



February 14, 2022

Consolidated Financial Results for the Nine Months Ended December 31, 2021

(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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Scheduled date to file Quarterly Securities Report: February 14, 2022

Scheduled date to commence dividend payments: —

Supplementary explanatory materials prepared: No

Explanatory meeting: No

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

Consolidated financial results for the nine months ended December 31, 2021

(April 1, 2021 to December 31, 2021)

(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, 2021	23,095	(0.1)	1,010	(9.1)	1,192	12.5	622	3.7
December 31, 2020	23,122	—	1,111	(20.2)	1,059	(33.3)	600	—

Note: Comprehensive income

For the nine months ended December 31, 2021: ¥1,349 million (61.0%)

For the nine months ended December 31, 2020: ¥838 million (-18.4%)

	Earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2021	34.39	—
December 31, 2020	33.13	—

Notes 1. Diluted net income per share is not disclosed due to the absence of latent shares with dilution effect.

2. The Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29; March 31, 2020) from the beginning of the first quarter. Numerical indicators for the first nine months ended December 31, 2020 have been calculated after retroactively applying this accounting standard. For net sales, the year-on-year rate of change has been omitted.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
December 31, 2021	35,857	19,969	49.3
March 31, 2021	34,915	18,873	48.1

Reference: Equity

As of December 31, 2021: ¥17,681 million

As of March 31, 2021: ¥16,794 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, 2021	—	6.00	—	6.00	12.00
Fiscal year ending March 31, 2022	—	7.00	—		
Fiscal year ending March 31, 2022 (Forecasts)				7.00	14.00

Note: Changes to most recent dividend forecasts: None

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2022 (April 1, 2021 to March 31, 2022)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full-year	29,500	(3.3)	1,350	(0.5)	1,350	(1.0)	900	21.3	49.71

Note: Changes to most recent consolidated financial forecasts: None

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: None
- 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: Yes
 - Changes in accounting policies due to reasons other than a. above: None
 - Changes in accounting estimates: None
 - Restatement of revisions: None

(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, 2021: 18,373,974 shares

As of March 31, 2021: 18,373,974 shares

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

As of December 31, 2021: 268,739 shares

As of March 31, 2021: 299,467 shares

c. Average number of shares

As of December 31, 2021: 18,092,966 shares

As of December 31, 2020: 18,117,457 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

(Note concerning forward-looking statements)

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, 2022 (April 1 to December 31, 2021), the global economy experienced a strong recovery, amid economic expansion in the United States, Europe and China, despite a resurgence in COVID-19 cases caused by new variants. The Japanese economy experienced a temporary recovery after signs of an end to the COVID-19 pandemic, but amid ongoing logistics disruptions around the world uncertainty about the future increased due to not only soaring raw materials and transportation costs, but also growing instability in crude oil prices and foreign exchange markets.

In this environment, the Group launched a new three-year medium-term management plan in May 2021. The management policies for the Group set out in this medium-term management plan are presented below.

1. Strategic allocation of management resources to key markets to create a high-profit enterprise
2. Strengthening of the organizational foundation to face challenges positively
3. Strengthening ties with stakeholders to be a valuable company

Under this management policy, we worked to expand sales of high value-added products in mainstay markets in each domain including the core categories of food solutions, health support, and biomedical. Additionally, we worked to improve the visibility of our company and products by increasing advertising of products geared toward general consumers, sharing information on social media, and actively addressing media requests from TV news programs. Following the decision by the Tokyo Stock Exchange (TSE) to reorganize into new market segments in April 2022, the meeting of the Board of Directors held on December 16, 2021 resolved to select the Prime market category and we submitted the “Plan for Compliance with the Continued Listing Requirements for New Market Segments” to TSE.

As a result, net sales decreased 0.1% year on year to ¥23,095 million due to the decline in sales associated with the transfer of the adhesives business in the previous fiscal year, which offset sales growth of food solutions and health support. Operating income decreased 9.1% to ¥1,010 million due to the impacts of an increase in raw materials and transportation costs, etc., ordinary income increased 12.5% to ¥1,192 million attributed to the booking of foreign exchange gains, and accordingly, net income attributable to owners of the parent increased 3.7% to ¥622 million.

The Nitta Gelatin Group's collagen business is the Company's only reporting segment. An overview of the performance of each sales category is as follows:

Food Solutions

In the food solutions category, sales were strong in Japan and rose in North America, resulting in an increase in overall sales for the segment.

In Japan, sales of products for use in gummy candies increased, driven by the consistently strong sales of new products by customers. In addition, net sales were buoyed by the success of increased sales of products for use in frozen foods amid stronger demand and for use in direct marketing sales in the food-service industry. Meanwhile, sales of products for delicatessen items for convenience stores were on par with the same period of the previous year.

Overseas, net sales increased on robust demand for food applications in North America.

As a result, overall sales in the food solutions category increased 8.8% year on year to ¥9,254 million.

Health Support

In the health support category, sales from exports of gelatin for capsules declined due to ongoing disruptions in maritime container transportation, but sales of collagen peptide for health and beauty applications increased overseas and in Japan, and there was sales growth of biomedical products, resulting in a net increase in sales for the segment.

In Japan, there was a recovery in in-store sales while sales of new collagen products for customers remained strong, helping to boost net sales of collagen peptide for health and beauty applications and gelatin for capsules. Additionally, net sales of collagen and gelatin for medical applications increased due to new sales expansion geared toward medical devices.

Overseas, net sales of collagen peptide products for health and beauty applications in North America were on par with the previous 3Q, and in Asia, sales of collagen peptide for health and beauty applications that advertise functionality increased, resulting in higher net sales. Meanwhile, net sales of gelatin for capsules declined amid disruptions in maritime container transportation, despite strong demand from rising health consciousness and infection prevention needs during the COVID-19 pandemic. In India, net sales increased due to firm sales for capsules for pharmaceutical and health food applications and expanded sales of collagen peptide.

As a result, overall sales in the health support category increased 3.2% year on year to ¥11,244 million.

Specialties

In the specialties category, overall sales decreased 30.3% year on year to ¥2,596 million. This was due to the decrease in net sales from the completion of the transfer of the adhesives business in the previous fiscal year, despite an increase in net sales of gelatin for photography applications due to the easing of the stay-at-home trend.

(2) Description of Financial Position

(Assets)

Total assets amounted to ¥35,857 million at December 31, 2021, ¥942 million higher than at March 31, 2021. This was mainly attributable to a decrease in cash and deposits of ¥1,312 million compared to an increase in trade notes and accounts receivable of ¥471 million, inventories of ¥1,003 million, property, plant and equipment of ¥520 million, and investment securities of ¥377 million.

(Liabilities)

Total liabilities stood at ¥15,888 million at December 31, 2021, ¥153 million lower than at March 31, 2021. This was mainly attributable to decreases in and in trade notes and accounts payable of ¥331 million and long-term loans payable of ¥452 million (including loans repayable within one year), compared to an increase in other current liabilities of ¥768 million.

(Net assets)

Total net assets amounted to ¥19,969 million at December 31, 2021, ¥1,095 million higher than at March 31, 2021. This was mainly attributable to increases in retained earnings of ¥386 million, valuation difference on other available-for-sale securities of ¥209 million, foreign currency translation adjustments of ¥237 million, and non-controlling interests of ¥208 million.

As a result, the equity ratio stood at 49.3% at December 31, 2021, compared to 48.1% at March 31, 2021.

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

The consolidated earnings forecast for the fiscal year ending March 31, 2022 is unchanged from the consolidated earnings forecast announced on May 13, 2021 in the “Consolidated Financial Results for the Fiscal Year Ended March 31, 2021.”

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 in the near 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 Group will take into account trends such as the adoption of IFRS by its peer companies.

3. Quarterly Consolidated Financial Statements and Key Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	Fiscal 2021 (As of March 31, 2021)	3Q Fiscal 2022 (As of December 31, 2021)
Assets		
Current assets		
Cash and deposits	4,024	2,711
Notes and accounts receivable—trade	6,944	7,415
Merchandise and finished goods	5,069	5,712
Work in process	1,201	1,280
Raw materials and supplies	2,582	2,863
Other	459	546
Allowance for doubtful accounts	(15)	(15)
Total current assets	20,266	20,514
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,311	3,370
Machinery, equipment and vehicles, net	2,670	2,374
Other, net	3,127	3,884
Total property, plant and equipment	9,109	9,630
Intangible assets		
Goodwill	257	230
Other	244	235
Total intangible assets	502	466
Investments and other assets		
Investment securities	3,205	3,582
Other	1,938	1,774
Allowance for doubtful accounts	(106)	(110)
Total investments and other assets	5,036	5,246
Total noncurrent assets	14,648	15,342
Total assets	34,915	35,857

(Millions of yen)

	Fiscal 2021 (As of March 31, 2021)	3Q Fiscal 2022 (As of December 31, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	2,953	2,621
Short-term loans payable	1,964	2,006
Current portion of long-term loans payable	2,080	2,054
Income taxes payable	194	118
Provision for bonuses	209	141
Other	2,228	2,997
Total current liabilities	9,630	9,938
Noncurrent liabilities		
Long-term loans payable	3,925	3,499
Net defined benefit liability	1,598	1,605
Other	886	844
Total noncurrent liabilities	6,410	5,949
Total liabilities	16,041	15,888
Net Assets		
Shareholders' equity		
Capital stock	3,144	3,144
Capital surplus	2,966	2,965
Retained earnings	9,690	10,077
Treasury stock	(200)	(179)
Total shareholders' equity	15,601	16,008
Accumulated other comprehensive income		
Valuation difference on other available-for-sale securities	1,125	1,335
Deferred gains (losses) on hedges	3	(5)
Foreign currency translation adjustments	(82)	155
Remeasurements of defined benefit plans	145	187
Total accumulated other comprehensive income	1,192	1,672
Non-controlling interests	2,079	2,288
Total net assets	18,873	19,969
Total liabilities and net assets	34,915	35,857

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

Consolidated Statements of Income

(Third quarter consolidated cumulative accounting period)

	(Millions of yen)	
	Nine Months Ended December 31, 2020 (From April 1, 2020 to December 31, 2020)	Nine Months Ended December 31, 2021 (From April 1, 2021 to December 31, 2021)
Net sales	23,122	23,095
Cost of sales	18,397	18,113
Gross profit on sales	4,725	4,981
Selling, general and administrative expenses	3,613	3,970
Operating income	1,111	1,010
Non-operating income		
Interest income	4	2
Dividend income	40	45
Rental income	25	43
Foreign exchange gains	–	143
Equity in earnings of affiliates	50	–
Other	66	40
Total non-operating income	186	274
Non-operating expenses		
Interest expenses	83	75
Foreign exchange losses	146	–
Equity in losses of affiliates	–	10
Other	8	6
Total non-operating expenses	238	92
Ordinary income	1,059	1,192
Extraordinary gains		
Gain on sales of noncurrent assets	–	0
Total extraordinary gains	–	0
Extraordinary losses		
Loss on sale of non-current assets	–	0
Loss on retirement of noncurrent assets	4	52
Impairment loss	44	–
Total extraordinary losses	48	52
Income before provision for income taxes	1,011	1,140
Income taxes	248	322
Net income	762	817
Net income attributable to non-controlling interests	162	195
Net income attributable to owners of the parent	600	622

Consolidated Statements of Comprehensive Income

(Third quarter consolidated cumulative accounting period)

	(Millions of yen)	
	Nine Months Ended December 31, 2020 (From April 1, 2020 to December 31, 2020)	Nine Months Ended December 31, 2021 (From April 1, 2021 to December 31, 2021)
Net income	762	817
Other comprehensive income		
Valuation difference on other available-for-sale securities	13	209
Deferred gains (losses) on hedges	87	(6)
Foreign currency translation adjustments	(85)	219
Pension liability adjustment	67	33
Share of other comprehensive losses of associates accounted for using equity method	(7)	75
Total other comprehensive income	75	531
Total comprehensive income	838	1,349
Comprehensive income attributable to:		
Owners of the parent	660	1,102
Non-controlling interests	177	247

(3) Notes to Quarterly Consolidated Financial Statements

(Note Concerning Going Concern Assumption)

None

(Note Concerning Significant Changes in Shareholders' Equity)

The Company disposed of 30,800 shares of treasury stock effective July 30, 2021 as restricted share-based remuneration based on a resolution at the Board of Directors meeting held on July 15, 2021. As a result, both capital surplus and treasury stock decreased by ¥0 million and ¥20 million, respectively, in the first nine months of the fiscal year ending March 31, 2022, resulting in balances of ¥2,965 and ¥179 million, respectively, as of December 31, 2021.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, ASBJ; below, "Accounting Standard for Revenue Recognition") from the start of the first quarter. The Company now recognizes revenue in the amount expected to be received in exchange for goods and services at the point in time when the control of the promised goods and services are transferred to the customer.

As a result, sales commissions and sales promotion costs conventionally recorded in selling, general and administrative expenses have been deducted from net sales.

This change in accounting policy is applied retroactively, in principle, and the quarterly consolidated financial statements and consolidated financial statements reflect this change for the previous quarters and previous fiscal year. However, the following methods are applied as stipulated in Paragraph 85 of the Accounting Standard for Revenue Recognition.

- I. Information for comparison within contracts that recognized the amount of nearly all revenue following the previous handling until the start of the previous fiscal year will not be revised retroactively.
- II. Information for comparison regarding the amount of variable consideration included in contracts that recognized the amount of nearly all revenue following the previous handling until the start of the current fiscal year will be revised retroactively using the amount at the time the uncertainty concerning the amount of the variable consideration is eliminated.
- III. Consolidated quarterly financial statements for the previous fiscal year will not be revised retroactively regarding contracts that were started and ended within the previous fiscal year.
- IV. Information for comparison will be revised retroactively for contractual changes made prior to the start of the previous fiscal year by using accounting treatment based on the contractual conditions after reflecting all contractual changes.

As a result, compared to prior to retroactive application, net sales decreased by ¥16 million in the previous nine months ended December 31, 2020 and selling, general and administrative expenses decreased by ¥16 million, but operating income, ordinary income, and income before provision for income taxes were not affected. Furthermore, in accordance with the transitional handling stipulated in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Statements" (ASBJ Statement No. 12; March 31, 2020), the Company does not include information that breaks down revenue arising from contracts with customers pertaining to the previous nine months ended December 31, 2020.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, ASBJ; below, "Accounting Standard for Fair Value Measurement") from the start of the first quarter. Following the transitional handling stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Company will apply the new accounting policy set forth in the Accounting Standard for Fair Value Measurement for all future years. There are no impacts on the Company's quarterly consolidated financial statements as a result of this change.

(Additional Information)

There are no major changes to the assumptions about the impacts of the COVID-19 pandemic that were included in the "Important Accounting Estimates" section of the Annual Securities Report for the Fiscal Year Ended March 31, 2021.

(Segment Information)

I. Nine Months Ended December 31, 2020

(From April 1, 2020 to December 31, 2020)

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

II. Nine Months Ended December 31, 2021

(From April 1, 2021 to December 31, 2021)

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