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November 8, 2017

CONSOLIDATED EARNINGS REPORT FOR THE SECOND QUARTER OF FISCAL 2017 [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, 2017
Scheduled Date for Payment of Dividends: December 4, 2017
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 2017 (April 1, 2017–September 30, 2017)**(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 FY2017	57,912	2.4	5,730	2.2	5,926	2.9	3,717	4.4
2Q of FY2016	56,535	3.5	5,608	26.1	5,759	25.2	3,560	30.2

(Note) Comprehensive income: 2Q of FY2017 ¥4,135 million / 9.3% 2Q of FY2016 ¥3,784 million / 28.0%

	Profit attributable to owners of parent per share Yen	Profit attributable to owners of parent per share (diluted) Yen
2Q of FY2017	87.49	87.19
2Q of FY2016	83.81	83.53

(Note) The Company implemented a two-for-one split of its common stock on September 1, 2016. Profit attributable to owners of parent per share and profit attributable to owners of parent per share (diluted) have been calculated on the assumption that the stock split was implemented at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Equity ratio (%)
As of September 30, 2017	109,019	73,941	64.6
As of March 31, 2017	104,244	70,647	64.5

Reference: Equity capital: As of September 30, 2017 ¥70,397 million As of March 31, 2017 ¥67,199 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 2016	—	17.50	—	17.50	35.00
Fiscal 2017	—	17.50			
Fiscal 2017 (forecast)			—	17.50	35.00

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

3. Consolidated cumulative earnings forecast for the fiscal year ending March 31, 2018 (April 1, 2017–March 31, 2018)

(% 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	114,000	2.5	9,400	0.8	9,750	0.4	5,960	0.2	140.27

(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, 2017	44,014,726	As of March 31, 2017	44,014,726
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b. Number of treasury stocks at the end of period

As of September 30, 2017	1,505,916	As of March 31, 2017	1,526,338
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c. Average number of shares during the period

2Q ended September 30, 2017	42,494,251	2Q ended September 30, 2016	42,481,901
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(Note) The Company implemented a two-for-one split of its common stock on September 1, 2016.

The number of stocks has been calculated on the assumption that the stock split was implemented at the beginning of the previous fiscal year.

* The quarterly financial results are not subject to quarterly review.

* 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

As the population ages, high-price pharmaceuticals are more commonly used, advances are made in medical treatment, and national healthcare costs are increasing yearly, with the expectation that they will continue to increase into the future. As a result, various reforms to healthcare systems are being implemented and a wide range of initiatives are being carried out to curb healthcare costs.

In the contract clinical testing business, fiscal 2017 is not a designated year for the biennial revision of medical service fees under the national health insurance (NHI) system, and there are no reductions in NHI points used to set fees for clinical testing. However, the business environment remains harsh due to continuing competition among companies.

In fiscal 2017, which is the last year of the Sixth Medium-Term Management Plan (covering fiscal 2015 through fiscal 2017), the BML Group continues to invest efforts in improving our quality and services in order to achieve our vision of “becoming the most trusted choice in the medical world.”

Under these conditions, net sales for the second quarter of the fiscal year under review were ¥57,912 million, an increase of 2.4% year on year, and operating income was ¥5,730 million, an increase of 2.2% year on year. Ordinary income rose 2.9% year on year to ¥5,926 million, and profit attributable to owners of parent increased 4.4% to ¥3,717 million. In terms of profit, active human resource investments and capital investments were made to enhance quality and services, and improvements were made regarding the treatment of non-regular employees in order to stabilize employment, resulting in higher expenses. For these reasons, our initial plan forecast decreased profit year on year. However, increased income in excess of planned figures offset any increases in expenses, resulting in increased profit year on year.

Conditions by business segment are described below.

In the clinical testing business, the BML Group strengthened cooperation between worksites and corporate headquarters and developed the hospital and clinic market. In addition, we sought to enhance performance, carrying out proposal-based marketing that targets large institutions; marketing to stimulate increased sales to existing users for mainly priority testing items; and strategic use of our local and separated laboratories. As a result, net sales in the clinical testing business increased 2.1% year on year.

In the food hygiene business, which belongs to the other testing business, BML Food Science Solutions, Inc., showed steady performance of norovirus testing and food quality consulting, in addition to strong performance of food testing. This resulted in a good performance overall. As a result, sales in the other testing business increased 2.2% year on year.

As a consequence of the above, net sales in the testing business overall were ¥55,084 million, an increase of 2.1% year on year.

In the medical informatics business, we endeavored to utilize the Qualis electronic patient chart system for clinics and the Medical Station (MS) system to secure new contracts and pursue replacement sales with existing users. We also strengthened relationships with distributors. As a result, net sales in the medical informatics business increased by 5.7% year on year.

In other businesses, increased sales for the Okayama Medical Laboratory Company’s dispensing pharmacy business, due to the contribution of its new pharmacy that opened in April 2017, led to increased net sales in other businesses by 16.1% 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 ¥109,019 million, a ¥4,774 million increase over the end of the previous fiscal year. Net assets totaled ¥73,941 million, up ¥3,294 million over the end of the previous fiscal year, and the equity ratio increased 0.1% over the end of the previous fiscal year to 64.6%.

As for the main items contributing to increases or decreases, in the assets section, under current assets, cash and deposits increased ¥3,401 million and notes and accounts receivable–trade increased ¥1,216 million. In the net assets section, retained earnings increased ¥2,986 million.

(b) Cash flows

Cash and cash equivalents on September 30, 2017, increased ¥5,390 million from September 30, 2016, to ¥42,009 million. The cash flow position and factors behind changes for each type of activity are as follows.

Operating activities provided net cash of ¥7,077 million, ¥865 million more than in the same period a year earlier.

Investing activities used net cash of ¥1,622 million, ¥1,455 million less than in the same period a year earlier. The main factor was that payments into time deposits decreased ¥477 million, and proceeds from withdrawal of time deposits increased ¥1,072 million.

Financing activities used net cash of ¥1,567 million, ¥140 million more 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, 2018.

2. Consolidated financial statements and important notes

(1) Consolidated balance sheets

(millions of yen)

	As of March 31, 2017	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	41,281	44,683
Notes and accounts receivable–trade	20,020	21,237
Merchandise and finished goods	197	316
Work in process	562	492
Raw materials and supplies	2,069	2,021
Other current assets	2,388	2,302
Allowance for doubtful accounts	(79)	(77)
Total current assets	66,439	70,975
Non-current assets		
Property, plant and equipment		
Land	13,057	13,055
Others, net	16,166	16,119
Total property, plant and equipment	29,223	29,175
Intangible assets		
Other intangible assets	3,508	3,726
Total intangible assets	3,508	3,726
Investments and other assets		
Other	5,217	5,278
Allowance for doubtful accounts	(144)	(136)
Total investments and other assets	5,073	5,142
Total non-current assets	37,805	38,044
Total assets	104,244	109,019

	As of March 31, 2017	As of September 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable–trade	14,399	14,632
Income tax payable	1,564	1,970
Other current liabilities	10,514	11,160
Total current liabilities	26,479	27,762
Non-current liabilities		
Provision for directors’ retirement benefits	185	174
Net defined benefit liability	4,506	4,492
Other non-current liabilities	2,427	2,649
Total non-current liabilities	7,118	7,315
Total liabilities	33,597	35,078
Net assets		
Shareholders’ equity		
Capital stock	6,045	6,045
Capital surplus	6,646	6,652
Retained earnings	55,030	58,016
Treasury stock	(1,237)	(1,220)
Total shareholders’ equity	66,485	69,493
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	554	727
Remeasurements of defined benefit plans	159	177
Total accumulated other comprehensive income	714	904
Subscription rights to shares	142	138
Non-controlling interests	3,304	3,405
Total net assets	70,647	73,941
Total liabilities and net assets	104,244	109,019

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

(millions of yen)

	2nd Quarter Ended September 30, 2016 (April 1, 2016 to September 30, 2016)	2nd Quarter Ended September 30, 2017 (April 1, 2017 to September 30, 2017)
Net sales	56,535	57,912
Cost of sales	35,541	36,589
Gross profit	20,993	21,322
Selling, general and administrative expenses	15,385	15,591
Operating income	5,608	5,730
Non-operating income		
Real estate rent	32	30
Gain on investment of securities	-	59
Other	175	146
Total non-operating income	208	236
Non-operating expenses		
Interest expense	21	20
Rent cost of real estate	15	15
Loss on investment securities operation	12	-
Other	7	4
Total non-operating expenses	57	40
Ordinary income	5,759	5,926
Extraordinary income		
Gain on liquidation of subsidiaries and associates	-	39
Other	0	0
Total extraordinary income	0	40
Extraordinary losses		
Loss on retirement of non-current assets	16	37
Other	9	1
Total extraordinary losses	26	39
Profit before income taxes	5,732	5,927
Income taxes—current	1,925	1,974
Income taxes—deferred	23	8
Total income taxes	1,949	1,982
Profit	3,783	3,945
Profit attributable to non-controlling interests	222	227
Profit attributable to owners of parent	3,560	3,717

Consolidated statements of comprehensive income

(millions of yen)

	2nd Quarter Ended September 30, 2016 (April 1, 2016 to September 30, 2016)	2nd Quarter Ended September 30, 2017 (April 1, 2017 to September 30, 2017)
Profit	3,783	3,945
Other comprehensive income		
Valuation difference on available-for-sale securities	(32)	171
Remeasurements of defined benefit plans, net of tax	34	18
Total other comprehensive income	1	190
Comprehensive income	3,784	4,135
Breakdown		
Comprehensive income attributable to owners of parent	3,560	3,907
Comprehensive income attributable to non-controlling interests	224	227

(3) Consolidated statements of cash flows

(millions of yen)

	2nd Quarter Ended September 30, 2016 (April 1, 2016 to September 30, 2016)	2nd Quarter Ended September 30, 2017 (April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Profit (loss) before income taxes	5,732	5,927
Depreciation	2,299	2,399
Amortization of goodwill	158	156
Interest expenses	21	20
Decrease (increase) in notes and accounts receivable–trade	(550)	(1,203)
Decrease (increase) in inventories	(53)	1
Increase (decrease) in notes and accounts payable–trade	358	232
Increase (decrease) in accrued consumption taxes	(40)	146
Other, net	217	838
Subtotal	8,144	8,520
Interest expenses paid	(21)	(20)
Income taxes paid	(1,984)	(1,528)
Other proceeds	73	106
Net cash provided by (used in) operating activities	6,212	7,077
Cash flows from investing activities		
Payments into time deposits	(2,267)	(1,789)
Proceeds from withdrawal of time deposits	1,203	2,275
Purchase of property, plant and equipment	(1,643)	(1,399)
Purchase of intangible assets	(422)	(813)
Other, net	51	104
Net cash provided by (used in) investing activities	(3,078)	(1,622)
Cash flows from financing activities		
Repayments of lease obligations	(685)	(686)
Cash dividends paid	(637)	(743)
Other, net	(104)	(137)
Net cash provided by (used in) financing activities	(1,426)	(1,567)
Net increase (decrease) in cash and cash equivalents	1,708	3,887
Cash and cash equivalents at beginning of period	34,910	38,122
Cash and cash equivalents at the end of period	36,619	42,009

(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, 2018 (April 1, 2017 to September 30, 2017)

None

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

First six months of the fiscal year ending March 31, 2018 (April 1, 2017 to September 30, 2017)

None

3. Supplementary information

Breakdown of sales

Testing		2Q of FY2016 (April 1, 2016 to September 30, 2016)		2Q of FY2017 (April 1, 2017 to September 30, 2017)		Change (%)
		¥ Million	% of total	¥ Million	% of total	
Testing business	Clinical testing business					
	Biochemical tests	23,218	41.1	23,549	40.7	1.4
	Hematological tests	4,924	8.7	4,988	8.6	1.3
	Immunological tests	11,426	20.2	11,515	19.9	0.8
	Microbiological tests	3,191	5.7	3,357	5.8	5.2
	Pathological tests	3,744	6.6	3,902	6.7	4.2
	Other tests	5,435	9.6	5,740	9.9	5.6
	(Clinical testing business subtotal)	51,941	91.9	53,053	91.6	2.1
	Other testing business	1,987	3.5	2,030	3.5	2.2
Testing business subtotal	53,928	95.4	55,084	95.1	2.1	
Medical informatics business		1,911	3.4	2,021	3.5	5.7
Other businesses		694	1.2	806	1.4	16.1
Total		56,535	100.0	57,912	100.0	2.4