Analyses of Management and Finances

Analysis of Operating Results

In the fiscal year under review, as the outlook for the Japanese economy was unclear due to uncertainties in the global economy, etc., and while overall business sentiment remained solid against the backdrop of firm corporate profits, and the Asian economy, which is the business area of the Company's overseas group, also continued to remain stable, despite a slight slowdown and the uncertain outlook, the outlook remained unclear due to the spread of the novel coronavirus disease (COVID-19) toward the end of the year. 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.

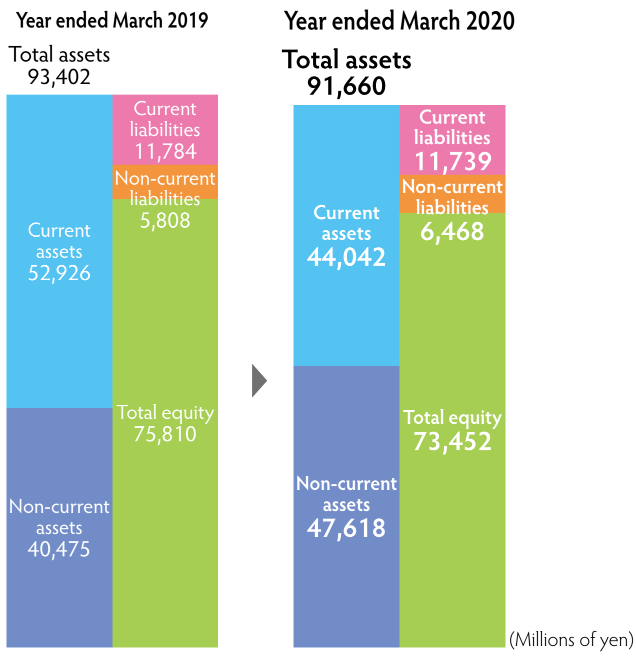
Net sales totaled ¥81,774 million (up 3.5% year on year). This was mainly attributable to steady sales of overseas subsidiaries, despite the decline in domestic sales. Operating income was ¥5,970 million (down 16.3% year on year). This was mainly attributable to a decline in domestic sales and an increase in general and administrative expenses. As a result, ordinary income was ¥6,706 million (down 17.8% year on year), and net income attributable to owners of the parent amounted to ¥4,445 million (down 12.6% year on year).

	Year ended March 2019 (Millions of yen)	Year ended March 2020 (Millions of yen)	Change (Millions of yen)	YoY (%)
Net sales	78,997	81,774	2,776	+3.5%
Cost of sales	37,115	39,493	2,378	+6.4%
Selling, general and administrative expenses	34,746	36,310	1,563	+4.5%
Operating income	7,135	5,970	(1,165)	−16.3%
Non-operating profit (expenses)	1,026	736	(289)	−28.3%
Ordinary income	8,161	6,706	(1,454)	−17.8%
Extraordinary profit (losses)	(203)	92	296	–
Income before income taxes	7,958	6,799	(1,158)	−14.6%
Income taxes	2,392	1,854	(538)	−22.5%
Net income attributable to noncontrolling interests	478	499	20	+4.4%
Net income attributable to owners of the parent	5,087	4,445	(641)	−12.6%

Analysis of Financial Position and Cash Flows

1. Assets, Liabilities and Total Equity

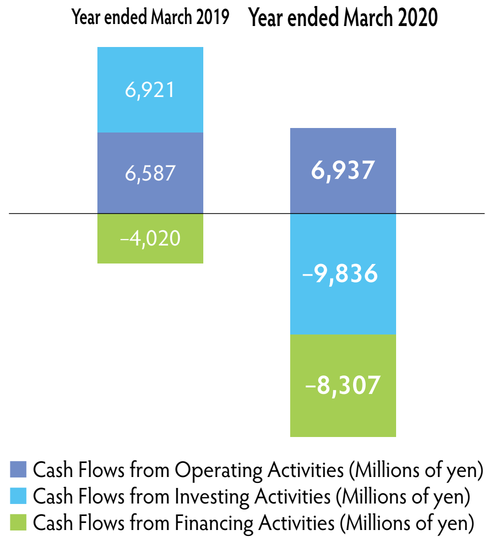
Current assets were ¥44,042 million as of March 31, 2020, down ¥8,883 million from a year earlier.
This was mainly due to a decrease of ¥10,662 million in cash and deposits.
Non-current assets were ¥47,618 million as of March 31, 2020, up ¥7,142 million from a year earlier. This was mainly due to an increase of construction in progress of ¥7,034 million. As a result, total assets were ¥91,660 million as of March 31, 2020, down ¥1,741 million from a year earlier.
Current liabilities were ¥11,739 million as of March 31, 2020, down ¥44 million from a year earlier. This was mainly due to a decrease of ¥563 million in corporate and other taxes payable.
Non-current liabilities were ¥6,468 million as of March 31, 2020, up ¥660 million from a year earlier. This was mainly due to an increase of ¥389 million in liability for retirement benefits. As a result, total liabilities were ¥18,208 million as of March 31, 2020, up ¥615 million from a year earlier.
Total equity was ¥73,452 million as of March 31, 2020, down ¥2,357 million from a year earlier. This was mainly because we acquired shares of treasury stock of ¥5,000 million. As a result, shareholders' equity ratio was 73.2% as of March 31, 2020 (compared to 74.9% from a year earlier).



2. Status of Cash Flows

Cash and cash equivalents as of March 31, 2020 came to ¥11,657 million, down ¥11,122 million from the end of the previous fiscal year. This was mainly due to a ¥6,799 million decrease (down 14.6% year on year) in income before income taxes, as well as outlays for the acquisition of tangible fixed assets and outlays for the acquisition of treasury stock. Factors influencing cash flows during the term are as follows.

- **Cash Flows from Operating Activities**
  Net cash provided by operating activities was ¥6,937 million. This was mainly due to an increase resulting from income before income taxes of ¥6,799 million and depreciation and amortization of ¥4,369 million, and a decrease resulting from ¥2,402 million in corporate and other taxes paid and a ¥1,492 million increase in inventories.
- **Cash Flows from Investing Activities**
  Net cash used in investing activities was ¥9,836 million. This was mainly due to a decrease resulting from outlays for the acquisition of tangible fixed assets of ¥8,386 million.
- **Cash Flows from Financing Activities**
  Net cash used in financing activities was ¥8,307 million. This was mainly due to a decrease resulting from outlays for the acquisition of treasury stock of ¥5,000 million and dividend payments of ¥2,802 million yen.



Capital Policy

The Group has two main funding requirements: operation funding requirements and capital investment funding.
The main requirements for operation funding are the supply of raw materials for manufacturing the Group's products, as well as operating expenses such as manufacturing expenses, and selling, general and administrative expenses. For capital investment funding, the main requirements are the purchase of fixed assets such as buildings and machinery associated with the acquisition of production facilities.

1. Financial policy

The Group's financial policy is to maintain a solid balance sheet and appropriate liquid assets for its business activities, and capital is used primarily to fund operations and for capital investments, and is derived from internal reserves. If a domestic subsidiary lacks necessary funds, the shortfall is covered by a loan from the parent company, while demand for short-term funds from overseas subsidiaries is met by local-currency-based short-term loans taken out by the Group's main representative office in the region.
The Group regards any additional funds in hand as cash reserves for business investment, and places the utmost priority on ensuring their liquidity and security. Management further believes that even if the need should arise for investment funds exceeding current liquidity, and even in situations with uncertain outlook caused by COVID-19, it can procure the funds necessary to ensure dramatic growth based on sound finances and the capacity to generate cash flows through operating activities, and has built a cooperative system with financial institutions which allows us to secure funds of at least three months' worth of monthly sales at all times.

2. Overview of capital investments

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 ¥9,193 million as of March 31, 2020, up ¥5,633 million (158.3%) from a year earlier.
Breakdown by segment is listed on the right.

Segment name	Fiscal 2019 (Millions of yen)	YoY change (%)
Japan	7,813	266.9
Indonesia	849	−35.7
Other Overseas	529	389.1
Total	**9,193**	**158.3**

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 determining the plan.
Planned additions, retirements, etc. of important facilities as of March 31, 2020 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	6,853	Own capital	July 2019	August 2021	60% increase

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

3) Dividend policy

Returning profit to shareholders through dividends is a core management policy, subject to internal reserve requirements for medium- to long-term operational development and new business development, and for addressing corporate risks. The Group's policy is to continuously deliver shareholder return through dividend payouts.
The numerical target for the year ended March 31, 2020 was a payout ratio of not less than 40.0% of net income attributable to owners of the parent on a consolidated basis, excluding extraordinary factors. We allocate internal reserves to strategic investments aimed at boosting corporate value, including investment in facilities to expand existing business operations, overseas operations and research and investment. Furthermore, we view internal reserves as a safety net to deal with various corporate risks. We will also continue to consider the potential for stock buybacks to return profits to shareholders and improve capital efficiency.