

**Summary of Financial Results Conference Call for Q1 FY Dec. 2023**

**[Points of Attention]**

This Summary is a reference for those who would like to review the session or event of the results briefing 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.

**[Date]** Thursday, May 11, 2023 16:40 - 17:30 (JST)

**[Speakers]** 2 speakers  
Yasuo Kanatsuka Manager, Business Strategy Department  
Sho Hiratsuka Associate Manager, Business Strategy Department

## 2023 Q1 Results - Consolidated P/L

- Both net sales and gross profit grew in the high single digits year-on-year. In addition to the increase in sales from the China and Lansinoh businesses, the impact of FX rates was also favorable.
- Operating income increased by 13.7% yoy. Increase in SG&A expenses (+8.2%) offset by increase in sales.
- Ordinary income decreased by 4.5% yoy due to the impact of foreign exchange gains/losses from the previous year.

(Unit: Million JPY)	Q1 / Dec. 2022		Q1 / Dec. 2023		
	Actual	% of Total	Actual	% of Total	YoY Change
Net Sales	21,714	100.0%	<b>23,613</b>	100.0%	108.7%
Cost of Sales	11,243	51.8%	<b>12,122</b>	51.3%	107.8%
Gross Profit	10,470	48.2%	<b>11,490</b>	48.7%	109.7%
SG&A Expenses	7,475	34.4%	<b>8,086</b>	34.2%	108.2%
Operating Income	2,994	13.8%	<b>3,404</b>	14.4%	113.7%
Ordinary Income	3,971	18.3%	<b>3,791</b>	16.1%	95.5%
Net Income Attributable to Owners of Parent	2,617	12.1%	<b>2,438</b>	10.3%	93.1%

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[Currency Rates] 2023 Q1 Results: US\$1 = JPY 132.39 CNY 1 = JPY 19.33  
 2022 Q1 Results: US\$1 = JPY 116.35 CNY 1 = JPY 18.32

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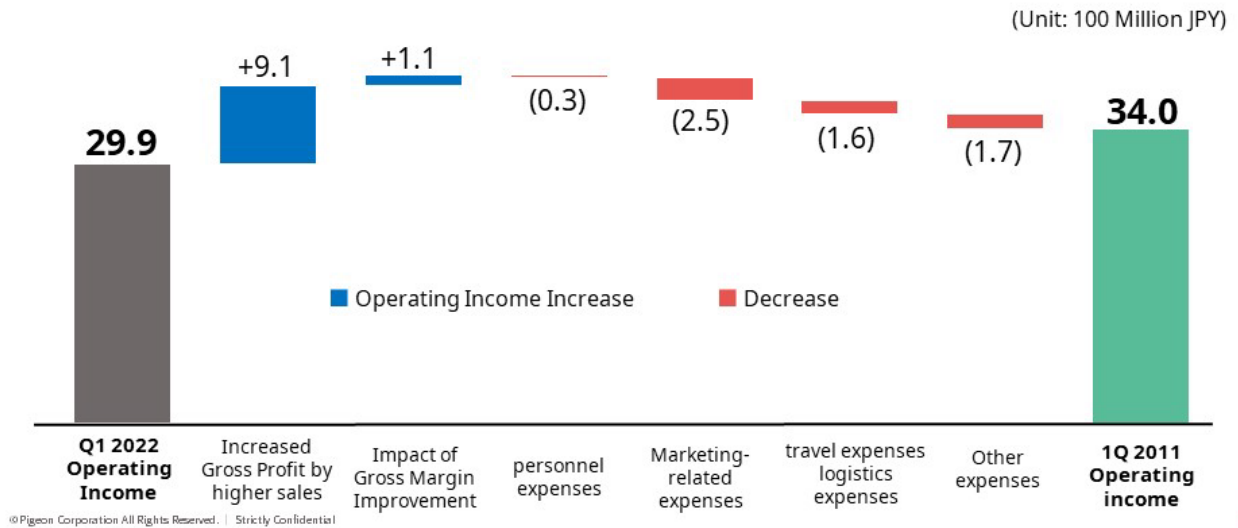
The Company ended the first quarter with an increase in sales and operating income on a consolidated basis. Both sales and gross profit grew in the high single digits, driven by the China business and Lansinoh business, and with a tailwind from foreign exchange effects.

Net sales were 23.6 billion yen, an increase of 8.7% over the previous year, or about 1.9 billion yen. Gross profit was 11.49 billion yen, up 9.7% from the previous year, or about 1.0 billion yen. Operating income was 3.4 billion yen, up 13.7% or approximately 0.4 billion yen from the previous year, as the increase in SG&A expenses was offset by the gross profit from increased sales. The operating income margin also improved by 0.6 percentage points year on year.

However, with regard to ordinary income, due to the impact of the previous period's difference in foreign exchange gains/losses and other factors, ordinary income decreased by 3.7 billion yen, or approximately 4.5% from the previous period, and net income for the quarter ended at 2.438 billion yen, a decrease of approximately 7%, or 0.17 billion yen year on year.

## 2023 Q1 Analysis of Change in Operating Income (YoY)

Operating income increased ¥0.4, higher sales covered higher SG&A associated with the reopening.  
 (Some of the sales promotion expenses, etc. have not yet been spent in Q1 as planned, will be carried over in Q2.)



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Consolidated operating income in the first quarter was up year on year due to the increase in gross profit with higher revenues however promotional expenses and travel and transportation expenses associated with the reopening from Covid-19 were increased. Against the company's forecast, a portion of sales promotion and other expenses were underspent in Q1 and those expenses are scheduled to be used in the second quarter.

## 2023 Q1 Results - By Business Segment

(Unit: Million JPY)	Q1 / Dec. 2022				Q1 / Dec. 2023				
	Sales	% of Total	Gross Margin	Segment Profit	Sales	% of Total	YoY Change	Gross Margin	Segment Profit
<b>Consolidated Net Sales</b>	21,714	100.0%	48.2%	2,994	23,613	100.0%	108.7%	48.7%	3,404
Japan Business	8,846	40.7%	35.8%	543	8,873	37.6%	100.3%	33.9%	439
China Business	7,892	36.3%	52.4%	2,532	8,600	36.4%	109.0%	54.1%	2,669
Singapore Business	3,069	14.1%	41.3%	514	3,491	14.8%	113.8%	38.9%	606
Lansinoh Business	3,551	16.4%	52.1%	168	4,538	19.2%	127.8%	52.8%	347
Elimination of inter-segment transactions	(1,645)	(7.6%)	—	—	(1,890)	(8.0%)	—	—	—

[Reference] Breakdown of Japan Business Segment

(Unit: Million JPY)	Q1 / Dec. 2022				Q1 / Dec. 2023				
	Sales	% of Total	Gross Margin	Segment Profit	Sales	% of Total	YoY Change	Gross Margin	Segment Profit
Baby Care	6,244	—	40.6%	648	6,176	—	98.9%	39.8%	579
Child Care Services	892	—	16.1%	52	895	—	100.3%	15.9%	56
Health & Elder Care	1,176	—	31.0%	86	1,146	—	97.5%	28.8%	60

In terms of sales by business segment in the first quarter, all businesses achieved year-on-year increases. Regarding gross profit, China, Singapore, and Lansinoh businesses posted increases. As for gross profit margins, the Japan and Singapore business were impacted by higher procurement prices and other factors. As for segment profit, with the exception of the Japan business, all businesses increased from the previous year.

## 2023 Q1 Summary of Results by Business Segment

<p>Japan business</p>	<p><b>Baby care sales slightly declined due to the bottle renewal in 2022, despite strong sales of consumables</b></p> <ul style="list-style-type: none"> <li>• Baby care sales declined 1.1% yoy.</li> <li>• Sales of baby food, beverages, wet tissues and other consumables increased yoy. On the other hand, sales of Nursing bottles and Nipples declined due to a rebound of the initial shipments of new models in Q1 of the previous year. Sales of Skincare were almost flat yoy due to increased demand for the Momo-no-ha series, despite a rebound of the renewal of the basic skincare series in Q1 of 2022.</li> <li>• A new category, “ME. by Pigeon” was launched at the end of February. Five products of pre-natal and post-partum perineal care products such as massage oil are now on the market.</li> <li>• Gross profit margin for Baby care decreased by 0.8 pt yoy. Factors included increased procurement costs due to yen depreciation and raw material price hikes.</li> <li>• Price revisions in baby-related products including Nursing bottles and nipples, as well as some Health &amp; Elder care products, effective from February.</li> </ul>
<p>China business</p>	<p><b>Business activity on the mainland was affected by the Covid re-expansion in January, but has been recovering since February</b></p> <ul style="list-style-type: none"> <li>• Mainland China sales* +0.6% yoy</li> <li>• Distribution of new models of Nursing bottles has spread throughout the land, and replacement demand for Nipples has completely shifted to new models.</li> <li>• Gross profit margin (JPY) of China business improved by 1.7 pt yoy due to higher sales of Nursing bottles and Nipples, and Skincare.</li> <li>• New products; Skincare for Kids launched in Q4 of previous year sold very well. Implemented interactive customer communication through Social media (Live commerce, etc.) and Offline channels.</li> <li>• Sell-out was down 6% yoy, +3% at EC channels, -21% at offline, current EC sales ratio: 67%. Major EC channels were down yoy, while our strategic EC channels such as Tiktok continued to grow.</li> <li>• Korea market: Renewed our domestic business structure and started full-scale sales activities under the new structure. Q1 sales* increased 33% yoy, great start as planned.</li> </ul>

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\*Sales: Sell-in at local currency

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### Summary by Business.

Japan Business. In the baby care business, sales of consumables such as baby food, beverages, and wet tissues increased from the previous year. On the other hand, however, sales of nursing bottles and nipples were lower than the previous year in reaction to the initial shipment of new models in the Q1 last year. Baby skincare sales also suffered a reactionary decline due to the renewal of the Basic Series in the Q1 of last year, but on the other hand, the Momo-no-ha (Peach leaves) Series saw increased demand, and overall skincare sales ended the year at almost the same level as the previous year.

New products include ME. by Pigeon, which has been on sale since the end of this February. This line includes a total of five products, including a massage oil for caring for perineal before and after childbirth. This series is based on the same concept as the Lansinoh prenatal and postpartum care products.

In addition, starting from this February, we have implemented price revisions in our Japan business for baby-related products, including nursing bottles and nipples, and for some health and elder care products.

China Business. Sales in mainland China ended the year with an increase of 0.6% over the previous year. Distribution of new models of nursing bottles penetrated throughout the country, and replacement demand for nipples also shifted completely to the new models. And gross profit margin also improved by 1.7 percentage points from the previous year, thanks to higher sales of nursing bottles, nipples and skincare. In addition, South Korea is off to a good start as planned, with a 33% increase in Q1 sales over the previous year due to the renewal of the domestic distribution system this year.

## 2023 Q1 Summary of Results by Business Segment

### Singapore Business

**Net sales and income increased yoy, but profit margin declined due to soaring raw material prices.**

- Net sales (JPY) increased by double digits compared to the previous year, partly due to the impact of FX rates.
- Sales\* in major countries were strong in the Middle East, Australia, and Indonesia. On the other hand, domestic sales in India were down 20%, Malaysia down 24% yoy. Inventory reduction trend is seen in some retailers.
- Sales ratio of Wide-neck Nursing bottles increased yoy due to strengthened branding of SoftTouch (The model name of Wide-neck nursing bottles) and SKU expansion.
- Gross profit of Singapore business (JPY) increased by 7% yoy. On the other hand, gross profit margin deteriorated by 2.4 pt due to lower sales at factories and soaring raw material prices.

### Lansinoh Business

**Strong sales in North America and other markets. Profits also increased due to a large increase in sales.**

- Lansinoh Group sales\* grew 12% yoy. North America +12% yoy.
- In Europe, sales\* in Benelux and Germany grew yoy. UK sales were flat yoy.
- As for sales\* of main products, sales of Nipple creams and Breast pumps decreased yoy due to a rebound from Q1 last year, but sales of Milk Storage Bags grew substantially due to the baby formula shortage in North America.
- Sales of pre/post-partum care products increased mainly in North America, resulting in double-digit yoy growth in Lansinoh group sales.
- Gross profit (JPY) increased significantly yoy due to the impact of increased sales. Gross profit margin (JPY) also improved by 0.7 pt yoy due to a higher sales and change in the product mix.

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\*Sales: Sell-in at local currency

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Singapore Business. Net sales grew by double digits from the previous year, partly due to the impact of foreign exchange rates.

In terms of products, the ratio of sales of wide-neck nursing bottles also grew year-on-year due to the strengthening of branding and SKU expansion, which will be the focus of the 8th Mid-Term Business Plan. While gross profit increased 7% y-o-y due to increased sales, the gross profit margin deteriorated by 2.4 percentage points y-o-y due to decreased sales at factories and soaring raw material prices.

Lansinoh Business. The Lansinoh Group ended the year with sales up 12% over the previous year, and North America also ended the year with sales up 12% year-on-year. In Europe, sales in Benelux and Germany grew from the previous quarter; UK ended at the same level as the previous quarter.

Sales of prenatal and postpartum care products are growing, especially in North America, and the Lansinoh Group as a whole achieved double-digit growth in sales compared to the previous year. The gross profit of the Lansinoh business grew significantly from the previous fiscal year due to the impact of increased sales. The change in the product mix also contributed to a 0.7 percentage point improvement in the gross profit margin.

From page 8 of the supplemental material onward, sales by region for the Pigeon and Lansinoh brands and EC ratios for major markets will be shown, so we will not explain them.

## Q&As

\*Questions and answers are listed by business category.

### [Group Consolidated]

#### **Q. What was the impact of foreign exchange rates on consolidated results in the Q1?**

A. In the Q1, there was a positive impact of approximately 0.6 billion yen on consolidated net sales, 0.4 billion yen on gross profit, and 60 million yen on ordinary income compared to the previous year's exchange rate.

#### **Q. What was the impact of the sharp rise in raw material prices at the end of Q1? Is there any change from the company's full-year forecast?**

A. As of the end of Q1, we estimate that the impact of raw material price hikes, including the effect of exchange rates, was about 0.3 billion yen for the entire group compared to the previous year. We expect the full-year impact of the cost hike to be slightly more than 1 billion yen, and we see the Q1 impact is within the our expected range.

#### **Q. How did consolidated sales and profit progress against company's forecast?**

A. Both net sales and operating income in Q1 were above the company's forecast. Net sales of Japan, China, and Lansinoh businesses was slightly better than expected, the Singapore business made weaker progress than our forecast. For example, in mainland China, the company had assumed that the re-expansion of Covid-19 would have a large impact, but in fact the market environment improved slightly from around March. Also, although the company did not anticipate any inbound demand from Japan, there were positive factors such as growth in overseas demand from cross-border e-commerce.

Operating income also exceeded expectations in Q1, but this was mainly due to some of the SG&A expenses (mid-single-digit billion yen) planned for Q1 being unused and carried over to Q2.



**Q. Do you plan to spend all carried over SG&A expenses from in Q2?**

A. For example, there were unused portions of SG&A expenses in Japan, China, Singapore, and the Lansinoh business in Q1 due to delays in the timing of promotional activities. Since these unused portion of SG&A expenses (mid-single-digit billion yen for the entire group) will be implemented in Q2, we expect that SG&A expenses in Q2 alone will be much higher than our initial forecast.

**[Japan Business]**

**Q. Is there a recovery in inbound demand?**

A. Our pre-Covid inbound demand was mainly from mainland Chinese tourists, and as of the end of Q1, we did not feel any recovery in inbound demand at all. On the other hand, we understand that overseas demand, centered on Momo-no-ha skincare, including cross-border e-commerce demand, has been growing compared to the previous quarter.

**[China Business]**

**Q. How do you see 6% of sellout decrease y-o-y?**

A. Considering the impact of the re-spread of Covid-19 from the elimination of the zero covid policy at the end of last year to the beginning of this year, the Q1 results were within our expectations. By channel, EC sales grew 3% y-o-y, while offline sales declined 21% y-o-y. The offline channel had been on a downward trend since the Covid-19 pandemic, but in Q1 last year, a local lockdown began in mid-March in mainland China, and customers temporarily purchased more items at offline stores to compensate for delivery delays on the EC side. As a result, offline store sellouts grew by plus 7% in Q1 2022 compared to the same period in 2021, making offline particularly hard in Q1 this year.

**[Singapore Business]**

**Q. What is the background of underperform of sell-in in India and Malaysia y-o-y?**

A. Conditions differ from market to market, but the overall trend in Southeast Asia and India in 2022 was that sell-in was ahead of sell-out due to brisk purchasing activity on the distribution side in anticipation of a recovery in Covid-19. However, recently there have been changes in the external environment, such as rising inflation, and in addition to concerns about the impact on personal consumption, there have been moves on the part of some distributors to reduce inventories, and as

a result, sell-in in major countries in Q1 was lower than in the previous year. On the other hand, sell-outs are growing y-o-y, and we will continue to focus on increasing sell-outs to recover our business performance.

[END]