

Consolidated Financial Results for the First Quarter of FY2019 [J-GAAP]

August 7, 2018

Listed company name: **Nippon Flour Mills Co., Ltd.**
 Listing: The 1st section of Tokyo Stock Exchange
 Code number: 2001 URL: <https://www.nippon.co.jp/> TEL: 03-3511-5307
 Representative: Masayuki Kondo, President and Chief Operating Officer
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 Filing date of quarterly financial report: August 10, 2018
 Start of cash dividend payments: —
 Supplementary quarterly materials prepared: None
 Quarterly results information meeting held: None

*Amounts less than one million yen have been rounded down.

1. Consolidated financial results for the first quarter of FY2019 (From April 1, 2018 to June 30, 2018)

(1) Consolidated operating results (cumulative)

(Millions of yen, percentage figures show the rate of change from the same period in the previous year.)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
1Q of FY2019	83,387	3.9%	2,527	24.7%	3,348	17.8%	2,295	29.2%
1Q of FY2018	80,274	2.3%	2,027	(28.1)%	2,841	(19.6)%	1,777	(34.4)%

(Note) Comprehensive income: 1Q of FY2019: ¥2,966 million (-39.3%)
 1Q of FY2018: ¥4,887 million (+273.6%)

	Profit per Share (Yen)	Fully Diluted Profit per Share (Yen)
1Q of FY2019	28.80	27.48
1Q of FY2018	22.15	22.12

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
1Q of FY2019	285,784	155,724	52.8%
FY2018	272,166	156,905	56.0%

(Reference) Equity capital: 1Q of FY2019: ¥150,928 million
 FY2018: ¥152,307 million

* Effective from the beginning of the first quarter of the fiscal year ending March 31, 2019 (FY2019), the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (ASBJ Statement No. 28, February 16, 2018) and other standards, and for total assets and the equity ratio for the previous fiscal year (FY2018), figures after retrospective application of these accounting standards are presented.

2. Dividends

	Dividends per Share (Yen)				
	1Q-end	2Q-end	3Q-end	Year-end	Full Year
FY2018	—	15.00	—	15.00	30.00
FY2019	—				
FY2019 (Forecast)		15.00	—	15.00	30.00

(Note) Adjustment for the most recent forecast of the dividends in the current term: None

3. Forecast of the consolidated financial results for FY2019 (From April 1, 2018 to March 31, 2019)

(Millions of yen, percentage figures show the rates of changes from the same period of the previous year.)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Profit per Share (Yen)
Half year	175,000	8.9%	5,500	22.2%	6,300	14.9%	4,000	12.6%	49.84
Full year	350,000	8.2%	12,000	19.3%	13,500	13.8%	9,000	17.6%	112.13

(Note) Adjustment for the most recent forecast of the consolidated financial results in the current term: None

* Notes

(1) Significant changes in subsidiaries during the current quarter (changes in specified subsidiaries in accordance with changes in the scope of consolidation): None

(2) Adoption of special accounting methods for preparation of quarterly consolidated financial information: None

(3) Changes in accounting policies, accounting estimates and restatement of revisions

- 1) Changes due to revisions of accounting standards: None
- 2) Changes other than 1): None
- 3) Changes in accounting estimates: None
- 4) Retrospective restatement: None

(4) Number of shares issued and outstanding (common stock)

1) Number of shares outstanding at the end of each period (including treasury shares):	1Q of FY2019	82,524,009 shares	FY2018	82,524,009 shares
2) Number of treasury shares at the end of each period:	1Q of FY2019	3,845,672 shares	FY2018	2,225,475 shares
3) Average number of shares (quarterly consolidated cumulative period):	1Q of FY2019	79,721,362 shares	1Q of FY2018	80,244,287 shares

* These consolidated financial results are outside the scope of quarterly review procedures by certified public accountants or an audit corporation.

* Explanation regarding the appropriate use of projected financial results and other special instructions

Descriptions regarding the future, including the financial outlook contained in this material, are based on certain information currently available to the Company and particular assumptions, which are, at the discretion of the Company, deemed reasonable, and actual financial results may significantly vary due to various factors. Please refer to “1. Qualitative Information on Quarterly Consolidated Financial Results, (3) Information on forecast of the consolidated financial results” on page 3 for information on preconditions underlying the above outlook and other related information.

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1. Qualitative Information on Quarterly Consolidated Financial Results

(1) Overview of business results

During the first three months of the fiscal year ending March 31, 2019, the Japanese economy remained robust, supported by the improved labor market. On the other hand, personal consumption lacked vigor. Overall, the outlook of the Japanese economy remains unclear.

The food industry is operating in an increasingly challenging environment. The market has been sluggish as consumers are becoming more frugal, fierce price competition is continuing, and labor shortages are pushing up costs.

In this business environment, the Group is strengthening the business foundation based on the fundamental measures implemented so far that are focused on cost reduction and sales expansion. As well as improving production efficiency through promotion of automation, the Group is promoting re-establishment of production sites, including construction of new food factories and expansion of the existing production lines at Group companies and acquisition of business sites.

In order to further promote this growth strategy, in June 2018 the Company issued 2025 due euro-yen denominated convertible bond-type bonds with subscription rights to shares, while at the same time, promoting the purchase of treasury shares to enhance shareholder returns and improve capital efficiency.

As a result, consolidated net sales for the first three months of fiscal 2019 increased by 3.9% year on year to ¥83,387 million, operating income increased by 24.7% to ¥2,527 million, ordinary income increased by 17.8% to ¥3,348 million, and profit attributable to owners of parent increased by 29.2% to ¥2,295 million. All business segments recorded higher sales and higher profit.

Results of each business segment are as follows.

1) Flour Milling

The Group is strengthening quality control in response to the growing preoccupation with the safety and security of food throughout society. At the same time, to address customer needs and diversifying food preferences, the Group promoted sales initiatives with a view to resolving the issues that concern customers. Moreover, we conducted vigorous sales & marketing initiatives, including participation in various trade shows and holding of workshops and seminars around Japan, some of which were for management. As a result, both shipped volumes and sales of wheat flour and wheat bran, a by-product, were higher than the levels for the same period of the previous year.

In line with the increase of government sales prices (tax inclusive) of imported wheat by 3.5% on average for the five key products in April 2018, we revised the prices of wheat flour products for professional use for shipments on and after June 20, 2018.

As a result, net sales for the Flour Milling segment increased by 5.1% year on year to ¥25,126 million, and operating income increased by 24.9% to ¥1,397 million.

2) Food

In the professional-use category, the Group engaged in vigorous marketing, including participation in various exhibitions and the holding of Italian cookery workshops. As a result, sales of premixes for professional use increased both in Japan and overseas compared with the same period of the previous year.

In the home-use product category, we vigorously promoted the offering of in-store merchandising proposals and other measures in order to promote sales of our core products. For the REGALO premium pasta brand, we are running a campaign that gives customers a chance to win tickets to a private performance of the Cosmos troupe of Takarazuka Revue. As a result, sales of products in this category increased compared with the same period of the previous year.

In frozen foods, while sales of the mainstay Oh' my Premium series were robust, buoyant sales continued for the Imadoki Gohan series of rice dishes in trays, which are popular among single-person households and double-income households, and the Yokubari Plate series of one-plate dishes consisting of a main dish and staples. As a result, sales of frozen foods exceeded the level for the same period of the previous year.

Sales of ready-made meals business increased compared with the same period of the previous year, reflecting the construction of new factories and expansion of production lines in the previous year. In the current year, construction of a new factory is underway in Chita City, Aichi Prefecture. Consequently, sales of ready-made meals business increased compared with the same period of the previous year.

As a result, net sales of the Food segment increased by 2.2% year on year to ¥48,967 million, and operating income increased by 23.0% to ¥1,091 million.

3) Other

Sales of the engineering business were higher than the level for the same period of the previous year, reflecting an increase in inquiries for large projects.

As a result, net sales for the Other segment increased by 10.1% year on year to ¥9,294 million, and operating income increased by 242.0% to ¥37 million.

(2) Overview of financial position

Total assets at the end of the first three months of fiscal 2019 increased by ¥13,618 million from the previous fiscal year end (March 31, 2018) to ¥285,784 million. This was mainly because cash and deposits and investment securities increased by ¥15,006 million and ¥1,196 million, respectively, and raw materials and supplies decreased by ¥2,251 million.

Total liabilities increased by ¥14,799 million from the previous fiscal year end to ¥130,060 million. This was mainly because convertible bond-type bonds with subscription rights to shares increased by ¥25,123 million, and notes and accounts payable - trade, income taxes payable and long-term loans payable decreased by ¥2,674 million, ¥1,840 million and ¥1,428 million, respectively.

Net assets decreased by ¥1,180 million from the previous fiscal year end to ¥155,724 million. This was mainly attributable to the increases in retained earnings and unrealized holding gain (loss) on securities by ¥1,089 million and ¥770 million, respectively, and purchase of treasury shares amounted to ¥3,098 million.

Effective from the beginning of the first quarter of fiscal 2019, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (ASBJ Statement No. 28, February 16, 2018) and other standards, and the figures at the end of the previous year after retrospective application of these accounting standards were used for comparison.

(3) Information on forecast of the consolidated financial results

The forecast of the financial results for the fiscal year ending March 31, 2019 is unchanged from the forecasts announced on May 10, 2018.

2. Quarterly Consolidated Financial Information**(1) Quarterly consolidated balance sheets**

(Millions of yen)

	FY2018 (As of March 31, 2018)	First quarter of FY2019 (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	23,392	38,398
Notes and accounts receivable - trade	45,303	45,116
Merchandise and finished goods	14,481	14,263
Work in process	165	188
Raw materials and supplies	18,310	16,059
Other current assets	3,663	2,937
Allowance for doubtful accounts	(172)	(164)
Total current assets	105,143	116,799
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	33,569	33,376
Machinery, equipment and vehicles, net	17,636	17,356
Land	37,373	37,500
Construction in progress	2,442	2,625
Other, net	1,846	1,829
Total property, plant and equipment	92,867	92,687
Intangible assets		
Goodwill	769	724
Other	654	641
Total intangible assets	1,424	1,365
Investments and other assets		
Investment securities	66,854	68,051
Other assets	6,499	7,427
Allowance for doubtful accounts	(624)	(631)
Total investments and other assets	72,730	74,847
Total non-current assets	167,022	168,900
Deferred assets	-	84
Total assets	272,166	285,784

(Millions of yen)

	FY2018 (As of March 31, 2018)	First quarter of FY2019 (As of June 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	30,200	27,526
Short-term loans payable	22,528	21,538
Current portion of bonds payable	5,000	–
Income taxes payable	2,466	625
Provision for bonuses	611	542
Other current liabilities	16,867	16,994
Total current liabilities	77,675	67,227
Non-current liabilities		
Bonds payable	5,000	5,000
Convertible bond-type bonds with subscription rights to shares	–	25,123
Long-term loans payable	12,075	11,670
Net defined benefit liability	4,530	4,321
Accrued retirement benefits for directors	808	778
Other non-current liabilities	15,170	15,938
Total non-current liabilities	37,585	62,832
Total liabilities	115,261	130,060
Net assets		
Shareholders' equity		
Common stock	12,240	12,240
Capital surplus	11,415	11,413
Retained earnings	103,522	104,611
Treasury shares	(2,635)	(5,734)
Total shareholders' equity	124,542	122,530
Accumulated other comprehensive income		
Unrealized holding gain (loss) on securities	27,495	28,265
Deferred gain (loss) on hedges	(14)	10
Foreign currency translation adjustment	725	503
Retirement benefits liability adjustments	(440)	(381)
Total accumulated other comprehensive income	27,765	28,397
Subscription rights to shares	211	231
Non-controlling interests	4,385	4,564
Total net assets	156,905	155,724
Total liabilities and net assets	272,166	285,784

(2) Quarterly consolidated statements of income and comprehensive income
(Quarterly consolidated statements of income)

(Millions of yen)

	First quarter of FY2018 (From April 1, 2017 to June 30, 2017)	First quarter of FY2019 (From April 1, 2018 to June 30, 2018)
Net sales	80,274	83,387
Cost of sales	58,703	60,450
Gross profit	21,571	22,936
Selling, general and administrative expenses	19,543	20,409
Operating income	2,027	2,527
Non-operating income		
Interest income	14	15
Dividend income	656	662
Other	273	249
Total non-operating income	944	927
Non-operating expenses		
Interest expenses	64	59
Foreign exchange losses	23	–
Other	42	47
Total non-operating expenses	130	106
Ordinary income	2,841	3,348
Extraordinary income		
Gain on sales of investment securities	–	0
Total extraordinary income	–	0
Extraordinary expenses		
Loss on sales and disposal of fixed assets	21	21
Loss on valuation of investment securities	99	1
Other	53	4
Total extraordinary expenses	174	27
Profit before income taxes	2,667	3,321
Income taxes - current	280	503
Income taxes - deferred	528	486
Total income taxes	809	990
Profit	1,858	2,331
Profit attributable to non-controlling interests	80	35
Profit attributable to owners of parent	1,777	2,295

(Quarterly consolidated statements of comprehensive income)

(Millions of yen)

	First quarter of FY2018 (From April 1, 2017 to June 30, 2017)	First quarter of FY2019 (From April 1, 2018 to June 30, 2018)
Profit	1,858	2,331
Other comprehensive income (loss)		
Unrealized holding gain (loss) on securities	2,960	772
Deferred gain (loss) on hedges	20	25
Foreign currency translation adjustment	(87)	(220)
Retirement benefits liability adjustments	136	59
Share of other comprehensive income of entities accounted for using equity method	(1)	(1)
Total other comprehensive income (loss)	3,028	634
Comprehensive income	4,887	2,966
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	4,802	2,928
Comprehensive income attributable to non-controlling interests	84	37

(3) Notes on quarterly consolidated financial information**(Notes on going concern assumption)**

Not applicable.

(Notes to significant changes in the amount of shareholders' equity)

Not applicable.

(Segment information)

[Segment information]

I. First Quarter of FY2018 (From April 1, 2017 to June 30, 2017)

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

(Millions of yen)

	Reportable segments			Other	Total	Adjustments	Amounts recorded on quarterly consolidated financial statements
	Flour Milling	Food	Total				
Net sales							
Net sales to external customers	23,905	47,924	71,829	8,444	80,274	—	80,274
Internal sales or transfers between segments	455	162	618	596	1,214	(1,214)	—
Total	24,361	48,087	72,448	9,041	81,489	(1,214)	80,274
Segment income	1,118	887	2,006	10	2,017	10	2,027

Notes: 1. The "Other" column indicates businesses not included in the reportable segments, including pet food, health food and engineering.
2. Segment income adjustment of ¥10 million includes elimination of inter-segment transactions and corporate expenses.
3. Segment income is adjusted to reconcile total segment income to operating income on the quarterly consolidated financial statements.

2. Information about impairment loss on fixed assets and about goodwill etc. by reportable segment
Not applicable.

II. First Quarter of FY2019 (From April 1, 2018 to June 30, 2018)

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

(Millions of yen)

	Reportable segments			Other	Total	Adjustments	Amounts recorded on quarterly consolidated financial statements
	Flour Milling	Food	Total				
Net sales							
Net sales to external customers	25,126	48,967	74,093	9,294	83,387	—	83,387
Internal sales or transfers between segments	451	177	629	573	1,202	(1,202)	—
Total	25,577	49,144	74,722	9,867	84,590	(1,202)	83,387
Segment income	1,397	1,091	2,488	37	2,526	1	2,527

Notes: 1. The "Other" column indicates businesses not included in the reportable segments, including pet food, health food and engineering.
2. Segment income adjustment of ¥1 million includes elimination of inter-segment transactions and corporate expenses.
3. Segment income is adjusted to reconcile total segment income to operating income on the quarterly consolidated financial statements.

2. Information about impairment loss on fixed assets and about goodwill etc. by reportable segment
Not applicable.