

Consolidated Financial Results (Japanese Accounting Standards) for the Nine Months Ended December 31, 2019 (Q3 FY2019) (English Translation)

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 Stock code: 2220
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Supplementary documents for quarterly results: Yes

Quarterly results briefing: None

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

1. Consolidated Financial Results for the nine months ended December 31, 2019 (April 1 – December 31, 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	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Nine months ended December 31, 2019	76,717	3.4	3,763	5.2	4,505	△0.8	3,248	6.1
December 31, 2018	74,218	0.4	3,578	21.6	4,540	17.6	3,061	24.8

(Note) Comprehensive income: ¥ 2,810million (△12.5%) for the nine months ended December 31, 2019
 ¥ 3,212million (17.5%) for the nine months ended December 31, 2018

	Net income Per share (basic)	Net income Per share (diluted)
	¥	¥
Nine months ended December 31, 2019	154.08	—
December 31, 2018	145.18	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ million	¥ million	%	¥
As of December 31, 2019	84,980	53,791	62.1	2,504.17
As of March 31, 2019	83,251	52,056	61.3	2,418.97

(Reference) Shareholder's equity: As of December 31, 2019: ¥ 52,798 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 December 31, 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 December 31, 2019:	1,234,462 shares
As of March 31, 2019:	1,234,371 shares
 - (iii) Average number of shares outstanding during the term

Nine months ended December 31, 2019:	21,084,237 shares
Nine months ended December 31, 2018:	21,084,400 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 materials on financial results)

Download from the Company's website, available from Wednesday, February 12, 2020.

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

(1) Explanation of Consolidated Operating Results

During the third quarter of the current fiscal year, the Japanese economy continued its overall moderate recovery, despite showing weakness in some areas due to a decrease in exports and other factors.

Meanwhile, problems such as the global spread of trade issues and growing tensions in the Persian Gulf failed to allay concerns about a slowdown in the global economy, and the future outlook remains uncertain.

Despite solid underlying demand in the food industry, consumers are showing restraint in spending, and soaring costs stemming from difficulties in securing personnel and rising raw material prices in Japan are becoming the norm. With the trend in the diversification of consumer needs growing stronger, the earnings environment remained tough. As of the present, the impact of the increase in consumption tax on the Japanese food industry is limited, due mainly to the introduction of a reduced tax rate. On the other hand, changes in the environment surrounding the food industry are accelerating, such as technological developments in IT and changes in the distribution industry, and food companies will have to respond to these challenges.

Based on these economic conditions and changes in the environment surrounding the food industry, the Kameda Seika Group is in the middle of working 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 core strategies of the medium-term business plan through FY2023 are: (1) “Expansion of business areas” with the focus on the Overseas Business and the Domestic Food Business; (2) “Transformation of the cost/revenue structure” focused on brand integration in the 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” in FY2030, we are in the middle of working to implement long-term structural reforms by FY2023 and to accelerate sustainable growth and increased corporate value.

In FY2019, we positioned the following as priority measures and we are currently working to achieve them: (1) further strengthening of the revenue base through the expansion of sales in the Domestic Rice Cracker Business; (2) efforts to promote profitability at each of our international sites to realize a surplus in the Overseas Business; and (3) expansion of the range of long-life preserved foods and increased sales of foods free of the 27 allergens specified by the Consumer Affairs Agency of Japan in the Domestic Food Business.

In the Domestic Rice Cracker Business, from the perspective of brand development over the medium-to-long term, we have been promoting initiatives to stimulate demand and achieve sustainable brand growth by concentrating management resources on our core brands, and by adopting new mascot characters and running campaigns linking these with the broadcast of TV commercials aimed at maximizing our sales promotion activities. To ensure production efficiencies, we have also been working to stabilize capacity utilization rates at our factories and improve profitability by continuing to streamline and optimize the number of product items and focusing on sales activities for regular products.

In addition, to capture demand for drinking at home following the hike in consumption tax, we have been working on developing products and expand our lineup of savory snacks, and these initiatives are starting to show results.

As a result of these initiatives, sales of our core brands “Happy Turn,” “KAMEDA no Magari Senbei,” “Tsumami Dane,” “Usuyaki,” “Soft Salad,” “Potapota Yaki,” “Waza-no-KodaWari,” and “HaiHain” were up year-on-year. On the other hand, sales of “Age-Ichiban” and “Katabutsu” were down year-on-year. Meanwhile, although sales of regular flavor products were up year-on-year, sales of “KAMEDA no Kaki no Tane” remained unchanged from the same period of the previous year due to a change in the release date for products limited to the winter season to the fourth quarter. Sales for “Teshioya” also remained unchanged from the same period of the previous year due to reduce effectiveness of aggressive sales promotion activities.

In the Overseas Business, although revenues from existing customers of Mary’s Gone Crackers, Inc. were down due to offensives from our competitors, we focused on expanding trade with new customers. In addition, thanks to

the effects of LYLY KAMEDA CO., LTD. (Cambodia), which commenced business this fiscal year, sales increased year-on-year.

In the Domestic Food Business, sales were down year-on-year despite the effects of 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. In long-life preserved foods, we are moving ahead with initiatives to expand business including test marketing with a view to overseas development.

As a result of the above, net sales totaled ¥76,717 million (up 3.4% year-on-year).

In terms of operating income, the Domestic Rice Cracker Business saw an increase in labor costs due to the difficulty of securing production personnel as well as a steep rise in distribution costs, while raw materials prices remained stable. In addition, revenue remained stable as a result of increased revenue due to aggressive investment in sales promotion expenses for initiatives carried on from the previous fiscal year for regular products and enhancement of promotions for core brands, as well as an associated improvement in the rate of factory capacity utilization. Furthermore, operating income was up year-on-year as a result of efforts to curtail unprofitable transactions, etc. from the perspective of selection and concentration.

In addition, the North American subsidiaries are on track for achieving profitability for the full year due to increased profits accompanying increased revenues as well as an improvement in manufacturing costs due in part to the effects of factory integration.

As a result of these efforts, operating income increased 5.2% year-on-year to ¥3,763 million during the period under review.

On the other hand, ordinary income fell 0.8% year-on-year to ¥4,505 million as a result of a decrease in equity in earnings of affiliates due to a decline in revenues of our equity affiliate TH Foods, Inc.

Net income attributable to owners of the parent company increased 6.1% year on year to ¥3,248 million due to temporary expenses, etc. associated with the integration of factories for the US consolidated subsidiaries that were recorded in the previous year.

Supplementary Information

(Unit: ¥ Million)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019	YoY	
			Change (amount)	Change (%)
Net sales	74,218	76,717	2,498	3.4
Domestic Rice Cracker Business	59,963	62,084	2,121	3.5
Overseas Business *1	5,296	5,857	560	10.6
Domestic Food Business *2	3,568	3,366	(201)	(5.7)
Other (Logistic Business) *3	5,390	5,409	18	0.4
Operating income	3,578	3,763	184	5.2
Operating income margin	4.8%	4.9%		
Domestic Rice Cracker Business*4	4,047	4,237	190	4.7
Overseas Business *1	(842)	(541)	300	—
Domestic Food Business *2,4	176	(87)	(263)	—
Other (Logistic Business) *3	197	154	(42)	(21.5)

*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 ¥25,161 million at the end of the third quarter, an increase of ¥1,679 million from the end of the previous consolidated fiscal year. This was mainly due to a ¥718 million increase in “Notes and accounts receivable-trade” and a ¥379 million increase in “Merchandise and finished goods” and a ¥554 million increase in “Other” which were partly offset by a ¥103 million decline in “cash and deposits.” Fixed assets stood at ¥59,818 million, an increase of ¥48 million from the end of the previous consolidated fiscal year. This was mainly attributable to increases of ¥1,022 million in “Buildings and structures” and ¥318 million in “Other” under “Investments and other assets,” which were partly offset by decreases of ¥405 million in “Machinery, equipment and vehicles, net” and ¥619 million in “Other” under “Property, plant and equipment.”

As a result, total assets stood at ¥84,980 million, an increase of ¥1,728 million from the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities stood at ¥22,561 million at the end of the third quarter, a decrease of ¥2,198 million from the end of the previous consolidated fiscal year. This was mainly due to decreases of ¥1,280 million in “short-term loans payable” and ¥1,103 million in “Income tax payable.” Fixed liabilities stood at ¥8,626 million, an increase of ¥2,192 million from the end of the previous consolidated fiscal year. This was mainly due to a ¥2,190 million increase in “Long-term loans payable.”

Consequently, total liabilities stood at ¥31,188 million, a decline of ¥6 million from the end of the previous consolidated fiscal year.

(Net assets)

Total net assets stood at ¥53,791 million at the end of the third quarter, an increase of ¥1,734 million from the end of the previous fiscal year. This mainly reflected increases in “Retained earnings” of ¥2,173 million resulting from ¥3,248 million in “net income attributable to owners of the parent” and ¥1,075 million in “Dividends from surplus,” which were partly offset by decreases of ¥118 million in “Valuation difference on available-for-sale securities” and ¥258 million in “Foreign currency translation adjustment.”

As a result, the equity ratio was 62.1%, 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 December 31, 2019
Assets		
Current assets		
Cash and deposits	4,333	4,230
Notes and accounts receivable-trade	12,789	13,508
Merchandise and finished goods	1,807	2,186
Work in process	623	635
Raw materials and supplies	3,254	3,381
Other	684	1,239
Allowance for doubtful accounts	(10)	(21)
Total current assets	23,482	25,161
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	14,542	15,565
Machinery, equipment and vehicles, net	16,571	16,166
Other, net	12,300	11,681
Total property, plant and equipment	43,415	43,413
Intangible assets		
Goodwill	741	666
Customer assets	845	799
Trademark assets	687	650
Technology assets	426	403
Other	1,053	1,040
Total intangible assets	3,754	3,559
Investments and other assets		
Investment securities	9,837	9,764
Other	2,807	3,126
Allowance for doubtful accounts	(45)	(45)
Total investments and other assets	12,599	12,845
Total fixed assets	59,769	59,818
Total assets	83,251	84,980

(¥ Million)

	As of March 31, 2019	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	3,900	4,030
Electronic-recording liabilities	2,485	3,310
Short-term loans payable	7,696	6,415
Income taxes payable	1,218	114
Allowance	2,183	1,580
Asset retirement obligations	84	85
Other	7,191	7,024
Total current liabilities	24,760	22,561
Long-term liabilities		
Long-term loans payable	3,994	6,184
Provision for retirement benefits	446	462
Asset retirement obligations	170	193
Reserve for retirement benefits for officers	53	53
Other	1,769	1,733
Total long-term liabilities	6,434	8,626
Total liabilities	31,194	31,188
Net assets		
Shareholders' equity		
Capital stock	1,946	1,946
Capital surplus	170	170
Retained earnings	48,465	50,638
Treasury stock	(1,898)	(1,899)
Total shareholders' equity	48,683	50,856
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	813	694
Deferred gains (losses) on hedges	(0)	(0)
Foreign currency translation adjustment	1,533	1,275
Remeasurements of defined benefit plans	(27)	(27)
Total valuation and translation adjustments	2,318	1,942
Non-controlling interests	1,054	993
Total net assets	52,056	53,791
Total liabilities and net assets	83,251	84,980

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

(¥ Million)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	74,218	76,717
Cost of sales	42,849	43,794
Gross profit	31,369	32,922
Selling, general and administrative expenses	27,791	29,159
Operating income	3,578	3,763
Non-operating income		
Interest income	4	5
Dividend income	42	45
Equity in earnings of affiliates	913	768
Other	124	84
Total non-operating income	1,086	904
Non-operating expenses		
Interest expenses	84	105
Other	40	56
Total non-operating expenses	124	162
Ordinary income	4,540	4,505
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	129	150
Loss on cancellation of leases	65	—
Loss on closing of plants	※2 155	—
Provision of allowance for loss on closing of plants	※2 36	—
Total extraordinary losses	387	150
Income before income taxes	4,322	4,434
Income taxes-current	1,016	923
Income taxes-deferred	245	301
Total income taxes	1,261	1,224
Net income	3,060	3,209
Net income (loss) attributable to non-controlling interests	(0)	(38)
Net income attributable to owners of the parent	3,061	3,248

(Consolidated Comprehensive Income Statement)
(Cumulative Third Quarter)

(¥ Million)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net income	3,060	3,209
Other comprehensive income		
Valuation difference on available-for-sale securities	(109)	(118)
Deferred gains (losses) on hedges	(5)	(0)
Foreign currency translation adjustment	(46)	(169)
Remeasurements of defined benefit plans, net of tax	52	0
Share of other comprehensive income of associates accounted for using equity method	260	(111)
Total other comprehensive income	151	(399)
Comprehensive income	3,212	2,810
(Breakdown)		
Comprehensive income attributable to owners of the parent	3,191	2,871
Comprehensive income (loss) attributable to non- controlling interests	21	(61)

(3)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

Nine months ended December 31, 2019 (April 1 2019 – December 31, 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

Nine months ended December 31, 2018 (April 1 2018 – December 31, 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 ¥36 million in the form of "provisions (carried over) for plant closure" for estimated losses, along with ¥155 million in the form of "losses from plant closure," for confirmed losses incurred as of the end of the third 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 third quarter of the fiscal year under review is immaterial.