

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



November 6, 2018

Company name: A&D Company, Ltd.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 7745
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 Scheduled date of filing quarterly securities report: November 13, 2018
 Scheduled date of commencing dividend payments: December 10, 2018
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Scheduled (for institutional investors)

(Amounts of less than one million yen are truncated.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2018 (April 1, 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 parent company shareholders	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2018	21,003	10.0	348	10.7	401	11.1	305	75.3
September 30, 2017	19,089	9.4	315	-	361	-	174	-

Note: Comprehensive income Six months ended September 30, 2018: ¥249 million [91.8 %]
 Six months ended September 30, 2017: ¥130 million [- %]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2018	14.93	14.89
September 30, 2017	8.51	8.50

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	49,111	16,735	32.3
As of March 31, 2018	47,048	15,939	33.6

Reference: Equity As of September 30, 2018: ¥15,880 million
 As of March 31, 2018: ¥15,813 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2018	Yen -	Yen 5.00	Yen -	Yen 7.00	Yen 12.00
Fiscal year ending March 31, 2019	-	7.00			
Fiscal year ending March 31, 2019 (Forecast)			-	7.00	14.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to parent company shareholders		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	49,300	11.7	3,300	38.7	3,200	37.2	2,400	31.3	117.14

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

* Notes:

- (1) Changes in significant subsidiaries during the period under review: Yes
(Changes in specified subsidiaries accompanying changes to the scope of consolidation)
New: 1 company (Company name) HOLON CO., LTD.; Excluded: - companies (Company name) -
- (2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes
- (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 stock)
 - 1) Total number of issued shares at the end of the period (including treasury stock):
September 30, 2018: 22,579,700 shares
March 31, 2018: 22,579,700 shares
 - 2) Total number of treasury stock at the end of the period:
September 30, 2018: 2,091,285 shares
March 31, 2018: 2,091,280 shares
 - 3) Average number of shares during the period:
Six months ended September 30, 2018: 20,488,419 shares
Six months ended September 30, 2017: 20,488,420 shares

Note: The number of treasury stock eliminated when calculating the total number of treasury stock at the end of the period and the average number of shares during the period includes the Company's shares held by Trust & Custody Services Bank, Ltd. (Trust E Account) as trust assets for the stock benefit trust system.

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or audit corporations.

* Explanation of the proper use of financial results forecasts and other notes

Forward-looking statements in this document, including financial results forecasts, are based on information available and certain assumptions deemed reasonable by the Company at present, and the Company does not guarantee their achievement. Actual business results, etc., may differ significantly due to various factors.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Business Results

The economic environment surrounding A&D Company, Ltd. (the “Company”) and its subsidiaries (collectively, the “Group”) during the six months ended September 30, 2018 continued to recover moderately, as the employment and income environment remained on a recovery track with robust corporate earnings and capital investment, although future growth projections remained unclear due to various factors such as labor shortage stemming from a decline in the productive population in Japan.

In the global economy, despite overall strength centered on the United States, the Trump administration’s hardline trade policy had a global impact. In China, some issues stemming from trade friction with the United States surfaced and the economy showed signs of a slowdown. In Europe, although concerns prevailed over the United Kingdom’s Brexit issue and the Trump administration’s conservatism, a moderate recovery was sustained primarily in the EU region.

Amid such circumstances, the Group focused on developing new products and cultivating new markets to respond to diverse and changing needs among customers and society. In addition, the Group strived to differentiate its products from those of competitors through ongoing active investments in development in growth sectors.

As a result, net sales for the six months ended September 30, 2018 were ¥21,003 million (up 10.0% year-on-year), operating profit was ¥348 million (up 10.7% year-on-year), ordinary profit was ¥401 million (up 11.1% year-on-year), and profit attributable to parent company shareholders was ¥305 million (up 75.3% year-on-year).

Business results by segment are as follows.

1) Measurement and Weighing Instruments Business

In Japan, sales related to semiconductor instruments recorded a significant increase mainly because HOLON CO., LTD. became a subsidiary, and sales of measurement and control simulation systems (DSP systems) also grew significantly against a backdrop of active capital investment and other factors in the automobile industry, while sales of weighing instruments remained robust primarily in the industrial measurement instrument area. In addition, as a result of curbing selling, general and administrative expenses, including research and development expenses, to a level on par with the same period of the previous fiscal year, profits also increased significantly.

In the Americas, although sales of balances and scales in weighing instruments did not go beyond those in the previous fiscal year, overall sales increased slightly year on year owing to contributions from sales of metal detectors, checkweighers and industrial measurement instruments. Sales of DSP systems remained strong due to factors such as stronger partnerships with local research and development institutions. However, profits decreased due to recording expenses intended to aid in future sales expansion.

In Asia and Oceania, in addition to stronger sales of a wide range of products centered on testing equipment in South Korea, special demand for metal detectors and checkweighers in Australia caused sales to rise.

As a result, sales in the measurement and weighing instruments business was ¥13,076 million (up 15.7% year-on-year) and operating profit was ¥668 million (up 263.8% year-on-year).

2) Medical and Healthcare Business

In Japan, while special demand for fully automatic blood pressure monitors caused sales for medical instruments to increase, demand for blood pressure monitors for nursing use completed a cycle and sales declined. Sales of healthcare instruments dropped due to the lack of special demand from a large scale customer during the same period of the previous fiscal year.

In the Americas, although additional sales were recorded from a medical instruments business that was acquired in Canada during the previous fiscal year, high sales of low-margin products in the United States

caused profits to decrease.

In Europe, while sales were higher in Russia, aggressive advertising activities to combat intense competition in the blood pressure measurement market due to the entrance of Chinese firms resulted in lower profits.

As a result, net sales in the medical and healthcare business were ¥7,926 million (up 1.7% year-on-year) and operating profit was ¥750 million (down 33.0% year-on-year).

(2) Financial Position

(Assets, liabilities and net assets)

The Partial Amendments to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan (“ASBJ”) Statement No. 28, February 16, 2018), etc., have been applied from the beginning of the first quarter ended June 30, 2018. These accounting standards, etc. have been applied retrospectively to figures for the previous fiscal year for comparison and analysis in these explanations on financial position.

Total assets as of September 30, 2018 were ¥49,111 million, an increase of ¥2,062 million compared to the end of the previous fiscal year. This is due to an increase of ¥1,463 million in current assets owing to factors such as higher inventory despite a decrease in bills and accounts receivable, and an increase of ¥599 million in fixed assets owing to factors such as an increase in goodwill in intangible fixed assets.

Total liabilities as of September 30, 2018 were ¥32,376 million, an increase of ¥1,267 million compared to the end of the previous fiscal year. This is primarily attributable to an increase of ¥682 million in fixed liabilities caused by an increase in long-term debt, in addition to an increase of ¥584 million in current liabilities owing to an increase in short-term debt.

Net assets as of September 30, 2018 were ¥16,735 million, an increase of ¥795 million compared to the end of the previous fiscal year. This was due to an increase of ¥160 million in shareholders’ equity owing to an increase in retained earnings resulting from recording profit attributable to parent company shareholders in excess of payment of dividends as well as a decrease of ¥93 million in accumulated other comprehensive income due mainly to a decline in foreign currency translation adjustments, while non-controlling shareholders’ equity increased by ¥729 million primarily because HOLON CO., LTD. became a subsidiary.

(3) Consolidated Financial Results Forecast and Other Forward-looking Information

In view of recent business trends and other factors, the Company revised its consolidated financial results forecast for the fiscal year ending March 31, 2019 that was announced on August 3, 2018. For details, please see the “Notice Regarding Difference Between Financial Results Forecast and Financial Results for the Six Months Ended September 30, 2018 and Revision of Dividends of Surplus (Interim Dividends) and Full-year Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2019,” separately announced today.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	8,016	7,911
Bills and accounts receivable	12,980	12,180
Marketable securities	50	-
Products	6,359	7,333
Unfinished goods	2,255	3,225
Raw materials and supplies	3,168	3,394
Other	827	1,077
Allowance for doubtful accounts	(83)	(84)
Total current assets	33,574	35,037
Fixed assets		
Tangible fixed assets		
Land	4,099	4,184
Other, net	4,998	5,303
Total tangible fixed assets	9,097	9,488
Intangible fixed assets		
Goodwill	146	487
Other	2,039	1,984
Total intangible fixed assets	2,186	2,471
Investments, etc.	2,189	2,113
Total fixed assets	13,473	14,073
Total assets	47,048	49,111
Liabilities		
Current liabilities		
Bills and accounts payable	4,738	4,904
Short-term debt	12,193	12,715
Long-term borrowings to be repaid within one year	3,110	3,416
Accrued corporate taxes, etc.	337	325
Provision for bonuses	957	1,017
Provision for product warranties	142	172
Other	4,169	3,683
Total current liabilities	25,650	26,235
Fixed liabilities		
Corporate bonds	15	10
Long-term debt	3,929	4,543
Provision for product warranties	89	80
Debt related to retirement benefits	847	958
Provision for directors' share benefits	25	29
Other	551	519
Total fixed liabilities	5,458	6,140
Total liabilities	31,108	32,376

(Million yen)

	As of March 31, 2018	As of September 30, 2018
Net assets		
Shareholders' equity		
Common stock	6,388	6,388
Capital surplus	6,404	6,404
Retained earnings	5,798	5,958
Treasury stock	(1,136)	(1,136)
Total shareholders' equity	17,454	17,614
Accumulated other comprehensive income		
Unrealized gains on other marketable securities	25	29
Foreign currency translation adjustments	(2,307)	(2,358)
Accumulated adjustment on retirement benefits	642	594
Total accumulated other comprehensive income	(1,640)	(1,734)
Non-controlling shareholders' equity	125	855
Total net assets	15,939	16,735
Total liabilities and net assets	47,048	49,111

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2017	For the six months ended September 30, 2018
Net sales	19,089	21,003
Cost of sales	10,532	11,890
Gross profit	8,556	9,112
Selling, general and administrative expenses	8,241	8,763
Operating profit	315	348
Non-operating income		
Interest income	26	34
Investment gain on equity method	1	86
Exchange gain	47	-
Rent received	15	15
Other	73	107
Total non-operating income	164	244
Non-operating expenses		
Interest expense	94	109
Exchange loss	-	15
Other	23	67
Total non-operating expenses	118	192
Ordinary profit	361	401
Extraordinary income		
Gain on step acquisitions	-	498
Gain on sale of fixed assets	1	1
Total extraordinary income	1	500
Extraordinary loss		
Loss on sale of fixed assets	0	3
Loss on disposal of fixed assets	0	0
Impairment loss	-	461
Loss on valuation of investment securities	-	9
Total extraordinary loss	1	474
Profit before taxes	361	427
Corporate, inhabitant and business taxes	204	217
Corporate tax adjustments	(22)	(131)
Total corporate taxes	181	86
Profit	179	340
Profit attributable to non-controlling shareholders' equity	4	35
Profit attributable to parent company shareholders	174	305

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2017	For the six months ended September 30, 2018
Profit	179	340
Other comprehensive income		
Unrealized gains on other marketable securities	4	4
Foreign currency translation adjustments	(20)	(48)
Adjustment related to retirement benefits	(33)	(47)
Equity equivalent for equity method affiliates	0	0
Total other comprehensive income	(49)	(91)
Comprehensive income	130	249
(Breakdown)		
Comprehensive income attributable to parent company shareholders	126	212
Comprehensive income attributable to non-controlling shareholders' equity	3	37

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in the case of significant changes in shareholders' equity)

Not applicable.

(Changes in scope of consolidation or application of equity method)

For the six months ended September 30, 2018	
(Significant changes in scope of consolidation)	
During the first quarter ended June 30, 2018, the Company acquired additional shares in HOLON CO., LTD., which was a former equity method affiliate. As a result, the said company was consolidated effective June 30, 2018.	

(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)

For the six months ended September 30, 2018	
Calculation of tax expenses	Tax expenses for certain consolidated subsidiaries are calculated by reasonably estimating the effective tax rate after tax effect accounting to be applied to profit before taxes for the fiscal year, which includes the second quarter under review, and multiplying profit before taxes by the estimated effective tax rate thus obtained.

(Additional information)

For the six months ended September 30, 2018	
Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. The Company applied the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018), etc. from the beginning of the first quarter ended June 30, 2018. Deferred tax assets are presented under "investments, etc.," and deferred tax liabilities are presented under fixed liabilities.	

(Segment information, etc.)

[Segment information]

I. For the six months ended September 30, 2017

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Measurement and Weighing Instruments Business				
	Japan	Americas	Europe	Asia and Oceania	Total
Net sales					
Net sales to outside customers	7,766	1,622	405	1,504	11,298
Inter-segment net sales or transfers	1,080	13	27	1,281	2,401
Total	8,846	1,635	432	2,785	13,700
Segment profit (loss)	12	52	(4)	123	183

	Medical and Healthcare Business					Adjustment (Note 1)	Consolidation (Note 2)
	Japan	Americas	Europe	Asia and Oceania	Total		
Net sales							
Net sales to outside customers	2,425	2,126	3,054	184	7,790	-	19,089
Inter-segment net sales or transfers	3,410	-	-	2,620	6,030	(8,432)	-
Total	5,836	2,126	3,054	2,804	13,821	(8,432)	19,089
Segment profit (loss)	831	(59)	245	103	1,120	(989)	315

Notes: 1. The adjustment of ¥(989) million in segment profit (loss) includes corporate expenses of ¥(784) million not allocated to reportable segments. Corporate expenses are primarily general and administrative expenses for management departments.

2. Segment profit (loss) is adjusted with operating profit on the quarterly consolidated statements of income.

2. Information on impairment loss or goodwill, etc., for fixed assets by reportable segment

Not applicable.

II. For the six months ended September 30, 2018

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Measurement and Weighing Instruments Business				
	Japan	Americas	Europe	Asia and Oceania	Total
Net sales					
Net sales to outside customers	9,210	1,663	411	1,791	13,076
Inter-segment net sales or transfers	1,379	91	19	1,308	2,798
Total	10,590	1,754	430	3,100	15,875
Segment profit (loss)	581	(71)	(29)	188	668

	Medical and Healthcare Business					Adjustment (Note 1)	Consolidation (Note 2)
	Japan	Americas	Europe	Asia and Oceania	Total		
Net sales							
Net sales to outside customers	2,274	2,292	3,179	179	7,926	-	21,003
Inter-segment net sales or transfers	3,938	-	-	3,153	7,091	(9,890)	-
Total	6,212	2,292	3,179	3,333	15,018	(9,890)	21,003
Segment profit (loss)	570	(164)	109	236	750	(1,070)	348

Notes: 1. The adjustment of ¥(1,070) million in segment profit (loss) includes corporate expenses of ¥(764) million not allocated to reportable segments. Corporate expenses are primarily general and administrative expenses for management departments.

2. Segment profit (loss) is adjusted with operating profit on the quarterly consolidated statements of income.

2. Information on impairment loss or goodwill, etc., for fixed assets by reportable segment
(Significant changes in amount of goodwill)

In the measurement and weighing instruments business, due to the additional acquisition of shares in HOLON CO., LTD., a former equity method affiliate, the said company has been included in the scope of consolidation as a consolidated subsidiary, with a deemed acquisition date of June 30, 2018. The amount of increase in goodwill as a result of this consolidation is ¥844 million.

As a result of careful consideration of the recoverability of goodwill based on the future business plans, etc., of HOLON CO., LTD., goodwill has been reduced to the recoverable amount and an impairment loss of ¥461 million has been recorded.

(Business combinations, etc.)

Business combination through acquisition

(1) Summary of business combination

1) Name and business of acquiree

Name of acquiree: HOLON CO., LTD.

Business: Development and manufacturing of semiconductor electron beam measurement and testing equipment

2) Main reason for business combination

To maximize use of both companies' resources toward further improvement in corporate value of both companies.

3) Date of business combination

June 29, 2018

4) Legal form of business combination

Share acquisition by cash

5) Name of entity after business combination

Unchanged.

6) Ratio of voting rights acquired

Voting rights held prior to business combination: 30.58%

Additional voting rights acquired on date of business combination: 20.42%

Voting rights after acquisition: 51.00%

7) Grounds for determining acquirer

The Company's acquisition of shares with cash as consideration.

(2) Period of the acquiree's financial results included in the quarterly consolidated statements of income for the period under review

From July 1, 2018 to September 30, 2018. As the acquiree was the Company's equity method affiliate, business results from April 1, 2018 to June 30, 2018 are recorded as investment gain on equity method.

(3) Breakdown of acquisition cost and type of consideration of acquiree

Fair value on the date of business combination of HOLON CO., LTD. held prior to business combination	¥939 million
Fair value of common stock of HOLON CO., LTD. acquired on the date of business combination	¥627 million
Acquisition cost	¥1,567 million

(4) Difference between total acquisition cost of acquiree and sum of acquisition costs of individual transactions up to the acquisition date

Gain on step acquisitions of ¥498 million was incurred.

(5) Amount, reason for incurrence, amortization method and amortization period for goodwill

1) Amount of goodwill

¥844 million

2) Reason for incurrence

As the acquisition cost exceeded the net amount of assets accepted and liabilities assumed, the excess amount has been recorded as goodwill.

3) Amortization method and amortization period

Amortization via the straight-line method over five years

A portion of goodwill has been reduced to the recoverable amount, and the said amount of reduction has been recorded as an impairment loss.