

Shinnihonseiyaku Co., Ltd

4931

Tokyo Stock Exchange First Section

27-Jan.-2021

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Summary

In FY9/20, set record high net sales, despite the many negative factors in the external environment. Each profit item was higher than initially forecast.

1. Business overview

Shinnihonseyaku Co., Ltd. <4931> (hereafter, “the Company”) conducts planning and sales of cosmetics, health foods, and pharmaceuticals. It handles simple skin care merchandise under the “PERFECT ONE” brand name, including the mainstay Perfect One All-in-One Gel series. It has three sales channels--the main channel of mail order, direct store sales and wholesale, and overseas sales. The Company’s vision is “Creating Healthy and Enriched Lives for People around the World,” and it conducts business activities as a company that creates lifestyles of beauty and good health through database marketing. It specializes in the planning, development, marketing, and sales of merchandise, and it is a fables manufacturer that externally outsources production.

The Company has ranked No.1 for domestic sales in the all-in-one skin care market for four consecutive years (from the Company’s supplementary briefing materials and Fuji Keizai’s Cosmetics Marketing Handbook for 2017, 2018, 2019, and 2020). Through cooperation between market research, call centers, and stores, and based on the database marketing it has cultivated up to now, it collects the latest technical information and ingredient information and develops highly effective and functional merchandise. For customer data, up to now it has accumulated 5.2mn data items, mainly on women middle age generation (ages 40 to 59) and older, and this number is increasing at a pace of around 400,000 data items a year.

2. FY9/20 financial results

In FY9/20 results, net sales were ¥33,728mn (up 0.5% year-on-year (YoY)), operating profit was ¥3,329mn (up 16.2%), ordinary profit was ¥3,295mn (up 16.5%), and profit was ¥2,122mn (up 16.3%). There were many negative factors in FY9/20. In addition to the rebound to the increase in demand ahead of the hike in the consumption tax rate conducted in FY9/20, consumer sentiment worsened after the increase in the consumption tax rate. Moreover, purchase intentions changed due to the novel coronavirus pandemic (hereafter, COVID-19), while direct store sales and wholesale and overseas sales were affected by the declaration of a state of emergency. However, the Company worked to grow sales, mainly of cosmetics, and sales increased. Overall, while COVID-19 did have some effect and net sales were below the initial forecast, they still set a new record high, while each profit item also increased and were higher than their initial forecasts.

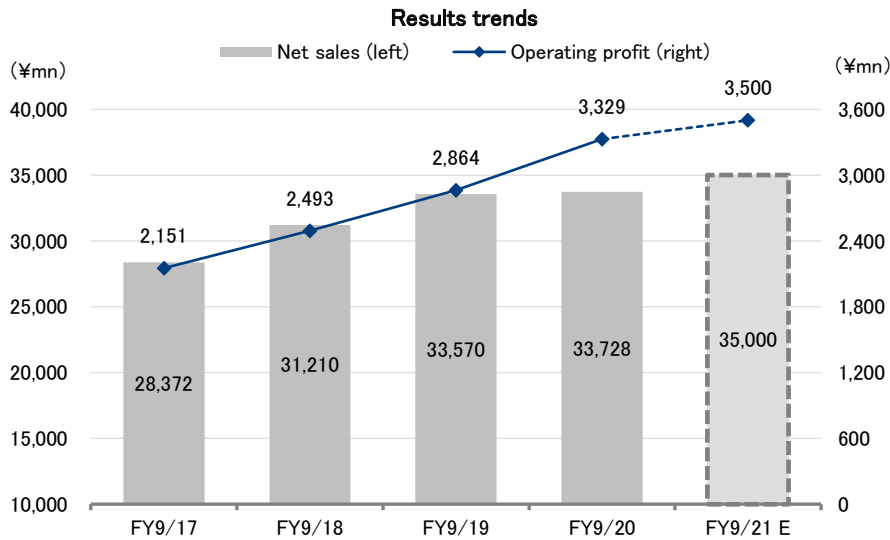
3. The growth strategy

As the medium-term results targets, the Company is aiming to achieve net sales of at least ¥40bn and an ordinary profit rate of at least 10% in FY9/23. The Company has positioned FY9/21 as a period to acquire a wide range of customers and to develop the brands. It is moving forward on the growth strategy, further growth of the Perfect One brand, accelerating EC and digital expansion and overseas business deployment, as well as strengthening the Healthcare Business. It has also created a growth strategy roadmap, and as the targets in the cosmetics category, it has formulated clear medium-target strategies for each of the four targets of senior generation (60 years and above), middle age generation (ages 40 to 59), millennial generation (ages under 40), and overseas.

Summary

Key Points

- Perfect One has ranked No.1 for domestic sales in the all-in-one skin care market for four consecutive years
- Is presenting a clear growth strategy for each of the target customer groups of senior generation, middle age generation, and millennial generation
- Has repositioned the Healthcare Business and launched the Smart Health Care Business



Source: prepared by FISCO from the financial results

Company profile

Established in 1992. The Company started in Kyushu and expanded its business to all of Japan and Asia. Its listing was changed to the TSE 1st Section in December 2020

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.

Company profile

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.

In December 2020, the Company's listing was upgraded from the Tokyo Stock Exchange (TSE) Mothers market to the TSE 1st Section.

A company that creates lifestyles of beauty and good health by collecting the latest technical information and ingredient information and developing highly effective and functional merchandise

1. Business overview

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 now, 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 5.2mn data items up to today, mainly on women middle age generation (40 years) and older, and this number is increasing at a pace of around 400,000 data items a year.

The Perfect One All-in-One Gel series, which is the main merchandise, is as follows. Moisture Gel, which is a blend of 50 types of moisturizing ingredient including Compounding Collagen EX, which combines 7 types of collagen; Whitening Gel, which is a blend of 55 types of moisturizing ingredient as well as an ingredient effective for skin whitening that inhibits the production of melanin; 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 retaining the most moisture in makeup. Recently in September 2020, the Company market launched PERFECT ONE Wrinkle Stretch Gel, a new product in the All-in-One Gel series containing vitamin PP, for the first time in Japan. This is a medicinal, all-in-one gel that can be used for whitening beauty care at the same time as improving epidermis wrinkles.

Company profile

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. Also, in the Smart Health Care Business, in October 2020 the Company market launched Beauty within protein on the theme of “Smart Life,” toward having a strong and beautiful body.

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 Cysty White Plus +, which has the effect of ameliorating skin pigmentation issues like spots and freckles and due to sunburn and rashes.

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 Wrinkle Stretch Gel	A medicinal, all-in-one gel containing the active ingredient vitamin PP. It has been confirmed that vitamin PP is effective in improving epidermis wrinkles, and moreover, it suppresses the production of melanin that causes skin blemishes, and it is effective in whitening beauty care. This single product plays seven roles, as in addition to being used as lotion, milky lotion, cream, serum, a facial mask, and a foundation primer, it can also be used as neck cream.
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

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Holds an overwhelmingly high market share for senior generation. Ranked No.1 for domestic sales in the all-in-one skin care market for four consecutive years

2. 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 five-year CAGR (Compound Annual Growth Rate) up to 2019 was estimated to be 8.5%. Within this, Perfect One's CAGR was 13.0%, and it is driving the market's growth. In the approximately 14 years since the Company started selling it in 2006, the mainstay All-in-One Gel series ranked No1. for domestic sales in the all-in-one skin care market for 4 consecutive years, and the cumulative number of products sold exceeds 60 million items.

In merchandise planning, the Company prioritizes the "actual voices of customers," who call the call center, such as their opinions and requests, and it launches merchandise that are tailored to meet customer needs based on database marketing. The "actual voices of customers" are reflected in specific services and products, of launches of new merchandise and information disseminated through the member ship magazine. Also, customer engagement is increased through providing discounts and points and conducting time-limited campaigns, and it is developing a base of subscription purchase-type customers. The high rate of continuous purchases can be said to be one of the features and strengths of the Company.

With regards to the intensification of competition to enter-into the all-in-one skin care market by major cosmetic manufacturers, the other major cosmetics manufacturers are developing cosmetics in a variety of categories, and it is considered that there are high barriers for them to enter-into the all-in-one skin care market, as doing so may lead to reductions in the value of their existing merchandise. In terms of the Company's competitors, Premier Anti-Aging Co., Ltd.<4934>, which was recently listed on the TSE Mothers market, is developing merchandise including the cleansing balm and PREMIER WHITE in the DUO and CANADEL brand series. However, the customer group it targets are young women and it does not seem to be the case that it will take the customers of the Company, which holds an overwhelmingly high market share for senior generation. However, the Company's growth strategy is to mainly strengthen the brand strategies for the middle-age and millennial generation. As its new product PR measures, it is utilizing male celebrities who are popular with a wide range of age groups and broadcasting commercials nationwide. The market's response to this has been excellent and expectations are rising that it will increase its market share through capturing new customers in the middle-age and millennial generation.

For merchandise development, the Company collects the latest technical information and ingredient information while conducting research, including joint research with the Tokyo University of Agriculture and Technology, to develop highly effective and functional merchandise. It is said that collagen accounts for about 70% of skin, which is why the Company considers it to be particularly important for skin care based on age. Features of collagen are that its amount decreases with age and also its quality changes. To address this change, it developed Compounding Collagen EX (moisturizing ingredient) that combines 7 types of collagen with different effects and functions. In July 2020, it 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.

3. The market environment

The beauty industry has been greatly affected by the decrease in opportunities to go outside due to COVID-19. Consumers' cosmetic needs have weakened from the impacts of the self-restraint on going out and from wearing masks, while this market is also being affected by the rapid decrease in the number of overseas visitors to Japan. It is considered possible that economic activities may normalize by 2022 due to the provision of vaccines to prevent the COVID-19 pandemic. But even in such as case, for the time being masks will remain an essential item in the new normal. Also, it seems that the movement to promote teleworking is widening, and it is thought that as working from home becomes normalized, the recovery of the frequency of purchases of makeup items will be only moderate. 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 COVID-19 will not completely return to as before in the future, so it seems to FISCO that there is room for the skin care market to grow.

Results trends

Net sales set a new record high and each profit item was higher than initially forecast. Cross-selling over the full year was strong through developing merchandise based on seasonal concerns and trends

1. FY9/20 financial results

In the FY9/20 results, net sales were ¥33,728mn (up 0.5% YoY), operating profit was ¥3,329mn (up 16.2%), ordinary profit was ¥3,295mn (up 16.5%), and profit was ¥2,122mn (up 16.3%). There were many negative factors in FY9/20. In addition to the rebound to the increase in demand ahead of the hike in the consumption tax rate in FY9/19, consumer sentiment worsened after the hike in the consumption tax rate. Moreover, purchase intentions changed due to COVID-19, while direct store sales and wholesale and overseas sales were affected by the declaration of a state of emergency. However, the Company worked to grow sales, mainly of cosmetics, and sales increased. COVID-19 affected direct store sales, wholesale, and overseas sales, but these business fields are not that large in terms of their percentages of total net sales, so overall it seems that the impact of COVID-19 was limited. As a result, although net sales did not reach their initial forecast, they still set a new record high. In profits, direct store sales and wholesale were affected by the decrease in customer numbers due to the temporary closures of stores and the self-restraint on going out. But conversely, in mail order, sales were strong of the mainstay Perfect One All-in-One Gel series. Through analyzing investment in advertising and other elements on a weekly basis, ascertaining the timing of investments, and temporarily keeping down advertising investment, advertising expenses decreased 1.6% YoY, while fulfillment costs (hereafter, FF costs)* declined 8.3%, as the progress made in improving efficiency was better than expected, which also contributed to the increase in profits. As a result, each profit item, of operating profit, ordinary profit, and profit, increased and were higher than their initial forecasts.

| * Costs generated by mail order and EC websites for a series of tasks, including orders, payment, picking, and delivery. |

Results trends

FY9/20 financial results

(¥mn)

	FY9/19	FY9/20	YoY		Initial forecast	vs. forecast
			Amount of change	Rate of change		
Net sales	33,570	33,728	158	0.5%	35,000	-3.6%
Cosmetics	30,575	31,098	522	1.7%	32,607	-4.6%
Healthcare	2,994	2,630	-364	-12.2%	2,392	10.0%
Operating profit	2,864	3,329	465	16.2%	3,150	5.7%
Ordinary profit	2,828	3,295	466	16.5%	3,130	5.3%
Ordinary profit rate	8.4%	9.8%	1.4pt	-	8.9%	-
Profit	1,824	2,122	297	16.3%	2,010	5.6%

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

In net sales by channel, mail order net sales were ¥30,875mn (up 0.2% YoY). Sales were strong of the Company's mainstay merchandise, the Perfect One All-in-One Gel series, while sales were also favorable of seasonal merchandise that can be used in conjunction with All-in-One Gel. From developing merchandise based on seasonal concerns and trends, cross-selling was strong for the full year, which led to an increase in the purchase unit price. Also, due to measures to acquire new customers in domestic EC sales and active investment in advertising for external online malls, domestic and overseas EC sales were excellent at ¥3,444mn (up 22.3%). It seems that net sales of seasonal merchandise increased by approximately ¥330mn compared to FY9/19.

In direct store sales and wholesale, net sales were ¥2,145mn (down 0.3% YoY). Although the Company worked to increase the number of stores handling its products, mainly variety shops and GMS*, and on measures to expand sales floors, customer numbers decreased because of the temporary closures of stores and the self-restraint on going out due to COVID-19. As a result, sales were at the same level as in the previous fiscal period.

* General Merchandise Store

In overseas sales, net sales were ¥707mn (up 15.1% YoY). In the FY9/20 1Q, sales were strong, mainly for China, but in the 2Q, distribution between China and Japan was suspended due to COVID-19 and some sales activities were also affected, including postponements of exports to China. However, net sales still grew by double digits because China restarted economic activities quickly, and also due to the growth of overseas EC sales.

FY9/20 net sales by channel

(¥mn)

	FY9/19	FY9/20	YoY	
			Amount of change	Rate of change
Mail order	30,804	30,875	71	0.2%
Direct store sales and wholesale	2,151	2,145	-5	-0.3%
Overseas sales	614	707	92	15.1%

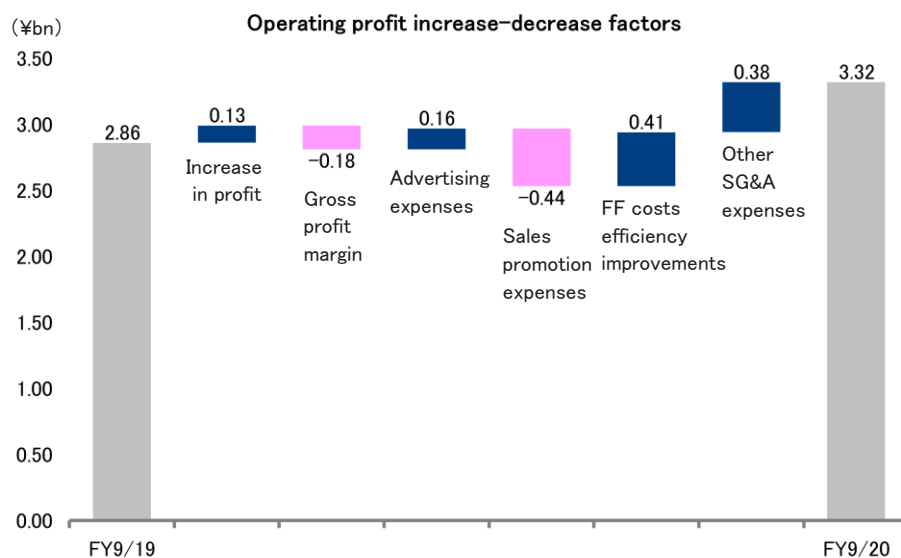
Source: prepared by FISCO from the Company's supplementary briefing material

Results trends

The improved efficiency of FF costs and the reduction in other SG&A expenses contributed to the increase in profits. The room for further FF costs efficiency improvements remains one major growth factor

2. Operating profit increase-decrease factors

The profit-increase factors included the effects of higher sales from the growth of cosmetics sales (¥130mn) the efficiency improvements from reducing FF costs (¥410mn), keeping down advertising expenses (¥160mn), and the reduction in other SG&A expenses (¥380mn). In particular, the FF costs efficiency improvements and the reduction in other SG&A expenses contributed to the higher profits. In FY9/20 1H, the Company actively conducted marketing investment, such as in advertising expenses, toward growing sales, but conversely in the 2H, in order to ascertain consumer trends, it temporarily kept down and decreased investment. Also, FF costs decreased 8.3% YoY, because it reduced shipping delivery costs through measures to charge shipping fees and by reducing payment fees by switching the payment method. Call centers costs also decreased 7.3% and the Company is progressing efficiency improvements.



Source: prepared by FISCO from the Company's supplementary briefing material

FY9/20 financial results summary supplement

	FY9/19	FY9/20	YoY	
			Amount of change	Rate of change
Domestic and overseas EC sales	2,816	3,444	628	22.3%
Marketing investment				
Advertising expenses	10,245	10,079	-166	-1.6%
Operations costs				
FF costs	4,575	4,194	-381	-8.3%
Call center costs	3,082	2,857	-224	-7.3%

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

Results trends

At FISCO we think that improving the efficiency of FF costs is a field that the Company should focus on as one growth factor, while continuing to grow sales of cosmetics. Since April 2019, it has implemented measures to charge shipping fees, which is reducing the shipping costs that it has had to bear up to now. Consumers refraining from making purchases as a result of this is not occurring, and instead, they are ameliorating the increase in shipping fees they have to bear by buying multiple items at the same time. In addition, for the switch of payment method, the switch from cash on delivery to post-payments on credit is reducing the Company's payment fees. Many of the Company's customers are seniors, which means that as before, many of them are resistant to paying on credit. However, while two fiscal years previously in FY9/18, 80% of customers paid by cash on delivery, presently this has fallen to 60%, and it seems that there still remains room to further improve the efficiency of FF costs. For call center costs also, there are many excellent customers, such as repeat purchasers, and specialist structure to deal with customers is necessary to reflect customers' opinions into merchandise and the Company itself must allocate a certain number of personnel to it. On the other hand, outsourcing approximately 60% of call center work to external companies enables changing the allocation of communicators, such as so they are based on ordering conditions, which enables cost controls to be carried out on an ad-hoc basis.

Is utilizing its abundance of cash to flexibly conduct investment to progress the growth strategy. The equity ratio rose 2.5pp on the end of the previous fiscal period

3. Financial condition

At the end of FY9/20, total assets were ¥19,956mn, up ¥1,380mn on the end of the previous fiscal period. The main items included that cash and deposits increased ¥1,695mn, property, plant and equipment increased ¥157mn, and total non-current assets decreased ¥183mn. Liabilities were ¥5,688mn, down ¥128mn on the end of the previous fiscal period, with the main items including a decrease in income taxes payable of ¥217mn, payment of long-term borrowings of ¥173mn, and an increase in accounts payable-trade of ¥93mn. Net assets increased ¥1,508mn to ¥14,267mn, primarily due to the recording of profit of ¥2,122mn, a decrease of ¥378mn due to dividend payments, and a decrease of ¥299mn due to the acquisition of treasury shares. The equity ratio was 71.2%, rising 2.5 percentage points (pp) from 68.7% in FY3/19.

Balance sheet

	FY9/18	FY9/19	FY9/20	Amount of change
				(¥mn)
Current assets	6,094	14,693	16,211	1,518
Cash and deposits	2,954	10,576	12,271	1,695
Accounts receivable-trade	2,099	2,913	2,607	-306
Inventory assets	901	1,063	1,193	130
Non-current assets	3,397	3,882	3,744	-138
Total assets	9,491	18,575	19,956	1,380
Liabilities	5,299	5,817	5,688	-128
Accounts payable-trade	360	416	509	93
Interest-bearing debt	1,284	1,109	936	-173
Net assets	4,191	12,758	14,267	1,508
Treasury shares	-	-	-299	-299
Total liabilities and net assets	9,491	18,575	19,956	1,380

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

Results trends

Net cash (cash and deposits – interest-bearing debt) was ¥12,271mn, an increase of ¥1,695mn on the end of the previous fiscal period, and the Company has an abundance of cash and deposits to invest in growth. Cash flow from operating activities was ¥2,920mn, with the main items being profit before income taxes of ¥3,180mn, a decrease in sales receivables of ¥306mn, and expenditure of ¥1,266mn to pay income taxes, etc. Cash flows used in investing activities was ¥367mn. The main items included expenditure of ¥348mn to acquire non-current assets, expenditure of ¥54mn to acquire investment securities, and income of ¥32mn as a gain on the sale of investment securities. Cash flows used in financing activities was ¥851mn, with the main factors being expenditures of ¥377mn for dividend payments, ¥300mn to acquire treasury shares, and ¥173mn to repay long-term borrowings. With the increase in profit before income taxes and the decrease in sales receivables as the main factors, cash flow from operating activities increased, and free cash flow (FCF) was ¥2,553mn.

Cash-flow conditions

	(¥mn)		
	FY9/18	FY9/19	FY9/20
Cash flows from operating activities	1,415	1,992	2,920
Cash flows from investing activities	-420	-943	-367
Acquisition of property, plant and equipment	-341	-268	-268
Acquisition of total non-current assets	-242	-176	-80
Acquisition of investment securities	-30	-381	-54
Free cash flow	995	1,048	2,553
Cash flows from financing activities	-419	6,567	-851
Repayment of borrowings, etc.	-173	-175	-173
Income from issues of shares	60	7,096	-
Acquisition of treasury shares	-	-	-300
Dividend-payment amount	-306	-353	-377

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

■ Outlook

Will increase marketing investment toward growth in the medium- to long-term. Cosmetics will grow through promoting sales of new merchandise. In Healthcare, is focusing on the new Smart Health Care Business

1. FY9/21 financial results forecasts

For the FY9/21 results, the Company is forecasting net sales of ¥35,000mn (up 3.8% YoY), operating profit of ¥3,500mn (up 5.1%), ordinary profit of ¥3,460mn (up 5.0%), and profit of ¥2,300mn (8.4%). By merchandise category, sales growth in the mail order channel is expected from measures to promote sales of new cosmetics, so cosmetics net sales are forecast to increase 4.6% YoY to ¥32,539mn. In Healthcare, net sales are expected to decrease 6.4% to ¥2,460mn, but the Company is aiming for growth higher than forecast, centered on the newly launched Smart Health Care Business. For the time being it will be necessary to wear masks during the new normal, so the number of consumers who are concerned about makeup coming off while wearing a mask, mask burn, and dry skin is increasing and demand for skincare products is strong. Moreover, in a situation in which the movement to promote teleworking is widening and working at home is being normalized, at FISCO we think that demand will be high for skincare to address problems such as dry skin due to stress. Also, in addition to the further growth of the Perfect One brand, as a new business pillar, growth is expected from the measures for the Smart Health Care Business that supports “self-reliant healthcare” by individuals.

FY9/21 results forecasts

	FY9/19	FY9/20	FY9/21		
			Forecast	Amount of change	Rate of change
Net sales	33,570	33,728	35,000	1,271	3.8%
Cosmetics	30,575	31,098	32,539	1,441	4.6%
Healthcare	2,994	2,630	2,460	-169	-6.4%
Operating profit	2,864	3,329	3,500	170	5.1%
Ordinary profit	2,828	3,295	3,460	164	5.0%
Ordinary profit rate	8.4%	9.8%	9.9%	0.1pt	-
Profit	1,824	2,122	2,300	177	8.4%

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

Outlook

Sales of the mainstay merchandise will continue to increase through mail order. Direct store sales and wholesale are also recovering.

2. FY9/21 net sales forecasts by channel

In net sales by channel, in mail order, sales are expected to increase of the Perfect One All-in-One Gel series, which is the Company's mainstay merchandise, rising 1.1% YoY to ¥31,213mn. In direct store sales and wholesale, there remain concerns about the impact of COVID-19, but it is considered that a recovery can be seen from the restart of economic activities, so they are forecast to increase 32.2% to ¥2,836mn. Overseas sales are forecast to rise 34.3% to ¥950mn. Domestic and overseas EC sales, which are driving the sales growth, are forecast to increase 30.0% to ¥4,477mn. In FY9/21, the Company plans to increase marketing investment toward achieving the medium-term results targets, so it is forecasting that it will increase 7.6% to ¥10,846mn, including the investment that was kept down in FY9/20. On the other hand, it plans to continue to progress the cost efficiency improvements, so in operations costs, FF costs are forecast to decrease 2.0% to ¥4,109mn. Call center costs are expected to increase 7.5% to ¥3,070mn alongside the strengthening of marketing investment. Call center costs will increase as a reaction to costs being strategically kept down in FY9/20.

FY9/21 results forecasts (by channel)

	FY9/19	FY9/20	FY9/21		
			Forecast	Amount of change	Rate of change
Mail order	30,804	30,875	31,213	338	1.1%
Direct store sales and wholesale	2,151	2,145	2,836	690	32.2%
Overseas sales	614	707	950	242	34.3%

Source: prepared by FISCO from the Company's supplementary briefing material

FY9/21 results forecasts supplement

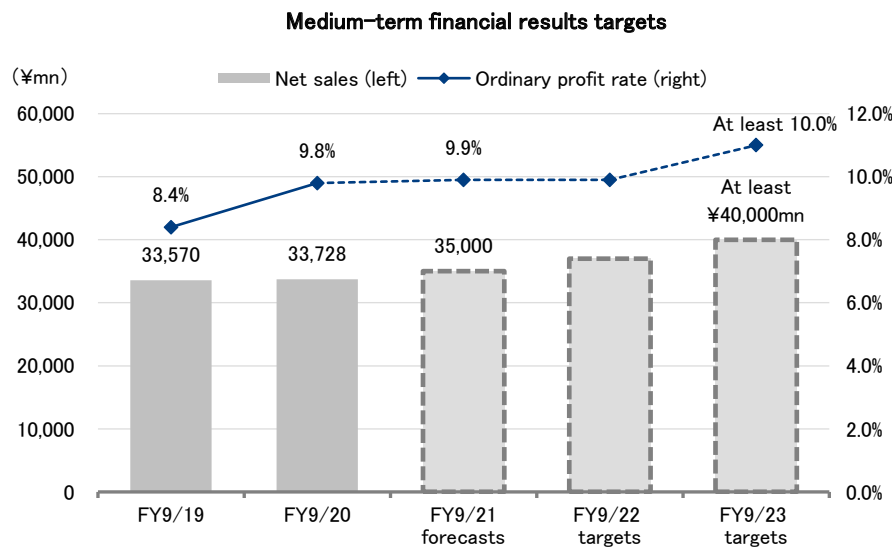
	FY9/19	FY9/20	FY9/21		
			Forecast	Amount of change	Rate of change
Domestic and overseas EC sales	2,816	3,444	4,477	1,032	30.0%
Marketing investment					
Advertising expenses	10,245	10,079	10,846	766	7.6%
Operations costs					
FF costs	4,575	4,194	4,109	-84	-2.0%
Call center costs	3,082	2,857	3,070	213	7.5%
No. of database items (mail order, including EC)					
No. of customer data items (10,000 people)	480	520	560	40	7.7%

Source: prepared by FISCO from the Company's supplementary briefing material

The growth strategy

Further growth of the Perfect One brand, accelerating EC and digital expansion, accelerating overseas business deployment, and strengthening the Healthcare Business

As the medium-term results targets, the Company is aiming to achieve net sales of at least ¥40bn and an ordinary profit rate of at least 10% in FY9/23. It has positioned FY9/21 as a period to acquire a wide range of customers and to develop the brands, and it is progressing its growth strategy, which is the further growth of the Perfect One brand, accelerating EC and digital expansion, accelerating overseas business deployment, and strengthening the Healthcare Business.



Source: prepared by FISCO from the Company's supplementary briefing material

The Company has also created a growth strategy roadmap and as the targets in the cosmetics category, it has formulated clear medium-target strategies for each of the 4 targets, of senior generation, middle age generation, millennial generation, and overseas. For senior generation, as the strategy to raise-up LTV (Life Time Value) and to acquire new customers, it will launch new All-in-One Gel merchandise (improving wrinkles and whitening beauty care), develop new merchandise and new services, and strengthen database marketing. To acquire millennial customers, it is developing a new-brand strategy that features popular celebrities and working on digital marketing that utilizes SNS. For the middle-age and millennial generation, toward accelerating EC and digital expansion, it is concentrating investment and strengthening digital marketing, bolstering online and offline coordination measures and CRM that utilizes apps, and making full use of influencers. In overseas, it is developing and growing the brands toward them becoming global brands. The Company is promoting further growth in China and has also started developing brands in Asia and ASEAN countries, while it has begun preparations to newly enter-into North America.

Aiming for growth through actively investing in TV and SNS advertising, mainly of new products

1. Further growth of the Perfect One brand

To realize the medium-term results targets at an early stage, the Company's strategy is to aim for the further growth of the Perfect One brand to develop it to be a brand that is selected continuously over a long period. Toward this, from the Perfect One All-in-One Gel series, which has been ranked No. 1 for domestic sales for 4 consecutive years, it has market launched PERFECT ONE Wrinkle Stretch Gel, containing vitamin PP, for the first time in Japan in September 2020. It is a medicinal, all-in-one gel, and it has made a steady start. Toward further growth, it is actively investing in advertising on TV and SNS (Twitter and Instagram), mainly for Wrinkle Stretch Gel. Continuing on from FY9/20, it is focusing on developing and market launching seasonal merchandise. Also, to improve the quality of responses to customers in call centers and to establish a foundation for digitalization, the Company is strengthening cross-selling and up-selling that utilize the proposal capabilities of communicators, and it is also strengthening communication that prioritizes dialogue, such as providing skincare advice. Through these measures, it is working to create loyal customers and to improve LTV. In addition, toward improving the operating efficiency and productivity of call centers and for call centers' compliance with introductions of chatbots and AI in the future, the Company plans to shift PBX onto the Cloud and to increase the sophistication of VOC analysis.

In order to acquire new customer groups through the brand strategy, for the Perfect One skincare brand, the Company is utilizing male celebrities who are popular with a wide range of age groups and broadcasting commercials nationwide. It intends to increase name awareness of the Perfect One brand, particularly among millennial generation, and at the same time, to spread the new common sense, of "providing simple, smart, and effective skincare."

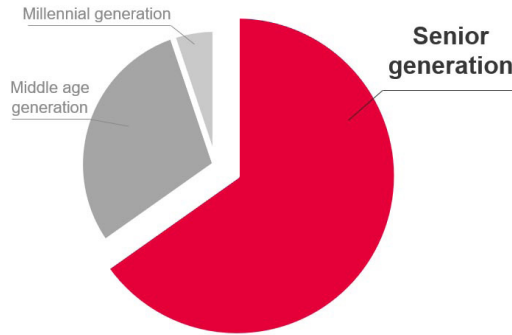
Is aiming to expand EC and digital by measures divided according to the age group and to increase the percentage of net sales from EC

2. Accelerating EC and digital expansion

The Company is utilizing EC websites and smartphone apps and actively investing in order to further accelerate EC and digital expansion, and it plans to acquire new customers. The online sales literacy of those aged middle age generation and older is improving and an increasing number of them are shifting to using EC. Therefore, as convenience improves, the percentage of net sales from EC will rise. For the middle age generation, it is conducting push-type marketing, including delivering email magazines, and strengthening online and offline coordination measures. Also, for millennial generation, it has opened official accounts on Twitter and Instagram and is conducting SNS-limited campaigns. Further, benefiting from the acceleration of digitalization in the new normal era, it is working to expand the development of EC and digital. Through these efforts, the Company is aiming to increase the percentage of net sales from EC to 20% in FY9/22, toward achieving the long-term target of raising it to as high as 50%.

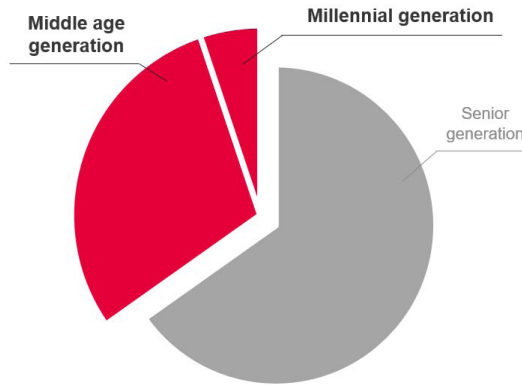
The growth strategy

Target customer group (senior generation)



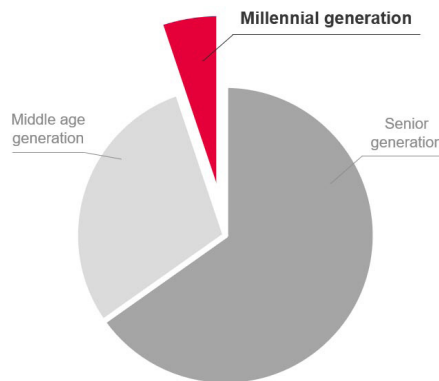
Source: The Company's supplementary briefing material

Target customer group (middle-age and millennial generation)



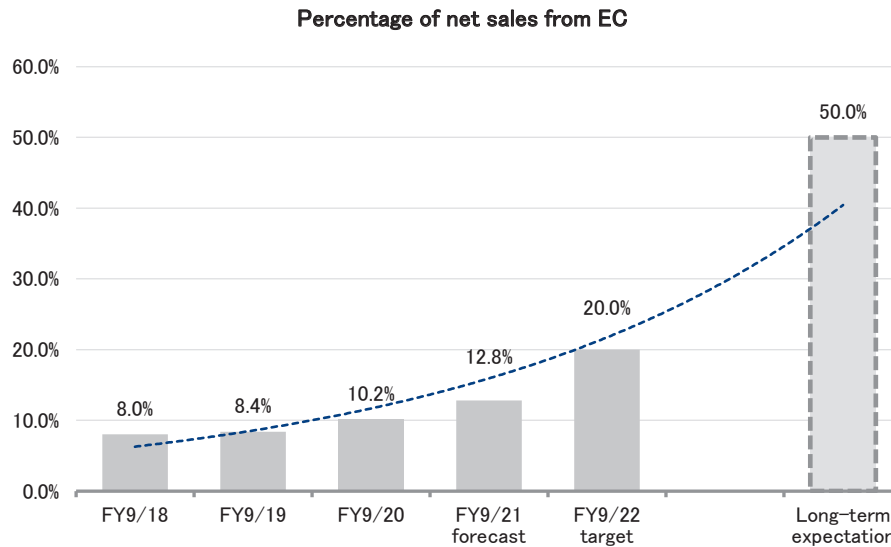
Source: The Company's supplementary briefing material

Target customer group (millennial generation)



Source: The Company's supplementary briefing material

The growth strategy



Source: prepared by FISCO from the Company's supplementary briefing material

Is strengthening investment in China and intends to enter-into North America in the long term

3. Overseas business deployment

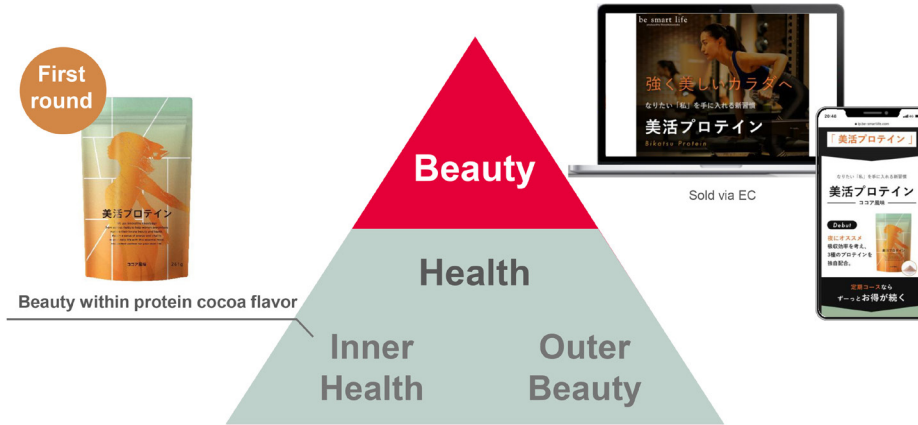
The Company started sales of Perfect One in Taiwan in December 2016, and after that, it also developed its business in Hong Kong, China, Thailand, and Singapore, and further, it launched a business in Vietnam on June 1, 2020. Sales are being conducted centered on the online channel, including via Lazada Vietnam and Shopee, which are leading online malls in South East Asia. In the overseas business, while paying attention to the global situation for economic activities, it will strengthen investment in China, which is growing remarkably, expand further into ASEAN countries, and progress preparations toward entering-into North America in the long term. It has started test marketing toward entering-into North America, while it is also expanding measures with the aim of making Perfect One a global standard brand.

4. Strengthening the Healthcare Business

The Company is aiming to establish the new standard in the healthcare field. It has newly launched the Smart Health Care Business with the aim of developing products that can contribute to people living into their 100s. Toward the new era after COVID-19, it is repositioning the Healthcare Business from its position up to now. Having experienced COVID-19, the values of individuals are shifting greatly toward “self-reliance” on the theme of “self-defense,” or of protecting oneself. Based on the concepts of “Evidence” (products with reliable quality backed by supervision of doctors), “Lifestyle” (self-reliant, smart values and actions), and “SmartTech” (visualization of the body and of effects), the Company will develop this business mainly through EC, with millennial generation as the target customers. As phase one of the Smart Health Care Business, in October 2020 it launched Beauty within protein on the theme of customers’ “Smart Life” to create strong and beautiful bodies. In the Smart Health Care Business, the Company is aiming for growth by developing a series of new products and services in the future.

The growth strategy

Strengthening the Healthcare Business



Source: the Company's supplementary briefing material

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 first 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 grand prize of the Chairperson of Organizing Committee Award at the 7th “Company to Be Valued Most in Japan” in 2017.

Also, the Company empathizes with the concept of “The dreams and excitement of children! A community to be proud of with vitality,” which is the concept of Avispa FUKUOKA in the Japanese Professional Soccer League (J-League). So in 2018, it concluded a premium partner contract with the team and sponsors its uniform. Each year, it holds “PERFECT ONE DAY MATCH,” the Shinnihonseiyaku Championship Match.

Shareholder return policy

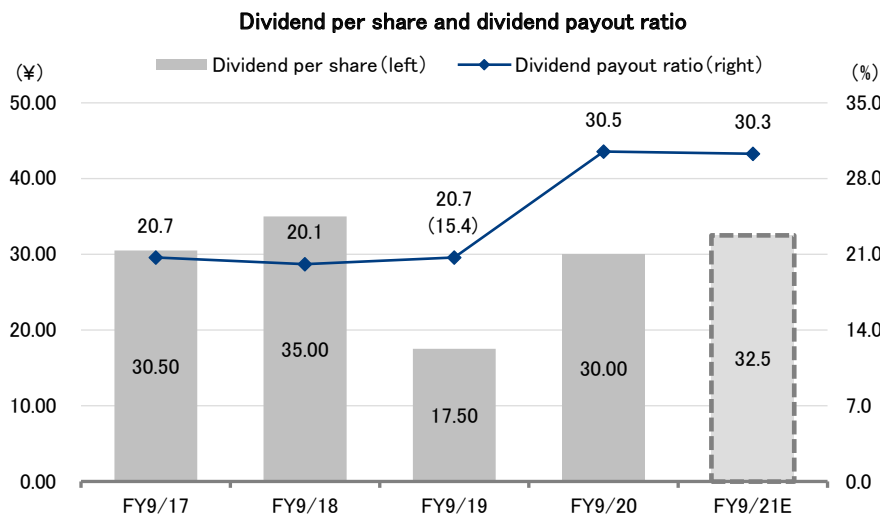
In FY9/20, further increased the annual dividend by ¥2 for a dividend per share of ¥30.0

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 raised the dividend payout ratio from targeting 20% to targeting 30%. Alongside this, it upwardly revised the FY9/20 period-end dividend per share (annual dividend) forecast from ¥19 to ¥28, but then it increased it by a further ¥2 for an annual dividend of ¥30. For FY9/21, it plans to pay a dividend of ¥32.50 for a dividend payout ratio of 30.3% at the forecasting stage.

FY9/20 dividend per share and revised dividend

	FY9/20		FY9/21 (E)
	Initial forecast	Revision amount	
Earnings per share	93.01	98.50	107.37
Dividend per share	28.00	30.00	32.50
Dividend payout ratio	30.1%	30.5%	30.3%

Source: prepared by FISCO from the Company's financial results



Note 1: 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.

Note 2: the dividend per share and dividend payout ratio values were calculated assuming that the share split (250 shares per share) carried out on September 1, 2017, and the share split (10 shares per share) carried out on March 1, 2019, were carried out at the start of FY9/16.

Source: prepared by FISCO from the Company's supplementary briefing material

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 Rise and Shine! Green Vegetable Juice Salad Plus	¥7,500
300 shares or more	Less than 6 months	Moisture Gel 75g Rise and Shine! Green Vegetable Juice Salad Plus Treatment Shampoo Gift voucher for the Company's merchandise (worth ¥5,000)	¥15,000
	6 months or longer	Moisture Gel 75g Rise and Shine! Green Vegetable Juice Salad Plus SP Night Cream (a seasonal product) Gift voucher for the Company's merchandise (worth ¥5,000)	¥27,000

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

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