



Semi-Annual Report 2019

For the Six-Month Period Ended 30th September 2019

PROFILE

Since its establishment in 1958, MARUDAI FOOD CO., LTD. has been dedicated to offering delicious, high-quality meat products. In order to understand the latest consumer trends and to meet the needs of modern lifestyles, we have continuously strengthened our research, sales and production operations. Intending to become Japan's leading food company, we successfully listed our stock on the First Section of the Tokyo Stock Exchange in 1972.

Starting as a ham and sausage producer, Marudai Food has steadily expanded its range of products to include heat-processed, vacuum-packed food, dessert and beverage products and fresh meats. Ham and sausage, however, remain an integral part of our product line and continue to account for almost a third of our sales.

While pursuing a leading position in the ham and sausage market, Marudai Food was eager to explore new avenues by developing precooked and processed foods, which went on sale in 1973. This long shelf-life food was developed to meet the specific need for fast meal preparation. Containing absolutely no preservatives and requiring only several minutes to prepare, Marudai precooked and processed foods have established a strong foothold in the market. Building on this success, we will make even greater efforts to create new products that satisfy the increasingly discriminating tastes of consumers.

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TO OUR SHAREHOLDERS



First of all, we would like to express our profound gratitude for the continued support of our shareholders.

We hereby would like to announce the business results for the first six-month period of the company's 72th fiscal year.

During the first six-month period ended 30th September 2019, the Japanese economy continued on a moderate recovery track supported by improved employment and household income environments. However, the outlook remains uncertain primarily due to heightened geopolitical risks including the trade conflict between the United States and China.

In the industry in which the Marudai Food Group operates, a harsh business environment continued, exemplified by the negative impact of the increase in the consumption tax rate on consumer sentiment and the intensified competition among companies, in addition to labour shortages and increases in logistics costs. Regarding the meat market, domestic beef prices stayed relatively soft, while imported beef prices were higher than the previous year's level. The pork market has been volatile, mainly due to the impact of the classical swine fever both in Japan and overseas. Domestic pork prices were below the previous year's level on average during the period, while imported pork prices were above the previous year's level in general, and the outlook remains unclear.

In these circumstances, the Marudai Food Group adhered to its basic policies—expanding the core business and fostering the next pillar while strengthening product development capabilities and technological capabilities—and advanced its corporate activities with the aim of gaining recognition as an enterprise with a social mission, namely, a comprehensive food products company offering merchandise satisfying the highest standards of safety and reliability.

As a result, consolidated net sales for the first six-month period increased by 2.8% year on year to ¥124,667 million. Operating income increased by 101.1% to ¥2,063 million and profit attributable to the owners of the parent increased by 125.0% to ¥1,435 million.

Once again, we would like to express our gratitude to our shareholders and to ask for your continued support of our business in the future.

December 2019.

Toshiharu Inoue

President and Representative Director

PRODUCTS

Processed Food Products

The Ham & Sausage Products operations conducted sales promotion activities including “*One Year to Go! Connect the Dreams! Campaign*,” and made efforts to boost sales centring on mainstay products such as the “*Kunseiya-Ripened Pork Sausage*” with the package labeled with the emblem of an official supporter of the 2020 Olympic and Paralympic Games. We expanded sales of “*Loin Ham*” in a larger package, and worked to generate more sales through introduction of new products such as “*Fish Sausage (Chiko-chan)*,” which features a character in a popular TV programme “*Chico Will Scold You!*” For our midsummer gift products, we sought to increase sales of our “*Ouha*” and “*Kousai*” series, which include products that have won the Monde Selection Grand Gold Quality Award in the food category. Despite these efforts, due to factors including intensified competition among companies against a backdrop of reduced consumer spending, sales in the Ham & Sausage Products operations decreased by 3.7% year on year.

In our Precooked & Processed Foods operations, our “*Chicken Nugget*,” which is furnished with a slightly chewy texture, and healthy “*Salad Chicken*” series performed well. We also expanded sales of the “*Chef no Takumi*” series, including “*Butter Chicken Curry*,” which contributed to an increase in sales of retort curry products. As for our desserts and beverages, beverages containing black tapioca such as “*TAPIOKA TIME*” series continued to perform strongly. In addition, a full-scale operation of the new plant for products for convenience stores that started operation in the previous fiscal year contributed towards increased sales. As a result, sales in the Precooked & Processed Foods operations increased by 8.3% year on year.

As a result, sales in the Processed Food Products segment amounted to ¥86,984 million, an increase of 2.6% year on year. Segment income grew 576.7% year on year to ¥1,426 million, owing mainly to the contribution of the increased sales in the Precooked & Processed Foods operations and the improved profitability attributable to the full-scale operation of the new plant for products for convenience stores, despite the decrease in sales of the mainstay Ham & Sausage Products operations.

Meat Products

With regard to beef, sales of Japanese beef were on a par with the previous year’s level. However, the overall sales of beef were higher than the previous year’s level, primarily because sales volume of imported beef increased as we focused on sales of branded beef. Regarding pork, in the volatile market caused primarily by the impact of the classical swine fever both in Japan and overseas, the overall pork sales were higher than the previous year’s level, with domestic pork sales on a par with the previous year’s level and with sales of pre-packaged imported pork increasing.

As a result, sales in the Meat Products segment increased by 3.5% year on year to ¥37,604 million. Segment income decreased by 22.2% year on year to ¥601 million mainly because of the decline in profitability of domestic pork.

Other

Sales in the Other business decreased by 0.9% year on year to ¥79 million and Segment income decreased by 16.8% to ¥36 million.

CONSOLIDATED BALANCE SHEETS

30th September 2019 and 2018

(Unaudited)

ASSETS	Millions of yen		Thousands of U.S. dollars (Note)
	2019	2018	2019
Current assets:			
Cash and time deposits	¥ 9,196	¥ 8,086	\$ 85,203
Receivables:			
Trade notes and accounts	28,282	31,811	262,040
Other	660	734	6,115
Allowance for doubtful accounts	(14)	(17)	(130)
Inventories	18,704	17,662	173,298
Advances and other current assets	924	964	8,562
Total current assets	57,752	59,240	535,088
Investments and other assets:			
Investment securities			
Affiliates	106	–	982
Other	11,491	15,299	106,467
Retirement benefit asset	312	–	2,891
Deferred tax assets	305	328	2,826
Other	3,897	3,783	36,106
Allowance for doubtful accounts	(133)	(128)	(1,232)
Total investments and other assets	15,978	19,282	148,040
Property, plant and equipment, at cost:			
Land	18,429	19,010	170,749
Buildings and structures	54,153	53,338	501,742
Machinery and equipment	66,597	63,915	617,039
Lease assets	8,753	8,854	81,099
Construction in progress	735	641	6,810
	148,667	145,758	1,377,439
Less accumulated depreciation	(90,718)	(88,044)	(840,526)
Net property, plant and equipment	57,949	57,714	536,913
Intangible assets	3,209	2,424	29,732
Total assets	¥ 134,888	¥ 138,660	\$ 1,249,773

See the accompanying note.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note)
	2019	2018	2019
Current liabilities:			
Payables:			
Trade notes and accounts payable	¥ 26,169	¥ 25,254	\$ 242,463
Other	9,697	8,628	89,845
Short-term borrowings	6,094	10,212	56,463
Long-term debt due within one year	1,684	1,472	15,603
Short-term lease obligations	1,014	1,007	9,395
Accrued income taxes	666	471	6,171
Allowance for bonuses	1,022	1,103	9,469
Other current liabilities	2,094	2,367	19,400
Total current liabilities	48,440	50,514	448,809
Long-term liabilities:			
Long-term debt due after one year	3,248	2,424	30,094
Long-term lease obligations	4,563	4,842	42,277
Deferred tax liabilities	1,083	2,138	10,034
Liabilities for retirement benefits	779	554	7,218
Other long-term liabilities	685	734	6,347
Total long-term liabilities	10,358	10,692	95,970
NET ASSETS			
Shareholders' equity:			
Common stock			
Authorized — 40,000,000 shares in 2019 (200,000,000 shares in 2018)			
Issued — 26,505,581 shares in 2019 (132,527,909 shares in 2018) ...	6,716	6,716	62,226
Capital surplus	22,086	22,086	204,633
Retained earnings	45,458	44,087	421,180
Treasury stock, at cost	(2,657)	(2,635)	(24,618)
Total shareholders' equity	71,603	70,254	663,421
Accumulated other comprehensive income:			
Unrealised gains on securities	4,687	7,254	43,426
Deferred gains on hedges	3	10	28
Foreign currency translation adjustments	38	38	352
Adjustments for retirement benefits	(772)	(586)	(7,153)
Total accumulated other comprehensive income	3,956	6,716	36,653
Noncontrolling interests	531	484	4,920
Total net assets	76,090	77,454	704,994
Total liabilities and net assets	¥ 134,888	¥ 138,660	\$ 1,249,773

See the accompanying note.

CONSOLIDATED STATEMENTS OF INCOME

Six months ended 30th September 2019 and 2018

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2019	2018	2019
Net sales	¥ 124,667	¥ 121,229	\$ 1,155,073
Cost of sales	96,041	94,491	889,846
Gross profit	28,626	26,738	265,227
Selling, general and administrative expenses	26,563	25,712	246,113
Operating income	2,063	1,026	19,114
Other income (expenses):			
Interest and dividend income	182	164	1,686
Real estate rent	84	95	778
Interest expense	(110)	(106)	(1,019)
Gain on sale of securities, net	0	79	0
Loss on disposal of property, plant and equipment, net	(12)	(85)	(111)
Loss on impairment of assets	(33)	(27)	(306)
Loss compensation	–	(56)	–
Other, net	160	51	1,483
	271	115	2,511
Income before income taxes	2,334	1,141	21,625
Income taxes:			
Current	847	556	7,848
Deferred	36	(64)	333
	883	492	8,181
Profit	1,451	649	13,444
Profit attributable to noncontrolling interests	(16)	(11)	(148)
Profit attributable to owners of parent	¥ 1,435	¥ 638	\$ 13,296
		Yen	U.S. dollars (Note)
Profit attributable to owners of parent per share (Note)	¥ 56.42	¥ 25.01	\$ 0.52

See the accompanying note.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Six months ended 30th September 2019 and 2018

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2019	2018	2019
Profit	¥ 1,451	¥ 649	\$ 13,444
Other comprehensive income:			
Unrealised gains (losses) on securities	(587)	858	(5,439)
Deferred gains (losses) on hedges	(5)	19	(46)
Adjustments for retirement benefits	51	144	473
Share of other comprehensive income of associates accounted for using equity method ...	1	2	9
Total other comprehensive income	(540)	1,023	(5,003)
Comprehensive income	¥ 911	¥ 1,672	\$ 8,441
Comprehensive income attributable to:			
Owners of the parent	¥ 895	¥ 1,661	\$ 8,293
Noncontrolling interests	¥ 16	¥ 11	\$ 148

See the accompanying note.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Six months ended 30th September 2019 and 2018

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2019	2018	2019
Common stock:			
Balance at beginning and end of period	¥ 6,716	¥ 6,716	\$ 62,226
Capital surplus:			
Balance at beginning and end of period	¥ 22,086	¥ 22,086	\$ 204,633
Retained earnings:			
Balance at beginning of period	¥ 44,913	¥ 44,470	\$ 416,130
Cash dividends paid	(890)	(1,021)	(8,246)
Profit attributable to owners of parent	1,435	638	13,296
Balance at end of period	¥ 45,458	¥ 44,087	\$ 421,180
Treasury stock, at cost:			
Balance at beginning of period	¥ (2,635)	¥ (2,457)	\$ (24,414)
Purchase of treasury stock	(22)	(178)	(204)
Balance at end of period	¥ (2,657)	¥ (2,635)	\$ (24,618)
Unrealised gains on securities:			
Balance at beginning of period	¥ 5,274	¥ 6,396	\$ 48,865
Increase (decrease) for period	(587)	858	(5,439)
Balance at end of period	¥ 4,687	¥ 7,254	\$ 43,426
Deferred gains (losses) on hedges:			
Balance at beginning of period	¥ 9	¥ (9)	\$ 83
Increase (decrease) for period	(6)	19	(55)
Balance at end of period	¥ 3	¥ 10	\$ 28
Foreign currency translation adjustments:			
Balance at beginning of period	¥ 36	¥ 35	\$ 334
Increase for period	2	3	18
Balance at end of period	¥ 38	¥ 38	\$ 352
Adjustments for retirement benefits:			
Balance at beginning of period	¥ (823)	¥ (730)	\$ (7,625)
Increase for period	51	144	472
Balance at end of period	¥ (772)	¥ (586)	\$ (7,153)
Noncontrolling interests:			
Balance at beginning of period	¥ 519	¥ 477	\$ 4,809
Increase for period	12	7	111
Balance at end of period	¥ 531	¥ 484	\$ 4,920

See the accompanying note.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended 30th September 2019 and 2018

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes	¥ 2,334	¥ 1,141	\$ 21,625
Depreciation and amortisation	3,114	3,085	28,852
Loss on impairment of assets	33	27	306
Increase (decrease) in allowance for doubtful accounts	4	(6)	37
Decrease in liabilities for retirement benefits	(184)	(48)	(1,705)
Interest and dividend income	(182)	(164)	(1,686)
Interest expense	110	106	1,019
Gain on sale of securities, net	(0)	(79)	(0)
Loss on valuation of investment securities	–	2	–
Loss on disposal of property, plant and equipment, net	12	85	111
Decrease (increase) in receivables	2,413	(2,768)	22,357
Increase in inventories	(2,932)	(1,619)	(27,166)
Increase in trade notes and accounts payable	3,089	1,960	28,620
Decrease in consumption tax payable	(109)	(87)	(1,010)
Other, net	(43)	335	(397)
Subtotal	7,659	1,970	70,963
Interest and dividends received	175	164	1,621
Interest paid	(110)	(105)	(1,019)
Income taxes paid	(371)	(439)	(3,438)
Payments for special retirement expenses	(181)	(26)	(1,677)
Net cash provided by operating activities	7,172	1,564	66,450
Cash flows from investing activities:			
Purchase of short-term investments and investment securities	(17)	(16)	(158)
Proceeds from sale of short-term investments and investment securities	0	133	0
Purchase of property, plant and equipment	(3,597)	(5,017)	(33,327)
Proceeds from sale of property, plant and equipment	333	162	3,085
Other, net	(179)	(19)	(1,658)
Net cash used in investing activities	(3,460)	(4,757)	(32,058)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(286)	5,082	(2,650)
Repayment of long-term debt	(967)	(831)	(8,960)
Repayment of lease obligations	(475)	(480)	(4,401)
Cash dividends paid	(890)	(1,019)	(8,246)
Purchase of treasury shares	(22)	(178)	(204)
Other, net	(3)	(5)	(27)
Net cash provided by (used in) financing activities	(2,643)	2,569	(24,488)
Net increase (decrease) in cash and cash equivalents	1,069	(624)	9,904
Cash and cash equivalents at beginning of period	8,127	8,710	75,299
Cash and cash equivalents at end of period	¥ 9,196	¥ 8,086	\$ 85,203

See the accompanying note.

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Basis of financial statements

MARUDAI FOOD CO., LTD. (the “Company”) and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Company Law and accounting principles and practices generally accepted in Japan (“Japanese GAAP”). The accounts of overseas affiliated companies are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices. These financial statements should be read along with the Annual Report to Shareholders for the year ended 31st March 2019.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at 30th September 2019, which was ¥107.93 to U.S. \$1.00. These translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Additional Information

The Company consolidated shares of its common stock at a ratio of 5-to-1 on 1st October 2018, the effective date. Profit attributable to owners of parent per share is computed based on the assumption that the said consolidation of shares was conducted at the beginning of the previous fiscal year.

DIRECTORS AND STATUTORY AUDITORS

(As of 30th September 2019)

Chairman and
Representative Director: Tokuo Kudara

President and
Representative Director: Toshiharu Inoue

Senior Executive and
Managing Directors: Yoshio Kuramori

Managing Director: Yasushi Sawada

Directors: Shigeki Fukushima
Nobuyoshi Katoh
Kouji Mishima

Outside Directors: Susumu Shimadzu
Keiko Kaneko

Statutory Auditor: Yoshikazu Sawanaka

Outside Statutory Auditors: Takuji Okudaira
Motoaki Nishimura

OUTLINE OF THE COMPANY

(As of 30th September 2019)

Established: 10th June 1958

Stated Capital: ¥6,716 million

Number of Employees: 2,023

Head Office: 21-3 Midori-cho, Takatsuki-shi,
Osaka, Japan

Branch Office: 4-7-5 Tsukiji, Chuou-ku,
Tokyo, Japan

Sales Offices: The sales headquarters at the
Company's head office in Osaka
controls 10 distribution centers and
7 regional sales departments which
service 31 local outlets.

Plants: Hokkaido, Iwate,
Niigata, Kanto,
Ibaraki, Yokosuka, Shounan,
Shizuoka, Matsusaka,
Takatsuki, Okayama,
Hiroshima, Karatsu

Overseas Office: Chicago, U.S.A

Major Subsidiaries:

Hokkaido Marudai Food Co., Ltd.
Tohoku Marudai Food Co., Ltd.
Shin-etsu Marudai Food Co., Ltd.
Chubu Marudai Food Co., Ltd.
Chu-Shikoku Marudai Food Co., Ltd.
Kyushu Marudai Food Co., Ltd.
Toda Foods Co., Ltd.
Azumino Food Co., Ltd.
Marushin Foods Co., Ltd.
Pioneer Foods Co., Ltd.
Umeya Co., Ltd.
Yahata Food Co., Ltd.
Hornmeier Co., Ltd.
Marudaifood Co., Ltd.
Marudai Meat Co., Ltd.
Meat Supply Co., Ltd.
Marbest Trading Co., Ltd.
Marudai Service Co., Ltd.
8 Other subsidiaries

Associated Company:

Betagro MF Deli Co., Ltd.

MARUDAI FOOD CO., LTD.

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