October 31, 2019

Consolidated Financial Results (Japanese Accounting Standards) for the Six Months Ended September 30, 2019 (Q2 FY2019) (English Translation)

Company name:	KAMEDA SEIKA CO., LTD.
Stock exchange:	Tokyo Stock Exchange
Stock code:	2220
URL:	https://www.kamedaseika.co.jp/
Representative:	Isamu Sato, President and COO
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Scheduled date for filing of securities report:	November 14, 2019
Scheduled date of commencement of dividend payment:	December 3, 2019
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, 2019 (April 1 - September 30, 2019)

(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	
Six Months ended	¥ million	%	¥ million	%	¥ million	%	¥ million	%
September 30, 2019	48,649	3.5	1,402	6.9	1,691	△6.1	1,188	4.0
September 30, 2018	47,000	0.0	1,312	32.0	1,802	14.3	1,143	10.3

(Note) Comprehensive income: ¥ 690million (△53.9%) for the six months ended September 30, 2019
¥ 1,497million (34.6%) for the six months ended September 30, 2018

	Net income Per share (basic)	Net income Per share (diluted)
Six Months ended	¥	¥
September 30, 2019	56.39	―
September 30, 2018	54.23	―

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ million	¥ million	%	¥
As of September 30, 2019	81,140	51,987	62.9	2,418.88
As of March 31, 2019	83,251	52,056	61.3	2,418.97

(Reference) Shareholder's equity: As of September 30, 2019: ¥ 51,000 million
As of March 31, 2019: ¥ 51,002 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, 2019	―	15.00	―	36.00	51.00
Year ending March 31, 2020	―	15.00			
Year ending March 31, 2020 (forecasts)			―	37.00	52.00

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

3. Consolidated Forecasts for the Fiscal year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)
(Percentage figures for the fiscal year represent the changes from the previous year,
while percentage figures for the six months' period represent the changes from the same period of 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, 2020	103,000	3.0	6,700	25.5	7,800	18.7	5,000	13.6	237.14

(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): None
(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: Yes
 (ii) Changes in accounting policies other than (i): None
 (iii) Changes in accounting estimates: None
 (iv) Restatement: None
(4) Number of shares outstanding (common stock):
 (i) Number of shares outstanding at end of period (including treasury stock)
  As of September 30, 2019: 22,318,650 shares
  As of March 31, 2019: 22,318,650 shares
 (ii) Number of treasury stock at end of period
  As of September 30, 2019: 1,234,422 shares
  As of March 31, 2019: 1,234,371 shares
 (iii) Average number of shares outstanding during the term
  Six Months ended September 30, 2019: 21,084,244 shares
  Six Months ended September 30, 2018: 21,084,416 shares

* Representations concerning the implementation of auditing procedures

These financial results are not subject to quarterly review under the Financial Instruments and Exchange Act, and quarterly review 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. See "1. Qualitative Consolidated Financial Results Data for the Period under Review (3) Explanation of Future Estimates, including Consolidated Forecasts" on page 4 of the Appendix for the conditions assumed in consolidated forecasts and notes on the use of consolidated forecasts.

(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 Thursday, November 21, 2019. Any explanatory materials used on that day will be available on the Company's website soon after the session.

Contents of Appendix

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

(1) Explanation of Consolidated Operating Results

During the second quarter, the Japanese economy continued to gradually recover, backed by companies that continued to enjoy high profit levels, despite a partial slowdown, primarily in exports. Meanwhile, uncertainty about the future of the global economy is growing, with fluctuation in the price of crude oil due to tensions in the Middle East, trade issues, concerns over the future of the Chinese economy, and fluctuation risk in the capital markets, among other issues.

Despite solid underlying demand, the Japanese food industry has continued to experience a tough earnings environment as consumers show restraint in spending. In addition to this, companies are facing difficulties securing human resources and dealing with soaring costs, which are becoming the norm in Japan.

Based on these economic conditions and the environmental changes surrounding the food industry, the Kameda Seika Group will continue its efforts to achieve sustainable growth and enhance corporate value by providing customer value from the standpoint of the slogan "Better for You" indicating "contribution to a healthy lifestyle through the selection, eating and enjoyment of things that are delicious and good for the body" and realizing its goal of becoming a "Global Food Company."

The three strategies of the medium-term business plan through FY2023 are: (1) "Expansion of business areas" with the focus on our Overseas Business and the 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 FY2019, we will not only be working to enhance our revenue base through the expansion of sales in the Domestic Rice Cracker Business, but we will also be promoting profitability at each of our international sites to realize a surplus in our Overseas Business. In the Domestic Food Business, our priority initiatives will include expansion of long-life preserved foods and increased sales of foods that are free of the 27 allergens specified by the Consumer Affairs Agency of Japan.

In the Domestic Rice Cracker Business, we have been working on initiatives for sustained brand growth, concentrating management resources on developing our core brands from a medium-to-long perspective and planning to maximize sales promotion activities with CM broadcasts that use new mascot and associated campaigns. To ensure on-going production efficiencies, we have also been working to stabilize capacity utilization rates at our plants and improve profitability by continuing to streamline and optimize the number of manufactured items and focus on sales activities for main-stay products.

In addition, we anticipate a rise in the demand for drinking at home with the hike in consumption tax, and we have been developing products such as savory snacks which are likely to see an increase in demand, and these initiatives are starting to show results.

As a result of these initiatives, although sales of our core brands "Happy Turn," "KAMEDA no Magari Senbei," "Tsumami Dane," "Usuyaki," "Teshioya," "Soft Salad," "Potapota Yaki," "Age-Ichiban," and "HaiHain" were up year-on-year, "KAMEDA no Kaki no Tane" was down year-on-year. Meanwhile, sales of "Waza-no-KodaWari" and "Katabutsu" remained on a par with Q2 FY2018.

In Overseas Business, sales in North America (our main market) were up year-on-year thanks to efforts to develop new sales channels in spite of the delay in measures to counteract the intensified competition caused by offensives from our competitors.

In the Domestic Food Business, sales were down year-on-year despite the acquisition of Maisen Co., Ltd. and its subsidiary Maisen Fine Food Co., Ltd., which handle gluten-free foods that balance health and fine taste such as bread made from brown rice and vegetarian meat-substitutes, due to the slowdown in replacement cycle demand for long-life preserved foods.

We are also working to expand our business in long-life preserved food with, among other things, marketing tests being carried out in the Middle East in anticipation of overseas expansion.

As a result of the above, net sales totaled ¥48,649 million (up 3.5% year-on-year).

In terms of income, the Domestic Rice Cracker Business saw an increase in labor costs and distribution costs on the one hand, the price of raw materials remained stable. In addition, despite an increase in sales promotion expenses caused by initiatives carried on from the previous fiscal year to improve sales of classic products and an increase in advertising expenses that resulted from enhanced promotions for “KAMEDA no Kaki-no-Tane” and “Happy Turn,” revenue remained stable thanks to the effect of increased sales and an associated improvement in the rate of factory capacity utilization. Moreover, operating income was up year-on-year as a result of efforts to curtail unprofitable transactions, etc. in each business from the perspective of selection and concentration.

As a result of these efforts, operating income increased 6.9% year-on-year to ¥1,402 million.

Meanwhile, ordinary income fell 6.1% year-on-year to ¥1,691 million as a result of decreased equity in earnings of our equity method affiliate TH FOODS Inc. Net income attributable to owners of the parent company increased 4.0% year-on-year to ¥1,188 million due to temporary expenses, etc. associated with the integration of factories for US consolidated subsidiaries that were recorded in the previous year.

Supplementary Information (Unit: ¥ Million)

	Six Months ended September 30, 2018	Six Months ended September 30, 2019	YoY	
			Change (amount)	Change (%)
Net sales	47,000	48,649	1,648	3.5
Domestic Rice Cracker Business	37,754	39,231	1,476	3.9
Overseas Business *1	3,508	3,707	199	5.7
Domestic Food Business *2	2,278	2,162	(115)	(5.1)
Other (Logistic Business) *3	3,459	3,548	88	2.6
Operating income	1,312	1,402	90	6.9
Operating income margin *4	2.8%	2.9%		
Domestic Rice Cracker Business	1,565	1,892	326	20.9
Overseas Business *1	(445)	(430)	15	—
Domestic Food Business *2,4	68	(125)	(194)	—
Other (Logistic Business) *3	123	66	(57)	(46.4)

*1. Overseas Business includes domestic import and export transactions in addition to those of overseas subsidiaries.

*2. Domestic Food Business is mainly comprised of long-term preserved foods and vegetable lactobacillus as well as bread made from brown rice and vegetarian meat substitutes.

*3. “Other” consists mainly of the subsidiary’s logistic business.

*4. Due to organizational changes in January 2019, research-related expenses previously included in the Domestic Rice Cracker Business have been reclassified and now fall under the Domestic Food Business.

(2) Explanation of Consolidated Financial Position

(Assets)

Current assets stood at ¥21,428 million at the end of the second quarter, a decline of ¥2,053 million from the end of the previous consolidated fiscal year. This was mainly due to a ¥148 million increase in “cash and deposits” and a ¥515 million increase in “raw materials and supplies,” which were offset by a ¥2,844 million decline in “notes and accounts receivable-trade.” Non-current assets stood at ¥59,711 million, a decrease of ¥57 million from the end of the previous consolidated fiscal year. This was mainly attributable to increases of ¥1,128 million in “buildings and structures” and ¥471 million in “other” under “investments and other assets,” which were partly offset by decreases of ¥732 million in “other” under “property, plant and equipment” and ¥632 million in “investment securities.”

As a result, total assets stood at ¥81,140 million, a decrease of ¥2,111 million from the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities stood at ¥24,056 million at the end of the second quarter, a decrease of ¥703 million from the end of the previous consolidated fiscal year. This was mainly due to increases of ¥681 million in “short-term loans payable” and ¥238 million in “provision for bonuses,” which were offset by decreases of ¥115 million in “notes and accounts payable-trade,” ¥683 million in “income taxes payable,” and ¥735 million in “other.” Long-term liabilities stood at ¥5,095 million, a decrease of ¥1,338 million from the end of the previous consolidated fiscal year. This was mainly due to a ¥1,284 million decrease in “long-term loans payable.”

Consequently, total liabilities stood at ¥29,152 million, a decline of ¥2,042 million from the end of the previous consolidated fiscal year.

(Net assets)

Total net assets stood at ¥51,987 million at the end of the second quarter, a decrease of ¥69 million from the end of the previous fiscal year. This mainly reflected increases in “retained earnings” of ¥429 million resulting from ¥1,188 million in “net income attributable to owners of the parent” and ¥759 million in “dividends from surplus,” which were partially offset by decreases of ¥134 million in “valuation difference on available-for-sale securities” and ¥286 million in “foreign currency translation adjustment.”

As a result, the equity ratio was 62.9%, up from 61.3% at the end of the previous consolidated fiscal year.

(3) Explanation of Future Estimates, including Consolidated Forecasts

The Group's consolidated earnings forecasts for the full-year FY2019 remain unchanged from the earnings forecasts disclosed on May 10, 2019.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(¥ Million)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	4,333	4,482
Notes and accounts receivable-trade	12,789	9,945
Merchandise and finished goods	1,807	1,815
Work in process	623	692
Raw materials and supplies	3,254	3,770
Other	684	737
Allowance for doubtful accounts	(10)	(16)
Total current assets	23,482	21,428
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	14,542	15,671
Machinery, equipment and vehicles, net	16,571	16,433
Other, net	12,300	11,568
Total property, plant and equipment	43,415	43,673
Intangible assets		
Goodwill	741	691
Customer assets	845	814
Trademark assets	687	662
Technology assets	426	410
Other	1,053	1,019
Total intangible assets	3,754	3,598
Investments and other assets		
Investment securities	9,837	9,205
Other	2,807	3,279
Allowance for doubtful accounts	(45)	(45)
Total investments and other assets	12,599	12,439
Total fixed assets	59,769	59,711
Total assets	83,251	81,140

(¥ Million)		
	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	3,900	3,784
Electronic-recording liabilities	2,485	2,501
Short-term loans payable	7,696	8,377
Income taxes payable	1,218	534
Provision for bonuses	1,398	1,637
Other provisions	785	678
Asset retirement obligations	84	85
Other	7,191	6,456
Total current liabilities	24,760	24,056
Long-term liabilities		
Long-term loans payable	3,994	2,709
Provision for retirement benefits	446	448
Asset retirement obligations	170	162
Reserve for retirement benefits for officers	53	53
Other	1,769	1,722
Total long-term liabilities	6,434	5,095
Total liabilities	31,194	29,152
Net assets		
Shareholders' equity		
Capital stock	1,946	1,946
Capital surplus	170	170
Retained earnings	48,465	48,895
Treasury stock	(1,898)	(1,899)
Total shareholders' equity	48,683	49,112
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	813	678
Deferred gains (losses) on hedges	(0)	(11)
Foreign currency translation adjustment	1,533	1,247
Remeasurements of defined benefit plans	(27)	(27)
Total valuation and translation adjustments	2,318	1,887
Non-controlling interests	1,054	987
Total net assets	52,056	51,987
Total liabilities and net assets	83,251	81,140

(2) Consolidated Income Statement and Consolidated Statement of Comprehensive Income

(Consolidated Income Statement)

(Cumulative Second Quarter)

(¥ Million)

	Six Months ended September 30, 2018	Six Months ended September 30, 2019
Net sales	47,000	48,649
Cost of sales	27,649	28,382
Gross profit	19,351	20,267
Selling, general and administrative expenses	18,038	18,864
Operating income	1,312	1,402
Non-operating income		
Interest income	3	3
Dividend income	22	23
Equity in earnings of affiliates	427	336
Other	123	56
Total non-operating income	576	420
Non-operating expenses		
Interest expenses	63	76
Other	23	55
Total non-operating expenses	87	131
Ordinary income	1,802	1,691
Extraordinary income		
Gain on sales of investment securities	170	—
Subsidy income	—	※1 80
Total extraordinary income	170	80
Extraordinary losses		
Loss on disposal of noncurrent assets	97	117
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	349	117
Income before income taxes	1,622	1,654
Income taxes-current	576	546
Income taxes-deferred	(98)	(37)
Total income taxes	478	509
Net income	1,144	1,145
Net income (loss) attributable to non-controlling interests	1	(43)
Net income attributable to owners of the parent	1,143	1,188

(Consolidated Comprehensive Income Statement)

(Cumulative Second Quarter)

(¥ Million)

	Six Months ended September 30, 2018	Six Months ended September 30, 2019
Net income	1,144	1,145
Other comprehensive income		
Valuation difference on available-for-sale securities	(16)	(134)
Deferred gains (losses) on hedges	(5)	(11)
Foreign currency translation adjustment	(74)	(96)
Adjustment for retirement benefits	35	0
Share of other comprehensive income of associates accounted for using equity method	413	(213)
Other comprehensive income	353	(454)
Comprehensive income	1,497	690
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,496	757
Comprehensive income (loss) attributable to non-controlling interests	1	(67)

(3) Consolidated Cash Flow Statement

(¥ million)

	Six Months ended September 30, 2018	Six Months ended September 30, 2019
Cash flows from operating activities		
Income before income taxes	1,622	1,654
Depreciation and amortization	1,942	2,373
Amortization of goodwill	31	50
Loss on cancellation of leases	65	—
Loss on closing of plants	123	—
Increase (decrease) in allowance for doubtful accounts	(1)	(3)
Increase (decrease) in net defined benefit liability	60	1
Decrease (increase) in net defined benefit asset	(570)	(380)
Increase (decrease) in bonus provisions	412	238
Increase (decrease) in other allowances	(5)	(103)
Interest and dividend income	(25)	(27)
Interest expenses	63	76
Subsidy income	—	(80)
Equity in losses (earnings) of affiliates	(427)	(336)
Loss (gain) on sales of investment securities	(170)	—
Loss (gain) on disposal of noncurrent assets	97	117
Decrease (increase) in notes and accounts receivable-trade	2,081	2,840
Decrease (increase) in inventories	85	(612)
Increase (decrease) in notes and accounts payable-trade	(515)	(91)
Decrease (increase) in other assets	(60)	(264)
Increase (decrease) in other liabilities	(893)	(772)
Other	15	(2)
Subtotal	3,934	4,678
Interest and dividend income received	736	597
Interest expenses paid	(61)	(77)
Settlement received	—	209
Income taxes paid	(842)	(1,216)
Cancellation of leases paid	(65)	—
Loss on closing of plants paid	(110)	—
Payments for retrospective correction expenses	(44)	—
Net cash provided by operating activities	3,546	4,191

(¥ million)

	Six Months ended September 30, 2018	Six Months ended September 30, 2019
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,090)	(2,524)
Purchase of investment securities	(382)	(7)
Proceeds from sales of investment securities	208	—
Purchase of intangible assets and investments	(123)	(116)
Subsidy income received	—	80
Other	(62)	(17)
Net cash used in investing activities	(3,450)	(2,586)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	2,042	702
Proceeds from long-term loans payable	619	—
Repayment of long-term loans payable	(879)	(1,201)
Cash dividends paid	(737)	(758)
Other	(169)	(179)
Net cash used in financing activities	874	(1,436)
Effect of exchange rate changes on cash and cash equivalents	(26)	(10)
Net increase (decrease) in cash and cash equivalents	944	157
Cash and cash equivalents, beginning of term	3,945	4,320
Cash and cash equivalents, end of term	4,889	4,478

(4)Notes to the Quarterly Consolidated Financial Statements

(Notes to the assumption of a going concern)

Not applicable.

(Notes to the Quarterly Consolidated Income Statement)

※１ Subsidy income

Six months ended September 30, 2019 (April 1 2019 – September 30, 2019)

This is the financial incentive for companies to locate in the area which came with the plant expansion of Onishi Foods Co., Ltd., a consolidated subsidiary of KAMEDA SEIKA.

※２ Losses from plant closures & provisions for losses from plant closures

Six months ended September 30, 2018 (April 1 2018 – September 30, 2018)

In order to prepare for losses incurred as a result of the closure of the former plant of KAMEDA SEIKA's US subsidiary, we have recorded ¥62 million in the form of "provisions (carried over) for plant closure" for estimated losses, along with ¥123 million in the form of "losses from plant closure," for confirmed losses incurred as of the end of the second quarter.

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

Not applicable.

(Changes in accounting policies)

(Adoption of IFRS 16 "Leases")

Overseas subsidiaries adopting the International Financial Reporting Standards ("IFRS") have adopted IFRS16 "Leases" (January 13, 2016) from the first quarter of the consolidated fiscal year under review.

Due to the adoption, the Company principally recognizes assets and liabilities of lease as a lessee.

The impact on the consolidated income statement for the second quarter of the fiscal year under review is immaterial.