

Consolidated Financial Results (Japanese Accounting Standards) for the Six Months Ended September 30, 2018 (Q2 FY2018) (English Translation)

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 Supplementary documents for quarterly results: Available
 Quarterly results briefing: Available (For Institutional Investors and Analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Six Months Ended September 30, 2018 (April 1 - September 30, 2018)

(1) Consolidated Results of Operations (Accumulated Total)

(Percentages show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Six Months ended September 30, 2018	47,000	0.0	1,312	32.0	1,802	14.3	1,143	10.3
September 30, 2017	46,981	0.9	993	(46.8)	1,576	(39.3)	1,036	(35.6)

(Note) Comprehensive income: ¥ 1,497 million (34.6%) for the Six Months ended September 30, 2018
 ¥ 1,113 million (310.0%) for the Six Months ended September 30, 2017

	Net income Per share (basic)	Net income Per share (diluted)
	¥	¥
Six Months ended September 30, 2018	54.23	—
September 30, 2017	49.17	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ million	¥ million	%	¥
Six Months ended September 30, 2018	77,779	48,765	62.4	2,303.56
Year ended March 31, 2018	77,052	48,005	62.0	2,267.58

(Reference) Shareholder's equity: Six Months ended September 30, 2018: ¥ 48,569 million
 Year ended March 31, 2018: ¥ 47,810 million

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	¥	¥	¥	¥	¥
Year ended March 31, 2018	—	14.00	—	35.00	49.00
Year ending March 31, 2019	—	15.00			
Year ending March 31, 2019 (forecasts)			—	36.00	51.00

(Note) Revisions to dividend forecasts published most recently: None

3. Consolidated Forecasts for the Fiscal year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)
(Percentage figures for the fiscal year represent the changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Year ending March 31, 2019	102,000	2.5	6,500	29.8	7,700	19.3	5,200	26.5	246.63

(Note) Revisions to financial forecasts published most recently : None

4. Others

- (1) Changes of important subsidiaries during the period (changes of specific subsidiaries in accordance with changes in the scope of consolidation): Yes

Newly consolidated subsidiaries: (1) LYLY KAMEDA CO., LTD.

(Note) For details, please refer to p.11 of the Appendix, “2. Quarterly Consolidated Financial Statements (4) Notes on the Quarterly Consolidated Financial Statements (Changes of important subsidiaries during the period)”

- (2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements: None

- (3) Changes in accounting policies and changes or restatement of accounting estimates

- (i) Changes in accounting policies caused by revision of accounting standards: None
- (ii) Changes in accounting policies other than (i): Yes
- (iii) Changes in accounting estimates: Yes
- (iv) Restatement: None

(Note) Since the first quarter of the current consolidated accounting period, we have changed the depreciation method; this falls under “Changes in accounting policies that are difficult to distinguish from changes in accounting estimates.” For details please refer to p.11 of the Appendix “2. Quarterly Consolidated Financial Statements (4) Notes on the Quarterly Consolidated Financial Statements (Changes in accounting policies that are difficult to distinguish from changes in accounting estimates).”

- (4) Number of shares outstanding (common stock):

- (i) Number of shares outstanding at end of period (including treasury stock)
 - As of September 30, 2018: 22,318,650 shares
 - As of March 31, 2018: 22,318,650 shares
- (ii) Number of treasury stock at end of period
 - As of September 30, 2018: 1,234,271 shares
 - As of March 31, 2018: 1,234,204 shares
- (iii) Average number of shares outstanding during the term
 - Six Months ended September 30, 2018: 21,084,416 shares
 - Six Months ended September 30, 2017: 21,084,838 shares

* Representations concerning the implementation of auditing procedures

These financial results are not subject to auditing under the Financial Instruments and Exchange Act, and auditing procedures on the consolidated financial statements are currently underway at the time of disclosure of the financial results.

* Explanations and other special notes concerning the appropriate use of performance forecasts

(Caution concerning statements, etc. regarding the future)

The forward-looking statements such as performance forecasts included in this document are based on the information available to the Company at the time of the announcement and on certain assumptions considered reasonable. Actual results may differ materially from the forecast depending on a range of factors.

(How to obtain supplementary explanatory materials on financial results and details of financial results briefing session)

The Company intends to hold a briefing session for analysts and institutional investors on Monday, November 12, 2018.

Any explanatory materials used on that day will be available on the Company's website soon after the session.

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1. Qualitative Consolidated Financial Results Data for the Period under Review

(1) Explanation of Consolidated Operating Results

During the second quarter of the current fiscal year, the Japanese economy continued to experience a moderate recovery amid a virtuous circle in which strong corporate earnings had the effect of improving the employment and income environment and supporting personal consumption, despite concerns about a succession of natural disasters. At the same time, the outlook for the global economy can be said to be uncertain as trade problems spread with the emergence of protectionism centered on the United States.

In the food industry, although supported by strong demand, we expect a full-fledged recovery will still take some time given that Japan's serious manpower shortage and rising raw material and fuel prices have been factors in suppressing earnings.

Under such circumstances, the Kameda Seika Group announced its new medium-term business plan beginning from FY2018. Considering changes in the food industry environment, we are seeking to become a “Global Food Company” that provides customer value from the standpoint of our slogan “Better For You” products which “contribute to a healthy lifestyle through the selection, eating and enjoyment of things that are delicious and good for the body.”

The three core strategies of the medium-term business plan through FY2023 are: (1) “Expansion of business areas” with the focus on our overseas business and domestic food business; (2) “Transformation of the cost/revenue structure” focused on brand integration for our Domestic Rice Cracker Business, strengthening the portfolio and improving manufacturing costs; and (3) “Reinforcement of the business base” which will support these initiatives. To evolve from a “rice snacks and cracker business” to a “‘Better For You’ Food Business” by FY2030, we will implement long-term structural reforms by FY2023, and accelerate initiatives for sustainable growth and increased corporate value.

In FY2018, the first fiscal year of the new medium-term business plan, we are working on four key initiatives: (1) focusing on brands to create demand and reduce production costs through joint efforts of our Production and Sales divisions; (2) promoting a growth strategy and building a production base for the North American Business; (3) continuing to prepare a platform for the expansion of cross-border trading and development of local markets in Asia; and (4) investing management resources for new businesses such as “Better For You” products.

In the Domestic Rice Cracker Business, we are working on developing our brands from a medium-to-long term perspective. We have been trying to improve profitability by allocating management resources in line with the growth potential of each brand. We restricted the number of product items and concentrated on sales activities of mainstay products in core brands to focus on efficiency. In addition, for some products we are implementing measures to deal with the increased cost of our main raw materials, such as adjusting the content volume. Furthermore, considering the possibilities for future growth, we have plans to stimulate demand in a bid to expand the rice cracker food scene such as by enhancing promotions using SNS and releasing exclusive e-commerce products.

As a result of these efforts, although net sales of our core brands “KAMEDA Kaki-no-Tane,” “Tsumami Dane,” “Usuyaki,” “Soft Salad,” “Waza no Koda Wari,” “Katabutsu,” and “HaiHain” were up year-on-year, “Happy Turn,” “KAMEDA Magari Senbei,” “Teshioya,” “Pota-Pota Yaki,” and “Age-Ichiban” were down year-on-year due to reduced opportunities for exposure reflecting continuing restraint on the number of product items as well as the counter-reaction to promotions carried out in the same period of the previous year such as for the 60th anniversary of the founding of KAMEDA SEIKA.

In Overseas Business, net sales for the quarter were higher than the last year with the shutdown of a consolidated U.S. subsidiary Mary's Gone Crackers, Inc., due to the potential collapse of a neighborhood dam after record rainfall during the same quarter of the previous fiscal year.

Furthermore, in July 2018, Mary's Gone Crackers completed the move and consolidation of production (which are more advanced than ever) to a new factory in preparation for future business expansion.

In the Domestic Food Business, although the replacement cycle for long-life foods is entering an unfavorable period, sales were up year-on-year as demand for stockpiles of food increased in line with the recent successive spate of natural disasters last year.

In addition, we are developing research and development on the topic of promoting health from within the body using the nutrients inherent in raw materials as we aim to evolve into a “food industry that is ‘Better For You’,” and we plan to successively invest in this kind of product.

As a result, net sales totaled ¥47,000 million (up 0.0% year-on-year).

Income was temporarily affected by a decline in production efficiency due to an increase in the price of raw materials and the containment of inventories from a cash flow standpoint. Meanwhile, since the second quarter, in addition to cost

improvements that have resulted from containment of inventory, there has been an improvement in factory utilization rates as sales have improved for our core brands, predominantly “KAMEDA Kaki-no-Tane.” Furthermore, we are seeing a recovering in Overseas Business from the suspension of operations that occurred at our U.S. subsidiary in the same period in the previous year, as well as steady developments from the effects of integration at the new factory. As a result of these efforts, operating income increased 32.0% year-on-year to ¥1,312 million during the period under review.

Furthermore, ordinary income increased 14.3% year-on-year to ¥1,802 million; this was the result of a year-on-year decrease in equity method investment gains in TH FOODS, INC., an equity method affiliate. As a result of one-time costs stemming from the integration of the factory for Mary’s Gone Crackers, Inc., quarterly net income attributable to owners of the parent increased 10.3% year-on-year to ¥1,143 million.

Supplementary Information

(Unit: ¥ million)

	Six Months ended September 30, 2017	Six Months ended September 30, 2018	YoY	
			Change (amount)	Change (%)
Net sales	46,981	47,000	19	0.0
Domestic rice cracker business	37,824	37,754	(69)	(0.2)
Overseas business	3,324	3,508	183	5.5
Domestic Food Business *	2,068	2,278	210	10.2
Other (freight transport)	3,763	3,459	(304)	(8.1)
Operating income	993	1,312	318	32.0
Operating income margin	2.1%	2.8%		
Domestic rice cracker business	1,342	1,445	103	7.7
Overseas business	(754)	(445)	308	—
Domestic Food Business *	164	189	24	14.9
Other (freight transport)	241	123	(117)	(48.7)

※In accordance with the formulation of the medium-term business plan, we changed the previous name of “New Business” to “Domestic Food Business.”

Furthermore, in keeping with this change, some of the costs that had been included under “New Business” have been reclassified and are shown under “Domestic Rice Cracker Business.”

(2) Explanation of Consolidated Financial Position

(Assets)

Current assets stood at ¥22,198 million at the end of the second quarter, a decrease of ¥1,199 million from the end of the previous fiscal year. This was mainly due to increases of ¥943 million in cash and deposits and ¥100 million in raw materials and supplies, which were offset by decreases of ¥2,094 million in notes and accounts receivable-trade and ¥238 million in products and finished goods. Fixed assets stood at ¥55,581 million, an increase of ¥1,927 million from the end of the previous fiscal year. The gain was mainly attributable to increases of ¥674 million in machinery, equipment and vehicles, ¥479 million in investment securities, and ¥612 million in other (investments and other assets).

As a result, total assets stood at ¥77,779 million, an increase of ¥727 million from the end of the previous fiscal year.

(Liabilities)

Current liabilities stood at ¥21,666 million at the end of the second quarter, representing an increase of ¥652 million from the end of the previous fiscal year. This was mainly due to increases of ¥2,329 million in short-term loans payable, and ¥413 million in provisions for bonuses, which were partially offset by decreases of ¥332 million in notes and accounts payable-trade, ¥268 million in income taxes payable, and ¥1,288 million in other. Long-term liabilities stood at ¥7,348 million, a decrease of ¥684 million from the end of the previous year. This was mainly due to a ¥614 million decrease in long-term loans.

Consequently, total liabilities stood at ¥29,014 million, a decline of ¥32 million from the end of the previous fiscal year.

(Net assets)

Total net assets stood at ¥48,765 million at the end of the second quarter, an increase of ¥ 759 million from the end of the previous fiscal year. This mainly reflected ¥1,143 million in quarterly net income attributable to owners of the parent and ¥737 million in dividends from surplus as well as increases of ¥405 million in retained earnings, ¥339 million in foreign currency translation adjustment.

As a result, the equity ratio was 62.4%, up from 62.0% at the end of the previous fiscal year.

The partial revision of “Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) has been applied from the beginning of the first quarter of the current accounting period; and with regard to the company's financial circumstances we have made comparisons with the figures as of the end of the previous fiscal year after retrospective application to the Consolidated Financial Statements.

(3) Explanation of Future Estimates, Including Consolidated Forecasts

The Group's consolidated full-year FY2018 earnings forecasts remain unchanged from the earnings forecasts disclosed on May 10, 2018.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(¥ million)

	Year ended March 31, 2018	Six Months ended September 30, 2018
Assets		
Current assets		
Cash and deposits	3,950	4,894
Notes and accounts receivable-trade	12,734	10,640
Merchandise and finished goods	2,152	1,914
Work in process	663	697
Raw materials and supplies	3,265	3,366
Other	640	694
Allowance for doubtful accounts	(9)	(7)
Total current assets	23,398	22,198
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	13,271	13,279
Machinery, equipment and vehicles, net	11,840	12,514
Other, net	13,948	14,228
Total fixed assets	39,059	40,022
Intangible assets		
Goodwill	623	591
Customer assets	907	876
Trademark assets	737	712
Technology assets	457	441
Other	1,138	1,113
Total intangible assets	3,863	3,735
Investments and other assets		
Investment securities	9,021	9,501
Other	1,754	2,367
Allowance for doubtful accounts	(45)	(45)
Total investments and other assets	10,731	11,823
Total noncurrent assets	53,654	55,581
Total assets	77,052	77,779

(¥ million)

	Year ended March 31, 2018	Six Months ended September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,333	4,001
Electronic-recording liabilities	2,549	2,355
Short-term loans payable	3,493	5,823
Income taxes payable	891	622
Provision for bonuses	1,259	1,672
Other provisions	630	620
Asset retirement obligations	79	81
Other	7,777	6,488
Total current liabilities	21,014	21,666
Long-term liabilities		
Long-term loans payable	5,604	4,989
Provision for retirement benefits	450	461
Asset retirement obligations	222	171
Other	1,755	1,726
Total long-term liabilities	8,032	7,348
Total liabilities	29,046	29,014
Net assets		
Shareholders' equity		
Capital stock	1,946	1,946
Capital surplus	329	329
Retained earnings	45,117	45,523
Treasury stock	(1,898)	(1,898)
Total shareholders' equity	45,494	45,899
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	987	971
Deferred gains (losses) on hedges	5	0
Foreign currency translation adjustment	1,378	1,718
Remeasurements of defined benefit plans	(56)	(21)
Total valuation and translation adjustments	2,315	2,669
Non-controlling interests	194	196
Total net assets	48,005	48,765
Total liabilities and net assets	77,052	77,779

(2) Consolidated Income Statement and Consolidated Statement of Comprehensive Income
(Consolidated Income Statement)
(Cumulative Second Quarter)

(¥ million)

	Six Months ended September 30, 2017	Six Months ended September 30, 20178
Net sales	46,981	47,000
Cost of sales	28,109	27,649
Gross profit	18,871	19,351
Selling, general and administrative expenses	17,877	18,038
Operating income	993	1,312
Non-operating income		
Interest income	4	3
Dividend income	22	22
Equity in earnings of affiliates	542	427
Other	76	123
Total non-operating income	645	576
Non-operating expenses		
Interest expenses	33	63
Other	29	23
Total non-operating expenses	62	87
Ordinary income	1,576	1,802
Extraordinary income		
Gain on sales of investment securities	—	170
Total extraordinary income	—	170
Extraordinary losses		
Loss on disposal of noncurrent assets	123	97
Impairment loss	29	—
Loss related to disaster	※1 22	—
Loss on cancellation of leases	—	65
Loss on closing of plants	—	※2 123
Provision of allowance for loss on closing of plants	—	※2 62
Total extraordinary losses	174	349
Income before income taxes	1,402	1,622
Income taxes-current	493	576
Income taxes-deferred	(127)	(98)
Total income taxes	366	478
Net income	1,036	1,144
Net income (loss) attributable to non-controlling interests	(0)	1
Net income attributable to owners of the parent	1,036	1,143

(Consolidated Comprehensive Income Statement)
(Cumulative Second Quarter)

(¥ million)

	Six Months ended September 30, 2017	Six Months ended September 30, 2018
Net income	1,036	1,144
Other comprehensive income		
Valuation difference on available-for-sale securities	43	(16)
Deferred gains (losses) on hedges	0	(5)
Foreign currency translation adjustment	(76)	(74)
Adjustment for retirement benefits	87	35
Share of other comprehensive income of associates accounted for using equity method	22	413
Other comprehensive income	77	353
Comprehensive income	1,113	1,497
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,115	1,496
Comprehensive income (loss) attributable to non-controlling interests	(2)	1

(3) Consolidated Cash Flow Statement

(¥ million)

	Six Months ended September 30, 2017	Six Months ended September 30, 2018
Cash flows from operating activities		
Income before income taxes	1,402	1,622
Depreciation and amortization	2,202	1,942
Amortization of goodwill	31	31
Impairment loss	29	—
Loss related to disaster	22	—
Loss on cancellation of leases	—	65
Loss on closing of plants	—	123
Increase (decrease) in allowance for doubtful accounts	(1)	(1)
Increase (decrease) in net defined benefit liability	(290)	60
Decrease (increase) in net defined benefit asset	—	(570)
Increase (decrease) in bonus provisions	214	412
Increase (decrease) in other allowances	(233)	(5)
Interest and dividend income	(26)	(25)
Interest expenses	33	63
Equity in losses (earnings) of affiliates	(542)	(427)
Loss (gain) on sales of investment securities	—	(170)
Loss (gain) on disposal of noncurrent assets	123	97
Decrease (increase) in notes and accounts receivable-trade	878	2,081
Decrease (increase) in inventories	(206)	85
Increase (decrease) in notes and accounts payable-trade	(270)	(515)
Decrease (increase) in other assets	(219)	(60)
Increase (decrease) in other liabilities	28	(893)
Other	(85)	15
Subtotal	3,090	3,934
Interest and dividend income received	672	736
Interest expenses paid	(33)	(61)
Income taxes paid	(1,146)	(842)
Cancellation of leases paid	—	(65)
Loss on closing of plants paid	—	(110)
Payments for retrospective correction expenses	—	(44)
Net cash provided by operating activities	2,583	3,546

(¥ million)

	Six Months ended September 30, 2017	Six Months ended September 30, 2018
Cash flows from investing activities		
Decrease (increase) in time deposits	112	—
Purchase of property, plant and equipment	(4,170)	(3,090)
Proceeds from sales of property, plant and equipment	2	3
Purchase of investment securities	(77)	(382)
Proceeds from sales of investment securities	—	208
Purchase of intangible assets and investments	(138)	(123)
Proceeds from sales of intangible assets and investments, etc.	0	4
Other	(54)	(69)
Net cash used in investing activities	(4,326)	(3,450)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,276	2,042
Proceeds from long-term loans payable	1,348	619
Repayment of long-term loans payable	(861)	(879)
Purchase of treasury stock	(1)	(0)
Cash dividends paid	(590)	(737)
Payments for acquisition of shares of subsidiaries not resulting in changes in scope of consolidation	(42)	—
Other	(153)	(169)
Net cash used in financing activities	975	874
Effect of exchange rate changes on cash and cash equivalents	(17)	(26)
Net increase (decrease) in cash and cash equivalents	(784)	944
Cash and cash equivalents, beginning of term	3,535	3,945
Cash and cash equivalents, end of term	2,750	4,889

(4)Notes to the Quarterly Consolidated Financial Statements

(Notes on the assumption of a going concern)

Not applicable

(Quarterly Consolidated Income Statement)

*1 Losses related to disasters

First six months of the previous fiscal year (from April 1, 2017 - September 30, 2017)

Operations were suspended at our U.S. subsidiary due to the impact of the crisis from the collapse of a nearby dam caused by record-high rainfall. The losses incurred as result of this were recorded as extraordinary losses.

*2 Losses from factory closure and the amount of provision of allowance for loss on closing of plants.

First six months of the current fiscal year (from April 1, 2018 - September 30, 2018)

We recorded ¥62 million as provisions of allowance for losses on closing of plants in order to prepare for the losses incurred in connection with the closure of the old factory of our U.S. subsidiary, and we also posted losses of ¥123 million that had been confirmed by September 30, 2018 as losses incurred on closing of plants.

(Notes concerning significant changes in the amount of shareholder equity)

Not applicable

(Changes in important subsidiaries during the period)

During the first quarter of the current accounting period, LYLY KAMEDA CO., LTD. (Cambodia) was newly established and has been included in the scope of consolidation.

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

Changes in the depreciation method used for property, plant and equipment

Kameda Seika and some of its consolidated subsidiaries previously used the declining balance method to depreciate property, plant and equipment (excluding lease assets); however, since the first quarter of the current accounting period, this has been changed to the straight-line method.

When formulating the new medium-term business plan that started in FY2018, with regard to future capital investment in Japan, we reviewed our investment plans, which focus on core brands that produce stable earnings. As a result of re-examining the depreciation method, we decided that because production facilities, etc. are expected to be used consistently over their lives, the straight-line method provides a more appropriate reflection of the true state of things, as it distributes costs in an even manner.

This change has resulted in increases of ¥417 million respectively in operating income, ordinary income and net income before income taxes for first six months of the current fiscal year compared with the method previously used.

(Additional Information)

(Application of the “Partial Revision of the Accounting Standard on Tax Effect Accounting.”)

The “Partial Revision of the Accounting Standards for Tax Effect Accounting “ (Accounting Standard Board of Japan (ASBJ) Guidance No. 28, February 16, 2018), etc. was applied from the beginning of the first quarter of the current accounting period. Deferred tax assets are posted under investments and other assets, while deferred tax liabilities are posted under long-term liabilities.