

Summary of Financial Results for the Second Quarter of Fiscal Year Ending December 2020 [Japanese Standards] (Consolidated)

August 6, 2020

Name of Listed Company: Pigeon Corporation (Stock code: 7956)
 Listing: First Section, Tokyo Stock Exchange
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 Scheduled Filing Date of Quarterly Report: August 7, 2020
 Scheduled Commencement Date of Dividend Payments: September 7, 2020
 Preparation of Any Additional Explanatory Materials for Quarterly Financial Results: Yes
 Holding of Any Briefing Session for Quarterly Financial Results: Yes (For analysts and institutional investors)

1. Consolidated Business Performance for the First Half of Fiscal Year Ending December 31, 2020 (January 1 to June 30, 2020)

(1) Consolidated Operating Results (cumulative)

(Millions of yen, rounded down, % figures denote year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent	
2Q ended June 30, 2020	48,431	(7.8)%	8,031	(13.2)%	8,532	(11.2)%	5,855	(10.8)%
2Q ended July 31, 2019	52,519	(0.6)%	9,257	(15.1)%	9,608	(17.7)%	6,565	(19.0)%

(Note) Comprehensive income: 2Q ended June 30, 2020 ¥5,217 million (18.4% negative)
 2Q ended July 31, 2019 ¥6,393 million (1.4% negative)

	Net Income per Share (¥)	Diluted Net Income per Share (¥)
2Q ended June 30, 2020	48.91	—
2Q ended July 31, 2019	54.83	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
2Q ended June 30, 2020	90,315	71,033	75.7
FY ended December 31, 2019	90,491	70,463	74.8

(Reference) Shareholders' Equity: 2Q ended June 30, 2020 ¥68,335 million
 FY ended December 31, 2019 ¥67,722 million

2. Cash Dividends

	Annual Dividend (¥)				
	1Q-end	2Q-end	3Q-end	Year-end	Total
FY ended December 31, 2019	—	35.00	—	35.00	70.00
FY ending December 31, 2020	—	36.00			
FY ending December 31, 2020 (Forecast)			—	36.00	72.00

(Note) Changes in dividend forecasts from the most recent announcement: None

3. Consolidated Business Performance Forecasts for the Fiscal Year Ending December 31, 2020 (January 1 to December 31, 2020)

(% figures denote year-on-year change from the previous term)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent		Net Income per Share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Full year	98,500 to 102,400	—	13,400 to 15,500	—	13,900 to 16,000	—	9,600 to 10,900	—	80.17 to 91.03

(Notes) 1. Revision of forecasts from the most recent announcement: None

2. The previous consolidated accounting year was the 11 months from February 1, 2019 to December 31, 2019 due to the change in fiscal period. As such, year on year changes have not been included in the above table.

Notes

(1) Changes in major subsidiaries (or changes in specific subsidiaries that affect the scope of consolidation) during the period under review: None

New: — (Company name: —), Excluded: — (Company name: —)

(2) Application of any accounting procedures specific to preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting-based estimates, and restatements

1) Changes in accounting policies associated with revision of accounting standards: None

2) Changes in accounting policies other than the above 1): None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the period-end (including treasury stock)

2Q ended June 30, 2020: 121,653,486

FY ended December 31, 2019: 121,653,486

2) Amount of treasury stock at the period-end

2Q ended June 30, 2020: 2,017,626

FY ended December 31, 2019: 1,926,426

3) Average number of shares outstanding during the period (quarter accumulation)

2Q ended June 30, 2020: 119,715,535

2Q ended July 31, 2019: 119,751,859

(Note) Amount of treasury stock at the period-end includes Company shares held by the board incentive plan (BIP) trust for compensation of directors (124,800 shares as of 2Q ended June 30, 2020; 33,600 shares as of FY ended December 31, 2019). Company shares held by the BIP trust for compensation of directors are also included in the treasury stock subtracted in the calculation of the average number of shares outstanding during the period.

* Summaries of quarterly financial results are exempt from quarterly review by certified public accountants and auditing corporations.

* Cautionary Statement regarding Performance Forecasts

The forecasts and future projections stated in this report have been prepared on the basis of the information and assumption that shall be reasonable as of the date of announcement of this summary information, and the forecasts and future projections stated in this report are in no way intended as a promise of achievement as a company.

In addition, the actual results could differ significantly from forecast figures depending on a variety of factors. See the section “(3) Explanation of Consolidated Performance Forecast and Other Future Predictions” in “1. Qualitative Information Regarding the Financial Results for the Current Quarter” on page 4 regarding conditions which are preconditions for business performance forecasts and cautions for using the business performance forecast.

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1. Qualitative Information Regarding the Financial Results for the Current Quarter

(1) Explanation of Business Performance

Regarding the business environment surrounding the Group during the consolidated first six-month period under review, the spread of coronavirus disease 2019 (COVID-19) continued to cause a decline in global economic activities. In Japan, the emergency declaration announced in April led to the continued cancellation of large-scale events, shortened hours or temporary closure of retail businesses, as well as the voluntary decision to stay home by consumers. This resulted in increased future uncertainty regarding the economy and consumer trends. Furthermore, in other countries throughout the world, economic activity has stagnated due to the start of government restrictions on travel and behavior, as well as lockdowns. The end of COVID-19 cannot be foreseen, and future uncertainty has further increased.

Amid such economic circumstances, the Group announced the Seventh Medium-Term Business Plan (for the period between the fiscal year ending December 2020 and the fiscal year ending December 2022) in February 2020, and formulated three basic strategies (brand strategy, core product strategy, and regional strategy). In the Plan, with a focus on these basic strategies, the Group will work to implement various measures for business growth, as well as to realize our purpose which is “we want to make the world more baby-friendly by furthering our commitment to understanding and addressing babies' unique needs.”

Business performance during the consolidated first six-month period under review was as follows. Net sales amounted to ¥48,431 million (down 7.8% YOY).

Regarding earnings, due to factors such as decreased sales and an increased selling, general and administrative expense ratio, operating income was ¥8,031 million (down 13.2% YOY), ordinary income was ¥8,532 million (down 11.2% YOY), and quarterly net income attributable to owners of parent was ¥5,855 million (down 10.8% YOY).

The main exchange rates used in the preparation of this six-month period's financial statements for the Company's overseas consolidated subsidiaries (revenues and expenses) are as follows:

- 1US\$: 108.26 yen (110.05 yen)
- 1 CNY: 15.39 yen (16.20 yen)

Note: Figures in parentheses represent the exchange rate in the same period of the previous fiscal year.

Previously, this report consisted of information from six Group reporting segments: the Domestic Baby & Mother Care Business, Child Care Service Business, Health & Elder Care Business, China Business, Singapore Business, and Lansinoh Business. However, as a result of the reorganization of December 16, 2019, from the consolidated first quarter of the current fiscal year, the Japan Business segment now aggregates the manufacturing and sales business conducted outside the Group by domestic subsidiaries included in the segments of Domestic Baby & Mother Care Business, Child Care Service Business, Health & Elder Care Business, and Other. As a result, this report now consists of four segments.

Each segment is outlined below.

The following year-on-year comparisons are based on figures calculated using the calculation method after changing the figures for the same period of the previous year.

Japan Business

This segment consists of the Domestic Baby & Mother Care Business, Child Care Service Business, and Health & Elder Care Business. Overall net sales in this segment were ¥22,584 million (down 10.5% YOY) and segment profit was ¥1,580 million (down 40.5% YOY).

In the category of products for babies and mothers, during the consolidated first six-month period under review, the number of foreign tourists visiting Japan decreased significantly year-on-year due

to the spread of COVID-19. As a result, net sales of product groups with particularly high inbound demand were down year-on-year.

In the category of products for health and elder care, during the consolidated first six-month period under review, a higher level of hygienic awareness led to increased demand for some products, and net sales rose year-on-year.

Regarding child care service, we currently provide services to a total of seventy-one facilities throughout Japan, and shall continue to develop this business further while striving to improve the quality of service content.

Profit was down year-on-year due to factors including a decrease in net sales, mainly for products for babies and mothers, and a declining gross profit margin caused by a worsening product mix.

Additionally, from the perspective of preventing the spread of COVID-19, we canceled all consumer events that are part of direct communication activities. Instead, we opened a new “Pigeon: Pregnancy and Child Care Service” account on Instagram, and started to provide support to mothers and fathers by periodically sending out tips and useful information on child-rearing under the supervision of experts.

China Business

Net sales in this segment amounted to ¥17,456 million (down 3.3% YOY), and segment profit also decreased to ¥6,118 million (down 3.1% YOY).

The spread of COVID-19 in China is nearing an end. The distribution functions of major cities have almost recovered to normal, and corporate activities and consumption activities are gradually returning. In the e-commerce channel which is the focus of the Group, sales were strong during 618, which is one of the largest e-commerce shopping events throughout the year in China. Conversely, tough conditions remained in off-line channels, and overall net sales were down slightly year-on-year. Profit was down year-on-year due to factors including a decrease in gross profit caused by a decline in net sales.

In terms of net sales for this segment on a local currency basis in China, sales of nursing bottles and nipples, our main products, recovered to nearly the same level year-on-year. Overall, net sales on a local currency basis were up year-on-year.

Singapore Business

Net sales of the segment amounted to ¥6,443 million (down 9.3% YOY), while segment profit increased to ¥1,257 million (up 4.3% YOY).

In the ASEAN region and India, which are under the supervision of this segment, COVID-19 continued to spread and the virus continues to have a significant impact. In particular, in India and Malaysia, the government lockdown has resulted in the Group’s sales offices and plants in India stopping operations for an approximately 8-week period from late March to the end of May, and the Group’s sales offices in Malaysia stopping operations for an approximately 7-week period from late March to mid-May. Other countries and regions are being strongly impacted by measures such as voluntary stay-at-home activities, shortened hours/temporary closures of retail stores, and stagnating corporate activities. As a result, net sales in this segment were down year-on-year. Earnings were up year-on-year mainly due to a decrease in the sales cost ratio at manufacturing subsidiaries in Thailand, as well as other factors such as a decrease in selling, general and administrative expenses caused by voluntary cessation of activities in response to COVID-19.

Lansinoh Business

Net sales of the segment amounted to ¥6,312 million (down 4.0% YOY), and segment profit decreased to ¥907 million (down 2.0% YOY).

COVID-19 has severely impacted North America and Europe. However, sales of nipple care creams, our main product, and breast-feeding related products including consumable products were strong, particularly in the e-commerce channel. In North America, sales of breast pumps through the DME (Durable Medical Equipment) channel and the hospital/maternity clinic channel grew, and the Group is implementing further enhancement and expansion. Furthermore, in order to further expand business in the Chinese market (Lansinoh Laboratories Shanghai) and Europe, in addition to

strengthening e-commerce, the Group is implementing marketing activities, brand strengthening activities, etc.

(2) Explanation of Financial Position

(Assets)

As of June 30, 2020, our Group recorded total assets of ¥90,315 million, down ¥176 million from the previous consolidated fiscal year ended December 31, 2019. Current assets increased by ¥934 million, while fixed assets decreased by ¥1,110 million.

Current assets increased mainly due to increases in cash and deposits of ¥1,187 million, in raw materials and supplies of ¥540 million, and in merchandise and finished goods of ¥401 million, despite a decrease in notes and accounts receivable - trade of ¥1,187 million.

Fixed assets decreased mainly due to a decrease in tangible fixed assets, namely buildings and structures, of ¥448 million, as well as a decrease in other intangible fixed assets of ¥512 million.

(Liabilities)

As of June 30, 2020, our Group recorded total liabilities of ¥19,281 million, down ¥746 million from the previous consolidated fiscal year ended December 31, 2019. Both current and fixed liabilities decreased by ¥459 million and ¥286 million, respectively.

Current liabilities decreased mainly due to a decrease in other current liabilities of ¥995 million, despite increases in notes and accounts payable - trade of ¥221 million and in income taxes payable of ¥281 million.

Fixed liabilities decreased mainly due to a decrease in other fixed liabilities of ¥352 million.

(Net Assets)

As of June 30, 2020, our Group recorded total net assets of ¥71,033 million, up ¥570 million from the previous consolidated fiscal year ended December 31, 2019.

Net assets increased mainly due to an increase in retained earnings of ¥1,664 million, despite a decrease in foreign currency translation adjustment of ¥650 million.

(3) Explanation of Consolidated Performance Forecast and Other Future Predictions

Regarding the global spread of COVID-19 in Japan and other countries throughout the world, although there are signs that the virus reaching an end in China, the spread continues in other countries and regions. It is unknown when COVID-19 will end on a global scale. In the “Announcement: Revision of Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2020” that was released on June 4, 2020, the Group revised the earnings forecast for the fiscal year ending December 31, 2020. There were no significant changes in the situation as of the end of the consolidated first six-month period under review, and the revised values will be kept the same. We are still investigating the impact of the global outbreak of COVID-19 on our business results for the fiscal year ending December 31, 2020. If any matters requiring disclosure arise, we will immediately make an official announcement.

2. Quarterly Consolidated Financial Statements and Main Notes**(1) Quarterly Consolidated Balance Sheets**

(Millions of yen)

	At December 31, 2019	At June 30, 2020
ASSETS		
I. Current Assets:		
Cash and deposits	32,416	33,603
Notes and accounts receivable - trade	16,588	15,400
Merchandise and finished goods	8,144	8,545
Work in process	400	382
Raw materials and supplies	2,666	3,206
Other current assets	1,933	1,968
Allowance for doubtful accounts	(216)	(240)
Total Current Assets	61,933	62,867
II. Fixed Assets:		
1. Tangible Fixed Assets:		
Buildings and structures, net	7,058	6,609
Land	5,865	6,028
Other tangible fixed assets, net	9,570	9,673
Total Tangible Fixed Assets	22,494	22,311
2. Intangible Fixed Assets:		
Goodwill	867	743
Other intangible fixed assets	2,996	2,483
Total Intangible Fixed Assets	3,863	3,227
3. Investments and Other Assets:		
Other	2,201	1,910
Allowance for doubtful accounts	(0)	(0)
Total Investments and Other Assets	2,200	1,909
Total Fixed Assets	28,558	27,448
Total Assets	90,491	90,315
LIABILITIES		
I. Current Liabilities:		
Notes and accounts payable - trade	4,900	5,122
Electronically recorded obligations - operating	2,009	2,070
Income taxes payable	1,272	1,554
Accrued bonuses to employees	928	891
Provision for sales returns	41	53
Provision for loss on litigation	8	4
Other current liabilities	6,478	5,482
Total Current Liabilities	15,638	15,179
II. Fixed Liabilities:		
Net defined benefit liability	417	429
Provision for share-based remuneration	98	151
Other fixed liabilities	3,873	3,521
Total Fixed Liabilities	4,389	4,102
Total Liabilities	20,028	19,281

(Millions of yen)

	At December 31, 2019	At June 30, 2020
NET ASSETS		
I. Shareholders' Equity:		
Capital stock	5,199	5,199
Capital surplus	5,179	5,179
Retained earnings	58,979	60,643
Treasury stock	(1,088)	(1,477)
Total Shareholders' Equity	68,269	69,545
II. Accumulated Other Comprehensive Income:		
Valuation difference on available-for-sale securities	25	12
Foreign currency translation adjustment	(572)	(1,222)
Total Accumulated Other Comprehensive Income	(547)	(1,209)
III. Non-controlling Interests	2,741	2,698
Total Net Assets	70,463	71,033
Total Liabilities and Net Assets	90,491	90,315

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income
(Scope of Consolidation of Second Quarter)

(Millions of yen)

	Six months ended July 31, 2019	Six months ended June 30, 2020
I. Net Sales	52,519	48,431
II. Cost of Sales	25,881	24,009
Gross profit	26,638	24,421
Reversal of provision for sales returns	30	40
Provision for sales returns	36	52
Adjusted gross profit	26,632	24,409
III. Selling, General and Administrative Expenses	17,375	16,377
Operating Income	9,257	8,031
IV. Non-operating Income:		
Interest income	83	74
Subsidy income	753	444
Other non-operating income	113	275
Total Non-operating Income	950	794
V. Non-operating Expenses:		
Interest expenses	8	33
Sales discounts	236	121
Foreign exchange losses	327	86
Other non-operating expenses	26	51
Total Non-operating Expenses	599	293
Ordinary Income	9,608	8,532
VI. Extraordinary Income:		
Gain on sales of fixed assets	4	2
Gain on sales of investment securities	113	33
Total Extraordinary Income	118	36
VII. Extraordinary Loss:		
Loss on sales of fixed assets	8	15
Loss on disposal of fixed assets	42	37
Loss on sales of shares of subsidiaries and associates	—	175
Total Extraordinary Loss	50	228
Income before Income Taxes	9,675	8,340
Income taxes - current	3,069	2,606
Income taxes - deferred	(93)	(260)
Total Corporate Income Tax	2,976	2,346
Net Income	6,699	5,994
Net Income Attributable to Non-controlling Interests	134	138
Net Income Attributable to Owners of Parent	6,565	5,855

Quarterly Consolidated Statement of Comprehensive Income
(Scope of Consolidation of Second Quarter)

(Millions of yen)

	Six months ended July 31, 2019	Six months ended June 30, 2020
Net Income	6,699	5,994
Other Comprehensive Income		
Valuation difference on available-for-sale securities	(2)	(13)
Foreign currency translation adjustment	(303)	(763)
Total Other Comprehensive Income	(305)	(777)
Quarterly Comprehensive Income	6,393	5,217
(Break down)		
Quarterly comprehensive income on parent company	6,210	5,191
Quarterly comprehensive income on non-controlling interests	183	25

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended July 31, 2019	Six months ended June 30, 2020
I. Cash Flows from Operating Activities		
Income before Income Taxes	9,675	8,340
Depreciation	1,853	1,888
Amortization of goodwill	112	79
Increase (decrease) in allowance for doubtful accounts	(0)	26
Increase (decrease) in accrued bonuses to employees	20	22
Increase (decrease) in net defined benefit liability	48	30
Increase (decrease) in provision for directors and corporate auditors' retirement benefits	(599)	—
Interest and dividend income	(98)	(177)
Interest expenses	25	33
Loss (gain) on sales of fixed assets	3	12
Loss on disposal of fixed assets	42	37
Loss (gain) on sales of investment securities	(113)	142
Decrease (increase) in notes and accounts receivable - trade	(3,842)	724
Decrease (increase) in inventories	(566)	(777)
Increase (decrease) in notes and accounts payable - trade	1,755	566
Increase (decrease) in accounts payable	(224)	(120)
Increase (decrease) in accrued consumption taxes	(382)	(118)
Decrease (increase) in claims provable in bankruptcy/rehabilitation	1	—
Other	810	(192)
Subtotal	8,520	10,518
Interest and dividend income received	87	190
Interest expenses paid	(8)	(1)
Income taxes paid	(3,268)	(2,535)
Net Cash Provided by (Used in) Operating Activities	5,331	8,172
II. Cash Flows from Investing Activities		
Purchase of tangible fixed assets	(1,893)	(1,676)
Proceeds from sales of tangible fixed assets	35	24
Purchase of intangible fixed assets	(401)	(71)
Proceeds from sales of investment securities	209	130
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(29)	—
Payments into time deposits	—	(116)
Proceeds from sales of shares of subsidiaries and associate	—	8
Other	(66)	(16)
Net Cash Provided by (Used in) Investing Activities	(2,147)	(1,717)

(Millions of yen)

	Six months ended July 31, 2019	Six months ended June 30, 2020
III. Cash Flows from Financing Activities		
Payment of cash dividends	(4,072)	(4,207)
Dividends paid to non-controlling interests	(86)	(68)
Purchase of treasury stock	(136)	(388)
Other	—	(202)
Net Cash Provided by (Used in) Financing Activities	(4,295)	(4,867)
IV. Effect of Exchange Rate Change on Cash and Cash Equivalents	(93)	(513)
V. Net Increase (Decrease) in Cash and Cash Equivalents	(1,204)	1,073
VI. Cash and Cash Equivalents at Beginning of Period	30,949	32,416
VIII. Cash and Cash Equivalents at End of Period	29,745	33,489

**(4) Notes on Consolidated Financial Statements
(Notes Regarding Going Concern Assumptions)**

Not applicable.

(Notes Regarding Substantial Changes in Shareholders' Equity)

Not applicable.

(Segment Information)

Six months ended July 31, 2019

Information Regarding Net Sales and Profit (Loss) in Each Reporting Segment

(Millions of yen)

	Reporting Segment				Total	Adjustments (Note 1)	Amount Accounted on Quarterly Consolidated Statement of Income (Note 2)
	Japan Business	China Business	Singapore Business	Lansinoh Business			
Net sales							
Net sales to external customers	24,090	17,616	4,267	6,544	52,519	—	52,519
Internal sales or exchange between segments	1,139	442	2,837	28	4,447	(4,447)	—
Total	25,230	18,058	7,104	6,572	56,967	(4,447)	52,519
Segment profit	2,656	6,313	1,204	925	11,101	(1,843)	9,257

(Notes)

1. The negative amount of ¥1,843 million from adjustments in segment profit includes ¥129 million in elimination of intersegment transactions, and negative ¥1,973 million in non-allocable operating expenses. Non-allocable operating expenses are administrative costs of our Group.
2. Segment profits are adjusted to operating income in the quarterly consolidated statement of income.

Six months ended June 30, 2020

1. Information Regarding Net Sales and Profit (Loss) in Each Reporting Segment

(Millions of yen)

	Reporting Segment				Total	Adjustments (Note 1)	Amount Accounted on Quarterly Consolidated Statement of Income (Note 2)
	Japan Business	China Business	Singapore Business	Lansinoh Business			
Net sales							
Net sales to external customers	21,041	17,290	3,789	6,309	48,431	—	48,431
Internal sales or exchange between segments	1,543	165	2,653	2	4,364	(4,364)	—
Total	22,584	17,456	6,443	6,312	52,795	(4,364)	48,431
Segment profit	1,580	6,118	1,257	907	9,863	(1,832)	8,031

(Notes)

1. The negative amount of ¥1,832 million from adjustments in segment profit includes negative ¥153 million in elimination of intersegment transactions, and negative ¥1,678 million in non-allocable operating expenses. Non-allocable operating expenses are administrative costs of our Group.
2. Segment profits are adjusted to operating income in the quarterly consolidated statement of income.

2. Items Regarding Changes, etc., to Reporting Segments

Previously, this report consisted of information from six Group reporting segments: the Domestic Baby & Mother Care Business, Child Care Service Business, Health & Elder Care Business, China Business, Singapore Business, and Lansinoh Business. However, as a result of the reorganization of December 16, 2019, from the consolidated first quarter of the current

fiscal year, the Japan Business segment now aggregates the manufacturing and sales business conducted outside the Group by domestic subsidiaries included in the segments of Domestic Baby & Mother Care Business, Child Care Service Business, Health & Elder Care Business, and Other. As a result, this report now consists of four segments.

Segment information for the previous consolidated six-month period was created using the calculation method for segment profit after the changes were made.