Consolidated Financial Results
for the Nine Months Ended September 30, 2019
[Japanese GAAP]

November 8, 2019

Company name: Nissha Co., Ltd.
Stock exchange listing: Tokyo Stock Exchange
Code number: 7915
URL: https://www.nissha.com/english
Representative: Junya Suzuki, Chairman of the Board, President and CEO
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Scheduled date of filing quarterly securities report: November 12, 2019
Scheduled date of commencing dividend payments: －
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Scheduled (conference call for institutional investors)

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Nine Months Ended September 30, 2019 (January 1, 2019 to September 30, 2019)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period)

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2019	125,409	(11.0)	2,757	(69.2)	(4,372)	－	(5,067)	－	(2,125)	－
Nine months ended September 30, 2018	140,860	－	8,966	－	1,963	－	1,400	－	456	－

(Note) Comprehensive income: Nine months ended September 30, 2019: ¥(1,565) million (–%)
Nine months ended September 30, 2018: ¥(308) million (–%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2019	(42.58)	－
Nine months ended September 30, 2018	9.04	8.82

(Notes)
1. Effective from the fiscal year ended December 31, 2017, the Company changed the fiscal year end date from March 31 to December 31. Therefore, figures indicating changes from the previous corresponding period for the nine months ended September 30, 2018 are not provided, as quarterly consolidated financial statements for the nine months ended September 30, 2017 were not prepared.
2. EBITDA is the total of operating profit, depreciation and amortization of goodwill.
3. In the second quarter ended June 30, 2019, the Company finalized provisional accounting treatments for business combination, which is reflected in the relevant figures for the nine months ended September 30, 2018.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	197,706	86,297	43.7
As of December 31, 2018	202,596	90,326	44.5

(Reference) Equity: As of September 30, 2019: ¥86,303 million
As of December 31, 2018: ¥90,208 million

(Notes)
1. In the second quarter ended June 30, 2019, the Company finalized provisional accounting treatments for business combination, which is reflected in the relevant figures for the fiscal year ended December 31, 2018.
2. The Company has been applying “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) from the beginning of the first quarter ended March 31, 2019. Figures for the fiscal year ended December 31, 2018 have had the accounting standards applied retroactively.

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2018	－	15.00	－	15.00	30.00
Fiscal year ending December 31, 2019	－	15.00	－		
Fiscal year ending December 31, 2019 (Forecast)				20.00	35.00

(Notes)
1. Revision of cash dividend forecast: No
2. The year-end dividend for the fiscal year ending December 31, 2019 (forecast) includes a commemorative dividend of ¥5 in recognition of the 90th anniversary of the Company’s foundation.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% indicates changes from the previous corresponding period)

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	173,000	(16.6)	6,000	(65.4)	(3,800)	－	(5,000)	－	(2,100)	－	(42.07)

(Notes)
1. Revision of consolidated financial results forecast: Yes
2. EBITDA is the total of operating profit, depreciation and amortization of goodwill.
3. In the second quarter ended June 30, 2019, the Company finalized provisional accounting treatments for business combinations, which is reflected in the relevant figures for the fiscal year ended December 31, 2018.

Notes:

(1) Changes in significant subsidiaries during the period under review: No
(Changes in specified subsidiaries resulting in changes in scope of consolidation):
New: – ( ), Exclusion: – ( )

(2) Adoption of special accounting treatment for preparing quarterly consolidated financial statements: Yes
(Note) For details, please see “2. Consolidated Financial Statements and Principal Notes (4) Notes to consolidated financial statements (Adoption of special accounting treatment for preparing quarterly consolidated financial statements)” on page 12 of the appendix.

(3) Changes in accounting policies, changes in accounting estimates, and restatements
1) Changes in accounting policies due to the revision of accounting standards: Yes
2) Any changes other than 1) above: No
3) Changes in accounting estimates: No
4) Restatements: No
(Note) For details, please see “2. Consolidated Financial Statements and Principal Notes (4) Notes to consolidated financial statements (Changes in accounting policies)” on page 12 of the appendix.

(4) Total number of issued shares (common stock)
1) Total number of issued shares at the end of the period (including treasury shares):

As of September 30, 2019	50,855,638 shares
As of December 31, 2018	50,855,638 shares

2) Total number of treasury shares at the end of the period:

As of September 30, 2019	942,591 shares
As of December 31, 2018	943,121 shares

3) Average number of shares during the period (cumulative total):

Nine months ended September 30, 2019	49,912,691 shares
Nine months ended September 30, 2018	50,473,650 shares

* This report on consolidated financial results is exempted from quarterly review by certified public accountant or auditing corporation.

* Explanation of the proper use of financial results forecast and other notes

The performance forecasts and other forward-looking statements contained in this report are based on information available to the Company on the date of this report’s release and certain premises that the Company deems to be reasonable. Therefore, the Company has not prepared these descriptions with intent to commit to realize them. Actual results, etc. may differ from the forecasts, however, as a consequence of various factors in the future. For details on the premises of the performance forecasts of the Company and the points to note when using the performance forecasts, please see “1. Qualitative Information on Consolidated Financial Results for the Period under Review (3) Explanation of consolidated operating results forecast and other forecast information” on page 5 of the appendix.

We are scheduled to hold a conference call for institutional investors on Friday, November 8, 2019. Reference materials to be used at the conference call are scheduled to be posted on our website on that day, as well.

Contents of Appendix

1. Qualitative Information on Consolidated Financial Results for the Period under Review

Business combinations with Heart Sync, Inc. on May 18, 2018 and with Sequel Special Products, LLC and RSS Design, LLC on June 25, 2018 were finalized in the second quarter ended June 30, 2019. Accordingly, previous year-end amounts and amounts for the same period of the previous year, used for comparison and analysis below, reflect the adjustment for the finalization of provisional accounting treatment.
In addition, the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) have been applied from the beginning of the first quarter ended March 31, 2019. Accordingly, the figures in the financial position presented in (2) Explanation of financial position are compared to and analyzed with the figures in the previous year that have been retrospectively restated to reflect the above-mentioned changes in the accounting standard.

(1) Explanation of operating results

The global economy, on the whole, gradually recovered in the nine months ended September 30, 2019, despite the prevailing uncertainties in the outlook due to protectionist economic policies and trade frictions, and the weakness found in some areas. The United States saw ongoing economic recovery thanks primarily to increased consumer spending. In Europe, the economy gradually recovered, though there was some weakness. In China, the gradual economic slowdown continued, and in other Asian emerging countries, the economic recovery turned out to be weak. The Japanese economy has continued a gradual recovery overall, although there is some weakness in its export and production.
The Group has been currently operating the Sixth Medium-term Business Plan (three-year plan) centering on the growth by reorganizing and optimizing its business portfolio. We have set the markets of mobility (automotive), medical devices and sustainable packaging materials as our focused markets, in addition to the mainstay consumer electronics (IT), and aim to develop well-balanced business bases and enhance our corporate value by implementing global based growth strategy. Regarding the financial results for the nine months ended September 30, 2019, demand for the Devices segment fell short of the projection, despite turning into an expansion trend during the third quarter ended September 30, 2019. The operation of the production department was not fully active as demand for the Industrial Materials segment fell short of the projection. The Medical Technologies segment experienced robust demand.
As a result, regarding the consolidated financial results for the nine months ended September 30, 2019, the net sales were ¥125,409 million (a decrease of 11.0% as compared to the same period of the previous year). EBITDA was ¥2,757 million (a decrease of 69.2% as compared to the same period of the previous year). Operating loss was ¥4,372 million (operating profit of ¥1,963 million in the same period of the previous year). Ordinary loss was ¥5,067 million (ordinary profit of ¥1,400 million in the same period of the previous year). Loss attributable to owners of parent was ¥2,125 million (profit attributable to owners of parent of ¥456 million in the same period of the previous year).

Following is an overview by business segment.

Industrial Materials

In the Industrial Materials segment, we mainly offer proprietary technologies that enable to create added value on the surfaces of various materials. IMD, IML, and IME, which facilitate simultaneous in-mold decoration, design and function adding of plastic products, are extensively adopted in mobility (automotive) components, home appliances, and smartphones in global markets. Also, our metallized paper, which unites the properties of metallic luster and printing friendliness, has the largest market share in the industry as sustainable packaging materials for beverages and foods on a global basis.

During the nine months ended September 30, 2019, the operation at domestic plants was not fully active on account of sluggish demand for Chinese market and furthermore, challenge to improve profitability continues at some overseas plants.

As a result, segment sales for the nine months ended September 30, 2019 were ¥35,119 million (an increase of 1.7% as compared to the same period of the previous year), and EBITDA was ¥1,177 million (a decrease of 63.1% as compared to the same period of the previous year). Segment loss (operating loss) was ¥1,644 million (segment profit (operating profit) of ¥406 million in the same period of the previous year).

Devices

In the Devices segment, we produce devices that pursue precision and functionality. Our main products, film-based Touch Sensors are widely adopted mainly in smartphones, tablets, portable game players, industrial equipment and mobility (automotive) components in global markets. In addition, we offer gas sensors that can detect gas conditions, along with other products.

During the nine months ended September 30, 2019, demand for smartphones fell short of the initial projection, placing pressure on revenue of the segment, despite turning into an expansion trend during the third quarter ended September 30, 2019.

As a result, segment sales for the nine months ended September 30, 2019 were ¥66,723 million (a decrease of 16.6% as compared to the same period of the previous year), and EBITDA was ¥1,783 million (a decrease of 72.2% as compared to the same period of the previous year). Segment loss (operating loss) was ¥484 million (segment profit (operating profit) of ¥4,171 million in the same period of the previous year).

Medical Technologies

The Medical Technologies segment is a business segment that offers high-quality and value-added products in medical devices and other related markets to contribute to healthy and affluent life. The segment provides contract manufacturing services (a business handling a series of processes ranging from product design and development to manufacture) for major medical device manufacturers on a global basis with products such as surgical instruments for minimal invasive treatments and medical wearable sensor used for a wide range of conditions, primarily heart disease. In addition to this, the segment currently manufactures and sells its own brand products to medical institutions.

During the nine months ended September 30, 2019, demand progressed steadily primarily for our mainstay products of contract manufacturing services. However, temporary expenses were incurred relating to corporate acquisitions in accordance with the growth strategy.

As a result, segment sales for the nine months ended September 30, 2019 were ¥18,207 million (an increase of 13.7% as compared to the same period of the previous year), and EBITDA was ¥1,742 million (an increase of 30.7% as compared to the same period of the previous year). Segment profit (operating profit) was ¥265 million (segment loss (operating loss) of ¥6 million in the same period of the previous year).

Information and Communication

In the Information and Communication segment, we focus on the fields such as publication printing and art solution, where we can make the most of our high-definition and high-quality tone reproduction capabilities, and also offer commercial printing and services related to sales promotion.

During the nine months ended September 30, 2019, segment sales decreased compared with the same period of the previous year due to impacts of the business restructuring on January 2019. Also, during the third quarter ended September 30, 2019, demand dropped as a result of seasonal factors.

As a result, segment sales for the nine months ended September 30, 2019 were ¥5,063 million (a decrease of 49.2% as compared to the same period of the previous year), and EBITDA was negative ¥114 million (negative ¥260 million in the same period of the previous year). Segment loss (operating loss) was ¥215 million (segment loss (operating loss) of ¥431 million in the same period of the previous year).

(2) Explanation of financial position

1) Assets, liabilities and net assets

Total assets at the end of the third quarter ended September 30, 2019 decreased by ¥4,890 million from the end of the previous year (the fiscal year ended December 31, 2018) to ¥197,706 million.

Current assets decreased by ¥6,086 million from the end of the previous year to ¥89,772 million. This was mainly because a ¥1,450 million decrease of notes and accounts receivable-trade, a ¥5,860 million decrease of inventories such as merchandise and finished goods, and a ¥773 million decrease of consumption taxes receivables which are included in other outweighed a ¥5,505 million increase of cash and deposits.

Non-current assets increased by ¥1,195 million from the end of the previous year to ¥107,933 million. This was mainly because “other, net” in property, plant and equipment increased by ¥1,505 million due to application of IFRS 16 “Leases” by the subsidiaries of the Group that adopt IFRS from the beginning of the first quarter ended March 31, 2019, as stated in “2. Consolidated Financial Statements and Principal Notes (4) Notes to consolidated financial statements (Changes in accounting policies),” and investment securities increased by ¥4,390 million, which outweighed a ¥2,085 million decrease of goodwill, a ¥254 million decrease of technical assets, and a ¥842 million decrease of customer related assets.

Total liabilities at the end of the third quarter ended September 30, 2019 decreased by ¥861 million from the end of the previous year to ¥111,408 million.

Current liabilities decreased by ¥2,138 million from the end of the previous year to ¥80,570 million. This was mainly because a ¥15,277 million decrease of notes and accounts payable-trade, a ¥1,995 million decrease of electronically recorded obligations - operating, a ¥1,904 million decrease of accrued expenses and a ¥1,106 million decrease of electronically recorded obligations - non-operating both included in other outweighed a ¥20,158 million increase of short-term loans payable.

Non-current liabilities increased by ¥1,276 million from the end of the previous year to ¥30,837 million. This was mainly attributable to a ¥1,368 million increase of lease liabilities which are included in other as a result that the subsidiaries of the Group that adopt IFRS have applied IFRS 16 “Leases.”

Net assets at the end of the third quarter ended September 30, 2019 decreased by ¥4,029 million from the end of the previous year to ¥86,297 million.

2) Cash flows

The balance of cash and cash equivalents (the “funds”) on a consolidated basis at the end of the nine months ended September 30, 2019 was ¥22,263 million, an increase of ¥5,505 million compared to the end of the previous year.

The following describes the conditions of each cash flow and the underlying causes for the nine months ended September 30, 2019.

(Net Cash Provided by (Used in) Operating Activities)

Funds used in operating activities amounted to ¥9,902 million (a decrease of 48.8% as compared to the same period of the previous year). This was mainly because there was a ¥617 million of loss before income taxes but a ¥4,564 million gain on sales and retirement of non-current assets, and a ¥16,833 million decrease in notes and accounts payable-trade outweighed ¥5,929 million of depreciation, ¥1,200 million of amortization of goodwill, and a ¥5,105 million decrease of inventories.

(Net Cash Provided by (Used in) Investing Activities)

Funds used in investing activities amounted to ¥1,863 million (a decrease of 83.8% as compared to the same period of the previous year). This was mainly because a ¥6,307 million of purchase of property, plant and equipment and intangible assets outweighed a ¥5,157 million of proceeds from sales of purchase of property, plant and equipment and intangible assets.

(Net Cash Provided by (Used in) Financing Activities)

Funds provided by financing activities amounted to ¥17,482 million (a decrease of 11.5% as compared to the same period of the previous year). This was mainly because a ¥20,223 million of net increase in short-term loans payable outweighed a ¥1,493 million of cash dividends paid.

(3) Explanation of consolidated operating results forecast and other forecast information

As a result of reviewing the financial forecasts for the fiscal year ending December 31, 2019 based on the operating results for the nine months ended September 30, 2019 and the latest demand trends and other factors, the operating results forecast announced on August 6, 2019 have been revised.

For details, please see the “Notice of Revision to Business Forecast for FY2019” announced on November 8, 2019.

2. Consolidated Financial Statements and Principal Notes

(1) Consolidated balance sheets

(Million yen)

	As of December 31, 2018	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	16,762	22,268
Notes and accounts receivable-trade	40,867	39,416
Merchandise and finished goods	12,337	8,180
Work in process	8,101	7,153
Raw materials and supplies	7,144	6,388
Other	10,923	6,632
Allowance for doubtful accounts	(277)	(267)
Total current assets	95,859	89,772
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	29,408	29,634
Machinery, equipment and vehicles, net	11,678	11,852
Tools, furniture and fixtures, net	3,063	2,745
Land	6,192	6,139
Leased assets, net	1,475	1,414
Construction in progress	2,406	1,368
Other, net	—	1,505
Total property, plant and equipment	54,225	54,659
Intangible assets		
Trademark right	3,431	3,184
Software	1,026	1,121
Goodwill	22,039	19,953
Technical assets	1,965	1,710
Customer related assets	6,770	5,928
Other	995	827
Total intangible assets	36,228	32,726
Investments and other assets		
Investment securities	14,797	19,188
Other	1,955	1,804
Allowance for doubtful accounts	(468)	(446)
Total investments and other assets	16,284	20,547
Total non-current assets	106,737	107,933
Total assets	202,596	197,706

(Million yen)

	As of December 31, 2018	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	44,484	29,206
Electronically recorded obligations - operating	6,772	4,777
Short-term loans payable	10,858	31,016
Current portion of long-term loans payable	1,716	1,613
Income taxes payable	840	542
Provision for bonuses	1,963	2,713
Provision for directors' bonuses	71	47
Provision for product warranties	74	51
Other	15,928	10,602
Total current liabilities	82,709	80,570
Non-current liabilities		
Bonds payable	2,840	2,840
Long-term loans payable	13,525	12,870
Provision for management board benefit trust	46	76
Net defined benefit liability	4,305	4,305
Other	8,843	10,744
Total non-current liabilities	29,560	30,837
Total liabilities	112,270	111,408
Net assets		
Shareholders' equity		
Capital stock	12,119	12,119
Capital surplus	15,514	14,654
Retained earnings	54,138	50,501
Treasury shares	(1,911)	(1,909)
Total shareholders' equity	79,861	75,366
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,216	10,836
Foreign currency translation adjustment	1,791	(224)
Remeasurements of defined benefit plans	339	325
Total accumulated other comprehensive income	10,347	10,936
Non-controlling interests	118	(5)
Total net assets	90,326	86,297
Total liabilities and net assets	202,596	197,706

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

(Million yen)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2019
Net sales	140,860	125,409
Cost of sales	117,483	108,800
Gross profit	23,377	16,609
Selling, general and administrative expenses	21,413	20,981
Operating profit (loss)	1,963	(4,372)
Non-operating income		
Interest income	132	38
Dividend income	204	281
Other	191	110
Total non-operating income	528	430
Non-operating expenses		
Interest expenses	642	797
Share of loss of entities accounted for using equity method	182	7
Foreign exchange losses	232	289
Other	34	31
Total non-operating expenses	1,091	1,125
Ordinary profit (loss)	1,400	(5,067)
Extraordinary income		
Gain on sales of non-current assets	129	5,034
Gain on sales of investment securities	—	4
Gain on sales of shares of subsidiaries and associates	354	907
State subsidy	91	25
Total extraordinary income	575	5,971
Extraordinary losses		
Loss on sales and retirement of non-current assets	414	469
Loss on valuation of investment securities	1	265
Impairment loss	—	485
Loss on closing of plants	—	227
Business structure improvement expenses	—	47
Business establishment transfer cost	53	24
Total extraordinary losses	470	1,521
Profit (loss) before income taxes	1,505	(617)
Income taxes	1,077	1,505
Profit (loss)	428	(2,123)
Profit (loss) attributable to non-controlling interests	(27)	1
Profit (loss) attributable to owners of parent	456	(2,125)

Consolidated statements of comprehensive income

(Million yen)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2019
Profit (loss)	428	(2,123)
Other comprehensive income		
Valuation difference on available-for-sale securities	(150)	2,604
Foreign currency translation adjustment	(522)	(2,019)
Remeasurements of defined benefit plans, net of tax	(23)	(27)
Share of other comprehensive income of entities accounted for using equity method	(40)	—
Total other comprehensive income	(737)	557
Comprehensive income	(308)	(1,565)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(283)	(1,565)
Comprehensive income attributable to non-controlling interests	(25)	(0)

(3) Consolidated statements of cash flows

(Million yen)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2019
Cash flows from operating activities		
Profit (loss) before income taxes	1,505	(617)
Depreciation	5,781	5,929
Impairment loss	—	485
Amortization of goodwill	1,220	1,200
Loss on closing of plants	—	227
Business structure improvement expenses	—	47
Business establishment transfer cost	53	24
Increase (decrease) in provision for bonuses	910	781
Increase (decrease) in provision for directors' bonuses	(7)	(23)
Increase (decrease) in provision for management board benefit trust	(102)	30
Increase (decrease) in provision for product warranties	50	(18)
Increase (decrease) in net defined benefit asset/liability	(27)	97
Increase (decrease) in allowance for doubtful accounts	(15)	7
Interest and dividend income	(336)	(320)
Interest expenses	642	797
Foreign exchange losses (gains)	332	(137)
Share of loss (profit) of entities accounted for using equity method	182	7
Loss (gain) on valuation of investment securities	1	265
Gain on sales of shares of subsidiaries and affiliates	(354)	(907)
Loss (gain) on sales and retirement of non-current assets	285	(4,564)
Decrease (increase) in notes and accounts receivable-trade	(2,326)	937
Decrease (increase) in inventories	(6,975)	5,105
Increase (decrease) in notes and accounts payable-trade	(13,061)	(16,833)
Other, net	(4,347)	(229)
Subtotal	(16,587)	(7,708)
Interest and dividend income received	253	318
Interest expenses paid	(643)	(780)
Income taxes paid	(2,446)	(1,788)
Income taxes refund	100	55
Net cash provided by (used in) operating activities	(19,323)	(9,902)

(Million yen)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2019
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	477	—
Purchase of property, plant and equipment and intangible assets	(9,997)	(6,307)
Payments for retirement of property, plant and equipment	(206)	(474)
Proceeds from sales of property, plant and equipment and intangible assets	134	5,157
Purchase of investment securities	(4)	(966)
Proceeds from sales of investment securities	7	8
Purchase of investments in other securities of subsidiaries and affiliates	—	(29)
Purchase of investments in subsidiaries and others resulting in change in scope of consolidation	(1,498)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	617
Proceeds from sales of shares of subsidiaries and associates	317	—
Payments for transfer of business	(697)	—
Other, net	(70)	130
Net cash provided by (used in) investing activities	(11,538)	(1,863)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	20,098	20,223
Proceeds from long-term loans payable	3,328	1,018
Repayments of long-term loans payable	(1,243)	(1,034)
Commission fee paid	(11)	(0)
Repayments of lease obligations	(200)	(180)
Proceeds from sales and purchase of treasury stock, net	(713)	(0)
Cash dividends paid	(1,514)	(1,493)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(950)
Other, net	—	(98)
Net cash provided by (used in) financing activities	19,743	17,482
Effect of exchange rate change on cash and cash equivalents	(487)	(210)
Net increase (decrease) in cash and cash equivalents	(11,605)	5,505
Cash and cash equivalents at beginning of period	29,291	16,757
Cash and cash equivalents at end of period	17,685	22,263

(4) Notes to consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Notes to material changes in shareholders' equity)

The Company acquired additional shares in its consolidated subsidiaries, Nissha Printing Communications, Inc. and Graphic Controls Holdings, Inc. on January 7, 2019 and June 28, 2019, respectively. As a result, capital surplus decreased by ¥859 million in the nine months ended September 30, 2019 and accordingly amounted to ¥14,654 million at the end of the third quarter ended September 30, 2019.

(Adoption of special accounting treatments for preparing quarterly consolidated financial statements)

Calculation of tax expense

When calculating tax expense, we reasonably estimate the effective tax rate after applying tax-effect accounting for profit (loss) before income taxes in the fiscal year, including the third quarter ended September 30, 2019. We then calculate the tax expense by multiplying profit (loss) before income taxes by the estimated effective tax rate. We use the statutory effective tax rate, however, if the estimated effective tax rate is unavailable.

(Changes in accounting policies)

(Application of the "Implementation Guidance on Tax Effect Accounting")

The "Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018)" has been applied from the beginning of the first quarter ended March 31, 2019. Accordingly, our accounting policy has been changed and we now recognize deferred tax liabilities for taxable temporary differences associated with the stocks in subsidiaries in non-consolidated financial statements, expect for the time when we have no intention to sell the said stocks for the foreseeable future.

The above-mentioned change in accounting policy has been applied retrospectively to the consolidated financial statements for the previous fiscal year, and the consolidated financial statements for the previous fiscal year presented in this document are those after the retrospective restatement.

Consequently, in the consolidated balance sheet for the previous fiscal year, deferred tax liabilities decreased by ¥683 million, and retained earnings increased by the same amount, as compared to those in the consolidated balance sheet for the previous fiscal year before the retrospective restatement.

This change in accounting policy did not give any impact on the profit (loss) for the nine months ended September 30, 2018.

(Application of IFRS 16 "Leases")

The subsidiaries of the Group that adopt IFRS have applied IFRS 16 "Leases" from the beginning of the first quarter ended March 31, 2019. Accordingly, for lessee transactions, right-of-use assets and lease liabilities are recognized for all leases, in principle, and depreciation of the right-of-use assets and interest on the lease liabilities are also recognized.

In the application of IFRS 16 “Leases”, the transition provision was followed; for the leases that were categorized as operating leases in the past, right-of-use assets and lease liabilities were recognized at the beginning of the first quarter ended March 31, 2019.

As a result of the application, in consolidated balance sheets for the third quarter ended September 30, 2019, other, net in property, plant and equipment increased by ¥1,505 million, other in current liabilities increased by ¥178 million and other in non-current liabilities increased by ¥1,368 million. This change in accounting policy gave little impact on the profit (loss) for the nine months ended September 30, 2019.

(Additional information)

(Application of the “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018)” have been applied from the beginning of the first quarter ended March 31, 2019.

Accordingly, deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under non-current liabilities.

(Segment information)

I. The nine months ended September 30, 2018 (January 1, 2018 to September 30, 2018)

1. Information about sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment					Other (Note 1)	Total	Reconcili-ations (Note 2)	Consolidated (Note 3)
	Industrial Materials	Devices	Medical Technologies	Information and Communi-cation	Sub-total				
Sales									
Sales to external customers	34,518	80,041	16,015	9,961	140,537	322	140,860	—	140,860
Inter-segment sales or transfers	724	523	—	61	1,309	1,315	2,625	(2,625)	—
Total	35,243	80,565	16,015	10,023	141,847	1,637	143,485	(2,625)	140,860
Segment profit (loss)	406	4,171	(6)	(431)	4,140	69	4,209	(2,246)	1,963

(Notes) 1. The "Other" category consists of a business segment not included in the reportable segments and includes the landscaping business, etc.

2. The negative ¥2,246 million of reconciliations in segment profit (loss) includes unallocated corporate expenses, etc. Corporate expenses mainly consist of general and administrative expenses not attributable to any reportable segment.

3. Segment profit (loss) is reconciled with operating profit recorded in the consolidated statements of income.

II. The nine months ended September 30, 2019 (January 1, 2019 to September 30, 2019)

1. Information about sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment					Other (Note 1)	Total	Reconcili-ations (Note 2)	Consolidated (Note 3)
	Industrial Materials	Devices	Medical Technologies	Information and Communi-cation	Sub-total				
Sales									
Sales to external customers	35,119	66,723	18,207	5,063	125,113	296	125,409	—	125,409
Inter-segment sales or transfers	761	107	—	39	908	1,253	2,161	(2,161)	—
Total	35,880	66,830	18,207	5,103	126,022	1,549	127,571	(2,161)	125,409
Segment profit (loss)	(1,644)	(484)	265	(215)	(2,079)	(9)	(2,089)	(2,283)	(4,372)

(Notes) 1. The "Other" category consists of a business segment not included in the reportable segments and includes the landscaping business, etc.

2. The negative ¥2,283 million of reconciliations in segment profit (loss) includes unallocated corporate expenses, etc. Corporate expenses mainly consist of general and administrative expenses not attributable to any reportable segment.

3. Segment profit (loss) is reconciled with operating loss recorded in the consolidated statements of income.

4. Pursuant to the material revision to the initial allocation amount of acquisition costs described in "Material review in initial allocation amount of acquisition costs in comparative information" in "Business combinations," the effect of this revision is reflected in segment information for the nine months ended September 30, 2018.

2. Information about impairment loss on non-current assets or goodwill, etc. by reportable segment

(Material impairment loss on non-current assets)

Impairment loss on non-current assets of ¥485 million was recorded in the Industrial Materials segment.

3. Changes in reportable segments, etc.

(Changes in accounting policies)

As stated in "Changes in accounting policies" above, the subsidiaries of the Group that adopt IFRS have applied IFRS 16 "Leases" from the beginning of the first quarter ended March 31, 2019. Accordingly, for lessee transactions, right-of-use assets and lease liabilities are recognized for all leases, in principle, and depreciation of the right-of-use assets and interest on the lease liabilities are also recognized.

This change in accounting policy gave little impact on segment profit (loss) for the nine months ended September 30, 2019.

(Business Combinations)

Business combination by acquisition

Material review in initial allocation amount of acquisition costs in comparative information

Business combination with Heart Sync, Inc.

Regarding business combination with Heart Sync, Inc. on May 18, 2018, the allocation amount of acquisition costs was provisionally calculated in the second quarter ended June 30, 2018 but the actual allocation amount was determined and amount of contingent consideration for the acquisition also was finalized in the second quarter ended June 30, 2019.

In line with the finalization, the initial allocation amount of acquisition costs was reviewed in the comparative information included in the quarterly consolidated financial statements for the nine months ended September 30, 2019 but there was no impact on the consolidated financial statements for the fiscal year ended December 31, 2018 and also, there was no impact on the quarterly consolidated statements of income for the nine months ended September 30, 2018.

Business combination with Sequel Special Products, LLC and RSS Design, LLC

Regarding business combination with Sequel Special Products, LLC and RSS Design, LLC on June 25, 2018, the allocation amount of acquisition costs was provisionally calculated in the second quarter ended June 30, 2018 but the actual allocation amount was determined and amount of contingent consideration for the acquisition also was finalized in the second quarter ended June 30, 2019.

In line with the finalization, significant changes in the initial allocation amount of the acquisition costs have been reflected in the comparative information included in the quarterly consolidated financial statements for the nine months ended September 30, 2019. As a result, at the end of fiscal year ended December 31, 2018, goodwill decreased by ¥160 million and customer related assets decreased by ¥21 million.

This changes in the initial allocation amount gave little impact on consolidated statements of income for the nine months ended September 30, 2018.