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Consolidated Financial Results for the Three Months Ended June 30, 2018 [Japanese GAAP]

August 09, 2018

Company name: Menicon Co., Ltd.
Stock exchange listing: Tokyo, Nagoya
Code number: 7780

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Scheduled date of filing quarterly securities report: August 09, 2018

Scheduled date of commencing dividend payments: —

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: No

CEO

Senior Executive Officer, Corporate Management,

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Three Months Ended June 30, 2018 (April 01, 2018 to June 30, 2018)

(1) Consolidated Operating Results

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2018	19,643	5.4	1,272	(3.3)	1,247	(14.7)	766	(26.7)
June 30, 2017	18,637	8.6	1,316	17.3	1,462	41.3	1,045	58.5

(Note) Comprehensive income: Three months ended June 30, 2018: ¥ 690 million [(48.8) %]
Three months ended June 30, 2017: ¥ 1,347 million [892.4%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2018	21.79	20.21
June 30, 2017	29.81	29.51

(Note) The Company conducted a 2-for-1 stock split on January 1, 2018. Basic earnings per share and diluted earnings per share are calculated, assuming that the stock split was conducted at the beginning of the fiscal year ended March 2018.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Million yen	Million yen	%
June 30, 2018	77,581	39,935	51.4
March 31, 2018	71,706	40,121	55.9

(Reference) Equity: As of June 30, 2018: ¥ 39,864 million
As of March 31, 2018: ¥ 40,048 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	-	0.00	-	25.00	25.00
Fiscal year ending March 31, 2019	-				
Fiscal year ending March 31, 2019 (Forecast)		0.00	-	25.00	25.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2019(April 01, 2018 to March 31, 2019)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	80,338	4.8	5,148	17.2	5,137	15.2	3,231	21.6	91.84

(Note) Revision to the financial results forecast announced most recently: No

* Notes:

(1) Changes in significant subsidiaries during the three months ended June 30, 2018
(changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

June 30, 2018: 36,804,000 shares

March 31, 2018: 36,804,000 shares

2) Total number of treasury shares at the end of the period:

June 30, 2018: 1,624,606 shares

March 31, 2018: 1,631,006 shares

3) Average number of shares during the period:

Three months ended June 30, 2018: 35,178,040 shares

Three months ended June 30, 2017: 35,085,019 shares

(Note) The Company conducted a 2-for-1 stock split on January 1, 2018. The number of issued shares (common shares) is calculated, assuming that the stock split was conducted at the beginning of the fiscal year ended March 2018.

*** Quarterly financial summary is not subject to the quarterly review procedures.**

* Explanation regarding appropriate use of business results forecasts and other special instructions

Forecasts regarding future performance in this material are based on information currently available to the Company and certain assumptions that the Company deems to be reasonable at the time this report was prepared. Actual results may differ significantly from the forecasts due to various factors. For matters concerning the forecast of business results, please refer to "Explanation of Consolidated Business Results Forecast and Other Forward-looking Information" on Page 3 of the appendix.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Business Results

Regarding the world economy during the three months ended June 30, 2018, whereas the robust U.S. economy supported by the Trump administration's economic stimulus package is a positive factor, there are risk factors attributable to political instability in Europe and other issues. Regarding the Japanese economy, while the service sector's performance is improving against the backdrop of inbound demand, in the manufacturing sector, business confidence is somewhat adversely affected by concerns about trade friction between the U.S. and China and other factors.

In the domestic contact lens market, disposable contact lenses and color contact lenses are the driving forces of the market, and among these, line-ups of silicone hydrogel contact lens products are expanding. In the overseas contact lens market, demand for disposable contact lenses is increasing centering on the U.S., while in China demand for orthokeratology lenses, which are to be worn while sleeping and are effective for correcting vision, is rising.

Performances in individual businesses are as follows.

[Domestic Contact Lens Business]

We stepped up efforts to further expand the Menicon Eye Life Support (MELS) Plan business that contributes to eye safety of contact lens users and stable earnings of the Company. Specifically, targeting first-time contact lens users coinciding with the start of the new academic year, which is a high demand period, we ran the MELS Plan spring campaign and a campaign to promote referral by existing MELS Plan members. Regarding the product strategy, we have steadily captured users of daily disposable contact lenses thanks to brisk sales of "1 DAY Menicon PremiO," a daily disposable silicone hydrogel contact lens, in addition to "Magic," a daily disposable contact lens. Regarding measures to strengthen channels, the Group's retail shops are promoting the common brand, "Miru partner." The aim is to offer consistent service to customers and to strengthen the brand of the Group's retail shops. Regarding promotion, we strengthened our drive to capture daily disposable contact lens users by launching TV commercials for "SMART TOUCH," our proprietary technology that allows users to wear the lenses without touching the inner surface of the lens. As a corporate rebranding strategy, we publicized "Miru," the Group's retail shop brand, through media to boost brand recognition.

[Overseas Contact Lens Business]

We focused our efforts on promoting "Miru," our own-brand disposable contact lenses for the overseas market. Sales expansion efforts centered on "Miru 1day Menicon Flat Pack" and "Miru 1 day UpSide" made of silicone hydrogel in the daily disposable contact lens line; spherical lens-type "Miru 1month Menicon," "Miru 1month Menicon for Astigmatism," and "Miru 1month Menicon Multifocal" in the monthly disposable contact lenses; and their private-brand products. We will continue efforts to expand sales of the "Miru" series. In North America and Europe, we strengthened sales of disposable contact lenses, focusing on private-brand products of retail chains and worked to cultivate new channels and expand sales of products. In Asia, while focusing efforts on sales of orthokeratology lenses in China, we opened a contact lens training center for physicians and optometrists in Myanmar in May. Going forward, as well as striving to promote the correct contact lens prescribing techniques in Myanmar, we intend to contribute to expansion of the contact lens market in Southeast Asia.

[Other Businesses]

Sales of veterinary medical equipment and supplements for dogs and cats by Meni-one Co., Ltd., a Group company, and sales of composting accelerators by the Company's Environmental and Bioscience Business were robust. In addition, the Company's Life Science Business sells supplements that support fertility treatment and supplements that contain lactoferrin as a major ingredient.

In these circumstances, the Group's consolidated business results for the three months ended June 30, 2018 were as follows. Net sales increased by 5.4% year on year to ¥19,643 million, reflecting an increase in MELS Plan memberships. Operating profit decreased by 3.3% year on year to ¥1,272 million owing to the higher cost of sales ratio and an increase in selling, general and administrative expenses, and ordinary profit decreased by 14.7% to ¥1,247 million. Profit attributable to owners of parent was ¥766 million, a decrease of 26.7%.

Going forward, safety of eyes remains the Group's top priority and we will strive to further enhance the business foundation with the aim of contributing to society by providing superior visual correction.

Business results by segment are as follows.

1) Contact Lens-related Business

Sales of the contact lens-related business were ¥19,305 million, an increase of 5.5% year on year and segment profit was ¥2,416 million, a decrease of 1.3% year on year. Details are described below.

Sales of the contact lens-related business increased by ¥568 million from the same period of the previous year mainly due to an increase in MELS Plan memberships centering on "1 DAY Menicon PremiO" and "Magic." The year-on-year decrease in segment profit was attributable to the recording of depreciation for the factory buildings and production lines in which the Company invested in the previous year and increases in advertising expenses, research and development expenses, and other expenses incurred by the Company.

2) Other

Sales of other businesses were ¥339 million for the three months ended June 30, 2018, an increase of 1.8% year on year, reflecting a year-on-year increase in sales of the Veterinary Medical Business conducted by Group company Meni-one Co., Ltd. The segment loss was ¥81 million, compared with a segment loss of ¥83 million for the same period of the previous year.

(2) Explanation of Financial Position

(Assets)

Total assets at the end of the first quarter of the fiscal year under review were ¥77,581 million, having increased by ¥5,874 million from the end of the previous fiscal year. Current assets increased by ¥6,511 million to ¥44,628 million due to an increase in cash and deposits resulting mainly from the issue of convertible bond-type bonds with share acquisition rights. Non-current assets decreased by ¥636 million to ¥32,952 million, mainly due to a decrease in goodwill.

(Liabilities and net assets)

Liabilities increased by ¥6,061 million from the end of the previous fiscal year to ¥37,645 million at the end of the first quarter of the fiscal year under review as a result of the issue of convertible bond-type bonds with share acquisition rights.

Net assets decreased by ¥186 million from the end of the previous fiscal year to ¥39,935 million mainly due to a decrease in retained earnings resulting from payment of dividends.

As a result, capital adequacy ratio was 51.4%.

(3) Explanation of Consolidated Business Results Forecast and Other Forward-looking Information

The consolidated business results forecast for the full year ending March 31, 2019 is unchanged from the forecast announced on May 14, 2018.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31,2018	As of June 30,2018
Assets		
Current assets		
Cash and deposits	16,904	21,986
Notes and accounts receivable - trade	8,162	9,213
Securities	18	18
Merchandise and finished goods	8,766	8,844
Work in process	703	644
Raw materials and supplies	1,943	2,091
Other	1,695	1,907
Allowance for doubtful accounts	(76)	(78)
Total current assets	38,117	44,628
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,907	18,944
Accumulated depreciation	(9,631)	(9,775)
Buildings and structures, net	9,276	9,168
Machinery, equipment and vehicles	18,163	18,349
Accumulated depreciation	(12,531)	(12,792)
Machinery, equipment and vehicles, net	5,632	5,557
Tools, furniture and fixtures	6,736	6,821
Accumulated depreciation	(5,389)	(5,514)
Tools, furniture and fixtures, net	1,346	1,306
Land	5,212	5,210
Leased assets	995	909
Accumulated depreciation	(767)	(712)
Leased assets, net	228	197
Construction in progress	871	1,155
Total property, plant and equipment	22,567	22,595
Intangible assets		
Goodwill	3,708	3,445
Patent right	1,464	1,402
Other	2,274	2,221
Total intangible assets	7,447	7,070
Investments and other assets		
Investment securities	645	659
Long-term loans receivable	71	71
Deferred tax assets	964	670
Other	1,906	1,899
Allowance for doubtful accounts	(14)	(14)
Total investments and other assets	3,573	3,286
Total non-current assets	33,588	32,952
Total assets	71,706	77,581

(Million yen)

	As of March 31,2018	As of June 30,2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,251	4,810
Short-term loans payable	503	453
Current portion of bonds	2,636	2,795
Current portion of long-term loans payable	2,372	2,373
Lease obligations	82	58
Accounts payable - other	3,323	2,380
Income taxes payable	1,235	297
Provision for bonuses	1,319	674
Provision for point card certificates	96	102
Other	2,903	3,583
Total current liabilities	18,725	17,528
Non-current liabilities		
Bonds payable	5,312	4,830
Convertible bond-type bonds with share acquisition rights	-	8,000
Long-term loans payable	5,158	4,903
Lease obligations	120	112
Long-term accounts payable - other	1,561	1,585
Net defined benefit liability	314	308
Deferred tax liabilities	124	136
Asset retirement obligations	98	98
Other	169	140
Total non-current liabilities	12,859	20,116
Total liabilities	31,584	37,645
Net assets		
Shareholders' equity		
Capital stock	3,379	3,379
Capital surplus	2,553	2,553
Retained earnings	37,037	36,920
Treasury shares	(2,502)	(2,493)
Total shareholders' equity	40,467	40,360
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	124	131
Deferred gains or losses on hedges	-	0
Foreign currency translation adjustment	(543)	(627)
Total accumulated other comprehensive income	(418)	(496)
Share acquisition rights	33	30
Non-controlling interests	39	40
Total net assets	40,121	39,935
Total liabilities and net assets	71,706	77,581

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
 Quarterly Consolidated Statements of Income (For the three months)

(Million yen)

	For the three months ended June 30,2017	For the three months ended June 30,2018
Net sales	18,637	19,643
Cost of sales	8,598	9,227
Gross profit	10,038	10,416
Selling, general and administrative expenses	8,722	9,143
Operating profit	1,316	1,272
Non-operating income		
Interest income	0	1
Dividend income	3	4
Foreign exchange gains	88	-
Subsidy income	21	44
Other	120	70
Total non-operating income	235	120
Non-operating expenses		
Interest expenses	52	47
Share of loss of entities accounted for using equity method	1	1
Foreign exchange losses	-	58
Loss on valuation of derivatives	19	-
Other	17	38
Total non-operating expenses	89	145
Ordinary profit	1,462	1,247
Extraordinary income		
Gain on sales of non-current assets	-	0
Subsidy income	100	67
Total extraordinary income	100	67
Extraordinary losses		
Loss on sales of non-current assets	1	-
Loss on retirement of non-current assets	11	4
Total extraordinary losses	12	4
Profit before income taxes	1,549	1,310
Income taxes - current	277	246
Income taxes - deferred	224	297
Total income taxes	502	543
Profit	1,046	767
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	1,045	766

Quarterly Consolidated Statements of Comprehensive Income (For the three months)

(Million yen)

	For the three months ended June 30,2017	For the three months ended June 30,2018
Profit	1,046	767
Other comprehensive income		
Valuation difference on available-for-sale securities	14	7
Deferred gains or losses on hedges	-	0
Foreign currency translation adjustment	287	(83)
Share of other comprehensive income of entities accounted for using equity method	(0)	(0)
Total other comprehensive income	300	(77)
Comprehensive income	1,347	690
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,346	689
Comprehensive income attributable to non-controlling interests	0	1

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes on significant changes in amount of shareholders' equity)

Not applicable.

(Additional information)

The Company has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28 on February 16, 2018), etc. from the beginning of the first quarter of the fiscal year under review. As a result, deferred tax assets are presented in investments and other assets, and deferred tax liabilities are presented in non-current liabilities.

(Segment information)

For the three months ended June 30, 2017

1. Information on net sales and profit (loss) by reportable segment

(Millions of yen)

	Reportable segment		Other (Note)	Total
	Contact Lens-related Business	Subtotal		
Net sales				
Net sales to external customers	18,303	18,303	333	18,637
Inter-segment net sales or transfers	2	2	—	2
Total	18,306	18,306	333	18,640
Segment profit (loss)	2,447	2,447	(83)	2,364

(Note) “Other” is a business segment not included in the reportable segment and includes new businesses.

2. Differences between the total amount of profit or loss of the reportable segment and the amount stated in the consolidated statement of income, and major breakdown of such differences (Reconciliation)

(Millions of yen)

Profit	Amount
Reportable segment total	2,447
Profit of “Other”	(83)
Corporate expenses (Note)	(1,047)
Operating profit stated in the consolidated statement of income	1,316

(Note) Corporate expenses are mainly general and administrative expenses not attributable to the reportable segment.

3. Information on impairment loss of non-current assets, goodwill, etc. for the reportable segment

(Significant impairment loss on non-current assets)

Not applicable.

(Significant change in amount of goodwill)

Not applicable.

(Significant gain on bargain purchase)

Not applicable.

For the three months ended June 30, 2018

1. Information on net sales and profit (loss) by reportable segment

(Millions of yen)

	Reportable segment		Other (Note)	Total
	Contact Lens-related Business	Subtotal		
Net sales				
Net sales to external customers	19,304	19,304	339	19,643
Inter-segment net sales or transfers	0	0	0	1
Total	19,305	19,305	339	19,644
Segment profit (loss)	2,416	2,416	(81)	2,335

(Note) "Other" is a business segment not included in the reportable segment and includes new businesses.

2. Differences between the total amount of profit or loss of the reportable segment and the amount stated in the consolidated statement of income, and major breakdown of such differences (Reconciliation)

(Millions of yen)

Profit	Amount
Reportable segment total	2,416
Profit of "Other"	(81)
Corporate expenses (Note)	(1,062)
Operating profit stated in the consolidated statement of income	1,272

(Note) Corporate expenses are mainly general and administrative expenses not attributable to the reportable segment.

3. Information on impairment loss of non-current assets, goodwill, etc. for the reportable segment

(Significant impairment loss on non-current assets)

Not applicable.

(Significant change in amount of goodwill)

Not applicable.

(Significant gain on bargain purchase)

Not applicable.