

**Nippon Shikizai, Inc.**  
**Summary of Financial Results for the First Half of Fiscal Year**  
**Ending February 29, 2020**  
**[Japanese Standard] (Consolidated)**

Nippon Shikizai, Inc. has announced its consolidated financial results for the first half of the fiscal year ending February 29, 2020. Please refer to the contents of the report disclosed below.

**Consolidated Financial Results**

- **Net sales:** 6,101 million yen (10.5% increase from the same period previous year)
- **Operating income:** 324 million yen (16.0% decrease from the same period previous year)
- **Ordinary income:** 284 million yen (22.7% decrease from the same period previous year)
- **Net income attributable to owners of parent company:** 206 million yen (Net income attributable to owners of parent company of 252 million yen in the same period previous year)

**Summary of Consolidated Operating Results**

During the first half period of the fiscal year ending February 29, 2020 (March 1, 2019 - August 31, 2019), the Japanese economy continued to be on a gradual recovery trend, as seen in factors such as the continued improvement in the employment and income environment and the continuing revival of individual consumption.

In the domestic cosmetics market, although some of the aspects of the market environment lacked stability, such as the enforcement of the e-commerce law in China, the China-United States trade war, and the weakening of the yuan, the growth in inbound consumption by tourists visiting Japan is still continuing to be solid. In the overseas cosmetics market, the growth rate for China and other Asian countries remained strong. With the background of the stable cosmetics markets both in and outside Japan, the market of contracted manufacture of cosmetics to which the Group (which collectively means the Company and consolidated subsidiaries, and the same applies hereinafter) belongs also enjoyed continually robust growth. On the other hand, the procurement markets of cosmetic ingredients, materials, containers, etc. as well as the human resources market are continually experiencing tight supply-and-demand situation.

Under these economic conditions, the Group made efforts to further reinforce its production capacity through a number of initiatives starting with the "3<sup>rd</sup> Phase Expansion Construction Project at the Tsukuba Factory," and accelerating the globalization of the Group's operations by building a group synergy, based on the "Medium-Term Business Strategy Vision (2017-2021)" started in fiscal 2017.

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 10.5% compared to the same period previous year, reaching 6,101 million yen. The following were some of the main factors: (1) increase in purchase orders received due to expanded outsourcing among

domestic cosmetics manufacturers resulting from inbound and outbound demand conditions in the Japanese domestic market, (2) increase in purchase orders received from major overseas cosmetics manufacturers for "Made in Japan" products, and (3) strong sales performance at our French consolidated subsidiary.

In terms of income, partly due to an increase in the expenses needed to pave the way for the production expansion after the completion of the "3<sup>rd</sup> Phase Expansion Construction Project at the Tsukuba Factory," overall operating income decreased 16.0% compared to the same period previous year to 324 million yen, ordinary income decreased 22.7% compared to the same period previous year to 284 million yen, and net income attributable to owners of parent company was 206 million yen, a 18.4% decrease compared with the corresponding period of last year.

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

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

With the high popularity of "Made in Japan" products in China and other Asian countries as a background factor, various domestic cosmetics manufacturers have secured a stable supply chain for products to meet inbound and outbound demand, overseas cosmetics manufacturers have also taken action to secure "Made in Japan" products, and a favorable trend has continued in outsourcing contracts with the Company. As a result, net sales in this segment increased 7.4% compared to the same period previous year, reaching 4,970 million yen. Operating income decreased 26.8% compared to the same period previous year to 250 million yen, partly due to an increase in the expenses needed to pave the way for the production expansion after the completion of the "Phase 3 Expansion Construction Project at the Tsukuba Factory".

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

As for the economy in Europe, where our subsidiary THEPENIER PHARMA & COSMETICS S.A.S. (hereinafter, THEPENIER) is located, although there is a sense of uncertainty over the future, the economy continues to progress along a gradual recovery trend. In the midst of these business conditions, pharmaceuticals and cosmetics sales at THEPENIER showed strong growth, and net sales and operating income increased in comparison to the same period previous year both in the local currency and when converted to Japanese yen. Net sales increased 28.9%, reaching 1,184 million yen, and operating income increased 53.9%, reaching 67 million yen.

## **Outlook**

There is no change in forecasts for the fiscal year ending February 29, 2020, as announced on April 15, 2019.

(%: change from the same period previous year)

	Full year (increase/decrease)
Net sales	12,173 million yen (Up 5.9%)
Operating income	600 million yen (Down 35.6%)
Ordinary income	544 million yen (Down 38.6%)
Net income attributable to owners of parent company	390 million yen (Down 36.4%)
Net income per share	186.52 yen

[Appendix]

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	At February 28, 2019	At August 31, 2019
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and deposits	769,641	725,263
Notes and accounts receivable - trade	2,107,933	2,120,042
Electronically recorded monetary claims - operating	216,366	191,973
Inventories	1,951,705	2,104,627
Other	269,450	150,985
<b>Total Current Assets</b>	<b>5,315,097</b>	<b>5,292,891</b>
<b>Non-current Assets</b>		
<b>Property, Plant and Equipment</b>		
Buildings and structures - net	2,745,323	2,662,503
Machinery, equipment and vehicles - net	808,782	757,414
Land	1,301,441	1,301,014
Construction in progress	536,756	1,824,964
Other - net	146,588	148,556
<b>Total Property, Plant and Equipment</b>	<b>5,538,891</b>	<b>6,694,452</b>
<b>Intangible Assets</b>	<b>256,009</b>	<b>323,001</b>
<b>Investments and Other Assets</b>		
Investment securities	502,071	520,671
Other	454,376	459,682
Allowance for doubtful accounts	(71,388)	(63,993)
<b>Total Investments and Other Assets</b>	<b>885,059</b>	<b>916,360</b>
<b>Total Non-current Assets</b>	<b>6,679,961</b>	<b>7,933,814</b>
<b>Total Assets</b>	<b>11,995,058</b>	<b>13,226,706</b>

(Thousands of yen)

	At February 28, 2019	At August 31, 2019
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Notes and accounts payable - trade	776,810	842,467
Electronically recorded obligations - operating	787,556	871,534
Short-term loans payable	1,852,335	1,993,497
Income taxes payable	131,946	68,957
Provision for bonuses	69,137	211,794
Provision for directors' bonuses	50,000	—
Other	1,423,917	973,447
<b>Total Current Liabilities</b>	<b>5,091,704</b>	<b>4,961,698</b>
<b>Non-current Liabilities</b>		
Long-term loans payable	2,790,427	4,038,780
Provision for directors' retirement benefits	147,630	147,630
Net defined benefit liability	70,217	62,629
Other	133,699	115,489
<b>Total Non-current Liabilities</b>	<b>3,141,974</b>	<b>4,364,529</b>
<b>Total Liabilities</b>	<b>8,233,679</b>	<b>9,326,227</b>
<b>NET ASSETS</b>		
<b>Shareholders' Equity</b>		
Capital stock	714,104	714,104
Capital surplus	943,209	943,209
Retained earnings	1,890,529	2,044,170
Treasury shares	(3,857)	(3,857)
<b>Total Shareholders' Equity</b>	<b>3,543,986</b>	<b>3,697,626</b>
<b>Accumulated Other Comprehensive Income</b>		
Valuation difference on available-for-sale securities	264,670	276,704
Foreign currency translation adjustment	(47,277)	(73,852)
<b>Total Accumulated Other Comprehensive Income</b>	<b>217,392</b>	<b>202,852</b>
<b>Total Net Assets</b>	<b>3,761,379</b>	<b>3,900,478</b>
<b>Total Liabilities and Net Assets</b>	<b>11,995,058</b>	<b>13,226,706</b>

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income****Quarterly Consolidated Statement of Income****(Six Months ended August 31, 2019)**

(Thousands of yen)

	Six months ended August 31, 2018	Six months ended August 31, 2019
<b>Net Sales</b>	5,521,908	6,101,756
<b>Cost of Sales</b>	4,499,045	5,092,908
<b>Gross Profit</b>	1,022,862	1,008,847
<b>Selling, General and Administrative Expenses</b>	636,688	684,274
<b>Operating Income</b>	386,174	324,573
<b>Non-operating Income</b>		
Interest income	304	329
Dividend income	5,644	3,772
Miscellaneous income	13,902	6,773
<b>Total Non-operating Income</b>	19,851	10,875
<b>Non-operating Expenses</b>		
Interest expenses	29,160	31,151
Foreign exchange losses	4,088	18,561
Other	4,082	741
<b>Total Non-operating Expenses</b>	37,331	50,454
<b>Ordinary Income</b>	368,694	284,994
<b>Extraordinary Income</b>		
Reversal of loss on litigation	9,191	—
<b>Total Extraordinary Income</b>	9,191	—
<b>Extraordinary Losses</b>		
Loss on retirement of non-current assets	63,924	1,522
Loss on litigation	7,659	—
<b>Total Extraordinary Losses</b>	71,583	1,522
<b>Income before Income Taxes</b>	306,302	283,472
Income taxes - current	78,239	63,072
Refund of income taxes	(8,607)	—
Income taxes - deferred	(15,721)	14,362
<b>Total Income Taxes</b>	53,909	77,435
<b>Net Income</b>	252,392	206,036
<b>Net Income Attributable to Owners of Parent Company</b>	252,392	206,036

**Quarterly Consolidated Statement of Comprehensive Income**  
**(Six Months ended August 31, 2019)**

(Thousands of yen)

	Six months ended August 31, 2018	Six months ended August 31, 2019
Net income	252,392	206,036
<b>Other Comprehensive Income</b>		
Valuation difference on available-for-sale securities	13,144	12,034
Foreign currency translation adjustment	(46,465)	(26,574)
<b>Total Other Comprehensive Income</b>	(33,321)	(14,540)
<b>Comprehensive Income</b>	219,070	191,496
(Breakdown)		
Comprehensive income attributable to owners of parent	219,070	191,496
Comprehensive income attributable to non-controlling interests	—	—

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

(Thousands of yen)

	Six months ended August 31, 2018	Six months ended August 31, 2019
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	306,302	283,472
Depreciation	258,841	260,505
Increase (decrease) in provision for bonuses	164,962	142,656
Increase (decrease) in provision for directors' bonuses	(43,500)	(50,000)
Increase (decrease) in net defined benefit liability	(10,471)	(5,171)
Increase (decrease) in allowance for doubtful accounts	(7,889)	(4,948)
Interest and dividend income	(5,948)	(4,102)
Interest expenses	29,160	31,151
Loss on retirement of non-current assets	63,924	1,522
Decrease (increase) in notes and accounts receivable - trade	(218,469)	(7,681)
Decrease (increase) in inventories	(263,544)	(168,146)
Increase (decrease) in notes and accounts payable - trade	411,889	162,824
Increase (decrease) in accounts payable - other	(164,292)	(300,110)
Increase (decrease) in accrued consumption taxes	65,301	15,539
Other	(10,092)	42,438
<b>Subtotal</b>	<b>576,173</b>	<b>399,948</b>
Interest and dividend income received	5,648	3,837
Interest expenses paid	(29,263)	(32,017)
Income taxes (paid) refund	(30,114)	(112,166)
<b>Net Cash Provided by Operating Activities</b>	<b>522,443</b>	<b>259,601</b>



(Thousands of yen)

	Six months ended August 31, 2018	Six months ended August 31, 2019
<b>Cash Flows from Investing Activities:</b>		
Payments into time deposits	(40,000)	(40,000)
Proceeds from withdrawal of time deposits	40,000	40,000
Purchase of property, plant and equipment	(365,959)	(1,371,699)
Purchase of intangible assets	(3,959)	(71,650)
Purchase of investment securities	(1,235)	(1,259)
Payments of loans receivable	—	(33,637)
<b>Net Cash Used in Investing Activities</b>	<b>(371,154)</b>	<b>(1,478,246)</b>
<b>Cash Flows from Financing Activities:</b>		
Net increase (decrease) in short-term loans payable	13,131	174,868
Proceeds from long-term loans payable	527,370	1,745,951
Repayments of long-term loans payable	(461,836)	(508,747)
Purchase of treasury shares	(11)	(2)
Repayments of lease obligations	(56,792)	(49,455)
Cash dividends paid	(52,101)	(52,092)
Other	12,649	(130,561)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(17,590)</b>	<b>1,179,960</b>
<b>Effect of Exchange Rate Change on Cash and Cash Equivalents</b>	<b>(5,684)</b>	<b>(4,702)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>128,012</b>	<b>(43,387)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>634,020</b>	<b>667,497</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>762,033</b>	<b>624,109</b>

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

1. Six Months ended August 31, 2019 (March 1, 2019 to August 31, 2019)

(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	4,937,557	1,164,199	6,101,756	—	6,101,756
Internal sales and transfers between segments	33,259	20,282	53,541	(53,541)	—
Total	4,970,816	1,184,481	6,155,298	(53,541)	6,101,756
Segment Income	250,482	67,289	317,771	6,801	324,573

Notes: 1. The adjustment amount of 6,801 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