

Shinnihonseiyaku Co., Ltd.

4931

TSE Mothers

15-Oct.-2020

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FISCO Ltd.

<http://www.fisco.co.jp>

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Summary

Creator of Lifestyles that Foster Beauty and Good Health Through Database Marketing

1. Business overview

Shinnihonseiyaku Co., Ltd. <4931> (hereafter, “the Company”) conducts planning and sales of cosmetics, health foods, and pharmaceuticals. On the topic of cosmetics, which account for more than 90% of sales, it handles simple skin care merchandise under the “PERFECT ONE” brand name, including the mainstay Perfect One All-in-One Gel series, which has ranked No.1 for domestic sales in the all-in-one skin care market for four consecutive years. It is accelerating the development of duty-free shops and overseas business, and its cumulative number of products sold exceeds 60 million items. It has three sales channels--the main channel of mail order, direct store sales and wholesale, and overseas sales.

In the Perfect One series, it provides four versions of the All-in-One Gel series that can be selected according to skin type and skin concerns. In addition, the simple skin care merchandise it provides include Cleansing Soap, an all-in-one face wash, and CC Cream, an all-in-one foundation. In health foods, it sells products including Green Vegetable Juice Salad Plus, Loco Attack EX, a supplement to support improved daily knee movement, and Kioku-leaf, a supplement to help maintain memory capabilities in the middle-aged and elderly. In pharmaceuticals, its lineup includes Yokuinnekisu Tablets SH, an herbal pharmaceutical preparation effective for warts and dry skin, and Cyst White Plus +, which mitigates spots, freckles, and other skin pigmentation.

2. 1Q-3Q FY9/20 financial results

In 1Q-3Q FY9/20 (October 2019 to June 2020) financial results, net sales were ¥25,573mn (up 0.8% year-on-year (YoY)), operating profit was ¥2,552mn (down 1.6%), ordinary profit was ¥2,549mn (up 0.1%), and profit was ¥1,593mn (up 1.2%). Although operating profit decreased, it still surpassed Company forecast. Steady progress was made, with a progress rate of 81.0% for the full-year forecast.

3. Strengths

The Company’s strengths include that it owns well-established brands in the all-in-one skin care market. The all-in-one skin care market’s 5-year CAGR (Compound Annual Growth Rate) up to 2019 was estimated to be 8.5%. Within that, Perfect One’s CAGR was 13.0%. Perfect One drives the market’s growth, ranking No.1 for domestic sales in the all-in-one skin care market for four consecutive years.

In merchandise planning, when a call center communicator receives a call such as for an order or an inquiry, it collects the “actual voices” of customers, such as their opinions and requests. Another strength is that it analyzes this information based on database marketing to launch highly effective and functional merchandise that is tailored to meet customer needs.

It has also been successful with product proposals that prioritize dialogue with customers through call center communicators and with measures to promote subscription-type purchases, including granting discounts and points and conducting time-limited campaigns, so another of its strengths is the high rate of continuous purchases.

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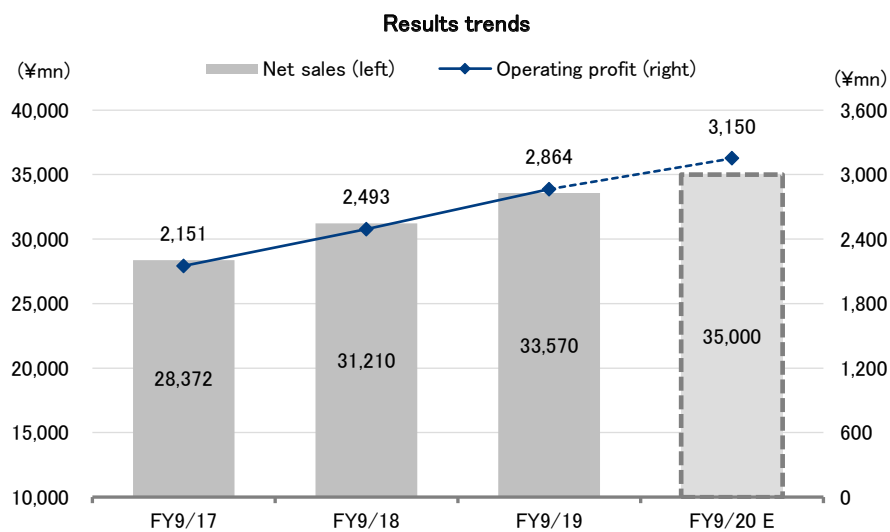
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Summary

Key Points

- Perfect One has ranked No.1 for domestic sales in the all-in-one skin care market for four consecutive years
- Partners with several universities, raw material manufacturers, and others, to develop merchandise that is highly effective and functional
- Specializes in the planning, development, marketing, and sales of merchandise and is a fables manufacturer that externally outsources production



Source: prepared by FISCO from the financial results and the supplementary briefing material

Company profile

Established in 1992. The Company started in Kyushu and expanded its business to all of Japan and Asia

The Company conducts the planning and sales of cosmetics, health foods, and pharmaceuticals. In cosmetics, under the Perfect One brand name, it handles simple skin care merchandise, including the All-in-One Gel series. It has three sales channels, the main channel of mail order, direct stores and wholesales, and overseas. Its vision is “Creating Healthy and Enriched Lives for People around the World,” and it conducts business activities as a creator of lifestyles that foster beauty and good health through database marketing. It specializes in the planning, development, marketing, and sales of merchandise and is a fables manufacturer that externally outsources production.

Shinnihonliving Co., Ltd. (currently, the Company) was established in 1992 as a company planning and selling daily commodities. In 1994, it started a mail order business for diet supplements and health teas and expanded its business scope to cosmetics and pharmaceuticals. For the sales channels, it started from local free papers and then expanded to Kyushu and nationwide. It began a television mail order business from 2001 and opened direct sales stores in 2010. It started sales in Taiwan in December 2016, and after that, it also developed its business in Hong Kong, China, Thailand, and Singapore, and further launched a business in Vietnam on June 1, 2020.

We encourage readers to review our complete legal statement on “Disclaimer” page.

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Company profile

Company History

Date	Summary
March 1992	Shinnihonliving Co., Ltd. (currently, the Company) was established (share capital, ¥10mn) in Higashiori, Onojo City, Fukuoka Prefecture, as a company planning and selling daily commodities
July 1994	Started a health foods mail order business
June 1996	Relocated the head office to Otogahanagashi, Onoji City, Fukuoka Prefecture
December 2000	Started a basic cosmetics mail order business
April 2002	Changed the trade name from Shinnihonliving Co., Ltd., to Shinnihonseiyaku Co., Ltd.
March 2003	Opened a logistics center in Yoshizuka, Hakata-ku, Fukuoka City, Fukuoka Prefecture
April 2003	Relocated the main store to Yoshizuka, Hakata-ku, Fukuoka City, Fukuoka Prefecture
May 2005	Launched sales of the RAffINE series cosmetics brand
May 2006	Relocated the head office to Akasaka, Chuo-ku, Fukuoka City, Fukuoka Prefecture
May 2006	Launched sales of RAffINE Perfect One
October 2006	Opened the Iwakuni Hongo Research Institute*1, a base for medical plant cultivation and research
November 2006	Started a pharmaceuticals mail order business
March 2010	Opened direct store No. 1 in Fukuoka PARCO
July 2010	Opened the Tokyo sales office in Uchisaiwaicho, Chiyoda-ku, Tokyo (currently, the Tokyo Office)
April 2012	Started wholesales of the RAffINE series
October 2013	Relocated the head office to Otemon, Chuo-ku, Fukuoka, Fukuoka Prefecture
April 2014	Changed the cosmetics brand name to Perfect One
December 2016	Started a mail order business in the Taiwan market
February 2017	In the 7th Most Cherished Companies in Japan Awards, won the Executive Committee Chairperson Award
March 2017	The Perfect One All-in-One Gel series ranked No.1 for domestic sales*2 in the all-in-one skin care market
September 2018	Started cross-border EC in the China market
September 2018	Won the Grand Prize in the Beauty Awards held by Queen, a popular information TV program in Taiwan, and also won the Best Newcomer Award
June 2019	Listed on the Tokyo Stock Exchange (TSE) Mothers' market
January 2020	Relocated the Tokyo office to the Marunouchi Building, Chiyoda-ku, Tokyo
June 2020	Started a business in the Vietnam market

*1 Merged with the Yoshizuka office (R&D center) in June 2020

*2 From Fuji Keizai's Cosmetics Marketing Handbook 2017 (moisture section and all-in-one section/manufacturers, brand shares, 2016 results)

Source: prepared by FISCO from the supplementary briefing material

Business overview

Handles cosmetics and healthcare products that relate directly to health and beauty that are essential in lifestyles

The Company handles cosmetics, healthcare products, and pharmaceuticals that relate directly to health and beauty that are essential in lifestyles. In cosmetics, which provide more than 90% of sales, the Perfect One All-in-One Gel series is the Company's mainstay merchandise, and it has ranked No.1 for domestic sales in the all-in-one skin care market for four consecutive years. Through cooperation between market research, call centers, and stores, and based on the database marketing it has cultivated up to the present time, the Company collects the latest technical information and ingredient information to develop merchandise that is highly effective and functional. For customer data, it has accumulated 4.4mn data items up to today, mainly on women in their middle age (40 years) and older, and this number is increasing at a pace of around 400,000 data items a year.

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Business overview

The Perfect One All-in-One Gel series, which is the main merchandise, is as follows. Its ingredients include Compounding Collagen EX, which combines 7 types of collagen; Moisture Gel, which is a blend of 50 types of moisturizing ingredient; and an ingredient effective for skin whitening that inhibits the production of melanin. In addition, it provides Whitening Gel, which is a blend of 55 types of moisturizing ingredient, and Super Moisture Gel, which has a high moisturizing effect through blending 60 types of moisturizing ingredient, including platinum collagen EX. Moreover, Lifting Gel is a formulation of protective collagen containing original ingredients developed independently by the Company, and within this series, it is the product formulated with the highest concentration of collagen. Other than these, it provides merchandise including Cleansing Soap, which is formulated with collagen and has five functions, including face cleansing, makeup removal, and pore care, and the all-in-one foundation CC Cream, which covers wrinkles due to light, containing 40 types of moisturizing ingredient and the most moisturizing agents in the makeup lineup.

For health foods, the Company handles merchandise including foods labelled with functions and dietary supplement foods. The following are the main health food merchandise: Green Vegetable Juice Salad Plus, which is a green vegetable juice containing 20 types of domestically produced ingredients, including indigo plant, kinji-sou plant, and coastal hog fennel; Loco Attack EX, which is a food labelled with functions containing proteoglycan derived from salmon cartilage and unmodified II type collagen, and it is a supplement to improve the movement of knees on a daily basis; Kioku-leaf, which is also a food labelled with functions and is a supplement formulated with ginkgo leaf-derived flavonoid glycoside and ginkgo leaf-derived terpene lactones to maintain the memory abilities of the middle-aged and the elderly, such as to support forgetfulness due to aging.

In pharmaceuticals, with the aims of realizing effective prescriptions, the Company researches combinations of Japanese and Chinese plants and materials, and it handles merchandise launched to improve a variety of diseases and symptoms, including dry skin, feelings of cold, joint and back pain, and the menopause. The main merchandise include Yokuinnekisu Tablets SH, which is a herbal medicine to establish the skin state from inside the body and to improve warts and dry skin, and also Cyst White Plus +, which has the effect of ameliorating skin pigmentation issues like spots and freckles and due to sunburn and rashes.

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Business overview

Summary of the Company's main merchandise

[Perfect One series]	
PERFECT ONE Moisture Gel	The All-in-One Gel series responds to aging skin issues, such as skin slackening and small wrinkles. In addition to the Compounding Collagen EX, which combines 7 types of collagen, it is formulated with 50 moisturizing ingredients, including moisture magnet that supplements and maintains moisture.
PERFECT ONE Whitening Gel	Formulated using arbutin, a skin whitening effective ingredient that suppresses the formation of melanin and which approaches the problem from the original blemishes, it also blends tranexamic acid to prevent dry skin. The All-in-One Gel series has skin whitening and moisturizing effects and takes a multi-faceted approach to skin damage caused by ultraviolet rays.
PERFECT ONE Super Moisture Gel	It contains 60 types of moisturizing ingredient, including Compounding Collagen EX, moisture magnet, and also platinum collagen EX and moisture coat collagen. The All-in-One Gel series maintains concentrations of moisture for a long time and is highly moisturizing.
PERFECT ONE Lifting Gel	Even in the All-in-One Gel series, it is formulated with the highest concentration of collagen. It is a new formulation in the All-in-One Gel series, being the first in the world to contain protect collagen, an ingredient independently developed by the Company, and it can realize fully fledged aging care through blending 72 types of moisturizing ingredients, including stretch essence and moisture magnet.
PERFECT ONE Cleansing Soap	A cleansing soap formulated with collagen and by combining 50 types of moisturizing ingredient. Its makeup sensor ingredient has the effect of absorbing makeup and pore sebum stains.
PERFECT ONE CC Cream	An all-in-one foundation that combines various functions, including a makeup base, foundation, color control, and sunscreen. It is formulated with color control powder, which controls light to cover skin problems such as wrinkles, and stretch polymer, which moves in accordance with the user's facial expression. Moreover, it is formulated by combining 40 types of moisturizing ingredient, including collagen veil and hyaluronic acid.
[Health foods]	
Rise and shine! Green Vegetable Juice Salad Plus	A green vegetable juice formulated by blending 20 types of domestically produced ingredients, including indigo plant, kinji-sou plant, and coastal hog fennel, to support a nutritional balance. It is also formulated by blending vegetable nano-type lactobacilli, fermented burdock, and calcium.
Loco Attack EX	A food labelled with functions containing proteoglycan derived from salmon cartilage and unmodified II type collagen. It is a supplement to improve the day-to-day movement of knees and feelings of discomfort.
Kioku-leaf	A food labelled with functions formulated with ginkgo leaf-derived flavonoid glycoside and ginkgo leaf-derived terpene lactones to maintain the memory abilities of the middle-aged and elderly. It is a supplement that supports forgetfulness due to aging.
[Pharmaceuticals]	
Yokuinnekisu Tablets SH	A category-three pharmaceutical. Provided as easy-to-take tablets with ingredients extracted from coix seed from pearl barley, which is used as a herbal ingredient that is effective for warts and dry skin.
Cysty White Plus +	A category-three pharmaceutical. Effective for ameliorating skin pigmentation issues like spots and freckles, and due to sunburn and rashes. It is formulated by blending L-cysteine and various types of vitamins, and it acts on spots and freckles from three approaches, of "preventing, reducing, and helping to eliminate" spots.

Source: prepared by FISCO from the Company's homepage

The Company's sales channel are the main channel of mail order, direct-store sales and wholesale, and overseas sales. Some of the direct-store sales and wholesale, and overseas sales are being affected by the novel coronavirus infection. But as mail order provides more than 90% of sales, it is driving the strong financial results, against the backdrop of the new ways of living due to the self-restraint on going out. Direct stores conduct sales that prioritize communication with customers, such as counseling, and the Company operates 12 stores in department stores and shopping centers nationwide. For wholesale, it provides Perfect One merchandise to more than 620 stores, mainly variety shop and GMS*.

* General Merchandise Store

Strengths

Driving the all-in-one skin care market, for which the barriers to entry are high for major cosmetics manufacturers. Has a high rate of continuous purchases from merchandise proposals that prioritize dialogue with the customer

The Company's strengths include that it has well-established brands in the all-in-one skin care market. It seems that in the five years up to 2019, the all-in-one skin care market had a CAGR of 8.5%. But within it, the CAGR of Perfect One was 13.0% and it is driving the market's growth, ranking No.1 for domestic sales in the all-in-one skin care market for four consecutive years.

In merchandise planning, the Company prioritizes "the actual voices of customers" who call the call centers, such as their opinions and requests, and based on database marketing, it launches merchandise tailored to meet customer needs.

The "actual voices of customers" are reflected in specific services and products, of launches of new merchandise and information disseminated through membership magazines. It is also increasing customer engagement, including through providing discounts and points and conducting time-limited campaigns, and it is developing a base of subscription purchase-type customers. This high rate of continuous purchases can be said to be one of the strengths and features of the Company.

Also, with regards to the intensification of competition to enter the all-in-one skin care market by major cosmetics manufacturers, the Company specializes in all-in-one skin care, while other major cosmetics manufacturers are developing cosmetics in a variety of categories, and there are high barriers to entry into the all-in-one skin care market that may lead to a reduction in prices of existing merchandise, so this market is considered to be difficult to actively enter.

For merchandise development, the Company collects the latest technical information and ingredient information and develops merchandise that is highly effective and functional. In addition, it is said that collagen accounts for about 70% of skin, and the Company considers it to be particularly important in skin care according to age. A feature of collagen is that its amount decreases with age and its quality is also said to change. With regards to this change, the Company assessed its characteristics and independently developed "Compounding Collagen EX (moisturizing ingredient)" that combines seven types of collagen with different functions. It is progressing joint research with the Tokyo University of Agriculture and Technology to develop original raw materials and to further verify the effectiveness of collagen. In July 2020, the Company acquired the patent for a new functional collagen raw material manufacturing method and succeeded in developing for the first time in the world the original raw material VC Collagen. In this raw material, the collagen has a moisturizing effect and the vitamin C has an antioxidant effect, and in addition, it has been confirmed that compared to general collagen raw materials, it has an "ability to stimulate production of collagen" of approximately five times.

The market environment

The beauty industry has been particularly affected by the decrease in the opportunities to go outside due to the novel coronavirus infection. Consumers' cosmetic needs have weakened from the impact of the self-restraint on going out and from wearing masks, while this market has also been greatly affected by the rapid decrease in demand from overseas visitors to Japan. It seems that there is a movement toward developing new merchandise, such as powder cosmetics that do not easily come-off when wearing a mask, but even so, the frequency of purchases of makeup items is decreasing. Conversely, an increasing number of consumers are worried about makeup coming off when wearing a mask, mask burn, and dry skin, so demand for skin care products is rising.

Many are of the opinion that the changes to consumers' awareness and behavior due to the novel coronavirus infection will not completely return to as before in the future, so it would seem that there is room for the skin care market to grow.

Results trends

Results are being driven by mail order, which provides more than 90% of net sales. Is making steady progress, with a rate of progress of 81.0% toward the operating profit full year forecast

1. 1Q- 3Q FY9/20 financial results

In 1Q- 3Q FY9/20 (October 2019 to June 2020) financial results, net sales were ¥25,573mn (up 0.8% YoY), operating profit was ¥2,552mn (down 1.6%), ordinary profit was ¥2,549mn (up 0.1%), and profit was ¥1,593mn (up 1.2%). Although operating profit declined, it still made steady progress, with a rate of progress of 81.0% for the full year forecast. In net sales by channel, there was a rebound from sales being pushed forward to the previous year due to the hike in the consumption tax rate, while the novel coronavirus infection also affected some parts of the direct store sales and wholesale channel, and the overseas sales channel. However, the mail order channel, which provides more than 90% of net sales, was not greatly affected by the virus and it drove the financial results. In a severe business environment for sales in brick-and-mortar stores, these results express the strength of a sales channel that reflects the current times, including the use of EC and mail order.

1Q-3Q FY9/20 financial results

	1Q-3Q FY9/19	1Q-3Q FY9/20	Rate of change	Rate of progress
				(¥mn)
Net sales	25,376	25,573	0.8%	73.1%
Operating profit	2,592	2,552	-1.6%	81.0%
Ordinary profit	2,546	2,549	0.1%	81.5%
Profit	1,573	1,593	1.2%	79.3%

Source: prepared by FISCO from the financial results and the supplementary briefing material

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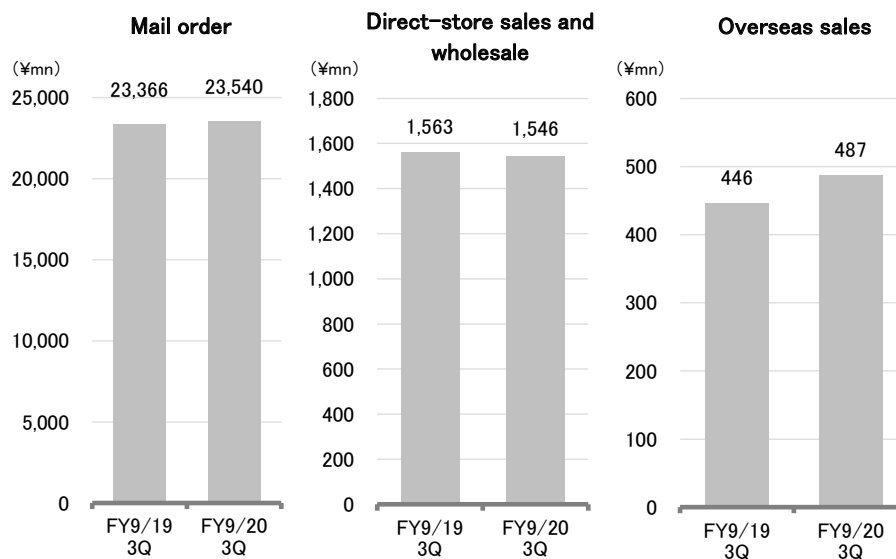
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Results trends

In sales by channel, for mail order, sales trended strongly of seasonal products that can be used in combination with gel products to customers who are currently using the Perfect One All-in-One Gel series, which is the Company's mainstay merchandise. Also, the measures to acquire new customers in domestic EC sales and the active advertising investment in external online malls were successful, and net sales increased 0.7% YoY to ¥23,540mn to exceed the amount in the same period in the previous fiscal year. Alongside the increase in time at home, the order closing rate for subscribers set record highs for two consecutive months in May and June. In overseas and domestic EC net sales, domestic EC sales drove the growth in sales and grew greatly, up 22.7% YoY to ¥2,539mn.



Source: prepared by FISCO from the supplementary briefing material

In direct-store sales and wholesale, the Company is continuously working on measures to increase the number of stores handling its products, mainly variety shops and GMS, and to expand sales floors. But the number of customers decreased because of the temporary shutdowns of stores and the self-restraint on going out due to the impact of the novel coronavirus infection. Therefore, sales declined 1.1% YoY to ¥1,546mn, below the amount in the same period in the previous fiscal year.

In overseas sales in 1Q FY9/20, sales were strong, mainly for China. But in the 2Q, alongside the spread of the novel coronavirus infection, some sales activities were affected, including that logistics operations were stopped within China and exports to China were postponed. However, as results were strong in the 1Q and economic activities are restarting in various countries, net sales increased 9.1% YoY to ¥487mn.

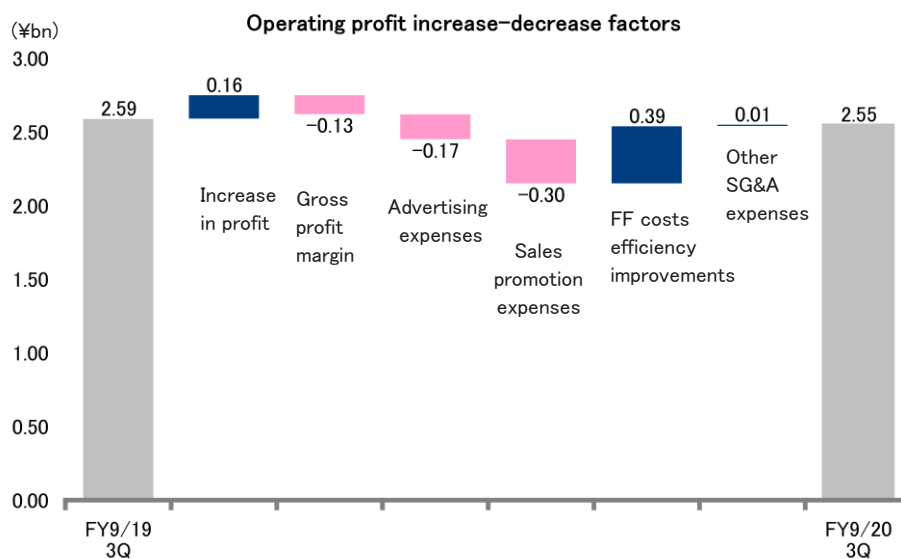
Results trends

Contributions from the higher net sales from the growth in cosmetics' sales and the improved efficiency from the reduction in FF costs

2. Operating profit increase-decrease factors

The effects of the higher net sales from the growth of cosmetics' sales (¥160mn) and the improved efficiency from the reduction in FF costs* (¥390mn) contributed to the increase in operating profit. In the 1H, the Company actively conducted marketing investment, including on advertising costs, toward increasing sales, but conversely, it temporarily kept down these costs in the 1Q-3Q FY9/20 in order to ascertain consumer trends. As a result, it increased ¥170mn YoY, but the amount was still controlled, with the rate of progress for the full year forecast being 69.5%. Also, FF costs decreased 13.1% YoY, mainly due to the reduction in shipment delivery costs from measures to create shipping charges and the reduction in transaction fees from inducing switching of the payment method. Call center costs declined 5.8% and progress was made in improving efficiency basically as planned. Operating profit was about the same amount as in the same period in the previous fiscal year.

* FF costs (order fulfillment costs) In mail order, it indicates the costs for the whole series of operations, from ordering through to delivery (packaging, shipping, payment collection, etc.)



Source: prepared by FISCO from the supplementary briefing material

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Results trends

Has an abundance of cash and deposits for investment in growth and the equity ratio rose 6.6pp on the end of the previous period

3. Financial condition

At the end of the 3Q FY9/20, total assets were ¥18,156mn, down ¥419mn on the end of the previous period. The main items included that cash and deposits decreased ¥221mn, accounts receivable–trade declined ¥183mn, and inventory assets increased ¥104mn. Liabilities were ¥4,438mn, down ¥1,378mn, with the main factors including that accounts payable–other declined ¥595mn and income taxes payable decreased ¥462mn. Net assets were ¥13,717mn, up ¥958mn. This was because of the recording of profit of ¥1,593mn and decreases of ¥378mn for dividend payments and ¥299mn to acquire treasury shares. The treasury shares were acquired from May 14 until June 23, 2020, with the upper limit being 300,000 shares (percentage of the total number of outstanding shares (excluding treasury shares), 1.39%). The aims of this acquisition were to improve returns to shareholders and capital efficiency, and to implement a flexible capital policy. The cumulative number of treasury shares acquired during this period was 190,100 shares, for a total acquisition price of ¥299,847,800.

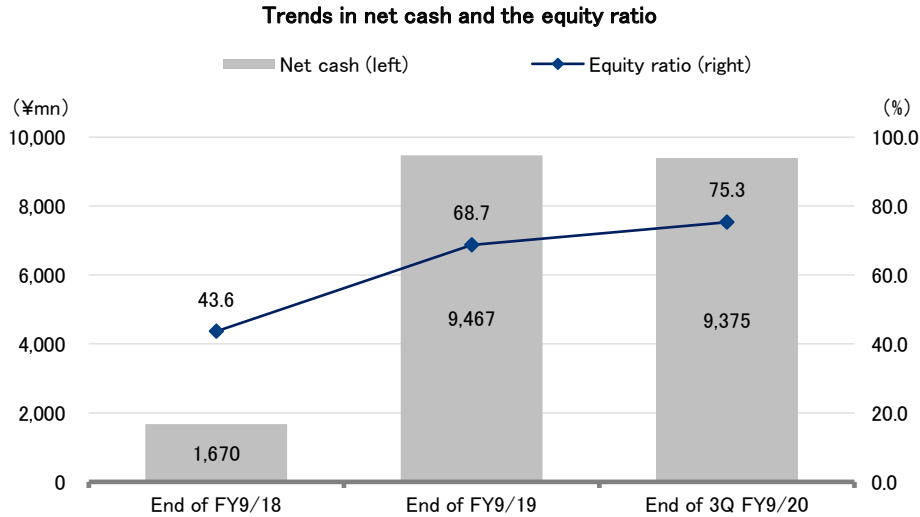
Balance sheet

	End of FY9/18	End of FY9/19	End of 3Q FY9/20	(¥mn) End of the previous period
Current assets	6,094	14,693	14,362	-330
Cash and deposits	2,954	10,576	10,354	-221
Accounts receivable - trade	2,099	2,913	2,730	-183
Inventory assets	901	1,063	1,168	104
Non-current assets	3,397	3,882	3,793	-89
Total assets	9,491	18,575	18,156	-419
Liabilities	5,299	5,817	4,438	-1,378
Accounts payable - trade	360	416	268	-147
Interest-bearing debt	1,284	1,109	979	-129
Net assets	4,191	12,758	13,717	958
Treasury shares	-	-	-299	-299
Total liabilities and net assets	9,491	18,575	18,156	-419

Source: prepared by FISCO from the supplementary briefing material

Net cash (cash and deposits – interest-bearing debt) is ¥9,375mn and the Company has an abundance of cash and deposits to invest in growth. It has also concluded a ¥10bn overdraft and commitment-line agreement and has put in place stable financing. The equity ratio is 75.3%, rising 6.6 percentage points (pp) on the end of the previous period, and the Company continues to maintain a sound financial base.

Results trends



Source: prepared by FISCO from the supplementary briefing material

■ Outlook

Has left the initial FY9/20 financial results forecasts unchanged. Expects demand and sales expansion for cosmetics and healthcare products

1. FY9/20 financial results forecasts

For the FY9/20 financial results, the initial forecasts have been left unchanged, of net sales of ¥35,000mn (up 4.3% YoY), operating profit of ¥3,150mn (up 10.0%), ordinary profit of ¥3,130mn (up 10.7%), and profit of ¥2,010mn (up 10.2%). By product category, sales of cosmetics in the mail order channel are expected to grow, and cosmetics' net sales are forecast to increase 6.6% YoY to ¥32,607mn. Also, net sales of healthcare products are forecast to decrease 20.1% to ¥2,392mn. But the rate of progress up to the 3Q FY9/20 was 84.9%, so it seems likely that the result will exceed the forecast. Based on the recommendations of the government's novel coronavirus infection specialist committee and on assuming the risk of novel coronavirus infection, demand is expected to increase for all-in-one cosmetics that enable simple and smart skin care through the establishment of a "new way of living," such as making wearing a mask a habit in this new way of living. Moreover, for healthcare products as well, demand is forecast to increase from the rising interest in maintaining health and improving immunity.

Outlook

FY9/20 outlook

	FY9/18	FY9/19	FY9/20 (forecasts)	YoY
				(¥mn)
Net sales	31,210	33,570	35,000	4.3%
Cosmetics	27,209	30,575	32,607	6.6%
Healthcare Products	4,001	2,994	2,392	-20.1%
Operating profit	2,493	2,864	3,150	10.0%
Ordinary profit	2,499	2,828	3,130	10.7%
Ordinary profit rate	8.0%	8.4%	8.9%	0.5pt
Profit	1,751	1,824	2,010	10.2%

Source: prepared by FISCO from the supplementary briefing material

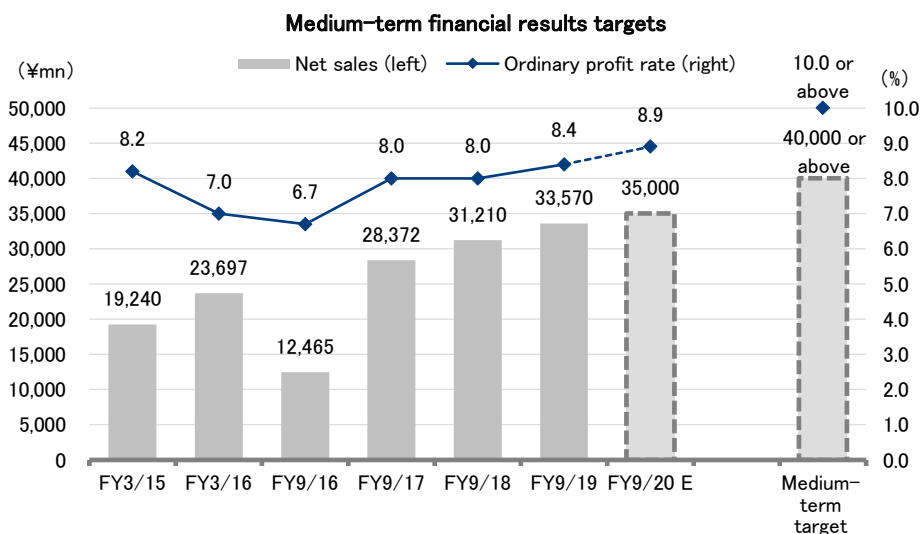
2. FY9/20 net sales forecasts by channel

For net sales by channel, based on the 1Q-3Q FY9/20 results, there have been no changes to the assumptions for the full year outlook. In mail order, sales are forecast to increase of the Perfect One All-in-One Gel series, which is the Company's mainstay merchandise, rising 3.2% YoY to ¥31,794mn. In direct-store sales and wholesale, the forecast is for sales to increase 13.5% to ¥2,443mn. As before, there are concerns about the impact of the novel coronavirus infection, but it is considered that a recovery trend can be seen following the resumption of economic activities. Overseas sales are forecast to increase 24.2% to ¥762mn. Domestic and overseas EC net sales, which are driving the sales growth, are expected to increase 14.9% to ¥3,235mn.

Also, for marketing investment, which includes advertising expenses, the plan is to select media based on acquisition efficiency, and in particular, to increase investment in the strongly performing domestic EC. In operations costs, the Company intends to progress measures as planned for both improving the efficiency of FF costs and for call center costs.

The growth strategy

Perfect One's CAGR is 13.0% and it is realizing high growth. In the fall of 2020, will launch new merchandise with wrinkle improvement and skin whitening effects



Note: FY9/16 was a six-months fiscal period
Source: prepared by FISCO from the supplementary briefing material

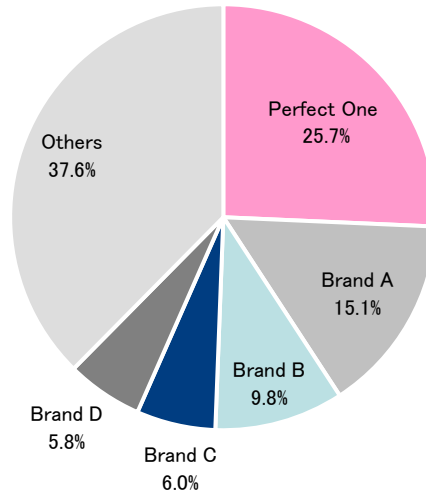
The Company's medium-term financial results targets are net sales of at least ¥40bn and an ordinary profit margin of at least 10%.

1. Further growth of the Perfect One brand

As its strategy toward quickly achieving the medium-term financial results targets, the Company is aiming to further grow Perfect One and to develop it to be the brand that continues to be chosen by consumers in the long term. Toward this, from within the Perfect One All-in-One Gel series, which has ranked No.1 for domestic sales for four consecutive years, it plans to launch new merchandise with wrinkle improvement and skin whitening effects in the fall of 2020. This merchandise will have a high price among the All-in-One Gel series, so it is expected to raise the customer unit price from promoting switching among existing users and to expand share in the functional cosmetics market through acquisitions of new customers. After the launch, the Company will actively conduct advertising investment, aiming to further grow the Perfect One brand. The Company's share of all-in-one brands was 25.7% in 2019. This is a higher share than its competitors, which include Dr. Ci:Labo Co., Ltd., and DHC Corporation, and it has acquired a leading position in the moisture all-in-one segment, in which a succession of companies have entered from other industries, such as Suntory Wellness Limited. It seems that the five-year CAGR of the all-in-one skin care market up to 2019 was 8.5%. Within it, Perfect One's CAGR was 13.0% and it has continued to achieve high growth, and the Company is expected to further increase its market share through launching new merchandise.

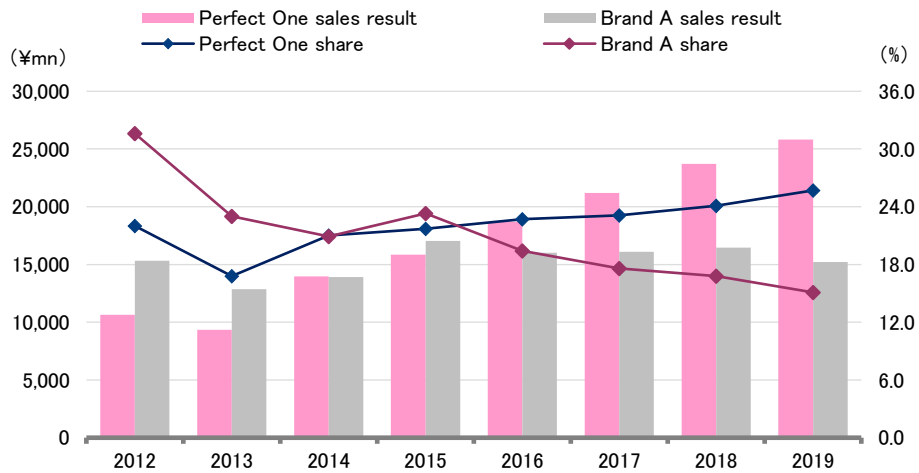
The growth strategy

All-in-one brand shares (2019 results)



Source: prepared by FISCO from materials provided by the Company

Trend in the all-in-one market sales results and brand shares

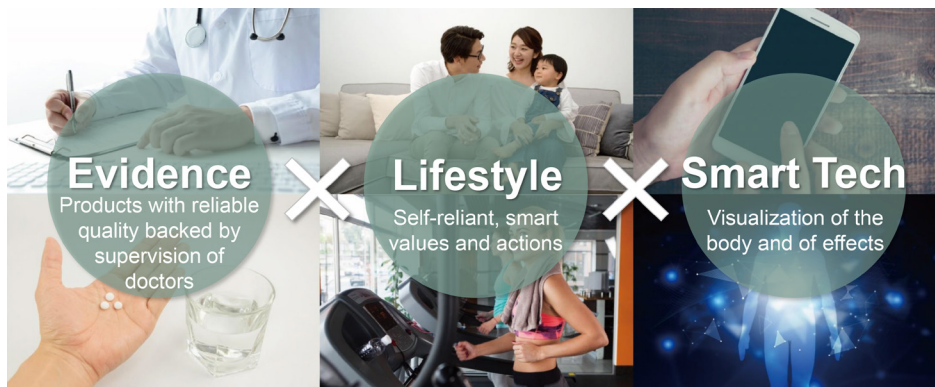


Source: prepared by FISCO from materials provided by the Company

2. Launch of the Smart Health Care Business

The Company is aiming to establish a new standard in the healthcare field. It is already developing foods labelled with functions and intends to develop products that can contribute to an era in which people live to be 100 years' old. Also, toward the new era after the end of the coronavirus pandemic, it plans to launch the new Smart Health Care Business in the fall of 2020. Having experienced the novel coronavirus infection, the values of individuals are shifting significantly toward "autonomy," and also "self-defense," or protecting oneself, has become a theme. As a new business to support individuals' "self-reliant healthcare" for customers who feel empathy for "Evidence," of products with reliable quality backed by the supervision of doctors, and "Lifestyles," of self-reliant, smart values and actions, the Company will build a new brand from innovative methods using Smart Tech by providing actual experiences from the visualization of the body and of effects.

Launch of the new Healthcare Business

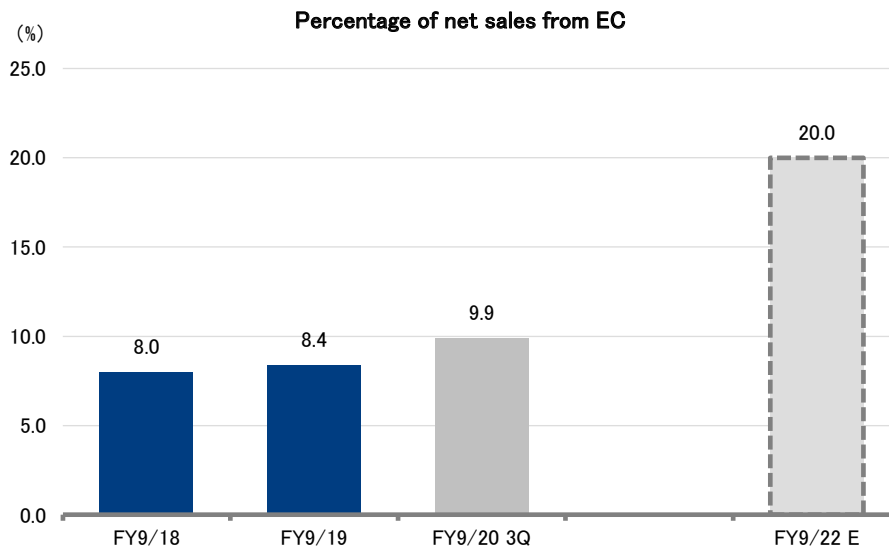


Source: the supplementary briefing material

3. Accelerating EC and digital expansion

The Company will utilize its EC website and smartphone app and progress acquisitions of new EC customers. Alongside the self-restraint on going out due to the spread of the novel coronavirus infection, it plans to expand measures to further accelerate the transition to EC, benefiting from the establishment of recent home shopping habits, such as nesting (stay at home) consumption. Online mail order literacy among the middle-aged generation and older is increasing, and the transition to using EC is rising, so while improving convenience, the percentage of net sales provided by EC will increase. Also, since the past, the Company has effectively utilized the TV and newspaper advertising framework using mail order, and the movement toward acquiring new EC customers is accelerating and the development of EC is progressing, mainly for the middle-aged generation. In FY9/20, the target for the percentage of total net sales provided by EC is 9.3%, but by the 3Q it had already reached 9.9%. The Company plans to raise the percentage of net sales from EC to 20.0% by FY9/22.

The growth strategy



Source: prepared by FISCO from the supplementary briefing material

4. Expansion of the overseas business

The Company started sales of Perfect One in Taiwan in December 2016, and after that, it also developed its business in Hong Kong, China, Thailand, and Singapore, and further, it launched a business in Vietnam on June 1, 2020. Sales are being conducted centered on the online channel, including via Lazada Vietnam and Shopee, which are leading online malls in South East Asia. The Company is further developing the overseas business for ASEAN countries while strengthening investment in China, which is growing remarkably. Looking to the long term, it is advancing preparations to enter into North America, and in such ways, it continues to expand measures aiming to make Perfect One a global standard brand.

Actively conducting measures, including meeting with companies to form partnerships

5. Toward growth in the future

The Company is progressing joint research with the Tokyo University of Agriculture and Technology and is developing original raw materials and further verifying the effectiveness of collagen. It is also conducting development through collaborations with a number of partners, including universities and raw material manufacturers, and it is conducting joint R&D to be able to apply collagen and other materials for purposes other than for cosmetics. Also, since the time it was listed on the TSE Mothers' market, with the first objective being to enhance its creditworthiness, the Company has been actively conducting measures like recruiting human resources and meeting with companies toward forming partnerships. Meeting companies toward forming partnerships is said to be one effective method in order to conduct innovative merchandise development and services development that utilize database marketing, and to accelerate global growth.

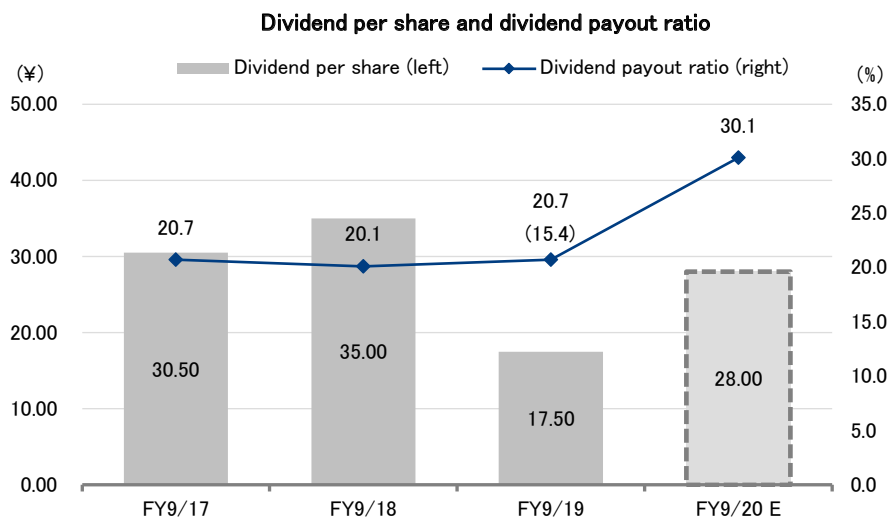
Measures for SDGs

The Company is also working on measures for SDGs, based on its philosophy of being a “Company that Contributes to Society.” Currently, it is conducting in-house fund-raising for the international medical volunteer organization Japan Heart for its support activities following the torrential rains in Japan in July 2020. Also, in order to realize its vision of “Creating Healthy and Enriched Lives for People around the World,” the Company considers the health and happiness of each and every one of its employees to be important. In the cafeteria in the head office, it has installed a salad bar to support employee health, while in addition, it is participating in the TABLE FOR TWO program, in which for every meal purchased, it donates ¥20 to the school meals of children in developing countries. Other than these initiatives, it sells handmade sweets and drinks in the in-company cafeteria, and these sales are allocated to the fund raising of the Pink Ribbon campaign. In such ways, employees are voluntarily and naturally contributing to society.

The Company considers its stakeholders to be important, and as a company that is continuously conducting measures toward realizing people’s happiness, it won the Executive Committee Chairperson Award in the 7th Most Cherished Companies in Japan Awards in 2017.

Shareholder return policy

The Company’s basic policy is to continuously and stably return profits to shareholders in accordance with its financial results, after securing the internal reserves it needs to invest in business development in the future and to maintain a sound financial structure. In May 2020, it distributed profits continuously and stably according to the financial results, increasing from a 20% base to a 30% base for the dividend payout ratio. Alongside this, it upwardly revised the FY9/20 period-end dividend (annual dividend) forecast from ¥19 per share to ¥28 per share.



Note: the dividend payout ratio in the FY9/19 financial results was 15.4%. The reason it is different to 20.7% is the increase in the number of shares during FY9/19.

Source: prepared by FISCO from the supplementary briefing material

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Shareholder return policy

Also, in May 2020, the Company announced that it was enhancing the content of its shareholder benefits program. The gifts in the shareholder benefits program were allocated to shareholders holding 100 to 299 shares and shareholders holding 300 or more shares, shareholding periods have also now been established. Previously, shareholders holding 100 to 299 shares were given Moisture Gel Half Size worth ¥2,500. But after enhancing the program, shareholders holding shares for less than 6 months will be given Moisture Gel 75g worth ¥4,000 and those holding for 6 months or longer, Moisture Gel 75g and Rise and Shine! Green Vegetable Juice Salad Plus with a total value of ¥7,500. Shareholders holding 300 or more shares were previously given Moisture Gel 75g, Kioku-leaf, and W Health Green Vegetable Juice worth a total of ¥10,500. But following the enhancement of the program, shareholders holding shares for less than 6 months will be given Moisture Gel 75g, Rise and Shine! Green Vegetable Juice Salad Plus, Treatment Shampoo, and a gift voucher for the Company's merchandise (worth ¥5,000) with a total value of ¥15,000, while those holding shares for 6 months or longer will be given Moisture Gel 75g, Rise and Shine! Green Vegetable Juice Salad Plus, SP Night Cream (a seasonal product), and a gift voucher for the Company's merchandise (worth ¥5,000) with a total value of ¥27,000.

Description of the Company's shareholder benefits program

No. of shares held	Period held	Description of benefit	Equivalent value
100 shares to 299 shares	Less than 6 months	Moisture Gel 75g	¥4,000
	6 months or longer	Moisture Gel 75g	¥7,500
Rise and Shine! Green Vegetable Juice Salad Plus			
300 shares or more	Less than 6 months	Moisture Gel 75g	¥15,000
		Rise and Shine! Green Vegetable Juice Salad Plus	
		Treatment Shampoo	
		Gift voucher for the Company's merchandise (worth ¥5,000)	
6 months or longer	6 months or longer	Moisture Gel 75g	¥27,000
		Rise and Shine! Green Vegetable Juice Salad Plus	
		SP Night Cream (a seasonal product)	
		Gift voucher for the Company's merchandise (worth ¥5,000)	

Source: prepared by FISCO from the Company's press release



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