Analyses of Management and Finances

Analysis of Operating Results

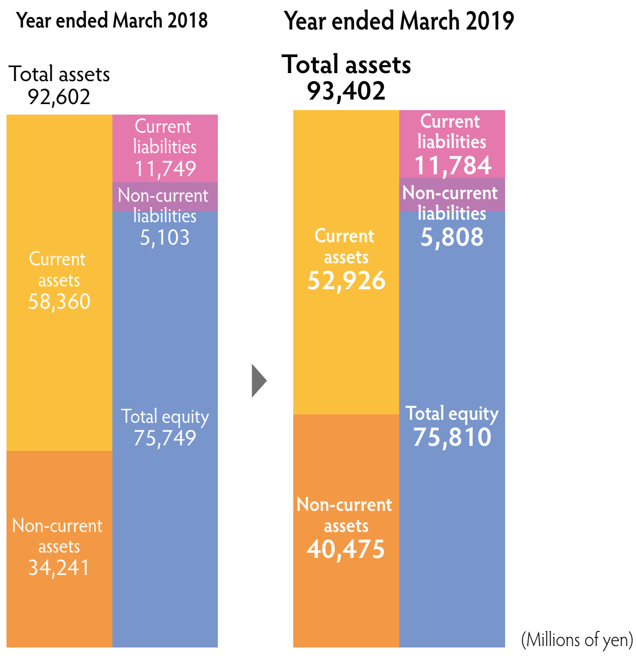
During the consolidated fiscal year, Japan's economy showed a gradual recovery against a backdrop of improvements in corporate profits and the employment situation despite concern over uncertainty in the global economy. Additionally the economies throughout Asia - our main sphere of international operations - showed a gradual recovery despite continued uncertainty about the future.
Given these economic conditions, the Mandom Group pursued initiatives aimed at driving sustained growth, namely maintenance and expansion of our core men's business, further strengthening of our women's business, and strengthening of our global business centered on Indonesia. Beginning from the fiscal year under review, some items that had been treated as expenses have been deducted from net sales at overseas consolidated subsidiaries included in financial statements conforming to IFRS. When net sales from the same period of the previous fiscal year are calculated according to the same standards, for ease of comparison, those comparisons are denoted by the use of the phrase "in real terms."
In regard to operating results for the fiscal year under review, net sales were up 0.2% in real terms to ¥78,997 million (down 2.9% year on year) as a result of intensification of the competitive environment, particularly in Indonesia, and a decline in the domestic women's business, which had been doing well through the first half. Due in part to aggressive spending of general and administrative expenses to strengthen the business foundation, operating income amounted to ¥7,135 million (down 15.6% year on year), ordinary income was ¥8,161 million (down 11.9% year on year), and net income attributable to owners of parent was ¥5,087 million (down 16.4% year on year).

	Year ended March 2018 (Millions of yen)	Year ended March 2019 (Millions of yen)	Change (Millions of yen)	YoY (%)
Net sales	81,386	78,997	(2,389)	−2.9%
Cost of sales	36,550	37,115	565	+1.5%
Selling, general and administrative expenses	36,379	34,746	(1,632)	−4.5%
Operating income	8,457	7,135	(1,322)	−15.6%
Non-operating profit (expenses)	806	1,026	219	+27.2%
Ordinary income	9,264	8,161	(1,102)	−11.9%
Extraordinary profit (losses)	(45)	(203)	(158)	+348.5%
Income before income taxes	9,218	7,958	(1,260)	−13.7%
Income taxes	2,544	2,392	(151)	−6.0%
Net income attributable to noncontrolling interests	587	478	(108)	−18.5%
Net income attributable to owners of the parent	6,086	5,087	(999)	−16.4%

Analysis of Financial Position and Cash Flows

(1) Assets, Liabilities and Total Equity

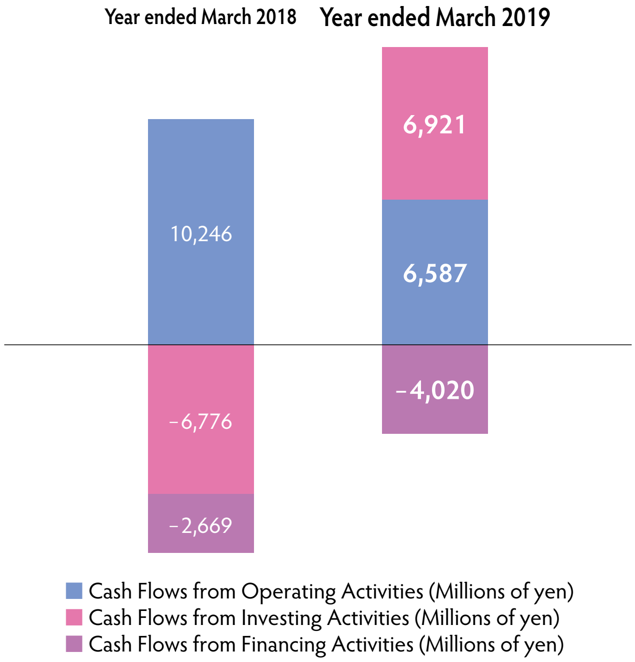
Total assets were ¥93,402 million as of March 31, 2019, up ¥799 million from a year earlier.
Current assets were ¥52,926 million. This was mainly due to a ¥13,198 million increase in cash and deposits and a ¥22,799 million decrease in securities.
Non-current assets were ¥40,475 million. This was mainly due to recording ¥3,408 million in goodwill, ¥1,626 million in customer-related assets, and ¥1,039 million in trademark rights as a result of business combination.
Total liabilities were ¥17,592 million as of March 31, 2019, up ¥738 million from a year earlier.
Current liabilities were ¥11,784 million. This was mainly due to a ¥365 million increase in notes and accounts payable - trade.
Non-current liabilities were ¥5,808 million. This was mainly due to a ¥688 million increase in deferred tax liabilities.
Total equity was ¥75,810 million as of March 31, 2019, up ¥60 million from ¥75,749 million a year earlier. This was mainly due to a ¥2,070 million increase in retained earnings resulting from ¥5,087 million in net income attributable to owners of the parent and ¥3,016 million in dividends of surplus.



(2) Status of Cash Flows

Cash and cash equivalents as of March 31, 2019 came to ¥22,779 million, up ¥9,139 million from the end of the previous fiscal year. This was mainly due to an increase in proceeds from redemptions and sales of marketable securities and in accounts receivable, despite a ¥7,958 million decrease (down 13.7% year on year) in income before income taxes.
Factors influencing cash flows during the term are as follows.

- **Cash Flows from Operating Activities**
  Net cash provided by operating activities was ¥6,587 million. This was mainly due to an increase resulting from income before income taxes of ¥7,958 million and depreciation and amortization of ¥3,583 million, and a decrease resulting from ¥2,484 million in corporate and other taxes paid and a ¥2,372 million increase in inventories.
- **Cash Flows from Investing Activities**
  Net cash provided by investing activities was ¥6,921 million. This was mainly due to an increase resulting from ¥21,300 million in proceeds from redemptions and sales of marketable securities, and a decrease resulting from ¥6,491 million in purchase of investments in subsidiaries with a change in scope of consolidation.
- **Cash Flows from Financing Activities**
  Net cash used in financing activities was ¥4,020 million. This was mainly due to a decrease resulting from dividend payments of ¥3,013 million.



Capital Policy

In a competitive environment in which the global markets grow more intense daily, the Company, under the going concern assumption, adopts a basic capital policy rooted in the maintenance of a strong financial foundation in order to achieve sustainable growth. The capital policy calls for the proactive utilization of strategic investments such as overseas investments, R&D investments, capital investments, and M&A. Regarding shareholder returns, we prioritize the stable and continuous return of profits to shareholders through dividends.
In addition, we consider that it is its first priority to improve its corporate value by expanding its mainstay cosmetics business. Therefore, we do not set targets for ROE, while it has set a payout ratio as described earlier and targets related to growth and profitability (operating income margin) as numerical targets in its management plan. However, we keep the improvement of capital efficiency in mind. As such, in addition to enhancing shareholder returns and proactive business investments, we will also consider the acquisition of treasury stock depending on a number of factors, including economic conditions, company assets, and stock price trends.
At the Board of Directors meeting held on May 14, 2019, we resolved to acquire shares of treasury stock up to 2,000,000 shares as a measure for improving shareholder returns and capital efficiency.

Facilities

(1) Overview of capital investments

The Group maintains a basic policy of making capital investments in facilities to manufacture products that sustain a competitive advantage. Total capital investments were ¥3,559 million as of March 31, 2019, up ¥703 million (24.7%) from a year earlier. Breakdown by segment is listed on the right.

Segment name	Fiscal 2018 (Millions of yen)	YoY change (%)
Japan	2,129	45.4
Indonesia	1,321	6.4
Other Overseas	108	−27.2
Total	**3,559**	**24.7**

(2) New important facilities

The Group determines its plans for capital investments while comprehensively taking into consideration investment efficiency and other factors. In principle, each consolidated company separately determines its capital investment plan. However, the Group makes adjustments mainly to the reporting companies when they determine the plan.
Planned additions, retirements, etc. of important facilities as of March 31, 2019 are listed below.

Company name	Office name (location)	Segment name	Facilities	Planned amount of investment (Millions of yen)		Method of financing	Planned date of start/finish		Enhanced capabilities after completion
				Total amount	Amount paid		Start	Finish	
Reporting company	Fukusaki Factory (Fukusaki-cho, Kanzaki-gun, Hyogo)	Japan	Production facilities	14,920	119	Own capital	July 2019	August 2021	60% increase

* Consumption tax, etc. is not included in the above amount.