



Semi-Annual Report 2020

For the Six-Month Period Ended 30th September 2020

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 73th fiscal year.

During the first six-month period ended 30th September 2020, the Japanese economy has shown signs of improvement as economic activity gradually resumes. However, it is important to monitor risks concerning further economic downturns in Japan and overseas due to COVID-19, and impacts of volatility in the financial and capital markets. The overall outlook remains challenging.

In the industry in which the Marudai Food Group operates, demand for eat-in and ready-to-eat meals has increased as consumers refrain from going out due to the pandemic. On the other hand, demand for eating out and for convenience stores, particularly in urban areas, remains under pressure. This, coupled with intensifying price competition as consumers look to maintain their current standards of living and the impact of rising logistics costs, means that the business environment continues to be extremely harsh. Regarding the meat market, domestic beef prices fell below the previous year's levels due to weak demand for eating out, while domestic pork prices were higher, reflecting increased demand for eat-in meals. In addition, although prices for U.S. beef were up, owing mainly to unstable supplies from overseas suppliers and sluggish demand for eating out, they have recently fallen below the levels of the previous year. Imported pork prices were generally weak and the outlook for the meat market is uncertain.

In these difficult circumstances, the Marudai Food Group 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 that satisfies the highest standards of safety and reliability.

As a result, consolidated net sales for the first six-month period decreased by 5.1% year on year to ¥118,287 million. Operating loss was ¥862 million (compared to operating income of ¥2,063 million in the same period of the previous year) and profit attributable to owners of parent decreased by 82.6% to ¥250 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 2020.

Toshiharu Inoue

President and Representative Director

PRODUCTS

Processed Food Products

The Ham & Sausage Products operations conducted sales promotion activities on the theme of “*enriching time at home*,” in response to rising demand for eat-at-home meals with a focus on mainstay products such as “*Kunseiya-Ripened Pork Sausage*” and “*Itsumo shinsen - Always Fresh Loin Ham*.” In addition, we looked to expand sales through the launch of new products such as “*Vienna Sausage for the Corner of the Lunchbox*” with a design featuring popular characters. On the other hand, sales of some commercial food products suffered due to the impact of the pandemic, and midyear gift products were adversely affected by consumers refraining from going out. As a result, sales in the Ham & Sausage Products operations decreased by 1.7% year on year.

In our Precooked & Processed Foods operations, sales of the “*Bistro Club Beef Curry*” series increased as households stockpiled food. Sales of mainstay products such as “*Sundubu*” and “*Salad Chicken*” also performed well. On the other hand, stay-at-home requests and increased working from home adversely affected sales of products for convenience stores, mainly in urban areas. In addition, sales of beverages containing black tapioca decreased significantly due to the entry of new competitors. As a result, sales in the Precooked & Processed Foods operations decreased by 9.9% year on year.

As a result, sales in the Processed Food Products segment amounted to ¥81,536 million, a decrease of 6.3% year on year. Segment income was significantly below the previous year with a loss of ¥1,196 million (compared to segment income of ¥1,426 million in the same period of the previous year) owing mainly to lower sales, lower prices due to intensified competitive pressure and higher raw material prices.

Meat Products

With regard to beef, sales of Japanese beef were on a par with the previous year’s level, but sales of imported beef were sluggish due to weak demand for eating out and lower unit prices. Therefore, overall beef sales were below the previous year’s level. Regarding pork, sales of pre-pack products increased, but sales of imported pork fell slightly below the previous year’s level due to lower supplies from overseas operators and weak demand for eating out. Sales of chicken were lower due to an increase in domestic inventories of imported products and a consequent decline in unit prices.

As a result, sales in the Meat Products segment decreased by 2.5% year on year to ¥36,666 million. Segment income decreased by 50.6% year on year to ¥297 million, mainly because of a decline in demand for eating out.

Other

Sales in the Other business increased by 5.8% year on year to ¥85 million and Segment income increased by 4.3% to ¥37 million.

CONSOLIDATED BALANCE SHEETS

30th September 2020 and 2019

(Unaudited)

ASSETS	Millions of yen		Thousands of U.S. dollars (Note)
	2020	2019	2020
Current assets:			
Cash and time deposits	¥ 7,894	¥ 9,196	\$ 74,627
Receivables:			
Trade notes and accounts	26,722	28,282	252,619
Other	1,086	660	10,267
Allowance for doubtful accounts	(15)	(14)	(142)
Inventories	18,922	18,704	178,881
Advances and other current assets	789	924	7,458
Total current assets	55,398	57,752	523,710
Investments and other assets:			
Investment securities			
Affiliates	148	106	1,399
Other	11,613	11,491	109,784
Retirement benefit asset	315	312	2,978
Deferred tax assets	402	305	3,800
Other	3,726	3,897	35,225
Allowance for doubtful accounts	(116)	(133)	(1,097)
Total investments and other assets	16,088	15,978	152,089
Property, plant and equipment, at cost:			
Land	18,841	18,429	178,115
Buildings and structures	61,611	54,153	582,445
Machinery and equipment	75,484	66,597	713,594
Lease assets	8,861	8,753	83,768
Construction in progress	222	735	2,099
	165,019	148,667	1,560,021
Less accumulated depreciation	(103,654)	(90,718)	(979,902)
Net property, plant and equipment	61,365	57,949	580,119
Intangible assets	2,929	3,209	27,689
Total assets	¥ 135,780	¥ 134,888	\$ 1,283,607

See the accompanying note.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note)
	2020	2019	2020
Current liabilities:			
Payables:			
Trade notes and accounts payable	¥ 22,665	¥ 26,169	\$ 214,265
Other	8,611	9,697	81,405
Short-term borrowings	11,006	6,094	104,046
Long-term debt due within one year	2,394	1,684	22,632
Short-term lease obligations	886	1,014	8,376
Accrued income taxes	233	666	2,203
Allowance for bonuses	1,019	1,022	9,633
Other current liabilities	1,650	2,094	15,598
Total current liabilities	48,464	48,440	458,158
Long-term liabilities:			
Long-term debt due after one year	4,685	3,248	44,290
Long-term lease obligations	4,620	4,563	43,676
Deferred tax liabilities	621	1,083	5,871
Liabilities for retirement benefits	1,286	779	12,157
Other long-term liabilities	688	685	6,504
Total long-term liabilities	11,900	10,358	112,498
NET ASSETS			
Shareholders' equity:			
Common stock			
Authorised — 40,000,000 shares in 2020 (40,000,000 shares in 2019)			
Issued — 26,505,581 shares in 2020 (26,505,581 shares in 2019)	6,716	6,716	63,490
Capital surplus	22,086	22,086	208,792
Retained earnings	45,037	45,458	425,761
Treasury stock, at cost	(2,697)	(2,657)	(25,496)
Total shareholders' equity	71,142	71,603	672,547
Accumulated other comprehensive income:			
Unrealised gains on securities	4,750	4,687	44,904
Deferred gains (losses) on hedges	(7)	3	(66)
Foreign currency translation adjustments	35	38	331
Adjustments for retirement benefits	(1,075)	(772)	(10,163)
Total accumulated other comprehensive income	3,703	3,956	35,006
Noncontrolling interests	571	531	5,398
Total net assets	75,416	76,090	712,951
Total liabilities and net assets	¥ 135,780	¥ 134,888	\$ 1,283,607

See the accompanying note.

CONSOLIDATED STATEMENTS OF INCOME

Six months ended 30th September 2020 and 2019

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2020	2019	2020
Net sales	¥ 118,287	¥ 124,667	\$ 1,118,236
Cost of sales	93,869	96,041	887,398
Gross profit	24,418	28,626	230,838
Selling, general and administrative expenses	25,280	26,563	238,987
Operating income (loss)	(862)	2,063	(8,149)
Other income (expenses):			
Interest and dividend income	163	182	1,541
Interest expense	(118)	(110)	(1,116)
Gain on sale of securities, net	–	0	–
Loss on disposal of property, plant and equipment, net	(71)	(12)	(671)
Gain on bargain purchase	998	–	9,435
Loss on impairment of assets	(42)	(33)	(397)
Other, net	231	244	2,184
	1,161	271	10,976
Income before income taxes	299	2,334	2,827
Income taxes:			
Current	214	847	2,023
Deferred	(194)	36	(1,834)
	20	883	189
Profit	279	1,451	2,638
Profit attributable to noncontrolling interests	(29)	(16)	(275)
Profit attributable to owners of parent	¥ 250	¥ 1,435	\$ 2,363
		Yen	U.S. dollars (Note)
Profit attributable to owners of parent per share	¥ 9.83	¥ 56.42	\$ 0.09

See the accompanying note.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Six months ended 30th September 2020 and 2019

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2020	2019	2020
Profit	¥ 279	¥ 1,451	\$ 2,638
Other comprehensive income:			
Unrealised gains on securities	917	(587)	8,669
Deferred losses on hedges	(3)	(5)	(29)
Adjustments for retirement benefits	106	51	1,002
Share of other comprehensive income of associates accounted for using equity method ...	(5)	1	(47)
Total other comprehensive income	1,015	(540)	9,595
Comprehensive income	¥ 1,294	¥ 911	\$ 12,233
Comprehensive income attributable to:			
Owners of the parent	¥ 1,265	¥ 895	\$ 11,958
Noncontrolling interests	¥ 29	¥ 16	\$ 275

See the accompanying note.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Six months ended 30th September 2020 and 2019

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2020	2019	2020
Common stock:			
Balance at beginning and end of period	¥ 6,716	¥ 6,716	\$ 63,490
Capital surplus:			
Balance at beginning and end of period	¥ 22,086	¥ 22,086	\$ 208,792
Retained earnings:			
Balance at beginning of period	¥ 45,677	¥ 44,913	\$ 431,812
Cash dividends paid	(890)	(890)	(8,414)
Profit attributable to owners of parent	250	1,435	2,363
Balance at end of period	¥ 45,037	¥ 45,458	\$ 425,761
Treasury stock, at cost:			
Balance at beginning of period	¥ (2,658)	¥ (2,635)	\$ (25,128)
Purchase of treasury stock	(39)	(22)	(368)
Balance at end of period	¥ (2,697)	¥ (2,657)	\$ (25,496)
Unrealised gains on securities:			
Balance at beginning of period	¥ 3,833	¥ 5,274	\$ 36,236
Increase (decrease) for period	917	(587)	8,668
Balance at end of period	¥ 4,750	¥ 4,687	\$ 44,904
Deferred gains (losses) on hedges:			
Balance at beginning of period	¥ (3)	¥ 9	\$ (28)
Decrease for period	(4)	(6)	(38)
Balance at end of period	¥ (7)	¥ 3	\$ (66)
Foreign currency translation adjustments:			
Balance at beginning of period	¥ 41	¥ 36	\$ 388
Increase (decrease) for period	(6)	2	(57)
Balance at end of period	¥ 35	¥ 38	\$ 331
Adjustments for retirement benefits:			
Balance at beginning of period	¥ (1,182)	¥ (823)	\$ (11,174)
Increase for period	107	51	1,011
Balance at end of period	¥ (1,075)	¥ (772)	\$ (10,163)
Noncontrolling interests:			
Balance at beginning of period	¥ 546	¥ 519	\$ 5,162
Increase for period	25	12	236
Balance at end of period	¥ 571	¥ 531	\$ 5,398

See the accompanying note.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended 30th September 2020 and 2019

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2020	2019	2020
Cash flows from operating activities:			
Income before income taxes	¥ 299	¥ 2,334	\$ 2,827
Depreciation and amortisation	3,749	3,114	35,441
Loss on impairment of assets	42	33	397
Increase (decrease) in allowance for doubtful accounts	(1)	4	(9)
Decrease in liabilities for retirement benefits	(126)	(184)	(1,191)
Gain on bargain purchase	(998)	–	(9,435)
Interest and dividend income	(163)	(182)	(1,541)
Interest expense	118	110	1,116
Gain on sale of securities, net	–	(0)	–
Loss on disposal of property, plant and equipment, net	71	12	671
Decrease in receivables	1,632	2,413	15,428
Increase in inventories	(867)	(2,932)	(8,196)
Increase (decrease) in trade notes and accounts payable	(1,145)	3,089	(10,824)
Decrease in consumption tax payable	(288)	(109)	(2,723)
Other, net	139	(43)	1,314
Subtotal	2,462	7,659	23,275
Interest and dividends received	172	175	1,626
Interest paid	(118)	(110)	(1,116)
Income taxes paid	(330)	(371)	(3,120)
Payments for special retirement expenses	(91)	(181)	(860)
Net cash provided by operating activities	2,095	7,172	19,805
Cash flows from investing activities:			
Purchase of short-term investments and investment securities	(17)	(17)	(161)
Proceeds from sale of short-term investments and investment securities	–	0	–
Purchase of property, plant and equipment	(3,030)	(3,597)	(28,644)
Proceeds from sale of property, plant and equipment	142	333	1,342
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,195)	–	(11,297)
Other, net	363	(179)	3,432
Net cash used in investing activities	(3,737)	(3,460)	(35,328)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	2,926	(286)	27,661
Proceeds from long-term debt	2,440	–	23,067
Repayment of long-term debt	(2,683)	(967)	(25,364)
Repayment of lease obligations	(458)	(475)	(4,330)
Cash dividends paid	(889)	(890)	(8,404)
Purchase of treasury shares	(40)	(22)	(378)
Other, net	(4)	(3)	(38)
Net cash provided by (used in) financing activities	1,292	(2,643)	12,214
Net increase (decrease) in cash and cash equivalents	(350)	1,069	(3,309)
Cash and cash equivalents at beginning of period	8,244	8,127	77,936
Cash and cash equivalents at end of period	¥ 7,894	¥ 9,196	\$ 74,627

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 2020.

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 2020, which was ¥105.78 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.

Significant changes in the scope of consolidation

From the second quarter ended 30th September 2020, Toraku Foods Co., Ltd., whose shares are newly acquired, and one other company have been included in the scope of consolidation.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year’s presentation.

DIRECTORS AND STATUTORY AUDITORS

(As of 30th September 2020)

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: Takashi Matsuzawa
Motoaki Nishimura

OUTLINE OF THE COMPANY

(As of 30th September 2020)

Established: 10th June 1958

Stated Capital: ¥6,716 million

Number of Employees: 2,188

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
6 regional sales departments which
service 23 local outlets.

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

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.
Toraku Foods Co., Ltd.
Hornmeier Co., Ltd.
Marudaifood Co., Ltd.
Marudai Meat Co., Ltd.
Meat Supply Co., Ltd.
Marbest Trading Co., Ltd.
Marudai Service Co., Ltd.
9 Other subsidiaries

Associated Company:

Betagro MF Deli Co., Ltd.

MARUDAI FOOD CO., LTD.

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