

## Pigeon Corporation Q2/2020 Dec. Conference summary

### **Disclaimer:**

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**[Date]** August 7, 2020

**[Venue of the event]** Otemachi Sankei Plaza and Live streaming

**[Number of Speakers]** 3

Norimasa KITAZAWA, President and CEO

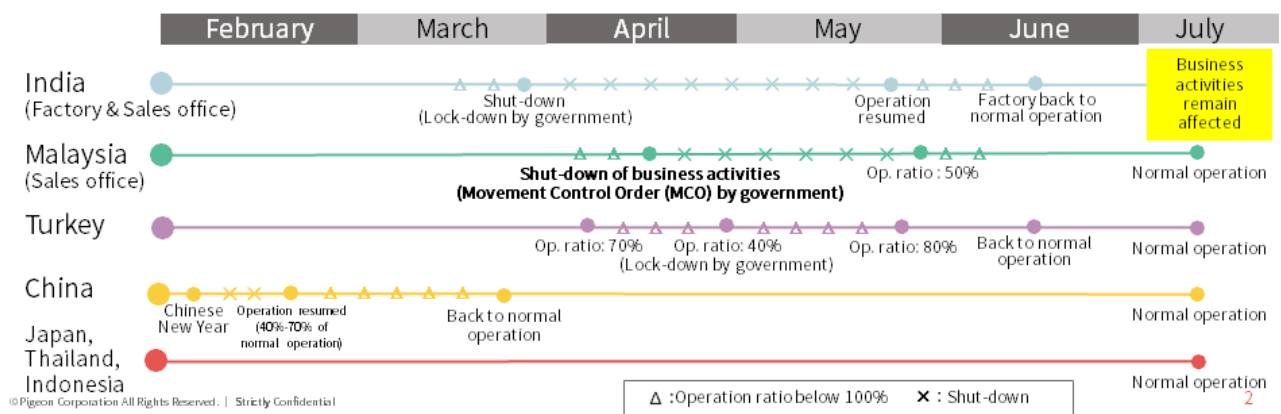
Eiji AKAMATSU, Director, Senior Managing Executive Officer

Tadashi ITAKURA, Director, Senior Managing Executive Officer

**Kitazawa:** Hello everyone. Thank you for visiting today in the truly awesome heat. Today in the morning, the temperature was already more than 36 degrees Centigrade, I would like you to be careful not to be affected by heat stroke.

### Timeline for Group Offices Under COVID-19 Pandemic (As of End of July)

- Factories in Japan, Thailand and Indonesia have been in normal operation even amid the COVID-19 crisis.
- In China, business activities were affected most during the period from mid-February through late March but have been on a recovery trend since Q2.
- Our domestic and overseas sales offices/factories are in operation while taking sufficient measures to prevent infection with COVID-19 in accordance with requests and guidance from local governments.
- In India, continued restrictions on movement, such as travel between states, have affected business activities.



Regarding the semi-annual results, the overall figures were slightly better than our expectations. First of all, I will explain the timeline of our offices to date.

In India, the factory and office were completely shut down for two months from the middle of March. The plant could not manufacture and the sales office could not operate. Currently, they have almost recovered. In terms of sales, however, there is still the lockdown in each province, so we are unable to do business across provinces. On the other hand, sales in Ecommerce, which account for more than 40% of overall sales, are almost back to normal and Ecommerce sales is now coming back.

Next is Malaysia. We have a sales office in Malaysia, which was shut down for two months like India. Even as of the end of May, only 50% of our sales activities could be carried out. In July, however, it was able to carry out 100% of its activities.

In Turkey, the factory was not completely stopped, but the utilization rate fell for about two months. Currently, it has returned to normal levels. Rather, because of the lockdown and reduced production when the utilization rate fell, it cannot catch up with an ongoing rise in sales of breast pumps in the US. So we would like to catch up with the demand as soon as possible.

The China Business resumed operations immediately after the Chinese New Year and returned to normal levels in around March. Currently, it remains normal.

There is no shut-down or fall of utilization rate of factories in Japan, Thailand, and Indonesia. Even among the COVID-19 pandemic, the plants and sales offices continued operations.

## 618 Shopping Festival (China)

- Pigeon **recorded No. 1** sales in nursing bottles and nipples on JD.com and T-mall for three straight years.
- Pigeon's sales on T-mall e-commerce flagship store grew **138%** year-on-year.
- Pigeon achieved sales expansion by leveraging new EC platforms, such as Live Commerce.

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First of all, I introduce topics in the second quarter.

In China, there was an Ecommerce festival called “618 festival” on June 18. This year, too, we were very successful. Sales at the T-mall flagship store were 138% against the previous year’s result. Sales of Nursing Bottles and Nipples retained the first position at JD Supermarket and T-mall. In addition, Skincare and Other products were ranked first.

## Released Ssence, a New Line of Premium Skincare Products (China)

**Ssence**  
艾纯诗母婴旗舰店

- Pigeon launched Ssence in China in late June.
- Unique ingredients, and completely additives-free such as preservatives, antimicrobials, flavorings and alcohol.
- Deliver directly from the factory to consumers within 48 hours from the date of production (Our first D2C business model).
- Total number of pageviews of the official Ssence page on WeChat (Chinese social media) and other digital channels has exceeded 10 million!

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In June, we launched the first line of the Ssence, which we announced last year.

Detailed sales trends are yet to be known since the sale has just started. However, Ssence got off to the good start as the number of page views exceeded 10 million views, according to WeChat and other accounts.

## Released Bingle Fan+ Stroller (Japan)

ビジョンのベビーカーは  
スイスイ動いてのびのび乗れる。



- Japan's first baby stroller equipped with a cooling fan that will keep your baby feel comfortable during outings even in the hot summer season
- Available on Pigeon's official online shop starting in late July (limited to 160 units only)
- Planning to release new lines of FUNRIDE baby strollers in series

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The advertisement features a red header with two circular icons: one showing a stroller wheel with a blue arrow and the text '滑らかなホイール' (Smooth wheels), and another showing a fan with the text 'ファン付きで暑がこもりにくい' (With fan, less likely to get hot). Below this is a yellow banner with the text '※日本初! 夏場のお出かけに' (Japan's first! For summer outings). The main text reads '快適なファン搭載ベビーカー' (Comfortable fan-equipped baby stroller) and 'Bingle Fan+ ビングル ファンプラス'. A pink circle contains the text '数量限定' (Limited quantity) and another pink circle says '新発売!' (New release!). A black stroller with a blue canopy is shown on the right. At the bottom, it says '※※ SVP ジャパン調べ' (SVP Japan survey) and '調査対象: 日本で発売されたファン一体型ベビーカーの公開情報より' (Survey target: Public information of fan-integrated baby strollers released in Japan).

In the Japanese market, we started a new baby stroller category called FUNRIDE. Based on the concept that "Pigeon's baby strollers move smoothly and are comfortable to ride," we launched the first product, a baby stroller equipped with cooling fans, for summer.

Based on the concept of FUNRIDE, we will launch more and more products in the future. New products from a very different angle are scheduled to come out around next year, so I am very much looking forward to them.

## Nigeria the New Market (Singapore)



Number of babies  
born per year  
More than **7** million

- Started distribution to Nigeria, a new market in Africa, through a local partner
- Started to sell Pigeon products on high-end baby shop and the online store "JUMIA"
- Targeting to achieve annual sales of USD1 million in 2022

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In the Singapore Business, the Pigeon brand was finally launched in Nigeria.

We are very excited to let you know the business has finally begun. The photographs show Pigeon shelf at a baby shop for High-class customers and a bus with our advertising. In Nigeria, the main advertising media appear to be radio and AD board on streets. As Nigeria is a very large market with seven million births per year, we aim at sales of approximately USD1 million in two years, 2022.

## Products Catering to New Customer Needs (Lansinoh)



- New products catering to “sustainability” needs of millennials and the generation Z
- Organic Nipple Balm, the first-ever 100% plant-based product released by Lansinoh (meeting consumers' demand for organic products)
- Washable Nursing Pads, reusable with repeated washes (meeting consumers' demand for non-disposable products)
- Sales expanding along with existing products

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Next is Lansinoh.

We have changed the package design for Lansinoh products in succession. In addition, we launched a new plant-based Organic Nipple Balm that is not made from lanolin. Considering the environment, we have also launched washable and reusable breast pads, and they have been faring very well.

Under the new packages, breast pumps such as Smartpump 2.0 and new product lineups have been performing very well recently and we will continue to introduce new products.

## Results - Consolidated PL

(Unit: Million JPY)	Q2 / Dec. 2019		Q2 / Dec. 2020		
	Actual	% of Total	Actual	% of Total	YoY Change
Net Sales	52,519	100.0%	48,431	100.0%	92.2%
Cost of Sales	25,886	49.3%	24,021	49.6%	92.8%
Gross Profit	26,632	50.7%	24,409	50.4%	91.7%
SG&A Expenses	17,375	33.1%	16,377	33.8%	94.3%
Operating Income	9,257	17.6%	8,031	16.6%	86.8%
Ordinary Income	9,608	18.3%	8,532	17.6%	88.8%
Net Income Attributable to Owners of Parent	6,565	12.5%	5,855	12.1%	89.2%

## 【Currency Rates】

Dec. 2020 : US\$1 = JPY 108.26 / CNY1 = JPY 15.39

Dec. 2019 : US\$1 = JPY 110.05 / CNY1 = JPY 16.20

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Net sales were 92.2% of the year-before result, and operating income was 86.8% YoY.

## Results - by Business Segment

Overseas Sales Ratio : 56.6% (54.1% in Q2/2019)

(Unit: Million JPY)	Q2 / Dec. 2019				Q2 / Dec. 2020				
	Actual	% of Ttl	Gross Margin	Segment Profit	Actual	% of Ttl	YoY Change	Gross Margin	Segment Profit
Consolidated Net Sales	52,519	100.0%	50.7%	9,257	48,431	100.0%	92.2%	50.4%	8,031
Japan Business	25,230	48.0%	40.6%	2,656	22,584	46.6%	89.5%	39.5%	1,580
China Business	18,058	34.4%	54.2%	6,313	17,456	36.0%	96.7%	54.5%	6,118
Singapore Business	7,104	13.5%	36.6%	1,204	6,443	13.3%	90.7%	39.8%	1,257
Lansinoh Business*	6,572	12.5%	59.1%	925	6,312*	13.0%	96.0%	56.6%	907
Elimination of inter-segment transactions	(4,447)	(8.5%)	—	—	(4,364)	(9.0%)	—	—	—

\*The Lansinoh business has a different revenue recognition standard of the earnings in Q2/Dec. 2020 and Q2/Dec. 2019. Under the new standard, rebates, incentives, and other expenses that were previously recorded in SG&A expenses are now deductible from sales in this fiscal year.

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By segment, net sales in Japan were 89.5% of the year-before level, but the gross profit margin was relatively low in Japan.



Sales in China were 96.7% of the year-before level in terms of JPY. Sales exceeded 100% on a local currency basis. The gross profit margin remained at a high level.

Sales in the Singapore and Lansinoh Businesses were 90.7% and 96%, respectively, mainly due to the impact of foreign exchange rates and other factors. Both sales actually exceeded 100% on a local currency basis.

In particular, we changed the accounting standards for the Lansinoh Business this year. In accordance with local accounting standards, we deduct rebates, incentives, and other items from sales. The figures after returning these items to selling, general and administrative expenses will be shown later.

### Results - by Business Segment (Local Currency)

Japan Business	Singapore Business
<p><b>Net Sales YoY : 89.5%</b></p> <p>[Ref.] Net Sales YoY by Former Seg.                      Domestic Baby and Mother Care : 85.0%                      Child Care Service : 94.4%                      Health and Elder Care : 106.7%</p>	<p><b>Net Sales YoY : 93.0%</b></p> <p>[Ref.] Net Sales YoY (Main markets)                      Singapore domestic : 107.3%                      India : 54.3%                      Malaysia : 65.5%</p>
China Business	Lansinoh Business
<p><b>Net Sales YoY : 101.0%</b></p> <p>[Ref.] Net Sales YoY (Mainland China) : 105.4%                      E-Commerce Growth YoY : 134.0%                      E-Commerce Ratio in total sales : 61.0%</p>	<p><b>Net Sales YoY : 99.3%*</b></p> <p>[Ref.] Net sales (YoY) under the same revenue recognition standard                      Lansinoh Business : 107.5%                      US : 113.5%</p>

\*The Lansinoh business has a different revenue recognition standard of the earnings in Q2/2020 Dec. and Q2/2019 Dec. Under the new standard, rebates, incentives, and other expenses that were previously recorded in SG&A expenses are now deductible from sales in this fiscal year.

The above are the details by segment on a local currency basis. Sales in Japan were 89.5%. Sales in the former Domestic Baby and Mothers Business alone were 85.0% of the year-before figure. Sales in the former Child Care Service Business were 94.4%. Sales in the former Health & Elder Care Business were 106.7% of the year-before level as disinfectants sold well.

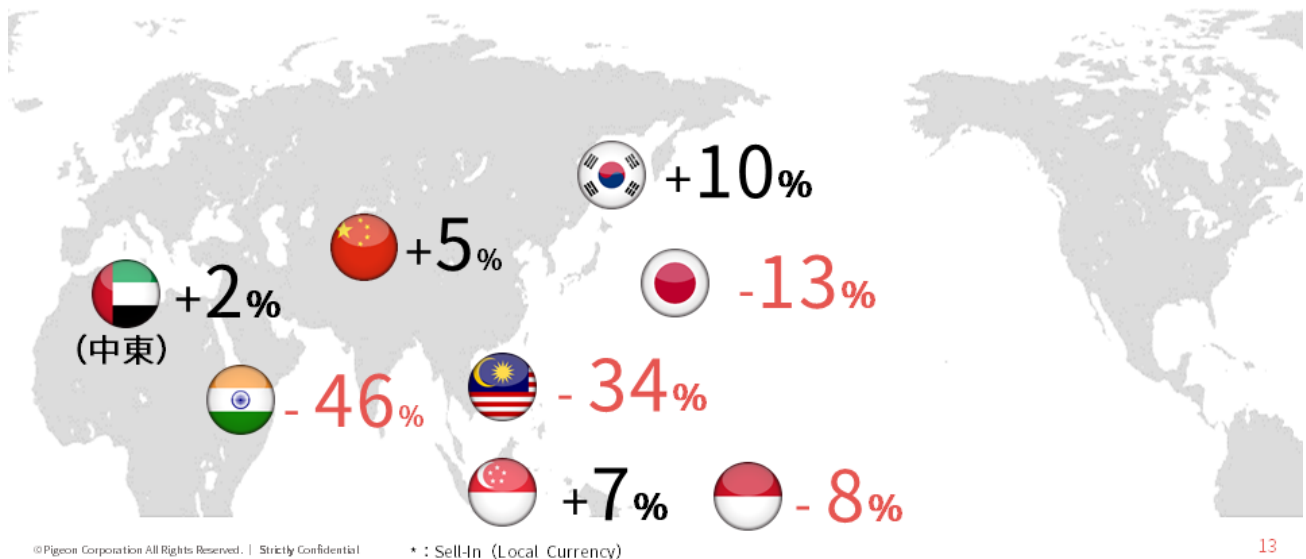
Sales in the Singapore Business as a whole were 93% on a local currency basis. Looking at sales in major countries, those in Singapore were 107.3% and those in the Middle East were 102%, i.e., not all regions posted YoY declines in sales.

India and Malaysia were really tough. Sales in both countries saw significant YoY declines due to the complete lockdowns for two months.

Sales in the China Business, including exports, were 101% of the year-before level. Domestic sales in China recovered to 105.4%. Sales in Ecommerce increased to 134%. The ratio of Ecommerce was around 59% in Q1 and rose to 61% in Q2.

Sales in the Lansinoh Business were 99.3% of the year-before level, but this was due to the change in the accounting standards. Based on the previous accounting standards, overall sales in the Lansinoh Business would have been 107.5%. Sales in North America alone were extremely favorable with 113.5% of the year-before level.

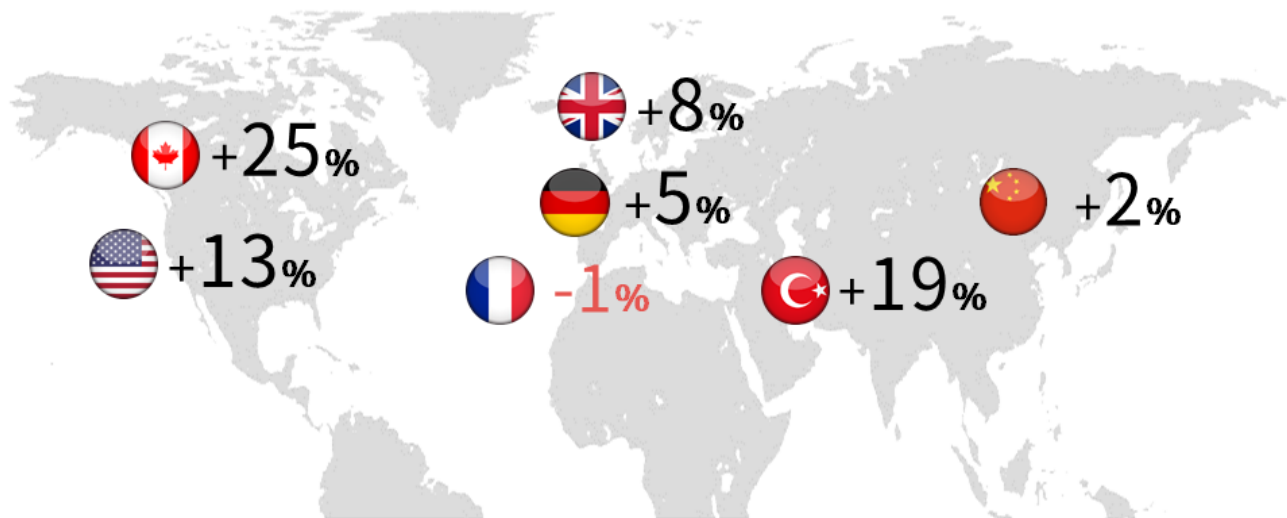
## Pigeon Sales by Regions\* (Q2 YTD / YoY / Local Currency)



This is the growth conditions in the Pigeon brand's main markets.

In South Korea, although the impact of COVID-19 was significant, Ecommerce accounted for a very high level of 84% of our sales. So sales were up 10% YoY, not affected by declines. China performed well, as I explained earlier. Sales in the Middle East also grew 2%. Again, sales in India and Malaysia were far from achieving the targets due to the lockdowns.

## Lansinoh Sales by Regions\* (Q2 YTD / YoY / Local Currency)



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\* : Sell-In (Local Currency)

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This is the state of growth in the Lansinoh brand's major markets.

Sales in the US rose 13%, and those in Canada grew 25%. Sales in Germany, UK, and Turkey also marked YoY increases.

Sales in France incurred a YoY decline of 1%. The reason for this is that in France, our main channel is still pharmacies and we are in the process of expanding our sales channels to Ecommerce, so the impact of COVID-19 was significant.

## Consolidated Balance Sheet (Highlight)

(Unit: Million JPY)	End of Dec. 2019	Q2 / Dec. 2020		
	Actual	Actual	YoY Change	YoY Change (%)
Cash and deposits	32,416	33,603	+1,187	103.7%
Notes and accounts receivable - trade	16,588	15,400	(1,187)	92.8%
Inventories	11,211	12,134	+923	108.2%
Notes and accounts payable - trade	4,900	5,122	+221	104.5%
Electronically recorded obligations - operating	2,009	2,070	+61	103.0%
Borrowings	0	0	—	—
Net assets	70,463	71,033	+570	100.8%
Total assets	90,491	90,315	(176)	99.8%
Equity ratio	74.8%	75.7%	—	+0.9Pt

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This is the balance sheet.

Even in the tough period with COVID-19 pandemic, our cash position increased from the end of the previous fiscal year. Inventories were also up 8.2%. The increase came from the changes in demand of each product. As breast pumps were growing in the US, we had more breast pump inventory as the safety stock. In addition, there are some business bases that had large inventories in preparation for the deterioration of COVID-19.

## Recent Situations amid COVID-19 Crisis (Malaysia and India)



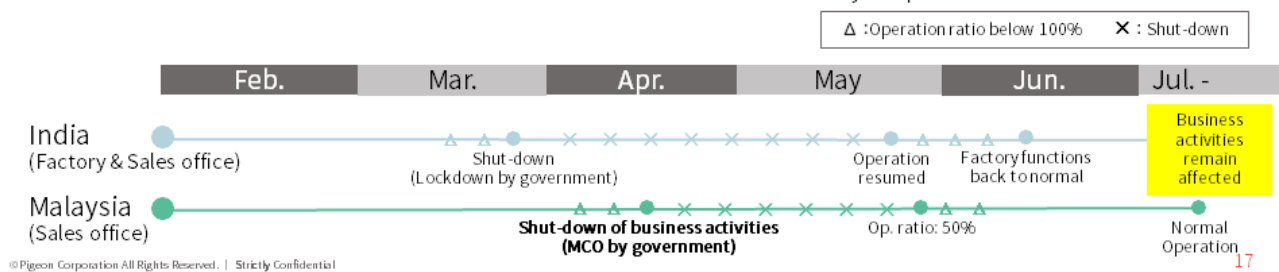
### Malaysia

- The number of new cases has decreased to 10 or less per day. Under the "new normal" lifestyle, people are returning to life as usual before the lock-down.
- Pigeon has almost fully restored its operations by utilizing online sales negotiations and other alternative measures.
- Many retail stores are operating for shorter hours. Major retailers focused on their own e-commerce sales platform during the lock-down period to offset a decrease in offline sales with online sales.



### India

- The pace of infections with COVID-19 has accelerated, and as a result, the number of new cases has surged to 50,000 or more per day, making India one of the toughest situation in the world.
- Pigeon has restarted its operations by first visiting major customers and also utilizing phones and messaging apps for sales negotiation.
- E-commerce sales have recovered to the level before the lock-down, while the areas under movement restrictions remain affected by the pandemic.



This is the latest situation amid the COVID-19 pandemic.

As I mentioned earlier, there had been a very small amount of Ecommerce sales in Malaysia, but those sales were increasing due to COVID-19. I hope that the ratio of Ecommerce sales in Malaysia will rise to around 10% in two years.

In addition, India still imposes restrictions on behavior amid COVID-19. The two countries were heavily affected by COVID-19 and remain in harsh business conditions. I would like to see to what extent they will recover in the second half of the current fiscal year.

## Changes in Pigeon Group's Business Activities amid COVID-19 Crisis

Pigeon is well prepared to stay relevant in the "society coexisting with the novel coronavirus," while retaining its brand strength.

### What have remained unchanged

- **Brand strength of Pigeon and Lansinoh**
- Steady e-commerce and online sales growth

### What have changed

- Workstyle of the Group's employees
- **Method of communications with customers**

When it comes to things that don't change amid the COVID-19 pandemic, I feel that "brands that consumer can trust in emergency situation are strong in the market". As many of our products have increased their market shares amid the COVID-19 pandemic, I again recognize the importance of standard branding activities and comprehensive policy.

What has changed due to the COVID-19 pandemic is the way employees work in the Group. At the head office in Tokyo, even after the Japanese government lifted its declaration of the state of emergency, we plan to maintain the office attendance rate at 50% or below until the end of August. Lansinoh has kept an office attendance rate of around 30% at its offices. In Singapore, they continue to operate their business by combining on-site working and teleworking on a good balance.

The way we communicate with our customers has also changed due to COVID-19. Online promotions through social media made progress even further.

## Pigeon Group's Market Share amid COVID-19 Crisis (Japan)

The Group has maintained/expanded its market share, supported by more than 60 years of customer trust in the Pigeon brand.

- Inbound demand has vanished due to 99.9% year-on-year decrease in foreign travelers to Japan.
- From Nursing bottles to disposables such as Baby wipes, our products have continued to perform strongly even amid the COVID-19 crisis, underpinned by the trust it has nurtured with customers.

### ■ Nursing bottles market share in Japan\*



**85%**

(monthly average in 1H of FY2020)

The market share has increased 6pt from 79% of the same period last year.

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\*Based on the company research (POS Nationwide Drugstore Growth Estimates, INTAGE Inc.) 19

Our Group's market shares amid COVID-19. In Japan, the market shares of Nursing Bottles rose from 79% to 85% YoY. With inbound demand no longer in place, this year's market shrank from a year earlier, so the amount of our sales fell slightly, but our market share is very high.

## Pigeon Group's Market Share amid COVID-19 Crisis (China, North America)

- Pigeon nursing bottles' market share in China\*



The market share has increased 3pt from the annual average of 37% in 2019.

\* Based on the company research (sell-out, value basis)

- Pigeon lanolin-based nipple cream's market share in the U.S.\*\*



The market share remained as high as that during the same period last year and has been expanding with the release of new Organic Nipple Balm.

\*\* Based on the company research (July 2020 IRI MULO Report, Multi Outlet + Amazon, value basis)

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In terms of the share of Nursing Bottles in China, the combined market share at T-mall and JD finally exceeded 40% in terms of value. Over the medium to long term, we believe that we can aim at 50%.

In the US, Lanolin nipple cream held a high market share of 74%. In the Nipple Cream category, the competing brands have lowered prices, but Lansinoh maintained the high market share of 74%. In addition, as I explained earlier, Lansinoh has launched Organic Nipple Balm, so sales in our Nipple Cream category were growing even further.



## Pigeon Group's Market Share amid COVID-19 Crisis (US)

- Market shares\* and positions of core products, other than nipple cream, in the U.S. (during the last 52 weeks)



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\* Based on the company research (July 2020 IRI MULO Report, Multi Outlet + Amazon, value basis)

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The market shares of our core products in the US market. Breast Pads kept the first position. Breast Milk Storage Bags also remained No. 1. Among Breast Pumps, Manual Breast Pumps continue to be ranked second.

## New Initiatives amid COVID-19 Crisis (with Parties Outside the Company)

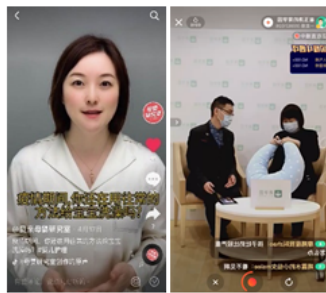
Further promote online communications with customers in collaboration with medical professionals and experts in each country

**[Japan]**  
Providing advice of experts, such as pediatricians, via social media platform



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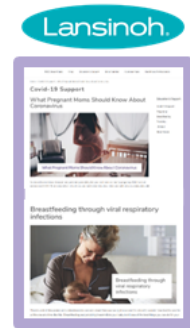
**[China]**  
Live streaming using apps, such as WeChat and Weibo



**[Malaysia]**  
Online breastfeeding seminar



**[US]**  
Opening a special feature page on the brand website



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These are some examples of our activities for communicating with customers through social media and on-line.

In Japan, we provide advice from specialists, such as pediatricians, on social media.

In China, we utilize live-streaming on WeChat and Weibo.

An online seminar for raising children with breast milk is being held in Malaysia.

At Lansinoh, they created feature pages on the novel COVID-19 on its own website to provide in-depth information.

## Brand Enhancement Initiatives

Pigeon was ranked 64th among 100 “Best Japan Brands 2020” by Interbrand Japan.

Reasons for being awarded (excerpt):

Pigeon defined its “purpose” in 2019 to enhance customer satisfaction. High customer trust in Pigeon’s mainstay nursing bottles, its ability to cater to customer needs, and its strong presence have helped enhance its brand value not only in Japan but also in other Asian countries.



### Purpose

Make the world more baby-friendly by furthering our commitment to understanding and addressing babies’ unique needs.

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This is about the initiatives through our brand. We introduced a new way of branding this year. This time, in the Best Japan Brands 2020 rankings by Interbrand Japan, Pigeon was ranked 64th out of the top 100 names. The Company was chosen in the rankings for the first time.

The reason is that we heightened customer satisfaction and enhanced the brand value by newly establishing the purpose of "We want to make the world more baby-friendly by furthering our commitment to understanding and addressing babies’ unique needs" in the Pigeon Way.

This purpose has further clarified the direction that the company should take for its employees.

## Brand Enhancement Initiatives

Refresh a diverse range of contents, works and promotional materials in order to communicate Pigeon brand's message and story to all stakeholders

### ■ Office design

Pigeon Manufacturing Ibaraki



Pigeon Manufacturing Hyogo

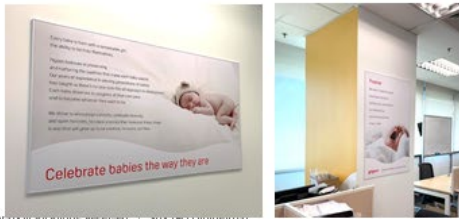


Next is on our Corporate logo. Pigeon previously used a CI and BI.

CI was the corporate identity with a red line sideways, but we abolished this CI and decided to use only our BI, the brand identity. Therefore, all logos on documents, at factories, and on packages became the BI from this year. The photos above show the Hyogo and Ibaraki plants that recently changed their logos.

## Brand Enhancement Initiatives – Office Design

Pigeon Singapore



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Pigeon India



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We also refurbished the design in our offices around the world, all based on the new brand.

## Brand Enhancement Initiatives – Space Design

Brand banners for events



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Sales promotion tools are also updated under the new brand style.

## Brand Enhancement Initiatives – Space Design

Brand display for exhibition



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These are our new display shelf used in an exhibition in Japan. In particular, the wave line below the Pigeon logo is very important in the current branding. All products include this wave line.

## Brand Enhancement Initiatives – Online Communication

New website



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Official online shop



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The website has been changed to a new brand image since this year.

## Brand Enhancement Initiatives – Digital Content

Brand movie



Corporate movie



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We renewed both the brand movie and the corporate movie. I love this brand movie in particular, so I highly recommend that you take a look at it.

## ESG Initiatives

Implement a range of new initiatives in each country



**Industry-academia collaboration Project (Thailand)**



- Chulalongkorn University developed a breast cancer self-diagnosis kit.
- Thai Pigeon provided waste silicone.
- The project was announced on the university's website in June 2020.

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**Activities to promote recycling (Singapore)**



- “Nursing bottles recycling boxes” were installed at exhibitions and other events (available also for other brands' nursing bottles).
- More than 3,500 nursing bottles have been collected so far. Collected nursing bottles are recycled into transportation palettes, etc.

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This is about "S" activities of ESG.

We supported developing a self-diagnosis training kit for breast cancer which led by Chulalongkorn University of Thailand. This is a training kit for doctors that helps them learn what they feel when they come into contact with breast cancer. In Singapore, we have begun to install collection boxes for nursing bottles as one of our environmental initiatives.

## Initiatives During 2H of Fiscal Year Ending December 2020

Strengthen efforts to ensure the safety of employees under “emergencies,” such as pandemic and natural disasters, to continue stable operations.

- Expansion/renovation of factories in China and Indonesia
- Full-fledged market entry of the Pigeon brand into **North America (Canada)**
- Release of **new products totaling 150 SKUs or more** (including refreshed products) worldwide
- **Planning/development of emergency supplies** and products catering to local consumer needs in each country
- **ESG activities** including the opening of a breast milk bank (on the first floor of the headquarters building in Tokyo) and the installation of solar panels at factories in Indonesia and Thailand

These are measures planned for the second half of the current fiscal year. In China, as the Qingpu Plant in Shanghai is becoming narrow, we plan to expand the space next to our existing plant. Also, the expansion of the Indonesian plant is scheduled for completion around this November, although there are some delays due to COVID-19.

Furthermore, we have decided to go to Canadian market with Pigeon brand. We found a great local distributor and have completed a contract. Although it is difficult to establish a solid schedule due to COVID-19, we believe that we will be able to begin selling our products in Canada around early 2021.

Our China Business is going to handle Pigeon business in the Canadian market. As Asian people account for a large part in Canada's population, the business is expected to be easily operated using the Chinese network.



Over the medium-to-long term, we expect that this scheme under supervision of the China Business will advance into Amazon in the US. In the future, we intend to create a structure in which Pigeon and Lansinoh coexist in all markets around the world.

In addition, starting this year, we divided the Pigeon Group into four segments, delegating authority and giving development functions to each of them. This division is progressing smoothly, and we are expecting about 150 SKUs of new products yet to be sold.

As stated here, we feel that we have only a few local products that meet the need of consumers in each country and only a few hygiene-related products that are used in the event of a pandemic such as COVID-19. Furthermore, as we have few products that meet the need in the event of disasters like an earthquake, we plan to develop more of such products.

On September 1, we plan to open the second breastfeeding bank in Japan on the first floor of our headquarters. This is a system in which donor milk is sent free of charge for low-birth-weight babies at hospitals from the breast milk bank.

In addition, we will install solar panels on the roofs of the plant in Thailand and a new plant in Indonesia. In the past, we equipped two plants in China and a plant in India with solar panels.

## Forecast for the Fiscal Year Ending Dec., 31, 2020 (Consolidated)

(Unit: Million JPY)	Dec. 2020 Full-Year Forecast			
	Budget	Revised Forecast	Change	Change(%)
Net Sales	109,000	<b>98,500 to 102,400</b>	(10,500) to (6,600)	(9.6) to (6.1)
Operating Income	18,100	<b>13,400 to 15,500</b>	(4,700) to (2,600)	(26.0) to (14.4)
Ordinary Income	18,100	<b>13,900 to 16,000</b>	(4,200) to (2,100)	(23.2) to (11.6)
Net Income Attributable to Owners of Parent	12,600	<b>9,600 to 10,900</b>	(3,000) to (1,700)	(23.8) to (13.5)
Net Income per Share	105.23	<b>80.17 to 91.03</b>	(25.05) to (14.20)	(23.8) to (13.5)

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Finally, this is the full-year forecasts.

There is no change from the full-year forecasts announced on June 4. As there are still many uncertainties, there is no change in the ranges of the full-year forecasts. However, by our latest estimate, we see the results may be close to the upper limits of the presented ranges.

## Shareholder Return and Investments

[Shareholder return policy under the 7th Medium-Term Business Plan]

Aim to increase dividends in each fiscal year and achieve a consolidated total shareholder return ratio of approximately 55%.

Dividends	Jan. 2018		Jan. 2019		Dec. 2019		Dec. 2020	
	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Interim (Scheduled)	Year-end (Estimate)
Dividend per share (Yen)	31	35	34	34	35	35	36	36
Dividend payout ratio	54.5%		57.2%		72.7%		79.1% - 89.8%	

### [Reference] Investments (Consolidated)

(Unit: Million JPY)	Jan. 2019		Dec. 2019		Dec. 2020	
	1st Half (Actual)	Full-year (Actual)	1H (Actual)	FY (Actual)*4	1H (Actual)	FY (Forecast)
Capex (*1)	2,795	5,376	2,009	3,869	1,690	3,600
Depreciation (*2)	1,383	2,804	1,966	3,372	1,968	3,800
R&D expenses(*3)	1,479	3,119	1,536	3,059	1,430	3,200

\*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

\*4: 11-months actual for Japan Domestic

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Finally, our shareholder return plan.

Even considering the current profit levels, there is no change from the dividend forecast at the beginning of the fiscal year.

That's all for my explanation. Thank you very much.

## Question & Answer

The following Q&A part is categorized and sorted by Business segment and Others

[Japan Business]

**Q: Could you tell us about the company's outlook in 2<sup>nd</sup> half?**

**A:** First of all, the average monthly net sales were approximately JPY2.77 billion. On the other hand, sales in April and July were around JPY1 billion more than other months, respectively, due to various factors like the Golden Week holidays and retailers' sales fairs. In the current year, if you compare the first-half results to January-June last year, sales in the whole Japan Business were 94.1% of the year-before result and those in the former Domestic Baby & Mother Care Business were 90.2% of the year-before level. (We changed our accounting period from the current fiscal year. For the Japan Business, the first half of the previous fiscal year was from February to July). In the first half of the year, sales of baby strollers were in decreased because there was a restraint on going out. While there was such fall, sales of our baby wipes and other products increased due to special demand. As a whole, sales were at roughly the same level as the year-before level on an existing customer basis. Inbound sales were 2.2 billion yen in the first half of last year and 0.6 billion yen in the current fiscal year.

For the second half of the current fiscal year, we do not expect a sharp decline in sales because those on an existing customer basis recovered to the normal pace in June. However, the fall in inbound demand-related sales will not be able to be covered. In the second half of the fiscal year, we expect sales will be close to the result in the first half. We should not be concerned over Inbound demand too much, and we are conducting sales activities in a more realistic way. In this respect, we view the current situation as a good opportunity for our sales activities.

**Q: Market shares of the nursing bottles increases even in the COVID-19. What do you expect to the market shares in the second half and later?**

**A:** Sales of the nursing bottles and nipples account for around 13% in the Japan Business. And even facing the COVID-19 pandemic, our market shares has actually risen to 87% recently, gaining 8 percentage points since 79% at the end of last year. We should maintain the share of 87%. Nursing bottles are one of mainstays and they led to various other products for babies, so we will maintain steady sales of nursing bottles and keep delivering them to our customers.

**[China Business]**

**Q: What were the drivers of the sharp recovery of China business in Q2?**

**A:** Looking only at the second quarter, bottles and nipples, and skincare goods mainly grew. In addition, hand wipes and cleansing goods also grew, but competitors' products grew more. We believe that there was some rebounding demand that had emerged during the lockdowns in the first quarter. So, the second quarter results were favorable. Actually, sales used to drop after the 618 ecommerce festivals in a conventional year. This year, however, July results were very good after the festival in June. I guess that there was some rebounding demand and that the market structure may have changed somewhat for the short term.

**Q: What is the reason why you increased the market share of Nursing bottles in China?**

**A:** Reliability was all. We did not have special promotions for Nursing Bottles and Nipples. A rise in the number of nursing bottle types may be a factor. As I may have said previously, we have launched bottles with handles and with various patterns. They may have contributed to the rise in the share.

**Q: What do you expect for the China Business in full year?**

**A:** We expect that the sales of China domestic will probably come within our initial plans. However, export business seems tough. As conclusion, we are not pretty sure because nobody knows what COVID-19 looks like end of this year.

**Q: What is and will be the reputation of Pigeon brand in China?**

**A:** We expect that the reputation will be higher, particularly that of Nursing Bottles. A cause of concern is whether we can expand our brand-name reputation of nursing bottles to other baby care category. Skincare is certainly faring well. We think we have to consider various measures in categories other than Skincare and Nursing Bottles. In Japan, one brand covers a variety of categories. But a feature of the Chinese market is that experts of products are divided and a strong brand is fixed for each product. So, the key is to strengthen the weak point.

The first question is about your prospect for the second half in China. China showed sharp recovery in the second quarter. What performed well were nursing bottles, skincare and disinfectants. Will there be changes in consumer demand as there was COVID-19? For example, have sanitary goods and others begun to be sold? Is the market expanding? Please explain the factors behind the recovery.

I think that demand tends to be concentrated on the second quarter every year because there are ecommerce events. Then, do you have to consider the possibility in advance that there will be reaction in the third quarter? Please comment on the point.

**Q: Is there such a trend that people who cannot visit Japan purchase your goods in mainland China?**

**A:** There are cross-border ecommerce sites, which are managed by us and by other business owners. Sales on these sites have sharply grown. Sales on the sites that are not operated by us

are not counted as our sales. Part of that demand for the cross-border EC sites probably comes from could-be inbound demand of Japan business.

**Q: In Ecommerce, is there any pressure on margins as there may be competitive costs depending on price conditions?**

**A:** There is little difference in margins between sales to wholesalers and those to Ecommerce. For the future, we expect that there will be more intense competition in Wet Wipes, Breast Pads and Paper-Related Goods. So, we are prepared for the competition and trying to manufacture other products that can offset the expected sales declines in those goods.

**[Lansinoh Business]**

**Q: US especially seems very strong. What are the growth drivers of Lansinoh Business? Any update of DME?**

**A:** Overall, the ratio of Ecommerce and Amazon was certainly rising. Amazon accounted for about 35% of Lansinoh sales in North America. And sales increased even at Walmart and other retailers. Certainly, the new Smartpump 2.0 had a good reputation and Organic Nipple Balm and Washable Nursing Pads are also doing good.

Sales of Durable Medical Equipment (DME) channel did not grow in the first half of the current fiscal year. The reason is that production of Smartpump 2.0 could not catch up with demand due to the utilization rate of the Turkey plant. We believe we will recover sufficiently in the second half of the year. Therefore, from the full-year perspective, Lansinoh's performance will not fluctuate greatly.

**Q: Sales of Lansinoh business were very good and are growing, however, the profit margin seems lower than other business. Do you think the profitability of Lansinoh business will improve once DME business gets bigger? I heard Lansinoh does not use distributors, so is its profitability unlikely to improve without changing the distribution structure drastically?**

**A:** We expect DME will grow and record good figures. We actually see that the profitability of Lansinoh business is relatively high because we don't use distributors. Overall, Lansinoh's gross profit is very high, but it is affected by a fairly high level of SG&A expenses. If we take proper steps there, we can make an improvement of a rise of around 1 percentage point of the profit margin during the current medium-term plan.

**[Other Questions]**

**Q: Is new product development going on the plan even in COVID-19 pandemic?**

**A:** I'm very excited our NPD plans. Actually, the period until the launch of a new product is slightly behind schedule. So, some products, which were scheduled to be launched now, have been postponed to next year. However, these 150 SKUs are actually being developed for launch, and they can be released within next year at the latest.

China has lots of NPD plans as always. In addition, the number of new products is sharply increasing in Singapore. And at Lansinoh, we are working on very interesting and new category.

[END]