

Nippon Shikizai, Inc.
Summary of Financial Results for the Fiscal Year Ended February 28, 2019
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. has announced its consolidated financial results for the fiscal year ended February 28, 2019. Please refer to the contents of the report disclosed below.

Consolidated Financial Results

- **Net sales:** 11,494 million yen (10.6% increase from the previous period)
- **Operating income:** 932 million yen (44.1% increase from the previous period)
- **Ordinary income:** 888 million yen (40.1% increase from the previous period)
- **Net income attributable to owners of parent company:** 615 million yen (Net income attributable to owners of parent company of 512 million yen in the previous period)

Summary of Consolidated Operating Results

During the consolidated fiscal year ended February 28, 2019 (March 1, 2018 – February 28, 2019), the Japanese economy continued to be on a gradual recovery trend, as seen in factors such as improvement of the employment and wage environment and the revival of individual consumption. In the domestic cosmetics market, although frequent natural disasters such as major typhoons which caused flooding damages and earthquakes had an effect, inbound demand from increasing numbers of tourists visiting Japan continued to grow, and the market as a whole remained strong. In the overseas cosmetics market, although there were slight differences between individual countries the growth rate for Europe as a whole remained low, and although the North American market showed signs of slowing growth, the growth rates in Chinese and Asian markets remained strong.

Under these economic conditions, the Group (which collectively means the Company and consolidated subsidiaries, and the same applies hereinafter) made efforts for further reinforcing production capacity and accelerating the globalization of the Group's operations by building group synergy based on the "Medium-Term Business Strategy Vision (2017-2021)" started in fiscal 2017.

The current fiscal year, the 2nd term of "the Medium-Term Business Strategy Vision (2017-2021)", was considered to be a year of accelerating growth strategies through specific actions. As such, the Group has expanded specific initiatives. Regarding the "phase 3 expansion construction project at the Tsukuba factory," the core of the Group's production capacity reinforcement, the construction work started in last September, referred to the timely disclosure announcement dated on August 21, 2018. The Group is also conjugating inter-company R&D related resources as a major driving point for the localization of formulations developed in-house and the creation of new formulations for product development utilizing the strengths of our "made in Japan" and "made in France" products, these initiatives are being used to proactively accelerate globalization, and the Group has successfully received orders as a result of these efforts.

Net sales increased 10.6% compared to the previous period, reaching 11,494 million yen. The following were some of the main factors: (1) increase in orders received due to expanded outsourcing among domestic cosmetics manufacturers resulting from inbound and outbound demand conditions in the Japanese domestic market, (2) increase in orders received from major overseas cosmetics manufacturers for "Made in Japan" products, and (3) strong sales performance at our French consolidated subsidiary. In terms of income, as a result of the Group's robust sales, operating income increased 44.1% compared to the previous period, reaching 932 million yen, and ordinary income increased 40.1% compared to the previous period, reaching 888 million yen. Even though there

was loss on disposal of non-current assets caused by the partial demolition of the existing Tsukuba factory building, net income attributable to owners of parent company increased 20.0% compared to the previous period, reaching 615 million yen.

Segment Business Information by Region

(Japan)

With the high popularity of "Made in Japan" products in the Asia and ASEAN regions as a background factor, various domestic cosmetics manufacturers have secured a stable supply chain for products to meet inbound and outbound demand, overseas cosmetics manufacturers have also taken action to secure "Made in Japan" products, and a favorable trend has continued in outsourcing contracts with the Company. As a result, net sales in this segment increased 7.6% compared to the previous period, reaching 9,368 million yen. Operating income also grew as a result of improved sales performance, increasing 23.2% compared to the previous period, reaching 676 million yen.

(France)

As for the economy in Europe, where our subsidiary THEPENIER PHARMA & COSMETICS S.A.S. (hereinafter, THEPENIER) is located, although there are signs of the pace slowing down, the economy continues to progress along a gradual recovery trend. In the midst of these business conditions, pharmaceuticals and cosmetics sales at THEPENIER showed strong growth, and net sales and operating income increased in comparison to the previous period both in the local currency and when converted to Japanese yen. Net sales increased 26.3%, reaching 2,211 million yen, and operating income increased 146.1%, reaching 255 million yen.

Outlook

As employment and wages 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 factors such as sudden changes in global affairs, related economic and exchange rate trends, or the planned consumption tax rate increase in the fall of this year.

In these current conditions, the Group will achieve continuous expansion of its business and mid- to long-term improvement of corporate value through the "Medium-Term Business Strategy Vision (2017-2021)," which is composed primarily of initiatives for reinforcing production capacity and accelerating globalization.

For the next consolidated fiscal year, although we forecast net sales of 12,173 million yen (up 5.9% from the previous period), expenses are also expected to increase due to factors such as investments in Tsukuba factory building expansion and overseas consolidated subsidiary production capacity expansion. Income forecasts are as follows: operating income of 600 million yen (down 35.6% from the previous period), ordinary income of 544 million yen (down 38.6% from the previous period), and net income attributable to owners of parent company of 390 million yen (down 36.4% from the previous period).

(%: 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	6,243 million yen (Up 13.1%)	12,173 million yen (Up 5.9%)
Operating income	408 million yen (Up 5.9%)	600 million yen (Down 35.6%)
Ordinary income	387 million yen (Up 5.2%)	544 million yen (Down 38.6%)
Net income attributable	274 million yen (Up 8.9%)	390 million yen (Down 36.4%)

to owners of parent company		
Net income per share	131.16 yen	186.52 yen

[Appendix]
Consolidated Financial Statements
(1) Consolidated Balance Sheet

(Thousands of yen)

	At February 28, 2018	At February 28, 2019
ASSETS		
Current Assets		
Cash and deposits	725,150	769,641
Notes and accounts receivable - trade	1,771,057	2,107,933
Electronically recorded monetary claims - operating	253,097	216,366
Merchandise and finished goods	570,862	718,427
Work in process	184,991	291,925
Raw materials and supplies	691,175	941,352
Deferred tax assets	124,018	129,941
Other	220,599	269,450
Allowance for doubtful accounts	(595)	-
Total Current Assets	4,540,359	5,445,038
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures	7,087,258	7,121,428
Accumulated depreciation	(4,253,520)	(4,376,105)
Buildings and structures, net	2,833,737	2,745,323
Machinery, equipment and vehicles	3,467,503	3,705,961
Accumulated depreciation	(2,744,369)	(2,897,179)
Machinery, equipment and vehicles, net	723,133	808,782
Tools, furniture and fixtures	753,232	771,092
Accumulated depreciation	(626,028)	(624,504)
Tools, furniture and fixtures, net	127,204	146,588
Land	1,302,193	1,301,441
Construction in progress	128,726	536,756
Total Property, Plant and Equipment	5,114,996	5,538,891
Intangible Assets	219,275	256,009
Investments and Other Assets		
Investment securities	592,156	502,071
Other	474,954	438,729
Allowance for doubtful accounts	(75,456)	(71,388)
Total Investments and Other Assets	991,654	869,412
Total Non-current Assets	6,325,926	6,664,314
Total Assets	10,866,286	12,109,352

(Thousands of yen)

	At February 28, 2018	At February 28, 2019
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	529,202	776,810
Electronically recorded obligations - operating	643,871	787,556
Short-term loans payable	1,875,593	1,852,335
Lease obligations	105,907	90,137
Accounts payable - other	651,362	784,122
Income taxes payable	62,916	131,946
Provision for bonuses	63,871	69,137
Provision for directors' bonuses	43,500	50,000
Other	377,032	549,657
Total Current Liabilities	4,353,256	5,091,704
Non-current Liabilities		
Long-term loans payable	2,618,853	2,790,427
Lease obligations	206,969	129,883
Deferred tax liabilities	131,079	114,294
Provision for directors' retirement benefits	147,630	147,630
Net defined benefit liability	109,819	70,217
Other	4,140	3,815
Total Non-current Liabilities	3,218,492	3,256,269
Total Liabilities	7,571,749	8,347,973
NET ASSETS		
Shareholders' Equity		
Capital stock	714,104	714,104
Capital surplus	943,209	943,209
Retained earnings	1,327,820	1,890,529
Treasury shares	(3,857)	(3,857)
Total Shareholders' Equity	2,981,277	3,543,986
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	309,945	264,670
Foreign currency translation adjustment	3,314	(47,277)
Total Accumulated Other Comprehensive Income	313,259	217,392
Total Net Assets	3,294,536	3,761,379
Total Liabilities and Net Assets	10,866,286	12,109,352

(2) Consolidated Statement of Income

(Thousands of yen)

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
Net Sales	10,395,687	11,494,866
Cost of Sales	8,483,683	9,201,857
Gross Profit	1,912,003	2,293,009
Selling, General and Administrative Expenses	1,265,302	1,360,848
Operating Income	646,700	932,160
Non-operating Income:		
Interest income	1,139	539
Dividend income	9,378	8,531
House rent income	2,737	2,465
Foreign exchange gains	25,766	-
Other	12,226	22,934
Total Non-operating Income	51,249	34,470
Non-operating Expenses:		
Interest expenses	63,432	57,518
Foreign exchange losses	-	12,207
Commission fee	-	8,054
Other	342	638
Total Non-operating Expenses	63,774	78,419
Ordinary Income	634,175	888,211
Extraordinary Income:		
Gain on sales of non-current assets	43	-
Gain on sales of investment securities	-	25,350
Reversal of loss on litigation	11,414	9,118
Total Extraordinary Income	11,458	34,468
Extraordinary Losses:		
Loss on retirement of non-current assets	5,686	65,135
Impairment loss	-	29,845
Loss on litigation	7,398	7,598
Total Extraordinary Losses	13,085	102,579
Income before Income Taxes	632,548	820,100
Income taxes - current	130,049	210,916
Refund of income taxes	(19,696)	-
Income taxes - deferred	9,426	(5,922)
Total Income Taxes	119,779	204,994
Net Income	512,768	615,105
Net Income Attributable to Owners of parent company	512,768	615,105

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
Net income	512,768	615,105
Other Comprehensive Income		
Valuation difference on available-for-sale securities	112,849	(45,274)
Foreign currency translation adjustment	62,278	(50,592)
Total Other Comprehensive Income	175,127	(95,867)
Comprehensive Income	687,895	519,238
(Breakdown)		
Comprehensive income attributable to owners of parent company	687,895	519,238
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statement of Changes in Equity

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 company			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 company				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

Fiscal year ended February 28, 2019

(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	1,327,820	(3,857)	2,981,277
Changes of items during period					
Dividends of surplus			(52,396)		(52,396)
Net income attributable to owners of parent company			615,105		615,105
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	562,709	-	562,709
Balance at end of current period	714,104	943,209	1,890,529	(3,857)	3,543,986

	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	309,945	3,314	313,259	3,294,536
Changes of items during period				
Dividends of surplus				(52,396)
Net income attributable to owners of parent company				615,105
Net changes of items other than shareholders' equity	(45,274)	(50,592)	(95,867)	(95,867)
Total changes of items during period	(45,274)	(50,592)	(95,867)	466,842
Balance at end of current period	264,670	(47,277)	217,392	3,761,379

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
Cash Flows from Operating Activities:		
Income before income taxes	632,548	820,100
Depreciation	460,172	541,769
Impairment loss	-	29,845
Increase (decrease) in provision for bonuses	7,866	5,266
Increase (decrease) in provision for directors' bonuses	(4,000)	6,500
Increase (decrease) in net defined benefit liability	(1,239)	(33,991)
Increase (decrease) in provision for directors' retirement benefits	(2,460)	-
Increase (decrease) in allowance for doubtful accounts	7,925	(239)
Interest and dividend income	(10,518)	(9,070)
Interest expenses	63,432	57,518
Loss (gain) on sales of investment securities	-	(25,350)
Loss (gain) on sales of non-current assets	(43)	-
Loss on retirement of non-current assets	5,686	65,135
Decrease (increase) in notes and accounts receivable - trade	(190,100)	(331,758)
Decrease (increase) in inventories	(34,003)	(525,713)
Increase (decrease) in notes and accounts payable - trade	(22,787)	403,305
Increase (decrease) in accounts payable - other	4,964	135,138
Increase (decrease) in accrued consumption taxes	(95,896)	50,468
Other	(68,003)	(74,517)
Subtotal	753,544	1,114,407
Interest and dividend income received	9,557	8,740
Interest expenses paid	(63,042)	(58,261)
Income taxes (paid) refund	(211,903)	(78,033)
Net Cash Provided by Operating Activities	488,156	986,852

(Thousands of yen)

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
Cash Flows from Investing Activities:		
Payments into time deposits	(135,000)	(85,000)
Proceeds from withdrawal of time deposits	190,625	90,497
Purchase of property, plant and equipment	(815,674)	(966,537)
Proceeds from sales of property, plant and equipment	43	-
Purchase of intangible assets	(9,773)	(65,497)
Purchase of shares of subsidiaries	(177,562)	-
Purchase of investment securities	(2,461)	(2,483)
Proceeds from sales of investment securities	-	55,858
Net Cash Used in Investing Activities	(949,802)	(973,162)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	201,464	(10,870)
Proceeds from long-term loans payable	699,000	1,162,024
Repayments of long-term loans payable	(857,039)	(972,988)
Purchase of treasury shares	(340)	(13)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(40,380)
Repayments of lease obligations	(103,771)	(107,588)
Proceeds from sales and leasebacks	22,235	-
Cash dividends paid	(78,381)	(52,181)
Other	20,987	46,393
Net Cash Provided by (Used in) Financing Activities	(95,846)	24,395
Effect of Exchange Rate Change on Cash and Cash Equivalents	12,285	(4,609)
Net Increase (Decrease) in Cash and Cash Equivalents	(545,206)	33,476
Cash and Cash Equivalents at Beginning of Period	1,179,226	634,020
Cash and Cash Equivalents at End of Period	634,020	667,497

(5) Segment Information

Performance by Business Segment

Year Ended February 28, 2019 (March 1, 2018 to February 28, 2019)

(Thousands of yen)

	Reporting Segment			Adjustment Amount (Notes 1, 2)	Consolidated Financial Statements Amount (Note 3)
	Japan	France	Total		
Sales					
Sales to outside customers	9,285,755	2,209,111	11,494,866	-	11,494,866
Internal sales and transfers between segments	83,117	1,981	85,099	(85,099)	-
Total	9,368,873	2,211,092	11,579,966	(85,099)	11,494,866
Segment income	676,973	255,280	932,253	(93)	932,160
Segment assets	10,515,613	2,622,995	13,138,609	(1,029,256)	12,109,352
Other items					
Depreciation	405,806	135,962	541,769	-	541,769
Impairment loss	-	29,845	29,845	-	29,845
Increase of property, plant and equipment and intangible assets	840,019	273,470	1,113,490	-	1,113,490

Notes: 1. The adjustment amount of negative 93 thousand yen in segment income is an elimination of transactions between segments.

2. The adjustment amount of negative 1,029,256 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)

(Stock split and partial revision of the Articles of Incorporation)

Based on the resolution passed at the Board of Directors meeting held January 11, 2019, the Company has conducted a stock split and partial revision of the Articles of Incorporation as of March 1, 2019.

1. Purpose of stock split

Through the implementation of a stock split, the goal is to reduce the unit cost of investment in the Company's stock, creating an environment in which it is easier for investors to invest, increasing the liquidity of Company stock, and expanding the investor base.

2. Stock split overview

(1) Split method

With February 28, 2019 set as the record date, common stock held by shareholders recorded in the final stockholders registry of the day shall be split at the ratio of two shares for each share held.

(2) Number of increased shares resulting from the split

Total number of issued shares prior to the stock split: 1,049,688

Number of shares added as a result of the stock split: 1,049,688

Total number of issued shares after the stock split: 2,099,376

Total number of issuable shares after the stock split: 5,200,000

(3) Date of split

Record date announcement date: February 13, 2019

Record date: February 28, 2019

Effective date: March 1, 2019

(4) Effects on per share information

The effects on per share information is recorded in the applicable section.

3. Partial revision of the Articles of Incorporation

(1) Reason for the revision

In keeping with the stock split implemented at this time, the total number of issuable shares recorded in Article 5 of the Company's Articles of Incorporation has been revised as follows pursuant to Article 184 clause 2 of the Companies Act, effective March 1, 2019.

(2) Revision content

(Underline indicates revised sections)

Current Articles of Incorporation	After revision
(Total Issuable Shares) Article 5: The total number of stock shares which can be issued by the Company shall be <u>2,600,000 shares</u> .	(Total Issuable Shares) Article 5: The total number of stock shares which can be issued by the Company shall be <u>5,200,000 shares</u> .

(3) Revision schedule

Effective date: March 1, 2019

4. Other

(1) Revision of capital amount

There will be no revision to the Company's capital related to the stock split at this time.

(2) Regarding dividends

Since the effective date of the stock split this time is March 1, 2019, the dividend payments for the end of the 2019 fiscal year for which the record date is February 28, 2019 will be implemented based on the former share numbers (prior to the stock split).