

Note: This document is a translation of a part of the original Japanese version and provided for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.



Consolidated Financial Results for the Nine Months Ended December 31, 2018 [Japanese GAAP]

February 14, 2019

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

URL: <http://www.menicon.co.jp>

Representative: Hidenari Tanaka

Contact: Akinori Ohta

Phone: +81-52-935-1515

Scheduled date of filing quarterly securities report: February 14, 2019

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 Nine Months Ended December 31, 2018 (April 01, 2018 to December 31, 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	%
Nine months ended December 31, 2018	60,265	5.2	4,472	4.5	4,418	(1.7)	2,833	(5.8)
December 31, 2017	57,271	7.5	4,278	25.2	4,496	38.0	3,007	47.9

(Note) Comprehensive income: Nine months ended December 31, 2018: ¥ 2,636 million [(29.2)%]
Nine months ended December 31, 2017: ¥ 3,725 million [90.4%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2018	80.51	74.70
December 31, 2017	85.70	84.77

(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	%
December 31, 2018	78,646	41,902	53.2
March 31, 2018	71,706	40,121	55.9

(Reference) Equity: As of December 31, 2018: ¥ 41,821 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	-	0.00	-		
Fiscal year ending March 31, 2019 (Forecast)				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	91.83

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

* Notes:

(1) Changes in significant subsidiaries during the nine months ended December 31, 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):

December 31, 2018: 36,804,000 shares

March 31, 2018: 36,804,000 shares

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

December 31, 2018: 1,605,484 shares

March 31, 2018: 1,631,006 shares

3) Average number of shares during the period:

Nine months ended December 31, 2018: 35,189,011 shares

Nine months ended December 31, 2017: 35,099,533 shares

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

* **This summary of financial results is exempt from audit procedures.**

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

- Forecasts regarding future performance presented in this material include the outlook for the future, assumptions on which the plan is based, and projections as of the date of announcement of this material. Actual results may differ from the forecasts presented in this material due to various factors.
- For matters concerning the forecast of business results, please refer to "1. Qualitative Information on Quarterly Financial Results for the Period under Review (3) Explanation of Consolidated Business Results Forecast and Other Forward-looking Information" on Page 4 of the appendix.

CONTENTS

1. Qualitative Information on Quarterly Financial Results for the Period under Review	2
(1) Explanation of Business Results	2
(2) Explanation of Financial Position	4
(3) Explanation of Consolidated Business Results Forecast and Other Forward-looking Information.....	4
2. Quarterly Consolidated Financial Statements and Notes.....	5
(1) Quarterly Consolidated Balance Sheets	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	7
(3) Notes to Quarterly Consolidated Financial Statements.....	9
(Notes on going concern assumption)	9
(Notes on significant changes in amount of shareholders' equity)	9
(Additional information)	9
(Segment information).....	10

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

(1) Explanation of Business Results

(1) Status of performance

Regarding the world economy during the nine months ended December 31, 2018, whereas consumer spending is expanding due to continued favorable employment and income environments in the U.S., there remained uncertainty over the future owing to the impact of global trade friction resulting from tariff policies in the U.S. Regarding the domestic economy, a gradual recovery trend is continuing, as partly exemplified by high levels of consumer spending and corporate capital investment, despite concern over the impacts of natural disasters.

In the domestic contact lens market, disposable contact lenses and color contact lenses are the driving forces of the market, and among these, the sales and market share 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 expand product line-ups and increase membership in the Menicon Eye Life Support (MELS) Plan, which contributes to eye safety of contact lens users and stable earnings of the Company. Regarding product strategy, we started sales of “Four Seasons,” a product in the new three-month replacement lens category, in November at MELS membership facilities nationwide. In addition to being a product made by putting molding process with new materials into practical use, this lens features colors that characterize the four seasons, allowing customers to choose contact lenses with appreciation for the seasons. In addition to the above, we started sales of the “2WEEK Menicon PremiO Multifocal Toric,” a silicone hydrogel contact lens for astigmatism and presbyopia, in December at our “Miru partner” retail shops and the Group’s retail shops. We will also successively begin retail sales of the lens at MELS membership facilities nationwide. The lens is the first product in Japan featuring both astigmatism and multifocal functions while having high oxygen permeability.

For existing products, we started the construction on floor area expansion at the Kakamigahara Factory in December with the aim of further expanding sales of “1DAY Menicon PremiO.” The construction is scheduled to be completed in spring 2020, with the future goal of producing more than 500 million lenses annually.

As a promotional measure, we aimed to appeal to young people who are first time users of contact lenses. Specifically, we appointed Minami Hamabe, an actress, as the brand ambassador for “Four Seasons” that launched in November, and stepped up efforts to capture new customers in the junior high school and high school age group. As a sales promotion in retail shops, we ran the winter MELS Plan 1day admission campaign, and strove to promote “SMART TOUCH,” our proprietary technology that allows users to wear lenses without touching the inner surface of the lens, and further capture users of daily disposable contact lenses.

[Overseas Contact Lens Business]

We focused our efforts on promoting “Miru,” our own-brand disposable contact lenses for the overseas market. Regarding “Miru 1 day UpSide,” a silicone hydrogel contact lens sold as “1DAY Menicon PremiO” in Japan, we expanded sales regions in Europe. In addition, regarding “Miru 1 month Menicon,” a monthly replacement contact lens, we are strengthening sales promotions in the U.S. with diverse product line-ups including lenses for myopia/hyperopia and astigmatism, and presbyopia. We will continue efforts to expand sales of the “Miru” series and to boost brand recognition. In China, sales of orthokeratology lenses and lens care products for hard contact lenses including orthokeratology lenses continued to be buoyant. In Myanmar, we obtained sales approval for hard contact lenses. Moving forward, we will promote sales channel expansion for our products through local sales agencies. In Europe, centered on Germany where a new logistics center was completed, we will strive to expand sales channels of disposable contact lenses by strengthening logistics functions.

[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 nine months ended December 31, 2018 were as follows. Net sales increased by 5.2% year on year to ¥60,265 million and gross profit rose by 3.7% year on year to ¥32,108 million, reflecting an increase in sales of contact lenses and a steady increase in MELS Plan membership. As a result of efforts to enhance the efficiency of selling, general and administrative expenses as well, operating profit increased by 4.5% to ¥4,472 million. Meanwhile, ordinary profit declined by 1.7% to ¥4,418 million because of foreign exchange fluctuations. Profit attributable to owners of parent was ¥2,833 million, a decrease of 5.8%.

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 contact lens-related business were ¥59,163 million, an increase of 5.3% year on year, and segment profit was ¥7,477 million, an increase of 1.3% year on year. Details are described below.

Among sales of the contact lens-related business increased by ¥2,956 million from the same period of the previous year, ¥1,721 million is by MELS Plan. This is due to an increase in MELS Plan membership centering on “Four Seasons,” a new product, in addition to “1DAY Menicon PremiO” and “Magic.”

The year-on-year slight increase in segment profit was attributable to allocation of sales expansion expenses in anticipation of an increase in sales of daily disposable contact lenses in the domestic contact lens business as well as allocation of personnel expenses and sales expansion expenses in preparation for future sales expansion in the overseas contact lens business. Specifically, such investments comprised: expenses on MELS Plan direct mails aimed at increasing the membership of daily disposable contact lenses and expenses on campaigns to promote “SMART TOUCH” and the “Miru” brand in Japan; and expenses on personnel increase following the completion of the logistics center in Europe, aimed at expansion of disposable contact lens sales channels and on shipments of initial trial products to major sales agencies in Europe and North America.

2) Other

Sales of other businesses were ¥1,102 million for the nine months ended December 31, 2018, an increase of 3.0% year on year, reflecting an increase in sales of the Veterinary Medical Business conducted by Group company Meni-one Co., Ltd. The segment loss was ¥254 million, compared with a segment loss of ¥221 million for the same period of the previous year.

(2) Explanation of Financial Position

(Assets)

Total assets at the end of the third quarter of the fiscal year under review were ¥78,646 million, having increased by ¥6,940 million from the end of the previous fiscal year. Current assets increased by ¥5,113 million to ¥43,231 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 increased by ¥1,826 million to ¥35,415 million due to an increase in construction in progress associated with the expansion of floor area and the increase of daily disposable contact lens production lines at the Kakamigahara Factory.

(Liabilities and net assets)

Liabilities increased by ¥5,160 million from the end of the previous fiscal year to ¥36,744 million at the end of the third quarter of the fiscal year under review as a result of an increase in convertible bond-type bonds with share acquisition rights. Net assets increased by ¥1,780 million from the end of the previous fiscal year to ¥41,902 million mainly due to an increase in retained earnings resulting from the recording of profit attributable to owners of parent.

As a result, capital adequacy ratio was 53.2%.

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

Regarding business results for the nine months ended December 31, 2018, sales remained robust as planned. Profit attributable to owners of parent decreased year on year, but for the fourth quarter of fiscal year under review from January to March we project an increase year on year, expecting profits to increase for the full year. From the above, the consolidated business results forecast for the full year ending March 31, 2019 is unchanged from the forecast announced on May 14, 2018.

Forecasts regarding future performance in this material are based on information currently available to the Company. Actual results may differ from the forecasts due to various factors.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31,2018	As of December 31,2018
Assets		
Current assets		
Cash and deposits	16,904	21,382
Notes and accounts receivable - trade	8,162	8,400
Securities	18	-
Merchandise and finished goods	8,766	8,928
Work in process	703	797
Raw materials and supplies	1,943	1,962
Other	1,695	1,842
Allowance for doubtful accounts	(76)	(82)
Total current assets	38,117	43,231
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,907	19,123
Accumulated depreciation	(9,631)	(10,102)
Buildings and structures, net	9,276	9,021
Machinery, equipment and vehicles	18,163	19,308
Accumulated depreciation	(12,531)	(13,283)
Machinery, equipment and vehicles, net	5,632	6,025
Tools, furniture and fixtures	6,736	7,044
Accumulated depreciation	(5,389)	(5,717)
Tools, furniture and fixtures, net	1,346	1,326
Land	5,212	5,209
Leased assets	995	909
Accumulated depreciation	(767)	(734)
Leased assets, net	228	175
Construction in progress	871	3,543
Total property, plant and equipment	22,567	25,301
Intangible assets		
Goodwill	3,708	2,953
Patent right	1,464	1,280
Other	2,274	2,178
Total intangible assets	7,447	6,411
Investments and other assets		
Investment securities	645	971
Long-term loans receivable	71	61
Deferred tax assets	964	734
Other	1,906	1,948
Allowance for doubtful accounts	(14)	(12)
Total investments and other assets	3,573	3,702
Total non-current assets	33,588	35,415
Total assets	71,706	78,646

(Million yen)

	As of March 31,2018	As of December 31,2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,251	4,492
Short-term loans payable	503	161
Current portion of bonds	2,636	1,985
Current portion of long-term loans payable	2,372	2,075
Lease obligations	82	49
Accounts payable - other	3,323	2,541
Income taxes payable	1,235	674
Provision for bonuses	1,319	717
Provision for point card certificates	96	107
Other	2,903	5,845
Total current liabilities	18,725	18,649
Non-current liabilities		
Bonds payable	5,312	3,847
Convertible bond-type bonds with share acquisition rights	-	8,000
Long-term loans payable	5,158	3,904
Lease obligations	120	97
Long-term accounts payable - other	1,561	1,560
Net defined benefit liability	314	324
Deferred tax liabilities	124	101
Asset retirement obligations	98	102
Other	169	155
Total non-current liabilities	12,859	18,095
Total liabilities	31,584	36,744
Net assets		
Shareholders' equity		
Capital stock	3,379	3,379
Capital surplus	2,553	2,553
Retained earnings	37,037	38,970
Treasury shares	(2,502)	(2,463)
Total shareholders' equity	40,467	42,439
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	124	62
Foreign currency translation adjustment	(543)	(679)
Total accumulated other comprehensive income	(418)	(617)
Share acquisition rights	33	38
Non-controlling interests	39	41
Total net assets	40,121	41,902
Total liabilities and net assets	71,706	78,646

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

(Million yen)

	For the nine months ended December 31,2017	For the nine months ended December 31,2018
Net sales	57,271	60,265
Cost of sales	26,299	28,156
Gross profit	30,972	32,108
Selling, general and administrative expenses	26,693	27,635
Operating profit	4,278	4,472
Non-operating income		
Interest income	7	5
Dividend income	8	10
Foreign exchange gains	106	-
Subsidy income	20	44
Other	283	170
Total non-operating income	426	230
Non-operating expenses		
Interest expenses	152	135
Share of loss of entities accounted for using equity method	2	1
Foreign exchange losses	-	75
Other	53	71
Total non-operating expenses	208	284
Ordinary profit	4,496	4,418
Extraordinary income		
Gain on sales of non-current assets	6	1
Subsidy income	105	86
Gain on transfer of business	-	48
Other	-	2
Total extraordinary income	112	138
Extraordinary losses		
Loss on sales of non-current assets	27	-
Loss on retirement of non-current assets	24	41
Other	0	2
Total extraordinary losses	52	44
Profit before income taxes	4,556	4,512
Income taxes - current	1,486	1,446
Income taxes - deferred	59	231
Total income taxes	1,545	1,677
Profit	3,010	2,835
Profit attributable to non-controlling interests	2	2
Profit attributable to owners of parent	3,007	2,833

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

(Million yen)

	For the nine months ended December 31,2017	For the nine months ended December 31,2018
Profit	3,010	2,835
Other comprehensive income		
Valuation difference on available-for-sale securities	136	(62)
Foreign currency translation adjustment	577	(134)
Share of other comprehensive income of entities accounted for using equity method	0	(1)
Total other comprehensive income	714	(198)
Comprehensive income	3,725	2,636
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,721	2,634
Comprehensive income attributable to non-controlling interests	3	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)

[Segment Information]

For the nine months ended December 31, 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	56,201	56,201	1,069	57,271
Inter-segment net sales or transfers	5	5	—	5
Total	56,207	56,207	1,069	57,277
Segment profit (loss)	7,379	7,379	△221	7,158

(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	7,379
Profit of “Other”	△221
Corporate expenses (Note)	△2,879
Operating profit stated in the consolidated statement of income	4,278

(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 nine months ended December 31, 2018

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

(Millions of yen)

	Reportable segment		Other (Note)	Total Contact Lens- related Business
	Contact Lens-related Business	Subtotal		
Net sales				
Net sales to external customers	59,163	59,163	1,101	60,265
Inter-segment net sales or transfers	—	—	0	0
Total	59,163	59,163	1,102	60,265
Segment profit (loss)	7,477	7,477	△254	7,223

(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	7,477
Profit of “Other”	△254
Corporate expenses (Note)	△2,750
Operating profit stated in the consolidated statement of income	4,472

(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.