

Consolidated Financial Results

Under Japanese Standards for the Second Quarter of the fiscal year ending April 30, 2020 (Unaudited)

Scheduled filing date of quarterly securities report: December 13, 2019

Scheduled date of commencement of dividend payment: January 15, 2020

Supplementary documents for quarterly results prepared: Yes

Quarterly results presentation (for institutional investors and analysts): Yes

(Figures are rounded down to million yen.)

1. Consolidated Performance for the Second Quarter of the Fiscal Year Ending April 30, 2020 (May 1, 2019 - October 31, 2019)

(1) Consolidated Results of Operations – cumulative

(% indicates year on year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen		Million yen		Million yen		Million yen	
10/31/2019	265,471	-3.6%	14,107	6.8%	13,872	0.4%	8,925	2.6%
10/31/2018	275,468	3.6%	13,212	-8.9%	13,819	-5.4%	8,698	-5.9%

Note: Comprehensive income 10/31/2019: 8,171 million yen (-11.3%) 10/31/2018: 9,215 million yen (-11.4%)

	Earnings per share		Earnings per share (diluted)	
	Yen		Yen	
10/31/2019	72.20		72.03	
10/31/2018	70.00		69.83	

Note: The above per share information pertains to Common Stock. For per share information for Class-A Preferred Stock, refer to “Reference” below.

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen		
10/31/2019	303,085	154,399	50.5%
4/30/2019	303,981	150,923	49.2%

Reference: Shareholders' equity 10/31/2019: 153,168 million yen 4/30/2019: 149,661 million yen

2. Dividends

	Dividend per share				
	First quarter end	Second quarter end	Third quarter end	Year end	Full year
	Yen				
4/30/2019	–	20.00	–	20.00	40.00
4/30/2020	–	20.00			
4/30/2020 (Forecast)			–	20.00	40.00

Note: Revision to the most recently disclosed dividend forecast: None

Note: The above dividend per share pertains to Common Stock. For dividend per share for Class-A Preferred Stock, refer to “Reference” below.

3. Forecasted Consolidated Results for the Fiscal Year Ending April 30, 2020 (May 1, 2019 - April 30, 2020)

(% indicates year on year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen		Million yen		Million yen		Million yen		Yen
4/30/2020	498,000	-1.2%	23,000	0.8%	22,800	-1.8%	14,200	-1.8%	114.21

Note: Revision to the most recently forecasted consolidated results: Yes

Note: The above per share information in forecasted consolidated results pertains to Common Stock. For per share information for Class-A Preferred Stock, refer to “Reference” below.

Notes

(1) Changes in important subsidiaries during the period

(Changes in specific subsidiaries accompanied by a change in the scope of consolidation): None

(2) Application of special accounting methods in preparation for quarterly consolidated financial statements: Yes

Note: Application of simplified accounting and specific for preparing the quarterly consolidated financial statements.

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

i. Changes in accounting policies associated with in accounting standards: None

ii. Changes in accounting policies other than i. above: None

iii. Changes in accounting estimates: None

iv. Restatements: None

(4) Number of outstanding shares (common stock)

i. Number of outstanding shares (including treasury stock)	10/31/2019	89,212,380 shares	4/30/2019	89,212,380 shares
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ii. Number of treasury stock	10/31/2019	1,030,968 shares	4/30/2019	656,736 shares
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iii. Average number of shares during the period	10/31/2019	88,277,554 shares	10/31/2018	88,582,223 shares
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Note: The above "Number of outstanding shares" pertains to Common Stock. For "Number of outstanding shares" for Class-A Preferred Stock, refer to "Reference" below.

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Request for appropriate use of the business outlook and other special remarks

Forward-looking statements in this document, including forecasts, are based on information available to management at the time of the announcement, which management assumes to be reasonable. Therefore, our company does not guarantee the achievement of forecasts and other forward-looking statements. Because of variable factors, actual results may differ from the forecast figures. For the basis of presumption of the forecasted operation results and the notes on its use, refer to "Explanations Regarding Forecasts for Consolidated Results and Future Outlook" on page 4.

Reference

(1) Per share information of Class-A Preferred Stock (May 1, 2019 – October 31, 2019)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
10/31/2019	77.20	77.03
10/31/2018	75.00	74.82

(2) Dividends – Class-A Preferred Stock

	Dividend per share				
	First quarter end	Second quarter end	Third quarter end	Year end	Full year
	Yen	Yen	Yen	Yen	Yen
4/30/2019	–	25.00	–	25.00	50.00
4/30/2020	–	25.00			
4/30/2020 (Forecast)			–	25.00	50.00

Note: Revision to the most recently disclosed dividend forecast: None

(3) Per share information of Class-A Preferred Stock in forecasted consolidated results

	Earnings per share (Consolidated)
	Yen
4/30/2020	124.16

Note: Revision to the most recently forecasted consolidated results: None

(4) Number of outstanding shares – Class-A Preferred Stock

i. Number of outstanding shares (including treasury stock)	10/31/2019	34,246,962 shares	4/30/2019	34,246,962 shares
ii. Number of treasury stock	10/31/2019	1,190,541 shares	4/30/2019	1,189,831 shares
iii. Average number of shares during the period	10/31/2019	33,056,683 shares	10/31/2018	33,303,033 shares

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1. Qualitative Information Regarding Consolidated Financial Results for This Quarter

(1) Explanations Regarding Consolidated Results of Operations

During the Second quarter of the fiscal year ending April 30, 2020 (May 1, 2019 - October 31, 2019), the Japanese economy has continued a trend of gradual recovery in part due to improvements in the employment/income environment and the effect of various policies.

In the beverage industry, the business environment continues to be tough because of the persistent competitive sales environment between the various companies, as well as the effect of a series of natural disasters, including Typhoon No. 19 of 2019.

Under these business conditions, in keeping with the management principle of “Always Putting the Customer First,” the ITO EN Group vigorously engaged in business activities while constantly seeking to identify and address areas of customer dissatisfaction in the beverage market.

As a result, the business performance for the Second quarter of the fiscal year ending April 30, 2020 was as follows. Please note that as extraordinary losses, we reported 105 million yen in costs related to disasters due to Typhoon No. 19 of 2019, etc.

Net sales	265,471 million yen, down 3.6%
Operating income	14,107 million yen, up 6.8%
Ordinary income	13,872 million yen, up 0.4%
Profit attributable to owners of parent	8,925 million yen, up 2.6%

Performance by each of the business segments was as follows.

<Tea Leaves and Beverages Business>

[Domestic tea leaf products]

On October 1 of this year also, the day established by the Company as “*Japanese Tea Day*,”* ITO EN’s employees (including ITO EN qualified tea tasters) held “*Ochawo Tanoshimu Wakuwaku Dai-Cha-Kai*,” tea tasting events to spread the charm of green tea, in mass retailer stores nationwide where they served green tea, mainly leaf products.

In September, we opened a new concept shop “Four Green Leaves ITO EN” centered on tea in the Daimaru Shinsaibashi Store. This shop, which is a “*Ochano ITO EN*” directly managed shop, is based on the concept of “happiness by introducing the ‘green’ of tea into your body” and, through tea, provides comfort and relief to women who are working hard in their jobs, at home, etc. every day. In the eat-in area, the shop offers drinks, etc. using the concept of “delicious with the power of ‘green’ and the earth.”

In October, we opened Saryo ITOEN YOKOHAMA at Yokohama Hammerhead, a shopping complex centered around the large-passenger-ship terminal. According to the concept of “conveying the harmony of Japan through tea and providing a location where people can feel close to tea,” this shop offers fresh cups of green tea using the genuine matcha used in Japanese tea ceremonies and select tea leaves, as well as drinks and foods made with matcha.

Through these initiatives and the opening of shops, the Company will convey new ways of enjoying tea and the delicious flavor and appeal of tea to many people in Japan and overseas, and help to spread interest in green tea and Japanese culture around the world.

(*) “*Japanese Tea Day*”:

On October 1, 1587, *Hideyoshi Toyotomi* held “*Dai-Cha-Kai*” in the *Kitano Tenmangu Shrine* in Kyoto, spreading the tea culture to many people, irrespective of their social positions. Accordingly, the Company established October 1 as “*Japanese Tea Day*.” (Established 2002 by the Japan Anniversary Association)

[Domestic beverage products]

“*Oi Ocha strong green tea*,” which was introduced in 2004, uses carefully selected high-quality and catechin-rich domestic tea leaves and has twice the amount of healthy catechins (compared to the Company’s other green tea beverages). With its strong, astringent taste and sharp aftertaste, it is popular with many customers. In September, the Company started selling “*Oi Ocha strong green tea*” labeled with the functional food claim of “Reduces body fat” on all beverage containers in all business categories based on the function of gallate catechins while maintaining the product taste.

In the same month, we launched the “*Oi Ocha*” products in “100% recyclable plastic bottles” that can be warmed and are also suitable for use in microwave ovens, an industry first.

“*Kenko Mineral Mugicha*” (healthy mineral barley tea), the best-selling non-caffeinated tea product is quite popular among a wide range of customers as a sugar-free, caffeine-free and calorie-free beverage. In addition, many customers love to drink it not only as a beverage for the prevention of heat stroke, but also as a beverage that easily supplements water and minerals lost while playing sports.

“*TULLY’S COFFEE*,” which is a coffee beverage, has continued to grow as a beverage with a professional quality, supervised by a Tully’s Coffee barista who pursues the utmost excellence in the coffee beans, roasting, and extraction. Providing coffee products meeting customers’ diverse tastes, we try to enhance sales of the “*TULLY’S COFFEE*” brand further.

In our “*TEAs’TEA NEW AUTHENTIC*” black tea products, we launched “*TEAs’TEA NEW AUTHENTIC Fresh Orange-Flavored Tea*” beverage in August that provides a new sensation with tea extracted from black tea leaves together with fresh orange slices, and “*TEAs’TEA NEW AUTHENTIC Happy-Scented Roasted Tea*” straight tea in September that provides a new sensation featuring a light sweetness and fragrant scent. Through the “*TEAs’TEA NEW AUTHENTIC*” products, we will continue to provide the “new enjoyment of tea” to customers and pursue further possibilities while valuing the delicious original taste of tea.

[Overseas tea leaf products]

ITO EN has actively been selling continuously “*MATCHA GREEN TEA*” offered in “Global Brand,” particularly in the U.S. and China.

[Overseas beverage products]

Sales of sugar-free tea beverages such as “*Oi Ocha*” (green tea) have steadily increased, driven by the increasing health-conscious trend and the Japanese food boom, etc.

As a result of these activities, the Tea Leaves and Beverages Business recorded net sales of 244,733 million yen, down 4.0% year on year, and operating income of 12,650 million yen, up 10.2%.

<Restaurant Business>

Tully’s Coffee Japan Co., Ltd. released seasonal limited beverages, such as “*Tapioca Royal Milk Tea*” with which customers can enjoy the popular tapioca and, in October, “*&TEA Caramelized Apple Royal Milk Tea*” and other tea beverages, that gained popularity and performed favorably. For sweets, Tully’s Coffee launched a new version of the “*Maple Butter Classic Pancakes*” in October, leading to increased sales. New coffee shop openings have been smooth with the total number of coffee shops at present being 741.

Further brand enhancement as a specialty coffee shop will be achieved through revitalization, such as renovating existing stores and strengthening store competitiveness, and active ongoing investment.

As a result of these activities, the Restaurant Business recorded net sales of 17,602 million yen, up 3.7% year on year, and operating income of 1,759 million yen, down 6.2%.

<Others>

The Others recorded net sales of 3,135 million yen, down 9.0% year on year, and operating income of 320 million yen, down 33.8%.

(2) Explanations Regarding Consolidated Financial Position

(i) Assets, liabilities and net assets

The following is a consolidated financial position for the Second quarter of the fiscal year ending April 30, 2020.

Total assets as of October 31, 2019 stood at 303,085 million yen, decreased by 896 million yen from the end of the previous fiscal year. These changes in total assets mainly reflected decreases of 2,201 million yen in “Leased assets” and 1,039 million yen in “Goodwill,” and increases of 1,187 million yen in “Notes and accounts receivable - trade” and 1,664 million yen in “Raw materials and supplies.”

Liabilities as of October 31, 2019 stood at 148,685 million yen, decreased by 4,373 million yen from the end of the previous fiscal year. These changes in liabilities mainly reflected decreases of 2,611 million yen in “Notes and accounts payable - trade” and 1,590 million yen in “Lease obligations,” and an increase of 1,180 million yen in “Accrued expenses.”

Net assets as of October 31, 2019 stood at 154,399 million yen, increased by 3,476 million yen from the end of the previous fiscal year. This mainly reflected an increase of 8,925 million yen in “Retained earnings” due to “Profit attributable to owners of parent,” a decrease of 2,597 million yen in “Retained earnings” due to “Dividends of surplus,” and a decrease of 1,995 million yen in “Treasury shares” due to purchase of treasury shares.

(ii) Cash flows

Net cash inflows from operating activities were 13,595 million yen (compared with 12,138 million yen inflow in the same period of the previous fiscal year). The major factors affecting this were increases due to income before income taxes of 13,688 million yen and depreciation of 6,665 million yen, and decreases due to increase (decrease) in notes and accounts payable - trade of 2,530 million yen, decrease (increase) in inventories of 2,040 million yen and income taxes paid of 4,297 million yen.

Net cash outflows from investing activities were 4,652 million yen (compared with 5,049 million yen outflow in the same period of the previous fiscal year). The major factor of cash outflows was 5,168 million yen for capital investment.

Net cash outflows from financing activities were 8,059 million yen (compared with 8,209 million yen outflow in the same period of the previous fiscal year). The major factors of cash outflows were purchase of treasury shares of 1,995 million yen, repayments of finance lease obligations of 2,527 million yen and cash dividends paid of 2,593 million yen.

As a result, cash and cash equivalents at the end of the Second quarter of the fiscal year ending April 30, 2020 amounted to

62,435 million yen, increased by 485 million yen from the end of previous fiscal year.

(3) Explanations Regarding Forecasts for Consolidated Results and Future Outlook

Results taking into account the results of the Second quarter of the fiscal year ending April 30 the recent business environment, the forecasted consolidated results for the full fiscal year, which was included in the Consolidated Financial Results for the fiscal year ended April 30, 2019 disclosed on June 3, 2019, has been revised as follows.

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Earnings per share (common stock)
	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecasts (A)	510,000	23,000	22,800	14,200	114.21
Revised forecasts (B)	498,000	23,000	22,800	14,200	114.21
Differences (B-A)	(12,000)	–	–	–	–
Changes (%)	(2.4)	–	–	–	–
(Reference) Previous fiscal year results (ended April 30, 2019)	504,153	22,819	23,211	14,462	116.02

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

As of April 30, 2019 and October 31, 2019

(Millions of yen)

	As of April 30, 2019	As of October 31, 2019
Assets		
Current assets		
Cash and deposits	63,738	63,494
Notes and accounts receivable - trade	56,581	57,768
Merchandise and finished goods	35,079	35,181
Raw materials and supplies	8,509	10,173
Other	13,615	12,424
Allowance for doubtful accounts	(74)	(69)
Total current assets	177,449	178,974
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	22,289	22,158
Land	22,335	22,263
Leased assets, net	19,389	17,187
Other, net	20,170	22,038
Total property, plant and equipment	84,186	83,647
Intangible assets		
Goodwill	14,729	13,689
Other	4,227	3,685
Total intangible assets	18,956	17,374
Investments and other assets		
Other	23,638	23,313
Allowance for doubtful accounts	(248)	(225)
Total investments and other assets	23,389	23,088
Total non-current assets	126,532	124,110
Total assets	303,981	303,085
Liabilities		
Current liabilities		
Notes and accounts payable - trade	30,181	27,569
Short-term loans payable	2,020	2,020
Lease obligations	5,051	4,457
Accrued expenses	24,839	26,019
Income taxes payable	4,660	4,969
Provision for bonuses	4,370	3,807
Other	5,350	4,704
Total current liabilities	76,473	73,549
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	44,522	43,822
Lease obligations	7,450	6,454
Net defined benefit liability	10,313	10,504
Other	4,299	4,356
Total non-current liabilities	76,585	75,136
Total liabilities	153,058	148,685

Quarterly Consolidated Balance Sheets – Continued

(Millions of yen)

	As of April 30, 2019	As of October 31, 2019
Net assets		
Shareholders' equity		
Capital stock	19,912	19,912
Capital surplus	18,640	18,646
Retained earnings	119,242	125,571
Treasury shares	(4,547)	(6,524)
Total shareholders' equity	153,248	157,605
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,279	2,090
Revaluation reserve for land	(6,053)	(6,053)
Foreign currency translation adjustment	671	(53)
Remeasurements of defined benefit plans	(484)	(420)
Total accumulated other comprehensive income	(3,586)	(4,436)
Share acquisition rights	133	140
Non-controlling interests	1,127	1,090
Total net assets	150,923	154,399
Total liabilities and net assets	303,981	303,085

(2) Quarterly Consolidated Statement of Income and Comprehensive Income

From May 1 to October 31, 2018 and 2019

Quarterly Consolidated Statement of Income [Second quarter period]

(Millions of yen)

	Six months ended October 31, 2018	Six months ended October 31, 2019
Net sales	275,468	265,471
Cost of sales	145,957	138,547
Gross profit	129,511	126,923
Selling, general and administrative expenses	116,299	112,815
Operating income	13,212	14,107
Non-operating income		
Interest income	39	57
Dividend income	44	51
Foreign exchange gains	485	–
Share of profit of entities accounted for using equity method	152	51
Other	257	299
Total non-operating income	979	458
Non-operating expenses		
Interest expenses	249	187
Foreign exchange losses	–	339
Other	122	167
Total non-operating expenses	372	694
Ordinary income	13,819	13,872
Extraordinary income		
Gain on sales of non-current assets	3	4
Gain on donation of non-current assets	2	1
Gain on sales of investment securities	515	–
Compensation income	15	48
Total extraordinary income	536	55
Extraordinary losses		
Loss on sales of non-current assets	0	–
Loss on abandonment of non-current assets	135	24
Loss on valuation of investment securities	8	4
Impairment loss	140	104
Loss on abandonment of inventories	673	–
Loss on disaster	81	105
Total extraordinary losses	1,039	239
Income before income taxes	13,316	13,688
Income taxes	4,429	4,618
Net income	8,886	9,069
Profit attributable to non-controlling interests	188	144
Profit attributable to owners of parent	8,698	8,925

Quarterly Consolidated Statement of Comprehensive Income [Second quarter period]

(Millions of yen)

	Six months ended October 31, 2018	Six months ended October 31, 2019
Net income	8,886	9,069
Other comprehensive income		
Valuation difference on available-for-sale securities	(417)	(227)
Foreign currency translation adjustment	599	(765)
Remeasurements of defined benefit plans, net of tax	66	64
Share of other comprehensive income of entities accounted for using equity method	80	29
Total other comprehensive income	328	(898)
Comprehensive income	9,215	8,171
Comprehensive income attributable to owners of parent	9,045	8,075
Comprehensive income attributable to non-controlling interests	170	95

(3) Quarterly Consolidated Statements of Cash Flows

For the six months ended October 31, 2018 and 2019 (May 1, 2018 - October 31, 2018 and May 1, 2019 - October 31, 2019)

(Millions of yen)

	Six months ended October 31, 2018	Six months ended October 31, 2019
Cash flows from operating activities		
Income before income taxes	13,316	13,688
Depreciation	6,646	6,665
Impairment loss	140	104
Amortization of goodwill	888	880
Increase (decrease) in provision for bonuses	100	(563)
Increase (decrease) in net defined benefit liability	226	283
Loss on abandonment of inventories	673	-
Loss on disaster	81	105
Interest and dividend income	(83)	(108)
Interest expenses	249	187
Foreign exchange losses (gains)	(455)	313
Loss on abandonment of non-current assets	135	24
Loss (gain) on sales of investment securities	(515)	-
Decrease (increase) in notes and accounts receivable - trade	(1,204)	(1,326)
Decrease (increase) in inventories	(3,517)	(2,040)
Decrease (increase) in other current assets	(2,031)	1,202
Increase (decrease) in notes and accounts payable - trade	1,496	(2,530)
Increase (decrease) in accrued consumption taxes	(426)	(22)
Increase (decrease) in other current liabilities	1,005	1,112
Other, net	(816)	15
Subtotal	15,909	17,991
Interest and dividend income received	87	89
Interest expenses paid	(246)	(188)
Income taxes paid	(3,613)	(4,297)
Net cash provided by (used in) operating activities	12,138	13,595
Cash flows from investing activities		
Net decrease (increase) in time deposits	(669)	608
Purchase of property, plant and equipment and intangible assets	(5,420)	(5,168)
Proceeds from sales of investment securities	730	1
Purchase of shares of subsidiaries and associates	-	(42)
Decrease (increase) in other investments	310	(51)
Net cash provided by (used in) investing activities	(5,049)	(4,652)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	10	-
Repayments of long-term loans payable	(700)	(700)
Purchase of treasury shares	(1,378)	(1,995)
Proceeds from disposal of treasury shares	0	0
Repayments of finance lease obligations	(3,521)	(2,527)
Cash dividends paid	(2,606)	(2,593)
Dividends paid to non-controlling interests	(4)	(233)
Other payments	(8)	(9)
Net cash provided by (used in) financing activities	(8,209)	(8,059)
Effect of exchange rate change on cash and cash equivalents	179	(397)
Net increase (decrease) in cash and cash equivalents	(941)	485
Cash and cash equivalents at beginning of period	61,376	61,950
Cash and cash equivalents at end of period	60,435	62,435

(4) Notes to Quarterly Consolidated Financial Statements
(Note Regarding the Company's Position as a Going Concern)

Not applicable

(Note Regarding Significant Changes in the Amount of Shareholders' Equity)

Not applicable

(Application of Special Accounting Methods in Preparation for Quarterly Consolidated Financial Statements)

(Calculation of income taxes)

The effective tax rate after the application of deferred tax accounting to the income before income taxes for the fiscal year including the Second quarter under review is reasonably estimated, and the tax expenses are calculated by multiplying net income before income taxes by this estimated effective tax rate.

(Segment Information, etc.)

[Segment Information]

Information regarding amounts of sales and profits or losses by reporting segment.

For the six months of the fiscal year ended April 30, 2019 (May 1, 2018 – October 31, 2018)

(Millions of yen)

	Reporting Segment				Adjustment	Total
	Tea leaves /Beverages Business	Restaurant Business	Other	Total		
Net sales:						
(1) Outside	255,050	16,974	3,443	275,468	–	275,468
(2) Intersegment	215	6	1,516	1,738	(1,738)	–
Total net sales	255,266	16,981	4,960	277,207	(1,738)	275,468
Segment profits (losses)	11,481	1,875	483	13,840	(628)	13,212

Notes: i. The segment profits (losses) adjustment includes (748) million yen in amortization of goodwill and 119 million yen in intersegment transactions.

ii. Segment profits (losses) are adjusted to the operating income figure on the Quarterly Consolidated Statements of Income.

For the six months of the fiscal year ending April 30, 2020 (May 1, 2019 – October 31, 2019)

(Millions of yen)

	Reporting Segment				Adjustment	Total
	Tea leaves /Beverages Business	Restaurant Business	Other	Total		
Net sales:						
(1) Outside	244,733	17,602	3,135	265,471	–	265,471
(2) Intersegment	168	6	1,498	1,672	(1,672)	–
Total net sales	244,901	17,609	4,633	267,144	(1,672)	265,471
Segment profits (losses)	12,650	1,759	320	14,730	(622)	14,107

Notes: i. The segment profits (losses) adjustment includes (740) million yen in amortization of goodwill and 118 million yen in intersegment transactions.

ii. Segment profits (losses) are adjusted to the operating income figure on the Quarterly Consolidated Statements of Income.