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Consolidated Financial Results for the Nine Months Ended December 31, 2019 [Japanese GAAP]

February 13, 2020

Company name: Menicon Co., Ltd.
Stock exchange listing: Tokyo, Nagoya
Code number: 7780
URL: <https://www.menicon.com>
Representative: Hidenari Tanaka

CEO
Senior Executive Officer, Corporate Management

Phone: +81-52-935-1515
Scheduled date of filing quarterly securities report: February 13, 2020
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on quarterly financial results: Yes
Schedule of quarterly financial results briefing session: No

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

1. Consolidated Financial Results for the Nine Months Ended December 31, 2019 (April 01, 2019 to December 31, 2019)

(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, 2019	63,344	5.1	6,075	35.8	5,994	35.7	4,000	41.2
December 31, 2018	60,265	5.2	4,472	4.5	4,418	(1.7)	2,833	(5.8)

(Note) Comprehensive income: Nine months ended December 31, 2019: ¥ 3,901 million [48.0%]
Nine months ended December 31, 2018: ¥ 2,636 million [(29.2)%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2019	111.78	105.40
December 31, 2018	80.51	74.70

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
December 31, 2019	83,923	49,591	58.9
March 31, 2019	78,275	42,549	54.3

(Reference) Equity: As of December 31, 2019: ¥ 49,450 million
As of March 31, 2019: ¥ 42,468 million

2. Dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	-	0.00	-	28.00	28.00
Fiscal year ending March 31, 2020	-	0.00	-		
Fiscal year ending March 31, 2020 (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, 2020(April 01, 2019 to March 31, 2020)

(% 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	85,083	5.2	7,211	29.4	7,197	27.5	4,500	25.8	124.40

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

* Notes:

(1) Changes in significant subsidiaries during the nine months ended December 31, 2019

(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: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(Note) For further information, please refer to “2. Quarterly Consolidated Financial Statements and Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” on Page 9 of the appendix.

(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, 2019: 36,814,000 shares

March 31, 2019: 36,804,000 shares

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

December 31, 2019: 287,799 shares

March 31, 2019: 1,573,484 shares

3) Average number of shares during the period:

Nine months ended December 31, 2019: 35,791,466 shares

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

Status of performance

Regarding the world economy during the nine months ended December 31, 2019, whereas slowdown in overseas economic continued due to stagnant trade and suppressed capital investment, positive signs for the economy were seen, including firm trends in stock prices, as exemplified by the announcement of the “phase one deal” in the trade friction between the U.S. and China, which had become a burden, as well as the progress in the withdrawal of the U.K. from the European Union due to the Conservative Party winning the U.K. general election. Regarding the domestic economy, the business confidence took a downturn due to the effects of the consumption tax hike and natural disasters such as Typhoon Hagibis, but companies remain eager to take on workers amid a continued labor shortage, and the domestic economy was on a moderate recovery track against the backdrop of the firm employment environment.

In these circumstances, in the contact lens market, disposable contact lenses, principally daily disposable contact lenses, are the driving forces of the market overseas, and orthokeratology lenses, which are to be worn while sleeping and are effective for correcting vision, are also the driving forces in Asia, particularly in China. In the domestic market, demands for circle lenses, which make your eyes appear larger, and multifocal contact lenses is rising.

Performances in each business units are as follows.

[Domestic Contact Lens Business]

We stepped up efforts to expand the Menicon Eye Life Support (MELS) Plan business, which contributes to eye safety of contact lens users and stable earnings of the Company, work on sales promotion activities for daily disposable contact lenses, whose demand is increasing in the market.

Regarding the product strategy, in December we newly released a 90-piece pack for “Magic,” which are daily disposable contact lenses that come in “SMART TOUCH,” a package using our proprietary specifications that allow users to take out the lenses without touching the inner surface of them. This product is as it matches the living cycle of typical customers who purchase contact lenses by visiting the optometrist every three months. As a product exclusively for the MELS Plan, we added a multifocal “Four Seasons bifocal” to “Four Seasons,” a three-month replacement lens. This product targets customers aged over 40 years old who have begun to feel presbyopia, and we will continue providing support for “eye life” of various generations through the expansion of product line-ups for the MELS Plan.

Regarding measures to strengthen promotion, we strove to capture new MELS Plan members through “MELS Plan Referral Campaign” that induces new members to join through referrals by existing members, and “Contact Lens Debut Support Campaign,” targeting the youth who begin using contact lenses anew. In addition, we established a LINE official account, with the aim of capturing customers and expanding brand awareness through communicating new products and services as well as campaign information.

[Overseas Contact Lens Business]

In North America, we worked to strengthen sales promotion activities for the “Miru 1month Menicon” series to further strengthen sales of disposable contact lenses, and began supplying daily disposable contact lenses as private-brand products of major retail chains. In addition, we acquired the certification from the U.S. FDA (Food and Drug Administration) for “Menicon Z Night,” orthokeratology lenses, in November, in order to take the initiative in the issue associated with the increase of myopia population.

In Europe, we made FINEKO S.P.A. Group a wholly-owned subsidiary in October. The Group includes SOLEKO S.P.A. that manufactures and sells contact lenses and care products in Italy, whose contact lens market is the second-largest in the region. With this acquisition, we will strive for expanding our business in Europe through increasing awareness for “Miru,” our own-brand for the overseas market, in Italy, and sales expansion activities of care products.

In Asia, sales of orthokeratology lenses and contact lenses care products remained robust in China. Going forward, we will continue to promote sales activities.

[Other Businesses]

Meni-one Co., Ltd. began offering “Fundus AI,” a canine ophthalmic medical care support service for veterinarians, in October. This service will provide support for ophthalmic medical care by veterinarians and greatly contribute to early diagnosis and treatment of eye diseases for dogs.

In addition, in the Life Science Business, we began offering “Plarie,” a supplement product containing placenta extract intended for nutrition and beauty of women, as well as conception support, at our online shop.

As a result of these efforts, the Group’s consolidated business results for the nine months ended December 31, 2019 were as follows. Net sales increased by 5.1% year on year to ¥63,344 million, reflecting increases in sales of contact lenses and MELS Plan memberships, while gross profit increased by 6.9% year on year to ¥34,324 million owing to the lower cost of sales ratio. Operating profit increased by 35.8% year on year to ¥6,075 million thanks to the efficient use of expenses as a result of a review of spending schedule for advertising expenses and sales promotion expenses, despite the increase in research and development expenses, and ordinary profit increased by 35.7% to ¥5,994 million. Profit attributable to owners of parent was ¥4,000 million, an increase of 41.2% year on year.

Business results by segment are as follows.

1) Contact Lens-related Business

Sales of the contact lens-related business were ¥62,105 million, an increase of 5.0% year on year. Segment profit was ¥9,649 million, an increase of 29.1% year on year.

Sales of the contact lens-related business increased by ¥2,942 million from the same period of the previous year mainly due to an increase by ¥1,712 million in MELS Plan sales. This was attributable to an increase in memberships of daily disposable contact lenses whose market continues to expand, as “Magic,” “1DAY Menicon PremiO,” and “1DAY Menicon PremiO Toric,” which come in “SMART TOUCH,” have been well-received not only among existing contact lens users but also among those who use contact lenses for the first time. The increased sales are also attributable to increases in memberships of multifocal contact lenses, in addition to the “Four Seasons” series whose product line-up now includes “Four Seasons bifocal.”

2) Other

Sales of the other businesses were ¥1,238 million for the nine months ended December 31, 2019, an increase of 12.4% year on year, as sales of “resQ45,” a composting accelerator contributing to environmental burden reduction in the Company’s Environmental and Bioscience Business, were on strong trends. However, segment loss was ¥307 million, compared with a segment loss of ¥254 million for the same period of the previous year, reflecting the upfront expenditure of costs for future business expansion.

(2) Explanation of Financial Position

(Assets)

Total assets at the end of the third quarter of the fiscal year under review were ¥83,923 million, having increased by ¥5,648 million from the end of the previous fiscal year. Current assets decreased by ¥1,219 million to ¥41,364 million mainly due to an expenditure of costs related to the expansion of floor area and production facilities for the expansion of “1DAY Menicon PremiO” production capacity at the Kakamigahara Factory. Non-current assets increased by ¥6,867 million to ¥42,558 million, mainly as a result of an increase in right of use assets due to the application of IFRS 16 “Leases.”

(Liabilities and net assets)

Liabilities decreased by ¥1,393 million from the end of the previous fiscal year to ¥34,331 million at the end of the third quarter of the fiscal year under review mainly as a result of the exercise of the rights of convertible bond-type bonds with share acquisition rights, despite an increase in lease obligations due to the application of IFRS 16 “Leases.” Net assets increased by ¥7,042 million from the end of the previous fiscal year to ¥49,591 million mainly due to an increase in capital surplus and a decrease in treasury shares, following the exercise of the rights of convertible bond-type bonds with share acquisition rights, and an increase in retained earnings resulting from the recording of profit attributable to owners of parent.

As a result, equity ratio was 58.9%.

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

Business results for the nine months ended December 31, 2019 is trending firmly. However, in consideration of the use, etc. of sales promotion expenses aimed at increasing the MELS Plan memberships, including sales expansion, in the category of daily disposable contact lenses during the fourth quarter of the fiscal year under review, the consolidated business results forecast for the full year ending March 31, 2020 is unchanged from the consolidated business results forecast announced on November 12, 2019.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31,2019	As of December 31,2019
Assets		
Current assets		
Cash and deposits	20,084	17,417
Notes and accounts receivable - trade	8,857	9,586
Merchandise and finished goods	9,110	9,526
Work in process	771	970
Raw materials and supplies	2,076	2,236
Other	1,763	1,751
Allowance for doubtful accounts	(79)	(124)
Total current assets	42,584	41,364
Non-current assets		
Property, plant and equipment		
Buildings and structures	19,070	19,363
Accumulated depreciation	(10,148)	(10,618)
Buildings and structures, net	8,921	8,745
Machinery, equipment and vehicles	19,374	21,824
Accumulated depreciation	(13,587)	(14,972)
Machinery, equipment and vehicles, net	5,786	6,852
Tools, furniture and fixtures	7,328	7,750
Accumulated depreciation	(5,892)	(6,376)
Tools, furniture and fixtures, net	1,435	1,373
Land	5,164	5,142
Leased assets	849	849
Accumulated depreciation	(699)	(719)
Leased assets, net	149	130
Right of use assets	-	4,647
Accumulated depreciation	-	(486)
Right of use assets, net	-	4,160
Construction in progress	3,989	5,609
Total property, plant and equipment	25,447	32,014
Intangible assets		
Goodwill	2,719	3,281
Patent right	1,219	1,036
Other	2,297	2,466
Total intangible assets	6,236	6,783
Investments and other assets		
Investment securities	908	829
Long-term loans receivable	55	50
Deferred tax assets	1,112	882
Other	1,942	2,009
Allowance for doubtful accounts	(12)	(12)
Total investments and other assets	4,006	3,760
Total non-current assets	35,690	42,558
Total assets	78,275	83,923

(Million yen)

	As of March 31,2019	As of December 31,2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,471	3,842
Short-term borrowings	32	87
Current portion of bonds	1,765	1,465
Current portion of long-term borrowings	1,984	1,831
Lease obligations	30	748
Accounts payable - other	2,970	3,496
Income taxes payable	1,562	804
Provision for bonuses	1,592	961
Provision for point card certificates	105	66
Other	4,053	4,724
Total current liabilities	18,568	18,028
Non-current liabilities		
Bonds payable	3,547	4,382
Convertible bond-type bonds with share acquisition rights	8,000	3,980
Long-term borrowings	3,423	2,142
Lease obligations	90	3,603
Long-term accounts payable - other	1,425	1,363
Retirement benefit liability	331	553
Deferred tax liabilities	88	79
Asset retirement obligations	102	104
Other	147	92
Total non-current liabilities	17,156	16,303
Total liabilities	35,725	34,331
Net assets		
Shareholders' equity		
Share capital	3,379	3,382
Capital surplus	2,553	4,645
Retained earnings	39,690	42,704
Treasury shares	(2,414)	(441)
Total shareholders' equity	43,208	50,291
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	46	50
Foreign currency translation adjustment	(786)	(891)
Total accumulated other comprehensive income	(739)	(840)
Share acquisition rights	38	88
Non-controlling interests	42	52
Total net assets	42,549	49,591
Total liabilities and net assets	78,275	83,923

(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 31,2018	For the nine months ended December 31,2019
Net sales	60,265	63,344
Cost of sales	28,156	29,019
Gross profit	32,108	34,324
Selling, general and administrative expenses	27,635	28,248
Operating profit	4,472	6,075
Non-operating income		
Interest income	5	3
Dividend income	10	10
Subsidy income	44	41
Other	170	194
Total non-operating income	230	249
Non-operating expenses		
Interest expenses	135	129
Share of loss of entities accounted for using equity method	1	58
Foreign exchange losses	75	58
Other	71	84
Total non-operating expenses	284	330
Ordinary profit	4,418	5,994
Extraordinary income		
Gain on sales of non-current assets	1	0
Subsidy income	86	15
Gain on sale of businesses	48	-
Gain on step acquisitions	-	52
Other	2	-
Total extraordinary income	138	69
Extraordinary losses		
Loss on sales of non-current assets	-	6
Loss on retirement of non-current assets	41	13
Other	2	-
Total extraordinary losses	44	19
Profit before income taxes	4,512	6,044
Income taxes - current	1,446	1,798
Income taxes - deferred	231	242
Total income taxes	1,677	2,041
Profit	2,835	4,003
Profit attributable to non-controlling interests	2	2
Profit attributable to owners of parent	2,833	4,000

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

(Million yen)

	For the nine months ended December 31,2018	For the nine months ended December 31,2019
Profit	2,835	4,003
Other comprehensive income		
Valuation difference on available-for-sale securities	(62)	4
Foreign currency translation adjustment	(134)	(92)
Share of other comprehensive income of entities accounted for using equity method	(1)	(12)
Total other comprehensive income	(198)	(101)
Comprehensive income	2,636	3,901
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,634	3,899
Comprehensive income attributable to non-controlling interests	1	1

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes on significant changes in amount of shareholders' equity)

During the nine months ended December 31, 2019, capital surplus increased by ¥2,091 million and treasury shares decreased by ¥1,973 million, mainly due to disposal of treasury shares following the exercise of the rights of convertible bond-type bonds with share acquisition rights in the nine months ended December 31, 2019. As a result, capital surplus was ¥4,645 million and treasury shares amounted to ¥441 million at the end of the third quarter of the fiscal year under review.

(Changes in accounting policies)

Some overseas subsidiaries have applied IFRS 16 "Leases" from the first quarter of the fiscal year under review. With this accounting change, in principle lessees recognize assets and liabilities with respect to all leases on the Balance Sheets. In applying this accounting standard, the Company has adopted a method regarded as a transitional measure, whereby the cumulative effect of the application of this standard is recognized as of the date of its application.

As a result of the application of this accounting standard, the Quarterly Consolidated Balance Sheets for the period ended December 31, 2019 show increases of ¥4,160 million in right of use assets, net of property, plant and equipment, ¥20 million in other under intangible assets, ¥704 million in lease obligations under current liabilities, and ¥3,544 million in lease obligations under non-current liabilities.

The impact on profit or loss for the third quarter of the fiscal year under review is immaterial.

(Segment information)

[Segment Information]

For the nine months ended December 31, 2018

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	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)

(Million 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.

For the nine months ended December 31, 2019

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	62,105	62,105	1,238	63,344
Inter-segment net sales or transfers	—	—	—	—
Total	62,105	62,105	1,238	63,344
Segment profit (loss)	9,649	9,649	△307	9,341

(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	9,649
Profit of “Other”	△307
Corporate expenses (Note)	△3,266
Operating profit stated in the consolidated statement of income	6,075

(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.

(Significant subsequent events)

With regard to the second round of unsecured convertible bond-type bonds with share acquisition rights issued by the Company on June 7, 2018, all rights have been exercised after the end of the third quarter of the fiscal year under review by January 29, 2020.

The overview of the exercise of the rights is as follows.