

**Nippon Shikizai, Inc.**  
**Summary of Financial Results for the Fiscal Year Ended February 29, 2020**  
**[Japanese Standard] (Consolidated)**

Nippon Shikizai, Inc. has announced its consolidated financial results for the fiscal year ended February 29, 2020. Please refer to the contents of the report disclosed below.

**Consolidated Financial Results**

- **Net sales:** 12,207 million yen (6.2% increase from the previous period)
- **Operating income:** 449 million yen (51.8% decrease from the previous period)
- **Ordinary income:** 405 million yen (54.4% decrease from the previous period)
- **Net income attributable to owners of parent company:** 283 million yen (53.9% decrease from the previous period)

**Summary of Consolidated Operating Results**

During the consolidated fiscal year ended February 29, 2020 (March 1, 2019 to February 29, 2020), prospects for the Japanese economy were already characterized by lingering uncertainty. While the employment picture and personal-income environment continued to improve, the economy was harried by factors such as lengthening trade friction between the United States and China, an apparent plateau in inbound tourist demand and the imposition of a hike in the consumption tax. In the new year, concern about the global economic impact from the spread of the COVID-19 coronavirus began mounting daily. Current conditions leave scant room for optimism.

In view of this market environment, the Nippon Shikizai Group (which collectively means Nippon Shikizai, Inc. (“the Company”) and consolidated subsidiaries, here and hereinafter) strove to reinforce production capacity and to accelerate the globalization of Group operations by building group synergy, guided by the Medium-Term Business Strategy Vision (2017-2021) launched in fiscal 2017. As a result of these efforts, the phase-3 expansion project at Tsukuba Factory, which was the Group’s key measure under “reinforcement of production capacity,” was completed in the third quarter (Q3) of the period under review and began operation. Going forward, the Group intends to redouble its efforts to research and develop formulations and production technology and to improve quality and safety.

Against the background described above, the Group turned in business results for the consolidated fiscal year under review as described below.

Net sales trended favorably up to the third quarter, buoyed principally by three factors: Robust orders received, driven by outsourcing by domestic cosmetics manufacturers in light of strong inbound and outbound demand in Japan; an increase in orders received from major overseas cosmetics manufacturers for made-in-Japan products; and vigorous sales at the Group’s consolidated French subsidiary. Though sales decreased in the fourth quarter, due to maxing-out of inbound demand in Japan and the impact of COVID-19, net sales for the full fiscal year increased 6.2% in comparison with the previous fiscal year, to 12,207 million yen.

Income followed the trend outlined for net sales as above. While sales declined in Q4, the Group incurred a variety of costs in connection with the completion of the phase-3 expansion project at Tsukuba Factory. Operating income dropped 51.8% compared with the previous fiscal year to 449 million yen, while ordinary income declined a similarly steep 54.4% compared with the previous fiscal year to 405 million yen. Net income attributable to owners of parent company sank 53.9% to 283 million yen.

**Segment Business Information by Region**

### ***(Japan)***

Net sales in Japan followed the pattern described above of favorable results up to Q3, followed by a slowdown in Q4. In the first three quarters, against a background of high popularity for made-in-Japan products elsewhere in Asia, particularly in China, various domestic cosmetics manufacturers have secured stable supply chains for products to meet inbound and outbound demand. Similarly, outsourcing to the Company by overseas cosmetics manufacturers continued to trend positively, as these companies moved to secure made-in-Japan products. In Q4, however, sales decelerated abruptly, as described above. Nonetheless, net sales in this segment increased 6.3% compared to the previous period, to 9,956 million yen. Operating income more than halved, however, sinking 55.1% to 303 million yen, amid a rise in various costs associated with the start of production following completion of the phase-3 expansion project at Tsukuba Factory.

### ***(France)***

Europe, where our subsidiary Thepenier Pharma & Cosmetics S.A.S. (hereinafter, “Thepenier”) is located, sustained a trend of moderate economic growth during the period under review, despite persistent uncertainty in outlook. Under these conditions, Thepenier enjoyed solid growth in sales of pharmaceuticals and cosmetics. Net sales increased in comparison to the previous period, increasing 7.8% to 2,382 million yen. Operating income, however, declined 45.1% to 140 million yen, amid mounting expenses for responding to new regulations on pharmaceuticals.

### **Outlook**

The business environment in the coming fiscal period will be adversely affected in countless ways. In Japan, where consumer sentiment had already turned parsimonious in the wake of a consumption-tax hike in fall 2019, spending intentions have become even more bearish than ever, as the global spread of COVID-19 brought stagnation not only to the Japanese economy but to the economy of the entire world. In the cosmetics market specifically, stay-at-home orders and other measures in each country to prevent the coronavirus from spreading are expected to impact sales from multiple angles. For example, people will apply makeup less often, and will purchase less at duty-free shops as overseas travel dwindles.

To bring some rays of light into this gloomy market environment, the Group will move resolutely forward with key measures to reinforce production capacity and accelerate globalization of Group operations, two goals that form the framework for the Medium-Term Business Strategy Vision (2017-2021).

The impact of COVID-19 renders future prospects especially unclear, making the forecast of business results for the next consolidated fiscal year (fiscal year ending February 28, 2021) more difficult than ever. In Q1 and Q2, the adverse impact of COVID-19 on the cosmetics-market environment will cause orders received to decline or be postponed. Delays in deliveries of materials are also expected to pare revenues. With COVID-19 continuing to propagate worldwide, it is too soon to know how long the pandemic will continue to affect business, but in drafting its full-year forecast the Company assumes that normalization of business operations will be achieved in Q3 or Q4. Under these assumptions, the Company forecasts full-year net sales of 12,135 million yen, declining just 0.6% from the previous fiscal year. In earnings, the Company expects declining revenues in Q1 and Q2 as well as increasing expenses from investment in the phase-3 expansion project at Tsukuba Factory and in expansion of production capacity at overseas subsidiaries, resulting in forecasts of an operating loss of 60 million yen and an ordinary loss of 79 million yen. Net loss attributable to owners of parent company is forecast to be 64 million yen.

In the absence of a clear picture of the severity and duration of the effects of COVID-19, the forecast of consolidated business results for the fiscal year ending February 28, 2021 is subject to later revision.

(%: 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	5,428 million yen (Down 14.0%)	12,135 million yen (Down 0.6%)
Operating income	-449 million yen (—)	-60 million yen (—)
Ordinary income	-431 million yen (—)	-79 million yen (—)
Net income attributable to owners of parent company	-322 million yen (—)	-64 million yen (—)
Net income per share	-153.69 yen	-30.89 yen

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

(Thousands of yen)

	At February 28, 2019	At February 29, 2020
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and deposits	769,641	835,346
Notes and accounts receivable - trade	2,107,933	2,226,476
Electronically recorded monetary claims - operating	216,366	184,547
Merchandise and finished goods	718,427	781,889
Work in process	291,925	225,882
Raw materials and supplies	941,352	1,091,774
Other	269,450	385,190
<b>Total Current Assets</b>	<b>5,315,097</b>	<b>5,731,107</b>
<b>Non-current Assets</b>		
<b>Property, Plant and Equipment</b>		
Buildings and structures	7,121,428	9,683,075
Accumulated depreciation	(4,376,105)	(4,572,384)
Buildings and structures, net	2,745,323	5,110,690
Machinery, equipment and vehicles	3,705,961	4,258,684
Accumulated depreciation	(2,897,179)	(2,800,516)
Machinery, equipment and vehicles, net	808,782	1,458,167
Tools, furniture and fixtures	771,092	967,921
Accumulated depreciation	(624,504)	(647,258)
Tools, furniture and fixtures, net	146,588	320,663
Land	1,301,441	1,301,018
Construction in progress	536,756	345,820
<b>Total Property, Plant and Equipment</b>	<b>5,538,891</b>	<b>8,536,360</b>
<b>Intangible Assets</b>	<b>256,009</b>	<b>369,111</b>
<b>Investments and Other Assets</b>		
Investment securities	502,071	442,277
Other	454,376	526,596
Allowance for doubtful accounts	(71,388)	(81,065)
<b>Total Investments and Other Assets</b>	<b>885,059</b>	<b>887,809</b>
<b>Total Non-current Assets</b>	<b>6,679,961</b>	<b>9,793,280</b>
<b>Total Assets</b>	<b>11,995,058</b>	<b>15,524,388</b>

(Thousands of yen)

	At February 28, 2019	At February 29, 2020
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Notes and accounts payable - trade	776,810	695,734
Electronically recorded obligations - operating	787,556	897,714
Short-term loans payable	1,852,335	1,451,650
Lease obligations	90,137	100,724
Accounts payable - other	784,122	791,453
Income taxes payable	131,946	-
Provision for bonuses	69,137	78,608
Provision for directors' bonuses	50,000	-
Other	549,657	347,726
<b>Total Current Liabilities</b>	<b>5,091,704</b>	<b>4,363,612</b>
<b>Non-current Liabilities</b>		
Long-term loans payable	2,790,427	6,450,007
Lease obligations	129,883	563,564
Provision for directors' retirement benefits	147,630	146,430
Net defined benefit liability	70,217	64,242
Other	3,815	10,875
<b>Total Non-current Liabilities</b>	<b>3,141,974</b>	<b>7,235,119</b>
<b>Total Liabilities</b>	<b>8,233,679</b>	<b>11,598,732</b>
<b>NET ASSETS</b>		
<b>Shareholders' Equity</b>		
Capital stock	714,104	714,104
Capital surplus	943,209	943,209
Retained earnings	1,890,529	2,121,719
Treasury shares	(3,857)	(3,857)
<b>Total Shareholders' Equity</b>	<b>3,543,986</b>	<b>3,775,176</b>
<b>Accumulated Other Comprehensive Income</b>		
Valuation difference on available-for-sale securities	264,670	222,604
Foreign currency translation adjustment	(47,277)	(72,125)
<b>Total Accumulated Other Comprehensive Income</b>	<b>217,392</b>	<b>150,479</b>
<b>Total Net Assets</b>	<b>3,761,379</b>	<b>3,925,655</b>
<b>Total Liabilities and Net Assets</b>	<b>11,995,058</b>	<b>15,524,388</b>

## (2) Consolidated Statement of Income

(Thousands of yen)

	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020
<b>Net Sales</b>	11,494,866	12,207,752
<b>Cost of Sales</b>	9,201,857	10,496,018
<b>Gross Profit</b>	2,293,009	1,711,733
<b>Selling, General and Administrative Expenses</b>	1,360,848	1,262,082
<b>Operating Income</b>	932,160	449,650
<b>Non-operating Income:</b>		
Interest income	539	1,086
Dividend income	8,531	6,998
House rent income	2,465	2,779
Subsidy income	-	12,219
Insurance income	-	4,300
Miscellaneous income	22,934	13,532
<b>Total Non-operating Income</b>	34,470	40,916
<b>Non-operating Expenses:</b>		
Interest expenses	57,518	70,885
Foreign exchange losses	12,207	13,433
Commission fee	8,054	695
Other	638	309
<b>Total Non-operating Expenses</b>	78,419	85,324
<b>Ordinary Income</b>	888,211	405,243
<b>Extraordinary Income:</b>		
Gain on sales of non-current assets	-	304
Gain on sales of investment securities	25,350	4,892
Reversal of loss on litigation	9,118	-
<b>Total Extraordinary Income</b>	34,468	5,196
<b>Extraordinary Losses:</b>		
Loss on retirement of non-current assets	65,135	6,386
Impairment loss	29,845	-
Loss on litigation	7,598	-
Loss on valuation of golf club membership	-	3,300
<b>Total Extraordinary Losses</b>	102,579	9,686
<b>Income before Income Taxes</b>	820,100	400,753
Income taxes - current	210,916	76,045
Income taxes - deferred	(5,922)	41,122
<b>Total Income Taxes</b>	204,994	117,167
<b>Net Income</b>	615,105	283,585
<b>Net Income Attributable to Owners of Parent Company</b>	615,105	283,585

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020
Net income	615,105	283,585
<b>Other Comprehensive Income</b>		
Valuation difference on available-for-sale securities	(45,274)	(42,065)
Foreign currency translation adjustment	(50,592)	(24,847)
<b>Total Other Comprehensive Income</b>	<b>(95,867)</b>	<b>(66,913)</b>
<b>Comprehensive Income</b>	<b>519,238</b>	<b>216,672</b>
(Breakdown)		
Comprehensive income attributable to owners of parent company	519,238	216,672
Comprehensive income attributable to non-controlling interests	-	-

### (3) Consolidated Statement of Changes in Equity

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



Fiscal year ended February 29, 2020

(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	1,890,529	(3,857)	3,543,986
Changes of items during period					
Dividends of surplus			(52,396)		(52,396)
Net income attributable to owners of parent company			283,585		283,585
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	231,189	-	231,189
Balance at end of current period	714,104	943,209	2,121,719	(3,857)	3,775,176

	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	264,670	(47,277)	217,392	3,761,379
Changes of items during period				
Dividends of surplus				(52,396)
Net income attributable to owners of parent company				283,585
Net changes of items other than shareholders' equity	(42,065)	(24,847)	(66,913)	(66,913)
Total changes of items during period	(42,065)	(24,847)	(66,913)	164,276
Balance at end of current period	222,604	(72,125)	150,479	3,925,655

**(4) Consolidated Statement of Cash Flows**

(Thousands of yen)

	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	820,100	400,753
Depreciation	541,769	612,085
Impairment loss	29,845	-
Increase (decrease) in provision for bonuses	5,266	9,470
Increase (decrease) in provision for directors' bonuses	6,500	(50,000)
Increase (decrease) in net defined benefit liability	(33,991)	(3,499)
Increase (decrease) in provision for directors' retirement benefits	-	(1,200)
Increase (decrease) in allowance for doubtful accounts	(239)	12,134
Interest and dividend income	(9,070)	(8,085)
Interest expenses	57,518	70,885
Loss on valuation of golf club memberships	-	3,300
Loss (gain) on sales of investment securities	(25,350)	(4,892)
Loss (gain) on sales of non-current assets	-	(304)
Loss on retirement of non-current assets	65,135	6,386
Decrease (increase) in notes and accounts receivable - trade	(331,758)	(108,655)
Decrease (increase) in inventories	(525,713)	(163,850)
Increase (decrease) in notes and accounts payable - trade	403,305	42,366
Increase (decrease) in accounts payable - other	135,138	(957)
Increase (decrease) in accrued consumption taxes	50,468	(158,755)
Other	(74,517)	(2,075)
<b>Subtotal</b>	<b>1,114,407</b>	<b>655,106</b>
Interest and dividend income received	8,740	8,060
Interest expenses paid	(58,261)	(71,976)
Income taxes (paid) refund	(78,033)	(213,756)
<b>Net Cash Provided by Operating Activities</b>	<b>986,852</b>	<b>377,435</b>

(Thousands of yen)

	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020
<b>Cash Flows from Investing Activities:</b>		
Payments into time deposits	(85,000)	(80,000)
Proceeds from withdrawal of time deposits	90,497	100,783
Purchase of property, plant and equipment	(966,537)	(3,063,263)
Proceeds from sales of property, plant and equipment	-	304
Purchase of intangible assets	(65,497)	(115,673)
Purchase of investment securities	(2,483)	(2,516)
Proceeds from sales of investment securities	55,858	6,588
Net decrease (increase) in short-term loans receivable	-	(24,282)
Payments of long-term loans receivable	-	(46,811)
Collection of long-term loans receivable	-	1,674
<b>Net Cash Used in Investing Activities</b>	<b>(973,162)</b>	<b>(3,223,196)</b>
<b>Cash Flows from Financing Activities:</b>		
Net increase (decrease) in short-term loans payable	(10,870)	(485,533)
Proceeds from long-term loans payable	1,162,024	5,703,151
Repayments of long-term loans payable	(972,988)	(1,939,064)
Purchase of treasury shares	(13)	(3)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(40,380)	(42,290)
Repayments of lease obligations	(107,588)	(103,576)
Cash dividends paid	(52,181)	(52,151)
Other	46,393	(145,868)
<b>Net Cash Provided by Financing Activities</b>	<b>24,395</b>	<b>2,934,663</b>
<b>Effect of Exchange Rate Change on Cash and Cash Equivalents</b>	<b>(4,609)</b>	<b>(1,853)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>33,476</b>	<b>87,047</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>634,020</b>	<b>667,497</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>667,497</b>	<b>754,545</b>

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

Year Ended February 29, 2020 (March 1, 2019 to February 29, 2020)

(Thousands of yen)

	Reporting Segment			Adjustment Amount (Notes 1, 2)	Consolidated Financial Statements Amount (Note 3)
	Japan	France	Total		
Sales					
Sales to outside customers	9,852,270	2,355,482	12,207,752	-	12,207,752
Internal sales and transfers between segments	103,991	27,108	131,099	(131,099)	-
Total	9,956,261	2,382,590	12,338,852	(131,099)	12,207,752
Segment income	303,958	140,022	443,981	5,669	449,650
Segment assets	13,881,111	2,776,879	16,657,990	(1,133,602)	15,524,388
Other items					
Depreciation	479,681	132,404	612,085	-	612,085
Increase of property, plant and equipment and intangible assets	3,365,684	399,402	3,765,087	-	3,765,087

Notes: 1. The adjustment amount of 5,669 thousand yen in segment income is an elimination of transactions between segments.

2. The adjustment amount of negative 1,133,602 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.