

COMPANY RESEARCH AND ANALYSIS REPORT

Shinnihonseiyaku Co., Ltd.

4931

Tokyo Stock Exchange First Section

22-Apr.-2021

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■ Summary

In FY9/21, sales of the new product **PERFECT ONE Wrinkle Stretch Gel** were strong, and the brand strategy targeting young people also worked

Shinnihonseiyaku Co., Ltd. <4931> (hereinafter, “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 is a fabless manufacturer that externally outsources production.

1. 1Q FY9/21 financial results

In 1Q FY9/21 (October to December 2020) results, net sales were ¥8,489mn (down 2.7% year-on-year (YoY)), operating profit was ¥828mn (up 20.8%), ordinary profit was ¥859mn (up 22.6%), and profit was ¥590mn (up 33.2%). Net sales in direct store sales and wholesale were lower due to the impacts of the COVID-19 pandemic, but sales of the new product **PERFECT ONE Wrinkle Stretch Gel** newly launched from the flagship Perfect One All-in-One Gel series were strong. In addition, as a brand strategy to acquire new customer groups, the Company aired brand commercials featuring a male celebrity and carried out a sales promotion campaign linked to SNS, along with other initiatives. These efforts led to solid progress on acquiring customers in the millennial generation (30s and under). In terms of profits, by reducing fulfillment costs (FF costs) and call center costs, operational costs declined significantly YoY, and each profit line increased significantly YoY.

2. 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. In addition, the Company has created a growth strategy roadmap, separated into targets including the senior generation (60s and above), the middle age generation (40 – 59), the millennial generation (30s and under) and Overseas. Furthermore, the Company has formulated clear medium-term strategies for each target, in both the cosmetics and healthcare categories.

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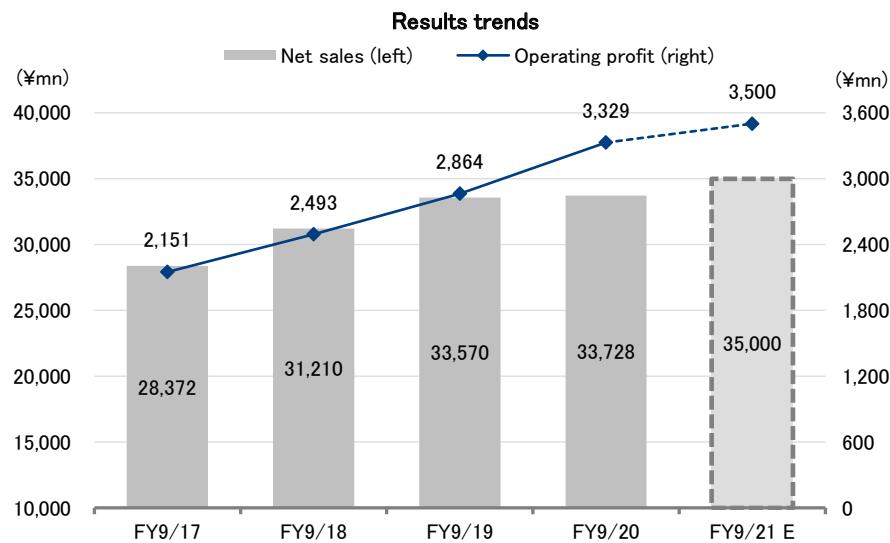
Summary

3. Increase in number of contacts with growing interest among overseas investors

In December 2020, the Company's stock listing was upgraded from the Tokyo Stock Exchange (TSE) Mothers market to the TSE First Section. In December 2020, the TSE announced that it is considering reorganizing into three new markets (Prime, Standard, Growth) in April 2022. The criteria for listing on the Prime market would be a market capitalization of at least ¥25bn, and market capitalization of at least ¥10bn in tradable shares. As of the time that this report was researched and written, the Company satisfies these requirements. Furthermore, from the spring of 2021, with the revision of the Corporate Governance Code, companies listed on the Prime market will be required to satisfy higher standards. As a result, the prime market will have listing standards equal to that of overseas exchanges, which will make it easier for overseas institutional investors and other market players to choose to invest in the Company. It appears that the number of contacts with overseas investors is increasing right now, and we at FISCO think that the Company will become more active in its IR activities and other messaging targeting overseas institutional investors.

Key Points

- Possesses established brands in the all-in-one skin care market
- New product PERFECT ONE Wrinkle Stretch Gel is performing well
- Solid results in winning customers in the millennial generation (30s and under)
- Better-than-expected progress in upselling (increasing sales per customer)



Source: Prepared by FISCO from the financial results

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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 fabless 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.

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, health foods, 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 (FUJI KEIZAI CO., LTD., Cosmetics Marketing Handbook 2017, 2018, 2019, and 2020 (Moisturizer and All-in-one Care Products Division/ 2016, 2017, 2018, and 2019 manufacturer and brand share results)). 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.

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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.

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 February 2021, the Company launched sales of "UV Pro" a food with functional claims that includes astaxanthin, which protects skin moisture with full-body UV care internally, and protects skin from ultraviolet stimulation. In addition, in January 2021, the Smart Health Care Business launched sales of BODY AURA, an evidence-based product that supports the body's self-protection power necessary for maintaining health in the future.

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 includes Yokuininekisu Tablets SH, which is an 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.

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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 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 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.
UVPro	A food with functional claims that includes astaxanthin, which protects skin moisture with full-body UV care internally, and protects skin from ultraviolet stimulation.
BODY AURA	A supplement for the new normal era containing L. rhamnosus lactic acid bacteria combined with fermented wheat germ extract. This is a supplement that supports people's "self-protection power," which is necessary for managing health in the future.

[Pharmaceuticals]

Yokuninekisu 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

**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 No.1 for domestic sales in the all-in-one skin care market for four consecutive years, and the cumulative number of products sold exceeds 60 million items.

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Company profile

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-aged and millennial generations. 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-aged and millennial generations.

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 seven 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 outing 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 due to the provision of vaccines to prevent the novel coronavirus infection. But even in such as case, for the time being masks will remain an essential item in the new normal (a new lifestyle). 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

Direct store and wholesale were factors for the decline in net sales, but sales of the new product PERFECT ONE Wrinkle Stretch Gel were strong. Progress was made on the brand strategy targeting young age groups

1. 1Q FY9/21 financial results

In 1Q FY9/21 (October to December 2020) results, net sales were ¥8,489mn (down 2.7% YoY), operating profit was ¥828mn (up 20.8%), ordinary profit was ¥859mn (up 22.6%), and profit was ¥590mn (up 33.2%). During this same period, the number of people infected with COVID-19 was the highest ever, and the changes in purchasing behavior as well as the request for people to refrain from all non-essential outings led to a decline in the number of customers visiting stores. This resulted in cosmetics being impacted in direct store sales and wholesale, which was the factor for the decline in sales. The progress of directly managed stores was generally close to the initial expectations, but in wholesale, in addition to the decline in the number of people visiting general merchandise stores, the refraining from business negotiations due to the COVID-19 pandemic led to store openings not progressing as initially planned.

Meanwhile, in the mail order segment, sales of cosmetics grew YoY. In 2H FY9/20, there was an impact from the temporary curbing of advertising investment given the changes in consumer sentiment caused by COVID-19, but the increase was due to the strong sales of the newly-launched PERFECT ONE Wrinkle Stretch Gel from the flagship PERFECT ONE All-in-One Gel series. Also, as a brand strategy to acquire new customer groups, the Company aired brand commercials featuring a male celebrity and carried out sales promotion campaigns linked to SNS, along with other initiatives. These efforts led to increased brand recognition among customers in the millennial generation (30s and under), and strong progress on acquiring customers. In terms of profits, by reducing FF costs and call center costs, operational costs declined significantly YoY, contributing to the increase in profits. As a result, each profit line increased significantly YoY.

1Q FY9/21 financial results

	1Q FY9/20	1Q FY9/21	YoY	
			Amount of change	Rate of change
Net sales	8,726	8,489	-237	-2.7%
Cosmetics	8,027	7,914	-112	-1.4%
Healthcare	699	574	-124	-17.9%
Operating profit	685	828	142	20.8%
Ordinary profit	701	859	158	22.6%
Ordinary profit rate	8.0%	10.1%	2.1pt	-
Profit	443	590	147	33.2%

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

In net sales by channel, mail order net sales were ¥7,850mn (down 1.3% YoY). Overall, net sales declined YoY due to the decline in healthcare products resulting from the decline in advertising investment. However, in cosmetics, the Company implemented a gift sales campaign in which customers could win the official merchandise of a male celebrity featured in the Company's commercials, and efforts to up-sell PERFECT ONE Wrinkle Stretch Gel progressed better than expected. Also, due to the effects of up-selling, net sales of cosmetics in the mail order segment increased YoY.

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Results trends

Domestic and overseas EC business remained firm, with net sales increasing 11.6% YoY to ¥948mn, representing double-digit YoY growth. Although sales in the direct store sales/wholesale segment declined 24.7% YoY to ¥426mn due to the impact of the COVID-19 pandemic, the number of customers and sales at the limited-time pop-up event held in Harajuku greatly exceeded the Company's expectations, and brand recognition among the millennial generation is expanding.

In the Overseas sales segment, net sales increased 1.8% YoY to ¥211mn. The Company is continuously working to raise awareness and increase sales through promotions utilizing social media and popular influencers. In China, sales at Double Eleven, a shopping event held on Single's Day (November 11 every year), exceeded those of the previous year. As the Company's competitors bolster discount strategies with the aim of getting rid of inventory amid the COVID-19 pandemic, the Company has not adopted this type of strategy. In overseas sales, the Company is implementing a brand strategy targeting consumers age 20-39, and it seems like brand recognition is steadily increasing. Therefore, we at FISCO think that sufficient profit growth in the future can be expected even if the Company does not conduct discounts. In addition, the Company has started test marketing aimed at sales of the Perfect One brand in the U.S., and the Company is steadily making efforts to grow into a global standard brand.

1Q FY9/21 net sales by channel

	1Q FY9/20	1Q FY9/21	YoY	
			Amount of change	Rate of change
Mail order	7,951	7,850	-101	-1.3%
Direct store sales/wholesale	567	426	-140	-24.7%
Overseas sales	207	211	3	1.8%

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

Elsewhere, in 1Q FY9/21, the Company started the Smart Health Care Business, and in October 2020 the Company launched sales of "Beauty within protein" as its first product for building strong and beautiful bodies. In January 2021, as the second product, the Company launched sales of BODY AURA, a supplement that supports the body's self-protection power which is necessary for maintaining health in the future. In the wake of the outbreak of COVID-19 infections, "self-defense" in which individuals manage their own health, has been attracting attention. In the Smart Health Care Business, the Company plans to sequentially develop products and services based on the concepts of "Evidence" (products with reliable quality backed by supervision of doctors), "Lifestyle" (self-reliant, smart values and actions), and "Smart Tech" (visualization of the body and of effects).

2. Operating profit increase-decrease factors

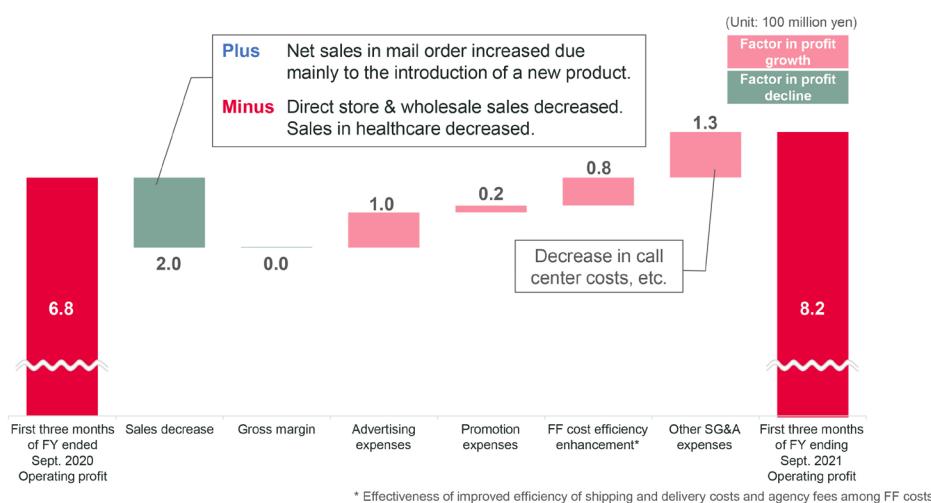
In operating profit in 1Q FY9/21, the factor for profit decline was the decline in direct store/wholesale sales, as well as a decrease in sales in healthcare vis-à-vis the increase in net sales in mail order due to the effect of new product launches (-¥200mn). The factors for profit increase included the advertising expenses being recorded generally as planned (+¥100mn), a decline in sales promotion expenses (+¥20mn), and the enhancement of FF cost efficiency, such as the reduction in shipping and delivery fees due to initiatives to charge shipping fees, as well as the reduction in agency fees accompanying the guidance to have customers switch the payment method (+¥80mn). In other SG&A expenses, the decline in call center costs (¥130mn) contributed greatly to an increase in profits.

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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 as a result of the push for "bulk shipping" in which a two months' supply of products is shipped at once. 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. However, we at FISCO believe that customers who pay through cash and delivery still make up a high percentage of customers, and that there is significant room for the enhancement of efficiency when it comes to 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.

1Q FY9/21 operating profit increase-decrease factors



Source: The Company's supplementary briefing material

FY9/21 financial results summary supplement

	1Q FY9/20	1Q FY9/21	YoY	
			Amount of change	Rate of change
Domestic and overseas EC sales	850	948	98	11.6%
Marketing investment				
Advertising expenses	2,640	2,534	-106	-4.0%
Operations costs				
FF costs	1,094	989	-104	-9.5%
Call center costs	779	647	-131	-16.8%

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

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Results trends

3. Financial condition

At the end of 1Q FY9/21, total assets were ¥19,729mn, down ¥226mn on the end of the previous fiscal period. This was mainly due to a ¥698mn decrease in cash and deposits, a ¥251mn increase in merchandise and a ¥255mn increase in accounts receivable-trade. Liabilities totaled ¥4,815mn, a decrease of ¥873mn from the end of the previous fiscal year. The main factors for the decrease were a decrease of ¥349mn in income taxes payable, a decrease of ¥313mn in accounts payable-other, and a decrease of ¥119mn in accounts payable-trade. Net assets came to ¥14,914mn, an increase of ¥647mn from the end of the previous fiscal year. The main factors were an increase of ¥664mn due to the issuance of new shares, posting of profit of ¥590mn, and a decrease of ¥642mn due to payment of dividends. The equity ratio was 75.1%, rising 3.9 percentage points (pp) from 71.2% in the end of FY9/20.

The Company issued new shares (capital increase) by way of third-party allotment in December 2020. The Company will allocate the estimated net proceeds from the capital increase of ¥649mn to new healthcare businesses. Up until now, the Company's main business was cosmetics including skin care products, but with the global health boom and rising interest in personal healthcare in recent years, the Company plans to strengthen and expand the healthcare business as its second pillar of its business.

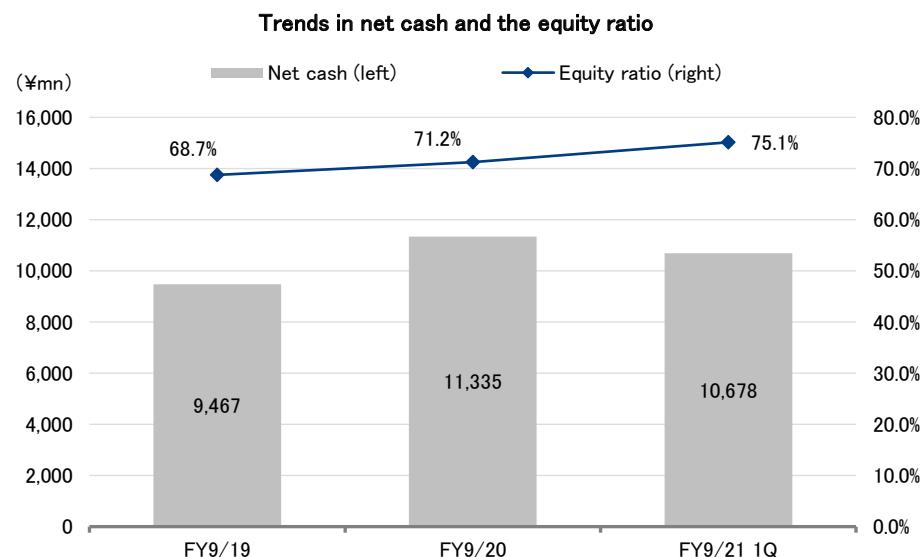
Balance sheet

	End of FY9/19	End of FY9/20	End of 1Q FY9/21	(¥mn)
				Amount of change
Current assets	14,693	16,211	16,084	-127
Cash and deposits	10,576	12,271	11,573	-698
Accounts receivable-trade	2,913	2,607	2,863	255
Inventory assets	1,063	1,193	1,445	251
Non-current assets	3,882	3,744	3,645	-98
Total assets	18,575	19,956	19,729	-226
Liabilities	5,817	5,688	4,815	-873
Accounts payable-trade	416	509	389	-119
Interest-bearing debt	1,109	936	895	-40
Net assets	12,758	14,267	14,914	647
Treasury shares	-	-299	-293	6
Total liabilities and net assets	18,575	19,956	19,729	-226

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

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Results trends



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

The impact the COVID-19 pandemic

Mail order sales and EC demand continued to expand. Opportunities to sell new Smart Health Care products also increased

A state of emergency was declared on January 7, 2021, due to the third wave of COVID-19 infections. The Company believes that this state of emergency declaration has impacted the Company's business generally as it initially expected. The Company will continue to promote its business activities as initially planned, while closely watching the spread of infections and the status of the economic environment.

In terms of the impact of the COVID-19 pandemic on the Company's overall business, in FY9/20 there were stable needs for skincare products (limited impact from people making it a practice to wear a mask and reduced opportunities to go out). Meanwhile, sales of cosmetics were down from the previous fiscal year, but the direct impact from the COVID-19 pandemic was limited to the direct store/wholesale sales channel and the overseas sales channel. In terms of the expected impact in FY9/21, the Company expects demand for skincare products to stably continue, and demand for skincare products that alleviate concerns such as rough skin caused by wearing masks to expand. Additionally, the Company thinks that there will be expanding needs for healthcare products driven by enhanced health awareness.

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The impact the COVID-19 pandemic

On an individual channel basis, in mail order, in FY9/20 there was an impact of changes in consumer sentiment on the advertising investment environment, there were greater opportunities for proposals due to increased customer service hours, fewer incoming calls regarding delivery and product inquiries as people were home more often, and delays in production of advertising and sales promotion tools. For FY9/21, the Company expects continuing stable needs for mail order and e-commerce, a continuing downward trend in calls received for delivery and product inquiries based on people being at home longer hours, greater opportunities for proposing new products due to increasing customer service hours on telephone, as well as changes in the advertising investment environment

In direct store sales/wholesale, in FY9/20, there was a temporary suspension of operations at direct stores and other distributing stores due to the temporary shutdown of department stores and shopping centers, and there were fewer customers due to decreased opportunities to go out. For FY9/21, the Company expects the level of the number of customers visiting stores to be the same as it has been since last spring, and expects that there might be shorter business hours under the declaration of a state of emergency. Meanwhile, the Company looks for greater opportunities to expand sales channels for new Smart Health Care products due to growing healthcare needs.

In overseas sales, in FY9/20 there was a temporary impact of delays in exports to China and the suspension of domestic distribution in China. There were also fewer customers mainly due to restrictions on going out. In terms of expected impacts in FY9/21, the Company expects the possibility of some temporary impacts from regional lockdowns, but does not expect any particular impact from delays in exports, suspension of distribution and other factors. Meanwhile, the Company looks for expanding sales opportunities in e-commerce, including live commerce.

Outlook

The FY9/21 results forecast has been left unchanged from the initial forecast. In addition to additional growth of the PERFECT ONE brand, growth is expected in the Smart Health Care Business, which is the Company is aiming to grow into its second business pillar

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 5.4%), and profit of ¥2,300mn (up 8.4%). These are the same forecasts as were made at the beginning of the fiscal year. By product category, sales expansion 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 exceeding the initial 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. At FISCO, we think that demand will be high for skincare to address problems such as dry skin due to stress, as working from home becomes a constant. Also, in addition to the further growth of the PERFECT ONE brand, such as the strong sales of the newly-launched PERFECT ONE Wrinkle Stretch Gel, the Smart Health Care Business, which supports "self-reliant healthcare" by individuals, is expected to develop as a pillar of new business.

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Outlook

FY9/21 financial results forecasts

	FY9/19	FY9/20	FY9/21		
			1Q Results	FY Forecast	YoY Change (Full-year forecast)
Net sales	33,570	33,728	8,489	35,000	3.8%
Cosmetics	30,575	31,098	7,914	32,539	4.6%
Healthcare	2,994	2,630	574	2,460	-6.4%
Operating profit	2,864	3,329	828	3,500	5.1%
Ordinary profit	2,822	3,283	859	3,460	5.4%
Ordinary profit rate	8.4%	9.7%	10.1%	9.9%	0.2pt
Profit	1,824	2,122	590	2,300	8.4%

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

2. FY9/21 net sales plan by channel

No changes have been made to the assumptions for FY9/21 full-year forecasts based on 1Q FY9/21 results. 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/wholesale, they are forecast to increase 32.2% to ¥2,836mn. Overseas sales are forecast to rise 34.3% to ¥950mn. Overseas and domestic EC sales, which are driving the sales growth, are forecast to increase 30.0% to ¥4,477mn. From 2Q FY9/21 onward, the Company plans to bolster advertising investment in new products, and further promote the acquisition of new customers in the mail order channel. With this, the Company is forecasting that it will increase advertising investment by 7.6% to ¥10,846mn, including the investment that was curtailed 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 accompanying the strengthening of marketing investment and the rebound from the strategic curtailment in FY9/20. Although efforts to increase the efficiency of operational costs are progressing steadily, the Company kept its conservative initial forecasts unchanged, and we at FISCO feel view the Company as taking a cautious stance.

FY9/21 results forecasts (by channel)

	FY9/19	FY9/20	FY9/21		
			1Q Results	FY Forecast	YoY Change (Full-year forecast)
Mail order	30,804	30,875	7,850	31,213	1.1%
Direct store sales/wholesale	2,151	2,145	426	2,836	32.2%
Overseas sales	614	707	211	950	34.3%

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Outlook

Assumptions for FY9/21 results forecasts

	FY9/19	FY9/20	FY9/21		
			1Q Results	FY Forecast	YoY Change (Full-year forecast)
Domestic and overseas EC sales	2,816	3,444	948	4,477	30.0%
Marketing investment					
Advertising expenses	10,245	10,079	2,534	10,846	7.6%
Operations costs					
FF costs	4,575	4,194	989	4,109	-2.0%
Call center costs	3,082	2,857	647	3,070	7.5%
No. of database items (mail order, including EC)					
No. of customer data items (10,000 people)	480	520	-	560	7.7%

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

The growth strategy

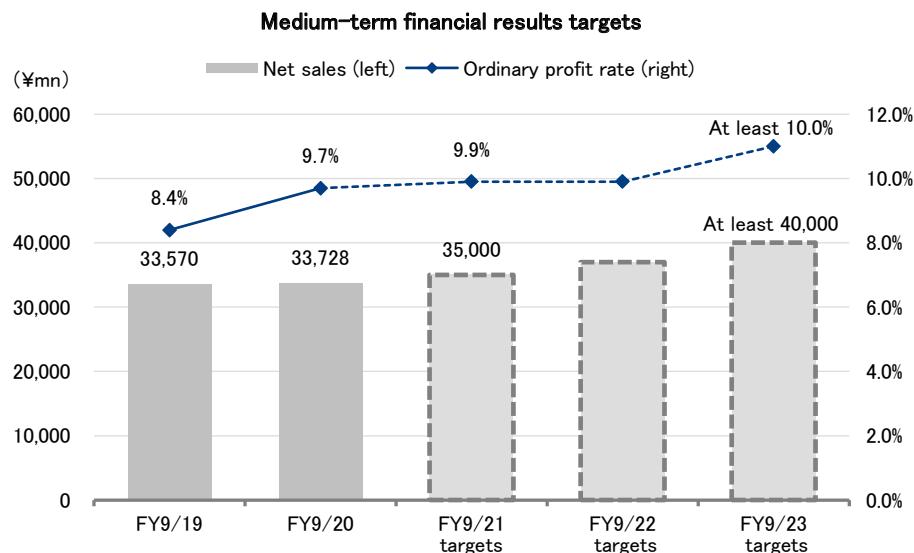
Formulated clear medium-term targets for each of the generational targets

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 advancing its growth strategy. For growth strategies, the Company has set forth further growth of the Perfect One brand, acceleration of EC and digital expansion, brand development and growth for nurturing global brands, and development of Smart Health Care Business. The Company has also created a growth strategy roadmap and as the targets in the cosmetics and healthcare category, it has formulated clear medium-target strategies for each of the four targets, of senior generation, middle age generation, millennial generation, and overseas.

In the cosmetics category, for the senior generation, as the strategy to increase LTV (Life Time Value), and to acquire new customers, the Company will launch new All-in-One Gel merchandise (items to improve wrinkles and whitening beauty care), develop new products and new services, and strengthen database marketing. To acquire the millennial generation customers, especially customers age 20-39, the Company is carrying out a new brand strategy that features popular celebrities and will continue to work on digital marketing utilizing SNS. Furthermore, for the middle-aged and millennial generations, the Company will accelerate EC and digital development. Specifically, the Company is concentrating investment and strengthening digital marketing, bolstering online and offline coordination measures and CRM that utilizes apps, and using influencers to raise the level of recognition of the Company. In overseas business, it is developing and growing the brands into global brands. The Company is promoting further growth in China and developing brands in Asia and ASEAN countries, while it has begun preparations to newly enter into North America. Finally, in the Healthcare category, targeting the middle-aged and millennial generations, the Company is pursuing brand value, and working to acquire new customer bases, and by doing so focus on developing the Smart Health Care Business.

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The growth strategy



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

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. With the expansion of the anti-aging skincare market, in September 2020 the Company launched PERFECT ONE Wrinkle Stretch Gel containing Vitamin PP, as a new product from the All-in-One Gel series for the first time in Japan, and post-launch sales have been strong. Toward further growth, it is actively investing in advertising on TV and SNS, mainly for PERFECT ONE Wrinkle Stretch Gel. According to the Company, major cosmetics manufacturers' spot beauty liquids are in a high price range (¥10,000 to ¥15,000). There are many players and it is a highly-competitive environment, but the Company is rolling out all-in-one type products in the medium price range (¥7,150 including tax) which it claims is less likely to face competition with major cosmetics manufacturers and also promises future growth. The Company's strategy is to extend growth of the Perfect One brand by putting itself in a position where it is better able to demonstrate its strengths.



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The growth strategy

Regarding the new product PERFECT ONE Wrinkle Stretch Gel, up-selling to existing customers progressed faster than expected, contributing to higher LTV, and it is expected to exceed the number of fixed-term purchase customers as of the fiscal year-end. From 2Q FY9/21 onward, the Company will concentrate advertising investment in PERFECT ONE Wrinkle Stretch Gel to accelerate the acquisition of new customers. In order to acquire new customer groups for the Perfect One brand, the Company utilized male celebrities popular with a wide range of age groups and broadcasted commercials nationwide. Immediately after starting the commercials, the Company achieved first place in Twitter search trends, and there was a 5-fold growth in the number of SNS account followers on Twitter three months after the launch of the Twitter account, and the number of Instagram followers increased 55-fold in five months from the launch. At the same time, the number of new customers in the millennial generation has doubled since September, showing a rapid growth. Going forward, the Company plans to continue to conduct new commercials and other forms of advertising using popular celebrities and increase the name awareness of the Perfect One brand, particularly among the millennial generation, as well as spread the new common sense of "Providing simple, smart, and effective skincare."

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.

2. Brand development and growth for nurturing global brands

The Company will promote the expansion of EC-based overseas sales, focusing on China where the growth potential is high. In addition to China, the Company is targeting Taiwan, Hong Kong, and ASEAN (Singapore, Vietnam and Thailand), and U.S., and in each country the focus will be on consumers age 20-49 with high spending power. In China, the sales channels will be EC (cross-border, EC, RED, Tmall, etc.), and the Company will work to approach consumers in their 20s with strong ability to send out information to others in order to increase awareness and heighten LTV. In Taiwan and Hong Kong, the sales channels are EC (company website, MOMO, etc.), direct store/wholesale (variety shops), and mail order, and the strategy is to strengthen brand awareness and promote multi-channel marketing. In ASEAN, the sales channels are EC (company website, shopee, etc.) and direct store/wholesale (variety shops), and the strategy is to aggressively deploy mid-priced products in view of potential consumption power. In the U.S., utilizing EC (company website), the plan is to increase awareness targeting full-scale deployment.

3. Development of Smart Health Care Business

With the global health boom and rising interest in personal healthcare in recent years, the Company plans to strengthen and expand the healthcare business as its second pillar of its business. With EC as the core, the Company will also start distributing products in drug stores, targeting the millennial and middle-aged generations. In drug stores, the Company plans to work with 5,000 stores, and will start with medium-sized chain stores. The Company will distinguish itself in terms of customers and channels, and plans to promote incremental sales. At FISCO, we believe that it is necessary to keep a close watch on the fact that drug stores may very well ask the Company to lower its prices.

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The growth strategy

The concept of Smart Health Care targeting the millennial and middle-aged generations are “supporting ‘self-reliant healthcare.’” The main products are BODY AURA and “Beauty within protein.” Meanwhile, the conventional health care concept targeting the senior generation is “maintaining good health” and “resolve concerns,” and the main products are Rise and shine! Green Vegetable Juice Salad Plus, Loco Attack EX, a food with functional claims, and W Health Green Vegetable Juice.

Topics

Strengthen the message targeting overseas with the aim of listing on the Prime market

1. Increase in number of contacts with growing interest among overseas investors

In December 2020, the Company's stock listing was upgraded from the Tokyo Stock Exchange (TSE) Mothers market to the TSE First Section. In December 2020, the TSE announced that it is considering abolishing the existing four markets (1st Section, 2nd Section, Mothers, Jasdaq) and reclassifying stocks into three new markets (Prime, Standard, Growth) in April 2022. The criteria for listing on the Prime market would be a market capitalization of at least ¥25bn, and market capitalization of at least ¥10bn in tradable shares, among others. As of the time that this report was researched and written, the Company satisfies these requirements. Furthermore, according to the TSE, the Corporate Governance Code will be amended from the spring of 2021, and companies listed on the Prime market will have even higher standards. As a result, the Prime market will have listing standard equal to that of overseas markets, which will make it easier for overseas institutional investors and other market players to choose to invest in the Company. It appears that the number of contacts with overseas investors is increasing right now, and we at FISCO think that the Company will become more active in its IR activities and other messaging targeting overseas institutional investors.

2. 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.

(1) Smile Project One

One of the Company's mottos is “What We Can Do for Health.” Based on this idea, the Company supports sports for disabled persons, supports food, education, and healthcare around the world, and works through an organization to eradicate driving under the influence. The Company also sponsors local events and promotes regional revitalization.

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Topics

As one specific example, the Company is a supporter of the NPO Wig Ring Japan, which passes on the wigs of patients who have successfully completed cancer treatment to women. Wig Ring Japan supports women battling cancer in various ways, such as operating get-together events where cancer patients can exchange information, holding health care seminars, publishing medical information magazines, and publishing information via the Internet. The Company supports initiatives such as "Learn in a Cafe: All about Cancer" where people can learn about the illness.

(2) Eco Project One

Under the motto of "What We Can Do for Our Planet" and aiming to support areas affected by disasters as well as the global environment, the Company carries out a variety of activities, such as encouraging employees to use personal reusable chopsticks and drinking cups in the Company, as well as collecting the caps of plastic bottles.

For example, to support the Kasahara district of Kurogi-machi in Yame City, Fukuoka Prefecture, which was damaged by the torrential rain event that occurred in northern Kyushu in July 2012, the Company is continually supporting the effort to purchase local rice terrace rice and use it for meals in the employee cafeteria, through the Sansonjuku Project which was launched to preserve the rich natural environment, such as rice terraces and forests. The Company also supports the NPO Gaia Initiative which operates the "+1 Forest" program, which connects the active young people of urban areas and communities where many forests are being devastated due to the depopulation of villages in mountainous areas as well as financial troubles, and to put smiles on the faces of those people living in forested communities as well as urban areas.

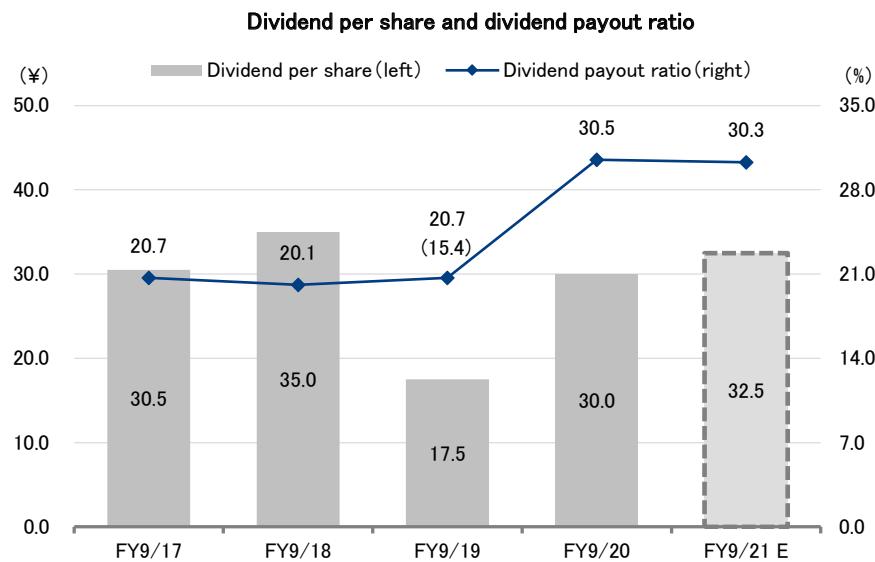
■ Shareholder return policy

In FY9/20, the Company upwardly revised the dividend amount two times and paid an annual dividend of ¥30.0. For FY9/21, the Company plans to increase the dividend ¥2.5 to ¥32.5

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) from the initial plan of ¥19.0 to ¥28.0, and then it increased it an additional ¥2 to bring the annual dividend to ¥30.0. For 9/21, the Company is planning to pay a dividend of ¥32.5, for a dividend payout ratio of 30.3% at the current forecast stage.

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Shareholder return policy



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 stock split (250 shares per share) carried out on September 1, 2017, and the stock 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 financial results and supplementary briefing material

In May 2020, the Company enhanced the content of its shareholder benefits program. For shareholders owning 100-299 shares, shareholders holding their shares for less than 6 months will be given a Moisture Gel 75g valued at ¥4,000, while shareholders holding their shares for more than 6 months will be given 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 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.

The condition for a continuous holding period of 6 months or more is for the same shareholder number to be recorded consecutively on the Company's shareholder registry on September 30, which is the record date, and the March 31 6 months prior to that, and for the number of shares held to continue to be greater than or equal to the prescribed number of shares.

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Shareholder return policy

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

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

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