

Financial Results of Q2 / December 2021 (65th Fiscal Year)

Pigeon Corporation

(Securities Code : 7956)

Norimasa Kitazawa

President and CEO

August 5, 2021

Celebrate babies the way they are



Q2 / December 2021 Update

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Agenda

Highlights for Q2 / Dec. 2021

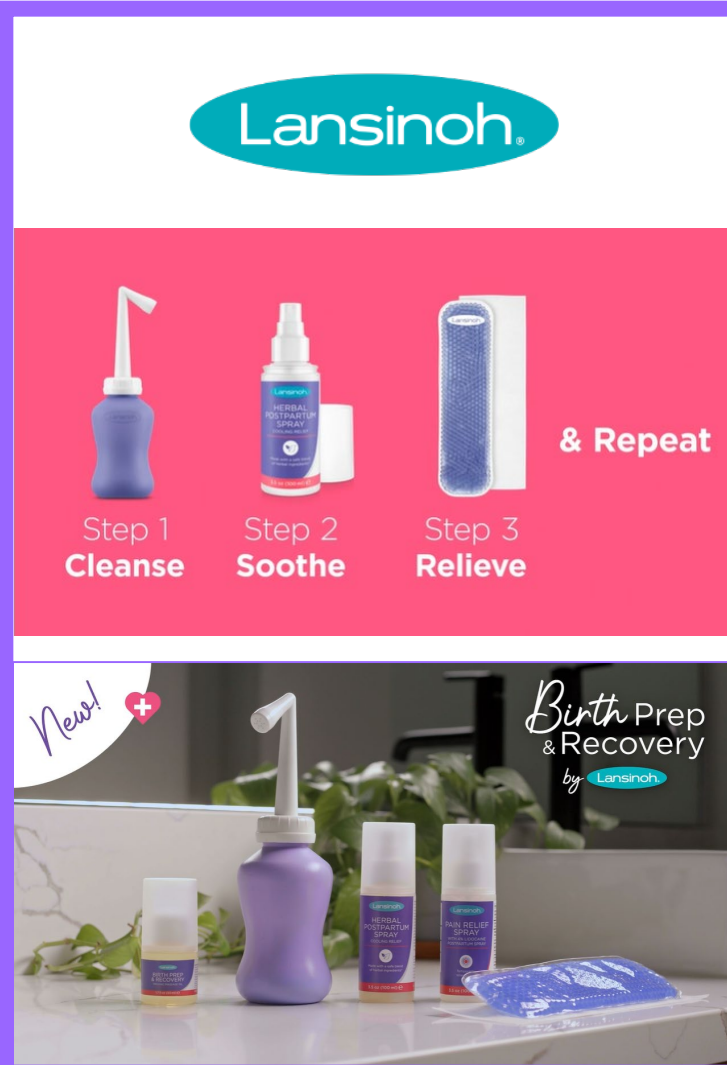
618 Shopping Festival (China)

- Achieved sales comparable to the previous year, which were boosted by the flood of post-Covid-19 purchases (revenge consumption) (**138% compared to 2019**).
- **Nursing bottles and skincare products ranked as No. 1** by category in JD.com.
- Ranked in the top 10 for overall baby & mother products at both T-mall and JD.com. (See the figure on the right.)



Launched a New Category (Lansinoh)

- Launched pre- and post-partum care products in June.
- Focuses on sensitive care products such as postpartum wash bottles, pain relievers, and hot & cold postpartum therapy packs.
- Started selling in the U.S., Germany and China. **Creating markets by expanding the number of products and the marketing areas.**



Results for Q2 / Dec. 2021

Results – Consolidated PL (under New Standard)

(Results of FY12/2020 under the new revenue recognition standard was estimated by Pigeon for your reference)

(Unit: Million JPY)	Q2 / Dec. 2020		Q2 / Dec. 2021		
	Actual	% of Total	Actual	% of Total	YoY Change
Net Sales	45,902	100.0%	47,277	100.0%	103.0%
Cost of Sales	24,021	52.3%	24,719	52.3%	102.9%
Gross Profit	21,881	47.7%	22,558	47.7%	103.1%
SG&A Expenses	13,971	30.4%	14,969	31.7%	107.1%
Operating Income	7,909	17.2%	7,589	16.1%	95.9%
Ordinary Income	8,532	18.6%	8,536	18.1%	100.0%
Net Income Attributable to Owners of Parent	5,855	12.8%	5,085	10.8%	86.8%

[Currency Rates]

Dec. 2021 Results: US\$1 = JPY 107.76 / CNY 1 = JPY 16.65

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

Results – by Business Segment (under New Standard)

(Results of FY12/2020 under the new revenue recognition standard was estimated by Pigeon for your reference)

(Unit: Million JPY)	Q2 / Dec. 2020				Q2 / Dec. 2021				
	Actual	% of Ttl	Gross Margin	Segment Profit	Actual	% of Ttl	YoY Change	Gross Margin	Segment Profit
Consolidated Net Sales	45,902	100.0%	47.7%	7,909	47,277	100.0%	103.0%	47.7%	7,589
Japan Business	20,698	45.1%	33.9%	1,458	19,888	42.1%	96.1%	34.4%	1,172
China Business	16,814	36.6%	52.8%	6,118	19,440	41.1%	115.6%	52.0%	6,766
Singapore Business	6,443	14.0%	39.8%	1,257	6,024	12.7%	93.5%	36.9%	807
Lansinoh Business	6,312	13.8%	56.6%	907	6,231	13.2%	98.7%	55.1%	522
Elimination of inter-segment transactions	(4,364)	(9.5%)	—		(4,306)	(9.1%)	—	—	

Summary of Results by Business Segment (Q2 YTD)

* Sell-In (Local Currency)

Japan Business

Net sales declined mainly due to the spread of COVID-19 and easing special demand driven by the pandemic

- Sales in Domestic Baby and Mother Care Business declined year on year as special demand for consumables driven by the pandemic eased and demand from inbound travelers vanished.
- Health and Elder Care Business experienced year-on-year sales decline because of the streamlining some unprofitable products.
- Sales of the skincare products, baby dental care products and baby foods increased from the same quarter in the previous fiscal year.
- Among new products, the newly-designed nursing bottles and electric toothbrushes are sold well.
- Gross margin improved by +0.5 points due to a decrease in the composition of consumables.
- Sales promotion expenses rose in response to the aggressive sales promotion of new baby stroller including NautR.

China Business

Net sales in mainland China* increased year on year driven by nursing bottles and skincare products

- Net sales in mainland China* increased significantly by 10% year on year driven by sales increases of nursing bottles and skincare products by 5% and 39% from the same quarter in the previous fiscal year, respectively.
- E-commerce sales accounts for 65% of total sales, up 1.0 points from the same quarter in the previous fiscal year.
- Pigeon's nursing bottles keep the largest market share.
- New products such as limited design edition of nursing bottle, avocado skincare products, and hot-spring skincare products show robust sales.
- Gross margin decreased 0.8 points due to a change in product mix.
- Expenses rose owing to increases in R&D costs to strengthen R&D and *monozurkuri* (manufacturing), as well as in logistics costs in line with the sales growth through major EC platforms.

Summary of Results by Business Segment (Q2 YTD)

* Sell-In (Local Currency)

Singapore Business

Net sales plunged amid the resurgence of COVID-19 cases in Southeast Asia

- The resurgence of COVID-19 cases and the periodic lockdown in each country restricted business activity significantly.
- Delayed shipment due to the effect of the spread of COVID-19 and shortage of container muddled the businesses in the Middle East and Indonesia. Meanwhile, net sales in India grew 37% year on year partly due to strong EC sales, while Malaysia also showed an increase in net sales by 34% owing to the higher number of stores for distribution and resilient EC business.
- Newly launched products include Disney design nursing bottles and new lineup of skincare products.
- Loss of demand from inbound travelers to Japan dampened the utilization of the factory in Thailand, leading to a decrease in gross margin by 2.9 points.
- Aggressive marketing promotion despite the pandemic put upward pressure on the advertisement and sales promotion expenses.

Lansinoh Business

Disruption in global logistics reduced net sales, affecting profit significantly

- Net sales in North America* declined 2% year on year partly due to delayed shipment for the reason of the buyer.
- Europe, especially Germany increased net sales by 18% year on year, driven by strong sales in both existing and new products through EC and offline sales channels. Businesses in the Benelux countries grew 33% year on year thanks to a strong sales via pharmacies and EC.
- Pre- and postpartum care products were launched in June.
- Escalating logistics costs offsetting an improvement of sales mix, gross margin shrunk by 1.6 points.
- SG&A expenses rose owing to an increase in sales promotion expenses and expenses for strengthening R&D and *monozurkuri* (manufacturing).

New Products in China

Launched Several Unique Series in Chinese Market, Getting Off to a Flying Start

Avocado skincare

Limited edition offered through the offline channel



Yuzu (a kind of citrus fruit) skincare

(starting from June 2021)

Upgraded basic lineup to more attractive products

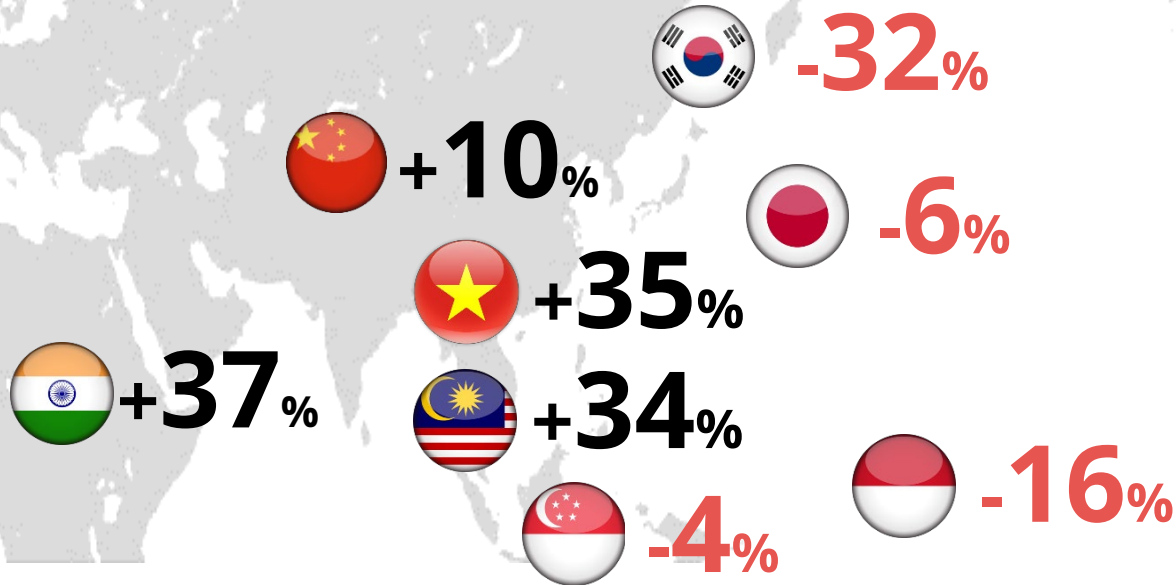
Hot-spring (Onsen) skincare

(starting from June 2021)

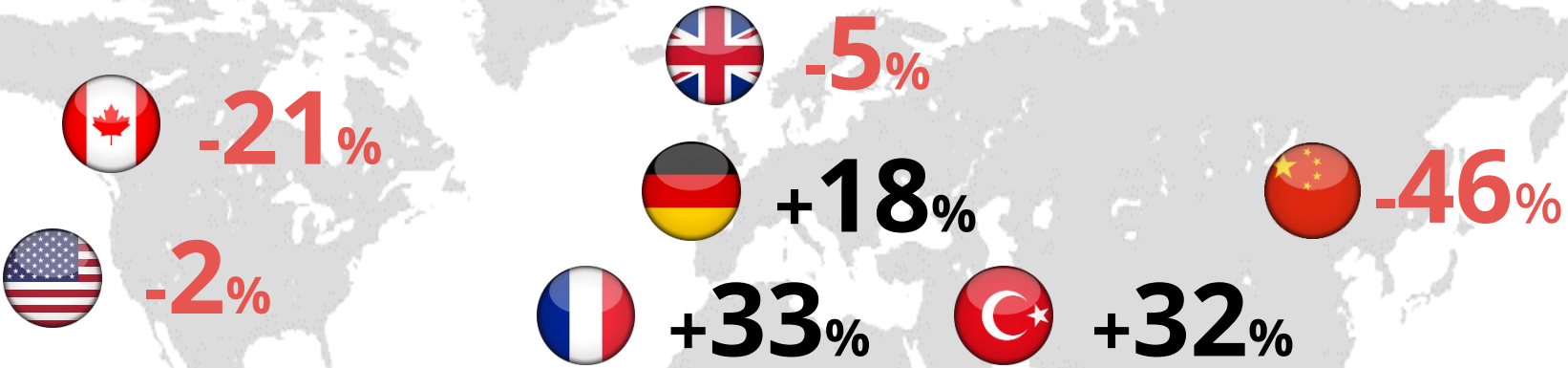
First launched made-in-Japan skincare product in Chinese markets (manufactured in Fuji factory)



Pigeon Sales by Regions* (Q2 YTD / YoY) (under Previous Standard)



Lansinoh Sales by Regions* (Q2 YTD / YoY) (under Previous Standard)



Consolidated Balance Sheet (Highlight) (under New Standard)

(Unit: Million JPY)	End of Dec. 2020	Q2 / Dec. 2021		
	Actual	Actual	YoY Change	YoY Change (%)
Cash and deposits	37,163	35,348	(1,815)	95.1%
Notes and accounts receivable - trade	15,085	16,713	1,627	110.8%
Inventories	11,376	13,306	1,930	117.0%
Notes and accounts payable - trade	4,757	5,383	625	113.2%
Electronically recorded obligations - operating	1,670	1,749	78	104.7%
Borrowings	—	—	—	—
Net assets	72,625	75,769	3,143	104.3%
Total assets	93,472	97,152	3,680	103.9%
Equity ratio	74.8%	75.1%	—	+0.3Pt



Toward Achieving Medium- to Long-term Business Growth

Position Nursing Bottles and Skincare as “Top Priority Categories”

Nursing Bottles

Evolve the research on infant feeding and create innovations in technological fields to further increase competitive advantage, thereby making Nursing Bottles grow into a much stronger category.



- Nursing bottles are the origin of Pigeon and the core of its brands.
- Nursing bottles have made the largest contributions to net sales and gross profit.
- Pigeon has accumulated knowledge and increased its competitive advantage through research over 60 years.
- Pigeon holds the largest market shares in Japan and China.
- Pigeon is making its own unique contribution to society by placing support for breastfeeding at the core.

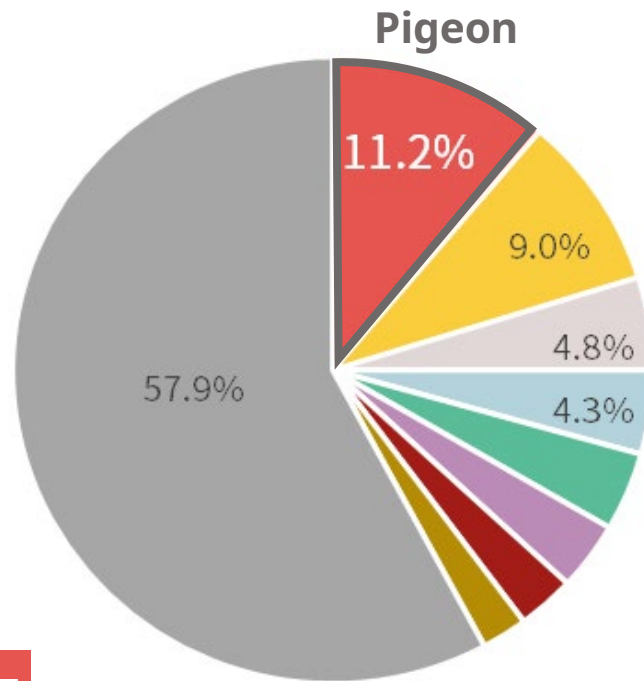
Position Nursing Bottles and Skincare as “Top Priority Categories”

Pigeon’s current market share*

11.2%

(No. 1 global market share)

Aim for a market share of 15% by 2025



Position Nursing Bottles and Skincare as “Top Priority Categories”

Baby Skincare

With even greater market potential than nursing bottles, seek to grow with products that can differentiate Pigeon from competitors by leveraging knowledge cultivated through research on baby’s skin.

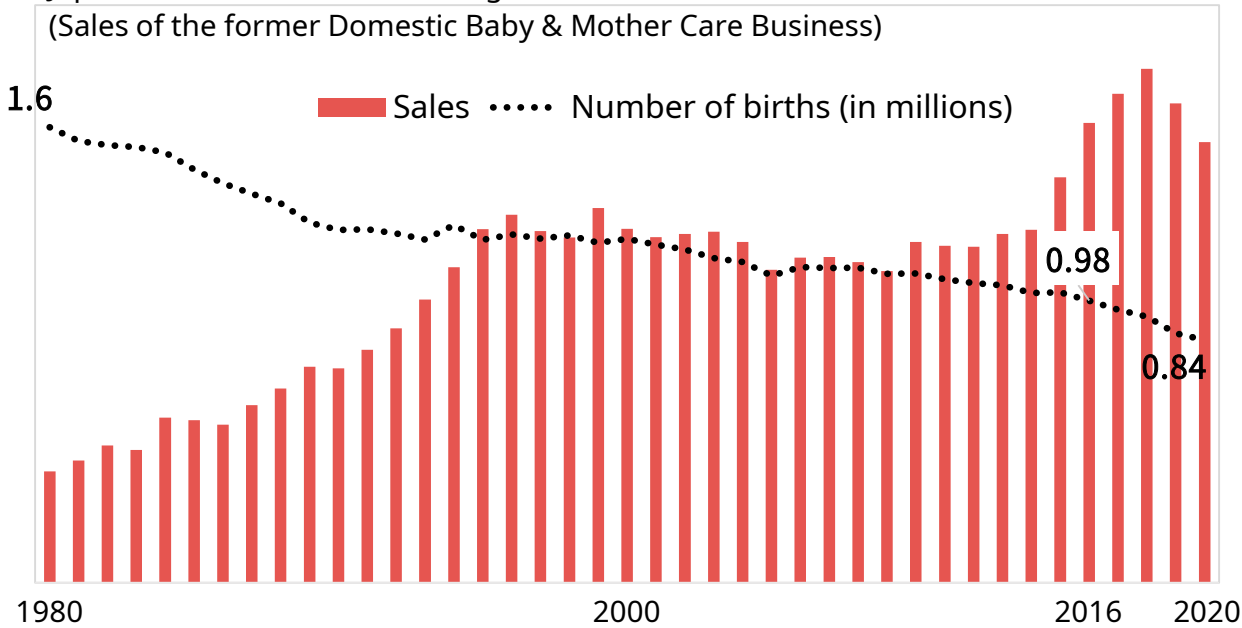


- The global baby skincare market is on a growing trend. The Chinese market, the largest market in the world, is said to continue to grow by double digits.*
- Baby Skincare has made the second largest contributions to net sales and gross profit, following nursing bottles.
- Pigeon can exert its competitive advantage in the research on baby’s skin.
- The global market share of baby skincare products is lower than that of nursing bottles, which means there is a greater growth opportunity.
- Specific targets are under development toward the formulation of the next Medium Term Business Plan.

[Reference] Japan's Number of Births and Pigeon's Growth

Japan's number of births*, peaking at 2.09 million per year in 1973, has been on a declining trend, and fell below 1.00 million per year for the first time in 2016. Temporary decline in the number of births amid the COVID-19 pandemic is expected to be further accelerated. Against the backdrop, Pigeon maintains its sales while improving profitability by reinforcing in-store promotion, proposing the new usage, entering new categories such as baby strollers, and enhancing product competitiveness through adding value to existing products.

Japan's Number of Births and Pigeon's Sales
(Sales of the former Domestic Baby & Mother Care Business)



Recently released new products in the Japanese market

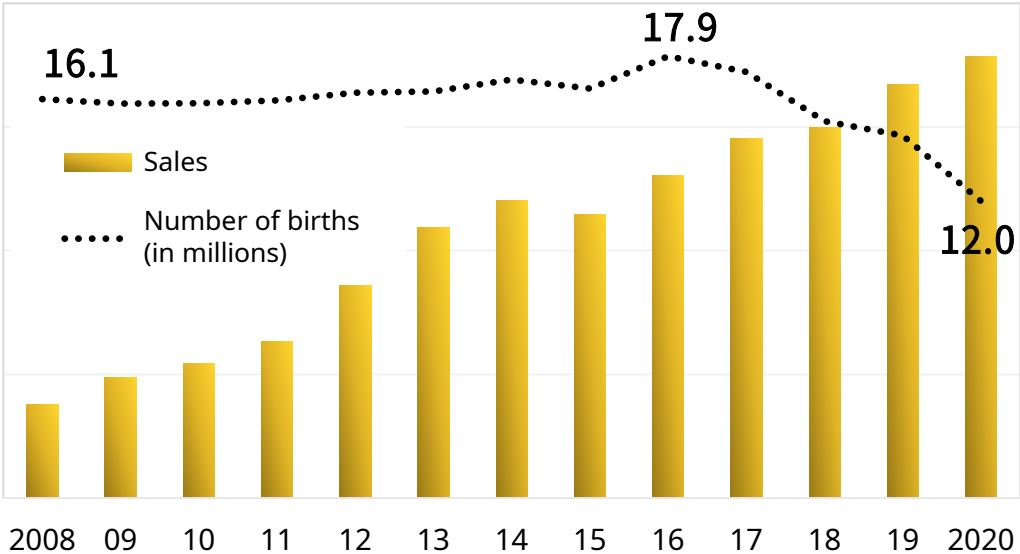


*Source: Based on research by Pigeon

[Reference] China's Number of Births and Pigeon's Growth

After hitting its peak at 17.90 million in 2016, China's number of births* these days has been on a downward trend. Despite the headwind, Pigeon's sales show a stable increase through the launch of many new products every year, expansion of sales channels, and strengthening of digital marketing. Therefore, we do not equate a decline in the number of babies born with a contraction of growth opportunities in the medium to long term.

China's Number of Births and Pigeon's Sales (Sales in Mainland China)



2020 vs. 2016
Number of births: declined by 33%
Pigeon's sales: grew by 37%

*Source: Based on research by Pigeon

Forecast for the Fiscal Year Ending Dec. 31, 2021

Initiatives During 2H of Fiscal Year Ending Dec. 31, 2021 (New Products)

Placing the highest priority on strengthening *monozukuri* (manufacturing), Pigeon plans to launch more than 200 SKU new products* in the second half this year. The Group will continue to make investments to strengthen *monozukuri* in the period of the next Medium Term Business Plan.

- China: Launching a new model of nursing bottles in China ahead of other markets in the world
- Japan: Launched Pigeon's first baby bouncers "Wuggy," designed by Naoto Fukasawa, a prominent product designer
- China: Launched stainless thermal cup for babies in collaboration with Zojirushi Corporation
- Singapore: Launching several new skincare series



Forecast for the Fiscal Year Ending Dec. 31, 2021 (Consolidated PL) (under New Standard)

The actual results for the 1H were largely in line with internal expectations; therefore, no changes have been made to the full-year forecast.

(Unit: Million JPY)	FY Dec. 2020		FY Dec. 2021		
	Actual	% of total	Budget	% of total	YoY Change
Net Sales	94,021	100.0%	100,800	100.0%	107.2%
Cost of Sales	49,459	52.6%	51,300	50.9%	103.7%
Gross Profit	44,562	47.4%	49,500	49.1%	111.1%
SG&A Expenses	29,482	31.4%	33,000	32.7%	111.9%
Operating Income	15,080	16.0%	16,500	16.4%	109.4%
Non-operating Income (Expenses)	1,035	1.1%	200	0.2%	19.3%
Ordinary Income	16,113	17.1%	16,700	16.6%	103.6%
Extraordinary Income (Losses)	(277)	(0.3%)	—	—	—
Net Income Attributable to Non-controlling Interests	216	0.2%	200	0.2%	92.6%
Net Income Attributable to Owners of Parent	10,643	11.3%	11,100	11.0%	104.3%

(Results of FY12/2020 under the new revenue recognition standard was estimated by Pigeon for your reference.)

[Currency Rates]

Dec. 2021 Budget: US\$1 = JPY 104.00 / CNY 1 = JPY 16.00

Dec. 2020 Results: US\$1 = JPY 106.77 / CNY 1 = JPY 15.47

Shareholder Return and Investment Related Indicators

[Shareholder return indicators under 7th Medium-Term Business Plan (2020 - 2022)]

Achieving the consolidated total shareholder return ratio of approx. 55% with a year-on-year increase in dividends for each fiscal year.

Dividends	Dec. 2019		Dec. 2020		Dec. 2021	
	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Interim (Scheduled)	Year-end (Expected)
Dividend per Share (JPY)	35	35	36	36	37	37
Dividend Payout Ratio	72.7%		81.0%		79.8%	

(Unit: Million JPY)

<Ref.> Investment-related Indicators (Consolidated)	Dec. 2019		Dec. 2020		Dec. 2021	
	Mid-year (Actual)	Full-year (Actual) *4	Mid-year (Actual)	Full-year (Actual)	Mid-year (Actual)	Full-year (Forecast)
Capex (*1)	2,009	3,869	1,690	4,184	2,013	4,424
Depreciation (*2)	1,966	3,372	1,968	3,971	1,986	3,990
R&D Expenses (*3)	1,536	3,059	1,430	3,115	1,709	3,875

*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 : FY Dec. 2019; 11 months actual for Japan Domestic

Disclaimer on Forward-Looking Statements

This material includes certain forward-looking statements about the Pigeon Group. To the extent that statements in this material do not related to historical or current facts, they constitute forward-looking statements.

These forward-looking statements are based on the current assumptions and judgments of the Pigeon Group in light of the information currently available to it, and involve know and unknown risks, uncertainties and other factors, which may affect the statements made in this material.

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Celebrate babies the way they are



Appendix



Financial Highlights (Consolidated) (under New Standard)

(Unit: Million JPY)	Q2 / Dec. 2020		Q2 / Dec. 2021		
	Actual	% of total	Actual	% of total	YoY
Net Sales	45,902	100.0%	47,277	100.0%	103.0%
Operating Income	7,909	17.2%	7,589	16.1%	95.9%
Ordinary Income	8,532	18.6%	8,536	18.1%	100.0%
Net Income Attributable to Owners of Parent	5,855	12.8%	5,085	10.8%	86.8%
Net assets	71,033	—	75,769	—	106.7%
Total assets	90,315	—	97,152	—	107.6%
EPS (yen)	48.91	—	42.51	—	86.9%
BPS (yen)	593.75	—	633.33	—	106.7%
ROE*	17.2%	—	14.2%	—	—
ROIC**	15.7%	—	14.3%	—	—

(Results of FY12/2020 under new revenue recognition standard was estimated by Pigeon for your reference.)

*ROE: Return on Equity (shareholders' equity + accumulated other comprehensive income), calculated with equity being the average of the beginning and ending balances

**ROIC: Return on Invested Capital (NOPAT/Invested capital, calculated with a tax rate of 30.0% and invested capital being the average of the beginning and ending balances

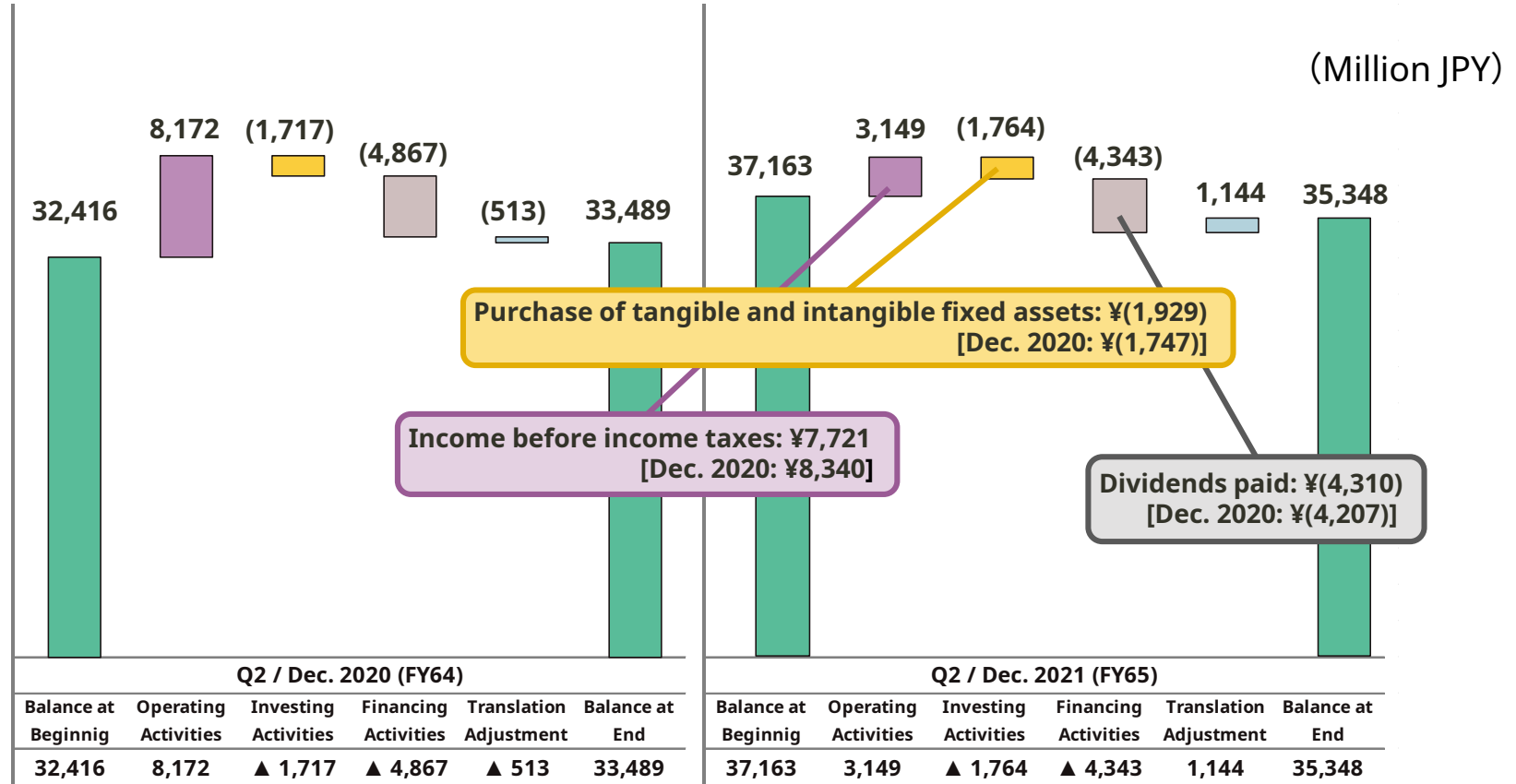
[Reference] Breakdown of Japan Business Segment (under New Standard)

(Breakdown of Japan business segment was estimated by Pigeon for your reference)

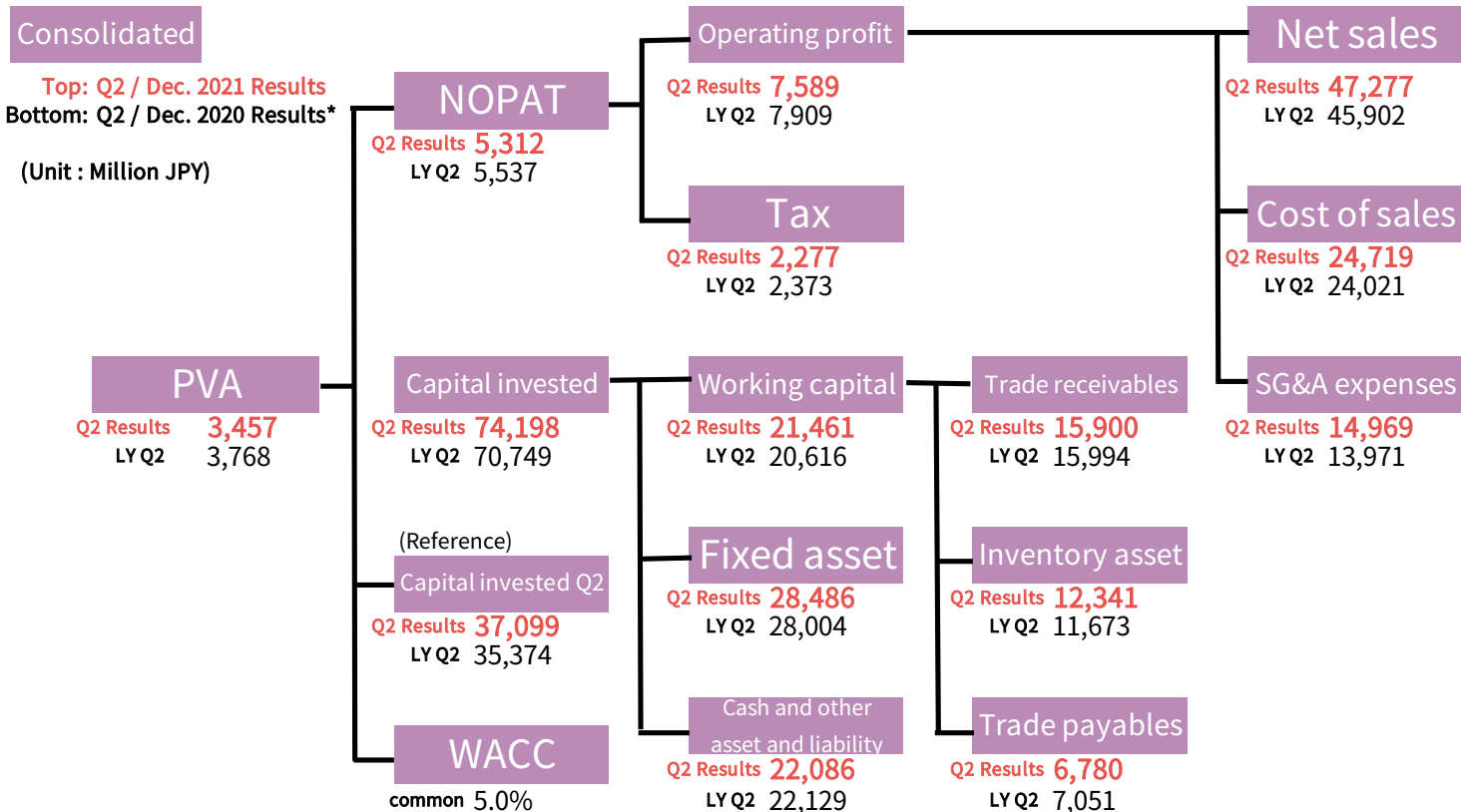
(Unit: Million JPY)	Q2 / Dec. 2020				Q2 / Dec. 2021				
	Actual	% of Ttl	Gross Margin	Segment Profit	Actual	% of Ttl	YoY Change	Gross Margin	Segment Profit
Japan Business	20,698	45.1%	33.9%	1,458	19,888	42.1%	96.1%	34.4%	1,172
Domestic Baby and Mother Care	13,635	—	40.3%	1,547	13,042	—	95.7%	41.2%	1,224
Child Care Service	1,813	—	14.3%	44	1,786	—	98.5%	16.1%	87
Health and Elder Care	3,462	—	28.7%	332	3,075	—	88.8%	29.5%	294

(Results of FY12/2020 under new revenue recognition standard was estimated by Pigeon for your reference.)

[Reference] Comparison of Cash Flows (Consolidated)



PVA Tree: Consolidated Results in Q2 / Dec. 2021 (FY65) (under New Standard)



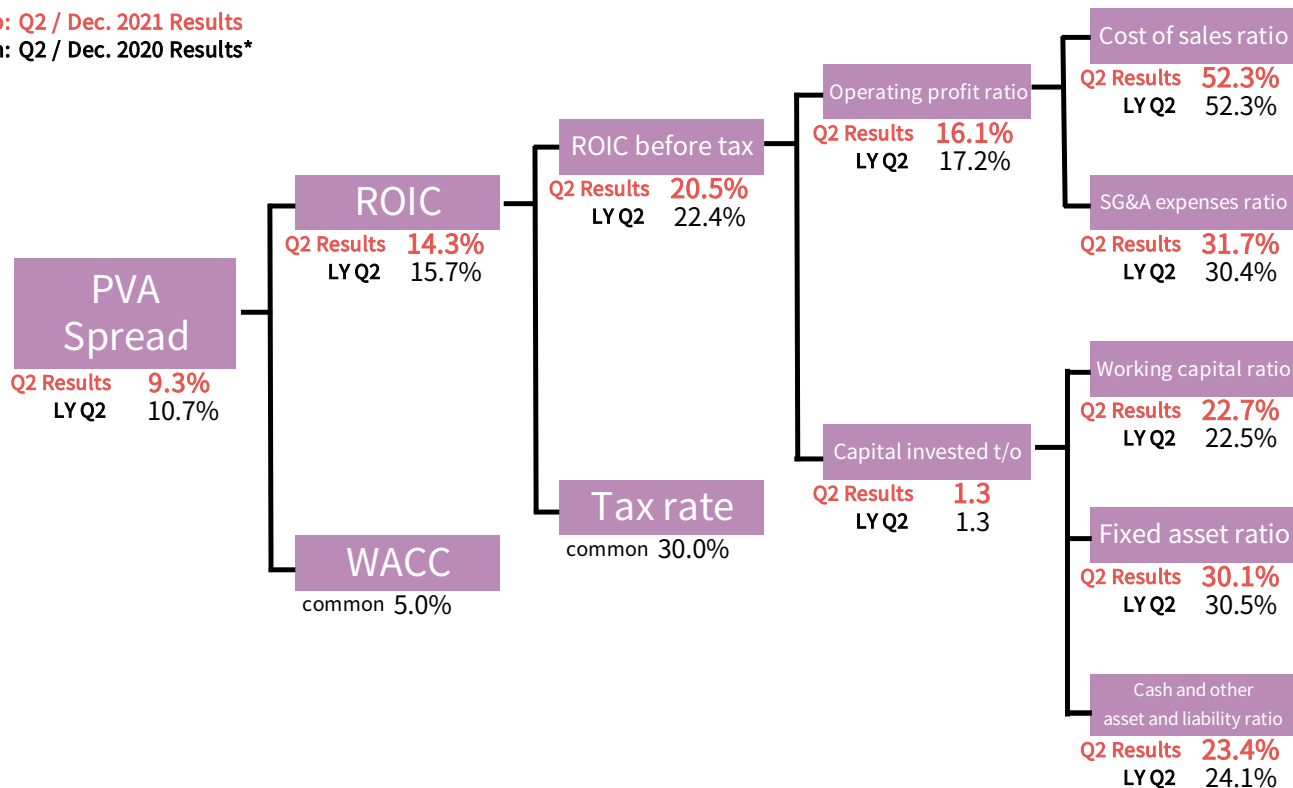
*The actual figures for the Q2 / Dec. 2020 have been re-calculated based on the new accounting standard.

*B/S Factors for PVA calculation are averaged between beginning and year-end figures.

PVA Tree: Consolidated Results in Q2 / Dec. 2021 (FY65) (under New Standard)

Consolidated

Top: Q2 / Dec. 2021 Results
Bottom: Q2 / Dec. 2020 Results*

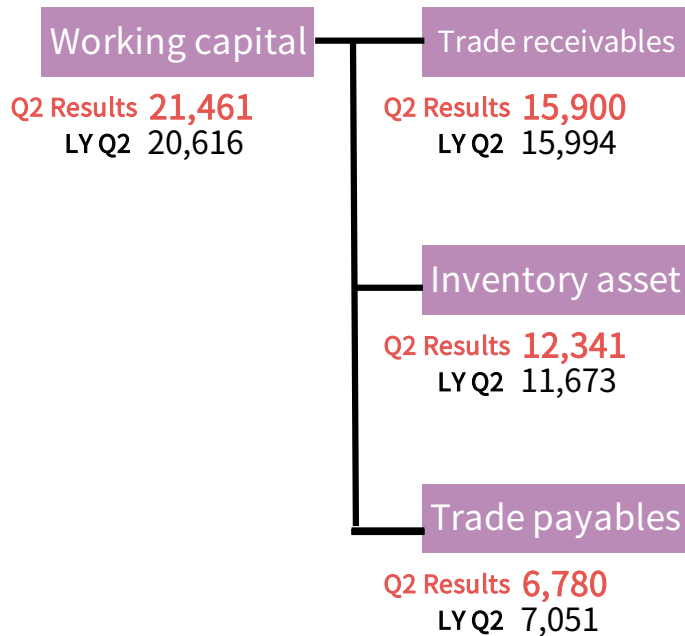


PVA Tree: Consolidated Results in Q2 / Dec. 2021 (FY65) (under New Standard)

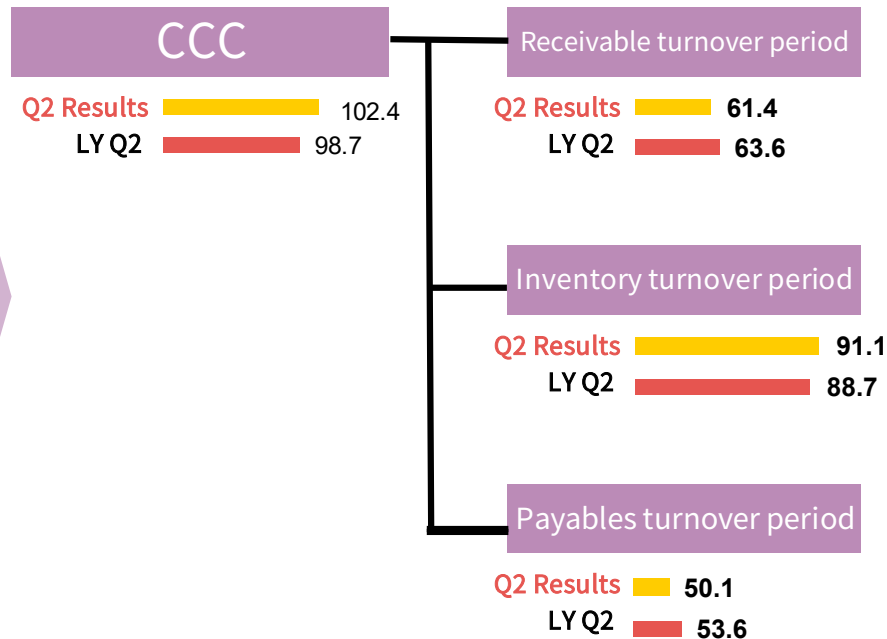
Top: Q2 / Dec. 2021 Results

Bottom: Q2 / Dec. 2020 Results*

(Unit : Million JPY)



(Unit : Days)

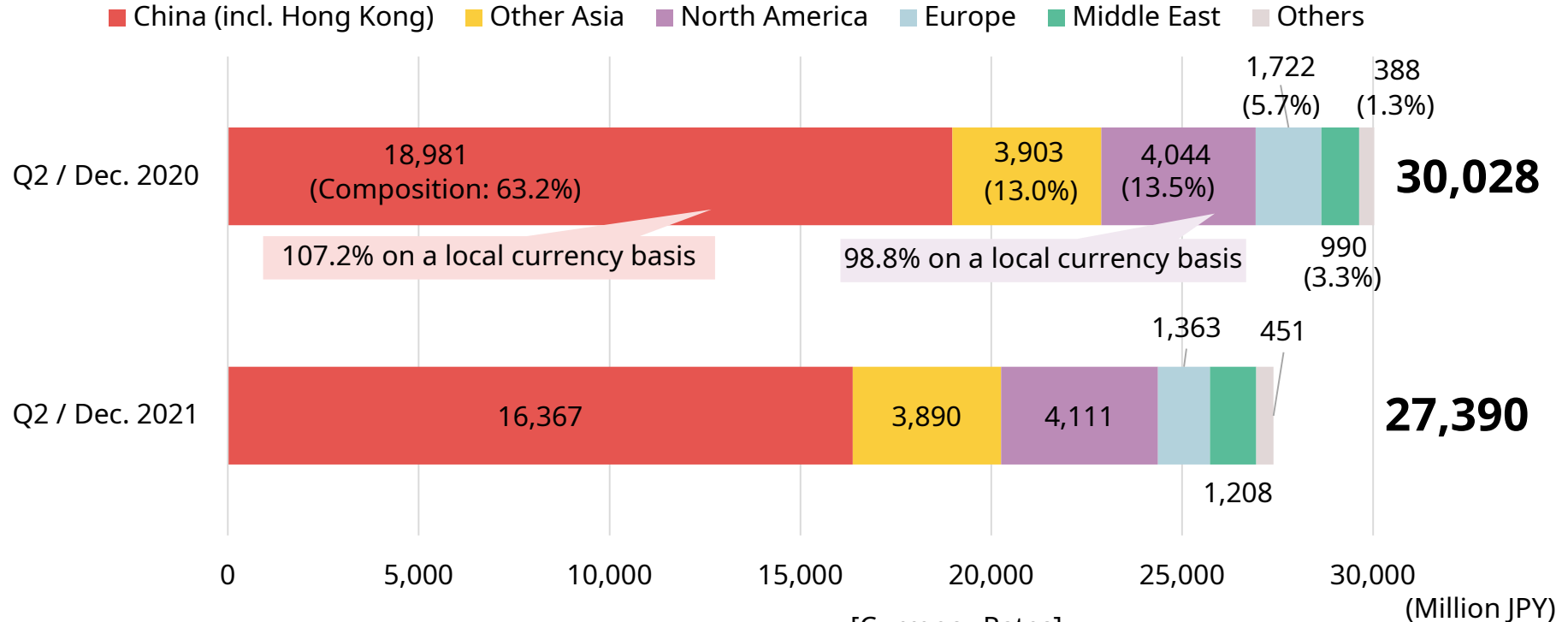


*The actual figures for the Q2 / Dec. 2020 have been re-calculated based on the new accounting standard.

*B/S Factors for PVA calculation are averaged between beginning and year-end figures.

Sales by Regions (Q2 YTD / Dec. 2021) (under Previous Standard)

Overseas Sales Ratio: 60.4% (Q2 /Dec. 2020: 56.6%)



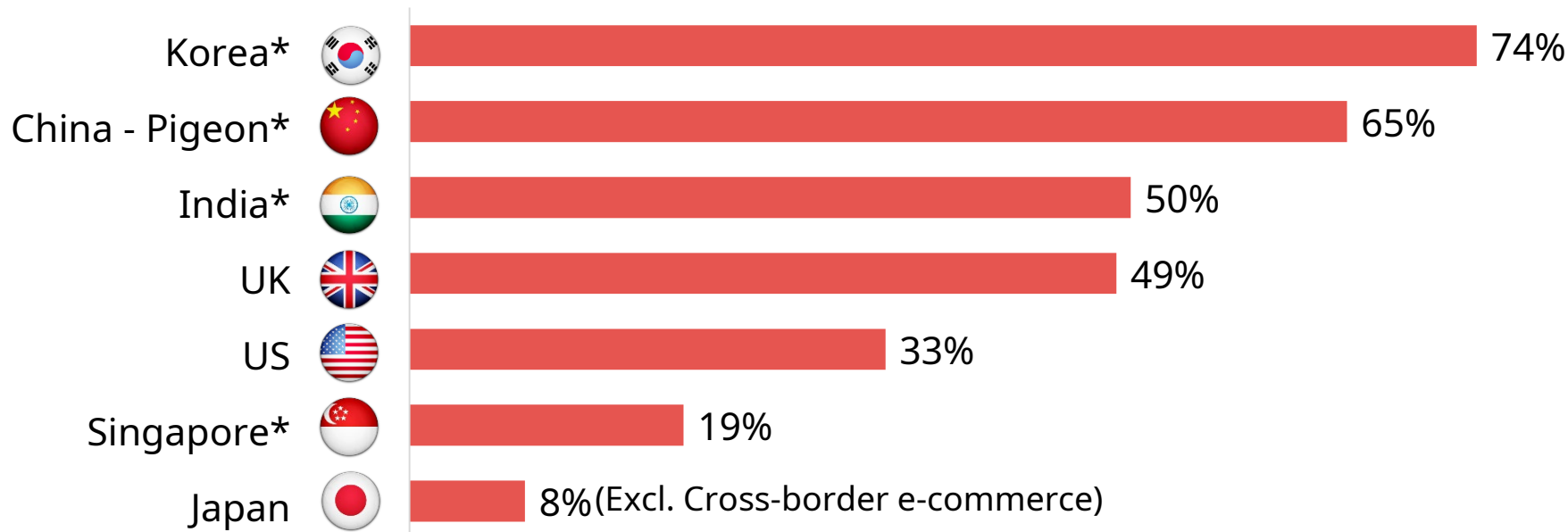
[Currency Rates]

Dec. 2021: US\$1 = JPY 107.76 / CNY 1 = JPY 16.65

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

[Reference] E-commerce Ratio in Key Countries (Q2 YTD / Dec. 2021)

EC sales ratio of Pigeon / Lansinoh products



* : Sell-out Others : Sell-in

The Pigeon Group seeks to maximize economic and social value through communications with all stakeholders, including shareholders and other investors.
For information on Pigeon's latest management strategies, business and ESG activities, please visit our corporate website.



- Integrated Report

<https://www.pigeon.com/ir/library/factbook/>

Pigeon's "Integrated Report 2020" issued last year was selected as an "excellent integrated report" by GPIF's asset managers entrusted with domestic equity.
* GPIF: Government Pension Investment Fund

- Sustainability

<https://www.pigeon.com/sustainability/>

- ESG Data Book

<https://www.pigeon.com/sustainability/databook/>