

Translation

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Summary of Consolidated Financial Results for the Six Months Ended August 31, 2019 (Based on Japanese GAAP)

October 4, 2019

Company name: WARABEYA NICHIO HOLDINGS CO., LTD.
 Stock exchange listing: Tokyo
 Stock code: 2918 URL <http://www.warabeya.co.jp/>
 Representative: Representative Director, President Hiroyuki Otomo
 Inquiries: Director, Managing Executive Officer Naoshi Asano TEL 03-5363-7010
 Scheduled date to file Quarterly Securities Report: October 7, 2019
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended August 31, 2019 (from March 1, 2019 to August 31, 2019)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended August 31, 2019	109,816	(1.6)	1,974	16.5	2,118	5.3	674	(25.1)
Six months ended August 31, 2018	111,575	(0.6)	1,694	(47.2)	2,011	(43.8)	900	(58.1)

(Note) Comprehensive income: Six months ended August 31, 2019: ¥538 million [(36.4)%]
 Six months ended August 31, 2018: ¥846 million [(57.8)%]

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 31, 2019	38.40	–
Six months ended August 31, 2018	51.33	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of August 31, 2019	87,681	44,064	50.1
As of February 28, 2019	84,635	44,242	52.1

(Reference) Equity capital: As of August 31, 2019: ¥43,912 million
 As of February 28, 2019: ¥44,120 million

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended February 28, 2019	–	0.00	–	40.00	40.00
Year ending February 29, 2020	–	0.00	–	–	–
Year ending February 29, 2020 (Forecast)	–	–	–	40.00	40.00

(Note) Revisions to the most recently announced dividends forecasts: None

3. Forecast of consolidated financial results for the year ending February 29, 2020 (from March 1, 2019 to February 29, 2020)

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	214,000	(0.8)	2,500	63.8	2,700	52.8	700	14.7	39.88

(Note) Revisions to the most recently announced financial forecasts: None

* Notes

- (1) Changes in significant subsidiaries during the six months ended August 31, 2019
(changes in specified subsidiaries resulting in the change in scope of consolidation): No
Newly consolidated: – Excluded: –
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
Changes in accounting policies due to revisions to accounting standards and other regulations: No
Changes in accounting policies due to other reasons: No
Changes in accounting estimates: Yes
Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of August 31, 2019	:	17,625,660 shares	As of February 28, 2019	:	17,625,660 shares
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Number of treasury shares at the end of the period

As of August 31, 2019	:	72,882 shares	As of February 28, 2019	:	74,162 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended August 31, 2019	:	17,552,149 shares	Six months ended August 31, 2018	:	17,542,619 shares
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(Note) The Company has established a BIP Trust. Shares of the Company held by the trust are included in treasury shares.

* This financial summary document is outside the scope of audit.

* Explanation of appropriate use of forecasts of financial results, and other important items:

Financial forecasts and other forward-looking statements in this document are based on information available at the time of preparation and on certain assumptions that are deemed to be reasonable. These forward-looking statements are not guarantees of future performance and actual results may differ materially from these forecasts due to a variety of reasons.

Quarterly consolidated financial statements
(1) Consolidated balance sheets

(Millions of Yen)

	As of February 28, 2019	As of August 31, 2019
Assets		
Current assets		
Cash and deposits	3,057	6,195
Notes and accounts receivable - trade	17,403	21,132
Merchandise and finished goods	3,810	3,849
Raw materials and supplies	947	1,054
Other	1,959	1,507
Allowance for doubtful accounts	(0)	(0)
Total current assets	27,178	33,740
Non-current assets		
Property, plant and equipment		
Buildings and structures	54,002	51,998
Accumulated depreciation	(31,118)	(31,009)
Buildings and structures, net	22,884	20,988
Machinery, equipment and vehicles	19,373	19,082
Accumulated depreciation	(15,094)	(15,228)
Machinery, equipment and vehicles, net	4,279	3,853
Land	12,603	12,317
Construction in progress	1,217	1,236
Other	16,668	15,970
Accumulated depreciation	(8,028)	(8,204)
Other, net	8,639	7,765
Total property, plant and equipment	49,625	46,161
Intangible assets		
Goodwill	352	297
Other	759	698
Total intangible assets	1,112	995
Investments and other assets		
Other	6,723	6,988
Allowance for doubtful accounts	(2)	(203)
Total investments and other assets	6,720	6,784
Total non-current assets	57,457	53,941
Total assets	84,635	87,681

(Millions of Yen)

	As of February 28, 2019	As of August 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,608	11,756
Current portion of long-term loans payable	646	364
Accounts payable - other	8,472	10,175
Income taxes payable	268	685
Provision for bonuses	1,323	1,359
Provision for directors' bonuses	—	55
Other	4,167	4,507
Total current liabilities	24,487	28,903
Non-current liabilities		
Long-term loans payable	2,442	1,784
Lease obligations	8,434	7,528
Net defined benefit liability	3,377	3,728
Provision for Directors stock-based rewards	85	97
Asset retirement obligations	1,451	1,460
Other	115	114
Total non-current liabilities	15,906	14,713
Total liabilities	40,393	43,616
Net assets		
Shareholders' equity		
Capital stock	8,049	8,049
Capital surplus	8,100	8,100
Retained earnings	28,254	28,220
Treasury shares	(217)	(213)
Total shareholders' equity	44,186	44,156
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	175	99
Deferred gains or losses on hedges	(0)	(1)
Foreign currency translation adjustment	(39)	(151)
Remeasurements of defined benefit plans	(202)	(190)
Total accumulated other comprehensive income	(66)	(243)
Non-controlling interests	121	152
Total net assets	44,242	44,064
Total liabilities and net assets	84,635	87,681

(2) Consolidated statements of income and comprehensive income
Consolidated statements of income

(Millions of Yen)

	Six months ended August 31, 2018	Six months ended August 31, 2019
Net sales	111,575	109,816
Cost of sales	95,187	92,614
Gross profit	16,387	17,202
Selling, general and administrative expenses	14,692	15,227
Operating profit	1,694	1,974
Non-operating income		
Interest income	7	6
Dividend income	336	308
Rent income	83	80
Other	55	23
Total non-operating income	484	418
Non-operating expenses		
Interest expenses	66	59
Loss on retirement of non-current assets	22	59
Cost of lease revenue	64	64
Other	14	91
Total non-operating expenses	167	274
Ordinary profit	2,011	2,118
Extraordinary income		
Gain on sales of non-current assets	126	—
Total extraordinary income	126	—
Extraordinary losses		
Impairment loss	706	664
Total extraordinary losses	706	664
Profit before income taxes	1,431	1,454
Income taxes - current	779	816
Income taxes - deferred	(273)	(84)
Total income taxes	506	732
Profit	924	721
Profit attributable to non-controlling interests	24	47
Profit attributable to owners of parent	900	674

Consolidated statements of comprehensive income

(Millions of Yen)

	Six months ended August 31, 2018	Six months ended August 31, 2019
Profit	924	721
Other comprehensive income		
Valuation difference on available-for-sale securities	(4)	(76)
Deferred gains or losses on hedges	4	(0)
Foreign currency translation adjustment	(86)	(118)
Remeasurements of defined benefit plans, net of tax	8	11
Total other comprehensive income	(78)	(183)
Comprehensive income	846	538
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	826	496
Comprehensive income attributable to non-controlling interests	19	41

(3) Consolidated statements of cash flows

(Millions of Yen)

	Six months ended August 31, 2018	Six months ended August 31, 2019
Cash flows from operating activities		
Profit before income taxes	1,431	1,454
Depreciation	2,643	2,738
Impairment loss	706	664
Increase (decrease) in allowance for doubtful accounts	242	201
Increase (decrease) in provision for loss on guarantees of subsidiaries and associates	(242)	—
Increase (decrease) in provision for bonuses	43	35
Interest and dividend income	(344)	(314)
Interest expenses	66	59
Loss (gain) on sales of property, plant and equipment	(126)	38
Loss on retirement of non-current assets	22	59
Decrease (increase) in notes and accounts receivable - trade	(2,738)	(3,937)
Decrease (increase) in inventories	(976)	(143)
Increase (decrease) in notes and accounts payable - trade	1,801	2,154
Increase (decrease) in accounts payable - other	1,036	1,970
Other, net	493	1,011
Subtotal	4,059	5,991
Interest and dividend income received	344	314
Interest expenses paid	(66)	(60)
Income taxes paid	(688)	(123)
Net cash provided by (used in) operating activities	3,648	6,122
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,581)	(1,219)
Proceeds from sales of property, plant and equipment	148	1,399
Purchase of intangible assets	(51)	(87)
Payments into time deposits	(614)	(439)
Proceeds from withdrawal of time deposits	—	600
Other, net	(715)	4
Net cash provided by (used in) investing activities	(2,814)	258
Cash flows from financing activities		
Repayments of long-term loans payable	(293)	(940)
Repayments of lease obligations	(1,355)	(1,383)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(704)	(704)
Other, net	(11)	(10)
Net cash provided by (used in) financing activities	(2,365)	(3,039)
Effect of exchange rate change on cash and cash equivalents	(23)	(24)
Net increase (decrease) in cash and cash equivalents	(1,554)	3,316
Cash and cash equivalents at beginning of period	5,203	2,439
Increase in cash and cash equivalents from newly consolidated subsidiary	325	—
Cash and cash equivalents at end of period	3,974	5,756

(4) Segment information, etc.

[Segment information]

I. Six months ended August 31, 2018 (from March 1, 2018 to August 31, 2018)

1. Sales and profits or losses by reportable segments

(Millions of Yen)

	Reportable segments						Adjustment (Note 1)	Carried on quarterly consolidated statements of income (Note 2)
	Food Products Business	Food Ingredients Business	Logistics Business	Food Engineering Business	Temporary Staffing and Contracting Business	Total		
Net sales								
Sales to external customers	91,040	9,034	7,431	1,371	2,698	111,575	–	111,575
Intersegment sales and transfers	–	1,487	2,257	8,472	4,104	16,322	(16,322)	–
Total	91,040	10,521	9,688	9,843	6,802	127,897	(16,322)	111,575
Segment profit	1,509	84	48	345	183	2,171	(477)	1,694

Notes: 1. The adjustment of (477) million yen under the item of “Segment profit” includes an elimination of intersegment transactions of (170) million yen, as well as corporate expenses of (306) million yen, which are not allocated to the reportable segments.

2. Segment profit is adjusted to reflect operating profit as recorded on the quarterly consolidated statements of income.

2. Information regarding impairment losses on non-current assets, goodwill, etc. by reportable segment

(Significant impairment losses related to non-current assets)

In the Food Products Business, the Company has marked down the book value of some business assets owned by Warabeya Nichiyo Co., Ltd. to a level deemed recoverable, as the assets are idle. This writedown has been booked as an impairment loss under extraordinary losses. The impairment loss related to the business assets owned by Warabeya Nichiyo Co., Ltd. booked in the six months ended August 31, 2018 is 706 million yen.

(Material changes in goodwill amounts)

In the six months ended August 31, 2018, the Company booked goodwill of 398 million yen in the Food Products Business related to the inclusion of the subsidiary Prime Deli Corporation (current WARABEYA TEXAS, INC.) in the scope of consolidation in the three months ended May 31, 2018.

II. Six months ended August 31, 2019 (from March 1, 2019 to August 31, 2019)

1. Sales and profits or losses by reportable segments

(Millions of Yen)

	Reportable segments						Adjustment (Note 1)	Carried on quarterly consolidated statements of income (Note 2)
	Food Products Business	Food Ingredients Business	Logistics Business	Food Engineering Business	Temporary Staffing and Contracting Business	Total		
Net sales								
Sales to external customers	90,243	8,428	7,031	1,172	2,940	109,816	–	109,816
Intersegment sales and transfers	–	1,292	2,322	2,155	3,576	9,346	(9,346)	–
Total	90,243	9,721	9,354	3,328	6,516	119,163	(9,346)	109,816
Segment profit (loss)	2,366	(87)	3	(189)	63	2,155	(180)	1,974

Notes: 1. The adjustment of (180) million yen under the item of “Segment profit (loss)” includes an elimination of intersegment transactions of 166 million yen, as well as corporate expenses of (347) million yen, which are not allocated to the reportable segments.

2. Segment profit (loss) is adjusted to reflect operating profit as recorded on the quarterly consolidated statements of income.

2. Information regarding impairment losses on non-current assets, goodwill, etc. by reportable segment

(Significant impairment losses related to non-current assets)

In the Food Products Business, the Company has marked down the book value of non-current assets of certain plants operated

by Warabeya Nichiyo Co., Ltd. to a level deemed recoverable as the profitability of those assets has declined. This writedown has been booked as an impairment loss under extraordinary losses. The impairment loss related to non-current assets of certain plants operated by Warabeya Nichiyo Co., Ltd. booked in the six months ended August 31, 2019 is 646 million yen.