



November 8, 2018

## Consolidated Financial Results for the Six Months Ended September 30, 2018

(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: Norifumi Nagaoka, Director and Executive Officer;  
 General Manager of General Management Division  
 Tel: +81-72-949-5381

Scheduled date to file Quarterly Securities Report: November 12, 2018

Scheduled date to commence dividend payments: December 6, 2018

Supplementary explanatory materials prepared: Yes

Explanatory meeting: Yes (For analysts and institutional investors)

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

### 1. Consolidated financial results for the six months ended September 30, 2018

(from April 1, 2018 to September 30, 2018)

#### (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	%
Six months ended September 30, 2018	18,010	(3.3)	428	(19.1)	594	(1.8)	1,253	264.0
September 30, 2017	18,623	4.9	530	(42.6)	605	(12.1)	344	(15.0)

Note: Comprehensive income

For the six months ended September 30, 2018: ¥1,475 million, (118.1%)

For the six months ended September 30, 2017: ¥676 million, (-%)

	Net income per share	Diluted net income per share
Six months ended September 30, 2018	Yen 68.21	Yen —
September 30, 2017	18.74	—

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 September 30, 2018	Millions of yen 39,068	Millions of yen 18,537	%
March 31, 2018	37,851	17,197	40.1

Reference: Equity

As of September 30, 2018: ¥16,617 million

As of March 31, 2018: ¥15,189 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, 2018	—	6.00	—	6.00	12.00
Fiscal year ending March 31, 2019	—	6.00			
Fiscal year ending March 31, 2019 (Forecasts)			—	6.00	12.00

Note: Changes to most recent dividend forecasts: None

## 3. Consolidated financial forecasts for the fiscal year ending March 31, 2019

(from April 1, 2018 to March 31, 2019)

(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, 2019	37,100	(1.8)	1,200	9.5	1,000	(0.9)	1,400	—	76.20

Note: Changes to most recent consolidated financial forecasts: Yes

For revisions to consolidated business forecasts, please refer to the press release issued today (November 8, 2018) titled Notice Concerning Recording of Non-Operating Income, Difference between Consolidated Business Forecasts and Actual Results for the Six Months Ended September 30, 2018, and Revision of Consolidated Business Forecasts for the Fiscal Year Ending March 31, 2019.”

### 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: No

d. Restatement of revisions: No

(4) Number of common shares issued

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

As of September 30, 2018 18,373,974 shares

As of March 31, 2018 18,373,974 shares

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

As of September 30, 2018 163 shares

As of March 31, 2018 162 shares

c. Average number of shares

For the six months ended September 30, 2018 18,373,812 shares

For the six months ended September 30, 2017 18,373,812 shares

\* This financial report falls outside the scope of quarterly review procedures by Certified Public Accountants or the independent auditor.

\* 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 5 of the Attachment to this report.

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# **1. Qualitative Information Concerning Quarterly Financial Statements**

## **(1) Description of Business Results**

In the first six months of the fiscal year ending March 31, 2019, the global economy continued to grow gradually, boosted by expansion in the U.S. and emerging countries in Asia. The Japanese economy also maintained its gradual recovery through increased exports and firm capital expenditures due to the global economic expansion and despite a series of natural disasters. Going forward, uncertainty is increasing as trade friction between the U.S. and China heightens and concerns arise of a domestic slowdown if rising oil prices cause prices to increase.

In this environment, the Nitta Gelatin Group launched a new three-year Medium-Term Management Plan in April 2018. Under the new Medium-Term Management Plan, the Group will implement the following management policies:

1. Our three core areas will be food solutions, health support, and biomedical.
2. We will globally optimize our production system in Japan, Asia, and North America in response to an era of completely free trade.
3. We will promote selection and concentration and create high-value-added products and services to recreate the Company as a higher-profit enterprise.

Guided by these management policies, the Group actively worked to conduct research, develop new products and cultivate new markets in its three core areas. The Group strove to enhance productivity and reduce costs at each of its manufacturing sites.

As a result, for the first six months of the fiscal year ending March 31, 2019, net sales decreased 3.3% year on year to ¥18,010 million and operating income fell 19.1% to ¥428 million, mainly due to a decline in sales in Japan, despite profits being restored at an overseas subsidiary. Ordinary income decreased 1.8% to ¥594 million, although there was the impact of an increase in foreign exchange gains. On the other hand, net income attributable to owners of the parent increased 264.0% to ¥1,253 million as a result of the Company recording a transfer gain on business divestiture from the succession of the adhesive business (excluding manufacturing) as an extraordinary gain of ¥1,151 million.

In the first six months of the fiscal year ending March 31, 2019, the collagen business became the standalone reporting segment. For details, please refer to “2. Quarterly Consolidated Financial Statements and Key Notes (4) Notes to Consolidated Financial Statements (Segment Information).”

Products are categorized into the following sales categories.

Sales Category	Products
Food solutions	Mainly gelatin for food use, food materials, collagen casings
Health support	Mainly gelatin for capsules, collagen peptide for health foods and beauty applications, gelatin and collagen for advanced medical care
Specialties	Mainly adhesives, gelatin for industrial use, others

Sales were as follows:

### **Food solutions**

In Japan, net sales increased year on year for delicatessen items in convenience stores and frozen food against a backdrop of robust demand for ready-made meals, but net sales decreased for confectionary and food preparation. Overseas, net sales of collagen casing in snack sausages were robust.

As a result, overall sales in the food solutions category were on par with the previous year, increasing 0.1% to ¥7,811 million.

### **Health support**

In Japan, net sales were up amid robust demand for capsules for health foods and due to rising health awareness and an increase in the number of drugstores. On the other hand, sales decreased in collagen peptide for beauty applications. Overseas, sales of capsules in the U.S. market were robust due to market recovery. Sales of capsules in the Asian market declined, affected by the outbreak of floods in southern India.

As a result, overall sales in the health support category decreased 3.4% year on year to ¥6,670 million.

### **Specialties**

In adhesives, overall sales decreased 9.8% year on year to ¥3,528 million due to the influence of declining sales in adhesives for hygiene products due to customers' inventory adjustments.

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

### **(a) Assets, liabilities and net assets**

#### **(Assets)**

Total assets amounted to ¥39,068 million at September 30, 2018, ¥1,217 million higher than at March 31, 2018. This was mainly attributable to increase in inventories and investment securities.

**(Liabilities)**

Total liabilities stood at ¥20,531 million at September 30, 2018, ¥123 million lower than at March 31, 2018. This was mainly attributable to decreases in short-term loans payable and net defined benefit liability.

**(Net assets)**

Net assets amounted to ¥18,537 million at September 30, 2018, ¥1,340 million higher than at March 31, 2018. 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 42.5% at September 30, 2018, compared to 40.1% at March 31, 2018.

**(b) Cash flows**

Cash and cash equivalents (“cash”) as of September 30, 2018 was ¥1,373 million, down ¥164 million from March 31, 2018.

Cash flows for each activity and reasons are as follows.

**(Net cash provided by operating activities)**

Operating activities provided net cash of ¥123 million, compared to ¥146 million provided in the same period of the previous fiscal year. The main components were income before provision of income taxes of ¥1,606 million, depreciation and amortization of ¥768 million, increase in inventories of ¥667 million, transfer gain on business divestiture of ¥655 million, and gain on change in equity of ¥416 million.

**(Net cash provided by investing activities)**

Investing activities provide net cash of ¥263 million, compared to ¥857 million used in the same period of the previous fiscal year. This was mainly attributable to ¥887 million in proceeds from business divestiture, ¥814 million for purchase of property, plant and equipment and ¥472 million in proceeds from the sale of property, plant and equipment.

**(Net cash used in financing activities)**

Financing activities used net cash of ¥547 million, compared to ¥3 million provided in the same period of the previous fiscal year. The main sources of cash were proceeds from long-term loans payable of ¥1,244 million and net decrease in short-term loans payable of ¥378 million, which were partially offset by the repayment of long-term loans payable of ¥1,194 million.

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

The consolidated business forecasts for the fiscal year ending March 31, 2019 have been revised from those announced on May 17, 2018 in the “Notice Concerning Revision of Consolidated Business Forecasts.”

For details, please refer to the press release issued today (November 8, 2018) titled “Notice Concerning Recording of Non-Operating Income, Difference between Consolidated Business Forecasts and Actual Results for the Six Months Ended September 30, 2018, and Revision of Consolidated Business Forecasts for the Fiscal Year Ending March 31, 2019. ”

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 2018 (As of March 31, 2018)	2Q Fiscal 2019 (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	1,626	1,467
Notes and accounts receivable-trade	8,966	9,137
Merchandise and finished goods	5,152	5,492
Work in process	1,240	1,441
Raw materials and supplies	2,944	3,180
Other	338	550
Allowance for doubtful accounts	(11)	(9)
Total current assets	20,256	21,261
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,621	4,036
Machinery, equipment and vehicles, net	4,809	4,847
Other, net	3,819	3,198
Total property, plant and equipment	12,251	12,082
Intangible assets		
Goodwill	384	386
Other	395	379
Total intangible assets	780	766
Investments and other assets		
Investment securities	3,451	3,844
Other	1,174	1,182
Allowance for doubtful accounts	(63)	(67)
Total investments and other assets	4,563	4,958
Total noncurrent assets	17,595	17,807
Total assets	37,851	39,068

(Millions of yen)

	Fiscal 2018 (As of March 31, 2018)	2Q Fiscal 2019 (As of September 30, 2018)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	4,159	4,233
Short-term loans payable	2,504	2,183
Current portion of long-term loans payable	2,497	2,562
Income taxes payable	95	270
Provision for bonuses	249	197
Other	2,550	2,521
Total current liabilities	12,056	11,969
Noncurrent liabilities		
Long-term loans payable	4,684	4,740
Net defined benefit liability	2,709	2,511
Other	1,203	1,309
Total noncurrent liabilities	8,597	8,561
Total liabilities	20,654	20,531
<b>Net Assets</b>		
Shareholders' equity		
Capital stock	3,144	3,144
Capital surplus	2,966	2,966
Retained earnings	9,206	10,349
Treasury stock	(0)	(0)
Total shareholders' equity	15,317	16,460
Accumulated other comprehensive income (loss)		
Valuation difference on other available-for-sale securities	1,331	1,481
Deferred losses on hedges	(43)	(10)
Foreign currency translation adjustments	142	284
Remeasurements of defined benefit plans	(1,558)	(1,598)
Total accumulated other comprehensive income (loss)	(127)	156
Non-controlling interests	2,008	1,920
Total net assets	17,197	18,537
Total liabilities and net assets	37,851	39,068

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

### Consolidated Statements of Income

(Six months ended September 30)

	(Millions of yen)	
	Six Months Ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six Months Ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Net sales	18,623	18,010
Cost of sales	14,808	14,223
Gross profit on sales	3,815	3,786
Selling, general and administrative expenses	3,285	3,357
Operating income	530	428
Non-operating income		
Interest income	10	3
Dividend income	30	20
Foreign exchange gains	18	149
Equity in earnings of affiliates	89	81
Other	47	49
Total non-operating income	195	304
Non-operating expenses		
Interest expenses	106	121
Other	14	17
Total non-operating expenses	120	138
Ordinary income	605	594
Extraordinary gains		
Gain on sales of noncurrent assets	–	79
Transfer gain on business divestiture	–	655
Gain on change in equity	–	416
Total extraordinary gains	–	1,151
Extraordinary losses		
Disposal costs for noncurrent assets	1	0
Loss on retirement of noncurrent assets	10	139
Total extraordinary losses	12	140
Income before provision of income taxes	593	1,606
Income taxes	230	339
Net income	362	1,266
Net income attributable to non-controlling interests	18	13
Net income attributable to owners of the parent	344	1,253

Consolidated Statements of Comprehensive Income  
(Six months ended September 30)

	(Millions of yen)	
	Six Months Ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six Months Ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Net income	362	1,266
Other comprehensive income (loss)		
Valuation difference on other available-for-sale securities	262	149
Deferred gains or losses on hedges	(67)	16
Foreign currency translation adjustments	119	116
Pension liability adjustment	14	(39)
Share of other comprehensive income of associates accounted for using equity method	(14)	(33)
Total other comprehensive income	314	209
Total comprehensive income	676	1,475
Comprehensive income (loss) attributable to:		
Owners of the parent	707	1,537
Non-controlling interests	(31)	(61)

### (3) Consolidated Statements of Cash Flows

(Millions of yen)

	Six Months Ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six Months Ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Income before provision of income taxes	593	1,606
Depreciation and amortization	805	768
Amortization of goodwill	22	23
Increase (decrease) in allowance for doubtful accounts	(9)	2
Decrease in provision for bonuses	(34)	(56)
Increase (decrease) in net defined benefit liability	76	(29)
Interest and dividend income	(40)	(24)
Interest expenses	106	121
Foreign exchange gains	(0)	(133)
Equity in earnings of affiliates	(89)	(81)
Loss (gain) on sales of property, plant and equipment	1	(78)
Loss on retirement of noncurrent assets	10	139
Transfer gain on business divestiture	–	(655)
Gain on change in equity	–	(416)
Increase in notes and accounts receivable-trade	(320)	(75)
Increase in inventories	(492)	(667)
Decrease in notes and accounts payable-trade	(4)	(35)
Decrease in accrued consumption taxes	(72)	(115)
Other, net	37	(74)
Subtotal	589	216
Interest and dividend income received	100	152
Interest paid	(104)	(121)
Income taxes paid	(439)	(123)
Net cash provided by operating activities	146	123
Cash flows from investing activities		
Payment into time deposits	(105)	(76)
Proceeds from withdrawal of time deposits	109	67
Purchase of property, plant and equipment	(845)	(814)
Proceeds from sales of property, plant and equipment	1	472
Purchase of intangible assets	(12)	(8)
Purchase of investment securities	(4)	(4)
Proceeds from the sale of investment securities	–	0
Purchase of insurance funds	(0)	–
Proceeds from surrender of insurance funds	–	41
Payments of loans receivable	(0)	(5)
Collection of loans receivable	0	0
Proceeds from business divestiture	–	887
Payment of expenses related to business divestiture	–	(180)
Other, net	(0)	(116)
Net cash provided by (used in) investing activities	(857)	263

	(Millions of yen)	
	Six Months Ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six Months Ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	263	(378)
Proceeds from long-term loans payable	1,200	1,244
Repayment of long-term loans payable	(1,281)	(1,194)
Proceeds from sale-and-leaseback transactions	84	34
Repayments of lease obligations	(125)	(117)
Cash dividends paid	(110)	(110)
Purchase of treasury stock	–	(0)
Cash dividends paid to non-controlling interests	(27)	(25)
Net cash provided by (used in) financing activities	3	(547)
Effect of exchange rate change on cash and cash equivalents	23	(4)
Net decrease in cash and cash equivalents	(683)	(164)
Cash and cash equivalents, beginning of period	2,550	1,538
Cash and cash equivalents, end of period	1,866	1,373

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

(Note Concerning Going Concern Assumption)

None

(Note Concerning Significant Changes in Shareholders' Equity)

None

(Additional Information)

Adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc."

The Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) from the beginning of the first quarter of the fiscal year ending March 31, 2019. Accordingly, deferred tax assets have been presented under investments and other assets and deferred tax liabilities have been presented under noncurrent liabilities.

## (Segment Information)

### I. Six months ended September 30, 2017 (From April 1, 2017 to September 30, 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	13,688	4,935	18,623	—	18,623
Inter-segment sales and transfers	837	4	841	(841)	—
Total	14,526	4,939	19,465	(841)	18,623
Segment income	648	564	1,213	(683)	530

- (Notes) 1. Adjustment for segment income of ¥(683) million comprises elimination of intersegment transactions of ¥7 million and unallocated expenses of ¥(690) 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

### II. Six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)

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

The Nitta Gelatin Group's collagen business has become the standalone reporting segment, so information is omitted.

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

None

#### 3. Matters Concerning Changes in Reporting Segments

The Nitta Gelatin Group's reporting segments until now have been categorized into two businesses: collagen material business and formula solution business. To make intensive investments to pursue its strategy for core businesses and new businesses according to its new corporate vision, the Company conducted a reorganization centered on transforming the production and sales management system and reviewed the allocation of Group management resources and the management system.

On August 1, 2018, the Company conducted a company split of the adhesive business (excluding manufacturing), which is included in the Formula Solutions Business. As the Company shifted its business activities to integrated management of the Collagen Business, the Company made the Collagen Business its standalone reporting segment from the second quarter ended September 30, 2018.

As a result, disclosure of segment information for the six months ended September 30, 2018 is omitted since there is only a single segment.



## **(Business combinations)**

(Company split)

Pursuant to a resolution passed at a meeting of the board of directors held on May 17, 2018, the Company conducted a company split on August 1, 2018, with the Company (Adhesive Business (excluding manufacturing)) as the splitting company and Bostik-Nitta Co., Ltd. as the succeeding company.

### 1. Outline of Business Divestiture

(1) Name of company that succeeded the divested business

Bostik-Nitta Co., Ltd.

(2) Business description of divested business

Adhesive Business (excluding manufacturing)

(3) Primary reason for business divestiture

In the Adhesive Business field, the business environment is changing at an accelerated pace. In this environment, the Company is set to make intensive investments to pursue its strategy for the core businesses and new businesses according to its new corporate vision. With this in mind, the Company believes that it will be able to realize further growth in the covered business by having Bostik-Nitta Co., Ltd., an equity-method affiliate of the Company, succeed the covered business.

(4) Date of business divestiture

August 1, 2018

(5) Outline of the transaction including legal format

An absorption-type split with only cash and equivalent assets provided as consideration

### 2. Outline of accounting treatment

(1) Gain on transfer of business

655 million

(2) Appropriate book values of assets and liabilities of business transferred and major components

Noncurrent assets	¥23 million
Total assets	¥23 million
Current liabilities	¥11 million
Noncurrent liabilities	¥169 million
Total liabilities	¥180 million

(3) Accounting treatment

The Company recognizes the difference between the consideration for the transfer and an amount equivalent to the shareholders' equity corresponding to the transferred business and net of advisory fees for the company split as a "Transfer gain on business divestiture" in the consolidated statement of income for the six months ended September 30, 2018.

3. Reporting segment in which the divested business was included

Collagen business

4. Estimated net sales and operating income attributable to the divested business recorded on the quarterly consolidated statement of income for the quarterly period under review

Net sales	1,482 million
Operating income	45 million

Note: The above amounts represent the net sales and operating income of the entire Adhesive Business, as it is impractical to determine the net sales and operating income of the Adhesive Business (excluding manufacturing).

5. Outline of continued involvement

The Company has entered into a business outsourcing agreement with Bostik-Nitta Co., Ltd.