

Nippon Shikizai, Inc.
Summary of Financial Results for the First Half of Fiscal Year
Ending February 28, 2022
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. has announced its consolidated financial results for the first half of the fiscal year ending February 28, 2022. Please refer to the contents of the report disclosed below.

Consolidated Financial Results

- **Net sales:** 4,354 million yen (14.3% decrease from the same period previous year)
- **Operating income/loss:** –190 million yen (—)
- **Ordinary income/loss:** –121 million yen (—)
- **Net income/loss attributable to owners of parent company:** –116 million yen (Net loss attributable to owners of parent company of 135 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, 2022 (March 1, 2021 to August 31, 2021), an air of uncertainty lingered over both the Japanese and the global economy. Buffeted by successive outbreaks of the COVID-19 pandemic (fourth and fifth waves), the economy of Japan remained mired in the doldrums. Vaccination began and expanded, yet the pandemic continued to exert significant impacts on the Japanese and global economies as a third and then a fourth declaration of a state of emergency was issued for Japan's major cities. In Western countries, uneven progress was made in each region and country according to rates of vaccination, with lockdowns that had been imposed in various cities being successively lifted as vaccination progressed. Overall, prospects remain difficult to read.

The cosmetics industry did not escape the fallout from the COVID-19 pandemic. Paced by makeup products, the pandemic continued to impact the sector significantly. In Japan, demand for cosmetics, again led by makeup products, plummeted. Consumer spending stalled as commercial facilities pared working hours and implemented temporary closures and individuals exercised self-restraint on outings and habitual wearing of masks. At the same time, inbound demand evaporated, as arrivals of foreign tourists collapsed in response to tightened entry restrictions. Overseas, the picture was similar, as the global spread of the COVID-19 pandemic crushed demand for cosmetics. Although the outlook remains unclear, regions and countries whose vaccination programs are well advanced began loosening pandemic countermeasures, sparking reopening of economic activity and recovery in consumer demand. Signs of revival in demand for cosmetics, albeit unevenly distributed among countries and regions, began to manifest.

The Nippon Shikizai Group made sterling efforts to increase productive capacity and accelerate its globalization. These efforts were guided by the Medium-Term Business Strategy Vision, which covers the period FY2017 to FY2021. Due to the unexpected outbreak and spread of the COVID-19 pandemic and its prolonged impact, we are

obliged to carry out business activities under a harsh environment. As part of efforts to increase productive capacity, the Group had implemented the phase-3 expansion project at Tsukuba Factory and conducted capital investment in overseas subsidiaries. Unfortunately, the Group's inability to use the increased capacity persisted. Unavoidably, the Group was forced to shut the doors of Suita Factory in August 2021.

Going forward, the Group expects a recovery in economic activity and demand for cosmetics, as vaccination rates rise and booster shots are introduced, reducing new infections, while treatments are also rolled out for COVID-19 sufferers. However, as the timing and speed of the end of the COVID-19 pandemic remain unclear, the Group is focused on rebuilding its operating base through steady, step-by-step improvements, moving from loss-making to profitable operations and returning to pre-pandemic levels of business results as early as possible. Over the near term, the Nippon Shikizai Group will develop prescription and production technologies to reflect cosmetic trends under the pandemic, improve quality and safety and rebuild its business strategy to serve the needs of the "new normal." In this way the Group is redoubling its efforts to extend its strengths under the new environment and achieve an early recovery in business results.

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

The Group's net sales decreased 14.3% compared to the same period of the previous year, falling to 4,354 million yen. The following were some of the main factors that had a significant impact: 1) Amid the pandemic, consumer demand for makeup cosmetics slumped as the habits of staying at home and wearing masks became ingrained; 2) Inbound demand from visiting foreign tourists dropped sharply; 3) The global spread of the COVID-19 pandemic reduced overseas orders for products; and 4) The impact from postponements in product planning continued to mount, while sales declined at the Company's consolidated subsidiary in France due to COVID-19.

In terms of income, completion of the phase-3 expansion project at Tsukuba Factory engendered increases in various costs, while net sales slid. Operating loss was 190 million yen, against operating loss of 181 million yen in the same period of the previous fiscal year. With the appropriation of 107 million yen in subsidy income, ordinary loss was held to 121 million yen, compared with ordinary loss of 189 million in the same period of the previous fiscal year. Net loss attributable to owners of parent company was 116 million yen, improved from net loss attributable to owners of parent company of 135 million yen in the same period of the previous fiscal year.

Segment Business Information: Business Performance by Region

(Japan)

As described above, the COVID-19 pandemic acutely decreased demand for cosmetics products in Japan and worldwide, reducing the order books of cosmetics manufacturers everywhere. Net sales declined 10.1% from the same period of the previous year, to 3,360 million yen.

In terms of income, completion of the phase-3 expansion project at Tsukuba Factory engendered increases in various costs, while net sales slid, engendering the appropriation of an operating loss. As a result of Group efforts to restrain expenses, however, this operating loss was reduced to 158 million yen, against operating loss of 330 million yen in the same period of the previous fiscal year.

(France)

In Europe, where our subsidiary Thépenier Pharma & Cosmetics S.A.S. (hereinafter, “Thépenier”) is located, the economy continued to stall amid the sizable, continued impact of COVID-19 during the consolidated first half period (January 1 to June 30, 2021). Against this challenging backdrop, Thépenier’s net sales fell precipitously to 1,019 million yen, marking a 26.0% decline from the same period of the previous fiscal year (January 1 to June 30, 2020), which included a first quarter that was virtually unaffected by the COVID-19 pandemic. In income terms, a dramatic decline in sales combined with increases in various costs arising from capital investment, resulting in an operating loss of 31 million yen (as compared with operating income of 145 million yen in the same period of the previous fiscal year).

Outlook

There is no change in forecasts for the fiscal year ending February 28, 2022, as announced on October 6, 2021.

(%: change from the same period previous year)

	Full year (increase/decrease)
Net sales	9,066 million yen (Down 0.8%)
Operating income/loss	-71 million yen (—)
Ordinary income	22 million yen (—)
Net income attributable to owners of parent company	109 million yen (—)
Net income per share	52.45 yen

[Appendix]

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	At February 28, 2021	At August 31, 2021
ASSETS		
Current Assets		
Cash and deposits	1,078,582	1,044,992
Notes and accounts receivable - trade	1,504,068	1,450,260
Electronically recorded monetary claims - operating	125,004	260,207
Inventories	1,864,005	1,733,168
Other	147,716	188,678
Total Current Assets	4,719,378	4,677,307
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures - net	5,258,016	5,136,493
Machinery, equipment and vehicles - net	1,627,640	1,532,403
Land	2,155,986	2,156,424
Other - net	440,226	443,960
Total Property, Plant and Equipment	9,481,869	9,269,281
Intangible Assets	372,306	354,528
Investments and Other Assets		
Investment securities	491,338	470,968
Other	493,823	575,593
Allowance for doubtful accounts	(7,966)	(1,836)
Total Investments and Other Assets	977,195	1,044,724
Total Non-current Assets	10,831,371	10,668,535
Total Assets	15,550,749	15,345,842

(Thousands of yen)

	At February 28, 2021	At August 31, 2021
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	371,459	471,390
Electronically recorded obligations - operating	447,214	500,572
Short-term loans payable	1,855,408	1,945,322
Provision for bonuses	41,166	—
Other	832,732	773,136
Total Current Liabilities	3,547,981	3,690,421
Non-current Liabilities		
Long-term loans payable	8,099,696	7,872,268
Provision for directors' retirement benefits	146,430	146,430
Net defined benefit liability	70,121	86,796
Other	595,816	546,687
Total Non-current Liabilities	8,912,064	8,652,182
Total Liabilities	12,460,046	12,342,603
NET ASSETS		
Shareholders' Equity		
Capital stock	714,104	714,104
Capital surplus	943,209	943,209
Retained earnings	1,220,652	1,104,396
Treasury shares	(3,857)	(3,857)
Total Shareholders' Equity	2,874,109	2,757,852
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	254,893	240,420
Foreign currency translation adjustment	(38,299)	4,965
Total Accumulated Other Comprehensive Income	216,593	245,386
Total Net Assets	3,090,703	3,003,238
Total Liabilities and Net Assets	15,550,749	15,345,842

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income****(Six Months ended August 31, 2021)**

(Thousands of yen)

	Six months ended August 31, 2020	Six months ended August 31, 2021
Net Sales	5,081,597	4,354,034
Cost of Sales	4,638,785	3,970,268
Gross Profit	442,811	383,766
Selling, General and Administrative Expenses	623,959	574,501
Operating Income (Loss)	(181,148)	(190,735)
Non-operating Income		
Interest income	900	1,387
Dividend income	3,845	3,639
Subsidy income	8,650	107,235
Miscellaneous income	14,134	8,144
Other	9,935	5,017
Total Non-operating Income	37,466	125,426
Non-operating Expenses		
Interest expenses	45,496	56,496
Other	95	68
Total Non-operating Expenses	45,591	56,564
Ordinary Income (Loss)	(189,273)	(121,873)
Extraordinary Losses		
Loss on retirement of non-current assets	20	2,186
Total Extraordinary Losses	20	2,186
Income (Loss) before Income Taxes	(189,294)	(124,059)
Income taxes - current	45,017	4,877
Income taxes - refund	—	(12,680)
Income taxes - deferred	(99,207)	—
Total Income Taxes	(54,189)	(7,803)
Net Income (Loss)	(135,104)	(116,256)
Net Income (Loss) Attributable to Owners of Parent Company	(135,104)	(116,256)

Quarterly Consolidated Statement of Comprehensive Income
(Six Months ended August 31, 2021)

(Thousands of yen)

	Six months ended August 31, 2020	Six months ended August 31, 2021
Net income (loss)	(135,104)	(116,256)
Other Comprehensive Income		
Valuation difference on available-for-sale securities	13,621	(14,473)
Foreign currency translation adjustment	(16,550)	43,265
Total Other Comprehensive Income	(2,928)	28,792
Comprehensive Income	(138,033)	(87,464)
(Breakdown)		
Comprehensive income attributable to owners of parent company	(138,033)	(87,464)
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Six months ended August 31, 2020	Six months ended August 31, 2021
Cash Flows from Operating Activities:		
Income (loss) before income taxes	(189,294)	(124,059)
Depreciation	389,795	386,201
Increase (decrease) in provision for bonuses	83,813	(41,166)
Increase (decrease) in net defined benefit liability	1,422	13,930
Increase (decrease) in allowance for doubtful accounts	(56,509)	(6,320)
Interest and dividend income	(4,746)	(5,027)
Interest expenses	45,496	56,496
Loss on retirement of non-current assets	20	2,186
Decrease (increase) in notes and accounts receivable - trade	279,384	(67,129)
Decrease (increase) in inventories	(43,567)	143,826
Increase (decrease) in notes and accounts payable - trade	(508,507)	148,875
Increase (decrease) in accounts payable - other	(250,930)	34
Increase (decrease) in accrued consumption taxes	215,334	(67,878)
Other	31,935	(19,308)
Subtotal	(6,352)	420,660
Interest and dividend income received	4,230	8,755
Interest expenses paid	(44,605)	(56,398)
Income taxes (paid) refund	27,338	(38)
Net Cash Provided by (Used in) Operating Activities	(19,388)	372,979

(Thousands of yen)

	Six months ended August 31, 2020	Six months ended August 31, 2021
Cash Flows from Investing Activities:		
Payments into time deposits	(40,000)	(40,000)
Proceeds from withdrawal of time deposits	40,000	80,122
Purchase of property, plant and equipment	(1,031,486)	(127,412)
Purchase of intangible assets	(41,191)	(4,493)
Purchase of investment securities	(1,261)	(484)
Purchase of shares of unconsolidated subsidiaries	—	(11,770)
Net decrease (increase) in short-term loans receivable	(1,662)	—
Payments of long-term loans receivable	(79,677)	(68,148)
Collection of long-term loans receivable	3,268	12,541
Net Cash Used in Investing Activities	(1,152,010)	(159,645)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	35,760	16,856
Proceeds from long-term loans payable	1,980,000	720,449
Repayments of long-term loans payable	(544,456)	(903,183)
Repayments of lease obligations	(52,179)	(47,540)
Cash dividends paid	(52,438)	—
Other	—	(3)
Net Cash Provided by (Used in) Financing Activities	1,366,686	(213,421)
Effect of Exchange Rate Change on Cash and Cash Equivalents	(1,641)	5,317
Net Increase (Decrease) in Cash and Cash Equivalents	193,647	5,229
Cash and Cash Equivalents at Beginning of Period	754,545	959,557
Cash and Cash Equivalents at End of Period	948,192	964,787

(4) Segment Information

Performance by Business Segment

1. Six Months ended August 31, 2021 (March 1, 2021 to August 31, 2021)

(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	3,334,507	1,019,527	4,354,034	—	4,354,034
Internal sales and transfers between segments	26,286	—	26,286	(26,286)	—
Total	3,360,794	1,019,527	4,380,321	(26,286)	4,354,034
Segment Income (Loss)	(158,023)	(31,604)	(189,627)	(1,107)	(190,735)

Notes: 1. The adjustment amount of negative 1,107 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

Subsequent Events

Transfer of Non-current Assets

At the meeting of the Board of Directors on September 28, 2021, the Company resolved to transfer certain non-current assets. The sales agreement for the same was concluded on the same date and the transfer was completed on October 8, 2021.

1. Reason for Transfer

As explained in the Notice of Factory Closure published on March 23, 2021, the Company closed its Suita Factory on August 31, 2021. Thereafter, a prospective buyer expressed an interest in purchasing the site, and so the transfer was completed.

2. Breakdown of Transferred Assets

Details and Location of Assets	Transfer Price	Book Value	Capital Gains	Current Status
Suita Factory (24-1 Saiwaicho, Suita-shi, Osaka) • Land (771.48 sqm) • Buildings (1,543.35 sqm)	103 million yen	16 million yen	83 million yen	Factory site

Note: Capital gains are estimated by subtracting the book value and an estimate of various transfer costs from the transfer price.

3. Overview of Transferee

Name	Social Welfare Corporation Sanaikai
Location	22-5 Saiwaicho, Suita-shi, Osaka
Representative	Mitsuhiro Inoue, Director
Details of operations	Management of an intensive-care old people's home, provision of short stays, day services, etc.
Date established	August 1, 2000
Relationship to the Company	The transferee and the Company have no capital, personal or business relationship of particular note. The transferee does not constitute a related business operator of the Company.

4. Financial Impact of the Transfer on the Earnings of the Company

The capital gains arising from this transfer of non-current assets will be appropriated in the Company's accounts for the third quarter of the fiscal year ending February 28, 2022, as extraordinary income of 83 million yen.