

Consolidated Financial Results for the Three Months Ended June 30, 2023 [Japan GAAP]

August 2, 2023

Company name : Japan Lifeline Co., Ltd.
 Code No. : 7575
 Stock Exchange Listing : The Prime Market of the Tokyo Stock Exchange
 URL : <https://www.japanlifeline.com/>
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Scheduled date to file the Quarterly Securities Report : August 10, 2023
 Scheduled date to commence dividend payment : -
 Supplementary documents to the financial results for the period : Available
 Presentation on quarterly results : Not available

(Amounts are rounded down to million yen)

1. Consolidated Financial Results for the Three Months Ended June 30, 2023 (April 1, 2023 to June 30, 2023)

(1) Consolidated operating results (% indicates year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2023	12,954	(0.1)	3,176	17.3	3,244	21.3	2,330	19.7
Three months ended June 30, 2022	12,969	2.8	2,707	16.7	2,674	10.6	1,946	14.3

(Note) Comprehensive income: Three months ended June 30, 2023 : 2,437 million yen; 19.6 %
 Three months ended June 30, 2022 : 2,038 million yen; 6.6 %

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended June 30, 2023	30.03		-	
Three months ended June 30, 2022	24.73		-	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2023	71,322	54,981	77.1
As of March 31, 2023	74,641	56,195	75.3

(Reference) Shareholders' equity: As of June 30, 2023 : 54,981 million yen
 As of March 31, 2023 : 56,195 million yen

2. Dividends

	Cash dividends per share				
	1Q End	2Q End	3Q End	Year-End	Total
Year ended March 31, 2023	Yen -	Yen 0.00	Yen -	Yen 38.00	Yen 38.00
Year ending March 31, 2024	-				
Year ending March 31, 2024 (forecast)		0.00	-	38.00	38.00

(Note) Revisions to cash dividends forecast most recently announced : None

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(% represents change from the previous year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2023	23,880	(6.3)	4,488	(12.3)	4,499	(12.0)	3,235	(12.6)	41.17
Year ending March 31, 2024	48,807	(5.7)	9,763	(9.9)	9,531	(12.6)	6,854	(0.5)	89.13

(Note) Revisions to the forecast of consolidated financial results most recently announced : None

* Notes

(1) Changes in significant subsidiaries during the period (change in specified subsidiaries resulting in scope of consolidation): None

(2) Application of specific accounting treatments for the preparation of the consolidated quarterly financial statement: None

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

- (i) Changes in accounting policies due to the revision of accounting standards : None
- (ii) Changes in accounting policies other than (i) : Yes
- (iii) Changes in accounting estimates : Yes
- (iv) Restatement : None

(Notes) For details, please refer to "2. Consolidated Financial Statements and Primary Notes (3) Notes to Consolidated Financial Statements Changes in Accounting Policies".

(4) Number of issued shares outstanding (common stock)

(i) Number of issued shares at the end of the period (including treasury stock):

Three months ended June 30, 2023 : 82,919,976 Shares
Year ended March 31, 2023 : 82,919,976 Shares

(ii) Number of shares held as treasury stock at the end of the period:

Three months ended June 30, 2023 : 5,653,073 shares
Year ended March 31, 2023 : 4,999,561 shares

(iii) Average number of issued shares outstanding during the period, after deducting shares held as treasury stock:

Three months ended June 30, 2023 : 77,603,344 shares
Three months ended June 30, 2022 : 78,704,802 shares

(Notes) The Company has adopted a BIP (Board Incentive Plan) trust, assuming the number of shares held by the trust are included in the number of treasury stock of "(4) Number of issued shares outstanding (common stock)".

***This Summary Report is out of scope for quarterly review by the external auditors.**

***Explanation for the appropriate use of forecast of the consolidated financial results and other special notes.**

Any forward-looking statements in the summary report, such as results forecasts, are based on the information currently available to the Company and certain assumptions that the Company deems to be reasonable at the time this report was prepared. Actual results may differ significantly from the forecasts due to various factors. For the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof, please refer to "1. Qualitative Information (3) Explanation of Consolidated Financial Guidance".

1. Qualitative Information

(1) Explanation of Business Results

Forward-looking statements below are based on our judgment as of the end of the first quarter of the current consolidated fiscal year.

(Business Environment)

In the first quarter, our sales generally performed well due to an increase in the number of surgeries in hospitals. This was partly a result of the reclassification of COVID-19 as a "Class 5 Infectious Disease" in May 2023, requiring hospitals to take less severe measures. The number of cases of atrial fibrillation (AF) ablation treatment, which significantly impacts our performance, increased by about 9% compared to the same period last year in the first quarter. This exceeded our initial expectations of a 6% increase for the full year.

However, the "RF Needle," a main product of EP/Ablation, ended its exclusive distribution agreement at the end of the previous fiscal year. From this fiscal year, we changed our business flow by signing a contract with Boston Scientific Japan to provide sales support services. While this change resulted in a decrease in revenue, it contributed to an improvement in the gross profit margin because it did not involve product procurement.

As a result, the performance of the first quarter saw a slight decrease in sales compared to the same period last year, but each stage of profit significantly increased. The profit margin also improved.

The Japanese yen saw significant fluctuations against the U.S. dollar in the foreign exchange market. However, we saw no significant impact on our earnings in the first quarter. This is because we purchase over 70% of our products in yen and use the moving average method to calculate cost of sales, which smooths out any temporary increases in purchase costs over the long term.

(Business Performance)

The earnings for the first quarter are as follows.

Unit: Millions of yen

Summary of Profit & Loss Statement	Three Months Ended June 30, 2022		Three Months Ended June 30, 2023		Increase/ (Decrease)	Increase/ (Decrease)%
	Amount	Vs Sales Ratio%	Amount	Vs Sales Ratio%		
① Net Sales	12,969	100.0	12,954	100.0	(14)	(0.1%)
② Gross Profit	7,458	57.5	7,887	60.9	428	5.8%
③ Operating Profit	2,707	20.9	3,176	24.5	468	17.3%
④ Ordinary Profit	2,674	20.6	3,244	25.0	569	21.3%
⑤ Quarterly Net Profit Attributable to Owners of Parent	1,946	15.0	2,330	18.0	384	19.7%

① Net sales

Net sales decreased by 14 million yen year-to-year, to 12,954 million yen. Details are shown in the Sales by Product section below.

② Gross profit

Gross profit increased by 428 million yen year-to-year, to 7,887 million yen. The increase in in-house product sales due to the increase in AF case numbers, and the decrease in third-party products due to the change in the commercial flow of the RF Needle, resulted in our in-house sales ratio being 5.2 pts higher at 59.8% compared to the same period last year. Furthermore, the loss in disposal and write-down of inventories decreased by 118 million yen compared to the same period last year. As a result, the gross profit margin was 3.4 pts higher at 60.9% compared to the same period last year.

③ Operating Profit

Operating profit increased by 468 million yen year-to-year, to 3,176 million yen. Although sales and general administrative expenses remained at the same level due to increased sales-related costs associated with increased business activity, there were temporary miscellaneous income and a decrease in research and development expenses. As a result, the operating profit margin was 3.6 pts higher at 24.5% compared to the same period last year.

④ Ordinary Profit

Ordinary profit increased by 569 million yen year-to-year, to 3,244 million yen. Non-operating income was 132 million yen, mainly comprising of interest received. Non-operating expenses was 65 million yen, including provisions for doubtful accounts related to receivables from business partners.

⑤ Quarterly Net Profit Attributable to Owners of the Parent

Quarterly net profit attributable to the owners of the parent increased by 384 million yen year-to-year, to 2,330 million yen. Due to the impact of tax deductions and other factors, our corporate tax burden rate was 28.1%.

(Sales by Product)

Unit: Millions of yen

Product Category	Three Months Ended June 30, 2022	Three Months Ended June 30, 2023	Increase/ (Decrease)	Increase/ (Decrease)%
Cardiac Rhythm Management	3,094	3,446	352	11.4%
EP/Ablation	6,662	6,272	(390)	(5.9%)
Cardiovascular	2,611	2,853	241	9.2%
Gastrointestinal	599	381	(218)	(36.4%)
Total	12,969	12,954	(14)	(0.1%)

(Note) The main products classified in each product category are as follows.

Effective from the first quarter of the current fiscal year, the Company has changed the names of product categories, so that "Cardiovascular" corresponds to the former "Cardiovascular Surgery", and "Gastrointestinal" corresponds to the former "Gastrointestinal/PI". In addition, the product category of Atrial septum defect closure has been changed from the former "Gastrointestinal/PI" to "Cardiovascular". Consequently, for the year-on-year comparisons, the figures for the same period of the previous fiscal year are reorganized into the changed product categories for comparative analysis.

Cardiac Rhythm Management	Pacemaker, T-ICD (Transvascular Implantable Cardioverter Defibrillator), S-ICD (Subcutaneous Implantable Cardioverter Defibrillator), CRT-P (Cardiac Resynchronization Therapy Pacemaker), CRT-D (Cardiac Resynchronization Therapy Defibrillator), AED (Automated External Defibrillator)
EP/Ablation	Electrophysiology catheter, Ablation catheter, Endoscopic laser ablation catheter, Internal cardioversion catheter, Esophageal temperature monitoring catheter, Radiofrequency transseptal needle, Steerable sheath
Cardiovascular	Vascular graft, Open stent graft, Stent graft, Embolic coil, Aspiration catheter, Atrial septum defect closing device
Gastrointestinal	Bile duct tube stent, Bile duct dilation balloon, Cholangioscope system, Colonic stent, Gastro-duodenal stent, Radiofrequency ablation needle for liver cancer treatment

① Cardiac Rhythm Management

Sales related to pacemakers increased by 5.2% compared to the same period last year. While competitors' new products penetration and low pricing strategies subsided at the moment, we increased face-to-face sales using catheters and other tools that support the proper implantation of leads during surgery. As a result, we secured a slightly higher share than the same period last year.

Sales related to ICDs increased by 15.1% compared to the same period last year. We have positioned the S-ICD, which is a unique product in the industry, as a strategic product and have focused on nationwide sales expansion measures. In the first quarter, sales outpaced market expansion due to an increase in new adoption hospitals and an improvement in the repeat rate. Also, for T-ICDs, we initially planned sales to be on par with the same period last year, but sales were strong because we were able to acquire more replacement cases than expected.

Overall, Cardiac Rhythm Management net sales were 3,446 million yen, up 11.4% YoY.

② EP/Ablation

EP catheter sales increased by 12.3% compared to the same period last year. Against the backdrop of an increase in AF case numbers exceeding expectations, sales of our in-house products such as the internal atrial cardioversion catheter BeeAT, the electrophysiology catheter EP Star, and the esophageal temperature monitoring catheter Esophastar were strong. In particular, for EP Star, the sales growth was beyond that of the case numbers, due to a shortage of other companies' products.

Ablation catheter sales decreased by 29.0% compared to the same period last year. Our supplier for the endoscopic laser ablation catheter HeartLight X3 experienced a shortage of raw materials. This led to a continued lack of sufficient product supply, and we had to limit our expansion to new accounts, putting a damper on our sales.

Other sales significantly decreased by 66.1% compared to the same period last year due to the change in the commercial flow of RF Needle.

Overall, EP/Ablation net sales were 6,272 million yen, down 5.9% YoY.

③ Cardiovascular

Vascular graft-related sales increased by 5.6% compared to the same period last year. This was due to the steady increase in market share of our in-house vascular graft, J Graft, and the third-party abdominal stent graft. With regards to our open stent graft Frozenix, the sales were steady in the first quarter but slightly decreased because of the particularly strong sales in the same period last year.

Neurovascular-related sales increased dramatically, about 5.7 times compared to the same period last year. We have identified the expansion of the neurovascular area as one of our medium-term priority measures, and we plan to launch about 10 products in the next few years. In the first quarter, in addition to the embolic coil Avenir, which we started selling from the previous fiscal year, we launched a new thrombus aspiration catheter Esperance. Both products have received good reviews in the medical field, and sales have progressed above plan.

Other sales decreased by 12.5% compared to the same period last year. The number of catheter treatments for pediatric atrial septal defect was low, resulting in a decrease in sales for atrial septal defect closure devices.

Overall, Cardiovascular net sales were 2,853 million yen, up 9.2% YoY.

④ Gastrointestinal

Gastrointestinal-related sales increased by 61.6% compared to the same period last year. We are focusing on expanding our in-house products in the gastrointestinal field as a medium-term priority. In the first quarter, the bile duct tube stent REGULUS that we launched in the previous fiscal year received high praise from the medical professionals, leading to strong sales. Additionally, we also saw strong sales of our radiofrequency ablation electrode needle, arfa, used for liver cancer treatment, due to our efforts in promoting the sale of its generator.

On the other hand, other sales particularly related to coronary interventions, including the drug-eluting coronary stent Orsiro, decreased, resulting in a 65.2% decrease in sales compared to the same period last year. We have decided to withdraw from this business area and plan to end sales during this fiscal year.

Overall, Gastrointestinal net sales were 381 million yen, down 36.4% YoY.

(2) Financial Position

① Assets

The balance of Current assets was 42,989 million yen, a decrease of 4,141 million yen from the end of the previous period. This was mainly due to a decrease of 4,422 million yen in Cash and deposits, primarily due to dividends payments and purchases of treasury stock, and an increase in “Other”, which included an increase in advance payment of 1,281 million yen and a decrease in accounts receivable-other of 1,011 million yen.

The balance of Fixed assets was 28,332 million yen, an increase of 821 million yen from the end of the previous period. This was mainly due to an increase of 1,568 million yen in Investment securities and a decrease of 716 million yen in Deferred tax assets, which was included in “Other” of Investments and other assets.

As a result, the balance of total assets was 71,322 million yen, a decrease of 3,319 million yen from the end of previous period.

② Liabilities

The balance of Current liabilities was 12,392 million yen, a decrease of 1,989 million yen from the end of the previous period. This was mainly due to an increase in Accounts payable-other of 432 million yen and decreases in Income tax payable of 1,279 million yen, Provision for bonuses of 800 million yen, and Notes and accounts payable-trade of 336 million yen.

The balance of Long-term liabilities was 3,948 million yen, a decrease 115 million yen from the end of the previous period. This was mainly due to a decrease of 117 million yen in Long-term borrowings.

As a result, the balance of total liabilities was 16,340 million yen, a decrease of 2,105 million yen from the end of the previous period.

③ Net assets

The balance of Net assets was 54,981 million yen, a decrease of 1,214 million yen from the end of the previous period. This was mainly due to the dividend of 2,965 million yen, a 686 million yen increase of Treasury stock, and Profit attributable to owners of parent of 2,330 million yen.

(3) Explanation of Consolidated Financial Guidance

The performance for the first quarter exceeded the initial plan mainly due to an increase in the number of cases. However, at this point, it is difficult to foresee the future trend of the number of cases and the market environment. Therefore, we will maintain the consolidated earnings forecast for the fiscal year ending March 2024, which was announced on May 11, 2023. We will revise our guidance and disclose it immediately once we find it necessary.

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	18,357	13,934
Notes and accounts receivable - trade	13,223	13,073
Inventories	13,142	13,157
Other	2,406	2,824
Total current assets	47,130	42,989
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	7,102	6,995
Other, net	5,349	5,358
Total property, plant and equipment	12,452	12,354
Intangible assets	2,414	2,482
Investments and other assets		
Investment securities	5,498	7,066
Long-term loans receivable	2,547	2,658
Other	5,995	5,184
Allowance for doubtful accounts	△1,397	△1,413
Total investments and other assets	12,643	13,495
Total fixed assets	27,510	28,332
Total assets	74,641	71,322
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,429	3,092
Short-term borrowings	5,000	5,000
Current portion of long-term borrowings	568	468
Accounts payable - other	651	1,083
Income taxes payable	1,585	305
Provision for bonuses	1,510	709
Provision for bonuses for directors	32	5
Other	1,604	1,726
Total current liabilities	14,381	12,392
Non-current liabilities		
Long-term borrowings	536	419
Provision for director's stock based compensation	141	143
Retirement benefit liability	2,289	2,293
Other	1,096	1,092
Total non-current liabilities	4,063	3,948
Total liabilities	18,445	16,340

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Net assets		
Shareholders' equity		
Share capital	2,115	2,115
Capital surplus	13,774	13,774
Retained earnings	42,741	42,106
Treasury stock	△2,365	△3,052
Total shareholders' equity	56,265	54,943
Accumulated other comprehensive income		
Net unrealized holding gains or losses on securities	△312	△210
Foreign currency translation adjustment	299	300
Remeasurements of defined benefit plans	△56	△51
Total accumulated other comprehensive income	△69	38
Total net assets	56,195	54,981
Total liabilities and net assets	74,641	71,322

(2) Consolidated Statements of Income and Comprehensive Income

(Consolidated Statements of Income)

For the Three Months Ended June 30, 2022 and 2023

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Net sales	12,969	12,954
Cost of sales	5,510	5,066
Gross profit	7,458	7,887
Selling, general and administrative expenses	4,751	4,711
Operating profit	2,707	3,176
Non-operating income		
Interest income	35	50
Dividend income	29	4
Foreign exchange gains	—	62
Gain on valuation of investment securities	—	3
Other	7	11
Total non-operating income	72	132
Non-operating expenses		
Interest expenses	10	7
Foreign exchange losses	2	—
Loss on valuation of investment securities	3	—
Provision of allowance for doubtful accounts	40	16
Commission expenses	37	8
Other	10	32
Total non-operating expenses	105	65
Ordinary profit	2,674	3,244
Extraordinary income		
Gain on sale of fixed assets	1	0
Total extraordinary income	1	0
Extraordinary losses		
Loss on retirement of fixed assets	5	4
Total extraordinary losses	5	4
Profit before income taxes	2,670	3,240
Income taxes - current	380	241
Income taxes - deferred	343	668
Total income taxes	724	910
Profit	1,946	2,330
Profit attributable to owners of parent	1,946	2,330

(Consolidated Statements of Comprehensive Income)

For the Three Months Ended June 30, 2022 and 2023

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit	1,946	2,330
Other comprehensive income		
Net unrealized holding gains or losses on securities	△39	101
Foreign currency translation adjustment	168	0
Retirement benefits liability adjustments	△36	5
Total other comprehensive income	91	107
Comprehensive income	2,038	2,437
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,038	2,437

(3) Notes to Consolidated Financial Statements

(Notes Regarding Going-Concern Assumptions)

None

(Notes on Significant Changes in Shareholders' Equity)

(Purchase of treasury stock)

Pursuant to a resolution at a meeting of the Board of Directors held on May 10, 2023, the Company purchased 656,300 shares of treasury stock (total amount of purchase cost: 693 million yen) for the three months ended June 30, 2023. As a result, treasury stock as at June 30, 2023 was 3,052 million yen.

(Changes in Accounting Policies)

(Changes in Accounting Policies that are difficult to distinguish from changes in accounting estimates)

(Changes in depreciation method for property, plant, and equipment)

From the subject fiscal year (April 1, 2023 to March 31, 2024) the Company adopted the straight-line method for calculating the depreciation of Property, plant, and equipment (excluding leased assets). Previously, the Company used the declining balance method (However, buildings (excluding Facilities attached to buildings) acquired after April 1, 1998, and buildings and structures acquired after April 1, 2016 are depreciated using the straight-line method), and the overseas consolidated subsidiary has mainly adopted the straight-line method.

With the termination of the intervention business, our business structure and manufacturing system changed significantly, and the formulation of the new mid-term plan based on these changes led us to reconsider the depreciation method with consideration of the actual use of fixed assets.

As a result, it was judged that changing to the straight-line method of calculating depreciation would more appropriately reflect the consumption pattern of the Property, plant, and equipment, as it is not expected to suddenly decrease in value and will be used in a long-term and stable manner.

Therefore, operating income, ordinary income, and income before income taxes increased by 29 million yen, compared to the existing methods.

(Significant Subsequent Events)

(Disposal of Treasury Stock by Third-party Allotment)

The Company has resolved to dispose of treasury stock by third-party allotment at the Board of Directors held on August 2, 2023.

1. Outline of disposal

- | | |
|---------------------------------------|---|
| (1) Disposal date : | August 24, 2023 |
| (2) Number of Shares to be disposed : | 69,000 shares (Common stock) |
| (3) Disposal price : | 990 yen per share |
| (4) Total amount of disposal : | 68,310,000 yen |
| (5) Allottee : | The Master Trust Bank of Japan, Ltd. (Executive Compensation BIP Trust Account) |

*The Company has submitted the Security Registration Statement regarding this disposal of treasury stock in accordance with the Financial Instruments and Exchange Act.

2. Purpose and reasons for the disposal of treasury stock

The Disposal of Treasury Stock is in line with a partial revision of Performance-Based Stock Remuneration Plan for Directors (excluding those who are members of the Audit Committee and outside directors), and to be conducted through a third-party allocation to The Master Trust Bank of Japan, Ltd., which is a joint trustee of the Executive Compensation BIP Trust Agreement that our company has entered into with Mitsubishi UFJ Trust and Banking Corporation.

3. Others

Current Status of Production, Orders and Sales

(1) Production

(Millions of yen)

Product Category	Three Months Ended June 30, 2022	Three Months Ended June 30, 2023	Increase (Decrease)
Cardiac Rhythm Management	5	2	(61.4%)
EP/Ablation	1,372	1,438	4.8%
Cardiovascular	240	273	13.5%
Gastrointestinal	135	112	(16.8%)
Total	1,753	1,826	4.1%

(Note) 1. Figures are based on Manufacturing cost.

2. Effective from the first quarter of the current fiscal year, the Company has changed the names of product categories, so that "Cardiovascular" corresponds to the former "Cardiovascular Surgery", and "Gastrointestinal" corresponds to the former "Gastrointestinal/PI". In addition, the product category of Atrial septum defect closure has been changed from the former "Gastrointestinal/PI" to "Cardiovascular". Consequently, for the year-on-year comparisons, the figures for the same period of the previous fiscal year are reorganized into the changed product categories for comparative analysis.

(2) Orders received

Since the order backlog does not occur, this information is omitted.

(3) Sales Results

Please refer to "1. Qualitative Information, (1) Explanation of Business Results".