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Consolidated Financial Results for the Six Months Ended September 30, 2020 [Japanese GAAP]

November 10, 2020

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 Stock exchange listing: Tokyo, Nagoya
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 Scheduled date of filing quarterly securities report: November 10, 2020
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: Yes
 Schedule of quarterly financial results briefing session: Yes

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2020 (April 01, 2020 to September 30, 2020)

(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	%
Six months ended September 30, 2020	41,521	(3.0)	4,497	(1.3)	4,738	3.8	3,196	6.8
September 30, 2019	42,824	6.8	4,558	56.0	4,564	57.5	2,992	65.3

(Note) Comprehensive income: Six months ended September 30, 2020: ¥ 3,506 million [34.6%]
 Six months ended September 30, 2019: ¥ 2,604 million [34.2%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2020	84.70	84.07
September 30, 2019	84.47	78.82

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Million yen	Million yen	%
September 30, 2020	94,613	55,999	59.0
March 31, 2020	87,286	53,520	61.2

(Reference) Equity: As of September 30, 2020: ¥ 55,803 million
 As of March 31, 2020: ¥ 53,378 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, 2020	-	0.00	-	28.00	28.00
Fiscal year ending March 31, 2021	-	0.00			
Fiscal year ending March 31, 2021 (Forecast)			-	28.00	28.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2021(April 01, 2020 to March 31, 2021)

(% 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	84,839	0.4	6,838	(2.8)	6,821	4.1	4,256	4.8	112.76

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

* Notes:

(1) Changes in significant subsidiaries during the six months ended September 30, 2020
(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):

September 30, 2020: 38,033,444 shares

March 31, 2020: 38,015,944 shares

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

September 30, 2020: 287,836 shares

March 31, 2020: 287,836 shares

3) Average number of shares during the period:

Six months ended September 30, 2020: 37,737,927 shares

Six months ended September 30, 2019: 35,424,354 shares

* **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 5 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 six months ended September 30, 2020, the slowdown due to the COVID-19 outbreak continued. Despite some signs of recovery owing to the economic policies implemented by each country, harsh conditions persisted due to the new waves of infections in developed countries, and the rapid spread of COVID-19 in emerging countries. Regarding the domestic economy, there are visible signs of a gradual recovery, owing to national economic policies such as the Special Cash Payments and the Go To Travel Campaign, despite concerns over a decline in personal consumption and worsening employment situation due to a new wave of infections.

In the midst of such a business environment, the Group continued to engage in business activities under the policy of working scrupulously to prevent the spread of infection.

Performances in each business units are as follows.

[Domestic Contact Lens Business]

The Group pushed forward with efforts to create a shop environment that allows customers to feel safe when they visit. Specifically, acrylic boards were installed at customer service counters, foot pedal-operated alcohol sprayers were introduced, and videos about our infection prevention measures were posted on the websites of Miru, the Group retail shops.

Due to the impact of the COVID-19 outbreak, there was a delay in the visits of first-time contact lens users in the spring demand season. Nonetheless, in line with the recovery of economic activities, the number of retail shop visitors are reverting to a higher level. User values are changing to be more concerned about "cleanliness" than ever before. In response to this change, we worked on increasing sales of 1DAY contact lenses, particularly focusing on SMART TOUCH lenses, which allow users to put on contact lenses hygienically and easily without touching the inner surface of lenses. In addition, we launched the "1DAY Debut Support Campaign" in the MELS Plan for the purpose of using contact lenses safely and securely for users who put on contact lenses for the first time.

Furthermore, in order to enter the circle lenses market and meet demand from young users, we released "1DAY FRUTTIE," daily disposable circle lenses. We will continue to expand circle lenses while raising consumer safety awareness based on the concept of our Safety philosophy Charter.

[Overseas Contact Lens Business]

Overseas sales activities were also affected by the global trend of refraining from going out and shop closures aimed at controlling the COVID-19 outbreak. Nonetheless, we continued to conduct sales activities and launched new products in this environment while taking measures to prevent infections.

In Europe, we strengthened our lineup of the "Miru 1day UpSide" series of daily disposable contact lenses that use silicone hydrogel with high oxygen permeability, and it has been well-received by the market.

In China, the impact of the COVID-19 outbreak had subsided, and sales including that of orthokeratology lenses were robust. In addition, as the color contact lenses market account for 50% of the Chinese disposable contact lenses market, we prepared for the release of "1DAY FRUTTIE," which are daily disposable circle lenses (color contact lenses), in order to achieve an even greater level of sales.

[Other Businesses]

The Veterinary Medical Business conducted by Meni-one Co., Ltd. launched "Clear View 2," a veterinary-use fundus camera. When veterinarians use "Clear View 2," in conjunction with "Fundus AI," a dog ophthalmic examination support service by AI for veterinarians that has already been launched, it enables the early detection and treatment of eye diseases in dogs.

In these circumstances, the Group's consolidated business results for the six months ended September 30, 2020 are as follows. While net sales recovered gradually in line with the restarting of sales activities, net sales decreased by 3.0% year on year to ¥41,521 million, gross profit decreased by 4.9% year on year to ¥22,116 million due to the increase in demand before the consumption tax hike in the same quarter of the previous year. Operating profit decreased by 1.3% year on year to ¥4,497 million. Ordinary profit increased by 3.8% year on year to ¥4,738 million, primarily due to COVID-19-related subsidy income recorded at overseas subsidiaries. Profit attributable to owners of parent was ¥3,196 million, an increase of 6.8% year on year.

Business results by segment are as follows.

1) Contact Lens-related Business

Sales of the contact lens-related business were ¥40,757 million, a decrease of 2.9% year on year. Segment profit was ¥6,843 million, a decrease of 1.9% year on year.

Sales of the contact lens-related Business decreased by ¥1,233 million year on year. This was primarily due to a decrease in net sales of contact lens products of ¥2,360 million year on year, due to the impact of the COVID-19 outbreak, and demand before the consumption tax hike in the same period of the previous year. Meanwhile, MELS Plan memberships increased from the same period of the previous year, and sales also increased by ¥544 million. Regarding the business in China, where the market continues to grow, sales of orthokeratology lenses and contact lens care products remained robust.

2) Other

Sales of the other Businesses were ¥764 million for the six months ended September 30, 2020, a decrease of 8.3% year on year, due to the impact of the COVID-19 outbreak, despite sales of supplements increased by the improvement in the brand recognition of the conception support business in the life science field.

As a result, segment loss was ¥230 million, compared with a segment loss of ¥179 million for the same period of the previous year.

(2) Explanation of Financial Position

(Assets)

Total assets at the end of the second quarter of the fiscal year under review were ¥94,613 million, having increased by ¥7,326 million from the end of the previous fiscal year. Current assets increased by ¥5,361 million to ¥47,083 million mainly owing to an increase in cash and deposits due to the execution of long-term borrowings. Non-current assets increased by ¥1,965 million to ¥47,529 million, primarily due to capital investment for the purpose of increasing production of IDAY contact lenses at the Kakamigahara Factory.

(Liabilities and net assets)

Liabilities increased by ¥4,847 million from the end of the previous fiscal year to ¥38,613 million at the end of the second quarter of the fiscal year under review mainly due to the execution of long-term borrowings and an increase in lease obligations in association with the acquisition of leased assets.

Net assets increased by ¥2,478 million from the end of the previous fiscal year to ¥55,999 million 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 59.0%.

(Status of Cash Flows)

Cash and cash equivalents at the end of the six months ended September 30, 2020 were ¥20,708 million, having increased by ¥3,917 million or 23.3 % from the end of the previous fiscal year.

1) Cash flows from operating activities

Net cash provided by operating activities amounted to ¥3,581 million, compared with net cash by operating activities amounting to ¥1,905 million for the previous fiscal year, mainly due to an increase in profit before income taxes and depreciation.

2) Cash flows from investing activities

Net cash used in investing activities amounted to ¥5,874 million, compared with net cash provided by investing activities amounting to ¥3,208 million in the same period of the previous year, mainly due to an increase in purchase of property, plant and equipment in construction in progress associated with the expansion of floor area and the increase of production lines at the Kakamigahara Factory.

3) Cash flows from financing activities

Net cash provided by financing activities amounted to ¥6,045 million, compared with net cash provided by financing activities amounting to ¥760 million in the same period of the previous year, mainly due to the increase long-term borrowings.

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

Business results for the six months ended September 30, 2020 saw a revenue decrease year on year, due to decreased net sales of products because of the impact of the COVID-19 outbreak, as well as the fact that net sales in the six months ended September 30, 2019 were higher owing to increased demand before the consumption tax hike. Nonetheless, as the number of MELS Plan memberships continues to grow, net sales achieved the same level as the forecast. Although operating profit is growing at a faster speed than expected in the consolidated business results forecast for the full year ending March 31, 2021, in the second half of the year (the third and fourth quarters), expenses are expected to be incurred for the sales expansion of the daily disposable contact lenses category, including new products, and for strengthening sales promotion efforts aimed at increasing the number of MELS Plan memberships. Accordingly, the consolidated business results forecast for the full year ending March 31, 2021, announced on August 11, 2020, has not been revised.

Regarding the forecast of consolidated business results for the fiscal year ending March 31, 2021, the calculations are based on the assumption that social restrictions, including another declaration of a state of emergency, will not be enforced. Actual results may differ from forecasts due to various factors including the timing of the eradication of the COVID-19.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31,2020	As of September 30,2020
Assets		
Current assets		
Cash and deposits	17,327	20,746
Notes and accounts receivable - trade	9,733	9,968
Merchandise and finished goods	9,798	10,913
Work in process	905	1,171
Raw materials and supplies	2,226	2,471
Other	1,878	1,975
Allowance for doubtful accounts	(148)	(164)
Total current assets	41,722	47,083
Non-current assets		
Property, plant and equipment		
Buildings and structures	20,895	21,881
Accumulated depreciation	(10,204)	(10,555)
Buildings and structures, net	10,690	11,326
Machinery, equipment and vehicles	22,447	22,959
Accumulated depreciation	(14,798)	(15,589)
Machinery, equipment and vehicles, net	7,649	7,369
Tools, furniture and fixtures	7,911	8,128
Accumulated depreciation	(6,559)	(6,766)
Tools, furniture and fixtures, net	1,352	1,362
Land	4,926	4,954
Leased assets	849	1,446
Accumulated depreciation	(726)	(197)
Leased assets, net	122	1,248
Right of use assets	4,782	5,366
Accumulated depreciation	(644)	(1,008)
Right of use assets, net	4,137	4,358
Construction in progress	5,793	6,437
Total property, plant and equipment	34,672	37,057
Intangible assets		
Goodwill	2,437	2,096
Patent right	975	852
Other	3,651	3,665
Total intangible assets	7,064	6,614
Investments and other assets		
Investment securities	505	523
Long-term loans receivable	48	47
Deferred tax assets	1,254	1,221
Other	2,033	2,075
Allowance for doubtful accounts	(15)	(10)
Total investments and other assets	3,826	3,857
Total non-current assets	45,564	47,529
Total assets	87,286	94,613

(Million yen)

	As of March 31,2020	As of September 30,2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,373	4,119
Short-term borrowings	77	86
Current portion of bonds payable	1,465	1,348
Current portion of long-term borrowings	1,798	1,455
Lease obligations	720	905
Accounts payable - other	4,583	4,139
Income taxes payable	1,398	1,646
Provision for bonuses	1,598	1,452
Provision for point card certificates	67	32
Other	5,669	3,531
Total current liabilities	21,751	18,718
Non-current liabilities		
Bonds payable	4,082	3,466
Long-term borrowings	1,692	9,108
Lease obligations	3,594	4,764
Long-term accounts payable - other	1,485	1,419
Retirement benefit liability	622	607
Deferred tax liabilities	339	326
Asset retirement obligations	105	107
Other	93	94
Total non-current liabilities	12,014	19,894
Total liabilities	33,765	38,613
Net assets		
Shareholders' equity		
Share capital	5,396	5,402
Deposits for subscriptions of shares	1	-
Capital surplus	6,658	6,627
Retained earnings	42,764	44,904
Treasury shares	(441)	(441)
Total shareholders' equity	54,378	56,492
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	20	55
Foreign currency translation adjustment	(1,020)	(745)
Total accumulated other comprehensive income	(999)	(689)
Share acquisition rights	88	150
Non-controlling interests	53	46
Total net assets	53,520	55,999
Total liabilities and net assets	87,286	94,613

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

(Million yen)

	For the six months ended September 30,2019	For the six months ended September 30,2020
Net sales	42,824	41,521
Cost of sales	19,560	19,405
Gross profit	23,264	22,116
Selling, general and administrative expenses	18,705	17,619
Operating profit	4,558	4,497
Non-operating income		
Interest income	2	2
Dividend income	5	6
Foreign exchange gains	-	9
Subsidy income	41	285
Other	147	105
Total non-operating income	197	408
Non-operating expenses		
Interest expenses	82	109
Share of loss of entities accounted for using equity method	40	17
Foreign exchange losses	45	-
Other	22	39
Total non-operating expenses	191	167
Ordinary profit	4,564	4,738
Extraordinary income		
Gain on sales of non-current assets	0	0
Subsidy income	15	10
Other	-	0
Total extraordinary income	16	10
Extraordinary losses		
Loss on retirement of non-current assets	9	26
Loss on subsidy repayment	-	30
Other	0	5
Total extraordinary losses	9	61
Profit before income taxes	4,570	4,686
Income taxes - current	1,545	1,480
Income taxes - deferred	31	9
Total income taxes	1,576	1,490
Profit	2,994	3,196
Profit attributable to non-controlling interests	1	0
Profit attributable to owners of parent	2,992	3,196

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

(Million yen)

	For the six months ended September 30,2019	For the six months ended September 30,2020
Profit	2,994	3,196
Other comprehensive income		
Valuation difference on available-for-sale securities	(10)	35
Foreign currency translation adjustment	(352)	268
Share of other comprehensive income of entities accounted for using equity method	(27)	6
Total other comprehensive income	(389)	310
Comprehensive income	2,604	3,506
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,602	3,506
Comprehensive income attributable to non-controlling interests	1	0

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30,2019	For the six months ended September 30,2020
Cash flows from operating activities		
Profit before income taxes	4,570	4,686
Depreciation	2,048	2,432
Amortization of goodwill	460	352
Subsidy income	(15)	(10)
Interest and dividend income	(8)	(8)
Interest expenses	82	109
Foreign exchange losses (gains)	15	(39)
Decrease (increase) in trade receivables	(358)	(220)
Decrease (increase) in inventories	(318)	(1,583)
Increase (decrease) in trade payables	(662)	(257)
Increase (decrease) in accounts payable - other	(254)	(620)
Increase (decrease) in provision for bonuses	(66)	(148)
Other, net	(2,171)	162
Subtotal	3,320	4,854
Interest and dividends received	7	7
Interest paid	(50)	(63)
Income taxes paid	(1,388)	(1,227)
Subsidies received	15	10
Net cash provided by (used in) operating activities	1,905	3,581
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	19	500
Purchase of investment securities	(0)	(0)
Purchase of intangible assets	(338)	(549)
Purchase of property, plant and equipment	(2,865)	(5,751)
Proceeds from sales of property, plant and equipment	0	0
Other, net	(24)	(74)
Net cash provided by (used in) investing activities	(3,208)	(5,874)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	3,998	9
Proceeds from long-term borrowings	-	8,000
Repayments of long-term borrowings	(1,021)	(926)
Redemption of bonds	(982)	(732)
Proceeds from sale and leaseback transactions	-	1,206
Repayments of lease obligations	(276)	(467)
Dividends paid	(985)	(1,053)
Other, net	28	8
Net cash provided by (used in) financing activities	760	6,045
Effect of exchange rate change on cash and cash equivalents	(150)	165
Net increase (decrease) in cash and cash equivalents	(692)	3,917
Cash and cash equivalents at beginning of period	19,286	16,791
Cash and cash equivalents at end of period	18,593	20,708

(4) 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 forecast of consolidated business results for the fiscal year ending March 31, 2021 is calculated based on the assumption that social restrictions, including the declaration of another state of emergency due to the spread of infections, will not be enforced, and is disclosed as of August 11, 2020. There are no significant changes to assumptions, including about the future spread of COVID-19 and the timing of its containment, as described in (Additional information) in the Annual Securities Report for the previous consolidated fiscal year.

(Segment information)

[Segment Information]

For the six months ended September 30, 2019

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

(Million yen)

	Reportable segment		Other (Note)	Total
	Contact Lens-related Business	Subtotal		
Net sales				
Net sales to external customers	41,990	41,990	833	42,824
Inter-segment net sales or transfers	—	—	—	—
Total	41,990	41,990	833	42,824
Segment profit (loss)	6,979	6,979	(179)	6,799

(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)

(Million yen)

Profit	Amount
Reportable segment total	6,979
Profit of “Other”	(179)
Corporate expenses (Note)	(2,241)
Operating profit stated in the consolidated statement of income	4,558

(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 six months ended September 30, 2020

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

(Million yen)

	Reportable segment		Other (Note)	Total Contact Lens- related Business
	Contact Lens-related Business	Subtotal		
Net sales				
Net sales to external customers	40,757	40,757	764	41,521
Inter-segment net sales or transfers	—	—	—	—
Total	40,757	40,757	764	41,521
Segment profit (loss)	6,843	6,843	(230)	6,612

(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)

(Million yen)

Profit	Amount
Reportable segment total	6,843
Profit of “Other”	(230)
Corporate expenses (Note)	(2,115)
Operating profit stated in the consolidated statement of income	4,497

(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.