

Summary of Telephone Conference  
for the Q 3 of the Fiscal Year Ending 31 December, 2020

[Points of Attention]

This Summary is a reference for those who would like to review the session of telephone conference 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.

Event Summary

[Date] November 5th, 2020 16:00 JST

[Number of Speakers] 2

Yasuo Kanatsuka Manager, Business Strategy Department

Sho Hiratsuka Assistant Manager, Business Strategy Department

## **Presentation**

Hello everyone. Thank you for joining Pigeon Corporation's Financial Results Briefing session for the Third Quarter of the Fiscal Year Ending December 2020. Attending today's conference call from the company is Yasuo Kanatsuka, Manager of the Business Strategy Department and I, Sho Hiratsuka, Assistant Manager of the Business Strategy Department.

Today's press releases of the consolidated business performance for the third quarter, and the forecast of consolidated business performance for the full year are also available and can be downloaded on the Investor Relations page of our website.

Now, we will start the explanation.

We will briefly explain about the earthquake in Turkey that occurred last Friday, which some of you were worried about.

We have a plant operated by our Lansinoh Business in Turkey. Fortunately, the earthquake in Turkey last week caused no major damage at the plant. There was no damage to people, and no damage to goods. At the time of the earthquake, the factory was in operation, but there were no injuries, and production was halted on that day, and all employees returned home. Thereafter, we conducted an inspection of the facilities on the weekend. After confirming safety, it has been operating as usual since Monday this week.

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

November 5, 2020

Name of Listed Company: Pigeon Corporation (Stock code: 7956)  
 Listing: First Section, Tokyo Stock Exchange  
 Website: www.pigeon.com  
 Representative: Norimasa Kitazawa (President and CEO)  
 Contact person: Nobuo Takubo (Managing Officer, Business Strategy Division Manager)/Tel: +81-3-3661-4204  
 Scheduled Filing Date of Quarterly Report: November 16, 2020  
 Scheduled Commencement Date of Dividend Payments: —  
 Preparation of Any Additional Explanatory Materials for Quarterly Financial Results: Yes  
 Holding of Any Briefing Session for Quarterly Financial Results: None

### 1. Consolidated Business Performance for the First Three Quarters of Fiscal Year Ending December 31, 2020 (January 1 to September 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	
3Q ended September 30, 2020	73,838	(4.8)%	12,661	(8.8)%	13,569	(3.3)%	9,365	(2.1)%
3Q ended October 31, 2019	77,528	(2.4)%	13,886	(17.6)%	14,025	(20.7)%	9,568	(21.8)%

(Note) Comprehensive income: 3Q ended September 30, 2020 ¥8,575 million (4.6%)  
 3Q ended October 31, 2019 ¥8,202 million (23.3% negative)

	Net Income per Share (¥)	Diluted Net Income per Share (¥)
3Q ended September 30, 2020	78.25	—
3Q ended October 31, 2019	79.91	—

#### (2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
3Q ended September 30, 2020	88,811	70,080	76.0
FY ended December 31, 2019	90,491	70,463	74.8

(Reference) Shareholders' Equity: 3Q ended September 30, 2020 ¥67,475 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

Well then, we will explain an overview of the consolidated financial results for the third quarter of the fiscal year ending December 2020. We will talk about sales and other figures on a YoY basis.

The first three quarters of the previous year for Japan domestic business area covered the nine months from February to October 2019 due to the change in our fiscal year-end made last year. This year, the three quarters in Japan were the nine months from January to September.

Net sales for the third quarter were down JPY3.68 billion YoY. Gross profit was down JPY2.38 billion YoY. Operating income was down JPY1.22 billion YoY. Ordinary income was down 450 million YoY. Net income attributable to owners of parent was down JPY200 million YoY.

2020年12月期 第3四半期 セグメント別実績  
Net Sales by Segment for FY Dec.2020 Q3 (Consolidated)

(単位：百万円) (¥ millions)

	19/12 第3四半期 (国内 2-10月) Q3 of Dec/2019 (Result for Last Year Q3 : Japan:Feb-Oct)						20/12 第3四半期 (国内 1-9月) Q3 of Dec/2020 (Japan:Jan-Sep)						
	売上高 Net Sales	増減比 % of total	総利益 Gross Profit	総利益率 GP margin (%)	セグメント利益 Segment Income	セグメント利益率 OP margin (%)	売上高 Net Sales	増減比 % of total	前増比：率 % of growth	総利益 Gross Profit	総利益率 GP margin (%)	セグメント利益 Segment Income	セグメント利益率 OP margin (%)
連結計上額	77,528	100.0%	39,647	51.1%	13,886	17.9%	73,838	100.0%	95.2%	37,258	50.5%	12,661	17.1%
日本事業 Japan Business	36,631	47.2%	14,755	40.3%	3,513	9.6%	33,991	46.0%	92.8%	13,424	39.5%	2,446	7.2%
中国事業 China Business	27,327	35.2%	14,920	54.6%	9,811	35.9%	27,257	36.9%	99.7%	14,868	54.5%	9,729	35.7%
シンガポール事業 Singapore Business	10,376	13.4%	3,894	37.5%	1,763	17.0%	9,617	13.0%	92.7%	3,794	39.4%	1,745	18.2%
ランシノ事業 ※ Lansinoh Business*	9,965	12.9%	5,927	59.5%	1,464	14.7%	9,498	12.9%	95.3%	5,326	56.1%	1,392	14.7%
セグメント間取引消去 Elimination of internal trading between segments	-6,772	-8.7%	-	-	-	-	-6,527	-8.8%	-	-	-	-	-
【以下参考試算値/Reference】													
旧 国内ベビー・ママ事業 Former Dom. Baby & Mother Care Business	25,462	-	12,435	48.8%	4,028	15.8%	23,053	-	90.5%	10,834	47.0%	2,638	11.4%
旧 子育て支援事業 Former Child Care Services Business	2,855	-	358	12.6%	41	1.4%	2,680	-	93.9%	367	13.7%	54	2.0%
旧 ヘルスケア・介護事業 Former Health & Elder Care Business	5,264	-	1,638	31.1%	283	5.4%	5,474	-	104.0%	1,846	33.7%	509	9.3%

- ・ 今期 (20/12期 第3四半期) の損益と前期 (20/12期 第3四半期) の損益において、収益認識の基準が異なります。今期の損益は新基準により、リベート・インセンティブ等、従来販管費で計上していた費用が売上高の控除項目になりました。
- ・ ランシノ上海の売上等は、ランシノ事業に含まれています。
- ・ The Lansinoh business has a different revenue recognition standard of the earnings in Q3/2020 Dec. and Q3/2019 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 sales for Lansinoh Shanghai is included in Lansinoh Business Segment.

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2020年12月期 第3四半期海外地域別売上高（概算）

Overseas Business Sales by Region (FY Dec. 2020 Q3)

(百万円) (¥millions)

地域 Regions	19/12 第3四半期(前年同期) Year of Dec. 2019 (Result for Last year Q3)	20/12 第3四半期 Year of Dec. 2020 (Result for Q3)	前期比 YoY Change
中国(含む香港) China (incl. Hong Kong)	25,511	25,746	100.9%
その他アジア Other Asian Countries	6,590	5,884	89.3%
アジア合計 Total of Asian Countries	32,101	31,630	98.5%
北米 North America	6,041	6,146	101.7%
欧州 Europe	2,314	2,066	89.3%
中近東 Near and Middle East	1,794	1,761	98.2%
その他地域 Other Regions	582	639	109.8%
レート (対USD) Currency Rate (US\$1)	109.12	107.55	
レート (対CNY) Currency Rate (1CNY)	15.89	15.37	

2020年12月期 第3四半期 その他アジア国別・地域別売上高（概算）

Sales for Other Asian Countries and Regions (FY Dec. 2020 Q3)

(百万円) (¥millions)

国 / 地域 Countries / Regions	19/12 第3四半期(前年同期) Year of Dec. 2019 (Result for Last year Q3)	20/12 第3四半期 Year of Dec. 2020 (Result for Q3)	前期比 YoY Change
台湾 Chinese Taipei	502	412	82.1%
韓国 Korea	1,234	1,193	96.7%
シンガポール Singapore	617	630	102.1%
マレーシア Malaysia	689	566	82.1%
インドネシア Indonesia	1,521	1,301	85.5%
タイ Thailand	842	620	73.6%
インド India	523	365	69.8%

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The main reason for the YoY decline in net sales was the continued slowdown in inbound consumption, and the decline in shopping demand on an outing in Japan due to COVID-19 since the beginning of the fiscal year. As a result, sales in the Domestic Baby & Mother Care Business in the Japan Business segment declined JPY2.4 billion YoY, which was a major factor behind the decline in net sales.

Overseas, net sales in the China Business segment remained strong with a YoY rise on a local currency basis. However, reported group sales were down around JPY1.23 billion mainly because Japan yen appreciated against Chinese Yuan and US dollar.

In addition, the Singapore Business incurred a YoY fall in net sales as it supervises the businesses in India and Malaysia, where business activity was affected by COVID-19.

In the Lansinoh Business, sales were down 4.7% YoY affected by deductions from sales under the new accounting standard. Sales would be up around 3% when compared under the same accounting standard of the previous fiscal year.

Next, we will explain gross profit.

The main reason for the YoY decrease in gross profit was the decline in net sales. Another reason was in the Japan Business, demand for sanitizing detergents and wet wipes continued to increase in the third quarter, while sales of nursing bottles and nipples, which are highly profitable products, declined.

In addition, the gross profit margin in the Lansinoh Business was down 0.6 percentage point YoY as deductions from sales under the new accounting standard being applied from this year worsened the profit margin. These factors translated into a fall in group profit worth JPY2.38 billion on a consolidated basis.

Pigeon Corporation (7956) Summary of Financial Results for the Third Quarter of Fiscal Year Ending December 2020

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

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

(Millions of yen)

	Nine months ended October 31, 2019	Nine months ended September 30, 2020
<b>I. Net Sales</b>	77,528	73,838
<b>II. Cost of Sales</b>	37,875	36,568
<b>Gross profit</b>	39,652	37,269
Reversal of provision for sales returns	30	41
Provision for sales returns	35	53
<b>Adjusted gross profit</b>	39,647	37,258
<b>III. Selling, General and Administrative Expenses</b>	25,761	24,596
<b>Operating Income</b>	13,886	12,661
<b>IV. Non-operating Income:</b>		
Interest income	143	114
Subsidy income	760	720
Other non-operating income	160	405
<b>Total Non-operating Income</b>	1,064	1,241
<b>V. Non-operating Expenses:</b>		
Interest expenses	9	2
Sales discounts	347	179
Foreign exchange losses	500	66
Other non-operating expenses	68	84
<b>Total Non-operating Expenses</b>	925	332
<b>Ordinary Income</b>	14,025	13,569
<b>VI. Extraordinary Income:</b>		
Gain on sales of fixed assets	4	3
Gain on sales of investment securities	113	33
<b>Total Extraordinary Income</b>	118	36
<b>VII. Extraordinary Loss:</b>		
Loss on sales of fixed assets	8	21
Loss on disposal of fixed assets	90	57
Loss on sales of shares of subsidiaries and associates	—	170
Impairment loss	—	7
Loss on sales of golf club memberships	1	—
<b>Total Extraordinary Loss</b>	100	257
<b>Income before Income Taxes</b>	14,044	13,349
Income taxes - current	4,360	3,955
Income taxes - deferred	(76)	(157)
<b>Total Corporate Income Tax</b>	4,284	3,798
<b>Net Income</b>	9,759	9,551
<b>Net Income Attributable to Non-controlling Interests</b>	191	186
<b>Net Income Attributable to Owners of Parent</b>	9,568	9,365

The main reason for the YoY decrease in operating income was SG&A expenses. SG&A expenses decreased JPY1.16 billion YoY, but this decrease failed to absorb the decline in gross profit. As a result, the Company, as a whole, incurred the YoY, a decline of JPY1.22 billion in operating income.

In addition, there are three reasons why SG&A expenses have not declined as much as expected in the cumulative three quarters. The first factor was an increase in the ratio of distribution costs due to a rise in the proportion of E-commerce in China, and an increase in direct transactions. The second factor is that special demand for consumables in Japan caused sales promotion expenses to be roughly unchanged YoY. The third factor was a rise in distribution costs due to the worldwide impact of COVID-19. As a result, SG&A expenses did not decrease to the expected extent.





November 5, 2020  
Company name: Pigeon Corporation  
Representative: Norimasa Kitazawa  
(President and CEO)  
(7956, TSE 1st Section)

Contact: Nobuo Takubo  
(Business Strategy Division Manager)  
Phone: +81-3-3661-4204

**Announcement: Revision of Consolidated Earnings Forecast**  
**for the Fiscal Year Ending December 31, 2020**

We, Pigeon Corporation hereby announces that our consolidated earnings forecast for the fiscal year ending December 31, 2020 that was announced on June 4, 2020 will be revised as below.

**1. Revision of Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2020**  
**(January 1, 2020 - December 31, 2020)**

(Millions of yen unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income
Previous Forecast (A)	98,500~102,400	13,400~15,500	13,900~16,000
Revised Forecast (B)	99,000	14,000	15,100
Change (B - A)	500 to (3,400)	600 to (1,500)	1,200 to (900)
Change ( % )	0.5 to (3.3)	4.5 to (9.7)	8.6 to (5.6)
(Ref.) Dec./2019 results*	100,017	17,072	17,284

	Net Income Attributable to Owners of Parent	EPS (Yen)
Previous Forecast (A)	9,600~10,900	80.17~91.03
Revised Forecast (B)	9,800	81.88
Variance (B - A)	200 to (1,100)	1.71 to (9.15)
Variance ( % )	2.1 to (10.1)	2.1 to (10.1)
(Ref.) Dec./2019 results*	11,538	96.37

\*In the Fiscal year 2019, the consolidation period shall be the 11-month period from February 1 to December 31, 2019.

(Continued on page 2)

In light of these circumstances, today, the Company announced revisions to its full-year earnings forecast.

In the first three quarters of the current fiscal year, the China Business and the Lansinoh Business somewhat contributed to growth, mainly by expansion of E-commerce, but inbound demand in the Japan Business continued to decline. In the Singapore Business, the impact of COVID-19 continues to be seen in each country under supervision. The outlook remains unclear due to the spread and resurgence of infections in Europe, the US, and Southeast Asian countries, as well as continuing restrictions on travels due to lockdowns and other factors.

Based on the trend of this spread of COVID-19, today we disclosed the revised forecast. Net sales of JPY99 billion, operating income of JPY14 billion, ordinary income of JPY15.1 billion, and net income of JPY9.8 billion for the full fiscal year.

Compared to the previous fiscal year's results, in which the figures in the Japan Business were converted into a 12-month basis, net sales are 95.6% of the year-earlier result, operating income is 81.3%, ordinary income is 87.0%, and net income is 84.5%.

That's all for the quick review.

## Question & Answer

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\*The Questions are ordered by segment here.

### [Overall]

Q: Could you tell me what you think about the results against your assumptions? Also, if there were any good or bad segments, please let me know about them as well.

A: Sales in China were recovering amid COVID-19, but those in the Japan and Singapore segments continued to face harsh conditions. So, we feel that the third quarter results were moderate. There was no part that particularly swung upward. Among profits, gross profit was in line with expectations. In the Japan Business, the GPM (Gross Profit Margin) deteriorated due to a change in the product mix, such as declines in nursing bottles and skincare products due to a decline in inbound tourists. The same is happening in the Singapore Business segment. Operating income was slightly better than expected because some SG&A expenses have been carried forward to the fourth quarter.

Among the reportable segments, Japan and Singapore were in tough conditions as they remained affected by COVID-19. As for Japan, the business conditions were weaker from last year as inbound demand from foreign visitors to Japan has not yet returned. Sales remained sluggish. The domestic market shares of nursing bottles and other products continued to be high, but demand for going-out-products slightly decreased amid the self-restraint on going out.

On the other hand, sales in China, particularly in mainland China, have been growing steadily as the economy continued to recover since the second quarter. Sales were slightly down in terms of JPY due to the foreign exchange rate, but sales on a local currency-basis maintained growth rates at upper levels in the single-digit range. However, in China, the export business was weakening due in part to the markets where the impact of COVID-19 remained.

In the Lansinoh Business, as in the second quarter, growth in North America was very firm in particular. In North America alone, sales on a local currency basis grew by around 13% YoY. This growth is calculated based on the accounting standard of previous fiscal year. In the third quarter, shipments to Amazon continued to drive the overall sales, and the business is progressing relatively well.

### [Revision of Consolidated Earnings Forecast]

Q: What is the difference in assumptions between this revised plan and the previous one in the second quarter?

A: We would like you to understand that the Company disclosed the figures that it had once solidified in the revised forecast. In the Japan Business, the effect of COVID-19 has been remained more than our initial expectation. Then we expect the business will remain in the severe situation in the second half.

The China Business is enjoying good performance in mainland China, but exports to neighboring countries remain challenging. As recovery in the export business is likely to lag behind our expectations. We firmly factored this uncertainty into our revised forecast. The same applies to the Lansinoh and Singapore Businesses. Lansinoh has recently been performing well in E-commerce and Amazon, but COVID-19 in North America is yet to be constrained. In addition, while sales to Amazon remained favorable in the third quarter, it is difficult to see the COVID-19 situation in the future. Therefore, we did not disclose expanded figures, but reliable ones from our point of view.

In terms of profits, SG&A expenses around hundreds of millions of JPY moved from the third quarter to the fourth quarter. Sales promotional expenses related to the Double 11 Shopping Festival on November 11 in China are requested in the fourth quarter of each year.

We have heard that the start of China's Double 11 was not bad, but other companies are also trying to reap as much profits as possible from the Double 11, so there is some information that competition is getting more intense than usual. We also plan to increase SG&A expenses to increase promotional expenses from a usual year to obtain more sales at the Double 11 Festival.

In addition, in the Lansinoh Business, we factored hundreds of millions of JPY, which had not been reported as SG&A expenses in the past years. This amount is purely technical and not related to the actual business because it is an adjustment amount in consolidation treatment of a subsidiary.

Q: Why is the expected profit in the 4Q single period so small? What about SG&A accrual?

A: First, I would like you to understand the premise that the cost also reads conservatively. The largest difference in SG&A expenses in 4Q YoY is in the China business. In addition, the profit margin is not expected to fall significantly for the China business for the full year.

In fact, there has been an increasing trend that in the third quarter, shipments for the Double 11 took place earlier. This means that only sales were reported, and SG&A expenses were not reported. So, the OPM became better. In the fourth quarter, promotional expenses for distributors and those for the Company's flagship store will appear. In addition, we will also have promotions for the Ssence product that we announced in June, so we set aside more promotional costs this year than a usual year.

Though demand for consumables has been increasing, nursing bottles and nipples remain in the tough situation. We are struggle with the sharp decrease in inbound demand. As consumables are selling well, we cannot narrow down promotional expenses for distributors leading to a gradual increase in those expenses.

Talking about the adjustment in the Lansinoh Business again, a Turkish subsidiary belonging to the segment changed its base currency for transactions from Turkish Lira to US dollar this year. There will be an adjustment amount worth several hundreds of millions of yen. In fact, this is not a real amount, but only a conversion problem, so there is no cash-out, and there are no pains in inventories and the profit and loss statement. So, it is a technical recording. However, this will be a matter of consolidation. So, the fourth quarter appears to be relatively weak.

Q: Do you have more details of the revised forecast, such as sales or income by segment?

A: We don't offer any specific profit or loss figures by segment. However, in terms of sales, we have an estimate that sales in the Japan Business will be around 90% to 95% of the previous year's result on the assumption that the previous fiscal year had had 12 months, or even compared with the initial forecast.

In the China Business, we expect that the performance will reach the same level as the previous fiscal year or exceed the year-before results. However, due to the trend of JPY appreciation, the performance will be dull in comparison with the forecast. However, as of the end of the third quarter, sales in mainland China showed a growth rate at upper levels in the single-digit range on a local currency basis, so we expect that our initial forecast for mainland China will be achieved.

In the Singapore Business, that sales, as a whole, are expected to be around 90% of the previous fiscal year's level, and around the middle in the 80% range of the initial forecast. The situation is very tough, as there are COVID-19 lockdowns in India, Indonesia, Malaysia, and other countries.

In the Lansinoh Business, the accounting standard for the current year is different from that for the previous year. Based on the current calculation method for disclosures, sales will be around 95% of the previous year's result, and around 90% of the plan. Looking at the performance under the accounting standard for the previous year on a local currency basis, the Lansinoh performance is generally in line with the initial plan, so we expect it will end around the planned level.

[Japan Business]

Q: Looking at 3Q alone, sales in the business seem to have increased. Is it related to the impact of last year's rush demand?

A: Sales of Japan baby and mama business area have decreased due to sluggish inbound demand. However, in this year's 3Q alone, skincare products, baby food and beverages, and wet tissues have been leading the overall sales, resulting in the slight increase. Our third quarter in the previous year was August to October due to the adjustment of the settlement period, so sales increased in September due to the sharp demand prior to the tax hike, but they decreased in October as the demand retreated.

Q: What is the growth rate in sales from inbound tourists and Japanese, respectively?

A: It is difficult to divide sales into those from inbound tourists and those from Japanese. However, cumulative sales until 3Q through the so-called existing sales channels such as chained baby shops and drugstores were 100.4%, almost unchanged YoY. Although we have changed the method of accounting for inbound demand from this year, we estimate that the cumulative amount of sales from inbound tourists to the third quarter for this fiscal year was approximately JPY900 million. As the figure for the previous year was around JPY2.9 billion, inbound-related sales were down about JPY2 billion.

Q: What is the market share of strollers in Japan and what is the outlook for the future?

A: The latest share of baby strollers has been struggling at around 11%. In October, we launched a new stroller product, and shipment is smoothly underway. As we think we have to grow strollers, we consider distributing promotional costs.

Q: What about the status of baby carriers and strollers?

A: In the current fiscal year, both strollers and baby carriers have been affected by the restraint on going out. Currently, our outing category is in a very difficult situation as we see the stroller category as the core for future growth in the Japan Business. We are aiming for its recovery in next year onwards.

[China Business]

Q: What about mainland China, where sales appear to be strong again in the third quarter?

A: We believe that there may have been partial reaction to the event on June 18, but as a whole, our sales have been steady at present. However, as we mentioned earlier, shipments for the Double 11 Festival have been earlier and earlier. We believe that demand in the third quarter was not that for the quarter alone, but partly for the fourth quarter.

Q: Why is the gross margin of the China business lower than the previous year?

A: First of all, regarding cumulative sales, our plants were suspended in February due to the impact of COVID-19. The rate of costs at the plants has been pressured by expenses needed for the resumption of the operations. Affected by this and other factors, though the product mix and sales composition have recovered the previous conditions in 3Q, costs at the plants are hard to perceive compared with last year since cost-boosting factors were included on a cumulative basis. In 3Q alone, nursing bottles were manufactured at our plants for shipment for the Double 11 and others. When they were transferred to selling companies, they became part of our inventories. As they were not sold externally, the so-called return of unrealized profits took place, somewhat lowering the GPM. When the shipments for the Double 11 will clearly be translated into sales in 4Q, as we planned, the GPM will recover.

Q: What kind of growth did each of E-commerce and offline sales show in 3Q?

A: On a sell-out basis, the cumulative percentage of the third quarter online sales was 61%, and offline sales accounted for 39%. Online sales grew 24%, and offline sales dipped 12%.

Q: What is the status of Ssence (essence)?

A: We began selling essence from at the end of June, and are now conducting sampling and other measures to spread the quality of the product by word of mouth. We do not hear that its sales have reached a level that significantly affected the sales growth of skincare products.

Q: How is your image of the fourth quarter's profit margin in the China Business segment? Will it be over 30%?

A: We don't disclose any concrete figures, but we think that it is difficult for the operating profit margin to exceed 30%. However, we do not expect a significant drop in profit margins for the year.

Q: Double Eleven seems to be becoming more and more competitive. What is the situation?

A: We have not heard that new players are emerging. However, we have heard that some competitors are focusing on promotions in an attempt to recover their sales or are competing with discounts and other measures. We do not offer excessive discounts or promotions that are very painful in terms of profitability. However, the Double 11 is not only a bargain-sale event, but also a major opportunity to promote branding and our own new products, et cetera. Therefore, from a long-term perspective, we have to be clearly conspicuous, so we have prepared SG&A expenses.

Q: What about the trend of births in China in 2020?

A: We do not expect an increase in the number of births in China in 2020 although there is no official announcement by the authorities.

[Other topics]

Q: In the perspective of less babies next year, what is the impact on the performance?

A: Depending on recovery in China to some extent, we think there is a possibility that the number of births will fall by less than we expect. We expect that the number of births will probably fall next year since the pregnancy rate has fallen this year. We expect similar trends in other areas in the world.

Regarding the impact on our business performance, as all babies can be our target customers in Japan, there will be a direct impact, particularly with respect to sales of nursing bottles and other products. Therefore, we think we will aim for a growth scenario of maintaining or slightly increasing sales by tapping into demand in new categories such as baby strollers.

In China and other markets, the market share of our nursing bottles is still not as high as Japan. In this sense, we believe that there is still enough room for growth in the target groups, even if the number of births somewhat falls.

Q: How do you see the number of newborn babies in India, Indonesia, Malaysia, and Singapore etc.?

A: Basically, government statistics are not yet available. However, our understanding is that there is no particular factor that the number of births is rising this year, so we basically see a downtrend. To add a bit more, we anticipate that the number of births will also decrease next year as this year's pregnancy rate will probably fall as many people are reluctant to go to hospitals.

END.