Summary of Telephone Conference for the Q3 of the Fiscal Year Ending 31 December, 2021

[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 4, 2021 4:00 PM (JST)
Number of Speakers:	3
	Seiji Kaneda Senior Manager, Business Strategy Department
	Yasuo Kanatsuka, Manager, Business Strategy Department
	Sho Hiratsuka, Associate Manager, Business Strategy Department

Kanatsuka: Thank you for participating in the financial results briefing for the third quarter of the fiscal year ending December 2021 of Pigeon Corporation. Today's attendees are Kaneda, Kanatsuka, and Hiratsuka from the Business Strategy Department.

First of all, from this fiscal year, we changed the revenue recognition standard for our Japan and China businesses. As a result of this change, a portion of sales promotion expenses, which were previously recorded as SG&A expenses on the profit and loss statement, and sales discounts, which were previously recorded as non-operating expenses, are reduced from the sales amount.

For details, please refer to "Application of the Accounting Standard for Revenue Recognition, etc.", on page 10 of the summary of financial results for the third quarter of fiscal year ending December 2021.

The results for this Q3, which we are going to talk about today, will refer to the differences between the estimates by applying the new revenue recognition standard to the previous fiscal year's Q3 results (hereafter "the last Q3") and this Q3 results.

As a result, please note that the figures are different from the comparisons of the last Q3 results based on the old standard with this Q3 results based on the new standard, shown in the summary of financial results announced today.

Results – Consolidated PL (Q3 YTD) (under New Standard)

(Unit: Million JPY)	Q3 / Dec. 2020		Q3 / Dec. 2021		
	Actual	% of Total	Actual	% of Total	YoY Change
Net Sales	70,127	100.0%	69,426	100.0%	99.0%
Cost of Sales	36,580	52.2%	36,247	52.2%	99.1%
Gross Profit	33,547	47.8%	33,179	47.8%	98.9%
SG&A Expenses	21,065	30.0%	22,735	32.7%	107.9%
Operating Income	12,481	17.8%	10,444	15.0%	83.7%
Ordinary Income	13,569	19.4%	11,774	17.0%	86.8%
Net Income Attributable to Owners of Parent	9,365	13.4%	7,185	10.3%	76.7%

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

[Currency rates]
Dec. 2021 Results: US$1 = JPY 108.54 / CNY 1 = JPY 16.77
Dec. 2020 Results: US$1 = JPY 107.55 / CNY 1 = JPY 15.37

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In this Q3, the Group’s net sales were JPY69.4 billion, 99% YoY. Gross profit was JPY33.1 billion, down about JPY360 million YoY.

Operating income was JPY10.4 billion and ordinary income was JPY11.7 billion. Net income attributable to owners of parent was JPY7.1 billion, down about JPY2.1 billion, 76.7% YoY.

Results – by Business Segment (Q3 YTD) (under New Standard)

(Unit: Million JPY)	Q3 / Dec. 2020				Q3 / Dec. 2021				
	Actual	% of Total	Gross Margin	Segment Profit	Actual	% of Total	YoY Change	Gross Margin	Segment Profit
Consolidated Net Sales	**70,127**	**100.0%**	**47.8%**	**12,481**	**69,426**	**100.0%**	**99.0%**	**47.8%**	**10,444**
Japan Business	31,214	44.5%	34.1%	2,267	29,267	42.2%	93.8%	34.6%	1,686
China Business	26,324	37.5%	52.9%	9,729	27,640	39.8%	105.0%	51.9%	9,161
Singapore Business	9,617	13.7%	39.4%	1,745	9,170	13.2%	95.4%	38.7%	1,354
Lansinoh Business	9,498	13.5%	56.1%	1,392	9,562	13.8%	100.7%	54.4%	718
Elimination of inter-segment transactions	(6,527)	(9.3%)	—		(6,214)	(9.0%)	—	—	

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

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Here is the breakdown of net sales by segment. The steepest decline in net sales was in the Japan business, net sales declined by about JPY2 billion YoY. Since last year, the business has been affected by COVID-19, which has weighed on sales, especially in the Domestic Baby & Mother Care business, which saw a decrease in sales of approximately JPY1.1 billion YoY. In the Health and Elder Care business, sales decreased by approximately JPY700 million compared to the previous fiscal year, but the decrease was due to the structural reforms that we have been undertaking since this year, and the results were better than planned.

The next largest drop in sales was in the Singapore business. In the ASEAN region, the impact of COVID-19 in Indonesia and the Middle East had a significant impact on sales in Singapore, resulting in a decrease of approximately JPY400 million in sales. There was an impact on both sales office and factories, as an image, each accounting for a decrease in sales of about JPY200 million YoY, respectively.

In the China business, sales increased by 5% YoY denominated in yen, but were slightly below the same period last year on a local currency basis. Considering the gap between sell-in and sell-out in Mainland China, predominance sell-in, in the first half of the year, we focused on promoting sell-out in China in the third quarter. As a result, in terms of sell-out, the online channel was below the previous year's level in the second quarter, but it exceeded the previous year's level in the third quarter alone and recovered to the same level as the previous year on a cumulative basis. However, in terms of offline sell-out, it has been slower than we had expected and resulting in slow offline sales growth in the third quarter.

For your reference, Out of the total sell-out sales in this fiscal year, the online ratio is 66.6%, 0.4% down and offline sell-out sales ratio is 33.4%, 13% down. In total, sell-out sales are down by about 5% YoY.

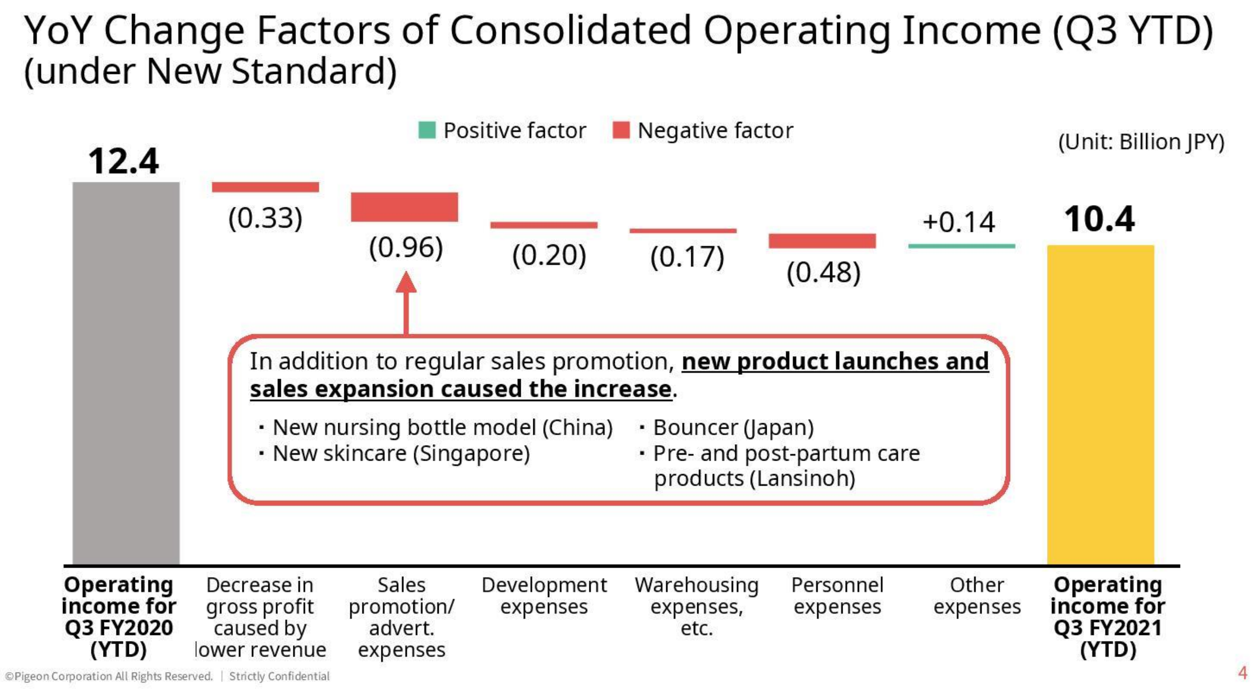
In addition, we would like to announce that the sell-out growth rate for the same period last year has been updated. In the first 9 months of the previous fiscal year, the online sales ratio was 63.4%, up 36.3% YoY, while the offline sales ratio was 36.6%, down 13% YoY. In total, sell-out sales were up

12.9% YoY. That's the situation last year. As I mentioned after the second quarter, last year's high demand may have been quite irregular.

By the way, for your reference, compared to sell-out sales in 2019 vs 2021, online sales were up 36% from 2019, while the situation was tough for offline sales, which were down 25% from 2019. In total, sell-out sales are growing, with sales being up 7% from 2019. We hope to continue to grow sell-out sales in the future.

In the Lansinoh business, we have been struggling in the China area where price competition for consumables is fierce, but we have made good progress in Europe and the North America area. In the North America area, we ended the period with slightly more than the same level of sales last year, and thanks to the effect of the weaker yen, the Lansinoh business ended the period with an increase of 0.7% in sales YoY in JPY. In the current fiscal year, in particular, soaring logistics costs are having a significant impact on cost of sales and SG&A expenses. The unit price of shipping from Asia to North America and from Turkey to North America has been rising rapidly, and the upward trend is continuing. In North America, the shortage of truck drivers is also becoming more pronounced, and sales that would normally have been generated in the third quarter are now sliding into the next quarter.

As for the consolidated operating income, while sales or gross profit is getting tougher, SG&A expenses increased by about 1.6 billion yen from the previous fiscal year, resulting in a decrease of about 2 billion. In terms of SG&A expenses, this year we have been investing a lot of money in new product development, sales promotion and advertising expenses for new product launches, and expenses for strengthening e-commerce. As a result, SG&A expenses have increased compared to the previous year. However, compared to our internal plan, SG&A expenses are under control to a certain extent at the moment.



As mentioned above, there has been a large increase in sales promotion and advertising expenses for the launch of new products and sales expansion. The new nursing bottles are currently being sold as planned in China from September. In addition, we launched a new skincare product in Singapore and a bouncer product in Japan.

Summary of Results by Business Segment (Q3 YTD)

Net Sales: Sell-in (at local currency)

Japan Business

Net sales declined due to easing special demand driven by the COVID-19 pandemic and the 5th wave of COVID-19 since July

- Net sales in Domestic Baby & Mother Care Business declined by 5% year on year. In addition to easing special demand for consumables such as bottom wipes driven by the COVID-19, the 5th wave of COVID-19 caused people to stay at home, resulting in a decrease in purchasing frequency.
- Sales of UV care products and baby strollers decreased due to people staying at home and unseasonable weather. On the other hand, sales of baby food, baby dental care products, and breast pumps increased year on year due to stay-at-home consumption.
- Health and Elder Care Business experienced sales decline by 15% year on year because of the streamlining unprofitable products.
- Gross margin improved by +0.5 points due to a decrease in the composition of consumables and an improved margin of health and elder care product mix.

China Business

In Q3, online sales recovered to the same level as the previous fiscal year on a YTD basis by focusing on sell-out increase

- Sell-in results in mainland China decreased by 3% year on year. Temporarily suppressed sell-in and focused on sell-out increase. Online sell-out results for Q3 alone increased year on year.
- Sales of skincare products increased by 18% year on year thanks to contribution of new products including Avocado series and Yuzu series.
- E-commerce sales accounts for 67% of total sales, up 4.0 points from the same period of the previous fiscal year.
- Online flagship stores showed robust sell-out results. On the other hand, overall offline sales decreased year on year although chain baby specialty shops continued to report strong sales.
- Net sales of nursing bottles decreased by 8% year on year. A new product “Ziran Shigan III” first launched at major online and offline shops from the end of September. Initial shipments completed on schedule, off to a good start.

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On page 5 is a summary of results by business segment.

In Japan, there was special demand for wet tissues and disinfectants last year due to COVID-19, but that demand has quickly run its course in the current year. In the third quarter, there was a sharp increase in the number of COVID-19 cases, which prompted people to refrain from going out or visiting stores, resulting in a rapid deterioration in sales.

In the China business, we have been focusing on sell-out, and online sell-out sales are improving. But, at the same time, we have been temporally adjusting sell-in, resulting in a slowdown in sales. Sales of skincare products in China continued to grow by more than double digits from the previous year. Sales of new products including the Avocado and Yuzu baby skincare series have been favorable.

Summary of Results by Business Segment (Q3 YTD)

Net Sales: Sell-in (at local currency)

Singapore Business

Some regions are recovering although the impact of the resurgence of COVID-19 cases in Q2 still remains

- Some regions are showing signs of recovery although the impact of the resurgence of COVID-19 cases still remains.
- Domestic sales in India and Malaysia continued to increase by 14% and 7% year on year respectively.
- In Q3 alone, sales in Singapore, Thailand, and Indonesia increased year on year.
- A new skincare series (Natural Botanical) launched in major countries.
- Loss of demand in Japan dampened the utilization of the factory in Thailand, leading to a decrease in gross margin by 0.7 points.
- Aggressive marketing promotion despite the pandemic put upward pressure on the advertisement and sales promotion expenses.

Lansinoh Business

Net sales increased by 1.4% year on year. Progress as expected, except for the sharp rise in logistics costs.

- Net sales in North America increased by 0.4% year on year. Sales of nipple cream, a main product, reported strong sales.
- Europe, especially Germany, Benelux, and UK increased sales. China, on the other hand, continues to face a difficult situation with a year-on-year decline.
- Sales of pre- and post-partum care products began in North America, European countries, and China, resulting in progress beyond expectations.
- Gross margin shrunk by 1.7 points due to soaring procurement logistics costs (as part of cost of sales). Soaring logistics costs (as part of SG&A) also curbed profit. Nevertheless, progress as expected except for the impact of the sharp rise in logistics expenses.
- New product development and marketing activities conducted almost as planned.

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The impact of COVID-19 is still lingering in the Singapore business. The Company's initial assumption was that the impact of COVID-19 would gradually tail off in the second half, but the recovery has been a little slower than anticipated. However, domestic sales in India and Malaysia have continued to increase YoY, indicating signs of recovery depending on the area.

In the Lansinoh business, sales increased by about 0.4% in North America and by 1.4% in total YoY based on local currency. Orders for pre- and post-partum care products, which were launched in the second quarter in North America, Europe, and China, have so far exceeded our expectations and we continue to hold high expectations for them. As I mentioned before, soaring logistics costs and logistics disruptions are affecting the Lansinoh business. If it weren't for the sharp rise in logistics costs, the Lansinoh business would be in line with the internal plan.

Major New Products Launched in Q3

Aiming for further growth by renewing the nursing bottles for the first time in ten years (launched in China first before global rollout). Japan and Singapore will also develop and market their own new products that best suit their respective markets.

China: New Model of Nursing Bottle

Japan: Wuggy Bouncer

Singapore: Skincare

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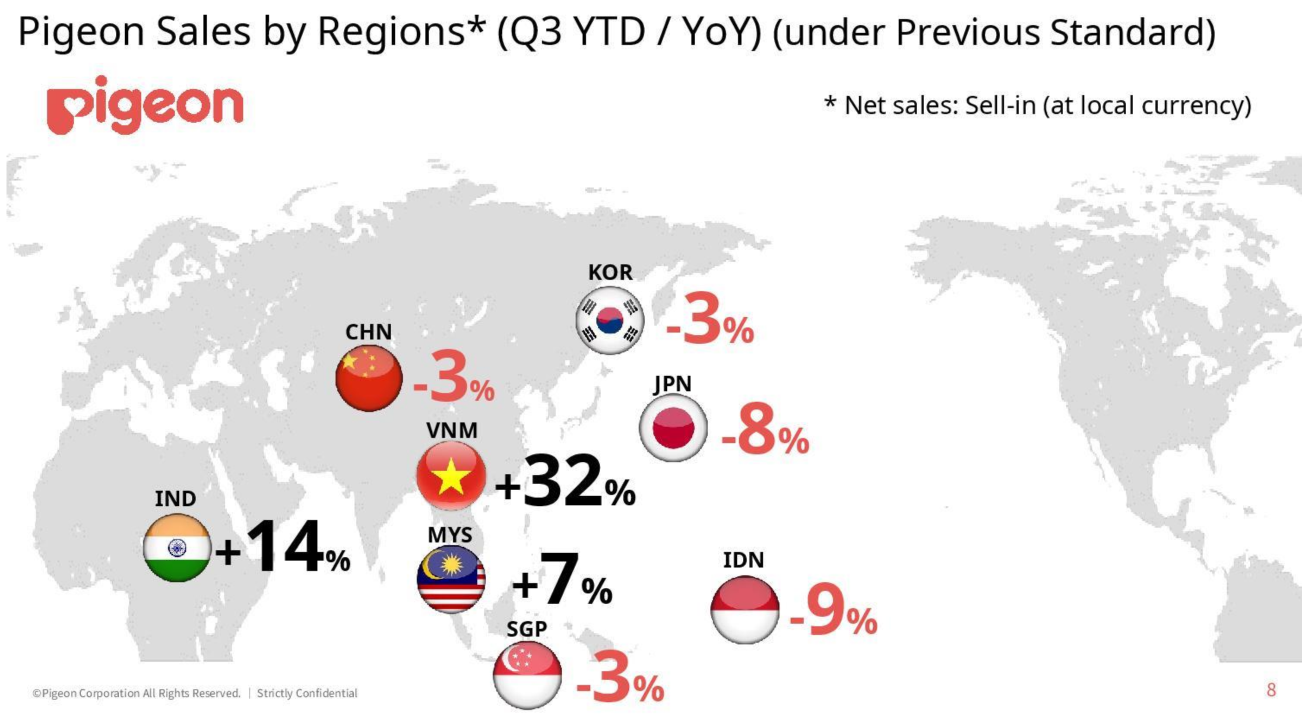
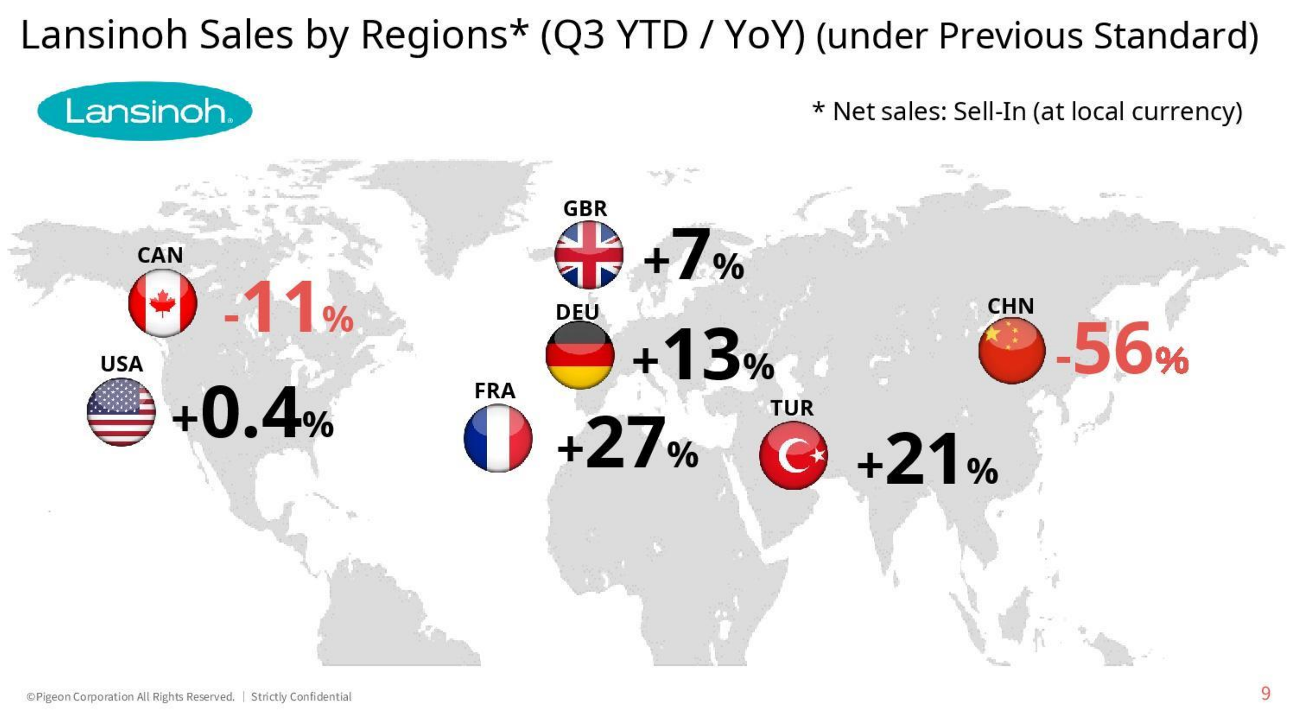
Page 7 shows the new products that were launched in the second half. This page is for your reference.



Page 8 onward explains the status of sales by area of the Pigeon brand.



Page 9 shows the status of sales by area of the Lansinoh brand.

Revision to Full-year Consolidated Earnings Forecast (under new standard)

Full-year earnings forecast revised downward based on Q3 (YTD) results.

(Unit: Million JPY)	Dec. 2021 Business Plan Previous Forecast		Dec. 2021 Business Plan Revised Forecast			
	Initial Plan	% of Total	Revised Forecast	% of Total	Change (Amount)	Change (%)
Net Sales	**100,800**	**100.0%**	**94,300**	**100.0%**	**(6,500)**	**(6.4%)**
Cost of Sales	51,300	50.9%	49,500	52.5%	(1,800)	(3.5%)
Gross Profit	49,500	49.1%	44,800	47.5%	(4,700)	(9.5%)
SG&A Expenses	33,000	32.7%	31,600	33.5%	(1,400)	(4.2%)
Operating Income	16,500	16.4%	13,200	14.0%	(3,300)	(20.0%)
Ordinary Income	16,700	16.6%	14,600	15.5%	(2,100)	(12.6%)
Net Income Attributable to Owners of Parent	11,100	11.0%	9,100	9.7%	(2,000)	(18.0%)

[Assumed currency rates] Dec. 2021: US$1 = JPY 109.22 / CNY 1 = JPY 16.90

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At the financial results briefing for the second quarter of this fiscal year, we left the full-year forecasts unchanged from the initial assumptions, but based on the situation up to the third quarter of this fiscal year, we have revised the consolidated forecasts downward as follows.

Net Sales : 94,300 million, -6.4% vs initial plan

Gross Profit : 44,800milliom, -9.5% vs initial plan

Operating Income: 13,200million, -20.0% vs initial plan

Ordinary Income : 14,600million, -12.6% vs initial plan

Net Income Attributable to Owners of Parent: 9,100million, -18.0% vs initial plan

Business conditions in the third quarter were harsh, especially in Japan and China. However, we expect net sales to increase by about 5% YoY for the fourth quarter alone.

We anticipate Lansinoh, Singapore, and China businesses to exceed last year's results on a local currency basis for Q4 alone. We expect the recovery trend is expected to continue into next year and beyond even there was a slight drop in the third quarter of this fiscal year.

Although the situation in Japan is challenging, we are currently making efforts to keep the results in the fourth quarter on par with the level last year.

This concludes my explanation of the third-quarter results.

Question & Answer

Q&As are summarized by Business segment.

[Consolidated]

Q. What are the main points of the financial results of each business in the Q3 alone?

A. Looking at the Q3 non-consolidated results by business segment, the Japan business, especially for domestic babies and mothers, was sluggish due to the re-expansion of COVID-19 from August and unseasonable weather during consecutive holidays, which kept customers away from shopping. Sales in China were below the previous year's level due to a focus on increasing sell-out while adjusting sell-in. In the Singapore business, although there are some areas that are recovering from COVID-19, such as India and Malaysia where we have sales companies, the overall recovery from COVID-19 is slower than expected for the Singapore business. Lansinoh business profit was affected significantly by logistical disruptions since the beginning of the fiscal year, such as soaring transportation costs caused by a shortage of containers and delayed shipments due to a shortage of truck drivers in North America, our main market. However, except for the impact of soaring logistics costs, Lansinoh is progressing almost as expected.

Q. Looking at inventories at the end of the Q3, there has been an increase compared to the end of the most recent Q2 and the end of the previous quarter. What are the reasons for this? What do you expect inventory levels in the fourth quarter?

A. There are two reasons for the increase in inventory. The first is due to the logistics disruption in the Lansinoh business since the beginning of the fiscal year. Due to the global shortage of containers and truck drivers in North America, the transportation time from our factories in Thailand and Turkey to our sales bases in Europe and the U.S. is now 70-80 days instead of the usual 40-50 days. Inventory in transit such as offshore inventory is also increased. The other reason is that the China business is preparation for shipments to Double 11 in Q4. Since full-scale shipments for Double 11 starts in October, it was necessary to secure a certain amount of inventory as of the end of September. As for the fourth quarter, we expect that inventory levels will remain high in the Lansinoh business as logistics disruptions are expected to continue, but inventory levels in the China business will come down if products are shipped smoothly to Double 11.

Q. I heard that more than 200 new SKUs will be launched in the second half of the year. Have you been able to launch them as planned?

A. We have been able to launch new products almost as planned, and about 70% of the planned 200 SKUs, including renewals, were launched in Q3. We will continue to focus on promotion and other activities from Q4 onward, such as the new nursing bottle model launched in China at the end of September and the new skincare series in Singapore, in order to expand sales.

Q. Regarding the downward revision of the financial forecast, please explain the background and impact by segment.

A. We announced this revision based on the expectation that the Q4 alone would be difficult to recover in addition to the gap between the initial plan and the actual results up to the Q3. The revised full-year forecast for operating income is 3.3 billion yen lower than the initial plan, and the breakdown by business is as follows: approx. 1 billion yen lower in the Japan business, approx. 1.7 billion yen lower in the China business, approx. 500 million yen lower in the Lansinoh business, and approx. 200 million yen lower in Singapore as an image.

Q. On a consolidated basis, what are the reasons why operating income appears less stretch compared with that of net sales in Q4 alone?

A. Since there will be Double 11 in China in Q4, we plan to spend positively the necessary expenses to expand awareness of new products such as nursing bottles and to increase sales in Q4. In other businesses also, we will continue to put the necessary expenses for new product promotion and new product development, so we do not expect the growth in operating income in Q4 alone to be as high as sales.

Q. How do you see the business performance of each segment on a local currency basis in the Q4 alone of this fiscal year?

A. In terms of Q4 sales, the China business is expected to grow by approx. 5% YoY in local currency, and the sales companies under the Singapore business are expected to grow by double digits YoY. In the Lansinoh business, we do not expect much growth as we expect the current logistics disruption to continue. In Japan, we are aiming for the same level as the previous fiscal year. Incidentally, on a Japanese yen basis, all businesses other than the Japan business are expected to grow year on year.

[Japan Business]

Q. What is the situation like now that the state-of-emergency declaration has been lifted? Are you seeing a recovery in demand?

A. We expect the recovery in Japan to be sluggish in the Q4 because the Japanesecustomers' sense of self-restraint and psychological anxiety due to COVID-19 disaster is likely to be stronger than in other region although the long emergency declaration was finally lifted and customers would come back to the stores. If COVID-19 continues to come to an end, we will be on a recovery track from next year. In Japan, a new nursing bottle model is scheduled to be launched in Q1 2022, so we will work to achieve solid growth in key products such as nursing bottles and skincare.

[China Business]

Q. I would like to know the status of sell-in and sell-out in mainland China in the Q3 alone.

A. In Q3 alone, sell-in in Mainland China decreased by 25% YoY and decreased by 17% compared to 2019. In the Q3, we adjusted our sell-in activities and focused on promoting sell-out. Total sell-out of Q3 alone in mainland China was unchanged from the previous quarter. The online sales ratio rose to 69.6%. Online sales grew 9.1% YoY and 28% compared to 2019. Offline sales were down 18% from the previous quarter, and down 30% or more from 2019. In China, even before COVID-19, there had been a shift of customers to online channels, but COVID-19 has accelerated this shift rapidly. Among offline channels, chain baby stores grew steadily by 7% YoY in the Q3 alone, and by 4% YoY in the cumulative total. Avocado skincare, which was launched exclusively for offline sales at the end of last year, has been selling better than expected with our good activities and features. We believe that there are opportunities for growth offline as well, depending on the products, sales methods, and other initiatives.

Q. In terms of sell-in, which product categories did you control in the Q3 alone?

A. We adjusted sell-in not in specific categories but in general, especially for offline. In consumables, there was some reactionary decline from last year's demand for COVID-19, but no specific category deteriorated more than expected, we focused on growing sell-out in the Q3 and suppressed sell-in overall.

Q. What level of sales growth do you expect in mainland China for this full fiscal year?

A. The segment profit margin for the Q3 was 29.2%, down 9 points YoY. There are two reasons for this. One reason is the decline in gross profit margin due to the change in product mix. The other reason is the increase in the SG&A ratio due to the fact that while we adjusted sell-in, we spent a lot in sales promotion expenses to increase sell-out and in the launch of new nursing bottle models. Regarding to the change in product mix, in addition to restraining overall sell-in in Q3, we adjusted the shipments of current nursing bottles, which have the highest profit margin, in July and August due to the upcoming introducing to new models in September. We expect Q4 operating profit margin to be around 30%, the same as in Q3.

Q. What is the status of sales of skincare products in Q3 alone?

A. Q3 alone was down 15% from the previous Q3. Last year's Q3 was very hard to beat, up 15% over vs 2019 due to the advance shipment of Double 11. In addition, the growth of skincare sales in the Q3 alone of this fiscal year appears to have slowed down due to the adjustment on sell-in. On the other hand, new products launched this fiscal year, such as the yuzu series, hot spring series, and avocado series sold only offline, are all performing well, resulting in double-digit growth in the cumulative Q3 compared YoY.

Q. I would like to know how well the new nursing bottles are contributing to the company's performance this fiscal year and next year.

A. At the end of September, we began selling the new nursing bottle model "SofTouch III Series" through major online and offline channels in the Chinese market ahead of the rest of the world. The initial shipments have been made as planned in the quantities. Although the shipping price of the new model is about 20% higher than the current model, it has been accepted without any problem by retailers and consumers. Since the timing of the introduction of the new model differs depending on the channel, the new model and the current model will be sold together in the market for a while, but the company expects to switch over to the new model by the first half of Yr 2022. As for the contribution to our business performance, we expect that it will be limited for this fiscal year as not all of our nursing bottles in the market will be switched to the new model during this fiscal year and the sales period is short. While we would like to increase shipments of new models, it is more important to smoothly switch over to new models. However, in the next fiscal year, the new models are in the market for almost all year round, so we expect their contribution to sales to be larger. As for the profit of the new models, in the first few years, profits will be slightly better than those of the current models. Once the depreciation costs disappear and production know-how is accumulated, the profit ratio will gradually be higher than that of the current models.

Q. How much do you expect mainland China to grow in the current fiscal year,?

A. It will be affected by Double 11, the current assumption for the year-to-date total will be on par with the previous year in mainland China. In Q3, we focused on increasing sell-out, which had a certain effect, but offline sell-out did not grow as much as expected, so we believe that we need to continue to adjust offline sell-n in Q4. On the other hand, we were able to launch new nursing bottle models online as scheduled, and we will work to further increase of sales in Double 11.

Q. What is the growth picture for mainland China in the next year?

A. By continuing to focus on these two categories, nursing bottle and baby skincare, we have the image of aiming for double-digit growth in mainland China next year. The nursing bottle category, which accounts for approx. 50% of sales, is expected to benefit from price hikes due to new models throughout the year, and the skincare category is growing every year, driven by new products. Although the external environment, including the uncertainty about the number of births, is challenging in some areas, the sell-In adjustment in offline is expected to be completed by the end of this year. We have the image of aiming for around double-digit growth in mainland China next year.

[END]