

Consolidated Financial Results for the Nine Months Ended December 31, 2018 [Japanese GAAP]



February 7, 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: February 13, 2019
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: Not 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 Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 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	%
Nine months ended December 31, 2018	33,798	14.2	1,058	51.7	951	30.8	530	45.2
December 31, 2017	29,601	6.4	698	-	727	-	365	-

Note: Comprehensive income Nine months ended December 31, 2018: ¥72 million [(84.4)%]
 Nine months ended December 31, 2017: ¥466 million [126.4%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2018	25.88	25.79
December 31, 2017	17.83	17.79

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2018	48,656	16,423	31.9
As of March 31, 2018	47,048	15,939	33.6

Reference: Equity As of December 31, 2018: ¥15,530 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	Yen	Yen	Yen
	-	5.00	-	7.00	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: No

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: No

* 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):
December 31, 2018: 22,579,700 shares
March 31, 2018: 22,579,700 shares
 - 2) Total number of treasury stock at the end of the period:
December 31, 2018: 2,091,285 shares
March 31, 2018: 2,091,280 shares
 - 3) Average number of shares during the period:
Nine months ended December 31, 2018: 20,488,418 shares
Nine months ended December 31, 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 nine months ended December 31, 2018 featured robust corporate earnings and capital investment in Japan, while on the other hand factors including the labor shortage stemming from a decline in the productive population and higher logistics expenses, as well concerns about trade friction between the United States and China, resulted in substantial fluctuations in stock prices and exchange rates at the end of the year, and a more cautious view on future economic growth. In the global economy, despite strength in the United States economy, there are many concerns, including the surfacing of confrontation between the United States and China in conjunction with the trade friction between the two countries, the slowdown of the Chinese economy, as well as the United Kingdom’s Brexit issue and the rejection of immigrants in Europe.

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 nine months ended December 31, 2018 were ¥33,798 million (up 14.2% year-on-year), operating profit was ¥1,058 million (up 51.7% year-on-year), ordinary profit was ¥951 million (up 30.8% year-on-year), and profit attributable to parent company shareholders was ¥530 million (up 45.2% 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, in weighing instruments, 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 a large number of low-margin sales and 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 ¥20,685 million (up 19.0% year-on-year) and operating profit was ¥1,063 million (up 114.9% year-on-year).

2) Medical and Healthcare Business

In Japan, together with strong sales of medical instruments as a whole, the recovery in demand from a large scale customer, for which demand had dropped during the same period of the previous fiscal year, caused sales of healthcare instruments to increase. However, profits declined due to the fact that this was a low-margin sale.

In the Americas, sales increased due to the fact that additional sales were recorded from a medical instruments business that was acquired in Canada during the previous fiscal year, in addition to a large scale

order received in the United States. However, high sales of low-margin products in the United States caused profits to decrease.

In Europe, while sales were higher especially 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 ¥13,113 million (up 7.4% year-on-year) and operating profit was ¥1,446 million (down 8.5% 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 December 31, 2018 were ¥48,656 million, an increase of ¥1,607 million compared to the end of the previous fiscal year. This is due to an increase of ¥1,348 million in current assets owing to factors such as higher inventory despite decreases in cash and deposits and bills and accounts receivable, and an increase of ¥259 million in fixed assets owing to factors such as an increase in goodwill in intangible fixed assets.

Total liabilities as of December 31, 2018 were ¥32,232 million, an increase of ¥1,124 million compared to the end of the previous fiscal year. This is primarily attributable to an increase of ¥765 million in fixed liabilities mainly caused by increases in corporate bonds and long-term debt, in addition to an increase of ¥358 million in current liabilities owing to increases in bills and accounts payable and short-term debt.

Net assets as of December 31, 2018 were ¥16,423 million, an increase of ¥483 million compared to the end of the previous fiscal year. This was due to an increase of ¥238 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 ¥521 million in accumulated other comprehensive income due mainly to a decline in foreign currency translation adjustments, while non-controlling shareholders’ equity increased by ¥755 million primarily because HOLON CO., LTD. became a subsidiary.

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

The Company has not changed its consolidated financial results forecast announced on November 6, 2018.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	8,016	7,622
Bills and accounts receivable	12,980	12,226
Marketable securities	50	-
Products	6,359	7,032
Unfinished goods	2,255	3,353
Raw materials and supplies	3,168	3,612
Other	827	1,157
Allowance for doubtful accounts	(83)	(81)
Total current assets	33,574	34,923
Fixed assets		
Tangible fixed assets		
Land	4,099	4,174
Other, net	4,998	5,255
Total tangible fixed assets	9,097	9,430
Intangible fixed assets		
Goodwill	146	449
Other	2,039	1,895
Total intangible fixed assets	2,186	2,344
Investments, etc.	2,189	1,958
Total fixed assets	13,473	13,733
Total assets	47,048	48,656
Liabilities		
Current liabilities		
Bills and accounts payable	4,738	5,136
Short-term debt	12,193	12,892
Long-term borrowings to be repaid within one year	3,110	3,080
Accrued corporate taxes, etc.	337	287
Provision for bonuses	957	525
Provision for product warranties	142	170
Other	4,169	3,916
Total current liabilities	25,650	26,008
Fixed liabilities		
Corporate bonds	15	510
Long-term debt	3,929	4,144
Provision for product warranties	89	50
Debt related to retirement benefits	847	967
Provision for directors' share benefits	25	37
Other	551	512
Total fixed liabilities	5,458	6,223
Total liabilities	31,108	32,232

(Million yen)

	As of March 31, 2018	As of December 31, 2018
Net assets		
Shareholders' equity		
Common stock	6,388	6,388
Capital surplus	6,404	6,403
Retained earnings	5,798	6,037
Treasury stock	(1,136)	(1,136)
Total shareholders' equity	17,454	17,692
Accumulated other comprehensive income		
Unrealized gains on other marketable securities	25	19
Foreign currency translation adjustments	(2,307)	(2,751)
Accumulated adjustment on retirement benefits	642	570
Total accumulated other comprehensive income	(1,640)	(2,161)
Share acquisition rights	-	11
Non-controlling shareholders' equity	125	881
Total net assets	15,939	16,423
Total liabilities and net assets	47,048	48,656

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2017	For the nine months ended December 31, 2018
Net sales	29,601	33,798
Cost of sales	16,402	19,441
Gross profit	13,198	14,357
Selling, general and administrative expenses	12,500	13,298
Operating profit	698	1,058
Non-operating income		
Interest income	33	44
Investment gain on equity method	-	91
Exchange gain	47	-
Rent received	22	23
Other	105	135
Total non-operating income	209	294
Non-operating expenses		
Interest expense	144	171
Investment loss on equity method	0	-
Exchange loss	-	130
Other	35	99
Total non-operating expenses	180	401
Ordinary profit	727	951
Extraordinary income		
Gain on step acquisitions	-	498
Gain on sale of fixed assets	2	2
Total extraordinary income	2	500
Extraordinary loss		
Loss on sale of fixed assets	0	4
Loss on disposal of fixed assets	0	2
Impairment loss	-	461
Loss on valuation of investment securities	-	9
Total extraordinary loss	1	477
Profit before taxes	727	974
Corporate, inhabitant and business taxes	330	361
Corporate tax adjustments	23	17
Total corporate taxes	354	379
Profit	373	595
Profit attributable to non-controlling shareholders' equity	7	64
Profit attributable to parent company shareholders	365	530

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2017	For the nine months ended December 31, 2018
Profit	373	595
Other comprehensive income		
Unrealized gains on other marketable securities	12	(6)
Foreign currency translation adjustments	129	(443)
Adjustment related to retirement benefits	(49)	(71)
Equity equivalent for equity method affiliates	1	(0)
Total other comprehensive income	93	(522)
Comprehensive income	466	72
(Breakdown)		
Comprehensive income attributable to parent company shareholders	452	8
Comprehensive income attributable to non-controlling shareholders' equity	14	64

(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 nine months ended December 31, 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 nine months ended December 31, 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 third quarter under review, and multiplying profit before taxes by the estimated effective tax rate thus obtained.

(Additional information)

For the nine months ended December 31, 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 nine months ended December 31, 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	11,717	2,501	684	2,485	17,390
Inter-segment net sales or transfers	1,702	39	51	2,061	3,854
Total	13,420	2,541	735	4,546	21,244
Segment profit (loss)	158	38	40	257	494

	Medical and Healthcare Business					Adjustment (Note 1)	Consolidation (Note 2)
	Japan	Americas	Europe	Asia and Oceania	Total		
Net sales							
Net sales to outside customers	3,441	3,282	5,196	290	12,211	-	29,601
Inter-segment net sales or transfers	5,447	-	-	3,907	9,354	(13,208)	-
Total	8,888	3,282	5,196	4,197	21,565	(13,208)	29,601
Segment profit (loss)	1,192	(119)	404	103	1,580	(1,377)	698

Notes: 1. The adjustment of ¥(1,377) million in segment profit (loss) includes corporate expenses of ¥(1,157) 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 nine months ended December 31, 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	14,854	2,534	643	2,652	20,685
Inter-segment net sales or transfers	1,999	142	29	1,944	4,116
Total	16,853	2,677	673	4,596	24,802
Segment profit (loss)	945	(112)	(34)	264	1,063

	Medical and Healthcare Business					Adjustment (Note 1)	Consolidation (Note 2)
	Japan	Americas	Europe	Asia and Oceania	Total		
Net sales							
Net sales to outside customers	3,581	3,924	5,338	268	13,113	-	33,798
Inter-segment net sales or transfers	6,210	1	0	4,806	11,019	(15,135)	-
Total	9,792	3,926	5,338	5,075	24,132	(15,135)	33,798
Segment profit (loss)	968	(238)	328	387	1,446	(1,450)	1,058

Notes: 1. The adjustment of ¥(1,450) million in segment profit (loss) includes corporate expenses of ¥(1,143) 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 December 31, 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.