

Nippon Shikizai, Inc.
Summary of Financial Results for the Fiscal Year Ended February 28, 2018
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. has announced its consolidated financial results for the fiscal year ended February 28, 2018. Please refer to the contents of the report disclosed below.

Consolidated Financial Results

- **Net sales:** 10,395 million yen (3.9% increase from the previous period)
- **Operating income:** 646 million yen (19.2% decrease from the previous period)
- **Ordinary income:** 634 million yen (12.1% decrease from the previous period)
- **Net income attributable to owners of parent:** 512 million yen (Net income attributable to owners of parent of 532 million yen in the previous period)

Summary of Consolidated Operating Results

The Japanese economy in the consolidated fiscal year ended February 28, 2018 continued to be on a moderate recovery trend driven by increased consumer spending with background factors such as improvements in employment, earnings, and wealth effect due to rising stock prices. In the domestic cosmetics market, in addition to the return to a growth trend caused by the expansion of inbound demand due to the increase in tourists visiting Japan, domestic demand also remained strong. In the overseas cosmetics market, conditions differed from region to region and from country to country, and although growth was weak in European and North American markets, the growth pace in China and Asia was strong.

Under these economic conditions, the Group (which collectively means the Company and consolidated subsidiaries, and the same applies hereinafter) made a range of efforts to increase group synergies to reinforce productive capacity in Japan further and accelerate globalization of the Group's operations based on the "Medium-Term Business Strategy Vision (2017-2021)" that we established for a period starting in the current fiscal year.

Segment Business Information by Region

(Japan)

The performance of various domestic cosmetics manufacturers was strong overall due to capturing the inbound and outbound demand for high quality Japan-made cosmetics which are very popular in Asia and ASEAN regions. In addition, major domestic cosmetics manufacturers have increased their outsourcing operations to our Company as a means of handling sudden increases in market demand and strengthening the stability of their product supplies. As a result, net sales exceeded the levels achieved in the previous year. In terms of operating income, factors such as increases in outsourcing costs due to tight supply and demand for labor, depreciation resulting from the completion of the phase 2 expansion construction project at the Tsukuba factory, and the burden of expenses had an impact, and although the Company achieved results above the initial forecast levels, operating income was still down in comparison to the previous period.

(France)

In Europe, where our subsidiary THEPENIER PHARMA & COSMETICS S.A.S. (hereinafter, THEPENIER) is located, although some political uncertainty remains, consumer spending and facility investment are strong, and the economy continues to show improvement.

In these business conditions, orders for THEPENIER's flagship pharmaceutical products have maintained steady

results throughout the year, and THEPENIER has recovered the losses from reductions in operations during the summer when many people take long vacations through initiatives such as mass production and improved efficiency after this period. As a result, net sales and income were both around the same level as the previous year.

Outlook

As employment and earnings continue to improve in Japan, a continuing mild recovery trend is anticipated. On the other hand, there are also risks that the Japanese economy could decline due to sudden changes in global affairs or related economic and exchange rate trends.

In these current conditions, the Group has announced a “Medium-Term Business Strategy Vision (2017-2021)” with “growth investment mainly for expansion of the Tsukuba factory” and “acceleration of globalization of our business” as its main elements. In order to achieve continuous business expansion and medium- to long-term improvement of corporate value, the most important strategic elements identified to be executed were “investment for production capacity expansion that contributes to sales growth,” “acceleration of globalization of our business,” “enhancement in customer satisfaction,” “strengthening of our business foundation (research and development, personnel training, strengthened governance),” and “pursuit of profitability.”

We forecast net sales of 11,365 million yen (up 9.3% from the previous period), operating income of 853 million yen (up 32.0% from the previous period), ordinary income of 792 million yen (up 25.0% from the previous period), and net income attributable to owners of parent of 553 million yen (up 7.9% from the previous period) for the next consolidated fiscal year.

(%: change in full year from the previous year or in 2nd quarter (cumulative) from the same period previous year)

	2nd quarter (cumulative) (increase/decrease)	Full year (increase/decrease)
Net sales	5,667 million yen (Up 6.1%)	11,365 million yen (Up 9.3%)
Operating income	425 million yen (Up 3.2%)	853 million yen (Up 32.0%)
Ordinary income	391 million yen (Down 6.3%)	792 million yen (Up 25.0%)
Net income attributable to owners of parent	257 million yen (Down 23.2%)	553 million yen (Up 7.9%)
Net income per share	246.01 yen	528.19 yen

【Appendix】
Consolidated Financial Statements
(1) Consolidated Balance Sheet

(Thousands of yen)

	At February 28, 2017	At February 28, 2018
ASSETS		
Current Assets		
Cash and deposits	1,319,746	725,150
Notes and accounts receivable - trade	1,717,559	1,771,057
Electronically recorded monetary claims - operating	72,124	253,097
Merchandise and finished goods	626,755	570,862
Work in process	141,808	184,991
Raw materials and supplies	620,452	691,175
Deferred tax assets	130,729	124,018
Other	98,062	220,599
Allowance for doubtful accounts	(1,819)	(595)
Total Current Assets	4,725,418	4,540,359
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures	5,974,129	7,087,258
Accumulated depreciation	(4,043,644)	(4,253,520)
Buildings and structures, net	1,930,485	2,833,737
Machinery, equipment and vehicles	3,075,577	3,467,503
Accumulated depreciation	(2,530,262)	(2,744,369)
Machinery, equipment and vehicles, net	545,315	723,133
Tools, furniture and fixtures	678,072	753,232
Accumulated depreciation	(588,637)	(626,028)
Tools, furniture and fixtures, net	89,434	127,204
Land	1,301,034	1,302,193
Construction in progress	675,112	128,726
Total Property, Plant and Equipment	4,541,381	5,114,996
Intangible Assets	232,114	219,275
Investments and Other Assets		
Investment securities	427,581	592,156
Other	272,502	474,954
Allowance for doubtful accounts	(59,799)	(75,456)
Total Investments and Other Assets	640,284	991,654
Total Non-current Assets	5,413,780	6,325,926
Total Assets	10,139,199	10,866,286

(Thousands of yen)

	At February 28, 2017	At February 28, 2018
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	555,965	529,202
Electronically recorded obligations - operating	614,383	643,871
Short-term loans payable	1,571,688	1,875,593
Lease obligations	96,588	105,907
Accounts payable - other	534,534	651,362
Income taxes payable	149,106	62,916
Provision for bonuses	56,004	63,871
Provision for directors' bonuses	47,500	43,500
Other	451,112	377,032
Total Current Liabilities	4,076,884	4,353,256
Non-current Liabilities		
Long-term loans payable	2,841,231	2,618,853
Lease obligations	192,265	206,969
Deferred tax liabilities	79,099	131,079
Provision for directors' retirement benefits	150,090	147,630
Net defined benefit liability	101,057	109,819
Other	12,954	4,140
Total Non-current Liabilities	3,376,697	3,218,492
Total Liabilities	7,453,582	7,571,749
NET ASSETS		
Shareholders' Equity		
Capital stock	714,104	714,104
Capital surplus	943,209	943,209
Retained earnings	893,651	1,327,820
Treasury shares	(3,481)	(3,857)
Total Shareholders' Equity	2,547,483	2,981,277
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	197,096	309,945
Foreign currency translation adjustment	(58,963)	3,314
Total Accumulated Other Comprehensive Income	138,132	313,259
Total Net Assets	2,685,616	3,294,536
Total Liabilities and Net Assets	10,139,199	10,866,286

(2) Consolidated Statement of Income

(Thousands of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Net Sales	10,007,370	10,395,687
Cost of Sales	7,986,593	8,483,683
Gross Profit	2,020,776	1,912,003
Selling, General and Administrative Expenses	1,220,886	1,265,302
Operating Income	799,890	646,700
Non-operating Income:		
Interest income	815	1,139
Dividend income	7,748	9,378
House rent income	2,637	2,737
Foreign exchange gains	-	25,766
Other	10,874	12,226
Total Non-operating Income	22,076	51,249
Non-operating Expenses:		
Interest expenses	67,454	63,432
Share issuance cost	19,278	-
Foreign exchange losses	10,643	-
Other	3,466	342
Total Non-operating Expenses	100,843	63,774
Ordinary Income	721,123	634,175
Extraordinary Income:		
Gain on sales of non-current assets	930	43
Reversal of loss on litigation	-	11,414
Total Extraordinary Income	930	11,458
Extraordinary Losses:		
Loss on retirement of non-current assets	782	5,686
Loss on litigation	-	7,398
Total Extraordinary Losses	782	13,085
Income before Income Taxes	721,271	632,548
Income taxes - current	229,652	130,049
Refund of income taxes	(16,513)	(19,696)
Income taxes - deferred	(24,646)	9,426
Total Income Taxes	188,492	119,779
Net Income	532,778	512,768
Net Income Attributable to Owners of Parent	532,778	512,768

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Net income	532,778	512,768
Other Comprehensive Income		
Valuation difference on available-for-sale securities	76,435	112,849
Deferred gains (losses) on hedges	82	-
Foreign currency translation adjustment	(48,807)	62,278
Total Other Comprehensive Income	27,711	175,127
Comprehensive Income	560,489	687,895
(Breakdown)		
Comprehensive income attributable to owners of parent	560,489	687,895
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statement of Changes in Equity

Fiscal year ended February 28, 2017

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	552,749	781,854	382,428	(2,682)	1,714,349
Changes of items during period					
Issuance of new shares	161,355	161,355			322,710
Dividends of surplus			(21,555)		(21,555)
Net income attributable to owners of parent			532,778		532,778
Purchase of treasury shares				(798)	(798)
Net changes of items other than shareholders' equity					
Total changes of items during period	161,355	161,355	511,223	(798)	833,134
Balance at end of current period	714,104	943,209	893,651	(3,481)	2,547,483

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of current period	120,660	(82)	(10,156)	110,421	1,824,771
Changes of items during period					
Issuance of new shares					322,710
Dividends of surplus					(21,555)
Net income attributable to owners of parent					532,778
Purchase of treasury shares					(798)
Net changes of items other than shareholders' equity	76,435	82	(48,807)	27,711	27,711
Total changes of items during period	76,435	82	(48,807)	27,711	860,845
Balance at end of current period	197,096	-	(58,963)	138,132	2,685,616

Fiscal year ended February 28, 2018

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	714,104	943,209	893,651	(3,481)	2,547,483
Changes of items during period					
Dividends of surplus			(78,599)		(78,599)
Net income attributable to owners of parent			512,768		512,768
Purchase of treasury shares				(375)	(375)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	434,168	(375)	433,793
Balance at end of current period	714,104	943,209	1,327,820	(3,857)	2,981,277

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of current period	197,096	(58,963)	138,132	2,685,616
Changes of items during period				
Dividends of surplus				(78,599)
Net income attributable to owners of parent				512,768
Purchase of treasury shares				(375)
Net changes of items other than shareholders' equity	112,849	62,278	175,127	175,127
Total changes of items during period	112,849	62,278	175,127	608,920
Balance at end of current period	309,945	3,314	313,259	3,294,536

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Cash Flows from Operating Activities:		
Income before income taxes	721,271	632,548
Depreciation	374,530	460,172
Increase (decrease) in provision for bonuses	2,371	7,866
Increase (decrease) in provision for directors' bonuses	47,500	(4,000)
Increase (decrease) in net defined benefit liability	12,298	(1,239)
Increase (decrease) in provision for directors' retirement benefits	-	(2,460)
Increase (decrease) in allowance for doubtful accounts	7	7,925
Interest and dividend income	(8,564)	(10,518)
Interest expenses	67,454	63,432
Share issuance cost	19,278	-
Loss (gain) on sales of non-current assets	(930)	(43)
Loss on retirement of non-current assets	782	5,686
Decrease (increase) in notes and accounts receivable - trade	(54,148)	(190,100)
Decrease (increase) in inventories	(58,102)	(34,003)
Increase (decrease) in notes and accounts payable - trade	(127,676)	(22,787)
Increase (decrease) in accounts payable - other	142,459	4,964
Increase (decrease) in accrued consumption taxes	(11,864)	(95,896)
Other	47,828	(68,003)
Subtotal	1,174,495	753,544
Interest and dividend income received	7,895	9,557
Interest expenses paid	(68,031)	(63,042)
Income taxes (paid) refund	(233,885)	(211,903)
Net Cash Provided by Operating Activities	880,474	488,156

(Thousands of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Cash Flows from Investing Activities:		
Payments into time deposits	(135,000)	(135,000)
Proceeds from withdrawal of time deposits	139,874	190,625
Purchase of property, plant and equipment	(858,368)	(815,674)
Proceeds from sales of property, plant and equipment	930	43
Purchase of intangible assets	(9,411)	(9,773)
Purchase of shares of subsidiaries	-	(177,562)
Purchase of investment securities	(2,460)	(2,461)
Net Cash Used in Investing Activities	(864,435)	(949,802)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	(108,117)	201,464
Proceeds from long-term loans payable	1,225,026	699,000
Repayments of long-term loans payable	(853,134)	(857,039)
Proceeds from insurance of common shares	303,431	-
Purchase of treasury shares	(798)	(340)
Repayments of lease obligations	(87,277)	(103,771)
Proceeds from sales and leasebacks	30,078	22,235
Cash dividends paid	(21,302)	(78,381)
Other	(50,531)	20,987
Net Cash Provided by (Used in) Financing Activities	437,372	(95,846)
Effect of Exchange Rate Change on Cash and Cash Equivalents	(11,508)	12,285
Net Increase (Decrease) in Cash and Cash Equivalents	441,903	(545,206)
Cash and Cash Equivalents at Beginning of Period	737,322	1,179,226
Cash and Cash Equivalents at End of Period	1,179,226	634,020

(5) Segment Information***Performance by Business Segment***

Year Ended February 28, 2018 (March 1, 2017 to February 28, 2018)

(Thousands of yen)

	Reporting Segment			Adjustment Amount (Notes 1, 2)	Consolidated Financial Statements Amount (Note 3)
	Japan	France	Total		
Sales					
Sales to outside customers	8,645,735	1,749,951	10,395,687	-	10,395,687
Internal sales and transfers between segments	61,548	341	61,890	(61,890)	-
Total	8,707,284	1,750,292	10,457,577	(61,890)	10,395,687
Segment income	549,290	103,729	653,020	(6,319)	646,700
Segment assets	9,640,307	2,228,120	11,868,428	(1,002,142)	10,866,286
Other items					
Depreciation	331,702	128,470	460,172	-	460,172
Increase of property, plant and equipment and intangible assets	774,945	156,757	931,703	-	931,703

Notes: 1. The adjustment amount of negative 6,319 thousand yen in segment income is an elimination of transactions between segments.

2. The adjustment amount of negative 1,002,142 thousand yen in segment assets is a reflection of consolidated adjustment between segments.

3. The segment income is adjusted with operating income on the consolidated financial statements.

(Major Subsequent Events)

Not applicable.