



February 8, 2018

## Consolidated Financial Results for the Nine Months Ended December 31, 2017

(Japanese Accounting Standards)

Name of the Listed Company: **Nitta Gelatin Inc.**  
 Listing: First Section of Tokyo Stock Exchange  
 Stock code: 4977  
 URL: <http://www.nitta-gelatin.co.jp>  
 Representative: Koichi Ogata, Representative Director and President  
 Contact Person: Toru Tamaoka, Director and Executive Officer;  
 General Manager of Administration Division  
 Tel: +81-72-949-5381

Scheduled date to file Quarterly Securities Report: February 9, 2018

Scheduled date to commence dividend payments: —

Supplementary explanatory materials prepared: No

Explanatory meeting: No

(Millions of yen with fractional amounts discarded, unless otherwise noted.)

### 1. Consolidated financial results for the nine months ended December 31, 2017

(from April 1, 2017 to December 31, 2017)

#### (1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2017	28,266	4.3	848	(36.9)	998	(39.6)	528	(20.1)
December 31, 2016	27,100	(2.6)	1,343	47.9	1,652	97.6	661	63.7

Note: Comprehensive income

For the nine months ended December 31, 2017: ¥1,141 million, (19.5%)

For the nine months ended December 31, 2016: ¥954 million, (56.8%)

	Net income per share	Diluted net income per share
Nine months ended December 31, 2017	Yen 28.77	Yen —
December 31, 2016	36.02	—

Note: Diluted net income per share is not disclosed due to the absence of latent shares with dilution effect.

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of December 31, 2017	Millions of yen 40,771	Millions of yen 18,673	% 40.8
March 31, 2017	40,410	17,736	38.9

Reference: Equity

As of December 31, 2017: ¥16,633 million

As of March 31, 2017: ¥15,727 million

## 2. Cash dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2017	—	6.00	—	6.00	12.00
Fiscal year ending March 31, 2018	—	6.00	—		
Fiscal year ending March 31, 2018 (Forecasts)				6.00	12.00

Note: Changes to most recent dividend forecasts: None

## 3. Consolidated financial forecasts for the fiscal year ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2018	37,400	2.3	1,100	(32.0)	1,000	(45.4)	600	(13.5)	32.66

Note: Changes to most recent consolidated financial forecasts: Yes

For details on the revision of consolidated business forecasts, please refer to the press release entitled Notice Concerning Revision of Consolidated Business Forecasts (February 8, 2018).

### Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in the scope of consolidation): None

New: None

Excluded: None

(2) Adoption of special accounting methods for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and restatement of revisions

a. Changes in accounting policies due to revisions to accounting standards and other guidelines: No

b. Changes in accounting policies due to reasons other than a. above: No

c. Changes in accounting estimates: Yes

d. Restatement of revisions: No

Note: For details, please refer to “(3) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Estimates)” in “2. Quarterly Consolidated Financial Statements and Key Notes” on page 9 of the Attachment to this report.

(4) Number of common shares issued

a. Total number of issued shares at the end of the period (including treasury stock)

As of December 31, 2017 18,373,974 shares

As of March 31, 2017 18,373,974 shares

b. Number of shares of treasury stock at the end of the period

As of December 31, 2017 162 shares

As of March 31, 2017 162 shares

c. Average number of shares

For the nine months ended December 31, 2017	18,373,812 shares
For the nine months ended December 31, 2016	18,373,812 shares

\* This report falls outside the scope of quarterly review procedures.

\* Proper use of earnings forecasts, and other special matters

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. These statements do not guarantee that the Company will achieve its earnings forecasts. In addition, actual business and other results may differ substantially due to various factors. For details on the conditions assumed and the cautionary notes and items in the financial forecasts, please refer to “(3) Description of Consolidated Business Forecasts and Other Forward-looking Information” in “1. Qualitative Information Concerning Quarterly Financial Statements” on page 4 of the Attachment to this report.

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# 1. Qualitative Information Concerning Quarterly Financial Statements

## (1) Description of Business Results

### (a) Business Performance for the Period under Review

In the first nine months of the fiscal year ending March 31, 2018, the global economy overall continued to expand gradually, with robust economies in the U.S., China, India and elsewhere. The Japanese economy continued on a moderate recovery trend, supported by special demand for semiconductors and investment in automation, among other factors, against the backdrop of favorable global economic conditions.

The Nitta Gelatin Group celebrated its 100th anniversary in 2018. Aiming for further growth going forward, the Nitta Gelatin Group formulated a new corporate vision.

#### ***New Vision***

*“To stay healthy and feeling young”*

*Nitta Gelatin Group fulfills this desire of people worldwide through our relentless pursuit of meeting collagen’s enormous potential.*

- 1. We will provide products and services that meet our customers’ expectations of continued improvement.*
- 2. We will broaden the range of collagen applications through our ongoing efforts in R&D and production innovation.*
- 3. We will pioneer and create new markets by fostering a corporate culture that encourages facing and overcoming challenges.*

Under this corporate vision, the Nitta Gelatin Group focused on providing products that create new value, and on research and development in the fields of health and beauty and regenerative medicine. It also worked to strengthen its competitive capabilities by exploring new manufacturing methods and by ensuring optimal production and optimal sales.

As a result, in the first nine months of the fiscal year ending March 31, 2018, net sales increased 4.3% year on year to ¥28,266 million. However, operating income decreased 36.9% to ¥848 million, mainly due to the increase in raw material prices for gelatin in North America. Ordinary income declined 39.6% to ¥998 million, and net income attributable to owners of the parent decreased 20.1% to ¥528 million.

### **(b) Status by Segment**

#### **(Collagen Material Business)**

In the gelatin field, in Japan sales of gelatin for use in delicatessen items sold in convenience stores and gelatin for soft capsules used in supplements, remained firm. Profits declined in North America, mainly reflecting persistently high raw material costs.

In the collagen peptide field, sales in the supplement market remained firm thanks to a continued boost in recognition of functionality in Japan. In China, sales were favorable because

sales promotion activities and suchlike generated results.

Collagen casings saw profits increase due to improved productivity, supported by continued solid sales in North America.

As a result, net sales in this segment increased 5.0% to ¥20,722 million, while segment profit (operating income) decreased 31.2% to ¥1,064 million.

### **(Formula Solution Business)**

Food material sales increased year on year; however, profits declined, mainly due to an increase in selling, general and administrative expense. Furthermore, in November 2017, some of Nitta Gelatin's R&D personnel appeared on a TV program that was interested in Nitta Gelatin's technological development capabilities from the viewpoint of seeking out new food textures. Nitta Gelatin demonstrated its technological capabilities and, to much acclaim, produced a chilled dessert with a new texture that fit in with the program's theme. Looking ahead, Nitta Gelatin will continue to develop products that accurately capture customer needs, and proactively make customer proposals for these products.

In adhesives, sales for hygiene products remained strong, and profits increased due to improved productivity, although sales remained level year on year.

As a result, net sales in the segment were up 2.6% year on year to ¥7,544 million and segment profit (operating income) increased 2.3% year on year to ¥812 million.

## **(2) Description of Financial Position**

### **(Assets)**

Total assets amounted to ¥40,771 million at December 31, 2017, ¥360 million higher than at March 31, 2017. This was mainly attributable to increases in merchandise and finished goods and investment securities.

### **(Liabilities)**

Total liabilities stood at ¥22,097 million at December 31, 2017, ¥577 million lower than at March 31, 2017. This was mainly attributable to decreases in income taxes payable and long-term loans payable.

### **(Net assets)**

Net assets amounted to ¥18,673 million at December 31, 2017, ¥937 million higher than at March 31, 2017. This was mainly attributable to increases in retained earnings and valuation difference on other available-for-sale securities.

As a result, the equity ratio stood at 40.8% at December 31, 2017 compared with 38.9% at March 31, 2017.

### **(3) Description of Consolidated Business Forecasts and Other Forward-looking Information**

The consolidated financial forecasts for the fiscal year ending March 31, 2018 have been revised from the forecasts announced on May 10, 2017 in the Consolidated Financial Results for the Fiscal Year Ended March 31, 2017 (Japanese Accounting Standards).

Please refer to the press release entitled Notice Concerning Revision of Consolidated Business Forecasts (February 8, 2018) for details of the revision.

Actual business and other results may differ substantially from projections due to various factors.

## 2. Quarterly Consolidated Financial Statements and Key Notes

### (1) Consolidated Balance Sheets

	(Millions of yen)	
	Fiscal 2017 (As of March 31, 2017)	3Q Fiscal 2018 (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	2,662	1,559
Notes and accounts receivable-trade	8,923	9,391
Merchandise and finished goods	5,043	5,570
Work in process	1,163	1,176
Raw materials and supplies	2,997	3,039
Other	918	909
Allowance for doubtful accounts	(22)	(13)
Total current assets	21,686	21,633
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	4,339	4,184
Machinery, equipment and vehicles, net	4,882	4,952
Other, net	4,688	4,649
Total property, plant and equipment	13,910	13,786
Intangible assets		
Goodwill	454	423
Other	405	402
Total intangible assets	859	825
Investments and other assets		
Investment securities	3,052	3,572
Other	902	954
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	3,954	4,526
Total noncurrent assets	18,724	19,137
Total assets	40,410	40,771



(Millions of yen)

	Fiscal 2017 (As of March 31, 2017)	3Q Fiscal 2018 (As of December 31, 2017)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	4,347	4,268
Short-term loans payable	2,866	2,953
Current portion of long-term loans payable	2,432	2,566
Income taxes payable	509	131
Provision for bonuses	259	149
Other	2,622	2,627
Total current liabilities	13,037	12,696
Noncurrent liabilities		
Long-term loans payable	5,425	5,131
Net defined benefit liability	2,851	2,870
Other	1,359	1,399
Total noncurrent liabilities	9,636	9,401
Total liabilities	22,674	22,097
<b>Net Assets</b>		
Shareholders' equity		
Capital stock	3,144	3,144
Capital surplus	2,966	2,966
Retained earnings	10,042	10,393
Treasury stock	(0)	(0)
Total shareholders' equity	16,153	16,505
Accumulated other comprehensive income (loss)		
Valuation difference on other available-for-sale securities	1,107	1,464
Deferred gains on hedges	43	6
Foreign currency translation adjustments	331	502
Remeasurements of defined benefit plans	(1,907)	(1,844)
Total accumulated other comprehensive income (loss)	(426)	128
Non-controlling interests	2,009	2,040
Total net assets	17,736	18,673
Total liabilities and net assets	40,410	40,771

## (2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

### Consolidated Statements of Income

(Nine months ended December 31)

	(Millions of yen)	
	Nine Months Ended December 31, 2016 (From April 1, 2016 to December 31, 2016)	Nine Months Ended December 31, 2017 (From April 1, 2017 to December 31, 2017)
Net sales	27,100	28,266
Cost of sales	20,869	22,472
Gross profit on sales	6,230	5,794
Selling, general and administrative expenses	4,886	4,946
Operating income	1,343	848
Non-operating income		
Interest income	17	9
Dividend income	31	45
Foreign exchange gains	275	93
Equity in earnings of affiliates	112	124
Other	70	56
Total non-operating income	507	328
Non-operating expenses		
Interest expenses	177	156
Other	20	21
Total non-operating expenses	198	177
Ordinary income	1,652	998
Extraordinary losses		
Disposal costs for noncurrent assets	—	1
Loss on retirement of noncurrent assets	346	10
Total extraordinary losses	346	12
Income before provision of income taxes	1,305	986
Income taxes	570	392
Net income	735	593
Net income attributable to non-controlling interests	73	65
Net income attributable to owners of the parent	661	528

## Consolidated Statements of Comprehensive Income

(Nine months ended December 31)

	(Millions of yen)	
	Nine Months Ended December 31, 2016 (From April 1, 2016 to December 31, 2016)	Nine Months Ended December 31, 2017 (From April 1, 2017 to December 31, 2017)
Net income	735	593
Other comprehensive income		
Valuation difference on other available-for-sale securities	100	357
Deferred gains (losses) on hedges	95	(70)
Foreign currency translation adjustments	113	184
Pension liability adjustment	66	64
Share of other comprehensive income (loss) of associates accounted for using equity method	(157)	11
Total other comprehensive income	219	547
Total comprehensive income	954	1,141
Comprehensive income attributable to:		
Owners of the parent	878	1,082
Non-controlling interests	76	58

### **(3) Notes to Quarterly Consolidated Financial Statements**

(Note Concerning Going Concern Assumption)

None

(Note Concerning Significant Changes in Shareholders' Equity)

None

(Changes in Accounting Estimates)

(Change in the useful life)

The machinery and equipment owned by certain consolidated subsidiaries had been estimated to have a useful life of eight years for depreciation purposes, based on its usage status. In the fiscal year ending March 31, 2018, the useful life has been revised based on the actual number of years of use and other factors in conjunction with plan to operate new machinery and equipment, and is now clearly expected to be longer than the previous estimate. From the first quarter of the fiscal year ending March 31, 2018, the useful life has therefore been changed to 10 years.

As a result, for the first nine months of the fiscal year ending March 31, 2018 the amount of depreciation and amortization has declined by ¥33 million compared to the previous estimation method, and operating income, ordinary income, and income before provision of income taxes have all increased by the same amount.

## (Segment Information)

### I. Nine months ended December 31, 2016 (From April 1, 2016 to December 31, 2016)

#### 1. Information on net sales, income and loss by reporting segment

(Millions of yen)

Reporting segment			Total	Adjustments <sup>*1</sup>	Amounts in the consolidated income statement <sup>*2</sup>
	Collagen material business	Formula solution business			
Net sales					
Sales to third parties	19,744	7,355	27,100	—	27,100
Inter-segment sales and transfers	1,396	7	1,403	(1,403)	—
Total	21,141	7,362	28,503	(1,403)	27,100
Segment income	1,548	794	2,343	(999)	1,343

- (Notes) 1. Adjustment for segment income of ¥(999) million comprises elimination of intersegment transactions of ¥6 million and unallocated expenses of ¥(1,005) million.  
2. Segment income is adjusted against the operating income recorded in the consolidated income statement.

#### 2. Information on impairment loss on noncurrent assets and goodwill by reporting segments (Significant changes in the amount of goodwill)

In the Collagen Material Business segment, Vyse Gelatin, LLC was newly established, and the new company took over a portion of the business of Vyse Gelatin Company, resulting in the recording of goodwill.

The increase in goodwill due to these events was ¥379 million in the nine months ended December 31, 2016. The amount of goodwill is a provisional estimate, as the allocation of the acquisition cost has not yet been completed.

### II. Nine months ended December 31, 2017 (From April 1, 2017 to December 31, 2017)

#### 1. Information on net sales, income and loss by reporting segment

(Millions of yen)

Reporting segment			Total	Adjustments <sup>*1</sup>	Amounts in the consolidated income statement <sup>*2</sup>
	Collagen material business	Formula solution business			
Net sales					
Sales to third parties	20,722	7,544	28,266	—	28,266
Inter-segment sales and transfers	1,515	5	1,521	(1,521)	—
Total	22,238	7,550	29,788	(1,521)	28,266
Segment income	1,064	812	1,877	(1,029)	848

- (Notes) 1. Adjustment for segment income of ¥(1,029) million comprises elimination of intersegment transactions of ¥10 million and unallocated expenses of ¥(1,040) million.  
2. Segment income is adjusted against the operating income recorded in the consolidated income statement.

#### 2. Information on impairment loss on noncurrent assets and goodwill by reporting segments

None