

Consolidated Financial Results for the First Quarter of FY2020 [J-GAAP]

July 31, 2019

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
 Contact: Naoyuki Tsuda, General Manager of Corporate Communications Group
 Filing date of quarterly financial report: August 5, 2019
 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 FY2020 (From April 1, 2019 to June 30, 2019)

(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 FY2020	85,544	2.6%	2,486	(1.6)%	3,259	(2.6)%	2,491	8.5%
1Q of FY2019	83,387	3.9%	2,527	24.7%	3,348	17.8%	2,295	29.2%

(Note) Comprehensive income: 1Q of FY2020: ¥1,297 million (-56.3%)

1Q of FY2019: ¥2,966 million (-39.3%)

	Profit per Share (Yen)	Fully Diluted Profit per Share (Yen)
1Q of FY2020	32.53	28.38
1Q of FY2019	28.80	27.48

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
1Q of FY2020	284,390	154,534	52.7%
FY2019	293,392	154,986	51.2%

(Reference) Equity capital: 1Q of FY2020: ¥149,778 million

FY2019: ¥150,147 million

2. Dividends

	Dividends per Share (Yen)				
	1Q-end	2Q-end	3Q-end	Year-end	Full Year
FY2019	—	15.00	—	17.00	32.00
FY2020	—				
FY2020 (Forecast)		16.00	—	16.00	32.00

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

3. Forecast of the consolidated financial results for FY2020 (From April 1, 2019 to March 31, 2020)

(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	4.4%	5,500	2.9%	6,400	0.3%	4,300	6.7%	56.17
Full year	350,000	4.4%	12,000	6.9%	13,500	3.3%	9,000	6.4%	117.55

(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 retrospective restatements

- 1) Changes in accounting policies due to revisions of accounting standards: None
- 2) Changes other than 1): None
- 3) Changes in accounting estimates: None
- 4) Retrospective restatements: 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 FY2020	78,824,009 shares	FY2019	78,824,009 shares
2) Number of treasury shares at the end of each period:	1Q of FY2020	2,157,088 shares	FY2019	2,226,385 shares
3) Average number of shares (quarterly consolidated cumulative period):	1Q of FY2020	76,582,988 shares	1Q of FY2019	79,721,362 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 4 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

(Millions of yen)

	First three months of Fiscal 2019	First three months of Fiscal 2020	Difference	Change
Net sales	83,387	85,544	2,156	102.6%
Operating income	2,527	2,486	(40)	98.4%
Ordinary income	3,348	3,259	(88)	97.4%
Profit attributable to owners of parent	2,295	2,491	195	108.5%

During the first three months of the fiscal year ending March 31, 2020, concerns about possible slowing of the world economy increased owing to heightening U.S.-China trade friction. In addition, there is anxiety about the impact of the consumption tax increase scheduled in October 2019 on consumer behavior. Thus, the outlook of the Japanese economy is expected to remain unclear.

The food industry is operating in an increasingly challenging environment. While price competition is intensifying against the background of consumer frugality, labor shortages are pushing up costs. In addition, the enforcement of TPP 11 and the EU-Japan Economic Partnership Agreement (EPA) is also expected to have an impact on the food industry.

In these circumstances, in order to respond to the unceasingly changing business environment, the Group is strengthening the business foundation focused on sales expansion and cost reduction. We are promoting vigorous investment in promising fields and re-establishment of production sites, with the aim of achieving sustainable growth.

The Shinjuku South Exit Project (Sendagaya 5-chome North District Type 1 Urban Redevelopment Project), which the Company promoted jointly with Mitsubishi Estate Co., Ltd. and whose construction started in June 2017, was completed in August 2019.

As a result, consolidated net sales for the first three months of fiscal 2020 increased by 2.6% year on year to ¥85,544 million, operating income decreased by 1.6% to ¥2,486 million, ordinary income decreased by 2.6% to ¥3,259 million, and profit attributable to owners of parent increased by 8.5% to ¥2,491 million.

Results of each business segment are as follows.

1) Flour Milling

(Millions of yen)

	First three months of Fiscal 2019	First three months of Fiscal 2020	Difference	Change
Net sales	25,126	25,770	643	102.6%
Operating income	1,397	1,317	(79)	94.3%

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, 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 decrease of government sales prices (tax inclusive) of imported wheat by 1.7% on average for the five key products in April 2019, we revised the prices of wheat flour products for professional use for shipments on and after July 10, 2019.

As a result, net sales for the Flour Milling segment increased by 2.6% year on year to ¥25,770 million, while operating income decreased by 5.7% to ¥1,317 million.

2) Food

(Millions of yen)

	First three months of Fiscal 2019	First three months of Fiscal 2020	Difference	Change
Net sales	48,967	50,926	1,959	104.0%
Operating income	1,091	1,022	(68)	93.7%

In the professional-use category, owing to vigorous marketing, including participation in various exhibitions and the holding of Italian cookery workshops, sales of premixes for professional use were brisk both in Japan and overseas, resulting in higher sales of products in the professional-use category than for 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 the REGALO Gift Campaign. As a result, sales of products in this category increased compared with the same period of the previous year.

In the frozen foods category, sales of the Yokubari Plate series were brisk. Consisting of a main dish and staples, the lineup of the Yokubari Plate series of meals corresponds to breakfast, lunch, dinner, and any other eating scenes. Regarding the Oh' my Premium series and the Oh' my Gu-no-Shogeki series, we are executing the Premium Pocket Money Present Campaign to expand sales of frozen pasta to wide-ranging consumers. As a result, sales of frozen foods were virtually the same as the level for the same period of the previous year.

In the ready-made meals business, sales volume increased as a result of the start of operation of a new factory in Chita City, Aichi Prefecture. However, sales of the ready-made meals business were virtually unchanged from the same period of the previous year as a result of the impact of unsettled weather.

As a result, net sales of the Food segment increased by 4.0% year on year to ¥50,926 million, while operating income decreased by 6.3% to ¥1,022 million.

3) Other

(Millions of yen)

	First three months of Fiscal 2019	First three months of Fiscal 2020	Difference	Change
Net sales	9,294	8,847	(446)	95.2%
Operating income	37	138	101	369.6%

Sales of the engineering business were lower than the level for the same period of the previous year, reflecting stabilization of inquiries for large projects.

Sales of the healthcare business were higher than the level for the same period of the previous year because of strong demand for ceramides, which are functional materials.

As a result, net sales for the Other segment decreased by 4.8% year on year to ¥8,847 million, while operating income increased by 269.6% to ¥138 million.

(2) Overview of financial position

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019	Difference
Current assets	118,330	112,581	(5,749)
Non-current assets	174,988	171,738	(3,249)
Deferred assets	73	70	(3)
Total assets	293,392	284,390	(9,001)
Current liabilities	76,100	73,864	(2,236)
Non-current liabilities	62,305	55,992	(6,312)
Total liabilities	138,405	129,856	(8,549)
Total net assets	154,986	154,534	(452)
Total liabilities and net assets	293,392	284,390	(9,001)

Total assets at the end of the first three months of fiscal 2020 decreased by ¥9,001 million from the previous fiscal year end (March 31, 2019) to ¥284,390 million. This was mainly because investment securities, raw materials and supplies, notes and accounts receivable - trade and cash and deposits decreased by ¥3,294 million, ¥2,160 million, ¥2,135 million and ¥1,368 million, respectively.

Total liabilities decreased by ¥8,549 million from the previous fiscal year end to ¥129,856 million. This was mainly because notes and accounts payable - trade, income taxes payable and long-term loans payable decreased by ¥5,160 million, ¥1,531 million and ¥947 million, respectively.

Net assets decreased by ¥452 million from the previous fiscal year end to ¥154,534 million. This was mainly attributable to an increase of ¥603 million in retained earnings, and a decrease of ¥1,350 million in unrealized holding gain (loss) on securities.

(3) Information on forecast of the consolidated financial results

The forecast of the financial results for the fiscal year ending March 31, 2020 is unchanged from the forecasts announced on May 10, 2019.

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

(Millions of yen)

	FY2019 (As of March 31, 2019)	First quarter of FY2020 (As of June 30, 2019)
Assets		
Current assets		
Cash and deposits	32,958	31,589
Notes and accounts receivable - trade	47,410	45,275
Merchandise and finished goods	15,508	15,676
Work in process	32	75
Raw materials and supplies	19,230	17,069
Other current assets	3,348	3,067
Allowance for doubtful accounts	(159)	(172)
Total current assets	118,330	112,581
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	37,159	37,829
Machinery, equipment and vehicles, net	20,511	20,666
Land	40,032	40,039
Construction in progress	1,719	1,887
Other, net	1,809	1,794
Total property, plant and equipment	101,233	102,217
Intangible assets		
Goodwill	622	594
Other	753	908
Total intangible assets	1,376	1,503
Investments and other assets		
Investment securities	65,472	62,178
Other assets	7,525	6,457
Allowance for doubtful accounts	(620)	(617)
Total investments and other assets	72,377	68,017
Total non-current assets	174,988	171,738
Deferred assets	73	70
Total assets	293,392	284,390

(Millions of yen)

	FY2019 (As of March 31, 2019)	First quarter of FY2020 (As of June 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	34,564	29,404
Short-term loans payable	19,201	21,308
Current portion of bonds	–	5,000
Income taxes payable	2,084	552
Provision for bonuses	615	514
Other current liabilities	19,634	17,083
Total current liabilities	76,100	73,864
Non-current liabilities		
Bonds payable	5,000	–
Convertible bond-type bonds with subscription rights to shares	25,110	25,105
Long-term loans payable	12,041	11,093
Net defined benefit liability	4,494	4,224
Accrued retirement benefits for directors	819	801
Other non-current liabilities	14,840	14,766
Total non-current liabilities	62,305	55,992
Total liabilities	138,405	129,856
Net assets		
Shareholders' equity		
Common stock	12,240	12,240
Capital surplus	11,262	11,262
Retained earnings	103,682	104,285
Treasury shares	(3,536)	(3,422)
Total shareholders' equity	123,648	124,366
Accumulated other comprehensive income		
Unrealized holding gain (loss) on securities	26,424	25,073
Deferred gain (loss) on hedges	(2)	(19)
Foreign currency translation adjustment	572	839
Retirement benefits liability adjustments	(495)	(482)
Total accumulated other comprehensive income	26,498	25,412
Subscription rights to shares	287	203
Non-controlling interests	4,552	4,552
Total net assets	154,986	154,534
Total liabilities and net assets	293,392	284,390

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

(Millions of yen)

	First quarter of FY2019 (From April 1, 2018 to June 30, 2018)	First quarter of FY2020 (From April 1, 2019 to June 30, 2019)
Net sales	83,387	85,544
Cost of sales	60,450	61,977
Gross profit	22,936	23,567
Selling, general and administrative expenses	20,409	21,080
Operating income	2,527	2,486
Non-operating income		
Interest income	15	13
Dividend income	662	693
Other	249	203
Total non-operating income	927	909
Non-operating expenses		
Interest expenses	59	53
Other	47	82
Total non-operating expenses	106	136
Ordinary income	3,348	3,259
Extraordinary income		
Gain on sales of fixed assets	–	1
Gain on sales of investment securities	0	504
Total extraordinary income	0	506
Extraordinary expenses		
Loss on sales and disposal of fixed assets	21	38
Loss on valuation of investment securities	1	42
Demolition expenses	–	37
Other	4	–
Total extraordinary expenses	27	118
Profit before income taxes	3,321	3,647
Income taxes - current	503	544
Income taxes - deferred	486	590
Total income taxes	990	1,135
Profit	2,331	2,512
Profit attributable to non-controlling interests	35	21
Profit attributable to owners of parent	2,295	2,491

(Quarterly consolidated statements of comprehensive income)

(Millions of yen)

	First quarter of FY2019 (From April 1, 2018 to June 30, 2018)	First quarter of FY2020 (From April 1, 2019 to June 30, 2019)
Profit	2,331	2,512
Other comprehensive income (loss)		
Unrealized holding gain (loss) on securities	772	(1,358)
Deferred gain (loss) on hedges	25	(16)
Foreign currency translation adjustment	(220)	142
Retirement benefits liability adjustments	59	13
Share of other comprehensive income of entities accounted for using equity method	(1)	4
Total other comprehensive income (loss)	634	(1,215)
Comprehensive income	2,966	1,297
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	2,928	1,281
Comprehensive income attributable to non-controlling interests	37	15

(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, etc.)

[Segment information]

I. 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 (Note 1)	Total	Adjustments (Note 2)	Amounts recorded in quarterly consolidated financial statements ^(Note 3)
	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 in 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 FY2020 (From April 1, 2019 to June 30, 2019)

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

(Millions of yen)

	Reportable segments			Other (Note 1)	Total	Adjustments (Note 2)	Amounts recorded in quarterly consolidated financial statements ^(Note 3)
	Flour Milling	Food	Total				
Net sales							
Net sales to external customers	25,770	50,926	76,696	8,847	85,544	—	85,544
Internal sales or transfers between segments	431	199	631	554	1,185	(1,185)	—
Total	26,201	51,126	77,328	9,402	86,730	(1,185)	85,544
Segment income	1,317	1,022	2,340	138	2,478	8	2,486

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 ¥8 million includes elimination of inter-segment transactions and corporate expenses.
3. Segment income is adjusted to reconcile total segment income to operating income in the quarterly consolidated financial statements.

2. Information about impairment loss on fixed assets and about goodwill etc. by reportable segment

Not applicable.