

Nippon Shikizai, Inc.
Summary of Financial Results for the First Half of Fiscal Year
Ending February 28, 2021
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. has announced its consolidated financial results for the first half of the fiscal year ending February 28, 2021. Please refer to the contents of the report disclosed below.

Consolidated Financial Results

- **Net sales:** 5,081 million yen (16.7% decrease from the same period previous year)
- **Operating income:** -181 million yen (—)
- **Ordinary income:** -189 million yen (—)
- **Net income attributable to owners of parent company:** -135 million yen (Net income attributable to owners of parent company of 206 million yen in the same period previous year)

Summary of Consolidated Operating Results

During the consolidated first half period of the fiscal year ending February 28, 2021 (March 1, 2020 to August 31, 2020), in the business environment surrounding the Nippon Shikizai Group, global economic activities were significantly impacted by the global spread of the novel coronavirus (COVID-19).

The cosmetics industry was also greatly affected by the spread of COVID-19. Cosmetics demand fell sharply for two main reasons: 1) since February, personal consumption has declined due to shortened business hours and temporary closures of commercial facilities, and to consumers staying at home and normalizing the behavior of wearing masks, and 2) there has been a rapid decline in inbound demand caused by a significant decrease in foreign tourists as the result of strengthened immigration restrictions in Japan.

The Japanese government issued a state of emergency in April 2020. The domestic production bases and head office of the Group were forced to take measures such as having employees wait at home, taking leaves of absence, and working from home. Moreover, even at our bases in France, the factory operation rate temporarily dropped significantly due to the government lockdown on the city. This had a major impact on the entire Group.

Under these business conditions, the Group has been focusing on reducing various costs at our domestic bases, even while the operation rate is sluggish due to the decrease in orders caused by the spread of COVID-19, which struck immediately after we expanded our production capacity at The Tsukuba Factory. The Group strove to reinforce production capacity and to accelerate the globalization of Group operations by building Group synergy. These efforts were based on the Medium-Term Business Strategy Vision (2017 to 2021), which started in fiscal 2017. Furthermore, in France, the Group is still forced to carry out business activities in a harsh environment, such as the stagnation in economic activities caused by a second wave of COVID-19. Despite this difficult business environment, the Group will continue work even harder to develop prescription and production technology in line with the era of “new normal,” and to improve quality and safety.

Due to the results above, the consolidated operating results for the first half period of the consolidated fiscal year were as follows.

Despite increased revenue at our consolidated subsidiary in France, the Group's net sales decreased 16.7% compared to the same period of the previous year, falling to 5,081 million yen. The following were some of the main factors that had a significant impact: 1) orders received from domestic cosmetics manufacturers fell due to a decrease in domestic demand as the result of the state of emergency declaration, consumers staying at home, and slumping inbound demand in conjunction with a sharp decrease in foreign tourists visiting Japan, and due to a decrease in outbound demand as the result of the global spread of COVID-19, and 2) orders from major overseas cosmetics manufacturers decreased due to the global spread of COVID-19.

In terms of income, overall operating loss was 181 million yen, ordinary loss was 189 million yen, and net loss attributable to owners of parent company was 135 million yen. This was due to the sudden decrease in net sales, as well as to increased expenses for completing the phase-3 expansion project at Tsukuba Factory.

Segment Business Information: Business Performance by Region

(Japan)

As mentioned above, as a result of the rapid decline in domestic and overseas cosmetics demand due to the spread of COVID-19, there was a decrease in outsourcing orders received by the Company from domestic and overseas cosmetics manufacturers. As a result, net sales in this segment decreased 24.8% compared to the same period previous year, falling to 3,737 million yen. Operating loss was 330 million yen due to the sudden decrease in net sales, as well as to increased expenses for completing the phase-3 expansion project at Tsukuba Factory.

(France)

In Europe, where our subsidiary Thepenier Pharma & Cosmetics S.A.S. (hereinafter, "Thepenier") is located, the economy stagnated due to the impact of COVID-19 during the consolidated first half period (January 1 to June 30). Amidst such conditions, Thepenier was forced to temporarily shut down its cosmetics manufacturing line from March 23 (operation was resumed from April 16). However, when reflecting the strong orders and production until the line was shut down, net sales increased 16.3% compared to the same period previous year, reaching 1,377 million yen, and operating income increased 115.6% compared to the same period previous year, reaching 145 million yen.

Outlook

There is no change in forecasts for the fiscal year ending February 28, 2021, as announced on October 8, 2020.

(%: change from the same period previous year)

	Full year (increase/decrease)
Net sales	9,803 million yen (Down 19.7%)
Operating income	-484 million yen (—)
Ordinary income	-353 million yen (—)
Net income attributable to owners of parent company	-252 million yen (—)
Net income per share	-120.50 yen

[Appendix]

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	At February 29, 2020	At August 31, 2020
ASSETS		
Current Assets		
Cash and deposits	835,346	1,066,312
Notes and accounts receivable - trade	2,226,476	1,902,467
Electronically recorded monetary claims - operating	184,547	223,243
Inventories	2,099,546	2,136,303
Other	385,190	196,140
Total Current Assets	5,731,107	5,524,468
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures - net	5,110,690	5,404,248
Machinery, equipment and vehicles - net	1,458,167	1,492,164
Land	1,301,018	1,887,585
Construction in progress	345,820	174,018
Other - net	320,663	347,335
Total Property, Plant and Equipment	8,536,360	9,305,353
Intangible Assets	369,111	364,659
Investments and Other Assets		
Investment securities	442,277	463,167
Other	526,596	593,557
Allowance for doubtful accounts	(81,065)	(22,703)
Total Investments and Other Assets	887,809	1,034,020
Total Non-current Assets	9,793,280	10,704,033
Total Assets	15,524,388	16,228,502

(Thousands of yen)

	At February 29, 2020	At August 31, 2020
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	695,734	418,340
Electronically recorded obligations - operating	897,714	668,789
Short-term loans payable	1,451,650	1,582,305
Income taxes payable	—	40,333
Provision for bonuses	78,608	162,422
Other	1,239,904	1,099,455
Total Current Liabilities	4,363,612	3,971,647
Non-current Liabilities		
Long-term loans payable	6,450,007	7,781,194
Provision for directors' retirement benefits	146,430	146,430
Net defined benefit liability	64,242	64,921
Other	574,439	529,082
Total Non-current Liabilities	7,235,119	8,521,629
Total Liabilities	11,598,732	12,493,276
NET ASSETS		
Shareholders' Equity		
Capital stock	714,104	714,104
Capital surplus	943,209	943,209
Retained earnings	2,121,719	1,934,218
Treasury shares	(3,857)	(3,857)
Total Shareholders' Equity	3,775,176	3,587,675
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	222,604	236,226
Foreign currency translation adjustment	(72,125)	(88,675)
Total Accumulated Other Comprehensive Income	150,479	147,550
Total Net Assets	3,925,655	3,735,225
Total Liabilities and Net Assets	15,524,388	16,228,502

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income****(Six Months ended August 31, 2020)**

(Thousands of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020
Net Sales	6,101,756	5,081,597
Cost of Sales	5,092,908	4,638,785
Gross Profit	1,008,847	442,811
Selling, General and Administrative Expenses	684,274	623,959
Operating Income (Loss)	324,573	(181,148)
Non-operating Income		
Interest income	329	900
Dividend income	3,772	3,845
Foreign exchange gains	—	9,935
Subsidy income	—	8,650
Miscellaneous income	6,773	14,134
Total Non-operating Income	10,875	37,466
Non-operating Expenses		
Interest expenses	31,151	45,496
Foreign exchange losses	18,561	—
Other	741	95
Total Non-operating Expenses	50,454	45,591
Ordinary Income (Loss)	284,994	(189,273)
Extraordinary Losses		
Loss on retirement of non-current assets	1,522	20
Total Extraordinary Losses	1,522	20
Income (Loss) before Income Taxes	283,472	(189,294)
Income taxes - current	63,072	45,017
Income taxes - deferred	14,362	(99,207)
Total Income Taxes	77,435	(54,189)
Net Income (Loss)	206,036	(135,104)
Net Income (Loss) Attributable to Owners of Parent Company	206,036	(135,104)

Quarterly Consolidated Statement of Comprehensive Income
(Six Months ended August 31, 2020)

(Thousands of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020
Net income (loss)	206,036	(135,104)
Other Comprehensive Income		
Valuation difference on available-for-sale securities	12,034	13,621
Foreign currency translation adjustment	(26,574)	(16,550)
Total Other Comprehensive Income	(14,540)	(2,928)
Comprehensive Income	191,496	(138,033)
(Breakdown)		
Comprehensive income attributable to owners of parent	191,496	(138,033)
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020
Cash Flows from Operating Activities:		
Income (loss) before income taxes	283,472	(189,294)
Depreciation	260,505	389,795
Increase (decrease) in provision for bonuses	142,656	83,813
Increase (decrease) in provision for directors' bonuses	(50,000)	—
Increase (decrease) in net defined benefit liability	(5,171)	1,422
Increase (decrease) in allowance for doubtful accounts	(4,948)	(56,509)
Interest and dividend income	(4,102)	(4,746)
Interest expenses	31,151	45,496
Loss on retirement of non-current assets	1,522	20
Decrease (increase) in notes and accounts receivable - trade	(7,681)	279,384
Decrease (increase) in inventories	(168,146)	(43,567)
Increase (decrease) in notes and accounts payable - trade	162,824	(508,507)
Increase (decrease) in accounts payable - other	(300,110)	(250,930)
Increase (decrease) in accrued consumption taxes	15,539	215,334
Other	42,438	31,935
Subtotal	399,948	(6,352)
Interest and dividend income received	3,837	4,230
Interest expenses paid	(32,017)	(44,605)
Income taxes (paid) refund	(112,166)	27,338
Net Cash Provided by (Used in) Operating Activities	259,601	(19,388)

(Thousands of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020
Cash Flows from Investing Activities:		
Payments into time deposits	(40,000)	(40,000)
Proceeds from withdrawal of time deposits	40,000	40,000
Purchase of property, plant and equipment	(1,371,699)	(1,031,486)
Purchase of intangible assets	(71,650)	(41,191)
Purchase of investment securities	(1,259)	(1,261)
Net decrease (increase) in short-term loans receivable	—	(1,662)
Payments of long-term loans receivable	(33,637)	(79,677)
Collection of long-term loans receivable	—	3,268
Net Cash Used in Investing Activities	(1,478,246)	(1,152,010)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	174,868	35,760
Proceeds from long-term loans payable	1,745,951	1,980,000
Repayments of long-term loans payable	(508,747)	(544,456)
Purchase of treasury shares	(2)	—
Repayments of lease obligations	(49,455)	(52,179)
Cash dividends paid	(52,092)	(52,438)
Other	(130,561)	—
Net Cash Provided by Financing Activities	1,179,960	1,366,686
Effect of Exchange Rate Change on Cash and Cash Equivalents	(4,702)	(1,641)
Net Increase (Decrease) in Cash and Cash Equivalents	(43,387)	193,647
Cash and Cash Equivalents at Beginning of Period	667,497	754,545
Cash and Cash Equivalents at End of Period	624,109	948,192

(4) Segment Information

Performance by Business Segment

1. Six Months ended August 31, 2020 (March 1, 2020 to August 31, 2020)

(Thousands of yen)

	Reporting Segment			Adjustment (Note 1)	Amount shown on Quarterly Consolidated Statement of Income (Note 2)
	Japan	France	Total		
Net Sales					
Net sales to outside customers	3,704,341	1,377,255	5,081,597	—	5,081,597
Internal sales and transfers between segments	33,516	—	33,516	(33,516)	—
Total	3,737,857	1,377,255	5,115,113	(33,516)	5,081,597
Segment Income (Loss)	(330,596)	145,059	(185,536)	4,388	(181,148)

Notes: 1. The adjustment amount of 4,388 thousand yen in segment income (loss) is an elimination of transactions between segments.

2. Segment income (loss) has been adjusted with operating loss in the Quarterly Consolidated Statement of Income.

2. Information on impairment loss of non-current assets, goodwill, etc. by reporting segments
None