

**Nippon Shikizai, Inc.**  
**Summary of Financial Results for the First Half of Fiscal Year**  
**Ending February 28, 2023**  
**[Japanese Standard] (Consolidated)**

Nippon Shikizai, Inc. has announced its consolidated financial results for the first half of the fiscal year ending February 28, 2023. Please refer to the contents of the report disclosed below.

**Consolidated Financial Results**

- Net sales: **5,612 million yen (28.9% increase from the same period previous year)**
- Operating income: **35 million yen (—)**
- Ordinary income: **26 million yen (—)**
- Net income attributable to owners of parent company: **75 million yen (Net loss attributable to owners of parent company of 116 million yen in the same period previous year)**

**Summary of Consolidated Operating Results**

In the consolidated first half of the fiscal year ending February 28, 2023 (March 1 to August 31, 2022), the stirrings of a gradual recovery were evident in the Japanese economy. Cases of infection with COVID-19 steadily declined from a peak in winter (sixth wave), only to swell again in the summer (seventh wave). Vaccination gradually progressed, however, and the risk of serious illness retreated. Though the wearing of masks persisted, their impact on economic activity eased. Overseas, prospects were unclear amid the economic impact of a host of problems. In Europe, North America and some other regions and countries, anti-infection measures such as wearing of masks lessened or disappeared, amid the shift to a “with-COVID” lifestyle and as economic activity began to recover. Conversely, China continued its zero-COVID policy, disrupting economies and logistics worldwide. As such, while the impact of the COVID-19 pandemic on daily living and economies has gradually receded, future directions remain opaque. On another front, the Russian invasion of Ukraine rumbled on from its beginning in February, causing resource and energy prices to soar and creating logistical bottlenecks, particularly in Europe. Other knock-on effects of the war include worldwide inflation and rising interest rates. All told, the impact on economic activity and the sense of uncertainty regarding future prospects strengthened during the fiscal half-year under review.

The cosmetics industry continued to suffer from the deleterious impact of the COVID-19 pandemic, particularly in terms of makeup products, but signs of recovery surfaced here and there. In Japan, demand for cosmetics, and particularly for makeup, lingered in the doldrums amid the normalization of wearing masks in public. Nonetheless, as opportunities for dining out and other outings increased, consumer mood brightened, offering signs of reawakening. Overseas, a similar tale unfolded. As in Japan, the global spread of the COVID-19 pandemic continued to depress demand for cosmetics, but partial recovery was observed as anti-infection measures were loosened in countries where a “with-COVID” lifestyle was becoming entrenched. On a cautionary note, however, if new strains of COVID-19 emerge, wearing of masks and other anti-infection measures may be reintroduced. This possibility

renders the prospects for recovery in cosmetics demand will continue to be dogged by uncertainty.

While the Nippon Shikizai Group is enjoying a recovery in demand from cosmetics manufacturers throughout Japan and around the world, uncertainties and challenges remain. The impact of the COVID-19 pandemic is becoming protracted, with a seventh wave having just crested. As a result, the Group has been unable to put fully to work the increased production capacity achieved through capital investments, such as the phase-3 expansion project at Tsukuba Factory. We are therefore forced to continue to operate in the midst of an unforgiving environment. The Group expects the COVID-19 pandemic to continue to wind gradually down, as vaccinations continue and treatments are developed and introduced; however, with the public now accustomed to wearing masks at all times, the speed of that recovery in the domestic cosmetics market is as hard to guess as ever. Against this background, and guided by its Medium-Term Business Strategy Vision, which covers the period FY2022 to FY2026, the Group is striving to rebuild its operating base, to return permanently to profitable operation and quickly restore business results to pre-pandemic levels. Over the near term, the Nippon Shikizai Group will respond to customer demand by developing formulas and production technologies geared to cosmetics trends amid the COVID-19 pandemic. Looking ahead to the medium-to-long term, the Group intends to leverage its strengths more than ever in the new market environment of social demands such as “clean beauty” in cosmetics and adherence to the SDGs. We are redoubling our efforts on these fronts to achieve rapid recovery in business results.

Reflecting the results above, the financial position and operating results for the first half period of the consolidated fiscal year were as follows.

The Group’s net sales grew 28.9% compared to the same period of the previous year, rising to 5,612 million yen. While the impact of the COVID-19 pandemic was significant, domestic and overseas orders rebounded as demand for cosmetics recovered in Japan and worldwide. Also, Nippon Shikizai France S.A.S. (hereinafter “NS France”), a subsidiary, became subject to consolidation in the consolidated first quarter.

In terms of income, completion of the phase-3 expansion project at Tsukuba Factory engendered increases in various costs, but the Group battled to restrain costs as net sales advanced. Operating income was 35 million yen, against operating loss of 190 million yen in the same period of the previous fiscal year. Ordinary income was 26 million yen, compared with ordinary loss of 121 million in the same period of the previous fiscal year. Net income attributable to owners of parent company was 75 million yen, including 40 million yen in gain on sales of investment securities, contrasting with net loss attributable to owners of parent company of 116 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 continues to take a serious toll, but domestic and overseas demand for cosmetics showed signs of recovery, with orders from cosmetics manufacturers in Japan and worldwide regaining their footing. Net sales rose 26.9% from the same period of the previous year, to 4,266 million yen. In terms of income, completion of the phase-3 expansion project at Tsukuba Factory engendered rises in various costs, but net sales rose and the Group strove to slash an array of costs. Operating income returned to profitability at 69 million yen, against operating loss of 158 million yen in the same period of the previous fiscal year.

### **(France)**

Europe, where our subsidiaries Thépenier Pharma & Cosmetics S.A.S. (hereinafter, “Thépenier”) and NS France are located, was heavily affected by the combined impact of COVID-19 and the Russian invasion of Ukraine during the consolidated first half period (January 1 to June 30, 2022). Nonetheless, net sales lifted to 1,361 million yen, as orders received by subsidiaries increased and NS France was welcomed as a consolidated subsidiary, powering a 33.5% improvement from the same period of the previous fiscal year. In income terms, increases in costs from capital investment combined with soaring energy prices and logistical delays arising from the Russian invasion of Ukraine, engendering an operating loss of 27 million yen (as compared with operating loss of 31 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, 2023, as announced on October 5, 2022.

(%: change from the same period previous year)

	Full year (increase/decrease)
Net sales	11,583 million yen (Up 33.1%)
Operating income	155 million yen (—)
Ordinary income	100 million yen (—)
Net income attributable to owners of parent company	194 million yen (—)
Net income per share	92.93 yen

[Appendix]

**Quarterly Consolidated Financial Statements**

**(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	At February 28, 2022	At August 31, 2022
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and deposits	1,323,082	1,222,852
Notes and accounts receivable - trade	1,638,184	1,980,075
Electronically recorded monetary claims - operating	194,216	188,210
Inventories	1,705,714	2,240,866
Other	149,917	213,039
<b>Total Current Assets</b>	<b>5,011,114</b>	<b>5,845,042</b>
<b>Non-current Assets</b>		
<b>Property, Plant and Equipment</b>		
Buildings and structures, net	5,049,730	4,969,854
Machinery, equipment and vehicles, net	1,464,342	1,545,706
Land	2,139,815	2,140,967
Other, net	373,628	522,598
<b>Total Property, Plant and Equipment</b>	<b>9,027,517</b>	<b>9,179,126</b>
<b>Intangible Assets</b>	<b>331,277</b>	<b>397,850</b>
<b>Investments and Other Assets</b>		
Investment securities	416,453	345,253
Other	568,211	116,261
Allowance for doubtful accounts	(773)	(5,950)
<b>Total Investments and Other Assets</b>	<b>983,891</b>	<b>455,564</b>
<b>Total Non-current Assets</b>	<b>10,342,686</b>	<b>10,032,541</b>
<b>Total Assets</b>	<b>15,353,800</b>	<b>15,877,584</b>

(Thousands of yen)

	At February 28, 2022	At August 31, 2022
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Notes and accounts payable - trade	525,136	950,458
Electronically recorded obligations - operating	555,230	824,168
Short-term loans payable	2,169,279	2,442,372
Provision for bonuses	34,964	106,430
Other	827,047	862,424
<b>Total Current Liabilities</b>	<b>4,111,658</b>	<b>5,185,855</b>
<b>Non-current Liabilities</b>		
Long-term loans payable	7,564,323	7,117,490
Provision for directors' retirement benefits	146,430	146,430
Net defined benefit liability	91,629	104,472
Other	489,353	443,229
<b>Total Non-current Liabilities</b>	<b>8,291,736</b>	<b>7,811,622</b>
<b>Total Liabilities</b>	<b>12,403,395</b>	<b>12,997,477</b>
<b>NET ASSETS</b>		
<b>Shareholders' Equity</b>		
Capital stock	714,104	100,000
Capital surplus	943,209	1,510,339
Retained earnings	1,098,620	975,052
Treasury shares	(3,857)	(3,857)
<b>Total Shareholders' Equity</b>	<b>2,752,077</b>	<b>2,581,534</b>
<b>Accumulated Other Comprehensive Income</b>		
Valuation difference on available-for-sale securities	202,507	173,480
Foreign currency translation adjustment	(4,180)	125,091
<b>Total Accumulated Other Comprehensive Income</b>	<b>198,327</b>	<b>298,571</b>
<b>Total Net Assets</b>	<b>2,950,405</b>	<b>2,880,106</b>
<b>Total Liabilities and Net Assets</b>	<b>15,353,800</b>	<b>15,877,584</b>

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income**

**Quarterly Consolidated Statement of Income**

**(Six Months ended August 31, 2022)**

(Thousands of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
<b>Net Sales</b>	4,354,034	5,612,321
<b>Cost of Sales</b>	3,970,268	4,992,110
<b>Gross Profit</b>	383,766	620,211
<b>Selling, General and Administrative Expenses</b>	574,501	585,189
<b>Operating Income (Loss)</b>	(190,735)	35,021
<b>Non-operating Income</b>		
Interest income	1,387	3
Dividend income	3,639	4,033
Foreign exchange gains	5,017	35,801
Subsidy income	107,235	1,917
Miscellaneous income	8,144	16,258
<b>Total Non-operating Income</b>	125,426	58,015
<b>Non-operating Expenses</b>		
Interest expenses	56,496	52,369
Other	68	14,375
<b>Total Non-operating Expenses</b>	56,564	66,745
<b>Ordinary Income (Loss)</b>	(121,873)	26,291
<b>Extraordinary Income</b>		
Gain on sales of investment securities	—	40,037
<b>Total Extraordinary Income</b>	—	40,037
<b>Extraordinary Losses</b>		
Loss on retirement of non-current assets	2,186	304
<b>Total Extraordinary Losses</b>	2,186	304
<b>Income (Loss) before Income Taxes</b>	(124,059)	66,023
Income taxes - current	4,877	3,462
Income taxes - refund	(12,680)	(12,502)
<b>Total Income Taxes</b>	(7,803)	(9,040)
<b>Net Income (Loss)</b>	(116,256)	75,064
<b>Net Income (Loss) Attributable to Owners of Parent Company</b>	(116,256)	75,064

**Quarterly Consolidated Statement of Comprehensive Income**

**(Six Months ended August 31, 2022)**

(Thousands of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Net income (loss)	(116,256)	75,064
<b>Other Comprehensive Income</b>		
Valuation difference on available-for-sale securities	(14,473)	(29,027)
Foreign currency translation adjustment	43,265	129,271
<b>Total Other Comprehensive Income</b>	<b>28,792</b>	<b>100,244</b>
<b>Comprehensive Income</b>	<b>(87,464)</b>	<b>175,308</b>
(Breakdown)		
Comprehensive income attributable to owners of parent company	(87,464)	175,308
Comprehensive income attributable to non- controlling interests	—	—

**(3) Quarterly Consolidated Statement of Cash Flows**

(Thousands of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
<b>Cash Flows from Operating Activities:</b>		
Income (loss) before income taxes	(124,059)	66,023
Depreciation	386,201	387,274
Amortization of goodwill	—	8,320
Increase (decrease) in provision for bonuses	(41,166)	71,466
Increase (decrease) in net defined benefit liability	13,930	(24,777)
Increase (decrease) in allowance for doubtful accounts	(6,320)	5,151
Interest and dividend income	(5,027)	(4,037)
Interest expenses	56,496	52,369
Loss (gain) on sales of investment securities	—	(40,037)
Loss on retirement of non-current assets	2,186	304
Decrease (increase) in notes and accounts receivable - trade	(67,129)	(259,762)
Decrease (increase) in inventories	143,826	(383,087)
Increase (decrease) in notes and accounts payable - trade	148,875	644,925
Increase (decrease) in accounts payable - other	34	(3,781)
Increase (decrease) in accrued consumption taxes	(67,878)	(74,562)
Other	(19,308)	(67,659)
<b>Subtotal</b>	<b>420,660</b>	<b>378,129</b>
Interest and dividend income received	8,755	4,037
Interest expenses paid	(56,398)	(52,335)
Income taxes (paid) refund	(38)	(11,536)
<b>Net Cash Provided by Operating Activities</b>	<b>372,979</b>	<b>318,294</b>

(Thousands of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
<b>Cash Flows from Investing Activities:</b>		
Payments into time deposits	(40,000)	(128,000)
Proceeds from withdrawal of time deposits	80,122	125,000
Purchase of property, plant and equipment	(127,412)	(163,945)
Purchase of intangible assets	(4,493)	(9,289)
Purchase of investment securities	(484)	(114)
Proceeds from sales of investment securities	—	51,709
Purchase of shares of unconsolidated subsidiaries	(11,770)	—
Payments of long-term loans receivable	(68,148)	—
Collection of long-term loans receivable	12,541	—
<b>Net Cash Used in Investing Activities</b>	<b>(159,645)</b>	<b>(124,640)</b>
<b>Cash Flows from Financing Activities:</b>		
Net increase (decrease) in short-term loans payable	16,856	219,054
Proceeds from long-term loans payable	720,449	540,177
Repayments of long-term loans payable	(903,183)	(1,063,761)
Repayments of lease obligations	(47,540)	(44,898)
Cash dividends paid	—	(71)
Other	(3)	(4)
<b>Net Cash Used in Financing Activities</b>	<b>(213,421)</b>	<b>(349,505)</b>
<b>Effect of Exchange Rate Change on Cash and Cash Equivalents</b>	<b>5,317</b>	<b>23,627</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>5,229</b>	<b>(132,223)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>959,557</b>	<b>1,222,888</b>
<b>Increase (Decrease) in Cash and Cash Equivalents Resulting from Change in Scope of Consolidation</b>	<b>—</b>	<b>29,122</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>964,787</b>	<b>1,119,787</b>

#### (4) Segment Information

##### *Performance by Business Segment*

1. Six Months ended August 31, 2022 (March 1, 2022 to August 31, 2022)

(Thousands of yen)

	Reporting Segment			Adjustment (Note 1)	Amount shown on Quarterly Consolidated Statement of Income (Note 2)
	Japan	France	Total		
Net Sales					
In Japan	3,632,455	20,123	3,652,578	(1,146)	3,651,432
Overseas	633,780	1,341,226	1,975,006	(14,117)	1,960,888
Revenue from contracts with customers	4,266,235	1,361,350	5,627,585	(15,264)	5,612,321
Net sales to outside customers	4,252,117	1,360,203	5,612,321	—	5,612,321
Internal sales and transfers between segments	14,117	1,146	15,264	(15,264)	—
Total	4,266,235	1,361,350	5,627,585	(15,264)	5,612,321
Segment Income (Loss)	69,664	(27,987)	41,676	(6,655)	35,021

Notes: 1. The adjustment amount of negative 6,655 thousand yen in segment income (loss) is an elimination of transactions between segments.

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

2. Information on impairment loss of non-current assets, goodwill, etc. by reporting segments

In the France segment, NS France was included in the scope of consolidation as of the consolidated first quarter of the current fiscal year.

Increase in goodwill as a result of these circumstances in the consolidated first half of the fiscal year was 79,206,000 yen.

#### **(Revenue Recognition)**

A breakdown of revenue generated from contracts with customers is listed under “Notes: Segment Information.”