Analyses of Management and Finances

Analysis of Operating Results

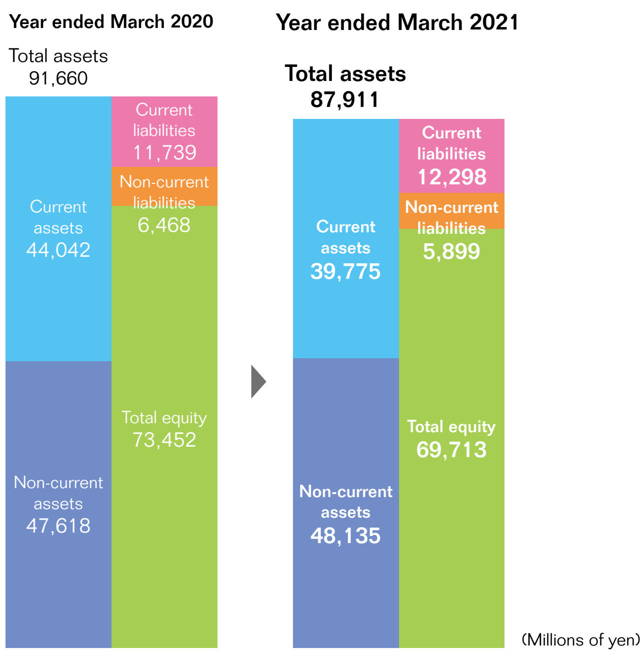
In the fiscal year under review, the Japanese economy rapidly deteriorated as a result of the stagnation of social and economic activities and the rapid decrease of consumption due to the impact of the global spread of the novel coronavirus disease (COVID-19). The economies throughout Asia - our main sphere of international operations - were in an extremely difficult situation as a result of COVID-19 spreading throughout the world.
Given these economic conditions, the Mandom Group thoroughly promoted measures to emphasize financial safety and reform working styles, and pursued initiatives for revising the group-wide marketing functions to increase brand values, strengthening the overseas foundation, focusing on Indonesia, and improving productivity and enhancing corporate value through business process transformation, which were its management policies for the fiscal year ended March 31, 2021.
As a result, our financial position and operating results for the fiscal year under review are as follows. In regard to operating results for the fiscal year under review, net sales totaled ¥63,310 million (down 22.6% year on year), operating loss totaled ¥793 million (operating income of ¥5,970 million in the previous fiscal year), ordinary loss totaled ¥273 million (ordinary income of ¥6,706 million in the previous fiscal year), and net income attributable to owners of the parent totaled ¥860 million (down 80.7% year on year).

	Year ended March 2020 (Millions of yen)	Year ended March 2021 (Millions of yen)	Change (Millions of yen)	YoY (%)
Net sales	81,774	63,310	(18,464)	-22.6%
Cost of sales	39,493	33,882	(5,611)	-14.2%
Selling, general and administrative expenses	36,310	30,221	(6,088)	-16.8%
Operating income or operating loss	5,970	(793)	(6,764)	—
Non-operating profit (expenses)	736	520	(216)	-29.3%
Ordinary income or ordinary loss	6,706	(273)	(6,980)	—
Extraordinary profit (losses)	92	1,494	1,401	+1,511.7%
Income before income taxes	6,799	1,221	(5,578)	-82.0%
Income taxes	1,854	496	(1,357)	-73.2%
Net income attributable to noncontrolling interests or net loss attributable to noncontrolling interests	499	(136)	(635)	—
Net income attributable to owners of the parent	4,445	860	(3,585)	-80.7%

Analysis of Financial Position and Cash Flows

1. Assets, Liabilities and Total Equity

Current assets were ¥39,775 million as of March 31, 2021 (compared to ¥44,042 million from a year earlier). This was mainly due to a decrease of ¥2,822 million in notes and accounts receivable – trade
Non-current assets were ¥48,135 million as of March 31, 2021 (compared to ¥47,618 million from a year earlier). This was mainly due to an increase of ¥2,751 million in property, plant and equipment due to capital investment, and a decrease of ¥1,280 million in investments and other assets due to the sale of investment securities.
Current liabilities were ¥12,298 million as of March 31, 2021 (compared to ¥11,739 million from a year earlier). This was mainly due to an increase of ¥3,651 million in short-term bank loans and a decrease of ¥2,002 million in accounts payable. Non-current liabilities were ¥5,899 million as of March 31, 2021 (compared to ¥6,468 million from a year earlier). This was mainly due to a decrease of ¥408 million in deferred tax liabilities.
Total equity was ¥69,713 million as of March 31, 2021, down ¥3,739 million from ¥73,452 million a year earlier. This was mainly due to a decrease of ¥1,391 million in foreign currency translation adjustments, and a decrease of ¥1,249 million in retained earnings due to the payment of dividends. As a result, shareholders' equity ratio was 73.1% as of March 31, 2021 (compared to 73.2% from a year earlier).



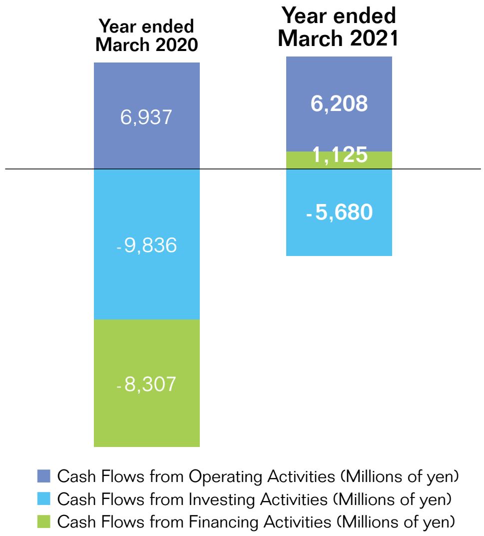
2. Status of Cash Flows

Cash and cash equivalents as of March 31, 2021, came to ¥13,040 million, up ¥1,383 million from the end of the previous fiscal year.
Factors influencing cash flows during the term are as follows.

▸ **Cash Flows from Operating Activities**
Net cash provided by operating activities was ¥6,208 million (compared to ¥6,937 million provided from a year earlier). This was mainly due to depreciation and amortization of ¥4,818 million, a ¥2,494 million decrease in receivables, a ¥1,128 million decrease in accounts payable - other and a decrease resulting from ¥1,080 million in income taxes paid.

▸ **Cash Flows from Investing Activities**
Net cash used in investing activities was ¥5,680 million (compared to ¥9,836 million used from a year earlier). This was mainly due to a decrease resulting from outlays for the acquisition of property, plant, and equipment of ¥8,219 million and an increase in proceeds from sales and redemptions of investment securities of ¥2,344 million.

▸ **Cash Flows from Financing Activities**
Net cash provided by financing activities was ¥1,125 million (compared to ¥8,307 million used from a year earlier). This was mainly an increase resulting from short-term bank loans of ¥3,650 million and a decrease resulting from dividend payments of ¥2,109 million.



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 prioritizes the use of internal reserves in principle, with any shortfalls covered by loans from financial institutions. 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.
In this uncertain situation caused by the spread of COVID-19 and other factors, we have set commitment lines with financial institutions, and built a system that can constantly secure funds of over three months' worth of monthly sales in order to prepare for unforeseen funding.

2. Overview of capital investments

1) Facilities

The Group maintains a basic policy of making capital investments in facilities to manufacture products that sustain a competitive advantage. Total capital investments were ¥7,980 million as of March 31, 2021, down ¥1,213 million (13.2%) from a year earlier.
Breakdown by segment is listed on the right.

Segment name	Fiscal 2020 (Millions of yen)	YoY (%)
Japan	7,446	-4.7
Indonesia	255	-69.9
Other Overseas	277	-47.5
Total	**7,980**	**-13.2**

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, 2021 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	13,095	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. Under this strong commitment to dividend policy, the Group will endeavor to continuously deliver shareholder return through dividend payouts, while aiming for consecutive dividend increases. The numerical target for the year ended March 31, 2021 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.
The Company paid out a dividend of ¥32 per share. As a result, the dividend payout ratio amounted to 166.9% on a consolidated basis.
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.