

## Lacto Japan | 3139 |

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On **July 13, 2020**, Lacto Japan Co., Ltd. announced earnings results for 1H FY11/20.

|         |            | Sales<br>(JPYmn) | YoY   | Operating profit<br>(JPYmn) | YoY    | Ordinary income<br>(JPYmn) | YoY    | Net income<br>(JPYmn) | YoY    | EPS<br>(JPY) | BPS<br>(JPY) | ROA<br>(OI-based) | ROE   |
|---------|------------|------------------|-------|-----------------------------|--------|----------------------------|--------|-----------------------|--------|--------------|--------------|-------------------|-------|
| FY11/14 | Cons.      | 96,550           | 27.1% | 1,532                       | 118.8% | 1,653                      | -1.0%  | 988                   | -1.9%  | 127.79       | 1,165.58     | 4.5%              | 12.2% |
| FY11/15 | Cons.      | 98,001           | 1.5%  | 720                         | -53.0% | 1,343                      | -18.8% | 831                   | -15.9% | 98.94        | 1,062.54     | 3.3%              | 8.5%  |
| FY11/16 | Cons.      | 88,679           | -9.5% | 3,349                       | 365.1% | 1,434                      | 6.8%   | 946                   | 13.8%  | 96.79        | 1,167.72     | 3.7%              | 8.7%  |
| FY11/17 | Cons.      | 101,335          | 14.3% | 1,924                       | -42.6% | 2,523                      | 75.9%  | 1,755                 | 85.5%  | 179.48       | 1,302.98     | 6.0%              | 14.5% |
| FY11/18 | Cons.      | 115,441          | 13.9% | 3,009                       | 56.4%  | 2,613                      | 3.6%   | 1,784                 | 1.7%   | 182.31       | 1,462.35     | 5.5%              | 13.2% |
| FY11/19 | Cons.      | 116,794          | 1.2%  | 3,144                       | 4.5%   | 2,747                      | 5.1%   | 1,963                 | 10.0%  | 200.11       | 1,618.31     | 5.7%              | 13.0% |
| FY11/20 | Est. Cons. | 130,000          | 11.3% | -                           | -      | 3,000                      | 9.2%   | 2,100                 | 7.0%   | 213.62       | -            | -                 | -     |

Source: Shared Research based on company data

Note: Figures rounded to the nearest million yen (amounts less than JPY1mn are rounded down in materials released by the company).

### 1H FY11/20 earnings results

#### Summary

- ▶ In 1H FY11/20, Lacto Japan posted consolidated sales of JPY57.9bn (+0.3% YoY), operating profit of JPY1.6bn (-1.7% YoY), ordinary income of JPY1.4bn (+14.5% YoY), and net income attributable to parent company shareholders of JPY1.0bn (+17.2% YoY).
- ▶ Consolidated sales in 1H reached 93.4% of the company's 1H FY11/20 forecast, with ordinary income at 102.4% , and net income at 106.2%. Consolidated sales in 1H reached 44.5% of the company's full-year FY11/20 forecast (1H FY11/19 sales were at 49.4% of FY11/19 results), with ordinary income at 47.8% (45.6%), and net income at 49.5% (45.2%). The company maintained its full-year FY11/20 forecast.
- ▶ The impact of the COVID-19 pandemic was particularly noticeable from April 2020. In the food industry, demand for commercial foodstuffs fell, particularly for restaurants, as people refrained from going out amid the COVID-19 outbreak. On the other hand, demand trends changed significantly with rapid demand growth in foodstuffs for home-cooked meals and prepared meals, otherwise referred to as "stay-at-home consumption." On the supply side, the demand–supply imbalance of dairy ingredients triggered by sluggish demand for commercial foodstuffs led to a fall in prices globally. Meanwhile, in Japan there were changes in the business environment, such as an increase in dairy product inventories mainly due to the suspension of school lunches.
- ▶ Against this backdrop, Lacto Japan worked closely with its overseas bases and suppliers to respond quickly and appropriately to fluctuating demand and to ensure a stable supply of ingredients. As a result, despite fluctuations in demand by product and end-market, sales volumes were down only slightly YoY, as sales of ingredients for home-cooked and prepared meals, which expanded rapidly both in Japan and overseas, offset the slump in sales to restaurants.
- ▶ Sales up 0.3% YoY: In addition to the decline in sales volume due to the COVID-19 pandemic, results were affected by the strong yen and lower selling prices driven by falling global dairy market prices. Meanwhile, the company managed to keep sales flat YoY thanks to progress in its Asia Business as well as its offering of competitively priced products by

leveraging the group's procurement capabilities. Sales fell 6.4% YoY for the Dairy Ingredients and Cheese category, but were flat YoY for the Meat Products category and up 33.0% YoY for the Asia Business and other businesses.

- ▶ Operating profit down 1.7% YoY: The gross profit margin improved by 0.1pp YoY to 5.9% as the company proactively supplied competitively priced products leveraging its strength in procurement. SG&A-to-sales ratio rose 0.2pp YoY to 3.2% and the operating profit margin fell 0.1pp YoY to 2.7%.
- ▶ Ordinary income up 14.5% YoY: Ordinary income increased YoY as foreign exchange losses\* narrowed from JPY185mn in 1H FY11/19 to JPY39mn in 1H FY11/20.

\*In order to avoid taking on exchange rate risk in the course of regular business transactions, as a rule the company enters into forward exchange contracts to cover the cost of the purchases made in foreign currencies at the time the contract is signed. Meanwhile, regarding the accounting treatment of the purchase transaction, procurement (purchase) is recorded at the time of shipment, which creates a lag from the point in time the purchase contract is signed. If the yen strengthens during that timeframe, the exchange rate will be lower than the forward rate at purchase and the actual cost of the goods will be lower than the cost based on forward exchange rate secured at the time the contract was concluded. Lacto Japan calculates its gross profit using the cost of goods sold based on the forward exchange rate at the time the goods were purchased, and records a forex hedging loss under non-operating expenses as a foreign exchange loss.

### Breakdown by business category

Dairy Ingredients and Cheese: Sales JPY39.9bn (-6.4% YoY)

- ▶ In the dairy ingredients business, domestic inventories of skim milk powder and butter, which were already at a high level, further increased due to a surplus of drinking milk caused by the suspension of milk supply for school lunches and a significant decline in commercial demand for restaurants and gift confectioneries. As a result, sales of imported dairy ingredients to major dairy companies were sluggish. On the other hand, sales of dairy ingredients for home-cooked meals to non-dairy food and confectionery manufacturers as well as beverage manufacturers were steady, while sales to feed manufacturers were also strong. As a result, both sales volume and sales declined only slightly YoY despite the challenging business environment.
- ▶ In the cheese business, despite the rising demand for home-cooked meals, both sales volume and sales fell YoY as the decline in demand for restaurants had a more pronounced effect on cheese than for other dairy ingredients, and lower tariffs resulted in lower selling prices.
- ▶ Sales volume fell 1.8% YoY to 98,294 tons.
- ▶ The company's outlook for the business environment is as follows:
  - While the demand–supply balance of drinking milk may be tightened due to shorter summer holidays of elementary and junior high schools as well as hot summer weather, there is still uncertainty in domestic demand due to the COVID-19 outbreak, and the domestic demand–supply balance for raw milk remains unstable.
  - As a result of the above, domestic skim milk powder inventories may be consumed slower than initially forecast.
  - The company expects to see the effects of the demand–supply mitigation program starting in 2H FY11/20. The program was initiated by Agriculture & Livestock Industries Corporation in response to the suspension of milk supply for school lunches. However, there is steady demand for imported dairy ingredients, which are more price-competitive, and the company plans to leverage its procurement capabilities to grow sales in this area.

- Special demand such as for hoarding by individuals and stay-at-home consumption slowed down, but the company expects restaurant and commercial demand to partially recover.

#### Meat Products: Sales JPY6.1bn (+0.0% YoY)

- ▶ Sales of the company's mainstay pork and pork-based products were strong, owing to growth in demand for home-cooked meals in Japan. In addition to the increase in sales of chilled pork for home-cooked meals, sales of pork-based products that are used as ingredients for hams and sausages grew significantly. In late April 2020, several US pork manufacturers were forced to shut down plants due to the COVID-19 outbreak, spreading concerns over reduced supplies. However, the company was able to fully meet domestic demand as its key US manufacturer and supplier managed to continue deliveries without any disruptions.
- ▶ Sales of meat products, such as dry-cured ham and salami, which are in high demand from the restaurant industry, were sluggish.
- ▶ The meat products business as a whole saw a YoY increase in sales volume, supported by strong sales of mainstay products, but sales were up only slightly YoY due to a decline in selling prices.
- ▶ Sales volume rose 9.0% YoY to 11,453 tons.
- ▶ The company's outlook for the business environment is as follows:
  - Although the plants of major US pork manufacturers have reopened, production efficiency declined due to labor shortages and social distance policies. As such, the impact on the imported pork market is a cause for concern.
  - The timing of demand recovery in the restaurant industry is dependent on developments surrounding the COVID-19 pandemic. However, the company expects continued demand for home-cooked and prepared meals.

#### Asia Business and other: Sales JPY11.9bn (+33.0% YoY)

##### Dairy ingredients: Sales JPY10.1bn (+38.8% YoY)

- ▶ Sales in the dairy ingredients category were strong. In the major sales regions of Singapore and the Philippines, restrictions on activities to prevent the spread of COVID-19 were tighter than in Japan. However, as a part of the social infrastructure supporting livelihoods, food manufacturers, which are the company's main customers, continued production. As a result, sales volume grew substantially, especially to food and beverage manufacturers catering to local demand for home-cooked meals. Sales growth in the Philippines and Thailand, where the company has stepped up sales activities, also contributed.
- ▶ Sales for the food service industry including restaurants were affected by weak demand caused by the COVID-19 pandemic. However, the impact was limited as food service only accounts for a small portion of sales.
- ▶ As a whole, the Asia Business and other businesses saw a significant YoY increase in both sales volume and sales.
- ▶ Sales volume rose 25.2% YoY to 34,921 tons.
- ▶ The company's outlook for the business environment is as follows:

- Although global raw milk production is relatively stable, depending on the developments surrounding the COVID-19 outbreak, demand trends may be affected. This can trigger a demand–supply imbalance that may cause global market conditions to change significantly.
- The company will focus on expanding sales by leveraging its ability to procure supplies from diverse sources.

#### Cheese manufacturing and sales: Sales JPY1.4bn (+5.3% YoY)

- ▶ In the cheese manufacturing and sales category, the effects of the COVID-19 pandemic became apparent in Q2. In particular, sales to the food service industry including restaurants, which have been the driving force behind the category’s sales growth, were down significantly. On the other hand, sales to food manufacturers were strong, and inquiries from China, where lockdowns were lifted, began to recover in the second half of April. As a result, both sales volume and sales grew YoY.
- ▶ During Q2, the company thoroughly implemented infection prevention measures for employees in its plants in Singapore, Thailand, and Indonesia, and was able to continue production.
- ▶ Sales volume increased 9.9% YoY to 1,983 tons.
- ▶ The company’s outlook for the business environment is as follows:
  - The pace of recovery for restaurant demand is dependent on developments surrounding the COVID-19 pandemic. However, Lacto Japan expects cheese demand in Asia to remain strong in the medium to long term.
  - The company expects to start new commercial foodstuffs transactions in 2H and anticipates future growth.
  - Despite increasing competition in the cheese manufacturing and sales category, the company’s customer-tailored product development approach has proven successful, and contributed to profits as well as expanded business dealings.

#### **Financial position**

- ▶ Current assets of JPY48.2bn were up JPY2.4bn versus the end of FY11/19. Cash and deposits, notes and accounts receivable, inventories, and merchandise and finished goods increased. Fixed assets of JPY2.5bn were up JPY183mn versus the end of FY11/19, largely as a reflection of increases in tangible fixed assets and investment and other assets in line with the acquisition of leased assets.
- ▶ Current liabilities of JPY26.8bn were down JPY440mn versus the end of FY11/19. While accounts payable and short-term borrowings increased, current portion of long-term borrowings declined. Fixed liabilities of JPY7.2bn were up JPY2.2bn versus the end of FY11/19, due mainly to an increase in long-term borrowings.
- ▶ Net assets of JPY16.8bn were up JPY831mn versus the end of FY11/19, as increases in valuation differences on available-for-sale securities, deferred gains on hedges, and retained earnings offset a decline in the foreign currency translation adjustment.

Quarterly (cumulative) earnings

| Cumulative (JPY mn)                | FY11/18 |         |         |         | FY11/19 |         |         |         | FY11/20 |        |       |       |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------|-------|-------|
|                                    | Q1      | Q2      | Q3      | Q4      | Q1      | Q2      | Q3      | Q4      | Q1      | Q2     | Q3    | Q4    |
|                                    | Cons.   | Cons.   | Cons.   | Cons.   | Cons.   | Cons.   | Cons.   | Cons.   | Cons.   | Cons.  | Cons. | Cons. |
| Sales                              | 29,462  | 59,165  | 87,943  | 115,441 | 27,886  | 57,712  | 87,536  | 116,794 | 28,222  | 57,912 |       |       |
| YoY                                | 35.3%   | 27.3%   | 20.7%   | 13.9%   | -5.3%   | -2.5%   | -0.5%   | 1.2%    | 1.2%    | 0.3%   |       |       |
| Dairy Ingredients and Cheese       | 21,972  | 43,812  | 65,668  | 85,290  | 21,109  | 42,675  | 64,795  | 85,206  | 20,061  | 39,927 |       |       |
| YoY                                | 61.9%   | 46.4%   | 33.5%   | 21.8%   | -3.9%   | -2.6%   | -1.3%   | -0.1%   | -5.0%   | -6.4%  |       |       |
| % of sales                         | 74.6%   | 74.1%   | 74.7%   | 73.9%   | 75.7%   | 73.9%   | 74.0%   | 73.0%   | 71.1%   | 68.9%  |       |       |
| Meat Products                      | 3,337   | 6,616   | 9,607   | 12,576  | 2,941   | 6,104   | 9,291   | 12,280  | 2,900   | 6,107  |       |       |
| YoY                                | -22.4%  | -21.1%  | -19.3%  | -17.6%  | -11.8%  | -7.7%   | -3.3%   | -2.4%   | -1.4%   | 0.0%   |       |       |
| % of sales                         | 11.3%   | 11.2%   | 10.9%   | 10.9%   | 10.5%   | 10.6%   | 10.6%   | 10.5%   | 10.3%   | 10.5%  |       |       |
| Asia Business and other            | 4,151   | 8,735   | 12,667  | 17,574  | 3,834   | 8,932   | 13,449  | 19,308  | 5,259   | 11,876 |       |       |
| YoY                                | 6.4%    | 6.9%    | 7.9%    | 9.4%    | -7.6%   | 2.3%    | 6.2%    | 9.9%    | 37.2%   | 33.0%  |       |       |
| % of sales                         | 14.1%   | 14.8%   | 14.4%   | 15.2%   | 13.7%   | 15.5%   | 15.4%   | 16.5%   | 18.6%   | 20.5%  |       |       |
| Dairy ingredients                  | 3,436   | 7,302   | 10,431  | 14,578  | 2,992   | 7,303   | 11,013  | 16,026  | 4,411   | 10,138 |       |       |
| YoY                                | 5.6%    | 6.1%    | 6.7%    | 9.2%    | -12.9%  | 0.0%    | 5.6%    | 9.9%    | 47.4%   | 38.8%  |       |       |
| % of sales                         | 11.7%   | 12.3%   | 11.9%   | 12.6%   | 10.7%   | 12.7%   | 12.6%   | 13.7%   | 15.6%   | 17.5%  |       |       |
| Cheese                             | 499     | 997     | 1,552   | 2,116   | 658     | 1,284   | 1,963   | 2,651   | 680     | 1,352  |       |       |
| YoY                                | 10.0%   | 12.1%   | 13.1%   | 10.3%   | 31.9%   | 28.8%   | 26.5%   | 25.3%   | 3.3%    | 5.3%   |       |       |
| % of sales                         | 1.7%    | 1.7%    | 1.8%    | 1.8%    | 2.4%    | 2.2%    | 2.2%    | 2.3%    | 2.4%    | 2.3%   |       |       |
| Other                              | 216     | 436     | 684     | 880     | 184     | 345     | 473     | 630     | 168     | 386    |       |       |
| YoY                                | 9.6%    | 9.5%    | 15.5%   | 10.8%   | -14.8%  | -20.9%  | -30.8%  | -28.4%  | -8.7%   | 11.9%  |       |       |
| % of sales                         | 0.7%    | 0.7%    | 0.8%    | 0.8%    | 0.7%    | 0.6%    | 0.5%    | 0.5%    | 0.6%    | 0.7%   |       |       |
| < Sales volume (tons)>             |         |         |         |         |         |         |         |         |         |        |       |       |
| Dairy Ingredients and Cheese       | 53,509  | 104,168 | 154,317 | 198,445 | 49,784  | 100,139 | 152,953 | 204,105 | 49,413  | 98,294 |       |       |
| YoY                                | 49.6%   | 37.9%   | 25.2%   | 14.8%   | -7.0%   | -3.9%   | -0.9%   | 2.9%    | -0.7%   | -1.8%  |       |       |
| Meat Products                      | 5,789   | 11,366  | 16,505  | 21,595  | 4,985   | 10,511  | 16,317  | 21,532  | 5,220   | 11,453 |       |       |
| YoY                                | -22.7%  | -22.0%  | -19.9%  | -18.0%  | -13.9%  | -7.5%   | -1.1%   | -0.3%   | 4.7%    | 9.0%   |       |       |
| Asia Business: dairy ingredients   | 11,977  | 26,431  | 38,409  | 52,822  | 11,298  | 27,892  | 41,746  | 59,925  | 14,676  | 34,921 |       |       |
| YoY                                | 10.4%   | 14.4%   | 15.8%   | 17.3%   | -5.7%   | 5.5%    | 8.7%    | 13.4%   | 29.9%   | 25.2%  |       |       |
| Asia Business: cheese              | 643     | 1,289   | 1,950   | 2,668   | 874     | 1,804   | 2,732   | 3,737   | 1,014   | 1,983  |       |       |
| YoY                                | 4.6%    | 9.8%    | 8.0%    | 6.3%    | 35.8%   | 40.0%   | 40.1%   | 40.1%   | 16.0%   | 9.9%   |       |       |
| < Unit price (JPY/kg) >            |         |         |         |         |         |         |         |         |         |        |       |       |
| Dairy Ingredients and Cheese       | 411     | 421     | 426     | 430     | 424     | 426     | 424     | 417     | 406     | 406    |       |       |
| YoY                                | 8.2%    | 6.2%    | 6.6%    | 6.1%    | 3.3%    | 1.3%    | -0.4%   | -2.9%   | -4.3%   | -4.7%  |       |       |
| Meat Products                      | 576     | 582     | 582     | 582     | 590     | 581     | 569     | 570     | 556     | 533    |       |       |
| YoY                                | 0.4%    | 1.2%    | 0.7%    | 0.6%    | 2.3%    | -0.2%   | -2.2%   | -2.1%   | -5.8%   | -8.2%  |       |       |
| Asia Business: dairy ingredients   | 287     | 276     | 272     | 276     | 265     | 262     | 264     | 267     | 301     | 290    |       |       |
| YoY                                | -4.3%   | -7.2%   | -7.8%   | -6.9%   | -7.7%   | -5.2%   | -2.9%   | -3.1%   | 13.5%   | 10.9%  |       |       |
| Asia Business: cheese              | 776     | 773     | 796     | 793     | 753     | 712     | 719     | 709     | 671     | 682    |       |       |
| YoY                                | 5.4%    | 2.1%    | 4.8%    | 3.7%    | -3.0%   | -8.0%   | -9.7%   | -10.6%  | -10.9%  | -4.2%  |       |       |
| CoGS                               | 27,942  | 56,028  | 83,001  | 108,930 | 26,319  | 54,347  | 82,387  | 109,994 | 26,535  | 54,505 |       |       |
| YoY                                | 38.1%   | 28.4%   | 20.7%   | 13.5%   | -5.8%   | -3.0%   | -0.7%   | 1.0%    | 0.8%    | 0.3%   |       |       |
| CoGS ratio                         | 94.8%   | 94.7%   | 94.4%   | 94.4%   | 94.4%   | 94.2%   | 94.1%   | 94.2%   | 94.0%   | 94.1%  |       |       |
| Gross profit                       | 1,519   | 3,137   | 4,942   | 6,511   | 1,567   | 3,365   | 5,149   | 6,801   | 1,686   | 3,407  |       |       |
| YoY                                | -1.3%   | 9.7%    | 21.9%   | 20.9%   | 3.1%    | 7.3%    | 4.2%    | 4.4%    | 7.6%    | 1.2%   |       |       |
| GPM                                | 5.2%    | 5.3%    | 5.6%    | 5.6%    | 5.6%    | 5.8%    | 5.9%    | 5.8%    | 6.0%    | 5.9%   |       |       |
| SG&A expenses                      | 752     | 1,657   | 2,568   | 3,502   | 831     | 1,757   | 2,660   | 3,656   | 922     | 1,826  |       |       |
| YoY                                | -1.3%   | 3.7%    | 6.7%    | 1.1%    | 10.4%   | 6.0%    | 3.6%    | 4.4%    | 10.9%   | 3.9%   |       |       |
| SG&A ratio                         | 2.6%    | 2.8%    | 2.9%    | 3.0%    | 3.0%    | 3.0%    | 3.0%    | 3.1%    | 3.3%    | 3.2%   |       |       |
| Operating profit                   | 767     | 1,480   | 2,374   | 3,009   | 736     | 1,608   | 2,490   | 3,144   | 764     | 1,581  |       |       |
| YoY                                | -1.4%   | 17.2%   | 44.0%   | 56.4%   | -4.0%   | 8.7%    | 4.9%    | 4.5%    | 3.8%    | -1.7%  |       |       |
| OPM                                | 2.6%    | 2.5%    | 2.7%    | 2.6%    | 2.6%    | 2.8%    | 2.8%    | 2.7%    | 2.7%    | 2.7%   |       |       |
| Gains (losses) on foreign exchange | 38      | -219    | -256    | -135    | -116    | -185    | -186    | -114    | 15      | -39    |       |       |
| YoY                                | -93.8%  | -       | -       | -       | -       | -       | -       | -       | -       | -      |       |       |
| % of sales                         | 0.1%    | -0.4%   | -0.3%   | -0.1%   | -0.4%   | -0.3%   | -0.2%   | -0.1%   | 0.1%    | -0.1%  |       |       |
| OP + Gains (losses) on forex       | 805     | 1,261   | 2,118   | 2,874   | 620     | 1,423   | 2,303   | 3,030   | 780     | 1,542  |       |       |
| YoY                                | -42.1%  | -35.9%  | -17.7%  | -6.8%   | -22.9%  | 12.8%   | 8.8%    | 5.4%    | 25.7%   | 8.4%   |       |       |
| % of sales                         | 2.7%    | 2.1%    | 2.4%    | 2.5%    | 2.2%    | 2.5%    | 2.6%    | 2.6%    | 2.8%    | 2.7%   |       |       |
| Ordinary income                    | 746     | 1,133   | 1,924   | 2,613   | 536     | 1,253   | 2,087   | 2,747   | 753     | 1,434  |       |       |
| YoY                                | -41.4%  | -36.1%  | -17.1%  | 3.6%    | -28.2%  | 10.5%   | 8.4%    | 5.1%    | 40.6%   | 14.5%  |       |       |
| Profit margin                      | 2.5%    | 1.9%    | 2.2%    | 2.3%    | 1.9%    | 2.2%    | 2.4%    | 2.4%    | 2.7%    | 2.5%   |       |       |
| Net income                         | 493     | 736     | 1,291   | 1,784   | 376     | 888     | 1,490   | 1,963   | 546     | 1,040  |       |       |
| YoY                                | -42.5%  | -38.7%  | -17.9%  | 1.7%    | -23.8%  | 20.5%   | 15.4%   | 10.0%   | 45.3%   | 17.2%  |       |       |
| Net margin                         | 1.7%    | 1.2%    | 1.5%    | 1.5%    | 1.3%    | 1.5%    | 1.7%    | 1.7%    | 1.9%    | 1.8%   |       |       |
| Foreign exchange                   |         |         |         |         |         |         |         |         |         |        |       |       |
| USD/JPY                            | 110.61  | 109.18  | 109.73  | 110.47  | 110.62  | 110.78  | 109.71  | 109.33  | 109.53  | 108.55 |       |       |
| EUR/JPY                            | 134.17  | 132.52  | 131.34  | 130.91  | 125.89  | 125.30  | 123.73  | 122.63  | 120.87  | 119.33 |       |       |

Source: Shared Research based on company data

Note: Figures rounded to the nearest million yen (amounts less than JPY1mn are rounded down in materials released by the company).

Quarterly earnings (three months)

| Quarterly (JPYmn)                  | FY11/18 |        |        |        | FY11/19 |        |        |        | FY11/20 |        |       |       |
|------------------------------------|---------|--------|--------|--------|---------|--------|--------|--------|---------|--------|-------|-------|
|                                    | Q1      | Q2     | Q3     | Q4     | Q1      | Q2     | Q3     | Q4     | Q1      | Q2     | Q3    | Q4    |
|                                    | Cons.   | Cons.  | Cons.  | Cons.  | Cons.   | Cons.  | Cons.  | Cons.  | Cons.   | Cons.  | Cons. | Cons. |
| Sales                              | 29,462  | 29,703 | 28,778 | 27,498 | 27,886  | 29,826 | 29,824 | 29,258 | 28,222  | 29,690 |       |       |
| YoY                                | 35.3%   | 20.3%  | 9.1%   | -3.5%  | -5.3%   | 0.4%   | 3.6%   | 6.4%   | 1.2%    | -0.5%  |       |       |
| CoGS                               | 27,942  | 28,085 | 26,974 | 25,929 | 26,319  | 28,028 | 28,040 | 27,607 | 26,535  | 27,969 |       |       |
| YoY                                | 38.1%   | 20.1%  | 7.2%   | -4.5%  | -5.8%   | -0.2%  | 4.0%   | 6.5%   | 0.8%    | -0.2%  |       |       |
| CoGS ratio                         | 94.8%   | 94.6%  | 93.7%  | 94.3%  | 94.4%   | 94.0%  | 94.0%  | 94.4%  | 94.0%   | 94.2%  |       |       |
| Gross profit                       | 1,519   | 1,618  | 1,805  | 1,569  | 1,567   | 1,798  | 1,784  | 1,651  | 1,686   | 1,721  |       |       |
| YoY                                | -1.3%   | 22.6%  | 51.0%  | 17.8%  | 3.1%    | 11.1%  | -1.1%  | 5.2%   | 7.6%    | -4.3%  |       |       |
| GPM                                | 5.2%    | 5.4%   | 6.3%   | 5.7%   | 5.6%    | 6.0%   | 6.0%   | 5.6%   | 6.0%    | 5.8%   |       |       |
| SG&A expenses                      | 752     | 905    | 910    | 934    | 831     | 926    | 903    | 997    | 922     | 904    |       |       |
| YoY                                | -1.3%   | 8.4%   | 12.7%  | -11.7% | 10.4%   | 2.3%   | -0.9%  | 6.7%   | 10.9%   | -2.4%  |       |       |
| SG&A ratio                         | 2.6%    | 3.0%   | 3.2%   | 3.4%   | 3.0%    | 3.1%   | 3.0%   | 3.4%   | 3.3%    | 3.0%   |       |       |
| Operating profit                   | 767     | 713    | 894    | 635    | 736     | 872    | 882    | 655    | 764     | 817    |       |       |
| YoY                                | -1.4%   | 47.1%  | 131.1% | 131.2% | -4.0%   | 22.3%  | -1.4%  | 3.1%   | 3.8%    | -6.3%  |       |       |
| OPM                                | 2.6%    | 2.4%   | 3.1%   | 2.3%   | 2.6%    | 2.9%   | 3.0%   | 2.2%   | 2.7%    | 2.8%   |       |       |
| Gains (losses) on foreign exchange | 38      | -257   | -37    | 121    | -116    | -69    | -1     | 72     | 15      | -54    |       |       |
| YoY                                | -93.8%  | -      | -      | -48.3% | -       | -      | -      | -40.3% | -       | -      |       |       |
| % of sales                         | 0.1%    | -0.9%  | -0.1%  | 0.4%   | -0.4%   | -0.2%  | 0.0%   | 0.2%   | 0.1%    | -0.2%  |       |       |
| OP + Gains (losses) on forex       | 805     | 456    | 857    | 756    | 620     | 802    | 881    | 727    | 780     | 762    |       |       |
| YoY                                | -42.1%  | -21.2% | 41.3%  | 48.7%  | -22.9%  | 75.9%  | 2.7%   | -3.9%  | 25.7%   | -5.0%  |       |       |
| % of sales                         | 2.7%    | 1.5%   | 3.0%   | 2.7%   | 2.2%    | 2.7%   | 3.0%   | 2.5%   | 2.8%    | 2.6%   |       |       |
| Ordinary income                    | 746     | 388    | 791    | 688    | 536     | 717    | 834    | 660    | 753     | 680    |       |       |
| YoY                                | -41.4%  | -22.6% | 44.5%  | 240.7% | -28.2%  | 84.9%  | 5.5%   | -4.1%  | 40.6%   | -5.1%  |       |       |
| Profit margin                      | 2.5%    | 1.3%   | 2.7%   | 2.5%   | 1.9%    | 2.4%   | 2.8%   | 2.3%   | 2.7%    | 2.3%   |       |       |
| Net income                         | 493     | 243    | 555    | 493    | 376     | 512    | 602    | 473    | 546     | 495    |       |       |
| YoY                                | -42.5%  | -29.2% | 48.9%  | 170.8% | -23.8%  | 110.6% | 8.6%   | -4.0%  | 45.3%   | -3.4%  |       |       |
| Net margin                         | 1.7%    | 0.8%   | 1.9%   | 1.8%   | 1.3%    | 1.7%   | 2.0%   | 1.6%   | 1.9%    | 1.7%   |       |       |

Source: Shared Research based on company data

Note: Figures rounded to the nearest million yen (amounts less than JPY1mn are rounded down in materials released by the company).

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