

**Nippon Shikizai, Inc.**  
**Summary of Financial Results for the First Half of Fiscal Year**  
**Ending February 28, 2019**  
**[Japanese Standard] (Consolidated)**

Nippon Shikizai, Inc. has announced its consolidated financial results for the first half of the fiscal year ending February 28, 2019. Please refer to the contents of the report disclosed below.

**Consolidated Financial Results**

- **Net sales:** 5,521 million yen (3.3% increase from the same period previous year)
- **Operating income:** 386 million yen (6.3% decrease from the same period previous year)
- **Ordinary income:** 368 million yen (11.8% decrease from the same period previous year)
- **Net income attributable to owners of parent:** 252 million yen (Net income attributable to owners of parent of 335 million yen in the same period previous year)

**Summary of Consolidated Operating Results**

During the first half period of the fiscal year ending February 28, 2019 (March 1, 2018 - August 31, 2018), the Japanese economy continued to be on a gradual recovery trend, as seen in factors such as improvement in employment and wage conditions and the revival of individual consumption. In the domestic cosmetics market, return to a growth trend was driven by factors such as the growth in inbound demand increased due to the continuing increasing trend in tourists visiting Japan and the continuing stability of domestic demand. In the overseas cosmetics market, although growth was weak in the European market and the growth rate showed signs of decline in the North American market, China and Asia maintained strong growth rates.

Under these economic conditions, the Group (which collectively means the Company and consolidated subsidiaries, and the same applies hereinafter) is making efforts to further reinforce productive capacity in Japan and build group synergy to accelerate the globalization of the Group's operations based on the "Medium-Term Business Strategy Vision (2017-2021)" started in fiscal 2017.

This fiscal year marked the 2nd year of the "Medium-Term Business Strategy Vision (2017-2021)," and is considered to be "a year for accelerating growth strategies." As such, the Group is currently expanding specific initiatives. Regarding the "phase 3 expansion construction project at the Tsukuba factory," the core of the Group's strategic expansion investment, the organization for the start has been determined ("Announcement regarding the acquisition of non-current assets (phase 3 expansion construction project at the Tsukuba factory) and borrowing of funds" made public August 21, 2018) and construction work has begun. The Group is also using the promotion of R&D department information sharing and personnel interaction within the group as a major driving point for the localization of formulations developed in-house and the creation of new formulations for product development utilizing the strengths of our made in Japan and made in France products, and these initiatives are being used to proactively accelerate globalization.

Due to the results above, the consolidated operating results for the first half period of the consolidated fiscal year

were as follows.

Net sales increased 3.3% compared to the same period previous year due mainly to factors such as capturing inbound and outbound demand within Japan and increased orders received as a result of growth in outsourcing among domestic cosmetics manufacturers, reaching 5,521 million yen. In terms of income, due mainly to the decrease in operating income compared to the same period previous year resulting from shifting of a portion of sales in consolidated subsidiaries to target large-scale clients, overall operating income decreased 6.3% compared to the same period previous year, reaching 386 million yen, and ordinary income decreased 11.8% compared to the same period previous year, reaching 368 million yen. Net income attributable to owners of parent decreased 24.8% compared to the same period previous year, in part because of the loss on retirement of non-current assets caused by the partial demolition of the existing Tsukuba factory building, reaching 252 million yen.

### **Segment Business Information: Business Performance by Region**

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

Various Japanese cosmetics manufacturing companies have captured inbound and outbound demand for high quality made in Japan cosmetics from the Asia and ASEAN regions where they enjoy a high level of popularity, and a shift to a favorable trend continues in outsourcing contracts to our Group from major cosmetics manufacturers due to their need for rapid strengthening of their stable supply chains. As a result of these factors, net sales increased 3.8% compared to the same period previous year, reaching 4,627 million yen. In terms of operating income, due to increased net sales and decreased selling, general and administrative expenses, it increased 3.9% compared to the same period previous year, reaching 342 million yen.

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

As for the economy in Europe, where our subsidiary THEPENIER PHARMA & COSMETICS S.A.S. (hereinafter, THEPENIER) is located, although there are signs of the pace slowing down, the economy continues to progress along a gradual recovery trend.

In this business environment, a portion of the THEPENIER's large-scale client targeted sales were carried over, and as a result, both net sales and income decreased compared to the same period previous year when calculated in the local currency. However, when converted to Japanese currency, this conversion also had an effect, and the results were as follows: 0.7% increase in net sales compared to the same period previous year, reaching 919 million yen, and 47.9% decrease in operating income compared to the same period previous year, reaching 43 million yen.

## **Outlook**

There is no change in forecasts for the fiscal year ending February 28, 2019, as announced on April 13, 2018.

(%: change from the same period previous year)

	Full year (increase/decrease)
Net sales	11,365 million yen (Up 9.3%)
Operating income	853 million yen (Up 32.0%)
Ordinary income	792 million yen (Up 25.0%)
Net income attributable to owners of parent	553 million yen (Up 7.9%)
Net income per share	528.19 yen

[Appendix]

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	At February 28, 2018	At August 31, 2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and deposits	725,150	853,373
Notes and accounts receivable - trade	2,024,154	2,218,122
Inventories	1,447,030	1,694,116
Other	344,618	310,554
Allowance for doubtful accounts	(595)	(595)
<b>Total Current Assets</b>	<b>4,540,359</b>	<b>5,075,572</b>
<b>Non-current Assets</b>		
<b>Property, Plant and Equipment</b>		
Buildings and structures - net	2,833,737	2,773,346
Machinery, equipment and vehicles - net	723,133	826,023
Land	1,302,193	1,301,527
Other - net	255,931	334,242
<b>Total Property, Plant and Equipment</b>	<b>5,114,996</b>	<b>5,235,140</b>
<b>Intangible Assets</b>	<b>219,275</b>	<b>262,399</b>
<b>Investments and Other Assets</b>		
Investment securities	592,156	612,839
Other	474,954	472,331
Allowance for doubtful accounts	(75,456)	(63,862)
<b>Total Investments and Other Assets</b>	<b>991,654</b>	<b>1,021,309</b>
<b>Total Non-current Assets</b>	<b>6,325,926</b>	<b>6,518,849</b>
<b>Total Assets</b>	<b>10,866,286</b>	<b>11,594,421</b>

(Thousands of yen)

	At February 28, 2018	At August 31, 2018
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Notes and accounts payable - trade	1,173,073	1,578,397
Short-term loans payable	1,875,593	1,925,497
Income taxes payable	62,916	109,738
Provision for bonuses	63,871	228,833
Provision for directors' bonuses	43,500	—
Other	1,134,302	1,133,369
<b>Total Current Liabilities</b>	<b>4,353,256</b>	<b>4,975,836</b>
<b>Non-current Liabilities</b>		
Long-term loans payable	2,618,853	2,622,096
Provision for directors' retirement benefits	147,630	147,630
Net defined benefit liability	109,819	93,898
Other	342,188	293,748
<b>Total Non-current Liabilities</b>	<b>3,218,492</b>	<b>3,157,373</b>
<b>Total Liabilities</b>	<b>7,571,749</b>	<b>8,133,210</b>
<b>NET ASSETS</b>		
<b>Shareholders' Equity</b>		
Capital stock	714,104	714,104
Capital surplus	943,209	943,209
Retained earnings	1,327,820	1,527,816
Treasury shares	(3,857)	(3,857)
<b>Total Shareholders' Equity</b>	<b>2,981,277</b>	<b>3,181,272</b>
<b>Accumulated Other Comprehensive Income</b>		
Valuation difference on available-for-sale securities	309,945	323,089
Foreign currency translation adjustment	3,314	(43,150)
<b>Total Accumulated Other Comprehensive Income</b>	<b>313,259</b>	<b>279,938</b>
<b>Total Net Assets</b>	<b>3,294,536</b>	<b>3,461,211</b>
<b>Total Liabilities and Net Assets</b>	<b>10,866,286</b>	<b>11,594,421</b>

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

**Quarterly Consolidated Statement of Income**

**(Six Months ended August 31, 2018)**

(Thousands of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
<b>Net Sales</b>	5,343,429	5,521,908
<b>Cost of Sales</b>	4,289,316	4,499,045
<b>Gross Profit</b>	1,054,113	1,022,862
<b>Selling, General and Administrative Expenses</b>	641,930	636,688
<b>Operating Income</b>	412,182	386,174
<b>Non-operating Income</b>		
Interest income	584	304
Dividend income	6,120	5,644
Foreign exchange gains	25,249	—
Other	6,587	13,902
<b>Total Non-operating Income</b>	38,542	19,851
<b>Non-operating Expenses</b>		
Interest expenses	32,359	29,160
Other	137	8,170
<b>Total Non-operating Expenses</b>	32,497	37,331
<b>Ordinary Income</b>	418,227	368,694
<b>Extraordinary Income</b>		
Gain on sales of non-current assets	24	—
Reversal of loss on litigation	—	9,191
<b>Total Extraordinary Income</b>	24	9,191
<b>Extraordinary Losses</b>		
Loss on retirement of non-current assets	1,157	63,924
Loss on litigation	—	7,659
<b>Total Extraordinary Losses</b>	1,157	71,583
<b>Income before Income Taxes</b>	417,093	306,302
Income taxes - current	70,118	78,239
Refund of income taxes	(9,413)	(8,607)
Income taxes - deferred	20,809	(15,721)
<b>Total Income Taxes</b>	81,514	53,909
<b>Net Income</b>	335,579	252,392
<b>Net Income Attributable to Owners of Parent</b>	335,579	252,392

**Quarterly Consolidated Statement of Comprehensive Income**  
**(Six Months ended August 31, 2018)**

(Thousands of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
Net income	335,579	252,392
<b>Other Comprehensive Income</b>		
Valuation difference on available-for-sale securities	92,953	13,144
Foreign currency translation adjustment	17,028	(46,465)
<b>Total Other Comprehensive Income</b>	109,982	(33,321)
<b>Comprehensive Income</b>	445,561	219,070
(Breakdown)		
Comprehensive income attributable to owners of parent	445,561	219,070
Comprehensive income attributable to non-controlling interests	—	—

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

(Thousands of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	417,093	306,302
Depreciation	210,533	258,841
Increase (decrease) in provision for bonuses	162,027	164,962
Increase (decrease) in provision for directors' bonuses	(47,500)	(43,500)
Increase (decrease) in net defined benefit liability	(6,586)	(10,471)
Increase (decrease) in provision for directors' retirement benefits	(2,460)	—
Increase (decrease) in allowance for doubtful accounts	10,497	(7,889)
Interest and dividend income	(6,705)	(5,948)
Interest expenses	32,359	29,160
Loss (gain) on sales of non-current assets	(24)	—
Loss on retirement of non-current assets	1,157	63,924
Decrease (increase) in notes and accounts receivable - trade	(220,882)	(218,469)
Decrease (increase) in inventories	(163,250)	(263,544)
Increase (decrease) in notes and accounts payable - trade	319,259	411,889
Increase (decrease) in accounts payable - other	(226,882)	(164,292)
Increase (decrease) in accrued consumption taxes	(102,024)	65,301
Other	(9,899)	(10,092)
<b>Subtotal</b>	<b>366,713</b>	<b>576,173</b>
Interest and dividend income received	6,140	5,648
Interest expenses paid	(32,021)	(29,263)
Income taxes (paid) refund	(112,357)	(30,114)
<b>Net Cash Provided by Operating Activities</b>	<b>228,475</b>	<b>522,443</b>



(Thousands of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
<b>Cash Flows from Investing Activities:</b>		
Payments into time deposits	(90,000)	(40,000)
Proceeds from withdrawal of time deposits	140,000	40,000
Purchase of property, plant and equipment	(401,075)	(365,959)
Proceeds from sales of property, plant and equipment	24	—
Purchase of intangible assets	(5,023)	(3,959)
Purchase of shares of subsidiaries	(146,076)	—
Purchase of investment securities	(1,231)	(1,235)
<b>Net Cash Used in Investing Activities</b>	<b>(503,381)</b>	<b>(371,154)</b>
<b>Cash Flows from Financing Activities:</b>		
Net increase (decrease) in short-term loans payable	109,557	13,131
Proceeds from long-term loans payable	299,000	527,370
Repayments of long-term loans payable	(431,860)	(461,836)
Purchase of treasury shares	—	(11)
Repayments of lease obligations	(49,356)	(56,792)
Proceeds from sales and leasebacks	22,235	—
Cash dividends paid	(78,373)	(52,101)
Other	(39,046)	12,649
<b>Net Cash Used in Financing Activities</b>	<b>(167,845)</b>	<b>(17,590)</b>
<b>Effect of Exchange Rate Change on Cash and Cash Equivalents</b>	<b>7,445</b>	<b>(5,684)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(435,306)</b>	<b>128,012</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>1,179,226</b>	<b>634,020</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>743,920</b>	<b>762,033</b>

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

1. Six Months ended August 31, 2018 (March 1, 2018 to August 31, 2018)

(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	4,604,208	917,699	5,521,908	—	5,521,908
Internal sales and transfers between segments	23,486	1,452	24,938	(24,938)	—
Total	4,627,694	919,152	5,546,847	(24,938)	5,521,908
Segment Income	342,365	43,731	386,097	76	386,174

Notes: 1. The adjustment amount of 76 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  
None