April 13, 2021

Nippon Shikizai, Inc.
Summary of Financial Results for the Fiscal Year Ended February 28, 2021
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. has announced its consolidated financial results for the fiscal year ended February 28, 2021. Please refer to the contents of the report disclosed below.

<u>Consolidated Financial Results</u>

- **Net sales: 9,143 million yen (25.1% decrease from the previous period)**
- **Operating income/loss: −831 million yen (—)**
- **Ordinary income/loss: −588 million yen (—)**
- **Net income/loss attributable to owners of parent company: −848 million yen (Net income attributable to owners of parent company of 283 million yen in the previous period)**

<u>Summary of Consolidated Operating Results</u>

Economic conditions took a bearish turn on all fronts in the consolidated fiscal year under review (March 1, 2020 to February 28, 2021: FY2020). In Japan, the economic stagnation and contraction that accompanied the COVID-19 pandemic in Japan and worldwide caused a sharp deterioration in the domestic economy. The Japanese government twice declared a state of emergency, in April 2020 and January 2021, while governments in various Western countries imposed a series of lockdowns. Although vaccination against COVID-19 was initiated during the period, prospects remain uncertain.

The cosmetics industry, which is the domain of operations of Nippon Shikizai Inc., was significantly impacted by the pandemic, led by makeup products. In Japan, personal consumption was curtailed from February 2020 onward. Commercial facilities shortened operating hours and imposed temporary closures, while consumers refrained from unnecessary outings and took to habitual wearing of surgical masks. To compound the decline, inbound demand was crushed by a sharp drop in arrivals from overseas due to strengthened restrictions on entry to Japan. All of these measures contributed to a dramatic fall in demand for cosmetics. Overseas, the impact of the global pandemic slashed demand for cosmetics, fostering lingering uncertainty for the product category. Some regional exceptions were witnessed however, notably including the Chinese market, which enjoyed a recovery in consumption amid recommencement of economic activity.

Against this grim operating environment, the Nippon Shikizai Group took several concerted steps. Domestically, in response to the drop in cosmetics demand and the government's two declarations of a state of emergency, the Group took such unavoidable steps as mandating working at home and scaling back production at its domestic production sites and headquarters. Overseas, operations at the Group's locations in France were temporarily throttled as that country's government imposed stringent lockdowns. All told, the Group's business activities were severely affected.

Guided by the Medium-Term Business Strategy Vision, which covers the period FY2017 to FY2021, the Group strove to reinforce production capacity and accelerate the globalization of its operations by building Group synergy. However, with the impact of the COVID-19 pandemic extending longer than anticipated, the Group's operations were constricted by an unforgiving environment. Unable to utilize the increased production capacity gained through the Phase 3 expansion of Tsukuba Factory and capital investment in overseas subsidiaries, in March 2021 the Group unavoidably decided to close Suita Factory at the end of August 2021.

During this difficult period, the Group intends to redouble its efforts to recover its business results as quickly as possible. The Group will develop formulas and production technologies that reflect cosmetics trends during the COVID-19 pandemic, while improving quality and safety. We will also reconfigure our operating strategy to suit the "new normal."

Due to the results above, the operating results for the consolidated fiscal year under review were as follows.

Although net sales were essentially flat at the Company's subsidiary in France, consolidated net sales declined 25.1% from the previous fiscal year (YoY) to 9,143 million yen. Key factors in this result were:

1) A decline in demand for makeup as consumers reduced outings and took to the habitual wearing of surgical masks, as defensive measures against the COVID-19 pandemic
2) A fall in inbound demand as the flow of foreign tourists into Japan slowed to a trickle
3) Decreasing overseas orders for products as a result of the global pandemic
4) Customer postponement of product planning

Earnings were adversely affected not only by the dramatic decline in net sales but also by factors such as the increase in expenses resulting from completion of the Tsukuba Factory Phase 3 expansion project. Nippon Shikizai suffered an operating loss of 831 million yen (against operating income of 449 million yen in the previous fiscal year) and an ordinary loss of 588 million yen (against ordinary income of 405 million yen in the previous fiscal year), despite appropriation of 285 million yen in subsidy income. Net loss attributable to owners of parent company was 848 million yen (against net income attributable to owners of parent company of 283 million yen in the previous fiscal year). Factors in this result included appropriation of extraordinary losses of 128 million yen due to the closure of Suita Factory, and appropriation of 88 million yen in income taxes–deferred due to liquidation of deferred tax assets in careful consideration of their later recoverability.

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<u>Segment Business Information by Region</u>

(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 31.3% YoY to 6,842 million yen. In earnings, tumbling net sales, coupled with factors such as the increase in expenses resulting from completion of Tsukuba Factory Phase 3, engendered an operating loss of 964 million yen (against operating income of 303 million yen in the previous fiscal year).

(France)

Europe, where the Company's French subsidiary, Thépenier Pharma & Cosmetics S.A.S. ("Thépenier"), is located, suffered an economic downturn during its fiscal year (January to December 2020) due to the COVID-19 pandemic. These circumstances unavoidably obliged Thépenier to shut down its cosmetics production lines temporarily. Thanks to firm orders and production, however, net sales were little changed from the previous fiscal year, declining just 0.4% YoY to 2,372 million yen. In earnings, factors such as an increase in expenses arising from capital investments caused operating income to fall 11.7% YoY, to 123 million yen.

<u>Outlook</u>

The coming consolidated fiscal year holds little prospect for relief in the business environment. Assuming that the COVID-19 pandemic continues to spread worldwide, the negative impact may continue, not only in the Japanese economy but worldwide, with the exception of a few regions such as China. In the cosmetics industry, measures in each country aimed at preventing the spread of COVID-19 led to reduced outings and restrictions that reduced the frequency with which people apply makeup and made the wearing of surgical masks routine. The collapse in overseas arrivals also reduced inbound demand and sales at duty-free stores. In view of these and other factors, the Company forecasts that demand will continue to struggle.

In this unforgiving market environment, the Group remains unable to capitalize on increases in productivity from Tsukuba Factory Phase 3, completed in 2019, and capital investments in overseas subsidiaries. The Group will develop formulas and production technologies that reflect cosmetics trends during the pandemic and take measures to restrain costs, such as the closure of Suita Factory.

The ongoing COVID-19 pandemic overshadows the Company's forecast of consolidated business results for the upcoming fiscal year (fiscal year ending February 28, 2022), rendering prospects uncertain. In consolidated Q1 and Q2 in particular, net sales are expected to struggle as orders are reduced or postponed due to the curtailment of cosmetics demand from the COVID-19 pandemic. In Q3 and Q4, revenues are forecast to improve, as inoculation with vaccines against COVID-19 is expected to advance, while efforts by cosmetics companies to develop new products for 2022 are expected to prompt a recovery in orders received. The forecasts an increase in net sales of 1.5% YoY in FY2021, to 9,276 million yen. In earnings, factors such as cost-cutting efforts amid the decline in net sales, including the closure of Suita Factory, are expected to result in a reduced operating loss of 48 million yen and a more modest ordinary loss of 18 million yen. Net loss attributable to owner of parent company is expected to be 101 million yen.

In the absence of a clear picture of the severity and duration of the effects of COVID-19, the forecast of consolidated business results for the fiscal year ending February 28, 2022 is subject to later revision.

(%: change in full year from the previous year or in 2nd quarter (cumulative) from the same period previous year)

	2nd quarter (cumulative) (increase/decrease)	Full year (increase/decrease)
Net sales	4,054 million yen (Down 20.2%)	9,276 million yen (Up 1.5%)
Operating income	–375 million yen (—)	–48 million yen (—)
Ordinary income	–304 million yen (—)	–18 million yen (—)
Net income attributable to owners of parent company	–305 million yen (—)	–101 million yen (—)
Net income per share	–145.91 yen	–48.64 yen

Basic Policy on Distribution of Earnings and Dividends in the Period Under Review and Next Period

The Nippon Shikizai Group regards the improvement of capital efficiency and the return of earnings to shareholders as two of its most important management issues. The Group's basic policy on dividends is to maintain continuous and stable dividend payout. As such, dividends are distributed in response to growth in business results.

With respect to the distribution of dividends at the end of the consolidated fiscal year, as originally forecast, no year-end dividend is distributed for the period under review, due to the appropriation of a net loss attributable to owners of parent company. As for the year-end dividend for the next fiscal year (FY2021), with prospects still unclear as a result of the COVID-19 pandemic, as explained above, the Company expects to appropriate a net loss attributable to owners of parent company. Accordingly, the Company regrets to report that no year-end dividend is expected to be distributed for the next period either.

【Appendix】

Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

	At February 29, 2020	At February 28, 2021
ASSETS		
Current Assets		
Cash and deposits	835,346	1,078,582
Notes and accounts receivable - trade	2,226,476	1,504,068
Electronically recorded monetary claims - operating	184,547	125,004
Merchandise and finished goods	781,889	755,809
Work in process	225,882	164,377
Raw materials and supplies	1,091,774	943,818
Other	385,190	147,716
Total Current Assets	5,731,107	4,719,378
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures	9,683,075	10,173,062
Accumulated depreciation	(4,572,384)	(4,915,046)
Buildings and structures, net	5,110,690	5,258,016
Machinery, equipment and vehicles	4,235,445	4,649,757
Accumulated depreciation	(2,777,278)	(3,022,116)
Machinery, equipment and vehicles, net	1,458,167	1,627,640
Tools, furniture and fixtures	967,921	1,048,155
Accumulated depreciation	(647,258)	(734,582)
Tools, furniture and fixtures, net	320,663	313,573
Land	1,301,018	2,155,986
Construction in progress	345,820	126,652
Total Property, Plant and Equipment	8,536,360	9,481,869
Intangible Assets	369,111	372,306
Investments and Other Assets		
Investment securities	442,277	491,338
Other	526,596	493,823
Allowance for doubtful accounts	(81,065)	(7,966)
Total Investments and Other Assets	887,809	977,195
Total Non-current Assets	9,793,280	10,831,371
Total Assets	15,524,388	15,550,749

(Thousands of yen)

	At February 29, 2020	At February 28, 2021
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	695,734	371,459
Electronically recorded obligations - operating	897,714	447,214
Short-term loans payable	1,451,650	1,855,408
Lease obligations	100,724	94,714
Accounts payable - other	791,453	432,964
Provision for bonuses	78,608	41,166
Other	347,726	305,053
Total Current Liabilities	4,363,612	3,547,981
Non-current Liabilities		
Long-term loans payable	6,450,007	8,099,696
Lease obligations	563,564	481,344
Provision for directors' retirement benefits	146,430	146,430
Net defined benefit liability	64,242	70,121
Other	10,875	114,472
Total Non-current Liabilities	7,235,119	8,912,064
Total Liabilities	11,598,732	12,460,046
NET ASSETS		
Shareholders' Equity		
Capital stock	714,104	714,104
Capital surplus	943,209	943,209
Retained earnings	2,121,719	1,220,652
Treasury shares	(3,857)	(3,857)
Total Shareholders' Equity	3,775,176	2,874,109
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	222,604	254,893
Foreign currency translation adjustment	(72,125)	(38,299)
Total Accumulated Other Comprehensive Income	150,479	216,593
Total Net Assets	3,925,655	3,090,703
Total Liabilities and Net Assets	15,524,388	15,550,749

(2) Consolidated Statement of Income

(Thousands of yen)

	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
Net Sales	12,207,752	9,143,569
Cost of Sales	10,496,018	8,741,022
Gross Profit	1,711,733	402,547
Selling, General and Administrative Expenses	1,262,082	1,234,290
Operating Income (Loss)	449,650	(831,743)
Non-operating Income:		
Interest income	1,086	2,106
Dividend income	6,998	6,889
House rent income	2,779	2,736
Subsidy income	12,219	285,045
Insurance income	4,300	8,509
Miscellaneous income	13,532	23,073
Other	-	12,618
Total Non-operating Income	40,916	340,979
Non-operating Expenses:		
Interest expenses	70,885	98,010
Foreign exchange losses	13,433	-
Commission fee	695	-
Other	309	183
Total Non-operating Expenses	85,324	98,193
Ordinary Income (Loss)	405,243	(588,958)
Extraordinary Income:		
Gain on sales of non-current assets	304	-
Gain on sales of investment securities	4,892	-
Total Extraordinary Income	5,196	-
Extraordinary Losses:		
Loss on retirement of non-current assets	6,386	215
Impairment loss	-	94,102
Loss on closing of factory	-	34,402
Loss on valuation of golf club membership	3,300	-
Total Extraordinary Losses	9,686	128,720
Income (Loss) before Income Taxes	400,753	(717,678)
Income taxes - current	76,045	42,172
Income taxes - deferred	41,122	88,819
Total Income Taxes	117,167	130,991
Net Income (Loss)	283,585	(848,670)
Net Income (Loss) Attributable to Owners of Parent Company	283,585	(848,670)

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
Net income (loss)	283,585	(848,670)
Other Comprehensive Income		
Valuation difference on available-for-sale securities	(42,065)	32,288
Foreign currency translation adjustment	(24,847)	33,825
Total Other Comprehensive Income	(66,913)	66,114
Comprehensive Income	216,672	(782,555)
(Breakdown)		
Comprehensive income attributable to owners of parent company	216,672	(782,555)
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statement of Changes in Equity

Fiscal year ended February 29, 2020

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	714,104	943,209	1,890,529	(3,857)	3,543,986
Changes of items during period					
Dividends of surplus			(52,396)		(52,396)
Net income attributable to owners of parent company			283,585		283,585
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	231,189	-	231,189
Balance at end of current period	714,104	943,209	2,121,719	(3,857)	3,775,176

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of current period	264,670	(47,277)	217,392	3,761,379
Changes of items during period				
Dividends of surplus				(52,396)
Net income attributable to owners of parent company				283,585
Net changes of items other than shareholders' equity	(42,065)	(24,847)	(66,913)	(66,913)
Total changes of items during period	(42,065)	(24,847)	(66,913)	164,276
Balance at end of current period	222,604	(72,125)	150,479	3,925,655

Fiscal year ended February 28, 2021

(Thousands of yen)

	Shareholders’ equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders’ equity
Balance at beginning of current period	714,104	943,209	2,121,719	(3,857)	3,775,176
Changes of items during period					
Dividends of surplus			(52,396)		(52,396)
Net income (loss) attributable to owners of parent company			(848,670)		(848,670)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	(901,066)	-	(901,066)
Balance at end of current period	714,104	943,209	1,220,652	(3,857)	2,874,109

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of current period	222,604	(72,125)	150,479	3,925,655
Changes of items during period				
Dividends of surplus				(52,396)
Net income (loss) attributable to owners of parent company				(848,670)
Net changes of items other than shareholders' equity	32,288	33,825	66,114	66,114
Total changes of items during period	32,288	33,825	66,114	(834,952)
Balance at end of current period	254,893	(38,299)	216,593	3,090,703

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
Cash Flows from Operating Activities:		
Income (loss) before income taxes	400,753	(717,678)
Depreciation	612,085	812,745
Impairment loss	-	94,102
Increase (decrease) in provision for bonuses	9,470	(37,441)
Increase (decrease) in provision for directors' bonuses	(50,000)	-
Increase (decrease) in net defined benefit liability	(3,499)	3,422
Increase (decrease) in provision for directors' retirement benefits	(1,200)	-
Increase (decrease) in allowance for doubtful accounts	12,134	(72,917)
Interest and dividend income	(8,085)	(8,996)
Interest expenses	70,885	98,010
Loss on valuation of golf club memberships	3,300	-
Loss (gain) on sales of investment securities	(4,892)	-
Loss (gain) on sales of non-current assets	(304)	-
Loss on retirement of non-current assets	6,386	215
Decrease (increase) in notes and accounts receivable - trade	(108,655)	794,962
Decrease (increase) in inventories	(163,850)	246,154
Increase (decrease) in notes and accounts payable - trade	42,366	(783,546)
Increase (decrease) in accounts payable - other	(957)	(329,460)
Increase (decrease) in accrued consumption taxes	(158,755)	320,393
Other	(2,075)	80,961
Subtotal	655,106	500,929
Interest and dividend income received	8,060	7,898
Interest expenses paid	(71,976)	(97,880)
Income taxes (paid) refund	(213,756)	(5,427)
Net Cash Provided by Operating Activities	377,435	405,520

(Thousands of yen)

	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
Cash Flows from Investing Activities:		
Payments into time deposits	(80,000)	(80,000)
Proceeds from withdrawal of time deposits	100,783	80,000
Purchase of property, plant and equipment	(3,063,263)	(1,902,917)
Proceeds from sales of property, plant and equipment	304	-
Purchase of intangible assets	(115,673)	(66,840)
Purchase of investment securities	(2,516)	(2,535)
Proceeds from sales of investment securities	6,588	-
Net decrease (increase) in short-term loans receivable	(24,282)	(1,662)
Payments of long-term loans receivable	(46,811)	(113,440)
Collection of long-term loans receivable	1,674	10,271
Net Cash Used in Investing Activities	(3,223,196)	(2,077,124)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	(485,533)	75,640
Proceeds from long-term loans payable	5,703,151	3,460,232
Repayments of long-term loans payable	(1,939,064)	(1,508,397)
Purchase of treasury shares	(3)	-
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(42,290)	-
Repayments of lease obligations	(103,576)	(101,849)
Cash dividends paid	(52,151)	(52,637)
Other	(145,868)	-
Net Cash Provided by Financing Activities	2,934,663	1,872,988
Effect of Exchange Rate Change on Cash and Cash Equivalents	(1,853)	3,627
Net Increase (Decrease) in Cash and Cash Equivalents	87,047	205,012
Cash and Cash Equivalents at Beginning of Period	667,497	754,545
Cash and Cash Equivalents at End of Period	754,545	959,557

(5) Segment Information

Performance by Business Segment

Year Ended February 28, 2021 (March 1, 2020 to February 28, 2021)

(Thousands of yen)

	Reporting Segment			Adjustment Amount (Notes 1, 2)	Consolidated Financial Statements Amount (Note 3)
	Japan	France	Total		
Sales					
Sales to outside customers	6,771,498	2,372,071	9,143,569	-	9,143,569
Internal sales and transfers between segments	70,541	560	71,102	(71,102)	-
Total	6,842,040	2,372,632	9,214,672	(71,102)	9,143,569
Segment income (loss)	(964,811)	123,574	(841,237)	9,494	(831,743)
Segment assets	13,904,683	2,547,934	16,452,618	(901,868)	15,550,749
Other items					
Depreciation	673,690	139,055	812,745	-	812,745
Impairment loss	94,102	-	94,102	-	94,102
Increase of property, plant and equipment and intangible assets	1,438,041	360,934	1,798,976	-	1,798,976

Notes: 1. The adjustment amount of 9,494 thousand yen in segment income (loss) is an elimination of transactions between segments.

2. The adjustment amount of negative 901,868 thousand yen in segment assets is a reflection of consolidated adjustment between segments.

3. The segment income (loss) is adjusted with operating loss on the consolidated financial statements.

(Major Subsequent Events)

Not applicable.