

Summary of Telephone Conference

for the Q 1 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 on June 4th, 2020.

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] June 4th, 2020 16:30 JST

[Number of Speakers] 2

Seiji Kaneda General Manager, Business Strategy Department

Yasuo Kanatsuka Manager, Business Strategy Department

Presentation

Kanatsuka: Hello, everyone. Thank you for participating in the conference call of Pigeon Corporation despite your busy schedules.

Kaneda and I, Kanatsuka, from the Business Strategy Department will participate in today's call.

Kaneda will explain the Company's first-quarter results, and, after that, we will move on to the Q&A session.

We have sent the Company materials in advance, so please refer to them as needed.

Before we begin the conference call, we would like to make some precautionary statements. The explanation provided in this call may include future projections based on current estimates. All forecasts are subject to risks and uncertainties. Please note in advance that actual results may vary from the projections.

We will now begin the presentation.

Kaneda: Hello, everyone. This is Kaneda from the Business Strategy Department.

To begin with, I would like to apologize for the postponement in announcing the first-quarter results until today, June 4, despite having originally scheduled it for May 14.

I will now give an overview of the first quarter. Before going into earnings, I will talk about the Group's situation amid the COVID-19 outbreak. After that, I will give an overview of the business performance.

If you have the supplementary materials on hand, please follow along with the slides.

Our Efforts in Overcoming COVID-19 Pandemic ①

Our priority is the health and safety of all stakeholders, our employees and their families. We have been making every effort to prevent the infection and the spread of COVID-19

ZERO infection reported in Pigeon group (As of June 3)

All our domestic and overseas offices/factories are properly responding to requests and guidances from national and local governments.

Consumers

- Helpful social media posts to pregnant and post-natal mothers and families

Partner Companies

- Stable supply of products (Esp. Hygiene products and sanitizers)

Our employees and Communities (E.g.)

- Applied "Work from home" policy for all pregnant employees (Japan, Mid. Feb)
- Eased conditions for use of accrued PTO for school closures caused by COVID-19 (Japan, Mid. Feb)
- Temporally discontinued sales promoters of baby strollers (Japan, Mid. Feb)
- Giveaway disposable face masks and sanitizers to our employees (All PGN group)
- Established Teleworking arrangement and policies for back-office staffs (All PGN group)
- NO layoffs (All PGN group)
- Updated working policies based on the "New Normal" lifestyle to prevent COVID-19 infection at work (All PGN group)
- Delayed the vacation period (Thailand, following the government's change in the Songkran vacation period)



▲Social distancing at Canteen (Thailand)



▲More frequent Sanitization at factory (Turkey) 3

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As for our approach to COVID-19, we are making utmost efforts to prevent the spread of the COVID-19, placing foremost emphasis on the health and safety of all stakeholders, including employees and their families.

Fortunately, as of June 3, there have been no reports of infections in the entire Group. Also, we have been taking the appropriate measures at sales offices and plants in each country as per the requests and directives of governments and local authorities.

Various initiatives have been taken at each Company for customers, such as transmitting information on social media to moms and dads during pregnancy and after childbirth. We are also doing our utmost to ensure a stable supply of products to business partners.

Regarding the safety of employees and society, in Japan, for instance, we adopted remote work in principle for pregnant employees since late February. Also, although salesperson activities at stores are crucial for stroller sales, we took steps to cancel store activities since late February in view of the safety of sales staff.

We have also been moving forward by taking various measures for employees while bearing safety in mind.

Our Efforts in Overcoming COVID-19 Pandemic ②

Based on our raison d'etre of “make the world more baby-friendly”, Pigeon has been carrying out many Social activities for our community as only we can do the best

To mothers, babies, and their families (E.g.)

- Professional advices to moms and families via social media (Japan)
- Online Breastfeeding seminar (Malaysia)
- Free Breastmilk Storage Bags and Breast Pumps to the Malaysian moms group who live and work in Singapore. They have been away from their babies because of the lock down in Singapore. Our Bags and Pumps are to help them to deliver mom’s breastmilk to their babies living in Malaysia.
- Q&A, Professional advices and tips of newborn care through social media post and its Livcasting. (China)
- ”Covid-19 Support” website created in Lansinoh website (US)



▲Breastfeeding webinar (Malaysia)



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▲Covid-19 Support page in Lansinoh website (US)



▲Professional advices for newborn care on Social media (China)

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Furthermore, in terms of moms, babies, and their families, we have been providing consultation using social media in Japan, and we have been conducting online Breastfeeding seminars in Malaysia.

In Singapore, a group of Malaysian mothers with live-in jobs in Singapore couldn't return back home to Malaysia after the Singapore-Malaysia border was blocked. Some of these mothers are delivering breast milk, frozen and stored in breast milk bags, to their children in Malaysia. At Pigeon, we received requests for assistance through these breastmilk storage bags, so we have supported these activities by offering breast milk storage bags for free. This are one example of our Social activities. We have been carrying out various other activities as well.

Our Efforts in Overcoming COVID-19 Pandemic ③

To frontline Essential Workers who have been working for COVID-19 fight (E.g.)

- Donation of Hand Lotions to healthcare workers (Frequent hand-washing can cause dry and chapped hands) (Japan)
- Donation of the bundle of Baby products to the family of doctors and healthcare workers who are dedicating all their strength for COVID-19 fight (China)
- Donation of Antibacterial hand gels and medical gowns to medical institutions (China)
- Donation of Lanolin cream sample to healthcare workers to help ease bruised face with wearing mask long hours (Spain)
- Frequent posts on social media thanking Essential Workers (US and Europe)



▲ "Thank you" message on Social media (US and Europe)

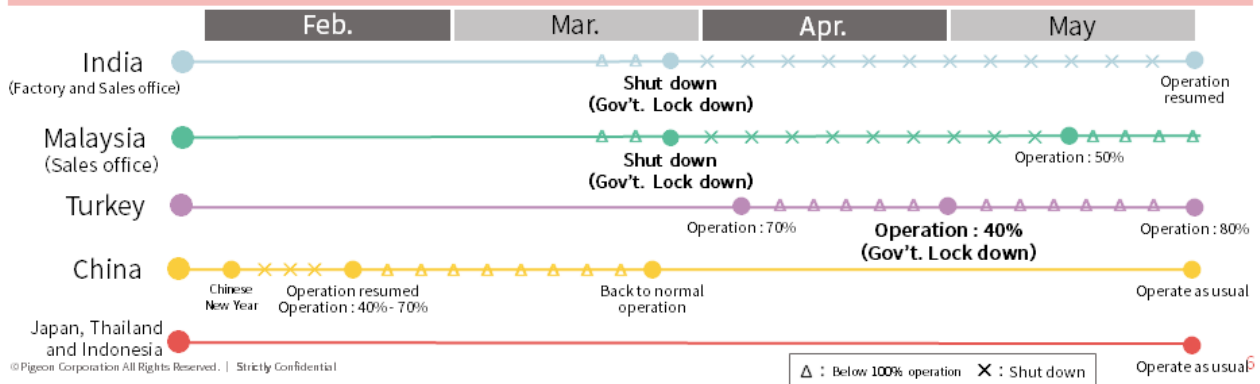
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We have also supported essential workers by providing or donating various products. We are also carrying out various activities in this area.

Timeline of Our Group Office Under COVID-19 Pandemic (As of End of May)

- Mid. / Feb : Two factories in China resumed operations (40 - 70% operation than normal).
- End / Mar : Two factories in China back to normal operation.
 India and Malaysia started "Lockdown" and it caused the shutdown of our local factory and offices.
- End / Apr : Turkey started "Lockdown" and it dragged down operation rate of our factory to 40% than normal.
- End / May : Indian factory resumed operations. (Production will resume on June).
- End / May : Sales office in Malaysia resumed operations, back to 50% operations than normal.
- All factories in Japan (3 factories), Thailand (2) and Indonesia (1) have been operating as normal between Feb and May. (All factories have been taken sufficient preventive measures against COVID-19 infection).

• Our sales offices around the world operate on a Teleworking basis followed with government requirements and instructions.



Against this backdrop, I think what you are all most interested in is the operation status at each factory amid the COVID-19 outbreak. Here, we have summarized the situation on one slide.

First, in terms of factory operations, as you all know, we suspended operations at two factories in China until mid-February. After that, we gradually restarted operations.

Entering late March, operations at the two Chinese factories returned to normal. Meanwhile, during this period, the Indian and Malaysian governments ordered lockdowns, resulting in the stoppage of operations at both factories and offices.

Next, in late April, the Turkish government started a lockdown. Although operations didn't stop, the factory's operation rate plunged to around 40%.

In late May, operations finally resumed at the Indian factory. Currently, we are working to gradually return operations back to normal.

In Malaysia, where we have a sales Company rather than a factory, operations had stopped at the office. But activities have recovered since mid-May, and they have returned to around 50% at present.

As for the factories in Japan, Thailand, and Indonesia, although we responded through measures such as partially adopting remote work, operations have continued to be conducted as usual.

Also, in terms of sales offices around the world, we adopted a remote work system as per government requests and directives, but except for Malaysia mentioned earlier, operations were basically continued.

Pigeon Corporation (7956) Summary of Financial Results for the First 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 First Quarter)

(Millions of yen)

	Three months ended April 30, 2019	Three months ended March 31, 2020
I. Net Sales	25,458	22,836
II. Cost of Sales	12,594	11,483
Gross profit	12,863	11,352
Reversal of provision for sales returns	30	41
Provision for sales returns	40	55
Adjusted gross profit	12,854	11,337
III. Selling, General and Administrative Expenses	8,352	7,933
Operating Income	4,501	3,403
IV. Non-operating Income:		
Interest income	47	42
Subsidy income	—	379
Other non-operating income	64	211
Total Non-operating Income	111	632
V. Non-operating Expenses:		
Interest expenses	1	1
Sales discounts	116	56
Foreign exchange losses	6	40
Other non-operating expenses	28	73
Total Non-operating Expenses	153	171
Ordinary Income	4,459	3,864
VI. Extraordinary Income:		
Gain on sales of fixed assets	1	0
Gain on sales of investment securities	113	33
Total Extraordinary Income	115	33
VII. Extraordinary Loss:		
Loss on sales of shares of subsidiaries and associates	—	37
Loss on sales of fixed assets	1	9
Loss on disposal of fixed assets	9	10
Total Extraordinary Loss	10	56
Income before Income Taxes	4,563	3,841
Income taxes - current	1,232	1,015
Income taxes - deferred	122	(107)
Total Corporate Income Tax	1,355	907
Net Income	3,208	2,933
Net Income Attributable to Non-controlling Interests	68	63
Net Income Attributable to Owners of Parent	3,140	2,869

With these operating conditions in mind, we will now explain the first-quarter financial summary.

Before we begin, please note that YoY comparisons are irregular this year, due to the change in accounting period last year. The comparison with the previous year is a comparison of the three

months between February and April for Japan alone last year, while for this fiscal year, the first quarter is the three months between January and March for Japan. In other words, there is a one-month lag in the comparison.

In this context, the YoY difference for groupwide results was as follows. Net sales were down JPY2.62 billion, gross profit was down JPY1.51 billion, operating income was down JPY1.09 billion, and net income attributable to owners of parent was down JPY0.27 billion.

2020年12月期 第1四半期 セグメント別実績
Net Sales by Segment for FY Dec.2020 Q1 (Consolidated)

(単位:百万円) (¥ millions)

	19/12 第1四半期 (国内 2-4月) Q1 of Dec/2019 (Result for Last Year Q1 : Japan:Feb-Apr)						20/12 第1四半期 (国内 1-3月) Q1 of Dec/2020 (Japan:Jan-Mar)						
	売上高 Net Sales	構成比 % of total	粗利益 Gross Profit	粗利益率 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	構成比 % of total	前期比:率 % of growth	粗利益 Gross Profit	粗利益率 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	25,458	100.0%	12,854	50.5%	4,501	17.7%	22,836	100.0%	89.7%	11,337	49.6%	3,403	14.9%
日本事業 Japan Business	12,692	49.9%	5,187	40.9%	1,420	11.2%	11,456	50.2%	90.3%	4,578	40.0%	889	7.8%
中国事業 China Business	7,990	31.4%	4,309	53.9%	2,884	36.1%	7,148	31.3%	89.5%	3,814	53.4%	2,407	33.7%
シンガポール事業 Singapore Business	3,799	14.9%	1,442	38.0%	828	21.8%	3,333	14.6%	87.7%	1,346	40.4%	669	20.1%
ランシノ事業 ※ Lansinoh Business*	3,279	12.9%	1,939	59.1%	478	14.6%	3,040	13.3%	92.7%	1,695	55.8%	399	13.1%
セグメント間取引消去 Elimination of internal trading between segments	-2,304	-9.1%	-	-	-	-	-2,141	-9.4%	-	-	-	-	-
【以下参考試算値/Reference】													
旧 国内ベビー・ママ事業 Former Dom.Baby & Mother Care Business	9,093	-	4,384	48.2%	1,560	17.2%	7,801	-	85.8%	3,696	47.4%	961	12.3%
旧 子育て支援事業 Former Child Care Services Business	992	-	126	12.8%	20	2.1%	981	-	98.9%	171	17.5%	63	6.4%
旧 ヘルスケア・介護事業 Former Health & Elder Care Business	1,752	-	567	32.4%	118	6.7%	1,763	-	100.6%	582	33.0%	136	7.8%

※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 sales for Lansinoh Shanghai is included in Lansinoh Business Segment

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As for the factors behind the decline in net sales, the greatest reason above all is the impact of COVID-19. The Japan business, owing to a deceleration stemming from inbound consumption in Japan, was the primary cause behind the YoY decline of JPY1.23 billion.

2020年12月期 第1四半期海外地域別売上高（概算）
Overseas Business Sales by Region (FY Dec. 2020 Q1)

(百万円) (¥millions)

Regions	19/12 第1四半期(前年同期) Year of Dec. 2019 (Result for Last year Q1)	20/12 第1四半期 Year of Dec. 2020 (Result for Q1)	前期比 YoY Change
中国(含む香港) China (incl.Hong Kong)	7,212	6,475	89.8%
その他アジア Other Asian Countries	2,206	2,111	95.7%
アジア合計 Total of Asian Countries	9,419	8,586	91.2%
北米 North America	2,163	2,045	94.5%
欧州 Europe	733	669	91.3%
中近東 Near and Middle East	783	682	87.1%
その他地域 Other Regions	168	186	110.7%
レート (対USD) Currency Rate (US\$1)	110.21	108.97	
レート (対CNY) Currency Rate (1CNY)	16.32	15.61	

2020年12月期 第1四半期 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 Q1)

(百万円) (¥millions)

Countries / Regions	19/12 第1四半期(前年同期) Year of Dec. 2019 (Result for Last year Q1)	20/12 第1四半期 Year of Dec. 2020 (Result for Q1)	前期比 YoY Change
台湾 Chinese Taipei	156	127	81.4%
韓国 Korea	425	530	124.7%
シンガポール Singapore	215	226	105.1%
マレーシア Malaysia	269	201	74.7%
インドネシア Indonesia	509	464	91.2%
タイ Thailand	253	224	88.5%
インド India	141	85	60.3%

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Next, overseas, the yen's appreciation from last year against currencies, including the Chinese yuan and US dollar, has resulted in a negative impact of roughly JPY0.45 billion on sales caused by foreign exchange. Also, COVID-19's impact affected the China Business, mainly in February. Although China entered a recovery track since March, the cumulative first-quarter results fell short. In the Singapore Business, too, we started seeing an impact from March. Against this backdrop, on a local currency basis in each country, we saw a drop in sales compared to the previous fiscal year.

As for gross profit, the decline in sales was accompanied by robust demand for products like disinfectants, detergent, and wet wipes in Japan and China. Meanwhile, high-margin products such as nursing bottles and nipples posted a decline in sales. As a result of such product mix factors, the CoGS ratio deteriorated.

Also, in the Japan business, the decline in inbound sales resulted in a rise in the CoGS ratio at Japanese factories. Companywide, the gross profit margin declined by around 0.8 percentage points. Consequently, gross profit decreased by JPY1.51 billion.

As for operating income, despite SG&A expenses falling JPY0.41 billion groupwide, the reduction in SG&A expenses was insufficient to absorb the decline in gross profit. Accordingly, Companywide operating income decreased by roughly JPY1.1 billion.

Regarding the reason why SG&A expenses did not decline much, one of the reasons is that the impact of COVID-19 in each country, except for China, mostly emerged from March. In January and February, marketing activities took place as usual, and various other activities were carried out as well.

Also, in China, we saw some disruptions in logistics caused by the COVID-19 outbreak, resulting in higher-than-usual logistics costs. Due to these factors, SG&A expenses did not fall much.

For your reference, we'll also share the current situation. However, because these matters are related to 2Q, we cannot share the specific numbers.

In China, we have continued to be on a steady recovery track since April. However, in Japan, Europe, and especially in Southeast Asia as well as the Middle East, the impact of COVID-19 has

taken an even greater toll since April. Companywide, we are still in the midst of a very tough situation.

Outlook of COVID-19 : Potential Key Factors Affecting to Our Business Results

Key factors :

1. When can we see the sign of "end of Pandemic" of COVID-19 all over the world?
2. How soon and how much of recovery in business activities and consumption trends can each country make after the end of COVID-19 pandemic?

Business	Key factors affecting to our business results	Case 1: Impact would be modest	Case 2: Impact would be serious
Whole world	The timing of end of the COVID-19 pandemic	COVID-19 Pandemic in many countries will end in the early second half of 2020, the business and economic activities will resume as normal, and personal consumption immediately begin to recover.	COVID-19 pandemic will continue until late in the second half of 2020 and that stagnate or even shrink business and economic activities, and personal consumption.
Japan	<ul style="list-style-type: none"> • Inbound demand • Personal consumption 	Inbound demand and personal consumption will begin to recover early second half of 2020.	Inbound demand and personal consumption will stagnate or even shrink throughout 2020.
China	Personal consumption	Personal consumption will make a strong recovery driven by "Revenge spending".	Personal consumption will make a mild recovery and not strong as Pre-COVID-19 throughout 2020.
Singapore • India • Malaysia	Restrictions on business activities	Business activities will get back to normal early second half of 2020.	Pandemic will continue until late in the second half of 2020 and that brings serious impacts on business and economic activities as well as the lives of individuals.
Lansinoh • USA • Europe	Personal consumption in US and each Europe country	We will see the signs of end of pandemic and personal consumption starts recover	Personal consumption expenditures will remain the lowest throughout 2020

Other factors : Sharp rise of the price of raw materials, Prolonged stagnation of suppliers, retailers and business partners, and FX rate

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Our Revised Earnings Forecast of FY Ending December 31, 2020

We revised the earnings forecast as below based on the information available to the Pigeon Group as of today. This is because the pandemic of the COVID-19 seems still ongoing in many countries around the world in the first quarter of the current fiscal year and beyond. (We disclosed this announcement to the Tokyo Stock Exchange on June 4, Thursday.)

(Millions of yen unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of Parent	EPS (Yen)
Previous Forecast (A)	109,000	18,100	18,100	12,600	105.23
Revised Forecast (B)	98,500 to 102,400	13,400 to 15,500	13,900 to 16,000	9,600 to 10,900	80.17 to 91.03
Change (B - A)	(10,500) to (6,600)	(4,700) to (2,600)	(4,200) to (2,100)	(3,000) to (1,700)	(25.05) to (14.20)
Change (%)	(9.6) to (6.1)	(26.0) to (14.4)	(23.2) to (11.6)	(23.8) to (13.5)	(23.8) to (13.5)
[Ref.#1] Dec./2019 results*	100,017	17,072	17,284	11,538	96.37
[Ref.#2] Dec./2019 results 12 months Estimated	103,514	17,213	17,367	11,594	96.82

*The consolidated fiscal year ended December 31, 2019 has changed to the 11 months from February 1, 2019 to December 31, 2019, as a transition period.

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In light of these recent conditions, as we issued in a press release, we decided to revise our full-year earnings forecasts based on a target range.

Many uncertainties still exist right now, and, honestly, developing a specific or definite estimate remains quite difficult. The forecast is based on information that Pigeon can obtain at this stage. We set two assumptions, by which we revised the earnings forecast with a target range, according to two scenarios: “a scenario in which the impact is minimal” and “a scenario in which the impact will grow prolonged.”

For the requirements of the two assumptions, as we explain in the supplementary material, the case in which the global impact is small points to a scenario where the spread of COVID-19 heads toward containment at an early stage in the second half of this year in each country. Meanwhile, the other case is a scenario in which places affected the most by COVID-19 would continue to experience a serious impact through the second half of this year. Broadly speaking, we have formulated our forecast based on these two assumptions.

In Japan, the focus is especially on inbound demand. The question will be whether Japan’s consumption trends will recover in the early stage of the second half of the fiscal year, or whether the current trend will last until the end of this year. In the Singapore area, particularly in India and Malaysia, the focus is on whether corporate activities and logistics will recover at an early stage or last through to the end of the fiscal year.

Our assumptions are based on these conditions, and we have accordingly set a target range for our forecast.

Going forward, we will continue to put these factors under scrutiny, and, of course, we will announce more details as soon as we have a better idea of the situation through proper disclosure.

This concludes the presentation.

Question & Answer

[RELATED PLANS]

Q. Please tell us the details of the revised plan when the impact is small and the impact is large.

A. First, conditions differ across countries and regions. We estimate 2 patterns: whether the recovery period will recover from the early second half, July to August, in Japan, China, and Singapore. Or whether the covid-19 effect will remain until the end of the current fiscal year.

Q. What is your forecast for inbound sales in Japan year-on-year change in the case of large impacts and the case of small impacts?

A. Previously, we had estimated the inbound portion based on our sales results by product category and the growth rate of the Japanese market. However, in the current quarter, it became difficult to estimate the inbound portion using the conventional method because of the simultaneous occurrence of special demand for some products and a decrease in the number of tourists visiting Japan. On the other hand, given that we have been estimating inbound sales according to ambiguous information since the past, we have been working continuously to devise a way to share more accurate data to our stakeholders. In this context, regarding “inbound store sales”, we can now obtain numerical data with a certain degree of precision.

Therefore, we would like to present these figures as "inbound information" in the future.

The overall inbound sales came to roughly JPY5.6 billion based on the former estimation method. When converting this figure to “inbound store sales” alone, during the previous year over 11 months, sales came to roughly JPY3.3 billion. In the first quarter of last year, sales were roughly JPY1.2 billion. Meanwhile, sales for the first quarter of this year amounted to about JPY0.5 billion. Thus, sales have fallen by more than half.

From the 2Q of last year, the 2Q was about JPY1 billion, the 3Q was about JPY700 million, and the 4Q (for 2 months) was about JPY400 million, which was about JPY600 million when converted to 3 months.

The "large impact" scenario assumes that the portion after the 2Q will be virtually eliminated, that is, approximately JPY2.3 billion will disappear from the 2Q to the 4Q. Since the 1Q of FY3/17 was about JPY500 million versus JPY3.5 billion in the previous fiscal year, 12 months, the full-year figure, assuming no future inbound, is estimated to be negative 85% compared to the previous fiscal year.

Even if the impact is small, the JPY1 billion in the 2Q of the previous fiscal year will be difficult, and the assumption is that sales will gradually recover from the 3Q onward. If sales were to some extent posted in the 3Q, it was negative 70% for the full year compared to the previous fiscal year.

Q. Please tell us the sales growth rates of the Japan, China, Singapore, and Lansinoh businesses at the lower and upper limits of the revised plan.

A. There is no content that can be conveyed up to the breakdown of each segment. The image of the Japanese business is that it has been negative 5% since the previous year in the case of "the impact is small" first of all for the Japanese business.

In the case of large impacts, the rate is assumed to be in excess of minus 10 percent. With regard to China, the assumption is that "cases with small impacts" will be about the same level as the previous year, and "cases with large impacts" will be less than the previous year.

Q. Even on the assumption that inbound tourists will be negative 85% year-on-year, it is said that consumption in Japan will recover considerably in the order of negative 5-10% for Japan as a whole.

A. Last year, the Company released "Inbound Store Sales," which amounted to approximately JPY3.5 billion per year, representing an impact of around 10% of sales of baby and mom in Japan. Therefore, even if this part falls to a certain extent, the impact on the whole is small.

Q. What risks are included in the case of the impact of the revised plan's results in China?

A. The second and third waves of Covid-19virus effects are likely to occur in China. The impact of the Covid-19virus is significant, and the e-commerce ratio is rising remarkably. Depending on the logistics situation of e-commerce, it may be able to overcome the impact of the second and third waves of Covid-19. However, the market structure may change in conjunction with this, so it is difficult to forecast the future. Now, however, China's consumer spending is expected to be firm even as the Covid-19 impact has subsided to some extent.

Q. Are you concerned about demand or supply in Japan, China, or elsewhere?

A. Of course, each country's situation varies, and when incorporating all kinds of factors, we estimate that even developing an underlying assumption would become difficult. Broadly speaking, we are concerned about demand in Japan. The problem surrounding consumer trends in Japan, including inbound demand, relates to supply rather than demand. Conversely, in China, we are more concerned about the risks to supply rather than demand.

[Japan Business]

Q. Please tell us about Japanese wet tissues, baby skincare products, nursing bottles, and the direction of each product in the future.

A. As you say, in Japan, too, we saw a very strong growth in wet wipes and disinfectants. Conversely, the number of visitors to Japan declined sharply to the point of hitting almost zero. Thus, the products that see a strong boost from inbound demand, such as nursing bottles and nipples, as well as skincare products, especially Peach Leaves, have been affected very seriously, leading to a decline in their sales composition ratio.

Regarding nursing bottles and skincare products, the main reason for the slump is the sharp decline in inbound demand. So, results would inevitably be swayed heavily by the impact going forward, with respect to how much of the visitors to Japan will return to prior levels, and this will likely be linked to sales.

Meanwhile, the boost in demand for specific products will likely wind down gradually once the situation recovers to some extent in Japan. These products with a one-off increase in demand carry low profit margins, so once the special demand subsides, we think the direction of the gross margin should be headed for a slight improvement.

Q. What is the first-quarter sales of sanitary supplies, which are the specialty products of this time? Also, what about a reactionary decline due to inventory in the household?

A. Sales growth from the previous fiscal year was positive 33% for baby cleaning and disintegrating solutions and 31% for baby wet tissue. These 2 are growing very strongly. Regarding household inventories, the company is aware that there is a possibility that they may have accumulated, and this special demand is expected to remain low. Looking at the current sellout situation, it seems that the situation has settled down to a certain extent.

[China Business]

Q. What is the growth of China's 1Q on a local currency basis, and what is the state of e-commerce and offline?

A. On a local currency basis, sales in China are negative 8%. In February, the plant was suspended for about half a month, and in March, the plant showed signs of recovery. However, it was difficult to recover the negative figure in February in 1 month of March. However, the sellout of the 1Q is on a par with the previous fiscal year. On the other hand, confusion in logistics made the sell-in difficult. With regard to e-commerce in China, the percentage of online sales in the 1Q (sellout) is 57% online and 43% off-line, indicating that the percentage of online sales is rising. This is the average from January to March, with over 60% online in the most recent March alone. As a whole, sellout sales were 100% YoY, but online sales were up 15% YoY and offline sales were down 14%.

Q. What is the outlook for China's margins from the 2Q in China?

A. There are 2 reasons why China's profit margins are falling in the 1Q. The first is the sales product mix. The composition of baby bottles and nipples is decreasing, and detergent system, skin care, antiseptic solution, etc. are increasing. Another factor is the increase in logistics expenses due to the disruption of logistics. The product mix was affected by the turmoil in February and March, and there were special product trends and preferential shipments, but we expect the situation to gradually return to normal in the future. We also believe that logistics costs will improve as confusion is resolved. On the other hand, the percentage of e-commerce is rising, and while this has a high gross profit, it also involves logistics and other expenses, so the trend for SG&A expenses to be slightly higher is likely to continue for a while.

Q. Would you tell us your outlook for China's nursing bottles and baby skincare trends?

A. In Q1, the share of nursing bottles and nipples is temporarily declining. Skin care products are showing considerable growth due to the problem of Covid-19, which includes products for special use in cleaning systems. In the background, disinfectants and cleaning agents were preferentially delivered in this first quarter, and it is expected that the composition of baby bottles and nipples will gradually recover from the second quarter onwards. On the other hand, in respect of skin care, as we have heard that it will continue to be steady from April onwards, if conditions recover in the future, I think that these 2 categories will also be the driving force behind it.

Q. What is the situation in China after March?

A. China fell considerably in February. Compared to that, there has been a considerable recovery. Compared to the previous year, March saw a significant increase. This trend led to a steady recovery in April as well.

Q. Due to the impact of the Covid-19virus, what efforts are being made now in the activities of hospitals and maternity clinics in China?

A. The seminars that had been held in maternity and hospitals have been switched to online and are being implemented. In China, the use of online is very successful, and the activities of hospitals and maternity clinics are continuing without stopping.

Q. Are there changes in the competitive landscape due to the rapid increase in online sales in China?

A. Although we have not received any detailed information yet, we haven't heard about a rapid decline in our market share. However, in the 1Q, consumables such as disruptions were temporarily transported preferentially, making it difficult to compare the situation with the past. When the 2Q closes, I think it will become clear.

Q. How will the Chinese skin care Ssence be manufactured and progressed?

A. Development is progressing as planned. It is scheduled to be launched around this June 18 e-commerce event, and it is in the final adjustment.

[Lansinoh Business]

Q. What is the situation in Lansinoh North America?

A. U.S. offices are basically moving forward under a telecommuting system, but the company is outsourcing logistics, and shipments themselves are normal.

[Others]

Q. What is your view of the number of births on a global basis due to the impact of Covid-19?

A. Forecasts are difficult. We believe that the number of births will temporarily decline. These health concerns do not necessarily give rise to the psychology of getting pregnant and going to the hospital. Of course, if the Covid-19 effect converges properly and returns to normal, it will return to consciousness.

That is all.