

Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 2024 [Japanese GAAP]



October 30, 2023

Company name: Japan Medical Dynamic Marketing, INC.

Stock exchange listing: Tokyo

Code number: 7600

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Scheduled date of filing quarterly securities report: November 14, 2023

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: Yes

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

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

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2023	10,952	9.6	617	(33.4)	632	(31.0)	359	(50.1)
September 30, 2022	9,989	12.8	927	(12.4)	916	(12.1)	721	(28.1)

(Note) Comprehensive income: Six months ended September 30, 2023: ¥ 1,732 million [(32.3)%]
Six months ended September 30, 2022: ¥ 2,558 million [130.2%]

	Basic earnings per share	Diluted earnings per share
Six months ended September 30, 2023	Yen 13.67	Yen -
September 30, 2022	27.35	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of September 30, 2023	Millions of yen 30,440	Millions of yen 24,717	80.7%
March 31, 2023	29,434	23,292	78.7%

(Reference) Equity: As of September 30, 2023: ¥ 24,575 million
As of March 31, 2023: ¥ 23,161 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2023	Yen -	Yen 0.00	Yen -	Yen 13.00	Yen 13.00
Fiscal year ending March 31, 2024	-	0.00			
Fiscal year ending March 31, 2024 (Forecast)			-	14.00	14.00

(Note) Revision to the forecast for dividends announced most recently: No

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

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	23,600	10.8	1,800	(11.1)	1,850	(9.5)	1,150	(19.2)	43.71

(Note) Revision to the financial results forecast announced most recently: Yes

* Notes:

(1) Changes in significant subsidiaries during the six months ended September 30, 2023

(changes in specified subsidiaries resulting in changes in scope of consolidation): No

New - (Company name:)

Exclusion: - (Company name:)

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

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

September 30, 2023: 26,475,880 shares

March 31, 2023: 26,475,880 shares

2) Number of treasury shares at the end of the period:

September 30, 2023: 141,197 shares

March 31, 2023: 175,107 shares

3) Average number of shares outstanding during the period:

Six months ended September 30, 2023: 26,311,902 shares

Six months ended September 30, 2022: 26,383,693 shares

* This summary of quarterly financial results is not subject to audit by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts and other special notes

- These forward-looking statements such as financial forecasts contained in this report are based on information currently available to the Company and certain assumptions deemed to be reasonable by the Company, and do not mean that the Company promises to achieve them. Actual results and other future events may differ significantly due to various factors. Please refer to “(3) Explanation on Consolidated Financial Forecasts and Other Forward-looking Statements” on page 3 of the attached document for the assumptions underlying the forecasts, notes on using the forecasts, etc.
- The Company will hold a financial results briefing for institutional investors and analysts on November 10, 2023. Financial results briefing materials to be used on the day of the briefing will be posted on the Company’s website on the day of the briefing.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation on Operating Results

During the first half of the fiscal year ending March 31, 2024, for the Group, net sales were ¥10,952 million (up ¥962 million, or 9.6% year on year), operating profit came to ¥617 million (down ¥309 million, or 33.4% year on year), ordinary profit was ¥632 million (down ¥283 million, or 31.0% year on year), and net income attributable to owners of parent amounted to ¥359 million (down ¥361 million, or 50.1% year on year). Net sales of our own products accounted for 80.1% of consolidated net sales (80.3% in the same half a year ago).

In Japan, net sales were ¥6,129 million (up ¥324 million, or up 5.6% year on year) (after partial deduction of promotional expenses due to the application of Accounting Standard for Revenue Recognition) as a result of an increase in the number of acquired cases, despite the impact of the lowering of reimbursement prices implemented in April 2023. In the United States, the new customer base that we developed last year contributed to growth, and there was an increase in the number of cases of artificial knee joint products acquired. As a result, net sales to external customers in the United States increased to \$34 million (up \$2 million or 8.9% year on year), and after translation into yen, net sales were ¥4,823 million (up ¥638 million, or 15.3% year on year) due to the impact of the yen's depreciation. (Reference: The exchange rate for U.S. sales was 133.47 yen to the U.S. dollar in the same half a year ago and was 141.31 yen to the U.S. dollar in the half under review.)

For the artificial joint category in Japan, the number of cases has increased since the change of COVID-19 to a Category 5 disease. Sales were strong with double-digit growth, as the number of acquired cases of hip replacement arthroplasty (THA, BHA) for the artificial hip prosthesis product "Entrada Hip Stem" with hydroxyapatite (HA) coating increased, in particular. On the other hand, overall BHA sales only saw single-digit growth due to a decrease in the number of acquired cases of artificial head bone replacement operations (BHA) for "Ovation Stem." In addition, the number of acquired cases of artificial knee joint replacement for the artificial knee joint product BKS TriMax increased, resulting in strong sales with double-digit growth. As a result, net sales in Japan for this category were ¥2,361 million (up 6.1% year on year).

For the artificial joint category in the United States, the number of acquired cases of artificial knee joint replacement for artificial knee joint products such as BKS TriMax and BKS Revision Knee increased, resulting in strong sales with double-digit growth. On the other hand, sales of artificial hip prosthesis products decreased, as sales of "Ovation Tribute Stem" and other products declined and the number of acquired cases of hip replacement arthroplasty (THA) as a whole declined, although sales of "Entrada Hip Stem" saw double-digit growth. As a result, net sales in the United States for this category were \$34 million (up 8.9% year on year). (After translation into yen, net sales were ¥4,806 million (up 15.3% year on year) due to the impact of the yen's depreciation.)

In the category of Trauma, net sales in Japan were ¥2,059 million (up 7.1% year on year), mainly due to the continued steady sales of ASULOCK and Prima Hip Screw with double-digit growth.

In the spinal fixation devices category, sales of Vusion Ti 3D Cage, Lynx Plate and KMC Kyphoplasty System increased in Japan. While the number of acquired cases of the KMC Kyphoplasty System decreased in the second half of last fiscal year due to the entry of competitors into the Balloon Kyphoplasty (BKP) market last fiscal year, the number of acquired cases has turned to an increasing trend as a result of measures taken this fiscal year to capture growth opportunities arising from the expansion of the BKP market. As a result of these factors, total net sales in Japan and the United States were ¥1,652 million (up 2.4% year on year).

As for cost of sales, the cost of sales ratio was 35.9% (33.7% in the same half a year ago), mainly due to expanded use of external vendors to avoid supply chain problems, rising procurement costs due to inflation, and the impact of the depreciation of the yen and lowering of reimbursement prices in Japan. For selling, general and administrative expenses, there were increases in commission expenses (commissions and royalties) due to increased U.S. sales, research and development expenses, personnel expenses due to wage increases, and promotion expenses of holding seminars hosted by our U.S. subsidiary every other year. In addition, selling, general and administrative expenses totaled ¥6,405 million (up 12.5% year on year), reflecting an increase in expenses after translation into yen in the United States as a result of the yen's depreciation. The ratio of selling, general and administrative expenses to net sales was 58.5% (57.0% in the same half a year ago).

Despite an increase in net sales, operating profit was ¥617 million (down 33.4% year on year) due to an increase in selling, general and administrative expenses in addition to a higher cost of sales ratio mainly owing to the impact of the yen's depreciation.

Ordinary profit was ¥632 million (down 31.0% year on year) as a result of recording non-operating income of ¥69 million, including foreign exchange gains of ¥59 million, and recording non-operating expenses of ¥55 million, including share of loss of entities accounted for using the equity method of ¥31 million.

As for extraordinary income and losses, ¥93 million was recorded under extraordinary losses, consisting of ¥18 million in loss on retirement of non-current assets such as medical tools and ¥75 million in settlement-related expenses in the first quarter.

As a result, net income attributable to owners of parent amounted to ¥359 million (down 50.1% year on year).

Segment results are as follows.

1) Japan

Net sales were ¥6,129 million (up 5.6% year on year) and operating profit was ¥466 million (up 0.7% year on year).

2) United States

Net sales were ¥6,644 million (up 12.8% year on year) and operating profit was ¥92 million (down 76.4% year on year).

(2) Explanation on Financial Position

Total assets at the end of the quarter under review increased ¥1,005 million from the end of the previous fiscal year to ¥30,440 million. The main factors for increases were an increase in merchandise and finished goods of ¥1,161 million and tools, furniture and fixtures of ¥211 million. The main factor for decreases was a decrease of cash and deposits of ¥660 million.

Total liabilities decreased ¥419 million from the end of the previous fiscal year to ¥5,722 million. The main decreases consisted of a decrease in long-term borrowings of ¥224 million, a decrease in income taxes payable of ¥167 million, a decrease in provision for litigation settlement of ¥100 million, and a decrease in deferred tax liabilities of ¥119 million, while the main increase was an increase in notes and accounts payable - trade of ¥200 million.

Total net assets increased ¥1,425 million from the end of the previous fiscal year to ¥24,717 million. The main factor for increases was an increase in foreign currency translation adjustment of ¥1,280 million.

(3) Explanation on Consolidated Financial Forecasts and Other Forward-looking Statements

The consolidated financial forecasts for the fiscal year ending March 2024 announced on April 28, 2023 have been revised. For details, please refer to the "Notice Concerning Difference between Consolidated Financial Forecasts and Financial Results for the Second Quarter of the Fiscal Year Ending March 2024 and Revision of Consolidated Financial Forecasts for the Fiscal Year Ending March 2024" announced today (October 30, 2023).

Quarterly Consolidated Financial Statements

Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	2,804,928	2,144,451
Notes and accounts receivable - trade, and contract assets	5,270,930	5,263,591
Merchandise and finished goods	9,378,119	10,539,679
Work in process	593,162	535,377
Raw materials and supplies	1,634,044	1,710,042
Other	295,253	490,440
Allowance for doubtful accounts	(1,358)	(1,277)
Total current assets	19,975,079	20,682,306
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	837,544	903,209
Machinery, equipment and vehicles, net	306,786	349,395
Tools, furniture and fixtures, net	4,600,008	4,811,022
Land	1,956,171	1,960,197
Other	44,246	91,419
Total property, plant and equipment	7,744,756	8,115,245
Intangible assets	263,037	240,744
Investments and other assets		
Investment securities	66,770	74,790
Investments in capital of subsidiaries and associates	204,910	185,987
Deferred tax assets	1,104,875	1,069,436
Other	75,283	71,986
Total investments and other assets	1,451,839	1,402,200
Total non-current assets	9,459,634	9,758,189
Total assets	29,434,714	30,440,495

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	979,185	1,179,487
Short-term borrowings	1,046,733	1,040,531
Lease liabilities	34,553	36,994
Income taxes payable	339,245	171,750
Accrued expenses	511,861	580,504
Accounts payable - other	193,732	186,873
Provision for bonuses	196,606	186,786
Provision for bonuses for directors (and other officers)	64,510	15,552
Provision for loss on business	2,546	2,180
Provision for litigation settlement	100,000	-
Other	158,217	134,741
Total current liabilities	3,627,191	3,535,401
Non-current liabilities		
Long-term borrowings	732,248	507,262
Lease liabilities	58,163	52,824
Retirement benefit liability	1,208,511	1,249,345
Provision for share awards for directors (and other officers)	103,514	71,341
Asset retirement obligations	29,493	31,409
Long-term deposits received	8,000	19,000
Deferred tax liabilities	375,495	256,197
Total non-current liabilities	2,515,427	2,187,379
Total liabilities	6,142,618	5,722,781
Net assets		
Shareholders' equity		
Share capital	3,001,929	3,001,929
Capital surplus	2,587,029	2,587,029
Retained earnings	15,656,266	15,672,004
Treasury shares	(202,730)	(165,465)
Total shareholders' equity	21,042,494	21,095,496
Accumulated other comprehensive income		
Deferred gains or losses on hedges	30,294	104,375
Foreign currency translation adjustment	2,163,161	3,443,705
Remeasurements of defined benefit plans	(74,317)	(68,552)
Total accumulated other comprehensive income	2,119,138	3,479,528
Non-controlling interests	130,462	142,690
Total net assets	23,292,095	24,717,714
Total liabilities and net assets	29,434,714	30,440,495

Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income (For the six months)

	(Thousands of yen)	
	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales	9,989,631	10,952,436
Cost of sales	3,370,648	3,928,813
Gross profit	6,618,983	7,023,623
Selling, general and administrative expenses		
Freight and packing costs	208,687	228,349
Promotion expenses	53,800	116,477
Advertising expenses	35,726	30,774
Salaries and allowances	1,796,693	1,924,345
Retirement benefit expenses	49,982	53,095
Legal welfare expenses	161,265	174,166
Welfare expenses	133,433	144,586
Provision of allowance for doubtful accounts	(221)	(80)
Travel and transportation expenses	110,550	144,675
Depreciation	682,900	671,713
Taxes and dues	71,407	71,572
Research and development expenses	293,237	466,417
Commission expenses	1,409,215	1,641,014
Other	685,253	738,720
Total selling, general and administrative expenses	5,691,934	6,405,828
Operating profit	927,049	617,795
Non-operating income		
Interest income	49	44
Foreign exchange gains	-	59,236
Commission income	2,844	-
Insurance claim income	13,220	-
Other	23,174	10,703
Total non-operating income	39,289	69,985
Non-operating expenses		
Interest expenses	10,318	13,708
Foreign exchange losses	980	-
Share of loss of entities accounted for using equity method	26,145	31,438
Commission for syndicated loans	4,161	4,134
Other	8,106	5,765
Total non-operating expenses	49,712	55,047
Ordinary profit	916,626	632,732
Extraordinary income		
Reversal of provision for loss on business	12,797	-
Compensation income	25,000	-
Total extraordinary income	37,797	-
Extraordinary losses		
Loss on retirement of non-current assets	21,824	18,667
Settlement-related costs	-	75,000
Total extraordinary losses	21,824	93,667
Profit before income taxes	932,599	539,064
Income taxes - current	228,757	338,832
Income taxes - deferred	(25,129)	(155,057)
Total income taxes	203,627	183,775
Profit	728,971	355,289
Profit attributable to non-controlling interests	7,492	(4,434)
Profit attributable to owners of parent	721,479	359,723

Quarterly Consolidated Statements of Comprehensive Income (For the six months)

(Thousands of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	728,971	355,289
Other comprehensive income		
Deferred gains or losses on hedges	132,578	74,080
Foreign currency translation adjustment	1,689,496	1,297,205
Remeasurements of defined benefit plans, net of tax	6,972	5,765
Total other comprehensive income	1,829,047	1,377,051
Comprehensive income	2,558,019	1,732,340
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,522,312	1,720,113
Comprehensive income attributable to non-controlling interests	35,706	12,227

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable.

(Notes on Substantial Changes in the Amount of Shareholders' Equity)

Not applicable.

(Application of Accounting Treatment Specific to the Preparation of Quarterly Consolidated Financial Statements)

Tax expenses were calculated by reasonably estimating an effective tax rate after application of tax effect accounting to net income before income taxes and others for the fiscal year including the quarter under review and multiplying net income before income taxes and others by the estimated effective tax rate.

(Segment Information, Etc.)

I. First Half of the Fiscal Year Ended March 2023 (from April 1 to September 30, 2022)

1. Information on the amounts of sales and profits for each reportable segment and information on the breakdown of revenue

(In thousand yen)

	Reportable segment			Adjustment (Note 1)	Amount recorded on quarterly consolidated statement of income (Note 2)
	Japan	United States	Total		
Net sales					
Revenue from contracts with customers	5,805,241	4,184,390	9,989,631	-	9,989,631
Net sales to external customers	5,805,241	4,184,390	9,989,631	-	9,989,631
Inter-segment net sales or transfers	-	1,704,983	1,704,983	(1,704,983)	-
Total	5,805,241	5,889,373	11,694,614	(1,704,983)	9,989,631
Segment profit	463,447	389,418	852,866	74,183	927,049

Notes: 1. Adjustments for segment profit include ¥74,183,000 in elimination of inter-segment transactions.

2. Segment profit was adjusted with operating profit in the quarterly consolidated statement of income.

3. For revenue from contracts with customers in “Japan,” part of the promotion expenses is deducted by applying the Accounting Standard for Revenue Recognition.

2. Information on impairment losses on non-current assets and goodwill by reportable segment

Not applicable.

II. First Half of the Fiscal Year Ending March 2024 (from April 1 to September 30, 2023)

1. Information on the amounts of sales and profits for each reportable segment and information on the breakdown of revenue

(In thousand yen)

	Reportable segment			Adjustment (Note 1)	Amount recorded on quarterly consolidated statement of income (Note 2)
	Japan	United States	Total		
Net sales					
Revenue from contracts with customers	6,129,249	4,823,187	10,952,436	-	10,952,436
Net sales to external customers	6,129,249	4,823,187	10,952,436	-	10,952,436
Inter-segment net sales or transfers	-	1,821,198	1,821,198	(1,821,198)	-
Total	6,129,249	6,644,385	12,773,635	(1,821,198)	10,952,436
Segment profit	466,550	92,064	558,615	59,179	617,795

Notes: 1. Adjustments for segment profit include ¥59,179,000 in elimination of inter-segment transactions.

2. Segment profit was adjusted with operating profit in the quarterly consolidated statement of income.

3. For revenue from contracts with customers in “Japan,” part of the promotion expenses is deducted by applying the Accounting Standard for Revenue Recognition.

2. Information on impairment losses on non-current assets and goodwill by reportable segment

Not applicable.

3. Other

Sales

Sales for the first half under review by segment are as follows.

Name and item of each segment		The first half under review (From April 1, 2023 to September 30, 2023)	Compared with the same quarter a year ago
		Amount (in thousand yen)	(%)
Medical devices	Japan	6,129,249	105.6
	Joint	2,361,320	106.1
	Trauma	2,059,708	107.1
	Spine	1,635,801	102.4
	Other	183,407	103.9
	Subtotal	6,240,238	105.4
	Sales deduction	(110,988)	-
	United States	4,823,187	115.3
	Joint	4,806,541	115.3
	Spine	16,645	97.0
Total		10,952,436	109.6
		Ratio (%)	Change (%)
Sales ratio of our own products		80.1	(0.2)

- Notes:
1. Inter-segment transactions are offset and eliminated.
 2. In Japan, a portion of sales promotion expenses are deducted from net sales due to the application of the "Accounting Standard for Revenue Recognition".
 3. Sales results by item in Japan are shown as a lump-sum amount of such sales deductions, as a reasonable proration of such sales deductions is not possible.