

# Results of Operations for the Fiscal Year Ended February 29, 2020

April 17, 2020 Jun Kawata, President



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## FY2/20 Financial Summary

### **Financial Summary**



#### FY2/20 Results of operations

Fourth consecutive year of sales growth, but earnings decreased

Consolidated sales increased but operating profit decreased.

Consolidated sales: 34,100 million yen (+0.5% YoY)

Consolidated operating profit: 1,533 million yen (-6.8% YoY)

Weakness in the key food packaging and containers and IT and industrial materials categories held down earnings

#### **Food Packaging and Containers**

- Large number of rainy days in June-July 2019
- Natural disasters such as typhoons and heavy rain, and a warm winter
- Food loss and environmental problems
- Growth slowed in the convenience store sector

#### IT and Industrial Materials

- Worsening conditions in the smartphone market
- An extended correction phase of the IT cycle
- U.S.-China trade friction



- ◆ Higher than expected volume of seasonal products impacted production efficiency → Lower profitability
- ◆ Decrease in food loss and slowing convenience store sector growth → Lower production and sales volumes



- Lower activity in the smartphone category, which performed very well in FY2/19
- Expected higher sales of film for electronic component production processes, but growth was limited by excessive inventories

### **Financial Summary**



Higher sales of printing sheets for building materials and machinery offset lower sales of food packaging and containers and IT and industrial materials

- (1) Building material sales increased from 814 million yen to 1,508 million yen because of higher sales of functional building materials resulting from the purchase of the new coating machine for decorative sheets. This is one element of the policy of creating a business portfolio that can succeed in all market conditions.
- (2) Used combined sales of packaging machinery and materials for stronger ties with customers; machinery sales by the Engineering Department
- (3) Orders from new customers increased for transfusion-related packaging materials in the pharmaceuticals and health care sector and for internally manufactured consumer product packaging and materials

The goal is stable and consistent operations by continuing to make investments while maintaining the proper balance among all applications

#### The new coating machine





## Results Highlights



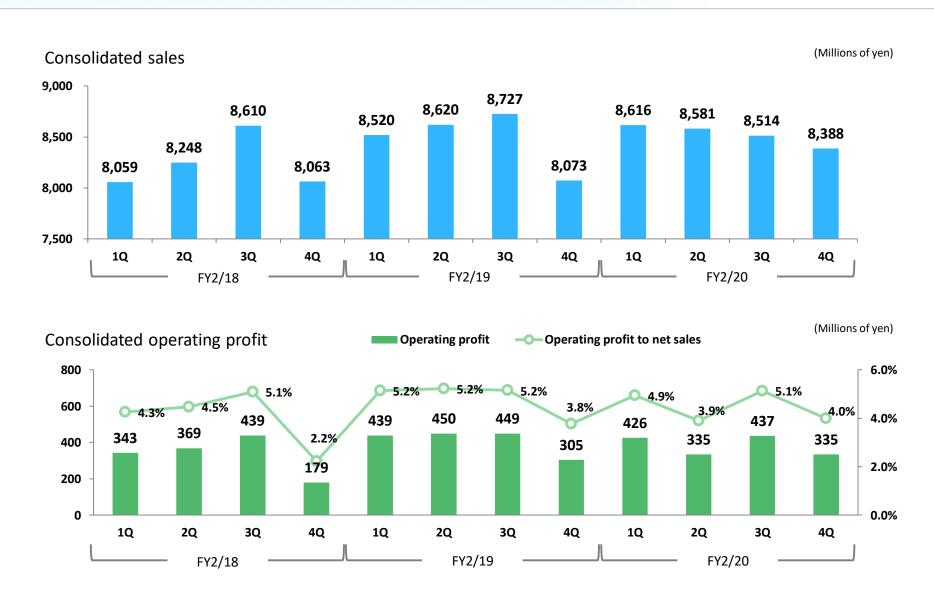
(Consolidated) (Millions of yen; (% to sales))

		FY2/20					
	FY2/19 Results	Results	YoY (	change	Plan	Vs. plan	
			Amount	%		Amount	%
Net sales	33,942	34,100	+157	+0.5%	36,200	(2,099)	(5.8)%
Gross profit	<b>5,287</b> (15.6%)	<b>5,249</b> (15.4%)	(37)	(0.7)%	5,800 (16.0%)	(550)	(9.5)%
Selling, general and administrative expenses	3,642 (10.7%)	3,716 (10.9%)	+74	+2.0%	4,020 (11.1%)	(303)	(7.6)%
Operating profit	1,645 (4.8%)	<b>1,533</b> (4.5%)	(112)	(6.8)%	<b>1,780</b> (4.9%)	(246)	(13.8)%
Ordinary profit	<b>1,684</b> (5.0%)	1,608 (4.7%)	(75)	(4.5)%	1,850 (5.1%)	(241)	(13.0)%
Profit attributable to owners of parent	1,156 (3.4%)	1,085 (3.2%)	(70)	(6.1)%	1,270 (3.5%)	(184)	(14.5)%
R&D expenses	67	64	(2)	(4.3)%	101	(36)	(36.1)%
Capital expenditures*	1,560	1,739	+179	+11.5%	1,179	+560	+47.6%
Depreciation *Construction in progress is not include:	872 (2.6%)	1,003 (2.9%)	+130	+15.0%	1,160 (3.2%)	(157)	(13.6)%

<sup>\*</sup> Construction in progress is not included in capital expenditures.

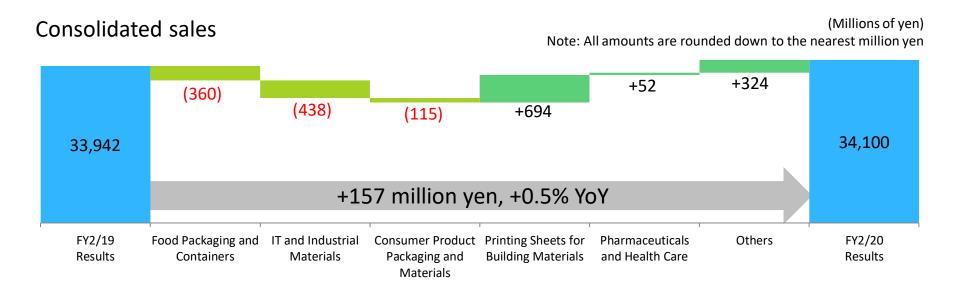
Note: Exchange rate for FY2/20: 16.3 yen/yuan

## **Quarterly Results**

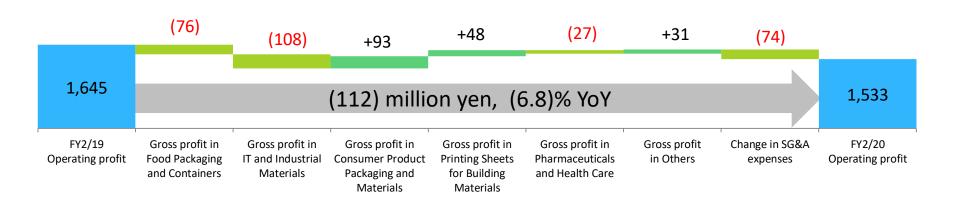


## Change in Net Sales and Operating Profit (YoY)

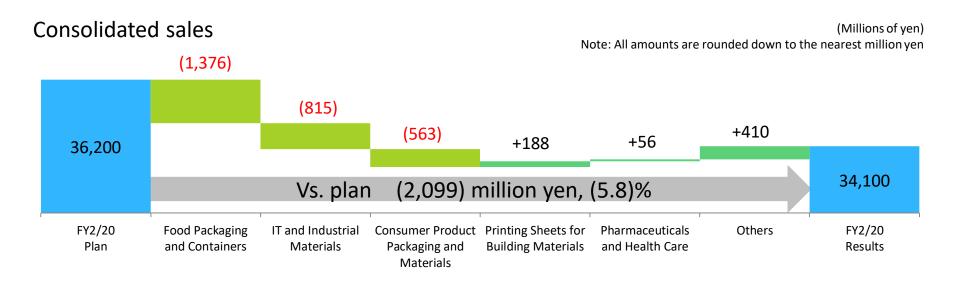




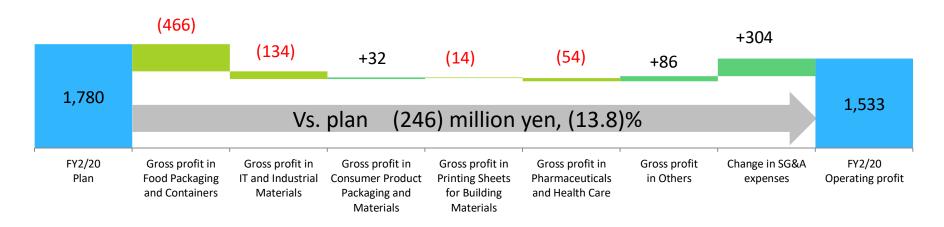
#### Consolidated operating profit



## Change in Net Sales and Operating Profit (Vs. Plan) 🕸 NAKAMOTO PACKS CO., LTD.

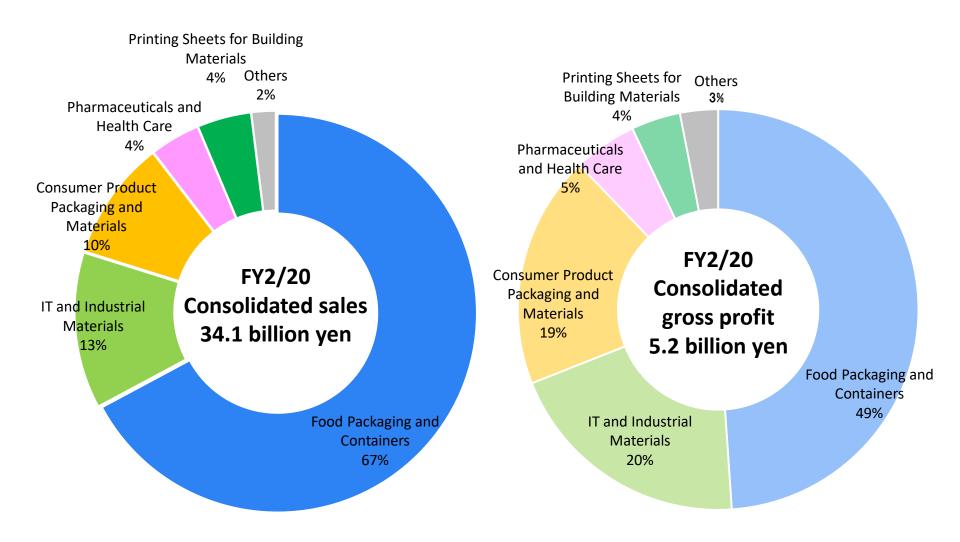


#### Consolidated operating profit



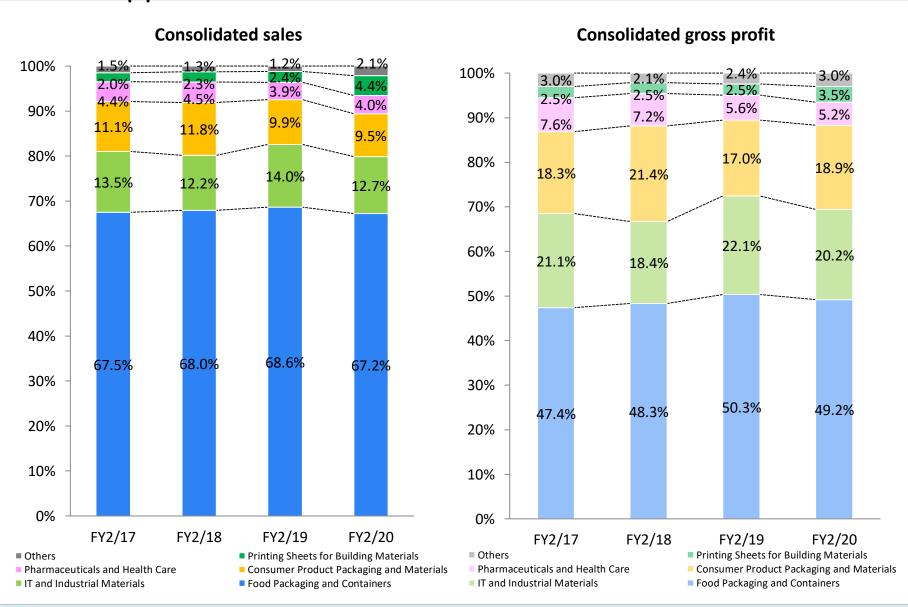
## Sales and Gross Profit Composition for Product Applications





## Trends in Sales and Gross Profit Composition for Product Applications

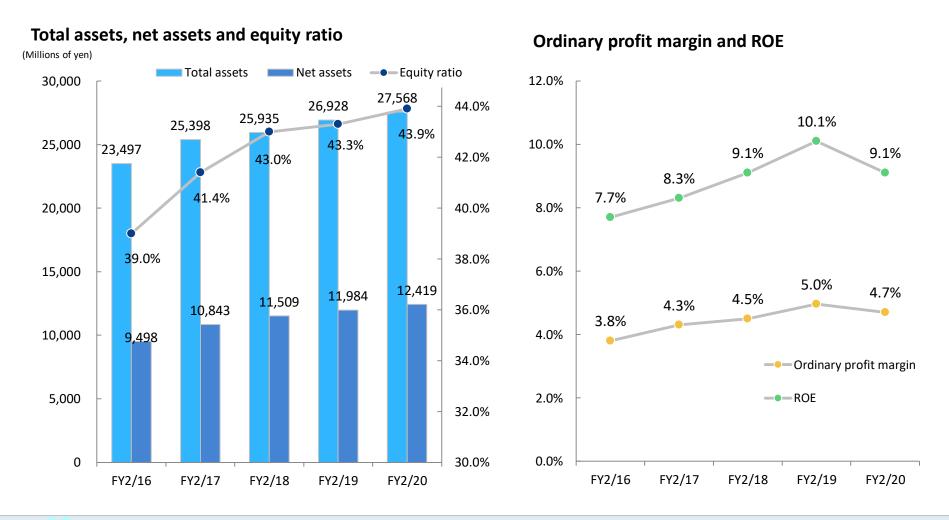




## Financial Highlights



## Financial soundness continues to improve, backed by strong sales and earnings



## Applications – Food Packaging and Containers

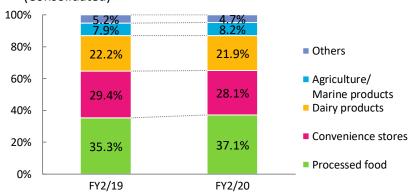




Sales in major	product	categories
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Processed food	Large volume of orders, mainly for delicatessen foods and frozen foods, due to the growth of Japan's market for prepared food items
Convenience stores	Down because growth slowed in the convenience store sector and due to the effect of food loss problems
Dairy products	<ul> <li>Lower sales of some products for yogurt, a category with a strong performance in FY2/19</li> <li>Increase in containers for dairy products because of higher imports of dairy products due to economic partnership agreements</li> </ul>
Agriculture/ Marine products	Sales increased because of firm orders for agricultural product packaging and sales to new customers

#### ■ Sales composition for major categories (Consolidated)





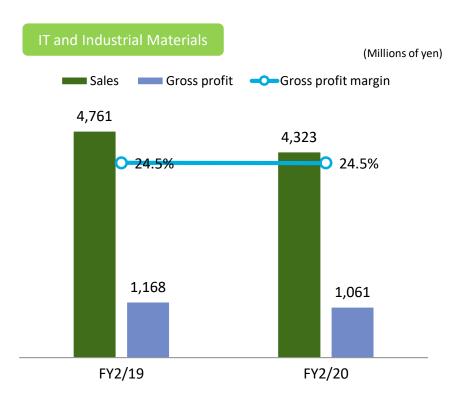
Prepared food container (bento)

Pasta container

Beverage container lid/

### Applications – IT and Industrial Materials





#### Sales in major product categories

Mobile communications	Sales of smartphone materials, which were strong in FY2/19, decreased because of a downturn in the smartphone market
Semiconductors	Sales of film for electronic component production processes
Automobiles	Decrease caused by slow automobile sales worldwide
Rechargeable batteries	Only activities for prototypes; increasing activities for receiving orders for mass production in this category
Others	The goal is to use the increasing number of testing orders as a base for receiving orders for mass production

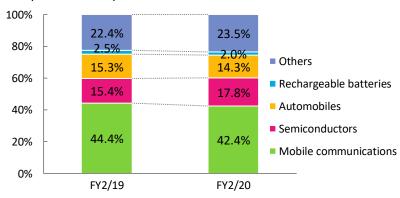
#### Examples of final products



Films for production processes



Sales composition for major categories (Consolidated)

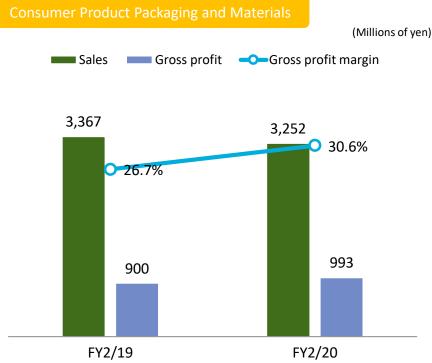


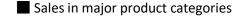


### **Applications**

### Consumer Product Packaging and Materials

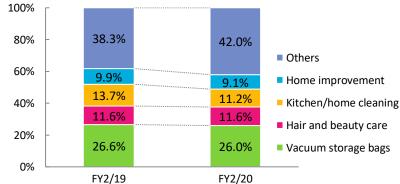






Vacuum storage bags	Profit margin was higher, but sales slightly decreased despite recovery in orders from current customers and orders from new customers
Hair and beauty care	Steady sales of materials for hair dyeing process (combs, gloves)
Kitchen/home cleaning	Higher sales of packaging for mold and mildew prevention products but lower sales of packaging for adhesive cleaning rollers
Home improvement	Upturn in demand has ended, but sales steady due to launch of new products
Others	<ul> <li>Strong sales of new products, including an AC outdoor unit thermal insulation sheet</li> <li>Slight increase in sales of label film for a variety of consumer products</li> </ul>

## FY2/20 Sales composition for major categories (Consolidated)







Insecticide vacuum storage bags



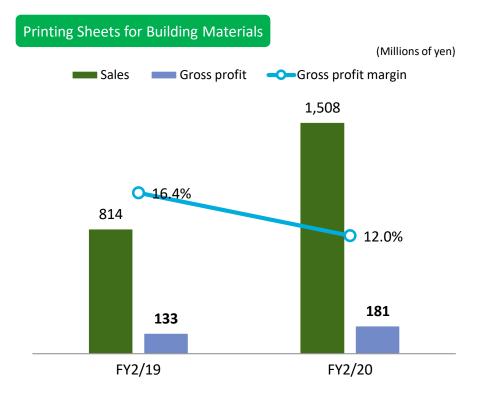
Home improvement product
Mosaic tile



### **Applications**

## Printing Sheets for Building Materials







■ Sales in major product categories

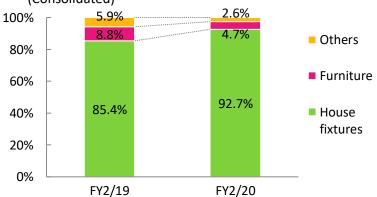
House fixtures	<ul> <li>Big increase resulting from steady production of functional building materials using a newly purchased coater</li> <li>Strong sales of printing sheets for building materials for residential renovation</li> </ul>
Furniture	Decrease in sales of printing sheets for furniture produced in other countries

#### ■ N coat

N coat is a polypropylene-based synthetic paper. Due to its excellent resistance to water, N coat is used primarily for vending machine labels and floor materials.

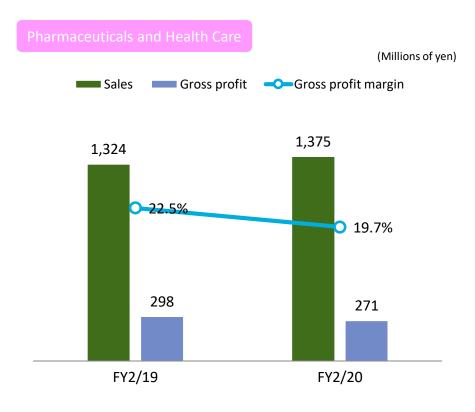


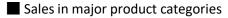
 Sales composition for major categories (Consolidated)



## Applications – Pharmaceuticals and Health Care 🚓





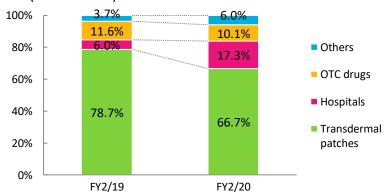


Transdermal patches	Unit prices and profit margin declined as the market shifted from patented and brand-name drugs to inexpensive generic products and competition became more intense
OTC drugs	Sales of packaging for OTC drugs decreased
Hospitals	Increase in new customers for transfusion-related packaging materials and hospital disinfectant products



transdermal patch

 Sales composition for major categories (Consolidated)



#### **Assets and Liabilities**



(Consolidated)

(Millions of yen; (% to total liabilities and net assets))

(				•		
	As of Feb. 28, 2019	As of Feb. 29, 2020				
	AS 01 Feb. 28, 2019		YoY change	Cash and deposits (472) Electronically recorded monetary claims- operating +370 Notes and accounts receivable-trade +521  +29 Investments and other assets +62  +639  Notes and accounts payable-trade +49 Lease obligations +56 Electronically recorded obligations-operating (92) Income taxes payable (111)  +262 Long-term loans payable (149)		
Current assets	13,779 (51.2%)	14,389 (52.2%)	+609	Electronically recorded monetary claims- operating +370		
Non-current assets	13,149 (48.8%)	13,178 (47.8%)	+29	Investments and other assets +62		
Total assets	26,928 (100.0%)	<b>27,568</b> (100.0%)	+639			
Current liabilities	<b>12,206</b> (45.3%)	12,146 (44.1%)	(59)	Lease obligations +56 Electronically recorded obligations-operating (92		
Non-current liabilities	2,738 (10.2%)	3,001 (10.9%)	+262	Long-term loans payable (149) Lease obligations +379		
Total liabilities	<b>14,944</b> (55.5%)	<b>15,148</b> (54.9%)	+203			
Total net assets	11,984 (44.5%)	12,419 (45.1%)	+435	Retained earnings +623 Remeasurements of defined benefit plans (68) Valuation difference on available-for-sale securities (62) Foreign currency translation adjustment (56)		
Total liabilities and net assets	26,928 (100.0%)	<b>27,568</b> (100.0%)	+639			
Net interest-bearing debt	3,787 (14.1%)	4,594 (16.7%)	+806	Cash and deposits (472) Lease obligations (long-term) +379		

Net interest-bearing debt = Interest-bearing debt – Cash and deposits

Note: Effective from the beginning of the current fiscal year, Nakamoto Packs has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018). Figures as of February 28, 2019 have been adjusted retroactively to conform with this accounting standard.

## **Cash Flows**



(Consolidated) (Millions of yen)

		FY2/19		FY2/20
		Results	Results	Components  Profit before income taxes +1,565 Depreciation +1,003 Increase in notes and accounts receivable-trade (908) Income taxes paid (543)  Proceeds from sales of investment securities +4 Durchase of property, plant and equipment (982) Purchase of investment securities (136)  Proceeds from long-term loans payable +700 Proceeds from sales and leasebacks +404 Repayments of long-term loans payable (835)
	Cash flows from operating activities	2,029	896	Profit before income taxes +1,565 Depreciation +1,003 Increase in notes and accounts receivable-trade (908) Income taxes paid (543)
	Cash flows from investing activities	(2,348)	(1,166)	Proceeds from sales of investment securities +4 Purchase of property, plant and equipment (982) Purchase of investment securities (136)
Fre	ee cash flows	(318)	(269)	
Cash flows from financing activities		(213)	(181)	Proceeds from long-term loans payable +700 Proceeds from sales and leasebacks +404 Repayments of long-term loans payable (835) Cash dividends paid (461)
Effect of exchange rate change on cash and cash equivalents		(37)	(21)	
Net increase (decrease) in cash and cash equivalents		(569)	(472)	
	sh and cash equivalents at beginning of riod	3,585	3,015	
Cas	sh and cash equivalents at end of period	3,015	2,542	



## FY2/21 Outlook

### FY2/21 Outlook (Impact of the COVID-19 crisis)



#### Current performance and outlook

We assume that the pandemic will affect operations until the summer of 2020 and that results of operations may change depending on when this crisis ends.

#### Food Packaging and Containers

- Strong sales of packaging for prepared food items, frozen foods, yogurt and dessert products and of printed trays for meat and fish
- Foresee no change in convenience store category sales as telework lowers city-center store sales but sales at suburban locations increase
- Expect firm sales of containers for agricultural products
- Lower sales of printing for high-end bento containers due to the cancelation of cherry blossom outings, Golden Week holidays (early May), the Tokyo Olympics and other events
- Lower sales of commercial-use packaging for food products sold at department stores and restaurant chains

#### IT and Industrial Materials

- Sales of materials for mobile phones, mainly 5G models, are currently strong
- Forecast lower sales of automobile interior materials because of slow auto sales worldwide

#### Consumer Product Packaging and Materials

• Expect performance as forecast because home improvement stores and 100-yen stores have not been closed by COVID-19 restrictions

#### Printing Sheets for Building Materials Pharmaceuticals and Health Care

• Expect performance as forecast because no events are likely to have a significant positive or negative impact in these categories

## FY2/21 Outlook

(Consolidated)

(Millions of yen; (% to sales))

		FY2/21			
	FY2/20 Results	Dlan	YoY change		
	resures	Plan	Amount	%	
Net sales	34,100 (100.0%)	34,500 (100.0%)	+399	+1.2%	
Gross profit	5,249 (15.4%)	5,490 (15.9%)	+240	+4.6%	
Selling, general and administrative expenses	3,716 (10.9%)	3,861 (11.2%)	+144	+3.9%	
Operating profit	1,533 (4.5%)	1,629 (4.7%)	+95	+6.2%	
Ordinary profit	1,608 (4.7%)	1,650 (4.8%)	+41	+2.6%	
Profit attributable to owners of parent	1,085 (3.2%)	1,148 (3.3%)	+62	+5.7%	

Projected exchange rate: 15.4 yen/yuan

## Plan for Capital Expenditures and Depreciation Expenses



(Consolidated) (Millions of yen; (% to sales))

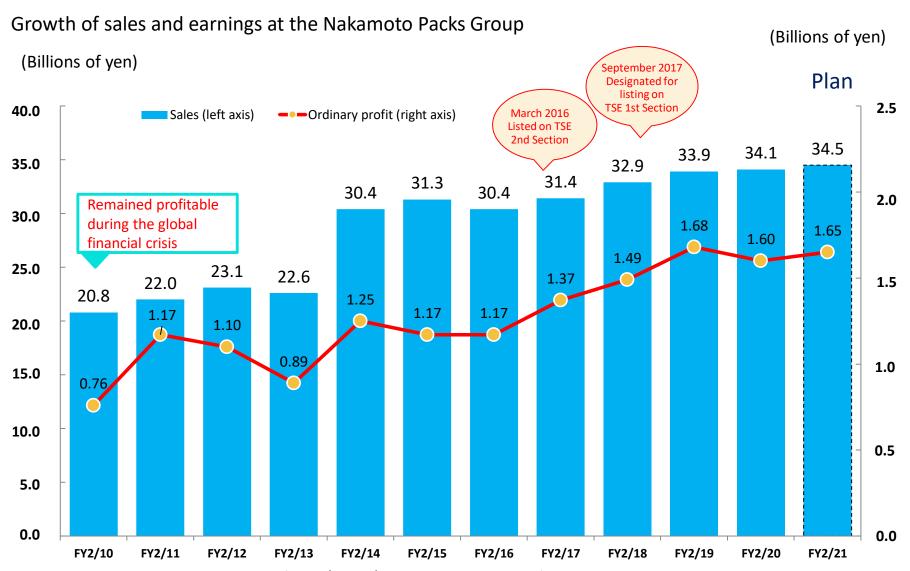
	5 / O / O O	FY2/21			
	FY2/20 Results	Plan	YoY change		
		Plan –	Amount	%	
Capital expenditures	1,739 (5.1%)	2,407 (7.0%)	+667	+38.4%	
Depreciation	1,003 (2.9%)	1,091 (3.2%)	+88	+8.9%	
R&D expenses	64 (0.2%)	101 (0.3%)	+36	+56.4%	

#### Major capital expenditures in FY2/21

Project	Description	Investment (Millions of yen)
Factory equipment update/replacement	Sheet extrusion machine (Ryugasaki Plant II), updates/improvements (Nabari) and others	About 1,680
IT/System service equipment	Primary IT system (R Co., Ltd. ), quality assurance system (Saitama) and others	About 380
Air conditioning equipment	Air conditioning equipment (Nabari, Saitama, Ryugasaki, Nakamoto Inshokan Co., Ltd. and others)	About 130
Inspection/measurement/ analysis equipment	Inspection, measurement and analysis equipment (Saitama, Nabari, Development Dept.) and others	About 60
Others	Solar power system, vehicles, others	About 150

## A Business Model Capable of Steady Growth in All Market Conditions





Note: Non-consolidated sales and earnings for FY2/10-FY2/13 and consolidated in the following years.



## Business Climate and Key Initiatives in FY2/21

#### **Business Climate**



- 1. Impact on the Japanese economy of the prolonged COVID-19 outbreak
- Japan's aging and declining population as the population ages and the number of children falls
- Global warming, air pollution, ocean plastic pollution and other environmental problems
- 4. Risk of disruption of factory operations in China caused by Chinese government environmental measures
- 5. Potential global economic downturn caused by U.S.-China trade friction and the COVID-19 crisis



Basic Policy

Growth by becoming more profitable and a business model able to succeed in all market conditions





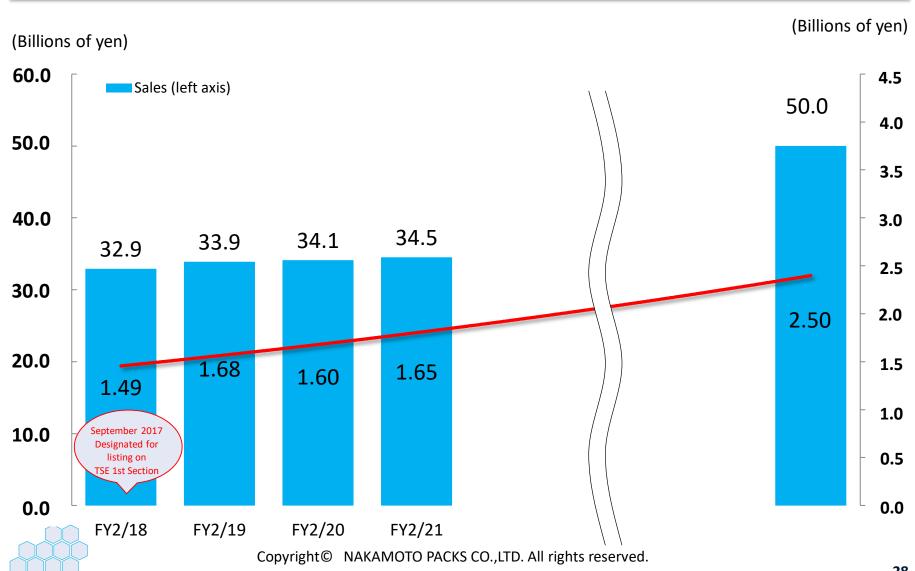
# Use Higher Profitability for Growth and the Soundness of Business Operations



## Use Higher Profitability for Growth



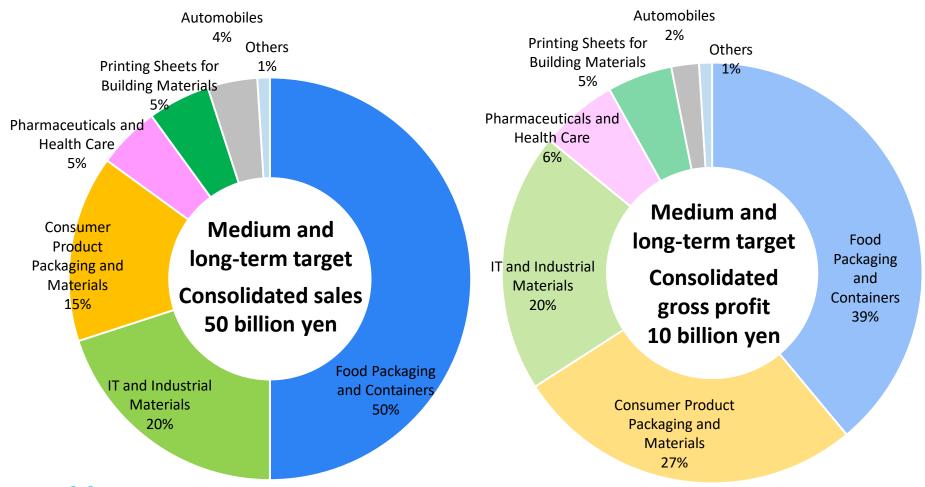
Medium and long-term target: Sales of 50 billion yen and ordinary profit of 2.5 billion yen



## Reinforce Ability to Succeed in All Market Conditions



Build a more balanced profit structure through growth in many categories while continuing to grow in the core food packaging and containers sector





- Environmental Responsibility
   (Development and Higher Sales of N Brand Products)
- 2. More Growth of Overseas Operations
- 3. Strengthen Sales Capabilities
- 4. Upgrade Quality and Technologies
- 5. Improve Efficiency by Updating the Primary IT System



Environmental Responsibility (Development and Higher Sales of N Brand Products, etc.)

## Development and Higher Sales of N Brand Products



#### 100% PET (monomaterial), thin and rigid to conserve resources, easy to recycle



NC-PET	Food Packaging and Containers	I VIEGOVICE TANADO PAT
Features	(1) Outstanding heat resistance (220°C, if molded as needed)	
	(2) Outstanding resistance to cold, retention of aromas and rigidity	
Applications	Containers mainly for baked food items like gratin dishes and in-flight meals	Hot food Cold food Reheated food
Strategy	Many sales activities for the use of NC-PET for in-flight meal packaging and	

	containers		
NS-PET	Food Packaging and Containers Pharmaceuticals and Health Care	Conventional packaging	NS-PET packaging
Features	<ol> <li>Heat sealing possible even with PET film</li> <li>Retains aromas, creating a barrier for coffee and other items with a strong fragrance</li> <li>Microwave-safe due to heat resistance</li> </ol>	1,000W X 2.5 min Reheating melts the	1,000W X 2.5 min Reheating Reheating Res not
Applications	Take-out bags mainly for deep-fried food items, insecticide packaging	Interior: 140°C melts the	1,000W X 2.5 min Interior: 140°C  Reheating does not alter the film
Strategy	Increase sales activities for the use of NS-PET for insecticide packaging, which requires resistance to chemicals		

## NAK-A-PET – A Thin and Rigid Environmentally Responsible Material



#### Biomass PET + Thin + Less trash volume = ECO Product

#### **Features**

- (1) Biomass PET used for the skin and core materials
- (2) Up to 30% thinner because of high rigidity
- (3) Can be supplied in sheets of 100 microns or less
- (4) Eligible to use the biomass certification mark (ask for more information)

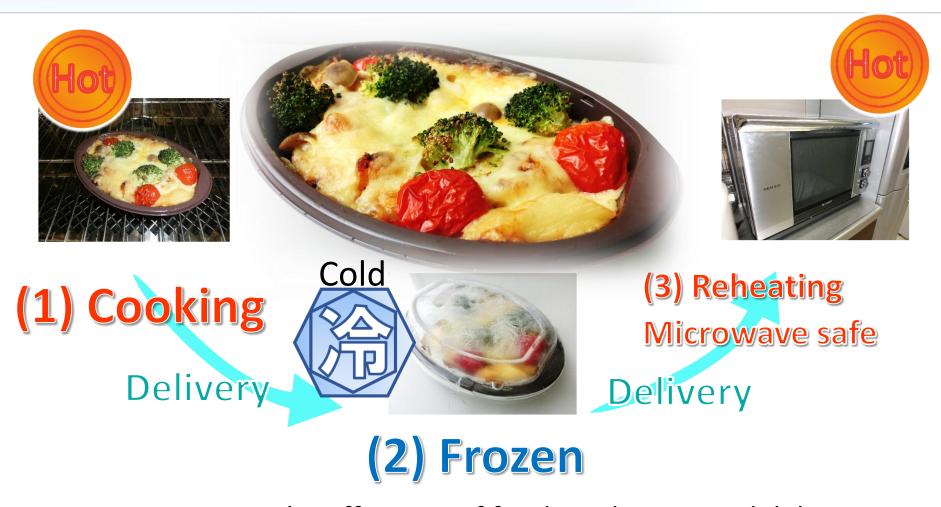






## NC-PET | Outstanding Heat Resistance and Rigidity (\$)





NC-PET improves the efficiency of food production and delivery (compared with PPF containers )

## Construction of a Factory Exclusively for N Brand Products





To meet demand due to the increasing use of N Brand products, the new factory will have extrusion equipment for the production of NAK-A-PET and NC-PET sheets.

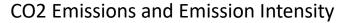
Trial operations are scheduled to begin in October 2020.

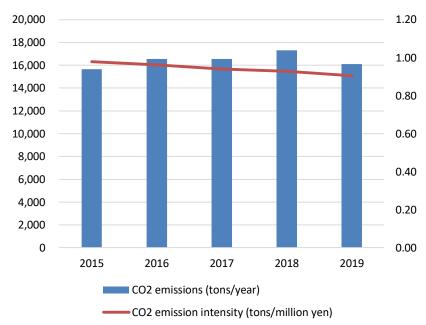
The new factory is at the Ryugasaki Plant II at Tsukuba-no-Sato Industrial Park



## A Commitment to Environmental Responsibility







CO2 emissions at all Nakamoto Packs Group factories in Japan decreased 5.6% in 2019. Emissions change with production volume from year to year, but the emission intensity\* has been declining during the past five years in part because of higher energy efficiency due to the purchase of updated machinery.

#### Activities for lowering CO2 emissions

- More efficient manufacturing (reduce wasted/discarded materials, optimize production conditions and processes)
- Update production and air conditioning equipment to use energy more efficiently
- LED lights, drying systems utilizing exhaust heat and other energy conservation equipment, installation of solar power systems
- Convert to energy sources with a low CO2 emission coefficient
- Increase the use of ink incorporating plant-based oils

(Target is a 10.4% share, which cuts annual CO2 emissions by about 9 tons)

<sup>\*</sup>Total factory CO2 emissions/(Sales of internal products – Sales of products purchased from other companies)



## More Growth of Overseas Operations

# More Growth of Overseas Operations (China Plus One)



Step 1

Cangzhou Nakamoto Huaxiang New Materials Co., Ltd.

Apr. 2018: Established company and started plant

construction

Jan. 2019: Finished plant construction

Sep. 2019: Plan to start full-scale operations

2020: Goal is full-year profitability

Core business is sheet printing; already profitable on a monthly basis



Relocation of production from Langfang to Cangzhou

Step 2

Nashville Sales Office in the United States

Jul. 2018: Operations started at sales office and warehouse Feb. 2019: Added two warehouses as orders continue to climb

2020: Starting new activities involving food packaging

materials

The state of the s

Nashville Sales Office

Goal is new customers in the automotive interior materials, food packaging materials and functional materials categories

Step 3

The new Vietnam subsidiary is scheduled to start operating in January 2021

A subsidiary will be established in April 2020 that will operate a factory starting in January 2021 (tentative) in an industrial park in Thua Thien-Hue province near Da Nang in central Vietnam

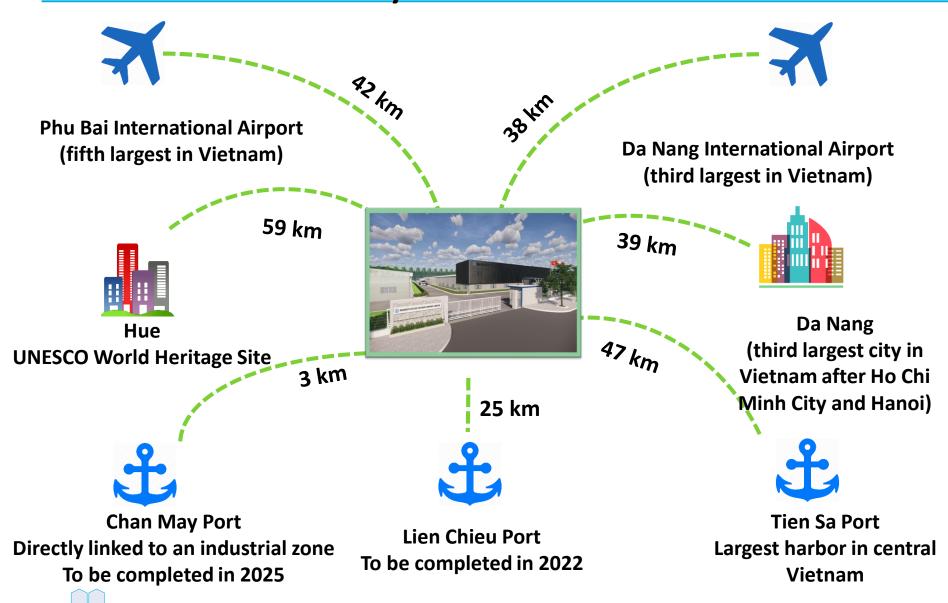
A "China plus one" approach for overseas growth with risk diversification



New Plant in Vietnam

# Location (Economic Development Zone) of the New Vietnam Factory





### A Foundation for Growth

- Strengthen Sales Capabilities
- Upgrade Quality and Technologies
- Improve Efficiency by Updating the Primary IT System

#### A Foundation for Growth



#### **☆**Strengthen Sales Capabilities

- Use sales support tools for sharing information and more efficient sales activities
- More visits to potential new customers, mainly in growing market sectors
- Proposals for environmentally responsible materials, processes and products
- Faster prototype-to-mass production by using Engineering Dept. expertise
- Cooperation with engineering sections to target high-end products

#### **☆**Upgrade Quality and Technologies

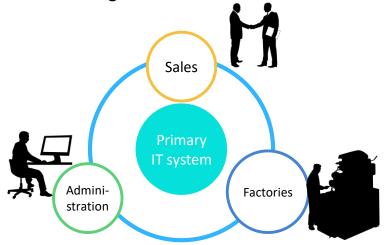
Strengthen functions of the Quality Assurance Division

- Establish a Technology Department within the Quality Assurance Division
- Target new market sectors that require advanced technologies
- Increase involvement in the design of products

## ☆Goals of Updating the Primary IT System (currently defining requirements)

(Major elements of the IT system update)

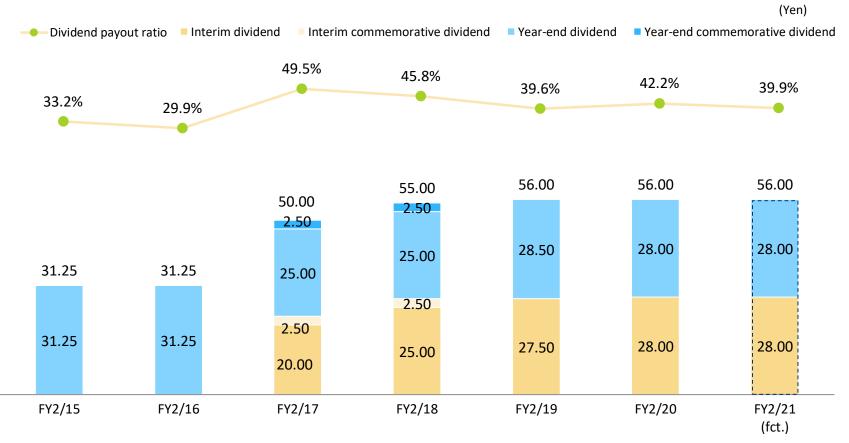
- Faster management decisions by quickly monitoring all performance indicators
- Use of supply chain management for efficient manufacturing and suitable inventory levels
- More efficient sales activities and quality improvement by effectively utilizing data
- Improve efficiency of business processes and realize labor saving by reexamining tasks performed on a regular basis
- Reinforce management of the Nakamoto Packs Group



## Policy for Shareholder Distributions



- Maintain a stable dividend while retaining earnings as needed
- Plan to pay a FY2/21 dividend of 56 yen
   (interim dividend of 28 yen and year-end dividend of 28 yen)



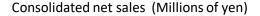
Note: There were stock splits of 1-to-200 in June 2015 and 1-to-2 in March 2018. The dividend per share in prior years has been adjusted to reflect these stock splits.

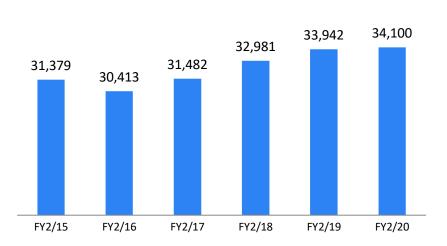


## Reference

## Trends and Results 1/2



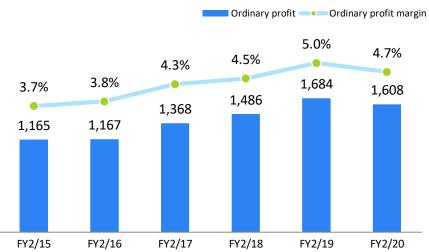




Consolidated total assets (Millions of yen)



#### Consolidated ordinary profit (Millions of yen)

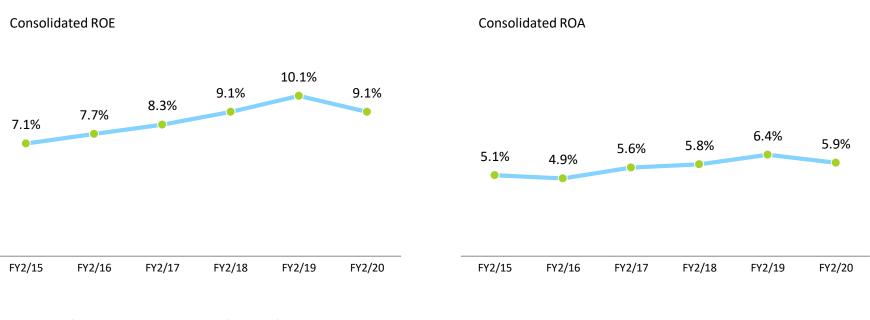


#### Consolidated net assets (Millions of yen)

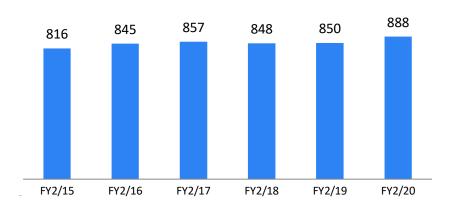


## Trends and Results 2/2



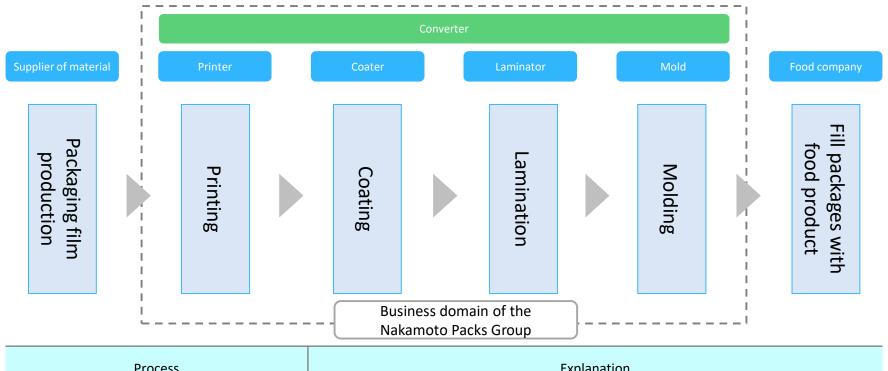


Number of consolidated employees (persons)



## Packaging Material Printing Process (Example)





Process	Explanation
Gravure printing	A form of intaglio printing (a plate with text, patterns and other items engraved in reverse is used for printing) produces very fine differences in color gradations.
Lamination (dry and thermal)	Adhesives are used to bond multiple layers of materials for the purpose of strengthening and adding functions to packaging materials.
Coating	A material is coated with a thin layer of a resin or other substance to protect the material and give it specific functions.
Molding	A plastic sheet is heated to alter its shape (for making a food container, tray, lid or other item) or the inflation method is used to fabricate a plastic film or sheet.

## **Management Policies**



## Dedicated to being a company that is kind to people and the environment -Clean & Safety-

#### The Nakamoto Packs Motto

Our business depends on people. People depend on their hearts. An enjoyable company is the sum of diligence, dedication to serving others, and people.

#### Our Code of Conduct

Use sincerity to earn even greater trust

Use perseverance to create innovative ideas

Always improve yourself and cooperate with others

Contribute to society through the spirit of co-existence and mutual prosperity

Be dedicated to improving technologies and overcoming challenges

Make good behavior and the spirit of gratitude a source of happiness

#### **Our Six Missions**

We will listen with open minds to what our customers say

We will constantly acquire new technologies for printing, packaging and containers

We will maintain close internal and external lines of communication and deliver goods and services on time with speed and in good faith

We will be responsible for maintaining co-existence and mutual prosperity with our customers

We will attract more dedicated fans of our group by using work and systems that generate strong impressions

We will make the Nakamoto Packs Group an organization guided by the same destiny

#### **Precautions**

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