



February 8, 2019

Consolidated Financial Results for the Nine Months Ended December 31, 2018

(Japanese Accounting Standards)

Name of the Listed Company: **Nitta Gelatin Inc.**
 Listing: First Section of Tokyo Stock Exchange
 Stock code: 4977
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 Representative: Koichi Ogata, Representative Director and President
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Scheduled date to file Quarterly Securities Report: February 12, 2019

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, 2018

(from April 1, 2018 to December 31, 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	%
Nine months ended December 31, 2018	27,075	(4.2)	547	(35.5)	500	(49.9)	956	81.1
December 31, 2017	28,266	4.3	848	(36.9)	998	(39.6)	528	(20.1)

Note: Comprehensive income

For the nine months ended December 31, 2018: ¥766 million, (32.9)%

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

	Net income per share	Diluted net income per share
Nine months ended	Yen	Yen
December 31, 2018	52.08	—
December 31, 2017	28.77	—

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	Millions of yen	Millions of yen	%
December 31, 2018	38,092	17,717	41.3
March 31, 2018	37,851	17,197	40.1

Reference: Equity

As of December 31, 2018: ¥15,737 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)				10.00	16.00

Notes: Changes to most recent dividend forecasts: Yes

- For revisions to dividend forecasts, please refer to the press release issued today (February 8, 2019) titled “Notice Concerning Recording of Non-Operating Expenses (Equity in Losses of Affiliates) and Revision of Full-Year Consolidated Financial Forecasts and Year-End Dividend Forecast (Commemorative Dividend for 100th Anniversary of Foundation) for the Fiscal Year Ending March 31, 2019.”
- Breakdown of fiscal year-end dividend for the fiscal year ending March 31, 2019 (forecasts): ¥6.00 in ordinary dividend and ¥4.00 in commemorative dividend per share

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	36,500	(3.4)	700	(36.1)	600	(40.6)	1,000	—	54.43

Note: Changes to most recent consolidated financial forecasts: Yes

For revisions to consolidated business forecasts, please refer to the press release issued today (February 8, 2019) titled “Notice Concerning Recording of Non-Operating Expenses (Equity in Losses of Affiliates) and Revision of Full-Year Consolidated Financial Forecasts and Year-End Dividend Forecast (Commemorative Dividend for 100th Anniversary of Foundation) for the Fiscal Year Ending March 31, 2019.”

Notes

- 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
- Adoption of special accounting methods for the preparation of quarterly consolidated financial statements: No
- Changes in accounting policies, changes in accounting estimates, and restatement of revisions
 - Changes in accounting policies due to revisions to accounting standards and other guidelines: No
 - Changes in accounting policies due to reasons other than a. above: No
 - Changes in accounting estimates: No
 - Restatement of revisions: No
- Number of common shares issued
 - Total number of issued shares at the end of the period (including treasury stock)
 - As of December 31, 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 December 31, 2018 163 shares

As of March 31, 2018 162 shares

c. Average number of shares

For the nine months ended December 31, 2018 18,373,812 shares

For the nine months ended December 31, 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 4 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 nine months of the fiscal year ending March 31, 2019, the global economy continued to grow gradually, boosted by a sound U.S. economy and growth in emerging countries in Asia. The Japanese economy also maintained its gradual expansion through firm corporate performance and capital expenditures. Meanwhile, uncertainty is increasing due to the impact of trade friction between the U.S. and China and concerns arising overseas such as downturns in economies in Europe and China.

In this environment, the Nitta Gelatin Group launched a new three-year Medium-Term Management Plan in April 2018. The management policies of the Group as shown in this Medium-Term Management Plan are as follows.

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. In addition, the Company has decided to absorb and merge its sales subsidiary Nitta Gelatin Foods Inc. effective on April 1, 2019, for the purposes of focusing on core areas and expanding business.

As a result, for the first nine months of the fiscal year ending March 31, 2019, net sales decreased 4.2% year on year to ¥27,075 million and operating income fell 35.5% to ¥547 million, mainly due to a decline in sales in Japan and a rise in the price of fish used as raw materials. Ordinary income decreased 49.9% to ¥500 million, due to equity in losses of affiliates. Net income attributable to owners of the parent increased 81.1% to ¥956 million as a result of the Company recording a transfer gain on business divestiture.

Company changed the reporting segment to a single business segment of “Collagen business” effective as from the Second quarter ended September 30, 2018. For details, please refer to “2. Quarterly Consolidated Financial Statements and Key Notes (3) 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 as new business expansion made a contribution against a backdrop of robust demand for ready-made meals, but net sales decreased for high sugar content confectionary applications such as gummy and gelatin for use in confectionary and food preparation. Overseas, net sales of collagen casing in snack sausages were lower than the previous fiscal year.

As a result, overall sales in the food solutions category decreased 2.6% year on year to ¥11,541 million.

Health support

In Japan, net sales continued to increase 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, net sales increased due to robust sales of capsules in the U.S. market following market recovery and increased sales of collagen peptide manufactured at our North American plant. Net sales of capsules in the Asian market declined, affected in part by the outbreak of floods in southern India in August 2018.

As a result, overall sales in the health support category decreased 0.4% year on year to ¥10,456 million.

Specialties

In adhesives, overall sales decreased 14.1% year on year to ¥5,077 million, influenced by declining sales in adhesives for hygiene products due to a change in demand by customers.

(2) Description of Financial Position

(Assets)

Total assets amounted to ¥38,092 million at December 31, 2018, ¥240 million higher than at March 31, 2018. This was mainly attributable to increases in inventories and buildings and structures.

(Liabilities)

Total liabilities stood at ¥20,374 million at December 31, 2018, ¥279 million lower than at March 31, 2018. This was mainly attributable to decreases in long-term loans payable and net defined benefit liability.

(Net assets)

Net assets amounted to ¥17,717 million at December 31, 2018, ¥520 million higher than at March 31, 2018. This was mainly attributable to an increase in retained earnings and decrease in deferred losses on hedges.

As a result, the equity ratio stood at 41.3% as of December 31, 2018, compared to 40.1% as of March 31, 2018.

(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 November 8, 2018 in the “Consolidated Financial Results for the Six Months Ended September 30, 2018.”

For details, please refer to the press release issued today (February 8, 2019) titled “Notice Concerning Recording of Non-Operating Expenses (Equity in Losses of Affiliates) and Revision of Full-Year Consolidated Financial Forecasts and Year-End Dividend Forecast (Commemorative Dividend for 100th Anniversary of Foundation) 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)	3Q Fiscal 2019 (As of December 31, 2018)
Assets		
Current assets		
Cash and deposits	1,626	1,676
Notes and accounts receivable-trade	8,966	9,069
Merchandise and finished goods	5,152	5,889
Work in process	1,240	1,114
Raw materials and supplies	2,944	3,162
Other	338	582
Allowance for doubtful accounts	(11)	(13)
Total current assets	20,256	21,482
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,621	3,939
Machinery, equipment and vehicles, net	4,809	4,627
Other, net	3,819	3,264
Total property, plant and equipment	12,251	11,831
Intangible assets		
Goodwill	384	365
Other	395	371
Total intangible assets	780	737
Investments and other assets		
Investment securities	3,451	3,046
Other	1,174	1,184
Allowance for doubtful accounts	(63)	(188)
Total investments and other assets	4,563	4,041
Total noncurrent assets	17,595	16,610
Total assets	37,851	38,092

(Millions of yen)

	Fiscal 2018 (As of March 31, 2018)	3Q Fiscal 2019 (As of December 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,159	4,549
Short-term loans payable	2,504	2,536
Current portion of long-term loans payable	2,497	2,528
Income taxes payable	95	199
Provision for bonuses	249	145
Other	2,550	2,316
Total current liabilities	12,056	12,274
Noncurrent liabilities		
Long-term loans payable	4,684	4,509
Net defined benefit liability	2,709	2,495
Other	1,203	1,094
Total noncurrent liabilities	8,597	8,099
Total liabilities	20,654	20,374
Net Assets		
Shareholders' equity		
Capital stock	3,144	3,144
Capital surplus	2,966	2,966
Retained earnings	9,206	9,942
Treasury stock	(0)	(0)
Total shareholders' equity	15,317	16,053
Accumulated other comprehensive income (loss)		
Valuation difference on other available-for-sale securities	1,331	1,133
Deferred losses on hedges	(43)	(11)
Foreign currency translation adjustments	142	153
Remeasurements of defined benefit plans	(1,558)	(1,591)
Total accumulated other comprehensive income (loss)	(127)	(316)
Non-controlling interests	2,008	1,980
Total net assets	17,197	17,717
Total liabilities and net assets	37,851	38,092

(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, 2017 (From April 1, 2017 to December 31, 2017)	Nine Months Ended December 31, 2018 (From April 1, 2018 to December 31, 2018)
Net sales	28,266	27,075
Cost of sales	22,472	21,619
Gross profit on sales	5,794	5,455
Selling, general and administrative expenses	4,946	4,908
Operating income	848	547
Non-operating income		
Interest income	9	4
Dividend income	45	38
Foreign exchange gains	93	109
Equity in earnings of affiliates	124	-
Other	56	113
Total non-operating income	328	266
Non-operating expenses		
Interest expenses	156	149
Equity in losses of affiliates	-	146
Other	21	17
Total non-operating expenses	177	312
Ordinary income	998	500
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		
Provision of allowance for doubtful accounts	-	122
Disposal costs for noncurrent assets	1	0
Loss on retirement of noncurrent assets	10	141
Total extraordinary losses	12	265
Income before provision of income taxes	986	1,387
Income taxes	392	389
Net income	593	997
Net income attributable to non-controlling interests	65	40
Net income attributable to owners of the parent	528	956

Consolidated Statements of Comprehensive Income

(Nine months ended December 31)

	(Millions of yen)	
	Nine Months Ended December 31, 2017 (From April 1, 2017 to December 31, 2017)	Nine Months Ended December 31, 2018 (From April 1, 2018 to December 31, 2018)
Net income	593	997
Other comprehensive income (loss)		
Valuation difference on other available-for-sale securities	357	(198)
Deferred gains (losses) on hedges	(70)	40
Foreign currency translation adjustments	184	0
Pension liability adjustment	64	(32)
Share of other comprehensive income (loss) of associates accounted for using equity method	11	(41)
Total other comprehensive income	547	(231)
Total comprehensive income	1,141	766
Comprehensive income (loss) attributable to:		
Owners of the parent	1,082	768
Non-controlling interests	58	(2)

(3) 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. 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 ^{*1}	Amounts in the consolidated income statement ^{*2}	
	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

II. Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

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

Information is omitted as Nitta Gelatin Group was operating a single segment, “collagen business”.

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 to integrate the management of its business activities into 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 nine months ended December 31, 2018 is omitted since there is only a single segment.