

Summary of Results Briefing for the Q3 of the Fiscal Year Ending December 31, 2022

[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 : Tuesday, November 8, 2022, 4:00 PM (JST)

Number of Speakers: 2

Yasuo Kanatsuka Manager, Business Strategy Department

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2022 Q3 Results - Consolidated P&L

Overall: Sales increased but profits decreased.
Net sales: Increased by +1.8% yoy, driven by core products mainly in the U.S., Europe, and ASEAN markets as well as the impact of yen depreciation.
Gross profit: GP margin declined 0.9 points yoy due to higher raw material prices and marine transportation costs.
SG&A: Increased by +6.0% due to higher overseas labor costs, logistics costs, and sales promotion costs associated with the reopening economy.

(Unit: Million JPY)	Q3 / Dec. 2021		Q3 / Dec. 2022		
	Actual	& of Total	Actual	% of Total	YoY Change
Net Sales	69,426	100.0%	70,707	100.0%	101.8%
Cost of Sales	36,247	52.2%	37,510	53.1%	103.5%
Gross Profit	33,179	47.8%	33,197	46.9%	100.1%
SG&A Expenses	22,735	32.7%	24,093	34.1%	106.0%
Operating Income	10,444	15.0%	9,103	12.9%	87.2%
Ordinary Income	11,774	17.0%	10,774	15.2%	91.5%
Net Income Attributable to Owners of Parent	7,185	10.3%	6,948	9.8%	96.7%

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【Currency Rates】 2022 Results: US\$1 = JPY 128.31 / CNY 1 = JPY 19.38
 2021 Results: US\$1 = JPY 108.54 / CNY 1 = JPY 16.77

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Consolidated results for the third quarter ended with an increase in sales and a decrease in income. Net sales were JPY 70,707 million, up 101.8% from the previous year, or plus JPY 1.2 billion.

Gross profit ended the year at JPY 33.1 billion, almost the same level as the previous year. The gross profit margin deteriorated by 0.9 percentage points from the previous year, due in part to the global surge in raw material prices.

SG&A expenses were JPY 24,093 million, 106% of the previous year's level, due to an increase in personnel and other expenses mainly in overseas operations, partly affected by foreign exchange rates, as well as aggressive use of SG&A expenses due to the progress of reopening in various countries.

Operating income was JPY 9,103 million, 87.2% of the previous year's level, and operating margin was 12.9%.

Net income attributable to owners of parent was JPY 6,948 million, 96.7% of the year-before level, or down JPY 230 million YoY.

2022 Q3 Results - By Business Segment

(Unit: Million JPY)	Q3 / Dec. 2021				Q3 / Dec. 2022				
	Sales	% of Total	Gross Margin	Segment Profit	Sales	% of Total	YoY Change	Gross Margin	Segment Profit
Consolidated Net Sales	69,426	100.0%	47.8%	10,444	70,707	100.0%	101.8%	46.9%	9,103
Japan Business	29,267	42.2%	34.6%	1,686	26,726	37.8%	91.3%	32.7%	924
China Business	27,640	39.8%	51.9%	9,161	26,220	37.1%	94.9%	52.3%	8,100
Singapore Business	9,170	13.2%	38.7%	1,354	10,772	15.2%	117.5%	41.4%	1,978
Lansinoh Business	9,562	13.8%	54.4%	718	12,384	17.5%	129.5%	51.1%	476
Elimination of inter-segment transactions	(6,214)	(9.0%)	—	—	(5,396)	(7.6%)	—	—	—

[Reference] Breakdown of Japan Business Segment

(Unit: Million JPY)	Q3 / Dec. 2021				Q3 / Dec. 2022				
	Sales	% of Total	Gross Margin	Segment Profit	Sales	% of Total	YoY Change	Gross Margin	Segment Profit
Baby Care	19,548	—	41.1%	1,874	18,694	—	95.6%	37.1%	1,213
Child Care Services	2,625	—	15.5%	105	2,577	—	98.2%	15.6%	141
Health & Elder Care	4,315	—	29.9%	379	3,686	—	85.4%	31.3%	352

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This shows the 2022 Q3 results by business segment.

The largest decrease from the previous year was in the Japan business, which saw a decline of approximately JPY 2.5 billion, with regard to sales in the third quarter cumulative period. In the segment, the baby care business decreased sales by some JPY 850 million, mainly due to weak sales of consumable products, such as wet tissues, and weak overseas demand for some skincare products.

Sales in the Health & elder care business also declined around JPY 600 million YoY, but this was due to a review of the business portfolio, and progress was generally in line with our plan.

Next, in the China business, the impact of the Shanghai lockdown that occurred in the first half of the fiscal year remained, and net sales in JPY for the cumulative third quarter were down approximately JPY 1.4 billion from the previous fiscal year. In the China business, both sales and segment profit continued to decline, but due in part to the impact of foreign exchange rates, the YoY decline in sales was just about 5%. Looking at the Q3 results alone, the China business ended the period with increases in sales and profit.

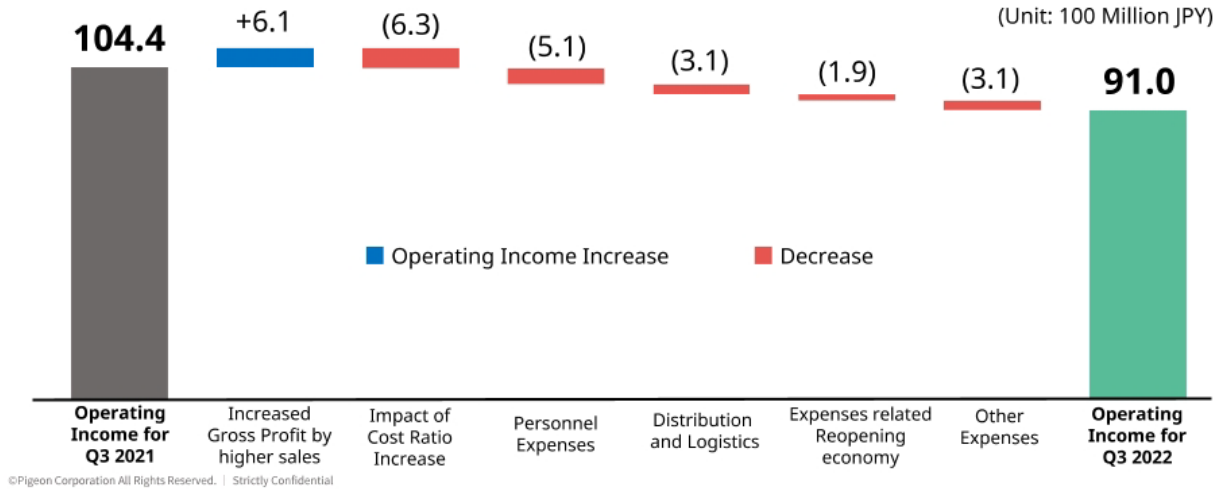
Next is the Singapore business. In the Singapore business, sales performed well across all major countries and recovered to pre-COVID levels, resulting in a YoY increase in sales of some

JPY 1.6 billion. Segment profit also increased, with double-digit YoY rises in both sales and profit.

Finally, in the Lansinoh business, sales in JPY for the cumulative third quarter were up approximately JPY 2.8 billion from the previous year, due to strong sales in North America and the impact of foreign exchange rates. On the other hand, segment income decreased from the previous year due to the continued rise in logistics costs in the third quarter, which has been continuing since the beginning of the fiscal year.

2022 Q3 - Analysis of Change in Operating Income (YoY)

- Increase in gross profit due to higher sales but offset by higher cost ratio.
- SG&A expenses are mainly labor costs (China business, and Lansinoh business including the impact of Fx rates) and distribution costs (Lansinoh) increased.
- SG&A expenses increased due to the reopening economy including sales promotion, marketing, and travel expenses (excluding China)



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This shows a factor analysis of the YoY change in consolidated operating income.

The cumulative gross profit through Q3 increased by about JPY 600 million YoY due to the increase in sales, but this was offset by the impact of a rise in the cost ratio. Furthermore, SG&A expenses increased by about JPY1.3 billion, resulting in operating income of JPY9.1 billion.

Regarding the breakdown of SG&A expenses, personnel expenses posted the largest YoY increase. The increase in personnel expenses, especially in the China and Lansinoh businesses, due in part to foreign exchange effects, contributed to a YoY decrease in consolidated operating income of some JPY500 million.

In the Lansinoh business, distribution costs in the U.S., where sales are strong, are still rising, and this was a factor in the approximately JPY 300 million decrease in consolidated operating income from the previous year.

In addition to this, the reopening of economic activities further advanced in various countries, boosting transportation and sales promotion expenses. All of these resulted in operating income of JPY 9.1 billion for the cumulative Q3 period.

2022 Q3 Summary of Results by Business Segment

Japan Business

New model of nursing bottles are performing well but consumables continue to struggle

- Baby care YTD sales declined 4.4% yoy.
- YTD Sales of Nursing bottles increased 23% yoy, continuing the effect of the renewal. Sales of skincare products fell below the previous year's level due to a continued decline in overseas demand (e.g., cross-border EC) for the Momo-no-ha series.
- Consumables (Wet tissues and Disposable nursing pads) continued to struggle since Q1 of this year due to rising consumer demand for low-priced products.
- Expanded product range in new categories, including the disaster prevention product series "Sonaetta", and "POCHitto" the steam sterilizer and dryer of Nursing bottles.
- The gross profit margin of Baby Care business decreased by 4.0pt yoy YTD. Factors included an increase in procurement costs due to yen depreciation and raw material price hikes.
- Health & Elder Care: YTD net sales declined 0.6 billion yen yoy due to the restructuring of the product portfolio but gross profit margin improved by +1.4 pt yoy.

China Business

Mainland sales grew YoY in Q3 alone, but the impact of the Shanghai lockdown still remains

- Sales in the mainland increased by 8% yoy in the Q3 alone, but -19% yoy YTD.
- Although sales of Nursing bottles and skincare products were on a recovery trend in the Q3 alone, YTD sales fell below the previous year's level. Consumables such as Wet tissues and Baby diapers continued to struggle.
- Gross profit margin (JPY / YTD) of China business improved by 0.4pt yoy due to contributions from new nursing bottles and skincare products
- launched skincare products for kids aged 3 and up. Aiming to increase Lifetime Value (LTV) by leveraging our intensive research on baby's skin.
- Sell-out was down 11% yoy; -10% at EC, -14% at Offline, and current EC ratio is 68%. Tiktok and other new EC channels performed well, while major EC channels were down yoy

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*Sales: Sell-in at local currency

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Summary by segment.

In the Japan business, the third quarter from July to September coincided with the seventh wave of COVID-19, when the daily number of newly infected patients exceeded 200,000 every day.

Baby care sales were down 4.4% YoY on a cumulative basis. Sales of bottles were up 23% YoY on a cumulative basis, continuing to benefit from the renewal effect. Sales of baby skin care products fell below the previous year's level due to weak overseas demand for the Peach Leaves series since the beginning of the current fiscal year. Consumables such as wet wipes and breast pads continued to struggle due to growing consumer demand for low-priced products.

In baby care, we are expanding new product categories, such as the "Sonaetta" series of baby emergency supplies and the "POCHitto" nursing bottle steam sterilizer and dryer.

The gross profit margin for Baby Care deteriorated by approximately -4 points YoY on a cumulative basis. This was mainly due to an increase in procurement costs resulting from a weaker yen and higher raw material prices.

In the Health Care and Nursing Care segment, net sales declined approximately JPY 600 million YoY on a cumulative basis due to a product portfolio review, but the gross margin improved approximately 1.4 percentage points YoY.

Next is our China business. China is still in a difficult situation, with sales in mainland China in local currency terms down 19% YoY in the third quarter year-to-date, due to a series of zero-COVID-19 policies, including the spread of new COVID-19 virus infections that began around the end of March this fiscal year and the Shanghai lockdown that occurred in the second quarter of this fiscal year. The company's sales in mainland China in local currency terms remained in a severe situation, down 19% YoY in the third quarter.

Meanwhile, in the third quarter alone, sales in mainland China were up 8% from the previous quarter on a local currency basis. Although sales of baby feeding bottles and baby skin care, our mainstay products, are on the road to recovery, sales of consumable products such as wet wipes and disposable diapers continue to be weak due to intensifying price competition.

The gross margin ratio of the China business in the cumulative third quarter improved by plus 0.4 percentage points from the previous quarter, thanks to contributions from new models of nursing bottle and baby skin care products.

As a new product in China, we began selling in September a skincare product for kids aged 3 and older, which was developed based on baby skin research. Through these products, we intend to expand the lifetime value of the products by Age-Up.

Sellout was down 11% YoY in the third quarter. E-commerce and offline sales were down 10% and 14%, respectively. E-commerce accounted for 68% of total sales in the third quarter, and while e-commerce as a whole was sluggish, new e-commerce channels such as TikTok have seen significant growth.

2022 Q3 Summary of Results by Business Segment

Singapore Business	<p>Sales companies continue to perform well, expecting to recover to pre-Covid levels with the introduction of new Nursing bottles</p> <ul style="list-style-type: none"> • Sales in major countries were strong. YTD sales in India increased by +31%, Malaysia +27%, and Indonesia +20%. • The Middle East, Australia and Vietnam grew yoy in export markets. • Continued high growth in YTD sales (in Japanese yen) of core products* yoy. New nursing bottles were launched in Singapore, Malaysia, Vietnam, and other major markets in August. • The new skincare range (Natural Botanical) is expanding both online and offline • Gross profit (JPY / YTD) of Singapore business increased by 25% yoy due to an increase in sales at sales companies and the impact of foreign exchange rates. Gross profit margin improved by +2.7pt yoy.
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*Core Products: Nursing Bottles, Breast Pumps, Baby Skincare, and Oral care products

Lansinoh Business	<p>While the North American market drove sales growth, profit declined due to the continued impact of soaring logistics costs.</p> <ul style="list-style-type: none"> • Lansinoh Group sales up 9% yoy (YTD). Sales in North America up 15% yoy. • In Europe, Benelux and Turkey performed well with YTD, but UK and Germany fell below the past year due to economic deterioration caused by inflation and some stockout. • YTD sales of mainstay products, nipple cream and breast pumps, increased yoy. Sales of breastmilk storage bags increased significantly due to the shortage of formula milk in North America. • Sales of prenatal and postpartum care products are expanding at a faster pace than in the past year, mainly in North America. • The gross profit margin (JPY / YTD) of Lansinoh business was down 3.3 pts yoy. Soaring procurement and logistics costs (a cost factor) continued due to logistics disruptions, pushing down gross profit. In addition, the high level of distribution costs in the U.S. (SG&A expenses) also had an impact on the decline in operating income.
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*Sales: Sell-in at local currency 6

The Singapore business is also performing well on a local currency basis, especially in major countries, with sales of the sales company recovering to the pre-COVID-19 expansion level of 2019. By major country in the first nine months, sales in India, Malaysia, and Indonesia were up 31%, 27%, and 20%, respectively, on a local currency basis, compared to the previous quarter.

Sales of core categories also continued to grow at a high rate, with new nursing bottle models launched in Singapore, Malaysia, Vietnam, and other countries in August. In addition, the new skincare series "Natural Botanical," a focus of this business, is currently expanding both online and offline.

Gross profit increased 25% YoY in the cumulative third quarter, partly due to an increase in sales at sales companies and the effect of foreign exchange rates, and the gross profit margin improved by 2.7 percentage points YoY.

On a local currency basis, Lansinoh business sales increased by 9% YoY in the third quarter cumulative period. Sales in North America were particularly strong, up 15% YoY. While sales in North America have been strong, the trend continues as soaring logistics costs continue to affect the business, pushing down profits.

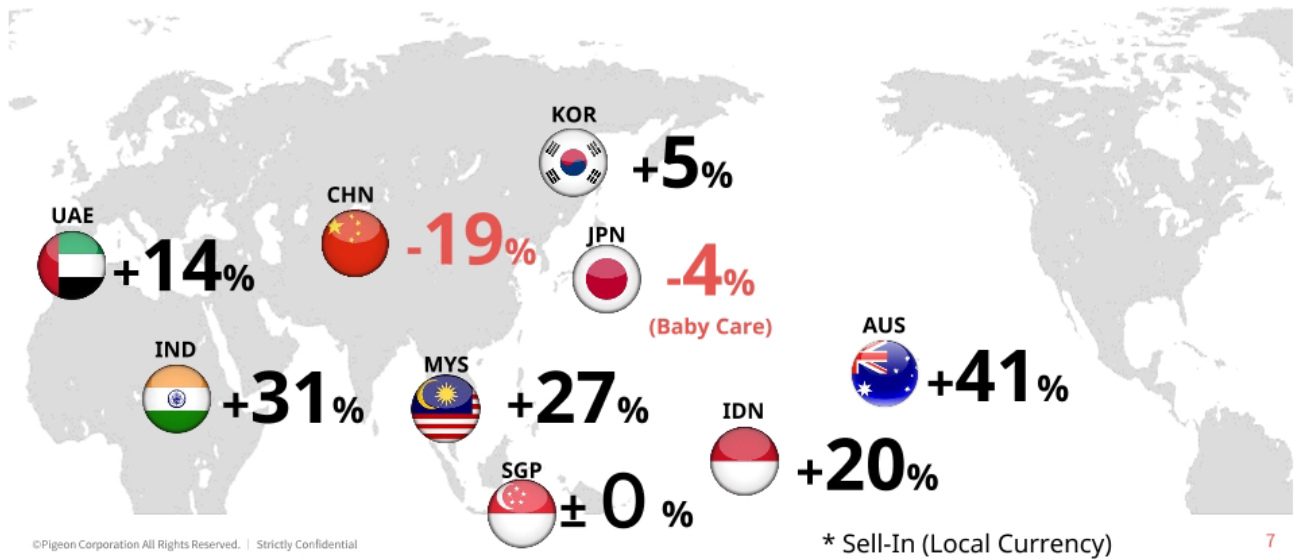
In Europe, Benelux and Turkey continued to perform well on a year-to-date basis, while the United Kingdom and Germany experienced a year-to-date decline due to the economic slowdown caused by inflation and shortages of some products.

By category, sales of nipple creams and breast pumps, our mainstay categories, increased from the previous year. Sales of breast milk storage bags grew substantially, partly due to the shortage of powdered milk supply in North America, which continued until around September. Sales of prenatal and postpartum care products, which Lansinoh began selling last June, are expanding with progress exceeding that of the previous fiscal year, especially in North America.

As for gross profit, the gross profit margin for the cumulative third quarter was minus 3.3 percentage points from the previous year. Soaring ocean freight costs (included in cost of goods sold) due to logistics disruptions continued to affect gross profit, pushing down gross profit.

In addition, sales and distribution costs (included in SG&A expenses) in the U.S. remained high, affecting operating income.

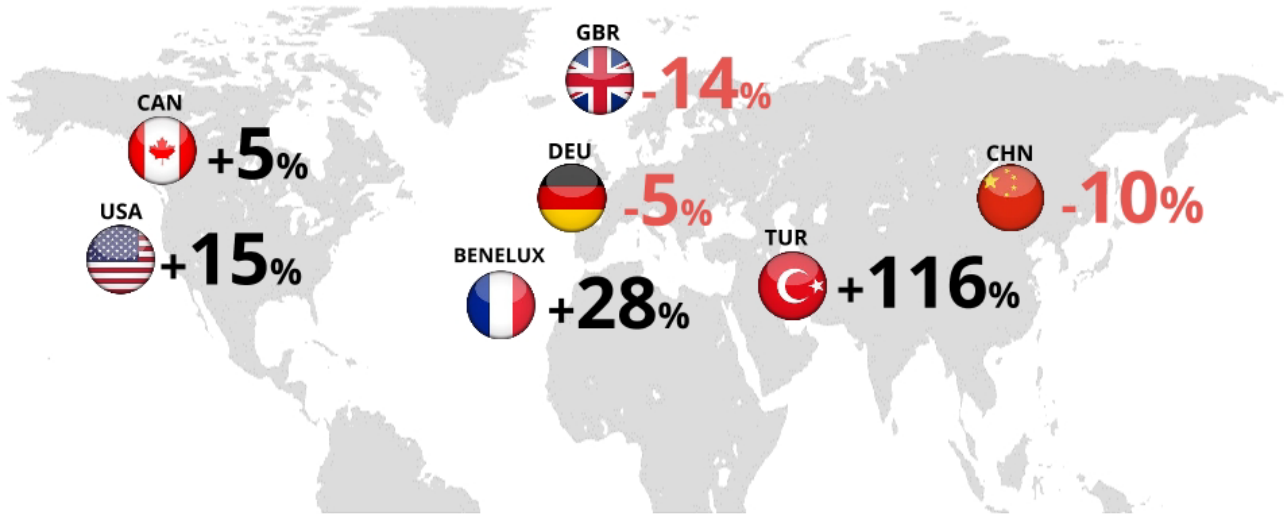
2022 Q3 Pigeon Sales by Regions* (YoY)



The following is the YoY sales comparison of the Pigeon brand by major region for the nine months ended December 31, 2022.

2022 Q3 Lansinoh Sales by Regions* (YoY)

Lansinoh.



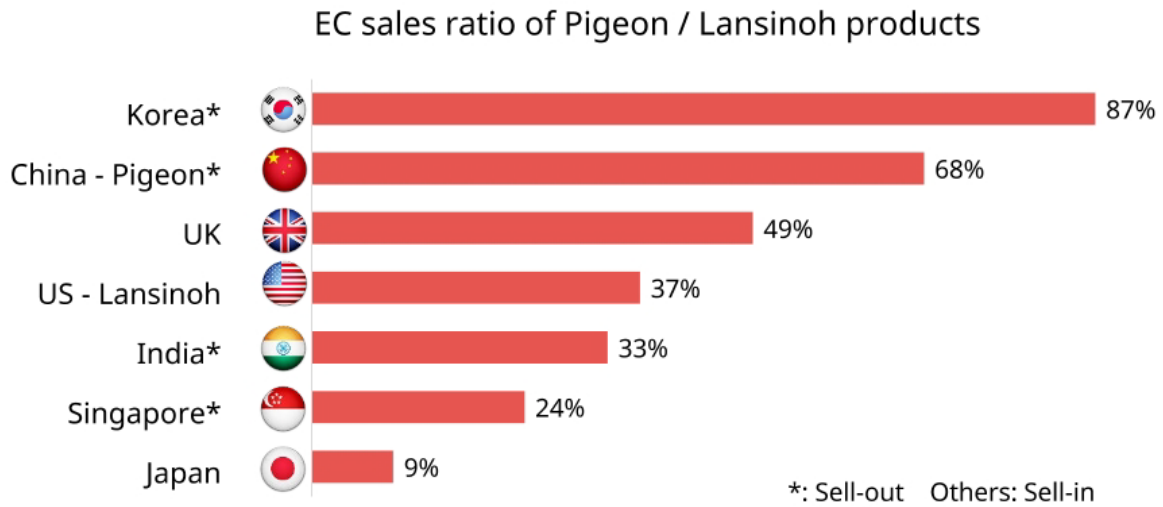
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* Sell-In (Local Currency)

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The following is a comparison of Lansinoh brand sales by major geographic region in the third quarter year-to-date period.

2022 Q3 E-Commerce Ratio in Key Countries



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E-commerce ratio in major regions for the nine months ended December 31, 2012.

Highlight: Disposable Feeding Cup Wins “Good Design Award”



See details about good design award: <https://www.g-mark.org/award/describe/53111>
 See our "sonaetta" product series: https://www.pigeon.com/news/files/pdf/20220721_en.pdf

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This is the third Quarter Highlights. A total of four products from the Company recently received the Good Design Award for 2022, two of which were awarded for the "Sonaetta" series of disaster prevention products for babies. This new category of "Sonaetta" is currently being rolled out in the Japanese market and was developed with the aim of establishing baby disaster preparedness in society by increasing the number of households that are prepared for "what if" situations, especially in Japan, where natural disasters are common.

Among them, this disaster nursing cup, which includes a special lid and paper cup developed to enable babies to drink milk even when the use of water is limited or when there is no baby bottle itself in a disaster, was selected for the Good Design Best 100 and Good Focus Award (disaster prevention and recovery design). The Good Focus Award is given especially to designs that contribute to natural disaster prevention or recovery from damage caused by natural disasters.

The Sonaetta series is also currently working with local governments and companies to establish a social awareness of baby disaster prevention.

As for our Japan business, we will continue our efforts to create new customer value at all times as a leading company in baby care products, even in the business environment has remained difficult since the COVID-19 disaster.

This is a summary of the third quarter financial results. Thank you very much.

Question & Answer

Q&As are summarized by Business segment.

[Consolidated]

Q. How did the results for the third quarter, 3 months, compare with your internal assumptions?

A. Compared to the revised plan disclosed in August, sales are almost in line with expectations in the Japan business, Singapore business, and Lansinoh business.

While the Japan business is seeing sales growth mainly from new nursing bottle, overseas demand for skin care products continues to be sluggish. The Singapore business continues to trend toward recovery from COVID-19 in the second quarter, and both sales and profits are favorable. The Lansinoh business continues to see strong sales, but the trend of high logistics costs also remains unchanged from the second quarter.

On the other hand, in the revised plan announced in August, we had assumed that 2H alone sales in mainland China on a local-currency basis would be 12% YoY growth in the second half, but in the third quarter alone they were 8% YoY growth. While it was good to end the period with a positive YoY growth, we feel that the YoY growth of 8% was weaker than expected, taking into account the reactionary increase after the Shanghai lockdown in the second quarter.

Q. Please tell us about the impact of foreign exchange rates and raw material price hikes.

A. Foreign exchange effects increased net sales by approximately JPY 5.2 billion and gross profit by approximately JPY 2.0 billion in the cumulative third quarter, and increased net sales by approximately JPY 2.3 billion and gross profit by approximately JPY 0.8 billion in the third quarter alone, compared with the previous year.

With regard to the sharp rise in raw material prices (excluding the impact of foreign exchange rates), cost of sales increased by approximately JPY 700 million YoY in cumulative Q3, and by approximately JPY 350 million YoY in Q3 alone.

Q. What is the probability of achieving the JPY 12 billion in operating income presented in the revised plan?

A. The fourth quarter is not a time for optimism, and there is a risk of a sales decline in the fourth quarter due to the economic slowdown in mainland China and a decline in consumer sentiment.

On the other hand, we currently believe that it is possible to achieve operating income of JPY 12 billion for the full year. We have factored in a certain degree of risk in our revised plan announced in August, and with the recent further depreciation of the yen.

[China Business]

Q. The gross profit margin for the China business in the third quarter alone was about 57%, a significant improvement from 46% in the second quarter alone. What are the factors behind this?

A. Compared to the second quarter, the third quarter saw a significant improvement in factory capacity utilization on the factory side as sales recovered after the lockdown, and on the sales company side, an increase in the sales composition of high margin nursing bottles and nipples and baby skin care products contributed to the improvement in gross profit margin of the China business. This contributed to an improvement in the gross profit margin of the China business.

Q. I would like to know the status of sell-ins and sell-outs in mainland China on a cumulative and 3-month-basis for the third quarter.

A. Sell-in in mainland China was -19% YoY in the cumulative third quarter and +8% in the third quarter alone. Sell-outs ended the same cumulative period at -11% YoY and -13% on a stand-alone basis.

Q. Sellout in the third quarter alone was minus 13% compared to the previous year. Has there been any change in Pigeon's market share for nursing bottles in mainland China?

A. Our estimated market share for nursing bottle, which we announced in the second quarter, was about 43%, and we expect to have maintained the same level in the third quarters. We guess that there may be some decline in consumer confidence in the market and a move to wait for the double-eleven in November, among other factors, considering that sell-outs decreased while market share was maintained.

Q. Please tell us how you view the Chinese market in the fourth quarter, including consumption trends in China.

A. The consumption trends for the fourth quarter are very difficult to read. The market itself has experienced double-digit percentage declines in births every year for the past couple of years, and with the Shanghai lockdown due to the zero-COVID policy this year. Considering the weaker-than-expected sales in the third quarter alone, we do not think that we can place excessive expectations on the fourth quarter, but since there will be a double-eleven in November, we hope to increase sales mainly of nursing bottles and baby skin care products, which are our core products.

Q. Please tell us about the competitive environment on the EC platforms.

A. The competitive environment for consumables such as wet wipes and disposable diapers is becoming increasingly severe with the rise of local brands and private brand (PB) products, as we have reported before.

Since consumables do not account for a high percentage of our mainland China sales, we intend to continue to grow by focusing on categories where we can leverage our strengths and have high profitability, such as nursing bottles and skin care products.

Q. What is the outlook for the Chinese market next year and beyond?

A. We plan to disclose the details of our 8th Mid-Term Management Plan in February next year. We need to be cautious about the market, which is no longer as stable as before, and it may be difficult to achieve double-digit YoY sales growth at the pace we have in the past, looking at the speed of the decline in the number of births in recent years, the lockdown in Shanghai due to the Zero COVID-19 policy this year, and recent market trends. Nevertheless, we believe that sustainable growth in both sales and profits can be expected while further strengthening core products, such as by further promoting new models of nursing bottle and implementing age-enhancing measures such as products for children in the skin care category.

[Japan Business]

Q. What are the factors behind the significant improvement in profits in the third quarter alone compared to the second quarter? Also, what is the progress in the cumulative third quarter?

A. Although Q3, three months profits improved compared to the Q2, three months results, mainly in the baby care business, as returns of previous model settled down following the launch of a new nursing bottle, cumulative sales have remained below the previous year's level.

In terms of sales, while sales of baby bottles increased by double digits YoY in cumulative Q3 as expected at the beginning of the term, price competition in consumables such as wet wipes and breast pads was more severe than expected at the beginning of the term. In addition, overseas demand for baby skin care products has been weak since the beginning of the period, and these are the main reasons for the year-to-date sales and profits falling below the previous year's levels.

Q. What are the factors behind the YoY decline in baby skin care?

A. The most important factor is that overseas demand for the Peach Leaves series manufactured in Japan at our plant in Japan has declined, but it is very difficult to estimate the timing of recovery regarding overseas demand. On the other hand, sales of the Peach Leaves series produced at our factory in China and sold in mainland China have been strong.

As for demand for baby skin care products in Japan, price competition in the market for cleansing products such as shampoos and body soaps is intensifying, but we have been able to steadily increase sales of moisturizing products such as lotions and creams, which are easy to promote as high value-added products.

Q. Please tell us about the status of inbound demand.

A. As far as our estimation is concerned, there is no significant change in "inbound demand-related" sales in both Q3 alone and cumulative Q3 compared to the previous quarter. We do not see inbound demand recovering at present.

[End]