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November 9, 2018

CONSOLIDATED EARNINGS REPORT FOR THE SECOND QUARTER OF FISCAL 2018 [Japanese GAAP]

Company Name: BML, Inc.
Stock Listing: Tokyo Stock Exchange
Stock Code: 4694
URL: <http://www.bml.co.jp>
Representative: Kensuke Kondo, President and Representative Director
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Scheduled Date for Filing of Quarterly Report: November 14, 2018
Scheduled Date for Payment of Dividends: December 4, 2018
Creation of Supplementary Explanatory Materials: Yes
Holding of Explanatory Meeting: Yes

(Rounded down to nearest million yen)

1. Results for the Second Quarter of Fiscal 2018 (April 1, 2018–September 30, 2018)**(1) Consolidated Business Results**

(% indicates year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
2Q of FY2018	58,797	1.5	5,814	1.5	5,957	0.5	3,719	0.0
2Q of FY2017	57,912	2.4	5,730	2.2	5,926	2.9	3,717	4.4

(Note) Comprehensive income: 2Q of FY2018 ¥3,900 million / -5.7% 2Q of FY2017 ¥4,135 million / 9.3%

	Profit attributable to owners of parent per share Yen	Profit attributable to owners of parent per share (diluted) Yen
2Q of FY2018	87.33	87.20
2Q of FY2017	87.49	87.19

(2) Consolidated Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Equity ratio (%)
As of September 30, 2018	113,866	79,273	66.3
As of March 31, 2018	109,438	76,222	66.3

Reference: Equity capital: As of September 30, 2018 ¥75,488 million As of March 31, 2018 ¥72,521 million

2. Dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal 2017	—	17.50	—	17.50	35.00
Fiscal 2018	—	19.00			
Fiscal 2018 (forecast)			—	19.00	38.00

(Note) Revision of dividend projection from recently announced figures: None

3. Consolidated cumulative earnings forecast for the fiscal year ending March 31, 2019 (April 1, 2018–March 31, 2019)

(% indicates year-on-year changes)

	Net Sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit attributable to owners of parent per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	Yen
Full year	115,100	1.4	9,550	2.3	10,050	2.4	6,130	2.4	143.97

(Note) Revision from recently projected results: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries due to changes in the scope of consolidation): None

Increases: – Decreases: –

(2) Adoption of specific accounting methods in preparing quarterly financial statements: None

(3) Changes in accounting policies, accounting estimates and restatements

- 1) Changes in accounting policies in conjunction with revisions to accounting standards: None
- 2) Other changes: None
- 3) Changes in accounting estimates: None
- 4) Restatements: None

(4) Number of outstanding stocks (common stock)

a. Number of outstanding stocks at the end of the fiscal year (treasury stocks included)

As of September 30, 2018	44,014,726	As of March 31, 2018	44,014,726
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b. Number of treasury stocks at the end of period

As of September 30, 2018	1,421,020	As of March 31, 2018	1,436,916
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c. Average number of shares during the period

2Q ended September 30, 2018	42,583,786	2Q ended September 30, 2017	42,494,251
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* The quarterly financial results are not subject to quarterly review by a certified public accountant or an audit firm.

* Disclaimer regarding appropriate use of forecasts and related points of note

Earnings forecasts contained in these materials are based on certain assumptions judged to be reasonable and on the information available when the forecasts were made. However, the Company makes no guarantee that these forecasts will be achieved. Actual results may differ significantly from the forecasts due to a variety of factors. Please refer to “(3) Consolidated earnings forecasts and others” under “1. Qualitative information on operating results for quarter under review” on page 5 of this earnings report concerning financial forecasts such as the assumptions used for financial forecasts, factors that could cause these assumptions to change, and cautionary notes.

1. Qualitative information on operating results for quarter under review

(1) Operating results

Even in the contract clinical testing business, which should curb the ongoing rise in national healthcare costs, various reforms to healthcare systems are being implemented. Fiscal 2018 is a designated year for the biennial revision of medical service fees under the national health insurance (NHI) system, and although the NHI points used to set fees for medical services were increased, fees for clinical testing were lowered. The business environment remains harsh due to continuing competition among companies.

In fiscal 2018, which was the first year of the Seventh Medium-Term Management Plan (covering fiscal 2018 through fiscal 2020), the BML Group will continue to work toward our vision of “becoming the most trusted choice in the medical world” from the Sixth Medium-Term Management Plan and improve quality and services.

In these conditions, net sales for the second quarter of the fiscal year under review were ¥58,797 million, an increase of 1.5% year on year, and operating income was ¥5,814 million, an increase of 1.5% year on year. Ordinary income increased at 0.5% year on year to ¥5,957 million, and profit attributable to owners of parent increased 0.0% to ¥3,719 million. With regard to net sales, although there were effects by natural disasters and fewer business days, revenue increased due to solid new customer acquisitions. In terms of profits, income increased due to the effect of higher revenue.

Conditions by business segment are described below.

In the clinical testing business, the BML Group strengthened efforts for new customer acquisition. In addition, we sought to enhance performance, carrying out marketing to stimulate increased sales to existing users for mainly priority testing items and other strategies. As a result, net sales in the clinical testing business increased 1.3% year on year.

In the food hygiene business, which belongs to the other testing business, BML Food Science Solutions, Inc. showed steady performance of intestinal bacteria testing, food quality consulting, and food consulting were solid. As a result, sales in the other testing business increased 3.5% year on year.

As a consequence of the above, net sales in the testing business overall were ¥55,832 million, an increase of 1.4% year on year.

In the medical informatics business, strengthened relationships with distributors led to good progress with the number of sales of the Qualis electronic patient chart system for clinics and the Medical Station (MS) system. As a result, net sales in the medical informatics business increased by 11.4% year on year.

In other businesses, decreased sales for the Okayama Medical Laboratory Company’s dispensing pharmacy business, due to NHI drug price reduction, led to decreased net sales in other businesses by 11.5% year on year.

(2) Financial position

(a) Assets, liabilities and net assets

At the end of the second quarter of the consolidated fiscal period under review, total assets amounted to ¥113,866 million, a ¥4,428 million increase over the end of the previous fiscal year. Net assets totaled ¥79,273 million, up ¥3,051 million over the end of the previous fiscal year, and the equity ratio was 66.3%, the same as the end of the previous fiscal year.

As for the main items contributing to increases or decreases, in the assets section, under current assets, cash and deposits increased ¥3,354 million and notes and accounts receivable–trade increased ¥719 million. In the liabilities section, notes and accounts payable–trade increased ¥658 million. In the net assets section, retained earnings increased ¥2,973 million.

(b) Cash flows

Cash and cash equivalents on September 30, 2018, increased ¥4,939 million from September 30, 2017, to ¥46,949 million. The cash flow position and factors behind changes for each type of activity are as follows.

Operating activities provided net cash of ¥6,711 million, ¥366 million less than in the same period a year earlier.

Investing activities used net cash of ¥1,907 million, ¥284 million more than in the same period a year earlier.

Financing activities used net cash of ¥1,533 million, ¥33 million less than in the same period a year earlier.

(3) Consolidated earnings forecast and others

The Company has not revised its initial forecasts for consolidated results for the full year ending March 31, 2019.

2. Consolidated financial statements and important notes

(1) Consolidated balance sheets

(millions of yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	46,327	49,681
Notes and accounts receivable–trade	20,550	21,270
Merchandise and finished goods	290	333
Work in process	590	619
Raw materials and supplies	2,081	2,032
Other current assets	1,076	1,087
Allowance for doubtful accounts	(69)	(82)
Total current assets	70,848	74,941
Non-current assets		
Property, plant and equipment		
Land	13,093	13,088
Others, net	15,606	16,031
Total property, plant and equipment	28,700	29,119
Intangible assets		
Other intangible assets	3,714	3,687
Total intangible assets	3,714	3,687
Investments and other assets		
Other	6,258	6,201
Allowance for doubtful accounts	(82)	(82)
Total investments and other assets	6,175	6,118
Total non-current assets	38,589	38,925
Total assets	109,438	113,866

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable–trade	14,188	14,847
Income tax payable	1,842	1,887
Provision for bonuses	2,962	3,060
Other current liabilities	7,773	8,222
Total current liabilities	26,767	28,017
Non-current liabilities		
Provision for directors’ retirement benefits	191	194
Net defined benefit liability	3,897	3,798
Other non-current liabilities	2,359	2,582
Total non-current liabilities	6,447	6,575
Total liabilities	33,215	34,592
Net assets		
Shareholders’ equity		
Capital stock	6,045	6,045
Capital surplus	6,668	6,686
Retained earnings	59,531	62,505
Treasury stock	(1,164)	(1,151)
Total shareholders’ equity	71,080	74,085
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	777	767
Remeasurements of defined benefit plans	662	635
Total accumulated other comprehensive income	1,440	1,403
Subscription rights to shares	78	72
Non-controlling interests	3,622	3,712
Total net assets	76,222	79,273
Total liabilities and net assets	109,438	113,866

(2) Consolidated statements of income and consolidated statements of comprehensive income**Consolidated statements of income**

April 1, 2018 – September 30, 2018

(millions of yen)

	2nd Quarter Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	2nd Quarter Ended September 30, 2018 (April 1, 2018 to September 30, 2018)
Net sales	57,912	58,797
Cost of sales	36,589	37,023
Gross profit	21,322	21,774
Selling, general and administrative expenses	15,591	15,959
Operating income	5,730	5,814
Non-operating income		
Real estate rent	30	28
Gain on investment of securities	59	-
Other	146	150
Total non-operating income	236	179
Non-operating expenses		
Interest expense	20	18
Rent cost of real estate	15	14
Other	4	3
Total non-operating expenses	40	36
Ordinary income	5,926	5,957
Extraordinary income		
Gain on sales of non-current assets	0	4
Gain on liquidation of subsidiaries and associates	39	-
Total extraordinary income	40	4
Extraordinary losses		
Loss on retirement of non-current assets	37	6
Other	1	3
Total extraordinary losses	39	9
Profit before income taxes	5,927	5,952
Income taxes—current	1,974	1,929
Income taxes—deferred	8	83
Total income taxes	1,982	2,012
Profit	3,945	3,939
Profit attributable to non-controlling interests	227	220
Profit attributable to owners of parent	3,717	3,719

Consolidated statements of comprehensive income

April 1, 2018 – September 30, 2018

	(millions of yen)	
	2nd Quarter Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	2nd Quarter Ended September 30, 2018 (April 1, 2018 to September 30, 2018)
Profit	3,945	3,939
Other comprehensive income		
Valuation difference on available-for-sale securities	171	(11)
Remeasurements of defined benefit plans, net of tax	18	(27)
Total other comprehensive income	190	(39)
Comprehensive income	4,135	3,900
Breakdown		
Comprehensive income attributable to owners of parent	3,907	3,681
Comprehensive income attributable to non-controlling interests	227	219

(3) Consolidated statements of cash flows

(millions of yen)

	2nd Quarter Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	2nd Quarter Ended September 30, 2018 (April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Profit (loss) before income taxes	5,927	5,952
Depreciation	2,399	2,394
Amortization of goodwill	156	156
Interest expenses	20	18
Decrease (increase) in notes and accounts receivable–trade	(1,203)	(719)
Decrease (increase) in inventories	1	(22)
Increase (decrease) in notes and accounts payable–trade	232	658
Other, net	985	88
Subtotal	8,520	8,526
Interest expenses paid	(20)	(18)
Income taxes paid	(1,528)	(1,881)
Other proceeds	106	85
Net cash provided by (used in) operating activities	7,077	6,711
Cash flows from investing activities		
Payments into time deposits	(1,789)	(1,799)
Proceeds from withdrawal of time deposits	2,275	1,715
Purchase of property, plant and equipment	(1,399)	(1,161)
Purchase of intangible assets	(813)	(581)
Other, net	104	(81)
Net cash provided by (used in) investing activities	(1,622)	(1,907)
Cash flows from financing activities		
Repayments of lease obligations	(686)	(668)
Cash dividends paid	(743)	(745)
Dividends paid to non-controlling interests	(127)	(129)
Other, net	(9)	9
Net cash provided by (used in) financing activities	(1,567)	(1,533)
Net increase (decrease) in cash and cash equivalents	3,887	3,270
Cash and cash equivalents at beginning of period	38,122	43,679
Cash and cash equivalents at the end of period	42,009	46,949

(4) Notes on operating results for quarter under review

(Notes on premise of going concern)

First six months of the fiscal year ending March 31, 2019 (April 1, 2018 to September 30, 2018)

None

(Notes on significant changes in the amount of shareholders' equity)

First six months of the fiscal year ending March 31, 2019 (April 1, 2018 to September 30, 2018)

None

3. Supplementary information

Breakdown of sales

Testing		2Q of FY2017 (April 1, 2017 to September 30, 2017)		2Q of FY2018 (April 1, 2018 to September 30, 2018)		Change (%)
		¥ Million	% of total	¥ Million	% of total	
Testing business	Clinical testing business					
	Biochemical tests	23,549	40.7	23,565	40.1	0.1
	Hematological tests	4,988	8.6	4,977	8.5	(0.2)
	Immunological tests	11,515	19.9	11,961	20.3	3.9
	Microbiological tests	3,357	5.8	3,361	5.7	0.1
	Pathological tests	3,902	6.7	3,821	6.5	(2.1)
	Other tests	5,740	9.9	6,042	10.3	5.3
	(Clinical testing business subtotal)	53,053	91.6	53,730	91.4	1.3
	Other testing business	2,030	3.5	2,101	3.6	3.5
Testing business subtotal	55,084	95.1	55,832	95.0	1.4	
Medical informatics business	2,021	3.5	2,251	3.8	11.4	
Other businesses	806	1.4	713	1.2	(11.5)	
Total	57,912	100.0	58,797	100.0	1.5	

(Notes) Consumption taxes are not included in the above amounts.