

Nippon Shikizai, Inc.
Summary of Financial Results for the First Half of Fiscal Year
Ending February 29, 2024
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. has announced its consolidated financial results for the first half of the fiscal year ending February 29, 2024. Please refer to the contents of the report disclosed below.

Consolidated Financial Results

- **Net sales:** 7,355 million yen (31.1% increase from the same period previous year)
- **Operating income:** 286 million yen (718.3% increase from the same period previous year)
- **Ordinary income:** 272 million yen (934.9% increase from the same period previous year)
- **Net income attributable to owners of parent company:**
217 million yen (189.3% increase from the same period previous year)

Summary of Consolidated Operating Results

In the consolidated first half of the fiscal year ending February 29, 2024 (March 1 to August 31, 2023), uncertainty persisted amidst a mixture of events. As the spread of COVID-19 subsided, the Japanese government downgraded the disease's classification under the Infectious Diseases Control Act and eased recommendations on wearing masks. While uncertainty lingered, conditions continued to return to normal. Overseas, the impact of the COVID-19 pandemic on daily life and the economy eased considerably, as the handling of COVID-19 on an endemic/post-pandemic basis took hold in various countries. Separately, the Russian invasion of Ukraine that began in February 2022 grew into a protracted conflict, resulting in high prices for energy and other resources, as well as logistical delays and other headaches. Knock-on effects such as worldwide inflation and rising interest rates affected numerous countries, including Japan, severely impacting economic activity.

The cosmetics industry, which is the domain of operations of Nippon Shikizai, Inc., continued to suffer impact from the pandemic, paced by makeup products, but an improving trend continued. In Japan, mask-wearing became somewhat normalized as an entrenched custom. Personal consumption, and spending on makeup in particular, remained below pre-COVID-19 levels, but opportunities to wear makeup increased, mask wearing gradually declined and consumer mindset brightened significantly. Overseas as well, demand for cosmetics appeared to be on a recovering trend as the impact of the COVID-19 pandemic eased.

The Nippon Shikizai Group enjoyed a recovery, though challenges remained. Demand from cosmetics manufacturers throughout Japan and around the world gradually recovered, while increased production capacity made possible through capital investments, such as the phase-3 expansion at Tsukuba Factory, steadily improved availability. However, insufficient worker-hours due to recruiting difficulties, particularly in Japan, resulted in rising outside-processing costs, while mounting inflation struck costs such as material costs and various expenses. The Group responded by continuing efforts to trim various costs, to support profitability and achieve recovery. As a result, the Group recorded profitable operations in the consolidated fiscal first half under review.

Demand for cosmetics is expected to rise as society normalizes and transitions to an endemic/post-pandemic stance. However, uncertainty will linger over the economy as a whole as prices for goods and energy arise, triggered by factors such as Russia's invasion of Ukraine, while economic recovery and normalization will continue to hamper recruiting and raise personnel costs. Against this background, the Group is striving to continue profitable operation and quickly restore business results to pre-pandemic levels. To this end, the Group is resolutely implementing the various measures mooted in the Medium-Term Business Strategy Vision, which covers the period FY2022 to FY2026, which prioritizes rebuilding of the operating base. Over the near term, the Nippon Shikizai Group will respond to customer demand by developing formulas and production technologies geared to cosmetics trends prompted by the COVID-19 pandemic. Looking ahead to the medium-to-long term, the Group will redouble its efforts to achieve rapid recovery in business results, leveraging its strengths in the new market environment of social demands such as "clean beauty" in cosmetics and adherence to the SDGs.

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 31.1% compared to the same period of the previous year, rising to 7,355 million yen. As demand for cosmetics improved in Japan and worldwide, orders for cosmetics and pharmaceuticals recovered and increased both domestically and internationally.

In terms of income, the phase-3 expansion project at Tsukuba Factory continued to engender increases in various costs from capital investment. At the same time, prices rose for inputs such as materials, lighting and heating and various expenses, while deficiencies in workload due to recruiting difficulties, particularly in Japan, drove up outside-processing costs. However, the dramatic increase in net sales described above combine with cost-cutting measures to power soaring earnings. Operating income multiplied 718.3% over the same period of the previous fiscal year, to 286 million yen. Ordinary income grew an order of magnitude, rising 934.9% over the same period of the previous fiscal year, reaching 272 million yen. Net income attributable to owners of parent company tripled 189.3% over the same period of the previous fiscal year to 217 million yen.

Segment Business Information: Business Performance by Region

(Japan)

The Company's net sales rose 15.2% compared to the same period of the previous year, to 4,913 million yen. With the impact of COVID-19 receding significantly, orders from domestic and overseas cosmetics makers rebounded as demand for cosmetics followed a recovering trend in Japan and worldwide. On the earnings side, increased orders led to improved operation at expanded factories, including the phase-3 project at Tsukuba Factory, enabling the Company to continually recoup rising costs from capital investment and other items. At the same time, deficiencies in workload due to recruiting difficulties drove up outside-processing costs, while mounting inflation struck costs such as material costs and various expenses. Although the Company continued to strive to pare these costs, operating income declined 33.5% against the same period of the previous fiscal year, to 46 million yen.

(France)

Europe, where our subsidiaries Thépenier Pharma & Cosmetics S.A.S. and Nippon Shikizai France S.A.S. are located, enjoyed rising orders for pharmaceuticals and cosmetics during the consolidated first half period (January 1 to June 30, 2023) due to significant easing of the effects of COVID-19. Net sales surged 85.8% compared to the same period of the previous year, to 2,529 million yen. In income terms, revenue nearly doubled as described above, particularly from rising orders for pharmaceuticals, while equipment availability increased due to investments in recent years. These factors contributed to earnings, significantly offsetting increased costs from capital investment and soaring prices for energy and goods arising from the Russian invasion of Ukraine. Operating income improved dramatically to 240 million yen, as compared with an operating loss of 27 million yen in the same period of the previous fiscal year.

Outlook

There is no change in forecasts for the fiscal year ending February 29, 2024, as announced on October 6, 2023.

(%: change from the same period previous year)

	Full year (increase/decrease)
Net sales	14,834 million yen (Up 26.1%)
Operating income	482 million yen (Up 197.9%)
Ordinary income	423 million yen (Up 185.1%)
Net income attributable to owners of parent company	348 million yen (Up 41.7%)
Net income per share	166.51 yen

[Appendix]

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	At February 28, 2023	At August 31, 2023
ASSETS		
Current Assets		
Cash and deposits	1,331,565	1,336,026
Notes and accounts receivable - trade	1,956,162	2,148,805
Electronically recorded monetary claims - operating	225,132	256,215
Inventories	2,423,406	2,911,615
Other	226,057	244,269
Allowance for doubtful accounts	(2,161)	(2,079)
Total Current Assets	6,160,163	6,894,854
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures, net	4,820,950	4,747,141
Machinery, equipment and vehicles, net	1,523,766	1,535,729
Land	2,140,853	2,142,380
Construction in progress	207,339	361,815
Other, net	333,142	370,008
Total Property, Plant and Equipment	9,026,052	9,157,076
Intangible Assets	360,237	351,441
Investments and Other Assets		
Investment securities	357,375	343,504
Other	156,601	168,146
Allowance for doubtful accounts	(11,410)	(12,298)
Total Investments and Other Assets	502,566	499,352
Total Non-current Assets	9,888,856	10,007,870
Total Assets	16,049,019	16,902,724

(Thousands of yen)

	At February 28, 2023	At August 31, 2023
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	791,310	883,050
Electronically recorded obligations - operating	1,036,519	1,320,588
Short-term loans payable	2,494,927	2,510,937
Provision for bonuses	85,561	138,285
Other	934,530	1,394,583
Total Current Liabilities	5,342,849	6,247,444
Non-current Liabilities		
Long-term loans payable	7,041,034	6,630,479
Provision for directors' retirement benefits	146,430	146,430
Net defined benefit liability	87,465	98,541
Other	419,783	380,694
Total Non-current Liabilities	7,694,713	7,256,144
Total Liabilities	13,037,562	13,503,589
NET ASSETS		
Shareholders' Equity		
Capital stock	100,000	100,000
Capital surplus	1,510,339	1,510,339
Retained earnings	1,146,283	1,363,451
Treasury shares	(3,918)	(3,918)
Total Shareholders' Equity	2,752,703	2,969,871
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	160,238	151,058
Foreign currency translation adjustment	98,515	278,204
Total Accumulated Other Comprehensive Income	258,753	429,262
Total Net Assets	3,011,457	3,399,134
Total Liabilities and Net Assets	16,049,019	16,902,724

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(Six Months ended August 31, 2023)

(Thousands of yen)

	Six months ended August 31, 2022	Six months ended August 31, 2023
Net Sales	5,612,321	7,355,576
Cost of Sales	4,992,110	6,290,033
Gross Profit	620,211	1,065,543
Selling, General and Administrative Expenses	585,189	778,971
Operating Income	35,021	286,571
Non-operating Income		
Interest income	3	1
Dividend income	4,033	4,720
Foreign exchange gains	35,801	28,917
Miscellaneous income	18,175	15,551
Total Non-operating Income	58,015	49,190
Non-operating Expenses		
Interest expenses	52,369	63,684
Other	14,375	—
Total Non-operating Expenses	66,745	63,684
Ordinary Income	26,291	272,077
Extraordinary Income		
Gain on sales of investment securities	40,037	—
Total Extraordinary Income	40,037	—
Extraordinary Losses		
Loss on retirement of non-current assets	304	990
Total Extraordinary Losses	304	990
Income before Income Taxes	66,023	271,087
Income taxes - current	3,462	78,513
Income taxes - refund	(12,502)	—
Income taxes - deferred	—	(24,594)
Total Income Taxes	(9,040)	53,918
Net Income	75,064	217,168
Net Income Attributable to Owners of Parent Company	75,064	217,168

Quarterly Consolidated Statement of Comprehensive Income
(Six Months ended August 31, 2023)

(Thousands of yen)

	Six months ended August 31, 2022	Six months ended August 31, 2023
Net income	75,064	217,168
Other Comprehensive Income		
Valuation difference on available-for-sale securities	(29,027)	(9,179)
Foreign currency translation adjustment	129,271	179,689
Total Other Comprehensive Income	100,244	170,509
Comprehensive Income	175,308	387,677
(Breakdown)		
Comprehensive income attributable to owners of parent company	175,308	387,677
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Six months ended August 31, 2022	Six months ended August 31, 2023
Cash Flows from Operating Activities:		
Income before income taxes	66,023	271,087
Depreciation	387,274	401,844
Amortization of goodwill	8,320	9,038
Increase (decrease) in provision for bonuses	71,466	52,724
Increase (decrease) in net defined benefit liability	(24,777)	1,025
Increase (decrease) in allowance for doubtful accounts	5,151	136
Interest and dividend income	(4,037)	(4,722)
Interest expenses	52,369	63,684
Loss (gain) on sales of investment securities	(40,037)	—
Loss on retirement of non-current assets	304	990
Decrease (increase) in notes and accounts receivable - trade	(259,762)	(135,138)
Decrease (increase) in inventories	(383,087)	(386,954)
Increase (decrease) in notes and accounts payable - trade	644,925	326,677
Increase (decrease) in accounts payable - other	(3,781)	192,036
Increase (decrease) in accrued consumption taxes	(74,562)	56,470
Other	(67,659)	109,104
Subtotal	378,129	958,005
Interest and dividend income received	4,037	4,722
Interest expenses paid	(52,335)	(64,164)
Income taxes (paid) refund	(11,536)	(20,779)
Net Cash Provided by Operating Activities	318,294	877,783

(Thousands of yen)

	Six months ended August 31, 2022	Six months ended August 31, 2023
Cash Flows from Investing Activities:		
Payments into time deposits	(128,000)	—
Proceeds from withdrawal of time deposits	125,000	53,000
Purchase of property, plant and equipment	(163,945)	(338,089)
Purchase of intangible assets	(9,289)	(15,660)
Purchase of investment securities	(114)	(144)
Proceeds from sales of investment securities	51,709	—
Net Cash Used in Investing Activities	(124,640)	(300,895)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	219,054	9,511
Proceeds from long-term loans payable	540,177	513,879
Repayments of long-term loans payable	(1,063,761)	(1,042,874)
Repayments of lease obligations	(44,898)	(47,450)
Cash dividends paid	(71)	—
Other	(4)	—
Net Cash Used in Financing Activities	(349,505)	(566,934)
Effect of Exchange Rate Change on Cash and Cash Equivalents	23,627	29,554
Net Increase (Decrease) in Cash and Cash Equivalents	(132,223)	39,508
Cash and Cash Equivalents at Beginning of Period	1,222,888	1,228,503
Increase (Decrease) in Cash and Cash Equivalents Resulting from Change in Scope of Consolidation	29,122	—
Cash and Cash Equivalents at End of Period	1,119,787	1,268,011

(4) Segment Information

Performance by Business Segment

1. Six Months ended August 31, 2023 (March 1, 2023 to August 31, 2023)

(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	4,483,705	17,535	4,501,241	(588)	4,500,652
Overseas	429,342	2,511,499	2,940,842	(85,918)	2,854,923
Revenue from contracts with customers	4,913,048	2,529,035	7,442,083	(86,507)	7,355,576
Net sales to outside customers	4,827,129	2,528,446	7,355,576	—	7,355,576
Internal sales and transfers between segments	85,918	588	86,507	(86,507)	—
Total	4,913,048	2,529,035	7,442,083	(86,507)	7,355,576
Segment Income	46,299	240,989	287,288	(717)	286,571

Notes: 1. The adjustment amount of negative 717 thousand yen in segment income is an elimination of transactions between segments.

2. Segment income 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
Not applicable.

(Revenue Recognition)

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