

Consolidated Financial Results for the Three Months Ended June 30, 2019 [Japanese GAAP]



August 6, 2019

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: August 8, 2019
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Not scheduled

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

1. Consolidated Financial Results for the Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 2019)

(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	%
Three months ended June 30, 2019	10,690	13.2	79	-	(22)	-	(211)	-
June 30, 2018	9,442	8.9	(281)	-	(269)	-	(235)	-

Note: Comprehensive income Three months ended June30, 2019: ¥(319) million [-%]
 Three months ended June30, 2018: ¥(372) million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2019	(10.32)	-
June 30, 2018	(11.51)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2019	50,550	17,533	32.6
As of March 31, 2019	50,981	18,090	33.6

Reference: Equity As of June 30, 2019: ¥16,489 million
 As of March 31, 2019: ¥17,131 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, 2019	-	7.00	-	10.00	17.00
Fiscal year ending March 31, 2020	-				
Fiscal year ending March 31, 2020 (Forecast)		10.00	-	10.00	20.00

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 1, 2019 to March 31, 2020)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to parent company shareholders		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half (cumulative)	24,600	17.1	1,240	255.5	1,060	164.0	80	(73.8)	3.91
Full year	53,500	10.7	4,000	45.4	3,680	37.1	2,250	18.4	109.82

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

* Notes:

- (1) Changes in significant subsidiaries during the period under review: No
(Changes in specified subsidiaries accompanying changes to the scope of consolidation)
New: - companies (Company name) - ; 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: Yes
 - 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):
June 30, 2019: 22,579,700 shares
March 31, 2019: 22,579,700 shares
 - 2) Total number of treasury stock at the end of the period:
June 30, 2019: 2,091,335 shares
March 31, 2019: 2,091,335 shares
 - 3) Average number of shares during the period:
Three months ended June 30, 2019: 20,488,365 shares
Three months ended June 30, 2018: 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 consolidated 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

Regarding the economic environment surrounding A&D Company, Ltd. (the “Company”) and its subsidiaries (collectively, the “Group”) during the three months ended June 30, 2019 in Japan, there were concerns over the future such as decline in consumer spending due to the consumption tax hike scheduled for October and pension problems. However, recent corporate performance remained robust.

In the global economy, the future remains uncertain not only due to growing concerns about peaking out of the strong United States economy triggered by trade friction with China, but also due to the United Kingdom’s Brexit issue and the situation in the Middle East, etc.

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 three months ended June 30, 2019 were ¥10,690 million (up 13.2% year-on-year), operating profit was ¥79 million (operating loss of ¥281 million in the previous corresponding period), ordinary loss was ¥22 million (ordinary loss of ¥269 million in the previous corresponding period), and loss attributable to parent company shareholders was ¥211 million (loss attributable to parent company shareholders of ¥235 million in the previous corresponding period).

Business results by segment are as follows.

1) Measurement and Weighing Instruments Business

In Japan, sales related to semiconductor instruments of HOLON CO., LTD., which became a subsidiary in the previous fiscal year recorded a significant increase, and sales of products such as heat stroke index monitors and hygrometer also grew. In the measurement and control simulation systems (DSP systems), while there were strong items such as powertrain test bench, etc., the overall sales struggled and decreased year on year.

In the Americas, both sales and profit decreased due to stagnating sales of metal detectors and checkweighers in weighing instruments, as well as weakened orders for measurement and control simulation systems (DSP systems).

In Asia and Oceania, although sales of metal detectors and checkweighers in Australia remained strong from the previous fiscal year on local currency basis, sales decreased due to the trend toward appreciation of the yen and the settlement of special demand in South Korea from the previous corresponding period.

As a result, net sales in the measurement and weighing instruments business was ¥6,425 million (up 11.4% year-on-year) and operating profit was ¥81 million (operating loss of ¥3 million in the previous corresponding period).

2) Medical and Healthcare Business

In Japan, strong sales of fully automatic blood pressure monitors for professional use and contributions from sales of a new product in blood pressure monitors for household use increased sales year on year. In addition, the improvement of cost ratio increased profit.

In the Americas, sales increased owing to continuous shipments of large-scale order received in the United States and strong sales of blood pressure monitors and other products in Canada.

In Europe, profit increased due to sales growth mainly in blood pressure monitors for household use in Russia and successful reduction of cost.

As a result, net sales in the medical and healthcare business were ¥4,264 million (up 16.0% year-on-year) and operating profit was ¥406 million (up 451.1% year-on-year).

(2) Financial Position

(Assets, liabilities and net assets)

Total assets as of June 30, 2019 were ¥50,550 million, a decrease of ¥431 million compared to the end of the previous fiscal year. This is due to a decrease of ¥813 million in current assets owing to a decrease in bills and accounts receivable, etc. despite increases in cash and deposits and inventory. Also, this is due to an increase of ¥382 million in fixed assets resulting from an increase in property, plant and equipment, etc. mainly attributable to a right-of-use asset newly recorded as a result of changes in accounting standards at overseas subsidiaries.

Total liabilities as of June 30, 2019 were ¥33,016 million, an increase of ¥125 million compared to the end of the previous fiscal year. This is due to an increase of ¥468 million in fixed liabilities mainly owing to an increase in lease obligations in “other” under fixed liabilities in line with the changes in accounting standards at overseas subsidiaries despite a decrease of ¥342 million in current liabilities resulting from a decrease in accrued corporate taxes, etc.

Net assets as of June 30, 2019 were ¥17,533 million, a decrease of ¥556 million compared to the end of the previous fiscal year. This was primarily attributable to a decrease of ¥419 million in shareholders’ equity due mainly to a decrease in retained earnings resulting from loss attributable to parent company shareholders and cash dividends paid, and a decline in foreign currency translation adjustments, etc. resulting in a decrease of ¥221 million in accumulated other comprehensive income.

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

The Company has not changed its consolidated financial results forecast announced on May 10, 2019.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	8,412	9,533
Bills and accounts receivable	14,659	11,881
Products	6,999	7,581
Unfinished goods	2,834	3,127
Raw materials and supplies	3,513	3,418
Other	926	994
Allowance for doubtful accounts	(203)	(209)
Total current assets	37,141	36,327
Fixed assets		
Tangible fixed assets		
Land	4,172	4,501
Other, net	5,198	5,209
Total tangible fixed assets	9,370	9,711
Intangible fixed assets		
Goodwill	416	381
Other	1,846	1,780
Total intangible fixed assets	2,262	2,162
Investments, etc.	2,206	2,348
Total fixed assets	13,840	14,222
Total assets	50,981	50,550
Liabilities		
Current liabilities		
Bills and accounts payable	5,398	5,081
Short-term debt	11,980	12,690
Long-term borrowings to be repaid within one year	3,162	3,127
Accrued corporate taxes, etc.	619	282
Provision for bonuses	1,136	665
Provision for product warranties	155	159
Other	4,339	4,444
Total current liabilities	26,794	26,451
Fixed liabilities		
Corporate bonds	505	505
Long-term debt	4,035	4,201
Provision for product warranties	64	51
Debt related to retirement benefits	941	933
Provision for directors' share benefits	41	46
Other	507	826
Total fixed liabilities	6,096	6,564
Total liabilities	32,890	33,016

(Million yen)

	As of March 31, 2019	As of June 30, 2019
Net assets		
Shareholders' equity		
Common stock	6,388	6,388
Capital surplus	6,412	6,412
Retained earnings	7,406	6,987
Treasury stock	(1,136)	(1,136)
Total shareholders' equity	19,070	18,651
Accumulated other comprehensive income		
Unrealized gains on other marketable securities	21	18
Foreign currency translation adjustments	(2,526)	(2,710)
Accumulated adjustment on retirement benefits	564	531
Total accumulated other comprehensive income	(1,939)	(2,161)
Share acquisition rights	11	11
Non-controlling shareholders' equity	948	1,032
Total net assets	18,090	17,533
Total liabilities and net assets	50,981	50,550

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Three Months Ended June 30

(Million yen)

	For the three months ended June 30, 2018	For the three months ended June 30, 2019
Net sales	9,442	10,690
Cost of sales	5,348	6,077
Gross profit	4,094	4,612
Selling, general and administrative expenses	4,375	4,533
Operating profit (loss)	(281)	79
Non-operating income		
Interest income	19	13
Investment gain on equity method	84	2
Rent received	7	7
Other	30	31
Total non-operating income	142	55
Non-operating expenses		
Interest expense	52	61
Exchange loss	47	42
Commission for syndicated loans	-	30
Other	29	23
Total non-operating expenses	129	156
Ordinary loss	(269)	(22)
Extraordinary income		
Gain on step acquisitions	498	-
Gain on sale of fixed assets	0	0
Total extraordinary income	498	0
Extraordinary loss		
Loss on sale of fixed assets	3	0
Loss on disposal of fixed assets	0	12
Impairment loss	461	-
Loss on valuation of investment securities	9	-
Total extraordinary loss	474	13
Loss before taxes	(244)	(34)
Corporate, inhabitant and business taxes	57	221
Corporate tax adjustments	(70)	(164)
Total corporate taxes	(12)	57
Loss	(232)	(92)
Profit attributable to non-controlling shareholders' equity	3	119
Loss attributable to parent company shareholders	(235)	(211)

Quarterly Consolidated Statements of Comprehensive Income

Three months ended June 30

(Million yen)

	For the three months ended June 30, 2018	For the three months ended June 30, 2019
Loss	(232)	(92)
Other comprehensive income		
Unrealized gains on other marketable securities	2	(3)
Foreign currency translation adjustments	(118)	(187)
Adjustment related to retirement benefits	(23)	(33)
Equity equivalent for equity method affiliates	(0)	(1)
Total other comprehensive income	(140)	(226)
Comprehensive income	(372)	(319)
(Breakdown)		
Comprehensive income attributable to parent company shareholders	(375)	(432)
Comprehensive income attributable to non-controlling shareholders' equity	2	113

(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 accounting policies)

(Application of IFRS 16 "Leases")

Subsidiaries applying International Financial Reporting Standards have applied International Financial Reporting Standards 16 "Leases" (hereinafter referred to as "IFRS 16") from the beginning of the first quarter ended June 30, 2019.

As a result, with regard to lease transactions as lessee, in principle, for all leases, right-of-use assets and lease obligations are recognized, and depreciation of the right-of-use assets and interest expenses on the lease obligations are recorded.

Regarding the application of IFRS 16, a method recognized as a transitional treatment is applied, in which the cumulative impact of applying this standard is recognized at the date of initial application.

In line with the application of this standard, as of the beginning of the first quarter ended June 30, 2019, right-of-use assets included in "other, net" under tangible fixed assets and the total amount of lease obligations included in "other" under current liabilities and fixed liabilities increased by ¥569 million.

The impact of this change on the profit and loss of the three months ended June 30, 2019 is immaterial.

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

	For the three months ended June 30, 2019
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 first quarter under review, and multiplying profit before taxes by the estimated effective tax rate thus obtained.

(Segment information, etc.)

[Segment information]

I. For the three months ended June 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	3,906	750	203	907	5,767
Inter-segment net sales or transfers	594	26	7	641	1,269
Total	4,500	776	211	1,548	7,036
Segment profit (loss)	23	(96)	(12)	82	(3)

	Medical and Healthcare Business					Adjustment (Note 1)	Consolidation (Note 2)
	Japan	Americas	Europe	Asia and Oceania	Total		
Net sales							
Net sales to outside customers	1,008	1,073	1,489	104	3,675	-	9,442
Inter-segment net sales or transfers	1,304	-	-	1,277	2,581	(3,851)	-
Total	2,312	1,073	1,489	1,381	6,257	(3,851)	9,442
Segment profit (loss)	178	(151)	(15)	62	73	(352)	(281)

Notes: 1. The adjustment of ¥(352) million in segment profit (loss) includes corporate expenses of ¥(395) 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 for the three months ended June 30, 2019.

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. The balance of goodwill is ¥383 million.

II. For the three months ended June 30, 2019

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	4,768	653	191	811	6,425
Inter-segment net sales or transfers	539	33	6	654	1,233
Total	5,308	686	198	1,465	7,659
Segment profit (loss)	69	(72)	(14)	98	81

	Medical and Healthcare Business					Adjustment (Note 1)	Consolidation (Note 2)
	Japan	Americas	Europe	Asia and Oceania	Total		
Net sales							
Net sales to outside customers	1,023	1,523	1,634	82	4,264	-	10,690
Inter-segment net sales or transfers	2,118	5	5	1,677	3,806	(5,040)	-
Total	3,142	1,528	1,639	1,760	8,071	(5,040)	10,690
Segment profit (loss)	375	(146)	71	106	406	(409)	79

Notes: 1. The adjustment of ¥(409) million in segment profit (loss) includes corporate expenses of ¥(381) 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 loss on the consolidated statements of income.

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

Not applicable.