Summary of Results Briefing for the Q2 of the Fiscal Year Ending 31 December, 2022

[Points of Attention]
This Summary is a reference for those who would like to review the session or event of the results briefing held by Pigeon Corporation.
Please note this is not the entire text of the conference but a summary based on our judgment.
Forward-looking statements in these materials are based on management's assumptions and beliefs in light of the information currently available to it and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may affect the Company's performance.
In the event of discrepancy between the English version and the Japanese version of the summaries, the Japanese-language version shall prevail.

Date:	Aug 9, 2022 4:30 PM (JST)	
Event Venue:	Web Conference	
Number of Speakers:	4	
	Norimasa Kitazawa	President and CEO
	Tadashi Itakura	Director, Senior Managing Executive Officer, Head of Global Office
	Yasunori Kurachi	Director, Managing Executive Officer, Head of Japan Operations
	Kevin Vyse-Peacock	Director, Executive Officer, Lansinoh Business Division Manager CEO of Lansinoh Laboratories, Inc.

Covid-19 in China　Shanghai Lockdown

- Our business activities were severely affected by the Shanghai lockdown, which began on April 1 and lasted for two months.
- Since the end of April, the Shanghai factory (which manufactures nursing bottles and skincare products) has taken various measures, and approximately 200 employees had been staying at the factory and support production and shipping operations during the lockdown period.
- The Shanghai lockdown was lifted on June 1, and almost all employees back to work at the Shanghai factory later June 2, with operations returning to normal in the second week of June.
- Our manufacturing and shipping functions were restored to normal immediately after the lockdown was lifted. Logistics disruptions continued around Shanghai area until the end of June, but we did everything possible to prepare for the 618 shopping festival.

Shanghai Lockdown (April 1 to May 31)

	May	JUNE 1	June
Logistics	・Distribution to/from Shanghai continues to be restricted. ・Shanghai warehouses of our distributors and e-commerce retailers are closed. Offline stores are temporarily closed. ・Shortages at our distributors' and e-commerce retailers' local warehouses.		Even after the lockdown was lifted, the effects of logistics disruptions, such as delivery delays and soaring logistics costs around Shanghai area continued until the end of June.
Sales Office (Shanghai) **Factory (Shanghai)**	Gradually resumed production, shipping and other activities despite restrictions.		・Almost all employees at the Shanghai factory were back to work since the lockdown was lifted on June 1 ・Production, shipments and other business activities have recovered to normal.
Factory (Changzhou)	The factory operated normally.		The factory operated normally.

See the Appendix for the Covid-19 situation in China before May

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First of all, I would like to introduce the highlights of Q2, which, after all, were marked by the lockdown in Shanghai that had a tremendous impact on our business.

In fact, the lockdown took place in April and May, during which time there was very little movement in the production and logistics areas.

Even under such circumstances, employees at the Shanghai plant stayed overnight and somehow managed to keep production going. Logistics disruptions still kept the market in a state of disarray during the 618 shopping festival, and it was finally resolved at the end of June.

China 618 Shopping Festival

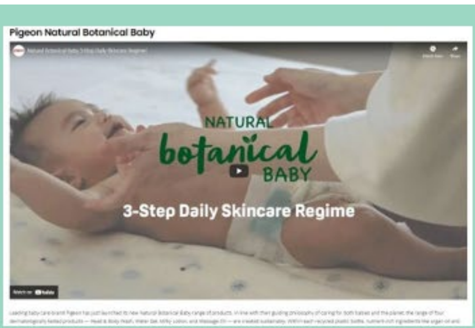
- The 618 shopping festival was held in a different environment from previous years due to the "Zero Covid" policy, which caused disruptions in distribution networks and concerns about declining consumer confidence.
- **Total GMV of our products during the 618 shopping festival period grew 11% YoY.**
- **Nursing bottles and skincare products ranked as No. 1** by category in JD.com as well as No. 1 brand in mom and baby products.

In the 618 shopping festival in China, GMV (Gross Merchandise Volume) grew 11% year on year. In fact, there were some logistics disruptions that prevented us from supplying some of our products. If there had been no such disruptions, we might have had better numbers.

At the same time, our nursing bottles and skin care products continued to win first place in the Baby & Mom category of JD.com.

Natural Botanical Market Expansion

- The concept (naturally derived, environmentally friendly products) and image are well received by retailers and customers.
- Strong sales in the Middle East, Indonesia, etc. **Launched in India since April, and are now in more than 15 countries.**
- Strengthen marketing both offline and digitally to increase repeat purchases by customers.



Last year, we launched botanical skincare products in the Singapore business, and this year we have further expanded the sales area to include the Middle East and India, where sales have been very strong. Currently, this skincare series is available in more than 15 countries, and is performing well.

ESG and Sustainability

- Received the Excellence Award from the Ministry of Agriculture, Forestry and Fisheries (MAFF)
- Selected in the FTSE Blossom Japan Sector Relative Index

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FTSE Blossom Japan Sector Relative Index

We aim to achieve sustainable growth as a company by reducing environmental impact and solving social issues surrounding babies and mothers in all countries and regions where we conduct business activities.

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In terms of ESG and sustainability, we received the Forest x. Decarbonization Challenge 2022 Excellence Award from the Forestry and Fisheries (MAFF). This was the Forestry Agency Director-General’s Award.

We were also selected as a component stock of the FTSE Blossom Japan Sector Relative Index. We would like to continue our efforts to strengthen our ESG activities.

2022 Q2 Results - Consolidated P&L

Consolidated sales and profits declined due to the significant impact of the Shanghai lockdown in China, a driver of sales and profits.

(Unit: Million JPY)	Q2 / Dec. 2021		Q2 / Dec. 2022		
	Actual	% of Total	Actual	% of Total	YoY Change
Net Sales	**47,277**	100.0%	**45,292**	100.0%	95.8%
Cost of Sales	24,719	52.3%	24,543	54.2%	99.3%
Gross Profit	**22,558**	47.7%	**20,749**	45.8%	92.0%
SG&A Expenses	14,969	31.7%	15,631	34.5%	104.4%
Operating Income	**7,589**	16.1%	**5,118**	11.3%	67.4%
Ordinary Income	8,536	18.1%	6,404	14.1%	75.0%
Net Income Attributable to Owners of Parent	**5,085**	10.8%	**3,990**	8.8%	78.5%

【Currency Rates】 2022 Results: US$1 = JPY 123.15 / CNY 1 = JPY 18.97
2021 Results: US$1 = JPY 107.76 / CNY 1 = JPY 16.65

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As for our business performance, we ended the first half of the current fiscal year with net sales accounting for 95.8% of the year-before result.

Operating income was 67.4% YoY, mostly due to the impact of the lockdown in Shanghai.

2022 Q2 Results - By Business Segment

Sales in Singapore and Lansinoh business grew by double digits y-o-y. Sales and profits in China and Japan both fell below the previous year's levels.

(Unit: Million JPY)	Q2 / Dec. 2021				Q2 / Dec. 2022				
	Sales	% of Total	Gross Margin	Segment Profit	Sales	% of Total	YoY Change	Gross Margin	Segment Profit
Consolidated Net Sales	**47,277**	**100.0%**	**47.7%**	**7,589**	**45,292**	**100.0%**	**95.8%**	**45.8%**	**5,118**
Japan Business	19,888	42.1%	34.4%	1,172	17,904	39.5%	90.0%	32.6%	592
China Business	19,440	41.1%	52.0%	6,766	16,238	35.9%	83.5%	49.3%	4,609
Singapore Business	6,024	12.7%	36.9%	807	6,924	15.3%	114.9%	40.6%	1,210
Lansinoh Business	6,231	13.2%	55.1%	522	7,814	17.2%	125.4%	51.5%	252
Elimination of inter-segment transactions	(4,306)	(9.1%)	–	–	(3,588)	(7.9%)	–	–	–

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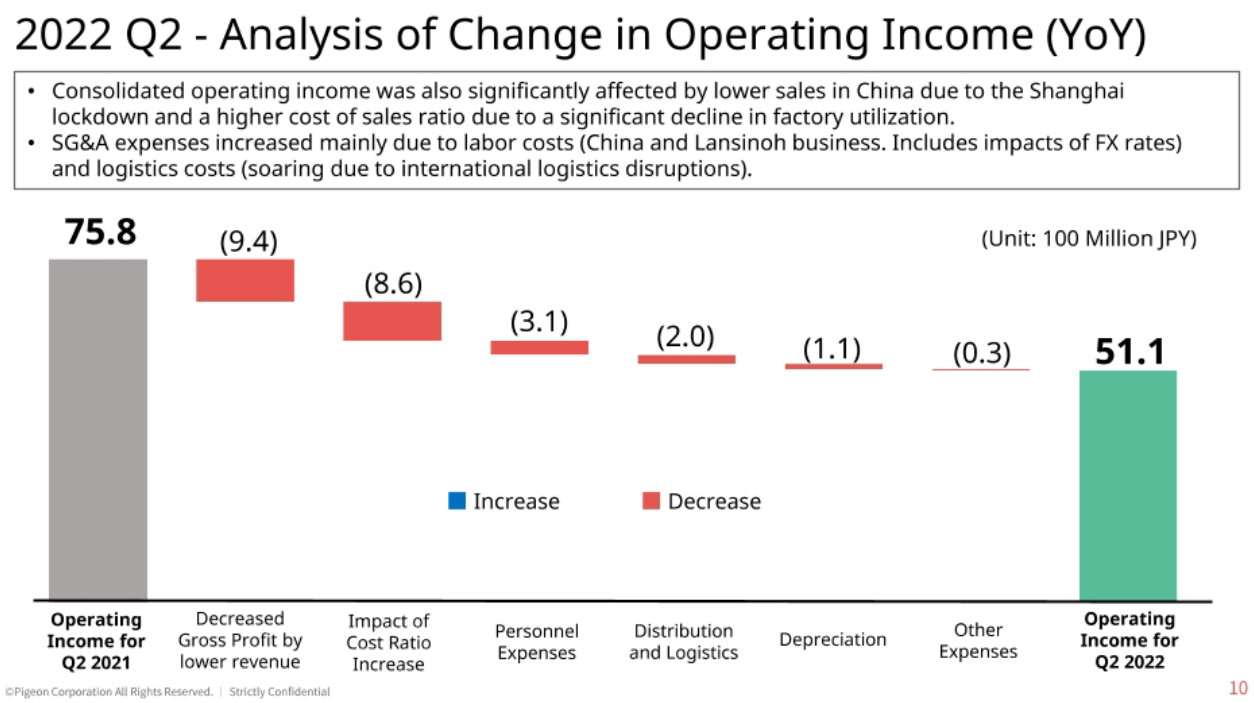
By business segment, sales in the Japan business were 90% YoY. The China business was affected by the Shanghai lockdown and sales were 83.5% YoY.

However, the Singapore business has started to get on a growth trajectory, since the obstacle caused by COVID-19 has been almost completely eliminated. Singapore enjoyed sales of 114.9% YoY. The Lansinoh business kept performing well, with mainstay products selling well and sales being 125.4% YoY.



Operating income decreased considerably, and we showed major factors for the year-on-year decrease.

The most significant factor was a decrease in gross profit of about JPY 940 million due to lower sales YoY. Another factor was JPY 860 million due to a rise in the cost of sales ratio, most of which was caused by the temporary close of Shanghai factory due to the Shanghai lockdown.

Also, there was a rise in personnel expenses. This is largely due to the rising costs of labor in the US and the continued rise in labor costs in China.

In terms of SG&A, distribution and logistics costs had a negative impact of about JPY200 million, largely due to the soaring costs of logistics in the US, Lansinoh business.

2022 Q2 Consolidated Balance Sheet (Highlight)

(Unit: Million JPY)	End of FY Dec. 21	Q2 / Dec. 2022			
	Actual	Actual	YoY Change (Amount)	YoY Change (%)	YoY Change (Amount) w/o impacts of FX rates
Cash and Deposits	35,218	35,557	+339	101.0%	(1,755)
Notes and Accounts Receivable - Trade	16,253	17,916	+1,663	110.2%	+133
Inventories	12,706	14,558	+1,851	114.6%	+473
Notes and Accounts Payable - Trade	4,087	5,783	+1,696	141.5%	+1,317
Electronically Recorded Obligations - Operating	1,623	1,729	+105	106.5%	+105
Borrowings	—	—	—	—	—
Net Assets	76,810	81,875	+5,064	106.6%	+2,333
Total Assets	98,042	104,274	+6,231	106.4%	(1,039)
Equity Ratio	75.4%	75.3%	—	—	—

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In the balance sheet, the YoY change has increased considerably, but mainly due to the depreciation of the Japanese yen. Comparing these figures of YoY change without the impact of FX rates, we estimate (highlighted in blue), you will see that the yen's depreciation has considerably boosted each item.

As a matter of fact, cash and deposits would have decreased by JPY1.7 billion from the end of December 2021 estimated without the foreign exchange effects. Of course, the main factor was the YoY decrease in net sales. Inventories would have been much smaller than those inflated by the yen's depreciation. And you will the same trend for notes and accounts receivable-trade.

Summary of Results by Business Segment (Q2 YTD)

Japan Business

Baby care ended below y-o-y. Nursing bottles are still strong, but consumables continued to struggle.
- Baby care sales declined 4.4% y-o-y. Main channels in Japan domestic were flat YoY, but overseas demand (e.g., Cross-border EC) was impacted by the decline.
- Sales of Nursing bottles increased 26% y-o-y due to the continued contribution of new models. In skincare, sales of Momo-no-ha (Peach Leaves) continued to be weak since Q1.
- Sales of consumables such as wet tissues and nursing pads continued to struggle due to growing consumer demand for low-priced products.
- Gross margin for baby care deteriorated by -4.5pt. This was due to an increase in procurement costs resulting from yen depreciation and raw material price hikes.
- Sales of Health & Elder Care Business declined by 0.5 billion yen due to product portfolio review, but profit margin is improving.

China Business

Mainland sales down 30% y-o-y despite heavy impact of Shanghai lockdown
- Mainland sales -30% y-o-y, impacted by the 2-month Shanghai lockdown, with mainstay nursing bottles and skincare sales down 20-30% y-o-y.
- Sellout was -10% y-o-y. -7% for online, -17% for offline y-o-y. Logistics disruption due to the Shanghai lockdown caused serious shortages of merchandise . On the other hand, our key online channels such as Tiktok grew significantly. Online ratio in Q2 was 68%.
- Market share of nursing bottles declined slightly due to supply shortages caused by the lockdown, but still No.1 share.
- Gross margin deteriorated by 2.6pt. This was due to lower capacity utilization at the Shanghai factory (manufacturing nursing bottles and skincare products) due to the Shanghai lockdown.
- Out total GMV during the 618 shopping festival grew by 11% y-o-y. No. 1 in mom and baby products in JD.com.
- New products; Nursing bottles with Disney designs and new herbal skincare series.

*Sales: Sell-in at local currency

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Here is a summary of the results by business segment.

In the Japan business, sales of Baby care were down 4.4% YoY. Main channels in Japan were flat YoY, but it seems that overseas demand (e.g., cross-border e-commerce) declined significantly. We believe this was mainly due to a sharp drop in Skincare products, particularly the Peach Leaves series.

Sales of Nursing bottles were up 26% YoY due to the introduction of a new product. Other consumables such as Wet tissues and Nursing pads were quite heavily affected by the price competition from competitors.

The gross margin for Baby care deteriorated by 4.5 percentage points, but this was mostly due to higher import prices resulting from the weaker yen.

In the Health & elder care business, we reviewed the product portfolio last year. In particular, we discontinued the low margin products and that led to an improvement in the profit margin in this year.

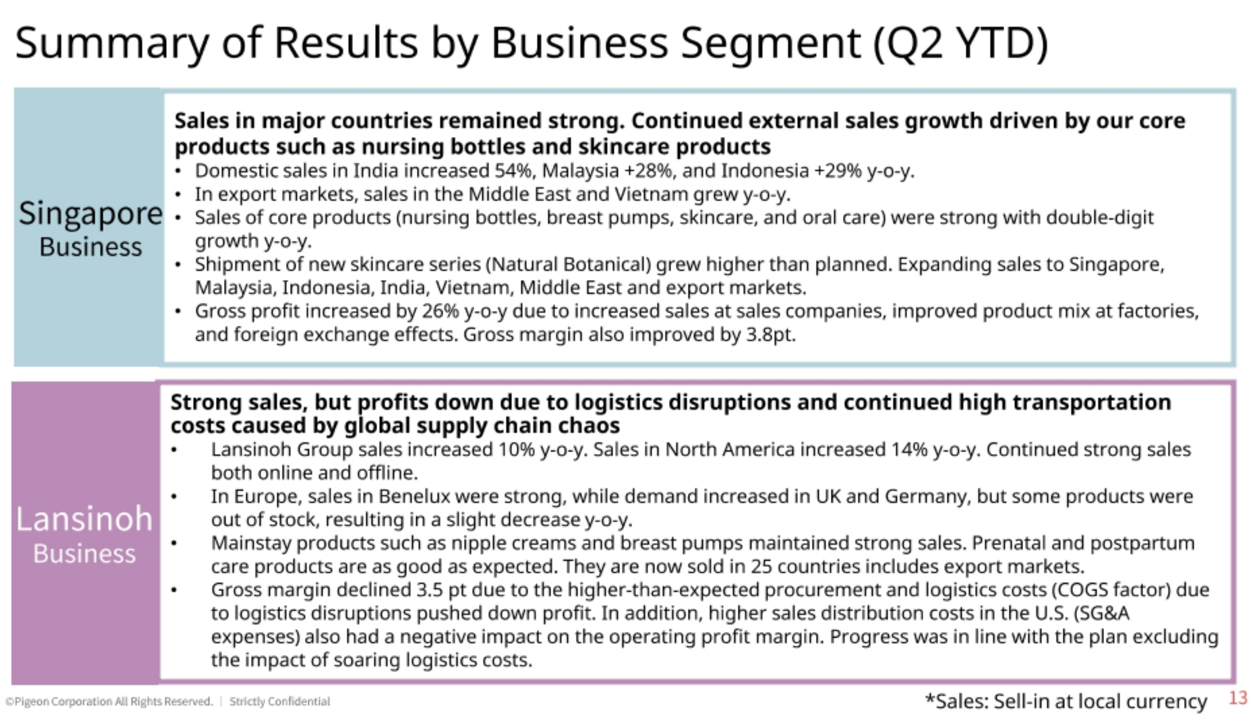
Next, in our China business, sales in the mainland in local currency dropped 30% YoY due to the Shanghai lockdown.

The total sell-out figure was down 10% YoY, e-commerce sales were down 7%, and offline sales were down 17%. The ratio of e-commerce rose to 68% of total sales, with a particularly large increase in TikTok sales. I believe that the percentage of TikTok increased to around 4 - 5% of overall e-commerce sales as of the 618 festival period.

Although our market share for Nursing bottles decreased slightly due to the supply shortages in Shanghai lockdown but we continued to maintain the top market share.

The gross margin deteriorated by 2.6 percentage points. This was due to lower capacity utilization at the Shanghai factory.

In China, we launched other new products, such as Nursing bottles with Disney designs and a new herbal skincare series.



In the Singapore business, sales (local currency) in India grew 54% YoY. Sales in Malaysia and Indonesia increased 28% and 29%, respectively, indicating that sales have been recovering at a fast pace in each country in the region.

In export markets, sales in the Middle East and Vietnam grew considerably YoY.

Sales of core products (Nursing bottles, Breast pumps, Skincare, and Oral care products) grew by double digits YoY. As for the new skin care series, Natural Botanical, the business has successfully expanded to over 15 markets and sales are doing well.

Gross profit also improved in this area due to a rise in the factory utilization rate and strong sales.

Next is the Lansinoh business.

Lansinoh group sales in USD grew 10% YoY. In particular, sales in North America rose 14% YoY. Both online and offline sales were very strong.

Looking at Europe, Benelux and especially France performed very well. In the UK and Germany, demand was increasing, but some products were out of stock, resulting in a slight YoY decline.

Mainstay products such as Nipple cream and Breast pumps maintained strong sales. Prenatal and postpartum care products, which have been on sale since last year, have expanded to 25 countries, including export markets, and they performed very well.

The gross profit margin was 3.5 percentage points lower, and this was due to the impact of higher ocean freight rates resulting from the logistics disruptions, as well as the increase in transportation costs in the US that affected to COGS increase.

FY Dec. 22 New Products

Singapore Business

- Launched the world's first baby bottle made of a new plastic material, T-Ester. The glass-like transparency of T-Ester, not found in conventional plastic, makes caregivers easier to visually check when preparing breastmilk and washing it and improves usability (May).
- Launched a new model of Softouch nursing bottles in Southeast Asian countries (August).

Japan Business

- Launched “Sonaetta” line, Pigeon's first series of emergency supplies for babies (August)
- Launched “Precious Drop”, a colostrum collection device for hospitals, based on the idea of an employee who used to be a midwife (August).

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These are the one of the new products we launched this year. First of all, in the Singapore business. There we launched the world’s first Nursing bottle made of a new plastic material, T-Ester.

We are the only one in the world that sells the product made of this material. The glass-like transparency of T-Ester, not found in conventional plastics, makes it both visually appealing and easy to process, and I believe it will become one of our core materials in the future. We are currently selling the Nursing bottles made of a slightly brownish plastic material. Compared to that, it looks quite good, and I have high expectations for it in the future.

Another new product is a new model of Softouch nursing bottles. We have completed launching them in Japan and in China. In August, we will finally start introducing it in Southeast Asia. They are planning to hold a new product presentation event this month.

In the Japan business, we launched the Sonaetta line, Pigeon’s first series of emergency supplies for babies. The number of disasters has increased in Japan due to climate change. We have given the name Sonaetta to *sonaeru* (prepare for) disasters. What we have just released are feeding cups, a blanket to protect the baby’s head, and a compact bed.

The other new product was born using the in-company proposal system that we have been implementing for the past two years. Based on the first PFA (Pigeon Frontier Awards), we have developed Precious Drop, a colostrum collection device for hospitals. We have started to sell the new device.

FY Dec. 2022 Revision to Full-year Consolidated Earnings Forecast

- Our full-year consolidated forecasts were revised based on Q2 YTD results.
- Factors for lower sales and income: Shanghai lockdown, slower-than-expected recovery of the Japan business, risk of higher transportation costs and raw material prices due to international logistics disruptions, etc.

(Unit: Million JPY)	FY Dec. 2022 Business Plan (Previous Forecast)		FY Dec. 2022 Business Plan (Revised Forecast)			
	Initial Plan	% of Total	Revised Forecast	% of Total	Change (Amount)	Change (%)
Net Sales	**98,700**	100.0%	**95,000**	100.0%	(3,700)	(3.7%)
Cost of Sales	50,600	51.3%	50,700	53.4%	+ 100	0.2%
Gross Profit	**48,100**	48.7%	**44,300**	46.6%	(3,800)	(7.9%)
SG&A Expenses	33,900	34.3%	32,300	34.0%	(1,600)	(4.7%)
Operating Income	**14,200**	14.4%	**12,000**	12.6%	(2,200)	(15.5%)
Ordinary Income	14,300	14.5%	13,000	13.7%	(1,300)	(9.1%)
Net Income Attributable to Owners of Parent	**9,500**	9.6%	**8,550**	9.0%	(950)	(10.0%)

【Assumed Currency Rates】2H of FY Dec. 22: US$1 = JPY 132.00 / CNY 1 = JPY 19.50 16

We have revised down the full-year forecast. We expect that it would be difficult for us to catch up with the impact of the Shanghai lockdown in the first half, as related sales account for a large part of overall sales.

The revised forecast is for sales of JPY 95 billion. This is about 102% YoY. We have revised down the operating income forecast to JPY 12 billion. This represents just over 90% YoY.

[Ref] : FY Dec. 2022 Consolidated Earnings Forecast (Second half alone)

- The company aims to increase sales and profits in the second half of the year compared to the previous year.
- Actions in 2nd half :
  China - Restructuring from lost sales opportunities due to supply shortages in the first half
  Japan - Strengthening marketing of nursing bottles and skincare products

(Unit: Million JPY)	2nd Half (2H alone) FY Dec. 2021		2nd Half (2H alone) FY Dec. 2022 Revised Forecast		
	Actual	% of Total	Forecast	% of Total	YoY Change
Net Sales	**45,803**	100.0%	**49,708**	100.0%	**108.5%**
Cost of Sales	24,289	53.0%	26,157	52.6%	107.7%
Gross Profit	**21,514**	47.0%	**23,551**	47.4%	**109.5%**
SG&A Expenses	15,766	34.4%	16,669	33.5%	105.7%
Operating Income	**5,747**	12.5%	**6,882**	13.8%	**119.7%**
Ordinary Income	6,112	13.3%	6,596	13.3%	107.9%
Net Income Attributable to Owners of Parent	**3,700**	8.1%	**4,560**	9.2%	123.2%

【Assumed Currency Rates】 2H of FY Dec. 22: US$1 = JPY 132.00 / CNY 1 = JPY 19.50 17

We will not be able to reach our initial plan. However, according to the forecast for the second half (H2) alone, consolidated net sales will be 108.5% YoY. Operating income will be 119.7% YoY, so the performance will recover very well in H2.

I think this is a trend that can continue toward the medium-term management plan starting next fiscal year.

Shareholder Return and Investment Related Indicators

[Shareholder return indicators under 7th Medium-Term Business Plan]
Aiming for the consolidated total shareholder return ratio of approx. 55% with a year-on-year increase in dividends for each fiscal year.

Dividends	Dec. 2020		Dec. 2021		Dec. 2022	
	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Interim (Scheduled)	Year-end (Forecast)
Dividend per Share (Yen)	36	36	37	37	38	38
Dividend Payout Ratio	81.0%		100.9%		106.5% (Revised Forecast / Year-end)	

(Unit: Million JPY)

<Ref.> Investment-related Indicators (Consolidated)	Dec. 2020		Dec. 2021		Dec. 2022	
	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Full-year (Estimate)
Capex(*1)	1,690	4,185	2,013	6,735	2,814	6,600
Depreciation(*2)	1,967	3,972	1,986	4,161	2,381	4,300
R&D Expenses(*3)	1,430	3,115	1,709	3,603	1,802	3,700

*1: Property, plant and equipment and intangible assets (including long-term prepaid expense)
*2 : Depreciation (including amortization of goodwill)
*3 : Total expenses of R&D activities, including personnel costs

As for dividends, we are going to pay JPY38 per share for the interim period, as we have initially announced. And our dividend forecast for the end of this fiscal year remains unchanged.

As for capital expenditures, there has been no major increase partly due to the COVID-19 pandemic. Depreciation expenses will increase slightly, but this is partly due to the depreciation of the new factory in Shanghai.

This concludes my explanation. Thank you very much.

Question & Answer

Q&As are summarized by Business segment.

[Consolidated]

Q. Consolidated operating income in the first half decreased approximately 2.5 billion yen YoY. How was that by business segment?

A. Operating income fell short YoY in the Japan, China, and Lansinoh business. The Singapore business saw a YoY increase in operating income on the back of sales growth in major markets.

In addition to lower sales, operating income in Japan was also down due to higher procurement costs from the weaker yen and lower gross profit from weak sales of the high-margin Peach leave skincare series through cross-border e-commerce.

In China, the fixed cost ratio increased due to the temporary close of a Shanghai factory due to the Shanghai lockdown, and these factors had a significant impact on profit decline YoY.

Lansinoh's profit decreased due to the significant impact of soaring logistics costs on the COGS side, although sales remained strong. Logistics costs have risen sharply since the second half of last year, and the trend has continued to the present, so the difference between the first half and the previous year was particularly large.

Although each business has been controlled SG&A expenses within the plan, we are investing in necessary marketing costs, product planning, and R&D. As a result, the SG&A ratios of each business increased slightly from the previous year, which was another reason for the decline in operating income.

Q. What are the assumptions for the revised full-year plan (net sales of JPY 95 billion and operating income of JPY12 billion) and how likely is company confident to achieve?

A. The revised plan includes assumptions for the most recent situation regarding the sharp rise in logistics and raw material costs. Therefore, we recognize that the revised plan is a conservative figure to some extent. Unless there is a second lockdown in Shanghai or a rapid cost increase beyond our expectations, we expect to achieve the plan.

By the business segments, the Singapore and Lansinoh businesses had strong sales in the first half, and we expect to see the same trend in the second half, with Lansinoh expecting an increase in both sales and profit in the second half alone.

While the sales companies in Singapore business are expected to continue to perform well in the second half, the Thai factory under the Singapore business had an initial shipment of a new model of the Nursing bottle for the Japanese market in the the second half of last year, but no such large shipment is expected in the second half of the current fiscal year, so operating income for the second half alone is expected to be lower than the previous year.

In the Baby care business in Japan, there is an aspect of the category that already has a high market share and is easily affected by lower birth rate. On the other hand, additional measures are being considered for the second half to recover sales of consumables, but since price competition is becoming extremely fierce, we envision the second half stand-alone results at about the same level as in the previous year.

In mainland China, sales were held down in the second half of last year mainly due to offline inventory adjustments, etc. We believe that sales will steadily recover in the second half of this year and we expect about 12% YoY increase in local currency for the second half alone. 618 results show that the unit purchase price of consumers is rising, and price increases thanks to new model of Nursing bottles and other products are also contributing. We expect this will make a stronger contribution in the second half of this year.

Q. In your revised plan for the full year, how much do you expect the cost of sales to rise YoY?

A. In our original forecast, we had expected the cost of sales to rise about 1 billion yen YoY for the full year. However, due to the current increase in requests for price hikes, we now expect the cost of sales to rise about 2 billion yen YoY in the revised plan. On the other hand, we have raised the price of Nursing bottles in Japan and China by introducing new models, and plans to introduce them in the Singapore business from the second half of this fiscal year. Lansinoh is also performing well, especially with its mainstay products, and we believe that it will be able to offset the higher cost of sales to some extent through higher unit prices and increased sales.

Q. Are you considering the global rollout of Nursing bottles made of the very new T-ester material?

A. Of course, we are. First of all, we have begun selling T-ester Nursing bottles in the key markets of the Singapore business. Currently, our plastic Nursing bottles are made of a material called PPSU, but this T-ester bottle is more transparent and has a clearer appearance than PPSU. So it will be easier for consumers to use when preparing breastmilk and cleaning and disinfecting. Since we are the only company in the world that uses this material, it may take some time before it is approved in some regions, but we would like to introduce it globally as needed. We would also like to raise the selling price when switching from PPSU.

[Japan Business]

Q. Tell us about the progress of the mainstay products in Japan and key initiatives for the second half of the fiscal year.

A. For Nursing bottles, the replacement to the new models since launched in February this year was slightly delayed more than expected in some retailers, and there was some delay in returns of the old model in Q2. The new model has been well received by retailers and consumers based on the improved product lineup while we raised the retail price. For the second half of the fiscal year, we plan to launch several new products and channel-exclusive products, centered on Nursing bottles and Skincare products to recover sales. Also, we have been struggling Wet tissues this year but we will review the price strategy in a timely manner in the second half of the fiscal year to recover sales despite the severe price competition in the market.

[China Business]

Q. From a tough experience in the Shanghai Lockdown, will the company consider diversifying its procurement and logistics bases and importing from its own factories in other countries to diversify the risk in the future?

A. During this lockdown period, the Shanghai port was also locked down and logistics were suspended, so the option of importing from our own overseas factories was not practical (technically possible though). Therefore, we took flexible measures such as shipping products manufactured at the Shanghai factory to Changzhou factory and shipping them to all over the country. As a response to future risks, we recognize that it is necessary to consider how to strengthen logistics within China, including the dispersed the inventory.

Q. What is the impact amount (sellout) of Nursing bottles due to the out of stock during the Shanghai lockdown period?

A. The impact during the lockdown at each retailer is very different and honestly it is very difficult to estimate the impact amount of sellouts due to the out of stock. Both e-commerce platformers and offline retailers were affected by logistical disruptions during the lockdown period around end of June. So we believe the impact was significant to some extent because the sales turnover of Nursing bottle is fast.

Q. Did the company see any change in the market share (in value) of Nursing bottle due to the Shanghai lockdown?

A. Our estimated market share for Nursing bottles was 43% as the end of June, down slightly from 45% at the end of last year. During the Shanghai lockdown in April and May, our production and shipping operations were severely restricted and product shortages occurred, so our market share dropped to about 40%. However, as soon as the Shanghai lockdown was lifted in June and our shipping operations also resumed, which helped restore product supply and market share to 43%.

Q. Tell us about the outlook for the China business next year and beyond.

A. We will touch on the details in our 8th Mid-term Business Plan to be announced in February next year. In terms of the market environment in China, we are cautiously looking at areas where the market is no longer as stable as before, such as the recent Shanghai lockdown and the declining trend in the number of births in recent years. On the other hand, we plan to increase the retail price by introducing new Nursing bottle, strengthen the Skincare category, which is expected to grow further including age-up products. Also, from next year onward, we plan to expand the lineup of drinking cups. We will also aim to increase profitability by strengthening our manufacturing capabilities. Although it may be difficult to achieve double-digit YoY sales growth as in the past, we still believe that we can expect sustainable growth in both sales and profits.

[Lansinoh Business]

Q. While the sales are strong, what are the factors behind the decrease in profit?

A. The most significant factor behind Lansinoh's profit decline is the higher-than-expected price hike of logistics costs. The price of containers for marine transportation rose sharply from the beginning of the last year to the end of the term, and a comparison between the first half of the past year and this year shows a large gap in the price level. Prices have risen five-fold compared to pre-Corona levels. Prices seem to have calmed down slightly recently, but we still expect prices to remain high for the rest of the year. Except for the soaring logistics costs, profits are also progressing according to plan.

[End]