Results for Fiscal Year Ended March 2020

Published on Website

June 26, 2020



Sky is the Limit: Shaping the Future of Refractories

 SHINAGAWA REFRACTORIES CO.,LTD.