



Consolidated Financial Results for the Six Months Ended September 30, 2018 [Japanese GAAP]

November 13, 2018

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CEO
Senior Executive Officer, Corporate Management.

Scheduled date of filing quarterly securities report: November 13, 2018
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, 2018 (April 01, 2018 to September 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	%
Six months ended September 30, 2018	40,097	5.0	2,921	(4.5)	2,898	(11.0)	1,810	(19.2)
September 30, 2017	38,176	9.3	3,060	43.4	3,255	60.3	2,240	73.5

(Note) Comprehensive income: Six months ended September 30, 2018: ¥ 1,940 million [(29.3) %]
Six months ended September 30, 2017: ¥ 2,743 million [282.4 %]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2018	51.46	47.75
September 30, 2017	63.84	63.19

(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
	Million yen	Million yen	%
As of September 30, 2018	78,400	41,204	52.5
March 31, 2018	71,706	40,121	55.9

(Reference) Equity: As of September 30, 2018: ¥ 41,124 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 six months ended September 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):

September 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:

September 30, 2018: 1,609,484 shares

March 31, 2018: 1,631,006 shares

3) Average number of shares during the period:

Six months ended September 30, 2018: 35,184,321 shares

Six months ended September 30, 2017: 35,090,512 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.

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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 six months ended September 30, 2018, whereas the robust U.S. economy supported by the Trump administration's economic stimulus package is a positive factor, there remained uncertainty over the future partly due to concern over the trade friction issue between the U.S. and China. Regarding the Japanese economy, a recovery trend continued, as partly exemplified by high levels of consumer spending and corporate capital investment, despite impacts of such disasters as typhoons and heavy rains.

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 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, we ran the summer MELS Plan 1day admission campaign. Regarding the product strategy, we started successively releasing "1DAY Menicon PremiO Toric," a disposable silicone hydrogel contact lens for astigmatism, in September at MELS membership facilities nationwide. We will strive to promote "SMART TOUCH," our proprietary technology that allows users to wear the lenses without touching the inner surface of the lens, along with our existing products "Magic" and "1DAY Menicon PremiO," and further capture users of daily disposable contact lenses. Regarding measures to strengthen channels, our own retail shops and the Group's retail shops are promoting the common brand, "Miru," under the slogan of "being particular about 'seeing (miru)'." The promotion of the common brand is aimed at combining knowledge and experience shared company-wide on the basis of the store concept of each company, which we believe enables us to offer products and services that are more in line with the needs of customers. Regarding promotion, we launched "Miru x Dragons Collaboration Campaign" in late September. The campaign commemorates the entry of Ace Contact shops operated by W.I. System Inc., a Group company, into the Tokai area. The shop was opened in a large shopping mall, with a view to further enhancing convenience of customers.

[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 1day 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 Asia, sales of orthokeratology lenses and hard contact lens care products continued to be buoyant in China. In Europe, we completed a new logistics center in Germany. We will strive to expand sales channels of disposable contact lenses in Europe by strengthening logistics functions, with Germany as the base, and step up efforts to further increase sales of our overseas business.

[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 six months ended September 30, 2018 were as follows. Net sales increased by 5.0% year on year to ¥40,097 million and gross profit rose by 3.9% year on year to ¥21,459 million, reflecting increase in sales of contact lenses and increase in MELS Plan membership by 20 thousand people. On the other hand, in the domestic contact lens business, we strengthened sales expansion efforts for daily disposable contact lenses, whose market is a growth field, and in the overseas contact lens business we enhanced the sales structure and reinforced the logistics function for future sales expansion. As a result, operating profit decreased by 4.5% to ¥2,921 million. Ordinary profit declined by 11.0% to ¥2,898 million because of foreign exchange fluctuations. Profit attributable to owners of parent was ¥1,810 million, a decrease of 19.2%, as initially planned, despite the decrease.

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 ¥39,387 million, an increase of 5.1% year on year, and segment profit was ¥4,974 million, a decrease of 5.1% year on year. Details are described below.

Among sales of the contact lens-related business increased by ¥1,924 million from the same period of the previous year, ¥1,126 million is by MELS Plan. This is due to an increase in MELS Plan membership centering on "1DAY Menicon PremiO" and "Magic." The year-on-year decrease in segment profit was attributable to investments for sales expansion in anticipation of an increase in sales of daily disposable contact lenses as well as allocation of personnel expenses and sales expansion expenses in preparation for expansion of overseas 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 ¥709 million for the six months ended September 30, 2018, a decrease of 1.2% year on year, reflecting a decrease in temporary staff service revenue at Group company Menicon Business Assist Co., Ltd. The segment loss was ¥151 million, compared with a segment loss of ¥149 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 ¥78,400 million, having increased by ¥6,694 million from the end of the previous fiscal year. Current assets increased by ¥5,744 million to 43,862 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 ¥949 million to ¥34,538 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 ¥5,612 million from the end of the previous fiscal year to ¥37,196 million at the end of the second quarter of the fiscal year under review mainly as a result of an increase in convertible bond-type bonds with share acquisition rights. Net assets increased by ¥1,082 million from the end of the previous fiscal year to ¥41,204 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 52.5%.

(Status of Cash Flows)

Cash and cash equivalents at the end of the six months ended September 30, 2018 were ¥20,589 million, having increased by ¥5,104 million or 33.0 % from the end of the previous fiscal year.

1) Cash flows from operating activities

Net cash provided by operating activities amounted to ¥2,553 million, compared with net cash provided by operating activities amounting to ¥3,413 million in the same period of the previous year, mainly due to a decrease in profit before income taxes and an increase in income taxes paid.

2) Cash flows from investing activities

Net cash used in investing activities amounted to ¥1,534 million, compared with net cash used in investing activities amounting to ¥2,703 million in the same period of the previous year, mainly due to a decrease in purchase of property, plant and equipment.

3) Cash flows from financing activities

Net cash provided by financing activities amounted to ¥4,024 million, compared with net cash provided by financing activities amounting to ¥911 million in the same period of the previous year, mainly due to the issue of convertible bond-type bonds with share acquisition rights.

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

Profits decreased year on year in the six months ended September 30, 2018 mainly due to expanding of daily disposable contact lens sales in domestic contact lens business and spending of selling, general and administrative expenses, as planned, for sales expansion of daily disposable contact lenses and future sales expansion of the overseas contact lens business. Although investments are also planned in the second half of the fiscal year for the expansion of business in the daily disposable contact lens category, a growth field, we expect profits to increase for the full year since the ratio of net sales to selling, general and administrative expenses will be improved compared with the previous year as a result of an increase in net sales. 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 September 30, 2018
Assets		
Current assets		
Cash and deposits	16,904	22,018
Notes and accounts receivable - trade	8,162	8,542
Securities	18	19
Merchandise and finished goods	8,766	8,834
Work in process	703	763
Raw materials and supplies	1,943	1,935
Other	1,695	1,825
Allowance for doubtful accounts	(76)	(77)
Total current assets	38,117	43,862
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,907	19,089
Accumulated depreciation	(9,631)	(9,970)
Buildings and structures, net	9,276	9,118
Machinery, equipment and vehicles	18,163	18,572
Accumulated depreciation	(12,531)	(13,090)
Machinery, equipment and vehicles, net	5,632	5,481
Tools, furniture and fixtures	6,736	7,005
Accumulated depreciation	(5,389)	(5,618)
Tools, furniture and fixtures, net	1,346	1,387
Land	5,212	5,216
Leased assets	995	909
Accumulated depreciation	(767)	(723)
Leased assets, net	228	186
Construction in progress	871	2,918
Total property, plant and equipment	22,567	24,309
Intangible assets		
Goodwill	3,708	3,188
Patent right	1,464	1,341
Other	2,274	2,173
Total intangible assets	7,447	6,703
Investments and other assets		
Investment securities	645	663
Long-term loans receivable	71	63
Deferred tax assets	964	911
Other	1,906	1,901
Allowance for doubtful accounts	(14)	(14)
Total investments and other assets	3,573	3,525
Total non-current assets	33,588	34,538
Total assets	71,706	78,400

	As of March 31,2018	As of September 30,2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,251	4,121
Short-term loans payable	503	170
Current portion of bonds	2,636	1,825
Current portion of long-term loans payable	2,372	2,244
Lease obligations	82	53
Accounts payable - other	3,323	4,453
Income taxes payable	1,235	1,259
Provision for bonuses	1,319	1,310
Provision for point card certificates	96	110
Other	2,903	2,544
Total current liabilities	18,725	18,094
Non-current liabilities		
Bonds payable	5,312	4,330
Convertible bond-type bonds with share acquisition rights	-	8,000
Long-term loans payable	5,158	4,387
Lease obligations	120	105
Long-term accounts payable - other	1,561	1,599
Net defined benefit liability	314	322
Deferred tax liabilities	124	114
Asset retirement obligations	98	100
Other	169	142
Total non-current liabilities	12,859	19,102
Total liabilities	31,584	37,196
Net assets		
Shareholders' equity		
Capital stock	3,379	3,379
Capital surplus	2,553	2,553
Retained earnings	37,037	37,951
Treasury shares	(2,502)	(2,469)
Total shareholders' equity	40,467	41,414
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	124	136
Foreign currency translation adjustment	(543)	(426)
Total accumulated other comprehensive income	(418)	(290)
Share acquisition rights	33	38
Non-controlling interests	39	41
Total net assets	40,121	41,204
Total liabilities and net assets	71,706	78,400

(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 30,2017	For the six months ended September 30,2018
Net sales	38,176	40,097
Cost of sales	17,523	18,638
Gross profit	20,652	21,459
Selling, general and administrative expenses	17,592	18,537
Operating profit	3,060	2,921
Non-operating income		
Interest income	5	4
Dividend income	4	5
Foreign exchange gains	95	-
Subsidy income	20	44
Other	207	120
Total non-operating income	334	176
Non-operating expenses		
Interest expenses	102	93
Share of loss of entities accounted for using equity method	1	1
Foreign exchange losses	-	42
Other	34	62
Total non-operating expenses	139	199
Ordinary profit	3,255	2,898
Extraordinary income		
Gain on sales of non-current assets	1	0
Subsidy income	105	86
Total extraordinary income	107	86
Extraordinary losses		
Loss on sales of non-current assets	2	-
Loss on retirement of non-current assets	21	8
Loss on valuation of investment securities	-	1
Total extraordinary losses	23	10
Profit before income taxes	3,339	2,974
Income taxes - current	1,145	1,127
Income taxes - deferred	(47)	34
Total income taxes	1,097	1,162
Profit	2,242	1,812
Profit attributable to non-controlling interests	1	1
Profit attributable to owners of parent	2,240	1,810

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

(Million yen)

	For the six months ended September 30,2017	For the six months ended September 30,2018
Profit	2,242	1,812
Other comprehensive income		
Valuation difference on available-for-sale securities	10	11
Foreign currency translation adjustment	491	117
Share of other comprehensive income of entities accounted for using equity method	(0)	(1)
Total other comprehensive income	501	128
Comprehensive income	2,743	1,940
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,741	1,939
Comprehensive income attributable to non-controlling interests	1	1

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30, 2017	For the six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	3,339	2,974
Depreciation	1,916	1,713
Amortization of goodwill	520	520
Subsidy income	(105)	(86)
Interest and dividend income	(10)	(10)
Interest expenses	102	93
Foreign exchange losses (gains)	(102)	55
Decrease (increase) in notes and accounts receivable - trade	(286)	(335)
Decrease (increase) in inventories	(662)	(85)
Increase (decrease) in notes and accounts payable - trade	(298)	(135)
Increase (decrease) in accounts payable - other	(816)	(585)
Increase (decrease) in provision for bonuses	(76)	(11)
Other, net	463	(541)
Subtotal	3,983	3,565
Interest and dividend income received	10	9
Interest expenses paid	(60)	(52)
Income taxes paid	(626)	(1,055)
Proceeds from subsidy income	105	86
Net cash provided by (used in) operating activities	3,413	2,553
Cash flows from investing activities		
Collection of loans receivable	9	30
Purchase of investment securities	(0)	(0)
Purchase of intangible assets	(339)	(253)
Purchase of property, plant and equipment	(2,450)	(1,266)
Proceeds from sales of property, plant and equipment	7	8
Other, net	69	(52)
Net cash provided by (used in) investing activities	(2,703)	(1,534)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,149	(333)
Proceeds from long-term loans payable	300	300
Repayments of long-term loans payable	(1,173)	(1,199)
Redemption of bonds	(680)	(1,792)
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares	-	7,960
Purchase of treasury shares	(0)	(0)
Repayments of finance lease obligations	(33)	(43)
Cash dividends paid	(665)	(877)
Other, net	14	11
Net cash provided by (used in) financing activities	911	4,024
Effect of exchange rate change on cash and cash equivalents	244	60
Net increase (decrease) in cash and cash equivalents	1,866	5,104
Cash and cash equivalents at beginning of period	10,755	15,484
Cash and cash equivalents at end of period	12,621	20,589

(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 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 six months ended September 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	37,457	37,457	718	38,176
Inter-segment net sales or transfers	4	4	—	4
Total	37,462	37,462	718	38,181
Segment profit (loss)	5,240	5,240	△149	5,090

(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	5,240
Profit of “Other”	△149
Corporate expenses (Note)	△2,030
Operating profit stated in the consolidated statement of income	3,060

(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, 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	39,387	39,387	709	40,097
Inter-segment net sales or transfers	—	—	0	0
Total	39,387	39,387	709	40,097
Segment profit (loss)	4,974	4,974	△151	4,822

(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	4,974
Profit of “Other”	△151
Corporate expenses (Note)	△1,900
Operating profit stated in the consolidated statement of income	2,921

(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.