

Financial Results of Q2 / December 2022 (66th Fiscal Year)

Pigeon Corporation

(Securities Code : 7956)

Norimasa Kitazawa

President and CEO

August 9, 2022

Celebrate babies the way they are



Q2 / December 2022 (FY 66th)

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Agenda

Highlights for Q2 / Dec. 2022



Covid-19 in China Shanghai Lockdown

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

Shanghai Lockdown (April 1 to May 31)

	May	June
Logistics	<ul style="list-style-type: none"> • Distribution to/from Shanghai continues to be restricted. • Shanghai warehouses of our distributors and e-commerce retailers are closed. Offline stores are temporarily closed. • Shortages at our distributors' and e-commerce retailers' local warehouses. 	<p>Even after the lockdown was lifted, the effects of logistics disruptions, such as delivery delays and soaring logistics costs around Shanghai area continued until the end of June.</p>
Sales Office (Shanghai)	Gradually resumed production, shipping and other activities despite restrictions.	<ul style="list-style-type: none"> • Almost all employees at the Shanghai factory were back to work since the lockdown was lifted on June 1 • Production, shipments and other business activities have recovered to normal.
Factory (Shanghai)		
Factory (Changzhou)	The factory operated normally.	The factory operated normally.

China 618 Shopping Festival

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



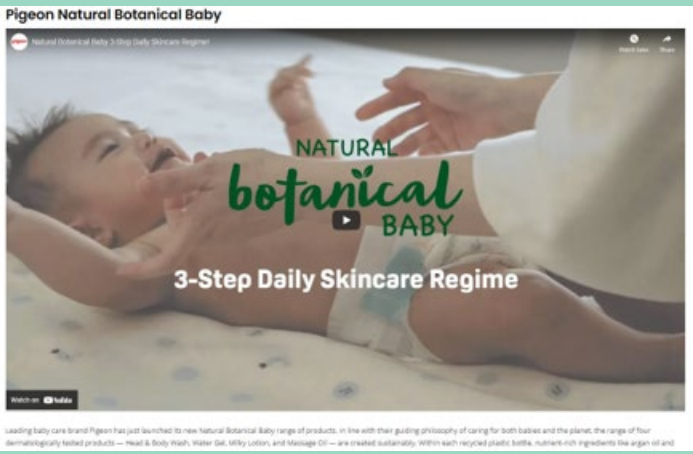
Natural Botanical Market Expansion



From left: Head & Body Wash 500ml / Head & Body Wash 200ml / Water Gel Lotion 200ml / Milky Lotion 500ml / Milky Lotion 200ml / Massage Oil 120ml

Silky Powder 125g Plantmade Gentle Wipes

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



Leading baby care brand Pigeon has just launched its new Natural Botanical Baby range of products. In line with their guiding philosophy of caring for both babies and the planet, the range of four dermatologically tested products — Head & Body Wash, Water Gel, Milky Lotion, and Massage Oil — are created sustainably. With each recycled plastic bottle, nutrient-rich ingredients like argan oil and



ESG and Sustainability


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



**FTSE Blossom
Japan Sector
Relative Index**

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

Results for Q2 / Dec. 2022



2022 Q2 Results - Consolidated P&L

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

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

【Currency Rates】

2022 Results: US\$1 = JPY 123.15 / CNY 1 = JPY 18.97
 2021 Results: US\$1 = JPY 107.76 / CNY 1 = JPY 16.65

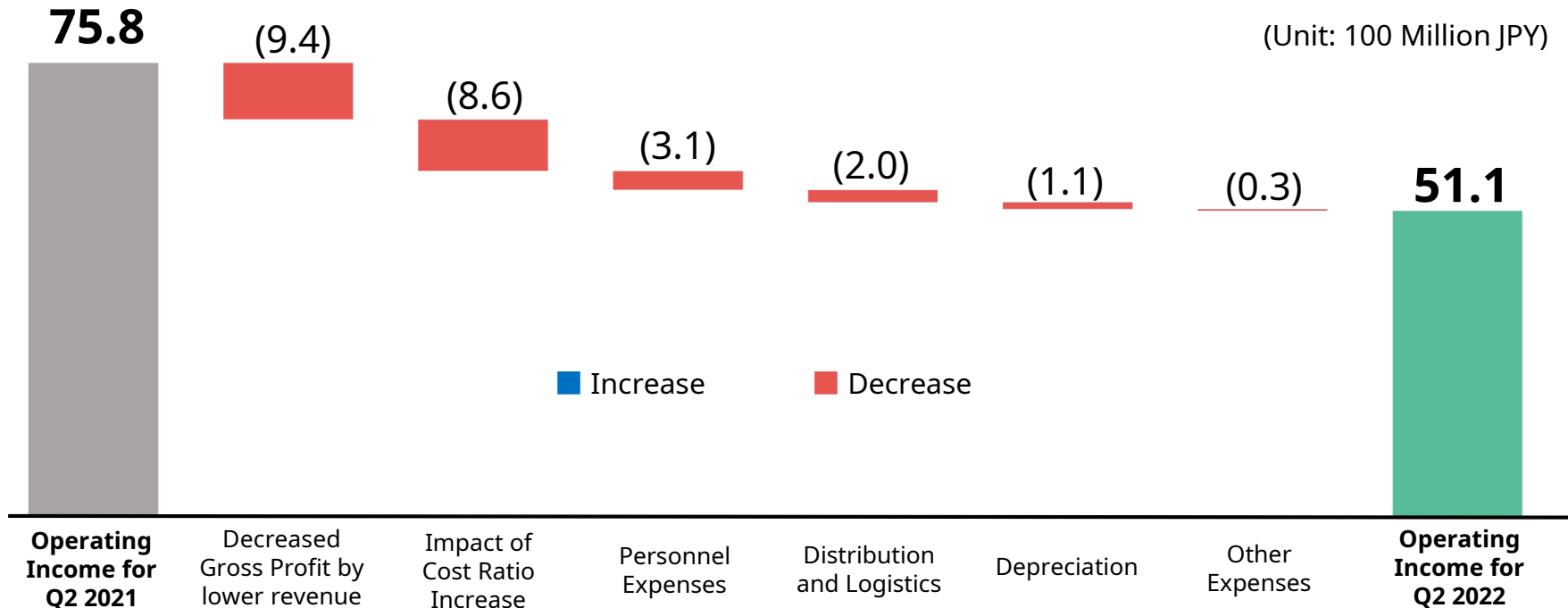
2022 Q2 Results - By Business Segment

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

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

2022 Q2 - Analysis of Change in Operating Income (YoY)

- Consolidated operating income was also significantly affected by lower sales in China due to the Shanghai lockdown and a higher cost of sales ratio due to a significant decline in factory utilization.
- SG&A expenses increased mainly due to labor costs (China and Lansinoh business. Includes impacts of FX rates) and logistics costs (soaring due to international logistics disruptions).



2022 Q2 Consolidated Balance Sheet (Highlight)

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

Summary of Results by Business Segment (Q2 YTD)

Japan Business

Baby care ended below y-o-y. Nursing bottles are still strong, but consumables continued to struggle.

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

China Business

Mainland sales down 30% y-o-y despite heavy impact of Shanghai lockdown

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

Summary of Results by Business Segment (Q2 YTD)

Singapore Business

Sales in major countries remained strong. Continued external sales growth driven by our core products such as nursing bottles and skincare products

- Domestic sales in India increased 54%, Malaysia +28%, and Indonesia +29% y-o-y.
- In export markets, sales in the Middle East and Vietnam grew y-o-y.
- Sales of core products (nursing bottles, breast pumps, skincare, and oral care) were strong with double-digit growth y-o-y.
- Shipment of new skincare series (Natural Botanical) grew higher than planned. Expanding sales to Singapore, Malaysia, Indonesia, India, Vietnam, Middle East and export markets.
- Gross profit increased by 26% y-o-y due to increased sales at sales companies, improved product mix at factories, and foreign exchange effects. Gross margin also improved by 3.8pt.

Lansinoh Business

Strong sales, but profits down due to logistics disruptions and continued high transportation costs caused by global supply chain chaos

- Lansinoh Group sales increased 10% y-o-y. Sales in North America increased 14% y-o-y. Continued strong sales both online and offline.
- In Europe, sales in Benelux were strong, while demand increased in UK and Germany, but some products were out of stock, resulting in a slight decrease y-o-y.
- Mainstay products such as nipple creams and breast pumps maintained strong sales. Prenatal and postpartum care products are as good as expected. They are now sold in 25 countries includes export markets.
- Gross margin declined 3.5 pt due to the higher-than-expected procurement and logistics costs (COGS factor) due to logistics disruptions pushed down profit. In addition, higher sales distribution costs in the U.S. (SG&A expenses) also had a negative impact on the operating profit margin. Progress was in line with the plan excluding the impact of soaring logistics costs.

FY Dec. 22 New Products

Singapore Business

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

Japan Business

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



災害用授乳カップ

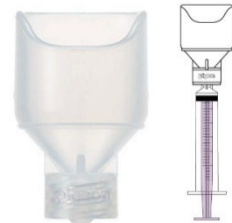
清潔消毒ができない災害時に、
多く乳した母乳やミルクを入れてお使いください。



赤ちゃんの頭を保護するだけでなく、
赤ちゃんの顔にもやさしく、赤ちゃんの顔にもやさしく。



いつでもどこでも赤ちゃんの寝場所が作れます。
転倒防止と下物定多数の人がいる空間でも、安心して快適に眠ることができる軽量コンパクトベッドです。



Full-Year Forecast for Dec. 2022



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

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

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

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

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

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

Shareholder Return and Investment Related Indicators

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

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

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

(Unit: Million JPY)

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

*1: Property, plant and equipment and intangible assets (including long-term prepaid expense)

*2: Depreciation (including amortization of goodwill)

*3: Total expenses of R&D activities, including personnel costs

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



2022 Q2 Financial Highlights (Consolidated)

Unit: Million JPY	Q2 / Dec. 2021		Q2 / Dec. 2022		
	Actual	% of Total	Actual	% of Total	YoY Change
Net Sales	47,277	100.0%	45,292	100.0%	95.8%
Operating Income	7,589	16.1%	5,118	11.3%	67.4%
Ordinary Income	8,536	18.1%	6,404	14.1%	75.0%
Net Income Attributable to Owners of Parent	5,085	10.8%	3,990	8.8%	78.5%
Net Assets	75,769	—	81,875	—	108.1%
Total Assets	97,152	—	104,274	—	107.3%
EPS (yen)	42.51	—	33.35	—	78.5%
BPS (yen)	633.33	—	684.25	—	108.0%
ROE *	14.2%	—	10.5%	—	—
ROIC *	14.3%	—	9.0%	—	—

* 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)

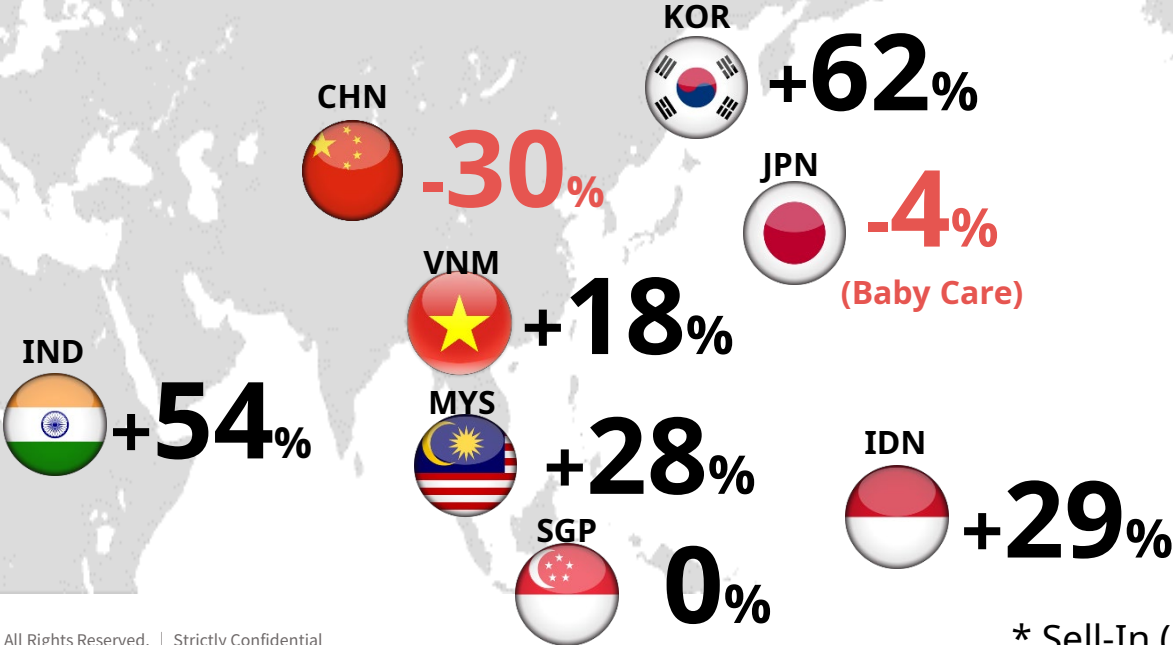
Breakdown of Japan Business Segment (2022 Q2 YTD)

(Unit: Million JPY)	Q2 / Dec. 2021				Q2 / Dec. 2022				
	Sales	% of Total	Gross Margin	Segment Profit	Sales	% of Total	YoY Change	Gross Margin	Segment Profit
Japan Business	19,888	42.1%	34.4%	1,172	17,904	39.5%	90.0%	32.6%	592
Baby Care ^(*)	13,042	—	41.2%	1,224	12,471	—	95.6%	36.7%	717
Child Care Services	1,786	—	16.2%	87	1,738	—	97.3%	16.3%	107
Health & Elder Care Business	3,075	—	29.5%	294	2,486	—	80.8%	31.7%	255

[Note]

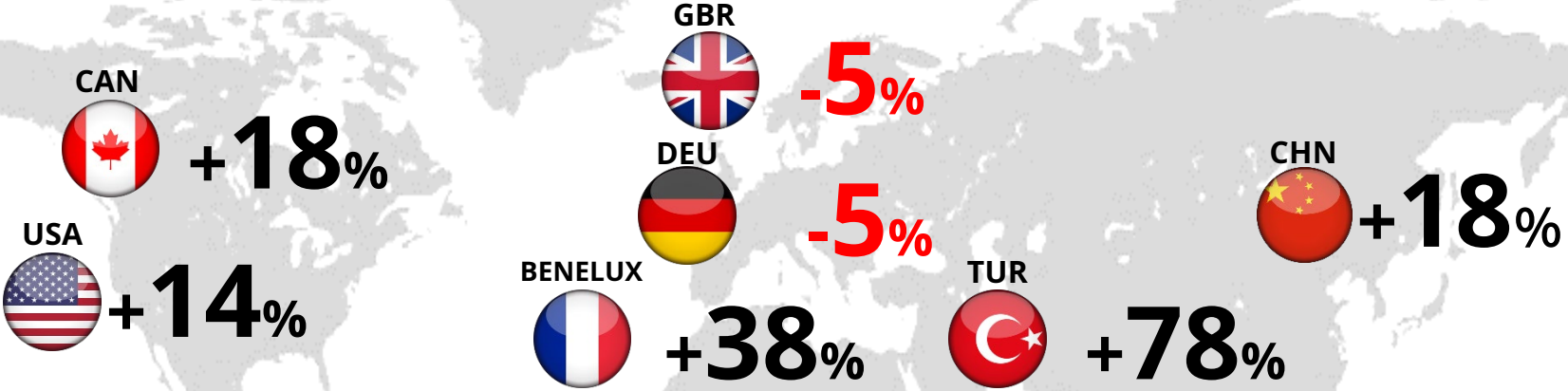
*: Effective FY Dec. 2022, "Domestic Baby & Mother Care" Business was renamed to "Baby Care" Business. The breakdown of Japan business segment was estimated by Pigeon for your reference.

Pigeon Sales by Regions* (2022 Q2 YTD / YoY)



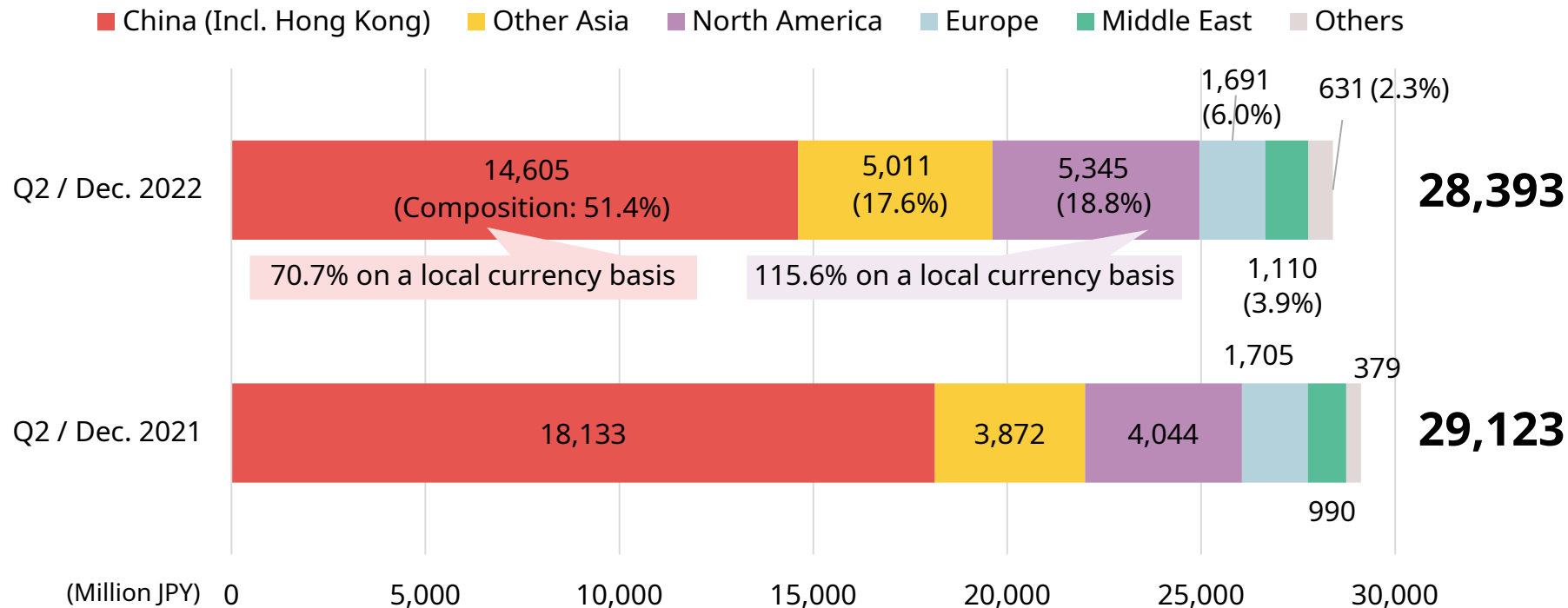
* Sell-In (Local Currency)

Lansinoh Sales by Regions* (2022 Q2 YTD / YoY)



Sales by Regions (2022 Q2 YTD)

Overseas Sales Ratio: 62.7% (Q2 / Dec. 2021: 61.6%)

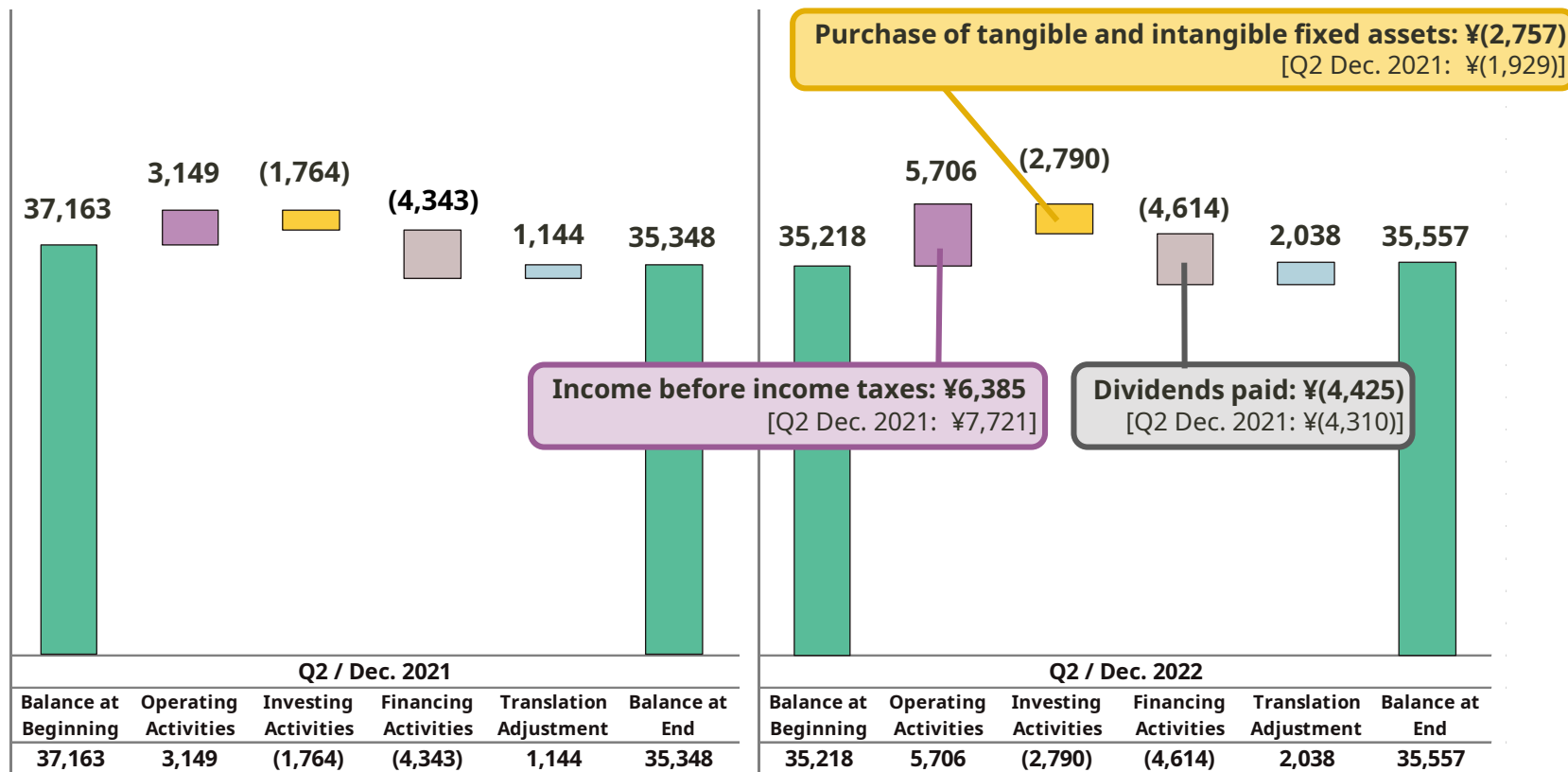


【Currency Rates】

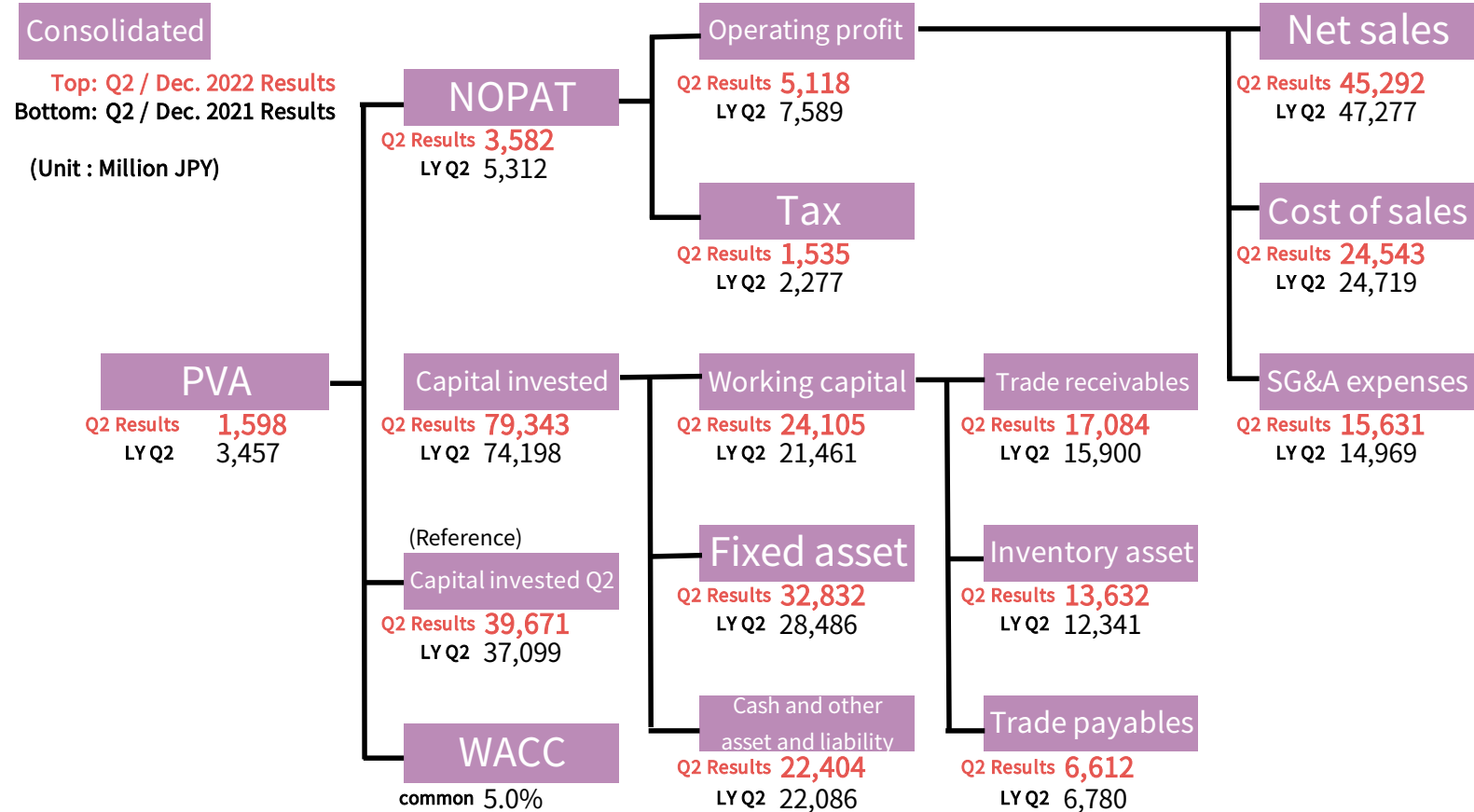
2022 Results: US\$1 = JPY 123.15 / CNY 1 = JPY 18.97
 2021 Results: US\$1 = JPY 107.76 / CNY 1 = JPY 16.65

[Ref.] Comparison of Cash Flows (Consolidated)

Unit: Million JPY



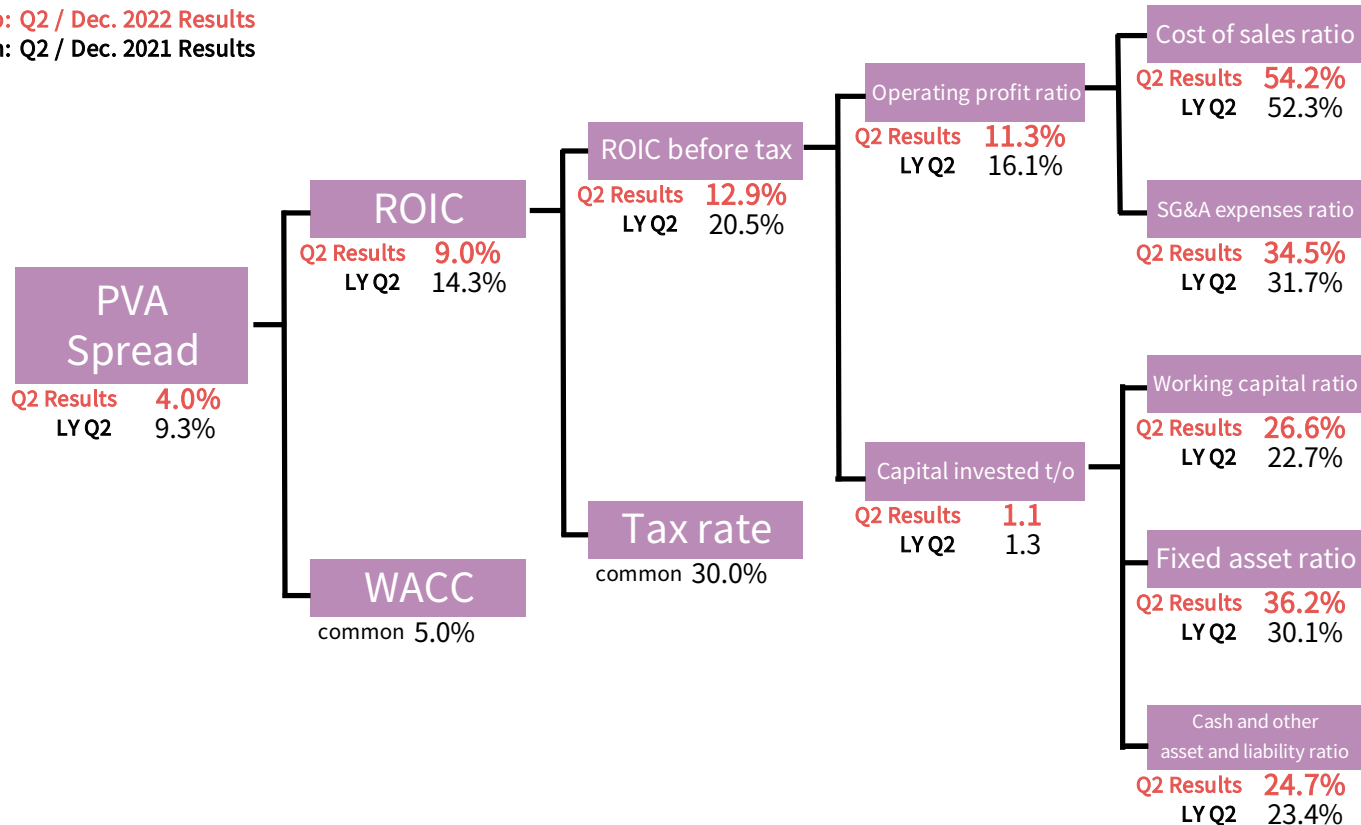
PVA Tree: Consolidated Results in Q2 / Dec. 2022 (FY66)



PVA Tree: Consolidated Results in Q2 / Dec. 2022 (FY66)

Consolidated

Top: Q2 / Dec. 2022 Results
Bottom: Q2 / Dec. 2021 Results



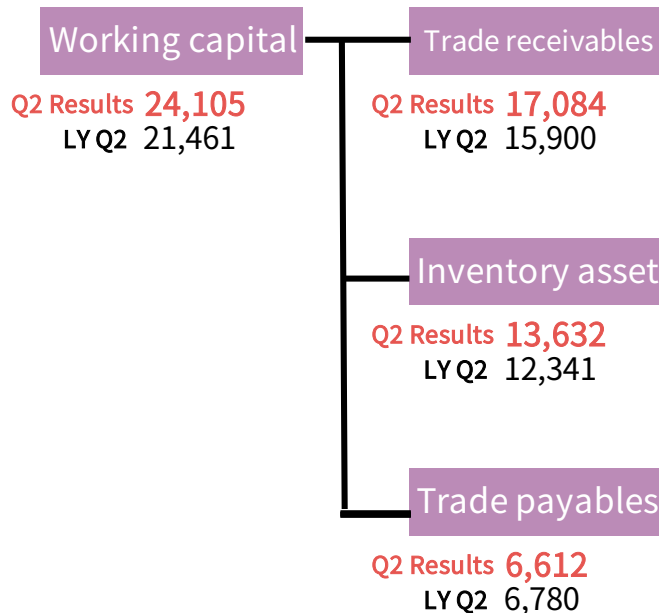
PVA Tree: Consolidated Results in Q2 / Dec. 2022 (FY66)

Consolidated

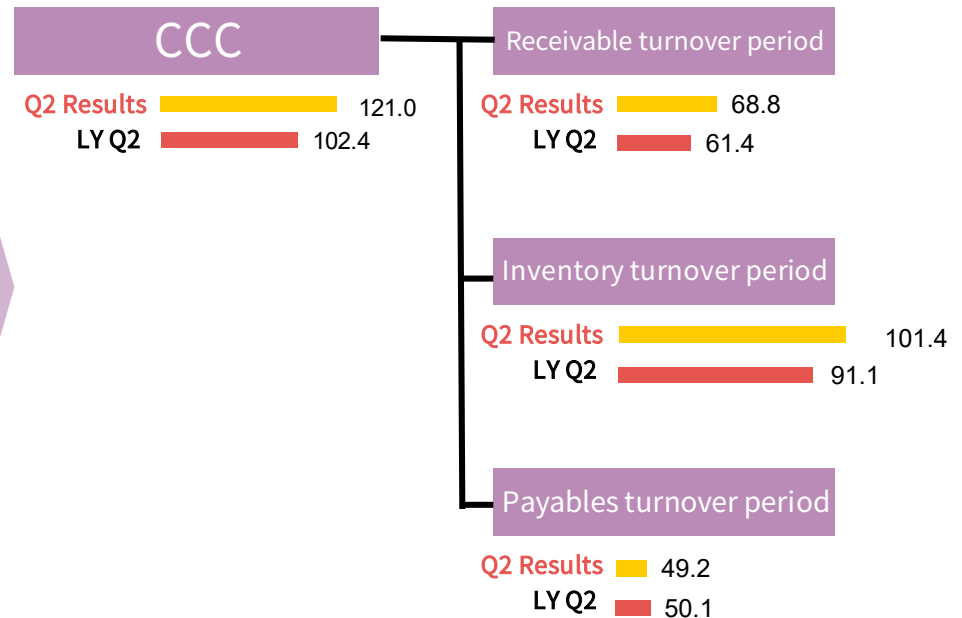
Top: Q2 / Dec. 2022 Results

Bottom: Q2 / Dec. 2021 Results

(Unit : Million JPY)

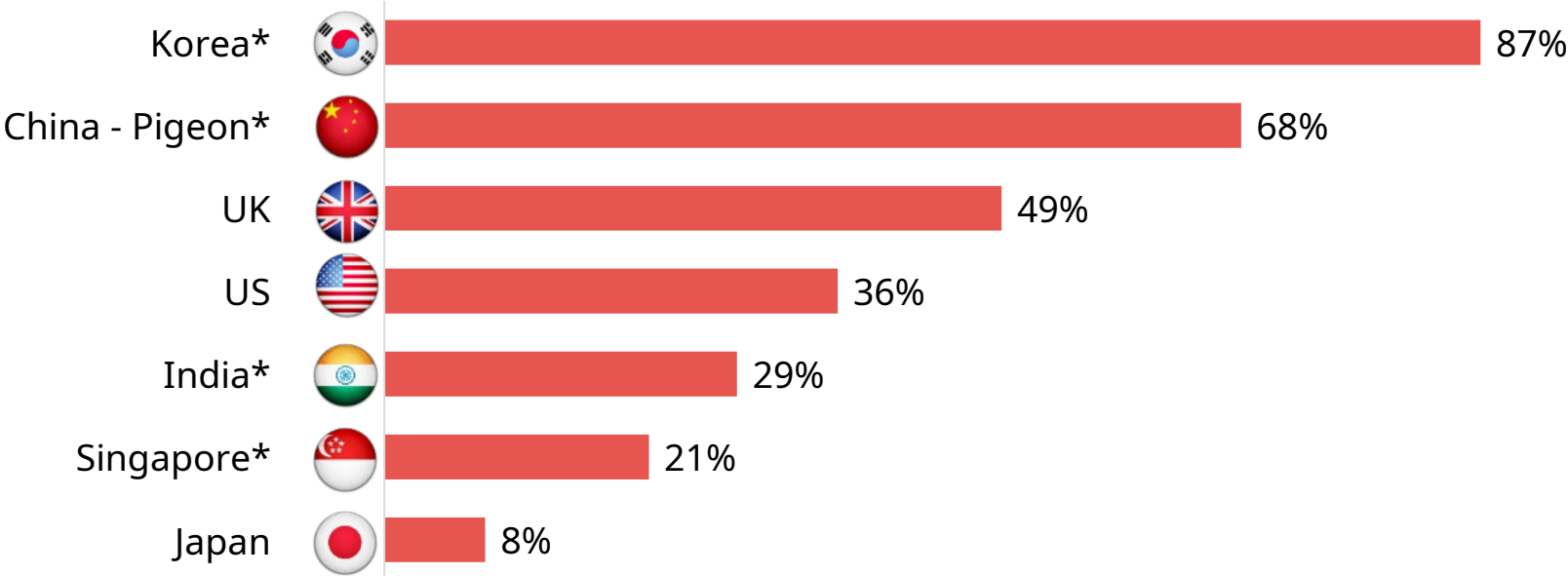


(Unit : Days)



E-Commerce Ratio in Key Countries (2022 Q2 YTD)

EC sales ratio of Pigeon / Lansinoh products



*: Sell-out Others: Sell-in

[Ref.] Covid-19 in China / Impact on Q1 Results (As of May 12, Q1 Financial Results)

- Sales were almost in line with our budget until February YTD.
- Due to a local lockdown that began in mid-March, **10-15% of our March sales forecast could not be shipped in Q1**. Also, delays and cancellations of shipments from our distributors and retailers (EC and offline) also affected Sell-out.

Local Lockdown (Mid-March to today)

Lockdown areas	<ul style="list-style-type: none">• North China area, Northeast area, etc.• Shaanxi, Fujian, Yunnan, Tianjin and other areas experienced 14 - 60 days of local lockdown
Impact on logistics, retailers, and consumers	<ul style="list-style-type: none">• Key warehouses of our distributors were closed for several days, causing intermittent shipping delays.• Many department stores and chain baby stores in the lockdown area temporarily closed.• EC retailers were unable to fill the stocks to local warehouses, causing delivery delays.• Delays in e-commerce deliveries have resulted in an increase in customer returns and order cancellations.

Impacts on our group companies in China

Sales Office (Shanghai)	Two important warehouses of our distributors were closed for several days, intermittently halting our shipments.
Factory (Shanghai)	<ul style="list-style-type: none">• Operated normally until End of March.• Build up inventory prepared for Shanghai lockdown
Factory (Changzhou, Jiangsu Province)	Six-day outage due to lockdown in Changzhou city

[Ref.] Update of Shanghai Lockdown (As of May 12, Q1 Financial Results)

- Since April, the Shanghai lockdown has had a greater impact on both sales office and factories than in Q1.
- Shipments and production have partially resumed since the end of April; **our China group was operating at only about 20-30% of normal levels as the end of April.**
- Shanghai lockdown is still in effect as of May, and the impact on earnings is currently being estimated.

Shanghai Lockdown (Since end of March)

Calendar	April 1 to 10	April 11 to 17	April 18 to 24	April 25 to May 1
Local lockdown	Local lockdowns are ongoing			
Logistics in Shanghai	Distribution from Shanghai to other provinces suspended. Shanghai warehouses of our distributors and EC retailers are closed. Offline stores temporarily closed.			
Logistics in other areas	Distribution to Shanghai city suspended. Local warehouses of our distributors and EC retailers are experiencing shortages of merchandise. Some offline stores outside of the blocked areas are open.			
Sales Office (Shanghai)				
Shipment	shipping the merchandise almost suspended			Resumed shipment of some products to distributors via Changzhou factory etc.
Business activities	All employees shifted to remote work. very limited work in R&D and other activities. Some scheduled marketing activities and events were also postponed			
Factory (Shanghai)				
Production	Factory operation suspended			Resumed operation (Approx. 20% of operation)
Shipment				
Factory (Changzhou)				
Production	The factory operated normally. Shipments from Changzhou plant available, but very limited due to lockdown of shipping destination.			
Shipment				

Key Theme : 7th Medium-Term Business Plan

Expand the Key Success Factors (KSF) of Chinese market globally and achieve healthy business growth and profitability in all regions.

Brand strategy:

Develop a brand “chosen by consumers who buy into a business” rather than a brand “chosen by customers who buy a product.”

Product strategy:

Accelerate growth in our Core products which we can have a unique competitive advantages in global market.

Regional strategy:

Develop and implement agilely a cycle of “Product development, production and sales” that fits market characteristics and consumer preference of each region.





Purpose

Our reason for being and the role we should play in society

**We want to make the world more
baby-friendly by
furthering our commitment
to understanding and addressing babies'
unique needs**



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/>

- Sustainability

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

- ESG Data Book

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

Celebrate babies the way they are

