

Nippon Shikizai, Inc.

Summary of Financial Results for the Fiscal Year Ended February 28, 2025 [Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. has announced its consolidated financial results for the fiscal year ended February 28, 2025. Please refer to the contents of the report disclosed below.

Consolidated Financial Results

- **Net sales:** 17,632 million yen (17.2% increase from the previous period)
- **Operating income:** 489 million yen (10.8% increase from the previous period)
- **Ordinary income:** 367 million yen (9.9% decrease from the previous period)
- **Net income attributable to owners of parent company:** 216 million yen (45.7% decrease from the previous period)

Summary of Consolidated Operating Results

During the fiscal year ended February 28, 2025 (March 1, 2024 to February 28, 2025), the Japanese economy recovered, but sluggishly. Post-pandemic normalization made great strides as the impact of COVID-19 subsided in the previous fiscal year. However, inflation blunted real-wage growth, sapping the strength of the recovery. In the global economy, a number of risks made the path forward unclear. In Western countries, inflation slowed, while a modest growth trend unfolded amid steps toward monetary easing. However, the Chinese economy continued to suffer from slumping domestic demand and slowing economic growth, against a background of recession in the country's real-estate market, leading to widening disparity between China and other Western economies. Separately, the Russian invasion of Ukraine rumbled on and tension in the Middle East persisted, intensifying geopolitical risk. A change of administration occurred in the United States, aggravating policy risks in various countries. Increases and fluctuations in energy and other resource prices, logistical delays and other headaches impacted inflation worldwide, including in Japan. The resulting impact on the fiscal policies of various countries triggered fluctuations in interest rates, exchange rates and stock-market valuations, affecting economic activity and breeding lingering uncertainty.

The cosmetics industry, which is the domain of operations of Nippon Shikizai, Inc., continued to tread a path of gradual recovery. In Japan, demand for makeup and other products remained below levels before COVID-19, when demand from inbound tourism was significant. However, consumer mindset brightened dramatically and a modest trend of recovery and improvement continued. Product launches, held back during the pandemic last year, rebounded in sprightly fashion, stoking further demand. Overseas as well, demand for cosmetics followed a trajectory of leisurely recovery.

For the Nippon Shikizai Group, the picture brightened considerably through the first half (H1), as orders rose from cosmetics manufacturers throughout Japan and around the world. Particularly in Japan, waves of orders poured in in anticipation of product launches held back by the pandemic, including some large orders. In Q3 and Q4 (H2), however, growth quieted briefly. Capital investment, such as the phase-3 expansion project at Tsukuba Factory, greatly improved the operating rate of production equipment in H1. Later, however, factory operation levels temporarily slackened. As inflation drove up material, personnel and other expenses, the Group continued to trim various costs and adjust pricing, to support and improve profitability.

Going forward, demand for cosmetics is expected to continue on a modest glidepath of recovery and growth. However, uncertainty will remain for the economy as a whole. Inflation, labor shortages, rising personnel costs and interest rates, and currency fluctuations are expected to continue. Geopolitical risk remains high from Russia's

invasion of Ukraine, tensions in the Middle East and policy risk from the United States. In view of this business environment, the Group is striving to continue profitable operation and achieve growth, by resolutely implementing the suite of measures mooted in the Medium-Term Business Strategy Vision, which covers the period FY2022 to FY2026. The Nippon Shikizai Group will provide formulas to respond to customer demand for new products and production. Looking ahead to the medium-to-long term, the Group will redouble its efforts to improve business results, leveraging its strengths in a continuously changing market environment, including further reinforcing its capabilities in responding to social demands such as “clean beauty” in cosmetics and adherence to the SDGs.

With the results above as background, the financial position and operating results for the consolidated fiscal year under review were as follows.

The Group’s net sales grew 17.2% compared to the previous fiscal year, rising to 17,632 million yen. Recovery in domestic and overseas orders received, particularly the wave of orders in Japan in response to the end of the COVID-19 pandemic and large orders from overseas, contributed to this result, despite a slowdown in H2.

Earnings results were mixed in the period under review. In Japan, various costs remained high as a result of the continuing phase-3 expansion project at Tsukuba Factory, while material, personnel and miscellaneous expenses were driven up by inflation. However, income increased, as a rise in orders accepted in H1 enabled the Group to improve the operation rate of its productive capital, and the Group strove to restrain various costs. The Company’s French subsidiaries suffered a slump in business results due to decelerating orders received for cosmetics. The Group recorded operating income of 489 million yen, up 10.8% from the previous fiscal year. However, ordinary income declined 9.9% from the previous fiscal year to 367 million yen and net income attributable to owners of parent company dropped 45.7% over the previous fiscal year to 216 million yen, depressed by appropriation of 138 million yen in income taxes–deferred (in the previous fiscal year, income taxes–deferred of 210 million yen had been appropriated as result of appropriation of deferred tax assets).

Segment Business Information by Region

(Japan)

The socioeconomic impact of the COVID-19 pandemic all but disappeared. Although some impact on cosmetics remains, demand staged a recovery. Especially, orders from domestic cosmetics manufacturers following the lifting of mask-wearing regulations and large orders from overseas cosmetics producers staged pronounced growth in H1 but slowed in H2. Net sales grew 21.3% from the previous fiscal year to 12,442 million yen. In earnings, although various costs remained high in connection with the phase-3 expansion project at Tsukuba Factory, and inflation raised material, personal and various other expenses, the recovery in orders received in H1 gave a solid boost to operating rate of production equipment, while the Company strove to reduce a range of costs. Operating income jumped 151.4% over the previous fiscal year to 554 million yen. Segment assets retreated 4.2% from the previous fiscal year to 12,978 million yen, as inventories declined amid the blunting in H2 of the wave of orders received and property, plant and equipment declined due to depreciation and other factors.

(France)

Europe, where our subsidiaries Thépenier Pharma & Cosmetics S.A.S. (hereinafter, “Thépenier”) and Nippon Shikizai France S.A.S. (hereinafter “NS France”) are located, was impacted by continuing slow economic growth and faltering pace of recovery in cosmetics orders during the consolidated fiscal year under review (January 1 to December 31, 2024), resulting in lower net sales on a euro-denominated basis. However, yen-denominated net sales rose 6.2% over the previous fiscal year to 5,263 million yen as a result of the yen's depreciation. In income terms, the drop in euro-denominated net sales and high levels of personnel expenses and costs of various goods combined with a delay in activation of some equipment at Thépenier and a declining operating rate at NS France to engender

an operating loss of 73 million yen (compared with operating income in the previous fiscal year of 222 million yen). Segment assets increased 8.6% over the previous fiscal year to 5,136 million yen, prompted by an increase in property, plant and equipment from capital investment.

Outlook

The Group expects the business environment to continue to recover and improve at a gradual pace in the coming fiscal year, despite regional disparities. On the other hand, protracted crises such as the Russian invasion of Ukraine and tension in the Middle East continue to engender a high level of geopolitical risk, while policy risks now emerging in the United States and other countries are expected to persist for the time being. Rising prices of energy and other resources as well as various goods, swelling personnel expenses and fluctuating interest and exchange rates will impact economic activity. These factors presage a lingering condition of uncertainty.

A similar qualified optimism applies to the cosmetics market. In Japan, the wave of orders received after the lifting of mask-wearing regulations has subsided, greatly brightening consumer mindset, so demand for cosmetics is expected to recover and improve little by little. Overseas as well, demand for cosmetics is anticipated to rise at a moderate pace. To achieve growth as a cosmetics ODM manufacturer, it is vital for the Group to take resolute action by providing prescriptions that respond to changes in the needs of consumers and cosmetics manufacturers in Japan and around the world and developing new, value-added prescriptions.

The Group drafted the Medium-Term Business Strategy Vision (FY2022–FY2026), with the aim of recovering from the negative impact on business results of the COVID-19 pandemic. Positioning the latter half of this period as its growth phase, the Group aims to continue the momentum of recovery from the COVID-19 pandemic toward further growth, with key strategies including strengthening and expansion of products with a strong competitive edge; vigorous engagement with the “clean beauty” market; and transformation into a highly profitable constitution. The Group will wholeheartedly pursue efforts on all of these fronts.

The Group’s forecast of consolidated business results for the upcoming fiscal year (fiscal year ending February 28, 2026) is cautious. Under the conditions described above, the Group forecasts a gradual recovery and improvement in orders accepted following the subsidence of the earlier wave. Full-year net sales are forecast to decline 4.3% against the previous fiscal year to 16,877 million yen (though the trend from H2 in the fiscal year under review is rising). In earnings, as increases in orders accepted improve the operation rate of production equipment, inflation is reflected in unit prices, measures to restrain costs continue and gain on sales of some real estate is expected to be appropriated, the Group forecasts operating income of 411 million yen, ordinary income of 276 million yen and net income attributable to owners of parent company of 411 million yen.

Many factors in the economic environment counsel uncertainty. These include the war between Russia and Ukraine, Mideast tensions, policies and economic trends such as trade and tariff policies of the United States and other countries, and economic variables such as inflation, interest rates and exchange rates. As a result, the Group’s forecast of consolidated business results for the upcoming fiscal year is subject to change.

(%: 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	8,429 million yen (Down 11.3%)	16,877 million yen (Down 4.3%)
Operating income	140 million yen (Down 71.3%)	411 million yen (Down 15.9%)
Ordinary income	77 million yen (Down 81.9%)	276 million yen (Down 24.7%)
Net income attributable to owners of parent company	29 million yen (Down 88.1%)	411 million yen (Up 90.1%)
Net income per share	14.30 yen	196.23 yen

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

As it seeks to boost corporate value by improving capital efficiency, the Nippon Shikizai Group regards the return of earnings to shareholders, who are vital stakeholders, as one 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.

The Group understands that the medium-to-long-term return of earnings to shareholders requires distribution of continuous and stable dividends as well as support and increase of the share price through improvement of corporate value. Furthermore, the Group recognizes that achieving these aims requires stable growth, which must be accomplished by boosting profitability and recovering capital adequacy and financial stability, in the wake of the COVID-19 pandemic and its adverse effects on business results. The Group's policy with respect to dividend amounts is to consider both earnings levels and internal reserves necessary to ensure capital adequacy.

For the distribution of dividends at the end of the consolidated fiscal year under review, the Group is maintaining its forecast of 20 yen per share. This is despite the fact that net income attributable to owners of parent company decreased over the previous fiscal year (fiscal year ended February 29, 2024), amid continued efforts to replenish capital from internal reserves. In the upcoming fiscal year (fiscal year ending February 28, 2026), despite the presence of factors causing lingering uncertainty, the Group plans to distribute a dividend of 20 yen per share. This is because the Group expects to earn the net income attributable to owners of parent company described in the above forecast of consolidated business results.

[Appendix]
Consolidated Financial Statements
(1) Consolidated Balance Sheet

(Thousands of yen)

	At February 29, 2024	At February 28, 2025
ASSETS		
Current Assets		
Cash and deposits	1,393,795	949,024
Notes and accounts receivable - trade	2,234,430	2,701,470
Electronically recorded monetary claims - operating	149,087	202,637
Merchandise and finished goods	1,136,929	926,407
Work in process	319,150	257,689
Raw materials and supplies	1,651,265	1,378,172
Other	251,695	322,017
Allowance for doubtful accounts	(2,220)	(2,651)
Total Current Assets	7,134,132	6,734,766
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures	10,462,508	11,005,620
Accumulated depreciation	(5,748,109)	(6,136,567)
Buildings and structures, net	4,714,399	4,869,053
Machinery, equipment and vehicles	5,539,429	6,227,388
Accumulated depreciation	(4,036,564)	(4,396,283)
Machinery, equipment and vehicles, net	1,502,864	1,831,104
Tools, furniture and fixtures	1,343,505	1,574,547
Accumulated depreciation	(995,229)	(1,115,734)
Tools, furniture and fixtures, net	348,275	458,812
Land	2,027,748	2,028,486
Construction in progress	438,406	193,408
Total Property, Plant and Equipment	9,031,693	9,380,866
Intangible Assets	260,467	226,271
Investments and Other Assets		
Investment securities	293,661	259,060
Deferred tax assets	235,239	108,730
Other	145,712	182,429
Allowance for doubtful accounts	(13,837)	(2,727)
Total Investments and Other Assets	660,776	547,494
Total Non-current Assets	9,952,938	10,154,631
Total Assets	17,087,070	16,889,398

(Thousands of yen)

	At February 29, 2024	At February 28, 2025
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	904,894	754,979
Electronically recorded obligations - operating	1,387,301	990,634
Short-term loans payable	2,913,451	3,020,834
Lease obligations	98,127	86,750
Accounts payable - other	905,149	946,731
Provision for bonuses	70,203	74,974
Provision for directors' bonuses	—	19,000
Other	531,648	351,302
Total Current Liabilities	6,810,777	6,245,206
Non-current Liabilities		
Long-term loans payable	6,147,558	6,335,667
Lease obligations	355,859	289,260
Provision for directors' retirement benefits	146,430	146,430
Net defined benefit liability	95,609	67,311
Other	3,908	1,454
Total Non-current Liabilities	6,749,365	6,840,124
Total Liabilities	13,560,143	13,085,331
NET ASSETS		
Shareholders' Equity		
Capital stock	100,000	100,000
Capital surplus	1,510,339	1,510,339
Retained earnings	1,544,397	1,718,780
Treasury shares	(3,983)	(3,983)
Total Shareholders' Equity	3,150,752	3,325,135
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	118,294	97,850
Foreign currency translation adjustment	257,880	381,079
Total Accumulated Other Comprehensive Income	376,175	478,930
Total Net Assets	3,526,927	3,804,066
Total Liabilities and Net Assets	17,087,070	16,889,398

(2) Consolidated Statement of Income

(Thousands of yen)

	Fiscal year ended February 29, 2024	Fiscal year ended February 28, 2025
Net Sales	15,050,063	17,632,212
Cost of Sales	13,034,123	15,439,607
Gross Profit	2,015,939	2,192,604
Selling, General and Administrative Expenses	1,574,198	1,703,353
Operating Income	441,741	489,251
Non-operating Income:		
Interest income	10	1
Dividend income	8,096	7,286
Foreign exchange gains	33,426	—
Subsidy income	30,901	13,028
House rent income	—	24,602
Miscellaneous income	21,694	22,107
Total Non-operating Income	94,130	67,026
Non-operating Expenses:		
Interest expenses	128,033	160,146
Foreign exchange losses	—	28,792
Total Non-operating Expenses	128,033	188,939
Ordinary Income	407,838	367,338
Extraordinary Income:		
Gain on sales of non-current assets	7,614	449
Gain on sales of investment securities	—	9,169
Total Extraordinary Income	7,614	9,618
Extraordinary Losses:		
Loss on retirement of non-current assets	3,468	4,077
Impairment loss	125,747	—
Total Extraordinary Losses	129,216	4,077
Income before Income Taxes	286,237	372,879
Income taxes - current	99,120	18,219
Income taxes - deferred	(210,996)	138,360
Total Income Taxes	(111,876)	156,580
Net Income	398,113	216,299
Net Income Attributable to Owners of Parent Company	398,113	216,299

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal year ended February 29, 2024	Fiscal year ended February 28, 2025
Net income	398,113	216,299
Other Comprehensive Income		
Valuation difference on available-for-sale securities	(41,943)	(20,444)
Foreign currency translation adjustment	159,364	123,199
Total Other Comprehensive Income	117,421	102,755
Comprehensive Income	515,535	319,054
(Breakdown)		
Comprehensive income attributable to owners of parent company	515,535	319,054
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statement of Changes in Equity

Fiscal year ended February 29, 2024

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	100,000	1,510,339	1,146,283	(3,918)	2,752,703
Changes of items during period					
Net income attributable to owners of parent company			398,113		398,113
Purchase of treasury shares				(64)	(64)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	398,113	(64)	398,048
Balance at end of current period	100,000	1,510,339	1,544,397	(3,983)	3,150,752

	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	160,238	98,515	258,753	3,011,457
Changes of items during period				
Net income attributable to owners of parent company				398,113
Purchase of treasury shares				(64)
Net changes of items other than shareholders' equity	(41,943)	159,364	117,421	117,421
Total changes of items during period	(41,943)	159,364	117,421	515,470
Balance at end of current period	118,294	257,880	376,175	3,526,927

Fiscal year ended February 28, 2025

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	100,000	1,510,339	1,544,397	(3,983)	3,150,752
Changes of items during period					
Dividends of surplus			(41,915)		(41,915)
Net income attributable to owners of parent company			216,299		216,299
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	174,383	—	174,383
Balance at end of current period	100,000	1,510,339	1,718,780	(3,983)	3,325,135

	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	118,294	257,880	376,175	3,526,927
Changes of items during period				
Dividends of surplus				(41,915)
Net income attributable to owners of parent company				216,299
Net changes of items other than shareholders' equity	(20,444)	123,199	102,755	102,755
Total changes of items during period	(20,444)	123,199	102,755	277,138
Balance at end of current period	97,850	381,079	478,930	3,804,066

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended February 29, 2024	Fiscal year ended February 28, 2025
Cash Flows from Operating Activities:		
Income before income taxes	286,237	372,879
Depreciation	855,498	908,865
Amortization of goodwill	18,808	—
Impairment loss	125,747	—
Increase (decrease) in provision for bonuses	(15,358)	4,770
Increase (decrease) in provision for directors' bonuses	—	19,000
Increase (decrease) in net defined benefit liability	(1,486)	(32,919)
Increase (decrease) in allowance for doubtful accounts	1,800	(11,061)
Interest and dividend income	(8,107)	(7,287)
Interest expenses	128,033	160,146
Loss (gain) on sales of investment securities	—	(9,169)
Loss (gain) on sales of non-current assets	(7,614)	(449)
Loss on retirement of non-current assets	3,468	4,077
Decrease (increase) in notes and accounts receivable - trade	(126,910)	(479,669)
Decrease (increase) in inventories	(598,268)	590,033
Increase (decrease) in notes and accounts payable - trade	429,695	(596,184)
Increase (decrease) in accounts payable - other	278,371	69,903
Increase (decrease) in accrued consumption taxes	58,008	(10,157)
Other	(19,808)	(95,194)
Subtotal	1,408,116	887,583
Interest and dividend income received	8,107	7,288
Interest expenses paid	(128,554)	(160,412)
Income taxes (paid) refund	(36,570)	(166,668)
Net Cash Provided by Operating Activities	1,251,099	567,790

(Thousands of yen)

	Fiscal year ended February 29, 2024	Fiscal year ended February 28, 2025
Cash Flows from Investing Activities:		
Proceeds from withdrawal of time deposits	103,000	18,000
Purchase of property, plant and equipment	(659,309)	(1,139,940)
Proceeds from sales of property, plant and equipment	142,580	594
Purchase of intangible assets	(24,309)	(3,078)
Purchase of investment securities	(322)	—
Proceeds from sales of investment securities	—	12,558
Net Cash Used in Investing Activities	(438,361)	(1,111,866)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	417,060	(93,127)
Proceeds from long-term loans payable	1,257,332	2,138,410
Repayments of long-term loans payable	(2,274,145)	(1,807,156)
Repayments of lease obligations	(97,677)	(100,884)
Cash dividends paid	—	(41,779)
Other	(64)	(3)
Net Cash Provided by (Used in) Financing Activities	(697,496)	95,458
Effect of Exchange Rate Change on Cash and Cash Equivalents	32,035	21,715
Net Increase (Decrease) in Cash and Cash Equivalents	147,278	(426,903)
Cash and Cash Equivalents at Beginning of Period	1,228,503	1,375,781
Cash and Cash Equivalents at End of Period	1,375,781	948,877

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

Year Ended February 28, 2025 (March 1, 2024 to February 28, 2025)

(Thousands of yen)

	Reporting Segment			Adjustment Amount (Notes 1, 2)	Consolidated Financial Statements Amount (Note 3)
	Japan	France	Total		
Sales					
In Japan	9,222,446	2,180	9,224,626	(2,180)	9,222,446
Overseas	3,220,423	5,261,549	8,481,972	(72,206)	8,409,765
Revenue from contracts with customers	12,442,869	5,263,729	17,706,599	(74,386)	17,632,212
Sales to outside customers	12,370,662	5,261,549	17,632,212	—	17,632,212
Internal sales and transfers between segments	72,206	2,180	74,386	(74,386)	—
Total	12,442,869	5,263,729	17,706,599	(74,386)	17,632,212
Segment income (loss)	554,867	(73,263)	481,603	7,647	489,251
Segment assets	12,978,717	5,136,247	18,114,965	(1,225,567)	16,889,398
Other items					
Depreciation	566,897	341,968	908,865	—	908,865
Increase of property, plant and equipment and intangible assets	403,096	708,644	1,111,741	—	1,111,741

Notes: 1. The adjustment amount of 7,647 thousand yen in segment income (loss) is an elimination of transactions between segments.

2. The adjustment amount of negative 1,225,567 thousand yen in segment assets is a reflection of consolidated adjustment between segments.

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

(Major Subsequent Events)

Not applicable.