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Consolidated Financial Results for the Three Months Ended June 30, 2020 [Japanese GAAP]

August 11, 2020

Company name: Menicon Co., Ltd.
Stock exchange listing: Tokyo, Nagoya
Code number: 7780

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Scheduled date of filing quarterly securities report: August 11, 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

CEO

Senior Executive Officer, Corporate Management

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

1. Consolidated Financial Results for the Three Months Ended June 30, 2020 (April 01, 2020 to June 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	%
Three months ended June 30, 2020	19,768	(4.1)	1,985	6.6	2,118	11.9	1,387	11.7
June 30, 2019	20,613	4.9	1,862	46.3	1,893	51.7	1,242	62.1

(Note) Comprehensive income: Three months ended June 30, 2020: ¥ 1,476 million [38.0%]
Three months ended June 30, 2019: ¥ 1,070 million [55.1%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2020	36.78	36.51
June 30, 2019	35.25	32.73

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Million yen	Million yen	%
June 30, 2020	92,680	53,902	58.0
March 31, 2020	87,286	53,520	61.2

(Reference) Equity: As of June 30, 2020: ¥ 53,770 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	-				
Fiscal year ending March 31, 2021 (Forecast)		0.00	-	28.00	28.00

(Note) Revision to the forecast for dividends announced most recently: Yes

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	112.78

(Note) Revision to the financial results forecast announced most recently: Yes

* Notes:

(1) Changes in significant subsidiaries during the three months ended June 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):

June 30, 2020: 38,027,444 shares

March 31, 2020: 38,015,944 shares

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

June 30, 2020: 287,836 shares

March 31, 2020: 287,836 shares

3) Average number of shares during the period:

Three months ended June 30, 2020: 37,734,448 shares

Three months ended June 30, 2019: 35,236,814 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

Regarding the world economy during the three months ended June 30, 2020, it experienced a temporary slowdown due to the global COVID-19 outbreak. Despite expectations for the economy to subsequently make a gradual recovery due to the economic policies implemented by each country, uncertainty about the future continued. Regarding the domestic economy, the declaration of a state of emergency due to the increase in the number of people infected with COVID-19 similarly resulted in a significant downturn in economic activity and the avoidance of business activities. Although the economic situation has been recovering since the state of emergency was lifted, the situation remains unpredictable.

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

Performances in individual businesses are as follows.

[Domestic Contact Lens Business]

Sales promotion activities were restricted as a result of reduced opening hours at the Group's retail shops and restrictions on the number of days they were allowed to open due to the COVID-19 outbreak. Under such circumstances, the Group focused on expanding the Menicon Eye Life Support (MELS) Plan business, which contributes to eye safety of contact lens users and stable earnings of the Company. Specifically, as well as working to raise awareness about the correct way to wear contact lenses to enable people to use contact lenses safely and conveniently through the MELS Plan, we promoted "MELS Delivery: mutan," a delivery service, and made efforts to increase sales of daily disposable contact lenses using "SMART TOUCH," which allows users to hygienically and easily insert their contact lenses.

In April, we opened the Menicon Miru Umeda Chayamachi store as our aim to create an attractive store that can be visited by various customers. As a "contact lens x lifestyle-proposal select shop," this shop offers proposals for products and lifestyles that will brighten people's daily lives. In addition to contact lenses, the shop offers a variety of natural, colorful products such as shampoos, nail products and hand creams that complement the Miru brand, making it a place where customers can experience the "joy of choosing" more than ever before.

[Overseas Contact Lens Business]

Overseas sales activities were also affected by the global avoidance of going outdoors and by shop closures aimed at controlling the COVID-19 outbreak. Nonetheless, we worked on activities to continue manufacturing and logistics activities and to expand sales in this environment while taking measures to prevent infections.

In Europe, we expanded and relocated our distribution center in Germany in order to strengthen our distribution functions in response to the expansion of the disposable contact lens market.

In Asia, we acquired an additional stake in Wenzhou FocuSee Vision Care Technologies Co., Ltd. in June 2020, and made it a wholly owned subsidiary. In recent years, the number of people in China with myopia and those who seek treatment for corneal irregular astigmatism has been increasing. We have therefore established a manufacturing base in China to supply hard contact lenses and specialty contact lenses to local medical institutions and patients within a short lead time. Going forward, we will strive to further expand our sales base with the technical support of the Company.

[Other Businesses]

The Veterinary Medical Business conducted by Meni-one Co., Ltd. was affected by COVID-19 in terms of sales, but focused on product planning. Specifically, we worked on preparations to launch "Iris Vet light," a veterinary-use eye examination device, as well as "Clear View 2," a fundus camera, and a granulated version of the "Vegetable support Doctor plus Glutamine & Oligo" supplement. In the Environmental and Bioscience Business, sales of decomposition agents for rice straw, etc. were robust. In the Life Science Business, we worked to expand sales of the "Pregna" series, supplements that support fertility treatment, "Luna rhythm" and "Meni supple" series with the supplements developed under the concept of supporting life.

In these circumstances, the Group's consolidated business results for the three months ended June 30, 2020 were affected by factors such as reduced opening hours at the Group's retail shops and restrictions on the number of days they were allowed to open due to the COVID-19 outbreak, and net sales of contact lens products decreased. On the other hand, membership in MELS Plan, which is a flat-rate membership system, increased from the same period of the previous year. As a result, net sales decreased by 4.1% year on year to ¥19,768 million. Operating profit increased by 6.6% year on year to ¥1,985 million due to a decrease in the ratio of selling, general and administrative expenses to net sales, despite an increase in the ratio of cost of sales to net sales. Ordinary profit increased by 11.9% year on year to ¥2,118 million, primarily due to COVID-19-related subsidy income recorded at overseas subsidiaries. Profit attributable to owners of parent was ¥1,387 million, an increase of 11.7% year on year.

(Business results by segment)

1) Contact Lens-related Business

Sales of the contact lens-related Business were ¥19,441 million, a decrease of 3.9% year on year. Segment profit was ¥3,182 million, an increase of 4.4% year on year.

Sales of the contact lens-related Business decreased by ¥784 million year on year. This was primarily due to a decrease in net sales of contact lens products of ¥1,245 million due to restricted sales activities at the Group's domestic retail shops and wholesale customers' outlets resulting from the COVID-19 outbreak. Meanwhile, MELS Plan memberships increased from the same period of the previous year, and sales also increased by ¥284 million.

Regarding the business in China, where the market continues to grow, sales of orthokeratology lenses and contact lens care products remained robust.

Segment profit grew from the same period of the previous year owing to the restricted use of selling, general and administrative expenses due to scaled-back sales activities.

2) Other

Sales of the other Businesses were ¥327 million for the three months ended June 30, 2020, a decrease of 15.7% year on year, as sales of medical equipment by Meni-one Co., Ltd. declined due to the COVID-19 outbreak. Segment loss was ¥146 million, compared with a segment loss of ¥103 million for the same period of the previous year.

(2) Explanation of Financial Position

(Assets)

Total assets at the end of the first quarter of the fiscal year under review were ¥92,680 million, having increased by ¥5,393 million from the end of the previous fiscal year. Current assets increased by ¥5,439 million to ¥47,161 million mainly owing to an increase in cash and deposits due to the execution of long-term borrowings. Non-current assets decreased by ¥45 million to ¥45,518 million due to the recording of depreciation, despite an increase in right of use assets associated with the expansion of the European Distribution Center.

(Liabilities and net assets)

Liabilities increased by ¥5,011 million from the end of the previous fiscal year to ¥38,777 million at the end of the first 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 ¥381 million from the end of the previous fiscal year to ¥53,902 million due to an increase in retained earnings resulting from the recording of profit attributable to owners of parent, despite the payment of cash dividends.

As a result, capital adequacy ratio was 58.0%.

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

As we were unable to predict the future spread of COVID-19 and the timing of its containment, forecast of consolidated business results for the fiscal year ending March 31, 2021 was undetermined due to the difficulty of reasonably forecasting the impact of COVID-19. However, we have calculated the forecast of consolidated business results based on the information and estimates currently available to the Company. The calculations are based on the assumption that social restrictions, including the declaration of another state of emergency, will not be enforced.

With the lifting of the state of emergency in Japan and the removal of restrictions on going out in regions overseas, the Group has resumed normal business, and sales are in a recovery trend. In the second half (the third and fourth quarters of the fiscal year under review), we will engage in sales promotion activities and business activities aimed at future business expansion, and expect that sales growth compared with the same period of the previous year will return to same level as usual years and that business results in the full year will be similar to the previous year's. Since MELS Plan is a membership system, we anticipate that sales will increase steadily from the previous year in line with the increase in membership.

As a result of taking the above assumptions into account with the actual results for the first quarter of the fiscal year under review, the consolidated business results forecast for the full year ending March 31, 2021 is for net sales of ¥84,839 million, operating profit of ¥6,838 million, ordinary profit of ¥6,821 million, and profit attributable to owners of parent of ¥4,256 million.

The above business results forecast is based on information currently available to the Company as of the date of publication of these materials and actual results may differ from forecasts due to various factors including the timing of the containment of the COVID-19 outbreak.

With regard to dividends, the Company recognizes that the continuous return of profits to shareholders is one of our most important management objectives, and our basic policy is to make continuous and stable dividend payments. The forecast of dividends for the fiscal year ending March 31, 2021 was undetermined due to the difficulty of forecasting consolidated business results for the fiscal year ending March 31, 2021; however, based on the above consolidated business results forecast and the above basic policy, we forecast a dividend payment of ¥28 per share.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31,2020	As of June 30,2020
Assets		
Current assets		
Cash and deposits	17,327	21,723
Notes and accounts receivable - trade	9,733	9,534
Merchandise and finished goods	9,798	10,694
Work in process	905	1,011
Raw materials and supplies	2,226	2,351
Other	1,878	1,998
Allowance for doubtful accounts	(148)	(153)
Total current assets	41,722	47,161
Non-current assets		
Property, plant and equipment		
Buildings and structures	20,895	21,349
Accumulated depreciation	(10,204)	(10,347)
Buildings and structures, net	10,690	11,002
Machinery, equipment and vehicles	22,447	22,734
Accumulated depreciation	(14,798)	(15,187)
Machinery, equipment and vehicles, net	7,649	7,546
Tools, furniture and fixtures	7,911	8,016
Accumulated depreciation	(6,559)	(6,663)
Tools, furniture and fixtures, net	1,352	1,352
Land	4,926	4,947
Leased assets	849	2,067
Accumulated depreciation	(726)	(764)
Leased assets, net	122	1,302
Right of use assets	4,782	5,269
Accumulated depreciation	(644)	(818)
Right of use assets, net	4,137	4,451
Construction in progress	5,793	4,552
Total property, plant and equipment	34,672	35,154
Intangible assets		
Goodwill	2,437	2,265
Patent right	975	914
Other	3,651	3,587
Total intangible assets	7,064	6,768
Investments and other assets		
Investment securities	505	515
Long-term loans receivable	48	47
Deferred tax assets	1,254	963
Other	2,033	2,080
Allowance for doubtful accounts	(15)	(10)
Total investments and other assets	3,826	3,596
Total non-current assets	45,564	45,518
Total assets	87,286	92,680

(Million yen)

	As of March 31,2020	As of June 30,2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,373	4,691
Short-term borrowings	77	155
Current portion of bonds payable	1,465	1,548
Current portion of long-term borrowings	1,798	1,751
Lease obligations	720	928
Accounts payable - other	4,583	2,539
Income taxes payable	1,398	576
Provision for bonuses	1,598	768
Provision for point card certificates	67	51
Other	5,669	5,422
Total current liabilities	21,751	18,435
Non-current liabilities		
Bonds payable	4,082	3,566
Long-term borrowings	1,692	9,276
Lease obligations	3,594	4,892
Long-term accounts payable - other	1,485	1,455
Retirement benefit liability	622	616
Deferred tax liabilities	339	334
Asset retirement obligations	105	107
Other	93	92
Total non-current liabilities	12,014	20,342
Total liabilities	33,765	38,777
Net assets		
Shareholders' equity		
Share capital	5,396	5,400
Deposits for subscriptions of shares	1	-
Capital surplus	6,658	6,626
Retained earnings	42,764	43,096
Treasury shares	(441)	(441)
Total shareholders' equity	54,378	54,681
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	20	43
Foreign currency translation adjustment	(1,020)	(954)
Total accumulated other comprehensive income	(999)	(910)
Share acquisition rights	88	86
Non-controlling interests	53	45
Total net assets	53,520	53,902
Total liabilities and net assets	87,286	92,680

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

(Million yen)

	For the three months ended June 30,2019	For the three months ended June 30,2020
Net sales	20,613	19,768
Cost of sales	9,460	9,337
Gross profit	11,152	10,430
Selling, general and administrative expenses	9,290	8,445
Operating profit	1,862	1,985
Non-operating income		
Interest income	1	0
Dividend income	5	6
Foreign exchange gains	4	-
Subsidy income	41	156
Other	56	53
Non-operating income	109	216
Non-operating expenses		
Interest expenses	41	53
Share of loss of entities accounted for using equity method	24	6
Foreign exchange losses	-	11
Other	11	13
Non-operating expenses	77	84
Ordinary profit	1,893	2,118
Extraordinary income		
Gain on sales of non-current assets	0	0
Subsidy income	4	-
Extraordinary income	4	0
Extraordinary losses		
Loss on retirement of non-current assets	7	16
Other	-	3
Extraordinary losses	7	19
Profit before income taxes	1,889	2,098
Income taxes - current	287	427
Income taxes - deferred	359	283
Income taxes	646	710
Profit	1,242	1,387
Profit (loss) attributable to non-controlling interests	0	(0)
Profit attributable to owners of parent	1,242	1,387

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

(Million yen)

	For the three months ended June 30,2019	For the three months ended June 30,2020
Profit	1,242	1,387
Other comprehensive income		
Valuation difference on available-for-sale securities	(16)	23
Foreign currency translation adjustment	(141)	71
Share of other comprehensive income of entities accounted for using equity method	(14)	(5)
Total other comprehensive income	(172)	89
Comprehensive income	1,070	1,476
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,069	1,477
Comprehensive income attributable to non-controlling interests	0	(0)

(3) 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)

For the three months ended June 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	20,225	20,225	388	20,613
Inter-segment net sales or transfers	—	—	—	—
Total	20,225	20,225	388	20,613
Segment profit (loss)	3,047	3,047	(103)	2,943

(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	3,047
Profit of “Other”	(103)
Corporate expenses (Note)	(1,081)
Operating profit stated in the consolidated statement of income	1,862

(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 three months ended June 30, 2020

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	19,441	19,441	327	19,768
Inter-segment net sales or transfers	-	-	-	-
Total	19,441	19,441	327	19,768
Segment profit (loss)	3,182	3,182	(146)	3,035

(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	3,182
Profit of “Other”	(146)
Corporate expenses (Note)	(1,049)
Operating profit stated in the consolidated statement of income	1,985

(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.