



August 8, 2019

Consolidated Financial Results for the Three Months Ended June 30, 2019

(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
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Scheduled date to file Quarterly Securities Report: August 9, 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 three months ended June 30, 2019

(from April 1, 2018 to June 30, 2019)

(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	%
Three months ended June 30, 2019	9,260	2.4	374	30.6	367	(1.6)	253	422.3
June 30, 2018	9,043	(2.1)	287	4.5	373	(2.4)	48	(79.3)

Note: Comprehensive income

For the three months ended June 30, 2019: ¥50 million, (72.2)%

For the three months ended June 30, 2018: ¥182 million, (38.6)%

	Net income per share	Diluted net income per share
Three months ended June 30, 2019	Yen 13.80	—
June 30, 2018	2.64	—

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 June 30, 2019	Millions of yen 37,265	Millions of yen 17,569	%
March 31, 2019	37,715	17,708	42.0

Reference: Equity

As of June 30, 2019: ¥15,727 million

As of March 31, 2019: ¥15,843 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, 2019	—	6.00	—	10.00	16.00
Fiscal year ending March 31, 2020	—				
Fiscal year ending March 31, 2020 (Forecasts)		6.00	—	6.00	12.00

Note: Changes to most recent dividend forecasts: None

3. Consolidated financial forecasts for the fiscal year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

(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
Six months ending September 30, 2019	18,800	4.4	600	39.9	500	(15.9)	300	(76.1)	16.33
Fiscal year ending March 31, 2020	38,200	4.8	1,400	55.9	1,300	56.9	800	(19.1)	43.54

Note: Changes to most recent consolidated financial forecasts: None

- (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: Yes
 - b. Changes in accounting policies due to reasons other than a. above: No
 - c. Changes in accounting estimates: No
 - d. Restatement of revisions: No

Note: For details, please refer to “(3) Notes to Quarterly Consolidated Financial Statements 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 June 30, 2019	18,373,974 shares
As of March 31, 2019	18,373,974 shares

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

As of June 30, 2019	163 shares
As of March 31, 2019	163 shares

c. Average number of shares

For the three months ended June 30, 2019	18,373,811 shares
For the three months ended June 30, 2018	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.

Other

The Company’s consolidated subsidiary, Nitta Gelatin India Ltd. resolved at a Board of Directors meeting held on November 8, 2018, to merge with its subsidiary Reva Proteins Ltd., and conducted the merger effective from April 1, 2017. The merger reference date is set retrospectively as the beginning of the fiscal year in which the merger application was filed, in accordance with the merger system in India.

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1. Qualitative Information Concerning Quarterly Financial Statements

In the first quarter of the year ending March 31, 2020, retroactive processing has been applied and figures reflect relevant content for comparison and analysis with the previous fiscal year.

The Company's consolidated subsidiary, Nitta Gelatin India Ltd. resolved at a Board of Directors meeting held on November 8, 2018, to merge with its subsidiary Reva Proteins Ltd., and conducted the merger effective from April 1, 2017.

The merger reference date is set retrospectively as the beginning of the fiscal year in which the merger application was filed, in accordance with the merger system in India.

(1) Description of Business Results

In the first quarter of the fiscal year ending March 31, 2020, the global economy continued to grow gradually as economic recovery continued in the U.S. and despite signs of weakness in Asia and Europe. The Japanese economy continued on a moderate recovery trend supported by a firm undertone in capital investment, but the outlook has become increasingly uncertain based in part on trends in trade problems and the deceleration of the Chinese economy.

In this environment, the Nitta Gelatin Group will implement the following management policies under the Medium-Term Management Plan:

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 on research and development of high-value-added products, sales of new products and development of new markets in its three core areas. The Group strove to enhance productivity and reduce costs at each of its manufacturing sites. The Company focused on finding new customers for foods in Southeast Asian markets as a core area initiative.

As a result, for the first quarter of the fiscal year ending March 31, 2020, net sales increased 2.4% year on year to ¥9,260 million, operating income rose 30.6% to ¥374 million, but ordinary income decreased 1.6% to ¥367 million, mainly due to the recording of foreign exchange losses, and net income attributable to owners of the parent increased 422.3% to ¥253 million.

The Nitta Gelatin Group's collagen business has become the Company's only reporting segment, but an overview of the performance of each sales category is as follows:

Food solutions

In Japan, net sales increased due to an active gummy market sparked by a client's launch of a new product. Sales of delicatessen items for convenience stores increased against a backdrop of a growing trend of eating alone and demand for ready-made meals continuing to increase, and aggressive marketing activities that produced an increase in sales. Overseas, net sales decreased in the collagen casing market due to fierce competition in the snack sausage market.

As a result, overall sales in the food solutions category decreased 2.0% year on year to ¥3,847 million.

Health support

In Japan, net sales of collagen peptide for beauty supplement applications increased due to the launch of a customer's new product and product renewals.

Overseas, net sales increased, driven by an expansion of the collagen supplement market in North America and solid sales of capsules for health foods. In India, net sales increased as demand for capsules for pharmaceutical and health food applications was solid. Meanwhile, in China, the collagen peptide market for health and beauty applications that had continued to expand is now facing an adjustment period, but net sales increased due to a shift in focus to export sales.

As a result, overall sales in the health support category increased 20.4% year on year to ¥3,904 million.

Specialties

In adhesives, overall sales decreased 19.5% year on year to ¥1,508 million, influenced by declining sales in adhesives for hygiene products and sales price change accompanying a company split.

(2) Description of Financial Position

(Assets)

Total assets amounted to ¥37,265 million at June 30, 2019, ¥450 million lower than at March 31, 2018. This was mainly attributable to decreases in notes and accounts receivable-trade.

(Liabilities)

Total liabilities stood at ¥19,696 million at June 30, 2019, ¥310 million lower than at March 31, 2018. This was mainly attributable to decreases in long-term loans payable.

(Net assets)

Net assets amounted to ¥17,569 million at June 30, 2019, ¥139 million lower than at March 31, 2018. This was mainly attributable to decreases in valuation difference on available-for-sale securities and foreign currency translation adjustments.

As a result, the equity ratio stood at 42.2% at March 31, 2019 compared with 42.0% at March 31, 2018.

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

The consolidated earnings forecast for the fiscal year ending March 31, 2020 is unchanged from the consolidated earnings forecast announced on May 14, 2019 in the “Consolidated Financial Results for the Fiscal Year Ended 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 2019 (As of March 31, 2019)	1Q Fiscal 2020 (As of June 30, 2019)
Assets		
Current assets		
Cash and deposits	2,092	1,903
Notes and accounts receivable-trade	8,589	8,130
Merchandise and finished goods	5,884	6,476
Work in process	1,350	1,367
Raw materials and supplies	2,911	2,855
Other	558	543
Allowance for doubtful accounts	(9)	(10)
Total current assets	21,378	21,266
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,788	3,679
Machinery, equipment and vehicles, net	4,648	4,433
Other, net	3,113	3,156
Total property, plant and equipment	11,551	11,269
Intangible assets		
Goodwill	353	331
Other	231	224
Total intangible assets	585	556
Investments and other assets		
Investment securities	3,260	3,138
Other	1,134	1,223
Allowance for doubtful accounts	(193)	(188)
Total investments and other assets	4,200	4,173
Total noncurrent assets	16,337	15,999
Total assets	37,715	37,265

	(Millions of yen)	
	Fiscal 2019 (As of March 31, 2019)	1Q Fiscal 2020 (As of June 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,794	4,896
Short-term loans payable	2,657	2,974
Current portion of long-term loans payable	2,386	2,215
Income taxes payable	237	116
Provision for bonuses	205	318
Other	2,278	2,243
Total current liabilities	12,559	12,764
Noncurrent liabilities		
Long-term loans payable	4,000	3,528
Net defined benefit liability	2,731	2,749
Other	714	654
Total noncurrent liabilities	7,447	6,931
Total liabilities	20,007	19,696
Net Assets		
Shareholders' equity		
Capital stock	3,144	3,144
Capital surplus	2,966	2,966
Retained earnings	10,155	10,221
Treasury stock	(0)	(0)
Total shareholders' equity	16,266	16,333
Accumulated other comprehensive income		
Valuation difference on other available-for-sale securities	1,274	1,163
Deferred gains (losses) on hedges	(8)	(16)
Foreign currency translation adjustments	174	28
Remeasurements of defined benefit plans	(1,863)	(1,780)
Total accumulated other comprehensive income	(423)	(605)
Non-controlling interests	1,865	1,841
Total net assets	17,708	17,569
Total liabilities and net assets	37,715	37,265

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

Consolidated Statements of Income

(First quarter consolidated cumulative accounting period)

	(Millions of yen)	
	Three Months Ended June 30, 2018 (From April 1, 2018 to June 30, 2018)	Three Months Ended June 30, 2019 (From April 1, 2019 to June 30, 2019)
Net sales	9,043	9,260
Cost of sales	7,066	7,348
Gross profit on sales	1,976	1,912
Selling, general and administrative expenses	1,689	1,537
Operating income	287	374
Non-operating income		
Interest income	2	0
Dividend income	18	18
Foreign exchange gains	69	—
Equity in earnings of affiliates	37	22
Other	23	35
Total non-operating income	151	77
Non-operating expenses		
Interest expenses	58	42
Foreign exchange losses	—	39
Other	5	2
Total non-operating expenses	64	84
Ordinary income	373	367
Extraordinary losses		
Disposal costs for noncurrent assets	0	—
Loss on retirement of noncurrent assets	91	0
Advisory fees	180	—
Total extraordinary losses	272	0
Income before provision for income taxes	101	367
Income taxes	34	86
Net income	67	280
Net income attributable to non-controlling interests	18	27
Net income attributable to owners of the parent	48	253

Consolidated Statements of Comprehensive Income
(First quarter consolidated cumulative accounting period)

	(Millions of yen)	
	Three Months Ended June 30, 2018 (From April 1, 2018 to June 30, 2018)	Three Months Ended June 30, 2019 (From April 1, 2019 to June 30, 2019)
Net income	67	280
Other comprehensive income		
Valuation difference on other available-for-sale securities	81	(111)
Deferred gains (losses) on hedges	15	(9)
Foreign currency translation adjustments	64	(204)
Pension liability adjustment	(25)	83
Share of other comprehensive loss of associates accounted for using equity method	(20)	11
Total other comprehensive income	115	(229)
Total comprehensive income	182	50
Comprehensive income attributable to:		
Owners of the parent	208	71
Non-controlling interests	(25)	(20)

(3) Notes to Quarterly Consolidated Financial Statements

(Note Concerning Going Concern Assumption)

None

(Note Concerning Significant Changes in Shareholders' Equity)

None

(Changes in accounting policies)

Application of IFRS 16 Leases

The Nitta Gelatin Group adopted IFRS 16 “Leases” for all overseas subsidiaries except those in the U.S. from the first quarter of the fiscal year ending March 31, 2020. As a transitional measure upon the adoption of IFRS 16, the Group applies this standard retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application.

As a result, the Consolidated Balance Sheets for the first quarter of the fiscal year ending March 31, 2020 show increases of ¥85 million in Other, under Property, plant and equipment, ¥22 million in Other under Current liabilities and ¥63 million in Other under Noncurrent liabilities.

The effect of this change on the Company's consolidated profit and loss for the first quarter of the fiscal year ending March 31, 2020 is negligible.

(Proposed Amendments to Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements)

The Group has adopted the revised PITF No.18 Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements (revised June 28, 2019) and PITF No.24 Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method (revised September 14, 2018) for the first quarter of the fiscal year ending March 31, 2020. The effect of adopting these revised practical solutions on Consolidated Financial Statements is negligible.

(Segment Information)

I. First three months of the fiscal year ended March 31, 2019

(From April 1, 2018 to June 30, 2018)

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

II. First three months of the fiscal year ending March 31, 2020

(From April 1, 2019 to June 30, 2019)

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