



November 8, 2019

## Consolidated Financial Results for the Six Months Ended September 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: November 11, 2019

Scheduled date to commence dividend payments: December 6, 2019

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, 2019

(from April 1, 2019 to September 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	%
Six months ended September 30, 2019	18,627	3.4	845	97.2	981	64.8	654	(48.5)
September 30, 2018	18,010	(3.3)	428	(19.1)	595	(1.7)	1,271	269.5

Note: Comprehensive income

For the six months ended September 30, 2019: ¥355 million ((76.0%))

For the six months ended September 30, 2018: ¥1,482 million (119.1%)

	Net income per share	Diluted net income per share
Six months ended September 30, 2019	Yen 35.63	Yen —
September 30, 2018	69.23	—

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, 2019	Millions of yen 37,277	Millions of yen 17,862	%
March 31, 2019	37,715	17,708	42.0

Reference: Equity

As of September 30, 2019: ¥16,010 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	—	6.00			
Fiscal year ending March 31, 2020 (Forecasts)			—	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
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

### Notes

(1) Changes in significant subsidiaries during the quarterly 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 “(4) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies) in “3. Quarterly Consolidated Financial Statements and Key Notes” on page 13 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 September 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 September 30, 2019 163 shares

As of March 31, 2019 163 shares

c. Average number of shares

For the six months ended September 30, 2019 18,373,811 shares

For the six months ended September 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 5 of the Attachment to this report.

#### Other

The Company passed a resolution at its Board of Directors’ meeting held on November 8, 2018 to approve a merger between the Company’s consolidated subsidiary, Nitta Gelatin India Ltd., and the latter’s subsidiary Reva Proteins Ltd., and the two companies have merged 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. Accordingly, consolidated financial results for the six months ended September 30, 2018 have been retrospectively adjusted to reflect this merger.

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

In the six months ended September 30, 2019, retrospective accounting treatment has been applied as described below, and analysis and comparison with the previous fiscal year are based on figures that reflect this retrospective accounting treatment.

The Company passed a resolution at its Board of Directors' meeting held on November 8, 2018 to approve a merger between the Company's consolidated subsidiary, Nitta Gelatin India Ltd., and the latter's subsidiary Reva Proteins Ltd., and the two companies have merged 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 six months ended September 30, 2019, the global economy gave rise to even stronger concerns about a possible slowdown due to factors such as economic deceleration in Europe and China, as well as the U.S. manufacturing sector entering a slowdown phase. The Japanese economy remained on a gradual recovery path, mainly supported by improving employment and income levels. However, the outlook has become increasingly uncertain based in part on the impact of U.S.-China trade tensions and consumption trends following a consumption tax rate hike.

Guided by the following management policies under the Medium-Term Management Plan running through the fiscal year ending March 31, 2021, the Nitta Gelatin 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.

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.

The Group strove to enhance productivity and reduce costs at each of its manufacturing sites. Looking at initiatives in core areas, in health support, the Group conducted sales promotions for new products for the sports nutrition market and implemented programs to raise awareness of collagen peptide's functionality and benefits in the Asian region. In food solutions, the Group focused on finding new customers in the food applications sector.

As a result, for the first six months ended September 30, 2019, net sales increased 3.4% year on year to ¥18,627 million and operating income rose 97.2% to ¥845 million. These results were supported by firm demand. Ordinary income increased 64.8% to ¥981 million, mainly due to the recording of equity in earnings of affiliates, while net income attributable to owners of the

parent decreased 48.5% to ¥654 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, sales for use in gummy candy rose atop solid sales of new products by customers. Sales of delicatessen items for convenience stores increased against the backdrop of heightened demand for ready-made meals among double-income households and the elderly. In products for the HoReCa market, the launch of new products was a main contributor to sales.

Overseas, sales for use in gummy candy and other applications rose in the North American region. Meanwhile, sales of collagen casings for snack sausage applications declined due to intensified competition.

As a result, overall sales in the food solutions category decreased 1.4% year on year to ¥7,701 million.

### **(Health support)**

In Japan, sales of collagen peptide products for beauty supplement applications increased, supported by firm sales of the relaunched products of main customers.

Overseas, the North American region saw firm sales for capsules for health foods, as well as growth in the collagen peptide market for beauty applications. In India, net sales increased as demand for capsules for pharmaceutical and health food applications was solid.

As a result, overall sales in the health support category increased 19.3% year on year to ¥7,959 million.

### **(Specialties)**

In adhesives, overall sales decreased 15.9% year on year to ¥2,966 million, influenced by declining sales in adhesives for hygiene products and a sales price change accompanying a company split.

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

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

#### **(Assets)**

Total assets amounted to ¥37,277 million at September 30, 2019, ¥438 million lower than at March 31, 2019. This was mainly attributable to decreases in notes and accounts receivable—trade of ¥414 million and property, plant and equipment of ¥469 million. These decreases were partly offset by an increase in merchandise and finished goods of ¥697 million.

**(Liabilities)**

Total liabilities stood at ¥19,414 million at September 30, 2019, ¥592 million lower than at March 31, 2019. This was mainly attributable to decreases in short-term loans payable of ¥259 million and long-term loans payable of ¥140 million.

**(Net assets)**

Net assets amounted to ¥17,862 million at September 30, 2019, ¥153 million higher than at March 31, 2019. This was mainly due to increases in retained earnings of ¥467 million and remeasurements of defined benefit plans of ¥110 million. These increases were partly offset by decreases in valuation difference on other available-for-sale securities of ¥195 million and foreign currency translation adjustments of ¥203 million.

As a result, the equity ratio stood at 43.0% at September 30, 2019 compared with 42.0% at March 31, 2019.

**(b) Cash flows**

Cash and cash equivalents (“cash”) as of September 30, 2019 was ¥1,971 million, down ¥80 million from March 31, 2019.

Cash flows for each activity and reasons are as follows.

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

Operating activities provided net cash of ¥1,022 million, compared to ¥123 million provided in the same period of the previous fiscal year. The main components were income before provision of income taxes of ¥976 million, depreciation and amortization of ¥755 million, and increase in inventories of ¥871 million.

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

Investing activities used net cash of ¥539 million, compared to ¥263 million provided in the same period of the previous fiscal year. The main use of cash was ¥534 million for purchase of property, plant and equipment.

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

Financing activities used net cash of ¥538 million, compared to ¥547 million used in the same period of the previous fiscal year. The main components were proceeds from long-term loans payable of ¥1,200 million, repayment of long-term loans payable of ¥1,313 million, cash dividends paid of ¥183 million and net decrease in short-term loans payable of ¥172 million.

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

The consolidated financial forecasts for the fiscal year ending March 31, 2020 have not been revised from the consolidated financial forecasts announced on May 14, 2019 in the “Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 (Japanese Accounting Standards).”

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

## **2. Basic Approach to Selection of Accounting Standard**

The Nitta Gelatin Group plans to prepare its consolidated financial statements based on Japanese accounting standards for the foreseeable future. This is in consideration of the need to ensure that the consolidated financial statements can be readily compared between different periods and different companies.

Looking ahead, considering its management policies and various conditions in Japan and abroad, Nitta Gelatin plans to examine the adoption of International Financial Reporting Standards (IFRS). In doing so, the Company will take into account trends such as the adoption of IFRS by its peer companies in Japan.

### 3. Quarterly Consolidated Financial Statements and Key Notes

#### (1) Consolidated Balance Sheets

	(Millions of yen)	
	Fiscal 2019 (As of March 31, 2019)	2Q Fiscal 2020 (As of September 30, 2019)
Assets		
Current assets		
Cash and deposits	2,092	2,010
Notes and accounts receivable—trade	8,589	8,174
Merchandise and finished goods	5,884	6,582
Work in process	1,350	1,505
Raw materials and supplies	2,911	2,799
Other	558	494
Allowance for doubtful accounts	(9)	(11)
Total current assets	21,378	21,554
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,788	3,611
Machinery, equipment and vehicles, net	4,648	4,274
Other, net	3,113	3,196
Total property, plant and equipment	11,551	11,081
Intangible assets		
Goodwill	353	320
Other	231	214
Total intangible assets	585	535
Investments and other assets		
Investment securities	3,260	3,087
Other	1,134	1,206
Allowance for doubtful accounts	(193)	(189)
Total investments and other assets	4,200	4,104
Total noncurrent assets	16,337	15,722
Total assets	37,715	37,277

(Millions of yen)

	Fiscal 2019 (As of March 31, 2019)	2Q Fiscal 2020 (As of September 30, 2019)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable—trade	4,794	4,781
Short-term loans payable	2,657	2,397
Current portion of long-term loans payable	2,386	2,383
Income taxes payable	237	160
Provision for bonuses	205	151
Other	2,278	2,231
Total current liabilities	12,559	12,106
Noncurrent liabilities		
Long-term loans payable	4,000	3,860
Net defined benefit liability	2,731	2,753
Other	714	694
Total noncurrent liabilities	7,447	7,307
Total liabilities	20,007	19,414
<b>Net Assets</b>		
Shareholders' equity		
Capital stock	3,144	3,144
Capital surplus	2,966	2,966
Retained earnings	10,155	10,622
Treasury stock	(0)	(0)
Total shareholders' equity	16,266	16,734
Accumulated other comprehensive income (loss)		
Valuation difference on other available-for-sale securities	1,274	1,078
Deferred losses on hedges	(8)	(19)
Foreign currency translation adjustments	174	(29)
Remeasurements of defined benefit plans	(1,863)	(1,753)
Total accumulated other comprehensive income (loss)	(423)	(723)
Non-controlling interests	1,865	1,852
Total net assets	17,708	17,862
Total liabilities and net assets	37,715	37,277

## (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, 2018 (From April 1, 2018 to September 30, 2018)	Six Months Ended September 30, 2019 (From April 1, 2019 to September 30, 2019)
Net sales	18,010	18,627
Cost of sales	14,223	14,766
Gross profit on sales	3,786	3,861
Selling, general and administrative expenses	3,357	3,015
Operating income	428	845
Non-operating income		
Interest income	3	1
Dividend income	20	23
Foreign exchange gains	149	16
Equity in earnings of affiliates	81	128
Other	50	66
Total non-operating income	305	237
Non-operating expenses		
Interest expenses	121	92
Other	17	9
Total non-operating expenses	138	102
Ordinary income	595	981
Extraordinary gains		
Gain on sales of noncurrent assets	79	0
Transfer gain on business divestiture	655	—
Gain on change in equity	416	—
Total extraordinary gains	1,151	0
Extraordinary losses		
Disposal costs for noncurrent assets	0	—
Loss on retirement of noncurrent assets	139	4
Total extraordinary losses	140	4
Income before provision of income taxes	1,606	976
Income taxes	322	229
Net income	1,284	747
Net income attributable to non-controlling interests	12	92
Net income attributable to owners of the parent	1,271	654

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

	(Millions of yen)	
	Six Months Ended September 30, 2018 (From April 1, 2018 to September 30, 2018)	Six Months Ended September 30, 2019 (From April 1, 2019 to September 30, 2019)
Net income	1,284	747
Other comprehensive income (loss)		
Valuation difference on other available-for-sale securities	149	(195)
Deferred gains or losses on hedges	16	(20)
Foreign currency translation adjustments	104	(269)
Pension liability adjustment	(39)	111
Share of other comprehensive income of associates accounted for using equity method	(33)	(17)
Total other comprehensive income (loss)	197	(391)
Total comprehensive income	1,482	355
Comprehensive income attributable to:		
Owners of the parent	1,551	354
Non-controlling interests	(69)	1

### (3) Consolidated Statements of Cash Flows

(Millions of yen)

	Six Months Ended September 30, 2018 (From April 1, 2018 to September 30, 2018)	Six Months Ended September 30, 2019 (From April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Income before provision of income taxes	1,606	976
Depreciation and amortization	768	755
Amortization of goodwill	23	23
Increase in allowance for doubtful accounts	2	3
Decrease in provision for bonuses	(56)	(52)
(Decrease) increase in net defined benefit liability	(29)	34
Interest and dividend income	(24)	(25)
Interest expenses	121	92
Foreign exchange (gains) losses	(133)	61
Equity in earnings of affiliates	(81)	(128)
Gain on sales of property, plant and equipment	(78)	(0)
Loss on retirement of noncurrent assets	139	4
Transfer gain on business divestiture	(655)	—
Gain on sales of investment securities	—	(2)
Gain on change in equity	(416)	—
Increase (decrease) in notes and accounts receivable—trade	(75)	305
Increase in inventories	(667)	(871)
Decrease (increase) in notes and accounts payable—trade	(35)	209
Decrease (increase) in accrued consumption taxes	(115)	126
Other, net	(74)	(147)
Subtotal	216	1,365
Interest and dividend income received	152	25
Interest paid	(121)	(84)
Income taxes paid	(123)	(284)
Net cash provided by operating activities	123	1,022
Cash flows from investing activities		
Payment into time deposits	(76)	(17)
Proceeds from withdrawal of time deposits	67	20
Purchase of property, plant and equipment	(814)	(534)
Proceeds from sales of property, plant and equipment	472	0
Purchase of intangible assets	(8)	(7)
Purchase of investment securities	(4)	(4)
Proceeds from the sale of investment securities	0	3
Proceeds from business divestiture	887	—
Payment of expenses related to business divestiture	(180)	—
Other, net	(80)	1
Net cash provided by (used in) investing activities	263	(539)

(Millions of yen)

	Six Months Ended September 30, 2018 (From April 1, 2018 to September 30, 2018)	Six Months Ended September 30, 2019 (From April 1, 2019 to September 30, 2019)
Cash flows from financing activities		
Net decrease in short-term loans payable	(378)	(172)
Proceeds from long-term loans payable	1,244	1,200
Repayment of long-term loans payable	(1,194)	(1,313)
Proceeds from sale-and-leaseback transactions	34	66
Repayments of lease obligations	(117)	(120)
Cash dividends paid	(110)	(183)
Purchase of treasury stock	(0)	—
Cash dividends paid to non-controlling interests	(25)	(14)
Net cash used in financing activities	(547)	(538)
Effect of exchange rate change on cash and cash equivalents	(4)	(25)
Net decrease in cash and cash equivalents	(164)	(80)
Cash and cash equivalents, beginning of period	1,538	2,051
Cash and cash equivalents, end of period	1,373	1,971

#### **(4) 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 has adopted IFRS 16 "Leases" for all overseas subsidiaries except those in the U.S. from the beginning of the first quarter ended June 30, 2019. As a transitional measure upon the adoption of IFRS 16, the Group applies the standard, which recognizes the cumulative effect at the date of initial adoption.

As a result, the consolidated balance sheets for the first six months ended September 30, 2019 show increases of ¥78 million in "Other" under property, plant and equipment, ¥21 million in "Other" under current liabilities, and ¥57 million in "Other" under noncurrent liabilities.

The effect of this change on the Company's consolidated profit and loss for the first six months ended September 30, 2019 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) from the beginning of the first quarter ended June 30, 2019. The effect of adopting these revised practical solutions on the Consolidated Financial Statements is negligible.

(Additional Information)

(Application of the Equity Method to an Affiliate)

Guangdong Baiwei Bio Material Co., Ltd., the Company's equity-method affiliate, acquired all shares of Guangdong Mingyang Gelatin Co., Ltd. on September 2, 2019.

Moreover, a Director of the Company has been appointed as Chairman of Guangdong Mingyang Gelatin Co., Ltd., and Nitta Gelatin has transferred important technology to this company. Accordingly, Guangdong Mingyang Gelatin Co., Ltd. has been included in the Company's scope of application of the equity method.

(Segment Information)

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

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

Six months ended September 30, 2019 (From April 1, 2019 to September 30, 2019)

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